

Profile /By Marcia Zarley Taylor

# Instant Potatoes

Masser Farms caters to grocers with 24-hour delivery

Speed helps this East Coast potato grower and packer compete for business with the supermarket giants.

**R**ush delivery has special meaning for the Keith Masser family from Sacramento, Pa. Highways from Washington, D.C. to Boston were snarled for weeks during 2003's intense winter storms. Yet Keith, his wife, Helen, son David and their crews worked with the efficiency of Federal Express to keep grocery stores along the East Coast stocked with table potatoes.



**Rewards for the swift.** Quick turnarounds are crucial for a family that has been raising potatoes in the foothills of the Appalachians for more than 250 years. The red shale soils and steep slopes favored by Masser's German ancestors seem more suited to European-sized farming than the table-flat land usually reserved for irrigated potatoes. Of the 3,500 acres they farm, their field size averages just four acres.

What the Massers' farm lacks in ease of operation, however, it compensates for in location. Their high-tech packing facility is within 200 miles of 25% of the U.S. population. That means the Massers can guarantee next-day delivery while Idaho competitors need at least five days by truck and 11 to 14 days by rail. Some produce orders can be filled within hours of receipt.

"East Coast supermarkets need a lot of lead time to get their inventory right," says Keith, runner-up in the Top Producer of 2003 Awards for his marketing acumen. "We can't compete head-to-head with Idaho potatoes on price.

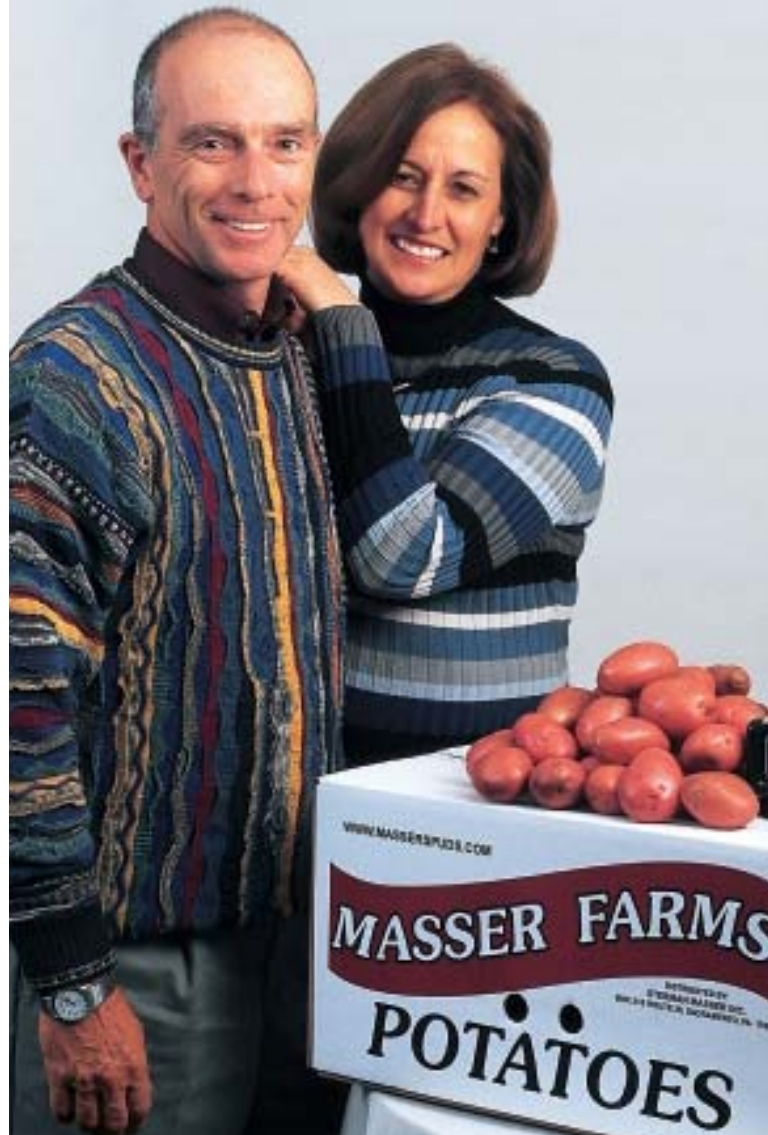


PHOTO: DAVE TONGE

Quick response time and scale help Keith and Helen Masser service retailers eager to slash costs.

But we can fill the gap when they have transportation or quality problems."

As North American grocery chains scale up to compete with behemoth Wal-Mart, they are also drastically altering procurement and inventory management. According to a recent study by the consulting firm McKinsey & Co., value retailers like Wal-Mart and Costco have doubled their market share in U.S. retailing over the last 10 years, in part by offering "good enough" quality at a fraction of what others charge. Some traditional retailers will need to double their current margins so they can match Wal-Mart's discounts at the checkout counter, McKinsey says. That "war on costs" will inevitably squeeze commodity producers. "We have to sell on the free market, whether we cover our costs or not," says Keith.

Distribution chains are the first likely area for reform, says Kevin Grier, an economist with the George Morris Centre, a Canadian food and agriculture think tank. "U.S. retailers are really suffering and going through major trauma," Grier says. "Wal-Mart isn't the villain. It's just that other retailers haven't caught up. So grocers are copying that model by pushing responsibility for costs like inventory, food safety and traceability back to their vendors." The trend not only applies to ▶

fresh produce, but items like red meat, dairy and poultry, he adds.

Most chains are also demanding a scale of supplier hard to fathom just five years ago. Masser's biggest supermarket client once accounted for 50% of his volume. When Ahold, a \$28-billion-a-year Dutch firm, bought out the chain in 2002, it wanted one exclusive supplier to handle all categories of potatoes for much of the East Coast. Masser didn't get the bid and instead must now work through a broker. "That one account went from \$9 million to \$3 million overnight," Keith says.

Fortunately, Keith was ahead of the curve. Anticipating the merger, he had

expanded cooler and storage space to 1 million square feet and upgraded his packing capacity in early 1999. His goal was to grow sales \$1 million a year for five years, something he has exceeded. "We needed more production capacity to dilute that account," he says. "Tying up 25% or more of sales in one client can be very risky."

To build business, he sought out chains that still favor farmer-packers. He is also packing branded potatoes and drawing up blueprints for a dehydration plant that can handle off-grades from the packing shed and rejects from Pennsylvania's potato chip plants. Keeping rejected chipping potatoes off the fresh mar-

ket will boost his prices, he hopes.

Scale also offers limited protection. Masser's operation now can handle 3,500 truckloads of potatoes per year, up from 100 in the 1970s. Each shift is capable of packing 500,000 pounds. Still, he says, the family is a small fry compared to the giants in today's potato industry. "We're just big enough to hang on to their coattails," says Keith.

Quick adoption of technology has been one of Masser's edges over time. When Pennsylvania State University determined that their land was too hilly for irrigation, Keith, an agricultural engineer by training, custom designed nine center pivots that could handle his mountainous slopes and small field size. Today, their entire packing plant—the size of about four football fields—is run by microprocessors, with conveyer belts operated by the touch of a computer screen. Only a small percentage of all the potato packers in the U.S. operate with this sophistication, Keith says. "I spend a lot of money throwing away old computers, but I don't begrudge that."

**Work in progress.** Keith's ability to adapt in the ruthlessly competitive fresh produce market is a tribute to his management skills, observes Darwin Boyd, director of agri-finance for First Union Bank, the Massers' lender.

"He has taken the company from a small local potato processor and packing operation to a nationally recognized wholesaling potato business," Boyd says. Sales have grown from a modest \$600,000 in 1976, to \$25 million last year.

Yet that growth might not be big enough. The future consolidation of the retail food industry remains the biggest challenge for a family-owned business, says Keith. Less than a quarter of the stores owned by national grocers currently face a Wal-Mart supercenter as a competitor. Many of the smaller regional chains that favor farmer-brokers today may be vulnerable in the next round of sales and mergers, he worries.

If further supermarket consolidation is unavoidable, Massers will have to size right to service them. "We want to be big enough to supply chains with full service, but we don't want to supply every division of Wal-Mart," he says. "Several would be fine." ■

**PROFILE:** Keith Masser, 52, president and CEO of Sterman Masser, Inc., Sacramento, Pa.

**FAMILY:** Wife Helen and son David are active partners in the family's potato business. Daughter Julie remains a stockholder.

**INDUSTRY SERVICE:** Both Keith and Helen served as chairs of the U.S. Potato Board.

**FARM/POTATO DISTRIBUTION:** Farm 3,500 acres in central Pennsylvania, plus contract with other growers in four states. Pack and ship fresh potatoes through one of the East Coast's largest distributorships. Their scale about 3,500 loads per year, up from 100 in 1970 also helps them cater to retail chains that have cut their inventory and rely on instant delivery to keep shelves full.

**HISTORY:** Keith's German ancestors settled in the foothills of the Appalachians more than 250 years ago. After a stint as an engineer working 70-hour weeks with Procter & Gamble Co., Keith and Helen returned to his father's 300-acre farm in 1976. "I never expected to come back, says the seventh-generation potato farmer, but I decided if I was going to work that hard I wanted to work for myself.

**BUSINESS GOAL:** Double sales every five years. If you aren't big enough in the food business, you can't diversify your customer base and dilute the importance of any one account.

**WHAT KEEPS HIM AWAKE NIGHTS:** Liability from the fleet of 13 trucks. Trucking is definitely not profitable, but it's a necessary evil.



PHOTO BY THE AUTHOR