

El Sueno Enterprises: Cabbage, Sauerkraut or Bratwurst and Kraut?

Richard Ortez, Glencoe Farmer and Owner of the Boarding House Café, Stillwater, OK

The content of this article is divided into three topics: 1) a description of El Sueño Enterprises, 2) a consideration of two special qualities of that business, and 3) what is involved in bringing a new value-added product to market.

What is El Sueño Enterprises?

El Sueño Enterprises is a small privately owned and operated, vertically structured food business founded in 1994. It consists of: commercial gardens (El Sueño Gardens), a café (Boarding House Café) and a commercial processing facility (Boarding House Classics). Despite the fact that I run all three, efforts are made to keep them fiscally separate, allowing for more accurate estimates of the strengths and weaknesses of each.

In 1994 the gardens consisted of about one-half an acre of assorted vegetables: lettuce, cabbage, tomatoes, peppers, etc., which were marketed through a local farmers' market. By 2002 the gardens included one-quarter of an acre of vegetables, three-quarters of an acre of small grains (wheat & rye), and three-quarters of an acre of dry edible beans (navy, small red, small black, and black-eyed peas). The beans and grains were added three years ago as a way of increasing the diversity of our operation.

The café, a full-service restaurant added in 1995, has been the site of many changes over the past eight years. However, for the past three years, it has served only

lunch, Monday-Friday. Located just off the southeast corner of Oklahoma State University, Stillwater, Oklahoma, its menu of soups, sandwiches, burgers, etc. is what you might expect as lunch fare. What is unique about the café is not the menu items, but how they are prepared - from raw ingredients, by me, in my kitchen. All our soups and breads are made from scratch. It is in this capacity that the café and gardens interface. The café became a place to market crops from the farm; the most obvious being fresh vegetables for use in our soups and salads, less obvious is fresh cracked whole wheat and whole rye used in our breads.

Boarding House Classics is the brand name for several processed foods I manufacture from my garden produce. In order to do this I maintain a second manufacturing license on the café kitchen.

The first product we introduced was sauerkraut. This is an old-fashioned product prepared by salting chopped cabbage and allowing it to ferment for about a month, after which it is processed into jars. So a customer can buy from me: a head of cabbage, a jar of sauerkraut, or, on occasion, a bratwurst and kraut sandwich special at the café -- hence the subtitle of this article. I now have six FDA-approved products: sauerkraut, pickled beets, chili verde, salsa, pickled peppers, and bean salad. Future plans include expanding the line of canned foods to 15-20 products, and introducing a line of dried products.

About Richard Ortez and El Sueno Enterprises

El Sueno ('The Dream') Enterprises was founded in 1994 in the hope of making a living from a small farm. The strategy for accomplishing this was to develop "value-added" products and market them directly to the consumer. The business is now eight years old. Crossing over from negative to positive finances in the third year, it has enjoyed slow, but steady, growth ever since, with the future looking good. Ortez likes that he can exercise quality control over all steps in the food production process, from seed selection to finished meal. Quality of both product and service, he says is his top priority. The structure of his business is rather novel in today's food industry, but he enjoys the variety of tasks it creates and the intellectual challenge it provides. El Sueno is owned and operated by Richard (Dick) A. Ortez, who prefers the title owner/operator over to president or CEO because it reflects the fact that he is a hands-on owner, who personally does all the gardening, cooking and processing. He holds a Ph.D. in microbiology and spent thirty years teaching and performing research

in a wide variety of educational institutions. During that time he taught several microbiology topics including food microbiology. So it was not out of context, when, in 1994 he turned his scientific talents and skill towards solving problems in the garden and kitchen and founded a food-centered company. In doing this he converted two life-long hobbies, gardening and cooking, into a successful business. Today Dick considers himself as much a practicing scientist as ever, only now his work is more applied and less theoretical. The Boarding House Café is located on 213 S. Knoblock in Stillwater, Oklahoma, serving lunch Monday-Friday from 11-2.

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Why small and vertically structured?

Earlier I described my business as small and vertically structured. I would now like to consider just what I mean by those terms, and why I have chosen to be such. It is certainly possible to create other successful configurations.

By U.S. government standards, which define a small business as one having less than 500 employees, my business is miniscule. I currently have four employees, with no plans to expand that number.

Another measure of our size is the fact that a lot of sauerkraut for me starts with about 100 pounds of cabbage, and makes about 60 quarts or 5 cases. Lot sizes of 500 or even 5,000 cases are not uncommon for major processors. One reason for keeping my business that small is that I am a doer, not a people manager. I would much rather chop cabbage than supervise someone else doing it. That's just the way I'm wired; and it is best I recognize that fact and work in harmony with my temperament.

Another reason for keeping the business small is quality. For example, what sets our sauerkraut apart is that it is naturally fermented, a process that results in the production of lactic acid. However, because the fermentation process generates heat that must be dissipated, there are real limits to how large a lot of sauerkraut could be produced in this fashion. Large manufacturers have avoided the problem by avoiding fermentation altogether, and simply adding acid to the cabbage. Unfortunately the added acid (acetic acid in the form of vinegar) gives their product a very different taste.

A third reason for keeping the business small is that it increases my interaction with the customer; and forces that interaction onto a higher level. When I answer a customer's question about a product, I do so as the person who actually made it.

Admittedly, this approach is not for everyone. For those who enjoy managing people this is not the structure they should pursue, nor should they pursue this approach if they would just as soon be insulated from the customer. Further, this approach has limited growth potential, and therefore income, so would not satisfy someone interested in making lots of money. But if you are a hands-on person, concerned about quality, and satisfied with a reasonable income, this is an approach you might consider.

To be vertically structured means that a product from one stage of a company becomes the raw material for another. Sauerkraut is a good example. In this case cabbage, a product of the gardens, enters the processing division as raw material where it is converted to sauerkraut and packaged. When we then take that sauerkraut and combine it with a bratwurst sausage and bun to make a

sandwich at the café, we add another level of vertical integration. In fact, because we also serve as our own nursery and start our own bedding plants, there is a fourth level of vertical integration. The only thing we don't do is produce our own seed, and we're looking into that.

There are two primary reasons why I have chosen a vertical structure for my business. First, as in the case of size, it is a way to control quality by controlling the quality of raw materials coming in. It also affords some control over availability of those raw materials. Both quality and availability can be problems if you are purchasing your raw materials off the open market, especially for a small company with no leverage to bargain with.

However, the main reason I have so structured my business is because of the diversity of activities it affords me. On any given day, I can bake some bread, cultivate some beans, cook some soup, and measure the pH on a batch of pickled beets. Again, my temperament is such that if I had to do the same thing over and over again, day in and day out I would go crazy. Others, however, may prefer a more limited number of tasks and would be best advised to develop some other business structure.

There is one reason I must mention for not developing a vertically structured business. I bring this up because it is often the stated reason for vertical integration. Many people, myself included when I first started, are of the opinion that this structure will be more profitable because it will allow you to pick up the profits at two or more steps along the way. In other words, by making money both growing cabbage and processing it, I will have twice the profit.

This is one of those ideas, which looks good in theory, but doesn't work out in practice. The reason it doesn't work out (at least that's been the case for me) has to do with scale of production. Small-scale production is so much more labor intensive, and supplies so much more costly, that your costs of production are higher, usually much higher, and that eats up those theoretical increased profits.

Developing a New Value-Added Product.

Bringing a new product onto the market involved two separate activities: developing the product and getting it approved. The first step in developing a new product is to get a starting point. This might be a family recipe, something you sampled at a potluck, or even something you thought up yourself. Where it came from is unimportant; that you have a list of ingredients is.

Let's take my most recent addition – bean salad. Not being something my family made, the starting point for this recipe was developed by consulting several cookbooks and commercial products. Ingredients consistently

included were: green beans, cooked dry beans, vinegar, and sugar. Less frequently included were oil and other fresh vegetables such as onion and bell pepper. From this background I developed a starting point recipe. I prepared the recipe, sampled it, and then asked myself what I didn't like about it.

There were actually several things I didn't like; but let me now share with you the most powerful tool I know for perfecting a recipe. It's called the controlled experiment, and it's the very same tool scientists use to ask and answer all manner of questions, but it works equally well outside a laboratory. It works in my kitchen, it works in my garden; it will work anywhere.

Here is how it works. One of the things I didn't like about my starting point was the amount of oil it contained -- I thought it was too much. So, I prepared a double batch of the recipe omitting the oil. Then I split the mixture in half, added the original amount of oil to one half and none to the other. Sampling both preparations, I concluded that I preferred the one with no oil. (The secret of this approach, and its power, is in the simultaneous comparison of two products differing in only one ingredient).

However, I wasn't completely satisfied with it either so I repeated the process; this time one batch had no oil and one batch had one-quarter the amount of oil used the first time. Selecting a new preference each time, this process was repeated until I was satisfied with the ratio of oil in the recipe.

I then turned my attention to the ratio of fresh beans to cooked dry beans. This process of identifying a problem and conducting a series of controlled experiments until it was corrected, continued until I had a recipe I was satisfied with.

So now you have a recipe you like, and more important you believe others will also like it. Two things you must understand about value-added (processed) food products: 1) they must be prepared in a health department licensed

facility, and 2) many of them will require a government authorization letter; and having the protocol filed with the U. S. Food and Drug Administration (FDA).

The first of these requirements is met by working with a state health department inspector. This is a different person, and system, than that used to license restaurants, which carry a food service license, and which are inspected by county level sanitarians. You will need a manufacturing license. Contact the Oklahoma State Department of Health before you start any construction, etc. since they will work with you to make sure you do it right the first time.

If you are going to put anything up in jars or cans which is intended to be shelf stable at room temperature you will have to work with the staff at the Food and Agricultural Products Research and Technology Center (FAPC) at Oklahoma State University. The FDA does not work directly with manufacturers; rather they contract with each state to have a state agency interface between them and the individual manufacturer. In Oklahoma this is done through FAPC; this is the only place you can go to get an authorization letter. This is also the agency that will help you develop an approved label and a wide range of other activities.

Don't do anything without first contacting these people. Since I have been working with them for several years and have taken several products through the process, once I had a satisfactory bean salad recipe and processing protocol, I prepared a batch as if I were going to sell it, keeping very accurate records of times, temperatures, pH, etc. I then took my records, and samples of the product, to FAPC. They analyzed the product, confirmed that my protocol was safe and issued me an authorization letter. Then and only then could I begin to sell the product. This all sounds rather formidable, but just remember the folks at FAPC are on your side and will work closely with you.