

INCENTIVE CONTRACTING FROM A GROWERS STANDPOINT

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Most of the contracts in this state are based and graded on the lower limit number 1's and number 2's. A number one potato is a potato with defects or combination of defects, which materially detracts from edible or marketing quality or the internal or external appearance of the potato or any external defect which cannot be removed without a loss of more than 5% of the total weight of the potato and is fairly well shaped. This is a number one potato.

A number two potato is basically the same, but you are allowed 10% of defects, but can be quite mis-shapen.

Most contracts pay for all potatoes that are a combination of these two grades providing that they meet the minimum standards of specific gravity and solids which we call useable potatoes. So, we must call this a normal lot of potatoes. The price is determined in most contracts by the Number Ones in the useable potatoes. The larger percentage of Number Ones in the useable potatoes the higher the price, so, there are some incentives already in most contracts.

There can be a wide variation in the true value of different lots of potatoes and still grade the same percentage of number ones and number twos.

One lot may be excessively bruised, have low solids, may make a low quality french fry, a poor fresh pack and have such high labor costs and a low rate of recovery, of good product, so as to be almost without value.

Another lot of potatoes at the same cost may be almost bruise free, have high solids, can be made into the highest quality french fry at a low labor cost and a high rate of recovery. This lot, of course, is much more valuable than the other lot.

I think all of you are aware we are growing a much better potato today than we were ten years ago or even two or three years ago. More and more we are being asked to grow a potato for specific needs, especially for processing.

Our goal as growers must be to grow a raw product that is almost perfect in all possible ways, so that the useable product will fresh pack or process at the lowest cost with the greatest

Who paid for these better potatoes? We growers did !! Of the 2¢ per hundredweight you paid to the Commission, \$200,000.00 is spent every year on research on how to grow more and better potatoes. If you are growing better than normal potatoes, and the price you receive did not include an incentive for this better quality, you are paying some other growers bills.

So, we come to the question of incentive in contracts. We, as growers in the most part through research and our own expertise are rapidly approaching the point that we can grow potatoes that fill the specific needs for the various products that our processors and buyers need.

How do we get a grower to grow a raw product that fits your special needs, FRANKLY, and to put it BLUNTLY, - - - MONEY.

All contracts should spell out and reflect an incentive for any factor such as bruise, high solids, specific gravity that add to the value of the raw product above the normal grade, or, have penalties on any factor that subtract from the value of the raw product below normal grade.

Probably our number one problem in quality is bruise. This is a factor in the value of the raw product that the grower has almost complete control of. Only two contracts in the Basin have incentives or penalties on bruise. This has made growers very conscious of bruise and it has UP-GRADED ALL POTATOES in the Basin. But only the growers for these two processors and these two processors have been paid the incentives or have taken their penalties. The other growers and processors have had a free ride.

My definition of bruise is any bruise that can be removed without any labor cost or that is removed by the natural peeling process in any processing plant, or cooking in the consumers kitchen. It is not an economic factor in the raw product.

The grower does not have as much control over solids and specific gravity as they do over bruise. But as a general rule good cultural practices in all areas of potato growing generally result in a much higher percentage of solids and specific gravity. Only one contract as far as I know, pays incentive or penalties on solids. I think it is a step in the right direction.

Maybe, as growers, we should look at a long term contract that specifies a certain percentage of their total needs that have incentives for meeting all of these grade requirements.

I would like to put out this challenge to you. Are you contract buyers willing to bet some real money, to get the raw product you want and need for your specific needs and are you growers willing to bet that you have the expertise and the ability to deliver the raw product to fill these needs and take your penalties or earn your incentives. The future of the Washington potato industry depends on you and I think we should all think about it.