Case Study – Gaia Herbs

Gaia Herbs, located in Brevard, NC, is an herbal supplement producer. They supply a high-end niche market for herbal remedies. The company was founded in Cambridge, Massachusetts in 1987, but the owner, Rick Scalzo, decided to move to North Carolina in 1997 because the firm wanted to start growing and harvesting their own herbs and the ecosystem for growing herbs in this region of North Carolina is internationally renowned. The firm currently maintains 250 acres of certified organic farmland, has a delivery system in place, and performs extraction, processing, packaging and distribution on site. Thus, the firm has moved toward more internal vertical integration.

Evidence of Success

Gaia Herbs grew quickly after moving to North Carolina and establishing the farm production, processing, and delivery system. The processing system has become so efficient that the Gaia Herbs manufacturing facility is outstripping the Gaia Herb Farm’s output. Gaia’s success as a marketer of a high-value, niche product is remarkable. Gaia Herbs has over 3,000 wholesale accounts. Its Liquid Phyto-Caps line was launched in 2001 and already accounts for over fifty percent of total company sales. Overall sales grew at 12 percent annually from 2000-2003, despite depressed national economic conditions.
Case Study – Gaia Herbs

Reasons for Success

- **Strong leadership**—The firm has clearly made business decisions that have resulted in successful performance, such as locating in Western North Carolina and continually improving their production process.

- **Vertical Integration**—By developing capacity to house several stages of production in-house, the company has been able to coordinate production well and enhance competitiveness. At the same time, the company is also developing a regional procurement system that would link farmers wishing to grow herbs with Gaia. In this way, the company is branching out to external producers and becoming a supply chain lead firm.

- **Up-Market and High Quality Focus**—Gaia Herbs places a very strong emphasis on quality control and has strategically chosen to target a high-end and specialized market niche for its product. The Vice-Chairman of Gaia Herbs, Greg Cumberford, believes that Gaia Herbs has not experienced downward pressure from globalization because the products they manufacture are of premium quality and are not as susceptible to price changes. He also asserts that customers support the firm’s mission as an organic, high-technology, and high quality producer.

- **Networking**—Gaia Herbs is an industry leader and a network organizer. The firm helped to establish the North Carolina Natural Products Association (NCNPA), which strives to promote an image of North Carolina as a leading global supplier of premium natural products including medicines, personal care products, and foods. This Association involves partnering with several other firms in North Carolina in the natural medicine sector.

- **Emphasis on Marketing and Branding**—The firm has also been innovative and strategic about marketing. In 2001, a Physicians Division was added within the firm, which markets directly to professionals. Under this division, the firm reaches medical practitioners through seminars in cities across the nation. The overall scope of Gaia Herbs marketing plan is immense, and it includes interactive web education services, grant proposals and research, pharmacy management services, and student sales representative programs at naturopathic colleges. The company is also branching out into European markets.

- **Government-Sponsored Participation in Horticultural Research**—In 2002, Gaia Herbs received a $1.2 million grant award from the National Institutes of Health to develop “a therapeutically optimized extract and delivery system for Echinacea.” In 2004, Gaia Herbs received a grant from the U.S. Department of Agriculture to conduct research in creating a specific optimized hybrid. Therefore, these government-sponsored endeavors have played a role in helping Gaia continue to be an industry leader.
Case Study—The Winery at Iron Gate Farms

Located in Alamance County, the Winery at Iron Gate Farms is a small, entrepreneurial wine-making firm that is owned, managed, and operated by Gene and Debbie Stikeleather. The Winery has a 3.5-acre grape farm that is one of only a handful of vineyards in the Eastern Piedmont region of North Carolina. They also have an agri-tourism facility that welcomes visitors for wine-tasting, private parties, and other events. The Stikeleathers chose an integrated organization model of production.

Evidence of Success

Since the company started in 2001, and it takes years for a wine crop to mature enough to start selling, strong evidence of success was not available at the time of data collection.
Reasons for Success

- **Entrepreneurial Leadership**—The owners went out on a few limbs with their business decisions, and they feel that has paid off for them in the longer term. For example, they conducted research on North Carolina’s growing capabilities and decided to take a risk and grow vinifera grape varieties, in addition to growing the typical grape variety in the region, muscadine grapes. In addition, the owners used another business that they owned as well as collateral from the land they owned to combat the high start-up costs associated with starting vineyards and a winery.

- **Skill Development from a Community College**—One of the owners commuted over 100 miles every week to attend an enology and viticulture certification program offered by Surry County Community College. At the time, this curriculum was only offered by one other school on the East Coast, Cornell University. According to the owner, Rockingham Community College recently began offering viticulture courses as well, and 100 students signed up for the first session. These programs enhance the skills of the workforce and help to increase the supply of qualified vineyard laborers and managers.

- **Assistance from the Agricultural Extension Office**—The Alamance County Cooperative Extension Service has been a valuable resource for Iron Gate Farms. They invited the owners to attend several educational programs, including an agri-tourism seminar at which she made many connections and began networking with other vineyard and winery owners. She feels that the extension service offers more than technical advice, and is crucial for bringing local agri-tourism business owners together and also for alerting them of educational opportunities.

- **Networking with Other Small Firms**—Iron Gate Farms has collaborated with other small vineyards in the local area with the assistance of the agricultural extension office. For example, the owners pooled together and consolidated their orders so that their suppliers could ship to all of them at once, decreasing the costs for all. Iron Gate has also made it part of normal business practice to advertise for other vineyards and wineries in the area as well as their own. Debbie has seen this trend throughout the industry and feels that it is mutually beneficial for local agricultural and cultural tourism businesses to advertise collectively.

- **Marketing to Directly Local Businesses**—The owners of Iron Gate Farms targeted local restaurants, retail, and wholesalers in order to be able to meet demand more efficiently. In addition, they acquired the licenses they needed in order to sell directly to these customers rather than going through a third party. Their local and direct approach enables them to meet demand “just in time”. For example, Iron Gate received a call one night from a partner restaurant that had run out of wine, and they were able to deliver three cases of wine to the restaurant that evening.
Case Study—The Winery at Iron Gate Farms

Ongoing Challenges

- **High Barriers to Entry**—The high startup costs, the high cost of insurance, and the long time lag between planting and harvesting for wine production make it particularly difficult for new firms to enter the wine production market. The owners of Iron Gate Farms said that local lending institutions were resistant to lending to them because they favor “brick and mortar” industries in their lending decisions. In addition, insurance for vineyards in the state is very expensive, because there is only one company in the state that insures winery and vineyard owners.

- **Trade Association Favors Large Firms**—The owners of Iron Gate Farms do not participate in the local trade association in the industry, the North Carolina Grape Council, because they feel the council’s membership is solely representative of large vineyards. They feel that the large firms involved seek to control North Carolina’s wine market and make it difficult for smaller vineyards to succeed. For example, in one year council members announced that the affects of the hurricanes had impacted vineyards and that wineries should not bottle that year, creating a perception that North Carolina wine from that year was substandard. This harmed Iron Gate Farms and other wineries in their area because that part of the state was not adversely affected by the storms.

- **Lack of Skilled Workers**—The owners also report difficulty in finding qualified high-skill workers who can help manage their farm operations. While two community colleges in North Carolina now provide programs in viticulture, more time and effort may be needed to close the gap between supply and demand for workers with these skills.