

Jeff Carpenter's Keynote Address at the 2016 Medicinal Herb Growing & Marketing Conference in Port Townsend, WA.

Quality-vs-Cost

How to stay small and successful in an expanding herb market

[Please note, due to scheduling conflicts, Jeff was not able to deliver the entire speech at the conference. Below is a transcript of his intended address]

There's an Elephant in the room. You can't really see it but you're probably aware of its presence. It's big as elephants tend to be, and sometimes it smells bad, it can come across as cute and cuddly like Dumbo but when you get close to it you realize it's really not pretty at all. What is it you ask? Quality, the quality of herbs and herbal products that dominate our industry.....

Sales of herbal supplements here in the United States reached upwards of 6 billion dollars in 2015 and as the herbal products industry continues this explosive growth, herbal entrepreneurs are poised to ride this wave of success all the way to the bank. This doesn't seem to be just another fad or a bubble, in fact growth in our industry hasn't shown any sign of letup and why is this? Because as all of us here know, plant medicine works and more and more people are catching on to this fact.

Herbalists were forced underground a century ago while society turned to synthetic drugs and modern medicine to heal our ills but now we are remembering what our ancestors knew and taught us, that plants are the cornerstones in a foundation of good health. We have all heard the term "herbal renaissance" used to describe the current rebirth here in

the west of the knowledge and practice of using plants for healing purposes but what we are experiencing now seems more like an herbal revolution than an herbal renaissance. The big question is “is the revolution sustainable?”

Here we are all surfing this wave of success together and staying on the face of this wave may seem fairly easy, just get your feet planted and go.... Surfing with good style though, or in our case, with the highest quality possible while adapting to challenging conditions is what really counts in the big surf contest that is the herbal products industry.

There are stormy seas on the horizon and sharks and pirates are circling. The FDA is forcing small herbal product manufacturers out of business by establishing standards they can't afford to implement. Indigenous agrarian cultures are having medicinal herb crops that support their social as well as economic stability hijacked. Generic herbal terms that have been used freely for decades are being pirated and trademarked and herbalists are being sued for using them. Species of wild medicinal herbs like American ginseng are literally becoming threatened to the point of extinction due to overharvest, habitat loss, and climate change. The mass media is blowing the issue of herbal product adulteration out of proportion in an attempt to instill fear in herbal product consumers, and on and on

These are but a few of the complex challenges herbal entrepreneurs are facing here in the midst of the herbal revolution and it's up to us to determine where we go from here. Do we watch with despair as our traditions and plant allies are threatened or do we take action? Do we bow down in compliance or do we peacefully yet forcefully resist? These are incredibly important decisions that will not only determine

how present day herbalism and the herbal products industry is viewed in the historical context, but even more importantly, keep our traditions and our livelihoods thriving in the here and now and long into the future.

In addition to these challenges, one of the most important considerations for herbal entrepreneurs regarding the sustainability of our industry is the level of quality of the plant medicine we grow, make and sell. There's that elephant....Will we be viewed as snake oil salespeople cashing in on the gullible, sick and needy? Or will we be viewed as purveyors of powerful, high quality medicines capable of helping people build and maintain good health and wellness.

We as herbalists and herbal product makers know that the efficacy of the plant medicine we make is primarily determined by the ingredients we use and the care in which we assemble and present them but do our customers know how important quality is? Some do, and increasingly more do but educating the rest about the importance of quality takes time and effort.

In the meantime, there are many in our industry who continue to capitalize both knowingly and unknowingly on consumer ignorance around the issue of quality and pricing because for some, the bottom line trumps quality. For the rest of us though, quality is the gold standard of our industry.

Here is where I'll offer a few personal observations on the issue of quality versus cost based on my experiences with 20 years in the herbal products industry first as the owner of an herbal product company and now as the owner of a certified organic herb farm.

First let's discuss the herbal consumer, both the herbally-educated and the herbally-uneducated variety. The average herbally-uneducated consumer when given a choice between several different products with seemingly the same ingredients will more often than not choose the least expensive and most convenient option, with little consideration paid to the true underlying value of those purchases. They will log into www.buycrap.com or walk into Mall Wart and buy a 2 oz. bottle of St. John's Wort extract from Mega-Herb (fictional names) for \$10 before they'll travel to their local herb shop and spend \$20 for a locally produced St. John's Wort extract of the same size made by a trained herbalist paying her employees a fair wage and using locally grown, certified-organic herbs. No big surprise there, those products are affordable, convenient, and not everyone has had the opportunity to apprentice with a trained herbalist to become more herbally-educated.

On the other hand, the herbally educated consumer has learned that quality trumps cost and that the St. John's Wort used in that non certified-organic Mega-Herb product was more than likely sourced from a factory farm located on another continent using questionable agricultural and labor practices. That farm may have even used chemical fungicides to control the Anthracnose fungal disease common in commercial St. John's Wort production. That herb was probably grown, harvested and processed with massive machinery, macerated in a solvent distilled from genetically modified grain sprayed with glyphosate and then manufactured through a fully-automated production line. There is a good chance that the very first human contact aspect of that product would experience is from the Mall Wart employee who stocked it on the store shelf.

The herbally-educated consumer also understands that Product B on the other hand came from a small, local family-owned herbal product business we'll call Moonbeam herbals (another fictitious name). The Moonbeam company is made up of its two owners along with their small crew of employees being paid a livable wage. They made their year's supply of 15 gallons of St. John's Wort tincture using organic grape alcohol and several pounds of high-quality dried St. John's Wort purchased from a local certified organic herb farm using excellent agricultural and labor practices. Lots of human interaction and care went into both growing the herbs as well as making the tincture in that bottle.

St. John's Wort is St. John's Wort right? Shouldn't the same stuff be in both bottles, especially since the FDA is making sure that it is? Maybe so, maybe not. The herbally-educated consumer more than likely has done some simple math and realized that although Moonbeam's product is twice as expensive as Mega Herb's, it is also more than twice as potent given the quality of the ingredients and care in processing used in making it which in the end, makes it by far the better choice in terms of both value and quality, not to mention the social and karmic currency exchanged by supporting a small-family owned local business.

However, neither of those consumers likely has enough background knowledge to realize the actual costs that went into making those two very different yet botanically identical herbal extracts. Even though Mega-herbs tincture was half the price of Moonbeams, their margin of profit on that bottle was twice as much as Moonbeam's given the economies of the scale they are working at and the cost of maintaining their FDA CGMP compliance only makes up approximately 2% of their yearly operating costs.

Moonbeam Herbals on the other hand is working with much skinnier profit margins and recently got inspected by the FDA for the third time in the last two years. They learned that they will need to invest \$75,000 in upgrades in order to become FDA CGMP compliant and this is on top of the \$10,000 they spent in the past year keeping a lawyer on retainer to help them sort out and rectify the last round of FDA non-compliance issues. This \$85,000 in costs associated with attempting to become FDA compliant represents about 1/3 of their gross annual sales.

So how and why is Moonbeam Herbals going to remain in business in a world full of un-herbally-educated herbal consumers, buycrap.coms, Mega-Herbs and FDA inspectors? This is the million dollar question. I live in Vermont, the land of 100,000 herbalists and where the small-scale herbal product maker is becoming a dying breed due to the near impossibility of running a small, FDA compliant product business profitably.

You have to commend the rest of them that keep surfing the herbal wave in these stormy conditions so what is it that keeps them going? I have been asking my friends who are still at it and this is what I have heard.

That it's not just the quality of their products that keeps them going, they are also banking on the quality of other important measurables such as quality of life and the quality of improved health they bring to themselves, their community and the environment. Will quality alone sell their products for them? Of course not so in addition to making high quality medicine, they are also serving as teachers, educating people about the many differences between Mega-Herb and Moonbeam Herbals. By going out into their community, telling their

story and describing the true value of the products they make, they are forming lasting relationships with their customers who have an innate desire to become empowered in their own wellness and healing.

Collaboration with others doing similar work and facing similar challenges is also keeping them going. They are forming working groups and sharing information to try to navigate through the storms. Some are even outsourcing their production to high-quality manufacturers who can justify the costs of compliance through aggregate volume. Others who have been making tinctures for years are moving from internal products to external body-care products to avoid FDA scrutiny.

These are all great concepts but it's definitely going to take more than high quality, education and good will for the Moonbeam herbals among us to keep surfing this herbal wave so what else can they do, especially given the fact that 1/3 of their gross income is spent attempting to become FDA CGMP compliant? They can join together to resist and change the mandates. This won't be easy and it will take time and lawyers and money but it can work. Never doubt that a group of thoughtful committed herbal revolutionaries can change the world.

My wife and I recently wrote a book on medicinal herb farming and during book tour we spoke with hundreds of people trying to make a go at farming herbs. One of the most common challenges these growers expressed to us is wondering how to compete with the "mass market" herbs sold by a few large corporate herb companies. These are the wholesale suppliers responsible for filling most of the jars of herbs and spices you see in your local health food stores and coops and supplying most of the herbal product manufacturers with their raw materials. They are also selling large quantities of retail product online to people

at home making their own teas and herbal products. These companies are essentially herb-resellers since they aren't actually growing the herbs they sell, instead they are dealing with herbs as commodities by buying large volumes of low-quality, low-priced herbs primarily from overseas markets and selling them at a premium here in the US.

So the growers we spoke with on book tour were really excited to give medicinal herb farming a go, after all, medicinals seem like a great alternative to raising more traditional agricultural products like fruits, veggies, or meats. Herbs are pest and disease-resistant, suitable for permaculture, highly marketable and supposedly profitable but again, their primary concern was that they couldn't figure out how they were ever going to compete in a market dominated by these large companies. Many of them attempted a different approach, "if we can't beat them, we might as well join them" and they tried to wholesale their herbs directly to these companies. The problem is that when they did the math, they realized that the prices these herb resellers are paying farmers for their organic herb crops are generally similar to and often less per acre than they could make growing organic fruits and veggies etc. Why would they invest in transitioning their farming practices for the same rate of return? They wouldn't

Melanie and I could relate to these grower's concerns because we have had similar experiences with our farm. We had recently expanded our production and were looking to tap into some new markets so we reached out to two of these large herb companies and here's what we found. First of all, the biggest surprise to us was that one company wanted to buy the dried herbs whole, unprocessed meaning they wanted the whole plants, stems and all. They called this "field-run" This

didn't make sense to us, as one of the first things we learned about medicinal herbs was that the stems contain little to no medicinal activity. They are basically a by-product. In fact, on our farm after we separate the leaves and flowers from the stems, the stems get composted and then recycled back into the fields to nourish the soils and the medicinal plant parts go out to nourish the people.

We were incredulous that they milled and included the stems too so we went into one of the local health food stores, opened up a jar of their herbs sourced from the same company we were trying to work with and realized that yes indeed, that "herb" definitely had leaves in it but you could barely differentiate it from the finely chopped stem mixed in with those leaves. That plus the fact that the leaves looked like they had been dried out on the ground in the full sun for too long, something that we know is common practice on some of the huge commercial herb farms in places like Eastern Europe and Asia.

Another company we tried to work with insisted that we provide them with material that was consistent with their existing stemmy product meaning we would have to invest in an expensive milling machine to grind the stems up ourselves.

Aha!!! we thought... This is it! We'll show them our herbs and they'll be blown away with the quality and then they won't need to sell that stemmy, bland, washed-out looking stuff anymore. So we sent samples of our leaves, roots, blossoms and berries. High quality medicinal plant parts only...Little to no stemmy by-product, vibrant in color and heady with aromatics due to our careful quality controls. The buyers were very impressed with and highly complementary of our product, they were also impressed with the results we had obtained through

microbial analysis of our herbs, two very important considerations, or so we thought...They loved the quality of our herbs but they didn't love them enough to pay what we needed to get for them, even at our volume discount wholesale price. When asked if they would consider charging their customers more for higher quality herbs without stems, one of the buyers replied "our customers aren't demanding higher quality". When we got into the pricing discussion the buyer was candid and told us some of the prices they were paying for the European imports which in general averaged about 25% of our lowest price point. Basically what they are straight up admitting is that cost trumps quality and that they feel that the herbal consumer is happy with the current model.

And this is what I feel is the elephant in the room that needs to be addressed. The sustainability of our industry is directly related to the effectiveness of the products we market which is directly related to the quality of the ingredients that they are made from. If some in our industry continue to capitalize on consumer ignorance and prioritize profits over potency, consumer confidence will eventually erode which will hurt us all, even the Moonbeam Herbals, Zack Woods Herb Farms, buycrap.coms and Mega-herbs among us.

So what can those of us who prioritize quality over cost do to maintain consumer confidence in our industry while making a living doing so?

Here are a few ideas.

Number one- Educate the consumer We need to pass on what we have learned about quality. That the herbs we use to make herbal products should look, taste and smell as vibrant as they did when they were growing in the field. The only thing that should be removed from

them is the water and the by-product, not the vibrant color, not the aromatics and certainly not the bioactive compounds that make them so effective. Tell the story of your business and how you are producing the best quality medicine you can make. Put a face on the medicine. People long to identify with what they are putting into their bodies. Look at the local food movement and what that has done for our local food growers.

Two-Educate the producers Not only do we need to keep educating our customers but we also need to help educate those in our industry who are trying to pass off low-quality goods. They may not even realize what they are doing so call them out on it. Remind them that what they are selling is plant medicine, which has an enormous amount of innate value. It shouldn't be sold at a discount just to sell more and more of it for more profit, it should be the best available and sold at full value which means paying everyone who is involved with its production a fair wage. I'm not recommending that we gouge people or inflate our prices artificially, I'm saying we need higher standards and increased awareness, we need to pay ourselves for our hard work, and we need to hold one another accountable.

Three- Resist growth at the expense of quality- Don't get me wrong, growth is usually a good thing but I know that if I expand my farm another 20 acres I'm going to have to look at whether I can maintain both the quality of life I enjoy right now as well as the quality of my product. Bigger is not always better and sometimes it's worse both in terms of quality as well as profitability. Economy of scale is a great principle as long as quality is valued as an economic consideration.

Four- Collaborate One way our farm has been able to tap into larger markets without compromising quality is by forming the Vermont Herb Growers Cooperative. Eight farms are working cooperatively to fulfill mid to large-volume wholesale contracts as well as to share knowledge, technology and other resources. This COOP is essentially a marketing agency run by its members. We are not trying to compete with the herb giants at all. Instead we are marketing an artisanal grade, certified organic product at a premium for those who also prioritize quality over cost. Most of our member farms are established vegetable farms who are taking land out of vegetable production to grow more profitable and sustainable crops like medicinals. This is a model that is working and we hope others in our industry follow suit and choose to collaborate instead of compete with one another.

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Jeff Carpenter has farming in his blood. Descended from generations of Vermont farmers, Jeff deepened his love and understanding of plants through an apprenticeship with Rosemary Gladstar and as the co-owner of Sage Mountain Herb Products. Since those early days Jeff's work as a farmer, agricultural consultant, educator, and researcher has focused on the cultivation and marketing of medicinal herbs. Jeff also partners with Rosemary Gladstar in hosting the International Herb Symposium. His passion for the green world is evident as he spends his days working in the fields and in the community.

Areas of Expertise:

Farmer, agricultural consultant, educator, and researcher focused on the cultivation and marketing of medicinal herbs.

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