



Emerging Opportunities for Local Food in U.S. Consumer Markets

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Presentation Overview

- Rise of Local Food Movement in U.S.
- Role of Alternative Marketing Channels
- What's Happening in the Food Retail Sector
- Implications of AMS Case Study Research
- Concluding Remarks



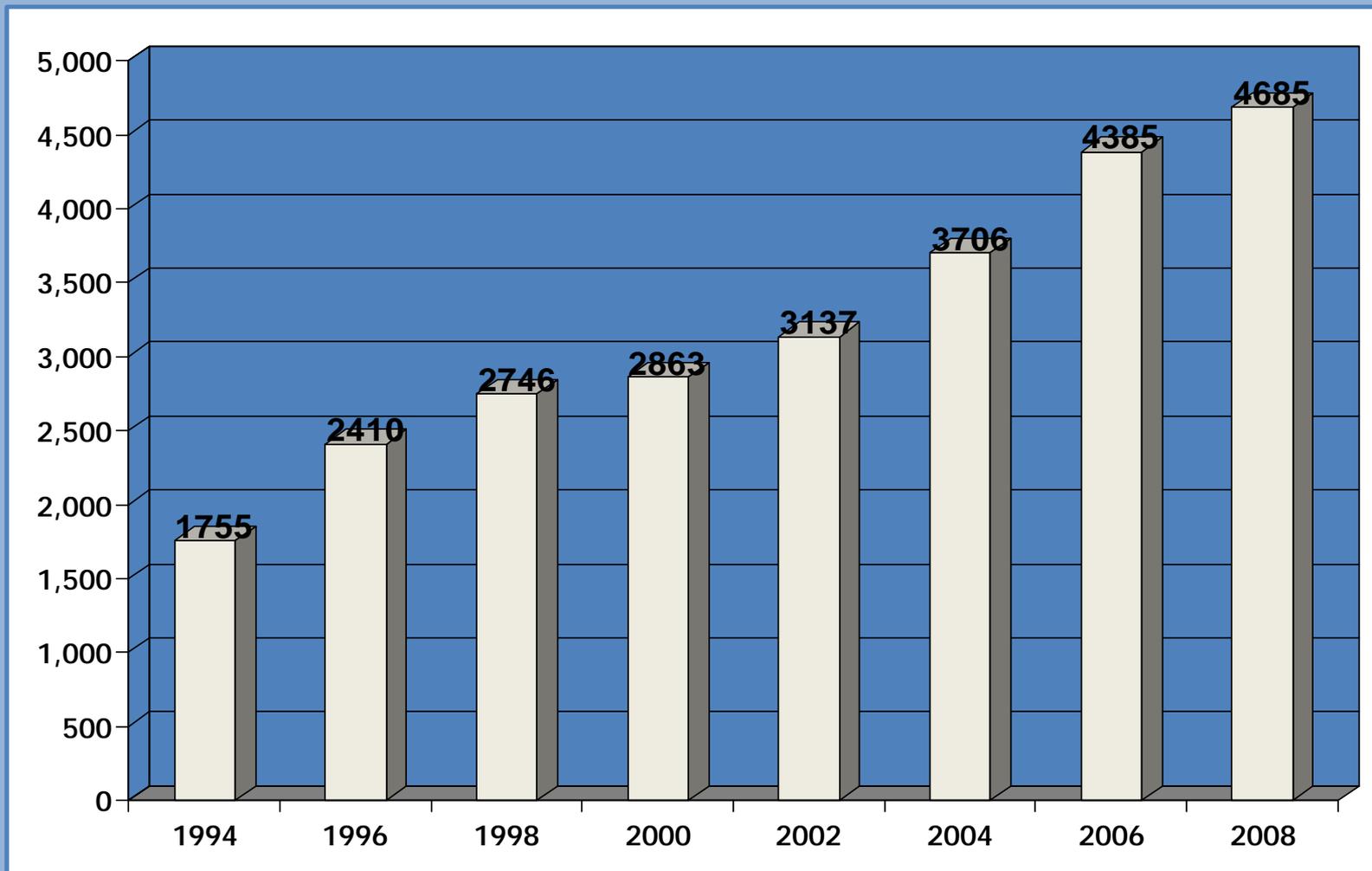
Growing Popularity of Local Food Movement

- Consumer demand for locally grown food expected to rise from an estimated \$4 billion per year in 2002 to as much as \$7 billion by 2012
- Partially stimulated by rise in direct-to-consumer marketing
 - Direct sales of farm products between farmers and household consumers for human consumption increased from \$404 million in 1992 to more than twice that amount (\$812 million) ten years later in 2002

Direct-to-Consumer Marketing Growth Helps to Transform U.S. Food System

- **Number of U.S. farmers markets up dramatically since mid-1990s**
 - From 1,755 in 1994 to 4,685 by mid-2008
 - More than 1,500 new farmers markets since 2000
 - Around 300 new markets in past 2 years alone
- **Explosion in subscription agriculture**
 - CSAs began in U.S. in mid-1980s with 2 operations
 - Current estimates range from 1,200-2,000, depending on source (Robyn Van En Center, Local Harvest)

U.S. Farmers Market Growth, 1994-2008



Appeal of Direct-to-Consumer Marketing

- **Freshness**, flavor, ripeness
- **Access to unusual products/product varieties** (some of which aren't able to withstand long-distance shipping)
- Opportunity to develop **personal relationship** with growers
- **Knowledge of food origin/farming practices**
- **Support of local economy/local agriculture**
- **Preservation of local farmland/open space** through economically productive use of land
- **Potential reduction in fossil fuel usage and greenhouse gas emissions** compared to conventionally sourced crops

Farmers Market Shopping Becomes Mainstream

- Farmers market sales in 2005 estimated at **just over \$1 billion** (AMS 2006 National Farmers Market Survey)
- Equals **only 0.1 percent** of total U.S. food sales in 2005 (\$1.01 trillion) and **0.2 percent** of at-home food sales

*However...*this only tells one part of the story!

Farmers Market Shopping Becomes Mainstream

- **58 percent** of primary household food shoppers surveyed in September 2003 by the National Grocers Association indicated that they patronized farmers markets *at least occasionally*
- **25 percent of U.S. adults surveyed in 2006** by Colorado State University stated that farmers markets were their *primary* preferred source of fresh produce
 - Listed as secondary source by another **12 percent**

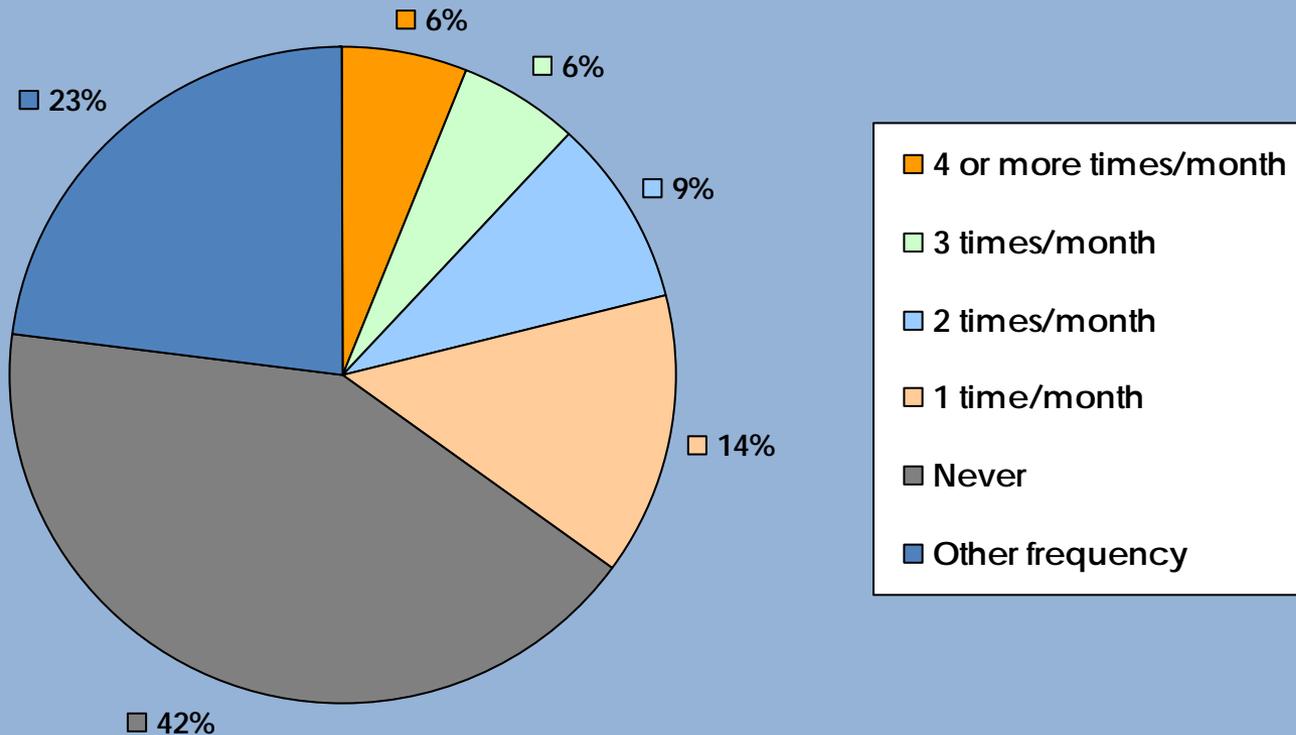
Farmers Market Shopping Becomes Mainstream

Colorado State University Study of U.S. Adults, 2006

| Channel | Primary Food Source | Primary Source of Fresh Produce | Secondary Source of Fresh Produce |
|-----------------------------------|---------------------|---------------------------------|-----------------------------------|
| Supermarkets | 76% | 56% | 29% |
| Warehouse clubs/supercenters | 19% | 10% | 23% |
| Health food stores | 2% | 2% | 8% |
| Farmers markets | 1% | 25% | 12% |
| Other direct from producer | 1% | 5% | 3% |
| Specialty store | 1% | 1% | 3% |
| No preference | -- | -- | 22% |

Farmers Market Shopping Becomes Mainstream

Frequency of Farmers Market Visits, in percent
(NGA, September 2003)



Momentum in Local Foods Sales Continues to Accelerate...

- **Outbreaks of foodborne illness spur consumer interest in food origin and raise concerns about import quality**
 - E-coli incident in fresh spinach, green onions (2006)
 - Salmonella incident in fresh tomatoes, peppers (2008)
- **Preliminary research (Thilmany, CSU) suggests local food often more important than organic food to customers**
 - Especially true among consumers drive by food quality and safety
- **Escalating fuel prices raise consumer consciousness about energy usage in transportation**
 - **AC Nielsen/FMI, July 2008: 60 percent** of respondents knew what a carbon footprint was, **73 percent** would like to see a carbon footprint rating on foods
 - **Rising freight costs may also narrow price spread** between locally-sourced food and food shipped over long distances

But HOW are Local Foods Being Delivered to Consumers?

- Despite huge rise in popularity, **farmers market only account for 20-25% of all local food sales:**
 - 2005 farmers market sales estimated at around \$1 billion
 - 2005 total local food sales estimated between \$4-5 billion
- **Where is this product going?**
 - Other direct to consumer outlets (e.g., CSAs, farm stands)
 - Retail markets (independents, small chains, now larger chains)
 - Schools, universities, corporate cafeterias (e.g., Google)
 - ◆ CFSC – approximately 200 farm to school programs in 39 states
 - Restaurants, especially independents and small chains with strong regional identity
 - Hotel foodservice catering to tourists seeking “local” cuisine

Paradigm Shift in Retail Buying Habits Boosts Opportunities for Local Foods

- Increased attention to **product differentiation** as way of attracting/retaining traditional customer base
 - Consumer patronage of “conventional” supermarkets declining
- **New focus on collaboration** rather than competitive relationships with suppliers
 - Quality, reliability, traceback capability, production practices, “compelling” story becoming more important as marketing hook
 - Consumers abandoning national branded items in favor of store brands
 - Cooperation with suppliers allows for tighter inventory management
- **Decentralization of procurement practices**
 - Move toward customized product selection at store level, greater autonomy of store manager to make procurement decisions
 - Producers able to bypass distribution centers, use DSD

AMS Research in Progress: Alternative Distribution Models

Analysis of Distribution Channel Options for Small-Scale Producers

Ongoing research on best practices and the relative effectiveness of various direct distribution models in improving the economic welfare of small-scale and limited-resource producers



Distribution Models by Stages of Development

| Distribution Model | Start-up/Nascent | Developing/ Emerging | Mature/ Developed |
|---|--|-----------------------------------|---|
| Retail Driven | | La Montanita Food Cooperative, NM | The Wedge/Coop Partners, MN |
| Non-profit Driven | MFA/Big River Foods, MN | CAFF/Growers Collaborative, CA | Red Tomato, MA Appalachian Sustainable Development, VA |
| Producer Driven | Browse and Grass Farmers Association, WI | | New North Florida Cooperative, FL |
| Consumer Driven (e.g., Buying clubs) | | Oklahoma Food Cooperative, OK | |

Case Study: Minnesota Food Association (MFA), New Immigrant Agriculture Program

- **Established in 1999** to help immigrant and refugee populations learn about farm management and sustainable agriculture methods (e.g., pest management, soil and water conservation, and plant management techniques)
- **Provides training and technical assistance** on greenhouse production, livestock production, direct marketing, and value-added production at a 200-acre leased farm site
- **Three-year training program** designed to give new/aspiring farmers the requisite years of experience and farm records to enable them to qualify for loans and purchase farmland. **250 have benefited to date.**



MFA and Big River Foods

- Big River Foods set up to be a **“training distribution company”** that combines brokering functions and transportation logistics with on-farm production and post-harvest training
- **Established to meet the “market preparation”** needs of commercially-oriented producers that seek access to larger-volume retail markets



BFR Distribution and Marketing Logistics

- **Hired a full-time operations manager** – responsible for production training, post-harvest handling/food safety, marketing, and client relations
- **Invested in packaging, labels, cold storage unit**
- **Developed a brand identity** – “Fresh. Local. Honest.”
- **Contracted with local trucking company** to move product (for large orders) – move it themselves for smaller orders
- **Currently works with 5 family farm operations**
- **All cleaning, sorting, grading, packing done on farm premises**



Markets for Big River Foods

- Selling several tomato varieties (grape, slicer, heirloom) to:
 - **Kowalski's Market** – a local supermarket chain with 8 locations and a focus on organic and natural foods
 - **Lunds and Byerly's** – a high end supermarket chain with 21 locations
 - Selling green peppers to the restaurant chain **Chipotle Mexican Grill**



The Wedge Co-op Partners Program, St. Paul, MN

- The Wedge started the Co-op Partners in 1999 in an effort to improve sourcing of local produce (especially sustainably grown); received organic certification for its warehouse in 2002.
- Tapped into a growing dissatisfaction among many retailers and food processors with available volumes and quality of local food. **Presently works with more than 100 regional clients** that includes around 60 retail co-ops, 15 specialty food stores, and 30 processors.
- Annual sales at **\$14 million.**



The Wedge as a “Chain Champion”



- **Willing to work with local producers to help them reach desired quality standards and volume requirements**

The Wedge as a “Chain Champion”



- Not just selling produce, but selling a compelling story

Case Study: Appalachian Sustainable Development (ASD)

- Non-profit established in 1995, based on Abingdon, VA (SW part of state near Tennessee border)
- Main program: **Appalachian Harvest**: A network of **certified organic farmers** who collectively market and distribute produce under one identifiable, regional brand
- ASD helps farmers transition into organic specialty crop production through **training, technical assistance, mentoring** – many of the farmers in the network are former tobacco growers

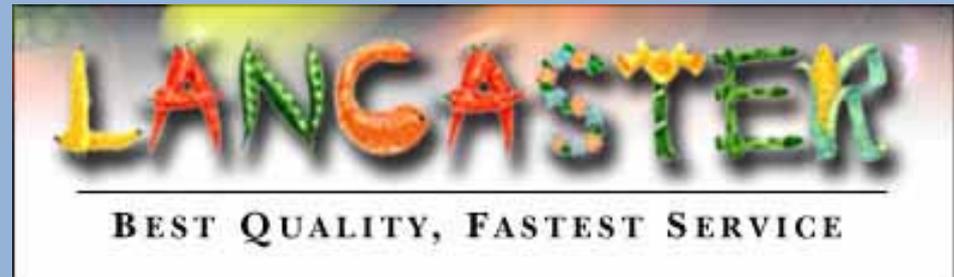


Case Study: Appalachian Sustainable Development (ASD)

- Established the **brand name** in 1999
- Began to sell produce at White's Fresh Food, a local, family-owned, 18-store chain, followed by Food City, a 100-store chain headquartered in Abingdon
- There are currently **60 producers in the network**: 53 farmers growing organic produce, and another 7 producers of free range eggs



Markets for Appalachian Harvest



Marketing and Planning Logistics

- The network's **sales and marketing manager** works with buyers to gauge product demand and volume needs
- **Preseason planning:** The network meets monthly beginning in October to decide what to grow, how much, when and who will grow it



Distribution Logistics

- Produce is sorted, graded, and packed in a **centralized facility**
- In 2008, they plan to ship two dozen types of organic produce to **more than 600 supermarket stores**
- Estimated yearly sales **over 500K**
- Estimated demand is **2 to 3 times** the available supply



Market Promotion Materials



LOCAL!
Raised by family farmers
in southwest Virginia
and east Tennessee

FRESH!
Usually picked and delivered
within 48 hours

CERTIFIED ORGANIC!

- Crop fertility from healthy soils
- Natural, biological control of pests
- Protecting our waterways,
environment & soils

Appalachian Harvest is a network of certified organic family farmers in southwest Virginia and northeast Tennessee. These farmers, many of whom are making a transition from tobacco farming, are working together to bring the highest quality, best tasting organic foods to your table at prices you can afford.

- Traditionally, only 20% of your food dollar goes to the farmer
- With *Appalachian Harvest* produce, nearly three times that amount goes to the farmer.
- Picked fresh, tastes better
- Healthy local foods!

For more information call 278-623-1121
Appalachian Sustainable Development, Abingdon, VA
or visit our website at www.appasdev.org



Appalachian Harvest
"Healthy Food, Healthy Farms, Close to Home"

Warren LaForce
Certified Organic Grower
Dungannon, Virginia

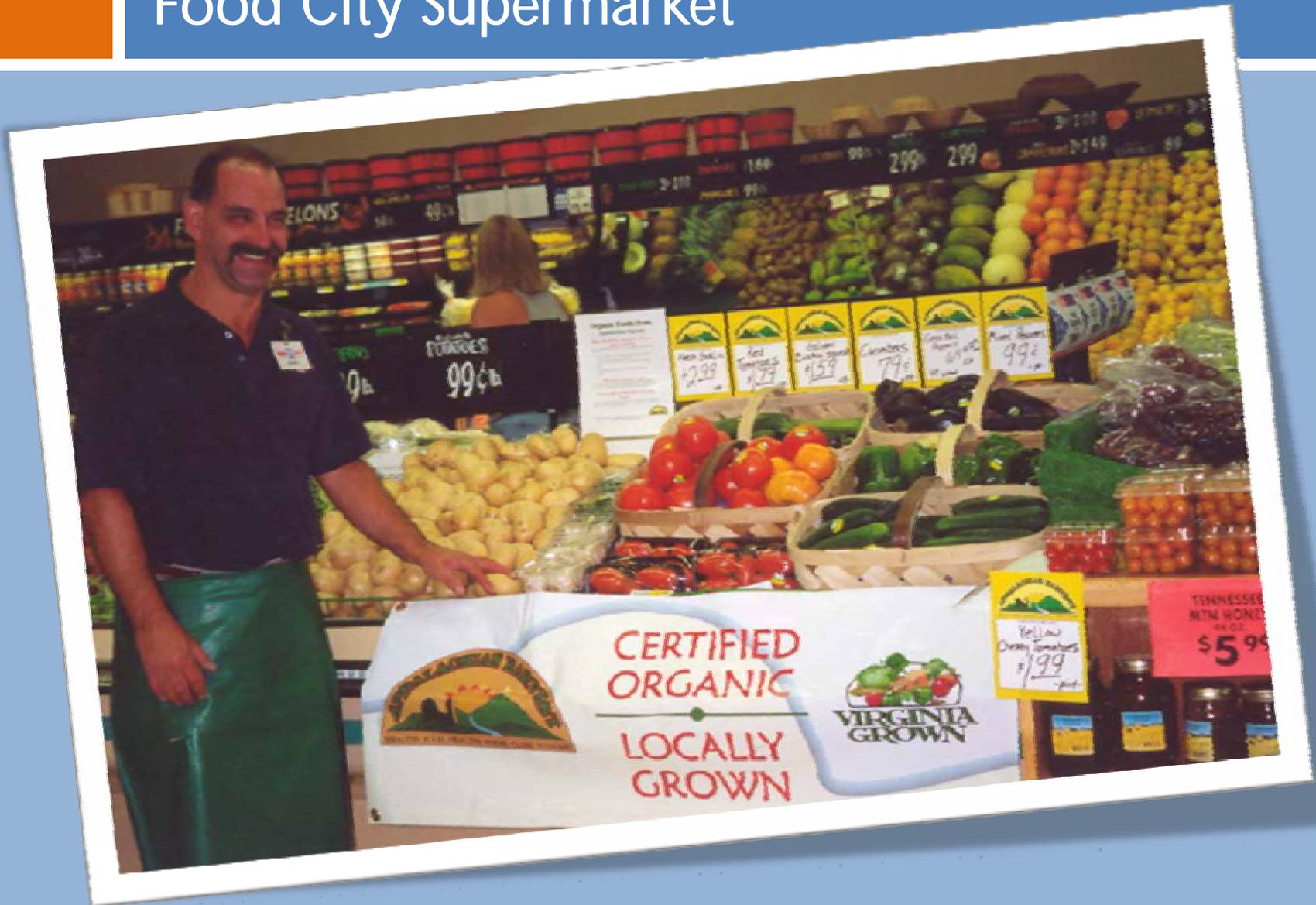


The struggle with farming now is to find your niche. I have about 4 acres of organic crops on the farm this year. I raise zucchini, cucumbers, sweet bell peppers, and red slicing and grape tomatoes for Appalachian Harvest.

My studies in Environmental Science at college gave me the desire to pursue organic practices on the family farm. Organic is a better way to farm—you give nutrients back to the soil so the earth stays rich.

For more information about Appalachian Harvest Grower Network,
contact Appalachian Sustainable Development
Tel: (278) 623-1121

Appalachian Harvest Produce on Display at Food City Supermarket



ASD Opens Up Doors for Other Local Suppliers

- In 2007:
 - **10 percent** of Food City's produce came from local farmers, exceeding \$5 million in value
 - Ukrop's, a 30 store chain based in Richmond, VA with outlets in Central Virginia, saw an **18 percent rise** in locally grown produce sales



Concluding Remarks

- Many successful ventures have involved tremendous upfront investment of time, dollars, resources, infrastructure:
 - *Where might future funding originate?*
 - *Who will provide necessary oversight and coordination* of projects at the grassroots level – need creative thinkers, “sparkplugs,” risk-takers, *experienced* mentors. Are resources/skill sets sufficient to meet needs?
 - *Must be realistic about time horizon* – 5-10 year breakeven schedules common, not always compatible with available funding streams, funder expectations
 - *Are we harnessing our available educational and community resources appropriately* to facilitate local agribusiness planning, development, market access? Are new innovative networks required among non-traditional partners?