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# **The Role of Specialty Food Stores and Farmers' Markets in the Procurement of Local Foods**

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# **The Role of Specialty Food Stores and Farmers' Markets in the Procurement of Local Foods**

## **Abstract:**

The demand for locally produced foods has been increasing. Concurrently, specialty food stores focusing on specific food attributes have also grown in popularity along with farmers' markets. This study examines how the importance that consumers place on whether specific foods are locally produced affects the likelihood to shop at specialty food stores and farmers' markets. The major findings indicate that consumers who value locally produced fruits and vegetables are more likely to shop at these markets. Therefore, these markets are well positioned within local food networks to take advantage of the increasing demand for local foods, particularly for fresh products.

Key Words: Specialty Food Stores, Farmers Markets, Local Foods

JEL Code: Q13

## **Introduction**

Over the past several years there has been an increase in demand by consumers for locally produced food products. The purchase and consumption of local foods is not a new phenomenon, but one that has been reenergized within recent years. With the reemergence in the popularity of local foods, specialty food stores and farmers' markets are uniquely positioned in the local food networks to supply these products to consumers. In a study conducted by the Hartman Group (2008) it was found that a majority of consumers define local in terms of distance from their home. One-half of the consumers who responded to their survey defined local as "made or produced within 100 miles, while one-third of consumers (37%) understood local to mean made or produced in my state." Specialty food stores and farmers' markets have the ability of placing greater emphasis on locally produced products and thus attract consumers identifying a high importance on local production. Regardless if the concept of local foods is a temporary "fad" or a lifestyle change that will modify the American diet, the popularity for locally produced foods has left food retailers wondering if this niche is worthy of investment.

Using data collected through a consumer survey in Kentucky and Ohio, this study investigates whether consumer choice of specialty food stores or farmers' markets are affected by their opinion on how important it is for a variety of food items to be produced locally as well as consumer demographic characteristics. Results of this study will not only help provide an explanation for the recent rise of popularity of specialty food stores and farmers' markets, they will also identify venues to better satisfy consumer needs to increase the profits of local producers commonly linked to these types of markets.

## **Study Background**

Food travels an average of 2000 miles between production and consumption (“Promoting Local Food Systems”). The act of buying and consuming local foods has become increasingly important to consumers, especially those who realize the security risks associated with foods that have traveled such long distances. The Hartman Group (2008) identified several reasons and perceptions held by consumers that have helped fueled the growth in demand for locally produced foods. One reason identified by consumers for buying local foods is due to food and health scares from tainted imports. This reason could be encouraged by consumers’ perception that local food products are fresher than those imported from other countries therefore; leading consumers to believe local food products are safer than those imported from other countries.

The perception that local foods are fresher may also play into consumers’ desire for high quality foods. Consumers are also showing an increasing awareness and concern for the environment. Because consumers believe that local foods have traveled shorter distances and exhibit lower rates of pesticide use, the negative effects on the environment are decreased and buying local is considered an environmentally friendly service. Increases in demand for goods that are unique and distinctive provide another reason as to why the purchase and consumption of local foods has risen. Locally produced foods are perceived by consumers to be of a higher quality than their counterparts that were mass produced at larger agricultural operations. Consumers also perceive that when they purchase locally grown agricultural products they are supporting small farms, development of the local economy and helping to create job opportunities in their own community (Brown and Miller 2008).

Specialty food stores are relatively new markets that have emerged in recent years as consumer owned grocery markets with an estimated 3,000 stores operating in the United States

and Canada (Deller et al. 2009). Consumer interest and participation in these specialty food stores is commonly related to increases in periods of social, political, and economic turmoil (Deller et al. 2009) and the downward turn of the nation's economy. Specialty food stores differ from the more traditional grocery stores by offering special or uncommon food items that may be difficult for the consumer to acquire elsewhere. It is a general consensus among specialty food stores that they operate under the end goals of promoting local sustainable agriculture, high quality standards, protection and restoration on the local environment, as well as other practices that return value and provide benefit to the local economy.

Customers are normally required to obtain memberships in order to gain the privilege or additional benefits of shopping at specialty food stores. Intuitively, this membership requirement could be because the typical consumer who shops at a specialty food store is willing to pay a premium to consume these special or uncommon food items. Another idea behind the requirement of a membership could be that specialty food stores provide to their members additional services and benefits in which the membership fee is needed to assist in covering the overhead costs the specialty food stores incur in providing these services. Most specialty food stores operate out of a single store location but some instances exist where more successful stores have branched out into multiple locations. The largest specialty food store is Puget (Consumer's Cooperative) Natural Markets, which has nine separate locations and serves approximately 45,000 members as well as numerous additional non-members in the Seattle, Washington area (PCC Natural Markets 2010).

While specialty food stores are a recent emergence in the grocery sector, farmers' markets have been around for over a century as a way to provide locally produced agricultural products to consumers. Farmers' markets normally occur in public areas and are heralded for

providing locally grown and very fresh produce. The number of farmers' markets operating in the United States has grown substantially within recent years. Between 1994 and 2010 the number of farmers' markets increased 249% and there was a 16% increase in the number of farmers' markets operating between 2009 and 2010 (AMS 2010). Farmers' markets encourage farmers to diversify the products they produce and allow for them to market and sell these items directly to consumers. These are essentially important components in the urban/farm linkage that assist in promoting a local food system. Along with providing fresh food to consumers, farmers' markets generate non-economic impacts on communities through creating a place for social activity and promoting an overall sense of community (Brown and Miller 2008).

Specialty food stores and farmers' markets are widely considered by consumers as the primary markets where local products are available. The structure of these two markets provides them with unique access to the local foods network compared to "big box" retailers and traditional grocery stores. One of the main reasons these markets have greater ability compared to other markets to provide local foods is through the way production contracts are set up between the farm and retail levels. "Big box" retailers are most notable for their ability to supply to consumers an abundance of products at a low price. Because of this low cost mindset these larger retailers are forced to pursue contracts with producers that focus primarily on cost efficiency of production and in most circumstances these contracts normally require large quantities of production and products that are less than premium. Research conducted by Michelson, Readon and Perez (2010) was able to identify the exclusion of small farmers from supermarket or "big box" supply chains.

In contrast, specialty food stores operate in a fashion where they have a greater ability to work with local farmers on contracts of a smaller scale because their goals, as previously

mentioned, are not on the low cost offered to consumers but on quality and other non-price features of the products. Many times the specialty food store will work with the local farmer in developing necessary infrastructure in order to assist them in finding methods to bring their product to market. This act not only gives the farmer assurance they will have a market to sell to but it also provides to the specialty food store more variation in the products they can offer to their shoppers. With farmers' markets, it is most often the case that the seller is also the producer and therefore there is no need for a contract that identifies quantity, quality or methods used in production.

Currently, there is limited literature available discussing the role of food specialty stores in the market for local foods. However, because the consumption of local foods is gaining in popularity, studies are being conducted on consumers' willingness to pay for food products that are locally produced. Darby et al. (2008) showed that consumers' intention to buy local foods could be effectively separated from their perception that local foods may be fresher. Woods, Saghaian, and Ona (2009) sought to explain the increase in the demand of local foods by examining the impact of fuel costs on the price of produce. Their findings concluded that the cost of transportation realized at the retail level did not have a significant effect increasing the demand of locally produced food products. Their study suggested that other factors were at the root of the increasing demand for locally produced foods. Nurse, Onozaka, and McFadden (2010) discussed the motivation behind consumers' decision to purchase and consume local foods. They also looked into the benefits the public receives from the increasing trend of local food consumption. While previous studies sought to explain the reason for the increase in demand for local foods, this study looks at the consumers' likelihood to shop at a food specialty



store or farmers' market based on how they identified importance of specific locally produced food items.

The popularity of local food consumption and the number of markets in which they are provided is on the rise. In this study we seek to better understand the role of specialty food stores and farmers' markets in meeting the demand by consumers for locally produced foods. The primary focus of this study is to determine if the local production of a particular product is important enough to the consumers that they will be more likely to shop at a specialty food store or farmers' market for those items. There are two hypotheses that will be tested in this study. The first is that if consumers indicated a high level of importance in certain foods that are locally produced, they will, in fact, be more likely to shop at specialty food stores. The second hypothesis is the same as the first only substituting the activity with increased likelihood of shopping at farmers' markets if there is a high level of importance associated with certain foods that are locally produced.

These hypotheses will be tested through the collected data and the utilization of a choice model indicating whether consumers have chosen to shop at either the specialty food stores or the farmers' markets. The model uses a series of ratings where consumers identified the importance on the local production for a variety of locally produced food items along with socio-economic characteristics as independent variables. By observing these variables' marginal effects, we will gain the ability to determine whether specialty food stores and farmers' markets possess unique positions in the market of local foods to take advantage of the growing trend of local food consumption. Specialty food stores and farmers' markets looking to identify successful marketing strategies could use the results from this study to help them gain an

understanding of whom makes up their primary customer base and what locally produced food products they are seeking to purchase when they visit their store.

## **Data and Model**

Using data collected from a sample of 1,013 adult consumers in the states of Kentucky and Ohio we are able to gain insights into what specific local food products consumers are seeking to purchase when they visit a specialty food store or farmers' markets. This survey was conducted online in October 2008 and the intent was to examine consumers' general food purchasing habits, including where and how often they do their grocery shopping. The respondents to the survey were gathered through an existing consumer panel maintained by Zoomerang.com, an affiliate of MarketTools, Inc. Table 1 displays the definitions of the variables used in the analysis, the respondents' preferences for locally produced products, and the demographic characteristics of this survey's respondents. Females accounted for 50.5% of the respondents and over 90% of those completing the survey identified themselves as Caucasian. In our sample females are reasonably well represented even though both states have a slightly higher female population. Caucasians are slightly overrepresented according to information gathered from the U.S. Census Bureau. The Caucasian population in Kentucky is 89.2% of the total population and in Ohio Caucasians account for only 84.0% of the state's total population. The mean age of the respondents in this survey was approximately 46 years. This age is quite older than the data provided for both states by the U.S. Census Bureau. It should be noted that our survey was only distributed among consumers over the age of 18, whereas the U.S. Census Bureau surveys the entire population of states when updating their statistics. The mean household income for survey respondents was \$55,181 as reported in Table 1. The median

household income for this sample was about 42,500 dollars (not reported in the table) which is higher than the 41,763 dollars that was the median household income of Kentucky in 2008 but below the 48,011 dollars median household income for Ohio in the same year. The mean household size in our sample was 2.7 persons, just above the averages in Kentucky (2.47) and Ohio (2.48) reported by the U.S. Census Bureau.

Of the consumers who responded to this survey, 18% indicated they had purchased food from a specialty food store and 30% had purchased food at a farmers' market within the two-month period prior to participating in the survey. There are several products for which a high percentage of consumers find the local production of that product important. For example, 63% of consumers placed a high level of importance on locally produced fresh fruits or vegetables, 62% for fresh meat, 61% for fresh milk, 61% for eggs, and 57% for bread. It should be pointed out that these food items are considered perishable goods and will no longer be safe for consumption after a certain period of time has elapsed therefore, freshness of these items is important to the consumer. It is important here to refer back to the study conducted by the Hartman Group (2008) where they identified that consumers perceive local foods to be fresher, and this could provide some insight as to why these specific food items being locally produced are more important to the consumer than other products.

The dependent variables of the study are whether consumers had shopped at specialty food stores and farmers' markets within the two-month period prior to the survey. A binary Probit model is used to analyze the choice respondents indicated for both types of stores. Independent variables include the importance individuals placed on specific food products along with consumer socio-economic characteristics. The specific food products were fresh fruits or vegetables, processed fruits and vegetables, baked fruit and vegetable dishes, fresh meats, frozen

meats, processed meats, fresh milk, ice cream, yogurt, cheese, eggs, and breads. In this study, we also include socio-economic variables to observe their effect on the likelihood of shopping at a specialty food store or farmers' market. The consumer socio-economic characteristics included were age, female, white, household income, bachelor's degree, residing in a city or sub-urban area, married, both heads of household working at least part-time, one head of household working at least part-time, household size, children residing in household, and primary shopper of household.

## **Results**

Coefficient estimates from the Probit models are reported in Table 2; Table 3 reports the estimated marginal effects. After reviewing the products for which consumers placed a high importance on local production we were interested to see if these local products were able to best explain the likelihood of shopping at either a specialty food store or farmers' market. Our first hypothesis tested if a consumer indicated a high level of importance in the local production of fresh fruits or vegetables, baked fruit or vegetable dishes, and yogurts and custards they would be more likely to shop at a specialty food store. This hypothesis was supported by our analysis. Looking at the marginal effects of this analysis we were able to determine that a high level of importance placed on fresh fruits or vegetables increased the likelihood of shopping at a specialty food store by 7%. For a high level of identified importance on locally produced baked fruit or vegetable dishes the consumer is nearly 5% more likely to shop at specialty food store and 10% more likely to shop at this market if consuming locally produced yogurts and custards is of high importance to the consumer.

The second hypothesis in our study that stated if consumers indicated a high level of importance in the local production of fresh fruits or vegetables, ice cream, and cheese then they are more likely to shop at a farmers' market for these products, and was also supported by the analysis of the choice model. Consumers who place a high importance on the local production of fresh fruits or vegetables are 10% more likely to shop for these items at a farmers' market. The consumer is 7% more likely to shop for locally produced ice cream at a farmers' market if they find it high importance in it being locally produced. The model also indicates consumers are 8% more likely to shop at a farmers' market for locally produced cheese if that is an item they identify the local production of high importance. These percentages were a result of observing the marginal effects upon the dependent variable.

In comparing the two choice models we observe that if a consumer finds consuming local fresh fruits or vegetables important then it increases the likelihood they will shop for this item at a specialty food store or a farmers' market. It should be recalled that the local production of fruits or vegetables was identified by the largest percentage (63%) of survey respondents as being of high importance. This locally produced food item was the only variable that showed a significant positive impact on both shopping at specialty food stores and shopping at farmers' markets.

The Probit model results also show some important differences between the local attribute of some products in explaining the likelihood of shopping at specialty food stores and farmers' markets. Interestingly, if the consumer finds consuming local ice cream important then they are less likely to shop at specialty food stores for this product but they are 7% more likely shop for it at a farmers' market. Also, consumers who found value in the local attribute of frozen meats or fresh milk were less likely to shop for these items at farmers' markets. This is an

especially interesting result for farmers' markets because ice cream, frozen meats and fresh milk are all products that require acute temperature control, a luxury that is not often found at many outdoor farmers' markets.

Several consumer socio-economic characteristics are also significant in the analysis conducted to explain the likelihood of shopping at a specialty food store. These variables include age, household income, whether or not the consumer has obtained a bachelor's degree and whether or not the consumer resides in a city or sub-urban area. Each of these independent variables had a positive influence on the likelihood of shopping at a specialty food store and these results indicate different preferences by different consumer features.

Moving to our second regression looking to explain an increase in the likelihood of shopping at a farmers' market, the sole socio-economic characteristic that displayed any significance was household size. Using these results specialty food stores can identify that if an individual has a bachelor's degree or lives in a city or suburban area then they are more likely to seek locally produced foods at this market. Also, as an individual's age or household income increases they become more likely to visit specialty food stores to buy local foods. From these results we can state that specialty food stores, comparatively, have a more targeted and homogeneous consumer base (such as individuals who are older, have obtained a higher education degree, living in city or suburban areas, and with higher household incomes) than do farmers' markets where the consumer base is more heterogeneous and appeals to a larger variety of people seeking locally produced food products.

While this study is focused mainly on the demand for the local attribute of food products there is a lot of information contained in this model that is of benefit to the suppliers of locally produced food products. More specifically, using this model we are able to see exactly what

food items that have been produced locally that are sought after by consumers. Obtaining this information is important for suppliers, as they desire to fulfill consumer demand and increase their own profits and market share. For example, suppliers of ice cream that is locally produced may target farmers' markets instead of specialty food stores because consumers who are looking for locally produced ice creams are more likely to shop there.

## **Conclusions**

The findings of this study will provide specialty food stores and farmers' markets a more finely tuned description of their customers and the specific locally produced foods they are demanding. Additionally, using the results of this study, stores participating in this niche market of local foods will gain a greater understanding of what specific commodities to more heavily promote and to which customers these promotions should be directed.

We can conclude from our results that specialty food stores and farmers' markets can both play a role in satisfying consumer demand for locally produced fresh fruits or vegetables, a food item that the largest portion of survey respondents identified the local production of as being highly important. Other conclusions that can be made include: identified importance on locally produced baked fruit or vegetable dishes and yogurts will also increase the likelihood of shopping at specialty food stores, and importance on the locally produced attribute of ice cream and cheese will make it more likely a consumer will shop a farmers' market for these items.

Giving specialty food stores and farmers' markets the ability to identify their primary consumers can be used to create successful marketing strategies that would heighten the consumers' awareness of the local production of their products, thereby expanding the influence of these markets in the local foods network. On the other hand, one would expect that along with

improved importance of specialty food stores and farmers' markets in consumers' food shopping decisions, the idea of buying local might become more attractive to a greater number of consumers.



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**Table 1. Descriptive Statistics of Variables Used in Regression Analyses**

Variable	Definition	Mean	Std Dev
Specialty Food Stores	Dependent Variable	0.1826	0.3866
Farmers' Market	Dependent Variable	0.2981	0.4577
Fresh Fruits and Vegetables	Dummy; = 1 if respondent values local attribute of fresh fruits or vegetables	0.6367	0.4812
Processed Fruits and Vegetables	Dummy; = 1 if respondent values local attribute of processed fruits or vegetables	0.2478	0.4319
Baked Fruit or Vegetables Dishes	Dummy; = 1 if respondent values local attribute of baked fruit or vegetable dishes	0.4383	0.4964
Fresh Meats	Dummy; = 1 if respondent values local attribute of fresh meats	0.6219	0.4851
Frozen Meats	Dummy; = 1 if respondent values local attribute of frozen meats	0.3179	0.4659
Processed Meats	Dummy; = 1 if respondent values local attribute of processed meats	0.2300	0.4210
Fresh Milk	Dummy; = 1 if respondent values local attribute of fresh milk	0.6140	0.4871
Ice Cream	Dummy; = 1 if respondent values local attribute of ice cream	0.3889	0.4878
Yogurt, Custards, etc	Dummy; = 1 if respondent values local attribute of yogurt, custards, etc.	0.2744	0.4464
Cheese	Dummy; = 1 if respondent values local attribute of cheese	0.4413	0.4968
Eggs	Dummy; = 1 if respondent values local attribute of eggs	0.6130	0.4873
Bread	Dummy; = 1 if respondent values local attribute of bread	0.5726	0.4950
Age	Continuous; age in years	46.0721	16.5710
Female	Dummy; = 1 for female	0.5025	0.5002
White	Dummy; = 1 if respondent is white	0.9131	0.2818
Household Income	Continuous; annual before tax income in dollars of household divided by 1000	55.1812	50.7523
Bachelor's Degree	Dummy; = 1 if respondent has at least a bachelor's degree	0.3100	0.4627
Community of Residence	Dummy; = 1 if respondent lives in city or suburban area	0.5726	0.4950
Married	Dummy; = 1 if respondent is married or living with partner	0.6624	0.4731
Both Working	Dummy; = 1 if both heads of household are working at least part-time	0.3435	0.4751
One Working	Dummy; = 1 if only one head of household is working at least part-time	0.2399	0.4272
Household Size	Continuous; number of people in household	2.6950	1.4145
Children Residing in Household	Dummy; = 1 if household has children	0.4363	0.4962
Primary Shopper of Household	Dummy; = 1 if grocery shopper for household	0.8529	0.3544

**Table 2. Probit Regression Coefficients to Explain Likelihood of Shopping at Specialty Food Store or Farmers' Market**

Variable	Specialty Food Stores		Farmer's Markets	
	Coefficients	Standard Error	Coefficients	Standard Error
Intercept	-0.8757	0.2936	-1.3056	0.2733
<b>Importance Placed on Local Production</b>				
Fresh Fruits and Vegetables	0.3046 **	0.1381	0.3097 **	0.1194
Processed Fruits and Vegetables	-0.1752	0.139	-0.1087	0.1186
Baked Fruit and Vegetables Dishes	0.1926 *	0.1141	-0.004	0.0987
Fresh Meats	-0.0022	0.1506	0.0782	0.1305
Frozen Meats	0.0655	0.1449	-0.2116 *	0.1225
Processed Meats	0.1135	0.152	0.0462	0.1306
Fresh Milk	-0.2393 *	0.1444	-0.2795 **	0.129
Ice Cream	-0.3342 **	0.1438	0.2149 *	0.1206
Yogurt, Custards, etc	0.3939 **	0.1488	0.051	0.1251
Cheese	-0.0344	0.1422	0.243 **	0.1236
Eggs	0.0086	0.1514	0.1503	0.1344
Bread	0.2208	0.1417	-0.0249	0.1223
<b>Socio-Economic Characteristics</b>				
Age	-0.0138 **	0.0038	0.0015	0.0033
Female	-0.0063	0.1048	0.0168	0.0921
White	-0.1532	0.1655	0.1177	0.1587
Household Income	0.0043 **	0.001	0.0012	0.0009
Bachelor's Degree	0.2493 **	0.1061	0.0821	0.0958
Community of Residence	0.2717 **	0.102	-0.0525	0.0883
Married	-0.1692	0.1508	-0.0203	0.1278
Both Working	0.072	0.1586	0.0567	0.1375
One Working	0.1678	0.1637	0.0268	0.1396
Household Size	0.0412	0.0425	0.0650 *	0.0397
Children Residing in Household	-0.1911	0.1305	0.0328	0.1192
Primary Shopper of Household	-0.0167	0.1416	0.0365	0.1251
Adjusted R <sup>2</sup>	0.0961		0.0427	
N = 1013				

\*\*5% Significance \*10% Significance

**Table 3. Probit Regression Marginal Effects to Explain Likelihood of Shopping at Specialty Food Store or Farmers' Market**

Variable	Specialty Food Stores		Farmer's Markets	
	Marginal Effect	Standard Error	Marginal Effect	Standard Error
<b>Importance Placed on Local Production</b>				
Fresh Fruits and Vegetables	0.0711 **	0.0308	0.1031 **	0.0385
Processed Fruits and Vegetables	-0.0408	0.0308	-0.0366	0.0393
Baked Fruit and Vegetables Dishes	0.0474 *	0.0284	-0.0008	0.0337
Fresh Meats	-0.0005	0.0367	0.0266	0.0441
Frozen Meats	0.0161	0.0361	-0.0707 *	0.0399
Processed Meats	0.0285	0.0392	0.0159	0.0453
Fresh Milk	-0.0598	0.0370	-0.0970 **	0.0453
Ice Cream	-0.0784 **	0.0324	0.0743 *	0.0421
Yogurt, Custards, etc	0.1042 **	0.0419	0.0176	0.0433
Cheese	-0.0083	0.0345	0.0836 **	0.0427
Eggs	0.0021	0.0368	0.0509	0.0450
Bread	0.0529	0.3338	-0.0085	0.0419
<b>Socio-Economic Characteristics</b>				
Age	0.0034 **	0.0009	0.0005	0.0011
Female	-0.0015	0.0255	0.0057	0.0315
White	-0.0397	0.0453	0.0391	0.0511
Household Income	0.0010 **	0.0002	0.0004	0.0003
Bachelor's Degree	0.0636 **	0.0281	0.0283	0.0333
Community of Residence	0.0649 **	0.0238	-0.0180	0.0303
Married	-0.0423	0.0387	-0.0070	0.0439
Both Working	0.0177	0.0395	0.0195	0.0475
One Working	0.0426	0.0433	0.0092	0.0481
Household Size	0.0100	0.0104	0.2224 *	0.0136
Children Residing in Household	-0.0460	0.0310	0.0112	0.0409
Primary Shopper of Household	-0.0041	0.0349	0.0124	0.0422
Adjusted R <sup>2</sup>	0.0961		0.0427	
N = 1013				

\*\*5% Significance \*10% Significance