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EMERGING MARKET OPPORTUNITIES FOR SMALL-SCALE PRODUCERS

Proceedings of a Special Session at the 2008 USDA Partners Meeting



U.S. Department of Agriculture
Agricultural Marketing Service
Marketing Services Program

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Proceedings of a Special Session at the 2008 USDA Partners Meeting

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James Barham, Economist
Debra Tropp, Branch Chief



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PREFACE

This report summarizes one of the panel discussions, “Emerging Market Opportunities for Small-scale Producers,” held as part of the August 2008 USDA Fifth Annual Partners Meeting, sponsored by the USDA Office of Outreach. The purpose of the annual event is to support a dialogue between USDA and community-based organizations that work with socially disadvantaged farmers. The panels and discussions provide information about USDA programs and marketing issues and serve as forums for attendees to share experiences and learn from food and agriculture experts.

This session, organized by the AMS Marketing Services Division, offered an opportunity for farmers and farmer organizations to learn directly from industry insiders what it takes to work successfully with wholesale produce buyers. The panel featured food industry experts from across the food industry spectrum, from institutional food service to retail, who currently purchase locally grown fruits and vegetables. The audience included more than 80 farmers and representatives of organizations that work with minority and socially disadvantaged farmers.

The panelists included:

- Joe Fleischman, Executive Chef for Washington County Hospital, Hagerstown, MD;
- Erik Brown, Produce Coordinator for the Mid-Atlantic region of Whole Foods Market, a nationwide natural-foods grocery store chain, and
- Roy Cargiulo, Sales Manager for Keany Produce, a produce distributor serving the Chesapeake Bay region.

The panel was led by Dr. Adam Diamond, Agricultural Marketing Specialist, and Dr. James Barham, Economist, Marketing Services Division, AMS, USDA.

INTRODUCTION

Dr. Barham opened the session on “Emerging Market Opportunities for Small-scale Producers” with an overview of the Marketing Services Division, a small group within USDA’s Agricultural Marketing Service that conducts and sponsors research and technical assistance focusing on enhancing business prospects for small- and medium-sized farmers through direct farm marketing. Among other activities, the division is responsible for administering the Farmers’ Market Promotion Program (FMPP), first funded by Congress for Fiscal Year (FY) 2006. Following the passage of the 2008 Farm Bill and the authorization of new funding levels, FMPP disbursed more than \$3 million in grant funds in FY 2008 and is expected to provide \$5 million in grants in FYs 2009 and 2010, and \$10 million annually in FYs 2011 and 2012. The grant program is designed to support any type of direct-to-consumer farm marketing activity, including, but not limited to, farmers markets. Eligible grant recipients include local governments, agricultural cooperatives and networks, tribal governments, and non-profit organizations. (For more comprehensive information about FMPP, including guidelines and application forms, see www.ams.usda.gov/fmpp.) Dr. Barham then asked the panelists to discuss how small-scale farmers can access retail, institutional, and food service purchasers, a rapidly growing market for locally grown produce.

INTRODUCTION

BRIEF OVERVIEW OF MARKET CHANNELS

Dr. Diamond provided a brief overview of the various direct marketing options available to agricultural producers. He referred to Figure 1, which illustrates the differences between mainstream markets—the vast majority of agricultural marketing in the United States—and alternative markets, a growing, albeit still minor, part of the food marketing business. The market research firm Packaged Facts estimates that U.S. demand for local food will rise from \$4 billion in 2002 to \$7 billion by 2011. (To give these statistics context, USDA’s Economic Research Service estimates total food expenditures in the United States in 2007 exceeded \$1.1 trillion, suggesting current demand for local food still comprises less than 1 percent of total U.S. food sales.) A few characteristics of typical farmer-consumer interaction in each marketing stream are listed at the bottom of the chart.

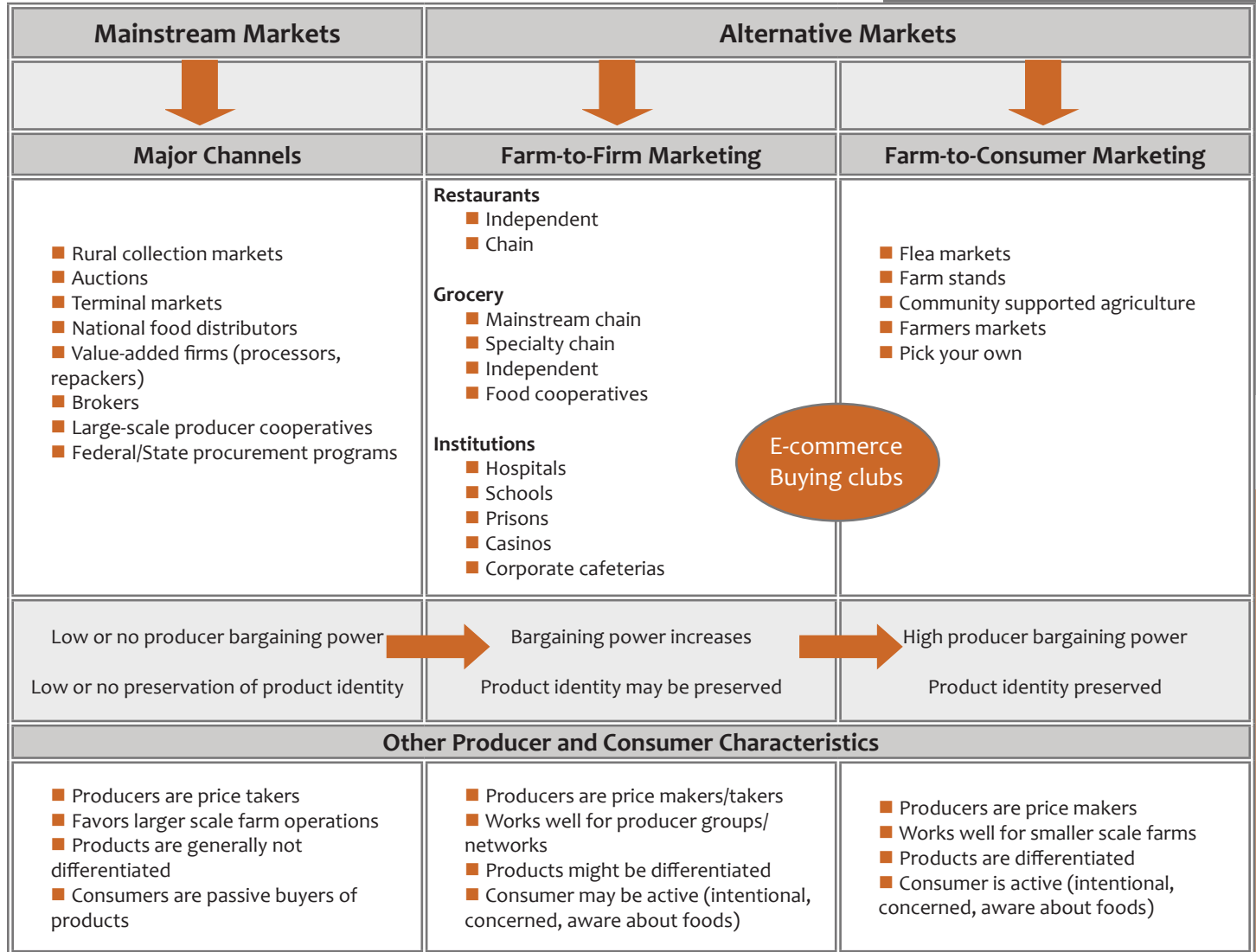
Historically, farmers have been “price takers” when they deal with mainstream markets such as wholesalers, terminal markets, mainline food service distributors, or brokers—i.e., they exert little control over the prices of their goods. Such price-sensitive market outlets tend to favor farm enterprises that produce large quantities of undifferentiated agricultural commodities at low cost. The consumers who purchase these goods also tend to be relatively “passive” buyers, for the most part neither aware of nor interested in how or where their food was produced.

Today, however, an emerging wave of alternative marketing channels is enhancing the potential for smaller farmers to generate larger revenues by offering products with specific qualities or production process characteristics not commonly available from mainstream suppliers. These might include featuring unusual or “heirloom” varieties of products (especially agricultural products with characteristics that deteriorate or diminish when transported long distances). Other traits that may increase marketability include organic certification, integrated pest management, sustainable farming methods, or locally grown product.

These alternative market channels can be divided into two categories—farm-to-consumer marketing and farm-to-firm marketing. In farm-to-consumer marketing, the farmer sells directly to individual consumers without an intermediary. Farmers markets, farm stands, subscription farming schemes (also known as community supported agriculture, in which consumers prepay for a season’s worth of fruit and vegetables, thus sharing the risk with the farmer), pick-your-own operations, and flea markets are the most common forms of direct-to-consumer food marketing.

Generally speaking, in direct-to-consumer marketing, farmers are “price makers,” able to determine prices because their products have distinct characteristics, not easily substituted, that consumers want. Additionally, these market channels often are suitable for small, diversified farm operations because customers at these markets frequently want to buy a variety of

FIGURE 1. MARKET OPTIONS FOR AGRICULTURAL PRODUCERS



products in small quantities. Consumers who purchase farm products through direct-to-consumer markets are considered more “active” than mainstream market consumers because they put greater emphasis on the origins and production methods of their food.

In the middle column of Figure 1 is farm-to-firm marketing, in which the level of contact between producer and consumer falls between mainstream markets and direct-to-consumer marketing. Within this category, farmers sell goods directly to institutional buyers, such as corporate cafeterias, schools, prisons, or hospitals, or they sell directly to restaurants or to independent or chain grocery stores. As part of farm-to-firm marketing, farmers may operate as distributors, providing valuable services that can earn them higher prices than they would otherwise receive through wholesale channels. They also are able to sell larger amounts of product than is generally possible through direct-

to-consumer marketing. Farmers can be price takers or price makers in this category, depending on how well they market themselves and their products' uniqueness/desirability and production capacity. It is helpful for individual farmers to organize into informal or formal networks or cooperatives, allowing them to aggregate product and better meet the needs of larger wholesale customers, such as grocery chain buyers. This type of cooperation among producers can also lead to higher prices than would otherwise be earned by farmers selling individually to wholesale buyers. Buyers in farm-to-firm marketing may also be relatively selective when choosing vendors. Increasingly, many grocery stores, corporate and institutional cafeterias, and restaurants seek to enhance the appeal of the food they sell to patrons by sharing personal stories about their farm suppliers and how they produce food. Farmers interested in breaking into either direct-to-consumer or farm-to-firm markets need to consider the relative advantages and disadvantages of each (see appendix 1).

JOE FLEISCHMAN

EXECUTIVE CHEF AND FOOD PRODUCTION MANAGER
WASHINGTON COUNTY HEALTH SYSTEM, INC.

BACKGROUND

Joe Fleischman's mother grew up on a dairy farm in Taneytown, Maryland. One of his fondest memories is picking corn and beans and shucking corn on his grandparents' farm. When Fleischman started in the food business, working as an assistant chef for several different chefs, he wondered why they didn't buy local produce. In those days, local purchasing was not practiced widely, and he never was able to persuade his bosses to purchase from local farmers.

When he became a chef, he started looking for local produce. It is important to remember that definitions of "local" differ. In Fleischman's case, because Hagerstown is a farming community, he wanted to purchase food produced within a half-hour drive of his kitchen. In densely populated urban areas far from agricultural production regions, or in sparsely populated rural areas of the West, the working definition of "local" may extend to 150 miles or more.

HOW HE MET THE CHALLENGE OF BUYING LOCAL FOOD FOR HIS HOSPITAL

A hospital chef introduced him to Louise Mitchell, Sustainability Foods Coordinator for Maryland Hospitals for a Healthy Environment–Sustainable Foods Program, who refers prospective buyers of local produce to nearby farmers, typically using a farmer's production volume to determine the appropriate "match." After looking around for a supplier with the product mix and production capacity, she recommended that Fleischman contact a farmer who grows hydroponics and hothouse vegetables. The farmer now sells 4,000-5,000 pounds of vegetables a month to Washington County Hospital. Although this is a fairly modest volume for a hospital, it is a significant source of steady income for the farmer.

Fleischman observed that health care institutions are less price sensitive than grocery stores or restaurants; thus, in many instances, health care companies will pay more than other standard market outlets.

PRESENTATIONS
BY FOOD
INDUSTRY PANEL
MEMBERS

FIGURE 2. JOE FLEISCHMAN TAKING DELIVERY OF TOMATOES



Looking back, Fleischman now realizes it would have been easier if farmers had approached him about possible sales opportunities. In other words, farmers interested in exploring institutional sales might benefit by contacting individuals in charge of food procurement. He listed the following tasks and issues to consider when approaching potential institutional customers:

- Call the director, chef, or production specialist.
- Visit food buyers. They may want commodities you produce. Local food is an emerging and fast-growing trend. In the past, healthcare institutions viewed food service as a necessary, but routine, function. Today, serving healthy, locally grown food is becoming more important in the healthcare field.
- Learn buyers' needs and provide samples.
- Explain your farming practices. Do you use pesticides? Are you practicing sustainable agriculture? Do you have organic certification?
- Invite potential buyers to your farm. Show how you operate your business. Is it a family-run farm? How many employees? Is it clean and modern?
- Be prepared to supply the agreed-upon volume every week, and make every effort to avoid falling short.
- Talk with your customers about packaging, and explain how you pack on the farm. Learn if the customer prefers a different type of packaging. Remember, marketing includes appropriate packaging.
- Discuss delivery. The customer may not want to pick up the order. If there is a cost associated with delivery, tell the customer up front.

- Consider your pricing strategy. Pricing is on everyone’s mind, especially now as fuel and food costs are increasing. Will pricing be consistent throughout the growing season or fluctuate with ups and downs in supply? How much notice can you give customers of price changes?
- Watch your quality. Buyers know the samples will be your best, but they want to know if they can expect similar quality in each delivery. For example, Keany Produce Company sources local produce of consistent quality, which helps the company retain customers.

QUESTIONS AND ANSWERS

Q: As a buyer, why would I make one phone call for tomatoes only, when I can get tomatoes and other produce with a single call?

A: There is a move towards organic, sustainable, local, et cetera, and buyers may be willing to go the extra mile for something different. Buying from local, small farmers will increase sales. Promoting where food comes from and who grew it helps sales. The hospital had an increase in sales, especially at the salad bar, after the local food purchasing program started. Signs at the salad bar identify the food, who grew it, and how far it was transported. Many hospital customers—patients, staff, and visitors—are from agricultural areas. They respond well to that.

Q: How does one compete with the big players? How does a local producer stay competitive with a large food service distributor such as SYSCO in terms of pricing? How can the little guys compete in price when they don’t have the volume?

A: There is not one easy answer. What the hospital buys from local suppliers is more expensive, for sure. They can make up for the increased cost with increased sales. The dollar volume makes up the difference in the extra cost. An increase of \$4 a case can be offset by attracting 100 additional customers.

Q: What if the big company made a \$3 million donation to the hospital or college you are trying to sell to?

A: You can’t compete with that.

Q: You are talking about a situation (hospital food service) where it is possible to increase sales revenue. What about environments such as public schools where there is a captive audience and budgets are tight? Also, many school kitchens aren’t equipped for fresh foods. What do you do in this situation where prices and volume are unlikely to change?

A: To be honest, I don’t know if I am qualified to answer that. One school district could probably keep one tomato farmer in business for a year. If the school can’t raise prices for local produce, the high volume might make up for lower prices and keep a farmer in business.

Q: How does the quality inspection process work? And how does the farmer get paid?

A: We inspect produce just like any other product. We check the temperature and quality of fruits and vegetables—to make sure that they are not bruised or deteriorating. Quality has not been a problem with our local food suppliers. We are doing so much business with two local farmers that they take extra care to make sure it is top quality.

About payment, many buyers expect 30-, 60-, or 90-day terms, which surprised and upset one supplying farmer. The first day he delivered, I said payment would be in 30 days. The farmer said, “Oh no, I can’t do that.” After that, we arranged to pay him at the beginning of each week. Since then we have done enough business with him that he is comfortable with more flexibility. Discuss payment arrangements up front.

Q: Do you have contracts with farmers?

A: We have only handshake agreements with farmers; we’ve never written a contract.

Q: Could you share what commodities you are buying, what prices per case?

A: Prices fluctuate:

- 6x6 tomatoes, \$64/case
- Leaf lettuce, \$24/case
- Cucumbers, \$10/case
- Green beans, \$10/case
- \$17/100 count sweet corn, or \$3/dozen

For other items, it depends on whether the farmer produces with hydroponics, uses hothouses, or has outdoor fields.

Q: How many farmers do you buy from?

A: Two local farmers in a cooperative. They are talking about adding pork, chicken, items like that, by bringing new farmers into the coop to supply meat.

Q: How many people do you feed per day?

A: The hospital serves 350,000–500,000 meals a year, or about 1,000 a day.

ERIK BROWN

WHOLE FOODS MARKET

PRODUCE AND FLORAL REGIONAL COORDINATOR

BACKGROUND

Erik Brown is the produce coordinator for the Mid-Atlantic Region of Whole Foods Market, the country's largest natural foods retailer. Brown coordinates everything from pricing to procurement and has opened 100 stores countrywide. The company has challenged all stores to launch in-store local-food marketing campaigns, and he is in charge of the new "Buy Local" campaign in the Mid-Atlantic area. Whole Foods Market has always sourced produce and other food items locally, but, until recently, hasn't done a good job of telling customers where their products come from. They recently changed how the store presents its produce, posting information next to displays that tells where the produce was grown, how, and by whom, highlighted with stories about the farmers who grew the food.

FIGURE 3. LOCAL FOODS DISPLAY AT WHOLE FOODS



The company also promotes local food in these ways:

- Whole Foods Market is the only retail chain that hosts farmers markets in the parking lots of all stores at least once a month to emphasize the company's dedication to local food.
- In the Mid-Atlantic region, the company has held five local food summits in each State, inviting area farmers as a way to attract more local supplies for stores in Virginia, Kentucky, Ohio, and Pennsylvania. In Loudoun County, Virginia, alone, 50 persons attended the local food summit.

When people ask, "Why buy local?" Brown replies, "Why not? It is important to support local."

HOW TO ACCESS WHOLE FOODS MARKET

First, call a Whole Foods Market Distribution Center or local store. Individual stores have the authority to procure their own produce and arrange for direct store delivery. Whole Foods Market wants its stores to represent their communities through the products they offer, and stores make local contacts more effectively than centralizing purchasing at a remote distribution center.

To help accomplish these goals, the company teaches producers how to grow and pack for high quality, and maintains a trace-back-to-the-farm program in which the local grower of every item can be identified, which protects quality and ensures accountability. Store and produce managers are encouraged to visit suppliers at least once a year to verify the farmers are accurately describing their production practices.

The company asks all vendors to have \$1 million in liability insurance, although a lower amount may suffice, depending on the risk level associated with the product. Meat items, for example, carry much higher risk levels than the average produce item.

Whole Foods Market buyers work with producers to project customer demand and ensure the stores' supplies are sufficient. Many growers supplying Whole Foods Market stores started with one box a week, and, over time, increased their volume. Each store maintains sales records, which allows Whole Foods Market's buyers to say to local farmers, "We are selling X amount. How much can you supply us with?"

QUESTIONS AND ANSWERS

Q: How many people do you employ?

A: I believe around 30,000.

Q: Do you have systems in place to train new people on produce handling?

A: Many suppliers start at just a box a week. We nurture those relationships so we can help improve quality at the field level. Our staff works with farmers, advising on issues such as needing to pick fruit when riper, because customers want that, or size. For example, we're asked, "The red leaf lettuce is too small, we have to double it up, can you grow it longer?" Local growers are partners with Whole Foods Market. If growers and the company educate each other on their respective needs, that is better for everyone.

Q: More about farmers markets: Is there a fee? Are they regional?

A: Last year we started sponsoring farmers markets at stores. The markets are store-based and can be held once or twice a week, or once a month. Running the markets has been a great experience for both us and for the farmers. Usually they are set up in parking lots, but sometimes challenges from landlords can be a problem.

Q: Do you buy specialty crops other than regular commodities, such as crops that appeal to or are associated with specialized populations, such as Latino or Asian?

A: Absolutely, although we have difficulty finding specialty crops. It is hard to get fresh produce all across the country, but we are working hard to find local products. For example, we are working with farmers in western Massachusetts to bring specialty crops to our Boston area stores, but specialty crops are not grown in many places, so it's hard to find fresh supplies. Greens in particular do not travel well, necessitating a search for local supplies. The company wants to meet the needs of the communities it serves and be sure they have the food they want.

Q: What are your payment terms?

A: All our local growers are on net 15. Sometimes we allow special circumstances for those who are just starting, with a net zero.

Q: Do you purchase value-added products?

A: It is one of our fastest-growing areas, but it can be a challenge to find locally produced value-added products the company knows are safe and of the highest quality.

Q: Do you have product quality and safe-handling requirements?

A: We do. We want to make sure the food we buy and sell is safe. We make sure water is tested and suppliers are USDA Hazard Analysis and Critical Control Point Program certified. Our customers trust us to provide quality products, so we have to follow the necessary procedures to ensure we sell food of only the highest quality.

Q: Can farmers get added value for providing marketing services?

A: The company encourages everyone to share distribution and freight. This is important. We have helped form co-ops over the years, especially in Massachusetts and Maryland. We gather growers together around locations where Whole Foods can pick up or arrange joint shipments to Whole Foods distribution centers.

BACKGROUND

Keany Produce Company is a local distributor in the Mid-Atlantic region, serving the area from Philadelphia to Richmond, Route 81 to Maryland, and Ocean City and the Delaware resort towns. Roy Cargiulo came from the food service industry. He studied at Johnson & Wales College, a culinary institute, and has been with the company for 22 years. Keany sells mostly to food service operations, including country clubs, hospitals, Hyatt hotels, Doubletree hotels, plus some restaurants and retail firms, including Whole Foods Market and Balducci's supermarkets in the Washington, DC, area. Kevin Keany started the company 30 years ago with one truck. The company has grown and today his three brothers are co-owners. They have 100 trucks on the road each day, and fill 1,200 orders a night.

Keany prides itself on the company's sensitivity to the marketplace. As an example, Cargiulo described the company's relationship with Clyde's Restaurant Group over the years. Fifteen years ago, Clyde's decided to serve local produce because of its higher quality, and bought a truck to pick up corn. As the company grew and encountered problems in distributing produce to its restaurants, Keany helped out by supplying drivers on a seasonal basis. As Clyde's grew from 4 to 10 restaurants, Keany supplied a truck as well. Distribution became more challenging as more restaurants were added, and eventually Keany took over the distribution process. Now Keany works with Clyde's Restaurant Group to identify farmers and distribute produce.

Cargiulo said that during the last 3 to 4 years, there has been a revolution in "local"—"everyone is promoting local produce," he said. To a certain extent, he explained, this presents a challenge because Keany has always bought produce locally. Now the company needs to ensure that salespeople know how to identify which items are local, even if they have been routinely purchased from the same farms for years. "Local" is defined in different ways—for some customers, local means the food is grown within 150 miles, even if produced by a large-scale farmer; others limit "local" to small farms only.

"We still believe that meeting farmers and building relationships is critical," said Cargiulo. "In terms of picking up produce, each situation is different; there is no magic in it. It truly is a partnership with farmers, figuring out in each case what works."

Keany promotes local farmers to chefs, and publishes weekly a list of produce locally available, augmented with information about the farmers. The company's Web site also posts "histories" of these farmers, so chefs can provide customers with background on where their food came from.

It is difficult to obtain consistently high-quality produce in sufficient quantities from local suppliers, Cargiulo emphasized. In the past, the season for local produce ended after September, although now it extends later. Some Keany employees used to express relief when the local season ended because they were required to supply certain items from local producers only, which was not always easy. However, last year, Keany began to offer limited selections of local produce on a year-round basis, including garlic from Virginia and stored pears and squash.

As an example of the challenges faced when buying local produce, Cargiulo cited one arrangement that Clyde's had with a local farmer, which Keany brokered. The agreement called for Clyde's to buy all the farmer's cucumbers. Shortly thereafter, 200 bushels of cucumbers were delivered at one time. The cucumbers arrived in September and the chefs had to find creative ways to use the sudden bounty: cucumber soup, cucumber puree, cucumber salads, whatever made sense, appeared on the menu. Cargiulo said it takes a while to learn how to procure locally effectively, but since customers like locally sourced items, the effort is worthwhile. Sometimes Keany will offer both local and non-local versions of the same produce item. If customers seem agreeable to more expensive ingredients, Keany will pay the premium price for them.

Other difficulties faced when buying local produce include the fact that there are certain times of the year when farmers can get higher prices at farm stands or farmers markets, which leads some farmers to withhold products from their wholesalers. Consequently, when a certain local produce item is unavailable, chefs will ask, "Why don't you have it on your list?" pointing out the item is available at a farmers market.

It is always uncertain whether customers will buy the product Cargiulo said, which is why Keany depends on chefs to help move produce, and works with them to pinpoint their needs.

QUESTIONS AND ANSWERS

Q: How many local farmers are you dealing with?

A: About 30.

Q: What is the smallest farmer you deal with locally?

A: It depends on the commodity, but about 100 acres is the smallest, with 20-30 cases a week the smallest delivery. With specialty items, one can get away with less quantity.

Q: How does your pricing work?

A: We will sometimes pay a premium price for locally grown produce as long as our customer is willing to pay extra. Sometimes it is difficult to explain to farmers the difference between farmers market prices and wholesale prices. Compromising with farmers on the right price can be difficult. It is a balancing act—Keany can't get some products before high season, when farmers need to move large volumes of product. Before high season farmers may withhold some products if they know they can get higher prices at farmers markets. If dealing directly with a farmer, one often can differentiate the product enough that the buyer will be willing to pay a higher price for it. If it's Sun Gold tomatoes—golden cherry tomatoes—it's unique enough that you don't have to worry about commodity pricing. Keany agrees on a stable price throughout the season.

Q: What percentage of products is local? What percentage comes from other regions?

A: Product sourced within 150 miles accounts for 20 percent of our sales. A problem in this area is that schools are out in July and August in Washington, so while those months are pretty slow in terms of overall business, it is the most active time of the year for local produce. Getting people to buy the amount of local produce that is available in the summer is a challenge. In the winter, there is practically nothing local.

Q: Where are you getting most of the other 80 percent that's not local?

A: A large majority comes from the West Coast—many customers specify California lettuce and strawberries. Pears and apples come from Washington State. In the winter a lot of produce also comes from Florida. Fifty percent of what we sell overall is from the East Coast.

Q: Do you buy from the Southeast?

A: Certain commodities—greens, corn, et cetera—we try to buy within the area. As the season changes, we are forced to go down the coast to where the produce grows.

Q: Do you have preferences for products from different regions?

A: We do not have preferences ourselves, although customers may request a specific variety. Keany tries to keep several varieties in inventory, as we always want to be on the cutting edge of what is considered “hot.” We work with American Culinary Associates to find out what new varieties should be stocked.

Q: What do you think of season extension as a way of extending local purchasing?

A: The longer the season, the better. I support this 100 percent. Last year we asked farmers what they could grow beyond the normal spring-to-fall season. We found a garlic grower who was the only grower in Virginia to have garlic year-round. In general, any items that can be grown year-round are something we can promote; growing products out of season is a good opportunity for farmers to carve out a niche.

Q: What about food safety requirements?

A: Keany doesn't have any requirements set in stone. A \$1 million umbrella policy is recommended. Some customers, such as Hyatt and Hilton, require third party audits of suppliers, which most local farmers don't have. They also have a quality assurance program that sends representatives to ask questions of farmers. Really, a lot of it has to do with the reputation of the farmer.

Q: For new growers who are "just getting going," how long does it take if they have good quality product and a good clean farm? How long does it take to get a relationship going on regular basis?

A: It depends on the quality of the product and our needs at the time. If we need it, it could be tomorrow.

Q: What if a grower came to you and asked, "What do you need?"

A: That would help. We are responsive to the customers. It may take time; we want to make sure a particular product works for our customers.

Q: How does country of origin labeling affect your business?

A: It is a lot more paperwork, making sure buyers are entering information correctly. We sure don't make any money from it. Food service is not required to follow these requirements, but because we do retail, we have to implement it.

Q: How do feel about niche markets—indigenous, tribal, or specialty crops?

A: I feel very good about these markets. Basically, if our customers want it, we feel good about it. Chefs are driving suppliers to find them something they can put on their menus that is different. For example, the American Indian Museum would like to source Native American food products. This is a continual challenge.

GENERAL QUESTIONS AND ANSWERS

Q: (for Joe Fleischman) What suggestions do you have to tap into money that is available for school districts to purchase local food?

A: I would go to the individual school district, which should have a buyer that is aware of the program; as a supplier you also need to show you are informed. If you want to supply an entire school district, you should be prepared with numbers. I would start at the ground level and work my way up.

(From an audience member) The state of Alabama buys 800,000 pounds of sweet potatoes that are all the same size for school districts in the State. The quantity and size of the purchase orders make it prohibitive for small farmers to supply the school districts on their own. In response, many are forming cooperatives. The price differential these cooperatives receive for 8- to 10-ounce potatoes from the school system offsets the cost of sorting these potatoes. Other crops are similar. Go to the local school system and sell directly.

Q: (for Roy Cargiulo) Do you deal with many organic products? How does that work in your system?

A: We are dealing with them more and more. There are things we would like to do, but we must respond to the needs of the food service business. Sometimes we face challenges: Do we bring in organic or conventional broccoli? And can we purchase from the West Coast as well? Right now, we inventory only six organic items on a daily basis. We have seen more preference for local than for organics.

FIGURE 4. BROCCOLI SUPPLIED TO KEANY PRODUCE BY PARKER FARMS, OAKGROVE, VA



GENERAL QUESTIONS AND ANSWERS

Q: (for Erik Brown) It can be a nightmare for small farmers to get products to market. How long does it take for farmers to get into your system? What can people do to get into that process?

A: It really depends on the seller. They might decide to bring products to a store or a warehouse. It could be a day or a few days. We try to make it easy to get it in. We want to remove as much bureaucracy as possible.

Q: (for Erik Brown) Grading requirements—how does your company help farmers find outlets for produce that doesn't meet grade?



A: Thankfully, we are a grocery store with a full-service prepared foods department and a commissary for employees at each location. These departments can use products with some aesthetic defects for value-added products. It all depends on negotiations and what can be worked out.

APPENDIX



Alternative Marketing Options: Farm-to-Consumer Marketing

Channel	Barriers to Entry	Advantages	Disadvantages
Flea Markets - Swap Meets			
<p>A flea market is a place where vendors come to sell or trade their goods. The goods are typically inexpensive and range in quality and may even be secondhand articles.</p>	☹	<ul style="list-style-type: none"> ■ No standard pack/grade (though presentation is important—e.g., bunches, baskets) ■ Can sell a little or a lot ■ Easy to get into and few restrictions on what can sell 	<ul style="list-style-type: none"> ■ High costs per unit of product sold (in terms of labor and transport requirements) ■ Requires selling to customers face to face ■ Hard to move large volume of product ■ Market schedules and transport requirements can be grueling
Farm Stands			
<p>Farm stands allow producers to sell directly to consumers by setting up a permanent (or temporary) structure often along a roadside or other heavily trafficked areas.</p>	☹	<ul style="list-style-type: none"> ■ Customers come to you - no transportation cost ■ Steady cash flow ■ No standard pack/grade, though presentation important ■ No fees 	<ul style="list-style-type: none"> ■ Need inviting environment for customers ■ High degree of exposure to regulatory risk ■ Requires selling to customers face to face ■ Location key to success ■ Management and time intensive ■ Need capital for building ■ Many small transactions
Pick Your Own			
<p>Consumers travel to farms and harvest the produce themselves. Pick your own operations may also include a farm store or other agri-tourism activities.</p>	☹☹	<ul style="list-style-type: none"> ■ Reduces harvest labor requirements ■ Potential to sell lower quality produce ■ Elimination of most grading, packing and storing ■ No intermediaries ■ Immediate payment ■ Lower equipment costs ■ Larger transactions than flea markets or farmers markets 	<ul style="list-style-type: none"> ■ Liable for accidents ■ Long hours ■ Getting customers to picking site ■ Matching volumes to number of pickers ■ Dealing with all types of people ■ Inability to sell all the crop at one time ■ Need to supervise customers ■ Need to have either high traffic location or excellent word of mouth ■ Loss of yield, e.g., crop damage due to improper harvesting



Alternative Marketing Options: Farm-to-Consumer Marketing (continued)

Channel	Barriers to Entry	Advantages	Disadvantages
Farmers Markets			
<p>Farmers markets are one of the most visible forms of direct marketing. There are approximately 4,700 farmers markets currently operating in the United States.</p>		<ul style="list-style-type: none"> ■ Can sell a little or a lot ■ No standard pack/grade (though presentation is important—e.g., bunches, baskets) ■ Can be springboard to other market channels ■ Lots of social interaction ■ Tend to give preference to local farmers ■ High margin—full retail price ■ Provides good access to market intelligence - prices, consumer demand, popular varieties 	<ul style="list-style-type: none"> ■ Hard to move large volume of product ■ High costs per unit of product sold (in terms of labor and transport requirements) ■ Market schedules can be grueling ■ Waiting lists for successful markets ■ Small transactions ■ Requires selling to customers face to face ■ Requires good produce mix
Community Supported Agriculture (CSA)			
<p>A model of food production, sales, and distribution in which the farmer sells shares or subscriptions for the year's crop to customers. A diverse produce basket is delivered weekly to customers at designated drop-off sites.</p>		<ul style="list-style-type: none"> ■ Upfront customer subscription - lessens producer risk ■ Customers agree to take on risk of production problems ■ Reduces grower need for operating capital ■ May be able to farm more ecologically—customers less sensitive to cosmetic defects, lack of uniformity ■ High margin—full retail price ■ Low hired labor costs, may get members to help with farm labor ■ Can help build sense of community ■ Less time selling, more time farming 	<ul style="list-style-type: none"> ■ Requires very intensive and structured marketing ■ Requires careful crop planning and scheduling ■ Requires diverse cropping and long growing season ■ Need to “sell” farm and your personal story ■ Need to market through word of mouth ■ Bad customer experience or lack of managing customer expectations can result in reputation damaging and loss of credibility among consumers

Alternative Marketing Options: Farm-to-Firm Marketing

Channel	Barriers to Entry	Advantages	Disadvantages
E-Commerce			
<p>A form of direct marketing that utilizes the internet to reach customers. Producers may sell to customers direct (e.g., buying clubs), or through brokers, processors, or retailers who purchase at wholesale prices.</p>		<ul style="list-style-type: none"> ■ Can run the business from anywhere an Internet connection exists ■ Can make sales immediately with online transaction tools ■ Product information is available on the Web 24 hours a day all across the globe ■ Flexibility allows farmer to conduct business easily and process orders efficiently ■ Easy to offer many items for sale 	<ul style="list-style-type: none"> ■ Must ensure the product is packed properly to avoid any potential spoilage ■ Must arrange shipping ■ Need to market personal story ■ Employee costs. May need full-time employee to manage the Web site and orders coming from it ■ Administrative attention requirements and the accompanying computer systems can become burdensome
Restaurants			
<p>At independently owned restaurants, chefs often have preferences for high quality products they feel can best be sourced locally for freshness. Chain restaurants may be more limited in terms of what they can procure locally.</p>		<ul style="list-style-type: none"> ■ Does not require a standard pack/ grade BUT they may want customized packaging ■ Relatively high price margin ■ Can sell a little or a lot ■ Provides good access to market intelligence ■ Can become reliable long term customers ■ Local is often valued ■ Sales can come easy (with initial sampling) 	<ul style="list-style-type: none"> ■ Typically small order sizes with frequent delivery requirements ■ Buyers can be picky, wanting top quality ■ Slow to pay - 30 days or more ■ Want personal attention from grower ■ High turn-over with buyers ■ Must plan harvesting schedule well in advance ■ With produce, may require diverse cropping ■ Must organize delivery to fit time window preferred by restaurant

Alternative Marketing Options: Farm-to-Firm Marketing (continued)

Channel	Barriers to Entry	Advantages	Disadvantages
Grocery Stores			
<p>Chain grocery store buyers typically want to source large volume year-round. Independently-owned stores and specialty chains have the option of buying locally and may be interested in specialty crops and seasonal varieties.</p>		<ul style="list-style-type: none"> ■ Large volume orders (for chains); small volume orders (for independents) ■ Buyers will buy by box or pallet ■ Decent price margin (better than wholesalers) ■ Do not need many crops if have sufficient volume in a few, or can aggregate with other farmers ■ Potential to market your farm and “brand” 	<ul style="list-style-type: none"> ■ Difficult to make first sale ■ Buyers may be slow to pay ■ Bureaucratic barriers, e.g., not allow direct store delivery ■ Can be price sensitive ■ Must follow special postharvest handling requirements - Product must be clean and cold, graded and sorted ■ Little recourse if buyer rejects load
Institutions			
<p>Institutional buyers (at hospitals, schools, prisons, corporate cafeterias, etc.) typically want to source large volume year-round. Some institutions willing to buy directly from farmers, whereas other institutions will require going through a produce distributor.</p>		<ul style="list-style-type: none"> ■ Large volume orders ■ Strong relationships can engender long term customers ■ Good margins with some institutions, e.g. hospitals ■ Can build a sense of community (e.g., farm-to-school education programs) ■ Do not need many crops if have sufficient volume in a few, or can aggregate with other farmers 	<ul style="list-style-type: none"> ■ Resistance to multiple vendor accounts ■ Limited flexibility in purchasing budget ■ Slow to pay ■ Very price sensitive ■ Stringent packaging and grading standards ■ Relatively low price margins ■ Little recourse if buyer rejects load

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