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Assessing Alternative Food Distribution Models

Improving Marketing Opportunities for Small-scale
and Limited-resource Producers



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Presentation Overview



- ◆ US food marketing trends
- ◆ Study rationale and objectives
- ◆ Collaborations and methodology
- ◆ Case study highlights
- ◆ Some “take-aways”
- ◆ Expected outputs

US Food Marketing Trends

The bad news for small-scale producers

◆ Continued decreases in farmgate value

In 2002, the farmgate value of US agricultural products averaged 19 cents for each dollar of product sold to consumers, the lowest percentage in the past fifty years.

◆ Retail consolidation

By 2005, the top five food retail firms (Wal-Mart, Kroger, Costco, Albertsons, Safeway) controlled over half of all grocery sales – compared to 17% only 10 years ago (1995).

◆ Centralization of food distribution systems

Major retailers have become self-distributors, managing their own fleets of trucks, warehouses, and buying offices. Example: Kroger has roughly 30 distribution centers to serve its 2,500 supermarkets

US Food Marketing Trends

The bad news for small-scale producers

◆ Lack of Bargaining Power

As a result of the concentration and centralization of the food service and food retail industry, small-scale producers have found it increasingly difficult to meet the price, volume and delivery requirements while remaining profitable. Relegated to “price-takers” instead of “price-makers”

But, it's not all doom and gloom...

US Food Marketing Trends

The good news for small-scale producers

◆ **Increasing demand for locally grown foods**

Many small-scale producers are increasingly turning to direct-to-consumer market channels (e.g., farmers markets, roadside stands, CSAs, pick-your-own, internet sites) – the total value of food sales in this channel increased 37 percent between 1997 and 2002, from \$592 million to \$812 million (US Census of Agriculture).

◆ **Tremendous growth in farmers markets**

- In the past ten years, the number of farmers markets have increased dramatically (from 2,746 in 1998 to an estimated 4,400 today)
- From our latest farmers market survey (soon to be published), sales at farmers markets during 2005 totaled approximately 1 billion dollars

US Food Marketing Trends




The good news for small-scale producers



And it's not just direct-to-consumer sales. There is increasing demand for locally grown food by service institutions, restaurants, and retail outlets

Consumer demand for locally grown food can be expected to rise **from around \$4 billion in 2002 to as high as \$7 billion by 2012** – following a similar path of organic food sales (from \$5 billion in 1999 to \$14 billion today)

Market Options for Agricultural Producers

| Market Options for Agricultural Producers | | |
|---|--|--|
| Mainstream Markets | Alternative Markets | |
|  |  |  |
| Major Channels | Farm-to-Firm Marketing | Farm-to-Consumer Marketing |
| Rural Collection Markets Auctions Terminal Markets National Food Distributors Value Added Firms (Processors, Repackers) Brokers Large-Scale Producer Cooperatives Federal/State Procurement Programs | Restaurants - Independent - Chain Grocery - Mainstream Chain - Specialty Chain - Independent - Food Cooperatives Institutions - Hospitals - Schools - Prisons - Casinos - Corporate Cafeterias | Flea Markets Farm stands Community Supported Agriculture Farmers Markets Pick Your Own <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center; margin: 10px auto; width: 100px;"> E-Commerce Buying Clubs </div> |
| <i>Low or No Producer Bargaining Power</i> <i>Low or No Preservation of Product Identity</i> | <i>Bargaining Power Increases</i> <i>Product Identity may be Preserved</i> | <i>High Producer Bargaining Power</i> <i>Product Identity Preserved</i> |
| Other Producer and Consumer Characteristics | | |
| <ul style="list-style-type: none"> Producers are price takers Favors larger scale farm operations Products are generally not differentiated Consumers are passive buyers of product | <ul style="list-style-type: none"> Producers are price makers/takers Works well for producer groups/networks Products might be differentiated Consumer may be active - intentional, concerned, aware about foods | <ul style="list-style-type: none"> Producers are price makers Works well for smaller scale farms Products are differentiated Consumer is active - intentional, concerned, aware about foods |



Study Rationale



- ◆ Small-scale producers still face a number of logistical and financial challenges that limit the scale and profitability of their direct marketing enterprises.
- ◆ They are continually challenged by the **lack of alternative distribution systems** that can effectively link producers to consumers



Study Objective



- ◆ To analyze the workings of several alternative distribution models and assess their effectiveness in improving the economic welfare of small-scale and limited-resource producers through direct marketing of agricultural products



Research Collaboration



- ◆ **Adam Diamond**, USDA Agricultural Marketing Service, Marketing Services Division
- ◆ **Larry Laverentz**, Office of Refugee Resettlement (ORR), Department of Health and Human Services
- ◆ **Ben Turner**, Institute for Social and Economic Development (ISED)



Research Methods

- ◆ **Case study approach**
- ◆ **Conceptually framed around value chains**
 - Typified by vertical coordination (instead of vertical integration) with an emphasis on cooperation and partnerships among chain actors to insure win-win situations
- ◆ **Selection Criteria:**
 - **Types of participating producers**
 - **Geographic location**
 - **Agricultural products**
 - **Types of buyers/customers**
 - **Types of collective producer structures**
 - **Different kinds of partnerships**
- ◆ **Semi-structured interviews with distributors, buyers, and producers.**

Small-Scale Producers

Immigrant, minority, transitional

Distribution Players

Producers, NGOs, For-profit enterprises, Agric. extension

POTENTIAL MARKETS

Institutional Buyers

*Schools, Hospitals, Prisons,
Corporate cafeterias, Casinos*

Chain Retail

*Supermarkets, restaurants,
Supercenters (Wal-Mart)*

Independent Retail

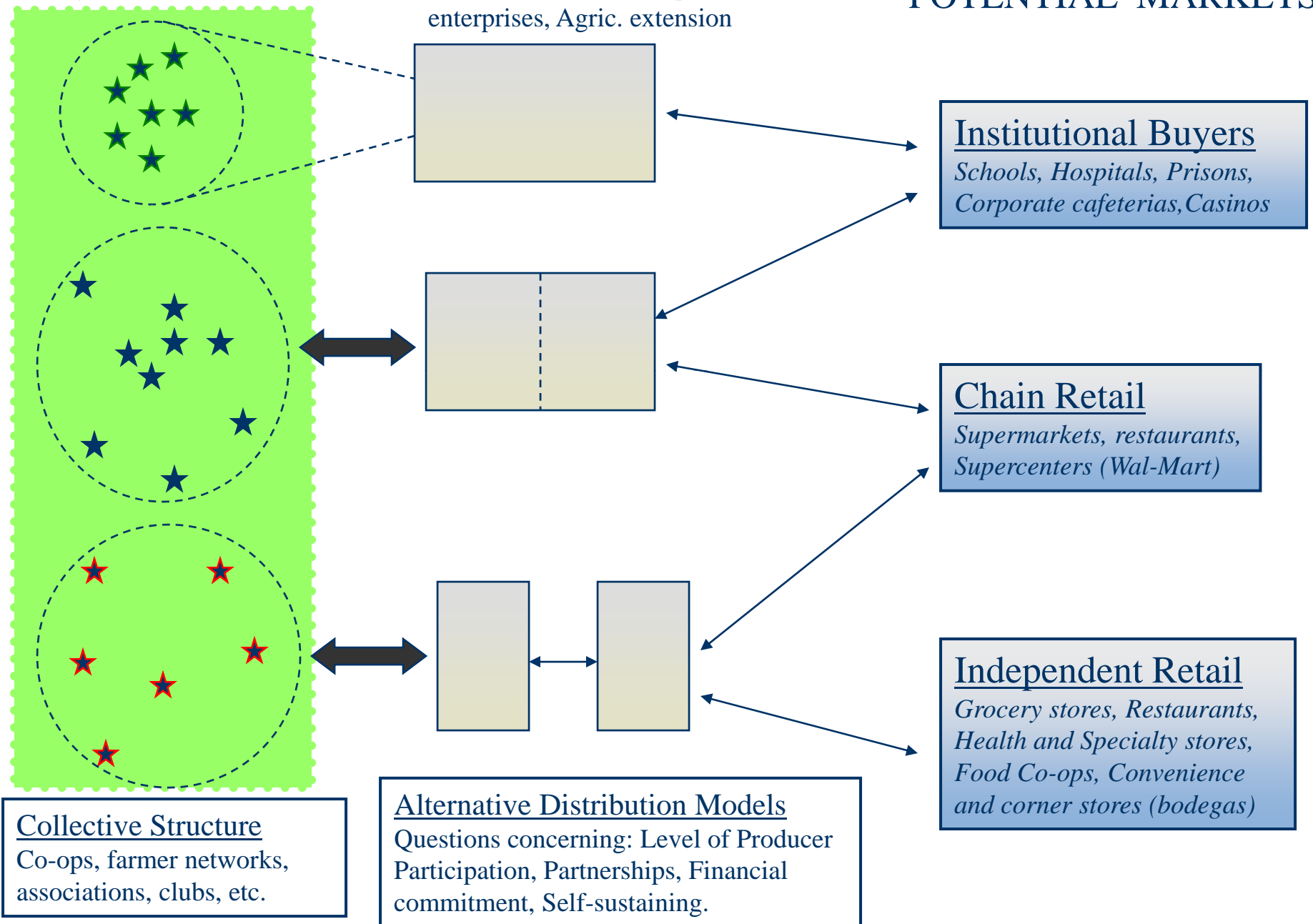
*Grocery stores, Restaurants,
Health and Specialty stores,
Food Co-ops, Convenience
and corner stores (bodegas)*

Collective Structure

Co-ops, farmer networks,
associations, clubs, etc.

Alternative Distribution Models

Questions concerning: Level of Producer
Participation, Partnerships, Financial
commitment, Self-sustaining.



Case Study Site Locations



| Northeast | Southeast | Upper Midwest | Central/SW | Northwest/West |
|----------------|---|--|----------------------------|--------------------------------|
| Red Tomato, MA | Appalachian Sustainable Development, VA | Browse and Grass Farmers Association, WI | Oklahoma Food Coop, OK | CAFF/Growers Collaborative, CA |
| | New N. Florida Cooperative, FL | MFA/Big River Foods, MN | La Montanita Food Coop, NM | |
| | | The Wedge/ Coop Partners, MN | | |



Some Research Findings



- ◆ Various distribution models
- ◆ Case study highlights
- ◆ Some “take-away” points
- ◆ Expected outputs

Distribution Models by Stages of Development

| <u>Distribution Model</u> | 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 N. Florida Cooperative, FL |
| Consumer Driven (e.g., Buying Clubs) | | Oklahoma Food Cooperative, OK | |



Case Study: Minnesota Food Association and Big River Foods



- ◆ MFA – non-profit based in Stillwater, MN – outside of the Twin Cities
- ◆ Mission: To build a more sustainable food system
- ◆ New Immigrant Agriculture Program (NIAP)
Established in 1999 to assist immigrant and refugee populations learn about sustainable agriculture methods and farm business management – have a lease on a 200 acre farm



New Immigrant Agriculture Program

Since its inception, over 250 immigrants/refugees (primarily Southeastern Asian Hmong and Latinos) have benefited from the trainings.



Big River Foods was established to meet the marketing needs of a number of the more commercially-oriented farmers – beyond farmers markets.



Big River Foods

- ◆ BRF is set up as a “training distribution company” that combines brokering functions and transportation logistics with on-farm production and post-harvest handling training
- ◆ Tapping into the growing demand by supermarkets and other retail outlets to provide their customers with locally grown and sustainably produced fresh fruits and vegetables.



Distribution and Marketing Logistics



- ◆ Hired a full-time operations manager – responsible for production training, post-harvest handling/food safety, marketing, and client relations
- ◆ Working with five family farm operations
- ◆ All cleaning, sorting, grading, packing done on-farm
- ◆ Investments in packaging, labels, cold storage unit
- ◆ Developed a brand identity (selling a story)
- ◆ Contracted out local trucking company to move product (for large orders) – move it themselves for smaller orders

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**

Markets for Big River Foods



Selling heirloom and grape tomatoes to the **Wedge Community Co-op**

The Wedge

Founded in 1974 – one of the largest food retail cooperatives in the country, with \$24 million in annual sales

Strong supporter of organic and locally grown produce



The Wedge as a “Chain Champion”



Not just selling produce, they are selling a **compelling story**



The Co-op Partners



The Wedge started the Co-op Partners in 1999 in an effort to better source local produce

Tapped into a growing dissatisfaction by many food co-ops, independent retailers and food processors



Presently have over 100 regional clients that includes around 60 co-ops, 15 specialty food stores, and 30 processors

Annual sales at \$14 million.



Some “take-aways” Lessons learned



- ◆ **Social mission driven**, based on principles of local, fair, and “sustainable” – desire to help socially-disadvantaged and small family farms capture a higher proportion of the consumer food dollar
- ◆ Tendency for sustainable not to include the **economic bottom-line**, particularly in the case of the non-profit driven model

Some “take-aways” Lessons learned

Meeting the Triple Bottom Line (Economic, Environmental, Social)

- ♦ **Start small and within present capacity** – Avoid high capital investments and identify and utilize existing local assets (e.g., farmer with a truck or cold storage space)
- ♦ Seek out a “**chain champion**” and **other potential partnerships**, even the unlikely ones (e.g., Sysco).
- ♦ **Remove the “mission” blinders**, for example,
 - Use medium sized farms to secure reliable produce and reach out to smaller farmers to increase their economic opportunities
 - Diversify customer base, e.g. from the low-budget schools to other institutional sectors that have higher price points that are more likely to sustain business



Some “take-aways” Lessons learned



- ♦ **Develop a brand identity** that reflects your core values and **live by** these standards
- ♦ **Offer value-added services** – educational and marketing materials, farm tours
- ♦ The **importance of the operations manager** – may end playing many roles and often the face of the organization in the eyes of buyers and producers
- ♦ **Communication, communication, communication!**
- ♦ Continually **assess your role in the value chain** – where do you bring the most value?



Expected Outputs



- ◆ **Case Study Resource Guide:** Details different types of distribution models, how they are operated and managed, challenges faced, and critical success factors.
- ◆ **Primary Audience:** Practitioners working with small-scale producers and value chain development
- ◆ **“Living Document”** quality to the work