

Marketing Study of Opportunities for Foods Grown Locally or Sustainably in Minnesota



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I. Introduction

This project is a collaborative effort to study and examine the market for foods grown locally and in a sustainable manner. Development of local foods marketing protocols is an Agriculture Utilization Research Institute (AURI) priority initiative. AURI teamed up with Minnesota Farmers Union (MFU) to co-sponsor this research project. AURI contracted with Food Alliance Midwest (FAM) – a project of Cooperative Development Services — to examine the market demand in Minnesota. The primary research was conducted by James F. Ennis, Food Alliance Midwest and JoAnne Berkenkamp, consultant; additional FAM staff contributed as well. The study explored both the Twin Cities and greater Minnesota markets, seeking to identify the food product opportunities of particular interest to the retail and foodservice customers. The project’s intent is to provide local food producer groups some marketing guides to use as they pursue the growing markets for products raised locally and sustainably.

Study Methodology

This research study examined the markets in the retail and foodservice sectors seeking to identify:

1. potential growth opportunities,
2. product categories with the most market demand and potential,
3. the requirements needed to meet customer expectations, and
4. lessons learned from other grower-owned businesses.

Research included study of trends in the food industry, and interviews with distributors, retailers, food service representatives and farmers. The study examined the processing, logistical, and distribution, challenges for small-to-midsize companies; and makes recommendations for farmer-owned or farmer-involved businesses. Research drew from industry sources, other research reports, and FAM’s experience working with retailers and food service institutions in Minnesota. Other research included a review of an evaluation of six “farmer-based” food business models already in use in Minnesota and other Midwest states, and interviews with leaders of these models. The research identified strengths and weaknesses of each model, described the degree of success to-date of each model, identified key lessons learned, summarized issues, and outlined potential models that could lead to profitability.

II. Executive Summary

Consumer interest in local foods is increasing across Minnesota. In both the Twin Cities and outstate Minnesota, in grocery stores, on college campuses and at local restaurants throughout the state, there is growing demand for foods grown locally and organically. There is also growing consumer interest in sustainability driven by personal health concerns and a shift toward values-based purchasing (aligning purchases with personal values).

In both retail grocery stores (chains such as Cub Foods and Coborn's, Inc.) and the foodservice industry (colleges, restaurants, and other institutions), companies are changing their product offerings to meet the growing consumer demand for foods grown locally and organically. Some retailers and distributors questioned the consumers' and end-users' level of understanding of sustainability (a complex term with many different meanings). But there is clearly a growing interest among consumers for foods grown in this manner. These trends in consumer behavior and in the retail and foodservice sectors provide an opportunity for local growers and ranchers to supply foods with characteristics that meet consumer demand.

Both retailers and foodservice operators are keenly interested in the idea of extending the season for fresh, local produce in Minnesota. There is also interest in local and sustainably-raised proteins (beef, chicken and pork) and dairy products. For all of these local products, there are concerns about price (affordability) and consistent, dependable supply (availability). These factors raise challenges for many Minnesota growers who have focused on direct marketing sales but are inadequately prepared for the highly competitive wholesale markets that many strive to serve.

The interviews in this report revealed several requirements for doing business with the retailers and foodservice operators. These requirements included:

1. High quality products provided on a consistent, dependable basis.
2. Good communication between supplier and operator.
3. Extend the season for produce.
4. Carry liability insurance in the amount of \$2 – \$5 million.
5. Prepare a HACCP plan for handling food products.
6. Develop a marketing plan for your products.

Requirements for doing business with retail and foodservice distributors included:

1. Greater reliability of local supply;
2. A wider variety of local products that reflect a greater understanding of market demand;
3. Season extension;
4. Aggregated supply (before product reaches the distributor);
5. Stronger post-harvest handling and initial processing capacity;
6. More producers able to meet food safety and traceability requirements; and
7. Interest among some distributors in coordinating more intentionally with farmers.

Lessons learned from six successful grower-operated or agricultural-entrepreneur businesses were the following:

1. Develop a sound business plan to assist you in decision making.
2. Develop a production protocol that is based on your customers preferences.
3. Make sure there is a market for your products.
4. Get your products into the mouths of the consumers.
5. Set high standards for quality control.
6. In produce, cold chain is critical.
7. Develop your brand's story, and make it memorable.
8. Develop partnerships with distributors.
9. Get the right team in place.
10. Secure financing and capital.

Final observations and conclusions from six farmer-based distribution models (organized as cooperatives and/or LLC's) were the following:

1. To date, most grass-roots, farmer-based distribution models have experienced slow growth and have struggled to become and remain profitable.
2. A core group of one or more highly committed individuals is imperative to the success of all of the business models.
3. Every model evaluated but one depends on an urban market in a large city or cities.
4. Marketing and promotion are imperative to the success of any farmer-driven marketing and distribution business. There are pros and cons to using the member-farmers in marketing and sales roles as well as with hiring out marketing and sales personnel; the different models have had varying success with both approaches.
5. The feasibility of cooperative business models need to be approached not only from an economic standpoint but also from a sociological standpoint. The success of a co-op depends on members' willingness to engage in or develop advanced communication and group decision-making and problem-solving skills.
6. Farmer-based distribution models like the ones evaluated, regardless of profitability, do build community and seem to foster a sense of hope and purpose, offering emotional support in addition to minimal, but perhaps significant, financial support to otherwise economically depressed family farms. The financial benefits increase over time, but require considerable struggle through the start-up years.

III. Growing Market for Local and “Sustainably-grown” Foods

A. Growth of Local

Consumer interest in local foods is increasing across the country, including Minnesota and the Upper Midwest Region. In Minnesota the number of farmers markets, CSA’s (Consumer Supported Agriculture), and listings of pick-your-own operations in the Minnesota Grown Director (now over 675 members) have all increased significantly over the past four yearsⁱ. In 2007 the Oxford American Dictionary declared “locavore” the word of the year. A locavore is one whose diet consists of food grown or produced within an area most commonly bound by a 100-mile radius of their home.ⁱⁱ Many grocery store chains, restaurants and college foodservice cafeterias throughout the region are promoting their preferences for local products to attract and retain customers. Over the past four years, Food Alliance Midwest—a program of Cooperative Development Services (CDS) and Land Stewardship Project (LSP)—has expanded its work with over 40 Minnesota-based restaurants and 30 colleges and corporate campuses (foodservice operations) that source local ingredients from around the five-state region.

B. The Emergence of ‘Sustainability’

Another trend in the marketplace is the emergence of interest in sustainability. There are a number of factors driving consumer interest in ‘sustainability’ in the food industry. Some are generic to the natural foods market, including sales of organic foods. Others are specific to the concept of sustainability and its adoption by businesses as a long-term strategy for managing risk.

Generic factors affecting interest in sustainability include:

1. Increasing Consumer Concern for Personal Health

Much of the demand for natural and organic foods is driven by concerns for health. Some major issues include:

- ***Pesticides*** – The body of research documenting human health impacts from the use of pesticides in production agriculture is growing. Residues on produce are a particular concern for consumers with children, with U.S. Department of Agriculture tests of 7,000 fruits and vegetables detecting pesticide residues in 61% of samples.ⁱⁱⁱ
- ***Antibiotics*** – A Harris Research survey of consumer attitudes, completed in July 2002, showed 59% of consumers in selected cities rating ‘No Antibiotic Use’ as important or extremely important in their beef-purchase decisions. The medical community is also expressing alarm over the routine use of antibiotics in animal production, which may further increase consumer concern.
- ***Hormones*** – Despite limited data to support such fears, consumers are expressing concern over the use of growth promoting hormones in dairy

and meat animals and potential impacts on human health (such as premature onset of puberty in children).

- ***BSE (bovine spongiform encephalopathy) or ‘mad cow’ disease*** – The discovery of BSE in Washington State has heightened public health concerns. Sales of natural beef have risen sharply in response—with Food Alliance certified Country Natural Beef seeing 70% growth in orders in 2004.

2. A Shift to Values-based Purchasing

In addition to health, ‘values’ are also an increasing factor in consumer purchase decisions. Recent consumer research conducted by The Hartman Group indicates there is a very large consumer segment, as high as 75%, showing at least some preference for products that represent their values.^{iv} These consumers seek emotional validation from the products they purchase, and want to demonstrate their values through their purchases. This shift toward values-based purchasing is occurring in consumer markets around the world. At a conference in Europe on sustainability, a marketing executive from Unilever remarked, “People want to know what lies behind a brand and the extent to which its values are aligned with their own...Today, the issue is what a brand says about someone, as a badge indicative of the individual’s values and view of the world.”^v Values-based purchasing can extend beyond health concerns to cover moral issues such as fair labor conditions, humane animal treatment, community wellbeing, and general environmental concerns.

Factors that specifically support sustainability include:

1. Increasing Expectation for Corporate Responsibility and Accountability

Expectations for corporate responsibility and accountability have certainly increased in the wake of Enron and other recent financial scandals, but public reaction to Enron is part of a larger trend. Over the years, activist organizations have been very successful in mobilizing regional and national campaigns on social and environmental issues targeting the practices of certain companies and industries. In response to pressure, companies have introduced new product sourcing criteria and management policies. Some companies are taking a proactive stance on issues in order to promote a positive public image, reduce risks, reduce costs, introduce new brands and capitalize on emerging markets. Following are several examples:

- *Starbucks Coffee Company* introduced a Green Coffee Purchasing Program in 2001 to encourage sustainable coffee production, with price premiums indexed to performance against guidelines.
- *McDonald’s* made headlines in 2003 by announcing a new policy prohibiting its direct suppliers of meat and poultry from using certain antibiotics for growth promotion.

- *The Kroger Company* in the spring of 2003 announced the launch of 'Naturally Preferred,' its own brand of premium 'natural' and organic products.
- *Whole Foods Market* is currently developing corporate guidelines for humane animal treatment among its meat suppliers—the first major food retailer to do so.

2. Sustainability Gaining Traction Among Consumers

Sustainability is a fast-evolving concept. Consumers currently have very little understanding of what sustainability is; yet, awareness is rapidly increasing and grassroots definitions are beginning to solidify.

Survey results from 1,606 US consumers^{vi}

- Just over half (54%) of consumers claim any familiarity *at all* with the term “sustainability” and most of these consumers cannot define it appropriately upon probing.
- Very few consumers have deep or extensive knowledge of expert discourses related to sustainability.
- Only 5% indicate they know which companies support sustainability values.
- Only 12% indicate they know where to buy products from such companies.

In the food industry the consumer is king, and food companies keep a close eye on consumer trends. Many food companies, however, are also looking to other food companies to determine how to move forward in sustainability initiatives. According to the Hartman Group study,

“It is critical to begin orienting company innovation, communication and experiences toward consumer definitions, not industry definitions, of sustainability to ensure your efforts are relevant.”^{vii}

While the term “sustainability” is not a household word yet, it is an umbrella term for six key values: healthier, local, social responsibility, environmental responsibility, simple living and control. Each value has unique sentiments that evolve as consumers’ experiences with the external world change over time. Among these values, health is the most significant, as consumers tend to link health to other key values and find it easiest to understand and participate in.^{viii}

An increase in the ability to easily participate in local behaviors (e.g., shopping at farmers’ markets or independent retailers, purchasing local foods

and arts) is intensifying consumers' orientations to sustainability overall. Many consumers will likely stop their sustainability journey here, as they find it difficult to gain personal benefits in more national or global behaviors.^{ix}

3. Growth in Organic and Natural Products

In the U.S., sales of natural foods are growing at a rate of 9% per year.^x This growth compares well with the broader retail food industry, which has averaged only 2-4% annual growth since 1997.^{xi}

Organic is currently the leading natural food product, estimated to constitute more than 60% of the natural food category.^{xii} Retail sales of organics have been leading the category, growing approximately 20% per year with an estimated \$12 billion in sales in 2003.^{xiii}

C. Understanding the Retail and Foodservice Supply Chain Maze

US consumers spend over \$950 billion on food purchases every year. Retail sales represent 51.5% of the all food sales, while foodservice facility sales (restaurants, cafeterias, etc.) represent 48.5%, up from 46.1 % in 1994.^{xiv} The US food marketing system is made up five broad stages of economic activity: production, processing and manufacturing, wholesaling, retailing (includes retail grocery stores and foodservice facilities), and consumption.

Both retail grocery stores and foodservice operators purchase their foods primarily, but not exclusively, from wholesalers or distributors. In the wholesale industry, most wholesalers are dedicated to delivering to either grocery stores or the foodservice outlets. Very few wholesalers do business in both retail grocery and foodservice sectors. Wholesalers purchase foods from food brokers, consolidators, manufacturers, processors, or directly from farms. This chain of supply is often referred to as the food chain or supply chain. In each link of the chain, there are key players: farmers and ranchers, processors and manufacturers, distributors/wholesalers, retail grocery and foodservice operators, and consumers.

But the food industry continues to change and evolve at a very fast pace. Many competitive pressures have forced consolidation throughout the supply chain from retailers and foodservice operators all the way to farmers. In both the retail grocery and the foodservice sectors, companies are consolidating seeking to gain ever-increasing market share and power to influence the price they pay for food products.

Retail Grocery Sector

The grocery sector is also facing competitive pressures from non-traditional grocery outlets. These outlets now represent 31.6% of food-at-home expenditures with supercenters (WalMart, SuperTarget, Fred Meyer, Kroger) and warehouse club stores (Costco, Sam's, etc.) driving the growth.^{xv} With the intense competitive pressures in the retail grocery industry, many smaller grocery

store chains are seeking to differentiate themselves from the large, commodity-driven chains.

As mentioned above, one of the major growth areas in the retail grocery sector has been in the natural and organic foods categories. For example, Whole Foods Market, a leading natural and organic foods grocery chain, grew from a one-store business in 1980 to over 270 retail grocery stores in the US and United Kingdom.^{xvi} In the Twin Cities and surrounding area, in addition to two Whole Foods Markets, there are 13 natural food consumer cooperatives, and six other natural food grocery stores. Even conventional, every-day-low-price grocery store chains such as Cub, Rainbow, and Coborn's stores are highlighting their natural and organic food products to tap into these higher-growth food categories.

Another area where the smaller-to-midsize grocery stores are seeking to differentiate themselves from the larger chains is in sourcing foods from local farmers and food companies. For example, Kowalski's Markets, a nine-store grocery store chain based in the Twin Cities, states explicitly in their company philosophy,

“When we opened our doors over 25 years ago, we knew that a big part of our focus would be on supporting local growers, businesses and nearby communities. It’s always been important to our family to support honest, hard-working people who go the extra mile to ensure a higher quality product, and who adhere to the same higher standards that we do, including sustainable practices.”^{xvii}

With the vast majority of grocery stores sourcing their products through distributors and wholesalers, the connection to the local growers is often lost. Therefore, some grocery stores are making the extra effort to source products from local growers when available, and telling the story of where the food is grown. If products go through distribution, the stores are requesting the distributor to segregate the food products, especially in the case of produce where product is often comingled. In other cases, the growers are delivering directly to the store (Direct Store Delivery, DSD). This works fine for some stores and is worth the effort because it saves a day of freshness if the product does not pass through the warehouse. If the products are certified organic, then both the distributor and the grocery store are required to segregate the product.

The 13 retail consumer natural food cooperatives in the greater Twin Cities Metropolitan area have a long history of supporting local agriculture and developing relationships with local growers. With the increased competition for natural and organic products, the local aspect has become even more important in their marketing efforts.

Foodservice Sector

The foodservice sector is made up of restaurants (fine dining, casual, and quick serve), colleges, businesses (companies with cafeterias serving employees breakfast and lunch), and hospitals that serve food on their premises. Within the colleges/universities segment, nearly one-third of the institutions outsource the serving of food on campus to foodservice management companies. These companies—such as Sodexo, ARAMARK, and Bon Appétit—bid for the opportunity to prepare and serve food to students and faculty. The foodservice management companies negotiate a two-to-five-year contract with the institutions and then manage the entire foodservice operations for the cafeterias, kiosks, and on-campus catering. The other two-thirds of the institutions manage their foodservice operation in-house.

The institutions using a foodservice management company do not get involved in food purchasing. The foodservice management company oversees all of the food purchasing decisions. In many cases, the foodservice management companies make agreements with large regional or national food companies and specify their products for each food category. The food companies offer marketing incentives to have their products specified. Typically, the only products not specified are fresh fruits, fresh vegetables, specialty dairy products and other unique or exotic foods. These agreements are usually exclusive, and limit the amount of flexibility to purchase local products, except for the unspecified categories. There are exceptions; and if a company can create a unique product category such as “grass-fed beef” or “pasture-raised chicken”, then there may be room to negotiate an arrangement to specify a product.

When working with a foodservice management company, the decision to specify products is usually made at the corporate headquarter’s level. Most foodservice management companies have regional offices and regional managers who oversee anywhere from 10 to 15 accounts, depending upon the size of the accounts. One of the regional managers’ responsibilities is to arrange for the sourcing of unspecified products, and they usually work with local distributors and growers to provide options for those products.

Both restaurants and college foodservice operations are looking for ways to differentiate themselves to attract more consumers and stay competitive in their respective industries. Similar to retail grocery stores, one of the ways to differentiate their restaurant or institution is to provide local and sustainable food options. More and more restaurants are identifying on their menus some of the local sources of the food they serve. Colleges are positioning their institutions as “sustainable” or “environmentally responsible” to attract faculty and staff who are interested in these areas.

IV. Perceptions of Market from Retailers and Foodservice Institutions

A. Demand Trends for Local and Sustainably Grown Foods

1. Strong and Growing Demand for “Local” Foods, Growing Interest in “Sustainably-grown” Foods

Retail

All retailers agreed there is a strong and growing interest for local products. Several also report growing interest in organic foods, especially produce, dairy and meat products. Cub Foods, a 45+ grocery store chain, said it is now an organic-certified grocery store. Coborn’s, Inc., a family-owned 39-store grocery chain based in St. Cloud and focused on the out-state Minnesota market, says there has always been support and interest for local foods. But Coborn’s is now seeing an increase in both the natural and organic categories and creating space in their stores for these products. Both Cub and Coborn’s however do not see much interest in “sustainably-raised” foods because of the lack of knowledge among consumers about what that means. The term “local” resonates with consumers because it is easily understood. There is strong interest in organic as people learn more about what the term means with the help of the USDA definition and certification program. But according to the Cub senior VP’s, there appears to be little “space” for consumers to really get their heads around the definition for “sustainable”. More consumer education is required for consumers to understand the differences between local, sustainable, and organic.

Within the natural foods cooperatives grocery stores and the natural food stores, there is much more interest in local, sustainable and organic products. Both store and department managers see positive trends in terms of consumer interest in local and sustainably-grown foods. Clearly, the consumers who shop at these stores are much more knowledgeable about, and interested in, where their food comes from and how it is produced. The stores also promote the benefits of local, sustainable, and organic products through their respective in-store merchandising, newsletters and websites.^{xviii}

Foodservice

At the University of Minnesota Twin Cities campus, the University Dining Services (UDS) operated by Aramark serves over 30,000 meals per day. UDS director, Larry Weger, says he sees an increased demand for organic foods among students. He also sees an increased recognition of local and sustainable food among faculty members, more so than students. He is not sure recognition of local and sustainable is yet turning into demand.^{xix}

Bon Appétit Management Company (BAMCO), a \$300 million foodservice management company managing cafeterias at college and business campuses across the U.S., says their college and corporate accounts are

very interested in local products in particular. According to David Ramlow, Midwest Regional Director for Bon Appétit,

“They (colleges and corporate accounts) are motivated by the sense that local purchases help local farmers, and our customers feel good about that.”^{xx}

Bon Appétit definitely sees the trend for local, sustainable and organic food continuing to grow. That is why Bon Appétit recently introduced its *Farm to Fork* program (see Appendix A – Bon Appétit Supplier Guidelines) and its new “Low Carbon Diet” in 2007^{xxi}.

Don Kulick, District Manager for Sodexho, who oversees 10 college and university accounts in the Upper Midwest, including the University of Minnesota at Morris, says,

“The demand for local and sustainable is growing immensely. Our customers (students) want to see much more locally and sustainably-grown foods. Students want local to be a part of the definition of sustainability.”^{xxii}

2. Definitions of Local Vary

Each retailer and foodservice management company we interviewed or worked with had a slightly different definition of “local”. As would be expected, generally speaking the larger the retail and foodservice operations, the broader the geographic boundaries for sourcing ‘local’ products.

Retail

Cub Foods, a 45+ grocery store chain said “local” means grown or produced in Minnesota and surrounding states.

“We love local, especially produce. We want to be known for local. We’re a local company and we want to support other Minnesota-based businesses. ‘Local’ for us includes Land O’ Lakes, Gold-n-Plump, etc. We think our identity as a local company that offers local product is a competitive advantage for us. We do it better than other retailers. We regularly buy from about 10 Minnesota producers, and have had long-standing relationships with them.”^{xxiii}

Coborn’s, Inc., sources products, especially produce, from Minnesota and the surrounding states. Similar to Cub Foods, Coborn’s uses very large suppliers to provide meat and dairy products to all its stores. Food Alliance Midwest worked with Coborn’s for five years setting up a supply of foods produced locally and raised in a sustainable manner. Progress was made in fruits and vegetables, adding several local growers to Coborn’s list of suppliers.

For Kowalski's Markets, local means grown or produced in Minnesota or western- Wisconsin.

“Our local connection is extremely important when it comes to bringing the freshest produce to the marketplace. Whenever possible, we pick the best local growers...Over the years, we've had the privilege to help launch and foster many area businesses, which has led to a growing number of life-long relationships....”^{xxiv}

Food Alliance Midwest has worked with the natural foods cooperatives in the greater Twin Cities region since 2000. There is a strong commitment from each store and department manager to purchase products from local growers in Minnesota and Wisconsin whenever possible. The definition of local is somewhat elastic and may expand into other surrounding states or the broader Midwest depending upon the availability and pricing of products.

At *Fresh & Natural Foods*, a 3-store chain in Minnesota (Shoreview and Plymouth) and Wisconsin (Hudson), department managers seek to source natural and Organic foods from Minnesota and western Wisconsin whenever possible. Food Alliance Midwest staff worked with Fresh & Natural shortly after the first store opened in Shoreview, MN, and helped identify local sources for fresh fruits, vegetables, pork and beef products.

Foodservice

At the University of Minnesota Twin Cities campus, the University Dining Services views local supply as anything coming from within the five-state region. Due to its very large volume requirements, UDS is not able to source as much local product as it would like (the larger volumes provide economies of scale, keeping food costs down, but require contracts and truckloads of products delivered from across the country). Through the leadership of its foodservice director, Ray Thering, UDS does source some local products for special meals at one of its on-campus restaurants and through its catering division.

Bon Appétit uses mileage as a measurement for local. Bon Appétit strives to source foods within 150 miles of where the product will be consumed, and nationally estimates that 20% of the products they purchase are grown or produced within 150 miles. In Minnesota, Bon Appétit manages approximately 12 foodservice operations including St. Olaf College and Carleton College in Northfield, Macalester College and the History Center in St. Paul, the Cue restaurant at the Guthrie Theater in Minneapolis, and several more corporate cafeterias as well. Bon Appétit is seeking to differentiate itself from the larger foodservice management companies such as Aramark and Sodexo and provide local and sustainably-grown food options to its customers (students,

faculty, restaurant visitors and office workers). With Bon Appétit's new *Farm to Fork* program, small-to-midsize businesses may be able to work very well with Bon Appétit to provide a local supply of fruits, vegetables, meats and dairy products.

Sodexo however does not find local a strong enough proposition for their operations and discriminating customers. For example, Don Kulick, District Manager for Campus Services for Sodexo, says,

"We don't think using a mileage perimeter is realistic because we can't source enough food that close to home. 'Sustainable' is more important than 'local' because 'local' doesn't mean the food has been certified in any way, so we can't guarantee how the food has been produced. That is why the Food Alliance certification (with its criteria for sustainable agricultural practices) is very important to us."^{xxv}

Sodexo purchases fresh produce and specialty dairy products from Minnesota and surrounding states.

B. Food Categories

Retail

Most of the retailers seek to purchase local produce when it is in season, which is a very short period of time. Cub Foods says they try to source 25-30% of its produce from local sources during the produce season. Out of season, the purchases are closer to 5% from local growers. Produce purchased locally includes: apples, sweet corn, potatoes, squash, and tomatoes. Other smaller volume products include cucumbers, peppers, green beans, etc. Organic products make up about 5% of sales, but the category is growing 30-70% per year according to the Cub Foods' representatives.

The percentages of sales for local produce in season and out of season are similar with Coborn's stores and Kowalski's Markets. One of the biggest complaints from grocery produce buyers is the following,

"One of our biggest challenges in Minnesota is the lack of variety of produce. Growers all have the same products. Either all the growers have too much supply, or everybody is short, all at the same time."

There is an opportunity for growers to consider growing a broader variety of produce. This strategy will require making agreements with buyers regarding their interest and willingness to purchase unique varieties of fruits or vegetables that are appealing to consumers. Honeycrisp apples developed at the University of Minnesota and introduced to retailers seven years ago have been one of the

most successful new apple products ever. First grown in Minnesota, but now throughout the Upper Midwest, Pacific Northwest and parts of Canada, the Honeycrisp apple remains one of the most popular apples to eat.

There is growing demand for organic dairy and meat products. Although sales volumes still remain relatively small, the growth in these categories continues at a very high rate of 20% or more. There is also interest in natural meats in all three formats—conventional, mid-size chain and natural food cooperative grocery stores—but the challenge remains for an ample and consistent supply of retail-ready meat products that have the marketing (the story) and the quality that retailers demand.

Foodservice

In foodservice, the types and quantities of local products vary greatly from restaurant to restaurant, and institution to institution. In restaurants, local fruits and vegetables are in high demand during the produce season, but at colleges and universities, summer is the slow season. In the fall, after students return, demand goes up. Apples, potatoes, sweet corn, cucumbers and squash are all in high demand. Several chefs and foodservice directors are interested in more variety of produce, if made available.

Pasture-raised beef or chicken is of interest, and may work in high-end restaurants, but the price points for these protein products need to come down to work in an institutional setting (college, corporate, or hospital campus). The higher prices for grass-fed beef and pasture-raised chicken do not work very well in a college environment where the average lunch is about \$5.

“You cannot charge students and faculty \$9 for a hamburger.”^{xxvi}

The no-growth hormones and no-antibiotics standards are very important to some of the foodservice directors, and they are willing to pay a premium for those products. But the amount of premium is relative to the environment within which they work, and the amount their customers are willing to pay.

C. Sourcing Practices

Retail

The larger grocery store chains, Cub Foods and Coborn’s Inc., rely on their merchandising staff—produce director, meat director, perishables director — to make decisions on the growers and the brands they are going to work with to supply the stores with products. In the fresh produce category, the merchandising staff may work with 5-10 local growers, depending upon the variety of produce. Often the growers are expected to deliver directly to the stores, such as the case in Cub Foods. Some stores prefer to work through their authorized distributors, where the store notifies the distributors to carry certain

varieties and quantities of produce; and the distributors communicate regularly with their customers regarding quantities and prices.

In the natural foods stores and cooperatives, the department managers usually develop relationships with a number of growers and communicate their expectations for particular varieties and quantities of products. The department managers also work with approved distributors to ensure adequate variety and supply.

Foodservice

Chefs at independent restaurants and foodservice directors at food service management companies work primarily with authorized distributors for their produce, dairy and protein food products. In some instances, a chef or a foodservice management company like Bon Appétit may prefer to work directly with a producer such as a dairy company or a beef company, but it depends upon the volume of the product and what the producer can supply.

Bix Produce, a produce distributor, for example, will send the restaurant chefs and foodservice directors its price sheet on a weekly basis to update the chefs and foodservice directors regarding produce that is available for ordering.

D. Retailers and Foodservice Managers Wish List

1. High Quality Products Provided on a Consistent, Dependable Basis

Chefs and foodservice directors have to prepare meals and need to know what they can expect to have to prepare for their customers. Dependable, consistent, and high quality supply is crucial to the success of the restaurant or institution.

2. Good Communication Between Supplier and Operator

Chefs and foodservice directors must know what they can expect from their suppliers in order to prepare meals.

3. Extend the Season for Produce – Both retailers and foodservice managers are interested in local and sustainably-grown produce. If growers can extend the season for local produce, that will help a great deal in terms of increasing the amount of produce purchased locally. For example, Bushel Boy tomatoes are grown in green houses that provide a year-round supply of local tomatoes.

4. Carry Liability Insurance in the amount of \$2 – \$5 million to cover any potential lawsuits in case of a food-borne illness outbreak.

5. Prepare a HACCP Plan for Handling Food Products – Food safety is becoming a significant issue both in retail and foodservice. Buyers are raising

concerns to ensure the safe handling of food products. Therefore, a HACCP (Hazard Analysis and Critical Control Points) plan or some other type of food safety audit will be a requirement in the future.

6. Develop a Marketing Plan for Your Products – More and more retailers and foodservice operations want to know your marketing plans. Consider the four “P’s” of marketing:

Product

What is your Product? How is it differentiated from the competition?

Pricing

What is the price, and is it within the range of the customers’ expectations? Be sure to have a price that matches the features and benefits of the product.

Promotion

What is your Promotion plan? How are you going to generate “memory and romance” around your products? What is your farm or business’ story that the grocery store, restaurant or foodservice venue or management company can use? Do you have any marketing funds to support your brand through advertising or merchandising? Do you have any brochures that tell the story of your farm, ranch, or company? Are you planning on making visits to the store or campus to do demonstrations?

Placement/Logistics

What is your distribution plan? How much will go through wholesalers/distributors and how much of your product will go directly to stores, restaurants, and institutions? How will you work with a distributor to create more of a partnership?

V. Perspectives from Wholesalers - Critical Link in the Supply Chain

We spoke with distributors about their perspective on local and sustainable products: their interest in such products, current procurement practices and requirements, and the opportunities and barriers they perceive to greater local sourcing. We conclude this section with a “Distributors’ Wish List” for expanding relationships with local producers.

A. Demand Trends Among Distributors:

1. Current Purchasing of “Local” and Sustainable Product

The distributors we spoke with vary greatly in their current commitment to local and sustainable sourcing. For instance, Coop Partners, which supplies produce to the Twin Cities natural food grocery coop community, has a long-running commitment to local, family-scale producers and organic production methods. Bix Produce Company and H. Brooks and Company report that local products currently comprise 3 – 5% of their produce purchases. Bix also

became organic-certified in 2005. Both Bix and H. Brooks offer a line of organic produce.

SYSCO Minnesota inaugurated a “Farmers’ Market” component to their offerings in 2004, adding a new page on their web site (see <http://www.syscomn.com/farmers.htm>). Bix, H Brooks and SYSCO have in-house processing facilities. This is critical for serving foodservice clients, but less important for retail, where most produce is sold in whole form.

2. Definitions of “Local” Vary Widely

For buyers like Bix, “local” primarily means grown in Minnesota. H. Brooks and Coop Partners view “local” as having been produced within the five-state region (Minnesota, Wisconsin, Iowa and the Dakotas). Some larger distributors also use the five-state region to mean “local”, but include in that definition products sold by companies headquartered in that region, but not necessarily produced in that region.

3. Strong Interest in More Locally-grown Produce

Demand for local produce is growing rapidly according to distributors working in both the retail and foodservice arenas. As one produce distributor asserted,

“If (Minnesota) farmers have the product, we’ll buy it. If they could supply staple items like cucumbers, zucchini and peppers we can sell that product, no problem. We’ll bring in local when we can get sufficient volumes. This is a growth area with some of our clients.”

Some distributors also view expanded local offerings as a way to differentiate themselves from competition. The distributors we interviewed say they typically sell local and non-local produce items at similar price points. At this point, “localness” in itself does not appear to command a premium where produce is concerned.

4. Barriers to Local and Sustainable Proteins

We also found growing interest in local and sustainable meat and dairy. However, expressions of interest were often followed by comments about perceived price barriers, insufficient supply, and difficulty finding local product in the needed sizes and packaging (e.g. five gallon milk bags for use in the milk dispensers typically used in foodservice environments).

5. “Local” Has More Currency

In general, “local” seems to be more highly valued among the wholesalers we interviewed and is better understood than “sustainable”. Where produce is concerned, many distributors voiced relatively limited familiarity and interest in specific sustainable production practices or attributes (other than organic). “No artificial hormones” and “no antibiotic” meat and dairy are becoming more

widely recognized by distributors, largely driven by consumer health concerns.

Some distributors handle organic product, although many perceive that market as inherently limited by price constraints. Nevertheless, wholesalers tend to stress that their job is to find the product that their customer is looking for. That demand drives the type of product the distributor is seeking, whether it be local, sustainable, organic or have other attributes. One senior executive at a large distributor said recently, “I think sustainable may actually have more traction than organic in the foodservice industry because of the lack of supply and the higher prices for organic products.”

6. Energy and Environmental Concerns a Growing Factor

With crude oil price fluctuations, a desire to reduce “food miles” from farm to fork was voiced by several distributors. The potential to reduce diesel fuel use and the time elapsed in refrigerated trucks are a motivator for some, particularly for those working across broad geographic regions. While sourcing closer to consumption is part of the equation, national players are also seeking new efficiencies in the way product moves within their extensive, highly-automated network of transportation and distribution nodes across the country.

The desire to deliver a fresher product with better shelf-life is motivating some to source closer to the end-user and find ways to optimize the transportation, warehousing and processing chain between harvest and consumption. Some large industry players are also working to assess and reduce the “carbon footprint” associated with their sourcing and distribution practices. This is likely to support local sourcing, for instance, where it occurs in an energy-efficient manner. As mentioned earlier in this report, an example of this trend is Bon Appétit that introduced its Low Carbon Diet in 2007.

B. Procurement and Marketing Dynamics

1. The Drive for Low Prices

For undifferentiated products, low cost is perhaps the most fundamental determinant in distributors’ purchasing decisions. A penny-a-case can make the difference in purchasing decisions, a testament to the extremely competitive environment faced by distributors. “Typically we pay local producers commodity prices”, noted one local distributor, “unless they have a specialty product or are offering something out of season. Minnesota producers know they need to set their price at California rates plus the cost of shipping from California to stay competitive.” In some cases, this pressure is tempered by long-running relationships between a given producer and distributor, and/or a client base that will pay more for differentiated products. In other circumstances, this can translate into intense competition among local producers.

2. A Combination of National Contracts and Local Sources

As one locally-owned distributor explained a typical procurement strategy,

“We have contracts with California vendors for higher volume products. The contracts are typically one year in duration with a fixed price for a given quantity. We generally have two suppliers per product to ensure supply. We also work with a variety of local producers for smaller volume items.”

As is often the case, this distributor does not offer local producers written contracts. However, distributors do enter into verbal agreements with producers that establish an understanding about price and quantity for the season. Other distributors view local product largely as a stop-gap measure to fill gaps in their primary supply or to respond to promotional events by retail clients. In these situations, they tend to approach producers on very short notice (e.g., within 24 hours of when they need the product delivered).

3. Difficulty Fitting Local into the Supply Stream Given Variable Dates for Harvest

Distributors often have national supply for produce in place; therefore, local growers are challenged when they have an early harvest of produce. For example, early local sweet corn is not in demand, so local growers end up selling at a lower price due to the lack of demand. Growers need to be in regular communication with distributors regarding expected dates for harvest of products.

4. Approved Vendor Requirements and Spacing Constraints

Distributors' capacity to expand local sourcing is also influenced by spacing, or “slotting”, constraints in their warehouses and the “approved vendor” requirements of specific customers. For instance, a distributor who sells to several national restaurant chains would typically have to source product for each chain from the specific vendors each has approved. Those vendors are typically larger, regional or national suppliers. That then requires the distributor to maintain multiple “slots” in their warehouse for product sourced from specific vendors and destined for particular clients.

Logistical challenges and administrative costs tend to rise as the amount spaces for any given product category proliferates. This can be a barrier to adding locally-grown products, and particularly multiple, low-volume items. Each distributor has its own marketing program that suppliers may be required to participate in. These marketing programs may be a deciding factor as to whether a product is given space in the distributor's warehouse.

5. Sales Challenges

For large, broad-line distributors that carry a wide variety of products, a key challenge for its sales force is focus and knowledge of “local” or “sustainable” products. Responsible for marketing over 10,000 products, it is very difficult to motivate the sales force to learn about and promote new products, particularly if the volumes are small and the products appear to be relevant to only a small number of clientele.

Unless the grower or food company has a marketing plan that includes significant incentives for the distributor’s sales force, there will likely be very little attention or focus on the new products. The distributor’s sales force will focus on large volume and/or high profit items.

“Sustainable” products are a harder sell since attributes vary, are not as well understood by distributors’ sales force, and are difficult to communicate to end-users.

C. What Distributors Require of Vendors

Although some requirements may vary from one distributor to another, most distributors require the following:

1. Approved Vendor Status

The distribution company must approve all suppliers. This process varies by distributor; so new suppliers will need to do their research to find out the requirements for becoming an approved vendor. Most distributors have the information on their respective web sites.

2. Liability Insurance Requirements

Liability insurance requirements vary by distributor, but the standard amounts are the following: \$1 million in liability coverage for produce and \$5mm for animal products.

3. Product Quality, Consistency, Grading and Sorting

Product needs to be properly graded and sorted using commonly-accepted gradations and nomenclature, and meet agreed quality standards (typically USDA #1 among the distributors we interviewed).

4. Sufficient Volume, Sufficient Velocity

Few distributors will regularly take product by the caseload. Deliveries of at least pallet-size were viewed as the minimum workable volume by most. The products must move off the shelf quickly. Industry often refers to this movement as “product turns” or “velocity” The speed (velocity) at which the product turns determines the profitability of the slot.

5. Post-harvest Handling / Adequate Cold Chain Capacity

For produce, suppliers must be able to remove field heat rapidly, clean the product, transport and deliver it at appropriate temperatures.

6. Food Safety & Traceability

Recent food safety scares are having major impacts on distributors, retail grocery stores and foodservice operators. There are several movements within the produce industry and in government to ensure a safer food system and reduce the number of food safety scares. In California the Department of Agriculture has introduced the Commodity Specific Food Safety Guidelines for the Production and Harvest of Lettuce and Leafy Greens^{xxvii}. More and more distributors are considering the possibility of requiring their suppliers to verify they are following food safety guidelines.

7. Packaging and Labeling

Producers need to use industry-standard pack sizes, meet packaging requirements of the distributors (which may be quite specific to particular retail and foodservice environments) and labeling needs (such as the PLU's, SKU and UPC at retail).

D. Wholesalers Wish List

We asked distributors about the changes they feel would enable expanded purchasing of local and sustainable product. The common theme centered on how to generate larger, more reliable and varied supply of product that meets today's standards for post-harvest handling and food safety:

1. Greater Reliability of Local Supply

We heard widespread concern about local supply not being sufficiently reliable and the consequences distributors experience if they don't receive product as and when agreed. One noted that, "Our customers are buying as much local product as we can provide to them. But we can't just carry local because we need product all the time. What we can buy locally is unpredictable given the weather and sometimes farmers don't deliver when they say they will. When our local supply comes up short, it takes almost a week lead-time to replace it with product from California." Outages can leave distributors scrambling to find supply to meet commitments to their clients. (A lack of reliable delivery was also noted a significant issue for some producers who had experimented with aggregating supply from other farmers.). Avoiding last-minute surprises and improving communication with producers was viewed as essential.

2. A Wider Variety of Local Products that Reflect a Stronger Understanding of Market Demand

Most distributors said there is demand for a greater diversity of local products. They would encourage producers to grow complementary products and avoid "everybody growing the same stuff", as one put it. Farmers could also benefit

from more knowledge about the specifications sought by particular types of clients. For instance, in the case of schools one buyer asserts that, “Local producers may not offer what schools want. For instance, schools want small apples that meet their portion requirements, like 150 or 175 count per case. But many local growers focus on the larger, 80 count size that grocery stores want. If local growers could produce more small, consistently sized apples that would make them more palatable to schools.”

3. Season Extension

Minnesota’s short growing season is often cited as a significant barrier, particularly among distributors who service colleges, K-12 schools and other clients with seasonal demand. Nearly all distributors we interviewed expressed strong interest in obtaining more locally grown, out-of-season products. Most were familiar with greenhouse production, but familiarity with hoop house / high tunnel production and the production and environmental implications thereof was limited. Given the strong reported demand for out-of-season, local products, the potential for hoop house production and other season-extension strategies merit more exploration.

4. Aggregated Supply (Before Product Reaches the Distributor)

As one distributor expressed it, “No local farmers should have to throw away product, but they have to change how they move it. We used to be able to buy 20 cases at a time, but we can’t anymore. We need farmers to pool the supply, agree on prices among themselves and sell us multiple products. They need to have the product physically brought together to one location, with appropriate cooling capacity.” The ability to aggregate sufficient quantities will be critical for smaller producers to sell to distributors.

5. Stronger Post-harvest Handling and Initial Processing Capacity

There was a widespread perception that local agriculture is constrained by insufficient post-harvest handling and initial processing capacity in Minnesota. As one distributor asserted,

“Even the smallest farmers in California have sophisticated cooling facilities and packing operations. They have to because they ship product around the country. Here (in MN) most producers don’t have that and so the product has shorter shelf life. That’s evident at retail: local lettuce will only last a few days, where CA product will last for a week. It’s not always true that local is fresher. The bigger retailers probably don’t do more with local than they do because of limited quantities and poor post-harvest handling for many local products.”^{xxviii}

Where meats are concerned, inadequate access to federally inspected processing facilities continues to be a significant limiting factor for local agriculture.^{xxix}

6. More Producers Able to Meet Food Safety and Traceability Requirements

In the wake of numerous food safety scares across the country, the ability to meet food safety standards is critical to the competitiveness of Minnesota agriculture. One distributor summed up his assessment saying, “Growers in Guatemala know more about US safety regulations than many growers in Minnesota”^{xxx}. Another stressed that, “We love to buy local, but our national accounts drive our volume. We are adamant about their traceability program, and we will not approve local vendors because of traceability concerns. For instance, one of our chain restaurant customers has 2000 restaurants and they want to know where all the zucchini came from. They have approved only a few shippers because it makes it much easier to trace product in the event of a food safety scare. Even where I’m not bound by a client’s approved vendor list, I can’t trace product from eight different Minnesota farms. That’s why consolidation among farms is important. Responsibility for tracking to the farm-level would be with the consolidator.”^{xxxi}

7. Interest Among Some Distributors in Coordinating More Intentionally with Farmers

Distributors expressed interest in exploring opportunities to work together in mutually beneficial ways. Distributors see the need to continue to expand their supply of local and sustainable products to meet the growing demand.

VI. Lessons learned from grower-owned companies and cooperatives

We interviewed the leaders of six successful food businesses started up by farmers and growers or those closely associated to agriculture. The companies we interviewed included:

Axdahl Farm, Stillwater, Minnesota – Grows vegetables on 400 acres and sells produce both directly and to retail and foodservice markets. The Axdahl business also has an on-farm store.

Pahl Farms, Apple Valley, Minnesota – Grows vegetables and flowers on 1,100 acres and sells to both retail and foodservice markets. Pahl Farms also has an on-farm store.

Pepin Heights, Lake City, Minnesota – Grows and markets large variety of apples and ciders to retail and foodservice markets. Pepin Heights has its own retail store on the outskirts of Lake City open during the apple season.

Cedar Summit Farm, New Prague, Minnesota – Raises dairy cows and markets milk and ice cream to retail and some foodservice accounts. Cedar Summit also has an on-farm store.

Eden Farms, State Center, Iowa – Raises and markets heirloom Berkshire pork products to foodservice accounts.

Thousand Hills Cattle Company – Markets grass-fed beef to retail and foodservice accounts.

Each company has been in business a minimum of three years and some for over 20 years. We interviewed each company, analyzed the data, and aggregated the findings to put together a list of lessons learned^{xxxii}.

A. Develop a Sound Business Plan to Assist You in Decision Making

Five of the six businesses we interviewed had spent time developing a business plan. The level of sophistication of the business plans varied across the spectrum, but nearly all stated how important their business plan was to making decisions. According to Todd Churchill of Thousand Hills Cattle Company,

“You need to develop a strategic plan (business plan), build a brand, and assemble the people-talent and money needed to execute on that plan. What’s not getting the financing is farmers who just want money to wing it. Good plans can get money.”^{xxxiii}

The business plan takes into account the basic elements: 1) description of the business and its vision (future growth); 2) definition of the market for the product (customers, competition, constraints); 3) description of products and services your business provides; 4) the organization and management structure; 5) marketing and sales strategy; and 6) financial management strategy.

B. Develop a Production Protocol That is Based on Your Customers Preferences

When designing and developing a new product, do not simply rely on your own intuition. Try to understand what your customers want. Keep in mind what they value and build it into your product specifications.

C. Make Sure There is a Market for Your Products

Talk to your customers and be sure there is interest and commitment to purchase what you grow or produce. Talk to your distributor partners as well as the retailers or foodservice operators about your products.

“I never plant a crop unless I know I have some buyers prepared to buy it.”^{xxxiv}

D. Get Your Products Into the Mouths of the Consumers

The consumer is king; and retailers will respond to consumers asking for products. In your marketing and sales plans, be sure to include product demonstrations in stores. Whenever possible, try to participate in product demonstrations yourself, in order to hear what consumers are saying about your

product. Nearly all of the successful farmers and growers get involved in demonstrating their products to consumers or to chefs.

“Get consumers to taste the products and experience the high quality....”

E. Set High Standards for Quality Control

Create standards that support your product differentiation strategy. In the meat industry, one of the biggest problems is lack of consistency of product. Whether retail or foodservice, both industries need to have confidence in the meat they are purchasing from companies.

“Be sticklers for quality control, and always set high standards...Several of the chefs we work with purchase our products because of our consistency and high quality.”^{xxxv}

High standards of quality in beef or pork products begin with excellent genetics and continue throughout the growing, processing and delivering processes. According to Kelly Biensen of Eden Farms,

“Pork producers need to do the little things well to produce great products.”^{xxxvi}

F. In Produce, Cold Chain is Critical

When working with fruits and vegetables, it is extremely important to have an efficient process to get products field packed, cooled, and loaded onto refrigerated trucks. Grading, washing, and sorting on the farm are also extremely important, and customers expect more service. With growing concern around food safety, HACCP (Hazard Analysis and Critical Control Point) plans or some other type of food safety audit may be required of all growers.

G. Develop Your Brand’s Story, and Make it Memorable

Strong marketing and sales plans are essential to getting a new business started or an old business growing again. According to Dennis Courtier, Pepin Heights,

“Buyers want the cheapest price possible. You have to transcend the commodity model entirely by building brands – create a position in consumers’ mind that you have something special.”^{xxxvii}

This is probably the most challenging, yet most important work you need to do. Creating meaningful product and differentiating your brand takes a long-term commitment. You have to invest in your brand and develop your story.

H. Develop Partnerships with Distributors

Distribution is one of the most challenging areas according to all of the business leaders. Develop a level of trust with your distributor to ensure you are both working to increase your respective businesses. Clear communication and a mutual understanding of the customers' expectations are essential.

“Be clear with your customers, and do not over-promise.”^{xxxviii}

I. Get the Right Team in Place

Every business requires expertise in operations, marketing and finance. It is vital to your business to have people who are experienced in each of these areas. Obviously, in smaller businesses, some employees have to serve in multiple roles. The key is training people who can do the work well.

“You need to find people with that entrepreneurial spirit...willing to go the extra mile...”^{xxxix}

J. Get Financing and Capital in Place

Each of the businesses had different strategies for raising the needed finances to start up their company. Some took over the family farm from their parents. Some started from scratch and raised the capital needed to start their business. Some others developed strong business plans enabling them to borrow from banks to enable them to develop their business model.

VII. Lessons From Grower Groups and Their Distribution Models

In trying to navigate the logistics of filling the market niche for local products, many family farms have found that it is most practical for farmers within the same geographic region to work together to create a common marketing and distribution network for their products. Several groups have emerged in the Midwest in the past ten years or so, most of which are organized as cooperative businesses, while some are incorporated as LLC's.

Cooperative Development Services, parent organization of Food Alliance Midwest, evaluated six of these models:

Home Grown Wisconsin is a cooperative business made of approximately 20 farm families in southeastern and south central Wisconsin that began in 1996. The member farms currently grow, collectively market, and distribute fresh fruits and vegetables through a CSA (Community Supported Agriculture is a membership-based program where members purchase shares and receive weekly shipments of products during the growing season. and to high-end restaurants in the Madison, Wisconsin and Chicago, Illinois areas. An estimated 30 to 40% of their current sales are through the CSA, with the remaining 60 to 70% of sales to restaurants. The Chicago area is now Home Grown's primary market (its original focus was the Madison area), where it sells to 45 gourmet restaurants and 2 home delivery

services in and around the city. Its CSA program is also focused on the Chicago market, with a base exceeding 400 members. Additionally, Home Grown sells to 3 Madison restaurants and the University of Wisconsin -Madison, as well as to a handful of other restaurants in the state of Wisconsin.

GROWN Locally Iowa is a cooperative with a current membership of 10 family farms in a 3 county area in Northeastern Iowa (Allamakee, Winneshiek, and Clayton Counties). GROWN Locally Iowa sells fresh produce, which is almost exclusively vegetables and just a few fruits, to local institutions and through a CSA. An estimated one half of the sales are through the CSA, while the other half are from institutional sales. The types of institutions the co-op sells to include shelters, hospitals, nursing homes, and health care facilities. Additionally, the co-op sells to Luther College and to a few restaurants.

GROWN Locally Iowa has been staunchly committed to selling only within their tri-county area (with about a 45 mile radius), which makes it a unique model, because, as Huber and Parker put it,

“GROWN Locally Iowa has successfully operated in a very rural area with minimal help from outside funds or expertise, which sets it apart from many of its urban counterparts.”^{x1}

Nevertheless, the co-op is discussing expanding sales to Cedar Rapids (population approximately 120,000) and/or Waterloo (population approximately 70,000), with distances of approximately 100 miles and 80 miles away one-way, respectively.

Southeast Minnesota Food Network is a group of about 90 farms in southeastern Minnesota that collectively market, sell, and distribute their products to restaurants, food stores, institutions, and caterers in the Twin Cities. The network’s primary customers are the natural food cooperatives in the Cities and chefs at locally owned, independent restaurants. The network is incorporated as an LLC but is organized as a co-op with each of its member farms owning one \$250 share of the business, entitling each member farm to one vote in business decisions. The member farms are all clustered within an 8 county area that makes up southeastern Minnesota. The network sells a variety of products (about 300 different products in total) including fresh fruits and vegetables, eggs, and a variety of meat products including beef, pork, chicken, lamb, buffalo, wild boar, and elk as well as seasonal turkeys, ducks, and geese.

Whole Farm Co-op (Minnesota) is a cooperative business based in Long Prairie, Minnesota and is made up of 33 member farms, most which reside in Todd County, Minnesota. The Co-op members collaboratively market, sell, and distribute their products, primarily to individual customers via drop sites in the Twin Cities metropolitan area. The Whole Farm Co-op model is unique, because it markets primarily to individual customers, but does not follow a traditional CSA model.

The Whole Farm Co-op delivers to 33 individual drop sites and 6 retail stores and restaurants, nearly all in the Twin Cities. Most of their customers are affiliated with faith-based community organizations or non-profits, and most of their drop sites are at area churches. A few of the drop sites are at individual residences where neighbors have organized to pick up their orders at a common site; however, the co-op will only add a drop site if the sales total at least \$500 per delivery. The stores and restaurants they sell to include 3 natural food co-ops, two independent markets, and the Good Earth restaurant in Saint Paul.

Customers do not purchase seasonal shares as in a CSA, but instead place orders weekly or monthly online, selecting each item ala carte from the frequently updated inventory list on the Co-op's website. The co-op makes deliveries to the Cities weekly, but rotates drop sites such that each site receives a delivery once a month.

The co-op's product list is numerous and diverse. It includes fresh and frozen fruits and vegetables, beef, chicken, pork, lamb, fish, elk, duck, turkey, eggs, cheese and other dairy products, jellies and jams, honey, vinegar, bread mixes, soup mixes, cereals and other grains, baked goods, soaps, wood products (bird houses, chests, etc.), books by local authors, cards by local artists, Amish baskets, and coffee and tea. The co-op guarantees that its products are sustainably and locally produced. The only products that the co-op sells that aren't produced locally are the line of Fair Trade and Organic coffee and tea, which were added at the request of customers, and the fish, which is sustainably harvested in Alaska by a local family from Minnesota.

Big River Foods (Minnesota) is a new farmer "distribution service" ("Big River Foods," [Minnesota Food Association](#)) composed of urban immigrant farmers from the Minneapolis/St. Paul metropolitan area in Minnesota. Launched in 2007 with their first delivery made on August 2nd, 2007, the program is a project of the Minnesota Food Association, a local non-profit, and is a subset of their New Immigrant Agriculture Project, funded by a \$69,000 SARE grant.

With a mission to foster sustainability "with the goal of ReLocalizing food systems", the Minnesota Food Association operates a training farm about an hour north of the Twin Cities, where they offer residents the opportunity to learn how to farm sustainably.

Recognizing that one of the biggest hurdles for farmers who market locally is finding markets beyond the farmers market, the Minnesota Food Association came up with the concept of a collaborative effort to help their farmers market produce through retail outlets. After being awarded a grant from the Rural Refugee Initiative, under the Institute for Social and Economic Development as well as the Office of Refugee Resettlement, the MFA hired Teresa Cuperas as Coordinator of their new Big River Foods initiative in January of 2007.

Big River Foods is an initiative that markets fresh produce grown by new immigrants involved in MFA's training program at their leased farm near Marine on the St Croix, Minnesota. The farmers involved in the project include six Latino farmers, three Hmong farmers, and MFA's farm manager. Many of the farmers producing produce for Big River Foods have experience farming or gardening in their home countries, but almost none have experience farming on a commercial scale. MFA provides each farmer with a 1.5 acre plot and a training program. The farmers are urban residents, and the income they receive from the farm is supplemental income; however, most are hoping that it could become full-time. The members of Big River Foods pay a \$200 membership fee for the season.

The group markets just four products under the Big River Foods name: heirloom tomatoes, slicer tomatoes, grape tomatoes, and green peppers. Teresa Cuperas notes that she intentionally decided to keep it simple and concentrate on controlling the quality of just a few crops rather than going with a wide variety, presumably because the farmers are new and in training. Tomatoes and green peppers also keep things simpler for the co-op, because they can be field packed and do not require sorting, washing, or any other processing.

Big River Foods is currently selling to a handful of local retail stores including and the natural food cooperatives. They also sell their products to a restaurant chain in the Twin Cities.

Initially, Cuperas approached schools, corporate cafeterias, and other institutions, but found that the group would not be able to meet the supply demands. She found that grocery stores were willing to pay the most, because they have the advantage of demanding a premium price with marketing the food as "locally grown" or "sustainable". The group also found that it was a huge selling point for food buyers – especially the grocers, or the ones that are able to easily pass the message on to their customers – that the product was supporting a training farm for small, immigrant farmers. "It makes a good story," say Cuperas, noting that their website will include bios and photos of all of the farms and farmers.

Cuperas noted relative ease and success in securing the sales of Big River Foods products to their customers, adding that it was "not a difficult sell," because there is currently such a huge demand for local products. She said that she simply instilled confidence that they would deliver a high quality product, and used verbal agreements to confirm exact dates and exact products. Cuperas stays in constant communication with her customers as well as her growers, speaking with both at least twice a week to confirm harvests and numbers.

Good Natured Family Farms (Kansas and Missouri) is a self-described "marketing alliance" of small family farms in northeastern Kansas and northwestern Missouri that sells products under a common brand, primarily to local supermarket chains in Kansas City, Missouri. While Good Natured Family Farms began as a

cooperative model resembling several of the other groups we evaluated, it has evolved into a strikingly different model that is attracting national attention.

What began as a natural beef cooperative has grown into a major marketing initiative under the brand Good Natured Family Farms, now fueled by the momentum of a local Kansas City chapter of a national campaign, “Buy Fresh, Buy Local”. Diana Endicott, the president and Farm to Market Coordinator of Good Natured Family Farms, partners with Bridging the Gap, an environmental non-profit organization in Kansas City, and Ball’s Food Stores, a locally owned supermarket chain, to market and sell products to local customers.

Good Natured Family Farm products include beef, poultry, pork, bison, eggs, milk, fresh produce, honey, cheese, heritage fruit jellies, organic tofu, fresh salsa, chestnuts, and other value-added products such as natural-beef hot dogs and sausages, eggnog, and fresh squeezed orange juice. All of the products are produced and processed locally, with the exception of the orange juice, which is made with Florida, Texas, and California oranges from family farms. It is squeezed and bottled locally.

Good Natured Family Farm products are sold in 13 Hen House and 16 Price Chopper stores in Kansas City. Both chains are owned and operated by Ball’s Food Stores, a family-owned business run by David Ball, a third generation grocer. Hen House stores are high-end, service oriented markets while Price Chopper stores offer a more standard price-driven supermarket format (“Ball’s Food Stores Inc”).

Good Natured Family Farm products are sold year-round in Hen House markets exclusively as part of the “Buy Fresh, Buy Local” campaign and under the Good Natured Family Farm brand. In Price Chopper stores, on the other hand, Good Natured Family Farm products are sold under their collaborative brand but cannot be marketed with the “Buy Fresh, Buy Local” campaign. Member farmers may market their products directly to Price Chopper stores (though not at Hen House stores). In addition to Ball’s Food Stores, Good Natured Family Farms also sells some products to other customers at a few restaurants, schools, and other institutions.

There is also a Good Natured Family Farms CSA program at Hen House stores. The program is administered by Hen House staff as a convenience to their shoppers (serving as a drop point also draws more customers into their store).

Currently the brand represents over 100 family farms, the majority (95%) residing in Kansas and Missouri. Approximately 70 family farms comprise the ‘Good Natured Family Farm Alliance’; approximately 25 family farms (primarily produce growers) are associated with the Bates County Mennonite Community; and 5-10 family farms are independent. Additionally, Good Natured Family Farms collaborates with some outside cooperatives; pork, for example, is sourced from the Ozark Mountain Pork

Cooperative, while their bison is sourced from another Kansas City business, the New Grass Bison Company. All of the family farms are located within a 7-hour drive to ensure that the product can be harvested and shipped to the stores within 24 hours.

Conclusions

While all of the models evaluated had common experiences, they also had distinct features unique to their own particular organization. The most pertinent question, in conclusion, might be “Are these endeavors successful, and if so, which are the most successful models?” This question, however, is difficult to answer, because it depends on what one deems “successful”.

When considering a farmer-based marketing and distribution collaborative, should success of the business be defined strictly by its profitability, or should the definition of success also include less tangible factors like community building and sentimental value that increase the quality of life of the member farms? We ask these questions, because despite the fact that few of these models have proved to be very lucrative, all of the groups and individuals behind these businesses remain committed to their efforts, and new cooperatives and groups continue to pop up across the Midwest.

All of the models we evaluated here, with the exception of Good Natured Family Farms, have suffered continual financial hardship. Regardless, all of the individuals and groups driving these models have forged ahead, refusing to give up, most maintaining a strong belief in the business endeavor. None of them have stated they wouldn't start the business over again. Certainly, they have all cited how they would do it differently, or better, the second time around; but every single respondent stated with confidence and without hesitation that they would do it again. Why?

Judging from our research, despite slow economic growth, not a single one of the models failed to successfully build a sense of community and camaraderie among the producers as well as inciting a strong sense of purpose. These less tangible effects are significant and perhaps should not be overlooked in a climate of economically depressed rural areas. Although their financial success has been limited, most of the collaborative models we evaluated seem to be paying off in the long run, partly attributable to growing profits, but perhaps mostly attributable to a growing sense of empowerment among member farmers.

Furthermore, all of the models *have* successfully created or opened up new markets for their members with higher premiums and market access than they could otherwise receive from selling through conventional sources. Farms that direct market their products, of course, can generally command higher prices than what they are paid through the collaborative marketing co-ops; however, most have used the co-ops to sell excess product they wouldn't have been able to sell through direct marketing avenues anyway.

However, the delicate balance between matching supply and demand has proved to be a significant challenge for nearly all of the models, and conflicts have arisen owing to the diverging interests of direct marketing and farmer obligations (or lack of obligations) to their cooperatives. The cooperative marketing and distribution model seems to work best for farms or farmers that are not already successfully direct marketing or have no interest in direct marketing. These farmers do not have conflicting incentives to break their loyalty to the co-op and sell their product at a higher price elsewhere. They are able to produce a “value-added” product without having to do all of the legwork of marketing.

Members of groups that have worked most smoothly together and have enjoyed the least amount of internal conflict appear to be those identified by Pam Benike of the Southeast Minnesota Food Network as the “third tier” farm members. The “third tier” farms are best able to craft their production to meet the needs of the co-op, because they are marketing a new product and can thus produce in accordance with demand (because they grow based on what is requested and do not have a pre-existing harvest or production operation).

By most accounts, the collaborative marketing and distribution businesses have made life easier for farmers. The exception to that rule would be for the small group of very dedicated members in each model that bore the brunt of the effort, donating extraordinary amounts of “sweat equity,” as Ron Perish of the Whole Farm Co-op termed it, for the benefit of the whole group. These driving individuals, however, that have at times exhausted themselves and neared burn-out, are for the most part the hardest most persistent. They have been willing to stick with the effort, not because it makes their life easier (in fact it makes it much more complicated and frustrating), but because they are working for a cause or a community that they truly believe in. The satisfaction derived from working for such a cause appears to be enough to sustain these individuals, and is perhaps enough for them to be able to deem their businesses a “success” despite their meager profits (or lack thereof).

Nevertheless, despite the admirable energy and commitment of many co-op members, the sustainability of nearly all of the models is in question. Few of them are very profitable and nearly all of them remain financially fragile.

The notable exception is Good Natured Family Farms, which is, presumably, a profitable business (though it is difficult to discern how much profits the producers themselves are actually reaping and how the business’s success has or has not improved the farmers’ quality of life). Although Diana Endicott appears to act as a broker, the term is disliked by all involved, perhaps because brokers do not traditionally operate with the interest of the producers in mind, as Endicott does. Judging from outside appearances, the Good Natured Family Farms alliance places considerable importance on ensuring that their farmers are paid fairly and are making a living wage.

We offer the following final observations and conclusions:

- To date, most grass-roots, farmer-based distribution models have experienced slow growth and have struggled to become and remain profitable. It is questionable how sustainable the businesses are. Their sustainability is probably most jeopardized by the potential for burn-out or the unexpected loss of the key players, most of whom work voluntarily or near-voluntarily.
- A core group of one or more highly committed individuals is imperative to the success of all of these business models, most of whom were willing to work without pay through the start-up of the business.
- Every model evaluated but one depends on an urban market in a large city or cities.
- Marketing and promotion are imperative to the success of any farmer-driven marketing and distribution business. There are pros and cons to using the member-farmers in marketing and sales roles as well as with hiring out marketing and sales personnel; the different models have had varying success with both approaches.
- The feasibility of cooperative business models need to be approached not only from an economic standpoint but also from a sociological standpoint. The success of a co-op depends on members' willingness to engage in or develop advanced communication and group decision-making and problem-solving skills. Two out of the four cooperative models evaluated cited frequent internal conflicts that slowed operations and inhibited growth (Home Grown Wisconsin and the Southeast Minnesota Food Network). GROWN Locally Iowa reported success with quickly settling disagreements and as well as with working together cooperatively, which may be attributable to the fact that few of the members were direct marketing their products before the co-op formed (falling into Pam Benike's notion of "third tier").
- Farmer-based distribution models like the ones evaluated, regardless of profitability, do build community and seem to foster a sense of hope and purpose, offering emotional support in addition to minimal, but perhaps significant, financial support to otherwise economically depressed family farms. The financial benefits increase over time, but require considerable struggle through the start-up years.

VIII. Endnotes

- ⁱ <http://www.mda.state.mn.us/food/minnesotagrown/aboutmngrown.htm>
- ⁱⁱ News Release, November 12, 2007, Oxford University Press; (<http://blog.oup.com/2007/11/locavore/>)
- ⁱⁱⁱ U.S. Department of Agriculture, Agriculture Marketing Service, Pesticide Data Program, Annual Summary, Calendar Year 1998, Table 2, p. 14.
- ^{iv} The Hartman Group, “The World of Products with Sustainable Values,” November 2003.
- ^v Chris Pomfret, Unilever Marketing Executive, Presentation “Birds Eye Wall/IPA Sustainability Conference”
- ^{vi} The Hartman Report on Sustainability: Understanding the Consumer Perspective, The Hartman Group. 2007.
- ^{vii} Ibid
- ^{viii} Ibid
- ^{ix} Ibid
- ^x “Natural Products,” John Norwood, Agricultural Marketing Resource Center, Iowa State University, 2004.
- ^{xi} Organic Trade Association, “2004 Manufacturer Survey.”
- ^{xii} “Natural Products,” John Norwood, Agricultural Marketing Resource Center, Iowa State University, 2004.
- ^{xiii} Organic Trade Association Report, 2003.
- ^{xiv} The U.S. Food Marketing System : Recent Developments, 1997-2006.(Economic research report (United States. Dept. of Agriculture. Economic Research Service) ; no. 42); Steve W. Martinez.
- ^{xv} The U.S. Food Marketing System : Recent Developments, 1997-2006.(Economic research report (United States. Dept. of Agriculture. Economic Research Service) ; no. 42); Steve W. Martinez.
- ^{xvi} Whole Foods Market Web Site, <http://www.wholefoodsmarket.com/company/index.php>
- ^{xvii} Kowalski’s Market Web Site, <http://www.kowalskis.com/kowalskis.cfm?PageID=5800>
- ^{xviii} See the Twin Cities Natural Food Co-o website as an example at <http://twincitiesfood.coop/index.php>
- ^{xix} Interview with Larry Weger, University Dining Services, Aramark; September 13, 2007
- ^{xx} Interview with David Ramlow, Midwest Regional Director, Bon Appétit Management Company, October 3, 2007.
- ^{xxi} <http://www.bamco.com/page/26/low-carbon-diet.htm>
- ^{xxii} Interview with Don Kulick, Director Campus Services, SodexoUSA, October 8, 2007.
- ^{xxiii} Interview with Chuck Lynch, VP of Operations, and Mike Witt, VP of Merchandising, Cub Foods, October 5, 2007.
- ^{xxiv} Kowalski’s Market Web Site, <http://www.kowalskis.com/kowalskis.cfm?PageID=5800> and Food Alliance Midwest meeting with Kris Kowalski, Spring 2006.
- ^{xxv} Interview with Don Kulick, Director Campus Services, SodexoUSA, October 8, 2007.
- ^{xxvi} David Ramlow, Regional Manager, Bon Appetit Management Company, October 3, 2007.
- ^{xxvii} <http://www.cfsan.fda.gov/~acrobat/letsup.pdf>; Bix Produce Interview, September 12, 2007.
- ^{xxviii} Bix Produce Interview, September 12, 2007.
- ^{xxix} SYSCO Study, Characterizing Optimal Business Conditions for Commerce Between Farmers and SYSCO, Phase II, 2005-2006. Value Chain Partnerships for a Sustainable Agriculture, Leopold Center for Sustainable Agriculture, Iowa state University.
- ^{xxx} H. Brooks and Company Interview, September 13, 2007.
- ^{xxxi} Bix Produce Interview, September 12, 2007.
- ^{xxxii} The six growers agreed to be interviewed on the condition that individual data would not be made public; therefore, information has been aggregated. When we do cite a reference, it is more general in nature and not compromising the agreement Food Alliance Midwest and CDS made with growers.
- ^{xxxiii} Interview with Todd Churchill, September 18, 2007.
- ^{xxxiv} Interview with Gary Pahl, Pahl Farms, September 25 2007.
- ^{xxxv} Interview with Kelly Biensen, Eden Farms, September 24, 2007
- ^{xxxvi} Ibid
- ^{xxxvii} Interview with Dennis Coutier, President, Pepin Heights, October 9, 2007.
- ^{xxxviii} Interview with Kelly Biensen, Eden Farms, September 24, 2007.
- ^{xxxix} Ibid
- ^{xl} Huber and Parker 2002: 2