

## **The Case for Values-Based Tiered Buying Systems for Institutions and Wholesale Buyers**

**History:** NOFA-VT increases access to healthy, local, and organic foods for all. We promote an economically viable and ecologically sound Vermont food system for the benefit of current and future generations. NOFA-VT has identified growth in local and regional food purchasing by Vermont institutions as an extension of the organization's commitment to increasing access to good food for all people and growing market outlets for Vermont growers.

Over the past decade, the state of Vermont has been widely recognized for its commitment to, and excitement about, local foods. Interest and innovation has led to growth in local purchasing yet the Vermont Farm to Plate goal of doubling local purchasing by 2020 (from 5-10% statewide) still feels like a reach, especially within institutional settings. Why and what can NOFA-VT do to support this goal?

We believe that supporting institutions to communicate their food purchasing values, and develop and market a values-based tiered buying system that includes local and regional foods, will stimulate the market and help institutions play their part in meeting the statewide Farm to Plate goals. This paper provides an overview of some of the ways that institutions can systematically include values-based tiered buying in their procurement and marketing. We hope that it can serve as a resource for institutional purchasing with the understanding that the values and tiers will vary depending on each institution's priorities.

**Context on the demand side:** In 2011, NOFA-VT, as a partner in the VT FEED Project with Shelburne Farms, studied institutional demand for local foods. A survey was sent to representatives at 541 institutions of which 183 responded. The resulting report, *"Scaling Up Vermont's Local Food Production, Distribution, and Marketing,"* focused specifically on fruits, vegetables and eggs and showed that there is demand across many institutions in Vermont for these local products. Of the responding institutions, 73% spent some portion of their budget on local fruits, 78% spent some on local vegetables, and 44% spent some on local eggs. In addition, 80% of respondents stated that they would like to purchase, or purchase more, local fruits and vegetables and 62% would like to purchase, or purchase more, local eggs.

We think it is important to understand why "local" food has become such an important label to institutional buyers and consumers. The NOFA-VT market research and other studies across the country in Michigan (Izumi, Rostant, Moss, & Hamm, 2006), Maryland (Dimitri, Hansonb, & Oberholtzerc, 2012) and Oregon (Ratcliffe & Smith, 2007) have shown that institutions demand local food. While previous studies have found that one of the biggest motivators to purchase local food is to support the local economy (Becot, Conner, Nelson, Buckwalter, & Erickson, 2014; Izumi, Wright, & Hamm, 2010; Vogt & Kaiser, 2008), we hear from buyers that they care about local AND many other values (such as organic, sustainable, fair trade and humanely raised). While local has been the most researched food attribute for institutions, it appears that buyers often use local as a proxy indicator for these other values, whether or not the other

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values are actually being practiced (Delind, 2006; Peters, Bills, Wilkins, & Fick, 2008; Selfa & Qazi, 2005). Because of this, and because institutions lack an easy-to-use buying approach to help discern which products fit their values, local has, in some cases, supplanted the importance of other values-based food buying decisions.

For some institutions, “local” food purchasing has taken off as a result of purchasing directly from farmers. It is often easier for buyers to see their values expressed in how their food is produced, either because they have a direct relationship with the buyer, or know the buyer by reputation. As institutions move away from directly sourcing their food, the added layers in the supply chain (i.e. aggregation, distribution) do not necessarily provide transparency of the information about how and by whom the food is grown. Yet these purchases are necessary for the majority of institutional food purchases.

The idea of focusing on more than the local attribute of food is aligned with the work of national initiatives. Real Food Challenge on college campuses focuses on four values-based procurement measures (local, sustainable, human and fair). Healthy Food in Health Care initiative from Health Care Without Harm focuses on local as well as sustainable (which also includes antibiotic free and fair trade). NOFA-VT wants to expand these systems to schools and other institutions, working with them to develop systems that prioritize the values they seek to support and get recognition for this work in their communities. We believe that a critical mass of institutions is necessary to show the collective demand necessary to signal to the supply chain that change and transparency are good for business. In order to do this, they need information about how (i.e. the values) and by whom, the food is grown that they are purchasing. Thus, making it easier for institutions to know what products meet their procurement goals and their marketing plans.

**Context on the supply side:** The farm to institution sector is a dynamic laboratory for us to explore the related tensions between supply and demand. NOFA-VT’s 2011 institutional demand research<sup>1</sup> revealed an \$11+ million opportunity gap between school purchasing and fruits, vegetables, and eggs that could be sourced locally. Yet, our work suggests that many Vermont farmers do not perceive the institutional marketplace to be an easily won or profitable venture beyond a token amount of sales. Most local food is directly marketed to consumers through farmers markets, farm stands or through intermediated outlets such as grocers or regional distributors. Benefits of selling food directly to consumers include a strong consumer demand for local food, the ability to capture a price premium, the ability to better communicate product attributes and values and the flexibility in terms of the quantity produced (Martinez et al., 2010; Sage & Goldberger, 2012). The limitations include transaction costs, including marketing costs, a greater need for management and marketing skills

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<sup>1</sup> Northeast Organic Farming Association of Vermont. Vermont Food Education Every Day. *Scaling Up Vermont’s Local Food Production, Distribution, And Marketing*. Richmond, VT. October, 2012.

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(Martinez et al., 2010; Park, Mishra, & Wozniak, 2014) and the fact that direct markets may be saturated in parts of the country.

The question is, what would it take for more Vermont farmers to capture more of the institutional market? As noted above, institutional sectors such as health care and higher education have begun to incorporate many different values into their purchasing. How can our work with institutions throughout the state bring farmers new and expanding markets and encourage systems change to make the values of the food production more transparent so that values-based purchasing is easier for institutions to accomplish? In order to arrive at an answer, we believe that farm to institution opportunities must be considered within the context of the overall wholesale market, and the opportunities and limitations inherent in our current supply chains.

**Values-based tiered buying:**

A 2006 analysis by the Vermont Sustainable Agriculture Council (VSAC) identified that if every food item that was produced in Vermont, was consumed here, Vermont could produce 38% of its food needs (Timmons, 2006). Conner et al. (2013) found that Vermont produces enough fruits and dairy to meet dietary guidelines for Vermonters but not enough vegetables and proteins. While there is potential for Vermont supply to grow to meet some of these food needs, these foods continue to be imported from outside of the state. We suggest that a different buying approach is needed: values-based tiered buying.

Values-based tiered buying is a systemic approach to procurement that helps institutions clearly articulate the values of their purchasing programs, set goals and commitments to grow these programs, and market their programs to build greater consumer awareness. This framework incorporates both local/regional tiers of procurement and the many other values that buyers care about (such as organic, sustainable, fair, humane, etc.). Other institutions across the country have used similar systems. A comparable example is Yale University. They used this approach to clarify their guidelines, and combined geographical preferences with other values such as organic or small scale to build preferences into their procurement system. Each institution's system will look different based on the priorities, goals, values and limitations of their food communities. Once this system is established, it can be used to provide transparent information to producers, distributors (i.e. included in the contract language) and consumers.

While many institutional buyers have developed systems for making values-based buying decisions for some of their purchasing, it is often limited to a very small percentage and volume of their overall purchases and usually in relation to their "local" procurement. What if most institutions had purchasing systems that placed more emphasis on values-based buying decisions throughout the bulk of their purchasing, not just for the few direct accounts they hold with farmers? If institutions develop transparent systems that clearly articulate the values of

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their local purchasing programs, set goals and commitments to grow these programs, and market their programs to build greater consumer awareness, the wholesale and institutional market for Vermont growers will expand. We see this being nested within a greater values-based tiered buying system that enables institutions to prioritize their values, including regionally produced food over food grown further away, as we see regionally produced food augmenting many of the benefits of local purchasing when local is not available.

To further explore geographic preference as part of the values-based tiered buying approach, we believe that there are three related but distinct tiers to the wholesale supply chain, and each has unique opportunities that should be pursued to reach the greatest total institutional sales.

**Tier 1 - Ultra local:** For years, the farm to school movement, led by VT FEED, encouraged schools and buyers to purchase from local farmers in their communities. These direct relationships have created significant social capital and have played a part in the growing interest in local food systems. This direct relationship is the easiest way for institutional buyers to understand the practices and values the farm utilizes, and incorporate values-based buying into their purchasing decisions. In addition, local sourcing highlights the benefits of economic development and supporting the local economy. However, ultra local sales have significant limitations. Farmers and buyers alike indicate that pricing, quantity and consistency of supply, quality control, food safety standards, liability insurance thresholds, and logistics (i.e. managing multiple vendors and deliveries.) limit the volume of direct sales to institutional customers.

**Tier 2 - Vermont + 30 miles from the state's border:** This is the definition of 'local' adopted by the Vermont Legislature and the Vermont Farm to Plate Initiative. The concept of keeping food dollars within the state is appealing to consumers and buyers. Expanding the geographic scope of supply may also enable institutions to access more wholesale farms for which price, volume, quality, food safety and insurance are more compatible with their institutional needs. Yet with this move away from direct relationships, the values of the farmer become harder for the institution to determine easily and Vermont still has relatively few wholesale growers, particularly in vegetable production. Many growers NOFA-VT has approached have expressed reticence in adding wholesaling to their market mix for the institutional sector alone. A short overall growing season coupled with limited wholesale supply, then, translates to on-going price tension and inconsistent availability - leaving little choice beyond national or global supply when local is unavailable.

**Tier 3 – Regional (Northeast):** When supply horizons expand to include regional products suddenly the number of wholesale growers with the capacity to serve institutional markets expands dramatically, the season is lengthened, and geographic diversity protects against weather events and other externalities. While re-localization of the food system is seen as an

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alternative to the current global commodity system, some observers believe a regional approach can enhance food systems sustainability even further. Research on regional food systems is fairly limited and has primarily looked at land use availability (Clancy & Ruhf, 2010; Griffin et al., 2014). Recently, NOFA-VT has partnered with researchers at the University of Vermont to further explore this tier of regional procurement. Based on this research, we believe that regional sourcing compliments ultra-local and local for a variety of reasons including: resiliency, farm viability, farmland preservation, greater diversity and transparency of value-based production, variety of products, and season extension (see *'How to Develop a Local and Regional Institutional Food Buying Program'* by Becot, Conner, and Ettman for detailed explanations). While regional sourcing does not in all instances compliment local purchasing, not all food can come from VT. NOFA-VT believes that the benefits outweigh the challenges and is encouraging institutions to look to regionally produced food to augment their ultra-local and local purchases.

Over time, we believe that established market demand for regional products will also provide Vermont farmers with the much needed data to scale up supply for wholesale accounts in Vermont *and* the region. Our strategy focuses on developing supply and market access within all three tiers of supply simultaneously AND recognizes a preference for as close to 'home' as possible. We believe maximizing the current supply of the region will increase demand and commitment from buyers so that as Vermont's production increases so too will purchasing of Vermont-grown.

### **What's needed?**

There is work to be done at every level. Locally, we need to understand to what extent ultra-local purchasing can satisfy institutional demand despite the stated challenges. State-wide, more Vermont growers will need support to scale up for a diverse range of wholesale markets as we seek to understand what kind of business mix best compliments farm to institution sales. Buyers need to be able to count on their suppliers to meet standards in quality, volume, price, and reliability, and we will continue to work with Vermont producers to meet institutional needs. For regional supply, buyer education, source identified products and/or transparent supply chains and efficient trucking connections will be critical to capitalizing on existing supply. Better, more efficient and more responsive supply chains need to be developed to maintain product affordability, reliability and quality.

The values-based supply chain (VBSC) model holds promise to ensure that the story and face of supplying farmers are communicated for educational purposes, and to ensure transparency and fairness for all actors. VBSCs may also be valuable in communicating and verifying claims about the values that institutions care about like organic, environmental impacts, fairly traded, humanely raised, healthful, etc. And of course, there's the work with institutions to develop their values based tiered buying systems; to clearly articulate purchasing values, set commitments and develop goals, and market their progress.

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