



Local Food Wholesale Market Assessment Executive Summary

Introduction

The Local Food Wholesale Market Assessment serves to inform suppliers, and identify areas of strategic alignment for service providers to support suppliers selling into wholesale. The report documents major trends in the shifting retail and institutional wholesale channels for local food (with a focus on produce, proteins, and dairy), documents general practices and expectations when operating within wholesale, and provides an introduction to the tools and information suppliers need to survive and thrive in wholesale. It also provides the broader food system community a greater understanding of how wholesale operates, and how it is impacting the viability, sustainability, and make-up of our local food system. Research involved focus groups, break-out sessions, interviews with, and observations of buyers, distributors, and suppliers based in the Northeast, and information gathered from industry conferences and third-party research. The report was commissioned by the Northeast Organic Farming Association of Vermont (NOFA-VT) in collaboration with the Farm to Plate Network.

A note on the use of the term “supplier”: In the global food industry it is standard practice to refer to farmers and food producers as suppliers or vendors. To be consistent with industry nomenclature, this report refers to them as suppliers.

Trends

The local food market, within the global food industry is dynamic and rapidly changing. Over the past 20 years the local food category has evolved from an emerging to a maturing market, with wholesale becoming an increasingly dominant sales channel for this category. According to Packaged Facts, the US local food market grew from \$5 billion in 2008 to \$12 billion in 2014, and is expected to rise to \$20 billion by the end of 2019. In response to increasing demand, the sales channel for local food has pivoted from direct-to-consumer to direct-to-retail, and increasingly to distributor-serviced wholesale. This pivot increasingly reflects where consumers and buyers are choosing to purchase local food. For example, by 2015, the U.S. Food and Drug Administration (FDA) concluded that only 36% of local food sales were occurring through direct-to-consumer channels. A 2018 Forager survey found that 87% of respondents were going to the grocery store for local food purchases. Similarly, institutional buyers have started going beyond purchasing small amounts of products directly from a variety of small farmers nearby to developing procurement bids for direct sales from larger farms or getting local products off of a distributor's truck.

How is this shift affecting the local foods category? While local food is more ubiquitous and conveniently available to consumers, it comes at a price that threatens to commoditize local food and strip it of the unique attributes that made it desirable in the first place. With growing commodification of local, price is increasingly the focal point (e.g., the “slashing” of prices at Whole Foods after the acquisition by Amazon). Margins are squeezed along the entire supply chain and efforts to increase efficiency to support falling price points has led to consolidation and regionalization. Nationally, UNFI’s “Build out the Store” consolidation and expansion strategy, and within Vermont, Reinhart’s acquisition of Black River Produce which in turn is now being purchased by Performance Food Group are but two examples.

Suppliers who may have sold to different, often smaller distributors and buyers are now vying to compete for fewer opportunities with consolidated buyers. Suppliers most apt to do this are larger, established, and well-connected. Margins, even for larger suppliers, are shrinking as investments in technology, innovation, food safety, and customer service become a necessity. Reduced margins encourage supplier consolidation as suppliers need to gain volume to maintain/gain profitability.

While the system is under threat of commoditization and consolidation, demand remains for the values that drove early demand and growth for local. For example, transparency was identified as Mintel's 2018 Global Food & Drink trend of the year, and Hannaford Supermarkets Inc. identified "Hyper local – within 50 miles of store"; "Sustainable/Organic"; and "Animal Welfare in Meat, Dairy specifically," as three of the top four purchasing trends they are seeing (the fourth being "convenience"). Given this, efforts to support these values and principles and ensure a strong and vibrant local food system will remain. Recent efforts to support these values and principles have led to the emergence of **'intermediated markets' — local food marketing channels in which aggregators, distributors, and buyers explicitly base their business model around marketing and source identifying local suppliers to consumers.** Generally, intermediated markets are more flexible and adaptable to the needs of local suppliers. In combination with 'ultra-local' branding, intermediated markets are helping suppliers adapt and compete in a challenging wholesale environment.

Intermediated markets are a critical foundation and opportunity of growth for local suppliers in the wholesale marketplace. According to USDA NASS's 2015 Local Food Marketing Practices Survey, \$929 million of local products were sold to intermediated markets in the Northeast and \$198 million of that was made by Vermont suppliers. **How these markets decide to adapt to the commoditization, consolidation, and competition described above, and whether or not they can maintain differentiation and grow while maintaining core values and providing viable returns to suppliers, will have considerable impact on whether or not the wholesale marketplace is a viable market channel for local suppliers.**

Points of Consideration When Operating in Wholesale

To participate successfully in wholesale, suppliers must first and foremost understand how the system operates: what is expected of them; what they can expect of buyers and distributors; what are the costs of doing business; and what are the necessary infrastructure and operational expenses required to service the relationship. Key areas and points of consideration identified in the report include (in the full report, worksheets have been developed to explore these topics in more depth):

- **Sales and Marketing:** This is often an area of mismatched expectations. Generally, buyers (retailers and institutions) and distributors expect the supplier to be responsible for sales and marketing activities related to the supplier's products - both in getting an account to purchase the product and in getting the account's end users to buy or consume the product. The distributor's marketing efforts are focused on out-competing other distributors for the account rather than promoting specific products by offering marketing and merchandizing services (e.g., designing, printing, and disseminating store flyers and point of sale promotions, and conducting stock rotations and display set-ups) and incentives that reduce store overhead while increasing sales.
- **Pitching:** Suppliers often focus their onboarding pitch to distributors on telling their story and talking in detail about product attributes. While distributors certainly appreciate this information, they are most convinced by suppliers that can present market driven data: the size and scope of the opportunity, product demand and sales traction, and quantification of the sales and marketing support the supplier will provide.
- **Receiving & Delivery:** Buyers and distributors require efficiencies in receiving orders. Many have prescribed delivery windows of opportunity, the expected hours within which the supplier is supposed to deliver their product. Windows of opportunity for pick-up and drop off may be based on established truck routes with little leeway to change and little to no tolerance. If the distributor is responsible for retrieving product from a supplier, a loading dock may be required by the distributor. Suppliers also need to understand that if they're delivering directly to a store, buyers may expect them to provide similar stocking and rotation services that they expect of larger distributors.
- **Product Quality, Traceability, Liability & Insurance:** At minimum, to establish productive conversations with buyers, suppliers should do their best to understand the product quality, traceability, liability, and insurance terms of the party with whom they are engaged or wish to engage before contacting them. Buyers and distributors may have specific requirements related to product quality, case labeling and traceability; food safety certifications (GAP/CAPS for farm products, HACCP and SQF for value-added products, etc.); and liability insurance minimums.

- **Margins, Allowances, Service Fees and Discretionary Expenses:** Margins are applied at every stage of the supply chain. Depending on the number of layers between a supplier and final purchaser, a supplier's net price received may be greatly different from the price paid by the end user. In addition to margins, there are often 'allowances' employed within the supply chain that may further reduce the net price received by the supplier. Examples of allowances include: marketing allowances (covers samples, price promotions, and volume discounts), shrink allowances (charges that cover for actual or potential loss of saleable product), payment term allowances (i.e., receiving less on an order to get paid within a certain period of time), and transportation allowances (to cover freight shipping), all of which are expenses borne by the supplier that must be factored into the net price they receive.

In addition to understanding how wholesale works, suppliers must ensure they have the capacity to meet these expectations while operating at a price point that provides a break even, or better, financial return. It is imperative a supplier research the particular trade allowance(s), service fees, and discretionary expenses they are likely to incur. **A supplier could receive 30% or less of the retail price for their product once margins, allowances, fees, and other expenses are taken into consideration (e.g., cherry tomatoes selling \$4.89/pint at a regional retail chain would amount to a producer receiving \$1.11 in net revenue).**

On the benefits side of the cost-benefit analysis, suppliers may experience production efficiencies that will reduce operating expenses and/or increase yield relative to the expenses incurred. Potential areas where efficiencies may be gained include:

- Crop specialization
- Streamlined operations for harvest and storage
- Simplified packing and delivery
- Simplified/streamlined sales/marketing relationships
- Fewer, larger payments from fairly reputable clients/establishments

In assessing the logistical feasibility of servicing wholesale, suppliers should consider the following questions:

- Can you consistently provide supply that meets expected volume and quality specifications?
- Can your brand, specialties, and product attributes compete with local, national, and international competitors?
- Are you prepared for the higher degree of risk that comes from:
 - Specialized crop/product production (less diversification)?
 - Fewer, but larger buyers?
- Can your business model support downward pricing pressure?
- Can your cash flow support a late/slow payment process (often 60 day+)?
- Are you prepared to manage and maintain increased record keeping?

Conclusions and Recommendations

Though the Local Food Wholesale Market Assessment is a snapshot in time of what is a rapidly changing marketplace, it importantly identifies foundational principles of wholesaling that suppliers need to be thinking about, planning for, and directing resources and investments to in order to be successful. The full report includes more in-depth information on trends and points of consideration, and includes worksheets that have been developed to explore these topics in more detail. In showing both the scale of opportunity, but also the challenges and complexities of navigating and competing in the wholesale marketplace, the report also begins to outline the increased levels of investment needed in infrastructure, technical assistance, marketing, consumer education, and broad market development to help local suppliers succeed.

Yet, increased financial investment to suppliers, and funding to technical assistance providers and local food value chain entities alone won't buoy the viability of wholesale markets for local suppliers. An important insight embedded throughout the Local Food Wholesale Market Assessment is that relationships matter in wholesaling as they do in any other market, and values aligned buyers may have greater leverage in the supply chain than they currently are aware of or are comfortable exhibiting. The long-term viability of local food wholesaling is in part reliant on the ability of values aligned buyers to be adaptive, resist pressure to oversimplify and consolidate purchasing, understand and be receptive to the full impacts of procurement decisions on local suppliers, and continue to co-develop with suppliers solutions to supply chain bottlenecks. At the same time, suppliers need to improve their communication skills and better understand what buyers value and require to establish confidence in their product and form productive relationships.

The burden of local food viability, however, should not be solely placed on suppliers and buyers in the supply chain. The report surfaces the potential for non-buyer intermediated market players — aggregators, processors, distributors, food hubs etc. — to continue to disrupt the marketplace with innovative product and logistical solutions that can provide local food that authentically represents the values consumers are in search of.

Value-Chain Recommendations:

For food system support organizations, policymakers, funders, and values aligned farms, food businesses, food-hubs, distributors, and buyers, priority should be given to strategically increasing development and capacity of intermediated market supply value chains, including:

- Devote more resources to sales and marketing technical assistance and subsidize access to marketing, sales, and brokering services. It is imperative our suppliers have greater sales and marketing savvy, and access to quality and affordable talent to compete with regional and national competitors.
- Fund value-chain facilitators and their work to raise consumer awareness, advance supplier interests in wholesale market development, and assist values-based buyers in increasing local procurement.
- Develop intensive workshop curriculum for suppliers wanting to scale up for wholesale to help them better navigate wholesale and institutional markets.
- Collaborate with Farm to Institution New England (FINE) to host educational and matchmaking events for institutions and producers to foster business relationships, learn about values-based purchasing and forward contracting, and develop a shared understanding of the criteria institutions are using to make purchasing decisions.
- Identify more values aligned intermediated markets in the Northeast to help producers find alternative markets and be less dependent on consolidated distributors and retailers.
- Create stronger working relationships and strategic alignment amongst the Vermont Food Hub Network, the New England Food Hub Network, and other regional intermediated markets, and explore partnerships with food coops to further intermediated market development.
- Fund and coordinate consumer focused marketing campaigns on the socio-economic and environmental benefits of local farms, and educate on the true socio-economic and environmental costs of food production across the supply chain.
- Educate values driven buyers and service providers about supply chain relations and impacts on local suppliers, and work to engage these buyers, such as Neighboring Food Co-op Association, in creating supply chain solutions for local suppliers.
- Subsidize greater producer and service provider attendance at national sales and marketing events, such as the Natural and Specialty Foods Sales Manager seminar, to increase exposure to industry norms/practices/trends, and engage with regional and national buyers, distributors, brokers, and industry relevant professional service providers.
- Build on the excel-based [Distribution Options Financial Decision Making Tool](#) by including a price waterfall calculator that calculates marketing allowances and other fees.
- Create a directory of distributors and freight shipping services, and of suppliers seeking delivery/shipping/distribution solutions.
- Design a crop insurance program for smaller wholesale vegetable suppliers.

Supplier Recommendations:

Putting it all together, as a producer you should:

- Choose crops you can produce consistently.
- Work on relationships with buyers and distributors, communicate frequently, and be aware that as buyers change over time existing sales are not guaranteed and require staying in touch and renewed relationship building.
- Know your cost of production by unit of sale (lb, bushel, etc.).
- Make sure that you factor in the cost of shipping when considering price-points. Trucking prices have gone up quite a bit over the past few years, both locally and nationally.
- Make sure that you understand commonly accepted varieties for wholesale markets. The “lettuce” section of the seed catalog might feature 50 types of lettuce, but for main stream wholesaling maybe only 10-12 of those varieties will be considered.
- Exploit your unique advantages. For example, are there crops you grow very well and efficiently? Can you supply certain crops when others can’t and demand is high? Can you invest in season extension, cultivation methods, or provide a service for your buyers and distributors that can give you an edge? Try to avoid growing more of something other suppliers can mass produce at a lower cost.
- Vegetable suppliers should consider paying for and maintaining a PACA (Perishable Agricultural Commodities Act) license enabling them to dispute “request for protection” claims for buyer/distributor non-payment of received product.
- Understand and quantify the margins, trade allowances, service fees and discretionary expenses that may be required to participate in a certain relationship or supply chain.
- Understand what promotions and shrink allowances one may be subject to and work to minimize risk posed by these allowances.
- Seek to limit excessive forward buying and maintain a firm position in guiding distributors on realistic sales volume projections and right-sized ordering for guaranteed sales of your products.
- Have strong food safety and product traceability practices, and proficiency in record keeping for GAP/CAPS and/or HACCP/SQF.
- Over communicate — confirm orders, text or email if things are on or off track.
- Assess if hiring a broker is needed to retain existing sales and grow new sales and research prospective brokers who can help promote your specific products to distributors and buyers?

