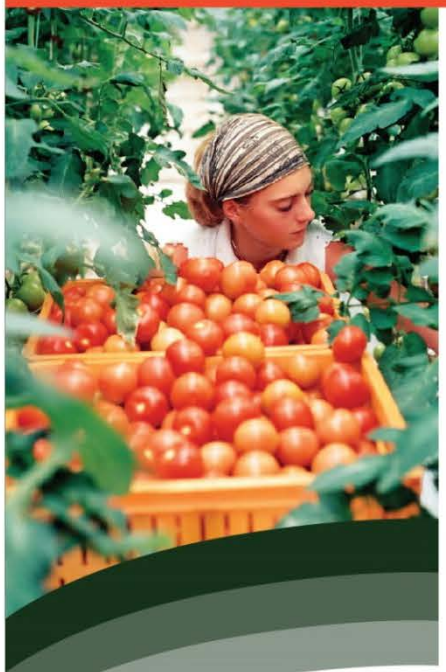
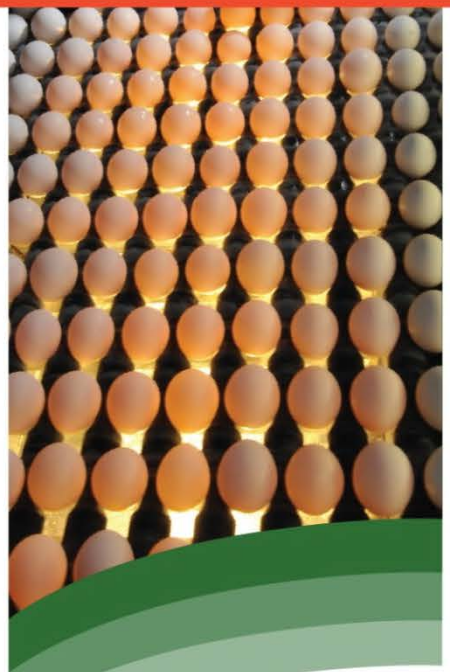
USDA

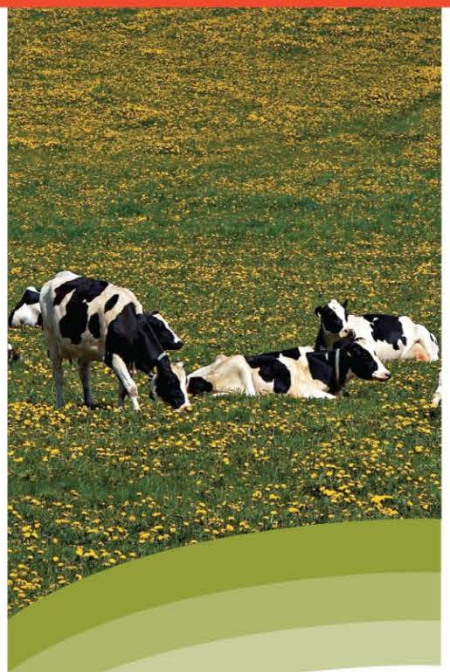
United States Department of Agriculture

Agricultural Marketing Service

Creating Opportunities for American Farmers and Businesses







Agricultural Marketing Service

Creating Opportunities for American Farmers and Businesses

Why Local Food Matters:

Views from the National Landscape

Debra Tropp,
Supervisory Agricultural Marketing Specialist
Farmers Market and Direct Marketing Research

USDA Agricultural Marketing Service

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What is Local?

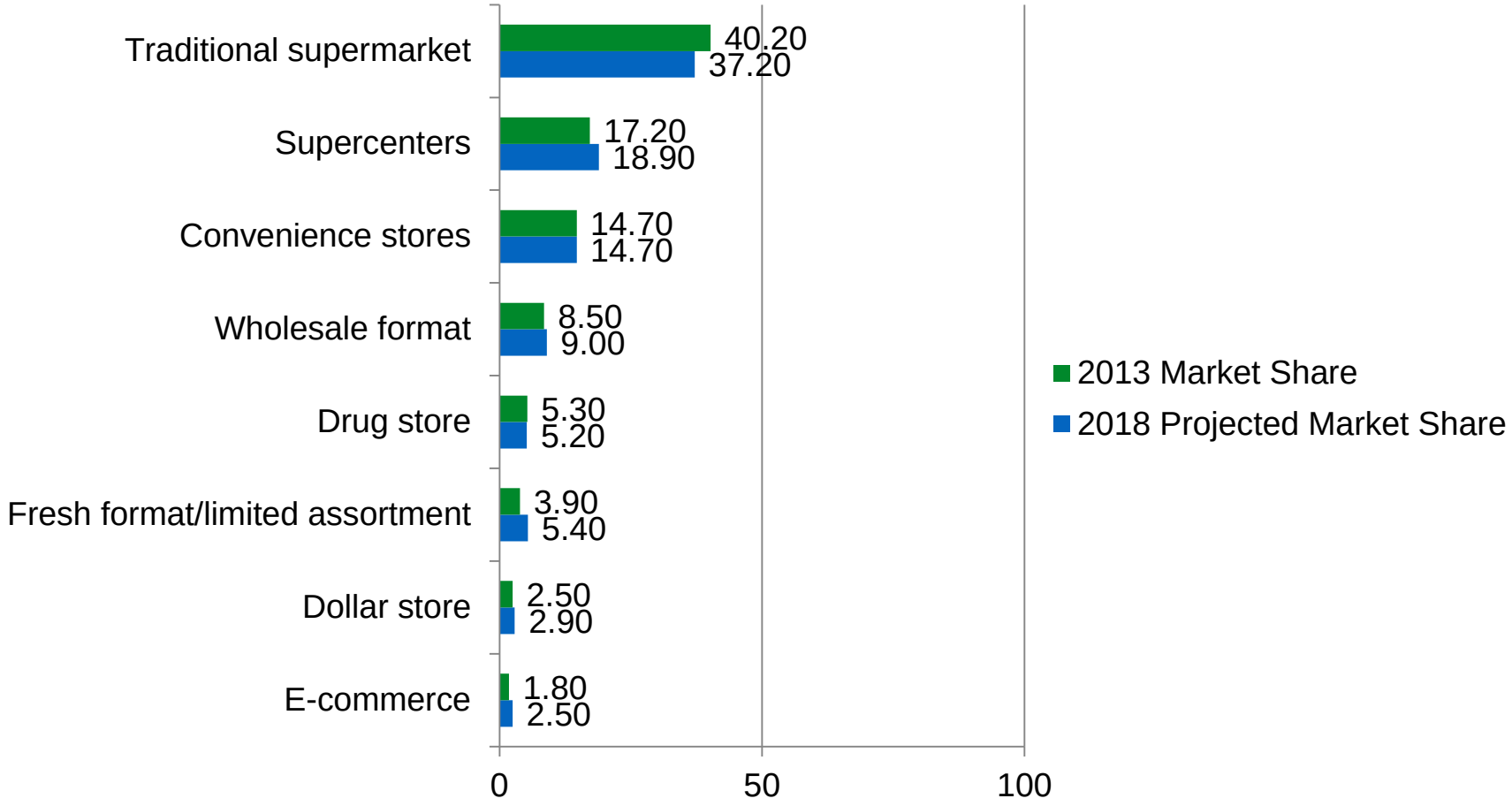
- A food product that is raised, produced, aggregated, stored, processed, and distributed in the locality or region in which the final product is marketed.
- **No official national designation**, though some individual USDA programs use a broad (maximum) definition:
  - Less than 400 miles from the origin of the product, or
  - Within the State in which the product is produced.
- **Includes both direct-to-consumer sales AND intermediated sales by distributors/food hubs**
  - To restaurants, grocery stores, schools/universities, hospitals, et. al.

How Are Consumer Perspectives Changing?

Phil Lambert, "Supermarket Guru", 2013:

- People are choosing their foods more holistically based on ***multiple "food factors":***
  - Taste
  - Ingredients
  - Source
  - Nutritional composition
  - Asking who is making their foods
  - Understanding impact on environment and animal welfare

Consumers Lean Toward Alternative Store Formats



2014 Retail Shop Topic, Jones Lang LaSalle, September 2014, available from http://www.us.jll.com/united-states/en-us/Research/JLL-ShopTopic-Grocery-share.pdf?aa79b615-6518-4080-af03-e6104ea59d91

Rise of Fresh Format Stores

- Strongest growth in "**fresh format**" stores
  - These food stores **emphasize perishables** and offer center-store assortments that differ from those of traditional retailers—especially in the areas of ethnic, natural, and organic foods
  - **Examples: Whole Foods, The Fresh Market**

How Does Local Food Demand Correspond to Changing Consumer Preferences?

- In alignment with **growing demand for freshness, product integrity and transparency**, local food purchasing provides consumers with the opportunity to:
  - **Obtain food items with superior quality** characteristics – freshness, flavor, ripeness, enhanced shelf life – and possibly enhanced nutritional density (more research still needed)?
  - **Learn about farming practices** used (often directly from growers if through farmers markets or CSAs)
  - **Have greater confidence in the integrity and quality** of the food they purchase
  - **Reward sustainable production practices**

Demand Drivers Among Consumers

- Kearney report: grocery shoppers embrace the increase in local food options because they believe it:
  - **helps local economies (66 percent)**
  - **delivers a broader and better assortment of products (60 percent)**
  - **provides healthier alternatives (45 percent)**
  - **improves the carbon footprint (19 percent)**
  - **increases natural or organic production (19 percent)**
- Approximately 70% of restaurant operators surveyed in 2014 said their **patrons were more interested in locally sourced items** than they were two years earlier.
  - 90% for fine dining restaurants.

A.T. Kearney, “Buying Into the Local Food Movement”, February 2013, National Restaurant Association's 2014 Restaurant Industry Forecast

Demand Drivers Among Consumers

- **Observations from a 2015 study by Dr. Ion Vasi**, an associate professor with a joint appointment in the Department of Sociology and Tippie College of Business at the University of Iowa:
  - The local food market is what sociologists call a ***moralized market*, where people combine economic activities with their social values.**
  - It's not just about the economical exchange; **it's a relational and ideological exchange as well**
  - It's about valuing the relationship with the farmers and people who produce the food and **believing that how they produce the food aligns with your personal values**

Preliminary results of study shared August 2015 at the American Sociology Association annual meeting

Demand Drivers Among Consumers

- UI researchers discovered local food markets were more likely to develop in areas **where residents had a strong commitment to civic participation, health, and the environment**

- For his study, Vasi examined the development of local food markets by looking at the number of farmers markets, food coops, community-supported agriculture providers, and local food restaurants in cities across the United States. Researchers also conducted 40 interviews with consumers and producers in different local food markets in Iowa and New York.

Demand Drivers Among Consumers

Top 10 Menu Trends for 2015

1. **Locally sourced meats and seafood**
2. **Locally grown produce**
3. **Environmental sustainability**
4. Healthful kids' meals
5. **Natural ingredients/minimally processed foods**
6. New cuts of meat (e.g. Denver steak, pork flat iron)
7. **Hyper-local sourcing (e.g., restaurant gardens)**
8. **Sustainable seafood**
9. Food waste reduction/management
10. **Farm/estate branded items**

Source: National Restaurant Association "What's Hot" Chef Survey

Demand Drivers Among Consumers

- Availability of locally grown produce and other local packaged foods **have become major influences on grocery shopping decisions**
  - **87.2% say it is "very or somewhat important" to their choice of a primary food store**, up slightly from the 2013 level of 85.0%
  - **Leading the "very important" component (44.2%)**
    - **Hispanics (53.3%)**
    - **Single-person households (49.4%)**
    - **Adults between the ages of 50 and 64 (46.2%)**
  - **2/3 of survey respondents endorse** efforts of their primary supermarket to support nearby local food sources.

Source: National Grocery Association and Supermarket Guru Consumer Panel Survey 2014

Demand Drivers Among Consumers

- **Shoppers will switch stores for local food selection**
  - **Almost 30% of grocery shoppers say they consider purchasing food elsewhere** if their preferred store does not carry local foods.
  - Respondents say their **main source for local food is still the local farmers market and farm stores.**
  - **Only 5% indicate they shop for local foods at big-box retailers, and 15% at national supermarkets**

Source: A.T. Kearney, “Buying Into the Local Food Movement”, January 2013

Demand Drivers Among Consumers

Consumers Willing to Shop Around for Quality Perishables

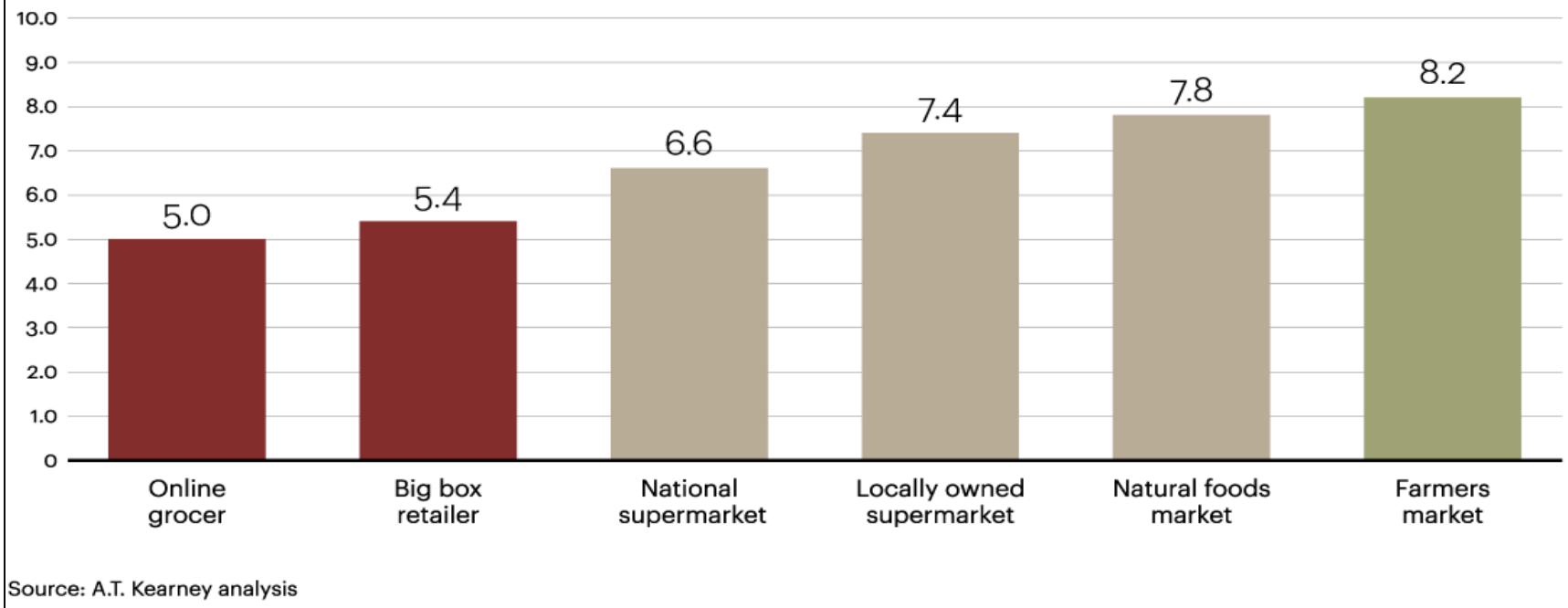
Channel	Primary Food Source	Primary Source of Fresh Produce	Secondary Source of Fresh Produce
Supermarkets	**76%**	**56% ↓**	29%
Warehouse clubs/supercenters	**19%**	**10% ↓**	23%
Health food stores	2%	2%	8%
Farmers markets	**1%**	**25% ↑**	12%
Other direct from producer	**1%**	**5% ↑**	3%
Specialty store	1%	1%	3%
No preference	–	–	22%

Colorado State University Survey of U.S. Adults (2006), based on national consumer panel data

Demand Drivers Among Consumers

Figure 1

Online, big-box, and national chains rank lowest in food trustworthiness

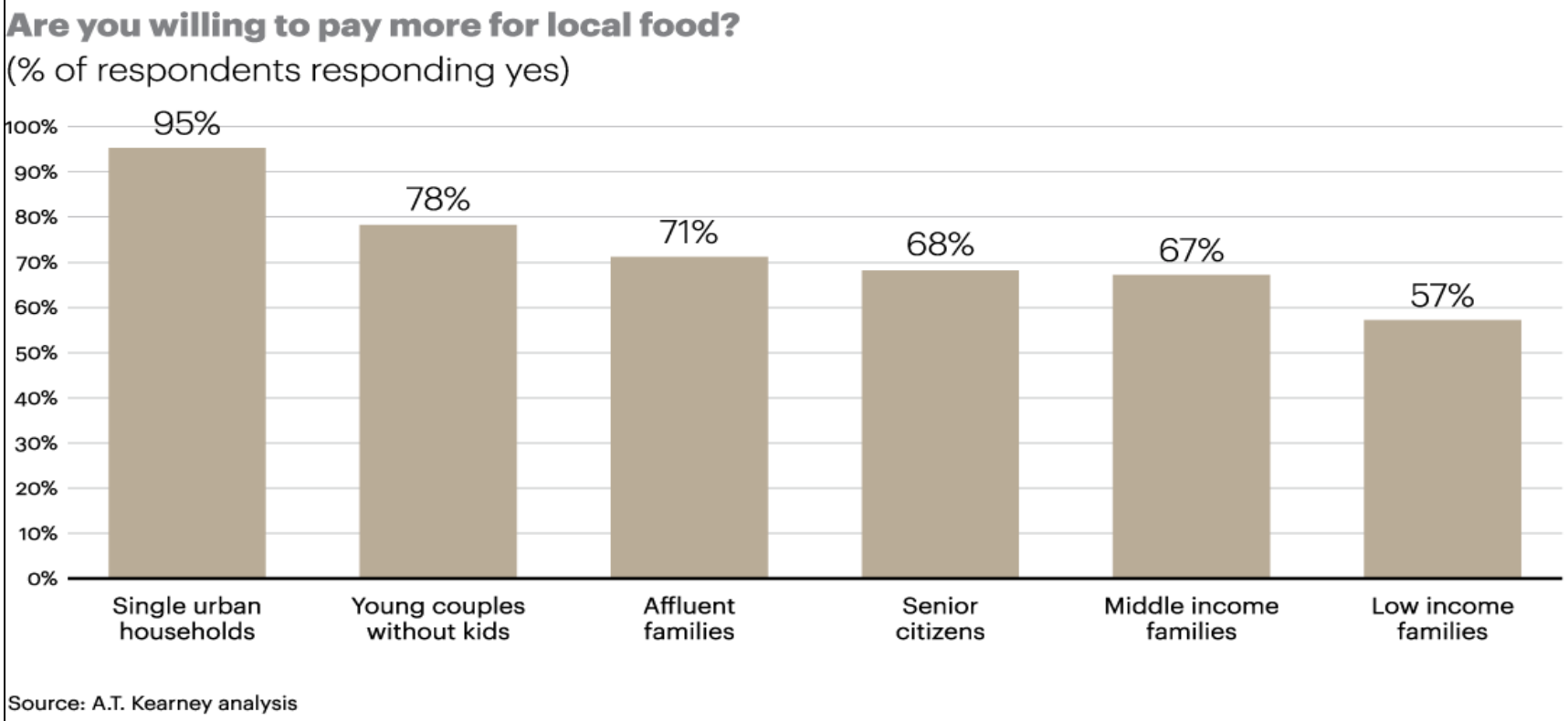


Source: A.T. Kearney analysis

Demand Drivers Among Consumers

Figure 3

Shoppers across all segments are willing to pay more for local



Source: A.T. Kearney analysis

Local Food's Contribution to National Food System

- Direct to consumer (DTC) food sales for human consumption still represent a very small share of the national food supply:

Year	Total Agricultural Sales ($000)	Direct-to-Consumer Sales of Ag. Products for Human Consumption ($000)	Ratio of Direct-to-Consumer Sales to Total Agricultural Sales (%)
2012	394,644,481	1,309,827	0.3

- But if we take into account direct ***and intermediated*** sales of local food products, the picture begins to change:
  - **Nearly 8 percent of U.S. farms** participated in local food marketing channels as of 2012 (Low, 2015)

Most Local Food Sold Through Intermediaries

- **Estimated 2012 local food sales: $6.11 billion**

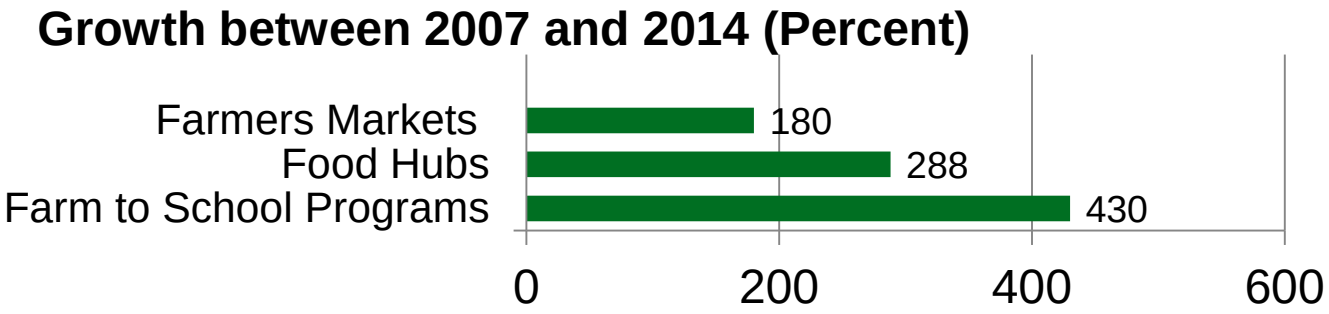
Of which

- **$3.35 billion (54.8 percent)** was generated by farms that **exclusively used intermediated** wholesale marketing channels
  - **Only 22,600 farms, 148K per farm**
- **$1.15 billion (18.8 percent)** was generated by farms which **exclusively used DTC** channels
  - **Approximately 5x as many farms (112,304)** as those which only used intermediated channels, **10.2K per farm**
- Remaining $1.61 billion sold through both channels

.

Source: Low (USDA Economic Research Service, January 2015)

Why Intermediated Sales?



Prompted by:

- **Growing retail and food service buyer interest** in meeting consumer demand for local foods
- **Producer interest** in catering to higher- volume wholesale clients
- **Comparatively low revenues** from labor-intensive direct to consumer marketing
- **Growing producer ability to provide deliveries of local products in commercial-sized volume over longer portions of the year**, supported by aggregation services and season extension technology

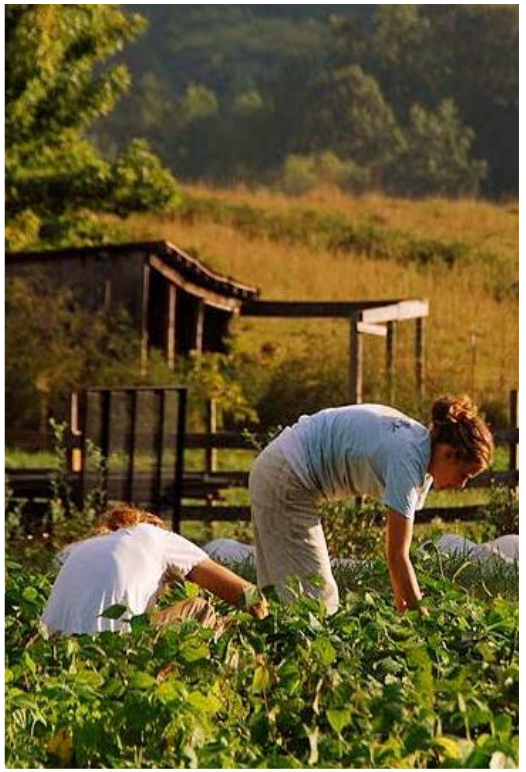
Farm Level Challenges with Local Food

- **Not always so easy for local farmers to access larger-volume marketing channels**
  - Individual farm operators **often lack individual capacity** to meet buyer requirements for product volume, quality, consistency, variety, or extended availability.
  - Farmers continue to be **challenged by the lack of distribution, processing and marketing infrastructure** that would give them wider market access to larger volume customers

Meanwhile, Commercial Buyers Are Looking For:

- **Traceback mechanisms and recordkeeping**
  - Many commercial, institutional and retail buyers want to procure local food products that can be traced back to the originating farm in the event of a foodborne illness outbreak.
  - **Smaller and mid-scale farmers often lack capacity to establish adequate recordkeeping or product monitoring systems by themselves**
- **Food safety**
  - Commercial and institutional customers are increasingly demanding **third-party certifications** of production/handling processes (e.g., GAP, GHP), which many smaller farmers have not had to address in the past
  - **Food Safety Modernization Act** may result in new requirements and expectations

USDA believes **regional food hubs** can play an important role in supporting these small and mid-size farmers through aggregation, collective marketing, and facilitative services



Defining Characteristics of Regional Food Hubs

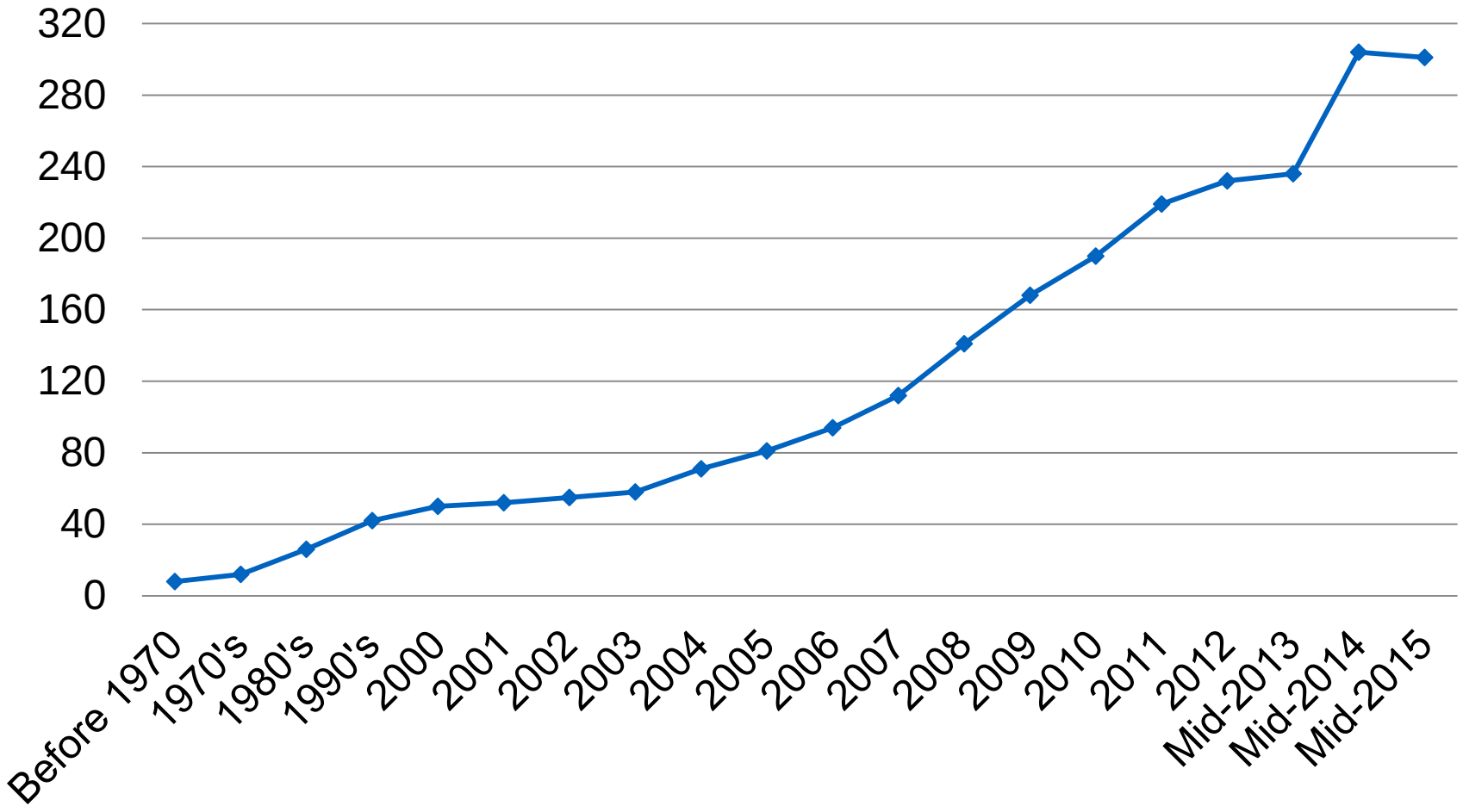
- Carry out or coordinate the **aggregation, distribution, and marketing of primarily locally/regionally produced foods**
- Move product from **multiple producers to multiple markets**
- **Producers considered valued business partners** instead of interchangeable suppliers
- **Committed to buying from small to mid-sized producers** whenever possible.
- **Use product differentiation strategies** (e.g., identity preservation, group branding, sustainable production practices, etc.) **to ensure that producers maximize returns from their products**.

Regional Food Hubs

Producer Services	Operational Services	Community Services
✓ Actively linking producers to markets ✓ On-farm pick up ✓ Production and post-harvest handling training ✓ Business management services and guidance ✓ Value-added product development ✓ Food safety and GAP training ✓ Liability insurance	✓ Aggregation ✓ Distribution ✓ Brokering ✓ Branding and market development ✓ Packaging and repacking ✓ Light processing (trimming, cutting, freezing) ✓ Product Storage	✓ “Buy Local” campaigns ✓ Distributing to “food deserts” ✓ Food bank donations ✓ Health screenings, cooking demonstrations ✓ SNAP redemptions ✓ Educational programs ✓ Youth and community employment opportunities

Regional Food Hubs

Growth in the Number of Food Hubs (1970s-2014)*



Based on a working list of food hubs identified by the NGFN Food Hub Collaboration

In mainstream supply chains, farmers **retain only 17.4 cents** of the consumer food dollar on average

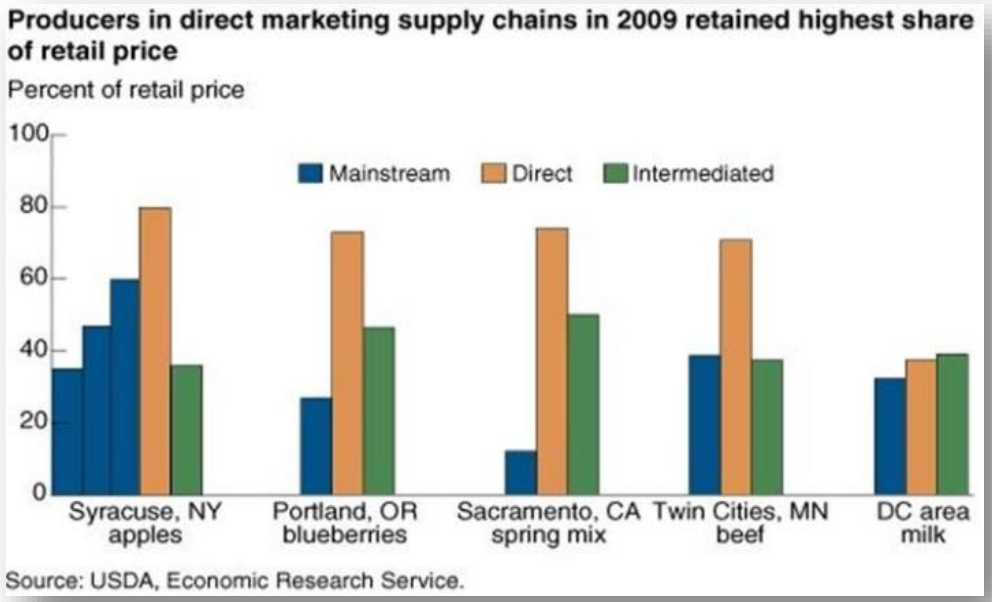
Farm Share of U.S. Consumer Food Dollar (2012)

http://www.ers.usda.gov/data-products/food-dollar-series/documentation.aspx

Different story in local food systems…

- In "short" supply chains, local producers received up to **seven times the share of the retail price** compared to mainstream chains - USDA ERS report http://www.ers.usda.gov/media/122609/err99_1_.pdf

- Food hubs often **return between 75 to 85 percent** of their wholesale sales revenues to their producers - USDA AMS report http://dx.doi.org/10.9752/MS046.04-2012



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Example One: *Intervale Food Hub, Burlington, VT*

- Intervale works with producers to determine prices based on actual production costs for producers and what the market can realistically manage.
- Intervale's producers generally net 60-70% of the retail revenue obtained from CSAs and 85% of the revenue obtained from distribution to wholesale customers through the hub.

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Example Two: *Red Tomato, Canton, MA*

- Coordinates aggregation, transportation and sales for roughly 40 farmers to grocery stores in the NE (including Trader Joe's)
- Employs a variety of product differentiation strategies – regional branding, source identification and the verified use of sustainable production practices like IPM
- November 2009 case study: retailer agreed to sell RT's tomatoes at $2.79/lb. compared to standard retail price for the same commodity of $1.99/lb. given the unique attributes of the product
- Combination of cost savings in shared logistics and a higher wholesale price led RT's producers to receive **3x higher returns** than they received for comparable items outside the value chain

Example of Food Hub/Retail Partnership

- **In August 2013, Milwaukee-based Roundy's Inc**.,a large regional supermarket chain and the market leader in metropolitan Milwaukee, **formed a partnership with the Madison-based Wisconsin Food Hub Cooperative**. The cooperative, based in Madison, supplies a variety of produce to Roundy's stores in Wisconsin operating under the Pick 'n Save, Copps and Metro Market banners.
  - **Participating stores frequently use point-of-purchase displays** to promote the program.
  - The Wisconsin Food Hub Cooperative generated approximately **$3 million in produce revenues in 2013, after only a year in operation**

Example of Food Hub/Retail Partnership

WISCONSIN FOOD HUB COOPERATIVE

- The partnership with Roundy's is designed to get food from farm to warehouse and **on its way to grocery stores as quickly as 24 hours from when the produce is picked**, said Ron Balsimo, sales manager for the cooperative. "You can't get any fresher unless you walked into a field and picked it yourself,“
- The cooperative has grown to more than 100 members, "and they keep coming," Balsimo said.
  - Starting to see some farmers **expand their plantings** because of the hub

Benefits of Food Hub/Retail Partnership

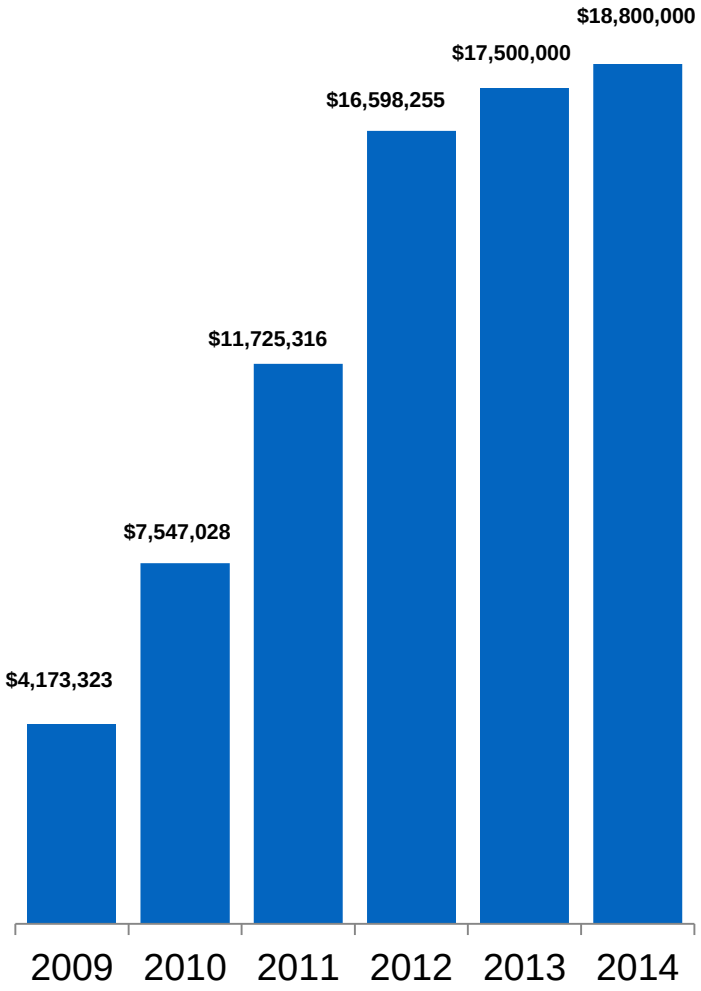
- **There are demonstrated sales gains that come from locally grown food programs in grocery stores**, says Bill Justin, president of W.L. Justin & Assoc., a supermarket consulting company based in Atlanta. "We find that you can actually increase total store sales," he said.
  - He has seen examples of such programs **increasing sales by as much as 15% to 20% in the produce department.**

- **Having sources of local produce can also help mitigate any potential supply concerns** brought about by the extreme drought in California's produce-growing regions.

Future Demand Drivers?

Nutrition Assistance Programs

- Acceptance of SNAP benefits at farmers markets and farm stands rose from approximately **900 sites in 2009 to more than 6,400 in 2014. The value of redemptions grew from $4 million to nearly $19 million**, due to:
  - Pro-active outreach by USDA Food and Nutrition Service (FNS) to certify markets and vendors
  - AMS and FNS grants for EBT equipment installation
  - Rise of non-profit voucher programs (i.e., Wholesome Wave, Fair Food Network)
  - Rise of mobile FMs in low-income areas



Future Demand Drivers?

Schools

- **Farm to school programs now exist in more than 42,000 schools**
  - Schools spent more than $600 million on local food in the 2013-14 school year, up 55% from the previous year.

Hospitals

- **Growing number of farmers markets operating at hospitals and health care facilities**
  - More than 90 reported in USDA National Farmers Market Directory at hospitals or public health facilities
  - Kaiser Permanente lead in early years; recent campaign to introduce them at VA hospitals

Military Bases

- **New DoD "healthy base initiative" aims to expand farmers markets on base, local food in commissaries**
  - Joint USDA/DoD Report on FMs at military bases released in November 2015

AMS Programs and Services

- AMS Connection to Local Food
- Division Structure
- Applied Research Reports
- Facility Design
- Grants
  - Farmers Market Promotion Program **(FMPP)**
  - Local Food Promotion Program **(LFPP)**
  - Specialty Crop Block Grant **(SCBG)**
  - Federal-State Marketing Improvement Program **(FSMIP)**
- Cost-Share for Organic Certification

Legislative Authority Supports USDA/AMS Interest in Locally-Grown Food

1946 Agricultural Marketing Act:

- Agency mandated to reduce **distribution costs** and the **price spread** between producers and consumers
- **Directed to market the "full production" of American farmers**—regardless of scale—in a useful, economical, profitable, and orderly manner
- **Improvement of overall dietary and nutritional standards** is a primary policy goal

1976 Farmer to Consumer Direct Marketing Act:

- **Encourages promotion of direct farm marketing activities** for mutual benefit of farmers and consumers

Legislative Authority Supports USDA/AMS Interest in Locally-Grown Food

Bottom line: USDA/AMS is mandated to:

- Support the development and creation of **shorter food supply chains** wherever feasible
- Work to ensure that food producers receive a **greater share of the final retail price** that consumers pay
- Support profitable marketing of all American farmers at **all scale levels**
- Promote direct marketing of farm products where it provides **mutual benefit** to farmers and consumers

Structure of AMS Local Food Research & Development Division

Farmers Markets and Direct-to-Consumer Marketing

- Through **market research, analysis, data products** and other tools, we help stakeholders better understand trends in the rapidly evolving direct to consumer marketplace.
  - Maintains four national directories on local food (FMs [8,527], CSAs [668], food hubs [153], on-farm markets [1,313]) at **www.usdalocalfooddirectories.com**
  - FM directory selected as first Federal API in 2013!
  - Administers voluntary FM market manager surveys
  - Developing national surveys for CSAs, food hubs, on-farm markets (directories launched in 2014)

Structure of AMS Local Food Research & Development Division

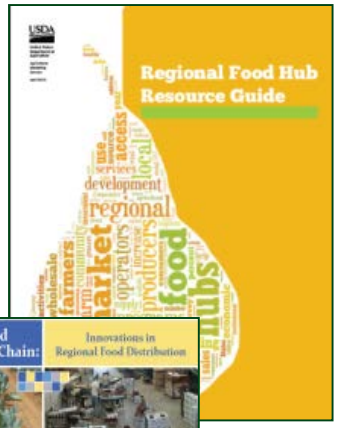
Food Hubs and Other Aggregation Models

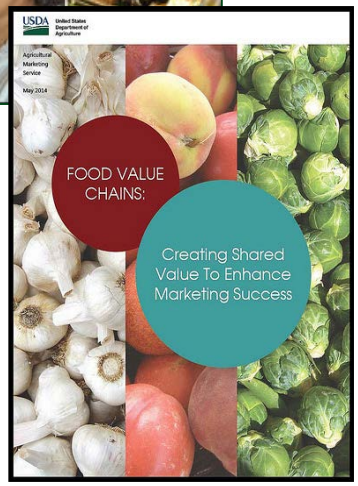
- Conducts research on emerging business enterprises that offer **aggregation, distribution, and/or marketing** services to small and mid-sized agricultural producers who cater to local food markets.

Facility Design

- Provides targeted **site assessment, design services and layout analysis** for food market and facility personnel to improve the efficiency of permanent food market, distribution and warehouse facilities.

Research/TA Reports on Local Food Systems





Regional Food Hub Resource Guide
Food hub impacts on regional food systems, and the resources available to support their growth and development

Moving Food Along the Value Chain:
Innovations in Regional Food Distribution

Food Value Chains:
Creating Shared Value to Enhance Marketing Success

Building a Food Hub from the Ground Up:
A Facility Design Case Study of Tuscarora Organic Growers

Research Reports on Local Food Systems

Upcoming Releases in early CY 2016:

- **The Evolving CSA Business Model** *(results of national survey and focus group interviews in six states)*
- **Potential Demand for Local Agricultural Products by Mobile Markets**
- **Local Food Economic Assessment Toolkit:** *a guide to creating your own community assessment using secondary/primary data and IMPLAN input/output software*

Why an Economic Impact Toolkit?

The recent sharp increase in market demand for local foods, **currently estimated by USDA to be over $6 billion in value**, has sparked a groundswell of interest and investment in local food systems.

- Community planners, public officials, and private foundations are increasingly interested in **exploring the potential of local food i**n generating economic growth and business development.

- Unfortunately, many of these initiatives **lack a clear roadmap** for measuring and evaluating their overall impact.

Why an Economic Impact Toolkit?

To provide community planners and other stakeholders with better ways of assessing outcomes of proposed local food investments, USDA/AMS asked Colorado State University to **convene a group of leading U.S. researchers and consultants** to synthesize current best practices

The project team members chosen to create the Toolkit were deliberately selected because of their **specific research expertise in local food systems and economic impact assessment.**

Toolkit Learning Objectives

The Toolkit contains **seven modules** that offer real-world, practical guidance to planners, economic development specialists, and others interested in assessing the economic impact of local food system interventions. Topics covered include:

- **Framing research approaches**
- **Collecting primary data**
- **Compiling data from secondary sources**
- **Developing a solid grasp of economic multipliers and their limitations as measurement tools**
- **Making effective use of input/output software**
- **Customizing it as needed to better reflect local food system conditions.**

Grants: Farmers Market Promotion Program

Mission: To increase domestic consumption of, and access to, locally and regionally produced agricultural products, and to develop new market opportunities for farm and ranch operations serving local markets

- Diverse applicant eligibility (non-profits, local governments, producer networks, etc.) Excludes state governments and individual producers
- Only funds **direct** producer-to-consumer marketing activities (e.g., FMs, CSAs, on-farm markets)
- Approximately $13 million in funding available in FY 2016
- $25,000-$100,000 per grant
- RFA likely to be released in March 2016

Grants: Local Food Promotion Program

- **Mission: To increase domestic consumption of, and access to, locally and regionally produced agricultural products marketing *through intermediaries* (not direct to consumer)**

  - Launched in FY 2014, result of new Farm Bill
  - Approximately $13 million in funding available in FY 2016
  - Planning Grants – up to $25,000 each
  - Implementation Grants - up to $100,000 each
  - Diverse applicant eligibility (State governments and individual producers are prohibited)
  - RFA for FY 2016 likely to be released in March 2016

Grants: Specialty Crop Block Grant Program

- Agency oversees management of grants **administered by State Departments of Agriculture** solely to enhance the competitiveness of specialty crops
  - Specialty crops are defined as “fruits, vegetables, tree nuts, dried fruits, horticulture, and nursery crops (including floriculture)”
  - $63 million in funding was available in FY 2015 (pro-rated based on state share of specialty crop production)

NEW: Multi-State Specialty Crop Block Grant Program

Designed to:

- **Support food safety and research**
- **Address plant pests, disease, and crop-specific issues**
- **Increase marketing opportunities for specialty crops**

- **Announced September 4, 2015**
- **Applications must be submitted to www.grants.gov by January 14, 2016**

NEW: Multi-State Specialty Crop Block Grant Programs

- **Program is open to** state departments of agriculture in the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, the United States Virgin Islands, and the Commonwealth of the Northern Mariana Islands.
- **Involves at least two partners located in different states**. USDA encourages other State agencies, Tribal governments, universities, non-profits, and other specialty crop organizations to partner with participating State departments of agriculture

NEW: Multi-State Specialty Crop Block Grant Program

Priority areas:

- Benefitting **underserved communities and veterans**
- Improving producers' and facilities' capacity to comply with the requirements of the **Food Safety Modernization Act**
- Developing adaptation and mitigation strategies for farmers in **drought-stricken regions** of the country
- Increasing opportunities for **new and beginning farmers**
- Developing strong **local and regional food** systems
- Protecting **pollinator habitats/improving pollinator health**
- Supporting the growth of **organic specialty crops**.

Grants: Federal-State Marketing Improvement Program

- Provides **matching funds to State Departments of Agriculture, State agricultural experiment stations, and other appropriate State agencies**
- Assists in **exploring new market opportunities** for U.S. food and agricultural products, and to **encourage research and innovation** aimed at improving the efficiency and performance of the marketing system
  - About $1 million per year
  - Funds approximately 20 projects per year at an average of $50,000 per grant

Cost-Share for Organic Certification

- As of FY 2016, being administered by AMS/TM/Grants Division (not NOP)
- Organic producers can be reimbursed up to 75 percent of their certification costs (not to exceed $750)
- Two organic certification cost share programs were offered in 2015, valued at $11.9 million
  - **National Organic Certification Cost Share Program (NOCCSP) - $11 million per year**
  - **Agricultural Management Assistance (AMA) Organic Certification Cost Share Program - $900K per year**
    - Available to organic producers (crop and livestock operators only) in CT, DE, HI, MA, ME, MD, NH, NJ, NV, PA, RI, VT, WV, WY

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