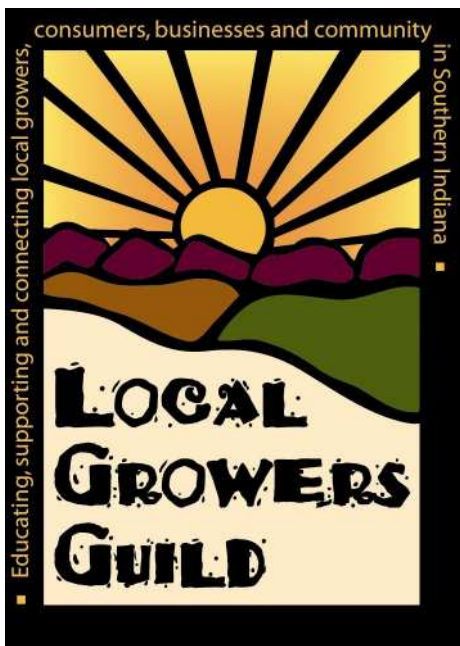


A Study of Local Food Distribution in South Central Indiana (Executive Summary)



**Prepared by the Local Growers Guild
With assistance from Green Fire Consulting Group, LLC
Funded by a USDA/ISDA Specialty Crop Block Grant**

Project completed July 31, 2009

Executive Summary

Interest in locally grown food has increased tremendously nationwide over the last decade. However, the dominant system of food distribution is still structured with little emphasis on distributing it close to where it was grown or adapting to the needs of small to mid-sized farms. The goal of this project was to identify ways to help small farms in southern and central Indiana market and distribute their products more effectively and to make it easier for businesses, individuals, and large institutions like schools and hospitals to source locally grown food.

The project was conducted by the Local Growers Guild (LGG), a cooperative of growers in south central Indiana, with assistance from Green Fire Consulting, LLC. The focus of the LGG is expanding the availability of quality locally grown foods. We connect growers with buyers, educate consumers about the importance of eating locally and provide growers with business support. Our members consist of small to medium farms producing a diversity of specialty crops such as organic and heirloom varieties of fruits and vegetables, meats from grass-fed livestock, maple syrup, honey, herbs and flowers.

This year-long project consisted of

- Studying distribution systems in other communities that might serve as models for developing and expanding the local food distribution system in South Central Indiana (within a 100-mile radius of Bloomington with a focus specifically on Bloomington).
- Surveying small to medium-sized farms in South Central Indiana to learn about current marketing and distribution strategies, interest in particular distribution approaches, current production levels, interest in expansion, perceived obstacles for expansion, and desired assistance.
- Surveying potential buyers such as wholesalers, restaurant owners, small grocery produce buyers, and institutional food service directors to understand their interest and willingness to buy from local farmers, what opportunities exist currently for local growers, and what hurdles need to be overcome for a significant expansion of local production and sales.
- Identifying resources in the community that would support expansion of local food production and distribution, especially with regard to improved storage and transportation of local products.
- Developing recommendations for the Local Growers Guild (LGG) to pursue in order to improve local food distribution.

Market Channels

Markets can generally be divided into four categories:

- Direct sales to **consumers** (individuals) who eat the food
- Sales to **small retailers** (restaurants, groceries) that resell the food to consumers as groceries or prepared meals
- Sales to **large retailers/institutions** (school cafeterias, hospital cafeterias, etc.) that resell the food to consumers as prepared meals

- Sales to **wholesalers** (distributors) that resell the food to retailers or institutions that then resell the food to consumers

Generally speaking, farmers receive higher prices when they sell more directly to the end consumer. Therefore, goods sold to a consumer at a farmers' market would give farmers a higher price than goods sold to a restaurant, which would in turn be a higher price than goods sold to a wholesaler. However, farmers who sell directly to consumers have to do their own marketing, sales, and delivery in exchange for that higher price.

When looking at the price of goods sold in each market channel, it's also important to look at the quantity of goods sold. An individual consumer will make smaller purchases than a restaurant, which in turn will purchase less than a school or large distributor. Selling a large quantity of product to an institution generally requires less time than marketing, selling and packaging multiple smaller orders.

Another consideration is the amount of "red tape" involved in each market channel. There are very few legal requirements that farmers need to consider when selling unprocessed farm products. However, many institutions and wholesalers set requirements for growers that revolve around food safety and product consistency. In terms of food safety, many institutions require proof that food safety protocols are being followed (Good Agricultural Practice certification, etc.) and extensive liability insurance coverage. Distributors often also have requirements about product uniformity, requiring a particular size, shape, and color of product.

As part of this study, we wanted to identify which market channels were most appealing to farmers, what they viewed as potential obstacles, what the actual requirements are from different buyers, and how farmers can effectively distribute their products both now and with future expansion.

Distribution Models

Our review of distribution models focused on understanding challenges and risks for the distributor, the challenges and risks for participating growers, and the potential benefit to the grower. We also considered what the biggest challenges are for implementation and how a model might be best adapted to appeal to growers. We categorized the models based on the four possible marketing channels a farmer can pursue – direct sales to consumers, sales to small retailers, sales to institutions, and sales to wholesalers. In total, we profiled fifteen models.

- **The Bloomington Community Farmers' Market** in Bloomington, IN is an extremely successful farmers' market where growers sell directly to consumers from April through November.
- **The Bloomington Winter Farmers' Market** in Bloomington, IN is an indoor winter market created to give growers a chance to sell directly to consumers from January through March.
- **New Roots/Fresh Stop** in Louisville, KY is a non-profit group that connects inner city churches with rural farm cooperatives to create a sort of Community

- Supported Agriculture (CSA) program where church members order produce from the farmers on a weekly basis.
- **Farm Fresh Delivery** in Indianapolis, IN is a privately owned home grocery delivery business that buys food from local farmers and sells it to consumers as a customizable CSA basket. Consumers log in to their website to adjust the contents of the CSA basket and to purchase additional grocery items if desired.
 - **Stout's Melody Acres Farm Stand** in Franklin, IN is a roadside farm stand where Melody Acres sells produce to consumers.
 - **Musgrave Orchard** in Bloomington, IN is a seasonal store located at the orchard that carries apples, cider, and a variety of specialty food products to attract customers in the fall.
 - **The Downtown Farm Stand** in Muncie, IN is a small natural foods grocery opened by a farming couple who wanted an outlet for their produce.
 - **Seldom Seen Farm** in Indianapolis operates an online store that allows customers to place orders during the winter months for pick-up at a winter farmers' market or other established pick-up point.
 - **Cooley Family Farm** in Lafayette, IN operates an online store that allows customers to order produce year-round for pick-up at the farmers' market or other established pick-up point.
 - **The Clean Food Network** in Albertville, AL is a cooperative of growers who run a small distribution operation using the website www.locallygrown.net to accept orders from clients and making deliveries using a garage and a delivery truck.
 - **Farmsreach** in San Francisco, CA is a website designed to help tech savvy farmers create virtual market stalls and sell their products to area chefs.
 - **Fischer Farms** in Jasper, IN is a farm that sells and delivers meat to retailers in Bloomington and Indianapolis and now also sells products from other farms.
 - **Jennings County Growers** in North Vernon, IN is a cooperative of farmers that works with a local locker plant to market meat to schools, restaurants and the public.
 - **Grasshopper Distribution** in Louisville, KY is a distribution center that sells food for local farmers on a consignment system (farmers provide a list of their products and pricing; Grasshopper collects orders from restaurants with a slight mark-up and then purchases the food from the farmers).
 - **Local Crop** in Cleveland, OH works with the traditional distributor Sysco to allow Sysco customers to order special local food products as add-ons to their regular orders.
 - **Stanz Foodservice** in South Bend, IN is a traditional distributor has modified its bid sheets to show the origin of its food products so that Notre Dame University can purchase more regional products.

Studying the different models provided many suggestions on how to improve local food distribution at every level. A lot of techniques, such as developing a CSA program in partnership with a church or setting up a web store, could be adopted by growers immediately with minimal expense. Other models, such as creating a bricks-and-mortar retail store or a cooperative warehouse and distribution system, require a more substantial initial capital investment and thus more risk.

When farmers take on a major role in distribution, they have to develop the business skills needed to handle the marketing and logistics, take on the risk of making capital investments, and devote time to coordinating distribution that takes away from time available for farming. Many farmers do not have strong business backgrounds and can face a steep learning curve when setting up their own distribution system.

We did see several examples of very successful distribution businesses run by farmers or farmer cooperatives. However, some of the most dynamic, successful models are owned by private entrepreneurs who are not growers themselves. Non-growers often have stronger business backgrounds and are not splitting their time between farming and running a distribution business.

The disadvantage to growers of privately held distribution companies is that growers must share a portion of the end price with the distributor and therefore receive a lower price than with a direct sale. However, the margin charged by each type of distributor varies depending on the company's structure, values, and what services they offer. A brokering website like Farsmreach operates with a low margin because it was developed with a mission to help farmers and because it does not provide assistance with product delivery. A traditional distributor like Stanz Foodservice charges a high margin because they take on responsibility for sales and delivery.

At this time it seems most appropriate for the LGG and individual farmers to pursue distribution models with minimal capital investment that would reduce and allow the distribution system to be profitable (or break even) without passing a large expense on to growers. One example would be the Clean Food Network and its use of a borrowed garage and a truck driver who worked for free produce. However, the Clean Food Network relied on its founder to provide coordination with minimal compensation. In order for any distribution business to be successful, there has to be someone ready to commit time, money or both to make it happen.

Grower Survey

Our survey of growers showed that most growers are interested in expanding and they project significant expansion (doubling acres farmed and employees working on the farm) if marketing and distribution channels are put in place. The main obstacles to expansion are insufficient storage, inadequate post-harvest handling set-up, lack of proper equipment, concerns that it takes too much time and expense to access new markets, and concerns with red tape (contracts, insurance) in new markets. Access to reliable and affordable farm labor is another issue that was mentioned and is likely to become a larger challenge as farms expand.

Based on the survey results, all growers currently sell at least a portion of their products directly to consumers, generally through farmers' markets and/or CSA programs. About half also sell to retailers and about twenty percent sell to wholesalers as well as directly to consumers. Farmers seem to add new sales channels while keeping their old sales

channels, carefully balancing the potential risks and benefits of each channel to maximize their profits.

Growers are primarily interested in direct sales to consumers but most of those surveyed would like to expand to also sell to small retailers and about half are interested in potentially selling to wholesalers or institutions. The biggest demand for assistance was help connecting with restaurants and other small retailers. Growers would also like assistance marketing surplus products, additional farmers' market outlets, an internet store for marketing their products, and assistance accessing large volume markets either by combining products with other farms or by working with a wholesaler.

Storage is a major issue, although it appears that a central storage facility would not address all storage needs. Many farmers expressed a need for post-harvest handling, such as washing and cooling freshly harvested lettuce. Facilities for cooling freshly picked produce need to be located on the farm. Some post-harvest handling activities like washing and packing could be handled by a centralized facility but in the case of cooling produce, the farmer needs a facility on the farm. Root crop storage and long-term storage of frozen products could also be addressed with a centralized facility. Further studies are needed to develop clear recommendations about storage facilities.

Buyer Survey

We surveyed retailers, institutions, and wholesalers to understand demand and the needs of different types of buyers. We also looked back at customer surveys conducted at the Bloomington Winter Farmers' Market in 2008 to get a feel for consumer demand for local food.

Demand for local food appears to be increasing at all levels. However, some areas of the direct sales and retail markets are becoming crowded such as the Bloomington Community Farmers' Market and core local product sales to Bloomingfoods. Growers need to become more creative in their marketing approaches, develop communication and delivery systems to meet the needs of each market channel, and find ways to work together to offer consistent quantity and quality to retailers, institutions, and wholesalers.

As part of the study, we made contact with local wholesale distributors, and with several major institutions, including Indiana University Bloomington, Monroe County Community School Corporation, and Bloomington Hospital, to assess their interest in purchasing more local foods. We were encouraged by the strong interest shown by all of these entities in exploring ways for them to purchase more fresh produce from local growers.

Many retailers, institutions, and wholesalers who are interested in local food want a more streamlined approach to ordering food or at least better information about which growers are looking for markets and what products they have available. Many retailers and institutions are accustomed to working with wholesale distributors and need help setting protocols and developing systems for working directly with farmers. These protocols would cover insurance requirements, certification requirements or programs to ensure

safe food handling practices, expectations of how produce should be washed and packed, guidelines on how to manage invoices and payments, and strategies for how to accommodate the seasonality of local produce.

Additional education is needed on both the buyer end (what is it reasonable to expect from small to mid-sized farms?) and on the grower end (what needs to happen to ensure a good relationship with businesses?). Local food distribution could also be improved by a system to match growers with buyers. Potential systems include publishing an annual guide to farmers ready for retail sales with their products listed by season or a website where growers could post available products on a daily or weekly basis and businesses could place orders.

Local Resources

The Bloomington community is extremely supportive of locally grown food and there are many farmers, food purchasers, organizations, and community members that are interested in supporting the local food economy. The Local Growers Guild has successfully strengthened connections between many groups and has continually informed the public about the importance of local food although there remain opportunities for additional education and collaboration. Locally grown food plays an important role in community sustainability on three levels – economic strength, environmental protection, and community enhancement.

In terms of physical infrastructure, there are a number of possibilities for storage and distribution projects but very little that is currently available. The most exciting upcoming project is the Bloomington Kitchen Incubator. This nonprofit group will help farmers and other entrepreneurs develop value-added food products using the certified commercial kitchen currently under construction by Middle Way House. The new kitchen facility will include some cooler space and an area for washing and packing produce. However, it appears that more infrastructure needs to be developed in the Bloomington area, particularly freezer and root cellar space.

Two retailer members of the Local Growers Guild, One World Enterprises and Bloomingfoods, have expressed a willingness to build storage space for local growers as part of their planned business expansions. This would be a great way to strengthen retailers and farmers by sharing resources. There are also opportunities for farmers to share space with each other, including an opportunity offered by farmer William Harriman in response to the survey.

Growers who are interested in setting up internet sales have many resources available on the web but could use additional support from the Local Growers Guild. The LGG website is informative but is not useful as a sales forum in its current form.

Conclusions and Recommendations

While growers are interested in expanding and there are interested buyers in all four market channels, there are definite gaps in the distribution infrastructure. Most growers surveyed are not yet set up for sales to wholesalers and institutions. They lack facilities

for post harvest handling, an understanding of insurance and inspection requirements, sufficient volume to meet large scale demands, and transportation options.

At the same time, many retailers, institutions, and wholesalers need help setting up protocols and developing systems for working with local growers. Some common issues include determining insurance requirements; ensuring safe food handling practices; proper washing and packing; managing invoices and payment; and accommodating the seasonality of local produce.

In order to help growers work with retailers, institutions, and wholesalers, the Local Growers Guild needs to focus on helping growers improve their marketing skills, develop basic infrastructure on the farm, and work with retailers, institutions, and wholesalers to help them develop clear protocols and requirements. There are not yet enough growers ready to sell at the wholesale level to justify the creation of a cooperative distribution center. There is clearly a need for storage both on and off the farm and this should be addressed by exploring opportunities to share storage space between farms, share storage space with local retailers, and develop facilities on farms. More detailed information about storage needs must be developed before the LGG takes on the expense of constructing a facility. The example of Jennings County farmers shows the importance of building capacity for projects with larger impact by starting small and then gradually building up from there.

Also, it's important to support all distribution approaches. Growers can be successful using any of the distribution channels (sales directly to consumers, to small retailers/groceries, to institutions and to wholesalers), or combination thereof. Most of the farmers surveyed intend to sell through multiple distribution channels with a definite emphasis on selling directly to consumers and selling to small retailers. Many direct sales techniques profiled in the distribution models can be implemented by the LGG or individual farmers with minimal investment costs, such as starting a CSA program in partnership with a church.

Based on these insights, we recommend the hiring of a local food broker for at least one year by the Local Growers Guild to make connections between growers and buyers. Any approach to increasing local food production needs to take into account the individual circumstances of different growers and different buyers. This broker will work on:

- A more detailed assessment of individual growers' needs, their production potential, and their willingness to expand to meet the demands of larger institutions, consolidators and wholesalers.
- Assisting institutions and wholesalers with the development of protocols and procedures that accommodate local growers.
- Connecting growers with buyers and helping buyers source from multiple growers to access sufficient quantities.
- Connecting growers with each other when there are opportunities to combine efforts, for example to improve storage or to share transportation and delivery, or to form cooperative CSA programs.

- Assisting growers with the development of infrastructure needed to sell to retailers, institutions, or wholesalers (post-harvest handling equipment, affordable insurance, food safety certification, etc.)
- Developing written Seller's and Buyer's Guides for different distribution channels.
- Developing a series of workshops to educate farmers about different distribution approaches and the multiple variations within each approach, thus helping growers identify which distribution channels most fit their circumstances.
- Offering "Meet the Buyer" workshops where growers can interact with food purchasers from various businesses, and learn about their requirements and procedures.
- Investigating the possibility of creating a LGG run web-store, or cooperative storage and distribution facilities.

Although interest in local food is high in South Central Indiana and there are many great opportunities for small to medium-sized farmers, farmers still need help expanding their operations and meeting ever-increasing demand. The Local Growers Guild is excited to be a part of the process and will continue to work on development of the local food economy.