

Practical Farmers of Iowa Grocery and HRI Study

FINAL REPORT

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Table of Contents

Part 1 Background Page 3

Part 2 Introduction & Methodology Page 3

Project Objectives Page 3

Methodology Page 3

Part 3 Findings & Observations Page 4

Part 4 Summary & Recommended Next Steps Page 8

Appendices Page 10

BACKGROUND

Working under the assumption that “the hotel, restaurant and institutional (HRI) market in Iowa appears to hold great potential for small to medium scale Iowa farmers practicing sustainable agriculture,” Gary Huber and Robert Karp of Practical Farmers of Iowa submitted a proposal to the Leopold Center for Sustainable Agriculture for a project entitled “*Making the Connection--Linking Farms to HRI's.*”

The proposed purpose of the project was “to quantify more concretely the potential of the HRI market, the benefits that would accrue to both farmers and the HRI's, and the challenges that exist to serve this market successfully.” A second potential market for the increased use of Iowa-grown foods is the retail supermarket industry, which in 1999 accounted for 50% of the food consumed in the United States. Since buying and distribution are similar, though not identical, to the HRI market, the project was expanded to examine this segment at the same time.

INTRODUCTION & METHODOLOGY

Practical Farmers of Iowa (PFI) engaged *Scanlan & Associates*, consultants to the food industry, to assist in their initial research. The original grant proposal listed two primary project objectives and outlined five strategies by which they were to be accomplished. (See Appendix). The following objectives for the initial research conducted by PFI and *Scanlan & Associates* came from two of the strategies of the overall project.

◆ Research Objectives

- 1) To estimate the potential market for Iowa-grown and raised foods with Iowa supermarkets and HRIs.
- 2) To determine the opportunities, challenges and benefits perceived by grocery store and HRI buyers, staff and clients in purchasing and using food products from Iowa farmers practicing sustainable agriculture.

◆ Methodology

- 1) Interviews were conducted between July 1999 and February 2000 with key industry contacts including industry associations, wholesale distributors, retail stores, restaurants, and institutional users to determine sales opportunities and distribution methods and uncover any obstacles to be overcome.
- 2) A structured outline was followed to assure that pertinent information was received from each contact. (See Appendix)

FINDINGS & OBSERVATIONS

Industry representatives were generally willing to meet with the project interviewers; however, fitting into their schedules proved somewhat difficult. Eighteen interviews were completed covering, either directly or indirectly, more than 50 percent of the total HRI and Supermarket volume in Iowa. (See Appendix)

Interviews focused on determining market awareness of and interest in using and promoting Iowa-grown produce and meats, whether conventionally grown or produced using sustainable or organic methods. A second set of questions looked at what was important to buyers in selecting suppliers with which to work.

When looking at conventionally-grown produce, Iowa product generally is appealing to most of the industry representatives interviewed; however, they differed widely on whether their customers would be willing to pay more.

- A **Hotel/Restaurant/Meeting Provider** said there might be an interest by meeting planners in an Iowa menu and he believed they could get about 5% more than standard menu, depending on the group. However, some clients are very price conscious and would balk at paying a premium. Quality and price are the most important considerations for selecting a product and a vendor. He might be willing to pay more for locally-grown product if the quality is discernibly better.
- A large **Supermarket Wholesaler** believes availability of Iowa product is important to their customers, and they offered that they and their consumer might be willing to pay a premium of 15-20%.
- A **Supermarket Chain** said they do feature “Iowa-Grown” in their ads from time to time and believe availability of Iowa-grown product is important to their customers. However, they do not feel their customers will pay more for it. Likewise, they are not willing to pay more for it. “The market may not be there for higher priced, better quality product.”
- A **Hospital** serving more than two thousand meals a day shared that “we currently do not feature ‘Iowa-Grown’ items on our menu; however, we might consider including it in our theme rotation if prices were not too much more than standard items received from our supplier.”
- A **Supermarket** group said most of their stores promote Iowa-grown produce with in-store signs and special displays. They feel there is a market for Iowa product providing the quality is there and the price is right. They said that price is usually the determining factor for both retail store and customer purchases.
- Another **Supermarket Chain** said they were very supportive of Iowa-grown products and had encouraged several growers to expand, with the chain agreeing to purchase their product. They said, “Definitely, the market is there for Iowa products.” They also noted, “We would pay more for anything that will give us a market advantage.”

Not all agreed that promoting “Iowa-grown” had much value to the consumers, but some believed there could be a market for a multi-state promotion.

- A **Supplier to other Wholesalers and Chain Warehouses** believes there is no real demand for Iowa-grown product. “We are in a world economy and customers look for variety and price. Subsidized products have destroyed the market.” As an alternative to an “Iowa-Grown” promotion they suggest the possibility of doing something on a multi-state regional basis.
 - Crop maturity is approximately the same in all the neighboring states, and so a regional organization could handle a variety of crops starting the first of May and continue through the growing season and into storage, a period of 7-8 months.
 - Many distributors and retailers sell to or have operations in surrounding states, making it difficult to limit the promotion to Iowa because of the organizations involved.
- A **Full Line Natural/Organic Food Distributor** agrees that a regional effort is a better option. They do not feature “Iowa-grown” in advertising or displays for their foods because their market is regional. However, they felt there may be an opportunity to advertise on a multi-state regional basis, e.g., “Fresh from the Heartland.”

Opinions as to the value and marketability of organic or sustainably-grown product were much more varied than those pertaining to conventionally-grown product. However, most agreed that the cost of organic product is higher and users of such product are willing to pay more for it.

- A **Supermarket Wholesaler** believes there is an additional value to organic or sustainably-raised products and that customers are willing to pay more for them. They seemed very interested in these products.
- A large **Supermarket Chain** sees little interest in organic or sustainably-raised product at this time; however, they feel it will be demanded within a few years. They do not think the appearance of most organic produce is very appealing. They would not pay more for organic product even though they know some customers will.
- Another **Wholesale Distributor** does not have much interest in organic or sustainably-raised products because of an assumption that these would cost more.
- A **Co-op Supermarket**--a full-line grocery store featuring natural and organic foods--has a mission to “stimulate local agriculture production of organic foods.” They are committed to, and mandated by the board of directors, to buy more organically/locally-grown product. Local items carried include: egg plant, cucumbers, squash, sweet corn, tomatoes, cabbage, eggs, basil, lettuce, green peas, free-range chicken, lamb, and beef. Most are purchased directly from growers.
- A **Supermarket** group spokesperson says there is a growing interest in organic produce and nearly 30% of their stores do a good job with them. However, he said it is more difficult to move organic or sustainably-raised meat products. He also noted, “When you have to work so hard to sell a product, it’s not worth it.”
- A **Hotel/Restaurant** operator with several locations throughout the state thinks organic or sustainably-raised product would have limited appeal in many cities, but these products might work in areas with higher income and educational levels such as Ames, Des Moines or Iowa City.

- A **Hospital** spokesperson states, “There have been no requests for organically-grown produce yet; however, we do regularly offer vegetarian menu items.”
- **Upscale/High-End Restaurants** feel farm practices are important to their customers, though one said foods raised using organic practices had more appeal than those raised using sustainable practices. They are also willing to pay 10-20% more for these types of products from local sources.
- Upscale/high-end restaurants appear to offer the best potential for Iowa-grown food products, particularly organic or sustainably-grown meat and produce. There are several reasons for this conclusion.
 - most are locally owned, allowing them to purchase wherever they choose;
 - they change menus frequently, making the use of special or seasonal products easy;
 - their volume demands are lower than other institutions or supermarkets, which means meeting these demands is easier;
 - they are in a position to “attach status to eating Iowa product,” which they are willing and able to promote through their service staffs and menu notations;
 - their customers are willing to pay more for menu items featuring high quality locally-grown products, and they in turn appreciate the value of such products and are willing to pay more for them..

Interviewees who indicated interest in increasing their use of Iowa-grown product agree on many of the logistical items that must be addressed surrounding buying and distribution. The most important of these are consistency of quality, availability of product, dependability of suppliers, and price. Other factors involve the need for growers to conform to industry standards for product handling, packaging, shipping, ordering, etc. Still others involve convenience and cost concerns related to transporting products.

There are several key observations from interviews regarding logistical items that will have varying impacts on efforts to increase the use of Iowa-grown products by supermarkets and HRIs.

- seasonality of produce is not an issue; it is relatively easy for buyers to switch to suppliers that use produce from outside Iowa during the off-season;
- the norm among buyers is **not** using contracts with suppliers - business is transacted based on prior experiences and relationships built on trust;
- growers must stand behind their product and give credit or accept returns if there are problems;
- supermarket chains prefer centralized distribution systems that require extremely high volumes, which in turn has implications for the types of production systems used by growers; some local establishments are part of larger buying organizations-which assures product availability and price stability through contracts that require them to purchase minimum amounts of product during the contract term; however, none are restricted from buying from other suppliers if they see reasons to do so, and most large organizations give autonomy to local offices to purchase certain items or commodities on their own.

The following are representative comments from across the spectrum of interviewees on issues to be addressed to increase purchases of Iowa products.

- supply needs to increase;
- quality/freshness are extremely important;
- product availability and consistency are very important;

- most important in selecting a supplier is consistency in quality and product availability;
- there must be consistency in size; product must be packed in standard industry containers;
- price needs to be competitive;
- product availability is a key issue;
- consistency in size is important;
- quality and price are the most important considerations in selecting a product or vendor.

Specific observations from interviews on various logistical items include the following.

- Comments from a **Supermarket Manager** about selecting a grower were, “Price and consistent quality are of prime importance. New suppliers ‘earn their way.’ They may start small with one store and eventually cover the entire chain.”
- **Upscale/High-End Restaurants** interviewed agree that ease of ordering and greater product availability would cause them to increase use of Iowa-grown product. They would welcome and be willing to pay for the services of a broker/consolidator/distributor who could help them source product.
- A large **Hospital** says that if they were to feature “Iowa-Grown” they would need:
 - competitive prices;
 - distribution through established suppliers;
 - promotional material such as table tents, banners, newsletter articles, etc.;
 - easy ordering--they are connected directly to suppliers by computer where they are able to view a customized order catalog and price book and place their orders online.
- Important to a **Co-op Supermarket** which is committed to buy more organic, locally-grown product are these issues:
 - supply needs to increase;
 - transportation costs must be reduced;
 - packaging should be in industry standard boxes;
 - they would welcome a distributor that could consolidate product and bring with one delivery and one invoice.
- In order to sell through a **Distributor** who was interviewed, a supplier needs:
 - to sell to the distributor at a much better price than directly to retailers;
 - develop enough volume to warrant bringing the product into their distribution center;
 - provide proper (attractive) retail packaging including nutritional labeling;
 - to provide boxes that fit a standard 48”x 40” pallet.
- The following were offered by a **Supermarket Chain** as key needs if markets for Iowa-grown products are to increase.
 - there must be consistency in size and product must be packed in standard industry containers;
 - transportation costs must be kept to a minimum; they use 200 miles as a maximum for delivery and return, and they ship product six days per week (east on M-W-F and west on Tu-Th-Sa);

→ in order to sell to wholesale distributors, the growers must work with an experienced and knowledgeable marketing person.

- A **Wholesale Supplier** to independent and corporately-owned supermarkets added two additional requirements--hydro-cooling and product identification stickers on each item.
- Important to a **Co-op Supermarket** selling organic product is third-party certification or an affidavit provided by a grower that they meet the appropriate standards. Also important is daily delivery to assure freshness.

SUMMARY & RECOMMENDED NEXT STEPS

The door is open for the sale of locally-grown produce, and to a lesser extent meat, to both the HRI and supermarket industries. Moreover, there is a small but expanding market for organically or sustainably-grown products that can command slightly higher prices.

But there are various considerations to be addressed. At a minimum growers must assure buyers of consistent and adequate supplies of quality products--and in most cases these supplies need to be competitively priced if sales are to occur. Products should also be delivered using industry standards, which includes proper grading, containers, delivery frequency, etc. Attention must also be paid to convenience in placing orders to ease the securing of products.

The key to increasing the use of Iowa-grown products, including organically or sustainably-grown, is to start with the wants and wishes of the wholesale and retail customers and search for profitable ways to meet those needs. Little will change if the approach of the grower is to offer product in the way that is most advantageous to them from a price and convenience standpoint without first seeing if this satisfies the need of the customer.¹

◆ Recommended Next Steps

- 1) Send questionnaires to industry representatives not contacted in original interviews. Lists and distribution could be handled in conjunction with the Iowa Grocery Industry Association and the Iowa Hospitality Association.
- 2) Hold meeting(s) with growers to share and discuss the findings from this study.
- 3) Have grower representatives meet directly with wholesale/retail distributors to hear first hand what distributors are looking for in selecting suppliers.
- 4) Work with existing farm support and technical assistance providers to train growers on topics such as grading practices and standard packaging.

¹There are important needs and issues facing growers as well, such as having high enough prices for adequate profits. Another important issue involves the potential impacts of the volume requirements of HRIs and supermarkets on production practices. While the research conducted for this report focused on wholesale and retail buyers, subsequent phases of the project will need to balance the wants and wishes of buyers with those of growers.

- 5) Develop educational materials targeted to producers and buyers on topics related to this research.
- 6) Examine established models for marketing fresh fruits and vegetables to grocery and HRI buyers, such as:
 - a. Florida Sweet Corn Commission;
 - b. Commodity marketing groups, such as those used for citrus and cranberries;
 - c. California Packing Sheds (often coops or contract relationships).
- 7) Examine new models for marketing fresh fruits and vegetables to grocery and HRI buyers, such as:
 - a. Red Tomato's Produce Brokerage Operation;
 - b. Produce, LTD., of Oskaloosa, IA.
- 8) Examine new models for marketing meats to grocery store and HRI buyers, such as:
 - a. the Healthy Meats Initiative of Michael Fields Agricultural Institute in Wisconsin;
 - b. the All Natural Beef Cooperative in Kansas.
- 9) Conduct research and development activities on these options:
 - a. expand the current "brokerage" function provided to growers and buyers by the Field to Family Project of Practical Farmers of Iowa, including its conversion to a for-profit or cost recovery business;
 - b. in cooperation with local growers, conduct a feasibility study for increasing sales to upscale/high-end restaurants and/or natural foods grocery stores;
 - c. in cooperation with a supermarket chain, create a long-range plan to develop the systems and processes needed to get local foods, including those that are organically or sustainably-produced, into their stores;
 - d. in cooperation with a regional food distributor, conduct a feasibility study for a regional organic produce initiative in the Midwest.

1) Original Project Objectives and Strategies Page 11

2) List of Completed Interviews..... Page 12

3) Copies of Grocery and HRI interview forms Page 13

Original Objectives and Strategies

Project Objectives:

- 1) To increase purchasing by Iowa hotel, restaurants, and institutions from Iowa farmers and growers practicing sustainable forms of agriculture:
- 2) To create new market opportunities that will increase the viability of small to medium scale Iowa farmers and growers practicing sustainable forms of agriculture.

Project Strategies:

- 1) To estimate the potential market for Iowa-grown and raised foods with Iowa hotels, restaurants and institutions (HRI's).
- 2) To determine some of the opportunities, challenges and benefits perceived by HRI buyers, staff and clients in purchasing and using food products from Iowa farmers practicing sustainable agriculture.
- 3) To examine under what conditions serving local HRI markets can be a profitable venture for Iowa farmers practicing sustainable agriculture.
- 4) To analyze some of the possible models for linking Iowa producers to HRI's and to conduct feasibility studies for one or two of the most promising models.
- 5) To help build the capacity of producers to serve HRI markets more effectively.

COMPLETED INTERVIEWS

Date	Company	Location
July 20, 1999	Nash Finch	Cedar Rapids, IA
July 21, 1999	Hockenberg-Newburgh	Des Moines, IA
Aug. 6, 1999	Iowa Grocery Industry Association	Des Moines, IA
Aug. 6, 1999	Iowa Hospitality Association	Des Moines, IA
Aug. 9, 1999	Starlite Village Motel	Fort Dodge, IA
Aug. 19, 1999	Capital City Fruit Company	Norwalk, IA
Aug. 19, 1999	SuperValu	Des Moines, IA
Aug. 20, 1999	Fareway Foods	Boone, IA
Aug. 24, 1999	Hawkeye Food Systems	Iowa City, IA
Aug. 24, 1999	Blooming Prairie Coop Warehouse	Iowa City, IA
Aug. 24, 1999	New Pioneer Coop	Iowa City, IA
Sept. 14, 1999	Mercy Medical Center	Des Moines, IA
Sept. 16, 1999	Dahl's Grocery Stores Corporate Office	Des Moines, IA
Oct. 6, 1999	HyVee Corporate Office	West Des Moines, IA
Oct. 20, 1999	Produce, LTD.	Oskaloosa, IA
Feb. 2, 2000	Bistro 43	Des Moines, IA
Feb. 10, 2000	The Embassy Club	Des Moines, IA
Feb. 25, 2000	The Machine Shed	Urbandale, IA

Food Industry Questionnaire - HRI

Background:

Last year Governor Vilsack introduced "A Taste of Iowa" initiative to promote Iowa grown and processed agricultural products, first within the state and then nationally and internationally. This initiative covers all segments of agricultural production including small to medium scale farmers and growers.

Several months ago two projects, one sponsored by the Leopold Center and one sponsored by the Practical Farmers of Iowa, were started to assist the small to medium scale farmers and growers in their efforts to increase their share of the Iowa market. Because of the similarity of their objectives, the two projects were combined.

Purpose/Objectives:

1. To enhance the viability of small to medium scale Iowa farmers and growers, practicing sustainable forms of agriculture, by increasing the market for Iowa grown fruits, vegetables, meat and poultry products.
2. To develop or improve the means by which products move from production through the distribution channels to the plate of the consumer.

Questionnaire:

Completion of the following questionnaire will be of great assistance the Field to Family Directors in their work with individual growers. Thank you for your time and information.

1. Restaurant information

Restaurant name _____

Address _____

Phone _____

Name and title of person completing questionnaire

Name _____ Title _____

2. My business' position in the distribution channel can best be classified as a:

- ___ restaurant/hotel chain headquarters
- ___ wholesale distributor
- ___ full line distributor
- ___ produce distributor
- ___ meat distributor
- ___ broker
- ___ retail restaurant
- ___ other, please specify _____

3. If you are a retail restaurant, how would you classify your establishment?

- ___ fine dining
- ___ casual dining
- ___ family dining
- ___ fast food
- ___ other, please specify _____

4. If you are a retail restaurant, what is the seating capacity of your establishment? _____

5. How much autonomy do you (Chain HQ) give or do you (Chain Restaurant) have to select suppliers or buy from local growers?

- ____ total autonomy
- ____ allowed to buy locally from and approved supplier list
- ____ all product must be purchased from company distribution center or primary wholesaler

6. We are currently (when available) buying/selling the following Iowa grown foods:

- ____ fruit
- ____ vegetables
- ____ beef
- ____ pork
- ____ poultry
- ____ dairy products
- ____ other (Please list) _____

7. With any Iowa/locally grown foods you currently buy, are you working with:

____ individual growers (list types of products)

____ brokers/distributors (list type of products)

8. What is most important to you in selecting a grower/packer or distributor?

Please rank 1-5 with (1) being most important.

- ____ quality/freshness
- ____ price
- ____ payment terms
- ____ product availability
- ____ delivery frequency
- ____ pick up location
- ____ other--please specify _____

Comments: _____

9. How do you resolve quality issues/problems with your current suppliers?

10. Do you buy from preferred vendors/suppliers on a contract basis?

- Yes
- No

11. If you buy from preferred vendors/supplies on a contract basis, please indicate the reason(s):

- quality/freshness
- price
- payment terms
- product availability
- delivery frequency
- location
- other--please specify _____

12. Do your current agreements place any limitations on your ability to buy from other suppliers or direct from growers?

- No
- Yes

If "Yes," please explain _____

13. We feature "Iowa/locally grown" in our advertising and/or displays

- advertising
- display

Please briefly explain or describe: _____

14. How satisfied are you with your experience in handling Iowa/locally grown products?

- very satisfied, things couldn't be better
- satisfied
- fairly satisfied
- dissatisfied

Please briefly explain or describe: _____

15. Do you feel the availability of Iowa/locally grown product is important to your customers?

- Yes
- No

Comments _____

16. Do you feel your customers would be willing to pay more for Iowa/locally grown foods?

- Yes
- No

If yes, what percentage above normal would your customers be willing to pay? _____%

Comments _____

17. Would you as a buyer be willing to pay more for Iowa/locally grown food?

- Yes
- No

If yes, what percentage above normal would you be willing to pay? _____%

Comments _____

18. What if these Iowa/locally grown foods were also organic or sustainably raised, do you feel these products would have an additional value to your customers?

- Yes
- No
- Maybe

Comments _____

19. Would you as a buyer be willing to pay a premium for these organic or sustainably raised Iowa grown products?

- Yes
- No
- Maybe

If yes, what percentage above normal would you be willing to pay? _____%

Comments _____

20. If you wanted to increase purchases of Iowa/locally grown foods, what are the main issues you believe would have to be addressed?

21. How would the decision be made to increase purchases of Iowa/locally grown foods?

Please return the completed questionnaire in the enclosed envelope to:

Practical Farmers of Iowa - Grocery and HRI Study

PFI Field to Family Project
300 Main St, # 1
Ames, IA 50010

If you have any questions, please call Gary Huber or Robert Karp at 515-232-5649.
Thank you.