Economic Viability of Selling Locally Grown Foods to Local Food Businesses

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Introduction/Theoretical Framework

Local foods in restaurants were identified as the 'hottest trend' in 2009 (National Restaurant Association [NRA], 2009). However, there is limited research on whether it would be economically viable for growers to sell directly to local food businesses, including restaurants, and under what conditions. Economic viability for growers is critical to ensure local foods sales directly to local food businesses are a sustainable strategy. This study was part of a broader effort that took a systems view to evaluate the economic viability of local foods for foodservice organizations, local growers, and consumers. In this particular study the focus was on assessing economic costs and benefits for growers. This study is associated with the wider literature in theories of economic sustainability, eco-localism, and farm-to-fork system's approach. Further, local food systems programming is a major effort under the Agricultural Sustainability program area of Cooperative Extension in many states in the United States.

Background

"Local food" is gaining popularity as an alternative economic strategy for developing local communities (Hinrichs, 2003). However, for it to develop and be adopted progressively, clear costs and benefits for producers and consumers need to be evaluated. Theories of economic sustainability such as eco-localism stress the importance of creating local or regional community economies that are self-reliant (Curtis, 2003). Emphasis has been placed on examining the economic possibilities that short distance commerce and self-reliant local economies can offer. In context of shorter distances, research shows that even though there may be significant environmental consequences of longer transportation of foods, actual transport costs are small and by itself, may not provide an economically competitive justification to choose local foods over the conventional system (Pirog et al., 2001). A more thorough comparative analysis of costs of production, processing, packaging, and distribution is needed to justify use of local food systems. Growers are motivated to sell locally due to the asymmetry in farm-retail price spreads where costs to farmers may change by only 16%, yet the price to consumers (through wholesale market channels) can go up by as much as 52% (Dunham, 1994). Even then, adopting such selling strategies may imply new types of processes, costs, and investments simply because growers are approaching a different market to sell their produce (Telfer & Wall, 1996). While local farm-to-retail markets provide opportunities to reduce these price spreads and maximize benefits for growers, economic viability of using these foods in local food businesses is a crucial variable because these businesses provide an important market for locally grown foods.

Purpose and Objectives

The purpose of this study was to assess the economic costs and benefits for growers by selling their products directly to local food businesses such as restaurants. The objective of this study was to identify economic implications for local growers/producers who wish to establish sustainable partnerships with local restaurants. The two research questions were as follows: 1) What are the costs and benefits for growers to sell products directly to restaurants? 2) How can growers maximize the economic benefits and minimize costs when selling to local restaurants?

Methodology

This study was conducted in a mid-Western university. The local growers directory was used to identify growers. The authors established first contact via phone, and requested participation. A value chain framework was adopted to assess incremental costs and financial investments required by growers and producers who sell local foods to restaurants. The value chain components included the following: production, storage, packaging, marketing, transportation, delivery, and others. Face-to-face interviews were conducted with 10 local growers/producers who were selling fruits, vegetables, dairy, chicken, pork or beef to at least one local restaurant. For this study, local food was defined as that sold by growers within 50-mile radius. Interviews were pre-scheduled and where possible the growers were provided the instrument before the interview. The discussions were semi-structured and conducted by at least two researchers. One of these researchers recorded the responses, and the other verified them. Responses were analyzed using non-parametric statistics, and financial and descriptive documentation of current practices.

Highlights of Findings

Grower responses were categorized into three distinct areas: grower information, issues concerning sales to local restaurants, and value chain component information of costs and benefits. The following section provides highlights of these results.

Value chain activities

Each value chain activity was investigated for its reported costs and benefits. In case of *production* no differences in costs were reported. Similarly *storage* activity also did not result higher costs for growers. On the other hand two growers reported that packaging of tomatoes, asparagus, and corn were higher due to portioning. Lamb producer and vegetable grower reported higher marketing costs, particularly related to establishing initial contact and later relationship building. Most importantly, all growers agreed *transportation* and *delivery* costs would be higher. In context of pricing benefits, nine of the ten growers agreed that restaurants would be willing to pay a price premium for their products. Other comments/observations included the following:

1. Restaurants were usually unable to commit for orders. This impacted growers to plan effectively.
2. Growers also felt that some restaurants (along with their chefs) were considerably better than others in their ability to have flexible purchasing policies. This allowed growers to increase sales to such restaurants.
3. Still others observed restaurant chefs need to be better informed and trained to work with different types of products.
4. The need was also felt for growers to engage in interactions with restaurants, to sell their products.

Conclusions and Implications

There were clearly higher costs for growers in at least two components of the value chain process in order to sell directly to restaurants. However, most growers also identified benefits, such as price premiums. On the other hand there was a need felt that growers and restaurants much increase interactions. It was felt that such interactions would help growers showcase their products to local food businesses. Respondents agreed that some type of a roundtable discussion amongst restaurants and growers would help establish contacts and develop professional relationships.

Findings and conclusions of this study are of immense value for Extension professionals who are promoting local food systems programming. Community and Economic Development educators can work with local growers to make informed decisions about the costs and benefits for selling their produce locally. Need exists for offering training programs/workshops to help growers and local food businesses to understand the economic implications for their sustainable partnerships.

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