Sourcing Local

Retail lessons from food hubs and community supported agriculture

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As the market for local food products expands, an understanding of the impact of different distribution models is critical to making improvements to our current food systems and satisfying consumer demand in an efficient and sustainable manner. For retailers, lessons can be learned from alternative models, such as food hubs and community supported agriculture (CSA), on how to integrate local food into retail channels.

Two key challenges faced by retail are: generating the consistency and volume required to meet growing consumer demand for local food products; and communicating effectively with shoppers to create connections and build loyalty. As systems that have been developed to bridge these exact problems, there are lessons to be gleaned from the infrastructure and connections built through programs like CSA and food hubs.

Lesson 1 – Retailers can strengthen their supply chains by supporting small and mid-sized food business through capital, technical assistance, and supporting access to distribution channels.

Lesson 2 – Sourcing locally can result in highly responsive distribution channels and does not have to be exclusive of global supply chains - 'hybrid' models do work.

Lesson 3 – Local sourcing is key to locating products with social attributes that consumers are looking for.

Lesson 4 – Success in local programs includes identify underlying attributes that consumers want when buying local and implementing genuine and transparent programs to support communication of attributes.

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Setting the stage for local and regional food distribution systems

Local food systems across the US have experienced unprecedented growth and development in the past 20 years[1]. According to the United States Department of Agriculture (USDA), small and medium sized producers are playing a major role in developing local food systems[2]. These producers are integral suppliers to growing alternative food markets[4,3]. With increased demand for local and regional foods, conventional marketing and distribution channels may be hard pressed to fulfill consumer demand[4]. Farmers' markets, direct to consumer sales, cooperatives, community supported agriculture (CSA), and food hubs are various ways small and medium sized producers sell their produce to fulfill growing demand for local. According to the USDA, most producers sell their products through more than one channel to diversify and maximize their reach and profit[4]. As retailers adapt to changing consumer preferences and shoppers become more discerning about which product claims and marketing campaigns to trust, there are lessons to learn from the successes and challenges of food hubs and CSA distribution models.

Sales of local food products have exploded over the past decade with estimated nine percent annual growth, the market size for local food could reach over $20 billion by 2019.

Source: Burt et al., 2015; Packaged Facts, 2015

[1] Betz and Farmer, 2016
[2] Martinez et al., 2010
[3] Low and Vogel 2011
[4] Matson et al., 2013

The birth of CSA and food hubs as alternative distribution channels

The increase in alternative distribution networks such as CSA and food hubs grew out of the increase demand by consumers for local and regional products[6,5]. The history of CSA goes back to Massachusetts in 1986. The movement grew to 12,617 farms in 2012 according to USDA Agricultural Census and it is estimated that these farms collectively have 30,000 to 50,000 consumers[6]. There are currently over 350 food hubs in the US with over 48 food hubs founded between 2012 and 2015 alone[7]. Today, CSA and food hubs are most often located near metropolitan areas, showing their connection and reliance on highly dense urban centers that may not otherwise have direct access to producers[8]. Both CSA and food hubs serve predominantly to provide access to markets for small and mid-sized producers, which accounted for over 92 percent of food hub suppliers in the 2015 National Food Hub Survey.

CSA and food hub distribution models enable small and mid-sized producers' access to larger markets

Apples to oranges: comparing CSA and food hubs

The terms 'food hub' and 'CSA' are often used interchangeably. However, there are major differences between them. The CSA model first emerged as a way for farmers to secure funds by asking their customers to prepay for months of fresh product delivery[9]. Although CSA takes many forms, they are generally centered around a

[5] Ernst 2013
[6] Kelley et al., 2013
[7] Hardy el at., 2015
[8] Hardly et al., 2015 and Healthy Food Access, 2016
[9] Martinez et al., 2010; Brooks et al., 2009; Adam, 2006

shared commitment to building a more local and equitable agricultural system, one that allows growers to focus on land stewardship and still maintain productive and profitable small farms. The CSA model provides revenue for the farmers when they most need it and creates loyalty between customers and farmers, allowing farmers to grow their operations[10]. The model also creates a long-term client base for the farmers and allows customers to support their local farms while conveniently receiving fresh seasonal produce, fish, meat, honey, and other products[12]. A main component of this model is that it does not require a middleman or distributor. It is a system where farms deliver produce directly to their consumers, or consumers participate directly in the harvesting, collection, and distribution[9].

In contrast to CSA, food hubs act as a central distribution system or middleman for an average of 80 suppliers[11]. The origin of food hubs most likely began as a mechanism for farmers to reach a larger market through economies of scale that were otherwise unattainable through CSAs[7]. The main objectives of food hubs are to facilitate large-scale distribution of local produce, provide food transparency, and benefit their local community[4]. Compared to CSAs, food hubs are generally less time consuming for individual farms, as they do not have to manage direct relationships with consumers.

[10] csafarms.ca; Martinez et al., 2010; Brooks et al., 2009

[11] Fischer et.al, 2013

Propelling producers – how food hubs and CSA provide support for food businesses

Due to the size of their operations and an often restricted ability to deliver a consistent and diverse selection of products, many small and mid-size farms lack the necessary avenues to market their products to large-scale buyers such as retailers, restaurants, commercial foodservice establishments, hospitals, schools, and others[12]. CSA farmers are responsible for all aspects of marketing and distribution of their produce, often allowing them to save money compared to other distribution avenues where distributors or marketers take a cut of profits[13]. However, direct sales requires significant time investment for producers. In a survey conducted by the Centre for Crop Diversification in 2008, 87 percent of CSA farms interviewed sold their produce through other channels as well[14]. The CSA model means that members who purchase shares assume part of the risks normally borne by producers due to crop failure, weather, disease, or pests. The benefits and risks of the various distribution options often results in producers using multiple channels to get their products to market.

Food hubs generally consider the producers they source from as valued business partners. They work with producers to make sure they can meet buyer requirements by providing training, technical assistance, or connecting them with partners[15]. Food hubs offer farmers support with marketing, aggregation, distribution, and accounting services at generally affordable rates to facilitate their access to the market. By selling their products to food hubs, farmers can gain a new

[12] Matson et al., 2013; Barham et. al., 2012; Martinez et al., 2010
[13] Kelly et al., 2013
[14] Woods et al., 2009
[15] Ernst, 2013; Matson et al., 2013

source of income, improve production, grow the scale of their operation, and hire more workers[6]. The presence of food hubs results in increased local product in market, and increased advertising, often opening up new markets and opportunities for producers in those communities[6].

Many food hubs also offer technical assistance to producers with the objective of maintaining a continuous supply and quality control standards demanded by retail and institutional consumers. According to the 2013 National Food Hub Survey, over 40 percent of the food hubs offered production and post-harvesting services, business management services, and food safety training. Over 60 percent provided product differentiation marketing strategies, and 80 percent offered marketing services to producers or helped them find new markets[13].

Lesson 1 - Opportunities exist for retailers and large food producers to support small and mid-sized food business through capital, technical assistance, and supporting access to distribution channels.

A number of retail chains have implemented programs to support small and mid-sized food producers to achieve capacity and expand distribution channels. For example, Whole Foods has a local producer loan program to support independent local farmers and producers. As demand for local products continues to grow, we will likely see further examples of retail and multi-national food producers investing in, lending to, and otherwise supporting small independent producers in an effort to bring their products to retail markets.

Channeling the mid-stream: Wholesalers and retailers feel the effects of food hubs and CSA

Wholesale and retailers often require volumes when sourcing local produce and products to meet growing market demand for locally produced foods[16]. Aggregating products from various producers and maintaining safety, traceability, and consistency can be extremely challenging. Alternative models that incorporate aggregation of produce and its distribution are appealing to retailers as they provide a source of consistent products. Whereas CSA does not generally result in capacity, volume, or distribution channels to accommodate the demand of wholesale or retail buyers, food hubs can complement to wholesale and retail distribution networks. In 2013, wholesalers sourcing products from food hubs reported a 79 percent increase in local product sales. Seventeen percent of wholesalers stated they were able to expand their business due to offering more local products[17]. In the same survey, 39 percent of wholesalers who sourced from food hubs reported that they could not purchase the same products from another source.

Food hubs provide buyers with a reliable and diverse selection of source-identified and local-branded products.

[16] Bloom and Hinrichs, 2011

[17] Fischer et.al, 2013

Compared to conventional food system infrastructure with long distance supply chains, distribution channels through Food hubs can be extremely responsive to changes in consumer preferences, or specific store needs. Food hubs can in effect serve as an intermediary between wholesalers and producers to relay which products are most needed in the market[6]. Alternatively, arrangements where conventional produce distributors handle local food can be viewed as "hybrid" food value chains, since they include both local and global resources, and combine conventional food system infrastructure with the more alternative goal of building local food systems.

Lesson 2 - Sourcing local products through food hubs can provide a highly responsive distribution channels and can be integrated with global supply chains through 'hybrid' models.

Lesson 3 - Food hubs are a key place for locating social attributes that consumers are looking for, such as products from certified women or minority owned businesses.

As mentioned in the introduction – consumers care about local based on an array of underlying attributes. Retailers are often looking to source their products from diverse suppliers such as certified women-owned, minority, or veteran owned business. The 2015 National Food Hub Survey found that 31 percent of participating farms were women-owned or operated[18]. Targeted purchasing through food hubs, can enable supply chains to dedicate certain proportions of sourcing to suppliers under diversity and inclusion initiatives.

[18] Hardey et al., 2016 and Fischer et.al, 2013

The top prize – satisfying consumer demand

Consumer demand for locally grown and sustainable food has increased significantly over the past decade[19]. In the 2015 National Grocer Association survey, 87 percent of consumers said the presence of local food was "very" or "somewhat important" in their choice of food retailer[21]. Studies conducted over the last decade show that consumers are willing to pay more for locally-sourced products that contribute positively to both their local economy and the environment[20]. Additionally, information about specific production location resulted in a higher willingness to pay than state proud labels[23].

87 percent of consumers said the presence of local food was "very" or "somewhat important" in their choice of food retailer.

Various studies show that supporting farmers in their communities is the most important motive for consumers choosing locally grown food[21]. Consumers believe that by supporting local agriculture, farmers will have higher living standards and that farm animals will be treated better. Food hubs and CSAs focus on providing locally and regionally sourced food that is fresh, traceable, and more environmentally sustainable to a wide variety of consumers. They aim to foster a stronger connection between consumers and the food they consume while increasing consumer access to local foods.

[19] Matson et al., 2013; Ernst 2013; Barham et al., 2010; Martinez et al., 2010

[20] Garcia, 2014; Hu et al., 2012; Thilmany et al., 2008

[21] Zheng, 2014; Costanigro et al, 2011; Cranfield et al.,2008; Thilmany et al., 2008 and Zepeda and Deal, 2009

Food traceability is a growing concern for consumers with 11.8 percent stating it is a major concern in a 2015 study[22]. Consumers consider locally grown food to be safer than conventional food because it has not travelled as far and the relationship with the producer reinforces consumer trust in the safety of the product[23].

Knowing the farmer provides consumers with transparency on how the products are cultivated and which pesticide prevention methods were used. With CSA in particular, consumers also become emotionally and financially invested in supporting their local businesses and through share purchasing and partaking in the growing their own food. Members who do not work on the farm can still engage through social occasions such as harvest celebrations and potlucks.

Retailers can learn from the success of CSAs through implementing local product campaigns that aim to increase the connection between producers and consumers. Providing information on the producers is a critical component of building consumer trust and can help meet demand for consumers who purchase local products based on a desire to support community businesses or trace product origins.

[22] National Grocer Survey, 2015

[23] Zheng, 2014; Cranfield et al., 2012; Zepeda and Deal, 2009

Keeping it close: Community impact of food hubs and CSA

Food hubs play a critical role in the communities they serve. They are generally socially driven with strong emphasis on fair prices for both producers and consumers.

In 2011, more than 40 percent of food hubs in the US operated in food deserts with the goal of increasing access to fresh produce in traditionally underserved communities[24].

The growth of food hubs has a large impact on both the metropolitan centers and rural communities they serve. Food hubs not only provide farmers and ranchers with new sources of income, they create local jobs in food distribution, transportation and processing. An average of 12 direct jobs are created from a food hub and an additional 26 indirect jobs[25, 26]. In addition to employment impacts, food hubs also impact their communities through farmland preservation and viability, providing humane treatment and animal welfare, and expanding community access to fresh, healthy food[27, 6]. They play a major role in increasing access to fresh foods to underserved communities through partnerships with local food banks and distribution of fresh produce[24]. Food hubs are also involved in gardening education, cooking and nutrition classes, "Buy Local" campaigns, producer certification awareness, and employment programs[28].

[24] Barham et al., 2012
[25] Smirnova, 2016
[26] Jablonski et al., 2016
[27] Agricultural Marketing Services, 2016
[28] Cantrell and Hauer, 2014

Both CSA and food hubs serve the fundamental goal of providing fresh, healthy food to consumers who might not otherwise have access, they increase market access for small producers, and create a connection and feeling of community between producers and consumers. For retailers running successful local food programs – it is important to identify which goals and outcomes resonate most with the store and its shoppers. A local food program should be built around those underlying attributes.

Lesson 4 - Retailers can learn from food hubs and CSA in their foundational goals. Identify underlying attributes that consumers want when buying local and implement genuine and transparent programs to support those goals.

Summary

Food hubs and CSA are tackling many of the problems that currently face our food system. They serve as a vital link connecting producers, consumers and wholesale buyers. They provide models of increased traceability and transparency in the supply chain, and allow consumers to connect with their food and the producers behind it. Not only that, they are doing it is a way that benefits their various stakeholders, and is profitable[6].

Sourcing locally at volume while maintaining transparency throughout the supply chain requires coordination between producers, distributors, retailers and food data innovators.

Sourcing local products at volume while maintaining transparency throughout the supply chain requires coordination between producers, distributors, retailers and food data innovators. Organizations such as food hubs coordinate with farmers to maintain and preserve the source-identified characteristics of food origins, as well as any special claims that can be attributed to products. Powered with this information, food retailers are able to relay it to consumers to satisfy their demand for locally sourced foods.

About Localize

Localize provides software, services, and expertise to manage local and specialty food products in retail stores. We see a future with increased trust across the food supply chain and stronger connections between shoppers, food businesses, and retailers. Localize works with grocers, food producers, and third-party certifiers who want to make this a reality. The results are proven: better business for grocers, brand differentiation for food producers, and trustworthy information for empowered shoppers. Localize is a certified B-Corporation and recipient of numerous awards for advancing the grocery industry and for technology innovation.

Questions, comments, and inquiries can be sent to hello@LocalizeYourFood.com

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