

CHAPTER 1

Local Food Demand in the U.S.: Evolution of the Marketplace and Future Potential

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Local food is no longer just for “foodies”; it’s become a mainstream consumer preference. The past two decades have witnessed a remarkable increase in the contribution of locally grown and raised foods to the U.S. food system. According to U.S. Census of Agriculture statistics, direct sales of edible farm products for human consumption rose dramatically from \$404 million annually in 1992 to roughly 3 times that amount (\$1.2 billion) by 2007.¹ By 2012, this sales value had topped \$1.3 billion per year, representing a 223 percent increase in growth over a 20-year span and far outpacing the average rate of sales growth in the U.S. agricultural sector.²

Moreover, there is abundant evidence to suggest that this narrow focus on direct-to-consumer sales greatly understates the actual volume of locally grown food in the U.S. marketplace. In fact, recent analysis by economists with the U.S. Department of Agriculture’s Economic Research Service (ERS) suggests that the majority of local food sales in 2012 (54.8 percent) were generated by farms that marketed all of their local production through intermediaries, compared to fewer than 20 percent that used direct-to-consumer channels exclusively.³

By encompassing all forms of intermediated, hybrid and direct-to-consumer transactions in its analysis, ERS estimates that U.S. local food sales in 2012 exceeded \$6.1 billion, with nearly 8 percent of U.S. farms participating in the local food trade. The share of participating farms in local food markets trended even higher in parts of the country where smaller-scale and produce farmers predominated.⁴

Consumer interest in local food has become so pervasive, in fact, that it has emerged as a major driver of retail and restaurant offerings across the board. On the retail front, recent industry surveys indicate that nearly 75 percent of surveyed U.S. grocery shoppers report consuming local food at least once per month (with the largest plurality consuming local food three times per week).⁵ Nearly 9 out of 10 shoppers (87 percent) say the availability of local food is either “very” or “somewhat” important to their choice of a primary supermarket,⁶ and two-thirds of restaurant patrons are more likely to visit a restaurant that offers locally produced food items.⁷ In the restaurant sector, local food continues to

be a major culinary influence, with locally sourced meat and seafood topping the list of “hot” restaurant trends for 2016 reported by the National Restaurant Association (Figure 1).

Furthermore, the extent of this influence is not restricted to higher-end establishments, but ripples throughout the food service spectrum; not only do 92 percent of surveyed fine-dining restaurateurs plan to add a locally sourced item to their menus this year, but so do 73 percent of casual-dining operators, 63 percent of fast-casual operators, 50 percent of family-dining operators and 35 percent of quick-service operators.⁸ Therefore, when we speak of local food demand, we need to acknowledge that we are addressing a marketing and supply chain phenomenon that currently touches the vast majority of U.S. consumers, not just an elitist or affluent segment of the U.S. population.

Definitions: What Is Local Food Anyway?

At its very core, local food refers to food that is sold based on using its nearby source of origin as a major point of product differentiation in the marketplace.

FIGURE 1

What’s Hot: 2016 Culinary Forecast

TOP 10 FOOD TRENDS	
1	Locally sourced meats and seafood
2	Chef-driven fast-casual options
3	Locally grown produce
4	Hyper-local sourcing
5	Natural ingredients/minimally processed food
6	Environmental sustainability
7	Healthful kids’ meals
8	New cuts of meat
9	Sustainable seafood
10	House-made/artisan ice cream

Source: National Restaurant Association. Accessed Nov. 28, 2016, www.restaurant.org/News-Research/Research/What-s-Hot.

Such foods are typically marketed using the following combination of practices:

- Food products are raised, produced and processed in close proximity to the locality or region where the final products are marketed and consumed.
- Food products are transported using more direct or shorter supply chains with fewer levels of intermediation than food distributed through more conventional marketing channels.
- Participants in local food supply chains specifically identify the physical origin of the product (sometimes, along with the originating farm/farm organization) in labeling, packaging and advertising, so that buyers and consumers are able to recognize the food as a local food.

Federal definitions of local food

Despite the growing use of the term “local food” in public parlance, there is not an official consensus about the meaning of local food, as the relevant parameters for what buyers and consumers perceive to be local can vary considerably depending on geographic location, shopping, commuting and transportation patterns, and the distribution of local agricultural production and processing capacity.

Recognizing that local food supply chains are inherently diverse, both Congress and the USDA to date have adopted a broad functional definition of U.S. local food systems as it relates to federal assistance; this is designed to serve the market development needs of even the most geographically remote areas, while allowing individual localities and regions to define local food in a way that best reflects their individual situation and preferences.

A review of current legislative and programmatic language suggests that four primary themes have influenced the definitions that the federal government has used to define local food and related initiatives: geographic boundaries, market structure, product differentiation and information transparency.

In the Food, Conservation, and Energy Act of 2008 (the 2008 Farm Bill), Congress defined a “locally or regionally produced agricultural food product” as “any agricultural food product that is raised, produced, and distributed in (I) the locality or region in which the final product is marketed, so that the total distance that the product is transported is less than 400 miles from the origin of the product; or (II) the State in which the product is produced.”⁹ Five USDA grant/loan programs and two evaluation mandates are currently bound by this geographic definition:

- Rural Development’s Business & Industry Guaranteed Loan and Value-Added Producer Grant program,
- Agricultural Marketing Service’s Farmers Market Promotion Program and Local Food Promotion Program,
- Food and Nutrition Service’s Food Insecurity Nutrition Incentives,
- local food production and program evaluation, and
- valuation of local or regional crops.

In other cases, Congress and USDA have delegated authority to states or other relevant stakeholder groups to determine the exact meaning of local/regional food as it pertains to their execution of USDA-funded programs. Often the geographic scope of these programs is inherently restricted by the particular constituent group or eligible entity that is targeted for federal support, such as in the case of the Food and Nutrition Service’s Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and Senior Farmers’ Market Nutrition Program, or the National Institute of Food and Agriculture’s Community Food Projects program. In the specific case of the Food Safety Modernization Act, the legislation uses a distribution radius of 275 miles or within the same state to define certain categories of eligibility for producers and food handlers.¹⁰

Alternatively, federal school meal procurement rules leave the exact definition of local/regional geographic preferences to the discretion of local educational authorities, but require that the food products purchased under such geographic preference allowances are both unprocessed and locally grown according to the established definition of the purchasing entity.¹¹

Beyond these geographically based definitions, it is also useful to note that U.S. food policy has long enshrined the concept of supporting direct-to-consumer food marketing channels and/or shorter food supply chains as a way to create a more efficient and fair marketplace for producers and consumers, and to ensure that smaller-scale producers derive appropriate benefit from their participation in the market. As stated in the Agricultural Marketing Act of 1946:

“It is further declared to be the policy of Congress to promote through research, study, experimentation, and through cooperation among Federal and State agencies, farm organizations, and private industry a scientific approach

to the problems of marketing, transportation, and distribution of agricultural products ... to the end that:

- marketing methods and facilities may be improved,
- that distribution costs may be reduced and the price spread between the producer and consumer may be narrowed,
- that dietary and nutritional standards may be improved,
- that new and wider markets for American agricultural products may be developed, both in the United States and in other countries,
- with a view to making it possible for the full production of American farms to be disposed of usefully, economically, profitably, and in an orderly manner.”¹²

The USDA also acknowledges the importance of local food as a marketing signal and point of differentiation that appeals to buyers and consumers who wish to know the origin of their food and/or wish to support producers in their geographic area. The department considers local food systems to be those in which “all of the steps in the supply chain take place within a specific region, and where product origin is conveyed to the end consumers so that individuals can choose a local product.”

To better help producers, processors and other food supply chain partners take advantage of this expanding market sector, and to enhance consumer access to fresh local food, the USDA has incorporated local or regional food system elements or priorities into many of its existing grant and loan programs (further explored later in this chapter). Furthermore, several new information collection initiatives sponsored by the USDA—such as the Agricultural Marketing Service’s (AMS) Market News collection of price information for locally grown food (by the Specialty Crop and Livestock, Poultry and Grain Divisions) and the launch of three new national local food directories in 2014 by the AMS Local Food Research and Development Division (on community supported agriculture, local food hubs and on-farm markets)—attest to the department’s support of initiatives that are designed to provide more convenient and accurate information about existing market outlets and prices for locally produced foods.¹³

Public Support’s Critical Role in Facilitating Local Food System Development

The benefits of local food systems to the evolving farm economy

The emergence of demand for local food comes at a critical time for America’s rural economy. Smaller and midsize farms are under unprecedented threat: Between 1992 and 2007, the number of farms with sales of more than \$10,000 per year but less than \$500,000 declined by more than 150,000, or 21 percent.¹⁴ Consequently, sales of local foods—especially sales to higher-volume customers such as restaurants, retailers and food service institutions—are seen as one of the more promising avenues for the “disappearing agriculture of the middle” to maintain its economic foothold by exercising its natural competitive advantage in delivering fresh food from a trusted, known source to consumers.¹⁵

Local food markets, especially direct-to-consumer outlets such as farmers markets and community supported agriculture (CSA), also provide an affordable, low-risk and scale-appropriate point of entry for the growing number of new and transitioning farmers and entrepreneurs who are just beginning to launch their farm businesses. With the average age of the U.S. farmer now exceeding 58, the need to encourage people to consider farming as a career choice (whether as a first career, second career or part-time career) has never been greater.

Impact of federal support for local food supply chain and market infrastructure

Aided by support from a growing number of USDA grant and loan programs that target funding for local food infrastructure and supply chain development (Figures 2a, 2b), the country has seen a rapid rise in the number of market channels for local food and services designed to facilitate the distribution of local food (Figure 3). Recent changes in legislation, rulemaking and programmatic guidelines have helped to spur this growth; several sections of the 2008 and 2014 Farm Bills explicitly directed the USDA to allocate funds to local and regional food systems, while other USDA grant and loan programs incorporated support of local food systems within their existing legal authorities as a way to promote economic development and revitalization.

As a result of this concentrated focus, the USDA has invested more than \$800 million in local food systems since 2009, supporting more than 29,000 local food

FIGURE 2A
USDA Programs in the Local Food Supply Chain

KEY	LAND CONSERVATION	PRODUCTION	PROCESSING	AGGREGATION/DISTRIBUTION	MARKETS/CONSUMERS
AMS	Agricultural Conservation Easement Program	Environmental Quality Incentives Program	Business and Industry Guaranteed Loans	Business and Industry Guaranteed Loans	Community Food Projects Competitive Grants
FSA	Farm Service Agency	Farm Microloans	Community Facilities Loans and Grants	Community Facilities Loans and Grants	Farmers Market Promotion Program
FNS	Food and Nutrition Service	Farm Storage Facility Loans	Local Food Promotion Program	Local Food Promotion Program	Farm to School Program
NIFA	National Institute of Food and Agriculture	Grass-Fed Verification	Rural Business Development Grants	Rural Business Development Grants	Senior Farmers' Market Nutrition Program
NRCS	Conservation Stewardship Program	NAP*	Value-Added Producer Grants	Specialty Crop Block Grants	Specialty Crop Block Grants
	Environmental Quality Incentives Program	Organic Cost Share	Rural Energy for America Program	WIC Farmers' Market Nutrition Program	WIC Farmers' Market Nutrition Program
RD	Rural Development	Whole Farm Revenue Protection			
RMA	Risk Management Agency				

Source: USDA. Accessed Nov. 29, 2016, www.usda.gov/documents/FoodSupplyChain_v8.pdf.

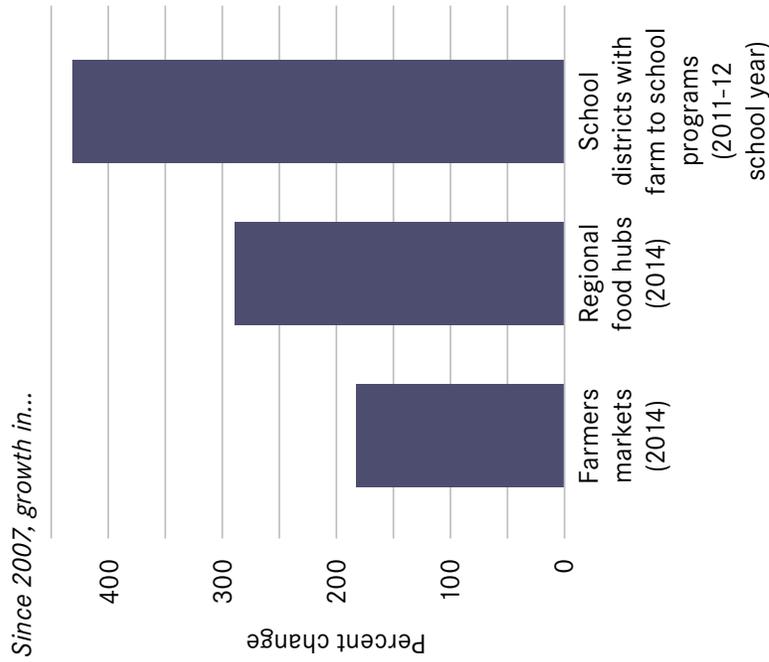
* Noninsured Crop Disaster Assistance Program

FIGURE 2B
USDA Programs in the Local Food Supply Chain

RESEARCH, EDUCATION AND TECHNICAL ASSISTANCE PROGRAMS ALONG THE SUPPLY CHAIN	
AMS	Agricultural Marketing Service
NIFA	National Institute of Food and Agriculture
NRCS	National Resources Conservation Service
RD	Rural Development
RMA	Risk Management Agency
AMS	Agriculture and Food Research Initiative
NIFA	Beginning Farmer and Rancher Development Program
NIFA	Conservation Technical Assistance
NRCS	Federal State Marketing Improvement Program
AMS	Risk Management Education Program
RMA	Rural Cooperative Development Grants
RD	Small Business Innovation Research
NIFA	Specialty Crop Block Grants
AMS	Specialty Crop Research Initiative
NIFA	Sustainable Agriculture Research and Education Program

Source: USDA. Accessed Nov. 29, 2016, www.usda.gov/documents/FoodSupplyChain_v8.pdf.

FIGURE 3
Growth in U.S. Local and Regional Food Marketing Channels



Source: See Low et al. in endnote 3.

projects across the country. Many of these funds were spent to enhance accessible and scale-appropriate infrastructure that would facilitate the expansion of local food sales into commercial and institutional channels; between 2013 and 2014 alone, the USDA made more than 500 investments in local food infrastructure, including processing facilities, cold storage facilities and food hubs.

Federal Policies Create Significant Support for Local Food Purchasing from Nontraditional Consumers

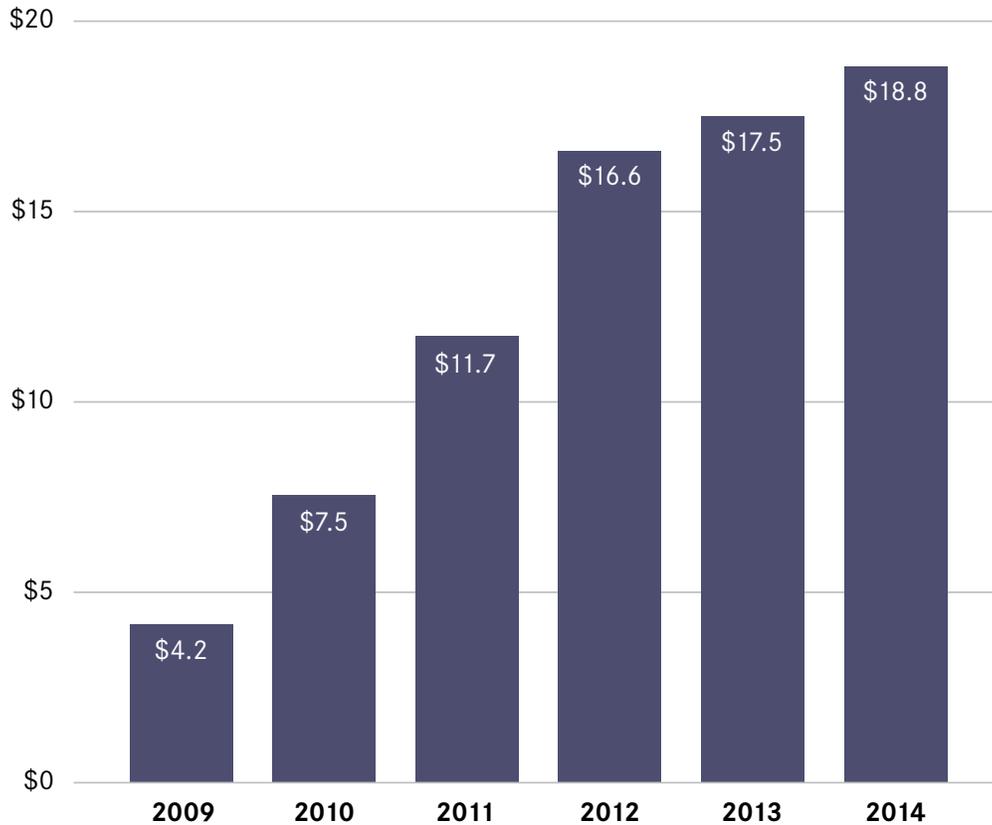
The USDA's growing embrace of local food system development and expansion in its grant, loan and technical assistance programs, and its acceptance of greater allowances for geographic preferences and product specifications in federal procurement have already set in motion substantial increases in demand for local food within federal nutrition and feeding programs. This opens up the prospect of further growth down the road at publicly funded institutions.

Two outstanding examples of recent changes in demand involve the dramatic growth in Supplemental Nutrition Assistance Program (SNAP) redemptions at farmers markets and farm stands, and the sharp rise in public schools participating in "farm to school" programs, whereby local foods are introduced to the schools—both in menus and in school-based gardens, and as part of the educational curriculum. In the case of SNAP benefits, acceptance of SNAP benefits at farmers markets and farm stands rose from approximately 900 sites in 2009 to more than 6,400 in 2014, while the value of redemptions grew from \$4 million to nearly \$19 million over a six-year period (Figure 4). This impressive growth can be attributed to a combination of parallel developments, including:

- strong, proactive outreach by USDA Food and Nutrition Service (FNS) employees to certify qualifying farmers markets and farm vendors;
- the introduction of new AMS and FNS grants or grant set-asides that covered the cost of electronic benefits transfer (EBT) equipment acquisition and installation at farmers markets and farm stands, many of which had historically not been equipped to handle electronic transactions;
- the spread of matching fund programs for SNAP recipients at farmers markets sponsored by regional and national nonprofits (e.g., Wholesome Wave, Fair Food Network and Roots of Change); and

FIGURE 4
Value of SNAP Redemptions at U.S. Farmers Markets and Farm Stands

In Millions



Source: Farmers Market Coalition. “SNAP Update: Redemptions at Farmers Markets Continue to Increase.” <https://farmersmarketcoalition.org/snap-redemption-at-markets-steadily-rises-with-continued-federal-support>.

- the introduction of mobile market operations in low-income neighborhoods to increase farmers market accessibility (funded in part by USDA grant programs such as the Farmers Market Promotion Program).

The reduction of administrative barriers to local food procurement in formal bidding procedures, along with the creation and implementation of grant and loan programs that support farm-to-school activities and the aggregation/distribution of local foods to institutional customers, has sparked a similar dramatic increase in the purchase of local foods by public schools. Since 2009, when the

number of schools participating in farm-to-school programs was estimated to be approximately 2,000 programs in 40 states, the scope of the program has grown to include more than 47,000 schools, involving more than 42 percent of all school districts in the 50 states and the District of Columbia. Annual purchases of local food by schools are now reported to exceed \$780 million in value.¹⁶

Tectonic Shifts in Consumer Preference Drive Local Food Demand Growth

Growing demand for local foods among U.S. consumers can be attributed to a confluence of shifting attitudes and behaviors regarding dietary choices, shopping patterns, trust in conventional institutions and brands, and interest in using household purchasing power to support desired social, economic and environmental goals. Specific reasons range from deeply held philosophical concerns about corporate influence over the U.S. food supply and the environmental ramifications of our current centralized food system structure, to a simple preference for food varieties that have been bred for flavor rather than tolerance for long-distance shipping. None of these issues alone are sufficient to explain the phenomenon of local food demand growth, but the combination of these influences helps explain why the phenomenon has had sustained growth over the past two decades, and why it has become such a dominant trope in U.S. popular culture.

The following influences are some of the key factors contributing to the rise and steadiness of local food demand.

Renewed interest in boosting local and regional economies

Recognition is growing that support of small/local farm businesses may keep a greater share of money recirculating in the local economy and allow farmers to retain a greater share of consumer expenditures on food. Recent studies indicate that local businesses, including small and midscale farms that cater to local consumer markets, frequently spend a greater share of their revenue buying supplies from local companies and hiring local labor than their larger-scale counterparts, enabling them to have a disproportionately positive influence on local economies in relation to their sales volume.

For example, a recent 2016 study by Shermain Hardesty at the University of California, Davis found that farmers in the Sacramento region who sold at least some of their produce directly to consumers purchased approximately 89 percent

of their inputs from local sources, compared with 45 percent by the larger, strictly wholesale-oriented farms. As a result, each dollar spent at a produce farm using some direct-to-consumer marketing channels generated 44 cents more in local economic activity than purely wholesale-oriented produce farms. Furthermore, for each \$1 million in revenue generated by produce farms in the study region, those farms that engaged in some form of direct marketing created nearly 32 local jobs, compared with only 10.5 local jobs among farms that exclusively used wholesale channels.¹⁷

Aside from the macroeconomic impacts associated with shorter food supply chains, recent case study assessments suggest that farm participants in shorter supply chains tend to receive a substantially greater portion of the final retail price than those who sell through less direct means.

On average, farmers retain only 17.2 cents of each dollar spent on food by consumers in the U.S., while fresh fruit and vegetable growers retain about 25 and 38 cents, respectively, for every dollar spent on these items at retail.¹⁸ However, according to a 2010 study by USDA's ERS, producers marketing through more direct food supply chains typically received higher shares of the final retail price than those who sold their merchandise through more mainstream supply chain arrangements.¹⁹

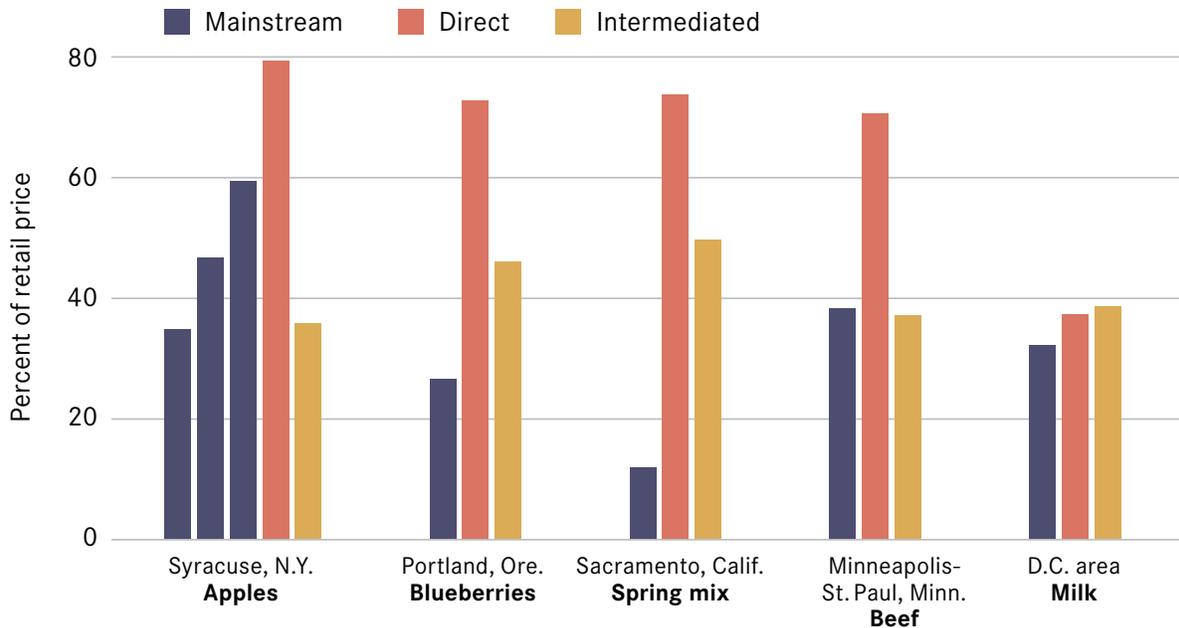
Compared to mainstream supply chains, net revenues for producers in shorter, local supply chains were 649 percent greater per unit for salad mix (Sacramento, Calif., area), 183 percent greater per unit for blueberries (Portland, Ore., area), 91 percent greater per unit for milk (Washington, D.C., area), nearly 65 percent greater per unit for beef (Minneapolis-St. Paul, Minn., area), and 50 percent greater per unit for apples (Syracuse, N.Y., area).²⁰ Similarly, studies by the USDA's AMS indicate that growers who use the services of local food aggregators (food hubs) to market their product to local wholesale/large-volume customers typically retain 60 to 85 percent of the market price paid by these clients.²¹

Perceived alignment of local food business practices with desired social values

Ion Vasi, a joint member of the sociology department and business school faculty at the University of Iowa, noted in his 2015 study that the local food market is not just a platform for economic exchange, but for relational and ideological exchange as well. He observed that the local food market is what sociologists call a "moralized market," where people combine economic activities with their social values.

FIGURE 5

Producers in Less Intermediated Food Supply Chains Retained Higher Share of Retail Price



Note: The three mainstream apple prices for the Syracuse market are based on different suppliers and packaging.

Source: USDA Economic Research Service. Comparing the Structure, Size, and Performance of Local and Mainstream Food Supply Chains, 2010.

By supporting local food businesses and having access to transparent information about their business practices, consumers believe that they have the ability to reward firms that follow desired standards when it comes to such core operating principles as sustainable production methods, animal welfare, fair wages and environmental stewardship. In apparent validation of these findings, Vasi's study further concluded that robust local food markets were more likely to develop in areas where residents had a strong commitment to civic participation, health and the environment.²²

Concerns about water use and its potential impact on domestic food production

Weather phenomena such as the prolonged drought in Western states and increased competition for water resources have raised new doubts about the

wisdom of relying on a concentrated agricultural production system for our domestic food supply and revived discussion of the potential benefits of distributing food production and processing capacity across regions and locales to enhance food security and availability nationwide.

As noted by Tom Philpott in a recent piece in the *New York Times*, farmers in coastal Monterey County, California, rely almost completely on water pumped from underground aquifers. By doing so, they extract billions of gallons of more water per year than is naturally replenished, which is then replaced by seawater seeping in from the coastal shelf. Meanwhile, in California's Central Valley, the source of nearly 25 percent of all U.S.-grown food, aquifers have been drawn down so hard for so long that in some areas they have been sinking at a rate of 11 inches per year, according to studies by the U.S. Geological Survey.²³

In contrast, by transitioning just 270,000 acres of land (equivalent to a typical Iowa county) in the Midwest from corn and soybean production to vegetables, Iowa State University economists have predicted that farmers in the relatively water-rich Midwest could supply everyone in Illinois, Indiana, Iowa, Michigan, Minnesota and Wisconsin with half of their annual tomatoes, strawberries, apples and onions, and a quarter of their kale, cucumbers and lettuce.²⁴

Declining public confidence in “big business” leads consumers to seek out alternative suppliers

Coupled with widespread media coverage of foodborne illness outbreaks linked to negligent business practices, many consumers have begun to question the nutritional quality of food products offered by the conventional food system.²⁵ In its 2016 consumer products study, the consulting arm of Deloitte LLP observed that 3 out of 4 packaged goods categories have seen a decline in “must have” brand loyalty since 2011—and almost half of U.S. consumers strongly prefer brands and products that align to characteristics such as health and wellness, safety, corporate citizenship, and transparency.²⁶

Smaller brands and private-label manufacturers have been growing considerably faster than the largest food manufacturers in recent years, at 4.9 percent and 4.0 percent annually, respectively, between 2009 and 2013, compared to only 1.0 percent annually among the 25 biggest food companies.²⁷ Another significant indicator came from a study by IRI and Boston Consulting Group, which showed that large consumer packaged goods companies lost 3 percentage

points of market share to smaller and midsize companies from 2011-2015—a steep decline in a short period for long-standing iconic brands.

As interest in and loyalty to national brands have waned, consumers have increasingly sought out alternative supply chains with more direct ties to farms, such as farmers markets, CSAs or urban farms/community gardens. We can see signs of the growth in direct-to-consumer patronage by looking at recent statistics from the USDA's National Farmers Market Directory and the 2012 Agricultural Census: The number of voluntary listings in the Farmers Market Directory rose from approximately 1,750 when it launched in 1994 to more than 8,600 in 2016, while the number of farms participating in CSAs (including multifarm CSAs) rose from two in the mid-1980s to more than 12,000 in 2012.

Recent surveys of U.S. household shoppers suggest that direct-market outlets for food such as farmers markets, along with locally controlled and natural food-oriented retailers, maintain a far greater reputation for reliability in supplying local food than their larger or more anonymous competitors (Figure 6).

The perceived connection between local food, local control and the reliability of the supplier is so deeply rooted, in fact, that a majority of consumers across the income spectrum indicate that they would be willing to pay a premium for local food, with a greater share of consumers expressing this point of view at higher income levels (Figure 7).

Growing desire for product authenticity and transparency

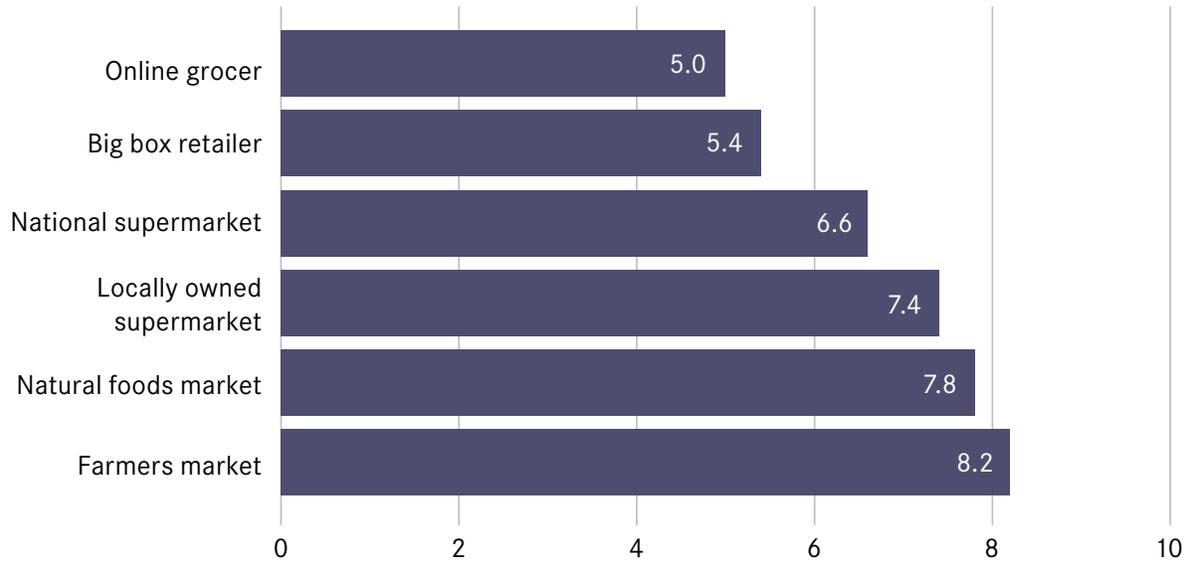
The demand for authenticity and transparency in food manufacturing and labeling is on the rise, most intensively among members of the millennial generation. In a 2016 survey of more than 400 millennials by Watershed Communications, every single respondent indicated that he or she frequently purchased food and beverage brands based on the brand's reputation for authenticity.²⁸ Factors that were most frequently attributed to creating an authentic brand included:

- “clean” ingredients—real, all natural, fresh, organic
- top shelf ingredients and great flavor
- true to mission and product claims
- culturally accurate
- transparency—food and beverage packaging should expressly state what is in the food product and why

FIGURE 6

How Much Do You Trust Each Store Format to Deliver Local Food?

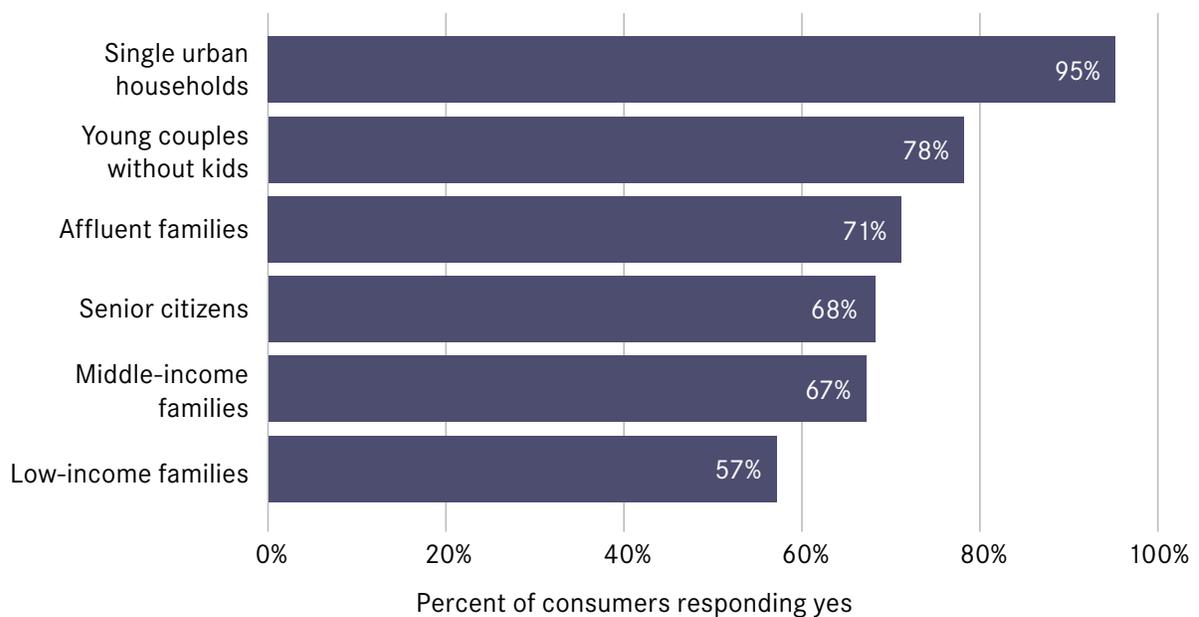
1 to 10 scale, with 10 being the most trustworthy



Source: See Rushing and Ruehle in endnote 34.

FIGURE 7

Shoppers across All Segments Are Willing to Pay More for Local Food



Source: See Rushing and Ruehle in endnote 34.

Based on its research, Watershed identified six key pillars for building an authentic brand: compassion, community, customization, co-creation, consistency and conviction. These are quality attributes and core operating principles that largely align with the business practices and competitive advantages of local food marketers.²⁹

Greater multichannel shopping: willingness to visit multiple retail outlets, including farmers markets

According to a national consumer survey of more than 1,200 U.S. residents in 2016, nearly one-third (30 percent) of respondents had shopped at a farmers market or local food stand, up from a reported 11 percent in 2014.³⁰ Even more impressively, 14 percent of respondents indicated they had purchased a prepared meal from a farmers market or local food stand within the previous year, with this share rising to 24 percent among urban residents and consumers in the highest household income category (above \$150,000 per year).³¹

The gravitation toward direct-marketing outlets is attributed to several changes in consumer shopping priorities. While cost remains the most important factor in influencing consumer purchases of groceries, the traditional importance of convenience is being challenged by growing interest in quality and selection. Furthermore, household shoppers for the first time are ranking “shopping experience/environment” among their highest priorities when making decisions about where to shop for food.³² The growing influence of the millennial generation is said to be accelerating this trend toward food retail channel diversification, as millennials are more inclined than grocery shoppers in other age cohorts to visit a greater variety of retail food outlets and to plan meals for a specific occasion rather than for an extended period of time.³³

Consumers willing to change preferred stores for better local food selection

Local food availability is enough of a lure to grocery shoppers that a large segment of surveyed U.S. grocery shoppers indicate that they will consider purchasing food elsewhere if their standard preferred store does not carry local foods. In a survey conducted in late 2012, fully 30 percent of a national representative sample of U.S. primary household grocery shoppers told consulting firm A.T. Kearney that they would consider switching their usual retail food store if their preferred store did not carry local foods. Furthermore, the majority

of respondents in this 1,300-person survey indicated that their main source for local food was still their local farmers market or farm stand, while only 5 percent indicated that they shopped primarily for local foods at “big box” retailers and 15 percent at national supermarket chains.³⁴

Therefore, far from being a niche market, a passing phenomenon or just a concern of the affluent, the very nature and features of local food squarely meet the changing demands and expectations of U.S. consumers on a variety of levels. Furthermore, when we consider that many of the current constraints to local food system expansion may well be supply rather than demand related (given the current centralized nature of our agricultural production system and the general orientation of our distribution and transport infrastructure toward serving national agricultural markets), we have every reason to believe that we have not yet seen the full potential of local food demand growth on market expansion.

In summing up the most critical marketing trends facing food retailers in 2016, Chain Store Age magazine noted that the most important aspect of attracting today’s U.S. food shopper is “authenticating the fresh foods story,” as consumers have increasingly “high expectations around freshness, convenience and transparency.”³⁵ Fortunately for the local food producer, manufacturer and distributor, two of these trends—freshness and transparency—are areas where local food suppliers have a natural competitive advantage against other food suppliers, while convenience is an amenity that purveyors of local food are increasingly able to provide through changes in product offerings and distribution mechanisms, issues that we explore more thoroughly in subsequent chapters.

Drivers on the supply side: Cultivating local food markets is connected to business stability and better negotiating power

At the same time that demand for local food among U.S. consumers is on the increase, local food producers and processors are finding additional business reasons to explore this market opportunity. The differentiation of food products on the basis of local origin and the embrace of local food items by a growing segment of U.S. consumers have benefited small and midsize producers by:

- stimulating new interest in local food supplies by wholesale buyers in the restaurant, retail and institutional trade, which enables commercial scale producers to further diversify their customer base, potentially gain access to higher-volume market channels and better stabilize their cash flow;

FIGURE 8

Market Channels for Agricultural Producers, Risks and Rewards

MAINSTREAM MARKETS	ALTERNATIVE MARKETS	
MAJOR CHANNELS	FARM-TO-FIRM MARKETING	FARM-TO-CONSUMER MARKETING
<ul style="list-style-type: none"> • Rural collection markets • Auctions • Terminal markets • National food distributors • Value-added firms (processors, repackers) • Brokers • Large-scale producer cooperatives • Federal/state procurement programs 	<p>Restaurants</p> <ul style="list-style-type: none"> • Independent • Chain <p>Grocery</p> <ul style="list-style-type: none"> • Mainstream chain • Specialty chain • Independent • Food cooperatives <p>Institutions</p> <ul style="list-style-type: none"> • Hospitals • Schools • Prisons • Casinos • Corporate cafeterias 	<ul style="list-style-type: none"> • Flea markets • Farm stands • Community supported agriculture • Farmers markets • Pick your own
<ul style="list-style-type: none"> • Low or no producer bargaining power • Low or no preservation of product identity 	<ul style="list-style-type: none"> • Bargaining power increases • Product identity may be preserved 	<ul style="list-style-type: none"> • High producer bargaining power • Product identity preserved
OTHER PRODUCER AND CONSUMER CHARACTERISTICS		
<ul style="list-style-type: none"> • Producers are price takers • Favors larger-scale farm operations • Products are generally not differentiated • Consumers are passive buyers of product 	<ul style="list-style-type: none"> • Producers are price-makers/takers • Works well for producer groups/networks • Products might be differentiated • Consumer may be active-intentional, concerned, aware about foods 	<ul style="list-style-type: none"> • Producers are price-makers • Works well for smaller scale farms • Products are differentiated • Consumer is active-intentional, concerned, aware about foods



Source: Ben Turner, Institute for Social and Economic Development; and Jim Barham and Adam Diamond, USDA Agricultural Marketing Service. “Marketing and Sales: Risks and Opportunities for Small-Scale and Resource-Limited Producers,” presented March 2009.

- allowing producers to extract more value from the sale of their agricultural merchandise by selling a differentiated product with desired attributes rather than a generic commodity; and
- providing growers and food suppliers with greater negotiating power in business transactions and enabling them to retain a greater share of consumer food expenditures than mainstream marketing channels.

Other financial considerations seem to favor the local food supplier, especially those who participate in direct-to-consumer marketing channels. According to USDA's ERS, not only did farms with direct-to-consumer sales have a higher survival rate from 2007 to 2012 than other farm product suppliers, but the difference in farm survival rates was substantial, ranging from 10 percentage points for the smallest farms to about 6 percentage points for the largest.

Direct marketing was also associated with higher farm survival rates among beginning farmers: On average, beginning farmers who marketed directly to consumers had a 54.3 percent survival rate, compared to 47.4 percent for those who marketed their goods through traditional channels. Economists with ERS speculate that this difference in financial performance exists in part because producers using direct-to-consumer marketing channels, often smaller-scale operation, frequently have a smaller debt burden than their larger counterparts, owing to the fact that they operate on small parcels of land and need fewer pieces of farm equipment. This conclusion is borne out by some circumstantial data: In 2012, farmers who marketed farm product directly to consumers owned \$20.82 worth of machinery per dollar of sales, compared with \$31.10 for those who marketed farm products through more conventional channels.³⁶

Conclusion

A favorable policy environment may have aided the growth of local food systems in recent years. However, there is abundant evidence to suggest that local food systems have serious traction and considerable staying power, and will make an increasingly important contribution to the U.S. food system, regardless of future policy direction.

Profound shifts in consumer attitudes and behavior regarding food purchases have taken place. Price no longer dominates as the primary consideration in determining product value but competes with other considerations such as

personal health, trust in suppliers and local community benefit. These shifts in consumer preference can be expected to support continued growth in demand for food that is marketed on the basis of its local origin.

Another development that favors the continued growth of local food demand relates to the growing installation and use of scale-appropriate regional processing, aggregation and distribution infrastructure. Access to this infrastructure should permit the continued expansion of local food sales to a growing number of commercial and institutional customers, which will in turn develop the consumer base for local food by exposing a greater range of consumers to local food in the places where they normally work and shop.

Beyond growing access to logistical support, producers selling to the local market also have profound financial incentives to pursue marketing opportunities in wholesale channels because of the ways in which these higher-volume transactions offer them an opportunity to extract greater income from their agricultural product sales, diversify their customer base and improve their cash flow without straining available labor resources. ■

ENDNOTES

- 1 Excludes nonedible farm products, such as nursery/ornamental crops, or foods for animal consumption
- 2 Total annual U.S. agricultural sales rose approximately 143 percent in value between 1992 and 2012.
- 3 Low, S.; Adalja, A.; Beaulieu, E.; Key, N.; Martinez, S.; Melton, A.; Perez, A.; Ralston, K.; Stewart, H.; Suttles, S.; Vogel, S.; and Jablonski, B. 2015. Trends in U.S. Local and Regional Food Systems. Administrative Publication No. 68. Washington, D.C.: USDA, Economic Research Service, Table 4, p. 9. Accessed Feb. 17, 2017, www.ers.usda.gov/publications/pub-details/?pubid=42807.
- 4 Ibid.
- 5 National Grocery Association. 2015 National Grocery Association-SupermarketGuru Consumer Survey Report. Accessed Aug. 26, 2016, [www.nationalgrocers.org/docs/default-source/Surveys-Reports-\(2015-2016\)/consumersurveyreport2015.pdf](http://www.nationalgrocers.org/docs/default-source/Surveys-Reports-(2015-2016)/consumersurveyreport2015.pdf).
- 6 Ibid.
- 7 National Restaurant Association. 2016 Restaurant Industry Factbook. Accessed Aug. 26, 2016, www.restaurant.org/Downloads/PDFs/News-Research/PocketFactbook2016_LetterSize-FINAL.pdf.
- 8 National Restaurant Association. 2016. "Demand for Local Food on the Rise." Accessed Aug. 16, 2016, www.restaurant.org/News-Research/News/Demand-for-local-foods-is-on-the-rise.
- 9 USDA, National Agricultural Library. "What Makes a Food Local?" from the digital exhibit Mailboxes, Mom and Pop Stands, and Markets: Local Foods Then and Now. Accessed Aug. 31, 2016, www.nal.usda.gov/exhibits/ipd/localfoods.
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- 12 U.S. Code 7 § 1621. Accessed Aug. 26, 2016, www.law.cornell.edu/uscode/text/7/1621.
- 13 The landing page for USDA/AMS local food market news resources may be found at www.ams.usda.gov/market-news/local-regional-food, while the landing page for USDA/AMS national local food directories may be found at www.ams.usda.gov/services/local-regional/food-directories. The listings in these directories are voluntarily submitted and updated by market or enterprise managers in accordance with the U.S. Office of Management and Budget's data collection requirements. Given their voluntary nature, they should not be regarded as a complete or accurate national count of market operations.
- 14 USDA Office of Communications. 2011. "Know Your Farmer, Know the Facts." USDA blog, July 8. Accessed Nov. 26, 2016, <http://blogs.usda.gov/2011/07/08/know-your-farmer-know-the-facts>.
- 15 Across all local food farms, annual local food sales per farm averaged \$56,240 (2008 Agricultural Resource Management Data survey). However, there was substantial variability between those farms relying more heavily on direct-to-consumer (DTC) channels versus intermediated sales channels (mostly to wholesale buyers). Those using only DTC channels averaged \$17,621 in local food sales per year, those using both DTC and intermediated channels sales averaged \$53,103 per year, and those who only used intermediated channels averaged \$217,150 per year.
- 16 National Farm to School Network. Home page. Accessed Aug. 31, 2016, www.farmtoschool.org.
- 17 Ashton, Adam. 2016. "Buying Directly from Farmers Has Outsized Impact on Local Economy, UC Davis Study Finds." Sacramento Bee, July 20. Accessed Aug. 29, 2016, www.sacbee.com/food-drink/article90906932.html.
- 18 Average farm share number obtained from 2014 figures, Food Dollar Series, USDA Economic Research Service, <https://data.ers.usda.gov/reports.aspx?ID=17885>. Fresh fruit and vegetable numbers obtained from Price Spreads from Farm to Consumer, USDA Economic Research Service, www.ers.usda.gov/data-products/price-spreads-from-farm-to-consumer/price-spreads-from-farm-to-consumer.

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- 27 Ibid. According to Deloitte's 2014 Social Media Survey, when compared with the average across industries, consumers are 3.4 times more likely to harbor negative sentiment about food companies.

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