Minnesota Grocery Store Demand for Local, Organic Farm Products

2007 Survey Results For the Northeast Region

Prepared by Gigi DiGiacomo, Senior Fellow, Endowed Chair In Agricultural Systems Program Minnesota Institute for Sustainable Agriculture, University of Minnesota for the Northeast Regional Partnership

May 2008

Gigi DiGiacomo, Senior Fellow, Endowed Chair In Agricultural Systems Program, Minnesota Institute for Sustainable Agriculture, University of Minnesota

BACKGROUND

Newspapers across the country have been dominated in the past few years by headlines touting unprecedented growth in consumer demand for locally-produced food and surging retail sales of organic products. Consequently, many farmers have begun asking serious questions about the potential for direct sales of organic products, particularly at the retail level.

In response to farmers' growing interest in direct-to-retail sales a telephone survey was conducted in 2007 through the University of Minnesota's Endowed Chair in Agricultural Systems Program to quantify grocery store demand for locally-produced organic farm products and to identify opportunities for direct store delivery.

SURVEY METHODOLOGY

A four-part telephone survey, designed by an interdisciplinary team, was used to question Minnesota grocery store buyers about current and expected sales of organic farm products, sourcing practices/preferences, and their attitudes toward direct store delivery by farmers. General store managers and individual category buyers for produce, meat and dairy products were contacted and surveyed separately at each store.

The survey was conducted by the Minnesota Center for Survey Research from August – October 2007. Stores were contacted up to five times in an attempt to complete the survey. Survey interviews lasted 20 minutes on average.

SURVEY DEMOGRAPHICS

Survey targets were identified using the *2007 Chain Store Guide* for single unit supermarkets and for supermarket and grocery store chains. Stores were contacted for the survey if they reported having $250,000 in annual sales, a *gourmet/specialty* department, and two or more category buyers. Survey targets were well distributed throughout the state – in both metro and non-metro zip codes (See *Figure (1)* and *Figure (2)*).

Figure (1):
Location of Single Store Survey Participants

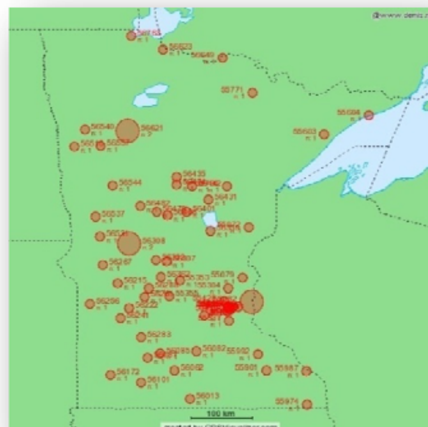
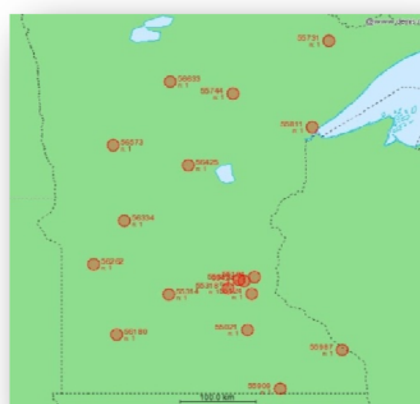


Figure (2):
Location of Chain Store Survey Participants



Gigi DiGiacomo, Senior Fellow, Endowed Chair In Agricultural Systems Program, Minnesota Institute for Sustainable Agriculture, University of Minnesota

The survey response rate was 80 percent statewide with 86 stores participating and 225 individual buyers surveyed. Responses were well distributed throughout Minnesota with approximately 30 percent of surveys coming from stores located in the Twin Cities and the remainder from outstate.

Respondents represent 34% of single unit (independently owned) supermarket stores in Minnesota, 34% of chain store *companies* and 10% of chain *stores*. The average size of chain companies surveyed was 3.5 stores/chain company (when the two largest companies are excluded). In other words, the chain stores represented by this survey are quite small in comparison with the industry average of 201 stores/chain.

RESULTS OVERVIEW

Key results, based on descriptive statistics, suggest that Minnesota grocers anticipate significant growth in organic sales over the next 1-5 years and have a positive attitude towards sourcing direct from farmers. Minnesota grocers use a variety of suppliers to source organic food products: wholesalers, distributors, brokers and farmers. Survey results imply that independent grocers, and to a lesser degree chains, have the flexibility to source direct from farmers though they identified seasonality as a constraint that regularly precluded more direct purchases.

Other purchasing constraints included: insufficient volume, lack of specific product/variety, poor communication, and distribution or transportation problems.

Grocers who purchased direct from farmers in 2006 said they did not use the Internet, conferences/trade shows, or farmers markets to identify farmers. Instead, they purchased products from farmers who contacted the store directly.

Most buyers said they would *prefer* that farmers contact the store direct in the future to arrange sales. When buying direct, grocers regularly requested items such as price sheets, delivery schedules, labeling, copies of organic certification and point-of-purchase materials.

REGIONAL FOCUS: Results from Stores Located in the Northeast Region

In the Southeast region of Minnesota (Koochiching, Carlton, Cook, Itasca, Lake, Pine and St. Louis counties) nine of the 11 stores <u>contacted</u> choose to participate in the statewide survey – making for an overall response rate of 82 percent. These nine stores represent approximately 41 percent of all supermarkets, grocery stores and convenience stores in the NE region[1]. At these nine stores, 24 telephone surveys were conducted with individual store managers, produce, dairy and meat buyers.

Overall, results from the NE region were similar to those found throughout other non-metro areas – with *organic sales* accounting for less than one percent of total sales. Organic sales for participating stores in this region totaled $2,306,140 in 2006. On average, each store sold approximately $329,449 worth of organic product with *chain stores* making up for the lions share. On average, the three participating chain stores each sold $509,713 worth of organic products while the

[1] Number of stores in the region are based on listings in the *2006 Chain Store Guide Directories* for Single Unit and Chain Supermarkets, Grocery Stores and Convenience Stores.

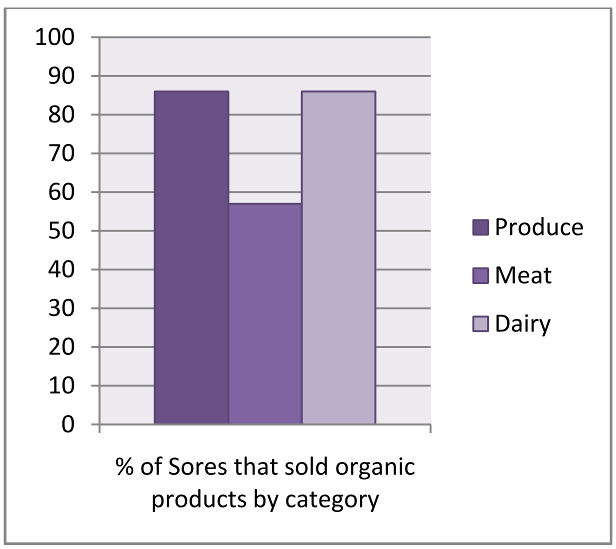
Gigi DiGiacomo, Senior Fellow, Endowed Chair In Agricultural Systems Program, Minnesota Institute for Sustainable Agriculture, University of Minnesota

four participating independent stores each sold $194,250 worth of organic products in 2006.

TOP SELLING ORGANIC PRODUCTS

We surveyed buyers in three product categories: produce, meat and dairy. Organic produce and dairy products were retailed at most NE region stores (86%). Organic meat products, on the other hand, were sold at 57 percent of all stores in 2006 (*Figure 3: Organic Sales by Product Category*).

Figure 3: Organic Sales by Product Category



The top selling organic product (by sales volume) at NE stores in 2006 was ***milk.*** Other leading organic products mentioned by NE store managers were:

- Lettuce
- Boneless Chicken
- Tomatoes
- Beef
- Yogurt
- Chips
- Carrots
- Apples
- Butter
- Eggs
- Bread

All of these products can be produced in Minnesota seasonally or year-round and represent a marketing opportunity for Minnesota farmers.

Nearly all store managers in the NE region anticipate positive growth in organic sales over the next 1-5 years with half of all managers expecting sales to increase by 50% or more. Only one of the managers anticipated a drop in organic food sales at their store in the future.

DEMAND FOR *LOCAL* ORGANIC PRODUCTS

Farmers in the NE region do have the opportunity to market direct at the retail level. All of the buyers surveyed purchased products from MN suppliers (wholesalers, distributors, processors, manufacturers) in 2006. However, unlike other buyers across the state, buyers in the NE generally did not report purchasing organic products direct from farmers. ***Only one of the 13 category buyers who answered sourcing questions said he/she bought direct from Minnesota farmers in 2006.***

In terms of product volume, slightly less than half of all buyers purchased 50 percent or more of their store's organic produce, meat and dairy products from Minnesota suppliers in 2006. Survey results suggest that buyers turned to Minnesota suppliers for a number of reasons, including: customer demand; a desire to support the local economy; perceived product freshness/quality; transportation/distribution advantages; and because local suppliers made available products that the store needed.

Gigi DiGiacomo, Senior Fellow, Endowed Chair In Agricultural Systems Program, Minnesota Institute for Sustainable Agriculture, University of Minnesota

Most notably, price was cited by only two buyers as a reason for sourcing locally – suggesting that local suppliers do not offer price advantages over products coming from out of the state, region or country (See *Figure 4: Retailers' Reasons for Buying Locally*).

Figure 4: Retailers' Reasons for Buying Locally

Reason	# of Respondents (%)
Company philosophy	5 (38%)
Customer demand	9 (69%)
Product quality/freshness	9 (69%)
Distribution/transportation advantages	10 (77%)
To support the local economy	7 (54%)
Price	2 (15%)
Availability of needed product	10 (77%)
Other	0 (0%)
Total number of respondents	**13**

LOCAL SOURCING CHALLENGES

Produce, meat and dairy buyers who did not source from farmers were asked why. One buyer mentioned contractual obligations with a distributor and another mentioned food safety concerns. However, ***almost every buyer*** reported that they were either unaware of locally-certified organic producers in the area or that certified organic farmers had not approached the store to arrange sales (*Figure 5: Why Retailers Didn't Buy from Minnesota Farmers*). This should not come as a surprise. According to the *Directory of Minnesota Organic Farms* for 2006 (published by the Minnesota Department of Agriculture), there were only four organic farms listed in the NE region (they raised fruits, vegetables and livestock).

Figure 5: Why Retailers Didn't Buy From Minnesota Farmers

"I have not heard from any farmers who have organic certification."

"I was never approached by any organic farmers and I didn't look for any."

"Not available to us – we're so far up North here there aren't farms that sell up here."

"I was never approached by any organic farmers and I wasn't going looking for them."

"I don't know any organic farmers."

"No farmers I have found sell organic dairy products."

"I was not contacted by any farmers and I didn't search for any."

"None in the area."

"Not available – no farmers in our area."

"Availability – not there."

"I have not been approached by anyone from Minnesota who sells organic foods."

"We don't have the time to find farmers to supply our needs and the are not coming to us."

"No farmers are selling certified organic foods that I have heard of in my area."

Gigi DiGiacomo, Senior Fellow, Endowed Chair In Agricultural Systems Program, Minnesota Institute for Sustainable Agriculture, University of Minnesota

RECOMMENDATIONS FOR NE AREA FARMERS & EDUCATORS

When asked an open-ended question about what type of resources would be most helpful, NE buyers responded as follows:

"Grower information about certified organic farmers."

"Point of purchase material."

"Handouts—brochures for customers."

"Information about proper handling techniques."

"Ideas of what sells – what people are looking for."

"Point of purchase materials about refrigeration vs. non-refrigeration."

"Any and all information about organic foods."

"General information about organic foods."

"Not much really – maybe information about organic food."

"A listing of organic farmers in the area."

"Some posters/signs."

"Any information you have for customers."

"Point of purchase materials."

Based on buyers' feedback in the NE and other outstate regions, organic farmers who wish to market direct to grocers should consider:

1. Contacting the store. Retailers are interested in buying local but will not actively seek you out if they can access local products through a wholesaler or distributor.

2. Offering price sheets, certification evidence, a delivery schedule and point-of-purchase materials.

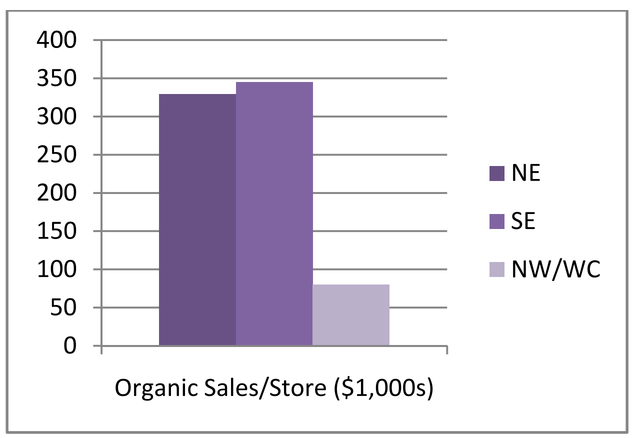
3. Labeling products – with USDA Certified Organic or PLU/UPC stickers.

4. Communicating regularly with buyers in advance and throughout the growing season to inform them of product availability and shortages or other production constraints.

CONCLUSIONS

The outlook for sales of locally produced organic fruit, vegetable, dairy and meat products is promising in the NE region. NE area stores retailed as much or more organic product as stores in other outstate areas in 2006 (See *Figure 6: Regional Sales of Organic Food in 2006*). Moreover, the stores' top selling organic products are those that can be produced within the state seasonally or year-round.

Figure 6: Regional Sales of Organic Food in 2006



Furthermore, most NE store managers expect organic sales to increase substantially within the next 1-5 years and are sourcing from Minnesota wholesalers and distributors for social and economic reasons.

Despite their interest in and perhaps preference for local suppliers, NE buyers have few opportunities to

Gigi DiGiacomo, Senior Fellow, Endowed Chair In Agricultural Systems Program, Minnesota Institute for Sustainable Agriculture, University of Minnesota

purchase direct from farmers within their region. There were only a handful of organic growers operating in the NE region in 2006 and even fewer to date according to the updated *Directory of Minnesota Organic Farms for 2008*. Thus the retail sector seems ripe with promise for organic growers who wish to get started growing and marketing direct in the NE region.

For a copy of the full survey results, please contact Gigi DiGiacomo, rgdigiacomo@earthlink.net or 612-710-1188.

ACKNOWLEDGEMENTS

Funding for this analysis and report was provided by the Northeast Regional Partnership. For more information, please contact:

NE Regional Partnership
Cloquet Forestry Center
179 University Road
Cloquet, MN 55720
Phone: (218) 341-6029
Fax: (218) 879-0857
E-mail: ukaga001@umn.edu

REGIONAL SUSTAINABLE DEVELOPMENT PARTNERSHIPS
Communities and their University building Minnesota's future

The retail survey was supported with funds from the Endowed Chair in Agricultural Systems Program.

The School of Agriculture Endowed Chair in Agricultural Systems