Minnesota Grocery Store Demand for Local, Organic Farm Products

2007 Survey Results
For the Northwest & West Central Regions

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BACKGROUND

Farm journals and urban newspapers alike have been dominated in the past few years by headlines touting unprecedented growth in consumer demand for locally-produced food and about 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

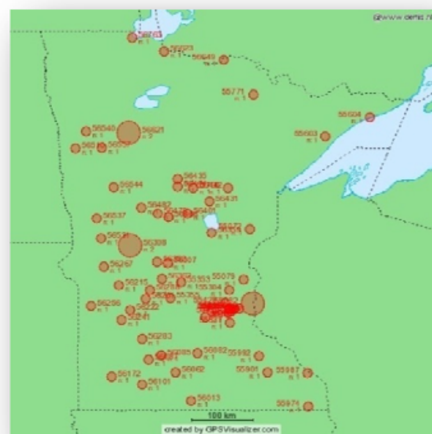
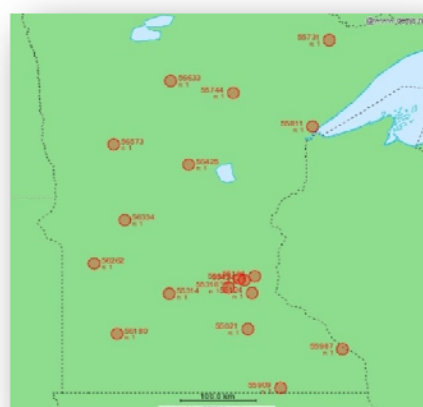


Figure (2):
Location of Chain Store Survey Participants



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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 did purchase 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 those farmers who initiated contact with the store.

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 North West/West Central Regions

In the North West/West Central (NW/WC) regions of Minnesota[1], 28 of the 33 stores contacted choose to participate in the statewide survey – making for a 90 percent response rate (the highest of all regions). A total of 58 individual buyer surveys were conducted at the 28 participating stores.

Results were similar to those found throughout other non-metro areas with organic sales accounting for just over one percent of all NW/WC store sales. Total *organic sales* for participating stores in these two regions totaled $1,363,000 in

[1] NW/WC counties include: Kittson, Roseau, Lake of the Woods, Marshall, Pennington, Red Lake, Polk, Beltrami, Clearwater, Norman, Mahnomen, Clay, Becker, Wilkin, Ottertail, Traverse, Grant, Douglas, Stevens, Pope, Stearns, Todd, Big Stone, Swift, Kandiyohi, Meeker, McLeod, Sibley, Lac Qui Parle, Chippewa, Yellow Medicine, Renville, Lincoln, Lyon, and Redwood.

2006. On average, each store sold approximately $75,700 worth of organic product.

Store managers in the NW/WC regions anticipate positive growth in organic sales – with almost half of all managers expecting sales to increase by 25% or more in the next 1-5 years and the remaining half of store managers anticipating growth of 0-25 percent over the same period. None of the managers expected sales of organic food products to decline at their stores in the near future.

TOP SELLING ORGANIC PRODUCTS

Organic produce and dairy products were retailed at most NW/WC region stores (78%). Organic meat products, on the other hand, were sold at less than 40 percent of all stores in 2006 (*Figure 3: Organic Sales by Product Category*).

Figure 3: Organic Sales by Product Category

The top five organic products (by sales volume) at NW/WC stores in 2006 were: ***carrots, potatoes, milk, cereal*** and ***flax.*** These products, which can be produced in Minnesota seasonally or year-round, represent a significant marketing opportunity for Minnesota farmers. Other leading organic products mentioned by NW/WC store managers were:

- Apples
- Bananas
- Bread
- Brocolli
- Buffalo
- Coffee
- Eggs
- Grains
- Onions
- Oranges
- Pasta
- Pasta sauce
- Salads/Lettuce
- Snacks
- Soy milk
- Spinach
- Strawberries
- Tomatoes

DEMAND FOR *LOCAL* ORGANIC PRODUCTS

Farmers in the NW/WC region do have the opportunity to market direct at the retail level. All of the buyers surveyed purchased products from MN suppliers (farmers, wholesalers, distributors, processors, manufacturers) in 2006 and more than half (57 percent) reported buying *direct from farmers*.

In terms of product volume, half of all buyers who sourced products locally purchased an astounding 75 percent or more of their store's total organic produce, meat and dairy products from Minnesota suppliers – including farmers – in 2006. By contrast, the other half of buyers purchased only five percent or less of their total organic products from local suppliers.

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Survey results from nine buyers show that they turned to local suppliers for a number of reasons including: a desire to support the local economy; customer demand; perceived product freshness/quality; and transportation /distribution advantages. Distribution advantages may, in this outstate area, imply the ability to source smaller volumes (rather than the larger volumes sought by Twin Cities' buyers). Open-ended survey comments suggest that buyers representing smaller stores may have trouble sourcing from traditional, large-scale distributors. (*Figure 4: Retailers' Reasons for Buying Locally*).

Figure 4: Retailers' Reasons for Buying Locally

Reason	Number of Respondents (%)
Company philosophy	4 (44%)
Customer demand	4 (44%)
Product quality/freshness	5 (56%)
Distribution/transportation advantages	6 (67%)
To support the local economy	7 (78%)
Price	2 (22%)
Availability of needed product	5 (56%)
Other	3 (33%)
Total Number of Respondents	9

Retailers noted, when asked to clarify "other" reasons for purchasing locally, that:

"[Big distribution] companies feel our store is too small [so we buy locally]."

"Locally grown will sell."

"We like to handle most things locally."

"If [local suppliers] came, we'd buy [their products]."

LOCAL SOURCING CHALLENGES

Buyers were asked several questions about direct sourcing challenges. Some buyers reported that contractual obligations or company policy prevented them from buying direct from famers. However, the majority of NW/WC buyers (like retail buyers in other outstate areas) gave "other" reasons for choosing not to purchase direct from farmers (See *Figure 5: Reasons Retails Did Not Source Direct from Minnesota Farmers*).

Figure 5: Reasons Retailers Did Not Source Direct from Minnesota Farmers

Reason	Number of Respondents (%)
Company Policy	2 (25%)
Contractual Obligations With Other Suppliers	1 (13%)
Regulatory Barriers	2 (25%)
Other *	4 (50)%
Total # of Respondents	8

**See Figure 6: "Other" NW/WC Retailer Comments.*

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When asked to clarify their "other" reasons, produce, meat and dairy buyers reported that they were either unaware of locally-certified organic producers or that certified organic farmers had not approached the store to arrange sales (See *Figure 6: "Other" NW/WC Retailer Comments).*

Figure 6: "Other" NW/WC Retailer Comments

"No farmers sell organic goods around our area."

"Just don't have [organic] farmers in the areas."

"There were no organic dairy products available through our farmers."

"No farmers contacted me about selling organic food products."

"The farmers in our area do not sell certified organic foods."

"The produce must be certified and I haven't heard of certified products coming from farmers [in our area] or I would have bought them."

The *Directory of Minnesota Organic Farms for 2006* (produced by the Minnesota Department of Agriculture) indicates that there were more than 100 certified organic farmers in the NW/WC region at the time of the retail telephone survey – many of whom reported producing milk, eggs, beef, poultry, vegetables, fruit and maple syrup. Therefore, supply may not be the issue, but rather time. Retailers simply may not have the time to search for farmers in their region – finding it more convenient and/or efficient to use wholesalers and other suppliers.

Buyers who did purchase direct from farmers were asked how they identified/located these suppliers. Four out of five buyers responded saying that they purchased from those farmers who had contacted the store or initiated the sale. One buyer noted using the *Minnesota Grown Directory* or talking with other retailers (word-of-mouth) to identify farmers.

However, none of the buyers connected with local farmers by searching the Internet, attending conferences and trade shows, or visiting farmers markets. (*Figure 7: Connecting with Farmers*).

Figure 7: Connecting With Farmers

Method Used by Retailers to Connect with Farmers	Number of Respondents (%)
Farmers market	0 (0 %)
Word-of-mouth	0 (0%)
MN Grown directory/website	1 (20%)
Conference/Trade shows	0 (0%)
Web or Internet search	0 (0%)
Farmer contacted store	4 (80%)
Number of Respondents	5

In other words, buyers are depending on farmers to make the connection – to approach the store to arrange sales. Buyers in the NW/WC have a clear interest in buying direct and when doing so, three out of five respondents preferred that farmers contact the store directly in the future.

BUYER PURCHASING PREFERENCES

Two or more buyers who purchased direct from farmers in 2006 asked them to supply proof of organic certification, a delivery schedule and point-of-purchase materials. One buyer also asked growers to ensure uniform product standards and to test products when making claims about quality and nutrition (*Figure 8: Buyer Requests in 2006*).

Figure 8: Buyer Requests in 2006

	Number of Respondents (%)
Price sheet	0 (0%)
Copy of liability insurance policy	0 (0%)
Copy of organic certification	3 (60) %
Uniform product standards	1 (20%)
Product samples	0 (0 %)
Testing to verify claims	1 (20%)
Delivery schedule	2 (40%)
Point of purchase materials	2 (40%)
Number of Respondents	5

Once terms of sale were agreed to, most buyers surveyed in the NW/WC region utilized informal contracts (verbal agreements, handshakes) to finalize purchases in 2006. A few buyers also reported making "spot" purchases (with no previous commitment). However, none of the buyers used formal, written contracts to secure sales. This is consistent with retail buyers' purchasing practices throughout the state. Buyers also noted the following challenges when buying direct from farmers (some with more frequency than others):

- Limited variety
- Distribution/transportation disadvantages
- Insufficient volume
- Inconsistent packaging/grading
- Seasonality
- Poor communication

RECOMMENDATIONS FOR NW/WC FARMERS

When asked what farmers could do to better serve their store's needs, buyers suggested that farmers:

- Contact the store
- Identify store needs
- Offer price sheets
- Offer a delivery schedule
- Label products
- Develop point-of-purchase materials
- Collaborate with other farmers to establish coordinated deliveries
- Communicate regularly with buyers

In their own words, buyers recommended that farmers communicate regularly, create promotional materials, increase production and lower prices (*Figure 9: Buyer Recommendations*).

Figure 9: Buyer Recommendations:

- *Labeling is key-certified labels, materials such as where products are from and who made it – for customers*
- *Maintain good communication with our store*
- *Work with our supplier instead of direct*
- *Availability and more production*
- *Be more negotiable with prices. Sometimes the prices are just way to high*
- *Keep talking to us regularly*
- *Keep communication levels good*
- *More variety; keep cost down*
- *Advertise to get more people interested*
- *Understand the retail end of it – if they have a lot it doesn't mean I need it*
- *Hard to say because I only buy from one farmer*
- *They just need to keep up with demand*

CONCLUSIONS

The outlook for organic sales of locally produced fruit, vegetable, dairy and meat products is promising in the NW/WC region. While organic sales currently represent a relatively small share of grocery store revenue in the region, 64 percent of NW/WC retailers surveyed sold organic products in 2006 and most expect sales to increase in the next five years. Buyers have the flexibility and interest in purchasing from local suppliers – including farmers – and most are relying on these suppliers, particularly farmers, to contact the store directly to arrange sales.

Farmers interested in selling direct to grocery stores at the retail level may want to consider:

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

Offering price sheets, certification evidence, a delivery schedule and point-of-purchase materials – retailers noted that these items are regularly requested.

Labeling products – with USDA Certified Organic, Certifier logo or PLU/UPC stickers.

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

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

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