Minnesota Grocery Store Demand for Local, Organic Farm Products

2007 Survey Results
For the Southeast Region

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May 2008

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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)*).

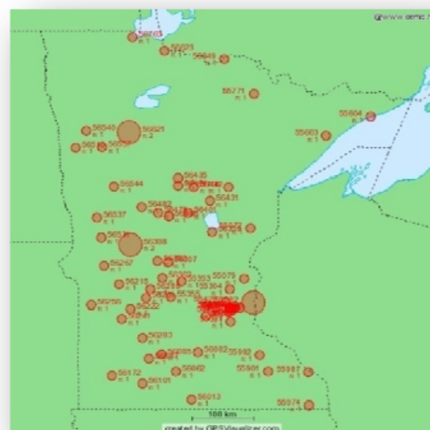
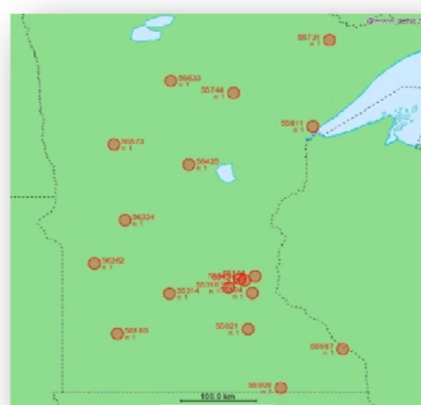


Figure (1):
Location of Single Store Survey Participants
Figure (2):



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Location of Chain Store Survey Participants

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 Southeast Region

In the Southeast region of Minnesota (Dodge, Fillmore, Freeborn, Goodhue, Houston, Le Sueur, Mower, Olmsted, Rice, Steele, Wabasha, Waseca and Winona counties) eight of the 11 stores contacted choose to participate in the statewide survey – making for an overall response rate of 73 percent. These eight stores represent approximately 22 percent of all supermarkets, grocery stores and convenience stores in the SE region[1]. A total of 21 individual surveys were conducted with store managers, produce, dairy and meat buyers at the eight participating stores.

[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.

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Overall, results from the SE region were similar to those found throughout other non-metro areas – with *organic sales* accounting for less than five percent of total sales. Organic sales for participating stores in this region totaled $2,707,000 in 2006. On average, each store sold approximately $344,625 worth of organic product with single unit or independent stores making up for the lion's share. The four participating single unit stores each sold $549,250 on average while the three participating chain stores each sold $140,000 worth of organic product in 2006.

TOP SELLING ORGANIC PRODUCTS

Organic produce and dairy products were retailed at most SE region stores (86%). Organic meat products, on the other hand, were sold at less than 50 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 SE stores in 2006 were ***carrots.*** Other leading organic products mentioned by SE store managers were:

- Lettuce
- Bananas
- Milk
- Soy milk
- Apple cider vinegar

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

All store managers in the SE 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. None of the managers expected sales of organic food products to decline at their stores in the near future.

DEMAND FOR *LOCAL* ORGANIC PRODUCTS

Farmers in the SE 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 69 percent reported buying *direct from farmers*.

In terms of product volume, half of all buyers who sourced products locally, purchased 50 percent or more of their store's total organic produce, meat and dairy products from Minnesota suppliers – including farmers – in 2006.

Survey results suggest that buyers turned to local suppliers as company policy and for a number of other reasons including: a desire to support the local economy; customer demand; perceived product freshness/quality; and transportation /distribution advantages. Most notably, price was not cited as a reason for buying locally – suggesting that local suppliers do not offer price advantages/discounts 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	12 (92%)
Customer demand	8 (62%)
Product quality/freshness	11 (85%)
Distribution/transportation advantages	10 (77%)
To support the local economy	9 (69%)
Price	1 (8%)
Availability of needed product	11 (85%)
Other	0 (0%)
Total number of respondents	**13**

LOCAL SOURCING CHALLENGES

Buyers were asked several questions about direct sourcing challenges. Seven buyers responded with only two reporting that contractual obligations or company policy prevented them from buying direct from famers. Another buyer noted that regulatory barriers precluded them from buying direct from farmers.

Most of the SE buyers who did not purchase direct from growers in 2006, reported doing so for "other" reasons as did retail buyers in all of outstate Minnesota (See *Figure 5: Reasons Retails Did Not Source Direct from Minnesota Farmers*).

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

Reason	# of Respondents (%)
Company Policy	1 (14 %)
Contractual Obligations With Other Suppliers	1 (14 %)
Regulatory Barriers	1 (14%)
Other	4 (57%)
Total number of respondents	7

When asked to clarify their "other" reasons the produce, meat and dairy buyers 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 (See *Figure 6: "Other" SE Retailer Comments*). Yet, 56 organic farmers are listed in the *Directory of Minnesota Organic Farms for 2006* (published by the Minnesota Department of Agriculture). These were growers of livestock, fruits, vegetables, eggs, honey, grains and other field crops.

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Figure 6: "Other" SE Retailer Comments

"No farmers in our area carried organic dairy products."

"I was never approached by any organic farmer who sold organic dairy and I just bought from our distributor."

"I was never approached by organic farmers."

"Local organic farmers never approached me and I didn't know of any in my area."

Buyers who did purchase direct from farmers were asked how they identified/located these suppliers. Most responded saying that they learned of farmers by word of mouth or simply purchased from those farmers who had contacted the store. None of the buyers noted using the *Minnesota Grown Directory*, the Internet or farmers markets to identify farmers (*Figure 7: Connecting with Farmers*).

Figure 7: Connecting With Farmers

Method Used by Retailers to Connect with Farmers	**# of Respondents** (%)
Farmers market	1 (11%)
Word-of-mouth	4 (44%)
MN Grown directory/website	0 (0%)
Conference/Trade shows	0 (0%)
Web or Internet search	0 (0%)
Farmer contacted store	4 (44%)
Other	0 (0%)
Total number of respondents	9

In other words, buyers are depending largely on farmers to make the connection with the store. When asked a follow up question, 7 out of 9 buyers said that they would *prefer* that farmers contact the store; many indicated that they did not have the time to search for farmers who could supply the store.

BUYER PURCHASING PREFERENCES

Buyers who purchased direct from farmers in 2006 frequently asked farmers to provide price sheets, proof of organic certification, product samples, a delivery schedule and point-of-purchase materials. Farmers were also asked, to a lesser degree, to ensure uniform product standards and to test products when making claims about quality and nutrition (*Figure 8: SE Buyer Requests in 2006*).

Figure 8: SE Buyer Requests in 2006

	# of Respondents (%)
Price sheet	6 (67%)
Copy of liability insurance policy	0 (0%)
Copy of organic certification	4 (44%)
Uniform product standards	3 (33%)
Product samples	7 (77%)
Testing to verify claims	2 (22%)
Delivery schedule	5 (55%)
Point of purchase materials	8 (88%)
Other	2 (22%)
Total number of respondents	9

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Several buyers also requested that farmers label products with the USDA Certified Organic seal or PLU/UPC stickers and traceability or lot codes.

Once terms of sale were agreed to, most buyers surveyed in the SE region utilized informal contracts (verbal agreements, handshakes) to finalize purchases in 2006. A few buyers also reported making "spot" purchases (with no previous commitment). Only one of the nine buyers used a formal, written contracts to secure sales. This is consistent with retail buyers' purchasing practices throughout the state.

When buying direct—using either an informal contract or on the spot—at least three or more buyers said they *regularly* encountered the following problems:

- Insufficient volume
- Seasonality
- Poor communication

A few others noted grading, packaging and distribution issues.

RECOMMENDATIONS FOR SE AREA FARMERS & EDUCATORS

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

- Contact the store
- Provide samples
- Conduct in-store demos
- Develop point-of-purchase materials
- Provide written invoices
- Improve distribution/handling so that it is more timely and consistent

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

"[Information about] what products consumers are demanding."

"General information about organic foods."

"How to display and market items."

"Web page marketing techniques."

"General information about organic foods."

"Anything – educational info for customers."

"Whatever's available."

"How to use different foods – recipes."

"Information about packaging."

"Information about proper packaging procedures farmers should follow."

"How to display items."

"A directory of organic farmers."

"A larger space in our store for organic products."

"We use a warehouse so [farmers should] contact them—[this] is most important."

"Farmer demonstrations – Famers just coming into our store so we have a more direct relationship."

"Something that show what the benefits are of buying local and how to package them in a more uniform way."

"A list of organic farmers in the Midwest."

"Charts about the availability of organic suppliers in my area."

"A listing of organic growers and people."

Buyers in other outstate regions likewise requested contact information for organic growers. For this reason, one copy of the *Directory of Minnesota Organic Farms for 2008* was mailed jointly by the Minnesota Institute for Sustainable Agriculture and the Minnesota Department of Agriculture to every chain and independent grocery store in the state that offered "gourmet/specialty" food in 2006.

CONCLUSIONS

The outlook for organic sales of locally produced fruit, vegetable, dairy and meat products is promising in the SE region. While organic sales currently represent a relatively small share of grocery store revenue in the region (4.1%), 88 percent of SE retailers surveyed sold organic products in 2006 and all expect sales to increase in the next five years. Buyers have the flexibility to and interest in purchasing from local producers – however, they are relying on farmers to contact the store directly to arrange sales. Farmers interested in selling direct to grocery stores at the retail level should consider:

1. Contacting the store. Retailers are counting on farmers to contact the store with items for sale.

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

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

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

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 Southeast Regional Partnerships. For more information, please contact:

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

The School of Agriculture
Endowed Chair in Agricultural Systems