Agricultural Marketing Service

Creating Opportunities for American Farmers and Businesses

Local Food Demand and Economic Impact
Views from the National Landscape

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Local Food Marketing Practices Survey
(USDA/NASS, December 2016)

- **$8.7 billion in sales in 2015** (direct to consumer and intermediated)
- **Nearly two-thirds (65.5 percent) wholesale, not D2C**

Largest revenue generator ($3.4 billion, ~60K farms)

- **Farms selling food to institutions or intermediaries** (such as local food hubs or wholesalers that use local branding)

Other channels:

- **Direct to consumer ($3 billion,115K farms)**
- Up from **$1.2 billion in 2007** (but decline from 136K farms)

- **Direct to retail sales $2.3 billion (only 23K+ farms)**

Connection between consumer food preferences and rise in local food demand

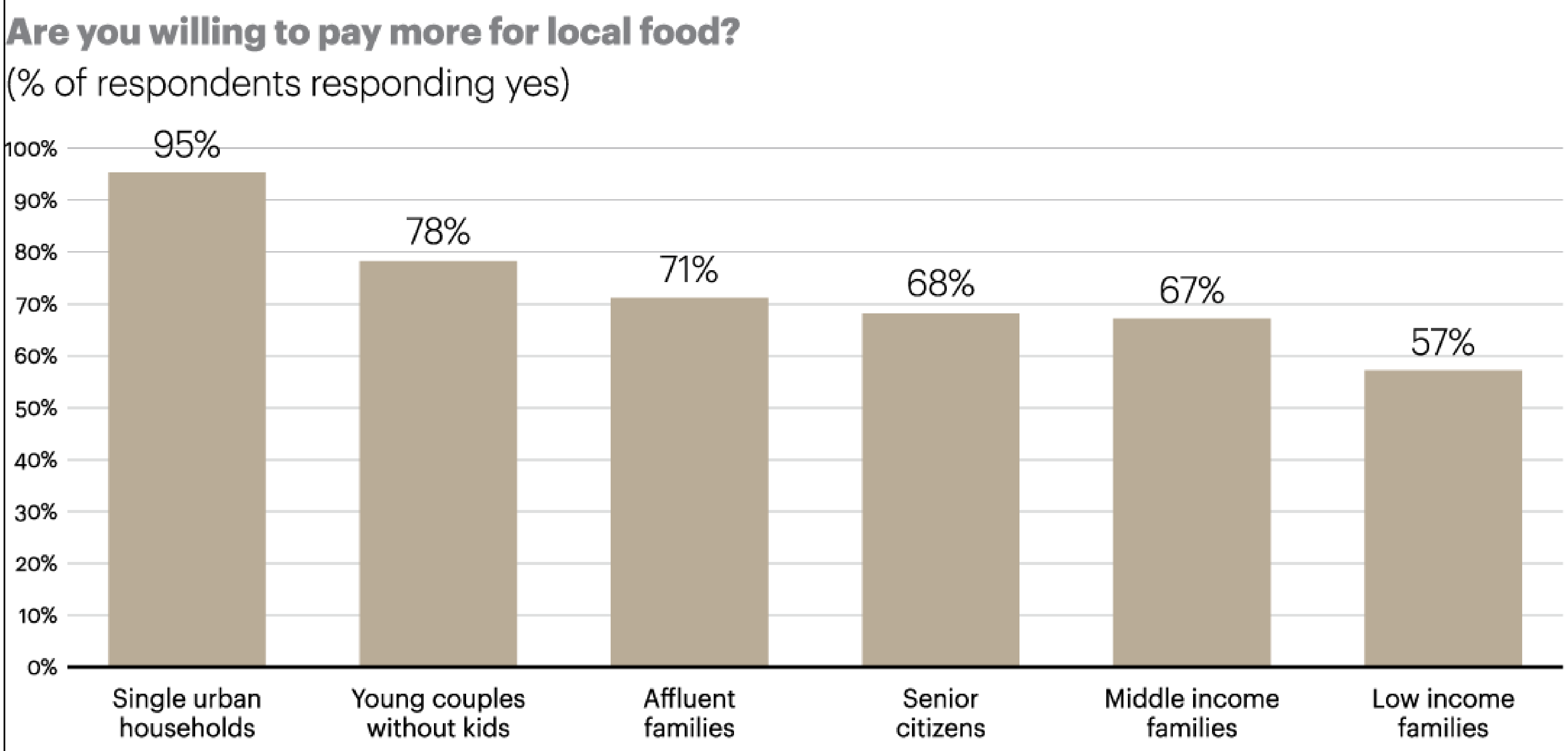
Phil Lambert, "Supermarket Guru", 2013:

People are choosing their foods more holistically based on ***multiple "food factors":***

- ✓ **Taste**
- ✓ **Ingredients**
- ✓ **Source**
- ✓ **Nutritional composition**
- ✓ **Asking who is making their foods**
- ✓ **Understanding impact on environment & animal welfare**

All of the above factors – **quality, promotion of personal health, transparency, trust, and social/environmental values** – contribute to steady growth in local food demand

Willingness to Pay More for Local Food Spans Income Spectrum



Source: A.T. Kearney analysis

Why Are Shoppers Demanding Local Food?

They are seeking fresher, natural, nutrition-rich foods

2015 Supermarket Guru/NGA Consumer Survey:
- 28 percent want **minimal processing**
- 25 percent want **shorter list of ingredients.**

Int'l Food Information Council 2016 Food & Health Survey:
- 36 percent worry about **chemicals in their foods**

FMI U.S. Grocery Shopper Trends 2016:
- 22 percent worry the food they eat **isn't nutritious enough**
- 26 percent **seek products specifically ENHANCED for nutrition** (e.g. vitamins, antioxidants, calcium)

Why Are Shoppers Demanding Local Food?

They perceive local food as possessing superior quality or nutritional attributes, and they want to improve the quality of their diets

- **60 percent of consumers** say they purchase local food because the products are fresher
- **44 percent** say they taste better
- **Roughly one-third** believe that local products are healthier

Packaged Facts national survey, Shopping for Local Foods in the U.S., November 2014

Why Are Shoppers Demanding Local Food?

- **They want to have trust in the source and integrity of the food they purchase**
- **They seek authentic food products**
- **They seek clarity and transparency in food labeling**

Watershed Communications 2016 millennial survey on food & beverages (n~400)

- **Each respondent** reported ***frequently*** basing food/beverage purchases on brand **reputation for authenticity.**

Authenticity: includes **transparent product claims, real/all natural, high-quality, culturally accurate**

Purchases Motivated by Social/Environmental Mission

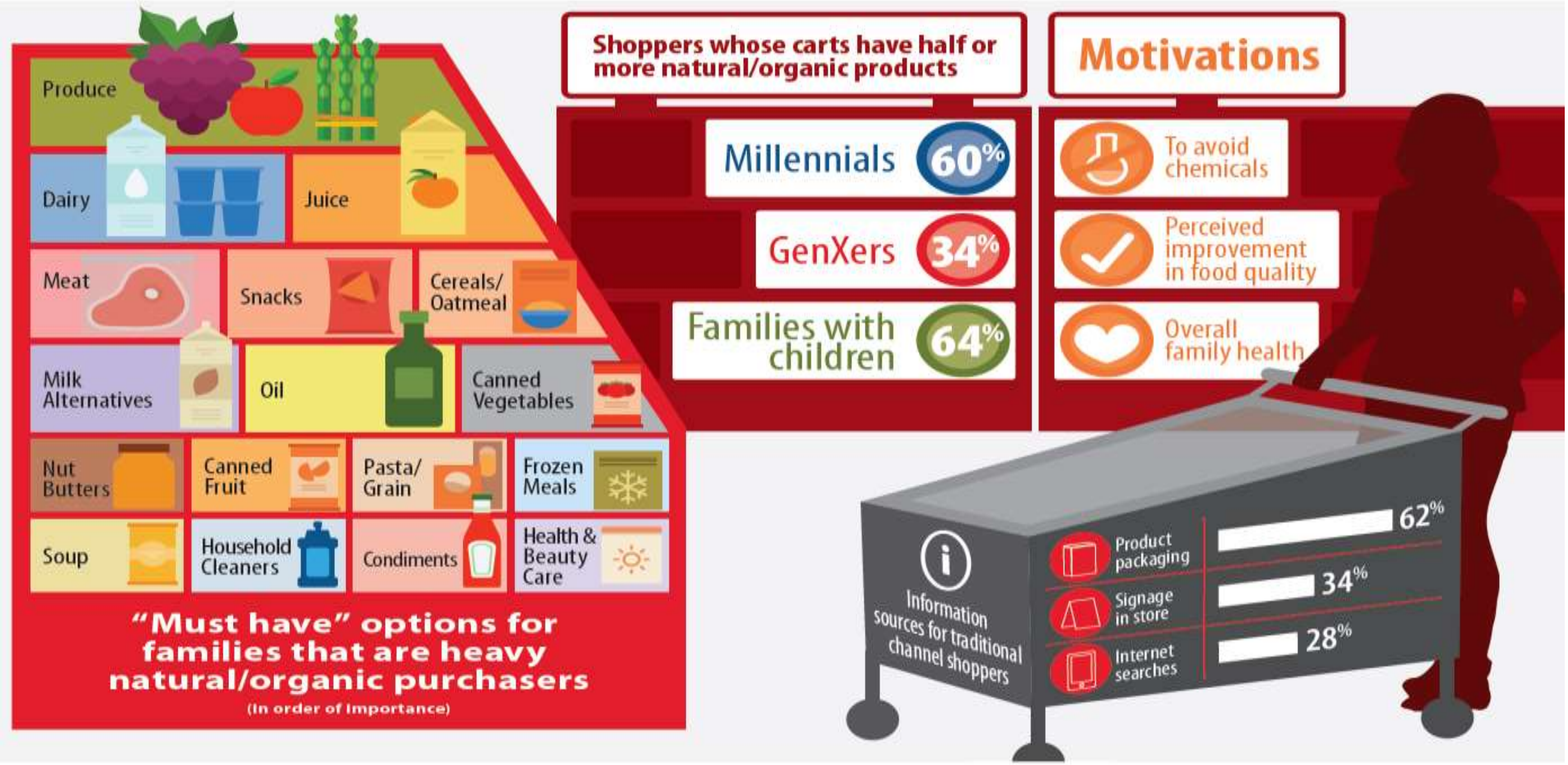
Vasi, U. of Iowa

The local food market is a ***moralized market*** ***where people combine economic activities with social values***

FMI U.S. Grocery Shopper Trends, 2016

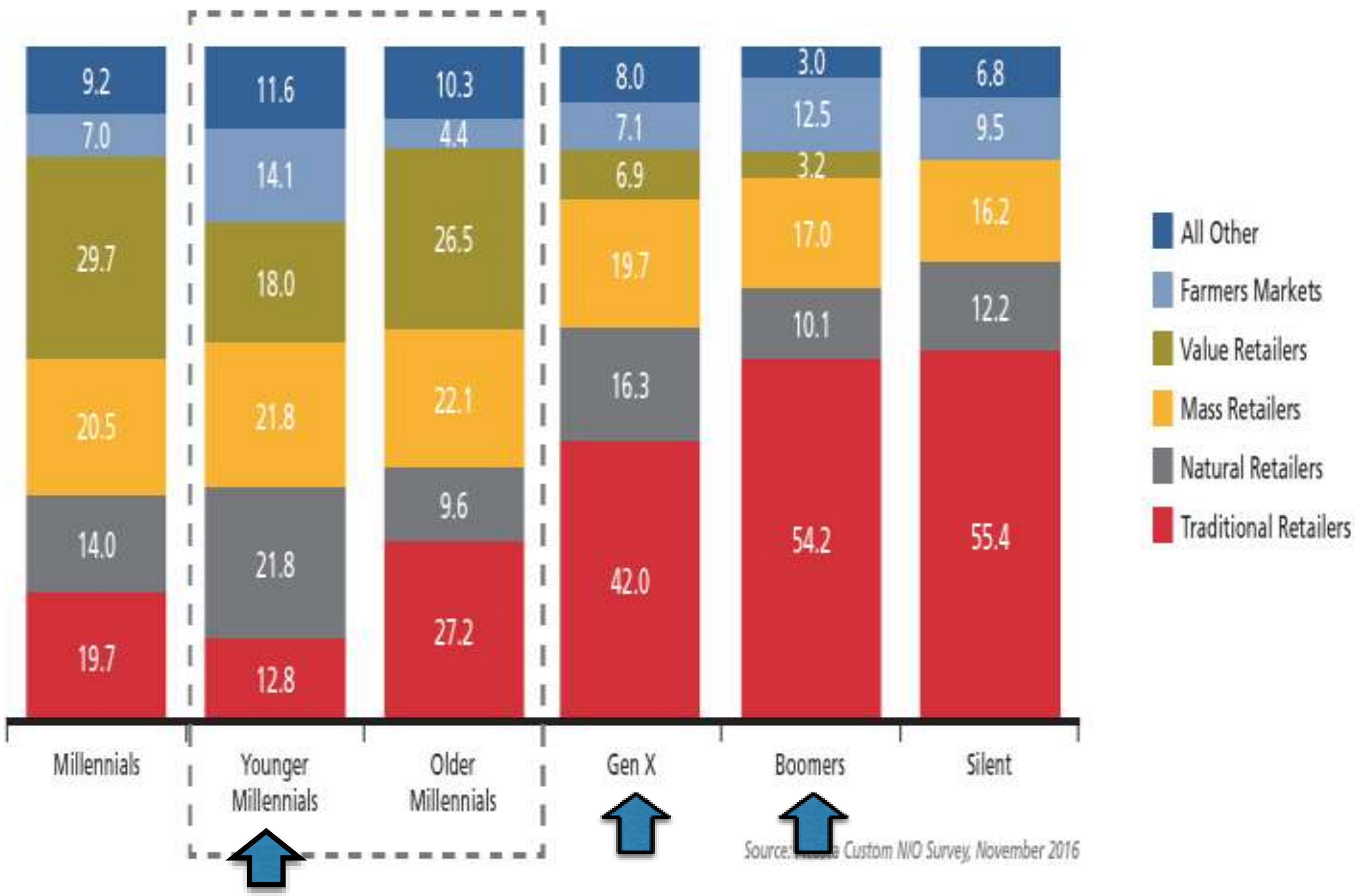
- 29 percent of all surveyed shoppers prefer shopping in food stores that they believe **support the local economy**
- 21 percent prefer shopping in grocery stores that procure meat from **sources that treat animals humanely**
- 14 percent **look for organic certification**

February 2017: Acosta "Back to Our Roots" report on natural /organic food shoppers



www.acosta.com/hottopicreports

Retail preferences for natural/organic foods, by age cohort



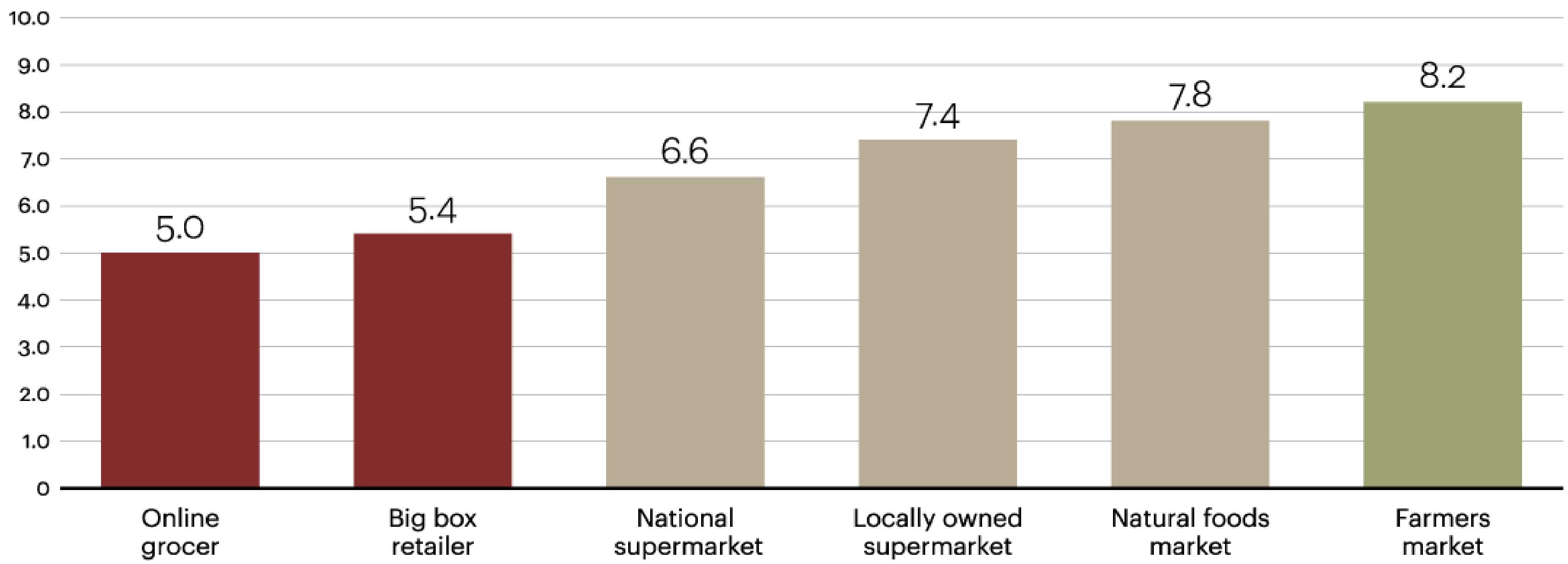
Trust in Food Stores

Figure 1

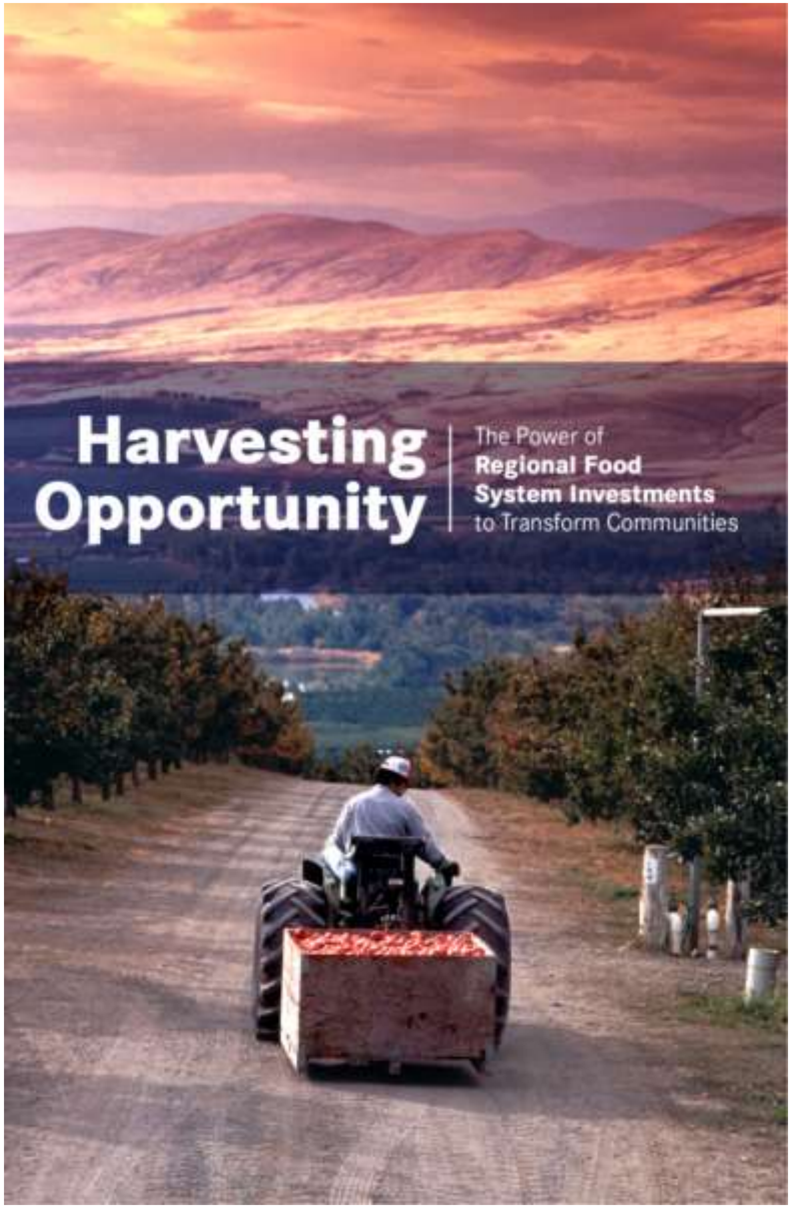
Online, big-box, and national chains rank lowest in food trustworthiness

How much do you trust each format to deliver local food?

(1 to 10, with 10 as most trustworthy)



Source: A.T. Kearney analysis



- **Explores how growing demand for local and regional food is being harnessed to boost rural and urban economies**

- Joint project of Federal Reserve Board, Federal Reserve Bank of St. Louis, USDA Agricultural Marketing Service and USDA Rural Development
- Two years in the making
- Released August 3rd, 2017

- 300+ pages, 17 chapters
- Each chapter can be read as a stand alone piece or in combination with others
- 32 contributing authors
- More than 30 case studies

Available from

www.stlouisfed.org/harvestingopportunity

Why This Book? Why Now?

- Policymakers and practitioners have **gained new insights** about the potential for regional food systems to promote economic growth

- Market observers have learned that appropriately targeted policies and support **can advance the economic and financial security** of low- and moderate-income (LMI) households and communities, while **contributing to social capital formation**

- Explores how regional food systems **are being used as a tool to boost income and business diversification** opportunities for LMI households and communities

Chapter Highlights

- Local Food Demand Trends and Drivers
- The Investment Continuum: Risk, Reward and Impact
- Impact on Economic Development
- Advancing Food Equity
- The Nature of Local Food Farm and Processing Enterprises
- Food Hub Financial Viability
- Institutions: An Emerging Market for Local and Regional Foods
- Philanthropic Support of the Local Food Movement
- Community Development Financial Institutions and Food Systems
- Depository Institutions and Local Food Enterprises
- Investing in the Next Generation of Farmers
- Competitions, Incubators and Accelerators
- Organics and Local Food Systems

Food Enterprise Models in the New Food Economy

Emerging typology of enterprises:

- **Profit-driven, asset-light model**
- **Purpose-driven, social benefit model**
- **Infrastructure model**
- **Technology-based model**

Food Enterprise Models in the New Food Economy

Profit driven, asset light model:

- **Rent instead of own** all of their property and equipment despite having multimillion-dollar revenue bases.
- **Traditionally considered unbankable** because they have low to no assets under ownership
- Asset-light approach **allows them to be nimble** and respond to changing costs without being overburdened by assets.

Food Enterprise Models in the New Food Economy

Purpose-driven, social benefit model:

- **Designs business around achieving specific social benefit.**
- Example: food service operation (e.g., DCCK) uses unconventional labor (e.g., people returning from prison) to process locally-produced food and provide skill training
  - May **generate sales** from a labor-driven brand story
  - **Results in slightly higher cost of labor to provide measurable economic value** by returning citizens to the workforce
  - **Challenge to finance conventionally**
  - Such enterprises **frequently weave together earned income** with grants, donations and impact investments.

Food Enterprise Models in the New Food Economy

Infrastructure model:

- Enterprises **develop distribution and processing capacity** targeted for midsize farms, food producers and small businesses within a region.
  - Includes both new operations and existing food distributors
  - Use conventional aggregation and distribution infrastructure, marketing activity, and their own overhead capacity to develop **valuable regional infrastructure** for farmers and customers.

- **If financed and managed alone by one company,** this can place excessive pressure on company cash flows in a tightly margined business.

- **If financed in collaboration with regional public entities,** enterprises can have longer-term sustainability

Food Enterprise Models in the New Food Economy

Technology-based model:

- Technology platforms **focus on coordinating transaction** activity between buyers and sellers.
- **May never touch a product or assume supply chain risk**, but aim to build efficiency into marketing and distribution infrastructure

Example: RSF Social Finance, Food System Transformation Fund & Common Market (CM)

Food System Transformation Fund (FSTF)

- Created by RSF in 2010
- **Lends directly to for-profit and non-profit social enterprises** that encourage the development of healthy food systems and/or more resilient regional economies.
- **Takes risk that other lending programs cannot** in order to catalyze positive social and environmental impact**.**
- Nearly all of the enterprises in the FSTF **would not have qualified for a traditional loan.**
- RSF has identified **access to debt** as one of the most useful investment tools for regional food enterprises to become self-sufficient.

RSF Social Finance, Food System Transformation Fund, and Common Market (CM)

The first loan out of the fund was to CM, a values-driven, non-profit wholesale aggregator and distributor of local food.

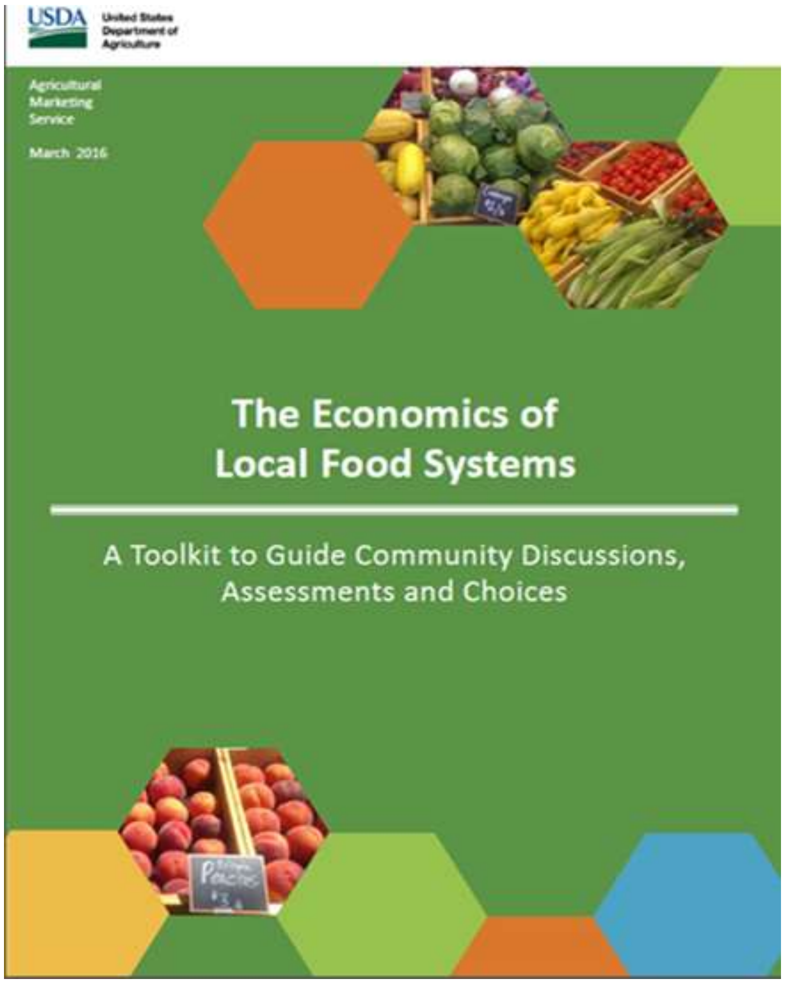
- **CM creates a much needed link** between local farmers and the urban marketplace through institutional sales channels
- **Dual commitment to paying farmers fair prices for their product and selling into institutions with small procurement budgets** meant that CM had to work with compressed margins, creating a longer path to profitability

RSF Social Finance, Food System Transformation Fund, and Common Market (CM)

In 2010, RSF provided CM with a line of credit

- **Bridge financing helped CM stabilize producer cash flows by paying them within farmers in 14 days—**compared to a standard delay of up to 120 days with institutional clients.
- **Three years after the original loan was made, Common Market's distribution work became profitable**.
- Since then, RSF has **financed the purchase** of its 73,000-sq. ft. distribution center in Philadelphia, plus facility in Atlanta
- **In 2014, the Mid-Atlantic operation distributed more than $2.4 million of sustainably grown food, supplied by roughly 80 farms.**

Additional Resource: USDA/AMS Toolkit for Assessing Economic Impact of Local Food Systems



- ✓ **Accessible overview of** the latest academic research & case studies
- ✓ **Points of entry** for stakeholders at all levels of expertise
- ✓ **Proven methods and examples** for gathering robust evidence in a cost-effective way
- ✓ **Guidance on enhancing community engagement** and buy-in

Available from:
www.ams.usda.gov/services/local-regional and
www.localfoodeconomics.com