

# *Choosing Wholesale Markets for Local Food Products*

## **Introduction**

Local food producers often experience more customer interest and demand for their products after local consumers make purchases through farmers markets, farm stands, Community Supported Agriculture (CSA), and other similar market channels.

This publication provides a broad perspective of several likely marketing channels. Each market channel is described and compared side-by-side with other larger capacity market channels. Key considerations for producers assessing their market options are organized into important categories:

- 🍎 **Relationships**
- 🍎 **Communication**
- 🍎 **Pricing**
- 🍎 **Packaging**
- 🍎 **Labeling**
- 🍎 **Product presentation**
- 🍎 **Product branding**
- 🍎 **Certification requirements**
- 🍎 **Insurance**
- 🍎 **Risk management**

Enterprising producers may find market opportunities in selling local food products, as some evidence indicates sustained market growth for local food. This publication will outline the main types of higher-volume (wholesale) market opportunities for local foods including restaurants, food hubs, co-ops, grocers, food distributors and wholesalers. It will also provide evaluation tools using the categories above along with worksheets that will help producers identify markets that would be important for their products.

## Description of Local Food Wholesale Market Channels and Key Marketing Considerations

Understanding the key considerations for market channels, as described in this section, will help make an honest appraisal of the producer's ability to strategically and successfully navigate a new market. Many food producers might decide to maintain a foothold in direct marketing channels while testing indirect markets. Others might decide to narrow their focus, concentrating on fewer, higher-volume markets. Others might prefer not to venture into higher-volume markets, deciding instead that they prefer direct connections with the ultimate consumers of their products. Still others might find that working with an intermediary that complements and extends their own strengths, like a food hub, is the best option. Producers should re-evaluate their initial decisions over time and, as conditions change, optimize their marketing portfolio accordingly.

**Restaurants** and other food service providers, are often accessed by producers wishing to wholesale smaller volumes. From smaller establishments operated by a sole proprietor to large multinational chains, restaurants and their patrons continue to show increased interest in preparing and eating purchasing locally-sourced food.

Strong relationships and superior service are important when selling local food products to restaurants. Successful marketers build a good relationship with the chef or other persons responsible for purchasing. Delivering high-quality products at convenient receiving times for the restaurant promotes that relationship, as does catering to the restaurant's preferences for labeling, packaging and certifications.

Local restaurants are more often promoting farm names, products and local brands on menus and other restaurant merchandising. Some farms have found local restaurants an effective springboard into larger-volume product sales. Such opportunities do not typically just occur on their own, but must be planned for and specific actions must be carried out.

**Food hubs** are businesses or organizations that actively manage the “aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand.”<sup>1</sup> A food hub business is formed with a stated goal to benefit local farms while also performing food distribution functions. This goal differentiates the food hub from a traditional food distributor or wholesaler. Although for-profit food hubs exist, food hubs typically operate under a non-profit or cooperative business structure. Many food hubs aggregate and process goods at a physical location. Other food hubs may function solely in a virtual sense, providing a means by which customers may order locally-produced food direct from producers via the Internet.

Producers entering an existing food hub should strive to meet all its product, delivery and quality guidelines. Local producers involved in starting a food hub project may gain other relationships needed to ensure marketing success. Some food hubs offer resources to assist producers with product development and labeling. Some also provide product liability insurance for products the food hub sells.

**Co-op grocery stores**, or retail food cooperatives, function under the cooperative business model and are owned by their member-patrons. Usually operating as standalone stores, some food co-ops function as chains of two or more stores. Co-op members tend to be very interested in local foods, and co-ops have historically been receptive to carrying locally-produced products due to their broad commitment toward increasing local economic growth in general and local food production.

Nearby co-op grocery stores can be identified through the Cooperative Grocer Network directory, located at [www.cooperativegrocer.coop](http://www.cooperativegrocer.coop). The first contact point for establishing a sales relationship with the co-op is the co-op’s general manager, who might then direct producers to the manager of the department featuring the particular product. Professionalism, reliable deliveries, high quality packaging and superior product quality is important among many co-ops buying local products.

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<sup>1</sup> Barham, James, Debra Tropp, Kathleen Enterline, Jeff Farbman, John Fisk, and Stacia Kiraly. *Regional Food Hub Resource Guide*. U.S. Dept. of Agriculture, Agricultural Marketing Service. Washington, DC. April 2012. <<http://dx.doi.org/10.9752/MS046.04-2012>>

**Grocery stores** account for slightly more than half of all consumer food spending in the U.S.<sup>2</sup> The U.S. grocery market has become more concentrated since the 1980s, with fewer firms operating a larger percentage of chains and stores.<sup>3</sup> In recent years, nonconventional food retailers, like drugstores, have become more important in food retailing. There has been some uptick in openings of specialty grocery stores, including those focused on local food in some more populous areas.

Many grocery chains have increased their emphasis on purchasing from local producers, and larger grocery chains tend to deal directly with high-volume producers that can guarantee delivery of a desired volume of products with consistent quality. Timely delivery is very important for selling to grocery stores of any size. Some chains may also require certifications, like third-party food safety verification, from a producer. Some larger chains require potential vendors to deal directly with purchasing departments away from the local stores. Producers can usually identify the point of entry through a discussion with the store manager (who may direct a producer to a resource at the corporate level).

**Food distributors and wholesalers** remain a primary means of moving food products from producer to consumer. Food distribution and wholesale firms typically specialize in either grocery or institutional (schools, hospitals, corporate cafeterias, etc.) markets. Distributors and wholesalers show increasing interest in sourcing local products and are proven as effective and strategic partners when a strong relationship is established with local food producers.

Producers must usually meet high quality and volume requirements to be considered by food distributors and wholesalers. Many distributors will have certification and food safety similar to grocery purchasers. Nearly all distributors and wholesalers will require product liability insurance.

The following table provides a summary of key factors to be considered for each marketing channel described earlier. Producers are encouraged to carefully reflect upon these factors and to address each of them in their strategic marketing planning process. This table is used as a planning framework by those contemplating entering these markets as well as an assessment tool for those who are already engaged in these markets.

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<sup>2</sup> Economic Research Service. "Food Markets & Prices/Retailing & Wholesaling/Retail Trends." <http://www.ers.usda.gov/topics/food-markets-prices/retailing-wholesaling/retail-trends>

<sup>3</sup> Martinez, Steve W. The U.S. Food Marketing System: Recent Developments, 1997-2006, ERR-42. U.S. Dept. of Agriculture, Econ. Res. Serv. May 2007.

## Key Considerations for Food Producer Success in Non-Direct Marketing Channels

	<b>Relationships &amp; Communication</b>	<b>Pricing</b>	<b>Packaging</b>	<b>Labeling</b>	<b>Product Presentation</b>	<b>Product Branding</b>	<b>Certification Requirements</b>	<b>Insurance &amp; Risk Management</b>
<b>Restaurants</b>	Building trust and relationship with chef is key	Wholesale with potential price premiums, especially at fine dining or specialty restaurants	Varies by restaurant; prefer convenience, pack sizes that fit kitchen and storage capacity	Fewer requirements; identify products by farm, product type/variety, and date	High quality expected; chefs rely on timely delivery; invoicing required	Farm brands becoming more common on menu listings and featured dishes	Varies according to restaurant and chef	Some restaurants may require product liability insurance
<b>Food Hubs</b>	Relationships commonly localized	Ranges from wholesale to retail	Requirements may vary	Labels must be product-appropriate, meet legal guidelines	Food hub sets quality requirements based on end use; timely delivery and accurate invoicing required	Some food hubs may develop own brands or use state/regional programs; may help promote farm brands	Varies by food hub	Food hub may carry product liability insurance; product liability may remain with producer if food hub does not acquire title to products
<b>Co-op Grocery Stores</b>	General manager (store manager) is often involved in initial contact	Wholesale; some local premiums not uncommon	Prefer standard packaging; may be flexible	Industry standard labeling required	Retail quality expected; timely delivery and invoicing required	Commonly feature local suppliers in store merchandising and member communications	Varies by store and may vary by product; some stores prefer certified organic	Varies by store and product
<b>Grocery Stores</b>	Clear communication, invoicing is vital	Wholesale	Industry standard packaging preferred and/or required	Industry standard labeling required	High quality expected; timely delivery and invoicing required	Branding must fit retailer guidelines; some in-store merchandising promoting farms may occur	Varies by chain; food safety certification requirements continue to increase	Product liability insurance requirement varies by store, chain
<b>Food Distributors and Wholesalers</b>	Multiple communication points more frequently required	Wholesale	Well-defined, industry standard packaging requirements	Labeling can vary for bulk products; industry standard labeling required for retail items	Well-defined product quality standards and very high expectations; timely delivery, accurate invoicing	Brand preferences vary according to product type, availability	Varies by product; GAP and third-party food safety certification requirements are common	Require product liability insurance; may require additional food safety assurances

## **Assessment of Market Potential and Strategic Marketing Decision Making**

Decisions to enter higher-volume markets can impact farm and food businesses at all levels (from daily production and labor requirements to accounting systems and marketing strategy). Some businesses have or can create the capacity to effectively manage these changes. Not all are up to the task. The next table characterizes each of the non-direct markets discussed according to several strategically important business capacity dimensions: Market discovery and market entry, required production capacity of the producer, investment requirements, and income and growth potential for the producer. Producers should carefully reflect upon these factors and consider their firms' capacity to be successful in targeted markets.

## Food Producer Business Capacity Considerations for Non-Direct Marketing Channels

	<b>Food Distributors and Wholesalers</b>	<b>Food Hubs</b>	<b>Grocery Stores</b>	<b>Co-op Grocery Stores</b>	<b>Restaurants</b>
<b>Market Discovery/Entry</b>					
Difficulty of market entry	High	Low to Medium	Medium to High	Medium to High	Low to Medium
Food safety certification requirements	High	Medium	Medium to High	Medium to High	Medium
Product liability insurance requirements	High	Medium	Medium to High	Low to Medium	Medium
Receptivity to new products	Low to Medium	High	Medium	Medium to High	High
<b>Production Capacity</b>					
Volume requirements	High	Low to Medium	Medium to High	Low to High	Low to Medium
Product packing/package requirements	High	Low to Medium	High	High	Medium
Third-party certification needs	High	Low to Medium	Medium to High	Medium to High	Low
<b>Required Investment</b>					
Marketing time and management commitments	High	Low	Medium	Medium	Low
Expectation of communication	High	High	High	High	High
Typical length of time before payment	High (30-60 days)	Medium	Medium to High	Medium to High	High
Required capital investment	High	Low	Medium	Low to Medium	Low
<b>Income and Growth Potential</b>					
Price levels	Low	Medium to High	Low to Medium	Medium	Medium to High
Difficulty of market entry for competitors	High	Low	Medium	Medium	Low
Potential for volume increase	High	Medium	Medium to High	Medium	Low

## Summary

Producers seeking to expand production of local food may access several kinds of wholesale markets. These include restaurants, food hubs, co-op grocery stores, grocery stores and food distributors and wholesalers. Careful planning prior to attempting to access these markets should include gaining a clear understanding of what is required for each of these markets, an honest appraisal of the capacity of the business to fulfill these requirements, and an assessment of the overall impact these strategies will have on net income, cash flow, debt obligations, labor requirements, and the time investment required of the business owner and management team. Going through the process of creating a written marketing plan will likely help producers reduce marketing mistakes during busy production times when careful consideration is difficult. Further, both external and internal factors will inevitably make it necessary for producers to remain vigilant and to make mid-course corrections over time.

The worksheets that follows are designed to help producers identify common areas of change required for new market entry. The first will help producers identify a potential marketing mix that would be a good fit for them. This is followed by key questions organized by the considerations for producers assessing their market options. While these are not intended to be exhaustive, care has been taken to identify the most common issues encountered by local food entrepreneurs and the extent to which each market channel may require greater attention.



## **Additional Resources:**

Growing Small Farms, NC Cooperative Extension Website:

<http://growingsmallfarms.ces.ncsu.edu/growingsmallfarms-marketing/>

“Building Your Brand.” Ag Decision Maker, Iowa State University.

<http://www.extension.iastate.edu/agdm/wholefarm/html/c5-50.html>

“Marketing Fresh Produce to Food Retailers.” University of Kentucky Crop Diversification Center.

<http://www.uky.edu/Ag/CDBREC/marketing/grocers.pdf>

“Selling Directly to Restaurants and Grocery Stores.” Washington State Department of Agriculture Small Farm and Direct Marketing Handbook.

<http://agr.wa.gov/marketing/smallfarm/DOCS/3-SellingDirectlyToRestaurantsAndGroceryStores.pdf>

“Tips for Selling to: Grocery Stores.” *NCAT Marketing Tip Sheet Series*.

<https://attra.ncat.org/attra-pub/summaries/summary.php?pub=387>

“Marketing Fresh Produce to Restaurants.” University of Kentucky College of Agriculture Extension Publication.

<http://www.uky.edu/Ag/CCD/marketing/restaurants.pdf>

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# Marketing Mix Worksheet

## Market Discovery

What potential markets are nearby?

Restaurants \_\_\_\_\_

Grocery Stores \_\_\_\_\_

Co-op / Specialty Grocery Stores \_\_\_\_\_

Food Distributors / Wholesalers \_\_\_\_\_

Food Hubs \_\_\_\_\_

Who are the key people (buyers) I will need to talk to, at the potential markets? \_\_\_\_\_

## Production Capacity

What new products could be supplied to these markets?

\_\_\_\_\_

What are the volume and quality requirements for these markets?

\_\_\_\_\_

What additional production, product handling, and transportation resources will be needed (if any) to supply this volume? \_\_\_\_\_

\_\_\_\_\_

How could this increased volume complement or detract from existing production? \_\_\_\_\_

\_\_\_\_\_

How will it affect established marketing opportunities?

\_\_\_\_\_

## Marketing Mix Worksheet (continued)

### Required Investment (Time and Money)

How much commitment will be required to enter the new market?

*For example: consider how much production will be required to meet tonnage requirements of wholesalers.* \_\_\_\_\_  
\_\_\_\_\_

What additional costs will be incurred to enter these markets? (Be sure to include packaging and delivery costs including containers, vehicle expenses and delivery time.) \_\_\_\_\_  
\_\_\_\_\_

How much communication and "service" does the buyer expect from the supplier? \_\_\_\_\_  
\_\_\_\_\_

Will the business need capital improvements (coolers, equipment, etc.) in order to supply the volumes required? \_\_\_\_\_  
\_\_\_\_\_

What are the regulatory barriers or hurdles to entering the market and what must I do to comply with them? \_\_\_\_\_  
\_\_\_\_\_

### Growth Potential

Can my business leverage the potential new customer into other growth opportunities? \_\_\_\_\_  
\_\_\_\_\_

How does this opportunity fit into my long-term farm or business goals? \_\_\_\_\_  
\_\_\_\_\_

How easy would it be for another competitor to supply this market channel? Do I have a competitive advantage? If so, what is it? \_\_\_\_\_  
\_\_\_\_\_

## **Topical Marketing Evaluation Questions**

### **Relationships and Communication**

- How proficient am I at the use of electronic communication?
- Am I willing to be regularly available to address specific product orders and/or quality concerns?

### **Pricing**

- What are the wholesale prices and price trends for comparable products?
- Does my cost of production allow me to sell profitably at wholesale prices?
- Are there seasonal changes in product prices? If so, do I have the capability to produce during periods of higher-prices?
- Are there adjustments I can make in my production practices to reduce costs of production?
- What are the expected future trends in production costs?
- Can I present myself and my business in a professional manner?

### **Packaging**

- What regulations and/or industry expectations are in place for packaging my products for wholesale or retail?
- What resources are available to help design a product package?
- What additional costs will I incur from packaging my products according to a specific buyer's specifications?

### **Labeling**

- Does my product require a label to be resold?
- What are the local, state and federal requirements for labeling my product?
- For bulk products, does the buyer require container labels?
- How will the buyer facilitate my branding to be carried forward to the ultimate consumer? How might this impact sales of my product to other direct and/or indirect markets?

## **Topical Marketing Evaluation Questions (continued)**

### **Product Presentation**

*Product presentation includes areas like quality, delivery and associated paperwork/invoices.*

- How does my product quality stack up against industry standards?
- Do I have the transportation capacity to make deliveries of greater quantities?
- What are the costs (both time and cash costs) of delivery?
- Am I able to prepare and deliver invoices, even when I am not in the office?

### **Product Branding**

- Does growing a product brand fit into my business marketing plan?
- How can I make sure each market channel is presenting my products with uniform branding or brand message?
- Are there similar products available, and how do I need to differentiate my product from those similar products?

### **Certification Requirements**

*Certification requirements will vary considerably across market channels. Producers should identify any necessary program certifications for entry into profitable markets and factor that into decision making. Key questions to ask include:*

- Am I able to gain the necessary certifications in time for entering the new market?
- Will I need to employ outside help to walk through a particular certification process? If so, have I identified who that will be and how much it will cost in both dollars and time?
- Will additional investment (both time and money) be required to gain particular program certifications?

### **Insurance and Risk Management**

- Does the new market require Product Liability Insurance (PLI)?
- What will the additional cost be to obtain the necessary coverage?
- How does my food safety plan (GAPs, HAACP, etc.) measure up against standard requirements for my potential market?