

Selling to Grocery Stores in North Carolina

Introduction

The American consumer's appetite for all foods "local" has created a kind of renaissance in locally sourcing grocery items, especially among smaller and specialty stores. This has led some farms that started with direct marketing channels to examine wholesaling to local grocers, especially when stores are willing to pay a premium for locally-grown products relative to other wholesale produce.



Grocery store managers often cite price, freshness, quality and availability as the most important factors in purchasing local products.¹ This fact sheet outlines several important business planning and execution considerations for producers interested in selling to local grocers. These considerations are listed in the following order:

- **Product Presentation and Delivery**
- **Pricing**
- **Product Branding**
- **Packaging**
- **Labeling**
- **Insurance and Risk Management**
- **Certification Requirements**
- **Relationships and Communication**

A list of additional resources is included at the end of this publication.

¹ Abrindra Rimal and Benjamin Onyango. "Attitudes toward 'Locally Produced Food Products': Households and Food Retailers." *Journal of Food Distribution Research*, Volume 44 Issue 1. http://fdrs.tamu.edu/FDRS/JFDR_Online_files/JFDR%2044%281%29%202023%20Rimal.pdf

Product Presentation, Delivery

Inconsistent product quality and quantity is often cited by grocers as a barrier to local purchase. For example, a 2012 survey of 25 North Carolina food businesses found stores most likely to cite inconsistent count and sizing as a barrier to purchasing more locally grown produce.² Other formal and informal surveys revealed similar objections from grocery buyers for both fresh and processed foods.

Requirements for meats, value-added, or processed products should also be obtained from the grocer. Produce should be graded, cleaned and packaged according to a buyer's standards, not producer convenience. Standard grading and packaging guidelines for farm products are available at the USDA Agricultural Marketing Service website (<http://www.ams.usda.gov/AMSV1.0/Standards>) as well as through industry websites like *The Packer* (<http://www.thepacker.com/>).

Establishing a clear set of product quality and packaging expectations in communication with the local grocery is necessary. Grocery stores are accustomed to receiving products of uniform quality in standard packaging and containers. A conversation with the person at the local grocery responsible for purchasing will indicate the grocer's expectations for product received and the price that will be paid. In many circumstances, a lack of willingness to abide by these expectations is a deal-breaker.

Producers should deliver product at the time and location agreed upon with the grocer. Deviating from these expectations will only erode the amount of goodwill in the relationship resulting in lower sales, lower offer prices, and even complete lack of willingness to conduct business if the producer is perceived to not be able to consistently meet these expectations.



Grocery stores may provide local producers with a market for seasonal or more bulky items, like pumpkins, corn shocks, potted plants and Christmas trees. Direct delivery to stores may be requested for such products as local stores may not have extra warehouse space for such items or may wish to minimize employee time and transportation expenses spent moving these goods between locations.

² Charlie Jackson, Allison Perrett and Katie Descieux. "Standards and Expectations of North Carolina Food Buyers." Appalachian Sustainable Agriculture Project, Local Food Research Center, Summer 2012. <http://asapconnections.org/downloads/standards-and-expectations-of-north-carolina-food-buyers.pdf>

Pricing

Wholesale food pricing is highly competitive and producers accustomed to direct marketing have often hesitated selling wholesale due to price concerns. Furthermore, retailers will frequently contract prices based on specific volumes to be delivered over a particular timeframe. Reluctance to negotiate commitments has kept some direct farm marketers from entering wholesale markets.

Retailers set prices through a process called markup. Markup is how the grocer covers not only the cost of the product, but the labor and facility costs incurred to sell food. For fresh produce, the markup in retail price can commonly range from 30 to 50 percent (or more) depending on the product. For fresh foods, especially fresh produce, markup must cover the loss to the grocer of “shrink,” or produce that cannot ultimately be sold.³ Offering higher-quality items can help reduce a grocer’s loss from shrink, and grocers may be willing to pay wholesale premiums for better quality. In addition, some research has indicated that food consumers are willing to pay a higher price point for locally-produced food, especially when the food is highly seasonal or is clearly tied to community benefits.⁴

Producers should familiarize themselves with wholesale food prices. Wholesale prices for North Carolina fruits and vegetables are collected weekly at state farmers markets in Raleigh and Western North Carolina. These prices can be accessed at <http://www.ncagr.gov/markets/mktnews/>. Wholesale prices for other farm products from North Carolina and other states are available through the USDA Agricultural Marketing Service’s Market News web portal, www.ams.usda.gov.

Just as a retailer understands exactly the price needed to sell a product to realize a particular profit margin, a producer should enter into price negotiations with detailed knowledge of how much their product costs to produce. Cost of production worksheets for some North Carolina farm crops are available at <http://ag-econ.ncsu.edu/extension/budgets>. Spreadsheet templates for smaller production areas are available from Iowa State University Extension at <http://www.extension.iastate.edu/agdm/crops/html/a1-17.html>

A detailed account for setting prices is included in “A General Guide to Pricing for Direct Farm Marketers and Value-Added Agricultural Entrepreneurs” from the University of Tennessee Center for Profitable Agriculture, <http://cpa.utk.edu>.

³ For a practical, detailed discussion of pricing, see Megan L. Bruch and Matthew D. Ernst, “A General Guide to Pricing for Direct Farm Marketers and Value-Added Agricultural Entrepreneurs.” University of Tennessee Extension Publication PB1803. <http://cpa.utk.edu>

⁴ David B. Willis et al. “Consumer Willingness to Pay for Locally Grown Produce Designed to Support Local Food Banks and Enhance Locally Grown Producer Markets.” Selected Paper prepared for presentation at the Agricultural & Applied Economics Association’s 2013 AAEA & CAES Joint Annual Meeting, Washington D.C., August 4-6, 2013. <http://purl.umn.edu/150288>
See also: Ryan C. Bosworth, Dee Von Bailey and Kynda R. Curtis. “Willingness to Pay for Private Labels, National Brands, and Local Designations at the Retail Level.” Contributed paper prepared for presentation at the 57th AARES Annual Conference, Sydney, New South Wales, 5th-8th February, 2013. <http://purl.umn.edu/152144>, and also Kim Darby et al. “Willingness to pay for locally produced foods: A customer intercept study of direct market and grocery store shoppers.” <http://purl.umn.edu/21336>

Pricing: A Case Study

When evaluating wholesale markets, farm producers often underestimate the value of their time spent selling products directly to the consumer.

For example: a farmer who spends 8 hours at a farmers market in order to sell 400 pounds of tomatoes is incurring a labor cost to sell those tomatoes. If the cost of that time is valued at \$10 per hour, the cost per pound to sell tomatoes is \$0.20. The equation for this consideration below will help you to evaluate your time relative to the amount of product you sell.

$$8 \text{ hours} \times \$10/\text{hour} = \$80 / 400 \text{ pounds} = \$0.20 \text{ per pound}$$

It follows that if a wholesale customer, like a grocery store, is paying the producer \$0.20 less than retail price for their produce, the farmer can actually gain from this relationship. Now the producer can now invest that time in producing more and better quality produce. This will leverage the producer's time to create more profit through volume and quality.

Of course, there are other variables involved. Other products may be sold at the farmers market, reducing the amount of marketing labor cost per pound. But many producers find that their time may be better spent by growing and marketing slightly larger quantities of their products.



Product Branding

A product brand “is the combination of name, words, symbols or design that identifies the product and its company and differentiates it from competition.”⁵ Farms growing food for the local market can realize the value of branding as their products enter multiple local markets, such as restaurants, farmers markets and local groceries.

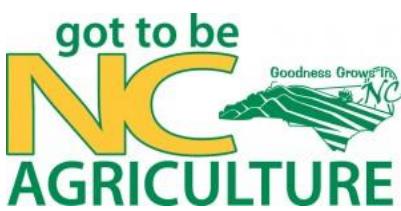
Grocery stores have sometimes proven to be effective partners as a farm builds its brand. Due to consumer interest in the “locally grown” category, produce departments often feature producer pictures and stories alongside products. This occurs at grocery stores of all sizes, from smaller independents to larger chains.

Farms wishing to “build their brand” can work with grocers that may want to feature the farmer or farm name as a part of in-store merchandising. Since point-of-purchase promotions can increase a farm’s visibility, care should be taken to keep the farm’s name, logos and products consistent wherever those products are available. Stores might request the farmer’s presence during in-store sampling.



More information about successfully developing farm product brands can be accessed in the publication from Iowa State University, “Building Your Brand.”

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



⁵ Giddens, Nancy. “Building Your Brand.” Ag Decision Maker, Iowa State University.
<http://www.extension.iastate.edu/agdm/wholefarm/html/c5-50.html>

Packaging

Inadequate or inappropriate product packaging is a barrier often cited by grocers for purchasing local products. Local grocers are accustom to receiving goods in standard packaging – corrugated boxes, crates, reusable plastic containers – that fit into the store's product handling practices. Larger grocery distribution centers are also accustomed to receiving goods efficiently packaged for easy moving and handling by employees and customers.

Most grocery stores will require produce items from farms to be packed in industry standard corrugated cardboard boxes or reusable plastic containers (RPCs). Boxes should include the farm name and a product description: quantity, if being sold by the each; or weight, if being sold by the ounce or pound.⁶ Stores also have packaging guidelines for dairy products and meat.

Most grocers use standard price-look up numbers (PLU) for fresh produce items. The Produce Marketing Association provides free web access to a list of PLU codes at www.plucodes.com.

Processed items will frequently be required to carry a UPC code. Labeling products with a UPC code that does not meet a particular retailer's requirements can be an expensive mistake. Farm producers should discuss with the grocer what product identification will be required, especially if selling to multiple grocers.

Labeling

There are precise state and federal guidelines for how food can be labeled.

Federal food labeling guidelines can be accessed through the Food and Drug Administration website, www.fda.gov.

Producers should take special caution to avoid specific health claims on food labels; health claims on food labels are closely regulated by the FDA.



⁶ "Selling Directly to Grocery Stores and Restaurants." Washington State Department of Agriculture Small Farm and Direct Marketing Handbook, 2010.

Insurance and Risk Management

Farms selling to grocers should be prepared for grocery stores to require them to have product liability insurance (PLI). A common level of PLI required by many grocery stores is \$1 million; producers should check with the store on the level required and be prepared to provide proof of insurance.

Grocery stores are also increasingly likely to require farms to provide evidence of food safety certifications or safe food handling practices. Some chains will require third party inspection, such as the PRO*ACT certification common in the produce industry. For those producing manufactured or value-added food products, HACCP and other food safety plans may be required.

Meat and poultry products are regulated by the North Carolina Department of Agriculture and Consumer Services – Meat and Poultry Inspection Division.

Information about pertinent regulations is located at

<http://www.ncagr.gov/meatpoultry/index.htm>.

The Food and Drug Protection Division of the North Carolina Department of Agriculture and Consumer Services regulates several kinds of food businesses, including:

- Packaged foods other than meat products
- Seafood
- Dairy products (including milk, frozen dessert, cheese and butter)

More information can be obtained about these, and all other food products, at the website <http://www.ncagr.gov/fooddrug/food/foodbiz.htm>.

Products containing 7% or more alcohol are regulated by the Alcohol, Tobacco, Firearms Tax and Trade Bureau. For more information about these regulations, go to <http://www.ttb.gov/>.

Products like jams and jellies, dried mixes, spices and some sauces are examples of value-added foods being produced under the jurisdiction of the NC Department of Agriculture. These products also require testing by a process authority before they can be produced and sold. In North Carolina, process authorities are at NC State University: (http://ncsu.edu/foodscience/extension_program/food_product_testing.html)

Products classified as acidified (i.e. pickles) and low acid (i.e. green beans) require the processor to have a Better Process Control School certificate and registration of their facility and process with the Food and Drug Administration. This is a requirement of the FDA and must be done before registering the product with NCDA.

Certification Requirements

Additional certifications may be required for farms that are delivering food directly to grocery stores. These can include, but are not limited to, certifications from the USDA Certified Organic Program, the peer-reviewed Certified Naturally Grown program, and kosher or halal designations. Other certifications, especially those related to food safety, may also be required.



Relationships and Communication

Selling to a grocery store involves fostering good relationships with store employees in several areas. Communication channels between farm and grocery will include:

- **Product/Department Manager** – Products will be received at the store or distribution center by a manager or member of his or her staff. This person will usually be the main point of contact between the farm producer and the chain store. Departments at grocery stores commonly receiving farm products include produce, dairy, meat and dry goods (non-perishable foods). Producers should understand product receiving times and best times to reach a department manager. Clarify the best channel for communication up front, some managers may prefer a phone call while others may prefer a text message or email. Larger chains may have a buyer and staff responsible for purchasing certain goods within a given department. This person may be the actual decision maker for purchases made at a local store level. Ask the store manager upfront who is responsible for buying your farm's product(s).
- **Accounts Payable** – Transactions with the grocery will require an invoice submitted to the business manager or whomever handles accounts payable. Local and independent grocers may handle this on-site; grocery chains may have a centralized location handling accounts payable. Producers should understand up front the grocer's requirements for invoices and what payment terms the store will expect.
- **Merchandising/Marketing Manager** – As groceries feature local producers and local foods among their inventory, farm producers have found it worthwhile to establish good relationships with the store's merchandising and/or marketing departments. This helps ensure that a farm is referenced properly during in-store advertising. Some stores may conduct in-store sampling of new products. Having a producer or member of the farm available for such sampling may be greatly desired by the grocery store, and can help strengthen the store-farm relationship.

Conclusion

Due to consumer demand, local grocery stores may be more open to purchasing products from local farms than in the past. Selling a higher volume of farm products through local groceries can help a farm build a local or regional brand. Consistent product quality, availability and delivery is vital for selling to local groceries. Groceries will also be very concerned with food safety issues and will usually require product liability insurance (PLI); supermarkets may require additional food safety or quality certifications. Farm producers will need to establish a good rapport with the key contact person at each store or chain to discuss product delivery, pricing and delivery.

To get a firsthand look at contacting a grocery store to start selling your products we recommend our Marketing Perspectives Case Study, Lowes Foods.

Additional Resources

“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>

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