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New Marketing Opportunities for Local Food Producers

Kristin Kiesel and Ashley Spalding

The burgeoning local food movement has the potential to connect consumers with how, where, and by whom their food is produced. Yet small farmers and food businesses struggle to sell their goods to local buyers at profit-generating prices. We argue that authentic regional brands rather than labels defined by the proximity of production can capture complex consumer values, support farming communities, and attract new food entrepreneurs.

Interest and participation in local food markets is growing, buoyed by consumers' increasing concern about how their food is sourced and expanded government support. In a recent Nielsen study comparing awareness of 16 different food-related causes, U.S. consumers paid more attention to local production than any other attributes, including avoidance of genetically modified ingredients. More than 85% of consumers polled by the National Grocers Association state that whether a retailer carries foods produced within the region factors into their choice of grocery stores, and restaurateurs believe hyper-local sourcing to be one of the top ten food trends in

the industry. Finally, the USDA began incorporating support for local food systems into their programming in 2009 and has since invested over \$1 billion in regional projects nationwide.

This article explores whether the local food movement can simultaneously give consumers what they are asking for, support rural communities, and attract new talent to farming and food-related businesses. Sales of local foods have continuously increased, and general trends of job growth and reduced unemployment in both urban and rural areas coincide with consumers' increased attention to "buying local." Beyond this, however, the effects of this new food trend on farmers and consumers are hard to quantify, partly due to the fact that local foods are only loosely defined.

No Uniform Definition of "Local"

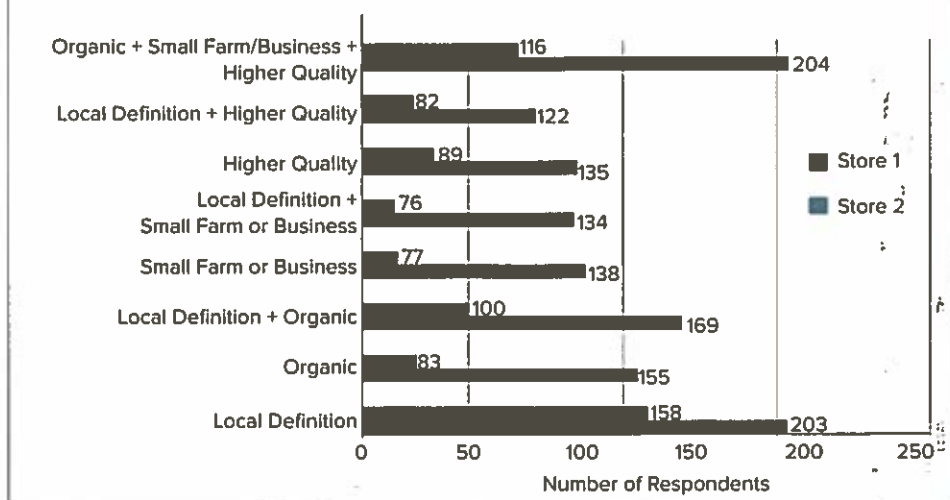
The 2008 Farm Act defines local foods as those sold fewer than 400 miles from the product's origin or within the state in which the product is produced. While this definition is used by several USDA programs for funding purposes, it provides little guidance on how to market local foods to consumers. Consumer perceptions of distances

that define local foods vary. They range from the belief that baked goods, eggs, and produce are local only if they originate in the same city/town as where they are sold, to the beliefs that milk and dairy are local if they are produced in state, and frozen and shelf-stable goods as long as they are made in the United States.

To many consumers, local foods are defined by direct-to-consumer sales or direct distribution to local retailers in regional markets. While the environmental impact of transport miles might be part of these considerations, some associate "localness" primarily with adherence to organic and/or sustainable production practices or with small family farms. Others are motivated by a desire to ensure the livelihood and economic stability of all members of their community. Finally, consumers might simply perceive local foods to be of higher quality than other products.

Our ongoing research on consumer demand and marketing strategies for locally produced foods, in collaboration with the Davis and Sacramento Natural Food Co-ops, shows that a local label can evoke all of these beliefs. Despite these stores' precise definitions based on mileage and a generally high consumer awareness of their definitions,

Figure 1. Consumer Perceptions of the Meaning of a Local Label



we detected biases in consumer perception regarding the meaning of a local label in survey responses. When consumers were asked to pick the statement most likely to be associated with a local label displayed by the store, the stores' definitions did not dominate, and responses varied widely. In one of the two stores, 204 consumers stated that a local label most likely implied that a food item was of a higher quality and produced by a small farm or business using only organic ingredients. Across both stores, far more consumers reported stronger associations with one or more of these characteristics than the actual definition used by the stores (see Figure 1).

Market Trends

Industry experts estimate that U.S. sales of local foods have more than doubled from \$5 billion in 2008 to \$12 billion in 2014 and project sales to reach \$20 billion in 2019; however, it is not easy to measure purchases of local foods. Added value defined by proximity of production is only relevant to consumers in specific geographic regions, making it more likely that local products are promoted on retail shelves or via social media than directly on their packaging. For instance, Nielsen, the leading industry source for consumer purchase data, only tracks \$239 million in sales of local foods based on package labeling.

The USDA's local food marketing survey collects information directly from U.S. farmers. In 2015, 167,000 farms participated in local and regional markets and sold \$8.7 billion worth of food products directly to consumers, retailers, institutions (e.g., schools and hospitals), and intermediaries (e.g., distributors and wholesalers). Nearly 70% utilized direct-to-consumers (DTC) sales channels, such as farmers markets, farm stands, and community-supported agriculture (CSA) boxes. Thirty-six percent sold directly to institutions and intermediary business, and only 14% sold directly to retailers. Institutions, however, accounted for the largest share of overall dollar sales, and only 35% of all dollar sales were generated through DTC sales channels.

These data suggest that opportunities to generate future sales through DTC channels might be limited. The Census of Agriculture further shows that despite an increase in the number of farms selling directly to consumers, overall DTC dollar sales did not increase between 2007 and 2012, and the number of farmers markets increased by fewer than 1% annually since 2016. In contrast, retailers will likely continue to strategically promote local foods, especially since the majority of consumers state that the main barrier to buying more local foods is that they are not clearly advertised (see Figure 2).

Market Access for Small Food Businesses and Farmers

Available data already indicate that intermediated sales have become a more significant channel for selling local foods, but questions of how best to access consumer markets remain. Working closely with two local non-profits and supported by separate USDA Local Food Promotion Planning Grants, we evaluated two proposed business models aimed at improving access to local markets for small food businesses and farmers. Alchemist CDC proposed the development of Alchemy Kitchen, a business-training program and incubator serving aspiring food entrepreneurs from low-income populations in Sacramento. Sustainable Solano proposed establishing small-scale, consumer-driven food centers sourced by local farmers in each of Solano County's seven cities.

In our feasibility studies, we interviewed local farmers and food producers in Sacramento and Solano counties to understand the challenges they face. We also gleaned the existing literature and publicly available data and provided recommendations regarding implementation of the proposed projects. The issues we identified are likely a snapshot of the challenges faced when building regional food systems across the U.S.

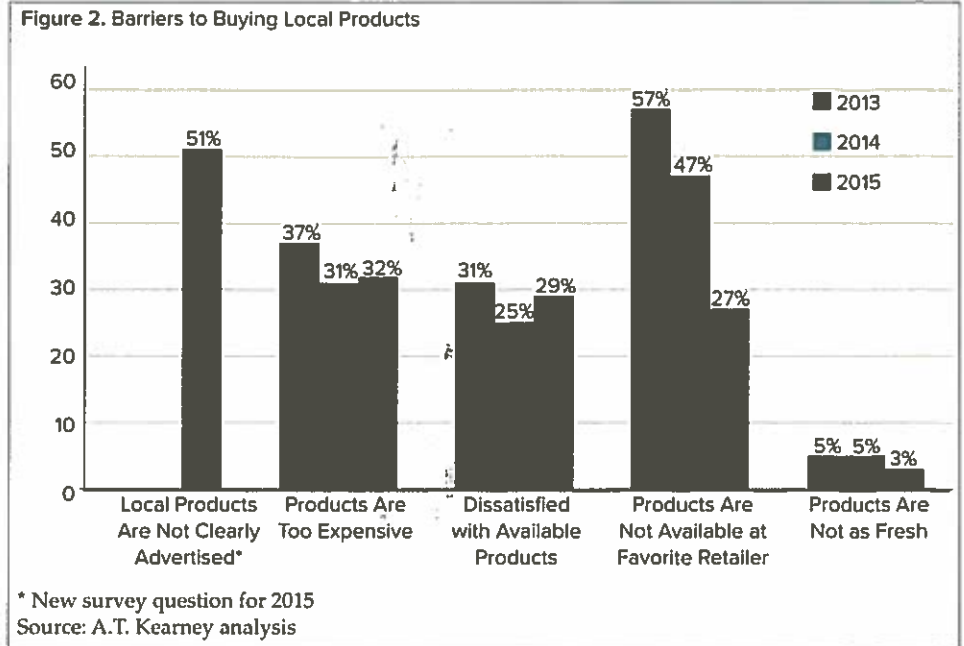
As a starting point, Sacramento declared itself the Farm-to-Fork Capital in 2017, but only 2% of the food consumed in the Sacramento region is locally sourced, and producers who marketed their products directly within the Sacramento region reported significantly lower average annual sales than producers who did not engage in direct marketing. Solano farmers participating in local markets were similarly small, with the majority of those interviewed generating less than \$50,000 per year in revenue. Nationally, the majority of farms engaged in DTC marketing are small as well. Eighty-five

percent of these farms reported gross farm incomes below \$75,000 in 2012.

The majority of the small farmers interviewed in Solano County were already utilizing DTC channels. They, however, view farmers markets more as an opportunity for outreach than as an effective sales channel. Many nearby consumers expect discounts when buying directly from farmers, so small farmers are not able to charge profit-generating prices in Solano County. The farmers who successfully engage in DTC sales are also participating in farmers markets in the Bay Area, where consumers have an established preference and, thus, a greater willingness to pay higher prices for locally produced foods.

Solano farmers faced similar challenges when trying to market directly to restaurants and retailers. Few Solano restaurants have adopted the farm-to-fork philosophy, and the majority of food retailers do not sell fresh fruits or vegetables. We did identify a small number of restaurants and other food businesses with an interest in serving locally sourced foods, though they will need help identifying and establishing local supply relationships. In the absence of these relationships, Solano farmers are currently looking to Bay Area specialty retailers and established farm-to-fork restaurants to sell their goods. It is also worth noting that it isn't exclusively small farms participating in local markets who are struggling. Only 41% of all farming operations in Solano County reported a positive cash income in 2012.

Sacramento consumers might not have as established preferences as Bay Area consumers, but their interest in locally produced foods is growing. When we interviewed small food entrepreneurs operating in this market, they stated that potential cost savings due to synergies and economies of scale in an incubator program that provides training, kitchen space, and access to broader networks could help them take



their ideas to the next level. In addition to regulatory challenges faced (e.g., under the current Cottage Food Bill, operators are not allowed to use any shipping services or alternative distribution channels), they were concerned that they might replicate already existing marketing strategies and would not be able to properly differentiate and market their products. "Anonymity is the biggest killer of businesses," noted one of the cottage food operators surveyed.

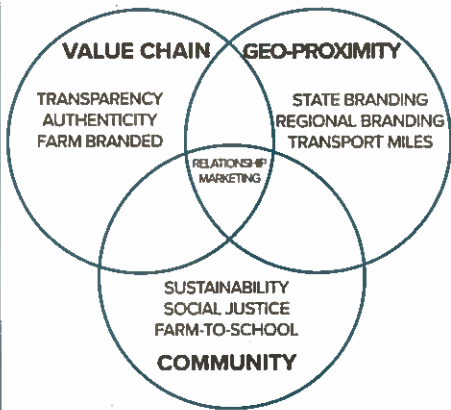
Assessing the feasibility of these two different concepts allowed us to develop two key insights. First, in order to access consumer markets successfully, farmers and businesses need to cooperate and scale their production without losing their authenticity. While we identified possible cost savings for entrepreneurs under the proposed Sacramento project, cooperation across farms to bundle individually produced commodities and sell them at seven different locations as proposed in the Solano project was likely too costly. Second, proximity or at least access to urban centers and consumers with a developed preference for local foods is a crucial determinant of success. Consumers in Solano County's cities do not seem to have strong preferences for local foods.

Implications and Conclusions

Despite consumers' concerns about how their food is sourced and policies purporting to attract new talent to farming and food-related businesses, small farmers often struggle to connect with and market their products directly to local buyers who are willing to pay profit-generating prices. In general, market opportunities for local foods seem greater for farmers in close proximity to urban centers. Even for Sacramento-area farmers, only 30% of DTC sales come from sales in the Sacramento Region, however. The remaining 70% are generated from sales in the Bay Area, other parts of the state, or outside of California. Furthermore, growth in DTC sales has slowed significantly nationwide.

The idea behind value-added agriculture is that by changing the manner in which a commodity is produced and segregated, the consumer base is expanded. The local food movement created new opportunities for small farms and businesses in this context, but they must overcome challenges presented by greater product differentiation in increasingly concentrated retail markets. Only if farmers are able to integrate vertically along value chains—to grow, store, process, market

Figure 3. Pillars of Local Food Systems



Adapted from: Holcomb et al., 2018

and distribute local foods to consumers that are willing to pay more for these foods—will they be able to capture a portion of the additional revenue generated by local labels. If they continue to sell commodities that are only differentiated by labels and promotions added during processing and at the store, they will not benefit much from this new food trend.

While consumers are requiring more transparency, preferences for local foods are complex. They can be mapped into three main areas of perceived value (see Figure 3) and might be more developed in urban consumers. Being removed from agriculture and small-town living might mean that urban consumers assign a greater value to creating a sense of belonging and community through their food purchases.

The promotion of local foods is first and foremost relationship marketing, an opportunity to tell a story and create authentic brands and products that align with consumer values. Our ongoing research indicates that local labels do not compete with other value-added attributes such as organic production. Furthermore, across consumer groups, low-income consumers are more likely than middle- or high-income consumers to say that buying local is extremely important to them, indicating even greater marketing opportunities than for other

attributes that appeal primarily to higher-income consumers.

Local labels relying on specific, proximity-based definitions will likely not be able to communicate credibly what consumers are looking for in local foods. Rather than allowing farmers to differentiate their products in a meaningful way and expand their sales by educating consumers about the sources of their food, they restrict the geographic areas in which farmers can market their goods. In contrast, regional brands would allow farmers and small businesses operating in urban and more rural communities to preserve their unique product offerings while creating economies of scale when marketing and distributing their local foods.

Instead of implementing the proposed food centers, we, for instance, recommended that Sustainable Solano focuses on reviving and strengthening an already established “Solano Grown” brand. Under this umbrella brand, farmers could more easily sell to institutional buyers and increase consumer awareness within their community through signage in schools and hospitals. Farmers could further increase brand recognition and grow their consumer base in established urban markets through coordinated investments in agritourism or county fairs that invite urban consumers to visit Solano County. On a larger scale, regulators wanting to support the local food movement in the U.S. can look to the EU’s ‘geographical indication’ (GI) labels. They give even small producers access to the marketing potential of recognized brands defined by geographic origin and quality standards.

Wendell Berry, writer, food activist, and farmer, inspired a heightened curiosity about the food we eat when he said “Eating is an agricultural act.” In a recent interview, he clarified that he was referring to the importance of consumers knowing their place in the agricultural value chain. Authentic

regional brands can provide this much-needed context more so than local labels standardized by a mileage-based definition. Knowing how, where, and by whom our food is produced matters more than how close to the product’s origin we take a bite.

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For additional information, the authors recommend:

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