Distribution: The Missing Link

Shoshanah Inwood
Jill Clark
Jeff Sharp

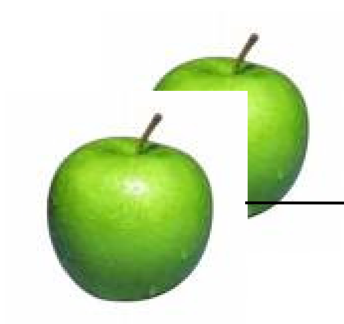
Funded by a 2009 ODA Specialty Crop Block Grant

SOCIAL RESPONSIBILITY INITIATIVE

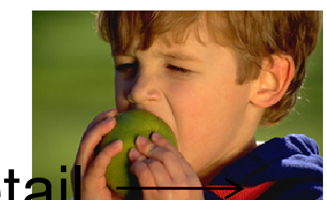
THE OHIO STATE UNIVERSITY EXTENSION

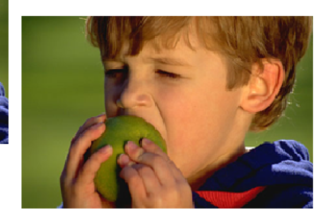
CENTER FOR FARMLAND POLICY INNOVATION
DEPARTMENT OF AGRICULTURAL, ENVIRONMENTAL, AND DEVELOPMENT ECONOMICS

Why study fruit and vegetable distribution to retail outlets in Ohio?



Distributor Retail



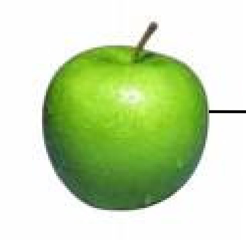


Market Potential

- Annually Ohioans consume
  - 4.65 billion pounds of vegetables
  - 3.08 billion pounds of fruit
- Roughly 1% is grown by 4,767 Ohio farmers
- Ohio farmers could be satisfying 26% of vegetable and 5% of fruit demand.

- Nationally per capital fruit consumption is projected to increase by 24-27% by 2020.

The Importance of Distributors & Retail Outlets in Local Food Systems

 → **Distributor** → **Retail** → 

Distribution Challenges for Small and Medium Farms

Difficult to break into larger grocery stores, chain restaurants and institutions due to their:

- procurement systems
- price point
- volume requirements
- need for year round supply

A general lack of infrastructure to support small and medium farm products through:

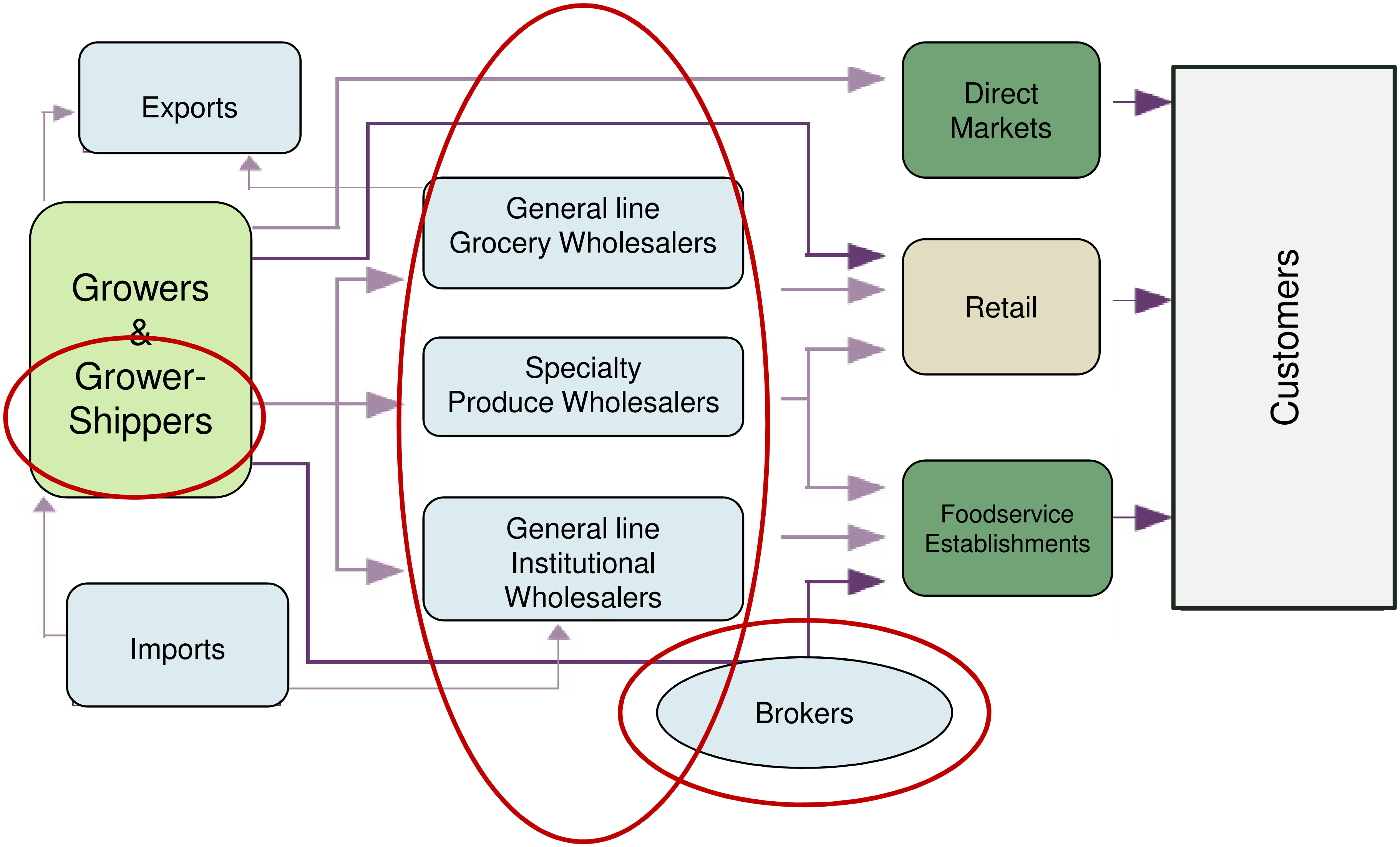
- aggregation
- processing and
- distribution

Grower Distribution and Retail Strategies

Grower Production	Very Small Volumes	Small Volumes	Medium Volumes	Large Volumes
Outlet Activity	Farmers Market Direct Selling Private	Farmers Market Direct Selling Public/Private	Wholesalers Packers Distributors Public/Private	Wholesalers Packers Processors Public/Private
Outlet Type	Direct Outlets	Direct Outlets Small Retailers	Retailers Wholesalers	Wholesalers
Outlet Size	Very Small Volumes	Small Volumes	Medium Volumes	Large Volumes

Adapted from Eastwood et al. 2004

What are distributors? (types)



Trends in Retail
Market Fresh Produce

- Consolidation in retail sector → increasing power of small number of very large retailers

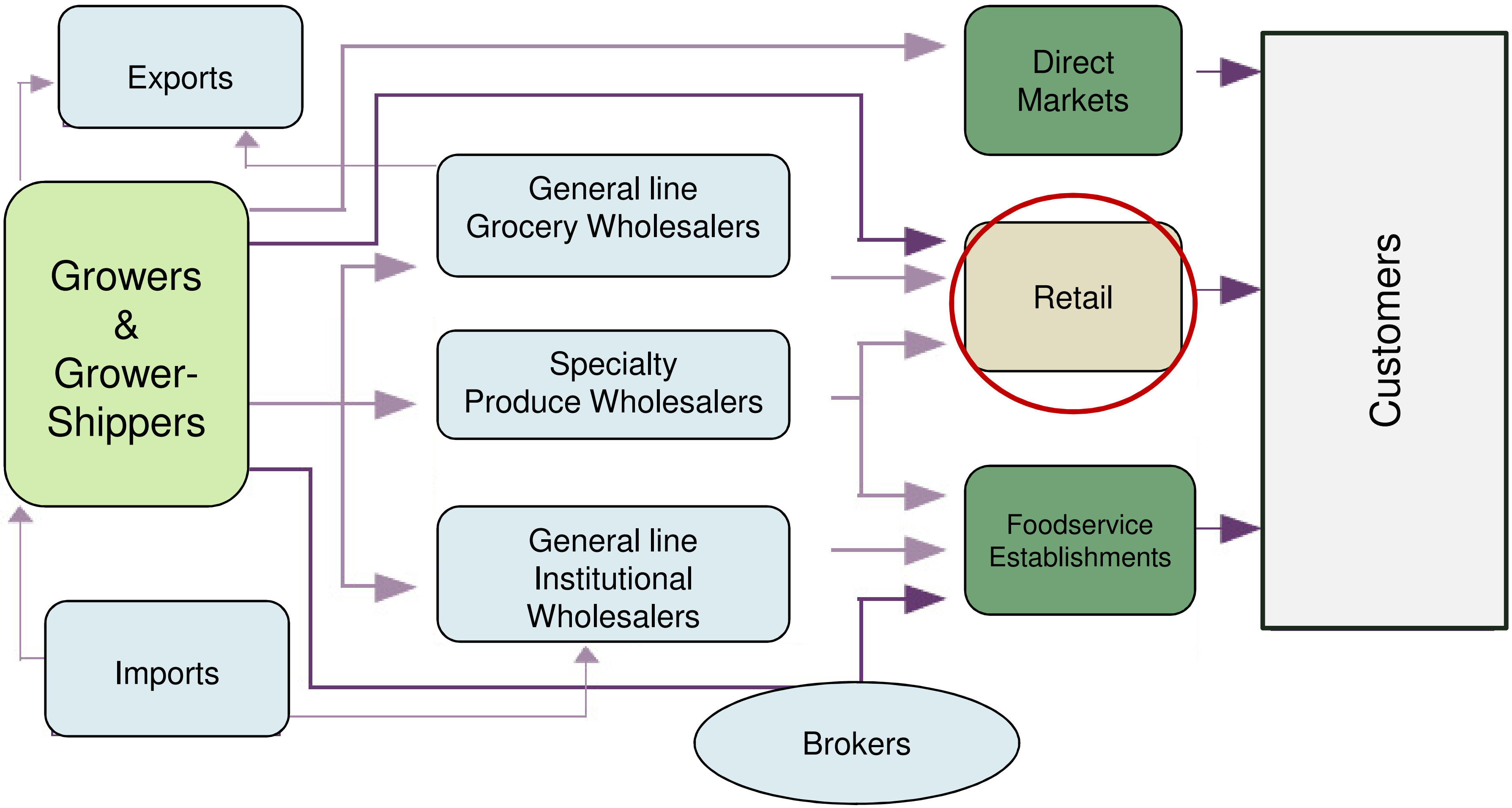
- Small and medium retailers still rely on distributors
  - able to purchase from a wider variety of suppliers
  - have more flexible purchasing systems

Opportunities: Agriculture of the Middle

- Focuses on existing actors in the food system.
- Firms and farms being squeezed by trends in the market can develop value-chains that benefit one another
- "Ar*e long term networks of partnering business enterprises working together to maximize value for the partners and end consumers"* (Stevenson & Pirog, 2008, p. 120)
- Operate at a regional level, include mid-size regional farmers and mid-sized independent regionally-based processers and distributors who *both cooperate and compete* to achieve economies of scale and marketplace advantages through differentiated products

http://www.agofthemiddle.org/

What Do We Currently Know?
The Retailers Perspective

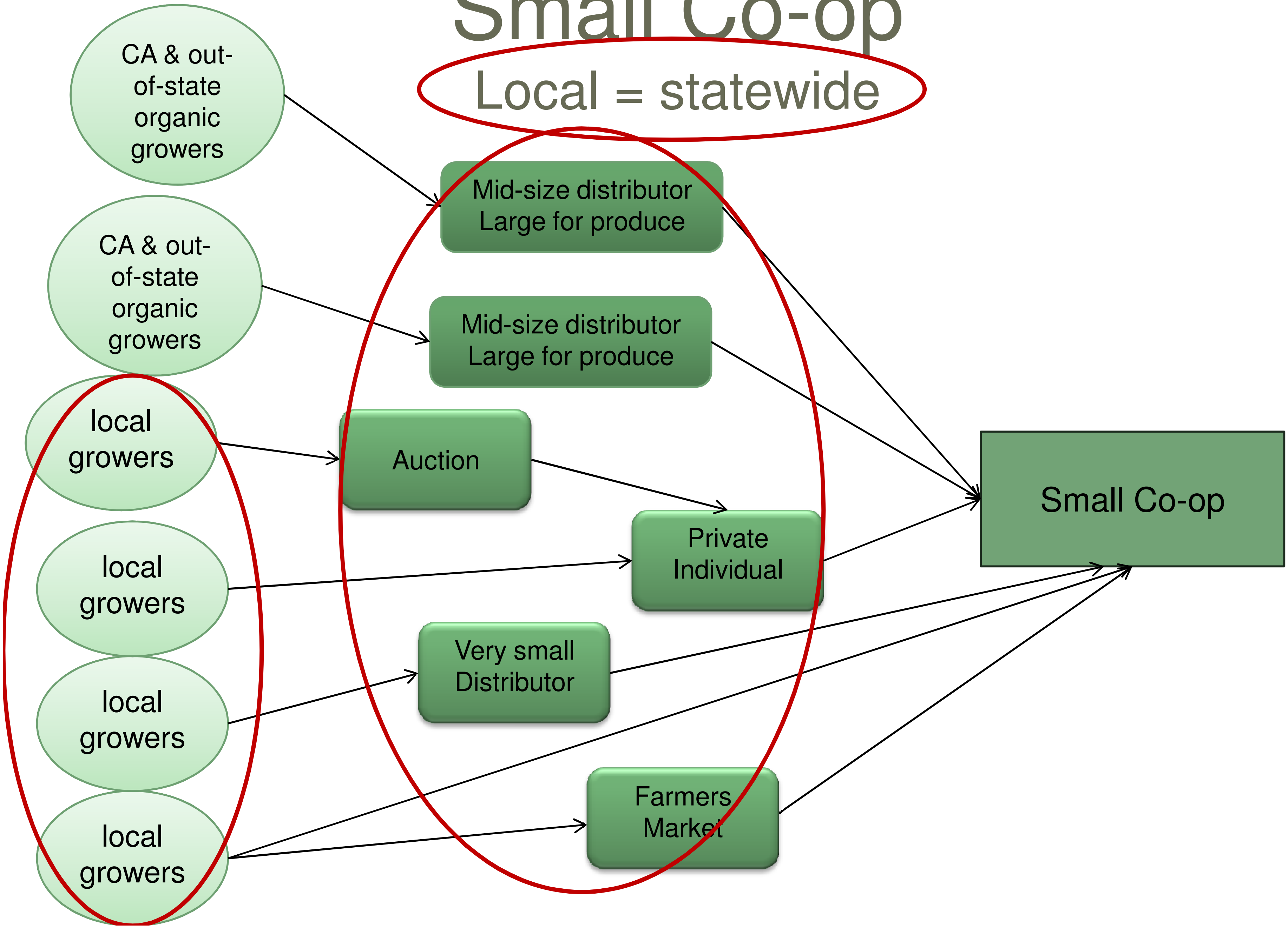


Retailers

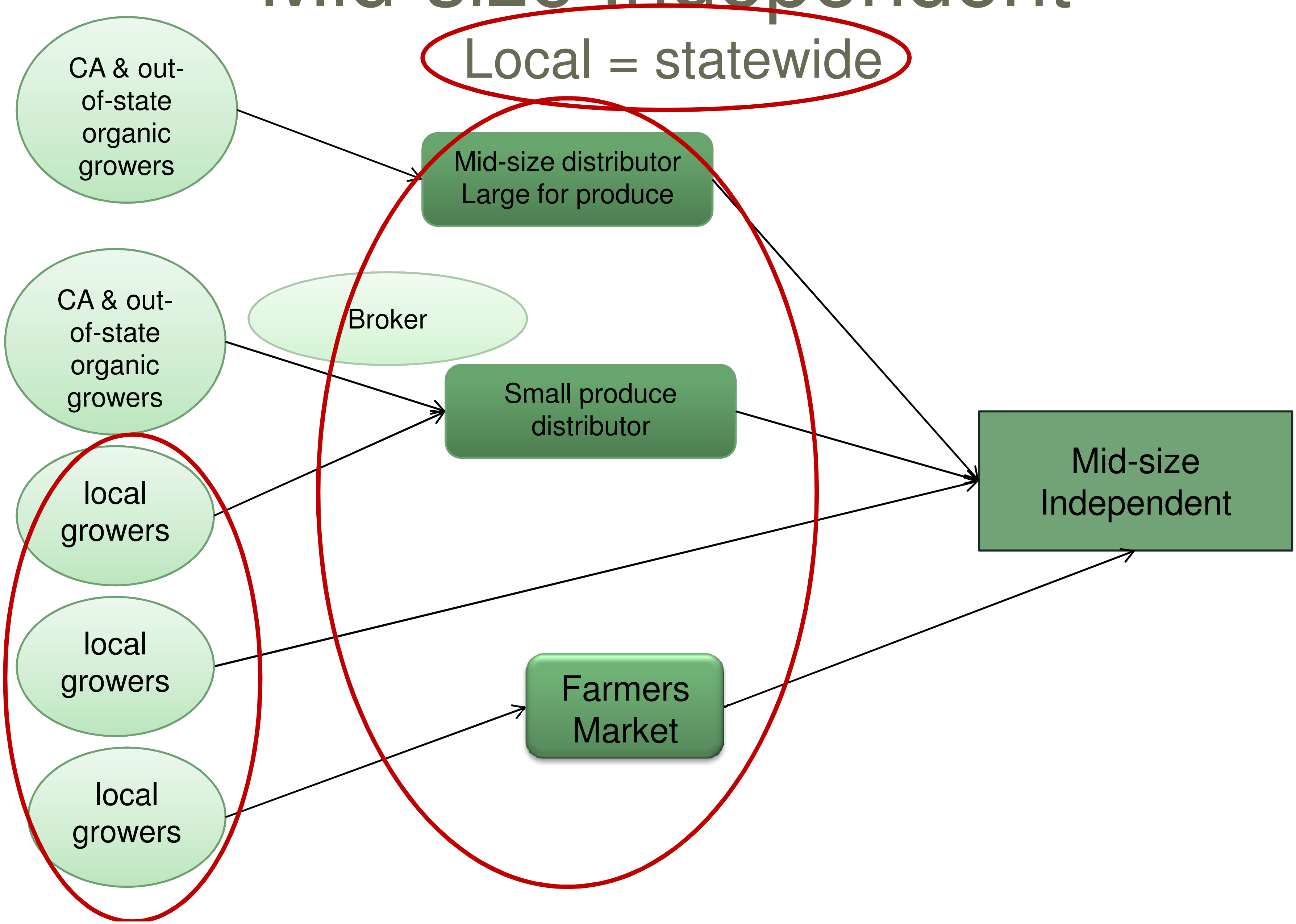
- Interviews with 7 Ohio retailers
- Questions focused on:
  – Supply chain economics.
  – Social relationships of participants along the supply chain.
  – Opportunities for Ohio farmers and distributors in the retail fresh fruit and vegetable sector.

Small Co-op

Local = statewide

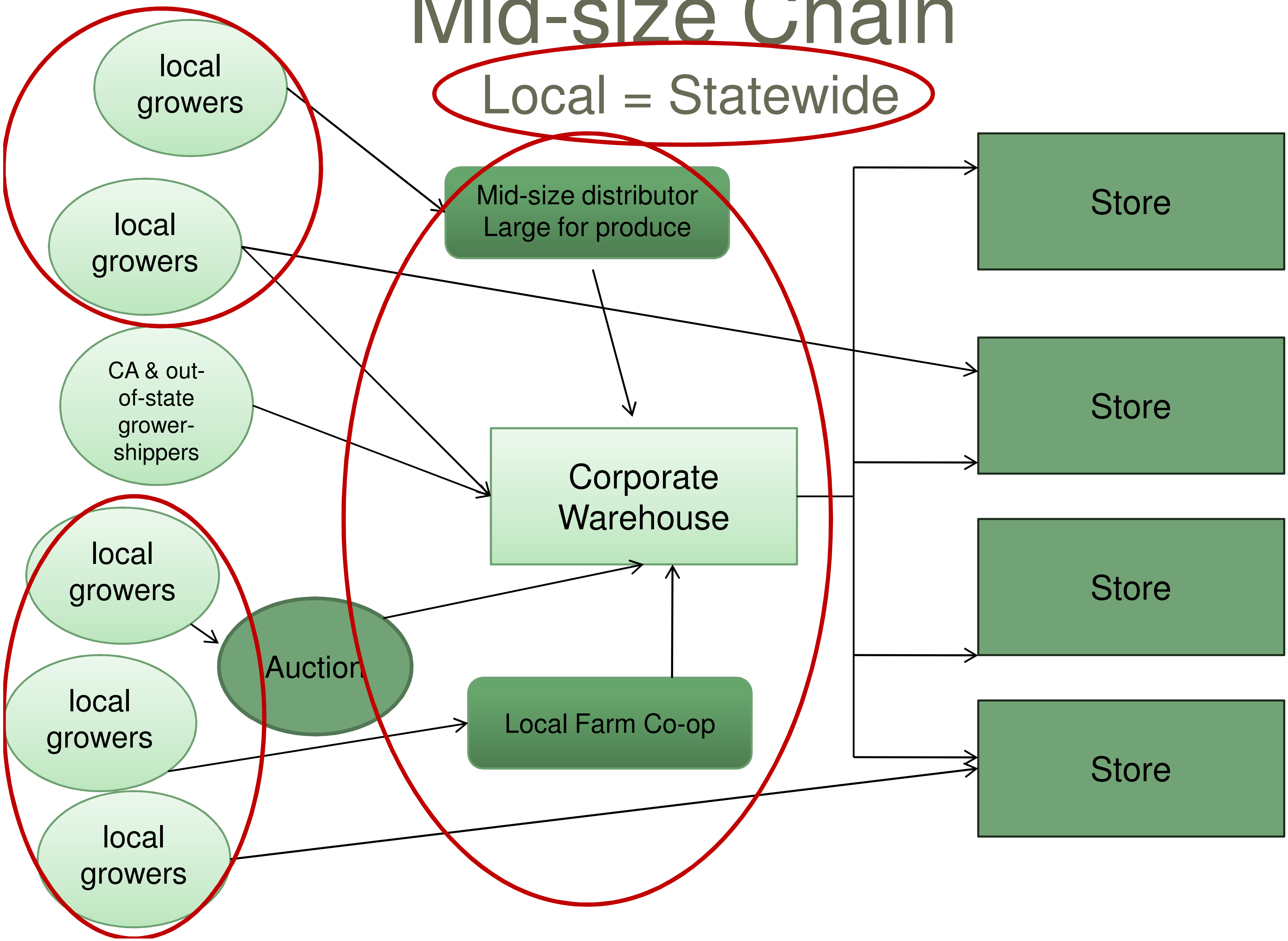


Mid-size Independent



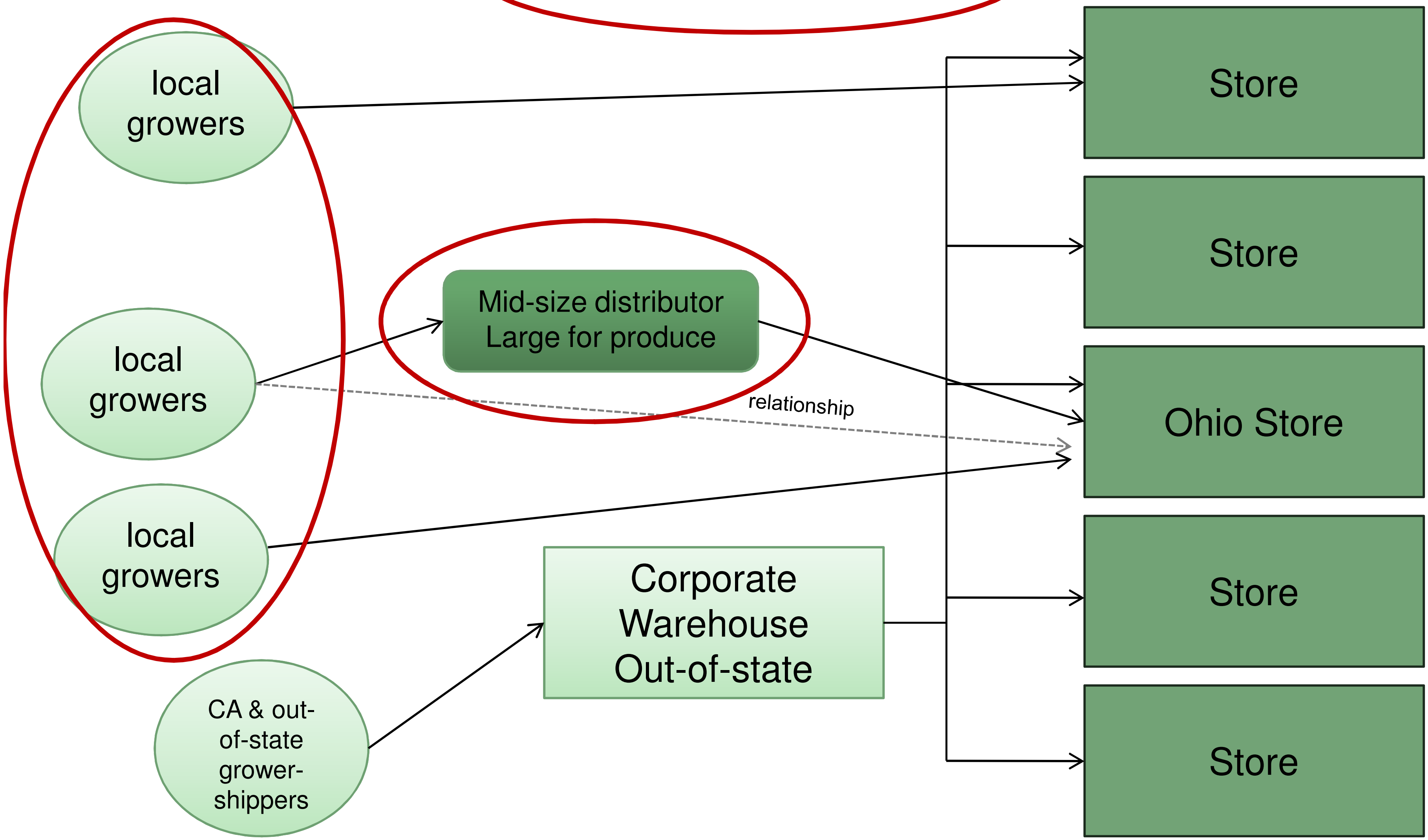
Mid-size Chain

Local = Statewide



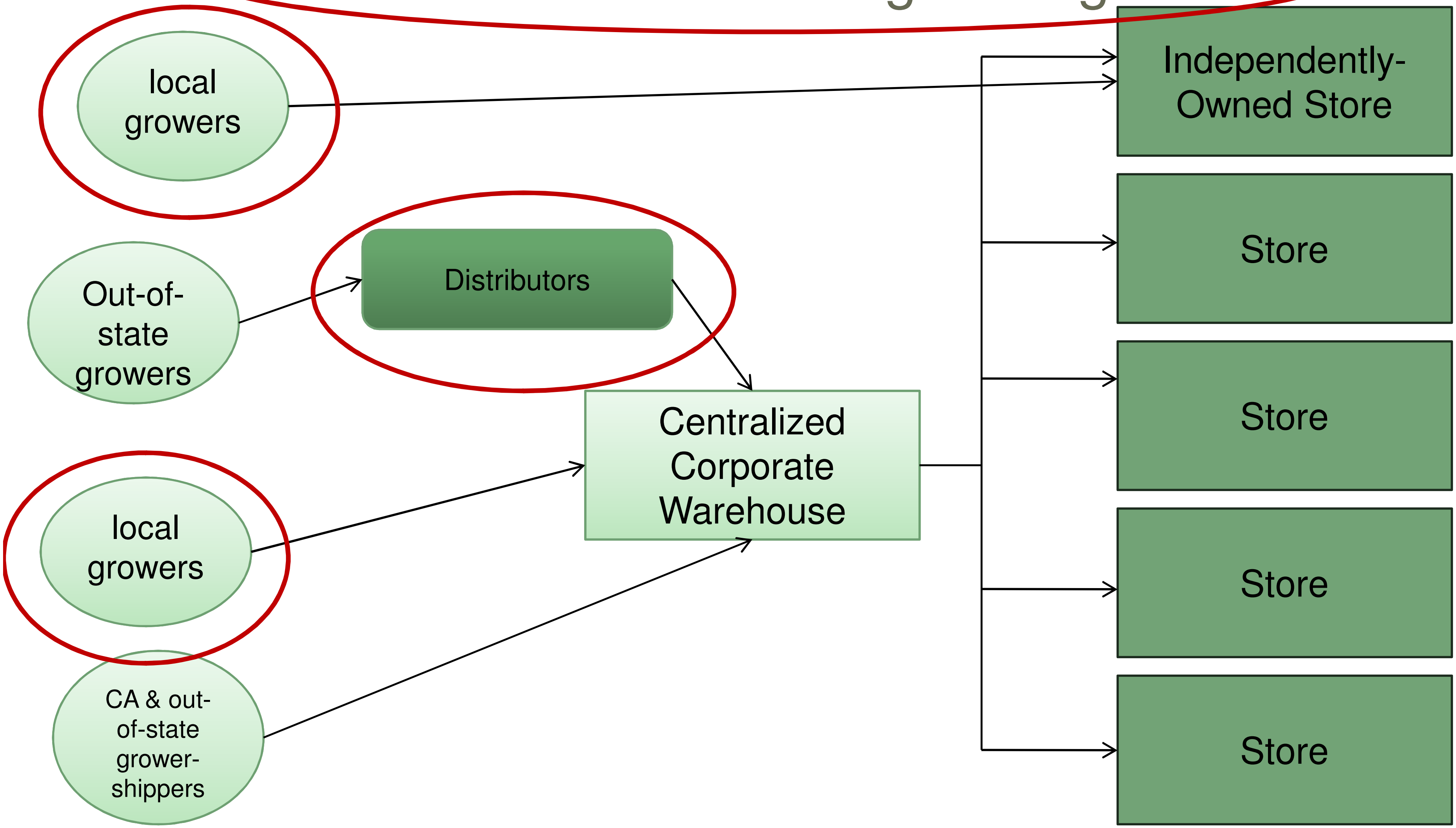
Large Natural Food Chain

Local = 4-hour drive



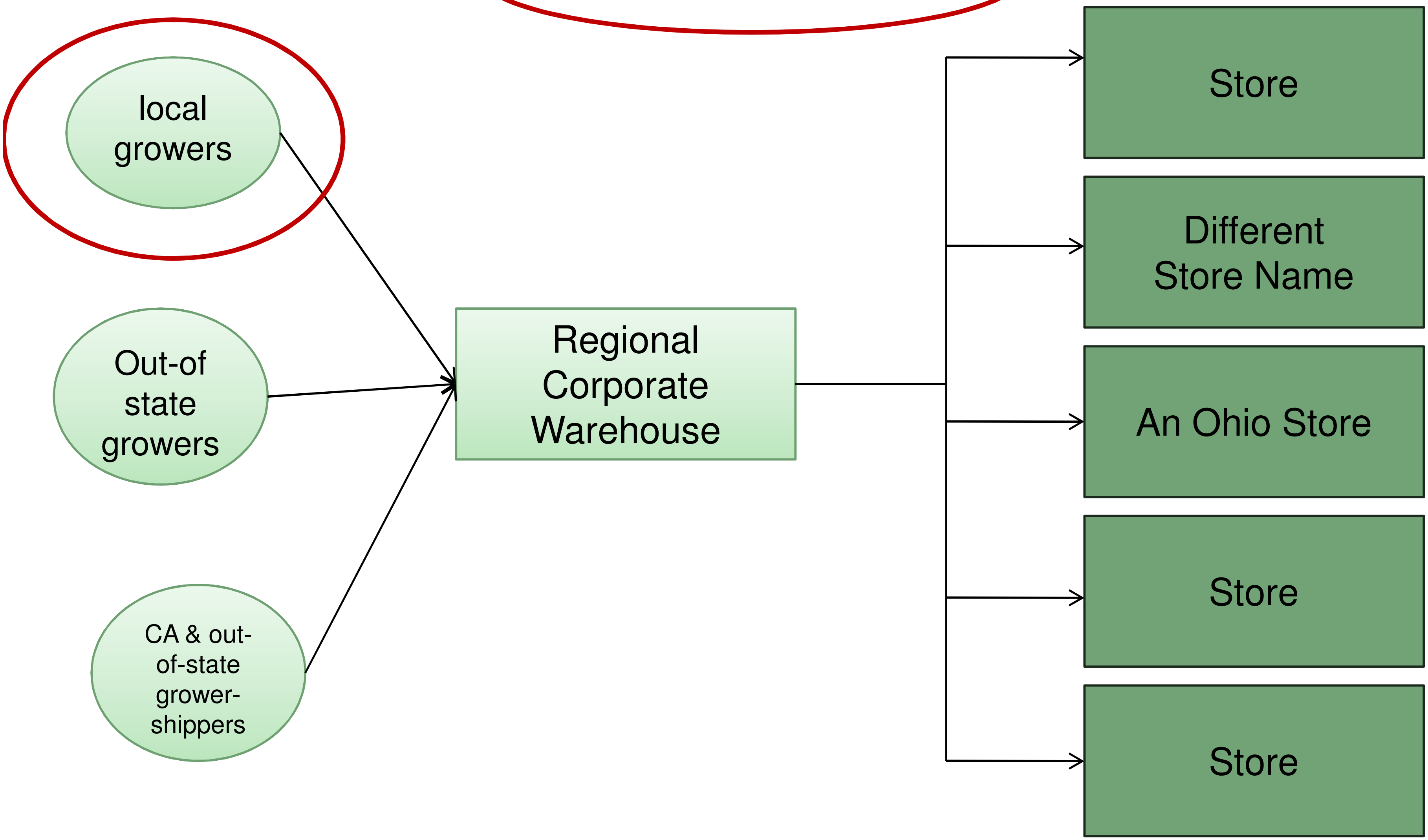
Large Chain (some franchise)

Local = statewide + neighboring state



Large Vertically-Integrated Chain

Local = ??



Summary of Retailer Interviews

- As retailers grow in size, distribution becomes increasingly formalized and vertically integrated.
- Regional and national chains have longstanding relationships with larger farms able to supply the quantity and quality products desired.

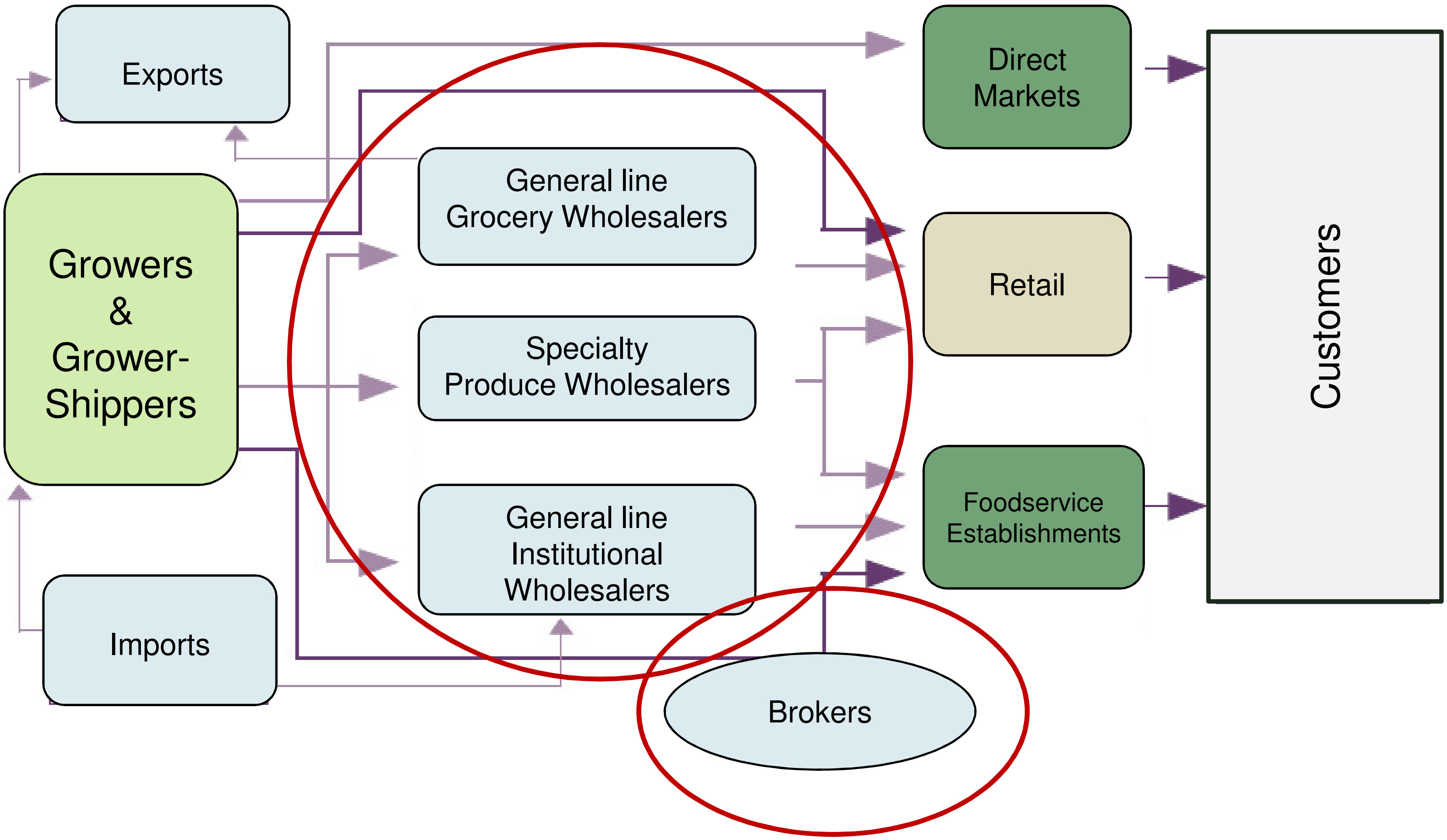
- Retailers emphasized the desire to have a relationship with farmers, but want a consistent and efficient ordering and distribution system.
- While food safety is a concern for all retailers,
  - larger retailers tended to seek formalized certifications, especially those purchasing from large scale farmers or companies not in close proximity.

Summary of Retailer Interviews con’t

- Retailers slowly embracing identity preservation
- Regional mid-size chains and independents:
  - Willing to purchase from local small and medium size farms
  - Tend to increase their local fruit and vegetable inventory when common aggregation points are available
  - Stores have more autonomy and flexibility in making purchasing decisions
  - Interest in working with farmers to develop a produce list and planting schedule

- Retailers with a strong commitment to local produce are more likely to develop social relationships with growers

What Do We Currently Know?
The Distributors Perspective



Survey of Ohio
Fruit and Vegetable Distributors

- 215 distributors identified through NAICS codes and through the Blue Book.
  - Verified list via internet and phone

- Surveyed 169 distributors

- Fifty-seven responded, resulting in a 34% response rate

Sample Population

- Almost all headquartered in Ohio
- Represent:
  - 219 distribution facilities in Ohio,
  - 753 full time and 37,620 part time workers
  - In 2009 purchased an average of $493,476 of Ohio grown fruits and vegetables

Sales Volume	# of Distributors
< 1 million	9
1-5 million	11
5-15 million	10
15-25 million	5
> 25 million	4

Similarities between Distributors

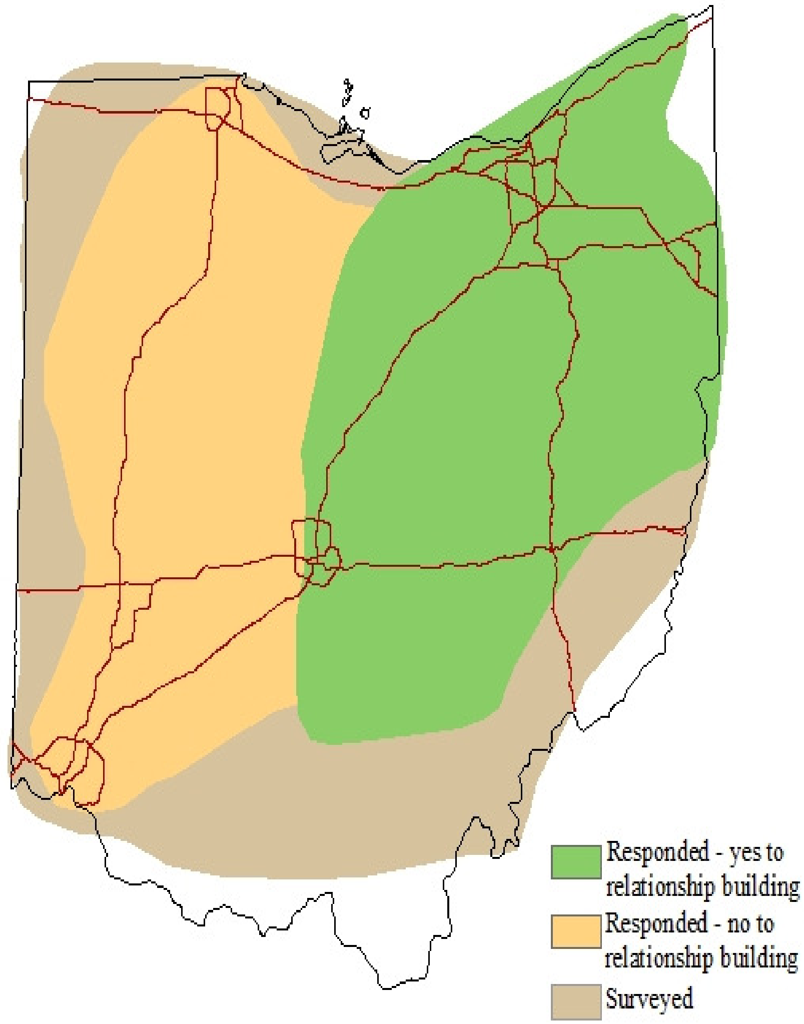
- Ohio produce is priced comparably to produce grown in other states.
- Purchasing locally lowers transportation costs
- Can sell Ohio grown foods at a premium.
- Reported it was important for the future of their business to purchase Ohio grown produce.

- All Distributors had similar requirements for food safety, traceability and inventory management.

- Distributors are interested in partnering with growers and agencies to develop infrastructure to access Ohio produce.

- Relationships rather than directories are key to expanding market opportunities for Ohio grown fruits and vegetables.

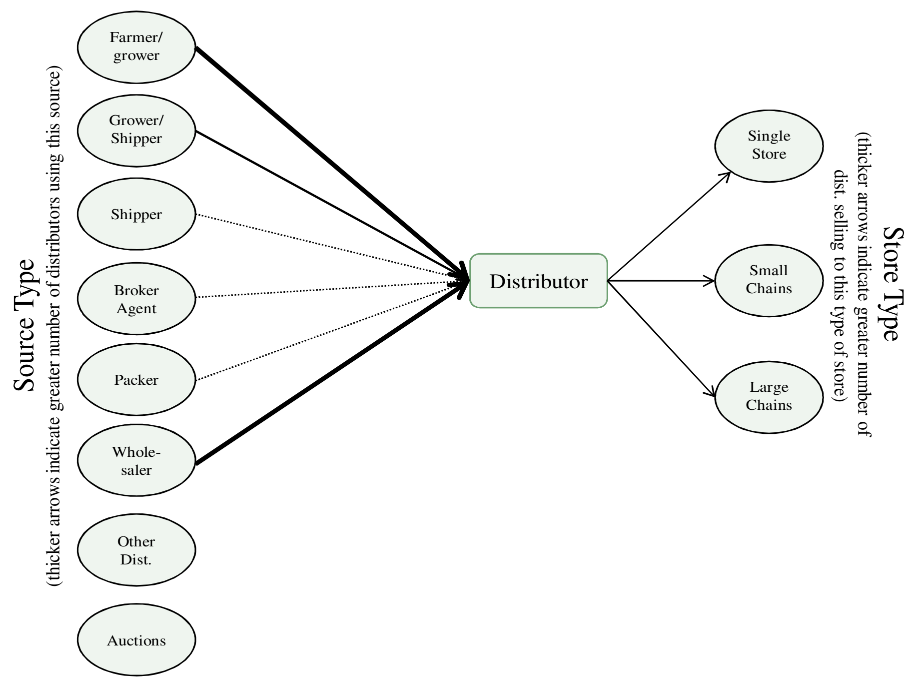
Distributors interested in further Ohio produce opportunities



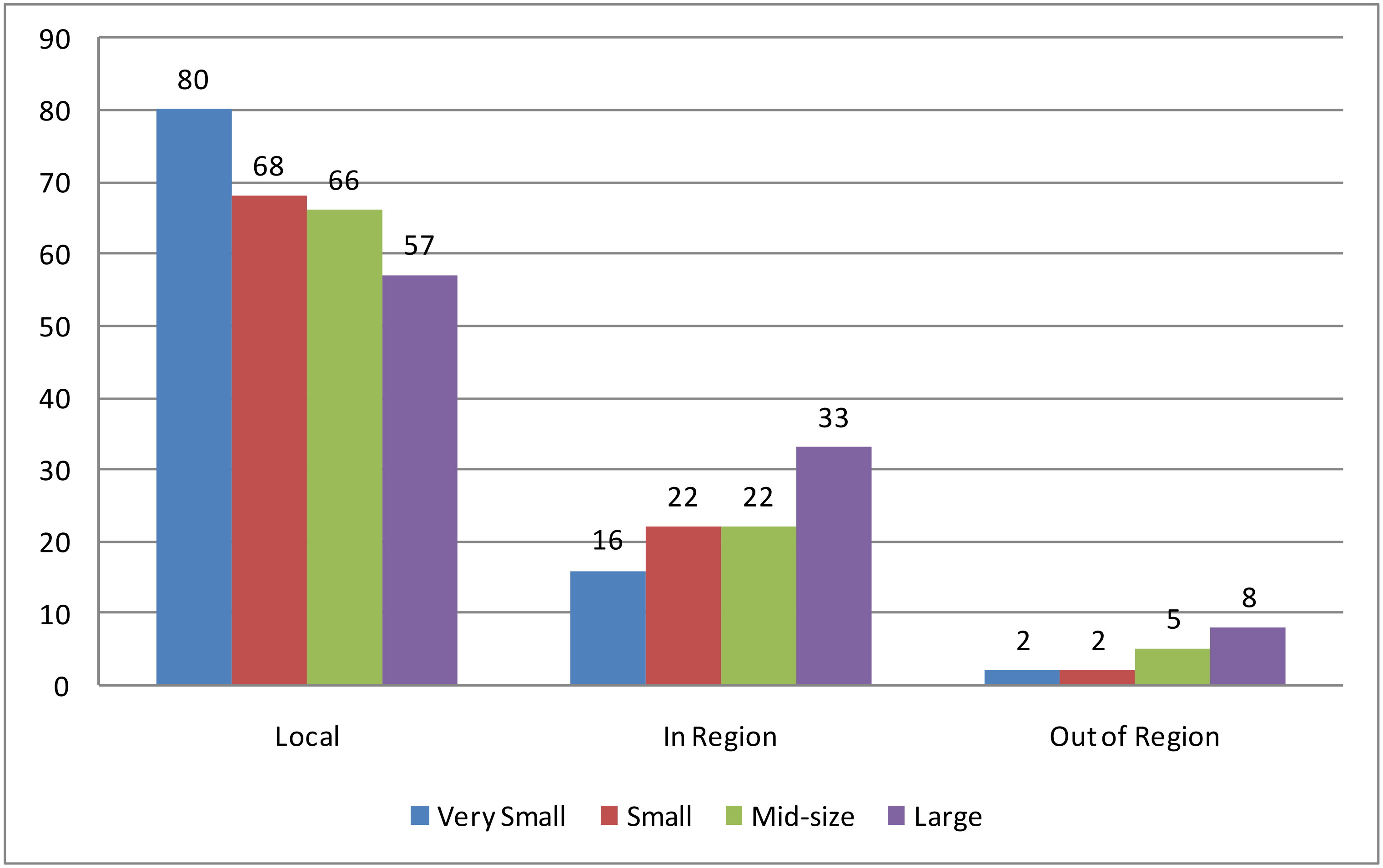
Differences between Distributors

Distributor Size	**2008 Sales**
Large	>$15million
Medium	$5-$15 million
Small	$1-$5 million
Very Small	<$1million

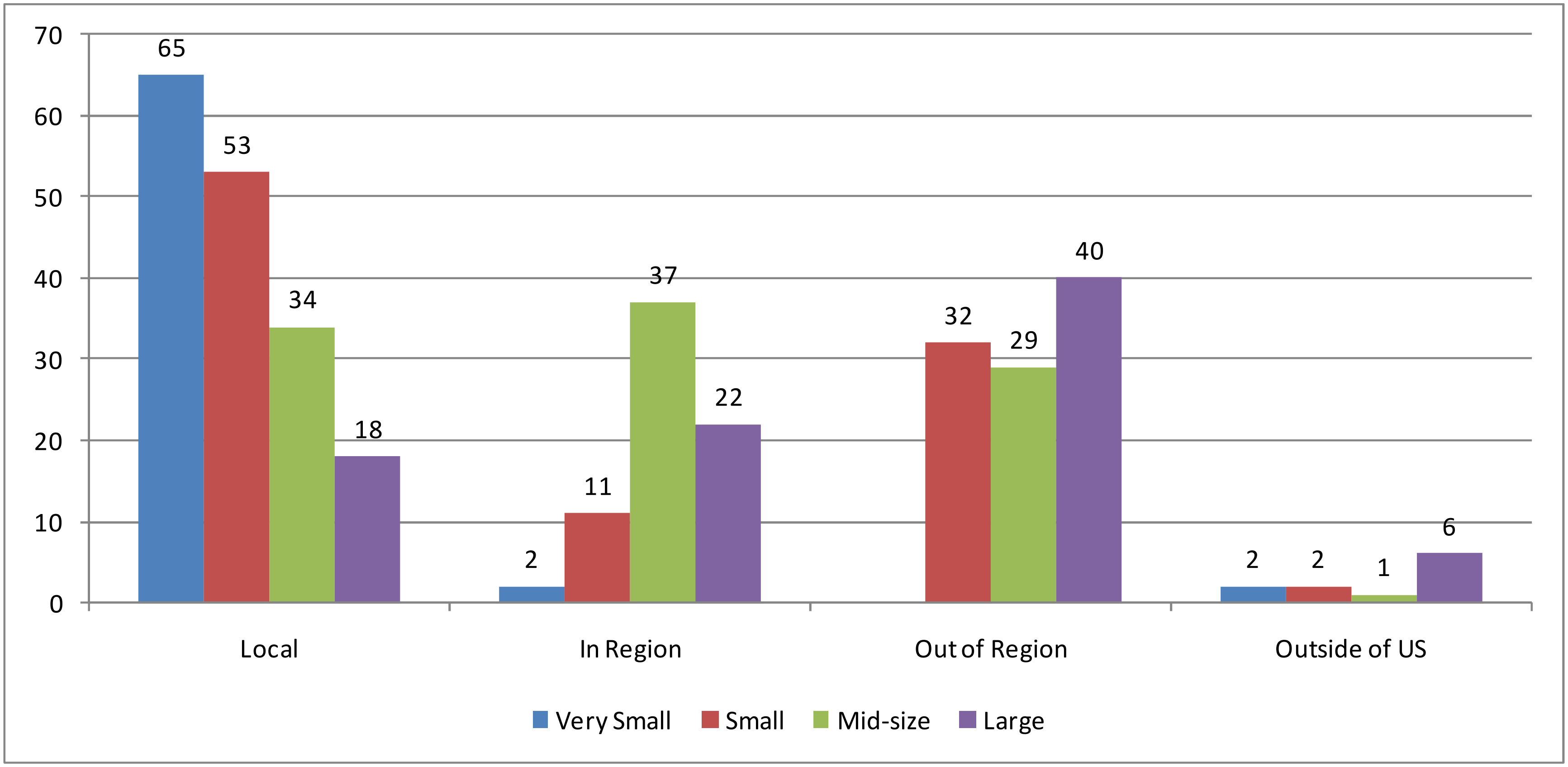
Fruit and Vegetable Sourcing and Types of Stores Distributors Service



Service Area and Distribution Radius



Where Are the Fruit and Vegetables Coming From During the Height of Ohio's Growing Season?



Importance of Factors associated with purchasing Ohio Grown Fresh

Priority	Large Distributors	Medium Distributors	Small Distributors	Very Small Distributors
1)	Transportation costs are lowered by purchasing Ohio produce	Ohio produce is fresher in season	Ohio produce is fresher in season	Ohio produce is fresher in season
2)	Customers care that produce is raised in Ohio, yet are less likely themselves to believe Ohio produce is inherently a better product.	Ohio produce is less expensive and transportation costs are lowered.	Have a commitment to OH growers and Transportation costs lower	Have a commitment to OH growers and Transportation costs lower
3)	Ohio produce is fresher, and less expensive in season	Have a strong commitment to the Ohio growers currently purchasing from	Ohio produce is less expensive in season	Ohio produce is less expensive in season and customers care that produce is raised in Ohio
4)	Have a strong commitment to the Ohio growers currently purchasing from	Customers care that produce is raised in Ohio	Customers care that produce is raised in Ohio and can sell Ohio produce at a premium	Can sell Ohio produce at a premium and believe Ohio produce is a better product
5)	Can sell Ohio produce at a premium	Can sell Ohio produce at a premium but distributors themselves don't believe Ohio produce is necessarily a better product	Believe Ohio produce is better product	

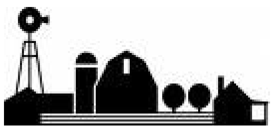
Relationships Between Distributors and Farmers

- **Large distributors**
  - Least interested in developing new relationships with farmers or working on infrastructure development
  - 100% interested in purchasing from a regional aggregation hub
- **Mid-size distributors**
  - Personal relationships with farmers they source from are important.
  - Capacity and interest to build capacity of local farmers and work on developing infrastructure
  - 75% are interested in purchasing from a regional aggregation hub.
- **Small distributors**
  - Highly motivated to develop relationships and with farmers and create infrastructure
  - 63.6% interested in purchasing from a regional aggregation hub
- **Very small distributors**
  - Personal relationships are very important
  - Only moderately interested in participating in grower education and trainings.
  - 66.7% are interested in purchasing from a regional aggregation hub.

Flows of Product by Distributor Type

Size	% of Distributors Sourcing From…	% Sourcing in Summer	% Distribute to Following Store Type	% Distribute to Stores…
V. Small	Farmers-67% Wholesalers-67%	Local-65% In region-12% Outside region-21% Foreign-2%	*Equally Distributed between* Single Stores Small, Regional chains Major, national chains	Local-80% In region-16% Outside region-2%
Small	Farmers-80% Grower/Shipper-50% Wholesaler-50% Other Distributor-50%	Local-53% In region-11% Outside region-32% Foreign-2%	*Equally Distributed between* Single Stores Small, Regional chains Major, national chains	Local-68% In region-22% Outside region-2%
Mid-size	Grower/Shipper -86% Farmers-78% Shipper-67% Broker-67%	Local-34% In region-37% Outside region-29% Foreign-1%	*Few* Single Stores Small, regional chains Major, national chains	Local-66% In region-22% Outside region-5%
Large	Grower/Shipper-71% Farmers-71%	Local-18% In region-22% Outside region-40% Foreign-6%	*Few* Single Stores Small, regional chains Major, national chains	Local-57% In region-33% Outside region-8%

Opportunity?



Small and medium
size farms

Sm & mid size
distributor

Grower-shipper

Conclusions & Recommendations

A population of established small and medium sized distributors exists who are motivated to buy from Ohio farmers and have the capacity to increase the volume of Ohio grown fruits and vegetables they carry.

- Distributors, farmers and retailers can create strategic relationships by utilizing existing infrastructure.
- Small and medium sized farmers are searching for market access; Distributors are looking for market viability, and; the mid-level store is looking for competitiveness.

The lack of supply of Ohio grown produce and aggregation are the primary barriers to increasing the flow of Ohio produce to retail outlets.

- Retailers want to purchase Ohio grown fruits and vegetables, but do not want to purchase from a large number of growers. Distributors can help small and medium farmers find market access points.

There is room to develop and grow within the current system

- Distributors are willing to collaborate with agencies and organizations to develop needed aggregation and infrastructure.
- Develop education and training for growers that includes distributors.
- Recognize that facilities may already exist for aggregation and seek ways to work with these existing entities

Retail Ready

Focus on facilitating relationship building up and downstream from the distributor.

- Business relationships based on trust and value added features can benefit farmers, distributors and retailers.
- Explore innovative co-op development and business structures that include the entire value chain
- Service providers, educators, and agency officials can facilitate these relationships and business models upfront to defray some of the initial costs to individual participants.

Agencies and organizations can facilitate growth by directing resources into developing farmer-distributor-retailer relationships.

- Opportunities are not in the logistics or flow itself, but are in the business practices that focus on trust and relationships.

- Bigger retailers and growers have established relationships and business practices that are already solidified.
  - Efficient to first focus on the segments of the fruit and vegetable industry that are open and interested in developing strategic relationships but may not have the resources to do so.

- Directories and mapping are useful but only to a point. Build on retailer, distributor, farmer networking and planning sessions.

Creating and expanding fruit and vegetable aggregation centers can expand market opportunities.

- In Ohio regional mid-size chains and independent stores expressed an interest in working with farmers to develop a produce list and planting schedule.

- Aggregation centers that provide cooling facilities can increase the quality, quantity and flow of Ohio fruits and vegetables for retail markets.

Thank you.

http://cffpi.osu.edu/distribution.htm