Taste The Local Difference®

SELECT NORTHWEST MICHIGAN

Locally Grown Food: *Let's Put Some on Every Plate!*

Perspectives from Surveys of Northwest Michigan Growers and Buyers

February 2006

Contents

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Acknowledgements

The ***Taste the Local Difference*** Farm Network Team extends sincere appreciation to the following major funders for their commitments to this project's work to develop community food system entrepreneurship: The W.K. Kellogg Foundation, the U.S. Department of Commerce Economic Development Administration, the U.S. Department of Agriculture Rural Development Division, and the Grand Traverse Band of Ottawa and Chippewa Indians.

*The **Taste the Local Difference** Farm Network Team members are the Michigan Land Use Institute, Michigan State University, MSU Extension, the Northern Lakes Economic Alliance, Northwestern Michigan Council of Governments, Michigan Small Business and Technology Development Center, Northwestern Michigan College, and the Traverse City Area Chamber of Commerce.*

Taste The Local Difference®

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A PROJECT OF THE MICHIGAN LAND USE INSTITUTE

TLD Farm Network Team

- Michigan Land Use Institute
- Michigan Small Business and Technology Development Center
- Michigan State University
- MSU Extension
- Northern Lakes Economic Alliance
- Northwestern Michigan College
- Northwestern Michigan Council of Governments
- Traverse City Area Chamber of Commerce

MICHIGAN LAND USE INSTITUTE

SMART GROWTH WORKS

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Dear friend,

From Manistee to Mackinac, residents and tourists spend nearly $900 million each year on food and drink. If just 5 percent of that went to locally made products, a new $45 million market would open up for area food and farm businesses.

The ***Taste the Local Difference*** project works to make that happen. It is a collaborative effort of regional, community-based organizations to grow jobs, save farmland, and build healthier communities by opening new markets for food that's thousands of miles fresher.

Research Steps
As part of this initiative, the ***Taste the Local Difference*** Farm Network Team is conducting research into markets for local foods and the capacity of local food and farm businesses to supply them. **Locally Grown Food: Let's Put Some on Every Plate!** summarizes our local food market research so far. Our next report will summarize our current investigation of the region's packing, processing, distribution, and storage capacity—and needs.

What We'll Do with This Research
Our team is developing a regional farm and food business support system that, based on our local market research, will:

- Support entrepreneurs with business planning and product development.
- Connect food and farm businesses with needed packing, processing, storage, and distribution services.
- Develop new services with entrepreneurs, such as cooperative distribution and regional branding.

Taste the Local Difference already is boosting local food and farm businesses through an annual print and online guide to local farm foods and by linking local farms with school cafeteria buyers.

Last year—our second—the project distributed 25,000 print guides and attracted 30,000 visitors to its Web site, ***www.LocalDifference.org.*** In a poll of farms signing up for the 2006 guide, more than half reported that they saw new customers because they were listed the year before. Meanwhile, our pilot farm-to-cafeteria program with Traverse City Area Public Schools increased sales for participating farms and, in one case, tripled apple consumption among students at 14 Traverse City schools.

The ***Taste the Local Difference*** Farm Network Team welcomes your questions, suggestions, and support.

Sincerely,

Patty Cantrell

Patty Cantrell, *Project Director*
Michigan Land Use Institute

Executive Summary: Local Food Market Research

The northwest Michigan region[1] is home to almost a quarter-million people and hosts around 50 percent more seasonal residents and tourists through the year[2]. It also has a diverse and unique agricultural industry that is struggling as rapid development inflates land values and economic pressures drive down prices for agricultural products. The region's growing population and vibrant tourist industry, however, together make a potentially large market for local farm products. To the extent that local growers can better access this market, greater local food sales could help the agricultural industry survive, and even thrive, in the face of population growth and development.

The ***Taste the Local Difference*** project aims to facilitate this process. A key part of the project has been to learn about the region's food system—the individuals and businesses that produce, package, process, distribute, store, prepare, serve, and consume the region's food products. The project, a collaboration of community-based organizations, has completed extensive surveys of the retail component of the food system (growers, restaurants, and grocery stores). The project will also, during early 2006, conduct a survey of local food system infrastructure (processing, distribution, and storage).

This report summarizes results of three ***Taste the Local Difference*** surveys, one each of direct-market growers and of restaurants and grocery stores. Taken together, the results of these surveys help identify the magnitude of local demand for food products; how that demand is currently satisfied; the role of locally grown products in the regional food system; and, most importantly, what it would take to increase the role of locally grown products.

The Market for Food in General

The market for food products in the region is large. Across the region, grocery stores sell more than $500 million in products each year, including an estimated $175 million annually of fresh fruit, fresh produce, meat, and dairy products. Furthermore, processed food products account for a large share of the estimated $193 million annual sales of general grocery items. Restaurants in the region serve an estimated 30 million meals annually and generate estimated revenue of more than $400 million.

Production capacity is not a constraint for many food products. Local farmers grow a wide variety of agricultural products and can probably produce enough of most fruits, vegetables, meats, and dairy products to satisfy local demand. Growers, however, said in ***Taste the Local Difference*** surveys that they need help finding new customers; assistance with business issues and pricing decisions; and less restrictive federal, state, and local regulations to increase their local sales.

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[1] For this project, the northwest Michigan region consists of Antrim, Benzie, Charlevoix, Emmet, Grand Traverse, Kalkaska, Leelanau, and Manistee Counties.
[2] http://www.nwmcog.org/data/SeasonalPopStudy-NW.pdf

The Market for Local Food in Particular

The surveys, along with local agriculture statistics from the U.S. Department of Agriculture, suggest that the market potential for locally grown foods is largely untapped. Fewer than 15 percent of the region's growers sell directly to retailers and other buyers in addition to, or instead of, selling to middlemen in wholesale and commodity markets. At the same time, most respondents to the surveys of restaurants and grocery stores reported buying most of their fruit, vegetables, meat, and dairy products in a fresh form. At least in season, local growers could potentially provide most, if not all, of the quantity demanded of many fruits and vegetables. With processing and storage facilities, local growers could also satisfy some off-season and processed product demand.

Many local stores and restaurants say it is important to them to offer locally grown products because the choices are fresher, purchasing them supports the local economy, and their customers like locally grown products. In spite of these perceived benefits, however, the majority of fresh products offered in stores and restaurants—even in season—are not locally grown. The survey work identified a number of perceived barriers restaurants and stores face in purchasing locally grown food products. Chief among these are unpredictable availability; higher price; inconsistent quality; seasonal availability; inadequate storage, delivery, and packaging; and inadequate quantity. In spite of an apparent concern about higher prices, a majority of stores and restaurants seem willing to pay a modest premium for locally grown foods.

The Challenge and Opportunity

The desire is there – many stores and restaurants say they want locally grown foods. The constraints to increasing sales of locally grown foods appear addressable. Identifying additional products desired by restaurants and grocery stores but not currently available in sufficient quantity locally may open up new opportunities. The ability to produce a consistent quantity and quality of product and make it available though a distribution system that eases the ordering process and provides reliable delivery would likely help incease sales of locally grown products. Developing appropriate processing and packaging capabilities could help growers provide products in forms that are not now available for locally grown products and help extend the season for some products.

Part I: Survey Procedures and Response Rates

The ***Taste the Local Difference*** project aims to increase the profitability of farms in the northwest Michigan region from Manistee to Mackinac. The project is working with all components of the local food system to increase the quantity and variety of locally grown foods available; increase demand for locally grown foods among consumers, restaurants, institutions, retailers, and others; and to identify and address constraints to developing new markets for locally grown products.

A key component of the project is to gain an understanding of the local food system. To that end, the ***Taste the Local Difference*** Farm Network Team is conducting an extensive survey of the region's food system. The team has largely completed surveying the production and retail components (*i.e.*, producers, restaurants, and grocers) and, in early 2006, will conduct a survey of processing, packing, storage, and distribution facilities and of institutional food purchasers.

The purpose of the survey effort is to identify the businesses and individuals that comprise the local food system, their activities and capabilities, and what assistance may be necessary to improve system performance. The surveys also attempt to identify the food system network: that is, the firms and individuals that respondents work with on various aspects of their business.

All surveys were conducted by mail and were sent to all members of the target population that could be identified. The remainder of this section summarizes procedures and response rates for the surveys of direct marketing producers, restaurants, and grocers.

Survey #1: Growers who Market their Products Directly

Producers are the first component of the local food system. They grow or raise the products that are then processed, packaged, and distributed to consumers, retailers, and other end-users. The survey of producers focused on learning about their production activities and capabilities, how they market their products, who they work with, and what resources they need to improve their profitability.

The 2002 Census of Agriculture identified 2,544 farms in the northwest Michigan region. Many are commodity producers and do not market any of their products directly. While the project will eventually draw in some of these producers, it focused initially on those already directly marketing some of their products.

From its initial work with the regional food system, the Michigan Land Use Institute had identified about 160 northwest Michigan growers who direct-market their products. The 2002 Census of Agriculture, however, listed 343 growers in the region who marketed some of their products directly. The Michigan Land Use Institute collaborated with the Michigan Agricultural Statistics Service (MASS) to compile the most complete mailing list possible for the survey. The final mailing list contained about 400 growers. MASS administered the survey with materials provided by the Michigan Land Use Institute. With 84 returned questionnaires, the survey of direct market growers achieved a response rate of about 21 percent.

Of the 84 respondents, only 29 were previously known to the project and 55 represented potential new contacts among growers in the region. Respondents represented all eight counties in the region. Except for the very smallest and the largest farms, small and large farms appear to have responded in numbers that generally reflect the distribution of farm size in the region. Table 1 compares the distribution of respondents by value of annual sales with the distribution of sales across all farms in the region as reported in the 2002 Census of Agriculture.

Table 1. Annual Sales of Respondents Compared to all Farms in Region

	Survey of direct market farms		
Sales/revenue	Frequency	Percent	All farms in region (%)
Less than $1,000	10	12.2	33.4
$1,000 to $4,999	26	31.7	23.7
$5,000 to $9,999	12	14.6	12.5
$10,000 to $24,999	14	17.1	11.9
$25,000 to $49,999	5	6.1	7.6
$50,000 or more	15	18.3	10.8

Survey #2: Northwest Michigan Restaurants

Restaurants represent a potentially large market for locally grown food products. Restaurants may promote the use of locally grown foods to distinguish themselves from their competitors and many chefs favor locally grown foods for their freshness and unique tastes. The popularity of the region as a tourist destination further amplifies the importance of local restaurants as a potential outlet for locally grown foods. The survey of restaurants focused on identifying potential demand for locally grown foods, desired products and product characteristics, barriers to purchasing locally grown foods, and perceived advantages of locally grown foods.

Taste the Local Difference compiled a list of 530 restaurants in the eight-county northwest Michigan region from a variety of sources. About 20 percent were branches of well known national or regional chains with the remainder most likely locally owned independent restaurants. Of the 530 restaurants contacted, 136 eventually completed and returned the questionnaire for a response rate of 26 percent. Respondents seemed to generally represent the variety of restaurants in the region. Response rates were similar across restaurant sizes as measured by seating capacity. The response rate for locally owned restaurants was somewhat higher than for those that were not locally owned. Very large restaurants—those with annual sales of more than $2.5 million—were somewhat less likely to respond than were restaurants of smaller size. Table 2 summarizes selected characteristics of respondents and, when data were available, compares them to characteristics of all restaurants in the region.

Table 2. Comparison of Respondents with all Restaurants

Characteristic	Survey respondents		All restaurants in region (%)[a]
	Frequency	Percent	
Restaurant type			
Locally owned	121	90.3	80.2
Not locally owned	13	9.7	19.8
Size (number of seats)			
Less than 50	38	29.2	n.a.
50 to 100	42	32.3	n.a.
100 to 150	23	17.7	n.a.
More than 150	27	20.8	n.a.
Season			
Year-round	108	80.0	n.a.
Seasonal	27	20.0	n.a.
Annual revenue			
Less than $250,000	30	25.0	53.7
$250,000 to $500,000	35	29.2	
$500,000 to $1 million	27	22.5	18.6
$1 million to $1.5 million	13	10.8	
$1.5 million to $2.0 million	10	8.3	21.6
$2.0 million to $2.5 million	3	2.5	
More than $2.5 million	2	1.7	6.1

n.a. means “not available”
a. Source: U.S. Department of Commerce.

Survey #3: Northwest Michigan Grocers

A list obtained from the U.S. Department of Commerce identified 183 grocers in the northwest Michigan region. Using the primary SIC classification and annual sales volume to classify store types[3]. Stores on the list consisted of 73 general markets, 73 convenience stores, 29 supermarkets, and eight farm markets. The survey focused on food purchasing patterns, attitudes and behavior regarding the purchase of locally grown foods, perceived barriers to purchasing locally grown foods, and perceived benefits of locally grown foods.

The overall response rate to the survey of grocers was 15.2 percent. Response rates were highest among farm markets (37.5%) and supermarkets (31.0%). Convenience stores were least likely to respond with only 5.5 percent of questionnaires returned. Differences in response rates likely reflect the relative importance of fresh fruit and produce to a particular type of store. Table 3 summarizes response rates by store type.

Table 3. Grocer Survey Response Rates by Store Type

Survey	Number sent	Number returned	Response rate (%)
All grocers	184	28	15.2
Supermarkets	29	9	31.0
Markets	73	12	16.4
Farm markets	8	3	37.5
Convenience stores	73	4	5.5

Table 4 summarizes selected characteristics of grocer respondents. Almost all were locally owned stores rather than stores based outside the region. Only three percent reported being part of a chain based outside the northwest Michigan region. The physical size of the store varied substantially across store types with supermarkets being the largest and convenience stores the smallest. Farm markets devoted more space to produce than any other store type and convenience stores, on average, devoted no space to produce. Supermarkets, the stores with the greatest sales volume, devoted an average of slightly less than 10 percent of their floor space to produce. The average sale per customer was highest for supermarkets and lowest for convenience stores. Average annual sales volume was highest for supermarkets and lowest for farm markets.

[3] Supermarkets defined by "Grocery – retail" as primary SIC description and annual sales volume of at least $5 million. General markets defined by "Grocery - retail" as primary SIC description and annual sales volume of less than $5 million plus "Food market", "Health food", and "Meat markets" as primary SIC descriptions. Farm stands defined by "Fruit, vegetables, produce - retail" as primary SIC description. Convenience stores defined by "Convenience store" as primary SIC description.

Table 4. Store Characteristics by Store Type

Store type	Locally owned (%)	Average size (ft^2)	Space for produce (%)	Average sale per customer ($)	Average annual sales (million $)
All store types	97.0	12,053	10.9	$17.37	$5.61
Supermarkets	88.9	23,055	9.8	$21.67	$15.00
Markets	100.0	9,688	5.3	$18.12	$1.86
Farm market	100.0	2,083	55.0	$14.17	$0.67
Convenience stores	100.0	1,250	0.0	$9.06	$0.88

Part II: Food Sales in Northwest Michigan

According to the U.S. Census Bureau, more than 236,000 people lived in the northwest Michigan region in 2000. In addition, tourists and seasonal residents may swell the population by around 50 percent, with the heaviest influx during the summer months. These numbers imply a substantial market for food—some of which can be satisfied from local sources. According to a national survey of purchasing power in local markets, residents and visitors in the project's eight-county area spend nearly $900 million each year on food and drink[4].

Table 5 summarizes quantities of selected food that residents of the region, alone, are estimated to consume. The estimates are derived from USDA estimates of per capita consumption of various food products. The size of the local market for food products is bounded by the quantity of food products consumed by residents of, and visitors to, the region.

Table 5. Estimated Consumption of Selected Foods by Residents of Northwest Michigan

Product	Consumption in NW Michigan region[a]
Apples – fresh	3,949,650 pounds
Apples – processed (including juice)	7,024,228 pounds (fresh weight)
Grapes – fresh	1,773,795 pounds
Grapes – processed	2,601,566 pounds (fresh weight)
Potatoes – fresh	11,021,180 pounds
Potatoes – processed	21,734,901 pounds (fresh weight)
Tomatoes – fresh	4,280,759 pounds
Tomatoes – processed	16,484,468 pounds (fresh weight)
Beef	21,924,106 pounds (carcass weight)
Pork	15,751,300 pounds (carcass weight)
Chicken	22,586,323 pounds (ready-to-cook carcass weight)
Milk	48,720,236 pounds

a. Computed by multiplying USDA estimates of per capita consumption by the population of the region as reported in the 2000 Census of Population and Housing.

[4] *Sales and Marketing Management*, 2004 Survey of Buying Power

Information from ***Taste the Local Difference*** surveys of restaurants and grocers also provide rough estimates of the quantity of foods sold through these outlets. Table 6 summarizes sales and meals served reported by restaurants that responded to the survey. Locally owned restaurants reported average annual sales of $640,187 and an average cost per meal of $16.63 Restaurants that were not locally owned reported average annual sales and average meal costs of $1,229,167 and $9.58, respectively. Aggregating to all restaurants in the region, this suggests that local restaurants serve almost 30 million meals annually with total annual sales of more than $400 million. Some portion of that is spent on the food products that are the basic ingredients of the meals served.

Table 6. Annual Sales, Average Meal Cost, and Meals by Restaurant Type

	Annual average per restaurant surveyed			Annual aggregate over all restaurants in region[b]	
Restaurant type	Sales	Average meal cost	Meals served[a]	Sales (millions $)	Meals (x 1000)
All restaurants	$696,875	$16.05	43,419	$401	29,832
Locally owned	$640,187	$16.63	38,496	$272	16,360
Not locally owned	$1,229,167	$9.58	128,306	$129	13,472

a. Calculated by dividing average annual sales by average cost per meal.
b. Calculated by applying per restaurant averages to the estimated 425 locally owned and 105 not locally owned restaurants in the region.

Grocery stores in the region also sell a large quantity of food—some portion of which can be obtained from local sources. Table 7 summarizes aggregate annual sales of various food products by store type from averages obtained from the survey of grocers. Across the region, stores sell more than $500 million in products each year. Fruit, produce, meat, and dairy products (some of which can be obtained from local sources) account for about $175 million in sales annually. Supermarkets account for more than 80 percent of the sales of these products. To the extent that these products can be produced locally and made available at the appropriate time, local stores represent a large market for locally grown products.

Table 7. Estimated Aggregate Sales by Store Type and Retail Product Category

Food categories	All store types	Aggregate Sales by store type (millions $)[a] Supermarket	Market	Convenience store	Farm market
All products	$523	$369	$103	$45	$6
Fruit & produce	$45	$34	$7	$0	$4
Meat	$74	$67	$7	$0	$0
Dairy	$56	$41	$12	$2	$0
Fish & seafood	$3	$2	$1	$0	$0
Deli/bakery	$33	$24	$4	$4	$1
Grocery	$193	$154	$30	$8	$1
Other	$119	$47	$42	$30	$0

a. Calculated by applying average sales volumes and percentage of sales in each retail category as obtained from survey respondents to the 29 supermarkets, 73 markets, 73 convenience stores, and 8 farm markets in the region.

Part III: Regional Farm Production and Direct Marketing

Northwest Michigan has a diverse and unique agricultural industry. Farms in the region produce at least some products in 14 of 16 broad categories of agricultural products listed in the Census of Agriculture. The only exceptions are cotton and tobacco. Table 8 compares sales of selected crops in the northwest Michigan region with sales by all farms in Michigan as reported in the 2002 Census of Agriculture. The northwest Michigan agricultural industry is much more concentrated in vegetables, fruits, and Christmas trees than the state's agricultural industry overall. It is less dependent on grain crops and on most animals and their products with the exception of cattle and calves.

Northwest Michigan farmers are also more likely than the average farmer in Michigan to directly market some of their products. The 2002 Census of Agriculture reported that 13.5 percent of northwest Michigan farmers directly marketed some of their products while the comparable figure for all Michigan farmers was 9.2 percent.

The remainder of this section reviews characteristics of those who responded to the survey of direct marketing growers, the types of business networks in which they participate, and the perceived barriers to increasing local sales.

Table 8. Value of Sales of Selected Agricultural Products

Product	NW Michigan		Michigan	
	Sales (1,000 $)	% of sales	Sales (1,000 $)	% of sales
All products	$70,955	100	$3,772,435	100.0
Crops	$50,993	71.9	$2,362,628	62.6
Grains, oil seeds, beans, peas	$3,151	4.4	$990,921	26.3
Vegetables, melons, and potatoes	$11,331	16.0	$322,510	8.5
Fruits, tree nuts, and berries	$20,080	28.3	$181,469	4.8
Nursery, greenhouse, and floriculture	$7,866	11.1	$628,699	16.7
Cut Christmas trees	$3,299	4.6	$30,411	0.8
Other crops and hay	$5,047	7.1	$208,618	5.5
Livestock and poultry	$19,960	28.1	$1,409,807	37.4
Poultry and eggs	$416	0.5	$146,700	3.9
Cattle and calves	$8,329	11.7	$298,517	7.9
Milk and dairy products	$6,272	8.8	$697,920	18.5
Hogs and pigs	$37	0.0	$200,027	5.3
Sheep and goats	$114	0.2	$6,613	0.2
Horses, ponies, mules, burros, etc.	$1,056	1.5	$23,743	0.6
Aquaculture	n.a.	n.a.	$3,316	0.1
Other animals	$1,417	2.0	$32,972	0.9

Source: 2002 Census of Agriculture.

Characteristics of Respondents

In general, respondents appear to operate more diverse agricultural operations than a typical northwest Michigan farm. This may be a characteristic of farms that direct market some of their products. Table 9 summarizes the types of agricultural products respondents reported growing or raising. For each product category, the proportion of respondents who grew or raised products in the category exceeded the proportion of farms in the region that grew or raised products in the category. In fact, more than two-thirds (68 percent) grew or raised more than one type of agricultural product and almost 40 percent grew or raised three or more types of products

A majority of respondents grew or marketed fruits and vegetables. Almost half (42 percent) raised livestock and 40 percent produced specialty products. Specific products include all types of meat (beef, pork, chicken, turkey, lamb, fish), at least 100 varieties of vegetables, all types of berries and tree fruits grown in Michigan, wine and table grapes, plants (annuals, perennials, cut flowers, Christmas trees), dairy products (milk, goat milk, cheese, yogurt, butter, cream), and a wide variety of specialty products (honey, maple syrup, wool).

Table 9. Types of Agriculture Products Produced

Products	Respondents		All farms in region (%)[a]
	Frequency	Percent	
Fruit	48	57.1	19.3
Vegetables	47	56.0	6.7
Livestock or animals	35	41.7	31.1
Other (maple syrup, honey, etc.)	33	39.8	.n.a.
Plants (flowers, perennials, ornamentals, trees)	22	26.2	5.8
Dairy	7	8.3	2.2

a. From the 2002 Census of Agriculture.

Direct market sales were very important to most respondents. Direct market sales accounted for all of the business revenue for 56 percent of respondents and more than 70 percent earned 50 percent or more of their business revenue from direct sales.

Respondents sold their products in a number of forms. Most (74 percent) reported selling at least some of the product(s) they grew or raised in a raw, unprocessed form. Almost half (49 percent) reported packaging their product in some way. About one-quarter had someone else process their product before selling it themselves. About 20 percent resold products they purchased from others. Most respondents (58 percent) sold their products in multiple forms. Table 10 summarizes the forms in which respondents reported selling the products they grew or raised.

Table 10. Form or Type of Products Sold

Product form or type	Frequency	Percent
Raw (unprocessed)	62	73.8
Packaged	41	48.8
Processed by others	20	23.8
Purchased from others	17	20.2
Other	10	11.9

Most respondents also relied on a variety of outlets to sell their products. About 61 percent sold through more than one of the direct market outlets summarized in Table 11 and about one-third sold their products through three or more different outlets. Most respondents (60 percent) sold from a farm stand or directly from the farm. About one-third sold at farmers' markets or directly to retail stores. About 20 percent sold to processors or cooperatives, to restaurants, and to other outlets. Other types of sales included those to other farmers, through u-pick, to caterers, to beer makers, and online sales.

Table 11. Direct Market Sales Outlets

Sales outlet	Frequency	Percent
Farm stand or direct from farm	50	59.5
Farmers' markets	29	34.5
Retail stores	28	33.3
Processors/cooperatives	16	19.0
Restaurants	17	20.2
Other	15	17.9
CSA members	11	13.1
Fresh Food Partnership	6	7.1
Fresh packing houses/cooperatives	5	6.0
Schools and other institutions	2	2.4

Food System Networking

One objective of the survey of direct marketing growers was to identify the types of networks in which they participated in their business activities. In particular, it asked respondents to list the individuals, businesses, or organizations with whom they work to process or package their products, distribute their products, market their products, help with day-to-day operations of their business, discuss new ideas, or seek technical or business advice. The purpose of the questioning was to assess the extent of food system networks and inform the project's work to strengthen and build such networks.

Most respondents did not report participating in these types of networks. Table 12 summarizes reported participation in the various networks of interest. The most common type of network in which respondents participated focused on new business ideas. Just less than one-third of participants reported working with others on processing and packaging and on technical or business issues.

Table 12. Participation in Business Networks

Network	Frequency	Percent
New ideas	32	40.5
Processing and packaging	23	28.8
Technical or business advice	20	25.0
Distribution	18	22.0
Day-to-day operations	12	15.0
Direct marketing	14	17.9

Perceived Barriers to Local Sales

Most growers (82 percent) reported facing some barriers to improving the profitability of their businesses. Table 13 summarizes the relative importance of the more common barriers. The most commonly cited barrier was connecting with new buyers. Assistance with business issues, information about product pricing, and regulations were also important.

Table 13. Perceived Barriers to Profitability

Perceived barrier	Frequency	Percent
Help connecting with new buyers	34	40.5
Assistance with business issues	28	33.3
Better information about how to price your product	27	32.1
Changes to federal, state, or local regulations/policies	26	31.0
Assistance with distribution	26	31.0
Access to specialized processing, packaging, or storage	21	25.0
Education/assistance with technical issues	15	17.9
Help deciding what to grow or raise	11	13.1

Some respondents made the effort to provide detailed descriptions of specific barriers they had encountered. The most common were descriptions of regulatory barriers. Specific examples included those involving the sale of raw milk, wine shipments, zoning, and sales of meat. Several comments mentioned access to capital and infrastructure improvement as barriers to profitability. One mentioned labor issues, specifically access to a good labor pool for seasonal work.

Part IV: Retail Food Demand in Northwest Michigan

A large portion of the ***Taste the Local Difference*** survey effort to date has focused on retail demand for locally grown food products. In particular, surveys of both restaurants and grocery stores asked about current purchases of food products, attitudes about purchasing locally grown foods, and current local food purchases. This section of the report reviews food purchases by restaurants and grocery stores, their attitudes about locally grown foods, their current purchases of locally grown foods, and perceived barriers to increased purchases of locally grown foods.

Food Product Purchases

Stores and restaurants purchase and sell an enormous variety of food products satisfying a large local demand for fresh fruit, produce, meat, dairy products, and fish and seafood. Both surveys asked respondents to report their sales (grocery stores) or purchases (restaurants) of food in broadly defined categories of food products. Responses provide some evidence of the potential size of the market for food products in each category.

Table 14 summarizes the proportion of grocery store sales attributable to seven different retail product categories by store type as reported by survey respondents. Table 15 reports sales volume by category aggregated over all stores in the region and thus provides estimates of the dollar volume of grocery store sales in the Northwest Michigan region by broad retail category.

Table 14. Proportion of Food Sales by Retail Category and Store Type

	Proportion of sales volume by store type (%)				
Retail category	Supermarket	Market	Farm Market	Convenience store	All store types
Fruit & produce	7.9	5.1	66.0	0.0	11.4
Meat	15.3	5.5	0.0	0.25	7.1
Dairy	9.4	9.1	0.0	3.5	7.2
Fish & seafood	0.6	0.8	0.0	0.0	0.5
Deli/bakery	5.4	3.3	13.3	6.2	6.8
Grocery	35.4	22.4	13.3	12.5	23.7
Other	10.8	30.6	7.3	47.5	24.8

Table 15. Estimated Aggregate Food Sales by Retail Category and Store Type

Retail category	Aggregate sales volume by store type (millions of dollars)				
	Supermarket	Market	Farm Market	Convenience store	All store types
Fruit & produce	$369	$103	$6	$45	$523
Meat	$34	$7	$4	$0	$45
Dairy	$67	$7	$0	$0	$74
Fish & seafood	$41	$12	$0	$2	$56
Deli/bakery	$2	$1	$0	$0	$3
Grocery	$24	$4	$1	$4	$33
Other	$154	$30	$1	$8	$193

For grocery stores, the fruit and produce category represents largely fresh products. Processed products made from fruit and vegetables as well as frozen or canned products fall into the grocery category. Grocery stores in the region sell an estimated $175 million in fresh fruit, produce, meat, and dairy products annually. Supermarkets account for more than 80 percent of the volume in these categories. Markets also sell substantial volumes of these products while the convenience store market is quite limited. Farm markets specialize almost exclusively in fruits and vegetables but have a relatively small sales volume.

Restaurants also purchase large quantities of food products. Restaurants in the region serve almost 30 million meals annually with total annual revenue of over $400 million. Without knowing the cost structure for restaurants, it is difficult to determine what portion of restaurant sales volume is spent on raw ingredients. However, some portion of restaurant sales volume goes to purchase food products and survey responses suggest that a majority of food expenditures by restaurants are for fresh products.

The restaurant survey asked respondents for information about the form in which they currently purchased food products—fresh, frozen, or canned. For all product categories except seafood and fish, restaurants purchased most of the product in a fresh form. On average, restaurants purchased 60 percent of their fruit in a fresh form, 90 percent of their produce, 65 percent of their meat, and 91 percent of their butter and cheese. Frozen forms made up the bulk of the remainder in each category.

Packaging or portioning is another characteristic of food products. The survey of restaurants asked for the percentage of products purchased in a raw or bulk form as opposed to a form or size that was ready for use without additional processing. On average, restaurants purchased about two-thirds of their fruit, meat, and butter and cheese in raw or bulk form, about 80 percent of their produce, and 50 percent of their fish and seafood.

Both restaurants and grocery stores obtained food products from a number of sources. Only 12 percent of restaurants cited only one source for food products and the average restaurant obtained food products from more than three separate sources. Grocery stores were somewhat less diverse in their purchasing behavior, with about 30 percent obtaining food products from only one source and with the average store using 2.7 separate sources. Contracting arrangements with distributors did not seem to affect the number of sources from which restaurants purchased food products or whether they purchased directly from farmers. Only seven percent of grocery stores were contractually restricted from purchasing directly from farmers. Table 16 summarizes common sources of food products for both restaurants and grocery stores.

Table 16. Sources of Food Products

	Restaurants (N=136)		Grocery stores (N=29)	
Source	Frequency	Percent	Frequency	Percent
Direct from farmers	59	43.7	24	82.8
Gordon Food Service	108	80.0	14	44.8
Leonardo’s Produce	20	14.8	0	0.0
SYSCO	75	55.6	5	17.2
Reinhart Food Service	3	2.2	0	0.0
U.S. Foods	18	13.3	0	0.0
Clark Food Service	20	14.8	0	0.0
LaGrasso’s	11	8.1	0	0.0
Woods and Waters	7	5.2	0	0.0
R. Hirt	53	39.3	10	34.5
Besteman’s	0	0.0	9	31.0
Spartan or IGA	0	0.0	8	27.6
Superior	6	4.4	2	6.9
United Natural Foods	3	2.2	2	6.9
LIPARI	6	4.4	15	51.7
Other	60	44.4	15	51.7

Desired Food Product Characteristics

One advantage local growers may have over many other sources of food products is an ability to identify and capture markets for food products with special characteristics *(i.e.,* organic, locally grown, etc.). The surveys of both restaurants and grocery stores asked respondents about the importance of selected product characteristics to their food purchasing decisions.

Table 17 summarizes results for restaurants. Over all restaurant types, locally grown was the most important characteristic among those presented, followed by synthetic chemical-free, grown on a family farm, free-range or grass-fed, pre-portioned, and certified organic. Both local restaurants and those that were not locally owned ranked the characteristics in about the same order with the exception that non-locally owned restaurants placed a greater emphasis on pre-portioned products than did local restaurants. However, restaurants that were not locally owned consistently ranked each characteristic as less important to their food purchasing decisions than did locally owned restaurants.

Table 17. Relative Importance of Food Characteristics by Restaurant Type

	Average importance ranking[a] by restaurant type		
Product characteristic	Locally owned	Not locally owned	All restaurant types
Locally grown	3.30	2.42	3.18
Synthetic chemical-free	3.02	2.36	2.94
Grown on a family farm	2.86	2.00	2.75
Free-range or grass-fed	2.60	2.42	2.56
Pre-portioned	2.22	3.08	2.29
Certified organic	2.31	1.92	2.26

a. Average of five-point importance ranking scale where 1 is “not at all important” and 5 is “very important.”

Table 18 summarizes the relative importance of food product characteristics for grocery stores. As with restaurants, locally grown is an important characteristic to many stores. Different types of stores ranked the characteristics in a generally similar manner.

Table 18. Relative Importance of Food Characteristics by Store Type

Product characteristic	Average importance ranking[a] by store type				
	Supermarket	Market	Farm Market	Convenience store	All store types
Locally grown	4.11	4.25	3.67	4.00	4.12
Grown on a family farm	3.44	3.50	3.33	2.67	3.36
Certified organic	3.33	3.17	2.33	3.00	3.11
Synthetic chemical-free	3.12	3.25	2.33	3.67	3.07
Free-range or grass-fed	2.88	3.33	2.00	3.00	2.36

a. Average of five-point importance ranking scale where 1 is “not at all important” and 5 is “very important.”

The surveys also explored the perceived benefits of locally grown foods that motivated restaurants and stores to seek out these foods. In general, the most important perceived benefits for both stores and restaurants were a fresher product and supporting the local economy. Stores placed a greater relative importance on attractiveness of the product to the customer and on having a relationship with the farmer than did restaurants. Table 19 summarizes results.

Table 19. Perceived Benefits of Locally Grown Foods

Benefit	Average importance ranking[a]	
	Restaurants	Stores
Fresher product	4.39	4.70
Support local economy	4.36	4.62
More attractive to customer	3.92	4.38
Greater variety of choice	3.42	3.60
Relationship with farmer	3.00	4.44
Customer demand	n.a.	4.23

a. Average of five-point importance ranking scale where 1 is “not at all important” and 5 is “very important.”

Purchases of Locally Grown Foods

The previous section concluded that many restaurants and stores generally attach a great deal of importance to being able to offer locally grown food products. And, indeed many respondents reported purchasing some locally grown foods. Table 20 lists local foods purchased by respondents. Both stores and restaurants were most likely to purchase locally grown fruit and produce. Many stores also purchased and sold locally made specialty products such as honey, jams and jellies, maple syrup, etc.; milk and dairy products; eggs; and herbs. Relatively few restaurants and stores used locally raised meat products.

Table 20. Use of Locally Grown Foods by Restaurants and Stores

	Restaurants		Grocery stores	
Product	Frequency	Percent	Frequency	Percent
Vegetables	94	69.6	22	75.9
Fruit	81	60.0	21	72.4
Jams and jellies	s.p.	s.p.	21	72.4
Specialty products	58	43.0	20	69.0
Honey	s.p.	s.p.	19	65.5
Milk/cream	20	14.8	14	48.3
Eggs	n.a.	n.a.	13	44.8
Herbs	59	43.7	10	34.5
Cheese/yogurt	22	16.3	8	27.6
Beef	21	15.6	4	13.8
Pork	15	11.1	3	10.3
Lamb	10	7.4	2	6.9
Poultry	20	14.8	1	3.4
Other	27	20.0	1	3.4

n.a. Not asked in survey of restaurants.
s.p. Included with specialty products in survey of restaurants.

Despite the stated importance of locally grown foods and the wide variety of local products used by restaurants and stores, few seemed strongly committed to using locally grown products. Table 21 summarizes the strength of the commitment to locally grown food product purchasing for both restaurants and stores. About 25 percent of restaurants and 36 percent of stores said they went out of their way to purchase locally grown food products. Many more reported making some effort to purchase locally grown foods but many purchased locally grown foods only when it was convenient or less expensive.

Table 21. Locally Grown Food Purchasing Behavior

	Restaurants		Stores	
Locally grown food purchasing behavior	Frequency	Percent	Frequency	Percent
Go out of my way to purchase local foods	32	24.6	10	35.7
Make an effort to purchase local foods	n.a.	n.a.	14	50.0
Buy local foods when convenient	45	34.6	1	3.6
Buy local foods when not more expensive	16	12.3	0	0.0
Don’t pay much attention	11	8.5	0	0.0
Rarely or never buy locally grown	24	18.5	3	10.7

n.a. means not applicable – the response was not available in the survey of restaurants.

Perceived Barriers to Purchasing Locally Grown Foods

Many stores and restaurants seem to prefer locally grown foods and attach a great deal of importance to being able to offer them in their businesses. At the same time, however, relatively few make much of an effort to seek out and obtain locally grown foods. The surveys of both restaurants and grocery stores explored the perceived barriers to purchasing locally grown food products.

The results summarized in Table 22 suggest that, at least for restaurants, most of the potential barriers presented in the questionnaire were very important. These included unpredictable availability, higher prices, inconsistent quality or form, seasonal availability, limited product selection, limited quantities, and increased cost/inconvenience in use. Stores generally assigned a much lower importance to each of these barriers.

Few restaurants or stores seem to face contractual barriers to purchasing locally grown foods. Only seven percent of grocery stores said they were not able to purchase locally grown foods. Similarly, 61 percent of restaurants reported having no prime vendor contracts. Even among those with time-based or percentage-based contracts, few suggested that these contracting arrangements would prevent them from buying locally grown foods. In fact, only one restaurant (a franchise of a fast food chain) specifically mentioned not being able to purchase locally grown foods.

The results suggest that local growers may be able to increase their share of the local food product market if they can learn what local restaurants and stores want (both in terms of products and product forms); produce those products in a consistent, high quality form; find ways to deliver the product to stores and restaurants easily and reliably; and find ways to extend seasons on some products.

Table 22. Perceived Barriers to Purchasing Locally Grown Foods

	Average importance ranking[a]	
Barrier	Restaurants	Stores
Unpredictable availability	4.08	2.12
Higher price	3.82	2.56
Inconsistent product (quality, size, etc.)	3.76	1.92
Not available year-round	3.75	3.17
Desired product or form not available	3.71	2.30
Inadequate delivery, storage, or packaging	3.68	2.46
Not able to get needed quantity	3.61	2.04
Increase food preparation costs	3.11	n.a.
Inconvenient to use	3.10	n.a.

a. Average of five-point importance ranking scale where 1 is "not at all important" and 5 is "very important."

n.a. means not available – the responses were given in the survey of grocery stores.

The results suggest that the perception of higher prices for locally grown products is an important barrier for many stores and restaurants. Many respondents to both surveys, however, indicated a willingness to pay a modest premium for locally grown products. The responses summarized in Table 23 suggest that a majority of restaurants and stores are willing to pay some premium for locally grown food products. In general, for all products, most restaurants and stores reported being willing to pay something less than ten percent more for locally grow foods.

Table 23. Acceptable Premium by Food Product Category

	Restaurants		Stores	
Product	No premium (%)[a]	Average premium	No premium (%)[a]	Average acceptable premium
Fruit	20.7	Less than 10%	11.5	Less than 10%
Produce	21.8	Less than 10%	15.4	Less than 10%
Meat	32.8	Less than 10%	32.0	Less than 10%
Dairy	36.4	Less than 10%	22.2	Less than 10%
Fish	32.2	Less than 10%	33.3	Less than 10%

a. The proportion of respondents who were not willing to pay any premium for locally grown foods.

Part V: Conclusions and Implications

Some of the more important conclusions and implications of the surveys include:

- Restaurants and stores in the region purchase and sell large quantities of food products. Grocery stores sell an estimated $175 million annually in fresh fruit and vegetables, meats, and dairy products. Restaurants serve almost 30 million meals annually with revenue of more than $400 million.

- Growers in the region who direct market their products do not appear to have tapped the restaurant and grocery store market to any large degree. The 2002 Census of Agriculture reported total direct market sales in the region of just under $1.9 million.

- Most growers who directly market their products seem to rely primarily on sales to individuals either directly from the farm or at local farmers' markets. Pursued alone, this strategy potentially misses the large markets associated with grocery stores and restaurants.

- Supermarkets appear to move most of the retail fresh fruit and produce in the region. Most are open to purchasing locally grown foods.

- Accessing potentially lucrative grocery store and restaurant markets will depend on being able to produce products of consistent quality in quantities large enough to satisfy the demand of potential customers through the season. It will also depend on being able to package the products in a form appropriate to the end-use, offering an easy ordering process, and developing distribution capacity to get products to stores and restaurants reliably.

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