



Chefs Collaborative Regional Food Infrastructure Project Summer 2008

Summary

This report summarizes research gathered by Katie Appel of the University of Michigan's Erb Institute for Global Sustainable Enterprise on behalf of Chefs Collaborative during the summer of 2008. Our goal was to assess performance and success of distribution models for moving food in a local network. In this context, we defined local not with a specific metric (500 miles, one day's drive, within a state, and so on), but more broadly as food that is regionally produced in a sustainable manner.

Conducted over eight weeks, the research included interviews with more than 50 chefs, farmers and distributors about what they think works best for moving local food effectively, and what they wish worked better. Geographically, we focused on large urban markets with partial-year (rather than year-round) growing seasons and sought out examples of models that deviated from the conventional wholesale broadline distribution system.

The alternative models were roughly grouped into seven types: referral services, nonprofit brokers and distributors, public-private partnerships, cooperatives, farmers market hubs, values-driven enterprises and traditional distributors with an interest in supporting local, sustainable producers. We identified examples of top performers in each category, as well as a set of best practices for creating these alternative distribution networks. We found that there was an especially large amount of new activity around values-driven for-profit enterprises, and think that this area holds great promise.

This report is a broad overview of the existing frameworks for moving food outside of large-scale distribution networks, and is intended to be used by chefs to highlight the various options to procure locally grown and in-season food, by farmers to learn more about new markets for their products, and by entrepreneurs to investigate opportunities within this space.

By tapping into the potential value of distribution, we can help chefs boost both quality and financial return while supporting the long-term ability of local food systems to meet growing demand.

About Chefs Collaborative

Chefs Collaborative is a national nonprofit organization that works with culinary professionals to celebrate local foods and foster a more sustainable food supply. The Collaborative inspires action by translating information about our food into tools for making knowledgeable purchasing decisions. Through these actions, our members embrace seasonality, preserve diversity and traditional practices, and support local economies.

The organization has more than 3,000 members, 70% of whom are chefs. This nationwide network represents independent and corporate establishments, culinary school instructors, managers of large food service operations, distributors, owners of specialty stores, farmers, fishermen, and ranchers.

Why Distribution?

More and more, eaters want to know where their food is coming from and how it was grown or raised. Chefs want to be able to tell them. Cooking with regional and seasonal food from producers with whom they have a relationship has increasing value, and Chefs Collaborative member chefs have pointed to distribution networks as one of the top challenges to their efforts to make sustainable purchasing decisions.

"Our vision is to make sustainability second nature in the greater food community," said Melissa Kogut, executive director of Chefs Collaborative. "Having strong regional food distribution networks that increase access to locally and sustainably produced meat, seafood, produce, and artisanal products is central to reaching this goal."

The desire to "let everyone do what they do best" – farmers farm, chefs cook, distributors move product – helps create more efficient local food chains. Chefs are an important part of this chain, as they drive the demand. However, the current fragmented system of distribution frustrates all but the most committed chefs' efforts to seek out fresh, local food.

What Do Chefs Do Now?

Chefs who are interested in sourcing regional and sustainably grown food are constrained most significantly by whether they have control over purchasing decisions and the flexibility of menu planning. Depending on their business model, chefs cobble together a supply of local food by ordering directly from producers, going to farmers markets, seeking out local food from *broadline*¹ or specialty distributors. Below are two examples of how different chefs might source their local food.

¹ Broadline distributors are those that deliver everything from food to linens to cleaning supplies and that do not have a clear focus on sourcing locally (although this is shifting).



What We Found

The systems currently in place for moving local food from farms to restaurants are fragmented and can be inefficient. The lack of infrastructure to support wholesale sales volumes² limits the amount of local food that can make its way into urban markets outside of direct farmer-to-consumer retail sales at farmers markets, farm stands, Community Supported Agriculture (CSA) and small-scale direct wholesale to small restaurants.

The restaurants currently taking advantage of direct sales tend to be chef-owned and progressive. Many of these movement leaders are Chefs Collaborative chefs, and, notwithstanding inconvenience or expense, these chefs will always want the face-to-face interaction with local farmers. They take great pleasure in the relationships they've cultivated with local producers and want to see and choose the product first hand. However, significant barriers exist to expanding use of local foods beyond this group of core supporters.

- Challenges for chefs: Many chefs would like to use more local food in their cooking, but lack knowledge on how to find local and sustainable products or time to go to farmers markets. Additional barriers include lack of time for increased logistical work (phone calls to farms, account management, delivery arrangement) and food preparation; an affinity for the convenience of a one-stop shopping supplier; the ability of a farmer to deliver regularly and with enough volume; product inconsistency; and increased cost.
- Challenges for farmers and producers: Initially, farmers must consider whether entering the wholesale market makes sense for their scale and capacity. If they do enter, farmers are similarly pressed for time to deal with logistics and many do not have the inclination or skills to seek out new outlets for sales of their product. Farmers may also lack start up

² It should be noted that if the infrastructure were in place today, there may be insufficient supply of local produce.

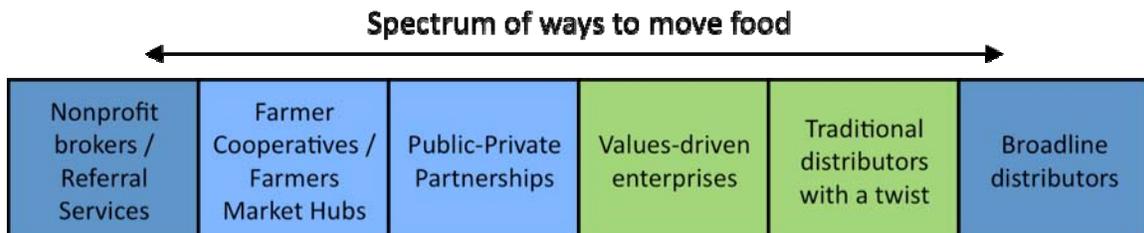
capital and infrastructure support (refrigerated trucks, account management software) to run an effective operation, and have to meet a high insurance hurdle.

- **Challenges for conventional distributors:** Conventional broadline distributors deliver everything from produce to meat to linens to cleaning supplies to restaurants. These distributors point to the additional risk taken on by working with small producers, which may not be able to guarantee the volume or quality that larger producers can offer, as well as the inconvenience of managing additional accounts. Conventional full-service distributors are also often less connected to mid-sized local growers, and have concerns about Hazard Analysis and Critical Control Point (HAACP) regulations, and traceability.

Taken together, these barriers point to a gap in the current state of local food distribution networks. There is a strong need to create regional food chains that integrate production *and* distribution. Expanding market outlets by recreating a network of smaller, independent distributors will help to make local sourcing more cost effective for chefs, more financially lucrative for farmers, and less risky for distributors.

What Models Are Out There Now?

There are many ways to approach the complexities of creating this system, and no one remedy will address all the impediments we see today. The critical pieces of infrastructure support for moving food in a regional network are a mechanism to link farmers and chefs, increasingly via the internet, and delivery and logistics services. Several models exist that address these components, some more effectively than others.



Referral Services

The first step in creating more robust regional food systems is linking distributors and customers who want to buy more local fresh produce, meat, dairy and/or fish to the producers wishing to serve these markets. Many “virtual networks” have been created to match product availability to customer need. These clearinghouses of information promote local markets for local growers but leave the physical components of the system (transport logistics, sales and management) up to the suppliers and buyers to work out amongst themselves. These models are an important first step in increasing access to regional foods, but they do not address the need for distribution infrastructure required to move product, an important aspect for chefs.

Market Maker, a University of Illinois Extension project that has active sites throughout many Midwestern and Southern states, is an online interactive mapping system that links producers and retailers, providing a one-stop shop for strategic marketing information. Chefs and other retailers can locate local farmers who can sell direct to restaurants and other markets and deliver fresh product.

Ecotrust's **FoodHub** project is a similar online referral service in the Pacific Northwest that grew out of an annual local food guide. They have plans to start an accompanying logistics service and are considering partnering with "friendly" specialty distributors.

Nonprofit Brokers and Distributors

Several nonprofit organizations have entered into the local food distribution space to fill the gap between demand and what is available through conventional distributors. There is a range of types of nonprofit local food networks, from brokers and product aggregators to nonprofits that have taken on the actual physical product distribution.

While these organizations play a vital role in promoting family farms and ensuring food security, there are some limits to this type of model. They generally are not able to offer the same level of service as more conventional distributors, and they all rely on financial subsidies to a certain extent, most often in the form of grants and member volunteer hours.

One of the most successful of these types of endeavors is **Red Tomato**, a 12-year-old, grant-funded "public interest" produce broker and distributor that coordinates a network of 35-40 regional farms. They handle sales, logistics, brand development, packaging design, customer service and promotion for farmers, and partner with distributors to sell to retail stores and food service providers. Their primary concern is ensuring the survival of small farms and paying a fair price to wholesale farmers while providing an exceptional local product. At one time they operated their own warehouse and delivery service, but got out of it – "their saving grace," according to founder Michael Rozyne. "We realized that we were too small to build a competitive operation with our own trucking and logistics." Instead, they turned their focus to managing the supply chain and taking advantage of existing distribution infrastructure.

Another example of this type of model is the **Southeast Minnesota Food Project**, which aggregates produce from regional producers and distributes to restaurants, caterers, cooking schools, food co-ops, grocers and institutions.

Farmer Cooperatives

There are several producer-controlled farmer cooperatives that have become profitable consolidators, marketers and distributors of local food. The most successful models are well established and move enough volume that they can keep their costs low.

Cooperatives allow farmers to spread out risk, consolidate product so as to access larger customers, and market themselves efficiently within niche-marketing channels. However, the cooperative management structure sometimes leads to unwieldy decision making, and the onus is placed squarely on the farmers to self-organize and take on the risk of physical distribution infrastructure. Not many farmers have the time, knowledge or capital to take on this much risk.

Tuscarora Organic Growers Cooperative, one of the most successful farmer cooperative models, has offered sales, marketing, and delivery services to their member farms for the past 20 years. They distribute to retail, restaurant, buying clubs, CSAs and wholesale customers in the Baltimore/DC area, moving some 100K cases of produce in the last year and reaching sales of \$2.3 million. They are competitively priced with conventional distributors on some products but they also carry many specialty produce items geared toward restaurant and chef buyers. Approximately 75% of the cost of each sale goes back to the growers and the other 25% covers operating expenses. Any profits at the end of the year are distributed according to the growers' wishes. The economic goal of the co-op is service at cost to growers.

The **Oklahoma Food Cooperative** includes both producers and consumers with consumers choosing which farms they buy from. The coop uses a sophisticated shareware-based linkage system; this is a farm-to-individual model, but the networking tool would be applicable anywhere.

Farmers Market Hubs

Use of farmers market as “friendly” distribution hubs takes advantage of the well-established existing physical infrastructure and management that supports farmers markets, and provides a secondary outlet for farmers already coming to market. This outlet subsidizes their retail direct-to-consumer sales and helps move surplus product. These models are useful “first steps” for educating consumer about sourcing locally, but do not have the infrastructure required to scale up to meet demand of large customers seeking volume and consistency.

Marin Farmers Market is a non-profit organization that runs markets throughout the Bay Area that are very popular with chefs. In collaboration with its sister non-profit organization, **Marin Agricultural Institute**, they have been running a pilot distribution project, **Farm to Fork**, at one of their largest markets for the last two years. They recruit new customers (hospitals, schools, non-profits, cafes, catering companies and restaurants) and educate them about sourcing produce from local producers. They currently handle the administrative and delivery logistics, steering new customers through the initial stages of building a local purchasing practice. Farmers drop off the product on their way to the farmers markets, and Farm to Fork makes deliveries in its refrigerated delivery truck. A small product mark-up helps cover delivery costs, and grants help cover educational programs as well as marketing and infrastructure development, such as the soon to be launched online ordering tool, complete with marketing materials and profiles of local producers. The goal for the next year is to establish a relationship with a local, wholesale distributor that will be able to take over established

accounts and handle delivery, while Farm to Fork continues to cultivate new customers and focus on its educational goals.

Public-Private Collaborations

The main purpose of these enterprises is to expand regional markets for small to mid-sized farmers and ensure fairness to producers first. They are run like for-profit businesses, and some have been incorporated as for-profit businesses, but are usually closely associated with a nonprofit organization (and may be governed by their board). These models all receive some sort of supplementary funding, usually in the form of grants, though they all have a goal of financial self-reliance.

Partnering with a nonprofit gives these firms the competitive advantage of access to startup capital to enter the market. However, they are also limited by these partnerships, in that few of them have the resources or desire to scale up and expand to new geographical areas.

The **Common Market** in Philadelphia is a new venture that is starting up after four years of research and planning and an initial \$100K state grant. They are first targeting institutions with sales of commodity products, which will allow them to get to scale quickly with high volume orders while also addressing food access issues central to their mission. They are committed to maintaining the farmer story throughout the supply chain, and will be run like a for-profit business, with a goal to be fiscally self-sufficient in three years.

Eastern Carolina Organics, a farmer-owned marketing and year round distribution service for local, organic produce, was formed four years ago through a partnership of 13 farms and a former chef with a grant aimed to help tobacco farmers diversify. Their mix of small CSA farmers and “old school” former tobacco growers provide produce that they distribute mostly to grocery stores, along with a good mix of restaurants, corporate cafeterias and other distributors. They hit revenues of \$900K last year, up from \$760K in 2006, and hope to reach \$1.25 million in 2008.

Grasshopper Distribution is a producer-owned distributor in Louisville, Kentucky that acts primarily as a wholesaler serving local and independently-owned restaurants and institutions. They were founded in 2007 after a three-year planning process and with the help of a USDA value-added grant, which provided their operating capital for the first year. The mission is to operate as a “very lean middle man,” says general manager Berea Ernst, while increasing marketing opportunities for local farmers, ensuring a fair price and giving customers a connection to the farm. They operate under a modified “just in time” delivery model – they get a list of what’s available, sell to customers, and then purchase product from farmers. They are on track to operate in the black by 2010.

Growers Collaborative, a spin-off of Community Alliance with Family Farmers (CAFF) in California, has a similar operation, and delivers mostly to institutions (including a partnership with Kaiser Permanente hospitals).

Values-Driven Enterprises

These private start-ups have moved to fill the gap and increase supply of local food, while mainstream distributors continue to test the depths and longevity of consumer demand. They are mission-driven, but their business models do not usually include advocacy. The biggest stumbling block for entering this market is gaining access to the capital required for infrastructure.

Eric Hahn started **Cherry Capital Foods** (CCF) in Michigan in 2007 after trying unsuccessfully to incorporate local produce sourcing into the conventional broadline distributor where he worked. He started CCF with the purchase of a van and some coolers, and is now up to three vans, nine employees, 150 local farmers and several investors. They deliver year round to retailers and restaurants in the Michigan and Wisconsin metropolitan markets. CCF does all the marketing for the farmers, maintaining the farm story throughout the supply chain, and works with them to increase volume and diversify product range.

Other examples of niche mission-driven start-ups include **Eat Local, Eat Natural** in Ann Arbor, MI and **Fresh Fork Market** in the Cleveland, OH area, both new enterprises that have just begun distributing fresh, local produce to area restaurants.

Traditional Distributors with a Twist

Several large produce distributors have developed local food divisions within their larger, core business. These businesses leverage the existing infrastructure of large food distributors, optimizing energy and time spent. While customers place orders through one company, most of these models require an extra step to order local food, such as going to a different online portal. Because local food options through this channel tend to be less consistent in volume, they are handled as an “add-on” to regular ordering, and, as such, may be better sources for menu specials rather than recurrent purchases.

Steve Schimoler, founder of ChefEx, has started a new venture, **Local Crop**, a company that is partnering with **SYSCO** to deliver local food to restaurants and foodservice operators. SYSCO customers place orders through a virtual farmers market, and deliveries are made by SYSCO trucks already in the area. SYSCO Cleveland oversees online orders and payment, provides a central distribution point for farmers and transports orders to chefs via their fleet. They are targeting mid-sized farms that may also benefit from SYSCO-related services, including discounted lab soil testing and discounted liability insurance.

Overall Best Practices

What did we learn from this industry overview, and how can Chefs Collaborative members support the transition to regionalized food networks? While no single model will fit for every

region, there are a handful of best practices that should be kept in mind as we work to grow our local food distribution networks.

Focus on relationships and authenticity

Even with a distributor in the middle, relationships are still a key component for success. Strong relationships between chefs and farmers are the most important component for creating an effective and cohesive enterprise. Farm tours and educational dinners are excellent examples of creating and maintaining relationships between farmers and chefs. Additionally, maintaining the story of the farm throughout the value chain is important for all parties, both for marketing purposes and to address HAACP and traceability concerns.

Professionalism and customer service are key indicators of success

Just because it's local, doesn't mean it has to be inconvenient. No matter where food comes from, quality and reliability are the most important criteria for chefs. Local food distributors have to remain competitive on price and convenience, recognizing that it is customer service and the willingness to "go the extra mile" that often distinguish local distributors from conventional operations.

Understand supply and demand in your region

Because demand for regional food, especially produce, is so high, small farms that sell directly to consumers via farmers markets, farm stands or CSAs may not have an incentive to sell wholesale. Matching up buyer and farmer size means understanding what kind of farm (size, crop, location) will be able to grow enough volume to meet demand and return an appropriate amount of profit to farmers (75-80% seems to be the range). It is important to identify and engage farmers that are ready to be part of a wholesale network.

Connect and educate the parties

Referral services are an important first step in building a local food distribution network, and education is a key component in getting the parties to the table in the first place. For example, chef impressions about the cost of purchasing local food may be formed at farmers markets, where price points are higher than wholesale local food. Once connected, the role of managing expectations for farmers and chefs will most often fall to distributors. Producers need guidelines about consistency, volume, and packaging. Chefs have to learn to approach menu planning more flexibly and how to market their sourcing practices to their advantage.

Create the proper organizational structure

The fundamental operation requirements for a full distribution operation are 1) a facility to receive, store, prepare, assemble and ship products; 2) trucks to pick up and deliver products; and 3) staff for logistics, sales and management. Staff familiarity with trucking and supply chain management and optimization are beneficial. It is critical to consider what kind of organization is appropriate for handling these type of logistics.

Diversify your customer base

Farmers need a volume outlet for various products that retailers and institutions can provide much more readily than restaurants. A diverse portfolio of customers that includes schools, hospitals, and/or grocery stores allows for volume outlets and disperses farmers' risk.

Seek out creative capital

Several of the most successful models rely on creative or patient capital. For example, structuring the organization as a nonprofit corporation allows for large infusions of start-up capital and governance without profit motive. Partnering with organizations may allow for the use of underutilized assets and/or facilities (e.g., under-capacity warehouse space) at low cost.

Streamline communication and record-keeping

Effective use of software for ordering, invoicing and coordinating distribution logistics is an indicator of a successful enterprise. These efforts allow businesses to do long-term planning for crop planting and menu planning.

Extend the growing season

The risk of building distribution infrastructure is lessened if the operation can run year-round. Capacity for extending the growing season and/or creating value-added products is a significant advantage for a year-round operation.

Taking it Home

Distribution is a critical component in the local food supply chain. A savvy and efficient distribution model not only ensures that local food arrives farm-fresh, but also reduces waste and associated costs.

Small, boutique distributors (both for-profit and public-private) that are focused solely on local, sustainable and/or organic food are growing in number rapidly. These entrepreneurial, niche-oriented wholesalers emphasize the connection to the farmer, and work to maintain and pass along the story of how and by whom the food was grown. These types of enterprises have the opportunity to jump-start the re-creation of the appropriately-scaled distribution infrastructure necessary to move local food. Farmers would be encouraged to sell more product regionally, and local food, especially produce, would be more readily available to consumers.