

Selling farm products to grocery stores: Is it profitable for farms or processors?

A study to help farmers put local foods in grocery stores in Southwest Wisconsin



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Introduction

In recent years there has been an interest among many groups, individuals, and agencies to encourage consumers to buy locally produced products. These products have included a wide array of items that stem closely to farms and include fruits, vegetables, nuts, milk, dairy products, wines, beers, meats, fish, honey, and other items produced from these products. This food becomes available to consumers through a number of channels including farm stands, farmers' markets, community supported agriculture (CSA) programs, restaurants, grocery stores, and specialty stores. While a number of purchasing channels exist, consumers as a whole still buy a large portion of their total food through grocery stores.

Selling products to grocery stores seems like an obvious solution to get local food in front of consumers. However, it is important to recognize the challenges and benefits presented to a farmer interested in selling products to a grocer and ensure that both groups benefit in addition to the consumers. This analysis will provide information about the possibilities of selling locally produced items to grocers and examine some of the challenges.

Factors to note: While a number of locally produced products can be sold by a number of different types of producers, the main focus of this study will look at an individual farmer or farm family producing products to be sold within 50 miles of the home farm.

Makeup of Grocery Industry

Within the category of grocery stores, a range of store types exist. We will focus on four types of stores and classify them into the following groups:

1. **Specialty stores:** Small, locally owned specialty stores that focus on selling specialized food such as health foods, organic foods, food to accommodate special dietary needs, and whole food stores.
2. **Local grocery stores:** These stores are locally owned or independent grocery stores that are typically smaller in size than larger chain stores but offer a complete lineup of all standard grocery items and brands.
3. **Regionally owned chain:** These stores have multiple locations over a number of town and cities. Much of the buying power and decisions are made by the corporate or regional office. The coverage of these stores is limited to a specific area of the country and some stores may be former local groceries acquired by the chain.
4. **Nationally owned chain:** These stores stretch across most of the country or cover many regions. Stores are under the direction of regional offices which are under the direction of the national office. These stores may be connected to a department store offering more than just food in the store.

Contacting the store to sell

Each type of store operates differently with how it obtains any type of food, how purchasing decisions are made, and who can authorize new purchases. While it should be noted that the following descriptions are only generalizations and do not necessarily reflect a specific store, these are important considerations when working stores.

1. **Specialty stores:** Getting started with specialty stores may be easier than many large chain stores and may not feel as intimidating. Selling local food and fresh

products is usually an important part of the stores. They should at least be interested in talking with the farmer about selling a product. However, there are a few precautions to take. Be prepared that some stores will not sell your product if your farm is not organic or does not meet other unique food requirements. Be prepared to answer questions involving growing practices. Remember that these stores typically charge more than a traditional grocery store because they are meeting a higher standard of quality and will expect top quality products from the producer. The store may hold your products to high standards for quality, taste, and freshness.

It is also important to not underestimate these stores. Just because these stores are smaller and have a personal feel, business professionalism is still important. Therefore, do not expect to show up to the store with a bushel of produce and expect the store to buy the produce unless prior arrangements were made. Stores do not want to be the dumping ground for leftover produce. These stores need to have these products whether you or someone else produces them. The store may only place orders once a week so if you do not set up ahead that you will have a delivery that week, that store will look elsewhere. By creating relationships before your season starts, the store will be more willing to work with you as items become available.

2. **Local grocery stores:** These stores are a jump from the specialty stores. While these stores are known for being a local store, there is much more merchandise to manage compared to most specialty stores. These stores will need even more regular ordering and management of deliveries. However, these stores may be able sell more product than a specialty store. When approaching these stores, you will need to find the right person who can make buying decisions. This will typically be the store owner or manager. If the store has a designated produce manager, this person may also be able to make this decision. When approaching the store, consider that these people usually work during the daytime and think of what times may be the busiest with customers needing this person's attention.
3. **Regionally owned chain:** Working with a chain may take a little more paperwork, but it can allow for much larger selling volume. These stores may or may not be able to work with the farm on a one on one basis. Depending on the chain, some only allow regional offices to make purchasing decisions for new products. Other chains will allow stores to make some purchasing decisions.

It is best to approach a store or produce manager at a local store first. You can either visit the store and ask to see one of these people or set up an appointment to meet with them for a few minutes. If the store is not allowed to buy directly from farmers, these people should be able to tell you what paperwork needs to be completed or give you a contact person through the store's distribution center. Even if you need approval from a regional office, you still may be able to sell to only a few or even one store, and you may still be expected to deliver to the store. Many times the regional office simply works to help control what is being sold at the local stores.

4. **Nationally Owned Chain:** Nationally owned chains will typically have a structure similar to the regional chains. The initial purchasing decision will almost always go through a corporate office. Depending on the chain, there may or may

not be an option to sell products through only one or two stores. A store manager should be able to give you this information. Some chains even have separate paperwork for producers looking to sell to a limited number of stores. Other chain stores work exclusively with distributors and do not have the option to buy anything locally. While approaching a larger store may be intimidating, remember that most of the people that work and manage the store are still members of the local community.

No matter what type of store you approach, it is vital that you appear professional and prepared. While a grocery store may not require business formal dress, clean clothes that give a professional appearance are important. A construction site manager would not show up for a meeting wearing clothes he or she would wear on the construction site and a farmer needs to consider what type of clothes are appropriate for the situation.

When you approach the store, it is important to realize that you need to be negotiable while also having a clear picture of your wants and needs. You should have an idea how you would like to package the product, when you are available to deliver products, estimated prices, and order deadlines. Remember that both businesses are exploring the possibility of working together at this point. Do not put undue restrictions on yourself that will prevent the agreement from being profitable.

Packaging and Labeling

Packaging products is an important part of selling to grocery stores. If you have flexibility, then it is best to ask the store how they would like you to deliver the product. Do they want the produce in bulk boxes? Do they want the items in small containers? Does the product need to be weighed to an exact amount? For some growers, this can be one of the most difficult parts of selling to grocery stores. Stores can be very particular about how the product will be packaged. Packaging should be part of the negotiation process when the store is considering the purchase of your product. It may cost you more to put product in small containers but if the store is willing to pay a little more, then this effort and material may be offset. It may be helpful to give the store options to choose from for packaging with prices. As you add more stores, you may want to stay with one uniform packaging method for every store to make your job easier and more efficient.

When packaging your product, you need to determine if your product will be labeled with your name. This could be accomplished with labeling directly on the packaging. But consider how the stores will use your product. If you are paying extra to label boxes that will not even be displayed in the store, do you really need your business name on it? Instead you may be able to negotiate for special signage by your product.

Product labeling is something that should be carefully considered by the producer. Some of the advantages of product labeling and packaging include:

Labeling Advantages

- *Brand recognition:* Consumers will come to know your product. Many consumers know that just because something is local does not mean it is good. However, if they try your product and love it, they will come back wanting more. Once they start buying one of your products they will continue to buy more.
- *Repeat customers:* By building up customer loyalty you will start selling more product. Just as customers may go out of their way to purchase produce from a

- trusted roadside stand, that customer may go out of their way to buy at a store when they know is good.
- *Local connection for customers:* Customers will start to recognize your farm name and associate your product with you. You may even be surprised to find that people you know may start commenting about buying and eating your product.

Packaging Advantages

- *Appearance control:* By packaging your products, you may be able to control how they are displayed on the shelf. For many produce items, this will not apply. However, for items such as berries, you may send the berries to the store in pint or quart containers. By doing this you can ensure uniform, clean containers rather than the store using whatever it has available. This will also reduce handling and help protect the quality of the produce. Packaging for processed products is very important.
- *Easy of tracking:* Packaging also allows you to better monitor your product. Packages can have a date or lot number attached to help you and the stores know which products came in what delivery. This may help protect you as a grower too. For example, if a store calls and complains that you sent three boxes of bad tomatoes, the lot number could help identify if there was a problem or if the store simply stored the tomatoes too long. Also, with continued attention to food borne illnesses, it is a good practice to keep records of when and where groups of produce were harvested.
- *UPC:* Virtually every grocery store uses a Universal Product Code (UPC) or barcode system. While many stores will simply use a Price Lookup System (PLU) number for most produce, many stores prefer to use barcodes whenever possible. Barcodes can be created relatively simply using a number assigned by the store. If you want to use the same number for more than one store, you should consider registering for a merchant number by visiting www.gs1us.org.

Some disadvantages of product labeling and packaging include:

Labeling Disadvantages

- *Negative quality remembered:* Poor care for produce is one reason why some farms would rather not have their products labeled in grocery stores. While less perishable products should always look in top condition on a shelf, proper care is very important for a produce display. A farm would not want shriveled sweet corn that sat out all week to have the farm name displayed with it. Likewise, if a customer happened to purchase a sour tomato, they may assume your product is always bad and will not try your product again. While a farm cannot always control how their items will appear on the shelf, it may not be bad to make sure the store understands your expectations to sell quality. It is helpful to get to know the people who stock your product.
- *Incorrect association of product:* Consumers commonly will incorrectly associate products. If the store is known for not taking good care of produce items, customers may automatically assume your product is inferior. Also, if a store stops selling your product but does not remove signage, other products may be labeled as yours.

Packaging Disadvantages

- *Added cost:* Packaging can be costly. Bulk quantities are typically less expensive to package than individual quantities. By working with the store, you can

determine their needs and price accordingly. Communication is important. It does not make sense to put a product in individual packages only to have the store redisplay them in a bulk selection bin.

- *Lose local feel:* Consumers like to touch and feel their local food. When produce is put in a container, it takes on the same look as the produced shipped across the country. Every packaging need must be carefully selected.

Choosing the right size and type of packaging is important. If items are packaged in groups such as onions tied in bunches or berries in a pint container, customers are apt to pick up one group. Therefore, it is important to package the product in a size that will encourage more buying but will not deter customers from buying more. One way to encourage more buying by selling two sizes. While many larger quantity products are packaged so the larger quantity is double the smaller quantity, consider using the 1.5 method. If your containers are not very expensive, you will not save much on packing material when a customer buys a larger quantity container. They could simply buy two smaller containers. But by using the 1.5 method, you will be selling more product than the small quantity but not twice as much. This gives consumers an option and does not make the large quantity so large that it becomes less appealing.

Pricing

Product pricing is very important and should be set with careful planning. If you set your prices too high, the store will not be interested in your product. If you set your prices too low, you will be missing out on potential profit or even losing money. Be sure to be specific what is or is not included with that price. For example, if the store requests special packaging, you may need to note that an additional rate will be added. Packaging may also be a way to convince the store to pay your initial price if the store felt it was too high.

So how do you determine a price? Most importantly, do not feel like you have to compete with distributors that sell produce by the semi-load. Your product should be better tasting and fresher so the store should expect to pay at least the same if not more than produce from far away. Before you even approach the store, check a few stores to see what the current retail price of the product is. Also check this price in the store you will approach. In most cases you will need to charge less than the current retail rate. Consider that the store will expect to make a profit so you need to be able to charge accordingly. If the price is too low, stay with what you feel you need and approach the store anyways. It may pay off if the store is willing to pay extra for local produce.

One way to help determine current pricing of similar products is to look at the USDA's wholesale terminal price reports. These reports show what the wholesale price of produce is at major terminals around the U.S. This can be a guide to help give you an idea about current supply and prices of product in your area. If you follow these reports, you will notice that the prices will fluctuate during the season based on supply. You must decide if your prices will change based on the regional supply or your supply. Remember that a price listed in a report may be higher or lower than the price a grocer can actually buy a product from elsewhere. To view these reports, go to www.usda.gov and search "Price reports" or go to

<http://www.ams.usda.gov/AMSV1.0/ams.fetchTemplateData.do?template=TemplateO&navID=ViewU.S.TerminalMarketPriceReports&rightNav1=ViewU.S.TerminalMarketPriceReports&topNav=&leftNav=&page=FVMarketNewsTerminalMarketReportsMore&res>

[ultType=&acct=fvmmn](#). It may also be helpful to see what many retailers are charging for products. Get the weekly National Fruit and Vegetable Retail Report on the USDA website by searching “Market News and Transportation Data” or go to <http://www.marketnews.usda.gov/portal/fv>. Non-produce information is also available on this page. Some organic price information is included in both of these services.

Many grocery stores will use produce as a loss leader. This means that it will sell produce to attract customers into the store. However, stores know that selling local, quality produce also attracts customers. So, just because an item is priced very low on the shelves does not mean that the stores are not willing to pay a little extra. Even with these loss leaders the price may fluctuate from week to week.

Never simply leave the wholesale pricing up to the store. If you tell the store to pay what it is worth to them, you will end up losing out. If you want to sell on a commission basis, be very cautious. This leaves all of your money in the care of the store’s marketing and trusting in the accuracy of its sales system. You will all not be compensated for any product loss.

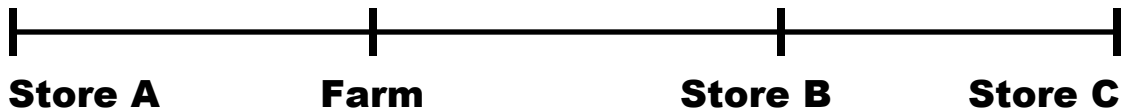
Pricing consistency is also important. It may be hard to change a price mid-season on produce. If this needs to happen, be sure to contact the store in advance and explain why the price will change. You do not need to apologize but you should be able to stand up for your decision. Keep in mind that unless you are under a contract with the store, this may affect if they continue to buy from you. Also, as a general rule do not lower your price when you have extra quantities coming from the field. Stores typically will not change its buying habit when a product is cheap so you end up selling the same amount of product for less money while you are wasting labor picking excess product. Instead, tell the buyer you have extra supply and see if they could sell more product. It is hard to raise your prices after you have lowered them. If you do need to temporarily lower your price, make sure you tell the store why the price is lower and that it will only be temporary.

Clear and simple billing is important. Always include an invoice or delivery sheet when you make a delivery and be sure you receive a signature from the store confirming that the delivery is correct. Some stores will want a copy of this so you may need to have a copy ready or you may wish to use carbon paper. Unless you are certain the delivery invoice will go to the store’s accounts payable, you may need to mail a copy of the invoice. Do this either the same day or the next. Make sure you include a delivery number and a payment due date. If you develop a simple and consistent system early on, you will make it easier on yourself as your customer base grows. For a sample invoice, see the appendix at the end.

Delivery

Most stores will expect you to deliver to the store. It is important to establish a schedule for delivery that will create consistency for both yourself and the store. Work with the store to decide how many times it will need a delivery each week. If this is your first store, you may be able to be flexible about delivery days. However, once you start having multiple deliveries, you need to coordinate so that you can complete multiple deliveries in the same trip.

Delivery days are one area where you can have a little more control over the stores. Almost every delivery that comes to a store is on a set schedule and the store does not have much control over this. Just as a distributor may schedule deliveries to four stores with one load, you need to plan accordingly and dictate when deliveries will be made. For example, in the sample delivery route below, it would only make sense to deliver to both store B and store C on the same route rather than going to Store B one day and Store C the next. Almost any grocery store should be able to accept a load at any time when it is open unless it has a large delivery that comes in at a regular time every week. Being able to combine trips will be a very important factor in deciding if it will be profitable to sell to a given store.



The frequency of deliveries is also important. If you deliver to the stores more frequently, the store should be able to stock fresher produce. Typically, a produce distributor will deliver loads between two and four times per week. This allows the store to better manage how much produce it needs in stock at a given time.

The frequency of your deliveries should depend on how much the store needs each week and how often you can harvest the item. If a store is only buying a few boxes of produce per week, one weekly delivery may be enough. Some farmers are hesitant to sell produce that is one or two days old, but most items will stay fairly fresh stored in a store's cooler at optimal storage temperatures. Stores are willing to store items for a number of days if necessary. If a store is buying larger quantities, it may be worth your time to deliver multiple times per week. Some stores also have very limited storage facilities and will not more frequent deliveries.

Your available supply may also dictate the need for multiple deliveries. For example, if a store needs 30 boxes of tomatoes per week, you may not be able to pick this much all at once. But because tomatoes can be picked every few days, you may be able to pick twice a week and meet the needed supply. If a store is ordering 30 boxes per week, it will not need that much all on the same day. By providing two deliveries, you may be helping yourself and the store.

Setting an order deadline is another important consideration. You need time to harvest and prepare an order before you deliver. Set a firm deadline that orders need to be placed a certain number of days before the day of delivery. Also consider setting a midday time so that if an order does come in by that time you can contact the store before the day is over. By organizing your orders in advance, you can work with the store if your supply is less than their needs or you can find a market for excess produce before it is harvested.

When you know your produce is in short supply, it is important to communicate this to the store. Store managers usually understand that there are many factors that affect farming. However, they need to know well in advance if you cannot meet an order or if you anticipate a short supply before the order comes in so the store can make other arrangements to have that product. Most stores can usually just fill in your missing product with items from their normal produce distributor. Therefore, communication is the key to making sure the store is stocked by whatever the source may be.

Other Considerations

- Many stores will require that you carry product liability insurance. Be sure to add this into your costs.
- Some products such as meat require certification or approval to be sold in stores.
- Some very large stores may require a Dun & Bradstreet number to approve you as a business. This is a way of tracking and monitoring companies. This can be expensive, so find out if this is required before applying to receive one.

Analyzing the Benefits

Before you jump into the business of selling wholesale to grocery stores, you need to decide if selling in a specific type of market will be profitable for you. It is important to recognize that all farms are unique and certain farms are set up to specialize in certain areas. If you want to sell in the wholesale business, you need to be able to sell quantity. Wholesale profits are made by selling quantity. Many wholesale growers will specialize in just a few products that they are good at producing. They can focus on growing a lot of that product and being good at it. With the large amounts of product, they can more easily produce the quantities desired by grocery stores.

Grocery stores are not just a simple and easy solution for selling produce and getting rich fast. However you decide to market your product, you need to be able to match it to your type of farm and your skills.

Remember that there are other methods to sell your products such as farm stands, farmers' markets, CSA programs, and outright wholesale. One resource for helping you determine the right market is the [Wisconsin Local Food Marketing Guide: A producer's guide to marketing locally grown food](#). This book can be viewed on your computer as a PDF file at

http://www.datcp.state.wi.us/mktg/business/business_resources/index.jsp.

For a print copy of this resource, contact the Wisconsin Department of Agriculture, Trade, and Consumer Protection at 608-224-5100. You also need to examine your skills. Are you good at making sales calls to stores or are you better at talking with the customers who will actually eat the food? Do you have the equipment to make regular deliveries, and can you charge a high enough price to cover delivery costs? Look at the checklist of considerations to see if you have the skills and resources it takes to be successful in the grocery market.

Considerations Before Selling to Grocery Stores

- Are you willing to dedicated time to going on sales calls?
- Can you maintain a regular delivery schedule?
- Do you have the equipment to make deliveries no matter what weather?
- Can you harvest, clean, and sort large quantities of produce and delivery quickly?
- Will you need to add cold storage?
- Can you manage crop care and harvest at the same time?
- Do you have the space to produce for a wholesale market?
- Can you maintain your current markets in addition to selling to grocery stores?
- Can you be prompt about filling orders through fax and phone?
- Do you have enough finances to not receive payments for up to 30 days after delivery?
- Is this the best way to market your products for you?
- Will I need special insurance to sell to stores?

If you decide the wholesale market is for you, you need to then decide if specific stores are right for you. For example, it may not make sense to travel 10 miles out of your way to sell to a specialty grocery store that only purchases one or two boxes of produce each week. However, if you will be delivering to a larger store just down the street, it may not be too much work to make a small drop at that store. In another situation, a chain may want you to make larger purchases, but they will require that you deliver to five stores that are outside your normal distribution area. Because of this, you will need to spend an extra day delivering each week and may have to give up other customers. At that point, you need to decide which stores will be more profitable both short and long term and which make the most sense.

Green Leaf Market

Green Leaf Market is a unique website that provides a streamlined approach to selling to stores and restaurants for even the novice user. Green Leaf Market allows sellers to post locally produced products for sale to be delivered to stores or restaurants in a specific area.

This website allows a farm to post specific amounts of a product to be available on a certain day. Their products will appear live to any stores or restaurants within the delivery zone for the producer. Stores can then automatically order a set amount of product and the quantity will automatically deduct from the online inventory. After the order has been placed, the store will automatically receive an invoice from the farm and the farm will automatically receive the order with specifics for the delivery.

Besides this service allowing farms to streamline their sales, it also allows farms to take on new customers without even approaching stores. A store looking for local products can simply find the farm's available products through the website. Special features are built into the site to allow for minimum orders, special certifications, and limited delivery days.

This site was free in 2008 although a monthly fee of \$19.95 may be added in 2009. Any farm considering selling to grocery stores should at least explore this site. For more information on this valuable resource, visit www.greenleafmarket.com.

The Salesperson's Preparation Guide

If you have decided that selling to grocery stores is the right fit for you, then you are ready for the next step, and you need to implement a plan. Take half an hour and answer these questions before you start approaching stores. A good plan will help you get started in the right direction.

Finding the stores

I want to approach the following stores _____

I will take samples of the following products with me _____

My brochure or flier will cover the following products _____

Besides my products, my brochure or flier will cover other important information such as _____

After I visit the store I will follow up with the buyer by _____

Preparing to pitch my product

A store should sell my product because _____

My product is better than other similar products already sold because _____

As an extra incentive for a store to purchase my product, I am willing to _____

I will start my sales pitch by saying _____

The product

I will offer the following products _____

For each product, I have enough products to sell a set amount each week at

Item	Estimated Qty Available	Price
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

To package my product for display or sale, I will _____

I plan to make deliveries on _____
