

## QUICK FACTS



- ❖ **Location:** Alexandria, MN
- ❖ **Category:** Food Hub
- ❖ **Date founded:** On-line market place: November, 2014. Wholesale operation: June, 2015.
- ❖ **Number of staff:** One full time & one part time. A seven-person Board of directors, including the Board Chair who volunteers nearly full-time as the General Manager.
- ❖ **Annual Revenue:** Approximately \$100,000 in 2015; expected revenue for 2016 is approximately \$250,000.
- ❖ **Revenue Sources:** 1/3 from online retail sales & 2/3 from wholesale sales (of wholesale, approximately 1/3 is from sales to grocery stores). Local Harvest was started with private investment by its founding members. The hub plans to seek grant funding in the future to help expand operations. Operating capital is funded by a loan.
- ❖ **Number of farmer partners:** Approximately 40.
- ❖ **Number of customers:** 18 wholesale customers (10 active & 8 intermittent) & 400 consumers registered for on-line marketplace (not all are active).
- ❖ **Key partners:** Food hubs in the region (Sprout in Brainerd and Fresh Connect in Fergus Falls), local farmers & producers, individual and wholesale customers, and Sunnies General Stores & Calvary Lutheran Church (LHM pick up sites).
- ❖ **Organization's website:** <http://localharvestmarket.co>

## FARM TO RURAL GROCERY STORE SERIES

# LOCAL HARVEST MARKET FOOD HUB

## 2016 CASE STUDY

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Developed from an interview with Joe Luetmer, Board Chair

### Introduction

This case study explores barriers and opportunities faced by the Local Harvest Market (LHM) food hub in selling locally grown<sup>1</sup> foods to independently-owned rural<sup>2</sup> grocery stores (hereby referred to simply as “grocery stores”). It also provides a summary of the benefits of farm to food hub to grocery store supply chains. A food hub is defined as “a business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers in order to satisfy wholesale, retail, and institutional demand.”<sup>3</sup>



Photo Source: LHM web-site.

### Overview

Local Harvest Market is a regional food hub based in Alexandria, MN. It was formed by a group of producers and consumers in west central Minnesota to build a market bridge between local farmers and consumers by aggregating a wide variety of sustainably grown produce, eggs, dairy, meats, and poultry for sale to wholesale and individual customers. LHM

<sup>1</sup> Local is defined for this case study as: MN-grown, or grown in a bordering state (ND, SD, IA, WI).

<sup>2</sup> Independently-owned: defined as single owner or partners who own 1-4 stores. Rural: defined as communities that have 2,500 residents or less.

<sup>3</sup> Food Hub Collaboration. (n.d.). Retrieved July 30, 2016, from <http://www.wallacecenter.org/foodhubcollaboration/>

also aims to support access to nutritious local food for rural low income families. One way LHM leadership would like to do this is by selling products to independent rural grocery stores, which also serves as a way to support these stores. Buying produce from LHM could benefit rural grocery stores by helping them differentiate themselves in the market as providers of high-quality local foods.

### Sales to Independent Grocery Stores:

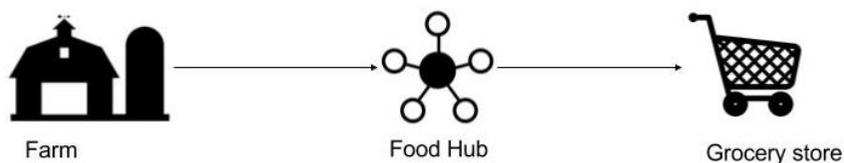
LHM began wholesale sales in 2015, and currently sells to the following five independent grocery stores:

- Outpost Mercantile in Sauk Centre
- The Good Earth Food Co-op in St. Cloud
- Minnesota Street Market in St. Joseph
- Sunnies General Store in Alexandria
- Kadejan Market in Glenwood

Kadejan Market is currently the only grocery store that LHM sells to in a rural community of 2,500 people or less. This is due to multiple barriers, such as the inefficiency of creating new distribution routes for small volumes and the general scarcity of grocery stores in small communities. LHM does, however, sell to these smaller communities if they are on the food hub's current delivery routes.

### What are the benefits of the farm to food hub to grocery store supply chain?

Developing a local and regional supply chain can be a win-win-win for farmers, food hubs and grocers.



### Benefits for Grocery Stores sourcing Local Food from Local Harvest Market:

- **Simplify Ordering with a “One-stop” Shop:** A big challenge for grocery stores is the large amount of staff time that it takes to manage direct sourcing from multiple local farmers. A food hub can offer a “one-stop” shop for local food where there is just one order, one invoice and one delivery for grocery store staff to manage. In addition, because they aggregate from many farms, a food hub can provide more product variety. They also manage quality control and communication with producers. Food Hubs can make local purchasing less time consuming and more convenient for busy independent grocery store purchasers.
- **More Stable Supply Chains:** Because food hubs source from various farmers, they can provide better supply chain consistency for grocery stores than individual farmers can (e.g. if one farmer can't supply spinach in a particular week, the food hub likely works with another farmer who can).
- **Volume Flexibility:** LHM is a flexible regional distributor willing to do small order quantities. Their minimum order is only \$100 for buyers located along their existing distribution routes, and only \$10 for customers who pick up their own orders.
- **Superior Produce Quality and Shelf Life:** A potential benefit for independent grocery stores sourcing food from LHM is superior produce quality due to: harvest at the peak of ripeness, a shorter travel distance (thus reducing the amount of handling), the fact that LHM's farmer partners use good post-harvest handling methods<sup>4</sup>, and the fact that LHM's produce is delivered using a refrigerated truck (which is owned by LHM). LHM receives consistent feedback from grocery stores and restaurants that LHM's fresh produce has a superior shelf life compared to the conventional produce they buy. Wholesale customers receive produce from LHM less than one day after it's been picked in the field. Conversely, mainstream produce distributors often source produce that is picked in a pre-ripe state in order for it to be shipped long distances—which may result in quality and nutrient degradation.<sup>5</sup>

<sup>4</sup> Post-harvest handling is the stage of crop production immediately following harvest, including cooling, cleaning, sorting and packing.

<sup>5</sup> Barrett, D. M. (2007). Maximizing the nutritional value of fruits & vegetables. Food technology. Retrieved August 5, 2016, from <http://www.fruitandvegetable.ucdavis.edu/files/197179.pdf>.

## Benefits for Grocery Stores sourcing Local Food in general:

- **Transparency in the supply chain for customers:** Purchasing local food from a food hub or directly from producers can help grocery stores communicate details about the supply chain (such as specifics on production practices) to their customers—who increasingly value transparency.
- **Paying farmers fair prices and keeping money in the local economy:** When consumers purchase from LHM's online store, 80 cents of every dollar spent goes to the farmers. When they buy from a grocery store which sources from LHM, more than half of each dollar spent goes to the farmers.

In contrast, in a conventional supply chain the numbers vary, but according to the USDA Economic Research Service's Food Dollar Series, "For a typical dollar spent in 2014 by U.S. consumers on domestically produced food, including both grocery store and eating out purchases," only 10.4 cents went to farm production.<sup>6</sup> Many small grocery store owners value their local economy and buying from other local businesses is an important opportunity for them to support their local communities.

2014 Food dollar (nominal): Industry Group



Note: "Other" includes two industry groups: Agribusiness plus Legal & Accounting.  
Source: USDA, Economic Research Service, Food Dollar Series.

- **Opportunity to differentiate and fill a market niche:** LHM Board Chair and General Manager, Joe Luetmer, has the perspective that if small independent grocery stores want to survive in an increasingly consolidated and competitive market, they need to find a way to differentiate themselves from the competition (namely, large corporate-owned supermarket chains, dollar stores and convenience stores). One way to do that is to provide much higher quality, sustainably grown and locally produced meat, produce, and dairy. By specializing in high-quality local food and telling the farmers' stories, a grocer can offer a direct connection for their customers to the local farmers growing their food—which is something consumers are increasingly asking for.

*"It's not just romaine, it's romaine from this particular farm and here's a picture of the people who grew it and a description of their practices. It's a powerful thing when people know their farmers and how they grow. Connecting people to farms is a big opportunity to build differentiation for a small rural grocery store."*  
- Local Harvest Board Chair & General Manager Joe Luetmer

## Benefits for Farmers selling food via Local Harvest Market:

- **A package of valuable services:** LHM provides many services to farmers, including sales and marketing, invoicing, delivery, and payment collection. Luetmer believes the food hub can provide those services at a lower cost than if the farmer did those activities themselves.
- **Price Protection:** The food hub sets the same price for all of its producer partners, thus avoiding the opportunity for purchasers to play one producer off the other. Sometimes when producers act individually they lose power in negotiating with purchasers, and potentially undercut each other's prices. A major advantage of a food hub is that it can provide demand and production planning<sup>7</sup> across multiple customers and producers. This ensures adequate and reliable supply for customers while ensuring producers have a market for what they grow, and can help eliminate situations where excess supply can cause producers to sell below their production costs.

<sup>6</sup> USDA ERS - Chart: Nearly a third of the U.S. food dollar is spent on eating out services. (n.d.). Retrieved June 30, 2016, from <http://www.ers.usda.gov/data-products/chart-gallery/detail.aspx?chartId=40083>

<sup>7</sup> Demand and production planning usually entails aggregation of weekly demand for multiple customers on a short term (6 weeks), mid-term (annually) and long term basis (multiple years). Production plans can then be built to meet this demand, thus creating reliable supply without excess production or inventory. (Source: Joe Luetmer)

## ***Benefits for Local Harvest Market selling to Grocery Stores:***

- **Increased Revenue:** The primary benefit of supplying more independent grocery stores would be to increase revenue for LHM, as they estimate that they need to be in the range of three to five million dollars of annual sales to be a sustainable business. Consumers shop for the majority of their food for home preparation at grocery stores, making grocery stores a promising market. LHM has learned first-hand that it is very difficult to get people to buy groceries online, as most consumers are accustomed to buying food at retail stores.

### **Grocery Stores are a Key Market for Local Foods:**

- On a dollar basis, the American consumer spends a little over 50-cents for food away from home and a little under 50-cents on food prepared at home (2016).<sup>8</sup>
- On a calorie basis, according to 2008 USDA data, 68% of calories consumed by Americans are from food prepared at home and 32% are from food consumed away from home.<sup>9</sup>
- According a 2016 USDA Economic Research Service report titled “Where American Households get Food in a Typical Week”, American households “devoted 55 percent of all (food acquisition) expenditures reported during the (7 day reporting period) at large grocery stores, 3 percent at small or specialty food stores, and 7 percent at other food stores.”<sup>10</sup> According to Joe Luetmer, “of food prepared at home, most is bought at a retail store. This is split between big box stores and neighborhood groceries—which people go to for items they need last minute or items they forgot. They go to large town big box stores to fill their pantries.”
- These statistics point to grocery stores as an extremely important element of food systems, and therefore a key market for local and regional food vendors like LHM.

- **Flexibility:** Because they do their own purchasing, independent grocery stores can often be more flexible than large chain grocery stores where purchasing is done in a corporate office. This flexibility makes independent grocery stores a more accessible market for food hubs.
- **Smaller volumes:** In addition, the substantial volume that large grocery store chains require is often prohibitive for smaller food hubs. Small to medium sized independent grocery stores are a good size match for food hubs like LHM.

## ***Benefits for the Final Consumer:***

- **Higher Quality Foods:** According to Luetmer, this supply chain provides access to fresher, healthier, and higher quality foods for a minimal to moderate increase in price.
- **Community Vitality:** Increased community vitality and an opportunity to keep spending dollars in the local economy, promoting a local economic multiplier effect (i.e. other local economic activities are increased because local farmers are more likely to make local purchases).
- **Opportunities to know your Farmer:** An opportunity to support farmers who are good stewards of land and water, and treat animals humanely. And, as promoted by the United States Department of Agriculture, this supply chain offers consumers an opportunity to “Know your Farmer.”



LHM vegetable display at the Douglas County Fair. Photo courtesy of Joe Luetmer.

<sup>8</sup> USDA ERS - Food Expenditures. (n.d.). Retrieved August 05, 2016, from <http://www.ers.usda.gov/data-products/food-expenditures.aspx>

<sup>9</sup> USDA ERS - Food Consumption & Demand: Food-Away-from-Home. (2014, October 29). Retrieved August 05, 2016, from <http://www.ers.usda.gov/topics/food-choices-health/food-consumption-demand/food-away-from-home.aspx>

<sup>10</sup> Todd, Jessica, and Benjamin Scharadin. Where Households Get Food in a Typical Week: Findings From USDA's Food APS, EIB-156, U.S. Department of Agriculture, Economic Research Service, July 2016.

## Barriers preventing LHM from Selling more Local Food to Grocery Stores

Local Harvest Market currently only sells to one rural store in a community of 2,500 people or less (the U.S. Census definition of “rural”) because of the following barriers:

- **Dispersed grocery stores make delivery costs prohibitive:** Many rural grocery stores in west central MN are not located on existing LHM delivery routes, making deliveries to them excessively costly. LHM can only deliver to grocery stores not located on their main distribution routes if the store buys a volume high enough to cover the cost of delivery.



Photo Source: LHM web-site.

- **Challenges with wholesale grocery distributor pricing structures:** Some wholesale grocery distributors require grocers to order a certain volume—or a minimum percentage of all orders—from their company in order to maintain the pricing structure. The wholesale distributor might start charging higher prices if the grocer begins to buy from other vendors. This can discourage grocery stores from purchasing from other vendors like food hubs or farmers. Grocers are cognizant of maintaining good relationships with their wholesale grocery distributor because they are dependent on their services for goods that aren’t available locally and for off-season produce.
- **Lack of Scale:** A major barrier is the lack of scale of LHM, preventing it from reaching economies of scale (the cost advantage that arises with increased revenue which offsets fixed costs). This requires them to charge grocers slightly more than large distributors who can operate at economies of scale.
- **Consumers value low prices:** According to Luetmer, many consumers tend to focus more on price than on quality or the ethics of the supply chain. Some do this out of necessity but others simply don’t want to pay more. It takes a long time and a lot of education for people to start to value good food and to pay prices that allow local small-scale sustainable farmers and food hubs to cover their costs.

*“It’s difficult to imagine surviving as a food hub if our primary customer was small groceries. We would like to see a more distributed food system, and we’d prefer a small grocery in every town. We would supply them all, but that’s not a reality that exists today.” - Local Harvest Board Chair & General Manager Joe Luetmer*

## Factors that Facilitate Local Harvest Market sales to Grocery Stores

- **A Convenient shopping/ordering tool:** LHM has a convenient online ordering system. It allows LHM staff to visit a potential grocery store client, pull up the ordering application on a smartphone, and show grocery store owners how convenient it is to order. LHM offers a spreadsheet which shows pricing, case sizes, seasons of availability, and standard pack sizes so that purchasers know exactly what they are getting. This tool can help potential grocery store clients to feel comfortable partnering with LHM.
- **Talking to potential buyers about local farmers:** It’s been beneficial for LHM, when approaching potential wholesale buyers like grocery stores, to talk about the farmers they work with and their production practices. Personal stories and transparency are increasingly valued.
- **Building relationships to cultivate willing partners:** This supply chain only works when grocery store operators truly want to partner.
- **Locking in the price for one year:** LHM locks in its buying and selling prices for one year. Sometimes the price is higher than the market price and sometimes it is lower, but a stable price increases predictability (and lowers risk) for both grocery stores and farmer partners. This can be a strong selling point for potential grocery store business partners.

## Next Steps for Local Harvest Market to sell to more Grocery Stores

- **Build Collaborations with other Food Hubs to Build Scale and Strength:** When producers and markets are dispersed, as they are in Greater Minnesota, one way to create scale and efficiency is to collaborate with other food hubs to create a regional food hub network. LHM is in conversations with nearby food hubs Sprout and Fresh Connect regarding collaboration. At a minimum they would like to collaborate on distribution—because currently LHM has some delivery truck routes which overlap with the other food hubs' routes. Marketing is another potential area for collaboration. Because food hubs are values-based, they can quickly build collaborations and share information.
- **Build Collaborations with Regional Distributors:** One strategy that LHM is considering is collaboration with regional distributors who are accustomed to small sized deliveries and who are already servicing the communities LHM wants to reach. Delivery is expensive, and this kind of collaboration would help make deliveries to small dispersed communities more cost-effective.

## Potential Lessons for other Food Hubs

Takeaways for other food hubs considering supplying to independent rural grocery stores include:

- Focus on good post-harvest handling in order to differentiate products as high quality.
- Offer straight forward and convenient ordering tools (e.g. apps for smartphones).
- Provide grocery store operators with stories about farmer partners for marketing purposes.
- Lock in prices for one year to provide grocery store customers with predictability.
- Offer low minimum orders so that small grocery stores can make purchases.
- Collaborate with other food hubs to share distribution routes (and potentially marketing) in order to scale up and reach grocery stores located off primary delivery routes.
- Collaborate with other distributors who have existing distribution routes in dispersed communities.

## More information

Please visit <http://www.extension.umn.edu/rsdp/statewide/rural-grocery-stores/> or [rsdp.umn.edu](http://rsdp.umn.edu)



Photo Source: LHM web-site.

**Additional Sources:** Luetmer, J. (2016, June 22). [Telephone interview]; Luetmer, J. (2016, May 9) [Telephone interview]; Local Harvest Market Co. Retrieved June 27, 2016, from <http://localharvestmarket.co/>.

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