

# Local Foods: Three Ways to an Industry that Pays

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APA Economic Development Division Graduate Scholarship - February 2011

## SUMMARY

The local foods industry is active and growing in many parts of the United States. Although there is much excitement around this movement, local foods entrepreneurs and organizations still face a number of challenges when establishing viable operations. These issues are prevalent throughout the supply chain and include limited capacity, lack of infrastructure, regulatory obstacles and limited knowledge. There are three things economic development planners can do to help the local foods industry expand in their communities: advocate for pro-local foods policies; serve as consultants to start-ups; and facilitate regional networking for local foods companies and supporting organizations. Fostering the expansion of the local foods industry as an economic development strategy has the potential to spur job growth, assist in the productive redeployment of business and regional resources, and encourage local innovation.

## INTRODUCTION

Local foods activity within the United States has grown significantly since the late 1990s. According to a US Department of Agriculture (USDA) report by Martinez, et al. (2010), sales and activity have increased in all of the following areas:

- Direct-to-consumer sales: approximately 118 percent increase in 2007 dollar sales from 1997 to 2007;
- Farmers markets: approximately 91 percent increase in the number of markets from 1998 to 2009;
- Farm to school programs: over 2,000 programs developed between 1997 and 2009.

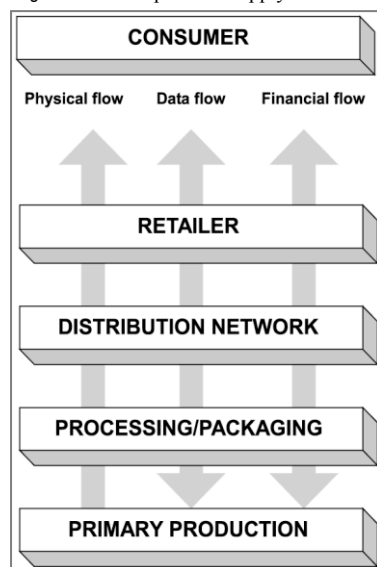
Due to increasing interest in and awareness of local foods, demand and sales activity are expected to continue growing. As they do so, local foods will become an increasingly important industry in communities and regions across the U.S. From a local economic development standpoint, an obvious benefit is associated import substitution opportunities: as consumers increasingly purchase foods from producers in their communities, more revenue will be retained locally, helping to spur additional local spending and tax revenues (Martinez, et al., 2010). However, there is more. As with any new economic activity, the emergence and growth of the local foods industry has the potential to generate new jobs, lead to the productive redeployment of local resources, and yield innovation and technological change. Economic development planners can support those outcomes by doing the following three things: provide analysis for food policy development in favor of local producers; actively advise local foods entrepreneurs

during start-up; and facilitate networking among local foods producers and supporting organizations. This paper begins by discussing the current issues and developments within the local foods industry. I then elaborate on the three useful actions economic development planners can use to support the industry’s growth and the links between those actions and positive local economic outcomes.

## CHARACTERISTICS OF LOCAL FOODS

There is not a clear definition of what constitutes “local” food (Martinez, et al., 2010). In some cases, a geographic measure of the distance between the source and the consumer defines local. Even geographic requirements are indefinite since they can vary from specific distances ranging up to 400 miles to general guidelines of county or state lines. Others associate “local” with marketing, including farmers markets, community supported agriculture (CSA), farm to school programs or farm sales to restaurants. Local producers are heterogeneous, but they tend to be small farmers located near metropolitan areas. Crops predominantly consist of vegetables and melons, but fruits, nuts, dairy and livestock are a growing part of local foods offerings (Martinez, et al., 2010).

Figure 1: A sample food supply chain model



Source: Folinas, et al., 2006

Local food production is a viable entrepreneurial activity for many, but a number of issues exist within the industry that limit its expansion (Martinez, et al., 2010). Capacity constraints, lack of infrastructure, insufficient training and expertise, limited traceability and uncertainties about food regulations hinder both producers and consumers. Those issues impact several steps of the food supply chain, and in many cases, a small farmer marketing directly to customers is responsible for all aspects of the process. As Figure 1 illustrates, there are multiple steps in a generic food supply chain (Folinas, et al., 2006). Thus in addition to managing a production site, a farmer must also successfully process, pack, distribute and retail his or her produce. That significantly impacts productivity since time and energy spent on activities further along the supply chain reduces the farmer’s time with crops.

Entrepreneurs and non-profit groups are stepping in to address these capacity issues. One dominant solution is food hubs. Per the USDA, a food hub is “a centrally located facility with a business management structure facilitating the aggregation, storage, processing, distribution, and/or marketing of locally/regionally produced food products” (KYF2, n.d., pg. 3). Such facilities create opportunities to serve large and diverse markets, particularly institutional buyers like schools and hospitals. Although institutional buyers are interested in sourcing locally, lack of infrastructure enabling consistent product and reliable distribution remain a barrier to local

procurement (Martinez, et al., 2010). Food hubs can efficiently serve this market since they function as a centralized point of contact and distribution center of local produce.

“Value-added products,” add another dimension to local foods. Baked goods, soups, and jams and jellies made with locally-sourced ingredients are examples of such products. Producers serve a niche as a seasonal business or as an outlet for surplus or imperfect produce. There are obstacles to entering the industry from this vantage point, however. Licensing and food safety regulations, the high cost of infrastructure, and lack of access to technical knowledge discourage potential producers (Lawless, Pfeiffer and Farnsworth, 2010). To remedy this, kitchen incubators or shared-use kitchens are popular development tools to assist entrepreneurs and encourage production. Lawless, et al. (2010) explain that “well-managed food business incubators can lower entry costs, reduce risk and increase success rates by providing space, equipment and critical technical assistance to innovative new foods processors” (pg. 1).<sup>1</sup> Although legislative bodies in a handful of states are adopting cottage foods standards that allow domestic kitchen use, entrepreneurs and development agencies still need shared-use kitchens and incubators to overcome barriers and create spaces for production and innovation.

Navigating regulatory issues, establishing a successful operation, and developing a reliable customer base are challenges for all business owners. That is especially true for growing industries like local foods. To sustain this growth, economic development planners can help create policies supportive of local food systems, provide guidance for establishing a viable operation and enable networks for local foods within their community and region.

#### MAKE THE CASE FOR CHANGE

Local foods producers in many states are subject to the same food safety standards as large producers. Such regulatory environments discourage small producers since they prohibit home kitchen preparation and certified kitchen access is cost-prohibitive. Recognizing this imbalance, a number of states have enacted cottage food legislation allowing for limited local marketing of non-potentially hazardous items manufactured in domestic kitchens. For example, Wisconsin passed the “Pickle Bill” in 2010, which allows producers to sell food products manufactured with naturally acidic produce in uncertified kitchens (Lawless, et al., 2010). Also in 2010, Michigan passed a Cottage Food law which “allows individuals to manufacture and store certain types of foods in an unlicensed home kitchen” (Michigan Department of Agriculture, 2011, pg. 1). These items may be retailed at locations such as farmers markets and roadside stands. Permissible products include baked goods, jams and jellies, and an array of dry goods.

At least seventeen states currently have cottage foods laws (Record, 2011a), but this represents only a third of the nation’s state governments. Economic development planners can spur change by contributing to policy development in support of local foods. First, planners should

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<sup>1</sup> It should be noted, however, that shared-use kitchens generally do not provide the technical assistance available in incubator settings, but they can help producers meet food safety requirements.

understand existing regulations that impact local food production and retailing. They should also identify current political discourse which involves the local food system. As needed, planners should provide stakeholders and policy-makers with analysis and information that outlines the needs and opportunities of local food systems. In this analysis, planners should describe the potential impact of policy change both for local foods stakeholders and the community at large.

Regional and state food policy councils and related organizations are resources for both collecting information and becoming involved in political discussions; they provide excellent opportunities to obtain first-hand knowledge of food issues and policy initiatives. For example, the Illinois Stewardship Alliance's (ISA) Grassroots Policy Advisory Committee is conducting regional meetings with local food groups this spring to identify and communicate policy priorities (Record, 2011b). Planners should attend such meetings, become familiar with the issues, and, when needed, provide case studies and analysis in support of policy change. In another example, the Kansas Rural Center, which coordinates the Kansas Food Policy Council, stated a 2011 objective to "educate elected officials on the economic and environmental benefits of building local food systems" (Kansas Rural Center, 2010, pg. 1). Again, economic development planners are in a prime position to provide compelling arguments to regulatory bodies and active food groups detailing the benefits of the local foods industry. Given the recent legislative activity in support of cottage foods, regulatory bodies are aware of the demand for policy change. Planners can encourage this change by sharing their technical knowledge and providing insights into local foods activity.

#### SOW THE SEEDS OF SUCCESS

As mentioned above, entrepreneurs and non-profit organizations are creating food hubs, shared-use kitchens and kitchen incubators to address issues in the local foods supply chain. At the same time, constructing and operating such facilities requires significant resources and business knowledge. With financing, not only is start-up capital needed, but per a USDA report, working capital is also needed to maintain overall business operations. Clark, Howard and Rossi (2009) estimate that, for a kitchen incubator in West Memphis, Arkansas, an initial investment of \$740,000 for construction and the first year of operations is required. Such investments are worthwhile, however. The La Montanita Food Hub in New Mexico, for example, "invested \$150,000 in renovating a warehouse and leasing trucks to assist regional growers with distribution and wholesale market coordination" (KYF2, n.d., pg. 10). Now this food hub "buys from over 700 local farmers and producers, and warehouses and processes over 1,100 local products that are sold through the La Montanita retail co-op locations and other retail markets across the state" (Barham, 2010, p. 1).

Acquiring funding is challenging and starting a business is a huge risk. In order to increase success rates, economic development planners should actively consult start-ups during the initial phases of enterprise creation and operation. In terms of funding, planners can identify possible resources from the array of public and private sources, including the USDA, Economic

Development Agency, small business loans and University research and extension programs. Next, planners should offer examples and advice for preparing competitive funding applications. Sharing business management knowledge is also critical. Planners should educate food business operators on leading practices or direct clients to local business development programs and training. With their access to local, state and federal programs and information, economic development planners are an excellent resource for start-ups to obtain the required funding and technical knowledge for their ventures.

#### MAKE CONNECTIONS

As with any business, local foods operations need a strong market to remain competitive. Limited resources prevent small producers from promoting their business, however. Economic development planners can provide marketing and networking support to address this issue. For instance, recognizing the need to connect producers with consumers in their community, a Canadian economic development group implemented a multi-phase Buy Local campaign. “The first two phases of the campaign involved going to the community to educate people about the benefits of buying local, talking to retailers, and farmers, and putting them into contact with each other, as well as marketing and promotional signs urging people to buy local produce” (Gunn, 2010, pg. 1). The third phase consisted of creating a database of producers so that retailers and restaurant owners can easily source local produce. The group is working on the fourth phase of the campaign, which entails linking producer information to electronic maps for quick identification of local foods sources.

Economic development planners should not limit themselves to directly linking producers to consumers, however. Through creative and continual networking, planners can connect local foods groups with broader community organizations, objectives and initiatives. Since food systems also impact health, lifestyle and the environment, synergistic opportunities exist for developing communities and promoting local foods. This was illustrated in the February 4, 2011, APA webcast “Healthy, Active and Vibrant Communities.” In her presentation, Ann Mack of Trailnet explained that farmers markets are natural components of a vibrant community. In fact, as part of their Healthy, Active and Vibrant Communities Project with De Soto, Missouri, Trailnet partnered with the City of De Soto and Get Healthy De Soto to establish a farmers market. Not only did the community gain an excellent resource, but local foods producers also benefited through increased marketing and community awareness. By recognizing and establishing similar collaborative relationships, economic development planners can promote local foods and establish the local food system as a vital community asset.

#### CONCLUSION

A strong local foods industry can be an economic driver for many communities. Industry growth boosts employment, spurs redeployment of existing resources and stimulates innovation. Food hubs and kitchens are just one example of increased employment opportunities. As local production and industry complexity accelerate, additional personnel are needed to manage,

process, and analyze business information and resources. This requires skill development related to marketing, financial management, and supply chain management. In terms of redeployment of local resources, many food hubs and kitchens renovate existing buildings to accommodate their operations. For example, the La Montanita food hub in New Mexico refurbished a warehouse to meet its needs. The Food Enterprise Center project in Vernon County, Wisconsin, which was awarded a \$2 million EDA grant in 2010, will require renovating a “100,000-sq.-ft. manufacturing plant into a food processing and distribution center” (Lawless, et al., 2010, pg. 28). Finally, innovation is a natural by-product of industry growth. Incubators and shared-use kitchens facilitate new product development and operations improvements. Creative networking fosters synergies as complementary organizations collaborate to achieve common goals. Economic development planners can realize these outcomes through policy advocacy, guiding start-ups, and facilitating network development for the local foods industry in their communities.

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