



What's At Stake?

Retail food stores, from village markets to food cooperatives (co-ops) to national chain supermarkets, are the primary sales outlet for Vermont farm and food businesses of all sizes and scales. In 2017, Vermonters spent a total of \$310 million on local food, purchasing 32% of those foods at Vermont co-ops and grocery stores.¹ These stores have significant impact on Vermont's food producers, rural communities, and economy. The current trend toward out-of-state ownership and consolidation of distributors and food stores is greatly impacting the ability of Vermont farms and food manufacturers to sell their products to stores of all sizes.

The viability of independently owned businesses and regional supermarkets committed to increasing local sourcing is in turn critical to farm and food business viability. Vermont must support both growers' and value-added producers' ability to service grocery markets. Meeting growing consumer demand for fresh, local, high-quality products at grocery stores will advance Vermont's rural economic development and our rural communities.

Current Conditions

Local food and beverage sales at co-ops and other grocery stores in Vermont amounted to \$98.5 million in 2017, with \$42 million in local sales at co-ops alone. In total, Vermont's independently owned grocery stores (general stores, co-ops, rural convenience stores, on-farm stores, and small-scale supermarkets) account for approximately \$750 million in retail food and beverage sales in Vermont.²

There is much room for growth in the grocery market channel, both locally and regionally, as retail demand for local products and many of their associated values is high among consumers. However, accelerated consolidation in retail and distribution businesses (e.g., Amazon's purchase of Whole Foods, Reinhart Foodservice's acquisition of Black River Produce and the subsequent purchase of Reinhart by Performance Food Group) threatens the viability of the grocery market for Vermont farmers and food businesses (referred to as "suppliers" in the industry). Consolidation increases downward price pressure, diminishes suppliers' leverage in negotiating favorable terms and prices, and creates barriers for new suppliers to access retail markets.

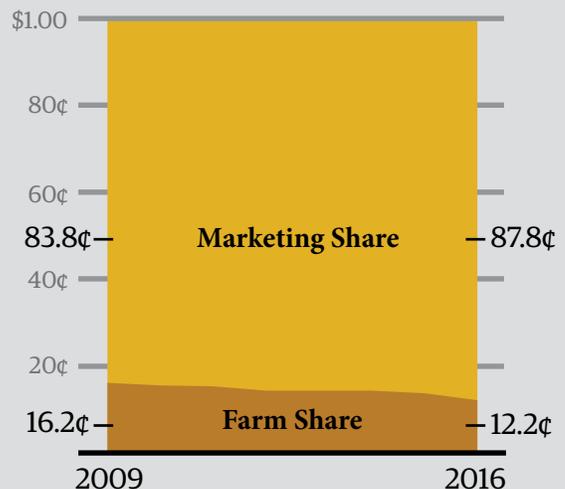
Consolidation is also happening at the independent store level and in rural areas. Over the past 15 years many independently owned village stores with gas stations were purchased by large, regional oil companies. This trend, combined with an influx of discount stores (e.g., Dollar General), shifted consumer purchases away from community owned and operated stores. At the same time, it reduces opportunities for local and fresh food to be sold within rural communities, some of which are, or are on the verge of becoming, food deserts.

Various business assistance and marketing initiatives

have emerged over the past few years to address these challenges and capitalize on opportunities in retail (e.g., a distribution cost analysis tool, retail merchandising and local sourcing training, subsidized attendance at regional trade shows, and collaboration amongst food hubs). These initiatives and increased investments in farm infrastructure to improve food safety, production, and storage, are all key ingredients to maintaining vital grocery market sales for Vermont suppliers.

Marketing Share of Each Food Dollar, 2009-2016

The farm share is the amount of each food dollar received by farmers from the sales of raw food commodities. The marketing share accrues in the rest of the supply chain, including inputs, transportation, wholesale, food service, marketing, etc. Numbers are adjusted for inflation to 2009.



Producers

Current Conditions

Most food is purchased at retail food stores, which are an important source of revenue for Vermont producers. There are 737 Vermont farms selling directly to retail markets, institutions, and food hubs, totalling \$54 million in sales.³ Local products are in demand and many Vermont producers are building a business around grocery sales, but the structure of the grocery market is complex and hard to navigate, and changes related to industry consolidation put most Vermont producers at a disadvantage.

Bottlenecks & Gaps

- Expanding food safety regulations require capital investment and make it harder to gain entry into grocery markets.
- After all expenses are taken into account, a producer selling into retail markets can receive 30% or less of a product's retail price.
- Producers and technical assistance providers have knowledge gaps related to the complexities of the grocery market channel.
- The seasonality of many Vermont farm products is a disadvantage when distributors and large grocers prefer or require consistent year-round supply.
- Producers may not know how to account for the costs of distribution into their business planning.

Opportunities

- Wholesale farmers benefit from selling to large buyers when they are able to sufficiently scale their operations and be efficient in their production methods.
- There is a well-coordinated business assistance network in Vermont which can provide advisory services related to retail markets.
- Cooperative processing ventures can expand market access for Vermont farm products.
- There is strong consumer demand for certain food attributes that align well with Vermont-made products (see [Consumer Demand brief](#)).

Distributors

Current Conditions

Food distributors, tasked with getting food from producers to stores, are a vital part of the farm-to-grocery supply chain. There are stores that accept deliveries directly from producers, freight providers (e.g., FedEx), and local food hubs. However, utilization of established distributors who purchase product from producers and resell to retailers is the predominant way to sell into the grocery marketplace, particularly to regional grocers.

Bottlenecks & Gaps

- Getting product into wider distribution networks requires trucking, proximity to existing truck routes, loading docks, and often pallet-sized volumes of product, which are not always readily available.
- Consolidation in the distribution industry limits onboarding of new producers as well as local product availability and source identification.
- Inefficient trucking routes and costly maintenance drives distribution costs up in Vermont, and understaffing of Commercial Drivers License (CDL) drivers and warehouse workers at distribution companies constrains the supply of affordable distribution options.

Opportunities

- Farmers and food manufacturers have access to new business planning tools which help them evaluate distribution options.
- Workshops that bring together farmers, food manufacturers, and distributors have been occurring in recent years across the state.
- Undertaking a rigorous assessment of the distribution system, including truck routes, backhauling, and cross-dock opportunities, may streamline trucking options and minimize costs.
- Alternative distribution models exist with potential to counteract industry-level consolidation (e.g., food hubs and other values-based small-scale distributors).

Sales at Independent Stores

Current Conditions

Sales of specific Vermont products at independent stores are hard to quantify, however, Vermont's large food co-ops do track sales and consistently see a high dollar value of Vermont products sold. National-scale supercenters, warehouse club stores, and online retailers (e.g., Walmart, Costco, Amazon) with their consolidating stores, broad marketing reach, and wide-ranging product mix are challenging the survival of independent stores in our rural communities.

Bottlenecks & Gaps

- With fewer marketing and financial resources, independent stores work harder to stay engaged with customers and trends, while attempting to maintain their narrow profit margins.
- Competitive pressure means stores must streamline buying, receiving, and store operations, potentially reducing staff numbers, which can reduce time for relationships with producers and distributors, and in turn local food deliveries.

Opportunities

- Independent grocers, as local community institutions, are well-positioned to understand and capitalize on consumer trends within their communities.
- Independent grocers do have the ability to be flexible with producers and can gain competitive advantage by offering products representative of their community and the state.
- In-store retail training and support services focused on Vermont independent grocers have proven successful and can be replicated.

Sales at Supermarkets

Current Conditions

Supermarkets sell groceries, produce, meats, baked goods, prepared foods, and housewares, and represent the primary outlet where consumers purchase food. Supermarkets serve customers seeking convenience, lower prices, and a wider selection than smaller, independent stores. Similar to independent grocers, supermarkets are experiencing heightened competition for market share due to the emergence of online retailing and shifts in consumer purchasing behaviors (e.g., consumers are less likely to shop at just one store for their groceries).

Bottlenecks & Gaps

- The efficiency of scale sought by supermarkets creates strong financial incentives for them to simplify supply chains and reduce the number of suppliers from which they buy. This, in turn, can limit options for consumers and producers alike.
- Supermarkets levy unanticipated fees, seek large producers who can guarantee contracted amounts, and will easily change the supplier of a product, dropping a local supplier in order to save pennies on the pound.

Opportunities

- In the last decade, supermarkets started capitalizing on demand for local food, developing local food programs that more prominently market local options, and leading to a surge in local food sales estimated to be \$19 billion in the U.S.⁴
- The threat of losing customers demanding "local" to other grocery outlets is pushing some traditional supermarkets to adapt to local producers' needs.
- Trainings, a local products database⁵, producer-buyer forums, and other resources have shown promise in facilitating supermarket access for Vermont wholesale producers.

Summary

Food retail is undergoing a period of significant disruption, simultaneously adapting to and fending off online competition while shifting store space and product selection to satisfy changing consumer preferences and shopping habits. To keep up, many small store owners and food co-ops are navigating towards greater consumer engagement, local food sourcing, in-store amenities like cafés, delis, and bakeries, and greater emphasis on convenience foods and prepared meals, while also reconnecting to their role as community resources. Disruption in the retail market caused by the mergers among major distributors and supermarket chains leaves small stores, farmers, and food manufacturers with less leverage in the marketplace. The grocery market remains a substantial opportunity for Vermont producers, and local food can be a strong differentiating foundation for Vermont's independent retailers, but increased business assistance, affordable capital, strategic partnerships between producers and values-aligned distributors and buyers, and improved marketing are needed.

Recommendations

- Continue philanthropic and state funding support for producer-buyer forums that bring together industry experts and buyers (both Vermont and regional), including product-specific forums (e.g., cheese, meat, produce, specialty food). Forums build market access for suppliers, help buyers differentiate their product mix, and increase trade association collaboration and engagement. Cost: \$60,000 total over three years.
- Explore the demand for and feasibility of a produce-buyer database web portal to expand the sale and distribution of Vermont products within Vermont and the region.
- Create three Vermont marketing broker positions to develop the regional market for a strategic catalog of Vermont products. The brokers would pilot a three-year program, identifying and developing top market channel opportunities within three target urban centers in the Northeast. Estimated cost: \$600,000 over three years.
- Devote more resources to retail-specific sales and marketing technical assistance. Subsidize the cost of attendance at national sales and marketing events for producers and service providers. Investigate funding models that could provide Vermont product merchandising, Point of Sale materials (e.g., product signage), and brand ambassadorship in retail markets. It is imperative that our food producers are given the tools they need to compete within regional and national markets, and can affordably access professional services needed to succeed in retail. Cost: \$50,000.
- Develop a five-year plan for statewide retail market development that helps stores maintain profitability and navigate the next period of consolidation and disruption through trainings, speakers, resources, and events.



Farm to Plate is Vermont's food system plan being implemented statewide to increase economic development and jobs in the farm and food sector and improve access to healthy local food for all Vermonters.

The Vermont Agency of Agriculture, Food & Markets (VAAFMM) facilitates, supports, and encourages the growth and viability of agriculture in Vermont while protecting the working landscape, human health, animal health, plant health, consumers, and the environment.

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