

VERMONT FOOD SYSTEM PLAN PRODUCT BRIEF



PRODUCT: Specialty Foods

What's At Stake?

Vermont specialty foods are an important subset of the state's overall value-added product market. Food manufacturing is the second-largest manufacturing industry in Vermont, with \$3 billion in economic output.¹ Specialty foods are considered unique, high-quality food items typically produced in smaller quantities than their mass-market counterparts. As such, they may command a higher price point, though increasingly specialty food providers compete against less-expensive, mass-produced brands.

Many Vermont specialty food companies have grown to be nationally recognized brands. These enterprises create diverse employment opportunities including manufacturing, marketing, distribution, and sales. They are also an avenue for business owners to contribute to the state's food system—ideally through sourcing local raw ingredients—and economic development. Additionally, specialty food items are an important diversification tool for some farmers, providing a critical year-round revenue stream, either from the sale of ingredients to another producer or from manufacture and sale of their own products.

Current Conditions

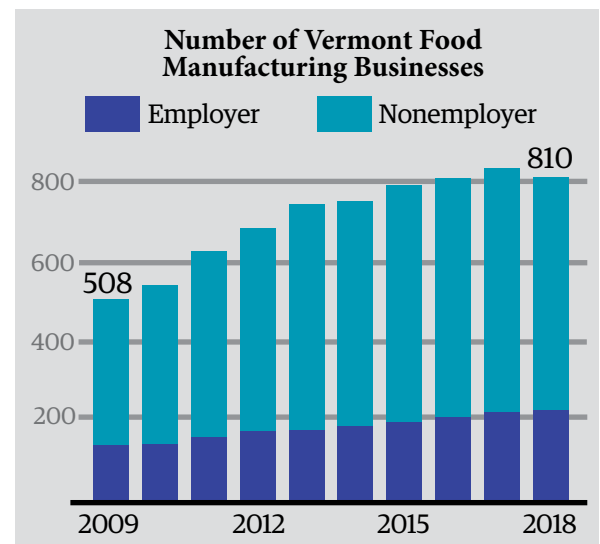
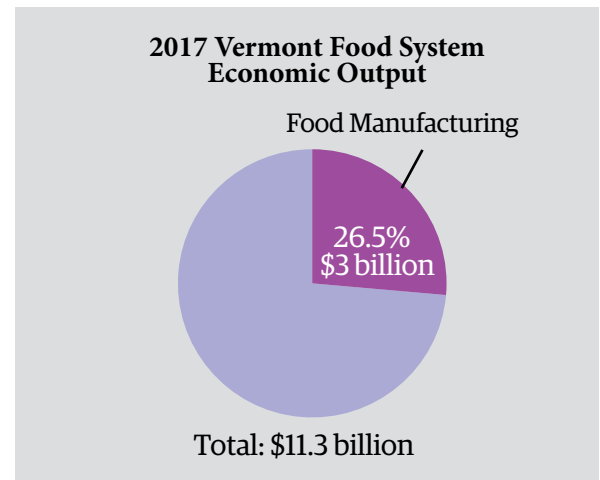
Vermont specialty foods include pickles, jams, jellies, relishes, sauces, dressings, chocolates, candy, cheese, yogurt, spreads, vinegars, pastes, marinades, crackers, snacks, cookies, and more. Depending on the type of specialty food, production may occur on the farm, by the producer in a commercially licensed kitchen, at a food-manufacturing facility, or through a private-label or co-packing service.

Many Vermont products highlight regional and local flavors and capitalize on place-based branding that in turn supports the state's many agricultural producers (e.g., Vermont cheeses and dairy farms). Products are sold to consumers via farm stands, as part of community supported agriculture shares, at farmers markets, online via company websites, and at a wide range of retail markets statewide, nationally, and globally.

Direct-to-consumer sales are critical in the early stages of launching a specialty food product. As businesses grow, they may choose to expand to larger geographic markets by either working directly with regional, national, and international retailers and distributors, utilizing support services such as food brokers or marketing/brand-building businesses, or attending trade shows and other business-to-business events.

Specialty food business models vary from small single operators, to cooperative models, to corporate ownership. Although business growth is desired, specialty food businesses that attract acquisition by out-of-state companies risk relocation of their operations. While some manage to stay, several businesses recently bought by larger companies have been moved out of the state, resulting in a loss of valuable jobs and state tax revenue.

Vermont is home to food business incubators and co-packing facilities which support small food producers and farmers to commercially scale their operations. Vermont has regional distributors, which focus exclusively on helping Vermont specialty products reach diverse consumer markets (see *Major Metropolitan Markets* and *Distribution* briefs).



Bottlenecks & Gaps

- Early-stage specialty food producers are challenged to match their operational scale with potential market channels in areas such as labor, order size, delivery frequency and method, price point, and other buyer requirements such as food safety and insurance (see *Distribution* brief).
- Vermont-produced specialty foods typically require year-round availability, which can limit the use of Vermont-grown ingredients. To manage costs, producers may need to use less-expensive non-Vermont alternatives.
- Purchasing infrastructure and equipment to increase production capacity is capital-intensive, and available equipment is often out of scale with producers' needs.
- Shared production facilities are limited in-state, and using co-packing services can sometimes push a product's end cost of production out of the competitive price point range, potentially forcing Vermont companies out of state to grow their businesses.
- Limited budgets and capacity restrict producer access to professional development, experienced sales personnel, and marketing to grow their business.

Opportunities

- With creative partnerships and planning, more Vermont-grown inputs could be incorporated in Vermont specialty foods.
- Products originally intended solely for retail sales (e.g., ice cream, tofu, black bean burgers), can be bulk packaged for sale to institutions, thus reaching additional markets and customers.
- More innovative financing options could be made available to develop facilities and infrastructure for processing and shared-use facilities.
- State marketing efforts could go even farther to highlight producers, brands, food and beverage, or agriculture products within Vermont, to both Vermonters and tourists.
- Increased grant funding and expanded state initiatives for promoting brands to outside markets at trade shows could increase awareness and generate new sales prospects beyond Vermont's borders.

Recommendations

- Increase access to low-cost capital and business assistance (including peer-to-peer support) to start, market, promote, and grow specialty food businesses. Enterprise start-up and expansion costs can be significant and it is typically easier to find funding for the infrastructure needs of a business than for the myriad expenses of attorneys, marketing, social media training, merchandising training, etc.
- Fund industry groups' capacity and programs so that they can continue to connect specialty food entrepreneurs with service providers. Aspiring and established specialty food producers benefit from technical assistance, training, and direct support to navigate everything from business licensing and business development to partnership agreements and maybe eventual acquisition.
- Fund producer-buyer forums. Local, regional, and national matchmaking events help specialty food entrepreneurs learn about entering different distribution channels, and help buyers to discover new Vermont products which will serve their own customer base and profitability. Local producer-buyer forums are a less expensive and time-intensive way for specialty food producers to meet distributors and retailers than regional or national trade shows. Cost: \$60,000 over 3 years.
- Increase funding support for the Working Lands Enterprise Fund to enable specialty food producers a greater chance of securing grant funding, since it can be difficult to compete against projects that will have a bigger acreage or labor impact on Vermont's working landscape.
- Adopt economic development policies that enable and incentivize business retention, for example support for increased access to co-packing and production facilities across the state.

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 (VAAFAM) 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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