

Marketing Fresh Produce to Food Retailers (Grocery Stores)

Introduction

Fresh produce retailing in the United States has seen changes and shifts in recent years that even many industry insiders would not have predicted at the end of the 1990s. At that time, the fresh produce distribution system seemed to be moving toward fewer and fewer large, centralized packaging and distribution centers. At the beginning of the 2010s, however, increased transportation costs and changing consumer preferences had grocers large and small considering the purchase of produce from growers nearer individual stores. Combined with the popularity of “local” produce among many American consumers, opportunities have risen for farm growers selling produce to local grocery stores. Producers of value-added produce products may also find local groceries a possible market for their product.

There are generally three avenues for selling produce to local groceries, based mainly on the size and scale of the store:

NICHE OR SPECIALTY stores may often carry smaller product selections, with management and ownership entirely in the local area. The number of specialty food retailers has increased in recent years due to consumer interest in smaller store formats and specialty food items (like certified organic and local foods).



INDEPENDENT grocers function as a full-scale grocery, making purchase decisions at the store or regional level. These may be stand-alone stores or regional chains focused on a single city or metro area.

NATIONAL CHAIN stores typically make purchase and distribution decisions beyond the local level, often employing *regional distribution centers*. However, many national chains have also shifted to allow direct store delivery of some produce, particularly crops easily delivered in bulk, such as melons and pumpkins.

This fact sheet will overview key concerns for farms selling fresh produce to local grocery stores. Five main areas are overviewed: **producer-retailer relationships, pricing, packaging, quality, and quantity.**

Cultivating the Producer-Retailer Relationship

Selling wholesale produce is a highly relational business. Retailers are accustomed to placing orders with companies

and growers, and a relationship of mutual trust is cultivated between clients. Even many larger produce wholesalers and retailers trace their roots to small, family businesses that have grown across the generations. Personal relationships between buyers and sellers in the produce industry are very important.

Growers will need to cultivate a relationship with the produce manager or store manager responsible for making purchases of fresh produce. Producers should present themselves professionally and be willing to tell the story of how their produce is grown. This will allow the person purchasing your produce to get to know your farm and it can create an environment for moving more quantities of your crops. Retailers who understand and appreciate where a food crop is coming from tend to be more likely to promote that crop to their consumers. Some stores will include “point of purchase” materials, such as signs and recipes, to promote local crops. Others even invite producers into the store to hand out samples. Producers more willing to contribute to such displays and efforts will help cement the relationship with the retailer.

Pricing

Local groceries are often grouped with local restaurants in discussions about new market channels for fresh produce. Both buyers offer potentially larger markets for growers seeking higher-volume outlets to sell produce. However, one of the key differences for grocery buyers is that grocers are *generally* less likely to pay larger wholesale price premiums for locally grown produce. This makes negotiating price a key consideration for selling to a local grocer.

Producers should understand two things about pricing produce for sale to local grocers:

1. Prices received for produce will be wholesale, not retail.

2. Producers must understand how much their produce costs to grow and deliver.

Prices received from local groceries will be at or near wholesale price levels. This can be a surprise for producers accustomed to selling produce at retail prices, such as those received at farmers markets. Retailers work on *margin* — the difference between the wholesale price paid and the retail price. Some retailers may be willing to incur smaller margins to feature local produce; however, prices paid by groceries will still be at wholesale levels.

Since producers will be receiving wholesale prices, it is crucial that they understand how much a particular produce crop costs them to grow, harvest, and deliver to the grocery store. Knowing the costs of production will allow a grower to discuss potential prices with the local grocer. Be sure to factor in costs of packaging, delivery, and extra handling time that may be incurred when delivering produce. Some growers find it worth their extra time to sell produce through local grocers, despite smaller profits, because it provides a form of advertising for their farm to local consumers.

For a discussion of pricing, including examples and case studies regarding how to determine wholesale prices, growers may refer to publication PB1803 from the University of Tennessee’s Center for Profitable Agriculture, *A General Guide to Pricing for Direct Farm Marketers and Value-Added Agricultural Entrepreneurs*.

Packaging

Another difference between selling in a direct market retail setting (such as a farmers market) and selling to a grocery store involves product packaging. Grocers are accustomed to handling





produce such as tomatoes, cucumbers, and squash in corrugated cardboard produce boxes. Other produce crops, like lettuce and greens, may be delivered in reusable plastic containers. Some crops, especially sweet corn, may be crated in wooden containers. Still other produce, such as berries and cherry tomatoes, may be packaged and labeled in plastic or paper pint or quart containers. Furthermore, grocers may be accustomed to handling other crops like melons that carry a sticker on each fruit with a numerical code; more produce is now labeled with individual Universal Product Code (UPC) or Product Lookup (PLU) symbols for scanning at checkout. For tips and resources on UPC and PLU symbols, producers may refer to *Tips for Selling to: Grocery Stores* published by the National Sustainable Agriculture Information Service (ATTRA).

While some local grocers may be willing to work with local growers, producers need to bear the responsibility of determining how to package the product in a manner that will allow the grocer to handle local product as safely and easily as possible. Produce growers should always budget the cost of packaging for delivery to the wholesale client and make production marketing decisions depending on their ability to bear the cost.

Producers may also realize that packaging can add value to their product. Attractive product

labels carrying the farm's name and address can raise awareness among local consumers. Labels and signage indicating that products are locally grown, like signage carrying the Kentucky Department of Agriculture's Kentucky Proud logo, can help generate interest in local products in the retail store. Even bulk boxes or bins may be imprinted with a farm's name so that consumers can see where the produce has been grown as it is stocked in the produce section. Producers always need to manage costs of production, but money carefully spent on quality packaging may generate positive additional returns.

Produce is typically graded and packed in standard sized containers. Lists of common container sizes is included in the commodity merchandising information on the Produce Market Guide Web site.

Quality and Quantity

Produce is not only graded and packed in standard-sized containers, but it is also sold according to standard quality grades. While some local retailers may afford some leeway for local growers, producers should always adhere to commonly accepted grades and standards for produce crops. If a producer is unsure of how to size, grade, and pack produce, he or she should obtain the expertise to do so. Farm employees may also need to be trained on proper picking, grading/sorting, and packing techniques. In addition, certain varieties may be better suited for wholesale shipments. Resources such as the University of Kentucky Extension Publication ID-36, *Vegetable Production Guide for Commercial Growers*, may provide guidance for growers in variety selection.

Many produce crops require cooling and/or cool transport to maintain product quality and safety. Some local groceries may allow local producers to deliver crops directly after harvest for refrigerated storage. Others, especially larger chains, may require growers to maintain certain cool chain standards for different crops.

Producers willing to keep their crops at ideal postharvest temperature levels will benefit their grocer customers with improved product quality.

Finally, no discussion of selling produce to local grocers is complete without a discussion of product quantity. Failure of producers to deliver adequate and consistent quantities of produce is one of the main barriers for purchasing local produce frequently cited by grocers, foodservice, and other wholesale produce buyers. Producers will need to clearly communicate how much and how often they can deliver produce to the grocer *before* the season starts. Grocers understand that weather can impact harvest, but they expect clear communication from the producer in any event of delivery delay. Remember: the retailer is already accustomed to receiving wholesale produce at regular times and uniform quality. Local producers need to match (or exceed) the quality of existing wholesale options, especially if producers are trying to obtain any premiums in wholesale price.

Conclusion

More local grocers are open to the idea of sourcing local produce. Producers willing to develop a face-to-face relationship with a retail buyer, negotiate prices fair to both producer and grocer, and deliver produce of consistent quality and quantity can develop profitable wholesale market niches.

Additional Resources

- Kentucky MarketMaker (University of Kentucky)
<http://www.marketmakerky.com>
- Kentucky Proud (Kentucky Department of Agriculture)
<http://www.kyproud.com>

- MarketReady (University of Kentucky)
<http://uky.edu/fsic/marketready>
- Vegetable Production Guide for Commercial Growers, ID-36 (University of Kentucky)
<http://www.ca.uky.edu/agc/pubs/id/id36/id36.htm>
- Agricultural Marketing Service (USDA)
<http://www.ams.usda.gov>
- Fresh Fruit, Vegetable, Nut and Specialty Crop Grade Standards (USDA-Agricultural Marketing Service)
<http://www.ams.usda.gov/AMSv1.0/ams.fetchTemplateData.do?template=TemplateN&navID=U.S.GradeStandards&rightNav1=U.S.GradeStandards&topNav=&leftNav=&page=FreshGradeStandardsIndex&resultType=&acct=freshgrdcert>
- General Guide to Pricing for Direct Farm Marketers and Value-Added Agricultural Entrepreneurs (University of Tennessee Center for Profitable Agriculture, 2011)
<https://utextension.tennessee.edu/publications/Documents/PB1803.pdf>
- The Packer
<http://www.thepacker.com/>
- Produce Market Guide (The Packer)
<http://www.producemarketguide.com/index.php>
- Selling Directly to Restaurants and Grocery Stores (Washington State Department of Agriculture, 2010)
<http://agr.wa.gov/marketing/smallfarm/DOCS/3-SellingDirectlyToRestaurantsAndGroceryStores.pdf>
- Should You Sell Products to Grocery Stores? (University of Wisconsin, 2010)
http://www.uwplatt.edu/cont_ed/LocalFare/pdf/SellingToGroceryStores.pdf
- Tips for Selling to: Grocery Stores (ATTRA-NCAT, 2012)
<https://attra.ncat.org/attra-pub/summaries/summary.php?pub=387>