WHOLESALE LOCAL FOOD
FROM SUPPLIER TO CONSUMER

Local Food Wholesale Market Assessment

Funding for the Local Foods Wholesale Market Assessment was provided by John Merck Fund and the Farm to Plate Network.

Prepared by **Rose Wilson Consulting LLC** for the **Northeast Organic Farming Association of Vermont (NOFA-VT)** and the **Farm to Plate Network**

Contributing Authors
Annie Harlow, Vermont Farm to Plate Retail Services
Tony Risitano, Sales Manager, Deep Root Organic Co-op

Project Advisors
Abbie Nelson, NOFA-VT
Erin Buckwalter, NOFA-VT
Jake Claro, Vermont Sustainable Jobs Fund
Julia Scheier, Salvation Farms
Richard Berkfield, Food Connects
Jen Miller, NOFA-VT

Photo Credits: Cover: Pete's Greens, Intervale, and Black River Produce | p. 1, Pete's Greens | p. 23, Pete's Greens

Table of Contents

Introduction

The global food industry, including the local food category, is dynamic and rapidly changing. Over the past 20 years the local food category has evolved from an emerging to a maturing market, with wholesale becoming an increasingly dominant sales channel for this category. This report, commissioned by the Northeast Organic Farming Association of Vermont (NOFA-VT) in collaboration with the Farm to Plate Network, documents major trends in the shifting retail and institutional wholesale channels for local food, with a focus on produce, proteins, and dairy. The report also documents general practices and expectations when operating within wholesale. Research involved interactions and interviews with buyers, distributors, and suppliers based in the Northeast, and information gathered from industry conferences and third-party research. This report serves to inform suppliers[1], and identify areas of strategic alignment for service providers hoping to support suppliers selling into wholesale. It provides an introduction to the tools and information suppliers need to survive and thrive in wholesale. It also provides the broader food system community a greater understanding of how wholesale operates, and how it is impacting, supporting, and altering the viability, sustainability, and make-up of our local food system.

A note on how to read this report: *Throughout the report you will see words or terms highlighted in* ***orange****. In case these words and terms are unfamiliar we have compiled a glossary in the appendices that provides a definition for all words and terms in green as well as additional supply chain terms you may come across. We have also compiled several worksheets focused on various aspects of engaging in wholesale that suppliers may find useful.*

1 In the global food industry it is standard practice to refer to farmers and food producers as suppliers or vendors. To be consistent with industry nomenclature, in this report we will refer to them as suppliers. In 2019, Vermont was home to an estimated 750 suppliers actively or exploratively pursuing wholesale according to Annie Harlow, Farm to Plate Retail Consultant.

Broad Trends in the Sale and Distribution of Local Food

Demand for local food is growing. According to Packaged Facts, the US local food market grew from $5 billion in 2008 to $12 billion in 2014, and is expected to rise to $20 billion by the end of 2019. Additionally, the Food Marketing Institute's Power of Produce 2019 report found growing demand for locally grown produce, with 44% of shoppers buying local produce whenever possible and 53% of shoppers saying they want expanded local assortments in their store[2]. In response to this demand, the sales channel for local food has pivoted and evolved from what was primarily direct-to-consumer to direct-to-retail or institution, to what is now increasingly distributor-serviced wholesale. This pivot increasingly reflects where consumers and buyers are choosing to purchase local food. For example, by 2015, the U.S. Food and Drug Administration (FDA) concluded that only 36% of local food sales were occurring through direct-to-consumer channels. By 2018, a Forager survey found that 87% of respondents were going to the grocery store for local food purchases.[3] A Vermont Farm to School Network study (VT FTS Data Harvest) completed in 2018 revealed 56% of schools purchase local food often, one-third reported purchasing more than 20% of their food locally, and 49% of the schools intended to increase their local purchasing in the following school year.[4] Some schools and other institutional buyers have started to reach beyond small amounts of products purchased directly from a variety of small farmers nearby to developing procurement bids for direct sales from a few larger farms or getting the local products on a distributor's truck orthrough their **broadline distributors**.[5]

How has this shift transformed the local foods category?

While local food is becoming more ubiquitous and conveniently available to consumers through wholesale channels, it can come at a price that threatens to commoditize local food and strip it of the unique attributes that made it desirable in the first place.

Rather than emphasizing differentiated product attributes, wholesale supply chains drive the process of commodifying local by placing emphasis on the logistics-based attributes of the product: What product varietals offer the greatest yield, storage potential (shelf life), and transportation qualities (for example, bruise least in transit), and are cheapest to produce and harvest?

In shifting away from differentiated product attributes and towards logistics-based attributes, the process of commodifying local places greater and greater emphasis on price. Margins are squeezed along the food chain - from buyers to distributors to suppliers. Efforts to

2 https://www.winsightgrocerybusiness.com/fresh-food/produce-purchases-are-shifting-other-channels-fmi
3 https://agfundernews.com/grocers-failing-meet-20bn-consumer-demand-local-food.html
4 Interview with Abbie Nelson, NOFA-VT institutional supply chain facilitator, September, 10, 2019.
5 Interview with Abbie Nelson, NOFA-VT institutional supply chain facilitator, September, 10, 2019.

increase efficiency to support falling price points — including the use of existing supply chains rather than investing in developing new local supply chains — combined with strong market demand, creates pressure to expand the interpretation of what constitutes a local product. Our research affirmed that as 'local' product becomes mainstream, the supply chain, in pursuit of retaining and expanding market share using existing infrastructure, has an incentive to expand the definition of local to encompass 'regional' in order to meet demand. This loosening definition can lead to instances of 'greenwashing,' whereby a non-local/regional product can pose as local and supplant truly local offerings.

"From my perspective wholesale prices have declined in the 14 years I've been selling, but expenses have increased."

-anonymous supplier response from the Vermont Vegetable and Berry Grower listserv: Perspectives on Wholesale Markets. Compiled July 8, 2019.

For example, there have been instances in which meat was raised outside of the buyer's definition of local but was processed (slaughtered, cut, wrapped) in state and thus marketed as 'local'. In truth, the meat did not meet the buyer's perception of what they defined as 'local', but until the details in the sourcing and processing were uncovered the opportunity for truly local suppliers to service the demand was stifled.[6]

The expansion of the definition of local also points to one of the biggest challenges with the supply chain for institutional buyers, which is the limited ability to source identify local produce from broadline or regional distributors. Institutional buyers have a limited ability to source identify local produce in particular at the time of ordering from broadline or regional distributors. This impedes their ability to ensure they are sourcing local, their efforts to market the supplier(s) in the cafeterias and dining halls, and their ability to do general local food program marketing and promotional outreach to other stakeholders and audiences.[7]

While expanding the definition of local in wholesale can have a displacing effect on Vermont products sold within the state, it is not clearly understood how this helps or hurts Vermont suppliers in the broader Northeast region, or what value a "regional" designation would provide to Vermont suppliers selling in the Northeast. But the avoidance of using the term regional, and reliance on the term local to communicate ever expanding geographic ranges fuels confusion amongst consumers, creates opportunities for misrepresentation, and can distort consumer perceptions on price and availability of local products.

A Fluid and Evolving Definition of "LOCAL"

"'Buying Local' has strong pull, but how is it being identified? We know the term "local" is important to consumers, but in order to deliver on what consumers want, manufacturers and retailers need to understand what consumers are actually looking for… Defining local is a challenge as it has no formal definition and there are many interpretations that vary by retailers, manufacturers, and consumers. Nielsen currently tracks $239m of CPG sales that call out 'local' on pack."

Mary Ellen Shoup. Food Navigator USA
https://www.foodnavigator-usa.com/Article/2019/05/01/Nielsen-Buying-local-has-strong-consumer-pull-but-how-is-it-being-defined#

6 Grass Fed Beef Value Chain Report 7-27-2017, Wilson, R., Matthews, A., 2017
7 Interview with Abbie Nelson, NOFA-VT institutional supply chain facilitator, September, 10, 2019.

For those products that do have attributes associated with higher margins — the uniqueness of the product, taste, flavor, nutritional profile, etc. — they become short lived marketing points with a limited-time value. These products are used by distributors and buyers to capitalize on ever changing consumer trends. As quickly as one product is developed and launched another is readying to take its place. As the product life-cycles are increasingly shortened, tied to consumer driven trends, suppliers must innovate to maintain and gain market share.

"The "lettuce" section of the seed catalog might feature 50 types if lettuce, but for main stream wholesaling maybe only 10-12 of those varieties fall into spec."

-anonymous supplier response from the Vermont Vegetable and Berry Grower listserv: Perspectives on Wholesale Markets. Compiled July 8, 2019.

For example, as low-fat yogurt became displaced by Greek yogurt, suppliers needed to be anticipating and reacting to this trend. Vegetable suppliers seeking to maintain an edge may need to, for example, grow new or unique colors or sizes. Miniature vegetables were on-trend in 2014 but by 2016 the mini trend was already being supplanted by larger, 'spiralizer' sized vegetables. When suppliers are not innovating, they must instead spend more on marketing to reinforce why they are the best at what they do, or why they are the best value, to avoid the perils of rapid product turn-over.

Consolidation Trends and Impacts on Local Food

While commodity markets have long been driven by hyper-efficiency and market consolidation, these dynamics had limited impact on the local food category when the majority of sales were through direct-to-consumer and direct-to-retail relationships. However, as the local food category becomes more commoditized and reliant on distributor serviced wholesale, we are now seeing signs of consolidation emerge in the local food category, which further drives downward price pressure and even more consolidation. For example, nationally we have seen the "slashing" of prices at Whole Foods since the privately-held company was acquired by publicly-held Amazon[8], and the global "Build out the Store" consolidation and expansion strategy of publicly-held UNFI. UNFI's strategy has involved absorbing competing natural and specialty distributors including Nor-Cal Produce Inc., Haddon House Food Products Inc., and Gourmet Guru Inc., and expanding into the conventional space with the acquisition of Supervalu Inc., one of the largest grocery wholesalers and retailers in the U.S.[9] (see press release[10])

At a regional level, Black River Produce (BRP), a longtime locally-owned, regional distributor and champion for local product was acquired in 2016 by privately-held Reinhart, a large corporation servicing the eastern half of the United States, which in turn is now being purchased by publicly-held, nationally-focused, Performance Food Group (PFG). But consolidation is even happening at the local level, evidenced by Marty's Local, a locally-owned food hub-style distributor serving the Pioneer Valley in Massachusetts, merging

8 https://www.fastcompany.com/90328846/amazon-slashes-prices-on-hundreds-of-whole-foods-items

9 https://www.unfi.com/our-history

10 https://www.prnewswire.com/news-releases/unfi-to-acquire-supervalu-in-transformative-combination-creating-north-americas-premier-food-wholesaler-300687053.html

in 2019 with Squash Inc., another locally owned food distributor who had been serving Massachusetts since the 1970's.

Consolidation at this scale happening simultaneously at the local, regional, and national levels further diminishes supplier's leverage in negotiating favorable terms and prices, and creates barriers for new supplier's ability to feasibly access wholesale markets. Additionally, with consolidation can come the loss or adaptation of an entity's mission, vision, values, and priorities. A company purchased in an acquisition may not retain its individual identity, operating practices, vision, and values. A company acquiring other companies may outgrow its original vision, values, or operating practices as evidenced by the UFNI example. A company transitioning from private to public ownership has a new fiduciary duty to maximize shareholder profits and investor returns. Any and all of these effects have the potential to impact the local food system and local suppliers' ability to viably operate in wholesale markets.

Supplier Consolidation & Contraction

Consolidation at the buyer and distributor level typically leads to consolidation at the supplier level. Multiple suppliers who may have served different distributors and buyers are now vying to compete for a smaller pool of remaining relationships.

Consolidation of buyers and distributors leads to a focus on which suppliers can provide the best price, volume, and customer service for a certain product. Suppliers most apt to meet these criteria are larger, established, and well-connected. Additionally, many interviews conducted for this report revealed that buyers and distributors are not looking for new suppliers. They prefer to fill new or unmet demand utilizing existing suppliers, thus encouraging expansion of a few select, established suppliers. For smaller, new, and/or uninitiated suppliers, this environment can feel inaccessible. It is imperative, especially for these suppliers, to be well-prepared, data driven, price competitive, and have a clearly defined niche.

"We aren't looking for new vendors so much as expanding the volume from current vendors. If you want to come knocking on my door what's your niche – what's your in? I've already got all these other growers. What do you bring that they don't have?"

- Nathan Daniels, Produce Purchaser New England, Albert's.

Margins, even for larger well-established suppliers, shrink as investments in technology, innovation, food safety, and customer service become a necessity. **After accounting for margins and trade allowances, a wholesale supplier can receive 40%-or-less of a product's retail price** **(see Putting It All Together section)**. Reduced margins encourage supplier consolidation as suppliers need to gain volume to maintain/gain profitability.

The option facing many is go big or be forced out, and those that are forced out then succumb to economic challenges that come with pursuing a wholesale growth strategy. Many local suppliers, even those who are predominantly wholesale, rely on a mix of sales channels including direct-to-consumer to augment their profitability. An increase in high volume but low-margin sales to wholesalers causes a supplier's revenue mix and attention to shift, such that direct-sale income streams become a smaller percentage of their overall revenue mix. As suppliers' direct-sale income shrinks in proportion to overall sales, their ability to balance low-margin wholesale becomes tenuous.

Distributor Influence

Distributors, like all businesses, seek to maximize revenue generated per account. To do so, they may employ incentives to influence the overall order and purchasing habits of a buyer. These incentives may impact the volume of local food purchased, selection of the supplier servicing demand, and the financial return to the supplier.

For example, when a distributor provides **tiered pricing**, pricing discounts that increase with the size of the total order, and the total order includes anything the distributor carries - from paper goods to dry goods to produce, meat, and dairy - the buyer is incentivized to purchase as much of their needs from that distributor as possible to get the greatest discount.

In situations where a distributor offering tiered pricing doesn't carry local product, a buyer must expend extra effort seeking out a local source, and must accept that choosing the local offering rather than the commodity offering will decrease the buyer's tiered discount. In situations where a buyer has a relationship with a local supplier, and the distributor begins sourcing a local offering, it becomes in the buyer's best financial interest to order the distributor's local offering in place of their existing supplier as this enables the local purchase to accrue towards the buyer's distributor tiered pricing whole order discount. These decisions ultimately affect and limit whether, and which, local products are available in the store, and in turn consumer choice.

Here are a few real-life situations that illustrate the impacts of tiered pricing on the local food system:

1. A buyer sources local carrots through a direct-to-retail relationship with a nearby farm. Recently the buyer noticed their primary distributor offering a 'local/regional' carrot. They receive a tiered discount from this distributor based on the dollar value of their total order placed, therefore they strive to order as much of their needs from this distributor as possible. Seeing the local/regional carrot available from the distributor, they begin sourcing this product and stop ordering direct from their local farm. The farm is not the supplier to the distributor thus they lose the account entirely.

   Depending on the size of this account to the farm's overall revenue stream, and/or if this happens with multiple accounts, the farm's entire revenue stream and financial viability may be in jeopardy.

2. The buyer wants to maintain the relationship with their local supplier, but is feeling torn between continuing a slightly more onerous direct-to-retail relationship versus the option of simplified ordering through the distributor and the added benefit of the purchase applying to the overall order discount. The buyer pressures the local supplier to begin supplying to the distributor, and/or the buyer notices the supplier already services the distributor and begins to order the product through the distributor.

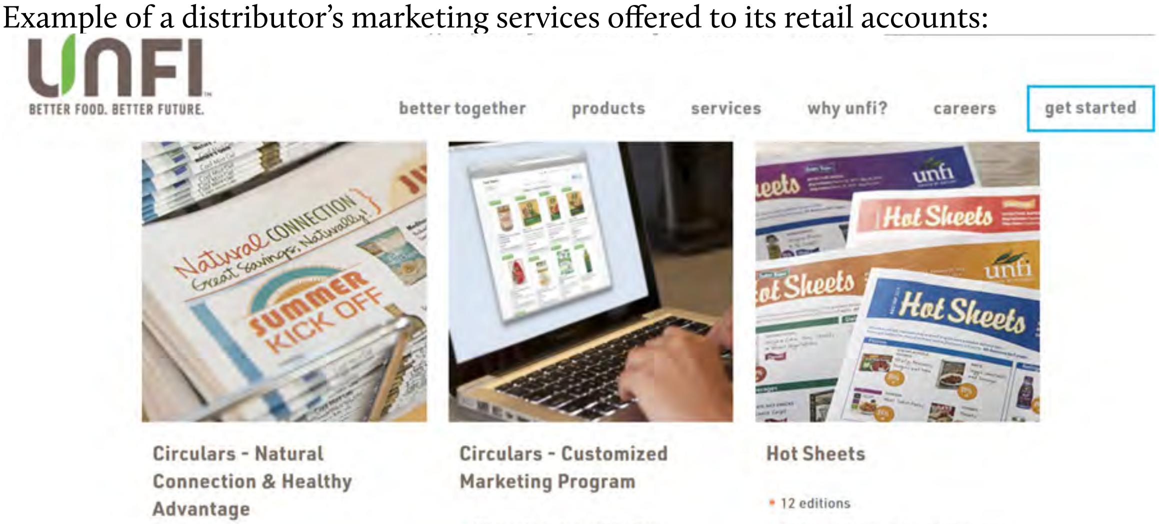
   - While suppliers need to begin to prepare for this, often times, the switch happens faster than they can plan for. Depending on the size of the account and/or number of accounts this happens with, the farm's revenue stream and financial viability may be in jeopardy as they would receive significantly less revenue per order once the additional wholesale margins and allowances are applied to orders that used to be direct-to-retail. The switch to a sale through a distributor can lead to more than a 30% reduction in revenue the supplier receives for the same order being sold direct.

- While a buyer may advise a supplier to get on-board with a distributor, it is not the supplier's call as to whether the distributor will on-board them. If the distributor is not interested, then as in scenario 1, the supplier may lose the entire account(s).

Distributors also perform other services to secure a buyers' business and provide a competitive edge. They may prepare "gap" reports, providing buyers with insight on what the store carries versus what the distributor carries and what products the store is missing that are selling well for the distributor. They may perform store layout/planogram services where they lead the buyer through shelf and cooler resets. They may provide stocking and merchandising services such as stock rotation and display set-up. All of these benefits provide an opportunity for distributors to gain influence on which suppliers and products a buyer carries, where these products are placed and displayed, and which products receive maximum attention.

Distributors also influence buyers through marketing and merchandising services. Many distributors for example, provide marketing services aimed at helping their accounts gain market share over their competition. For example, for no or low charge, they may provide services such as designing, printing, and disseminating store sales flyers and promotional point of sale, or they may coordinate and implement product promotional strategies such as securing price promotions, demos, and more.

Example of a distributor's marketing services offered to its retail accounts:



"Drive sales with monthly circulars imprinted with your store logo and location"
- https://www.unfi.com/marketing-programs

Lastly, distributors attract buyers with convenience. Many buyers prefer and appreciate the convenience of fewer trucks in the loading dock, orders to submit, and checks to write. In fact, some buyers have physical restrictions on the number of trucks they are allowed to receive, or the number of checks they are allowed to write.

In summary, distributors offer a variety of services and benefits that incentivize buyers to do as much business with them as possible. These services and benefits can range from streamlining delivery of multiple products on one truck and invoice, to marketing and merchandizing the store (e.g. sales fliers, shelf talkers, stock rotation and display set-up), to price incentives that can be product specific and/or account driven. The end result is that consumer selection is heavily influenced by the distributor.

Countering the Negative Impacts of These Trends

The local food category was borne out of a desire for non-commoditized food and for transparency in food production and the food supply chain; for consumers who wanted to know where, how, and who grew their food; for consumers interested in the unique tastes, flavors and characteristics of a product; and for consumers concerned with environmental sustainability, animal welfare, and supporting the agricultural and local economy.

While the system is under threat of commoditization, demand remains for the original drivers of local demand. For example, transparency was identified as Mintel's 2018 Global Food & Drink trend of the year,[11] and Hannaford Supermarkets Inc. identified "Hyper local – within 50 miles of store"; "Sustainable/Organic"; and "Animal Welfare in Meat, Dairy specifically," as three of the top four purchasing trends they are seeing (the fourth being "convenience").[12] There's also reason to believe that many grocery stores are still missing out on meeting consumer demand for local, as Forager consumer surveys revealed that while 81% of grocers believe they are delivering on the promise of fresh local produce, 67% of consumers are completely dissatisfied with local fresh produce in their grocery store.[13] Forager attributes this mismatch to many of the reasons outlined above, namely the reliance on simplified supply chains and emphasis on the logistics-based attributes of product.

Given this, efforts to support these values and principles will remain. Supply chain facilitators committed to ensuring a strong and vibrant local food system remain engaged, 'ultra-local' branding is resonating with buyers and consumers, and a new form of wholesaling known as 'intermediated markets' has emerged as an alternative to traditional wholesale supply chain models. Together, these factors are helping suppliers adapt and compete in a challenging wholesale environment.

Supply Chain Facilitators

NOFA-VT and other supply chain facilitators like the Farm to Plate (F2P) Network, Health Care Without Harm (HCWH), and Farm to Institution New England (FINE) have been collaborating alongside state agencies such as the Vermont Agency of Agriculture, Food and Markets to better understand the traditional supply chain and work on what it will take to get 'more local food, to more people, more easily' through education about values-based purchasing and by increasing communication and transparency in the supply chain.[14]

11 https://www.nycfoodpolicy.org/the-bottom-line-or-consumer-demand-which-is-driving-food-transparency/
12 Interview with Kim Kuusela, Local Merchandising Specialist, Hannaford Supermarkets, Inc. May 21, 2019.
13 https://agfundernews.com/grocers-failing-meet-20bn-consumer-demand-local-food.html
14 Interview with Abbie Nelson, NOFA-VT institutional supply chain facilitator, September, 10, 2019.

Existing efforts by these organizations have influenced both institutional local food programs (Sodexo's Vermont First was created in response to efforts led by these organizations) and procurement policies (technical assistance and tools provided to schools and hospitals to increase local purchasing), local food purchasing and merchandising at Vermont independent grocery stores, and led to the creation of market feasibility studies, distribution tools, and cost of production analysis.

"Our most recent study shared that consumers have shifted in the past 3 years bringing a larger importance on products from their state and where possible their town. Although region, such as Northeast adds value, the stronger connection is when even closer to home."

- Kim Kuusela, Local Merchandising Specialist, Hannaford Supermarkets Inc.

Ultra-Local

As local and regional become harder to delineate in meaning, ultra-local is a push to distinguish product that is most proximal. It may be from the same town, county, or state as the point-of-purchase, for example. It may be from clearly defined mile radius from the point-of-purchase. Ultra-local affords opportunities for buyers and distributors to work with highly localized growers who are often smaller, and less competitive on attributes sought for supply chain logistics (the push forces of the market) but better able to deliver on consumer driven attributes (the pull forces of the market).

Intermediated Markets

The term "Intermediated markets" is relatively new within the world of wholesaling. Intermediated markets are made up of supply chain participants (buyers, aggregators, or distributors) who explicitly embrace and embed social or environmental values, including supporting and expanding local and regional food systems, into their mission, vision, values, and operations. Often, this manifests in these partners' business models being more flexible and adaptable to the needs of local suppliers, especially smaller, less experienced suppliers.

Examples of intermediated markets include:

- Regional food hubs and distributors, such as Food Connects, Green Mountain Farm Direct, Red Tomato, Intervale Food Hub, and Myers Produce, that specialize in the aggregation, marketing, sales, and distribution of ultra-local and regional/local food to wholesale buyers (retail and institutional).
- Innovative retailers — online sales platforms, such as Faire, Foundry Market, and Range Me have business models that celebrate democratization of the local food system, eliminating the barriers to entry imposed on suppliers by the traditional supply chain; to direct-to-consumer vertically integrated distributor-retailers such as Farmers To You, specializing in connecting consumers with ultra-local and regional/local food.
- Traditional wholesale buyers and distributors such as Hunger Mountain Co-op and Katsiroubas Bros. that take a lower margin on local food as a way to support the viability of their local suppliers, and demonstrate greater flexibility to handle direct delivery.
- Purchasing cooperatives, such as Greenhealth Exchange, a B-Corp purchasing cooperative of healthcare organizations committed to sourcing "green" products.
- Institutional market programs such as Sodexo's Vermont First program, or college and university commitments to the Real Food Challenge.

Intermediated markets are a critical foundation and opportunity of growth for local suppliers in the wholesale marketplace. According to USDA NASS's 2015 Local Food Marketing Practices Survey, $929 million of local products were sold to intermediated markets in the Northeast and $198 million of that was made by Vermont producers. **How these markets decide to adapt to competition and consolidation described in the sections above, and whether or not they can maintain differentiation and grow while maintaining core values and providing viable returns to suppliers, will have considerable impact on whether or not the wholesale marketplace is a viable market channel for local suppliers.**

Points of Consideration when Operating in the Wholesale Marketplace (How Wholesale Works)

To participate successfully in wholesale, suppliers must first and foremost understand how the system operates: what is expected of them, what they can expect of buyers and distributors; what are the costs of doing business; and what are the necessary infrastructure and operational expenses required to service the relationship.

This section of the report attempts to provide suppliers with an overview of the complexities required to operate in the wholesale channel. Your specific situation may or may not require all these topics for consideration.

Sales and Marketing

Perhaps the leading source for mismatched expectations in wholesale is the distributor-supplier relationship. Who is responsible for sales and marketing of the supplier's brand and products? Generally, buyers (retailers and institutions) and distributors, expect the supplier to be responsible for sales and marketing activities related to the supplier's products — both at the buyer level — getting the account to purchase the product, and at the consumer level — getting the account's end users to buy or consume the product (see Sales and Marketing Staff call-out).

The distributor's marketing efforts are focused on out-competing their competition for the account in general, and on assisting accounts to out-compete their competition for end-users and customers. Additionally, distributors and buyers see themselves as providing the logistical means by which a supplier can access and expand market share, but it is the supplier's responsibility to take advantage of this opportunity.

A second cause for mismatched expectations is the tension over of who gets to continue servicing pre-existing accounts once you sign on with a distributor. Distributors expect suppliers to have **market share** (existing sales and accounts for the product) prior to **on-boarding**. This helps them:

1. gauge the viability of the product- Is it something consumers need or want? How quickly is it selling?

   and

2. calculate the value of the immediate opportunity based on taking over service of the existing accounts once the product is in their catalog.

The greater the perceived opportunity, the more likely a supplier is to be of interest to the distributor. Distributors rarely on-board suppliers with unproven sales and markets. However, many suppliers resist giving up accounts primarily for financial reasons. A direct sale will have fewer margins and trade allowances impacting the price received, and the supplier can provide a higher degree of customer service for their product to the buyer that can lead to higher order volumes and beneficial product placement. Suppliers often are concerned that the order volumes and product placement may not be replicated once the product is one of many in a distributor's catalogue, and not top of mind when the distributor is securing orders or pitching products. While these two concerns are valid, it should be noted that the cost of self-delivery may in fact be greater than the distributor margin incurred (see Distribution Options Financial Decision Making Tool offered by the Vermont Agency of Agriculture, Food and Markets), and that if the supplier performs the sales and marketing responsibilities expected of them by the distributor and the buyer (see Sales and Marketing Staff Worksheet), the loss of sales should be able to be mitigated and minimized.

When considering wholesale, suppliers should:

- *Understand buyer and distributor expectations of the buyer/distributor-supplier relationship.*
- *Assess whether these expectations meet or support the supplier's needs, prior to engaging.*

"It helps for a farm to have a good website, have a specific crop that they have really dialed in, say "this is what people come to us for" and then if there are other things you grow we might wind up sourcing those from you, too. It doesn't need to be the craziest thing in Johnny's catalog, you just have to be the best at it and specialize in that thing or package it really nicely."

– Annie Myers, Myers Produce.

Pitching

Securing a distributor requires pitching one's company - providing a convincing argument for why the distributor should on-board the supplier and the product. Suppliers often interpret this to mean telling their story and talking about their product. While this is true, distributors are often most convinced by suppliers who can present market driven data about the size and scope of the opportunity, demonstrate demand and **sales traction**, and quantify the sales and marketing support the supplier will provide.

When pitching, suppliers should:

- *Present:*
  - *Third party and supplier data on market trends, available via paid-subscription through services such as Nielsens and SPINS, including the supplier's SKU growth over the competition, the supplier's recommended SKU selection priorities based on sales (i.e., the supplier's top sellers).*
  - *The supplier's planned annual sales and marketing budget, list of prospective accounts, sales targets and strategies, and how the supplier will support implementation of these strategies.*
  - *Statistics on historical **velocity** and **penetration** with existing buyers.*
  - *The supplier's track record on product quality and order fulfillment capability (reliability, transportation/logistics infrastructure, etc.).*
- *Demonstrate evidence of having acquired the necessary certifications and market protocols (UPC Codes, RFID tags, GAP/CAPS/independently certified food safety plans, organic certification affidavits, specified insurance liability coverage, etc.)*
- *Highlight what makes their product and company unique.*
- *Highlight what makes them the best at what they do.*

A Deeper Look at Sales and Marketing Staff

Sales and marketing responsibilities include working with senior management to develop sales and marketing strategies and revenue projections, as well as coordinating with operations to ensure production plans align with sales and marketing plans and revenue projections.

Sales and marketing staff schedule and maintain the marketing and sales activity calendars, implement the sales and marketing campaigns including deploying marketing content across platforms (e.g., social media, print, radio etc.), and perform sales account management.

Sales account management includes prospect outreach, relationship cultivation, order taking, overseeing of order fulfillment, sales growth, and oversight of accounts receivable. It also includes implementing the marketing tactics, such as samplings and demos, and merchandising the account (rotating stock, setting up displays, installing Point of Sale materials, etc.).

Sales and Marketing Staff can be internal employees or hired consultants.

Contract sales consultants & brokers are independent sales staff who work to increase sales with a supplier's existing accounts. They may, and often do, provide inroads to new accounts as they are well connected with both distributors and buyers, but this is not a guarantee. Contract sales consultants and brokers can grow sales through negotiating with buyers and distributors on behalf of their suppliers. While a supplier might desire to work with a consultant or broker, their desire or capacity to on-board the supplier may be limited and is not necessarily within the supplier's control. For example, some brokers require demonstrated placement in 250 chain stores before they will consider entertaining a new brand.

Demo and Sampling Consultants: Suppliers may not have internal capacity to conduct all the product demos and sampling needs to support their wholesale accounts. Part time staff and consultants can be hired to perform these and other public facing engagements such as staffing tradeshow booths.

Merchandising Consultants: Suppliers may not have internal capacity to properly or adequately merchandise all their wholesale accounts, yet ensuring proper product display, stocking shelves, and rotating stock is key to maintaining placement and optimizing product turns. Part time merchandisers can be hired to provide these services. Dirty Hands Merchandising for example, is a company that specializes in this service. They work in every metro area and their work is based on in-store services. They ensure products are on the shelf, priced correctly, ordered regularly and have optimal real estate.

Graphic Design & PR Firms: Especially in wholesale where the supplier is not typically on hand to influence a purchase, the product packaging must speak for itself and the supporting promotional material must do an adequate job as a stand in for a live person. Thus branding, messaging, packaging design and point of sale material become critical to supplier success. If a supplier doesn't have the professional skills in house to adequately perform these tasks, they can hire outside marketing firms — public relations and graphic design firms — to assist them.

When considering external hires, suppliers should:

- *Keep in mind that each consultant operates differently, making due diligence a requirement of any supplier exploring hiring outside help.*

Receiving and Delivery

Buyers and distributors require efficiencies for order receiving. Many have prescribed delivery **windows of opportunity** — the expected hours within which the supplier is supposed to deliver their product. A window of opportunity is designed by the buyer or distributor for ease of unloading product. Windows of opportunity for pick-up and drop off may be based on established truck routes with little leeway to change and little to no tolerance. Suppliers also need to understand that if they're delivering direct to a store, buyers may expect them to provide similar stocking and rotation services that they expect of larger distributors (See "Distributor Influence on Buyers").

"We expect all suppliers (distributor or not) who deliver direct to our stores (except produce, which is the majority of our local program), to deliver, rotate, stock, and maintain their space."

- Kim Kuusela, Local Merchandising Specialist, Hannaford Supermarkets, Inc.

"There's this misconception that if you short us we'll find a different source and that's not the way it works. We can't do our jobs if we don't have the whole picture. We can't make a plan if the grower doesn't communicate. We need to hear from you to know if things are on track or if they are off track. Bad news is ok if we can plan around it, and if we can't plan then the relationship won't last very long."

- Annie Myers, Myers Produce

If the distributor is responsible for retrieving product from a supplier, a loading dock may be required by the distributor. Failure to meet scheduled delivery or pick-up windows may result in penalties and fees to the supplier. However, late or missed pick-up or receiving times by the distributor or buyer, if they are retrieving product at the supplier's locale or have a delay at the point of delivery, are rarely, if ever, reimbursed to the supplier. When discussing **short orders**, most distributors interviewed said they don't assess penalties for shorting a purchase order, and emphasized the importance of over communicating to give them a chance to find alternative suppliers and plan accordingly with customers.

Lumping is a service charge that is sometimes used by buyers and distributors. Lumping is when a third-party is hired by the buyer or distributor to unload deliveries. If the supplier is working with a buyer or distributor who employs a lumping service, the supplier may be charged a lumping fee.

When shipping is arranged through a distributor, the distributor may charge a **transportation allowance** or expect the supplier to offer a **Bill of Lading** rate for the product rather than a **delivered price**. Distributors may change, with little or no notice, the transportation allowance, impacting a supplier's budget projections.

With respect to receiving and delivery, suppliers should:

- *Understand the shipping and receiving terms of the party with whom they are engaged.*
- *Ensure they have the financial capacity in their business model to absorb these expenses.*
- *Ensure they have the physical infrastructure required to meet expectations.*
- *Be reliable. Adhere to the agreed upon expectations for volumes and delivery time frames.*
- *Over communicate – confirm orders, text or email if things are on or off track.*

Product Quality, Traceability, Liability & Insurance

Buyers and distributors may have specific requirements related to product quality, case labeling and traceability; food safety certifications (GAP/CAPS for farm products, HACCP and SQF for value-added products, etc); and liability insurance minimums.

With respect to product quality, traceability, liability, and insurance, suppliers should:

- *Understand the product quality, traceability, liability, and insurance terms of the party with whom they are engaged or wish to engage before contacting them.*
- *Meet USDA and FDA standards.*
- *Be able to compete nationally and internationally on product quality consistency.*
- *We cannot repeat this one enough: Over-communicate on anything that may impact product quality and food safety concerns.*
- *Have strong food safety and product traceability practices, and proficiency in record keeping for GAP/CAPS and/or HACCP/SQF.*
- *Be reliable: meet agreed upon quality, traceability, liability and insurance specifications.*
- *Generally, in order to do this, suppliers need to be capable of investing in mechanization, labor, third party audits, and increased insurance premiums. Ensure they have the financial capacity in their business model to absorb these expenses.*

Margins, Allowances, Service Fees and Discretionary Expenses

Margins are applied at every stage of the supply chain. Depending on the number of layers between a supplier and final purchaser, a supplier's net price received may be greatly different from the price paid by the end user.

Unless otherwise indicated, assume:

- a retail buyer employs a 35% margin, meaning they purchased the product for 65% of what they resell it for.
- a restaurant or institution limits food costs to no more than 35% of the plate or menu price, meaning they purchased the inputs for no more than 35% of what they resell it for.
- a distributor employs a 28% margin, meaning the distributor purchased the product for 72% of what they resell it for.

In addition to margins, there are often 'allowances' employed within the supply chain that may further reduce the net price received by the supplier.

For example, suppliers may be charged a:

- **Marketing allowance**, which covers complimentary samples, price promotions, and volume discounts. See the call-out box below for more details about the various types of marketing allowances.
- **Shrink allowance** to cover for actual or potential loss of saleable product (in produce this is often referred to as "**asking for protection**".)
- **Payment terms allowance** to receive payment within a certain period of time.
- **Transportation allowance** to cover freight shipping to the distributor.

Types of Marketing Allowance

Manufacturer Charge-Backs (MCB): MCB is a generic term used to signfy any allowance, i.e., payment deduction, charged back to the supplier.

Scan Back: With a scan-back the supplier agrees to reimburse the retailer a per-unit discount for every unit sold (rung up through the registers) during a promotional period.

Off Invoice (OI); Ad Lid: An agreed upon percent discount applied to the full invoice for that item. Off-invoice marketing allowances are used in grocery, frozen, meat and dairy. In the world of produce the term used is "Ad Lid" — an agreed upon price below the going rate that the buyer and supplier agree the buyer will not pay or be charged more than (a "lid" on what the buyer will pay). While OIs and Ad-Lids are discounts initiated and passed on by the supplier to their distributor to reduce retail price, over time suppliers can feel pressured to continually offer periodic discounted pricing to stay competitive and retain shelf space.

> *SUPPLIER TIP: If you have the opportunity to choose between an OI/Ad-Lid or scan-back, we recommend selecting a scan-back. Being a retroactive discount applied only to inventory sold, scan-backs offer protection against forward buying, and it allows the supplier to see unit sales and product placement — account level data that can be hard or expensive to come by otherwise. Distributors prefer OI/Ad-Lids over scan-backs because they're easier to process.*

Special Shrink Allowance Circumstances:

- **Guaranteed Sale**: In addition to general shrink, sometimes buyers and distributors require a guaranteed sale. In a guaranteed sale the buyer/distributor reserves the right to bill back the supplier on the product code due date for any unsold product on hand. This is particularly the case for dairy products.
- **Window of opportunity**: A secondary use of the term "window of opportunity" refers to distributors and/or buyers willing to take a chance on a new product or supplier so long as they establish limitations to mitigate risk. For example, they may stipulate they will try the product over a time-limited window, such as 6 months, and require guaranteed sale during this period - meaning that they will bill back the supplier for any product remaining on hand at the end of the trial period.

Important to watch out for in these scenarios is an over-aggressive distributor or buyer over-stocking on product. The supplier incurs the full cost of producing the product, which may exceed normal cost of operations if the order requires extra production runs or overtime Supplier's must be wary of spending any of the initial payment, because despite being paid they may be retroactively billed back for any unsold supply at the end of the trial period, which in some instances amounts to the majority of the initial order billed back to the supplier. With price promotions Suppliers should be aware that buyers may also "forward buy" product – a practice where buyers and distributors may stock up on product for resale while it's on price promotion, only to hold it in inventory to later sell at a higher margin (a form of arbitrage).

Recognizing a Marketing Allowance in a Retail Setting:
Most items featured in a "store flyer" or promoted with a store branded shelf tag are an example of a marketing trade allowance. While commodity suppliers operate on an unlimited growth scale that supports a price promotion model, most local suppliers, even those "at scale" feel pressured into trade allowances that negatively affect their viability because the very nature of local food in the northeast is a limited scale driven model.

In addition to allowances, distributors (and buyers) may charge suppliers for other services, such as elevated levels of marketing support. For example, suppliers may be charged a fee if they want to learn what accounts their products are in and details related to those sales, such as the product mix and sales volume per store location. Suppliers may need to pay to receive a higher degree of "**mind share**" than they would otherwise receive (such as access to sales team meetings, placement in product catalogs and sales flyers, social media mentions, etc.). These service fees further impact the supplier's net price received.

Suppliers may also incur discretionary expenses required to service wholesale accounts, such as hiring sales and marketing staff (internal staff, or external, such as a broker or sales consultant) and freight/shipping fees (either owning/leasing a truck, hiring a driver, or employing a freight shipper). All these expenses must also be factored in to the net price they receive.

A sampling of acronyms for Market Allowance and Service Fees suppliers may be subject to:[15]

- BOGO: Buy One Get One Free (promotional sale price).
- Case Stack Deal: Promotion given to stores that buy multiple cases of an item.
- Coupon Handling: Charge incurred by manufacturer by a coupon clearinghouse, usually $0.08 per coupon
- EDLP: EveryDay Low Price, term used by a retailer who sets one price and does not discount.
- EDV: EveryDay Value, term used by a retailer who sets one price and does not discount.
- Free Fill: Product sold to retailer at "no charge" in order to gain distribution at said account.
- FSI: Free Standing Insert, refers to a Manufacturer's Coupon that is placed in a newspaper of magazine.
- Guaranteed Sales: A form of shrink in which distributors or buyers charge back the supplier for the purchase value of any inventory that did not sell.
- Hip Pocket Deal: Deal given to a retail rep or broker that is only for select accounts
- Intro Deal: Deal given to a distributor when a product is first authorized
- IRC: Instant Redeemable Coupon, this is a coupon that is on the package which is for immediate use
- MCB: Manufacturer Charge Back, charge to a manufacturer based on quantity of cases shipped to a retailer
- OI: Off Invoice, a discount given when an order is placed
- Scan Down: Promotion given to retail where manufacturer pays for product "scanned" during a specific period
- Slotting: Fee paid to distributor or retailer for them to stock a given item
- SPIFS: Reward (usually money) paid to a representative for selling a manufacturers product
- Street Monies: Monies representatives have, at their discretion, to spend to drive sales volume
- TPP: Temporary Price Reduction

In order to properly assess a wholesale opportunity it is imperative a supplier research the particular trade allowance(s), service fees, and discretionary expenses they are likely to incur. A supplier could receive 30% or less of the retail price for their product once margins, allowances, fees, and other expenses are taken into consideration.

15 Compiled by Bob Burke, Natural Products Consulting, 2018.

Industry Averages
Unless indicated otherwise, assume:

- 35% margin applied by the retailer
- 28% margin applied by the distributor
- 15% marketing allowance
- 1% shrink allowance
- 2% payment terms allowance
- 15% transportation allowance
- $400 marketing service spend to access retailer reports annually per distribution center/ warehouse per distributor
- A discretionary, industry average of 15% of wholesale price for a broker fee

With respect to margins, allowances, service fees and discretionary expenses, suppliers should:

- *Understand and quantify the margins, trade allowances, service fees and discretionary expenses that may be required to participate in a certain relationship or supply chain.*
- *Understand what promotions and shrink allowances one may be subject to and work to minimize risk posed by these allowances. Seek to limit forward buying through use of scan-back market allowances and maintain a firm position in guiding distributors on realistic sales volume projections and right-sized ordering for guaranteed sales.*
- *Ensure they have the financial capacity in their pricing and business model to absorb these expenses.*
- *Adhere to the agreed upon expectations.*
- *Vegetable suppliers should pay for and maintain a PACA license enabling them to dispute "request for protection" claims for buyer/distributor non-payment of received product.*
- *Vegetable suppliers should purchase and adhere to the vegetable standards described in the Wholesale Success manual to ensure their products will meet PACA standards and be less susceptible to "request for protection" and non-payment from buyers and distributors.*

Putting it All Together

In addition to understanding how wholesale works, suppliers must ensure they have the capacity to meet these expectations while operating at a price point that provides a break even or better financial return.

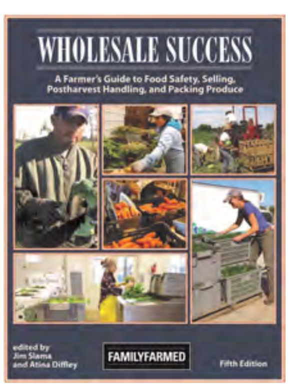
On the cost side of a cost-benefit analysis, a supplier must project over-producing to mitigate against order fulfillment issues from crop, production or processing failures and mishaps. Thus a supplier will expect to see an increase in production expenses relative to the per unit revenue received. For example, a supplier might budget 10% production shrink meaning that they will likely only receive income for 90% of the product produced.

On the benefits side of the cost-benefit analysis, suppliers may experience production efficiencies that will reduce operating expenses and/or increase yield relative to the expenses incurred. Potential areas where efficiencies may be gained include:

- Crop specialization
- Streamlined operations for harvest and storage
- Simplified packing and delivery
- Build selling relationships in the off season
- Simplified/streamlined sales/marketing relationships
- Fewer, larger payments from fairly reputable clients/establishments

In assessing the logistical feasibility of servicing wholesale, suppliers should consider the following challenges:

- Can you consistently provide supply that meets expected volume and quality specifications?
- Given the attributes of your products, can you compete with local, national, and international competitors?
- Are you prepared for the higher degree of risk that comes from:
  - Specialized crop/product production (less diversification)
  - Fewer, but larger buyers.
- Can your business model support downward pricing pressure?
- Can your cash flow support a late/slow payment process (often 60 day+)?
- Are you prepared to manage and maintain increased record keeping?



Wholesale Success: A Farmer's Guide to Food Safety, Selling, Postharvest Handling, and Packing Produce, now in its Fourth Edition, is the definitive guide for produce farmers selling into wholesale markets. This 300+ page manual builds the capacity of farmers to meet the burgeoning demand for locally/regionally grown fruits and vegetables. Wholesale Success covers up-to-date best practices information on food safety, post-harvest handling, packing, business management, marketing, and crop-specific profiles for more than 100 crops. Available at https://familyfarmed.org/farmer-training/

The following is an example of how a supplier could use a margin waterfall calculator to help identify the projected price they may receive if they know the projected retail price for the product. Starting with a retail price, margins, trade allowances, projected service fees and discretionary expenses can then be applied (either using industry averages or actual figures based on a particular relationship) to help suppliers assess whether a specific opportunity holds promise.

Example

A supplier plants 500 cherry tomato plants. She yields 10 pints per plant, producing 5,000 pints of tomatoes. Cherry tomatoes retail for $4.89 per pint at a regional retail chain she hopes to supply. She intends to sell her tomatoes to the retailer via a distributor. She pays the distributor for marketing and sales services, and is distributed through a single distribution center/warehouse. She also hires a broker. What would she receive for her tomatoes?

- After applying industry average margins: 35% margin by the retailer, 28% margin by the distributor;
- Industry average allowances: 15% marketing allowance, 1% shrink allowance, 2% payment terms allowance, 15% transportation allowance;
- Spending $400 on a marketing service to access retailer reports; and
- A discretionary, industry average 15% broker fee,
- the supplier is projected to receive $1.11 per pint, 23% of the retail price for the product.

	Per Pint	***Description***
Suggested Retail Price	**$4.89**	*retail price to consumer*
Price to Retailer	**$3.18**	*assuming 35% margin on SRP, retailer pays*
Wholesale Price	**$2.29**	*assuming 28% margin (39% markup), distributor pays*
Trade Allowances		
• Market Allowance	**$(0.07)**	*15%*
• Shrink Allowance	**$(0.00)**	*1%*
• Patment Terms Allowance	**$(0.01)**	*2%*
• Transportation Allowance	**$(0.07)**	*15%*
Net Sale	**$2.13**	*revenue received by supplier*
Additional Discretionary Expenses and Fees		
• Market Support Services	**$(0.08)**	*$400 per warehouse per year; 5,000 pints sold*
• Broker	**$(0.07)**	*15%*
Net Revenue to supplier	**$1.98**	

Conclusions and Recommendations

Though the Local Food Wholesale Market Assessment is a snapshot in time of what is a rapidly changing marketplace, it importantly identifies foundational principles of wholesaling that suppliers need to be thinking about, planning for, and directing resources and investments to in order to be successful. The full report includes more in-depth information on trends and points of consideration, and includes worksheets that have been developed to explore these topics in more detail. In showing both the scale of opportunity, but also the challenges and complexities of navigating and competing in the wholesale marketplace, the report also begins to outline the increased levels of investment needed in infrastructure, technical assistance, marketing, consumer education, and broad market development to help local suppliers succeed.

Yet, increased financial investment to suppliers, and funding to technical assistance providers and local food value chain entities alone won't buoy the viability of wholesale markets for local suppliers. An important insight embedded throughout the Local Food Wholesale Market Assessment is that relationships matter in wholesaling as they do in any other market, and values aligned buyers may have greater leverage in the supply chain than they currently are aware of or comfortable exhibiting. The long-term viability of local food wholesaling is in part reliant on the ability of values aligned buyers to be adaptive, resist pressure to oversimplify and consolidate purchasing, understand and be receptive to the full impacts of procurement decisions on local suppliers, and continue to co-develop with suppliers solutions to supply chain bottlenecks. At the same time, suppliers need to improve their communication skills and better understand what buyers value and require to establish confidence in their product and form productive relationships.

The burden of local food viability, however, should not be solely placed on suppliers and buyers in the supply chain. The report surfaces the potential for other intermediated market players – aggregators, processors, distributors, food hubs etc. – to continue to disrupt the marketplace with innovative product and logistical solutions that can supply local food that authentically represents the values consumers are in search of.

Recommendations for Producers

- Choose crops you can produce consistently
- Work on relationships with buyers and distributors, communicate frequently, and be aware that as buyers change over time existing sales are not guaranteed and require staying in touch and renewed relationship building.
- Know your cost of production by unit of sale (lb, bushel, etc.).
- Make sure that you factor in the cost of shipping when considering price-points. Trucking prices have gone up quite a bit over the past few years, both locally and nationally.
- Make sure that you understand commonly accepted varieties for wholesale markets. The "lettuce" section of the seed catalog might feature 50 types of lettuce, but for main stream wholesaling maybe only 10-12 of those varieties will be considered.
- Exploit your unique advantages. For example, are there crops you grow very well and efficiently? Can you supply certain crops when others can't and demand is high? Can you

invest in season extension, cultivation methods, or provide a service for your buyers and distributors that can give you an edge? Try to avoid growing more of something other suppliers can mass produce at a lower cost.

- Vegetable suppliers should consider paying for and maintaining a PACA (Perishable Agricultural Commodities Act) license enabling them to dispute "request for protection" claims for buyer/distributor non-payment of received product.
- Vegetable suppliers should also purchase and adhere to the vegetable standards described in the Wholesale Success manual to ensure their products will meet PACA standards and be less susceptible to "request for protection" and non-payment from buyers and distributors.
- Understand and quantify the margins, trade allowances, service fees and discretionary expenses that may be required to participate in a certain relationship or supply chain.
- Understand what promotions and shrink allowances one may be subject to and work to minimize risk posed by these allowances. Seek to limit excessive forward buying and maintain a firm position in guiding distributors on realistic sales volume projections and right-sized ordering for guaranteed sales of your products.
- Have strong food safety and product traceability practices, and proficiency in record keeping for GAP/CAPS and/or HACCP/SQF.
- Over communicate – confirm orders, text or email if things are on or off track.
- Assess if hiring a broker is needed to retain existing sales and grow new sales and research prospective brokers who can help promote your specific products to distributors and buyers?

Recommendations for Value-Chain Facilitators and Funders

For food system support organizations, policymakers, funders, and values aligned farms, food businesses, food-hubs, distributors, and buyers, priority should be given to strategically increasing development and capacity of intermediated market supply value chains, including:

- Devote more resources to sales and marketing technical assistance and subsidize access to marketing, sales, and brokering services. It is imperative our suppliers have greater sales and marketing savvy, and access to quality and affordable talent to compete with regional and national competitors.
- Fund value-chain facilitators and their work to raise consumer awareness, advance supplier interests in wholesale market development, and assist values-based buyers in increasing local procurement.
- Develop intensive workshop curriculum for suppliers wanting to scale up for wholesale to help them better navigate wholesale and institutional markets.
- Collaborate with Farm to Institution New England (FINE) to host educational and matchmaking events for institutions and producers to foster business relationships, learn about values-based purchasing and forward contracting, and develop a shared understanding of the criteria institutions are using to make purchasing decisions.
- Identify more values aligned intermediated markets in the Northeast to help producers find alternative markets and be less dependent on consolidated distributers and retailers.
- Vermont Food Hub Network/New England Food Hub Network explore partnerships with Coops to develop intermediated markets.
- Vermont Food Hub Network work more closely with New England Food Hub Network

and other regional intermediated markets.

- Fund and coordinate consumer focused marketing campaigns on the socio-economic and environmental benefits of local farms, and educate on the true socio-economic and environmental costs of food production across the supply chain.
- Educate values driven buyers and service providers about supply chain relations and impacts on local suppliers, and work to engage these buyers, such as Neighboring Food Co-op Association, in creating supply chain solutions for local suppliers.
- Subsidize greater producer and service provider attendance at national sales and marketing events, such as the Natural and Specialty Foods Sales Manager seminar, to increase exposure
- to industry norms/practices/trends, and engage with regional and national buyers, distributors, brokers, and industry relevant professional service providers.
- Build on the excel based Distribution Options Financial Decision Making Tool by including a price waterfall calculator that calculates marketing allowances and other fees.
- Create a directory of distributors and freight shipping services, and of suppliers seeking delivery/shipping/distribution solutions.
- Design a crop insurance program for smaller wholesale vegetable suppliers.

"Promote quality above price. Educate that local farms producing good healthy food delivers quality of life that we should be willing to pay for. All food that is "affordable" is subsidized, either by off farm work, family money, fortunes made elsewhere, or grants of some kind. People ... are often shocked when I tell them we have never taken a pay check. Some say, "well at least you have a nice lifestyle." So educate the wider public that we should treat local farms growing healthy food like a valuable societal asset (not just economic) and support them even at a little greater cost, just like we are willing to absorb the property taxes of local old-age home say, or contribute to the arts center."

-anonymous supplier response from the Vermont Vegetable and Berry Grower listserv: Perspectives on Wholesale Markets. Compiled July 8, 2019.

Glossary of Terms and Acronyms Related to Wholesale

ACV: All Commodity Volume, refers to the % of market that is carrying a specific item.[16]

Asking for Protection: Buyers and distributors "asking for protection" is the major form of "shrink allowance" for vegetables. When a distributor or buyer "asks for protection" they claim the product received does not meet federal quality standards for the item and thus they will not pay for the product. Suppliers can dispute these claims via the PACA law. To leverage the PACA law suppliers must pay for a PACA license (see also Perishable Agricultural Commodities Act).

Billback: Charge to the manufacturer based on a quantity of cases shipped by a distributor or retailer.[17]

Bill of Lading: The cost of goods exclusive of shipping expense, see also Freight-On-Board (FOB) price.

BOGO: Buy One Get One Free (promotional sale price).[18]

Broadline Distributor: A distributor that works with a wide variety of customers, operates nationally or regionally, and carries a wide array of products across multiple categories (for example paper products, dry goods, perishables, meat and dairy, frozen, etc.). Examples of broadline distributors include Performance Food Group, Sysco, and US Foods.

Case Stack Deal: Promotion given to stores that buy multiple cases of an item.[19]

COGS: Cost of Goods Sold.

Coupon Handling: Charge incurred by manufacturer by a coupon clearinghouse, usually $0.08[20]

CPG: Consumer Packaged Goods

Delivered Price: Price for a product to a distributor or buyer that assumes the cost of delivery to the distributor or buyer is included. Typically a 'delivered price' will be higher than a freight-on-board (FOB) price.

Direct-To-Consumer: Supplier sells directly to consumers. Generally these transactions occur via on-farm sales, farmers markets, CSAs, online orders, etc.

---

16 Bob Burke, Natural Products Consulting, 2018.
17 Bob Burke, Natural Products Consulting, 2018.
18 Bob Burke, Natural Products Consulting, 2018.
19 Bob Burke, Natural Products Consulting, 2018.
20 Bob Burke, Natural Products Consulting, 2018.

Direct-To-Retail: Supplier sells and self-delivers, or hires freight shipping service (bill of lading service) to deliver product directly to buyers (retail and institutional).

EDLP: EveryDay Low Price, term used by a retailer who sets one price and does not discount. [21]

EDV: EveryDay Value, term used by a retailer who sets one price and does not discount.[22]

Food hub: A food hub, as defined by the USDA (US Department of Agriculture), 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."

Free Fill: Product sold to retailer at "no charge" in order to gain distribution at said account.[23]

Freight-On-Board (FOB) price: Price for a product to a distributor or buyer that assumes the distributor or buyer will arrange for delivery. Typically an 'FOB price' will be less than a 'delivered price' because the distributor/buyer has to factor in extra expense for shipping.

Freight Shipping: A point of delivery shipping service, such as Farm Connex, Green Mountain Messenger, Fed-Ex, UPS, or USPS. Black River Produce and Upper Valley Produce Bill of Lading Services also qualify as freight shipping. In a freight shipping scenario, the supplier maintains ownership and liability of the product, the freight shipper is hired as a service provider solely responsible for transporting product from Point A to Point B.

FSI: Free Standing Insert, refers to a Manufacturer's Coupon that is placed in a newspaper of magazine.[24]

Guaranteed Sales: A form of shrink in which distributors or buyers charge back the supplier for the purchase value of any inventory that did not sell.

Hip Pocket Deal: Deal given to a retail rep or broker that is only for select accounts.[25]

Intro Deal: Deal given to a distributor when a product is first authorized[26]

IRC: Instant Redeemable Coupon, this is a coupon that is on the package which is for immediate use[27]

IRI: Information Resources Inc, company that collects sales data and sells reports to manufacturers[28]

---

21 Bob Burke, Natural Products Consulting, 2018.
22 Bob Burke, Natural Products Consulting, 2018.
23 Bob Burke, Natural Products Consulting, 2018
24 Bob Burke, Natural Products Consulting, 2018
25 Bob Burke, Natural Products Consulting, 2018
26 Bob Burke, Natural Products Consulting, 2018
27 Bob Burke, Natural Products Consulting, 2018
28 Bob Burke, Natural Products Consulting, 2018

Landed Cost: Cost for a distributor or buyer that picks up product that includes freight charges, or for the cost of a product that includes cost of delivery (see also Delivered Price).[29]

Lead Time: Time in days that a manufacturer needs to deliver a PO to a distributor[30]

Lumping: A service whereby a third-party is hired by the buyer or distributor to unload deliveries. If the supplier is working with a buyer or distributor who employs a lumping service, the supplier may be charged a lumping fee.

Manufacturers: Entities who supply to/sell to distributors and buyers. Manufacturers can refer to both farmers and value-added food producers (see vendors, suppliers).

MCB: Manufacturer Charge Back, charge to a manufacturer based on quantity of cases shipped to a retailer

Market Share: A measure of a brand or products percent make up of total market dollars or units sold.

Market Trends: A qualitative or quantitative measure of demand be it growing or shrinking for a product category, brand, product, or attribute.

Marketing Allowance: A fee charged to suppliers for complimentary samples, price promotions, and volume discounts.

Mind Share: The development of awareness or popularity, one of the main objectives of advertising and promotion.[31]

Net Sales: Total revenue less trade allowances. Net sales is the number from which gross margin, net margin and other profitability measures are calculated.

On-boarding: The act of a buyer or distributor taking on a new supplier.

Perishable Agricultural Commodities Act 1930 (PACA Act): PACA is a United States law that was enacted to protect suppliers against unscrupulous buyers “asking for protection” (the major form of “shrink allowance” for vegetables). When a distributor or buyer “asks for protection” they claim the product received does not meet federal quality standards for the item and thus they will not pay for the product. PACA provides protection and funding for the supplier to dispute the charge. To leverage PACA, suppliers must pay for a PACA license.

Payment Terms Allowance: Fee charged to the supplier to receive payment within a certain period of time, such as within 60 days.

Pitch(ing): The act of providing a compelling argument for why a buyer or supplier should on-board your product and company.

29 Bob Burke, Natural Products Consulting, 2018
30 Bob Burke, Natural Products Consulting, 2018
31 https://en.wikipedia.org/wiki/Mind_share

Penetration: A measure of product placement. The geographic reach of a product, number of accounts, facings or SKUs per account, etc.

P&L: Profit and Loss

POG: Plan-O-Gram, the layout of products in a section[32]

POS: Point of Sale

OI: Off Invoice, a discount given when an order is placed[33]

Regional or Specialty Distributor: A distributor that services a narrower customer base (for example only restaurants), a narrower region(for example, New England only), or offers a narrower array of products (food only; perishable products only; specialty cheese only, etc.). Examples of regional and specialty distributors include Sid Wainer and Son, Provisions International, Upper Valley Produce, and Katsiroubas Bros.

ROI: Return on Investment

Sales Traction: Quantifiable demonstration of demand based on sales.

Scan Down: Promotion given to retail where manufacturer pays for product "scanned" during a specific period[34]

Short Orders: Order shipped with less than requested, expected or desired volume, "shorting an order."

Shrink: Product that is unable to be sold whether through expired code date, damage, etc, see also spoilage.

Shrink Allowance: Fee charged to supplier to cover for distributor or buyers' actual or potential loss of saleable product.

SKU: A stockkeeping or storekeeping unit. A SKU is an identification, usually alphanumeric, of a particular product that allows it to be tracked for inventory purposes. Typically, an SKU (pronounced with the individual letters or as SKYEW) is associated with any purchasable item in a store or catalog.[35]

Slotting: Fee paid to distributor or retailer for them to stock a given item[36]

SPIFS: Reward (usually money) paid to a representative for selling a manufacturers product[37]

---

32 Bob Burke, Natural Products Consulting, 2018.
33 Bob Burke, Natural Products Consulting, 2018.
34 Bob Burke, Natural Products Consulting, 2018.
35 https://searcherp.techtarget.com/definition/SKU-stockkeeping-unit
36 Bob Burke, Natural Products Consulting, 2018.
37 Bob Burke, Natural Products Consulting, 2018.

SPINS: Company that collects sales data (specifically Natural channel) and sells reports to manufacturers[38]

Spoilage: Product that is unable to be sold whether through expired code date, damage etc.[39]

SPP: Sales Per Point, determines that amount of volume sold per sales point[40]

SRP: Suggested Retail Price[41]

Street Monies: Monies representatives have, at their discretion, to spend to drive sales volume[42]

Suppliers: Entities who supply to/sell to distributors and buyers. Suppliers can refer to both farmers and value-added food producers (see vendors, manufacturers).

TPP: Temporary Price Reduction[43]

Tiered Pricing: Volume based discount applied to list prices. The greater the volume ordered, the greater the discount.

Transportation Allowance: Fee charged to the supplier to cover freight shipping to the distributor.

Turns: The amount of per unit sales of a SKU over a specified period of time in a specified location (see velocity).

UPC: Universal Product Code, bar code on a product.[44]

Velocity: The amount of per unit sales of a SKU over a specified period of time in a specified location (see turns).

Vendors: Entities who supply to/sell to distributors and buyers. Vendors can refer to both farmers and value-added food producers (see suppliers, manufacturers).

Windows of Opportunity: A time period within which a distributor or buyer will accept supplier deliveries or will expect a supplier to receive a truck for loading.

Unsaleables: Product that is unable to be sold whether through expired code date, damage, etc[45]

38 Bob Burke, Natural Products Consulting, 2018.
39 Bob Burke, Natural Products Consulting, 2018.
40 Bob Burke, Natural Products Consulting, 2018.
41 Bob Burke, Natural Products Consulting, 2018.
42 Bob Burke, Natural Products Consulting, 2018.
43 Bob Burke, Natural Products Consulting, 2018.
44 Bob Burke, Natural Products Consulting, 2018.
45 Bob Burke, Natural Products Consulting, 2018.

List of Persons Consulted

Abbie Nelson, NOFA-VT institutional supply chain facilitator
Angel Mendez, Interim Director, Red Tomato
Annie Myers, Owner, Myers Produce
Beth Whiting, Owner, Maple Wind Farm
Bill Suhr, Owner, Champlain Orchards
Cate Norton, Reinhart Food Service
Christine Lazor, Butterworks Farm
Cynthia Larson, Owner, Larson Creamery
Dan Tricarico, Director of Purchasing, Black River Produce
Deb Keane, Dartmouth-Hitchcock Medical Center
Doug Davis, President, Vermont Food Service Directors Association
Eli Hirsh, Owner, Shadow Creek Farm
Evan Harlow, Harlow Farm
Greg Georgaklis, Owner, FARMERS TO YOU
Jon Cohen, Owner, Deep Meadow Farm
Julia Scheier, Operations Director, Salvation Farms
Kari Bradley, General Manager, Hunger Mountain Coop
Kim Kuusela, Local Merchandising Specialist, Hannaford Supermarkets, Inc.
Leo Ormiston, Grocery Manager, Hunger Mountain Coop
Nathan Daniels, Produce Purchaser, Albert's Fresh Produce
Richard Berkfield, Executive Director, Food Connects
Sarah and Stephen Park, Owners, Fully Belly Farm
Taylar Foster, CSA Manager, Pete's Greens
Timothy Hughes-Muse, Owner, Laughing Child Farm
Tony Risitano, Sales Manager, Deep Root Organic Coop