GEORGE MORRIS CENTRE

Local Food – The Untold Story

A Think Piece by
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Background

This has been the year of the local food protagonist! However, partly driven by an agricultural sector desperately searching for opportunities, little informed discussion has occurred on the challenges of capturing opportunities to market local food, or the true extent of those opportunities.

Demand for local food is clearly increasing. On the other hand, the extent to which some proponents have predicted the size of the eventual market verges on the ridiculous. Particularly the belief that local food will replace current large scale agriculture within the next 10 years, or provide a potential windfall for masses of smaller 'family' farms, or that it is a 'done deal' that consumers will automatically seek out and pay more for local food.

Production vs. Consumption

A quick look at domestic production and consumption figures, and population spread, illustrates just how limited the opportunities are for the majority of agriculture to benefit from the local food movement. For starters, StatsCan states that close to 62 percent of the Canadian population lives in Ontario and Quebec, and significant imbalances exist between the provincial populations and production bases. Potatoes, beef, pork, wheat and tomato greenhouse production are just a few industries that produce immensely more than we consume domestically.

To make matters worse, local is definitely not an option for most of these industries because they are largely produced in provinces with the lowest population bases. Even in provinces that do not have acute imbalances between production and overall annual consumption, our relatively short periods of production and the perishable nature of many products mean that far more is produced than consumed in a certain period of time.

For these and other reasons, even if we replaced all our imports with domestic product, these and many other industries would have to continue to export in order to survive. On top of that, much of agriculture does not help itself maximize market opportunities.

Assessing Market Opportunities

To truly evaluate the extent of market opportunities for local food in Canada we need to begin by looking at the end-use market, and identify what consumers are saying about why they would choose local food over alternatives. We then need to determine how suppliers can access consumers through routes to market that involve processors, distributors, retailers and foodservice.

None of these businesses will sign onto the 'local food' theology until they are certain it will be profitable, which in many instances has yet to be proven.

While it has been stated that 80 percent of consumers will choose local food over alternatives, recent research suggests that 40 is a more realistic percentage of consumer who prefer local food. Consumer preference for local vs. regional food also appears to differ by province. With no distinct agreement on what constitutes 'local', and preferences not necessarily translating into purchase decisions, grandiose statements on the support that local food has from a large consumer base for all of the products they purchase must, therefore, be treated with care.

The importance of local or regional as a factor in consumers' overall purchase decision is highlighted in ongoing research for the Consumer Data for Farmers project. Coordinated by the George Morris Centre, the research results show that the percentage of consumers who purposely choose meat for home prepared meals, according to area of production, ranges from approximately 25 to 50 percent, according to species and occasion. The same research also showed that the percentage of meat consumers who strongly disagree that local or regional is an important consideration in the purchase decision can outnumber strong supporters by a factor of 2:1.

Furthermore, with the exception of British Columbia, consumers in the central and western provinces generally exhibit less preference for local foods, compared to consumers living in the eastern regions of Canada.

Even in the UK, with a far larger population spread across many regions of a more concentrated production base, and where the local food movement began in earnest some years ago, the industry publication 'The Grocer' sees local food as the next organic. This suggests that there are limited though high profile market opportunities, and that local will fight with organics for a share of the consumer dollar.

Few consumers purchase organic products only, or make them a major part of the purchase decisions. So, why should we expect most consumers to make most or all of their purchase decisions based on whether the products are local?

Finally, while it has been assumed that more opportunities exist to market, as 'local', fresh and minimally processed foods than heavily processed products, research findings suggest that this may not actually the case, to a significant degree anyway.

Drivers of Demand

While Quebec consumers generally appear most supportive of local foods, any preference for local food should not automatically be considered to imply that consumers are prepared to pay more for local food. For example, while consumers from the eastern provinces exhibit preferences that are higher than the national average for local food, 2005 research by Agriculture and Agri-Food Canada identified that those same provinces are more sensitive to price. The same research indicated that quality is more important to Ontario consumers than any other province, and nutrition to BC consumers. Quebec consumers were least concerned about price or nutrition.

The Consumer Data For Farmers project shows that overall demand across the country indeed revolves more around quality and value than local. It also shows that consumers' expectations toward quality and value depend, to a large degree, on meal occasion. The food product purchased for a midweek family meal will commonly be different than the product purchased for a weekend meal, particularly if entertaining friends or celebrating an event. Local is a nice 'add-on' for most. It is not the main reason for purchase, particularly for mid-week meals.

Understanding the impact of meal occasion on purchasing decisions is critical to identifying ways to capture value. Particularly as meal occasions impact the extent to which price factors into consumers' purchasing decisions and local supply systems are often more fragmented and less efficient than the broader industry. Identifying ways that local food can compete against established products will increasingly require suppliers to have more detailed insights into the meal occasion that best suit their specific products, and adapt their marketing plans accordingly.

An excellent perspective on how local food suppliers can use consumer attitude for quality versus price to secure markets for local food comes from Karen Potter, co-owner of the Harvest Restaurant and Pinch Gourmet, a specialty retailer located in Picton, Ontario, “Some consumers will pay a premium for organic or local foods, though only if they are really good. They need to look good, taste great, and meet consumers’ expectations time after time.” It is not just about the product, it is also about how the product is marketed and supplied to the final consumer.

More can be done to stimulate demand for local food in Canada. The UK’s *Food From Britain (FFB)* is a good case in point. A government supported initiative, it assists smaller suppliers in capturing the attention and custom of retailers and foodservice. It also organizes a two-week long annual promotion that includes the promotion of local foods across the country. Mark Richardson, the owner of a franchised Budgens store, a relatively small chain, stated that his annual sales had risen 25 percent in 2 years through using the FFB promotion to link farmers with the local community, including through school events or excursions.

Getting Products to Market

On the avenues that local food follows to reach the end market, institutions (e.g. universities) and foodservice (e.g. higher-end restaurants) are currently the main supply routes to market. This is not surprising. Take consumers out of their home environment, place them in a group of passionately ideological peers, or in an environment where experience is as, or more, important than the food itself, and their reasons for choosing one food over another change.

Using Canadian Restaurant and Foodservice Association statistics that consumers spend 24.5 percent of their total food dollar on foodservice (almost 16 percent less than U.S. consumers), the likely percentage by volume and value to agriculture of food sold through foodservice and institutions is considerably lower than through retail.

Getting local products into retail stores is often not easy, for good reason. As with every business, retailing is becoming increasingly competitive. Consumers are placing ever greater expectations on the products they purchase and do not like being disappointed. A retailer whose products consistently fail to meet their demands will rapidly lose market share, or be left with unsold or unsaleable products, which create added costs that, ultimately, have to be recouped.

With larger retailers adopting centralized buying strategies, which rely upon economy of scale to remain economically viable, supplying smaller, often independent, retailers may be the best option for individual suppliers wanting to market local foods. Many smaller retailers focus on service and niche opportunities to differentiate and remain competitive; local food is one tool they can use to achieve this.

To truly make inroads, however, local food suppliers need to secure the support of large retailers. Particularly as the Canadian Council of Grocery Distributors say that the top three (Loblaws, Sobeys, Metro/A&P) supply approximately 78 percent of food distributed to consumers through grocery channels. Offering ‘local’ food might help you get their attention, by itself, but it won’t get you a prized spot in a retail store, and it certainly won’t help you keep that spot.

Large retailers who ardently want to supply consumers with local food face immense challenges. As highlighted by *The Grocer*, even in the UK (which is further ahead in terms of consumer demand and industry ability to supply local products than occurs in most of Canada), the percentage of local products stocked by large retailers remains in single digits. Even Tesco, one of the world's most innovative and successful retailers, is limited by the complexity that would come from efficiently coordinating the delivery and sale of many hundreds of local items to differing arrangements across hundreds of stores.

With most consumers simply not willing to pay the prices associated with incorporating high levels of local food into their diet, UK retailers largely view local food as a high profile destination category that can encourage consumers into their store. It is not viewed as a mass market. Also, while foodservice offers a viable route to some consumers, the size of market share compared to retail and the fact that a large section of foodservice is 'grab and go' rather than experience based, means that its overall importance to the local food movement is less than through retail.

For all suppliers, successfully capturing the custom of any retailer relies on having the bases covered, which takes planning and resources. For reasons stated above, while price is a factor, it is certainly not the only factor. They need to first convince a reatiler that their product meets an identified consumer need and will enhance their current selection; be able to meet basic supply chain requirements (consistent and sufficient volume, food safety guarantees, competitive cost efficiencies); have a plan to support and grow sales once on the shelf; and then the ability to execute that plan with precision.

Yet in all but a few rare instances, farmers in particular do not work together to guarantee retailers with consistent quality and volume. Nor do they offer services that enable them to transition seamlessly between sources supplying equally high-quality products, or combine their resources to market and present their products to a professional standard. Yet this is precisely what is required to make retailers, in particular, feel comfortable relying extensively on 'local' sources.

Health and Nutrition

The market research company Mintel states that, rather than simply geographic location, a series of intangibles is driving consumer interest in local food. Consumers want simple answers and indicators that they can use to identify healthier products. Local food is currently viewed as one way of cutting through the barrage of often conflicting information on what constitutes a healthy diet. Whether local food is actually healthier, however, is debatable and it changes according to individual products. Therefore, it is a flimsy rack on which to hang the hat of promoting local food 'per se'.

Consumers' purchase decisions related to diet are different than decisions based on environmental concerns. While related, to a degree, consumer interest in foods that have traveled fewer food miles, have a lower carbon footprint, and may have released fewer greenhouse gases during their production is unlikely to influence purchasing decisions with anything like the immediacy of health and diet factors.

Furthermore, the measuring of carbon footprints and other environmental related factors remains in its infancy and can result in reasons NOT to purchase local food: the case of UK vs. NZ lamb being a prime example. The Agribusiness and Economic Research Unit (AERU) at Lincoln University identified that the process whereby lamb is raised in New Zealand and shipped to Britain is four times more energy-efficient than that when lamb is raised locally in Britain.

Another study, by the University of Wales, showed than an average of just 2 percent of the environmental impact caused by the agricultural and agri-food industry came from transporting food from farm to store. The vast majority comes from how the food is grown, processed, stored and packed. The Grocer, therefore, states that using environmental reasons to convert consumers into buying seasonal local produce, rather than continuing to purchase supply from year-round sources, will not be easy.

Finally, as reported in Food Navigator, the drive behind many publicly owned businesses (particularly processors and retailers) adopting greener, sometimes local, approaches is not entirely down to consumer desires. In fact they are coming under greater pressure from investors than consumers to act upon environmental considerations. The reason: if they are not disclosing and managing their environmental impact, what else might they not be disclosing or managing correctly and what risks does this pose from a regulatory standpoint?

Impact of Current Regulation on Market Opportunities

Even for those farmers and agri-food suppliers who have the necessary capabilities and want to take advantage of the markets that clearly exist and are expanding, regulation often stands in their way. Rather than being a tool to assist farmers and agri-food suppliers in differentiating themselves, legislation severely limits the opportunities that do exist.

An example is the lack of protection against fraudulent claims from those not supplying genuine local foodstuffs. The United Kingdom has introduced the Protected Name Scheme, which allows a legally defensible recognition to be used for differentiating food, by product, from a particular region.

In Canada, some regulations limit, rather than increase, the market opportunities for local food. These include marketing systems and legislated industry structures. While milk and dairy products is a particularly promising area of innovation in other nations, and a great opportunity for smaller suppliers to capture consumer interest in local foods, regulations prevent Canadian milk being segregated by supplier and market. This also means the smaller dairies that might wish to innovate by developing new specialty products have to fight for quota against larger, more efficient and established competitors.

Another comes from the combined forces of the Canadian Wheat Board and Grain Commission, making the transaction of supplying and sourcing wheat for specific local food markets too difficult, too expensive, or simply impossible.

The impacts of out-dated regulations reach beyond agricultural marketing structures. The patchwork of provincial inspection systems commonly discourages retailers and foodservice distributors from dealing with smaller, potentially more innovative processors who could benefit significantly from gaining access to their markets. Those small processors face a current federal inspection system that is too cumbersome, too expensive, and simply not a viable alternative. Access to larger markets would, of course, benefit agriculture, not just the processors.

Final Thoughts

Yes, demand for local food is increasing. It undoubtedly offers distinct opportunities for some farmers and agri-food suppliers, including processors, distributors, foodservice and retailers.

However, we need to have a far more sophisticated discussion on the opportunities. Local is a “nice to have” add-on that can be bundled with other attributes to capture certain consumers’ attention, and capture some added value when the opportunity allows.

Maximizing the opportunities that do exist requires an objective examination of the ways the sector can overcome challenges that currently prevent optimizing benefits offered by increasing demand for local food.

In the meantime, beware of the false prophets who attempt to say that local food is a panacea for the industry’s ills. It is not.

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