GEORGE MORRIS CENTRE

Canada's Independent Agri-Food Think Tank

Accessing the Market: Development of an Optimal Food Distribution Model for the South Central Ontario Region FINAL REPORT

Prepared for: Ontario Fruit and Vegetable Growers Association / Erie Innovation and Commercialization

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Executive Summary

The South Central Ontario Region (SCOR) is undergoing considerable change in its agriculture. Farm production is changing from heavy reliance on tobacco in parts of the region and being replaced by a wide variety of crops. With its predominantly sandy soils and climate tempered by the Great Lakes, the area is well suited to several kinds of horticultural production. Along with horticulture, this region boasts a healthy meat and dairy industry. On the food processing side, the region is currently challenged with maintaining the industry that remains.

At the same time, the large southern Ontario population is expanding its preferences for local food and some companies in both food service and retail are focusing on local food as a merchandising strategy.

Given the foregoing, there is clearly expanding demand and the opportunity for increased supply of primary and processed food products in the region. The practical issue is how to coordinate the movement of products with the right characteristics to end users inside and outside (both provincial and international) the region who want them. Many producers and end users of produce are relatively small operations: small groceries and restaurants want small quantities of product with specific attributes and many producers produce small quantities. At the other extreme are grocery chains that need large quantities. All parties have a market access problem. Buyers need to be able to find sellers with the right quantities and attributes while farmers and processors clearly need to be able to find buyers and, in many cases, combine small lots into larger quantities consistently and efficiently.

The issues in food distribution are acute and can be a bottleneck to agri-food growth in the region.

Purpose and Objectives

The purpose of this study is to ease and increase access to the market for both producers (farmers and processors) and buyers in the South Central Ontario Region (SCOR) through the development of a food distribution model(s). The objectives of this project are:

- To understand the current barriers to accessing the market.
- To describe and evaluate food distribution models, and their use in other regions.
- To recommend a preferred food distribution option, or options, for SCOR that can service local, regional, provincial and international demands.

Summary of Distribution Issues

The assessment of issues in the SCOR region concludes that:

- Logistics need to be coordinated so that the cost of moving products out of SCOR can be reduced and made more efficient.
- Many producers would benefit from training on matters like cost analysis and marketing.
- Some producers would benefit from improved methods to make their products available to the marketplace. This is especially so for relatively small producers and those with products that are not normally sold through traditional channels to traditional customers.
- Producers who are either startups, have been successful at one level and want to go to a higher level of production, or those who want to enter markets for new products or new market channels often need assistance in getting started.

Recommendations

What Should Not be Done

- There is a strong feeling that either of the "coordinated but not managed" alternatives either for logistics or for marketing will be non-starters in SCOR. There is a very clear perception that most small operators will have no interest in the detailed work of listing and updating entries regularly without someone to manage the process and put people together as needed.
- At the other extreme there is no interest in the agri-food distribution centre concept. People perceive it would fail because of competition from the OFT, would never attract many of OFT's customers, and would be used by some buyers as leverage to pressure prices downward. While some say the side issues of having a demonstration area and the opportunity for local buyers to have preferred access to local product would be nice, they are not crucial, especially since most people see the major market being outside the SCOR area. It was pointed out that, even in Toronto, the idea of a dedicated chef's market was attempted, but failed completely because of too few customers. The obvious inference for most people is that if it won't work in Toronto, it won't work in SCOR.

A second option that seems to be a non-starter in SCOR is managed marketing in the sense of forming an alliance and having someone do all the marketing and logistics for a wide range of products.

There are several reasons for this:

- As noted earlier, collaboration is not easy in the region.
- Many producers either want to undertake their own marketing so they can control the process and get appropriate feedback, or take responsibility for choosing a marketing representative they trust.
- The range of products and services offered in the region is large and complex. It would be difficult to find a single person or agency with the skills and experience to be successful, especially without creating a conflict of interest.
- There are several organizations that are successful or starting up that can fill the relatively small void that exists: given time and opportunity the private sector usually responds.

For these reasons, a less extreme set of recommendations follow that we believe will show the opportunities for and benefits of collaboration. A modest start may lead to larger actions in the longer term.

What Should be Done

The following are recommendations for what should be investigated in a feasibility analysis and the development of a business plan for food marketing assistance in SCOR:

- Develop an entity that would virtually link producers in the region to the wider market for their products and to each other, as well as logistics suppliers, for logistics. Producers want access to buyers and buyers want efficient access to producers of local product. During the project we became aware that individual counties and regions, including some in SCOR, have or are developing online listing services. Similarly, one of the members of our project's steering committee has been associated with a service called *Ontario Fresh*, which will apparently provide a virtual listing service for food products across Ontario – this is to begin in September, 2011.

Producers strongly prefer being able to reach more potential buyers than fewer. Similarly, most buyers would prefer to reach more potential sellers than fewer. They like the *concept of Ontario Fresh:* but need some more details behind it.

- A virtual listing service should be established that would allow producers in SCOR to offer products on-line. Conceptually, linking to a province-wide service is preferable to local ones because the former gives more exposure and makes the cost of search by potential buyers much lower. We would like to recommend that SCOR link with Ontario Fresh, but can do so only in concept since more details are necessary.
- The on-line offering should be sufficiently flexible to allow producers to provide as much description of their product as possible: quantity; quality (in various) dimensions; lot size/packaging material; services offered – e.g. bar coded; Canada Gap; branded, etc. The service should be set up so that it is easy for potential buyers to sort on an array of characteristics: e.g. commodity, location quality, service characteristics. We agree with those who were in the focus group that providing pricing initially is not a good idea because of potential confusion with quality, service and location. Therefore, this also means that the on-line service would merely be for listing, not for transactions. However, the service should be set up in such a way that the buyer could easily link to a potential seller's website or telephone number so that transactions can be done in whatever way the seller prefers.
- The service should also allow listing of logistical requirements. Again, we would prefer to recommend this be built into *Ontario Fresh* if the latter is flexible enough to allow it to occur.
- As indicated earlier, the service should be managed from the perspective of SCOR. The manager will be responsible for the establishing the listing service initially. Manager would also be responsible for ensuring that listings are up to date, that new listings are posted and would assist with logistics. The work in managing logistics would include assisting with the listings as above, putting people together who need trucking and short-term storage, facilitating payment settlement, arranging pickup and delivery times and locations and the like. The logistics manager would work closely with companies in the area such as Ontario Refrigeration Services, Erb Transport, etc… who are already involved in and knowledgeable about shipments and may have short-term storage facilities available.
- We also recommend that a mechanism be created that would provide sellers in SCOR with a roster of qualified consultants who can assist them with start-ups or expansions. As discussed previously, a number of people in the region have difficulties with this. For most the issue appears to be getting started and understanding what is required to market at the start of or next level. Once people get to the point of understanding what is required, it appears that they can handle the process themselves or hire or contract the right skills. The issue is the initial understanding of what the right skills are. Therefore, the concept of having professional assistance at this crucial point would be quite fundamental.
- The final recommendation is to provide training to producers and end users in SCOR. As indicated in the body of the report, one of the most frequent comments is that a number of producers are new at marketing and would benefit from training in some basic areas such as cost analysis, marketing, etc. as above. Similarly, a major problem for some people in the region, especially those who sell meat, is that many buyers do not purchase provincially inspected meat. Similarly, some do not understand the benefits of Canada Gap. Therefore, for both purposes, it is recommended that the region partner with the appropriate organizations (George Morris Centre, Farm Credit Canada, Guelph Food Technology Centre) to develop or adapt appropriate training programs for people in SCOR.

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1.0 Introduction and Background

The South Central Ontario Region (SCOR) is undergoing considerable change in its agriculture. Farm production is changing from heavy reliance on tobacco in parts of the region and being replaced by a wide variety of crops. With its predominantly sandy soils and climate tempered by the Great Lakes, the area is well suited to several kinds of horticultural production. Along with horticulture, this region boasts a healthy meat and dairy industry. On the food processing side, the region has been able to attract some facilities, but is currently challenged with maintaining the industry that remains.

At the same time, the large southern Ontario population is expanding its preferences for local food and some companies in both food service and retail are focusing on local food as a merchandising strategy.

Given the foregoing, there is clearly expanding demand and the opportunity for increased supply of primary and processed food products in the region. The practical issue is how to coordinate the movement of products with the right characteristics to end users inside and outside (both provincial and international) the region who want them. Many producers and end users of product are relatively small operations: small groceries and restaurants want small quantities of product with specific attributes and many producers produce small quantities. At the other extreme are grocery chains that need large quantities. All parties have a market access problem. Buyers need to be able to find sellers with the right quantities and attributes while farmers and processors clearly need to be able to find buyers and, in many cases, combine small lots into larger quantities consistently and efficiently.

The issues in food distribution are acute and can be a bottleneck to agri-food growth in the region.

1.1 Purpose and Objectives

The purpose of this study is to ease and increase access to the market for both producers (farmers and processors) and buyers in the South Central Ontario Region (SCOR) through the development of a food distribution model(s). The objectives of this project are:

- To understand the current barriers to accessing the market.
- To describe and evaluate food distribution models, and their use in other regions.
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1.2 Report Outline

Section 2 provides a snapshot of the agri-food sector in SCOR – including information about food processing, challenges and opportunities and consumer demographics. Section 3 describes the current food distribution and market access situation in SCOR and across Ontario, as told to the research team through interviews and surveys. The complexity of food distribution and the ample opportunities are presented. Based on what was found in speaking to agri-food stakeholders as issues in food distribution, Section 4 provides an examination of new and unique distribution models used in other regions. Examining these cases provides information that is then used to assess their usefulness as a basis for improved food distribution in SCOR. Section 5 provides a series of alternative recommendations that were presented to two focus groups where participants provided feedback. Lastly, Section 6 provides a summary and recommendations based on the focus group and interview discussions.

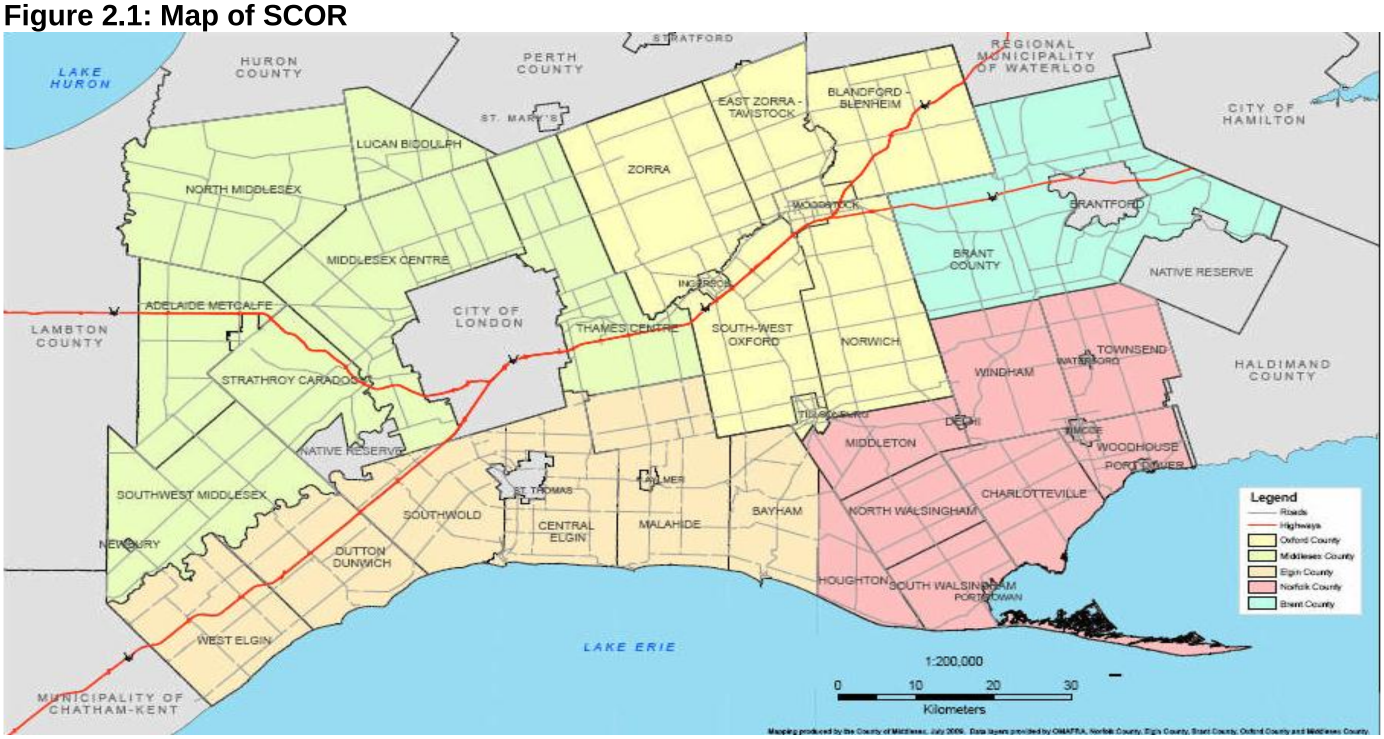
2.0 Snapshot of the South Central Ontario Region

The first step in finding an appropriate food distribution model to fit SCOR is to understand the region. The brief snapshot that follows provides information on the location and geography of the region, the agricultural production in the region and information on the customer base that is available to producers and processors in the region. The snapshot also includes information about the food processing sector in Ontario and challenges and opportunities in the changing agriculture production, food processing, and consumer demographics.

Geography and Location

The South Central Ontario Region (SCOR) is comprised of the Counties of Brant, Elgin, Middlesex, Norfolk and Oxford (but excluding the major cities of London, Brantford and St. Thomas) (South Central Ontario Region, June 2009). It is located in southwestern Ontario bordered on the south by Lake Erie. This area covers 2.4 million acres; much of this is considered prime agricultural land. As the map shows the major urban areas of Brantford, London and St. Thomas are not included in the definition of SCOR but are likely essential customers for the agri-food sector in the region.

Figure 2.1: Map of SCOR



Source: SCOR Strategic Management Plan

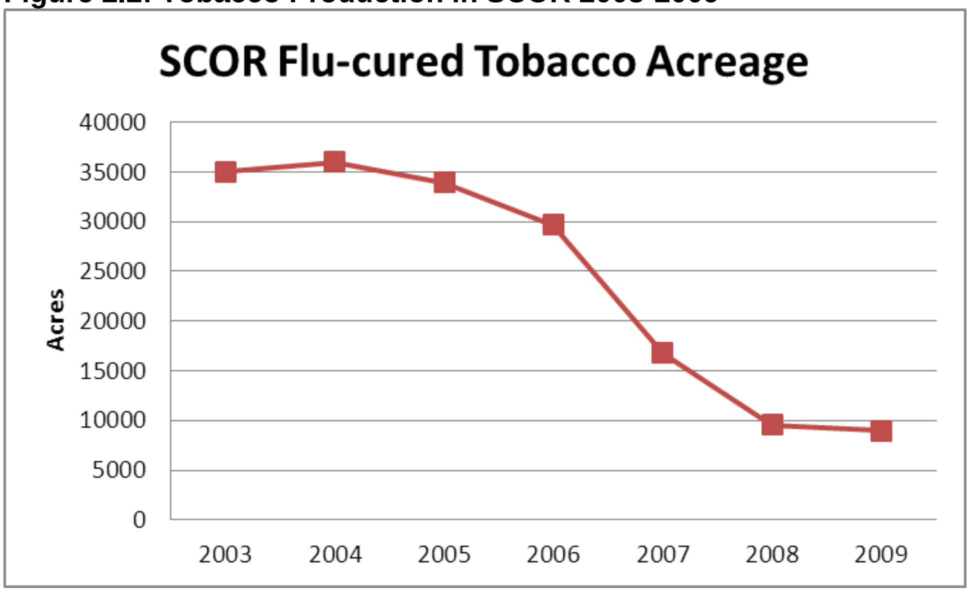
SCOR has predominantly sandy soils which are well suited for agricultural production. The climate is tempered by the Great Lakes giving a relatively long growing season. The land is mostly flat or gently rolling (South Central Ontario Region, 2008). Two major river systems run through the region: the Grand and Thames Rivers (South Central Ontario Region, 2008).

The winters are generally milder and summers more hot and humid that the rest of Canada (South Central Ontario Region, 2008), these factors mean that producers can get on the land sooner extending the growing season and the variety of crops that can be successfully grown.

Figure 2.1 shows that the region is served by major highways 401, 402 and 403. These and other provincial highways provide access to major metropolitan areas such as Toronto, Kitchener-Waterloo-Cambridge, Hamilton, London, Windsor and the United States through Windsor, Sarnia or Niagara Falls.

The changing agricultural landscape in the region has forced producers and processors to look for new opportunities to market their production. As shown in Figure 2.2 tobacco acreage within the region has declined to just over 1/4 of 2004 levels. The Community Transition Program funded by the Government of Ontario allowed producers to move from tobacco production into new crops (OACFDC).

Figure 2.2: Tobacco Production in SCOR 2003-2009



*Includes combined Haldimand-Norfolk production
Source: OMAFRA Statistics Section

Many producers have switched production to new crops for which traditional marketing channels have already been or are close to being saturated. Producers and processors are looking for alternatives to these markets to sell their production.

Agriculture in SCOR

Given the climate of the region, agriculture is a large part of the economy. Counties within the region take pride in the rich agricultural tradition in the area, with names like “Ontario’s Garden” (Norfolk County, October 2010), which emphasize the strong horticulture sector in the region. While this area is well known for its horticultural production, producing 48% of all Ontario grown vegetables, the agriculture sector in SCOR is diverse and includes various livestock production as well as cash crops.

Using the Statistics Canada Census on Agriculture 2006, a profile has been created for the counties in the region to help understand the agriculture sector. The region has enough summer heat units for successful production of soybeans and corn, which make up a large percentage of the total agricultural production in the region. The livestock industry is also quite healthy in SCOR, with pork, dairy, beef, turkey and poultry, sheep and goat production all occurring in the region. In addition to field crop horticulture, the region also has greenhouse vegetable and floriculture production, which add to the diversity of the sector.

Table 2.1: Agriculture Production Snapshot by County in the SCOR Region, 2006

	# of Farms	Total Farm Area (ha)	% of Total Farm Area in Crops	Major Crops	Major Horticulture Crops (ha)	Livestock production (head)
Brant	818	67,727	82.7%	- Soybeans - Grain corn - Alfalfa	- Green/Wax Beans - Squash - Cucumbers	Total cattle 15,315 Total pigs 21,949
Elgin	1,489	159,282	81.9%	- Soybeans - Grain corn - Winter Wheat	- Peas - Sweet Corn - Green/Wax Beans	Total Cattle 32,362 Total Pigs 94,462
Middlesex	2,525	249,795	83.7%	- Soybeans - Grain Corn - Winter Wheat	- Sweet Corn - Peas - Green/Wax Beans	Total Cattle 95,749 Total Pigs 370,624
Norfolk	1,525	115,031	77.5%	- Soybeans - Grain Corn - Fall Rye	- Sweet Corn - Asparagus - Cucumbers	Total Cattle 8,877 Total Pigs 38,214
Oxford	1,990	168,339	85.5%	- Grain Corn - Soybeans - Alfalfa	- Peas - Corn - Green/Wax Beans	Total Cattle 85,321 Total Pigs 470,360

Source: Stats Canada Census on Agriculture 2006 Community Profiles

Table 2.2 highlights the importance of SCOR to Ontario agriculture by looking at SCOR production as a percent of the total output by crop in Ontario.

Table 2.2: SCOR Percent of Total Ontario Production for Select Crops as of 2006

All Vegetables (Excluding Greenhouse)	48%	Tobacco	93%
Fall Rye	81%	Asparagus	82%
Ginseng	98%	Green Peas	61%
Sweet Corn	48%	Green and Wax Beans	60%
Total Pigs	25%	Dry White Beans	21%
Turkey	35%	Other Dry Beans	48%
Dairy Cows	17%	Cucumbers	64%
Strawberries	23%	Sour cherries	48%

Source: 2006 Census of Agriculture

In 2006, SCOR also had 86% of the total land seeded to ginseng, 61% of the asparagus acreage, 25% of the sweet corn acreage and 15% of total turkey production in Canada according to the Statistics Canada Census of Agriculture 2006. SCOR is also home to Canada's largest single sweet potato producer (Norfolk County, 2009). SCOR is clearly an important agriculture production region in Ontario and nationally.

The region is also home to a number of wineries, both traditional grape wines and other fruit wines. There are nine wineries in SCOR listed with Ontario South Coast Wine[1] and a number of other wineries in the region. While there are wineries that have been in the region for over a decade many new wineries have come into production in the last 5 years.

Processing

Food processing is the second largest manufacturing industry in Ontario, employing 138,000 people in 2008 (LEDC, 2010). Thirty two (32) percent of all food manufacturing in Canada occurs in Ontario (Canadian Industry Statistics). This places SCOR at an advantage as processing facilities are closer than for other large agriculture regions. Beverage manufacturing is also largely based in Ontario accounting for 42% of Canadian beverage manufacturing.

According to Statistics Canada, there are 241 food, beverage and tobacco processors registered in SCOR. While the local food processing industry has declined in recent years there are still a number of processors in the area (South Central Ontario Region June 2009). There are three companies operating within the region who were licensed vegetable processors in 2010, Bonduelle Ontario Inc. in Ingersoll and Strathroy, Klassen Canning in Langton and Strubs Food Corp in Brantford.[2] Along with these operations there are many other fruit and vegetable, meat and dairy processors in the region. There are also a number of processors located in the urban areas that fall within the borders of the region (LEDC, 2010). In particular, it was just announced in July 2011 that Dr. Oetker Canada is building its first North American frozen pizza plant in London Ontario. The company will be sourcing many of its ingredients from the area in order to produce approximately 50 million frozen pizzas each year.

Despite a decline in the number of processors operating in SCOR, the region still has a number of food processors who serve as an intermediary between the farmer and the marketplace. However, these processors face many of the same market access challenges that primary producers do.

In addition to the food processors located in the region, corn producers can also market their product to the Integrated Grain Processors Co-Operative, located in Elgin County, which makes corn ethanol (Elgin County Website).

Producers in SCOR can use these urban processors and those in surrounding communities to transform their crop into a secondary opportunity. For example, freezing or canning fruits and vegetables to extend shelf life.

Potential Customer Base

SCOR is largely a rural region, with a population of 319,405. However, there are 16 million potential consumers within a 3 hour drive (South Central Ontario Region, June 2009) and 150 million consumers within a one-day drive.

Population growth is slow within the region, increasing only 4% from 2001-2006 (Statistics Canada Census 2006), therefore, many producers look outside of the region in order to find new markets for their products. Product is sold to the larger urban areas including the Niagara region, the GTA and also exported. Figure 2.3 shows that SCOR has a large potential customer

[1] Ontario South Coast Wine - http://www.ontariosouthcoastwine.com/wineries.html
[2] Ontario Vegetable Processing Growers - http://www.opvg.org/ontario-processors.aspx

base within one day's drive but efficient and effective marketing and distribution are key to accessing these markets.

Figure 2.3: Potential Market Populations for SCOR

Market Population	
Sarnia	71,419
Windsor	216,473
London	352,395
Kitchener/Waterloo	322,143
Greater Toronto Area (GTA)	5,113,149
Golden Horseshoe	8,102,263
Eastern U.S. Markets	Approx. 109 mil.

Source: South Central Ontario Region (SCOR) Economic Profile Version 1.5

Additional Marketing Challenges

SCOR is under serviced by broadband internet access. Less than half of the population has adequate access to broadband (South Central Ontario Region, June, 2009). This makes online marketing to local consumers difficult, though there has been some recent funding provided by the provincial government to increase broadband access to the region.

Agri-tourism and Local Food Initiatives in SCOR

Agri-tourism and culinary tourism are rapidly expanding components of the agri-food sector in the region. Each county within the region has established its own local food initiative, including websites describing local foods available within the region, when they are in season and profiles of the producers from which they can be sourced. Some of these websites also link to local retailers and restaurants that feature local products, as well as food events being held.

<table>
<tr><td>Brant County
www.bountifulbrant.ca - Brant County Federation of Ag
Buy Local! Buy Fresh! Brant County Local Food Map
Brantford Farmer’s Market</td><td>Elgin County
www.savourelgin.ca / www.relishelgin.ca/food
Buy Local! Buy Fresh! Elgin County Local Food Map
Festivals: Fresh Fest, Harvest Festival
Horton Farmer’s Market, St. Thomas</td></tr>
<tr><td>Middlesex County
Get Fresh, Eat Local Map
Events: Taste It: Southwest Ontario Local Food Connection</td><td>Norfolk County
Direct from Norfolk County – Ontario’s Garden Local Food Map
www.norfolkfarms.com
Festivals: Norfolk County Flavour Fest
Simcoe Farmer’s Market / Port Dover Lions Silver Lake Market</td></tr>
<tr><td colspan="2">Oxford County
www.oxfordfresh.com Celebrating local food from field to fork
Buy Local! Oxford – website and local food map
Festivals: Oxfordlicious
Farmers’ Markets: Ingersoll, Norwich Downtown, Tillsonburg, Woodstock Downtown, Woodstock Fairgrounds</td></tr>
</table>

Most of the county local food websites or tourism offices offer local food maps of the area that direct consumers to local farms with farm gate markets. This serves as a starting point for the growing agri-tourism industry in SCOR. Many of these farms offer farm tours or other agri-tourism activities, to educate consumers on local food production and provide an entertaining culinary experience.

3.0 Current Food Distribution and Market Access Situation

3.1 Introduction to Food Distribution

Food distribution is a very complex system. Figure 3.1 shows that there are many avenues to deliver farm products to the final consumer.

The San Francisco Food Alliance (2005) describes food distribution as:

> *"…the process of getting food products from producers to consumers. More specifically, food distribution relies on transportation and storage infrastructures, food safety and handing procedures, and marketing. Therefore, food distribution is comprised of a large network of complex operating and management systems involving coordination, organization, purchasing and delivery of food goods and services from producers to consumers".*

Based on this definition that includes marketing, food distribution encompasses market access – they are not separate from each other.

Figure 3.1 shows that there are numerous ways for producers to get product to their customers – on their own, through a collective, processing product, or through a broker or wholesaler. Figure 3.1 also shows that there are many market channels that can be serviced. There are also mainstream markets and fringe markets. For example, mainstream markets in Ontario, where the vast majority of food sales occur, would include the three major retailers (Loblaw, Metro, Sobeys) some other larger independent retailers (such as Longos) and the major foodservice companies (Gordon Food Service and Sysco). Most other outlets in Ontario would be considered on the fringe and account for a smaller part of the market likely characterized by serving consumers who either do not want to shop at the big stores or are looking for unique attributes of product or service that are not available in the mainstream. However, the mainstream is continuously adapting to offer consumers new products and services. There are many products and services that were once only offered in 'fringe' markets that can now be found in the mainstream.

The market channels utilized by producers can be related to a number of factors including – what it is they are selling, volume of product, their values, their skills and knowledge, access to capital and infrastructure, regulatory requirements, their collaboration with others and their knowledge, or lack thereof, of the markets that exist. What makes this more complex is that the markets shown in Figure 3.1 can be either local, Canadian or export markets[3].

The various food distribution system sectors represent only part of the complexity in food distribution – targeting the appropriate consumer is also required.

First and foremost, there is no 'consumer'. In fact, there are many consumer segments that agricultural marketers must be aware of and know how to target.

"Consumer segmentation is the process of classifying people into groups that have some set of similar characteristics resulting in the ability to be targeted appropriately[4]". In food purchases a number of examples can be listed:

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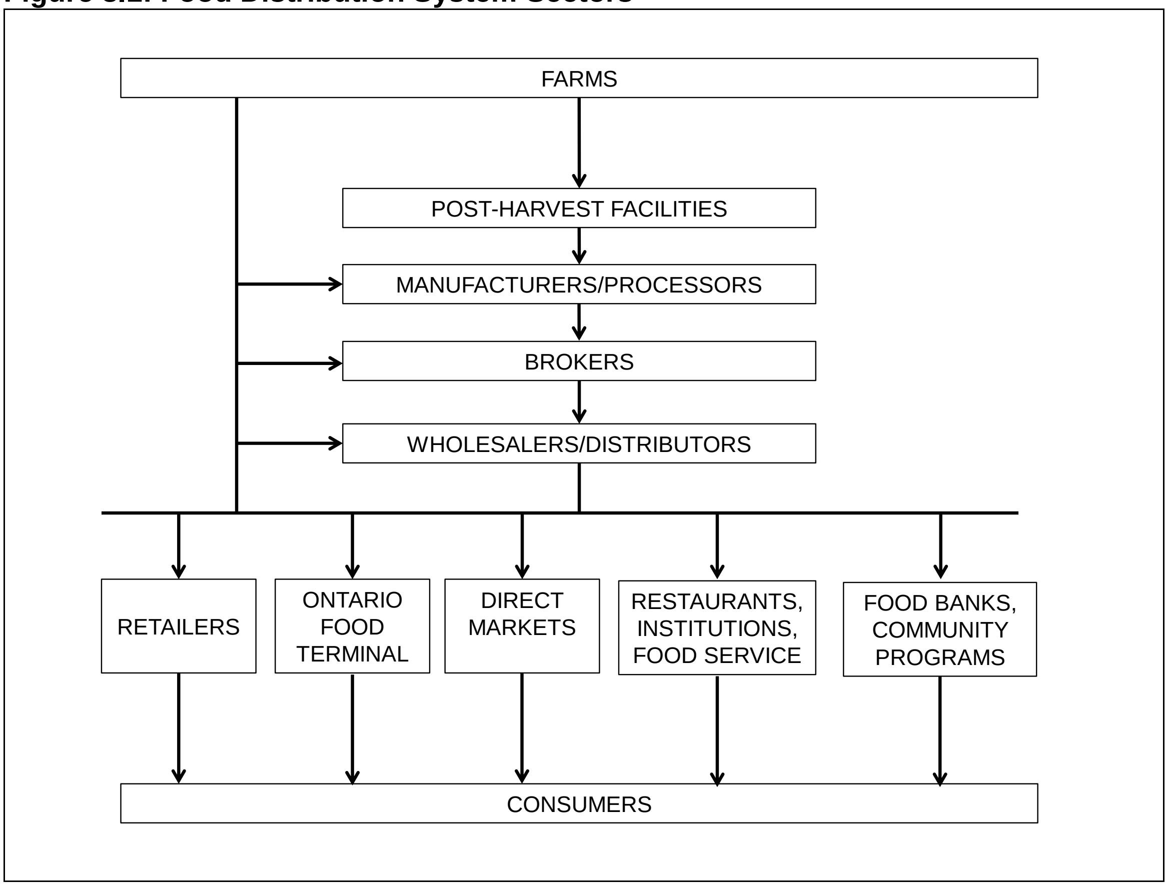
[3] With the exception of the Ontario Food Terminal which is a special case of a produce market in Ontario and a significant market channel for horticultural products.

[4] http://www.xtremeimpakt.com/index/Capabilities/Strategic-Services/Consumer-Segmentation

- Price conscious: want the cheapest product. Don't care about origin and not necessarily looking for it.
- Price Conscious/local: will buy local if it is the same price as other product.
- Convenience: will only purchase food products from the same place they always do.
- Convenience/local: will buy local food products if they are available at the same place they always shop for food.
- Local seekers: want to purchase local and willing to pay more.
- Food adventurers: prefer to source food directly from producers and willing to spend time and effort and money to get to on-farm markets, farmers' markets, CSAs in order to connect food to an experience.
- Diners looking for local: will go to restaurants because local product is on the menu, whereas others will also dine at these establishments and not care.

Figure 3.1: Food Distribution System Sectors



Adapted from San Francisco Food Alliance, 2005

Complexity comes with many opportunities. The complexity in both food distribution and consumer segmentation shows that there are many opportunities and avenues for producers and processors to access consumer markets. However, the complexity and activity within the system can create inefficiencies and bottlenecks affecting the growth of the sector. This section of the report describes the methods currently being used by buyers and sellers of agricultural products – what are working, what isn't and their perceptions of improvements that could be made.

3.2 Methods

Stakeholder consultations were conducted to better understand the methods currently being used by sellers and buyers of food products to access the market or access product, what the problems might be and the ways to improve food distribution and market access in SCOR. In order to maximize our time, stakeholders were consulted in one of two ways – individual interviews and through an on-line survey.

The George Morris Centre always prefers to conduct individual interviews when trying to understand a situation. Interviews allow the research team to have a contextual dialogue with the stakeholders and have an opportunity to ask for more detail in their answers. The project Steering Committee was asked to provide names of potential interviewees or survey participants.

The following number and type of stakeholders were interviewed:

- 25 sellers of agricultural products including:
    - Fresh horticulture products
    - Grains and oilseeds
    - Dairy products
    - Meat products
    - Processed products
    - Stakeholders involved in agri-tourism activities
- 4 food distributors
    - 2 large companies
    - 2 SMEs
- 3 restaurateurs sourcing local product
- 3 processors
- 3 retailers
- 4 Economic Development Officers and other county employees / Other

In order to expand on our interview findings and broaden our stakeholder participant list, we supplemented the interviews with an on-line survey. The Project Steering Committee was asked to actively champion participation in the survey. The on-line survey was advertised through a number of commodity associations and other agriculture and food associations in order to garner a broad awareness. The survey was not made exclusive to stakeholders within SCOR but stakeholders from across the province could participate since the issues of food distribution and market access affect all stakeholders.

It should be noted that, consistent with the proposal, there was no intent to conduct a survey of statistical significance. The purpose of the interviews and survey was to gain perceptions and opinions of the current food distribution and market access situation and its impact on the success of the agri-products sector, and this was accomplished.

Both the interviews and the on-line survey followed a similar template. The research team drafted a standardized interview guide. This guide was provided to interviewees prior to the interviews. The following discussion points were asked:

- Current market access methods or sourcing methods
- What works and what doesn't work with respect to finding markets and distributing product?
- What are your issues in accessing markets or sourcing products?
- How have you dealt with some of the issues?

- What could improve market access or food distribution?

Please see Appendix A for the complete interview template.

Interviews were conducted with producers/processors of all sizes who market their products in a variety of ways into a variety of market channels – farm gate sales, farmers' markets, independent retailers, retail chains, the Ontario Food Terminal and restaurants – both on their own and through distributors and/or wholesalers.

Most interviewees sold into more than one market channel as to not have 'all of their eggs in one basket', although a number relied heavily on one or two markets which they acknowledged could be very risky.

Interviews were also conducted with food distributors, restaurateurs and retailers. Most interviewees sourced product from a vast array of suppliers both local, Canadian and international.

The following sections are based on both the interview and survey results. The complete survey results are found in Appendix B, but the comments and information taken from the survey has been combined with the interview results to complete this section and provide an understanding of the food distribution situation.

3.3 Market Channels

The following section describes the various market channels that sellers and buyers of agricultural products work in and what the interviewees and survey respondents describe as working best or not working in each channel.

Farm Gate Sales/Own Retail

This channel has evolved into much more than a typical roadside stand and includes significant retail outlets and agri-tourism activities. For farm operations in particular, interviewees noted that gaining the attention of consumers works best when there is another reason to come to the farm, in other words there must be a 'carrot' to attract visitors to the farm to purchase the primary product. Other activities of those interviewed included:

- Agri-tourism activities
- Farmer's market that sells a wide variety of food products from other producers and value added food products
- Winery
- Pick Your Own (PYO) operations
- Café serving local product

This can be an expensive, time-consuming and energy intensive way to sell product. But it can attract consumers that appreciate the value of the experience and the connection with the food and/or producers and understand that it is not the lowest cost. Marketing and innovation are keys to the success of this type of enterprise and branding is a definite selling feature.

Those who sell product through these outlets do so because they get to set their own prices and value the consumer interaction and service that is part of this channel. This type of selling requires marketing skills and the desire to interact with consumers on a daily basis and in most scenarios sell themselves as well as their product.

For many of these outlets, sales can be unpredictable and very weather dependent.

It's important to note here that tourism has an impact on food production and sales through this channel. Not only are customers to these on-farm and own-retail locations local residents, but there have been marketing campaigns and efforts made to bring tourists to these locales. The location of Elgin County and Norfolk County in particular, situated along Lake Erie, provides an opportunity to attract tourists coming to the area. Increasing sales through culinary tourism is very much a long term commitment where results are likely seen over years. Word of mouth, social media and associations such as the Ontario Culinary Tourism Alliance are what drive interest in this channel. The Niagara Region, with its numerous wineries, has done an excellent job of promoting itself as a culinary tourism destination. This is the goal of the Ontario South Coast Wineries and Growers Association[5] as well.

Farmers' Markets

Over the last 3-5 years farmers' markets have increased in popularity due to the increased demand of consumers to be connected to their food. This has helped producers who sell through this channel. This is a very time consuming and labour-intensive method of selling product and therefore very costly, especially if producers are selling into markets that are a few hours' drive away such as the GTA. Producers can set their own prices to take these costs into account but in busy farmers' markets they also cannot price themselves out of the competition.

Similar skills are required as those selling through farm gate sales and their own retail. The consumer-producer interface is a significant factor and so is the producer's ability to market themselves and stand out from the crowd of other producers at the same markets.

Attendance at farmers' markets can be very weather dependent, therefore the level of sales week to week are never guaranteed.

Interviewees noted that piggybacking sales deliveries to other customers on farmers' market days in some urban areas works to keep transportation costs economical and maintain some logistical efficiency.

Farmers' markets within SCOR could also become tourism attractors depending on the breadth and scale of their offerings and locations.

Community Supported Agriculture (CSA)

The CSA model offers reliable and pre-determined sales, in which producers receive revenue up front for purchased shares of product throughout a set season. This selling model requires superior marketing skills and customer service and really depends on selling a product bundle up front and blindly to consumers (unless they are repeat consumers).

Interviewees noted that this method of selling can be more efficient than selling at farmers' markets or to small restaurants once a core group of consumers is developed because these consumers are guaranteed to be repeat customers whereas in farmers' markets and farm gate sales there is no guarantee. This selling model allows the producer to be flexible in what he/she provides each week (or bi-weekly) and can work for seasonal and other product fluctuations.

5 http://www.ontariosouthcoastwine.com/

Restaurants

Many restaurants source local product to advertise on their menus. Some restaurants have been doing this for years and others have started to do this due to the increasing demand for local product. Many restaurateurs source and pick up the product themselves, which can be very timely and costly. One stakeholder suggests that chefs are pursuing this more than producers and that producers often don't emphasize it because many of these restaurants buy smaller volumes than other marketing channels. Interviewees noted that once connections are made there is generally loyalty to producers. However, consistency, in having the product available and in quality, can be a problem at times.

However, another interviewee did note that when a chef promotes a product, it is marketed very differently than when sold through retail and this can be very valuable for producers. Presentation of the product in a manner which is different than a consumer would think to use it at home can incite customers to try it that way. Also, in many cases, restaurants will acknowledge the producer or the farm from which the product was sourced.

Producers we spoke with, especially those who produce large volumes do not deliver to restaurants due to the small volumes they order. Instead they require that the restaurants come to them to purchase product. Opposite, there are many chefs who prefer to use local product but do not have the time to drive across the countryside picking up product while also running a fast-paced business such as a restaurant. There are companies such as 100 Mile Market or 100 Km Foods that are taking on the logistics for these relationships and sourcing product for more than one restaurant at a time making the logistics more economical.

In many cases, if a chef is looking for local product the sourcing method can be very informal. The issue is that when the process is so informal there's no way to know what else exists in the area. They then use distributors to source Ontario or Canadian product they cannot get in their area and other imported products. The difficulty in using distributors is the lag time between ordering product and having it delivered and the guarantee that it will actually be local.

Some larger producers do send product lists to chefs which makes it more efficient to source and to be able to source a range of products from one producer.

Barriers in supplying smaller customers such as restaurants were identified. It was noted that when a restaurant orders a product they generally want it right away, leading to very tight lead times. It was also suggested that some restaurants, and other small customers, are credit hungry and the payment terms can be quite informal compared to some other larger buyers.

Processors

Processing products grown and raised in SCOR will add value to the raw product, and in horticulture products in particular, will extend the season and shelf life of the product. It can also provide a source of income throughout the whole year. However, over the years, food processing capacity has diminished in Ontario (Metcalf Foundation, 2008); and the situation is no different in SCOR. A number of factors have led to this diminished capacity including regulations that were put in place to raise food safety standards that became uneconomical for small to mid-sized processors.

In vegetable processing there is a unique situation in that the major processing crops[6] for canning, pickling and freezing are regulated in Ontario and contract prices are negotiated through the Ontario Processing Vegetable Growers. This industry is very capital intensive, a factor that results in relatively long standing supplier/customer relationships. In addition, as part of that supplier/customer relationship, processors work with their producer-suppliers to develop production protocols and scheduling procedures that ensure processors the quantity, quality and timing the processor desires.

A number of producers of non-regulated horticulture products (both vegetable and fruit) that grow for the fresh market mentioned in interviews that it would be ideal to extend the life/season for their products through processing and adding value to the product so that Ontario product can be available throughout the whole year. Interviewees see this channel has having the most potential to expand local food production. One producer in particular, has added a crop to his line of produce that is grown specifically for processing, which takes place on-farm.

Naturally Norfolk, a new fruit and vegetable processor located in Delhi is hoping to fill this void. Naturally Norfolk has the ability to dry, freeze and puree products, in custom packaging or co-packing arrangements. There seems to be an opportunity for Naturally Norfolk or other processors to buy product and process it under their own brands or toll process[7] product for a grower or group of growers.

During the course of this project it was discovered that Ontario Refrigeration Services also has capacity to help with development of frozen products, chilled products and packaging. This company, located in Ingersoll since 2003, has grown organically since its founding. It has considerable expertise in refrigeration and freezing technology, owns two large facilities one having rail access and both near the 401. It also has 40 employees and 11 refrigerated trucks. The company has capacity to batch freeze products, is a leader in conditioning of meat products for processing, and has interest in expanding into continuous freezing. Because of its expertise, location and trucking capacity the company is also capable and interested in working to improve logistics from SCOR.

This market channel for Ontario product requires significant marketing. Historically, consumers have viewed local food as existing only in the perimeter of the grocery store, where the fresh produce, meat and dairy products are placed.

Independent Retailers

Sellers who service these market channels suggested that they require smaller volumes than the larger retail chains but most other demands of the customer are the same, in that they require consistent, quality product.

Once relationships have been established, there is a consistent demand from these outlets.

Small to medium sized sellers like the direct to store delivery method of distribution, however some larger sellers find delivering to each independent buyer to be inefficient.

[6] Regulated crops include tomatoes, green peas, sweet corn, green and wax beans, cucumbers, beets, cabbage, cauliflower, carrots, lima beans, peppers, pumpkin and squash.
[7] Performing a service on a customer's product for a fee, where the grower still has ownership of the product.

The smaller the lots the more costly and timely distribution can be for sellers. Therefore, some sellers encourage independent retailers to purchase larger volumes or more than one product in order to make transport costs more economical for themselves.

Niche Market Distributors

There are a few niche market distributors who connect restaurants and gourmet food stores with local producers. This can be a higher cost option, so the buyers must be high end or very interested in local food. Chefs want to market local but sourcing products (as described above) can be inefficient in terms of cost and time.

This is a very competitive market as local alone doesn't necessarily mean buyers will pay more so distributors must to be able to communicate the product attributes to buyers.

Challenges for these distributors include finding quality, consistent product and the lead time between purchase orders and sourcing product.

Selling to Distributors/Wholesalers/Brokers

Many stakeholders rely on distributors/wholesalers to sell their product and provide the networking and marketing function for them – either these producers are at a threshold volume where they cannot distribute and sell all of their product themselves anymore, never want to be responsible for the marketing function, or who want to have a presence in markets that they currently do not service themselves.

There are some companies that are servicing niche markets and distributing higher end products to customers that are interested in local food, including restaurants. This is a very competitive market to service, as many of their customers are smaller and demand smaller volumes, the demand for product can be inconsistent and on the other end the availability of product can be inconsistent.

One interviewee noted that producers sit down with brokers to set prices and establish production volumes, whereas when producers sell product themselves they never want to set prices.

Brokers offer a variety of product to customers which makes servicing them more efficient.

Working with brokers ensures that producers are paid on a regular basis, for example every two weeks, whereas if producers sell to retail on their own the payment terms could be much longer.

Retail and Foodservice Chains

The larger retail and food service chains operate extremely large and complex food distribution systems across Ontario and Canada to service thousands of stores. Typically, there are a few central distribution centres across the province that accept product from local producers and importers and a fleet of trucks that deliver product seven days a week. The key to a well-run logistics business is planning that leads to efficiency.

Many sellers servicing the larger retail chains have been doing so for many years. In some instances these relationships were formed with independent grocers and retail chains that have since been bought by the large players. Other sellers have actively pursued the large chains and noted that it took a few years of persistence to get their product in the door. It must be noted that there are also producers who were servicing independent retailers and when these retailers were purchased by a national chain some producers did not continue servicing them.

These larger buyers work primarily with larger producers who have a recognized food safety and quality program on-farm with good production practices that can deliver what they promise – in terms of volume and quality. One retailer is looking to streamline the buying process through direct purchase from larger producers, rather than work through a secondary distributor. These buyers then use their relationships with the producer to find out more about other large, superior producers.

Retailers plan in advance with the suppliers so that both parties have realistic expectations and understand the demands and limitations. Planning includes discussing volumes, sizes (horticulture), cuts (meat), packaging and delivery scheduling. If producers cannot meet the requirements and/or they have cooling, packing or grading facilities, they are encouraged to scale up with other producers. It would be very inefficient for these buyers to deal with a large number of smaller suppliers. Also, the advantage of having small suppliers work together is that they will not undercut each other which can happen when they are all trying to sell individually into the same market.

These buyers would prefer to have producers/packers coordinate shipment volumes since they are the ones that understand quality and can monitor quality and consistency for the retailers.

Most producers interviewed servicing these channels noted that once these relationships are established they have remained very good. Buyers stick with those who can produce quality and serve them. Many sellers don’t have contracts but long term relationships and are on the shortlist of suppliers for these chains. One buyer noted that he has a short-list (2-3) of suppliers of each product so that he can be guaranteed to receive quality volumes of product.

In order to service these buyers there need to be efficiencies in logistics. Many stakeholders who service retailers/food service offer to provide more than one product, including like items, to increase their offerings to the buyer. This is an advantage since buyers would like to work with fewer suppliers. In the same stance, some retail chains have downsized their list of suppliers for the sake of efficiency. One interviewee noted that in the past retailers would divide up their requirements amongst a larger number of producers, but this can become as inefficient for producers as it is for retailers. Practically, these larger channels demand larger volumes and in concept could require only a handful of large suppliers for each product. Along with volumes, sellers must meet quality and food safety specifications which demands a lot of paperwork and can become a barrier for smaller sellers.

Central warehousing or regional distribution centres are the norm, but some chains do allow direct to store delivery, however this is not a formal process and can be very inconsistent. This more often occurs in stores that are franchised where relationships have formed in the community. These selling arrangements are then worked out with the store owners and typically are created for small volume, seasonal products or very fragile products, e.g. Ontario strawberries.

Growers with large volumes who supply a large number of stores prefer supplying one central warehouse because there are time and cost efficiencies in doing so. Some retailers have begun backhauling from regional stores for reasonable fees which makes distribution more efficient.

One retailer noted that backhauling requires a lot of time in planning and coordinating and suggested that they backhaul primarily large volume commodities that would fill a truck.

On the meat side, many national chains have national purchasing strategies that effectively lock out provincially inspected plants from supplying them. If national chains purchase meat from provincially inspected plants they cannot send that meat to another province, whereas they can do this if they purchase meat from a federally inspected plant. On the supply side, a small volume supplier trying to differentiate will likely have difficulty accessing a federally inspected plant due to the cost of small runs in large plants. This could effectively limit the supplier's ability to sell into larger chains and grow its product line through these channels.

Overall, retail consolidation has given retailers buying power and has also enabled those who serve them to grow as well.

It is key that producers understand the marketplace and what already exists. One retailer noted that they are sufficiently supplied with 'traditional' vegetables from Ontario; therefore a new supplier must provide what the market is looking for or change marketing channels.

Overall, these respondents see no market access problems so long as producers can produce a high volume of quality products that meet food safety specifications.

All other things being equal buyers prefer to purchase local but quality, seasonality and sometimes volume requirements can be barriers. Purchasing local can also not be made any more difficult than their other purchases and must meet all of the quality and food safety specifications. At the same time, these retailers likely also have year-round buying agreements with foreign suppliers. Therefore, even during Ontario's season, produce from these suppliers could also be on the shelf competing with Ontario product.

Ontario Food Terminal (OFT) – produce only

There are very diverse views regarding selling through the OFT. Some sellers use the OFT every day, some use it only when needed during peak production and others never sell product through it.

The OFT is the largest fruit and produce distribution centre in Canada and one of the top five in North America. It is a "financially self-sustaining distribution and wholesale hub composed of office space, a common cold storage facility, leased warehouse space, staging area, loading docks, parking space, centralized garbage collection, cleaning and recycling facilities and a wholesale farmers' market venue where farmers and Ontario/Canadian dealers can sell fruit, vegetables, flowers and plants directly to registered buyers" (MAH, 2009). It is now a self-sustaining enterprise that sustains itself on fees for services, including fees on trucks that enter the Terminal, buyer registration fees and fees for cold storage use. The OFT is run by a Board that is an agency at arms-length from the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA).

The OFT was set-up by the government in the early 1950's to relieve congestion around the former hub at the St. Lawrence Market in downtown Toronto. Its current location is adjacent to Toronto (in Etobicoke) and directly off the major transportation route into the city. When the OFT was opened in the 1950's traffic congestion was not an issue like it is today, therefore producers often have to plan on arriving overnight or very early in the morning to avoid traffic.

Those vendors who were selling in the old hub were given 99 year leases for the use of warehouse space at the OFT. Wholesale units are leased to companies who sell produce from Ontario and imported product. Approximately 85-90% of the produce sold at the OFT through wholesalers is imported. There are a few permanent vendors who sell Ontario produce in the OFT (including Streef's and Korneef's). There is also a Farmers' Market area where Ontario/Canadian vendors can sell product. Stalls in the Farmers' Market area can be leased annually or semi-annually, or rented out by the day.

Buyers in the OFT must be registered in order to shop there. According to the OFT website there are over 5,000 registered buyers who come from across the GTA, Ontario, Quebec and the Maritimes.

The mandate of the OFT is to provide an open forum for stakeholders that provides fair and transparent pricing competition. The Toronto Wholesale Produce Association (TWPA) works at the OFT to record all transactions. OWPA compiles all transactions for the registered buyers and buyers are sent one bill at the end of the week. Buyers have another week to pay or they will not be allowed to shop there. Therefore there is always a guarantee that sellers will be paid. OWPA works only for those sellers who have permanent bays and not for sellers in the Farmers' Market area.

The benefit of this market channel for buyers is that it is a one-stop shop for local and imported produce that is close to the large Toronto market.

OFT is a competitive selling arena where buyers can walk the floor to assess quality and price. In the farmers' market area during peak Ontario season there can be undercutting of prices, whereas those sellers who use the OFT regularly have very loyal customers. The customer base is mixed and is made up of both loyal customers and transients shopping only for the best price. One stakeholder noted that unless you can be there every day to nurture customer relationships it is difficult to sell through the OFT, therefore he sells through a wholesaler who is present every day. Whereas another stakeholder noted that by having a regular presence at the OFT Farmers' Market they are aware of new buyers in the market and then can approach them individually.

As with the smaller consumer-focused farmers' markets OFT sales are also weather dependent.

Producer Cooperative

Producers have come together collaboratively to scale up volumes and move product collectively and economically. As a group growers discuss plantings and inventories so that the cooperative's general manager understands what will be available for sale next year and can make the appropriate marketing plans.

In these organizations growers hire management to find markets, market their products and build business relationships. In effect they have hired a manager so they can concentrate on the agronomics which is where their skills lie. Hired management also translates what the buyer wants to the growers.

As a group who is pooling product this requires quality specifications or programs to be in place.

This selling arrangement brings security to the producers.

3.4 Current Market Access and Distribution Methods: What is working?

Section 3.3 described the many market channels where sellers and buyers connect. This section describes what the interviewees and survey respondents suggested works well in getting food distributed.

Above all else, consistent product quality works to sell a product, in fact it is required before the conversation with a buyer – whether a consumer, wholesaler or retailer – can go any further. One respondent noted that 'if all you have to offer is just what the next person has, then the only thing you can do is offer a lower price', which doesn't work well competitively.

Pounding the pavement

- No matter what channel, all require effort in reaching out to customers and consumers.
- The most popular method of reaching customers.
- It's relatively simple but takes persistence and patience
    - Cold calling and face to face meetings are often required and in a number of cases it took interviewees years to get into a retail chain
- Sellers must know the product and service attributes that are important to potential customers.
- In all channels, the best salespersons are the owners and producers of the product.
- Once a relationship has been made, then sellers can decide how to physically get their product to the customer.

Participation in the sector

- Participation in the sector and community provides ideal networking opportunities.
    - Food and gift shows, food competitions and fundraisers
    - Participation in agri-food associations
- Allows sector/community to learn more about the organization and the product.
- Free form of advertisement

Social Media

- Savvy use of social media can have a big impact on accessing markets and distribution.
- In today's marketplace many consumers search the internet to source product and find information.
- Numerous ways with which to attract consumers:
    - Well-planned websites, including stories, maps, on-line ordering, recipes and lists of locations where they can purchase products.
- Social media goes far beyond basic websites now to include videos, Twitter, Facebook fan pages, etc… where sellers of food products can provide quick information to consumers and customers.
- Can also be used to connect sellers who are looking to collaborate:
    - Finding markets, selling at markets, selling others' products at their own retail or looking to move product together
- Very few stakeholders currently use social media (other than websites) on a regular basis, but those who did garnered consumers and customers as a result.

Creating relationships

All three of the above-mentioned methods that work to improve distribution involve creating relationships:

- Creating and nurturing relationships is key to selling and maintaining consumer and customer loyalty.
- Must align with the right customers or distributors.
- Whether a producer or processor is selling their product direct to consumer or to retail, they sell themselves as well as the product.
- Direct relationships with customers are needed so that they can 'talk the same talk' about the product.
- Important to be the first point of contact with customers.
- Relationships need to be continually nurtured, including continual communication with customers.
- Once good working relationships are created with consumers, distributors, or retailers then word of mouth helps to expand knowledge of an operation.
- Many private networks of buyers and sellers are being created.

Collaboration

- Collaboration with other agri-food stakeholders should occur.
- Interviewees agreed that not enough people are being creative and working together.
- For those that are, collaboration has worked to access new markets and distribute products more efficiently.

Planning

- Production, packaging and logistics planning for the market you want to serve.
- In collaboration with customers
- Requires knowledge of market requirements
- Not planting crops or raising animals or processing product without a current market.

Expanding product line for customers

- Offering more products from one seller creates efficiencies.
- Stakeholders collaborate to provide a line of products to customers or expand their own product line to broaden the market for their customers.

Knowing when to Adapt

- It's important to know when to adapt to a market or economic situation and when to divest of either an enterprise or a buyer or supplier.
- Many stakeholders have eliminated product offerings or markets that were not economical.

Creating Added Value

There are many ways in which a seller can create added value to their products and/or their service:

- Value added products offer another vehicle for primary product
- Create a more diverse portfolio for the seller

- In the case of horticulture products lengthen the availability of product through processing or improving shelf life.
- Value added products also allow sellers to enhance their margins if they are no longer competing at selling commodities.
- On the service side: value added can come from nurturing customer relationships, providing efficient distribution which may also include adding more products to the sellers' offerings and offering product in varying sizes.

3.5 Current Market Access and Distribution Methods: Obstacles

Section 3.4 shows that there are many methods being used to market and deliver food products from the South Central Ontario region. However, interviewees and survey respondents did note that there are inefficiencies and bottlenecks in the system that have limited their growth. These obstacles have been divided into the following types:

- Marketing
- Logistics
- Institutional
- Regulatory
- Growth Obstacles
- Operational Obstacles

Marketing Obstacles

> *"The objective of marketing is to satisfy customer needs not to make money because you exist."* – Retail interviewee

Many interviewees agreed that one of the most significant obstacles to efficient food distribution is a lack of market understanding and marketing skills. Marketing can be scary for those who overthink it; in fact it can be broken down quite simply: understanding the market, planning, networking/relationships, and communication and negotiation.

The following points were made during the interviews and surveys:

- Marketing skills are lacking in the sector
- Many sellers do not know how to connect to the right buyers
  - This is especially true of producers coming out of tobacco, which was essentially a supply managed commodity.
- Producers need a marketing plan prior to production
  - Industry understanding that many producers do not have marketing plans.
  - Horticulture is a thin market; therefore a producer cannot just plant 50-200 acres and take a chance on who will buy their crop because this can cause a huge ripple in the market. This can result in overproduction, competition and undercutting of prices during peak periods, resulting in an impact on grower profitability.
- Target the appropriate markets
  - Some producers target the wrong markets – due to volume differences or not targeting customers who would be interested in their product or story.
  - Size and business structure have an impact on this, for example producers need to be large enough to make connections with certain stores – so there is a challenge for producers who are below a volume threshold.
  - Many producers want to service the local market, however there may be too many producers for the demand in the rural area despite the fact that local

demand is high, therefore not all producers can compete to service this market and there must be some expansion.

- The process of price discovery[8] can be difficult for smaller producers
  - This can inhibit distribution and access to certain markets.
  - This is an aspect of both understanding the market and planning, as information about the market is required to make an educated decision and so is a complete understanding of one's own cost of production.
  - One of the reasons that this has become an obstacle is that there is a reluctance to share cost of production and pricing information within the producer community.
- "The mistake that has been made is that people think if they're local or organic, or both, that customers will want to buy from them. But the value proposition has to be better than the competitor and the product must be of high quality".
  - Market understanding and planning is required to understand the value proposition.

Logistics Obstacles

Many interviewees acknowledged that finding markets was not necessarily the issue but that the efficiency and cost of distribution – the act of physically moving product to a customer, could be improved.

- This was the single most frequently cited issue in the interviews.
- With the abundance of production taking place in SCOR there are plenty of trucks moving in and out of the region but likely a proportion of these trucks are on the road half empty.
- It is very expensive and time consuming for individual sellers to move product on their own, especially if they service a number of customers across the province, or a number of small volume customers.
- A reluctance to collaborate making distribution inefficient.
- Logistics requires planning and is a very different skill than marketing.
- A reluctance to work together to scale up in order to enter new markets or use infrastructure more efficiently.
- Difficulties connecting with the right distributor – one with same values, serving the markets that the producer wants and selling the product the way the producer would want it sold and marketed.

Institutional Obstacles

A few interviewees and survey respondents noted that current Ontario institutional procurement policies stifle their ability to service public schools, hospitals and other public institutions.

- Most large institutions procure product from a larger food distributor in order to make the process more efficient.
- Historically, many larger food distributors have had limited local food choices, however this seems to be changing.
- One exception would likely be on meat, where the food distributors interviewed for this project procure meat only from federally inspected plants.

[8] Price discovery is the process of determination of market prices through the interactions of buyers and sellers in a free marketplace (www.investorwords.com)

There have been many ad hoc initiatives put in place to increase the amount of local food purchased by institutions. In particular, the Broader Public Sector Initiative Fund: Promoting Ontario Food Program is a partnership between the Greenbelt Fund and OMAFRA with the "aim to increase the amount of Ontario foods purchased through municipal, university, school and hospital food services. Funding is available to these institutions, Ontario producers and other stakeholders to make this happen." There are two primary parts to this program: 1) there are grants available to fund projects that would meet the criteria, and 2) the program aims to promote local food and connect stakeholders.

Regulatory Obstacles

A number of interviewees and survey respondents described regulatory obstacles that prevent them from accessing certain markets. Although addressing these obstacles is beyond the scope of this project they are clearly relevant to stakeholders in SCOR.

- There is no market access for provincially inspected meat in large grocery chains
- Inability to sell local wines through farmers' markets.
- The supply management system limits the amount of chicken and eggs that can be produced by a non-quota holder.

Growth Obstacles

We spoke with many stakeholders who have grown due to their success in sourcing markets on their own and having built customer relationships, but now have a reached a 'tipping point' where they need more market penetration to keep growing and help in servicing the markets they have established.

- There is a tipping point between customer contact and scalability and many producers/processors find themselves in a grey area trying to manage this.
- This then leads back to the marketing obstacles.

Operational Obstacles

- The lack of food safety and traceability programs in many operations is an obstacle to access certain markets.
    - This is a bottleneck for producers who would like to service markets that require it.
    - Programs are expensive to implement and maintain.
    - Drastically alter the cost of production and therefore if two producers are competing for the same market but one has the program and the other doesn't, the producer who does not could undercut the price as a result.

3.6 The Potential for a Central Distribution Warehouse in SCOR

The possibility of a central distribution warehouse in SCOR was raised on numerous occasions and therefore must be raised in this section of the report. Of course, if the development of a central distribution warehouse were feasible then all stakeholders along the value chain would be in favour of it. Logistically, it would be easier for a producer to sell through a warehouse located in Ingersol, for example, rather than driving to Toronto from SCOR. However, through the interviews and surveys, it's clear that there are more questions than answers.

It's evident that any central distribution warehouse built in Ontario is going to compete with the existing Ontario Food Terminal. Even if a new warehouse would offer a more diverse product line including meats, dairy products and grains and oilseeds and further processed products – the majority of product grown in SCOR is fresh produce. The Ontario Food Terminal also offers imported product and many items that are not produced in Ontario.

Therefore, if the central distribution warehouse is simply another OFT, then three questions arise:

- What value would the central distribution warehouse in SCOR offer customers above the OFT?
- Who would be the customers and buyers?
- And, of the sellers, who can commit resources to two places – the new warehouse and the OFT? Current sellers at the OFT are likely not going to forgo their business there to sell exclusively at the SCOR warehouse.

Others commented that if producers currently don't like the competitive atmosphere at the OFT, there is no guarantee that this wouldn't arise at a new terminal.

A central distribution warehouse would require a significant amount of capital expense and would need a threshold volume moving through it to make it viable therefore a large customer base must be found. Would the capital expense be justified and would a new food terminal service the obstacles described in Section 3.5? Other than some distribution efficiencies, this model would not serve the other obstacles such as marketing, growth obstacles, institutional and operational.

3.7 Summary and Observations

Food distribution is *"the process of getting food products from producers to consumers. More specifically, food distribution relies on transportation and storage infrastructures, food safety and handing procedures, and marketing. Therefore, food distribution is comprised of a large network of complex operating and management systems involving coordination, organization, purchasing and delivery of food goods and services from producers to consumers"* (San Francisco Food Alliance, 2005). It is a very complex system with a broad range of food suppliers, market channels and consumers, and a myriad ways to connect.

Within the South Central Ontario Region there is a diverse and strong agri-food sector, producing a variety of products for all market channels both inside and outside the local region, Ontario and the country. It is clear that there are very entrepreneurial stakeholders in the agri-food sector in the region that have been very successful in accessing markets and working with customers to deliver quality products from SCOR.

However, even entrepreneurial stakeholders can run into obstacles in accessing markets and distributing product. Based on what we heard was working and where the obstacles lie, there are a number of areas that could be addressed in order to improve the competitiveness of all of the agri-food stakeholders in SCOR.

The following are observations of what service is needed in the tools or models that we would recommend.

1. Marketing Skills or Services

Basic business management skills can actually be difficult to attain in an environment where collaboration is weak.

As mentioned above stakeholders need to be able to:

- Learn how to sell their product; this includes understanding cost of production and growth ability in order to have educated pricing and supply discussions. At the same time retailers/customers must understand the cost of production of food products in Ontario as well.
- Communicate with customers/suppliers – how should communication occur with customers? Is it different depending on the market channel you wish to sell through?
- Negotiate

This includes understanding the market. It was made clear through the interviews and surveys that some producers/processors understand that the marketing channel will dictate how the product is marketed and sold but acknowledge that there are likely other producers who do not understand where they fit in the value chain.

The first step is ensuring that producers are supplying something someone wants to buy; the key is to find the right customers/markets for the product, values and size of the operation. Failure to evaluate potential customers and their needs is the most basic issue in market access.

Understanding the market includes knowing the requirements to get into certain markets and then pursuing those, including food safety and traceability requirements and quality consistency.

There is also a need to learn how to connect the value chain or where to find new connections. Many stakeholders connect to buyers or sellers somewhat informally – through word of mouth, through other customers/suppliers, searching websites etc…The issue is that ‘you don’t know what you don’t know’ when this is the process that is undertaken and there could be customers and markets that meet a producers’ needs but the two never connect. Not knowing the marketplace that you could be serving is a barrier to growth and likely results in producers fighting to service the same markets instead of branching out.

2. Logistics efficiencies

Efficient distribution is key to improving costs, moving more product and could even help in finding new markets, for example if distribution efficiency improves then moving into new markets could be an option that didn’t exist logistically or economically before.

Marketing and logistics require very different skills and are the two most significant aspects of food distribution. These two elements likely require collaboration vertically and horizontally along the chain, either formally or informally. What tools can be provided or models developed to address the services required described above? This is explored in the next section of the report.

4.0 Food Distribution Initiatives

4.1 Introduction

Martinez et al., (2010) state that barriers to local food-market entry include:

- capacity constraints
- lack of distribution systems
- limited research, education and training for marketing local food
- concerns about food safety requirements

Our findings in previous sections of this report have concluded that these issues facing producers accessing local food markets also extend to producers accessing all types and locations of markets. Increasing vertical and horizontal integration in food retail systems has had a restricting effect on the purchase of locally grown food (Carter-Whitney, 2008). This integration in which retail outlets deal with few suppliers often owned by the company and horizontal integration where several chains have the same supply policies, have left many producers searching for new market access.

In order to determine an appropriate food distribution model for the South Central Ontario region, an examination of distribution models in other markets to determine what makes each method successful, where the challenges are in each model and how they can be applied to the SCOR region is required. This case study analysis looks at a number of different distribution models, for several different products and production regions. Using these case studies we are able to provide an informed recommendation for improving market access for SCOR producers.

Section 4.0 begins with a review of a number of distribution channels, briefly discussing each type, providing some examples and discussing why producers or distributors choose to organize in this way. Second, a summary of the regional case studies that look at specific markets in Canada and the US and how they have used unique methods of distribution to supply consumers in urban centres within the region. Examining these cases provides information that can be used to assess the usefulness of these models as a basis for food distribution models within SCOR.

4.2 Types of Distribution Models

There are three basic supply chain models for food (King et al., 2010):

1. Main stream – supply chain for major grocery stores and food service companies
2. Direct market – producers market and distribute the product themselves
3. Intermediated chain – producers supply product to one or more intermediaries for distribution to the customer.

All of the market channels described in Section 3.3 fit in one of these basic supply chain models. Within these supply chain models there are a variety of distribution models that can be used to move product depending on the needs of the end user. Distribution networks allow for the "scaling up" of food systems (Day-Farnsworth et al., 2009). Individual producers often note that they cannot supply large enough quantity of production to satisfy the needs of large buyers, they often also provide logistical advantages over direct selling. Distribution networks allow for the aggregation of product to better meet these needs.

Research conducted by Chefs Collaborative, an American national network of over 1,000 member chefs who support sustainable food (Martinez, et al., 2010) identified six distribution models for getting food products from the producer to consumers (Chefs Collaborative, 2009).

Each of these distribution methods has advantages and disadvantages in providing access for producers to markets for their products. A description of each method is provided below:

1. Non-Profit Brokers/Referral Services

Non-profit brokers and referral services link producers with end users by providing contact information. Details of distribution are then worked out between the producer and the customer. This often takes the form of "virtual networks" (Chefs Collaborative 2009) in which producers and customers are able to find contact information about each other to begin the distribution process. Many such services are available online allowing consumers to directly contact producers, but also allowing distributors and retail outlets to connect with new suppliers. Virtual referral services can provide a range of services from simply listing contact information for suppliers to actually listing products and price lists of available production. These services can be local or national in scope, one such site called Local Dirt (www.localdirt.com), focuses on providing information on local producers but can be used by producers, consumers and distributors all over the United States. Ontariofresh.ca is a new on-line site providing profiles of producers, distributors, processors and retailers of Ontario food products. It will be launched in September 2011. Please see Appendix G for more details.

2. Farmer Cooperatives/Farmers Market Hubs

Farmer cooperatives are producer controlled groups who organize to access customers. There are several reasons for forming a farmer cooperative, most commonly meeting the volume needs of large customers and taking advantage of pooled capital resources. Cooperatives usually specialize in one or two commodities. Farmer's market hubs, like farmer cooperatives allow producers to pool resources to create a shared space in which consumers can access a large number of producers at once. Farmer's markets are usually a secondary market for producers, allowing for distribution of surplus product (Chef's Collaborative 2009). Farmer's markets usually provide more variety of products than farmer cooperatives. The USDA reports that 82 percent of farmers markets' in the United States are self-sustaining (Carter-Whitney 2008).

3. Public – Private Partnerships

Public-Private partnerships, such as "Foodland Ontario" (OMAFRA) provide government resources for producers to help them gain market access to customers. These partnerships are particularly useful for small to mid-sized farmers and focus on regional markets (Chef's Collaborative 2009). The approach of this organizational structure is that producers require some assistance to get started but eventually the public resources will be mostly or fully withdrawn as these organizations become financially independent. Government funding is usually provided under a specific government assistance policy, and the scope of partnership may be limited by the policy parameters under which it falls.

4. Values – Driven Enterprises

Values-Driven Enterprises provide food distribution with a specific mission. These are usually private startups that incorporate social goals into their business model, though they do not usually include direct advocacy roles (Chef's Collaborative 2009). Some local food initiatives would fall under this category, where the purpose of the organization is specifically to promote local food consumption.

5. Traditional Distributors "with a twist"

Traditional Distributors "with a twist" develop local food divisions within their traditional core business. End users are able to access the same companies they have dealt with in the past but can now also access local products from these distributors. Most of these models require consumers to place their orders through separate online portals (Chef's collaborative 2009) or through local divisions of traditional distributors.

6. Broadline distributors

A broadline distributor services an array of customers with a broad catalogue of products. An example would be Gordon Food Service.

The featured case studies provide unique examples of these different types of distribution models.

4.3 Case Study Summary

Four unique cases of food distribution models were examined to provide an understanding of what is being done to distribute food from producers to consumers. These case studies come from both inside and outside of Ontario.

The following section provides a summary of the four case studies and why they were chosen as case studies.

Appendices C-F contain the case studies in full detail.

4.3.1 Lunasa Market[9]

Lunasa is an online members-only farmers market focusing on local food, that has two in-person distribution transfer locations – in Ann Arbor and Garden City, Michigan.

Lunasa is a private LLC that was the brainchild of three friends from the Ann Arbor Michigan area interested in the local food system. The objective of Lunasa is to provide an environment where connecting with local producers and local consumers can be made easier.

Lunasa works on a calendar schedule. There are two market cycles for each market, each month. Producers upload and maintain product and price information to the Lunasa website for products that they have available during the market period. Consumers have a three-day window to place orders based on the products producers have made available. Consumers pay for their orders on-line. Farmers then have approximately 2.5 days to prepare their orders. On "market day" producers bring their product to market locations where customers pick up their orders. However, it is not as efficient for consumers as it is for producers because the orders are not compiled and therefore consumers must walk around the market and pick up their products from each individual producer.

Lunasa offers all types of products to consumers – vegetables, fruit, meat, dairy, grains, processed products, baked goods, eggs and more.

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[9] See Appendix C for the complete case study.

Transactions take place on-line and Lunasa compiles orders, takes 10% off all orders to cover its costs and on market day pays producers for that week's orders.

This case study was chosen for the following reasons:

- On-line profiles of producers and the product available – which allows connection between producers and consumers.
- It is a mode of collective marketing for producers; Lunasa's owners advertise the market and the producers themselves using social media (Twitter and Facebook), advertisements, word of mouth.
- The member-market provides a dedicated customer base year round.
- This is a form of direct marketing and a farmers' market but it is less time consuming (3 hr. pick up window) and all sales are known prior to market day.
- Quality is monitored.
- For owners, it is a low-cost model: they rent space, coordinate the website and marketing, but have low labour costs because there are no labour requirements.
- Lunasa is experimenting with a pilot wholesale distribution system.

4.3.2 Pioneer Valley Growers Association[10]

Formed in 1978, small and medium-sized New England fruit and vegetable producers formed the Pioneer Valley Growers Association, a co-operative, to market their production as a wholesale distributor. Most of the producers in the area had been selling into the Boston Terminal market before forming the co-operative to take advantage of the movement by large supermarkets to set up their own distribution networks. The objective of the model is to maximize returns for producers.

- 30 farm members of the co-op who supply most of the product that is sold.
- PVGA also sells production from non-members if member producers are not able to supply products required by their customers.
- PVGA sells to the large Supermarket chains, independent retailers, as well as farmstands within the region.
- PVGA holds member meetings in the winter to coordinate production plans and better supply what their customers want.
- PVGA sells under their own brand "New England's Best".
- PVGA does not take ownership of producers' product but charges a fee for marketing and logistics services.

This case study was chosen for the following reasons:

- These producers were selling to the Boston Food Terminal, likely similar to the Ontario Food Terminal and decided with the use of central distribution by the major retailers to scale up and ship directly to these large customers.
- PVGA sells non-member produce for a commission and when their product is low to ensure a longer supply for their customers.
- PVGA members discuss and plan production intentions together to better serve their customers.
- PVGA sells a brand, which is something that producers in SCOR could potentially do.
- PVGA services the mainstream retail markets, as well as some smaller markets.

[10] Please see Appendix D for the complete case study.

4.3.3 100km Foods Inc.[11]

100km Foods Inc. is a young incorporated partnership providing a link between Ontario producers and restaurateurs, caterers and retailers in the Toronto area looking to source locally produced products.

- Producers inform 100km Foods what they have available.
- Customers are sent an up-to-date product list each day, via spreadsheet, and order 2 days in advance of delivery.
- Customer orders are compiled and sent to producers.
- Orders are picked up by 100km Foods' delivery trucks or delivered to the warehouse where they are compiled into each customer's order.
- Orders are delivered the following day.
- Customers must order a minimum of $200.
- 100km Foods take ownership of the product and then charge a 30% markup.
- 100km Foods also run the Ontario Artisan Share Program and deliver food boxes (similar to a CSA) to businesses in downtown Toronto.

This case study was chosen for the following reasons:

- This company procures product from parts of SCOR.
- This is a chef-driven model that the owners took advantage of.
- This is a logistics-based company that provides collective marketing for its suppliers.
- This company reaches consumers in a number of ways – through chefs, retailers and consumers themselves with the food boxes.
- The owners see future growth potential.

4.3.4 Co-op Partners Warehouse[12]

Co-op Partners Warehouse (CPW) is a certified organic produce distributor owned by the Wedge Co-op in St. Paul Minnesota. Founded in 1999 as an extension of the Co-op, the mission was to develop a mid-sized distributor of produce and other perishables that focused on distributing goods produced by small, family-operated companies in Minnesota and nationwide. At the time, the produce manager at the Wedge identified a need for a distribution model that was more ideological-based and was not simply a transporter of product. The food co-ops are different than a traditional grocery store, so the staff believed that they needed a different type of distributor.

- The CPW has a roster of local producer-suppliers that it regularly purchases from.
- Payment to producers is negotiated on an individual basis and is not dependent on sales orders.
- Product is pooled from various producers if volume is required for some customers.
- CPW requires a minimum order from customers.
- CPW acts as a traditional distributor and marketer, but also operates a drop-ship service for custom orders. This service coordinates the logistical aspect of sales on behalf of producers (producers that are not their own suppliers).
- While the CPW sources local products when available they do source from California, Florida or Washington outside of peak season in the region when necessary to ensure supply to their customers (Day-Farnsworth et al., 2009).

[11] Please see Appendix E for the complete case study.
[12] Please see Appendix F for the complete case study.

This case study was chosen for the following reason:

- The drop-ship service is a very interesting aspect of the business that provides efficient logistics for producers who want to retain the marketing and customer service relationship themselves.

Table 4.1 provides a summary and comparison of the characteristics of the case studies and describes whether the case studies meet the service needs that were determined in Section 3.0 – including marketing skills and services and logistics efficiencies.

Table 4.1: Summary and Comparison of Case Studies

	Case 1: Lunasa	**Case 2: Pioneer Valley Growers' Association**	**Case 3: 100 Km Foods Inc.**	**Case 4: Co-op Partners Warehouse**
Type of Collaboration	On-line sales/drop off zones	Marketing Cooperative	Private: Incorporated partnership	Retail cooperative that is a distributor of local product, plus a drop-ship service for non-regular suppliers
Products Sold	Produce, dairy, meat, grains & oilseeds, baked goods, processed products	Fruits and vegetables	90% fresh fruit and vegetables. Also oils, eggs, dry beans, cheese.	Full line of organic products from produce to baked goods to other processed products. Currently not selling meat products.
Objective	Ease of direct to consumer sales	Maximize returns to producers	To connect producers to chefs & other customers	To distribute food to and from like-minded producers and customers
Location	• Producers from rural areas • Urban drop off zones	• Rural • Approx. 125 km from Boston	• Urban warehouse • Pick up in rural areas	• Urban warehouse
Connecting Value Chain	On-line catalogue of producers allows consumers to choose products based on producers or product	• Producers working together in co-op to scale up produce • Co-op manager connects with retailers • Co-op works with non-members if need be	• This is the objective • Connects local food producers to chefs/caterers and small retailers that don't have time to source product themselves • Bring producers and customers together for special events	• Formed from an existing retail co-op therefore had many connections • Full-time marketer for
Marketing	• Provides collective marketing for producers • Owners do all of the marketing/advertising	• Full-time marketer on staff that producers rely on	• Company markets to urban customers	• Full-time marketer on staff that connects customers and suppliers
Price Discovery	• Producers can look at website to see what other producers' prices are for similar products • Competing for consumers from website, therefore	• 1 full-time marketer on staff that producers rely on	• This is left up to producers	• Although product is pooled, prices are not – prices are negotiated between producers and the cooperative.

	won't overcharge			
Logistics / Efficiencies	• Sales from 270+ customers are compiled in twice-monthly drop offs • Producers can share delivery days with other producers • Short window of time for pick-up, makes more efficient than a farmers' market	• All producers' production goes through the co-op • Product pooled/sorted and delivered • Some customers pick up from warehouse	• Company picks up from producers • Compiles orders of all customers • Efficiency for customers who do not have time to source local	• Cooperative pools product of suppliers to sell to retail chains • Also conducts drop-ship service for non-regular suppliers to improve efficiency of transport
Understanding the Market	• Based on sales to market and communication with customers on market day, producers will get an understanding of what the market wants	• Members meet each winter to discuss what the market wants and what should be planted • Marketer interprets what was heard from retailers • Members understood that without pooling product could not service these chains	• Company works to understand market by talking to customers and passing info on to producers	• Vertically integrated cooperative that learns from its customers and suppliers
Private or Public	Private	Private	Private	Private
Use of Social Media (other than websites)	Yes, marketing on Facebook and Twitter	No	No	No
Quality Control	Owners conduct on-site visits to ensure quality is satisfactory	Unsure	Owners conduct on-site visits to ensure quality is satisfactory. If quality lags, the relationship with producer ends.	Unsure
Demand-Pull	Consumer-driven	Producer-driven to efficiently serve larger retail	Customer-driven. Owner found that customers needed this service and offered to provide it.	Retail coop-member driven in order to source products more efficiently.
Servicing Mainstream or Fringe Markets	Fringe	Mainstream	Fringe	Fringe

4.4 Case Study Evaluation

4.4.1 Addressing the needs of SCOR

The following tables describe how each case study addresses the need of marketing skills and logistics efficiencies.

Lunasa

Marketing Skills and Services	Logistics Efficiencies
This model doesn't necessarily help with marketing skills or services, however it does provide a new market opportunity that was not available previously and direct contact with consumers that will help producers get a better understanding of market demand. Due to the fact that all product prices must be posted on-line, producers can use this resource to determine their own prices. There is no need for negotiation in this market model.	On-line ordering and the short pickup timeframe provide logistics efficiencies. However, this is also likely a model that could include a logistics component where producers could also connect to each other to share in delivery infrastructure or trade-off on delivery days. This on-line profile of producers is a much smaller version of Ontariofresh.ca that is launching in September 2011 (see Appendix G for more details) – which could possibly also add a logistics service to it.

Pioneer Valley Growers Association

Marketing Skills and Services	Logistics Efficiencies
This is a producer cooperative that hired out the marketing and distribution services to the co-op manager with the requisite skills: searches for new markets, nurtures customer relationships, determines and negotiates price and volumes, and manages logistics. This co-op nurtures customer relationship by sourcing non-member product when supplies are low to satisfy retail customers. Members meet each winter to discuss market demands and planting projections – an excellent method of learning the market and understanding not to overproduce.	Product is brought to the coop warehouse where it is compiled, and sometimes pooled, into shipments for their major customers and then delivered. It is efficient for the trucks to fill up with a handful of produce orders from a number of members instead of each member delivering half-empty trucks to their customers' central warehouse.

100km Foods Inc.

Marketing Skills and Services	Logistics Efficiencies
This model provides a connection between producers and customers that don't have time to source out local product on their own. It provides producers with a better market understanding through communication with the	This model provides logistical efficiency for all stakeholders. • Picks up orders from producers, sometimes producers meet at one spot • Delivers orders direct to customers • Have focused only on GTA because of

owners. It provides customers with a better marketing understanding because they can see exactly when and what is available locally at any given time. Marketing/selling and finding new customers is done by the owners. Pricing is left up to producers so there is no price discovery help.	demand but also because of density of customers

Co-op Partners Warehouse

Marketing Skills and Services	Logistics Efficiencies
This is a retail cooperative that distributes locally grown product for its suppliers. Price negotiation occurs between the coop and the producer. The coop does the marketing and selling to retail. Producers have to market themselves to the CPW. For producers there is no enhanced market understanding that comes with working through this model. The co-operative has a good sense of market understanding and nurtures customers by providing product from other locations when their local suppliers are out.	Suppliers of this co-op can drop off at the central warehouse where product is then delivered to customers, therefore it provides logistics efficiencies. It also provides logistics efficiencies for non-suppliers of the co-op. Other producers can arrange a drop-ship service with the co-op to piggyback on deliveries to their customers. The co-op only manages the logistics, and the producers manage the customer relationship with the customers.

4.4.2 Increasing the Pie for Producers

There are three ways in which to keep more money in the pockets of producers (with respect to food distribution):

- Find consumers that pay more for good quality local product
- Elongate the season/ Add value added products
- Decrease distribution costs

Do the case studies satisfy these requirements?

Do they find consumers willing to pay more?

Lunasa	• Yes, these member-only markets are designed for consumers interested in local food not looking for the lowest price. • There are no middlemen involved – producers simply pay 10% to the owners of Lunasa and they keep the rest
PVGA	• This model does not necessarily find customers that will pay more. These

	are large retail customers and this model is about volume.
100km Foods.	• Yes, this model has found customers that are willing to pay more (30% more) for the convenience of having local food sourced for them.
CPW	• This model focuses on selling organic, sustainable food products to retail markets interested in these foods.

Do they elongate the season and find value added products?

Lunasa	• This model does not necessarily elongate the season for producers – depending on the products offered but it does provide them with a year round market. If members want to serve the market year round they can value add or process their products to do so. • Provides member-consumers with a year round local farmers' market that offered value added products, processed products.
PVGA	• No this co-operative does not elongate the season for its producers or deal with value added products.
100km Foods.	• No this model does not elongate the season for its producer-suppliers. • It does provide information to customers about what is available year round and in what seasons.
CPW	• No this model does not elongate the season for its producer-suppliers. However, it does make sure that it procures processed products in the winter to service its customers. The processed products are part of its supplier base.

Do they decrease distribution costs?

Lunasa	• Yes, producers can compile orders of all member-customers and drop off at one location each week. • Distribution costs are shorter than if at a typical farmers' market, because the customer pick-up time is shorter and therefore producers can save on labour. • Producers only complete one transaction with Lunasa not each consumer
PVGA	• Yes, this co-operative scales up members' production to deliver to retail customers.
100km Foods.	• Yes, this company picks up product from farms or nearby locations for delivery to GTA. • On the customer side, definite efficiencies in sourcing products.
CPW	• Yes, for its suppliers – the cooperative buys in bulk and then delivers to its many retail customers. • Also for non-suppliers, it offers a drop-ship service that creates logistics efficiencies for a fee.

5.0 Potential Food Distribution Models

In order to develop alternatives that could be used to address the issues in SCOR that were outlined in the previous sections of this report, a series of alternative recommendations was developed. These "Straw men" were then presented to two focus groups consisting of agribusiness stakeholders from the SCOR region. Most of those included in the focus groups were interviewed or participated in the survey for this project. Therefore, they were among those who defined and outlined the issues faced by marketers from the region.

In the focus groups, we outlined the findings of the first part of the project. Members of the focus groups were given summaries of the case studies and then the Straw men were outlined. Participants were asked to flesh out their perceptions of what the Straw men meant to them and how each would operate in reality from the perception of the participants[13].

Finally, participants in the focus groups were asked to give their impressions about the workability and advisability of each of the alternatives.

Each of the Straw men is outlined below. Section 6.0 contains recommendations resulting from the project.based on the feedback in the focus groups and our analysis of it and the other information that was gathered.

5.1 Online Logistical Co-ordination (Logistics Alliance between producers/buyers of agricultural products)

Create a Facebook group or online message board where producers or buyers can post any outgoing shipments in which they have extra truck space in order to create transportation efficiencies. Producers would maintain their own marketing relationships with customers. This would help to fill trucks that are currently being shipped at less than capacity. There would be no need to manage the group as producers would simply identify additional space available and contact other producers directly in order to make arrangements.

There is a possibility that this online message board could be piggybacked onto Ontariofresh.ca so that it covers all of Ontario.

Requirements:
- Requires some time commitment to organize
- Likely some advertising cost initially, however expect word of mouth will spread if managed correctly
- A group of producers to agree to participate to form a 'pool' of producers that will discuss shipment schedules etc....

Pros:
- Low cost
- Fewer trucks leaving the region at less than capacity
- Very minimal management required after set up
- Allows producers to keep contact with customers
- Producers may arrange for on-farm pickup by trucks

[13] Two focus groups were conducted in Simcoe and in Tillsonburg. In total, 19 stakeholders participated in the two sessions.

- Could access new markets that were not economical to service in the past

Cons:
- Initial time investment to organize the online message board / Facebook group
- Informal arrangements could possibly lead to some disagreements between producers
- No manager likely means lack of discipline and disuse

How does this relate to the situation in SCOR?

A number of producers identified the need for better organization of shipping to current markets, or that they would ship to further markets if transportation costs were lower. There are many producers shipping to the same areas (often GTA) from SCOR, and it has been mentioned that many of these shipments are being made by trucks at less than full capacity.

5.2 Managed Logistics Co-ordination (Logistics Alliance, Managed)

Similar to the above described logistics co-ordination but producers would pay a fee to have a manager who would co-ordinate shipments between producers and buyers. This could be either through a formal association with membership fees or through a pay per use basis. Fee structure could include the coordination service only, with logistical charges separate, or included. Producers would contact the manager identifying how much and where a product needs to be shipped. The manager would then find other shipments heading the same way that could be transported together. The manager could put the producers in touch with each other to arrange logistics, or be responsible for the arrangement.

Requirements:
- Same as above
- Would need to hire highly organized person to manage shipments from a number of producers, different products to different customers across Ontario. Logistics manager would need a computer, phone and a place to work.
- May require investment into trucks for hauling, though could share between producers who already have trucks or use existing third party services.

Pros:
- Depending on the organization and fee structure this could be a low cost option
- Producers would continue to maintain customer relationships.
- Reduces costs as producers shipping to same or nearby customers could share transportation costs.
- Single point of contact for producers to organize transportation.

Cons:
- Increased expense to pay for manager.

How does this relate to the situation in SCOR?

Managed logistical co-coordination would improve overall transportation efficiencies which have been identified as a need for the SCOR region. This co-ordination could be undertaken by private enterprise however producers would be giving up some value added potential and likely paying more for this service than forming a formal or informal organization to hire a logistics co-ordinator.

It must be kept in mind that there are many distributors servicing SCOR, therefore the shared cost of transport by those in the Alliance would have to be cheaper than this option to make it feasible.

5.3 Marketing Co-ordination

Producers would join together to hire a marketer who would be responsible for selling SCOR food products. This would address the time constraints of market identification and price determination. Producers would give up some control of customer relations in order to gain the expertise of an experienced marketer. Logistical coordination would continue to be the responsibility of the producer.

Requirements:

- Need to hire an experienced marketer in order to find the best markets.

Pros:

- Addresses issues with market and price discovery, as an experienced marketer would provide his/her expertise in this area.
- An experienced marketer may be able to acquire a better price from customers than an individual producer.

Cons:

- Difficult to find a marketer with necessary experience to service all products produced in the region.

How does this relate to the situation in SCOR?

There are some private businesses in the region that already provide this type of marketing co-ordination, however they generally deal in a small number of specialized products (local foods or organic for example). Also a number of producers already work with brokers to provide this marketing service.

5.4 Marketing Coordination with Warehouse Facility

Producers would form a marketing association and hire a marketer to manage sales. In addition the association would rent or buy warehouse space allowing for packaging and distribution. Producers could drop off their product at their convenience in advance of shipment to customers. The association would hire a trucking company to get the product to the customer. Under this organization the association could brand and label their product before delivering it to the customer.

Requirements:

- Need to hire an experienced marketer in order to find the best markets.
- Would need to be formally organized in order to purchase or rent warehouse facility.

Pros:

- Addresses issues with market and price discovery, as an experienced marketer would provide his/her expertise in this area.
- An experienced marketer may be able to acquire a better price from customers than an individual producer.
- Value-added packaging and branding would lead to increased profits for producers.

Cons:

- Difficult to find a marketer with necessary experience to service all products produced in the region.
- There are examples of failed organizations who have attempted to do this, particularly where there is lack of trust and little inclination to collaborate.
- Higher cost than some of the previous options.

How does this relate to the situation in SCOR?

There are some examples of failed organizations who have attempted to purchase a warehouse and form marketing cooperatives within the region and elsewhere. If producers want this type of organization to be successful they must be careful not to repeat past mistakes. Despite these failed attempts, evidence within and outside the region also show that this type of organization can be successful.

5.5 Marketing and Logistical Coordination

Like the marketing association, producers would join together to hire a marketer. In addition the Association could also offer logistical coordination to non-members who are seeking logistical efficiencies but who do not require marketing assistance (producers who already have established relationships with their customers).

Requirements:

- Need to hire an experienced marketer in order to find the best markets.
- Probably need to hire a logistical co-ordinator in addition to the marketer.
- Likely need to purchase own trucks for transportation.

Pros:

- Addresses issues with market and price discovery, as an experienced marketer would provide his/her expertise in this area.
- An experienced marketer may be able to acquire a better price from customers than an individual producer.
- Opportunity to increase profits of the organization by offering logistical services for non-members.
- Provides marketing assistance to producers who require it.
- Provides logistical coordination for producers who prefer to take a hands-on approach to marketing but seek logistical efficiencies.

Cons:

- Difficult to find a marketer with necessary experience to service all products produced in the region.
- Higher cost

How does this relate to the situation in SCOR?

Based on the results of our study market assistance and logistical coordination are the two major issues in food distribution within SCOR, this type or organization would meet both needs, while providing some value-added opportunity by way of logistics co-ordination for non-members.

5.6 Provide Start-up Marketing Assistance

Provide assistance to people who want to start or make major expansions in their operations, but don't have the expertise to know how to start. This would include access to marketing "consultants" (could be people with experience who are in the business, but would be willing to help new or expanding operations, on a fee basis). This could be a single person or a stable of potentials with experience in different commodities or marketing channels.

We see this as a simple referral service for advice and start-up assistance. If there was a public sector role it would be to subsidize consultants' fees.

Pros:

- Would give start-ups and "expanders" access to expertise they lack, and would give them a place to turn to acquire it.
- Would provide a practical way of learning on the job for producers.

Cons:

- Would require an effective process to filter to ensure the roster has qualified people.
- May be difficult to implement because it may mean competitors are on the roster.

How does this relate to the issues in SCOR?

One of the problems encountered in our interviews was that people just starting out, people who have been successful at one scale and want to scale up, or people successful in one product line and distribution method do not have the knowledge and skills to take the next step. This alternative would directly address that set of problems. As implied above, part of the problem in implementation is that there are many potential products and multiple market channels available to people in SCOR. Hence the idea of a roster of potential consultants seems more to the point of the issue in SCOR than to have one single marketer available.

5.7 Providing Training for Producers and End Users

This alternative would provide training on basic aspects of marketing, the marketplace and management for producers and in users of food products from SCOR. When this was originally proposed, it was for producers only. As a result of conversations in the focus groups, it was extended to end users. This is because of the clear issues in making sure end users understand aspects of the food system in Ontario such as the safety of provincially inspected meat products and the characteristics of products produced in accordance with Canada Gap.

Training modules could be made available for end-users regarding the items listed above. Training modules for producers could include but are not limited to:

- Calculating production costs and pricing
- Fundamentals of marketing
- Strategic planning
- Budgeting and performance monitoring
- Taking the emotion out of business decisions

These can be a series of lectures, presentations, webinars, films that could be developed by SCOR and/or in conjunction with other organizations. For example, Farm Credit Canada is very interested in developing these types of programs for local producers.

5.8 SCOR Agri-food Distribution Centre

The agri-food distribution centre would be a farmer's market, wholesale market, agri-tourism centre and distribution warehouse in a single facility. The centre would need to have a full time manager, and likely a full staff in order to co-ordinate all the activities of the centre.

Requirements:

- Major capital investment
- Need a number of people in order to manage the operation of such a facility.

Pros:

- Would bring producers and customers together.
- Provides another market for producers in SCOR.

Cons:

- Would target the same customers as Ontario Food Terminal (OFT).
- OFT customers unlikely to attend second market in SCOR.
- SCOR region too far from major markets
- Very high costs involved
- Population in SCOR likely too small for such a venture to be profitable

6.0 Conclusions and Recommendations

The assessment of issues in the SCOR region concludes that:

- Logistics need to be coordinated so that the cost of moving products out of SCOR can be reduced.
- Many producers would benefit from training on matters like cost analysis and marketing.
- Some producers would benefit from improved methods to make their products available to the marketplace. This is especially so for relatively small producers and those with products that are not normally sold through traditional channels to traditional customers.
- Producers who are either startups, have been successful at one level and want to go to a higher level of production, or those who want to enter markets for new products or new market channels often need assistance in getting started.

To respond to these issues, the study team put together a set of eight "straw men" which were evaluated in two focus groups in the region. Responses from those focus groups as well as our own analysis leads to the following conclusions and recommendations.

6.1 What Not to Do

Responses of those in the focus groups as well as many of the responses in the interview component of the project lead to the conclusion that neither of the "extreme" suggestions among the straw men will be appropriate for SCOR.

- There is a strong feeling that either of the "coordinated but not managed" alternatives either for logistics or for marketing will be non-starters in SCOR. There is a very clear perception that most small operators will have no interest in the detailed work of listing and updating entries regularly without someone to manage the process and put people together as needed.
- At the other extreme there is no interest in the agri-food distribution centre concept. People perceive it would fail because of competition from the OFT, would never attract many of OFT's customers, and would be used by some buyers as leverage to pressure prices downward. While some say the side issues of having a demonstration area and the opportunity for local buyers to have preferred access to local product would be nice, they are not crucial, especially since most people see the major market being outside the SCOR area. It was pointed out that, even in Toronto, the idea of a dedicated chef's market was attempted, but failed completely because of too few customers. The obvious inference for most people is that if it won't work in Toronto, it won't work in SCOR.

A second option that seems to be a non-starter in SCOR is managed marketing in the sense of forming an alliance and having someone do all the marketing and logistics for a wide range of products.

There are several reasons for this:

- As noted earlier, collaboration is not easy in the region.
- Many producers either want to undertake their own marketing so they can control the process and get appropriate feedback, or take responsibility for choosing a marketing representative they trust.
- The range of products and services offered in the region is large and complex. It would be difficult to find a single person or agency with the skills and experience to be successful, especially without creating a conflict of interest.
- There are several organizations that are successful or starting up that can fill the relatively small void that exists: given time and opportunity the private sector usually responds.

For these reasons, a less extreme set of recommendations follow that we believe will show the opportunities for and benefits of collaboration. A modest start may lead to larger actions in the longer term.

6.2 What to Do

There was much more support in the focus groups for a managed process, especially for logistics. These are the recommendations for what should be investigated in a feasibility analysis and the development of a business plan for food marketing assistance in SCOR:

- Develop an entity that would virtually link producers in the region to the wider market for their products and to each other, as well as logistics suppliers, for logistics. Producers want access to buyers and buyers want efficient access to producers of local product. During the project we became aware that individual counties and regions, including some in SCOR, have or are developing online listing services. Similarly, one of the members of our project's steering committee has been associated with a service called *Ontario Fresh*, which will apparently provide a virtual listing service for food products across Ontario – this is to begin in September, 2011.

Producers we talked with strongly prefer being able to reach more potential buyers than fewer. Similarly, most buyers would prefer to reach more potential sellers than fewer. They like the *concept of Ontario Fresh:* We attempted to contact *Ontario Fresh* on several occasions to try to understand the detail of what they plan when they go live, reportedly in September, 2011. The attempts were unsuccessful. At this point the best we can recommend then is that:

- A virtual listing service be established that would allow producers in SCOR to offer products on-line. Conceptually, linking to a province-wide service is preferable to local ones because the former gives more exposure and makes the cost of search by potential buyers much lower. We would like to recommend that SCOR link with Ontario Fresh, but can do so only in concept since there is no detail on what *Ontario Fresh* plans to do.
- The on-line offering should be sufficiently flexible to allow producers to provide as much description of their product as possible: quantity; quality (in various) dimensions; lot size/packaging material; services offered – eg. bar coded; Canada Gap; branded, etc. The service should be set up so that it is easy for potential buyers to sort on an array of characteristics: e.g. commodity, location quality, service characteristics. We agree with those who were in the focus group that providing pricing initially is not a good idea because of potential confusion with quality, service and location. Therefore, this also means that the on-line service would merely be for listing, not for transactions. However, the service should be set up in such a way that the buyer could easily link to a potential

seller's website or telephone number so that transactions can be done in whatever way the seller prefers.

- The service should also allow listing of logistical requirements. Again, we would prefer to recommend this be built into *Ontario Fresh* if the latter is flexible enough to allow it to occur.
- As indicated earlier, the service should be managed from the perspective of SCOR. The manager will be responsible for the establishing the listing service initially. Manager would also be responsible for ensuring that listings are up to date, that new listings are posted and would assist with logistics. The work in managing logistics would include assisting with the listings as above, putting people together who need trucking and short-term storage, facilitating payment settlement, arranging pickup and delivery times and locations and the like. The logistics manager would work closely with companies in the area such as Ontario Refrigeration Services, Erb Transport, etc who are already involved in and knowledgeable about shipments and may have short-term storage facilities available.
- We also recommend that a mechanism be created that would provide sellers in SCOR with a roster of qualified consultants who can assist them with start-ups or expansions. As discussed previously, a number of people in the region have difficulties with this. For most the issue appears to be getting started and understanding what is required to market at the start of or next level. Once people get to the point of understanding what is required, it appears that they can handle the process themselves or hire or contract the right skills. The issue is the initial understanding of what the right skills are. Therefore, the concept of having professional assistance at this crucial point would be quite fundamental.
- The final recommendation is to provide training to producers and end users in SCOR. As indicated in the body of the report, one of the most frequent comments is that a number of producers are new at marketing and would benefit from training in some basic areas such as cost analysis, marketing, etc. as above. Similarly, a major problem for some people in the region, especially those who sell meat, is that many buyers do not purchase provincially inspected meat. Similarly, some do not understand the benefits of Canada Gap. Therefore, for both purposes, it is recommended that the region partner with the appropriate organizations (George Morris Centre, Farm Credit Canada, Guelph Food Technology Centre) to develop or adapt appropriate training programs for people in SCOR.

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Appendix A: Interview Template

- What are your current market access methods/sourcing methods?

- How do you find buyers that are willing to pay for the attributes you have to sell? / How do you find sellers with products that have attributes you are looking for?

- What are your issues in accessing the market/sourcing product?

  Examples could include:
    - Price level
    - Price discovery
    - Product specifications
    - Volume
    - Logistics (storage, transportation, packaging)
    - Access to Capital
    - Seasonality
    - Financial stability
    - Consistency
    - Regulatory issue
    - Other

- How have you dealt with the barriers in the past?

  Examples could include:
    - Diversified products, services or customers
    - Changed scale – either up or down
    - Change products or services; e.g. got into distribution or retail
    - Abandoned specific products or services
    - Collaborated
    - Other

- What costs can be attributed to the above? (Describe)

- What are the best approaches to improve food distribution and market access?
    - Are there barriers to these approaches?

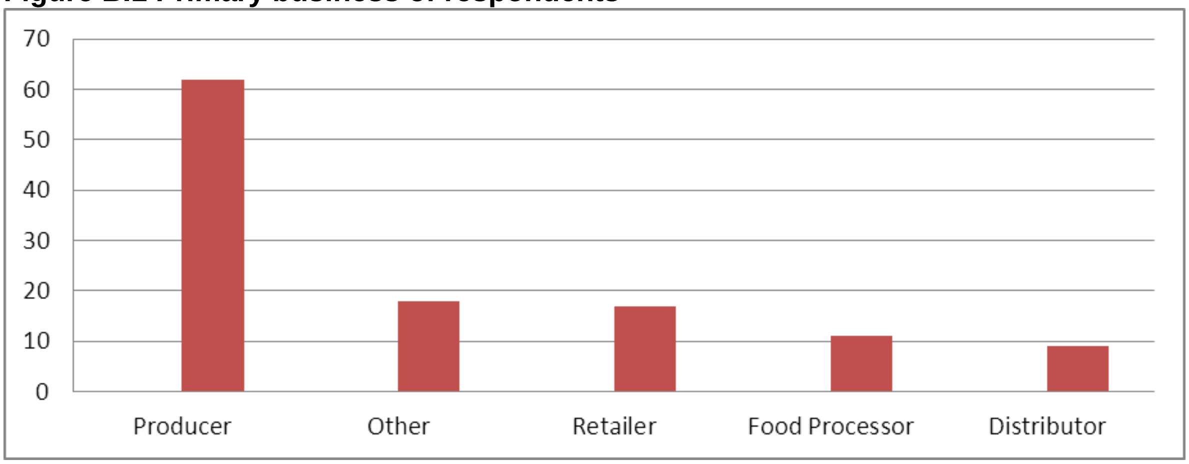
- Are there other questions that we should be asking you regarding market access and food distribution?

Appendix B: Survey Results

The following are the quantitative results of the on-line survey.

Overall, 79 respondents answered the survey. Respondents could identify themselves as belonging to more than one category. The majority of the respondents identified themselves as producers: 62 producers answered the survey, followed by 17 retailers, 11 food processors and 9 distributers. The category other includes responses from restaurants, municipal government, NGO and a mix of the other categories.

Figure B.1 Primary business of respondents



Just over 60 percent of the respondents buy or sell vegetables, almost 50 percent fruits, followed by meats with 30 percent and others. The category of 'other' agricultural products includes herbs, grains, grapes/wine and fish.

Figure B.2 Agricultural products

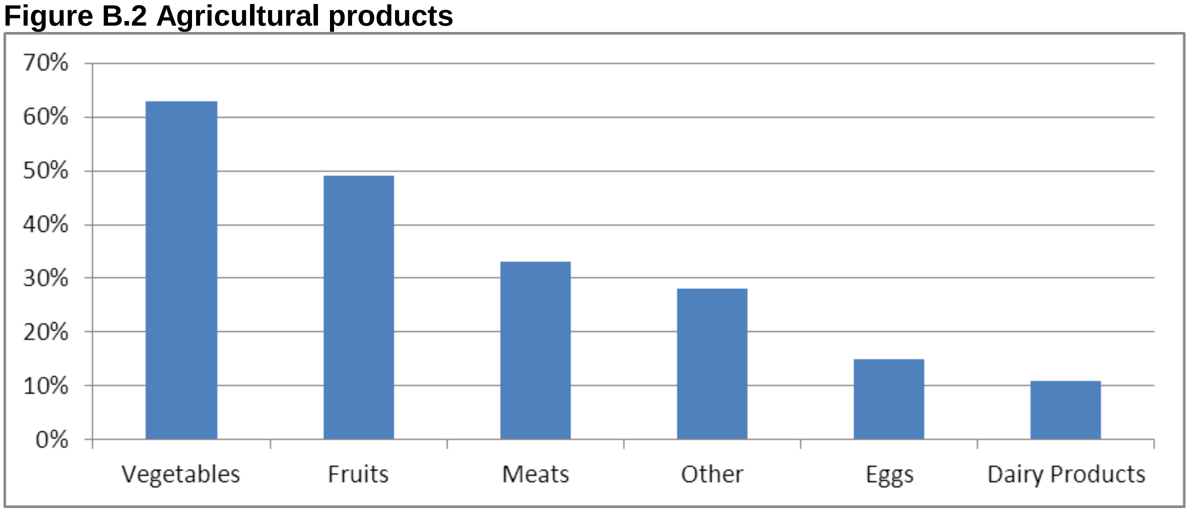


Figure B.3 provides an overview of the distribution methods used by the survey respondents (number of times mentioned). The most often used outlet is the farmers gate, followed by sales directly to the consumer and from own retail outlets. Many sell as well to independent retailers and restaurants. The least used outlet by the respondents are the OFT, major retailers and the farmer's market.

Figure B.3 Distribution Channels of sellers

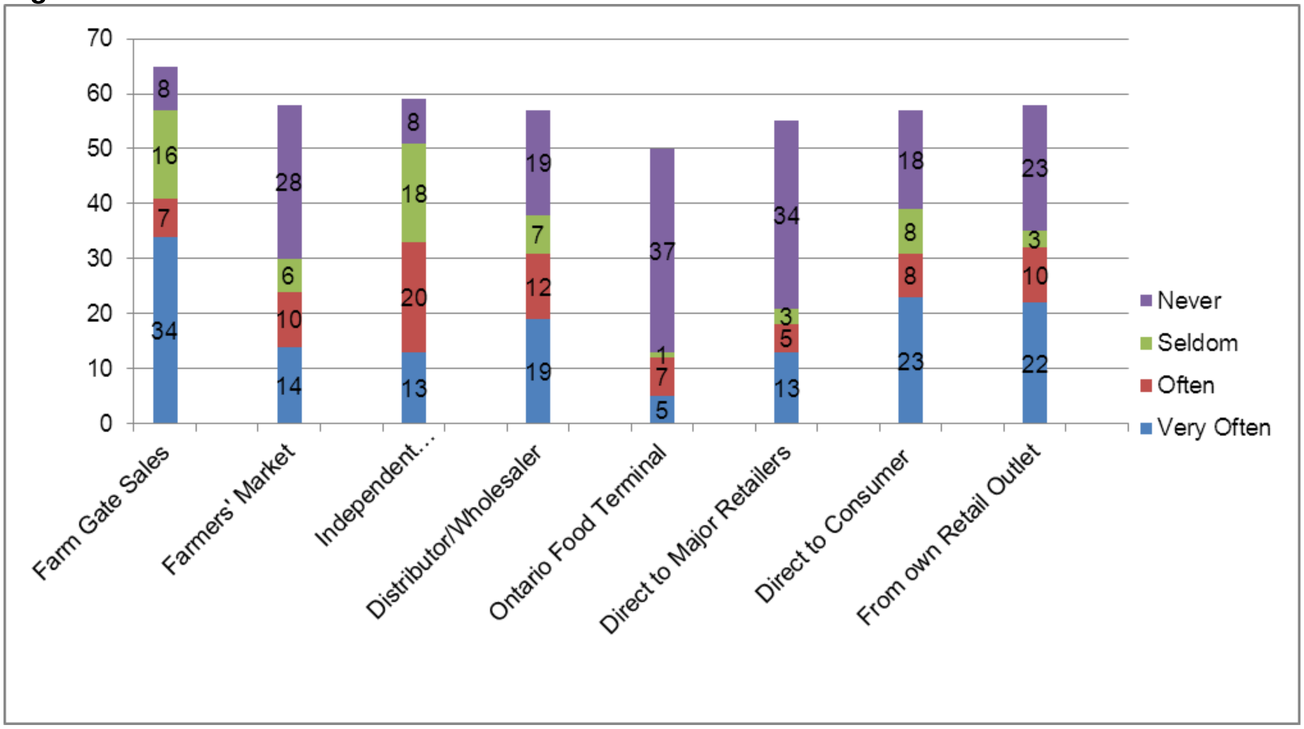
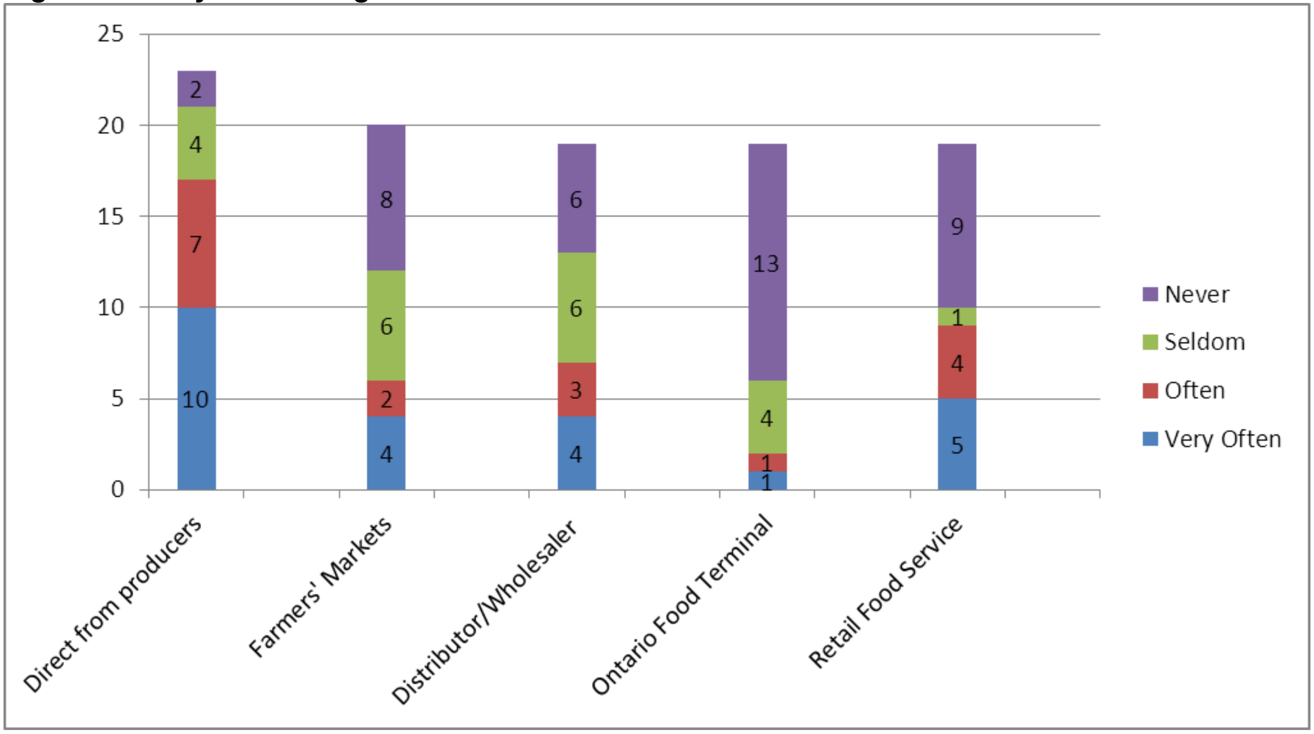


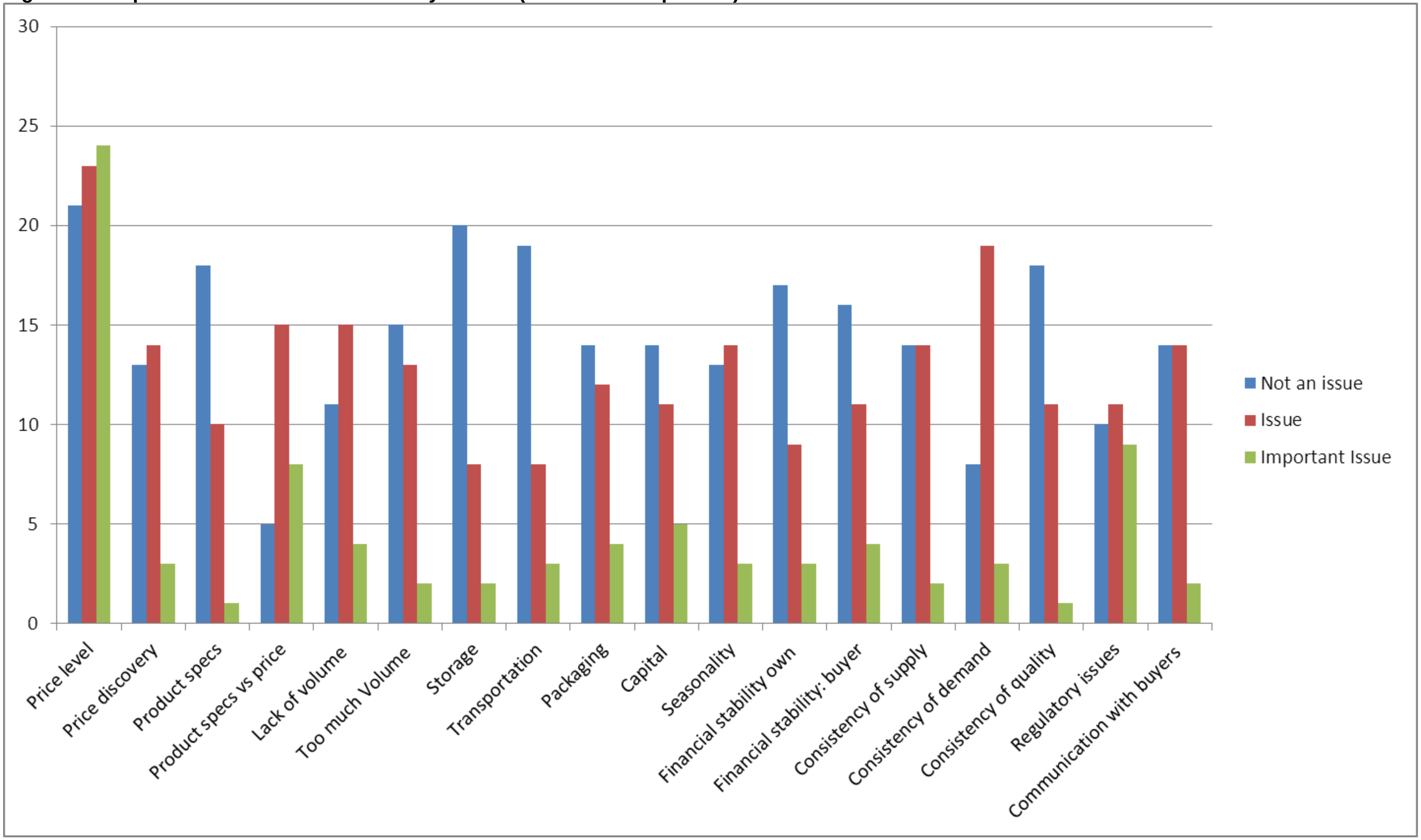
Figure B.4 shows the main sourcing methods for buyers in the sample. Most buyers source their products directly from producers (17 respondents buy very often and often from producers). Nine buyers responded that they source their products very often/often from retail food services, seven buyers from distributors/wholesalers other than the OFT and 6 from farmers markets. The OFT was the least used source as 13 respondents indicated that they never buy and 4 indicated that they seldom buy from it.

Figure B.4 Buyer sourcing market channels



In terms of finding markets or suppliers both buyers and sellers identified word of mouth as their main source of information. Some buyers are also using online resources, such as local food maps in order to find supplier, while sellers are expanding their own web presence primarily through their own websites. A few respondants also identified agri-tourism as a point of contact for finding buyers and sellers. Other more traditional methods such as cold calls, and trial and error were mentioned.

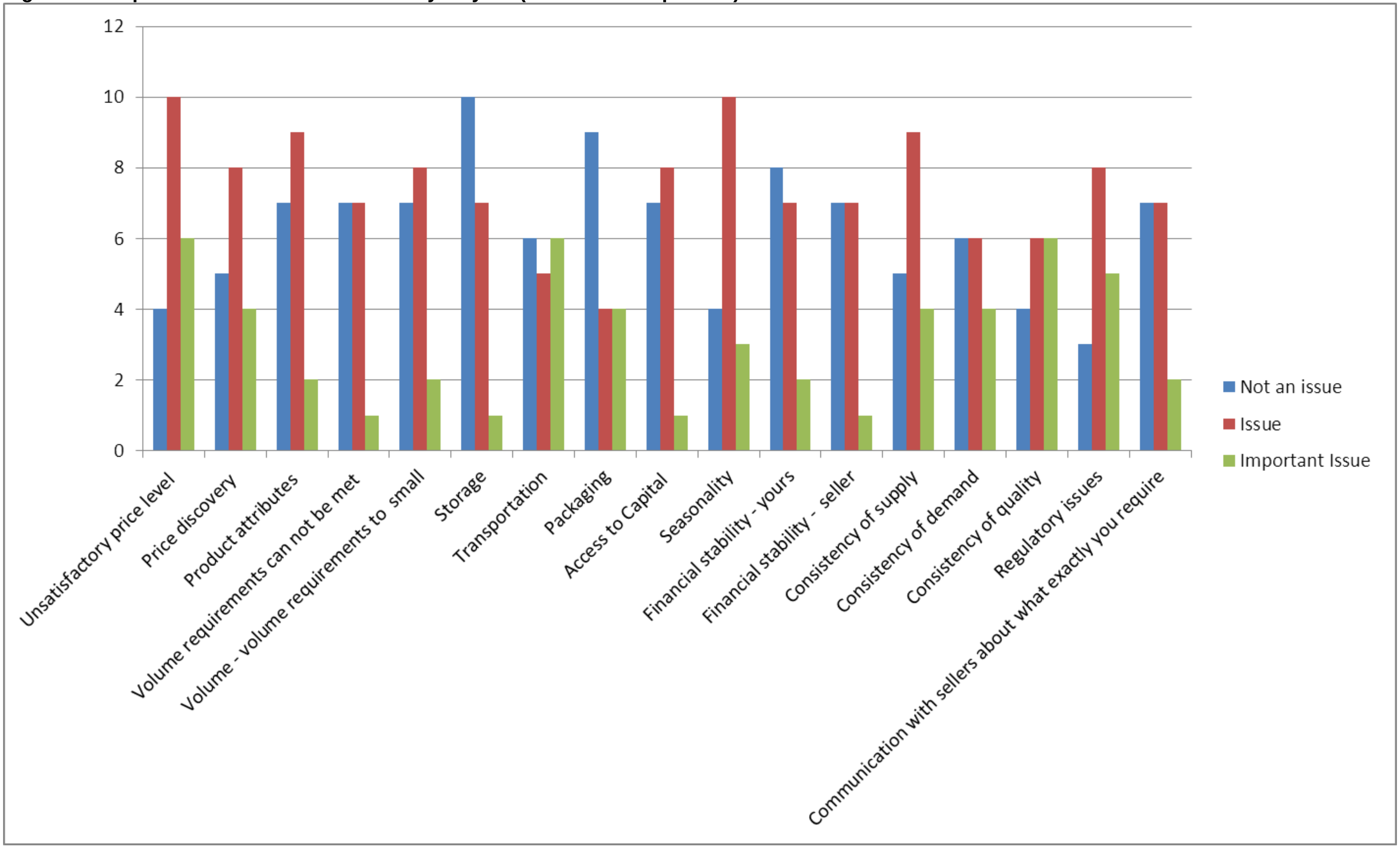
Figure B.5 Importance of Issues identified by Sellers (number of responses)



Respondants were encouraged to provide specific comments on issues that they ranked as either an issue or an important issue as a barrier to entry, the follwing is a sample of comments:

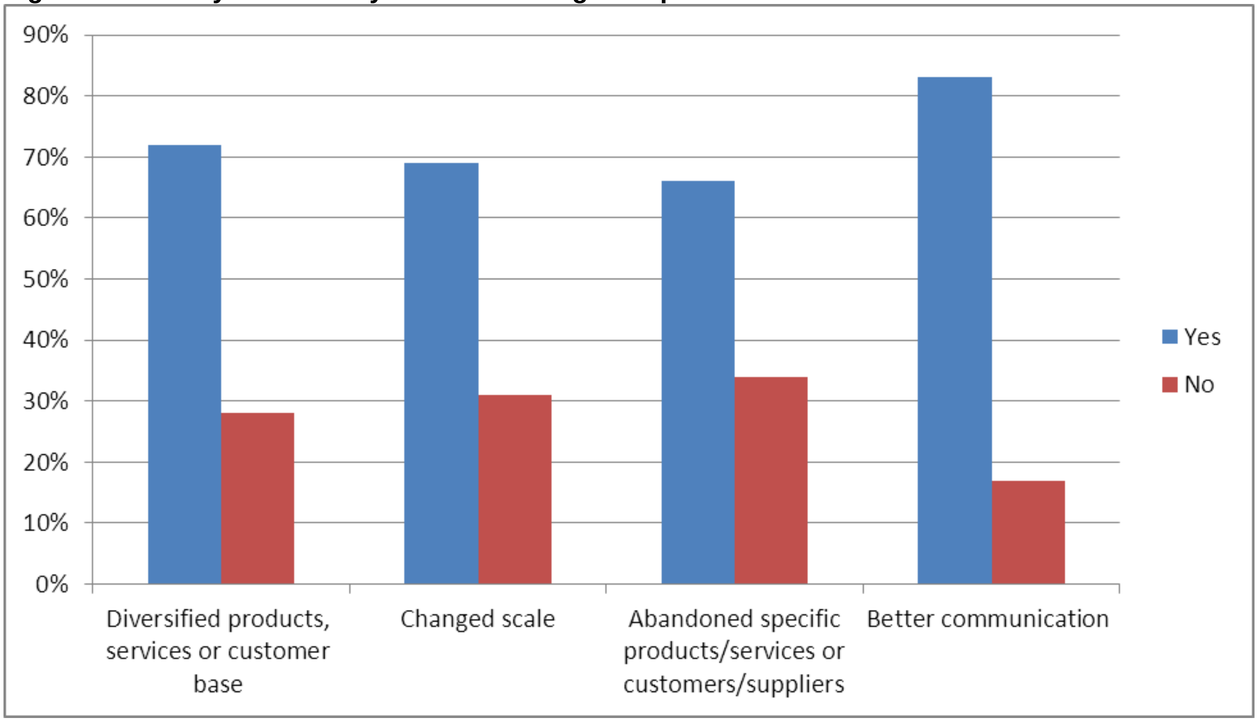
- "Small producer, only so much time and money available. It is questionable whether it would be worthwhile to scale up to produce more to sell to restaurants and grocery stores at a wholesale price."
- "Price and harvest variability have always been an issue in the market, as well as changing vendor specifications"
- "Chains always loss leader in season produce making the consumer conclude theirs is the real price that producers can make a living on."
- "Greatest issue is imported products do not have same restrictions as our domestic."
- "larger stores demand quality quantity at a low price"
- "…our main problem is that as new farmers it is difficult to capitalize on that demand without going in to unsustainable amounts of debt. In addition, regulations around the types and amounts of meat we can raise is very limiting."
- "In many cases, the issue is a reluctance, or an inability for different parties to collaborate"

Figure B.6 Importance of Issues identified by Buyers (number of responses)



Survey respondents were asked how they have dealt with any of the issues or barriers that have impeded their market access and food distribution in the past. Figure B.7 shows that producers and buyers of food products have adapted when required.

Figure B.7 Have you done any of the following to improve market access and food distribution?



Producers were encouraged to provide comments about efforts to improve market access. In the comments many producers identified that they have made attempts to diversify or scale up, often with limited success. Specific comments provided include:

- “We have made changes in an effort to increase profitability. Positive results have been limited and short-lived.”
- “I have blended wholesale with retail, never depending on one sector to support the business. As a producer, scaling up of one product that they will specialize in is important. Too much diversification can hurt. I have worked really hard to build networks between buyers and sellers and this is where I focus my energies now.”
- “The demographic of the marketplace is constantly changing and requires adaptability with respect to product mix, quality standards, processes and relationships.”
- “Diversified by creating value added products to extend the seasonality of produce and reduce surplus product losses.:

Survey respondents were asked if they think that their location has had an impact on market access and food distribution.

Figure B.9 Impact of location on market access (Question 15)

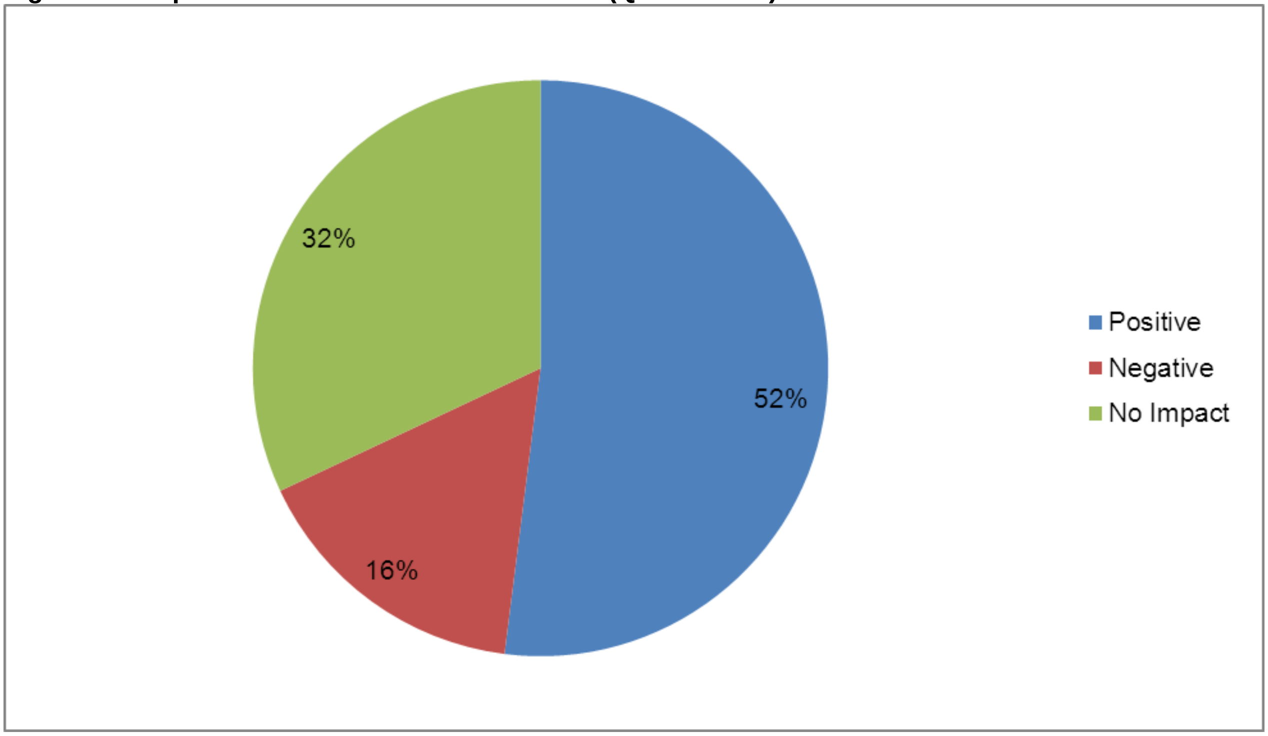


Figure B.10 What would help to improve market access and food distribution?

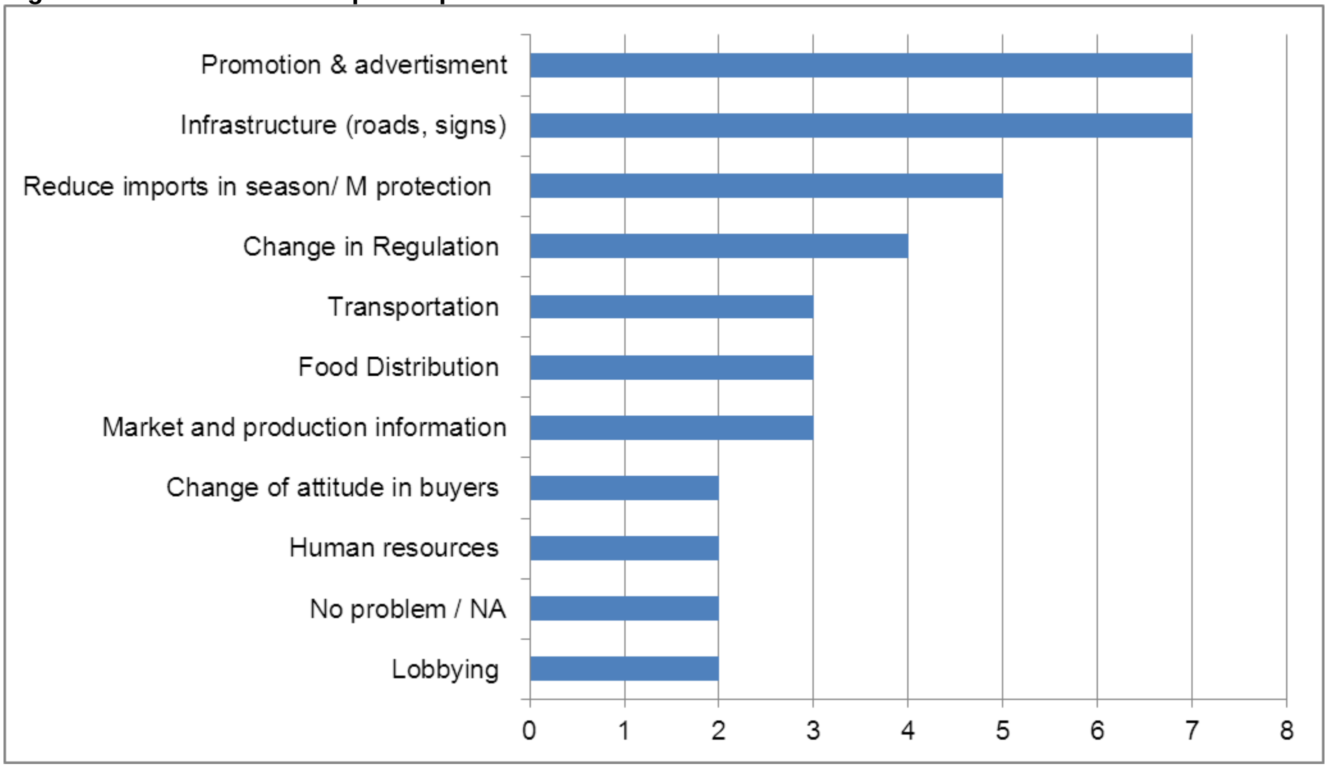
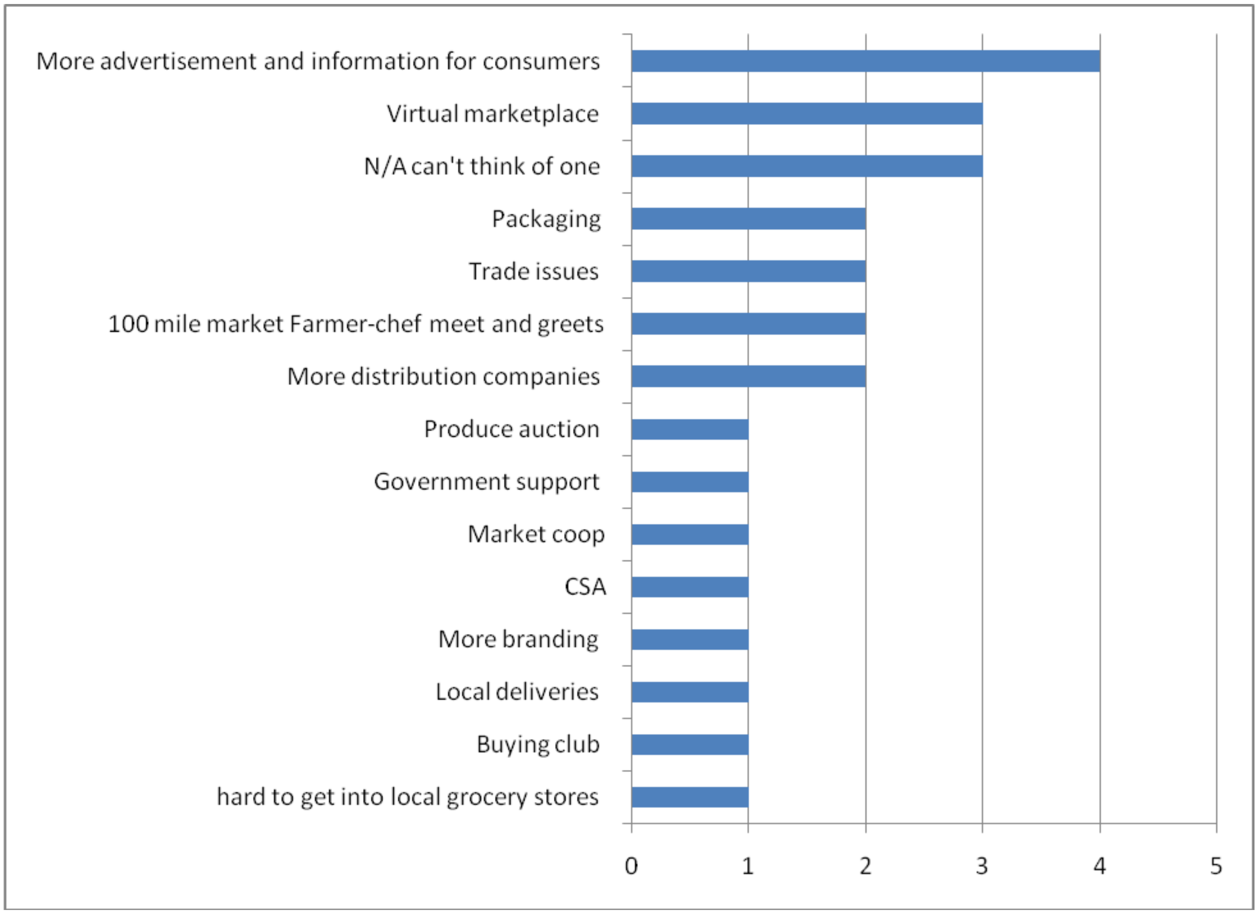


Figure B.11 What are some ideas/concepts to improve market access and food distribution.



Appendix C: Case Study #1: Lunasa

Lunasa is an online members-only farmers market focusing on local food, that has two in-person distribution transfer locations – in Ann Arbor and Garden City, Michigan.

Lunasa works on a calendar schedule. There are two market cycles for each market, each month. Producers upload and maintain product and price information to the Lunasa website for products that they have available during the market period. Consumers have a three-day window to place orders based on the products producers have made available. Consumers pay for their orders on-line. Farmers then have approximately 2.5 days to prepare their orders. On "market day" producers bring their product to a 2,000 square foot warehouse that is rented by the company's owners in Ann Arbor and a warehouse space that is shared in Garden City.

Producers may also bring additional produce with them to sell. The producers will write a market receipt for any additional product which is submitted to Lunasa. Lunasa then pays the producer the amount owed for all of the products they sold that week minus 10% to cover costs.

<u>History</u>

The founders of Lunasa, Jane Pacheco, Dawn Thompson and partner Roy Schmidt III were natives of Michigan who left the state and became interested in the local food movement. Upon returning to the Ann Arbor area they found that the local food system was under developed. It was difficult for consumers to find suppliers and the market was not transparent. While there were a number of farmer's markets in the area, there was a desire to access additional products and suppliers who were not using the farmer's markets. At this time, the organic food co-op that Jane Pacheco ran out of her garage grew to over 120 members. It became apparent that many people were interested in local food and that the system needed to be easier for consumers to access.

Lunasa was a formed as a limited liability company. The original producers involved were contacts that were made through the organic co-op but membership has since grown.

<u>Stakeholders</u>

There are currently 270 members of the Ann Arbor market and the Garden City membership is growing.

Any profit generated by Lunasa is paid to the owners of the company.

<u>Objectives</u>

The primary objective of the Lunasa model is to make direct producer-consumer local food sales easy. While consumers may source local foods through farmers markets it is difficult to anticipate what producers will supply at any given time. The Lunasa model allows consumers to browse farmers' offerings online to determine what is offered in a given market period and to customize their orders. It also provides a pressure-free purchasing experience since it is on-line.

The benefits of the Lunasa model for producers is that it provides a mode of collective marketing, provides a dedicated year-round customer base, and allows producers to know exactly what they will be selling due to the pre-order sales method.

Mode of Operation and Logistics

Both the Ann Arbor and the Garden City markets are open twice monthly.

- Ann Arbor Market is open the 2nd and 4th Tuesdays of every month
- Garden City Market is open the 1st and 3rd Mondays of every month

Producers have a window of time to update their product availability on-line and then consumers have a 3-day window to complete their orders on-line for the next market day. For example: Ann Arbor On-line Shopping is available from May 5 – 7th, 2011, with market day being on May 10th, as shown in Figure C.1.

Figure C.1: Calendar View of Lunasa Activities, May 2011

1	2 GARDEN CITY MARKET	3	4	5 ON-LINE SHOPPING FOR ANN ARBOR MARKET	6	7
8	9	10 ANN ARBOR MARKET	11 ON-LINE SHOPPING FOR GARDEN CITY MARKET	12	13	14
15	16 GARDEN CITY MARKET	17	18	19 ON-LINE SHOPPING FOR ANN ARBOR MARKET	20	21
22	23	24 ANN ARBOR MARKET	25 ON-LINE SHOPPING FOR GARDEN CITY MARKET	26	27	28
29	30	31				

Adapted from Lunasa website information, 2011

Producers are responsible for uploading product and pricing information to the website and for making updates to their products. Orders are pre-paid and producers transport the product to the market location on market day, where consumers will pick up their orders from the individual producers. Currently there are 22 producer-members serving the Ann Arbor market and eight producer-members serving the Garden City market[14].

The markets have a wide array of products available including meat, eggs, dairy products, produce, honey, maple syrup, beverages, baked goods, dry goods and prepared and processed foods. Products available and their volumes change throughout the year.

[14] As of May 30, 2011.

Lunasa rents a warehouse facility on market day to provide a meeting point for producers and consumers. The warehouse is occupied by other distributors on non-market days. Producers may also bring additional production to the market to sell on the spot. For these sales, market receipts are written and Lunasa collects the payment from the consumer online, and then pays the producer.

Financing

- Lunasa is self-supporting
- Producers and consumers pay a $40 annual membership fee to join
- Lunasa also collects 10% of sales made through the market to cover operating costs
- The founders made an initial investment but this has already been recovered

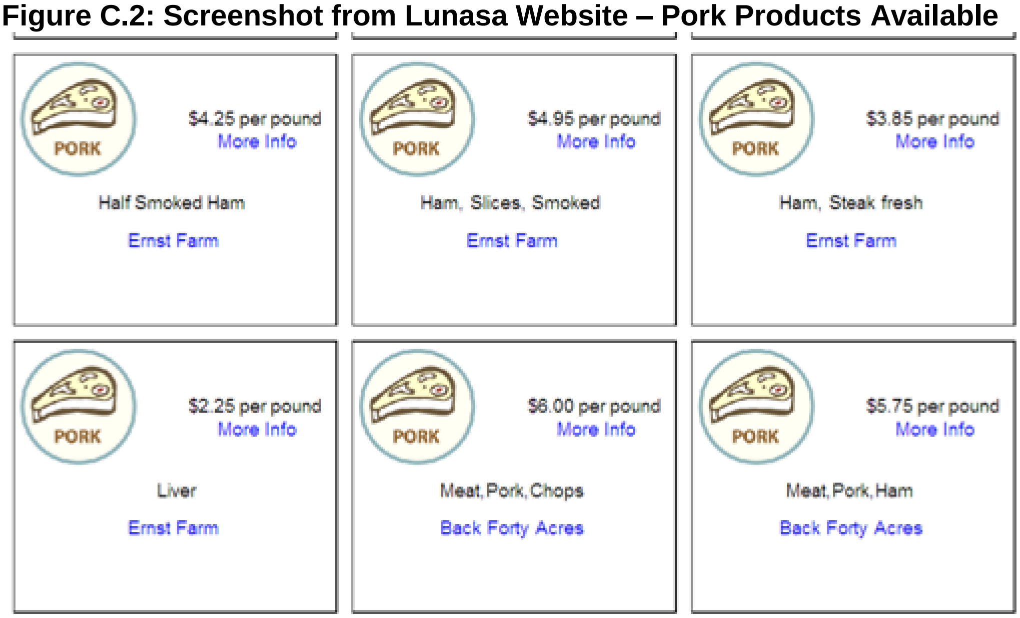
Governance & Management

Lunasa is run as a limited liability company, with three partners. This business model was chosen on the advice of an operator of a similar distribution model, in order to expedite any business decisions that needed to be made. The owners manage the day to day operations of the company and manage the website.

Market Requirements and Commitment

- Each market location is open for 3 hours, once every two weeks.
- Producers need to supply a consistent quality of product to the market to satisfy customer expectations, though they need not participate in each market day.
- Lunasa staff conduct on-site location visits to ensure producers meet their standard of quality and that they are certified if they are advertising as such.
- It is noted that the system works best when producers are available to customers on market day as customers are able to build a better relationship with their suppliers.
- The Lunasa market focuses on high quality, locally grown food.

Figure C.2: Screenshot from Lunasa Website – Pork Products Available



Critical Success Factors

The most important factor in the success of the Lunasa model is advertising. There has been increasing interest in local food and there is no shortage of customers. Lunasa relies on word of mouth advertising, so providing an excellent customer experience is essential. They also advertise through email and social networking, such as Facebook and Twitter, as well as more traditional methods such as print and handouts.

The Lunasa website provides information on each producer and therefore allows them to sell themselves along with their product. The website provides information on the history of the farm operation, its production practices and any certifications it has. Therefore customers can also shop for products that were produced that meet their ideals.

Future of the Model

Lunasa is a new and growing business. The owners are still learning and tweaking the model to better suit the needs of their customers. Being mostly a virtual market Lunasa is looking to redesign their website. Other future initiatives include conducting marketing producer/member events, and a point or loyalty system for producers who are able to supply a consistent product regularly to the market.

Lunasa is also currently experimenting with a pilot wholesale distribution system.

Appendix D: Case Study #2: Pioneer Valley Growers Association

PIONEER VALLEY GROWERS ASSOCIATION

The Pioneer Valley Growers Association (PVGA) was formed in 1978 as a marketing co-op for New England fruit and produce growers (PVGA.net). The PVGA sells to a number of large supermarkets serving the New England region.

History of the Model

Formed in the late 1970's, small and medium-sized producers formed the Pioneer Valley Growers Association to market their production as a wholesale distributor. Most of the producers in the area had been selling into the Boston Terminal market before forming the co-operative to take advantage of the movement by large supermarkets to set up their own distribution networks. Small and medium-sized producers pooled their resources in an effort to gain better returns on their production.

Stakeholders

- 30 farm members of the co-op who supply most of the product that is sold
- PVGA also sells production from non-members if member producers are not able to supply products required by their customers. (PVGA.net).
- PVGA sells to Supermarket chains, independent retailers, as well as farmstands within the region.
- Additionally they sell outside the region when prices are high. (PVGA.net)

Objective

The objective of the model is to maximize returns for producers. To accomplish this, the co-op holds member meetings in the winter to coordinate production plans for the following growing season. In this way producers are better able to supply what customers want. While there is a provision for distribution of dividends within the co-operative the payment to producers for their product accounts for much of the income generated by the co-operative, most excess profit is used for maintaining facilities or expanding the co-operative's infrastructure, there have only been a few instances where a dividend was paid out in addition to payment for the products sold through the co-operative.

Mode of Operations and Logistics

In most cases, producers deliver to the co-op warehouse where orders are organized and shipped to the customer. The warehouse includes two coolers and eleven docking bays. The co-op owns one truck with which deliveries are made; product may also be picked up from the producer using this truck. Some customers pick up orders directly from the warehouse; otherwise third party transportation is arranged for delivery. The co-operative does not take ownership of the product, so any rejections for quality are costs incurred by the producer.

The PVGA sells under their own brand "New England's Best", and deals mainly with large regional retailers, such as Stop and Shop and Market Basket, with whom they have legal contracts.

PVGA also does marketing and sales on behalf of non-members in the region, for which they charge larger commissions than are charged to members.

Financing

- Members purchase one share of stock for $250, this rate has remained unchanged since the inception of the co-operative.
- Producers also pay $150 annual dues to the co-operative.
- PVGA collects a commission from producers on a sliding scale based on the level of production that they submit to the co-operative.
- Non-members are charged a higher commission fee for services than the members.
- The co-operative also has a seasonal operating line of credit from a local bank.
- During the last ten years sales have ranged between $1.8 million and $3.2 million.

Governance and Management

PVGA members elect 7 board members, each board member serves a 2 year term. 3 to 4 members of the board are up for election in alternating years allowing some continuity of leadership from one season to the next.

Producers vote on a one share-one vote basis, with each producer purchasing one share of stock.

The co-op has 1 full time marketer on staff, to make contact with existing and potential customers. They also have 1 full time warehouse manager. All other staff is seasonal or volunteer, as the co-op does most of their business in the summer months.

Lessons Learned Since Development

The PVGA has built up their facilities and membership over the past 33 years. However, there were years in which the co-operative struggled to pay their expenses due to disaster crop years. To keep the co-operative solvent they had to borrow money from members. It was noted that if starting over the co-operative would have retained more earnings in order to develop a fund to deal with income shortfalls.

Market Requirements and Commitment

While the co-operative does not require participation annually, sales are made based on a loyalty system based on tenure and historical level of supply to the PVGA.

Supplier Demographics

Most suppliers to the PVGA are small to medium-sized farms who take advantage of pooled resources in order to market their production. The PVGA markets mostly vegetables, which is the main production of most member farms, but also a small quantity of fruit.

Future of the Model

While the members of the board have considered a number of options for expanding the size and scope of the PVGA, it remains committed to maximizing profit to members through marketing. They have experienced some growth as a result of their operations. They have also begun marketing into New Jersey and New York City when the volume of supply allows. However, the main focus continues to be “be mainly good at what we’re doing”.

Critical Success Factors

One of the main factors contributing to the success of the Pioneer Valley Growers Association is the loyalty of the suppliers. Approximately 1/3 of the current membership is made up of either the original members of the co-operative or descendants who have taken over the family business.

As in any business venture it is essential that the right people are hired to carry out the plan set by the board.

Appendix E: Case Study #3: 100km Foods Inc.

History of the Model

Based in Toronto, 100km Foods Inc. was founded in 2007 after owners Paul Sawtell and Grace Mandarano attended a number of food seminars. The owners saw a need for a distributor who could provide a link between producers and restaurateurs, caterers and retailers looking to source locally produced products. Initially the owners called local restaurants and retailers as well as farmers to begin to compile customer and supplier lists. Once they had found both suppliers and customers they purchased a truck so they could physically distribute the product. 100km Foods made its first sale in April of 2008. Current product lines include oils, dry beans, eggs and cheese; however 90% of their business is fresh fruits and vegetables. The company has since added a second truck to keep up with expansion.

Stakeholders Involved

100km Foods Inc. is an incorporated partnership between the two owners. Suppliers are local food producers and customers are local restaurants and food retailers who wish to source local products but do not have the time to do it themselves. 100km Foods Inc. has 30-40 farmers who supply products during peak harvest season and 20 suppliers in winter.

Objectives

The model is designed to bring local food producers together with local chefs and other consumers to form a transparent connection and foster relationships between the parties. The focus of 100km Foods Inc. is to provide high-quality locally grown products to the consumer. The company also puts a high priority on sustainable farming practices by their suppliers.

Mode of Operation and Logistics

- Customers are sent a product list each day and must order 2 days in advance of required delivery via spreadsheet
- Customers submit orders and they are compiled
- Customers are also able to specify suppliers from who they would like to source.
- 2 trucks, one which travels north of Toronto as far as Barrie and one traveling to suppliers in the west to Brantford, pick up products that have been pre-ordered by customers.
- Each truck picks up twice a week for delivery the following day
- Producers may also deliver directly to the company`s warehouse
- Quality assurance occurs at time of pick up
- Customers may also reject at time of delivery, in which case the product is credited to the restaurant for delivery at another time, when suitable product is available
- The company uses Local Food Plus to find local suppliers who are using sustainable practices and develops relationships with them
- They will also accept suppliers who are not LFP certified but are using sustainable practices
- If suppliers are unable to provide consistent quality in the required quantities, 100km Foods is able to end the relationship with the producer and find other suppliers

- There is a minimum customer order ($200)

Financing

100km Foods Inc. purchases product from producers and then charges customers a 30% markup. Initially getting credit was a problem but the owners were able to find a backer in Toronto who was interested in local foods and was willing to co-sign a loan.

Governance and Management

The company is managed by the owners. The company is guided by informal mentors in the food industry, through personal relationships developed by the owners

Supplier Demographics

The company sources products from both large and small farmers provided they are registered with LFP or are able to show sustainable production practices

Future of the Model

100km Foods Inc. has recently expanded to add a second truck for pickup and delivery to meet the growing demand for their services in Toronto (including downtown, Etobicoke, Scarborough). Adding new customers from this dense geographical base will bring even more economies of scale. Currently, because demand is still growing in the core location, the company has no plans to expand outside of the GTA, however they acknowledge that there is opportunity in areas such as Burlington and Oakville. However, due to the greater distance from the warehouse and between customers, in order to make the service economical they would likely institute a larger minimum order size (currently it is $200) if they expanded into these areas.

Growth of the company is dependent on the needs of suppliers and customers, and the owners are tweaking the model over time to better meet these needs. In some cases producers have also expanded operations as 100km Foods Inc. has expanded theirs. The company also holds an annual event to bring customers and suppliers together to meet and discuss future plans.

Other potential areas of growth are the development of regional hubs that would allow trucks a single point of pickup, either through purchase of warehouse facilities or developing formal relationships with producers who could provide this service.

Critical Success Factors

- The owners feel that the direct relationship that consumers are able to have with producers is one of the critical success factors of 100km Foods Inc.
- Identified products that are available through 100km Foods Inc. but not through the Ontario Food Terminal are reasons that customers prefer to use the company to source products
- The breadth of locally sourced Ontario products, differentiates them from other suppliers
- Simplifying the ordering process for customers by allowing them to submit one order for many products at the same time
- Transparency in source of products as accessibility of suppliers to customers

Ontario Artisan Share Program

100km Foods Inc. is also involved in a joint venture with Culinarium, a local food store in downtown Toronto. This program known as the Ontario Artisan Share Program (OAS), sells food boxes consisting of local foods to customers who work in the downtown area.

Each box contains produce, a pantry item and a cheese item, and customers are able to request that a meat item be included in their box. The boxes can be requested for either weekly or bi-weekly delivery. The contents of boxes each week varies depending on the availability of product week to week.

100km Foods Inc. collects the product for these boxes at the same time as their regular pickups from their suppliers. It is important to note that the orders for the food boxes are not surplus orders from regular 100km Foods shipments, but rather are specifically ordered for the OAS boxes. However, producers are able to move some excess supply through the OAS by notifying 100km Foods Inc. of product they would like to commit to the OAS.

The OAS differs from traditional CSA programs because it combines products from a number of different suppliers rather than production from a single farm. OAS runs in both summer and winter, with a 13 week winter season and an 18 week summer season running from June to October.

Currently, this side of 100km Food’s business accounts for 10% of their business as they have focused on the 100km Food’s customers, but this is a growing initiative.

Appendix F: Case Study #4: Co-op Partners Warehouse

Co-op Partners Warehouse (CPW) is a regional wholesaler for the distribution of local organic food products. They ship produce, dairy products, juices, smoothies, sauces, deli items, condiments and dry goods (Day-Farnsworth et al., 2009).

History of the Model

Co-op Partners Warehouse was established in 1999 in St. Paul, Minnesota. The warehouse is operated as a department of the Wedge Community Food Cooperative which operates a retail outlet for locally produced food (Wedge Community Co-op – Our History). As “the Wedge Co-op” expanded membership and product availability it became apparent they would need more physical capacity. Originally CPW contracted with other regional distributors to provide storage and delivery of products procured by buyers for the Wedge Co-op (Day-Farnsworth et al., 2009), later they rented shared warehouse space with other retailers, they now rent the warehouse space exclusively for their operations. The CPW supplies local products to the Wedge Co-op but also to other retailers in Minnesota, Wisconsin, North Dakota, Iowa and Michigan.

Stakeholders Involved

The stakeholders are the 11,000 consumer members of the Wedge Co-op. The CPW has 150 vendors from whom they purchase regularly consisting of producers, farm marketing groups and other distributors. Retail groceries are the largest customers of the CPW but they also sell to restaurants and food service companies.

Objectives

Co-op Partners Warehouse (CPW) is a certified organic produce distributor owned by the Wedge Co-op. Founded in 1999 as an extension of the Co-op, the mission was to develop a mid-sized distributor of produce and other perishables that focused on distributing goods produced by small, family-operated companies in Minnesota and nationwide. At the time, the produce manager at the Wedge identified a need for a distribution model that was more ideological-based and was not simply a transporter of product. The food co-ops are different than a traditional grocery store, so the staff believed that they needed a different type of distributor.

The first customers were Lakewinds Natural Food Store and the Wedge Co-op. They gradually expanded to service other Co-ops, as well as restaurants and other retail grocery outlets. They are committed to providing products to meet customer demand while supporting organic producers who supply them. CPW is committed to sustainable, organic local agriculture production (Co-op Partners Warehouse).

Mode of Operation and Logistics

- Producers are able to drop off products at the warehouse or the CPW will arrange for pick up.
    - details are negotiated with suppliers and agreements are adjusted to fit individual needs of suppliers

  - CPW owns the product from this point forward
- Products are stored in the warehouse until orders are received
- Orders are accepted from customers by phone, fax or e-mail
- CPW owns seven trucks to make deliveries and pickups from suppliers, the CPW also contracts with other trucking companies for deliveries outside of the Twin Cities area.
- Customers are informed of the order delivery schedule based on distance from the warehouse:
  - Within the Minneapolis-St. Paul area trucks run twice per day
  - Short orders are accepted between 8-10 am for delivery that afternoon
  - “AM” orders are accepted until 3 pm for delivery the following morning
- The CPW requires minimum orders from customers depending on the location of the retail outlet.
- Payment and credit terms are negotiated on an individual basis
- Payment to producers is also negotiated on an individual basis and is not dependent on sales orders
- In order to satisfy the needs of customers product is pooled to meet volume requirements. However, producers do not receive a pooled price as prices are negotiated with suppliers on an individual basis

CPW acts as a traditional distributor and marketer, but also operates a drop-ship service for custom orders. This service coordinates the logistical aspect of sales on behalf of producers (producers that are not their own suppliers or producers who wish to have more control over customer relationships).

- Customers order products directly from producers
- Producers then gather the product for shipment and drop it off at the CPW
- The CPW then delivers the product to the customer along with their regular shipment
  - The CPW also ships to buyers who are not regular customers but charges more for the delivery service in these cases
  - Additionally customers may choose to pick up the orders directly from the warehouse
- Billing for this service is negotiated on an individual basis; either the producer or the customer may be billed for shipping depending on the terms of the contract.

Rough estimates suggest that 5-10% of shipments from CPW are under the drop-ship service.

The Wedge Co-op also owns their own organic farm, Gardens of Eagan, which supplies some of the produce for sales (Day-Farnsworth et al., 2009). They do have to source some of their supply from outside of the region such as California, Florida or Washington, in order to ensure a consistent supply to their customers (Day-Farnsworth et al., 2009), however in keeping with their objectives they do source locally whenever possible.

Financing

The CPW rents warehouse space. Annual sales from the CPW are approximately $16 million.

Governance and Management

CPW is a department of the Wedge Co-op, as such it is overseen by the same board of directors as the retail and farming operations. The general manager of the Wedge Co-op oversees the overall operations of all business units. The CPW is operated under the direction of the warehouse general manager. The operation is further departmentalized by specific business functions, such as office management, purchasing and warehouse operations.

Market Requirements and Commitment

The CPW deals almost exclusively with organic products. Producers selling organic products must be certified organic. While the CPW sources local products when available they do source from California, Florida or Washington outside of peak season in the region when necessary to ensure supply to their customers (Day-Farnsworth et al., 2009). The same organic standards apply to these products as to locally sourced products. The CPW does source products that are not organic when organic products are not consistently available.

Supplier Demographics

Most of the farmers who supply to the CPW are organic producers. Many of them were suppliers to the Wedge Co-op before the CPW was organized (Co-op Partners Warehouse). CPW supports local producers, small farmers and family farms. While the CPW does not have specific volume requirements for suppliers they prefer to work with suppliers who are able to supply on a regular basis.

Future of the Model

The focus of the CPW remains on distribution. Recently the CPW has moved to increase the spectrum of products they supply, in hopes of becoming a more full range supplier for their customers.

Critical Success Factors

Day-Farnsworth et al., have identified a number of factors which make the CPW successful (2009). The first factor they discuss is vertical integration. Adding the warehouse facility and the organic farm to the original Wedge Co-op has allowed the organization to grow and become self-sustaining (Day-Farnsworth 2009). Expanding product lines to include value-added and signature products has provided diversity to the product line offered.

Having formed from an existing organization the CPW was able to use the considerable contact network already in place within the Wedge Co-op. This strong knowledge and appreciation of customer needs set the CPW apart from traditional distributors in the region.

Hiring people with vast experience and connections within the industry has also helped the CPW to become a successful enterprise (Day-Farnsworth et al., 2009) The staff is also very committed to the CPW as evidenced by the low employee turnover rate. The Wedge Co-op offers generous employee benefits, such as profit sharing, that help in recruitment and retention of experienced, dedicated employees.

The attention to individual needs in both the customer and supplier relationships is another likely success factor. However, this creates a critical need for organization, as the company must be able to meet the individualized commitments that they agree to.

Appendix G: Other Case Study Considerations

The following are other cases that provide tools to producers to either physically transport the product in a unique way or to connect buyers and sellers.

Whole Foods Market – Midwest Region

Whole Foods is a natural and organic food retailer with over 300 stores in North America and the United Kingdom. Producers in the Detroit area who grow qualifying products can arrange for a company inspector to view the crop. If acceptable the producer then signs a contract to supply the store with his produce. The producer then has many alternatives to get the product from the farm and onto store shelves. In some cases producers are able to deliver directly to their home store so that local consumers are able to enjoy the product. The company will also ship deliveries from the retail outlets, to the regional distribution centre for redistribution to retail stores who need that particular product. Whole Foods will also arrange to pick up the product from the producer. This is all contracted between the producer and the regional produce coordinator. The delivery terms of the contract depend on the needs of the producer.

While Whole Foods will deal with an individual producer, the produce coordinator we spoke to did encourage producers to hire a broker who has familiarity with the retail industry to help them achieve the best possible price for their product. Whole Foods is willing to offer alternatives to traditional transportation methods because “the customer wants the food, you do whatever you need to do to get it to them”.

Ontariofresh.ca

Ontariofresh.ca
Growing the Business of Local Food

Launching in September 2011, the Ontariofresh website seeks to connect local producers with customers who wish to purchase Ontario grown and raised products through a free on-line marketplace.

The website is part of the Broader Public Sector Investment Fund and a partnership between the Friends of the Greenbelt Foundation and OMAFRA. Along with the Ontariofresh website, the Broader Public Sector Investment Fund also provides grants to increase the amount of Ontario food products available in public institutions.

The website officially opened for registration in April 2011 where buyers, sellers, distributors and supporters can develop a profile that will be used to connect to new business partners. The profile will include information regarding location, availability, seasonality and traceability.

Detroit Eastern Market

EASTERN MARKET SINCE 1891 DETROIT

Detroit Eastern Market is a wholesale market Monday-Friday, catering to retailers and chefs. Saturday the markets opened to the public, where it serves as a farmer’s market and culinary tourism centre. Facilities cover 7 city blocks and an estimated volume of 70,000 tons of product moves through the farmer’s market annually.

The Eastern Market has been developed in a history rich area of Detroit and in collaboration with Perservation Wayne, an architectural preservation society walking tours are provided for a cost on Saturday mornings.The market is also host to events such as cooking demonstrations, children's activities and live entertainment as well as Harvest Fest in October.

The success of the Detroit Eastern market is largely on the fact that is located in a large urban area to attract customers. Assets of the market are owned by the City of Detroit.