



Brief—August 2016

# Local Food Distribution in the SC Midlands:

## *Identifying Barriers to and Opportunities for Food Producing Farmers Entering Wholesale Markets*

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### **Executive Summary:**

Many food producing farmers in the Midlands of South Carolina are interested in expanding their market reach by selling to wholesale markets.<sup>1</sup> There are challenges to these farmers expanding from direct-to-consumer retail sales (e.g., farmers market sales, community supported agriculture programs, and selling directly to restaurants) into wholesale markets. The Midlands Local Food Collaborative, a network of local, state, and federal agencies and nonprofits whose work relates to food production agriculture in the Midlands, conducted interviews with food distributors in the region to better understand their relationships with local farmers. Distributors varied in how they defined “local” including within 150 miles of their warehouse, 250 miles from their main warehouse, the Southeast, and South Carolina. This brief highlights hurdles and opportunities for food producing farmers entering wholesale markets that were gleaned from these interviews. Hurdles to distributors feasibly meeting consumer demand for local product included food safety standards, quality of product, quantity of product available, the amount of food production in the area, and consumer understanding of the benefits of locally-produced food products.

### **Background**

In 2014, small food producing farmers in the Midlands region of South Carolina were surveyed to understand their interest in and barriers to growth. A major finding included their interest in expanding by selling to wholesale markets. To gain an understanding of hurdles and opportunities for small-scale producers to sell within these markets, we conducted interviews with a sample of food distribution companies in South Carolina. Here, we present the major hurdles identified from these interviews, which include food safety standards, quality and quantity of products, the amount of food production in the Midlands, and consumer understanding of the benefits of locally-produced foods. Also presented are recommendations from interviewees for overcoming these hurdles.

### **Food Safety**

Food safety is one of the largest hurdles to distributors purchasing product from local farmers. Midlands distributors regularly receive calls from growers who lack food safety plans and are unsure about food safety certifications such as USDA GAP (Good Agricultural Practices). One distributor noted that if a grower is rejected, it is typically because of their inability to be audited for food safety. At the same time, another distributor shared how they do take the risk of buying from SC growers who are not GAP certified to meet some of their customers’ demands for local food because they do not have enough farmers to choose from who

meet these food safety certifications. Their choices are to either buy from non-GAP growers in SC, buy from food safety certified farms elsewhere, or to abandon this line of business. Food safety will continue to be an increasing issue as the Food Safety Modernization Act, “the most sweeping reform of U.S. food safety laws in seventy years which aims to ensure the U.S. food supply is safe by shifting the focus from responding to contamination to preventing it” is enforced.<sup>2</sup> Midlands distributors do not directly take on the role of educating farmers on how to reach specific food safety certifications.

Recommendations from distributors in regards to food safety included: increasing awareness of discounted or prorated food safety audit options for small growers from third party audit companies (e.g. PRIMUS), state budgeted free or discounted food safety audits for growers, and hiring someone in the Midlands who understands food safety to link growers and distributors and to work through the various nuances involved as the levels of food safety requirements vary across firms.

### Food Safety Supports in SC

In South Carolina, Clemson Extension’s Food Safety and Nutrition program takes on the role of educating farmers on Good Agricultural Practices (GAP) and the new Produce Safety Rule from the Food and Drug Administration (FDA) through the Food and Safety Modernization Act (FSMA). GAP certification is a voluntary certification. There are some exemptions to the Produce Safety Rule, so while abiding by FSMA is mandatory, exemptions exist.

Clemson Extension assists with mock GAP audits for growers, and a USDA GAP auditor housed at the SC Department of Agriculture actually does the auditing. Farmers pay an hourly rate for the audit beginning when the auditor leaves and then returns back to Columbia, SC. Farmers are audited for each, individual crop that they wish to be certified and may have to have an auditor come several times to see various crops. Farms who wish to maintain their GAP certification must be audited every year. The GAP Certificate is issued by the FDA. The SC Farm to School Program does offer reimbursement for farmers for their first year GAP audit if they are intending to sell their produce to schools.

### Quality

Distributors noted that during the growing season they turn away farm products because they are not up to USDA No. 1 standards or packaged or delivered in the way that they require. According to the U.S. Department of Agriculture’s Marketing Service, “U.S. Grade Standards for vegetables are voluntary and provide the fruit, vegetable, and specialty crop industry with uniform language for describing the quality and condition of commodities in the marketplace.”<sup>3</sup> Many distributors are accustomed or required by their customers to accept products that meet, or appear to meet, these standards. Some distributors have strict procedures on how product should be delivered with the distributors having the right of refusal upon delivery.

One distributor spoke of how much food is going to waste, not only at the distribution warehouses on account of the quality of product that farmers sometimes attempt to sell to them, but also out in the fields where growers must leave product that they know do not meet requirements for wholesale distribution.

Recommendations from distributors in regards to quality requirements included: farmer trainings to collectively educate growers on wholesale standards and how various distributors need USDA No. 1 product delivered, and setting up bulk buying systems or cooperatives so farmers could collectively purchase and share costs of appropriate packaging materials since some of them are not of the size to purchase at bulk prices individually.

*“We would buy and sell local product all of the time if it was possible, but it is not a realistic concept.”*

- Midlands Food Distributor

## Quantity

Wholesalers typically work with larger quantities at cheaper prices as opposed to limited quantities at retail, niche market prices. Distributors often must purchase a certain quantity of product to make it worth their while, particularly if they are going to pickup on-farm. Some distributors have minimum delivery requirements for growers

delivering product to

them, and some do not. Typically though, the distributors' customers will receive a better price on a larger order. It is easier for distributors to aggregate from smaller farms who join together under one entity as it simplifies purchasing and pickup for the distributor. Even so, this approach could disrupt farm or parcel level traceability if not managed well.

Recommendations from distributors in regards to quantity of product included:

farmers forming cooperatives and/or creating food nodes (local food drop off locations for growers with appropriate storage where distributors can pick up their products) and having someone in the Midlands specifically tasked with crop planning between distributors and area farmers.

*“People think schools don’t ask for SC products, but they indicate SC preferred on their orders. The challenge is there is not a lot of the product grown here. It can be grown here, but there’s no one producing in the quantity we need.”*

- Midlands Distributor

*“Farmers wanting to break into wholesale markets should look into establishing or joining a co-op.”*

- Midlands Distributor

## Two Types of Local Food Aggregators

**Food Hubs:** “A regional food hub is a business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand. Regional food hubs are key mechanisms for creating large, consistent, reliable supplies of mostly locally or regionally produced foods. At the core of food hubs is a business management team Clarifying the Regional Food Hub Concept that actively coordinates supply chain logistics. Food hubs work on the supply side with producers in areas such as sustainable production practices, production planning, season extension, packaging, branding, certification, and food safety—all of which is done to enable these producers to access wholesale customers, such as buyers for foodservice institutions and retail stores. Simultaneously, food hubs also work on the demand side by coordinating efforts with other distributors, processors, wholesale buyers, and even consumers to ensure they can meet the growing market demand for source-identified, sustainably produced, locally or regionally grown products.”<sup>4</sup>

**Farmer Cooperatives:** “Agricultural cooperatives are user-owned and user-controlled businesses from which benefits are derived and distributed equitably on the basis of use. From the farm to the kitchen table, agricultural cooperatives are present in nearly every stage of the food and fiber industries, and have been a part of U.S. agriculture for more than a century. Today, there are more than 3,000 agricultural cooperatives in the U.S., with 2.8 million memberships, a total net income of nearly \$1.2 billion and net business volume of more than \$96 billion. There are many different types of cooperatives that farmers utilize. Marketing, supply, and service cooperatives are the most common types of agricultural cooperatives organized in the United States. Marketing cooperatives assemble, pack, process, and sell members' products in both domestic and foreign markets. The level of service provided depends on member needs and the product. Supply cooperatives purchase products and services for their members. They make large-scale purchases of fuel, seed, fertilizers, and crop protectants and pass their cost-savings on to members. Service cooperatives provide members with specialized services, such as ginning, hulling, and horticultural advice, which are usually not economical for an individual farmer to obtain. Additionally, there are bargaining cooperatives, which are often called bargaining associations. They bargain or negotiate with processors and other first handlers for better prices and terms of trade for their producer-members. Today's agricultural cooperatives, large and small, are an important part of the global market. They have formed marketing agencies-in-common to jointly export their products, and continue to serve their members by looking for growth opportunities and the use of new technologies. The mission of cooperatives, however, always remains the same--to serve members.”<sup>5</sup>

## Lessons From Food Hub Projects

Proposed solutions for creating a robust localized food supply in the wholesale (mediated) market channels are being discussed, evaluated, and implemented in a multitude of site-specific situations. In some cases, investments are being made to essentially attempt to “restore” infrastructure and market models from a bygone era. Some are funding projects where nothing existed previously. Some projects have a clearly-defined social mission (e.g. reduce obesity and its attendant ills), calling for more public investment than a purely private sector solution. We can expect to see both successes and failures and a good deal of learning from all approaches. Treating this industry segment’s evolution as a natural experiment provides a framework for expediting the learning process, allowing the lessons learned to influence the direction of future investments.

Preliminary results from research being done on food hub projects point to a few important early lessons. One, even if a project has a clearly-defined social mission, in order to deliver on that mission, it must be managed to survive economically relying on some combination of generated profits or external subsidy. Two, being deliberate about logically separating the social mission from the business mission of the project enables project decision-makers to better focus their efforts on these two distinct missions. In many cases, it might be preferable to structure the overall project into two divisions: social mission and business mission. Three, when there are pre-existing local businesses positioned to provide local food products to the local market, careful analysis should be conducted to determine how creating a new entity will add value and careful design, implementation, and on-going management should follow.

The wholesale food industry is extremely competitive and operates on thin margins. Scaling to a proper size to support the capital investment and operating costs of these projects over an acceptable horizon is of utmost concern. Market dominance by one sole proprietor entity can be problematic if this entity has little interest in supporting the social mission aspirations of the region they serve. Actual knowledge of how to operate a food supply chain business is essential. Organizing in a more collaborative manner and allowing for a reasonable amount of transparency with the community could lead to greater consumer satisfaction and generate positive spillovers in the community. As we learn more about the various approaches being taken and the lessons learned from them, we can expect that better solutions will be forged into the future.<sup>6</sup>

### Consumer Understanding of Local Products

Wholesale distributors face strong demands for local products yet the general public does not understand how difficult it is to meet these demands or that what they often request to be local product does not grow locally. The end consumer’s understanding of what is local and in-season, as well as the entities who are purchasing from these distributors’ understandings were identified as hurdles to motivating distributors to aggregate local products. Thus some produce vendors can and do advertise and sell their products alongside the “Certified SC Grown” label or call their products local even when the product is not grown in South Carolina.

Distributors shared examples of consumers requesting products to be local that do not typically grow in South Carolina. One distributor gave the example of a request he received to provide a school district with SC Grown bananas. Certain products such as pineapples and bananas simply do not grow best in South Carolina, and at present they have no other choice than to buy from outside of the state. Many consumers have not thought the agricultural process through in terms of seasons, climate, amount of rainfall, etc. Distributors have experienced that older generations have knowledge about produce and what is in season, but the younger generation does not seem to cook or know about produce.

Recommendations from distributors in regards to consumer understanding included:  
educating consumers and decision makers that the supply from food producing farmers in South Carolina and the infrastructure at present are not conducive to their demands for local product.





## Summary of Recommendations for Local Food Distribution in the SC Midlands



- ⇒ Increase food safety training supports and funding for farmer food safety audits.
- ⇒ Educate farmers on general wholesale standards as well as standards for each, individual distributor in South Carolina.
- ⇒ Hire a Midlands organizer to build relationships between distributors and growers and coordinate crop planning according to farmer capacity and distributor needs.
- ⇒ Conduct a feasibility study for the Midlands to access farmer capacity and needs as well as distributor capacity and needs for aggregation and distribution of locally farmed products at wholesale prices.
- ⇒ Organize local food aggregators such as farmer cooperatives or food nodes throughout the Midlands with the intention of selling to distributors, the developing food hub network in South Carolina, and other market opportunities.

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[www.ngfn.org](http://www.ngfn.org)