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Economic viability of local food marketing for Iowa restaurants, growers/producers

Abstract
The study considers what economic costs and benefits, and non-economic factors would influence restaurants and producers/growers to purchase/sell locally grown/produced foods.

Keywords
Community-based food systems, Market research and feasibility studies

Disciplines
Agribusiness | Marketing
Abstract: The study considers what economic costs and benefits, and non-economic factors would influence restaurants and producers/growers to purchase/sell locally grown/produced foods.

Question & Answer

Q: What are the types of costs and benefits involved for small and independent Iowa farms and restaurants to sell and purchase, respectively, locally produced food?

A: For local independently owned restaurants, it was found that while production costs of processing local foods are not significantly different than processing nationally sourced foods, sourcing, receiving, and storage costs can potentially be higher for menu items that use locally sourced primary ingredients. Producer surveys showed that while there are no significant differences in production costs, transportation and marketing efforts, and therefore costs, could be different if growers chose to sell to local restaurants.

Objectives for this project were to:
1. Determine the economic and non-economic costs and benefits to restaurants for purchasing locally grown foods,
2. Investigate whether locally purchased food can be used as a competitive advantage for restaurants through increased market share and variable pricing strategies,
3. Identify economic implications for local growers/ producers who wish to establish sustainable partnerships with local foodservice operations, and
4. Educate Iowa restaurateurs and local growers/ producers about the factors that influence the viability of buying and selling local foods.

Approach and methods

Objective 1 was investigated by interviewing ten local and independently owned restaurants in Iowa and also by conducting a mail survey of chefs and managers in foodservice operations. The research design for completing Objective 2 included development of a choice experiment used in the Tearoom operated by ISU's Hotel, Restaurant and Institution Management program. Observations from 323 diners were collected in this experiment. For completion of Objective 3, ten interviews were conducted with local growers in and around central Iowa. Objective 4 was accomplished by developing a fact sheet of study findings for distribution to local restaurateurs and growers.

Principal Investigator:
Amit Sharma
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University Park, PA
(formerly Iowa State University)

Budget:
$19,954 for year one
$19,257 for year two
Establishment's preferred source for locally produced foods

- From a Farmer's Market
- Direct from a farmer
- Direct from a farmer's co-op
- From a local manufacturer or processor
- From a foodservice distributor
- N/A

Results and discussion

Restaurant operations costs

**Costs**—The total costs of using local foods in a restaurant operation were calculated based on interview data and observations and compared with the costs of foods from national vendors. These costs included economic and non-economic costs associated with processes and their related tasks. Processes for 60 menu items (six from each of the 10 participating restaurants) were tracked: Purchasing, Receiving, Pre-Preparation, and Preparation.

**Purchasing**—The time spent sourcing local products was 128 hours, compared to 92 hours for national products. This may be due to uncertainty about which local entity has which products available. Time until delivery also was longer for local products, which may be a function of differing time management for local producers. Actual food costs (based on per pound of all foods purchased) were lower for local foods; the average was $3.80/pound for local foods and $4.30/pound for national products.

**Receiving**—The average time spent on receipt of a product from the vendor was only marginally longer with local sources than with national outlets. Some restaurants in the study spent time transferring products from producer packaging to another storage container.

**Pre-preparation of menu item ingredients**—This includes tasks such as washing or trimming of product and weighing or measuring amounts needed. Clearly, product standardization and consistency were more common in a nationally vended product. Particular local products had higher inefficiencies when evaluated in light of retail price, portion size, and weight of primary ingredients.

**Preparation of menu from ingredients**—Meat entrees prepared with local ingredients were found to create high inefficiencies when compared to all 60 menu items tracked in the study. Further research is needed, but it may be partially a function of retail price listed on the menu and/or weight of the primary ingredient in the portion size.

**Menu item production analysis**—Overall analysis suggested that use of vegetables and fruits, and preparation of main dishes and dessert efficiencies can be improved. Local food sourcing, receiving, storage and pre-prep items are responsible for the greatest production inefficiencies in the context of retail price of items, weight of the primary ingredient, and portion size.

**Consumers’ perception of local foods**—When offered menu
(and pricing) choices between local products and national products, the 323 patrons surveyed showed some willingness to pay a premium for local food. The local menu option was selected by 41 percent of the participants, with about 45 percent being unwilling to pay a premium, 31 percent accepting of a $1 premium, and 24 percent willing to pay $2 extra.

Producer/grower interviews—Ten central Iowa growers and producers participated in these sessions. Growers saw no difference in production and marketing costs between local restaurants versus other marketing outlets, but they saw possible differences in packaging and portioning costs, and potentially in marketing and promotional costs. There was unanimous agreement that transportation costs were higher for local outlets and most also concurred that prices charged to local restaurants can be higher. A few producers sold through food distributors, but most sold directly to the restaurants and were interested in continuing to do so. Two challenges identified by growers were purchase commitments and information on requirements or needs assessment from restaurants.

Conclusions

Results of cost analysis of menu items in the restaurant interviews showed that while production costs are not significantly different, sourcing, receiving, and storage costs potentially can be higher for menu items containing locally sourced primary ingredients. The results also suggest that while commitment from chefs to use local foods is a prerequisite, the importance of identifying the most viable profitable items, portioning, and pricing them appropriately cannot be discounted. Therefore, the expertise and training of the chef must go hand-in-hand with the commitment to use local foods.

Preliminary analysis of choice experiment responses suggests that consumers are supportive of local communities and may be willing to pay a slightly higher price for menu items using local foods. The proper level of this higher price is still being investigated through econometric models and the results of this investigation will be published in future journal articles. Consumer responses suggest that clearly communicating that products are produced using local ingredients and carefully targeting such products to the “right” consumers would need to be done effectively to make local foods a successful business strategy.

Producer surveys showed that while there are no significant differences in production costs, transportation and marketing efforts, and therefore, costs could be different if growers choose to sell to local restaurants. Growers also need restaurants to effectively communicate their produce needs in advance. This failure to communicate
well can be a problem that leads to higher prices being charged by growers.

**Impact of results**

Local restaurants will find it helpful to have this information on the costs of using local foods; including identification, sourcing, receiving, and storage. Those trying local foods in their menu plans for the first time will be able to use the data in planning and allocating costs to ensure success. The production efficiency analysis also will highlight the aspects of serving local foods that need attention in order to be profitable: portion sizes, pricing, effective selection of ingredients and appropriate selection of target markets for these meals.

Producers and growers will use this information to help market and sell their products to restaurants, learning to target their efforts more efficiently. They also need to help chefs and managers determine how to use local products profitably, by appropriately planning and marketing the menu items.

Results from this study also suggest that more information is needed on how to evaluate costs and benefits for restaurants and growers. Small samples and case study approaches may yield more valuable outputs than attempting large sample data collection. However, even in small-sized samples, the investigations need to be more focused.

**Education and outreach**

A fact sheet about current findings was distributed to locally owned, independent restaurants and local growers through ISU Extension. The fact sheet will be posted on the Hotel, Restaurant and Institution Management (HRIM) web site: www.iastatelocalfoods.org. A presentation on the project can be viewed at http://www.leopold.iastate.edu/research/marketing_files/workshop06/index.htm

A series of manuscripts focusing on both the restaurant and producer perspectives will be developed and submitted to scholarly journals.

**Leveraged funds**

No additional funds were sought.