



Marketing Fresh Produce to Food Retailers (Grocery Stores)

Matt Ernst¹ and Tim Woods²

Introduction

The food retail industry saw a renaissance of interest in local and regional sourcing of fresh fruits and vegetables during the 2000s. This interest came within an industry characterized by heavy investment in fewer and larger centralized distribution centers. Although the distribution center model remains prominent within the food retail industry, some retailers have created flexibility within their distribution models to answer consumer demand for local produce. Large retailers are also finding transportation and distribution cost savings by sourcing fresh produce items from new or expanding producers. Smaller chains and local grocers remain potential markets for fresh produce growers expanding to wholesale volumes. Producers of value-added produce products may also find local groceries a possible market for their product.

There are generally three avenues for selling produce to local groceries, based mainly on the size and scale of the store:

NICHE OR SPECIALTY STORES may often carry smaller product selections, with management and ownership entirely in the local area. The number of specialty food retailers has increased in recent years due to consumer interest in smaller store formats and specialty food items (like certified organic and local foods).

INDEPENDENT GROCERS function as a full-scale grocery, making purchase decisions at the store or regional level. These may be stand-alone stores or regional chains focused on a single city or metro area.



Cultivating the Producer-Retailer Relationship

Selling wholesale produce is a highly relational business. Personal relationships between buyers and sellers



NATIONAL CHAIN STORES typically make purchase and distribution decisions beyond the local level, often using regional distribution centers. However, many national chains also allow some direct store delivery of some produce, particularly crops easily delivered in bulk, like melons and pumpkins.

This fact sheet will overview key concerns for farms selling fresh produce to local grocery stores. The five main areas covered are: producer-retailer relationships, pricing, packaging, quality, and quantity.

¹Matt Ernst is an independent contractor with the Center for Crop Diversification.

²Tim Woods is an extension professor in the UK Department of Agricultural Economics.

in the wholesale produce industry are very important. Retailers are accustomed to placing orders with established companies and growers, and a relationship of mutual trust is cultivated between clients. Many larger produce wholesalers and retailers trace their roots to small, family businesses that have grown across the generations.

Relationships are also important when dealing directly with an individual grocery store. Growers will need to cultivate a relationship with the produce manager or store manager responsible for making purchases of fresh produce. Producers should present themselves professionally and be willing to tell the story of how their produce is grown. This will allow the person purchasing your produce to get to know the farm. Retailers who understand and appreciate where a food crop is coming from tend to be more likely to promote that crop to the consumer, and those stores may be more willing to consider purchasing additional crops from a local grower. Some stores will include “point of purchase” materials, such as signs and recipes, to promote local crops. Others even invite producers into the store to hand out samples. Producers more willing to contribute to such displays and efforts will help cement the relationship with the retailer.

Pricing

Local groceries are often grouped with local restaurants in discussions about new market channels for fresh produce. Both types of buyers offer potentially larger markets for growers seeking higher-volume outlets to sell produce. However, one of the key differences for grocery buyers is that grocers are generally less likely to pay larger wholesale price premiums for locally grown produce. This makes negotiating price a key consideration when selling produce to a local grocer.

Producers should understand two things about pricing produce before starting negotiations with local grocers:

1. Prices received for produce will be wholesale, not retail.

2. Producers must understand how much their produce costs to grow and deliver a shelf-ready product.

Prices received from local groceries will be at or near wholesale price levels. This can be a surprise for producers accustomed to selling produce at retail prices, such as those received at farmers markets.

Prices will likely even be lower than those paid by restaurants. Retailers work on margin — the difference between the wholesale price paid and the retail price. Some retailers may be willing to incur smaller margins to feature local produce; however, prices paid by groceries will still be at wholesale levels.



Since producers will be receiving wholesale prices, it is crucial that they understand how much a particular produce crop costs them to grow, harvest, and deliver to the grocery store. Knowing the costs of production will allow a grower to discuss potential prices with the local grocer. Be sure to factor in costs of packaging, delivery, and extra handling time that may be incurred when delivering produce. Some growers find it worth their extra time to sell produce through local grocers, despite smaller profits, because it provides a form of advertising to local consumers.

For a discussion of pricing, including examples and case studies regarding how to determine wholesale prices, growers may refer to publication PB1803 from the University of Tennessee’s Center for Profitable Agriculture, *A General Guide to Pricing for Direct Farm Marketers and Value-Added Agricultural Entrepreneurs*.

Packaging

Product packaging is another difference between selling in a direct market retail setting (such as a farmers market) and selling to a grocery store. Grocers are accustomed to handling produce such as tomatoes, cucumbers, and squash in corrugated cardboard produce boxes. Other produce crops, like lettuce and

greens, may be delivered in reusable plastic containers. Some crops, especially sweet corn, may be crated in wooden containers. Berries and cherry tomatoes may be packaged and labeled in plastic or paper pint or quart containers. Grocers may be accustomed to handling other crops like melons that carry a sticker on each fruit with a numerical code; more produce is now labeled with individual Universal Product Code (UPC) or Product Lookup (PLU) symbols for scanning at checkout. For tips and resources on UPC and PLU symbols, producers may refer to *Tips for Selling to: Grocery Stores* published by the National Sustainable Agriculture Information Service (ATTRA).

Producers need to bear the responsibility of determining how to package the product in a manner that will allow the grocer to handle local product as safely and easily as possible. Produce is typically graded and packed in standard sized containers. Lists of common container sizes and produce quality grading standards are available by doing crop-specific searches on the USDA Agricultural Marketing Service website, <http://www.ams.usda.gov>. Additional information on produce packing and containers is available in the *Wholesale Packing Resource Guide* and the *Produce Pack Guide*, both listed below under Additional Resources. If possible, talk with buyers about any special packaging requirements or preferences. Produce growers should always budget the cost of packaging for delivery to the wholesale client and make marketing decisions depending on their ability to bear the cost.

Produce packaging can add value to the farm's product, making it more attractive to the consumer and easier to handle for the grocer. Attractive product labels carrying the farm's name and address raise farm brand awareness and may assist cashiers at checkout. Signage indicating that products are locally grown,



like signs carrying the Kentucky Department of Agriculture's Kentucky Proud logo, can help generate interest in local products in the retail store. Even bulk boxes or bins may be imprinted with a farm's name so that consumers can see where the produce has been grown as it is stocked in the produce section. Producers always need to manage costs of production, but money carefully spent on quality packaging may generate positive additional returns.

Quality and Quantity

Produce is not only graded and packed in standard-sized containers, but it is also sold according to standard quality grades. While some local retailers may afford some leeway for local growers, producers should always adhere to commonly accepted grades and standards for produce crops. If a producer is unsure of how to size, grade and pack produce, he or she should obtain the expertise to do so. Farm employees may also need to be trained on proper picking, grading/sorting, and packing techniques. In addition, certain varieties may be better suited for wholesale shipments. Resources such as the University of Kentucky Extension Publication ID-36, *Vegetable Production Guide for Commercial Growers*, provide guidance for growers in variety selection.

Many produce crops require cooling and/or cool transport to maintain product quality and safety. Some local groceries may allow local producers to deliver crops directly after harvest for refrigerated storage. Others, especially larger chains, may require growers to maintain certain cool chain standards for different crops. Producers willing to keep their crops at ideal postharvest temperature levels will benefit their grocer customers with improved product quality.



Grocers often cite the failure of producers to deliver adequate and consistent quantities of produce as one of the main barriers to purchasing local produce. Producers will need to clearly communicate to the grocer, before the season starts, how much and how often they can deliver produce to the grocery store. Conversely, ask grocers how much product they anticipate buying, and use that to evaluate whether selling to a grocer is even potentially profitable. Grocers understand that weather can impact harvest, but they expect clear communication from the producer in any event of delivery delay. Remember: the retailer is already accustomed to receiving wholesale produce at regular times and uniform quality. Local producers need to match (or exceed) the quality of existing wholesale options, especially if producers are trying to obtain any premiums in wholesale price.

Conclusion

More local grocers are open to the idea of sourcing local produce. Producers willing to develop a face-to-face relationship with a retail buyer, negotiate prices fair to both producer and grocer, and deliver produce of consistent quality and quantity can develop profitable wholesale market niches. Having a strong understanding of production and distribution costs is crucial to evaluating the potential profitability of these markets.

Additional Resources

- Kentucky MarketMaker (University of Kentucky) <https://ky.foodmarketmaker.com>
- Kentucky Proud (Kentucky Department of Agriculture) <http://www.kyproud.com>
- MarketReady (University of Kentucky) <http://www.uky.edu/marketready/>
- Vegetable Production Guide for Commercial Growers, ID-36 (University of Kentucky) <http://www2.ca.uky.edu/agcomm/pubs/id/id36/id36.pdf>
- Agricultural Marketing Service (USDA) <http://www.ams.usda.gov>



- Fresh Fruit, Vegetable, Nut and Specialty Crop Grade Standards (USDA- Agricultural Marketing Service) <https://www.ams.usda.gov/grades-standards>
- General Guide to Pricing for Direct Farm Marketers and Value-Added Agricultural Entrepreneurs (University of Tennessee Center for Profitable Agriculture, 2011) <https://utextension.tennessee.edu/publications/Documents/PB1803.pdf>
- Tips for Selling to: Grocery Stores (ATTRA-NCAT, 2012) <https://attra.ncat.org/attra-pub/summaries/summary.php?pub=387>
- Produce Pack Guide (FarmsReach) <http://asi.ucdavis.edu/programs/sarep/publications/food-and-society/infosheet-producepackguide.pdf>
- Wholesale Packing Resource Guide (New Entry Sustainable Farming Project, 2010) <https://www.sare.org/Learning-Center/SARE-Project-Products/Northeast-SARE-Project-Products/Plain-Language-Guides-for-New-and-Under-Served-Producers/Wholesale-Packing-Resource-Guide>

Suggested Citation:

Ernst, M., and T. Woods (2018). *Marketing Fresh Produce to Food Retailers (Grocery Stores)*. CCD-MP-20. Lexington, KY: Center for Crop Diversification, University of Kentucky College of Agriculture, Food and Environment. Available: <http://www.uky.edu/ccd/sites/www.uky.edu/ccd/files/grocers.pdf>

Reviewed by Cheryl Brown, Associate Professor of Resource Economics and Management, West Virginia University, and Brett Wolff, UK Center for Crop Diversification

Photos courtesy of Pixabay.com

February 2018

For additional information, contact your local [County Extension](#) agent

Educational programs of Kentucky Cooperative Extension serve all people regardless of economic or social status and will not discriminate on the basis of race, color, ethnic origin, national origin, creed, religion, political belief, sex, sexual orientation, gender identity, gender expression, pregnancy, marital status, genetic information, age, veteran status, or physical or mental disability.