

## Market Structure and Sustainable Food Systems Policy

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### **Policy Implication: Economic value of policy interventions may not fully benefit target populations in intermediated markets for local foods.**

Markets for local foods have generally been linked to the direct marketing channel through which local products were bought and sold. The “localness” of the products sold through direct marketing channels has been considered verifiable as a result of “knowing” the producer. Markets for local food, however, are diversifying beyond direct-to-consumer channels to include marketing locally differentiated foods through intermediated market channels. The distinction between the local product and the market channel through which the product is sold becomes relevant and necessary to effectively analyze market equilibria, policy impacts, and economic welfare.

As an example, we look at Farm to Institution (FTI) markets. School Food Authorities (SFAs), e.g., can buy local product from a farmer through a direct market channel, or through a distributor in an intermediated market channel. Do intermediated marketing channels contribute to sustainable food systems goals? Advocates hypothesize that buying local product from distributors can help FTS programs “scale up” as they reduce overall costs due to economies of scale. To analyze this claim, we:

- Interview farmers who sell to FTI markets in six New England states (CT, MA, ME, NH, RI, VT),
- Review economic theory regarding market organization, and
- Analyze USDA FTS Census data regarding perceptions of lower costs from FTS procurement.

We find that:

- SFA procurement through intermediated marketing channels is less likely than direct procurement to lower FTS costs. This suggests that either distributors are not reducing overall costs due to economies of scale, or they are not passing the cost savings through to SFAs.
- Farmers find costs to sell to directly to SFAs prohibitive, but do not have bargaining power to negotiate preferred terms with intermediaries. Barriers cited to increased sales to FTI include low prices, volume requirements, and logistical challenges.
- Theory of market organization suggest that even if distributors are able to reduce costs as a result of economies of scale, the position of distributors as “middle-men” in the supply chain may allow them to exert market power so that the cost reductions are retained by the distributors, and not passed along to SFAs or farmers. This action also reduces the quantity of local product supplied to FTI programs.
- Economic value of policy interventions may not fully benefit FTS programs in intermediated markets for local foods.

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<sup>1</sup> “Market Channel and School Meal Costs in Farm to School Programs”

<sup>2</sup> “Direct or Local?: Modeling Equilibria in Markets for Local Foods”

<sup>3</sup> “Costs and returns to New England farmers in the farm-to-institution supply chain” Funded by NESARE for GNE 13-058