

Beyond Fresh and Direct: Exploring the Specialty Food Industry as a Market Outlet for Small and Medium-sized Farms¹

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As small and medium-sized farms struggle to remain viable in a competitive global economy, the expanding specialty food industry provides a potential marketing opportunity. These farms raise many of the farm products that can become key ingredients in value-added foods. To explore this potential opportunity we surveyed specialty food manufacturers (SFMs) and conducted in-depth interviews with manufacturers and farmers in California, Minnesota, Wisconsin, Washington, and Oregon. We conclude that the specialty food industry is an emerging market channel for small and medium-sized farms, especially given consumers' growing interest in locally and regionally produced foods. Below are some of our key findings.

- Almost half of the SFMs source their primary ingredient directly from farms or from their own farm. More than half of the farms supplying these ingredients are small or medium-sized.
- Key benefits manufacturers receive from working with these farms include quality assurance, trust, and traceability.
- Key obstacles to such farmer/manufacturer transactions are: cost, inability to meet volume requirements, unreliable supply and lack of year-round supply.
- Food safety tops the list of quality assurance priorities for specialty food manufacturers. While the Food Safety Modernization Act requires larger food manufacturers and farmers to have food safety plans, even those food manufacturers and farms exempt from the law may find that buyers, insurance companies and funders often require some sort of third-party certification as assurance that products meet a specific set of standards.
- To be successful in supplying specialty food manufacturers, farmers need to: have processes in place to ensure the quality of their products; provide the specific attributes the manufacturer requires for its ingredients; and be willing to communicate frequently with the manufacturer.
- Both SFMs and the small and medium-sized farms can benefit from programs provided by Cooperative Extension and other organizations that enable them to better understand each others' needs and develop supply relationships. A farm/ranch can use its locality or its story to emphasize the freshness and other exceptional qualities of its ingredients to encourage a SFM to purchase its product.
- Over a quarter of the SFMs (28%) in our survey operated a farm that supplied some or all of their key ingredient. This fact suggests the expanded role that small and medium-sized farms can have in rural economic development. These farms often have limited capital to vertically integrate and can benefit significantly from various USDA programs, including the Local Producer Promotion Program and Rural Development's Value-Added Producer Grants and Business & Industry Loan Guarantees.

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