Food & Beverage Manufacturers - Are You Ready for Local?

by Biju Jatheendran and Reed Shelger

“We’ll continue to strengthen our fresh departments by improving quality, consistency, and presentation, especially with more locally sourced fresh fruits and vegetables” – Walmart 2015 Annual Report

“We also see engagement with local farmers and producers as part of our efforts to make a difference in our communities … we participate in established programs such as Colorado Proud, Kentucky Proud and Go Texan to meet the growing demand for fresh, locally-sourced foods” – Kroger 2014 Annual Report

Why Local Matters

The demand for local food is booming. USDA data indicates that local food sales totaled at least $12 billion in 2014; industry sources estimate the market’s value could hit $20 billion by 2019. Consumers perceive local food to be fresher, better tasting, and more nutritious. The social benefit of supporting local farmers and local economies also appeals to many consumers. These factors are driving the sales growth of local produce at farmers markets and supermarkets. Restaurants that feature menu items developed using local ingredients are also rising in popularity for the same reasons. Currently, the demand for local food exceeds the supply, often leading to significant price premiums for locally sourced food in many cases.

Large food manufacturers need to take steps to align their businesses to embrace the local movement, or risk losing market share. Already, small and midsize consumer goods companies have stolen $18 billion in U.S. sales, or 2 percentage points of share, away from large players since 2009, according to a March 2015 report by IRI and the Boston Consulting Group. A key contributing factor for this shift in sales is consumers’ demand for more “better for you” products and a refusal to compromise on health, taste, and convenience.

What is Local Food?

There are varying definitions for what constitutes a local food. Most consumers identify local as being grown within 100 miles. According to the definition adopted by the U.S. Congress in the 2008 Food, Conservation, and Energy Act (2008 Farm Act), the total distance that a product can be transported and still be considered a “locally or regionally produced agricultural food product” is less than 400 miles from its origin, or within the state in which it is produced. Most food retailers (Walmart, Safeway, Kroger, Whole Foods) have their own definitions of what constitutes local.

As nebulous as this is for retailers selling produce and protein, it can be doubly confusing for manufacturers of processed and packaged foods. Not only must companies set guidelines for where ingredients come from, but they must also consider the percentage of ingredients that should be local.

Addressing Common Challenges

Food manufacturers must find reliable local suppliers to meet their volume requirements – and this is a real limitation. Because ingredients are locally produced, they will not be available in every geography year-round (due to seasonality, weather conditions and soil differences). Companies getting started with local sourcing should be prepared to work with multiple, smaller suppliers. This leads to more work within the organization – Procurement, Sourcing, and Purchasing need to identify local suppliers and negotiate additional sourcing terms; R&D needs to evaluate locally sourced ingredient specifications and ensure they adhere to global and regional standards; Quality Assurance needs to audit and qualify local suppliers and possibly even develop different audit or compliance standards depending on state and federal requirements.

Getting Started

While there are multiple avenues and strategies for large firms to explore, one clear option that firms cannot afford to take is to IGNORE the local food movement. Initiating the local sourcing journey starts with a few simple steps:
1. **Size the opportunity.** How much business does the company stand to lose by not adapting? This step is essential in establishing the burning platform and building support in the organization.

2. **Take stock.** Assess existing business processes, systems, supply chain, and product portfolio to better understand the organization’s capabilities to execute a local sourcing initiative. Assess the fit with overall brand values and the firm’s broader sustainability objectives.

3. **Conduct a Pilot.** Identify and execute strategic experiments (product lines, brands, geographies, or a combination) where locally sourced products can be tested.

In our next post on local food trends, we will explore how Product Lifecycle Management (PLM) processes and technology help companies succeed in executing their local sourcing strategy. We will navigate through key capabilities that PLM offers and the benefits of ingredient traceability.

References

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2. Which Companies Drove U.S. CPG Growth in 2014

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What's your view? Add your question or comment
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