

# BEYOND FRESH & DIRECT

BENEFITS • CRITERIA • CONNECTIONS • STANDARDS • VALUE ADDED

# CONNECTIONS

How Can Farmers and Specialty Food Manufacturers Connect?

MANY SPECIALTY FOOD MANUFACTURERS ARE SOURCING INGREDIENTS FROM SMALL AND MID-SIZED FARMS. BUT HOW DO MANUFACTURERS AND FARMS FIND EACH OTHER AND HOW ARE THE MATCHES MADE? WHAT CAN MANUFACTURERS AND FARMERS DO TO MAKE AND MAINTAIN A GOOD RELATIONSHIP? THIS FACT SHEET PROVIDES YOU WITH INSIGHTS AND RECOMMENDATIONS.

## GETTING CONNECTED

**Networking** The most common way for manufacturers and farmer-suppliers to meet is through their own networks. This might mean connecting with neighboring farmers, through business associates, or at events that target farmers and food makers. For example:

- o A fermented food business in Wisconsin initially grew the cabbage used in its products but quickly realized it made more sense to source vegetables from other farms. The owners began by talking with their neighbors who grew vegetables. They asked them if they would be willing to grow more cabbage, carrots, and beans — crops they needed to make their products. The neighbors agreed, and both businesses have benefited from the relationship.
- o A California dairy manufacturer who makes farmstead cheeses joined the California Artisan Cheese Guild. This provided an opportunity to make connections with farmers and eventually led to sourcing relationships.
- o An Oregon hazelnut producer/processor wanted to expand the processing part of her business beyond a level she could supply from her own farm production. She chose to purchase additional hazelnuts from neighboring farmers who were growing varieties and using production practices that matched her needs.

**Farmers Markets** Nearby farmers markets are a great place to make connections with food manufacturers, whether you are a vendor yourself or visit markets specifically to meet food manufacturers. Generally, food manufacturers who sell at farmers markets are smaller in scale, which can be advantageous. They may be willing to test your ingredients in their products. If they like them, this could lead to repeat orders that increase in size as their business grows.



- o The founder of a small fresh pasta business was selling at a Wisconsin farmers market. At the time, he was sourcing the vegetables he used in his filled pastas from Sysco. Talking with a fellow vendor, a mushroom grower, he realized that this farmer could be his mushroom source. Soon he was asking himself why he wasn't using more local ingredients, especially spinach and asparagus. His initial concerns about cost diminished when he determined that the numbers worked if he bought cosmetically imperfect ingredients for his pasta fillings.

vendor at the farmers market. As his pasta business grew, he needed 1,000 pounds rather than 100 pounds in a season. He discussed this with the farmer, who agreed to increase his production to supply that amount. This relationship is now more than 10 years old.

**Visits to Food Stores** Identifying potential food manufacturers might start with a trip to your local grocery or specialty food store. By scanning the shelves, you can find manufacturers who make products that use the ingredients you grow. Most food products have a phone number or website on their packaging. You can contact the manufacturer to ask if they are looking for suppliers. This can also work the other way around; a food manufacturer may visit stores to identify local producers of various ingredients.

- o In Minnesota, a pair of food entrepreneurs came up with the business idea of making and selling bone broth. While shopping at the local food co-op, they found that most of the organic chicken came from one local farm. They contacted the farm and now have an arrangement to purchase bones and carcasses from this farmer for their broth.

## AGREEING

Once you have connected with a food manufacturer, keep these best practices in mind as you agree to move forward.

**Start Small** Beginning on a small scale is a good way to get started. It gives both parties a low-risk opportunity to see if they are a good match. By starting small, you can clarify product quality requirements, work out logistics, learn how your new partner does business, and determine if it makes sense to move forward at a larger scale. These initial, small-scale transactions are often the foundation for the mutual trust that is so important for successful business relationships.

- o A jam manufacturer in California meets her suppliers at farmers markets and has initial conversations with them there. She first ascertains if the farmer has the quality she needs. If they do, she proceeds cautiously. She may meet and talk to a farmer one year and plan to do business with them in the next year. She takes it slowly, making sure all her questions are answered and she is comfortable with the relationship before taking the next step.
- o Small, thoughtful beginnings can lead to much larger and long-term relationships. The pasta maker mentioned earlier originally purchased asparagus from a fellow

### Verbal Commitments and a Shared Written Record

If you make changes in your farming operation in order to sell ingredients to a specialty food manufacturer, you will want to have a commitment from them that they will buy ingredients from you. Many farmers and manufacturers opt for informal commitments regarding price and quantity for ingredient purchases rather than formal, binding contracts. This allows for some flexibility on both sides, since weather and unforeseen circumstances can affect ingredient supply, and demand for new specialty food products is often uncertain.

While a formal contract may not be desired, having a shared written record of agreements is helpful in ensuring that both parties are on the same page. People often remember things differently – and a shared written record can help reduce misunderstandings and conflicts. For example:

- o A Wisconsin farmer learned the value of a shared written record the hard way when he agreed to supply vegetables to a new food manufacturing business. The manufacturer had talked with a number of farmers and, unintentionally, lost track of what he had agreed to buy. Some of the farmers had increased their production anticipating sales to the manufacturer, and the manufacturer had to back out of some of the commitments he had made. The farmers were understanding. The next year the manufacturer sent out an email indicating how much product he would need from each farm. That way all parties had a written record to refer back to for clarification.

In some cases, written contracts are needed.

- o A California dairy initially structured transactions with a cheese manufacturer informally. Eventually, the cheese manufacturer moved to written contracts, not because of a lack of trust, but because the contracts were required for them to meet new food safety regulations.

**Win-Win Pricing** The prices you charge a food manufacturer usually will be less than what you charge when selling direct to an end user, such as a customer at a farmers market or a chef at a restaurant. But there are a number of reasons why this lower pricing can still work for your farm. By selling to a specialty food manufacturer, you can eliminate the high costs associated with direct marketing. Additionally, product specifications may be less stringent, depending on how your product will be used. Here's an example:

- o A Minnesota farmer who sells vegetables to a fermented food maker says, “It’s nice to have different wholesale outlets because it gives us options as far as grading. The food manufacturer is fine with imperfect carrots because they’re just shredding them anyway, whereas grocery stores want the visually perfect ones. This enables us to keep the grocery customers happy and still make some money off of the ones that don’t look so nice.”

While the prices you will get from a food manufacturer will be less than what you will get from selling direct, they may be more than what a wholesale distributor will pay. Food manufacturers benefit by buying directly from farmers because they can get the ingredient characteristics they want, but don’t have to pay for the mark-ups charged by a distributor. This can be a win-win situation.

## MAKING IT WORK

**Communication** As is true with most everything, communication is key. For a business relationship to work well, you and the manufacturer will need to communicate clearly and effectively about quality, supply and demand, timing, and pricing. You can also keep each other up-to-date on emerging opportunities and proactively address potential problems. Here are two examples:

- o A Washington sauerkraut manufacturer initially purchased whatever cabbage farmers had leftover at the end of the farmers market. After having mixed results, she realized

that to produce a high quality product, she needed cabbage varieties with certain characteristics. She reached out to the farmers she worked with and supplied them with a list of acceptable varieties. This communication enabled the farmers to decide if they wanted to grow more of those varieties in order to continue supplying the manufacturer:

- o A California dairy farmer has been selling organic milk to a cheese producer since 2009. He talks to the head cheesemaker once a month to determine how much milk they will need, then contacts the producer’s manager weekly to confirm the pick-up time. This consistent communication makes for a good business relationship.

**Reliability** Both farmers and food manufacturers make important business decisions based on the relationship they have established with each other. When they trust each other to reliably deliver on mutual commitments, both businesses can do well. When they don’t, it can hurt one or both of the businesses. Here are two examples, one that didn’t work well and one that did:

- o A California dairy farmer sold his highly specialized milk to several local cheese producers who committed verbally to buying a specific volume of milk from him every week. Invariably, the cheese producers would face some difficulties, and the farmer would be stuck trying to adjust his production schedule. The farmer terminated relationships with many of these smaller cheese producers, and is now looking for larger, more reliable customers.



- o The owner of a charcuterie business in Minnesota has a strong connection with one of his farmers. This mutually beneficial relationship has enabled both of their businesses to grow. The charcuterie buys 10 pigs each month from the farm. Because he is assured this sale, the farmer has been able to expand his operation to include 20 pork CSA shares and sales to a natural foods co-op and to restaurants. The farmer credits his partnership with the charcuterie in giving the farm stability, which enables him to look to new opportunities in the future.

**Flexibility** Both farmers and manufacturers need to be flexible in order to react to and take advantage of changing circumstances. The value and stability of the relationship can make changes worthwhile.

- o A specialty food manufacturer who sources ingredients from small farms learned that he needed to be flexible enough to have backup sources elsewhere if one farmer's crop failed.
- o A Washington butcher only sources meat from ranchers who sell to multiple businesses. In his experience, being the sole outlet can lead to problems for both the buyer and the seller.
- o An Oregon rancher explained that there are occasions when he receives a request that he can't fill. Rather than turn the customer away, he offers to connect them to another rancher whom he trusts. He doesn't receive any money for this, but knows it is good for his business.
- o A California jam manufacturer makes calls several weeks ahead to her fruit farmers to set up deliveries. With tree fruits, however, she needs to be flexible and adjust her schedule to coincide with when the fruit will be ripe.

## KEY TAKEAWAYS

- o If you want to sell ingredients to a food manufacturer, start by using your local networks and connections to find manufacturers. Don't forget your local grocer and farmers market. You may find smaller food manufacturers interested in using local ingredients.
- o Once you've found a manufacturer willing to try your ingredients in their products, start small. This gives you the opportunity to see if it is a good match before you invest much time, energy, and resources. If you move forward, be sure to have shared written agreements that outline quantity, quality, prices, and timing.
- o You and the manufacturer need to have a clear understanding of each other's expectations. Communication should be ongoing to ensure smooth transactions.

Specialty food manufacturers and the farmers who supply them often benefit from close working relationships that are mutually beneficial. Taking time to cultivate connections with specialty food manufacturers can be well worth the time and effort.

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This fact sheet is part of a project exploring the opportunities and challenges small and medium-size farms encounter when they seek to enter the rapidly-growing specialty food marketplace as either ingredient suppliers or manufacturers themselves. The project included a survey of specialty food manufacturers in California, Minnesota, Oregon, Washington, and Wisconsin in 2015 and interviews with selected manufacturers and farmers who supply manufacturers in four broad food categories: dairy; grain and baked goods; processed meats; and processed fruit, vegetables, nuts, and herbs.

### Project Team:

Larry Lev, Oregon State University, Project Director · Gail Feenstra, University of California-Davis  
 Shermain Hardesty, University of California-Davis · Laurie Houston, Oregon State University  
 Jan Joannides, Renewing the Countryside · Robert P. King, University of Minnesota

