

Local Food Connections

Contracting with Foodservices



Using a Web-based calculator can help producers decide whether contracting with foodservice operators is a financially sound solution.

Foodservice operations often recognize the benefits of supporting regional economies by offering local food but they face several administrative constraints—such as finding sources, working with multiple vendors, inconsistent package units, weather-dependent supply, and increased unit costs. Producers also see benefits of selling to foodservice operations, but they face logistical challenges.

Cost Control

Both producers and buyers for foodservice operations must monitor costs to stay in business. From the buyers' perspective, food products grown on smaller, local farms typically cost more than commercial products from a retail store or national distributor because small producers lack an infrastructure for standardized production and efficient distribution. Foodservice operations frequently will purchase convenience forms of fresh produce items to save on labor required in-house to prepare the product for service. Foodservice managers for institutional operations may not feel they can pass on added costs to their customers.

Producers working smaller plots of land for niche crops may experiment with a wide variety of products. They typically use more labor-intensive production methods that support sustainability, such as organic control of insects. Some producers focus on direct-sales venues where they can charge premiums for their products. Even then, however, their sales may not cover the additional costs related to market membership, set-up, sales staff, packaging, and transportation. In addition, direct sales at farmers' markets depend on the number of shoppers, which can vary from week to week.

Risk Management

Some local producers have reduced their dependence on direct sales to consumers by contracting with one or more foodservice operations. Contracting to sell a set amount of product at a specific price prior to planting provides the producer with stabilized data for informed decision-making.

One tool to help producers evaluate possible contract agreements is an online calculator developed with support from the Leopold Center for Sustainable Agriculture. The calculator allows producers to consider various scenarios using multiple factors that determine if there are cost advantages to increasing production volume and improving product distribution by contracting sales. Although price per unit may be lower than direct-to-consumers via farmers' markets, the total sales increase may offset fewer dollars spent in transportation and sales staff.

Using the web-based calculator at www.iastatelocalfoods.org/calculator

Each scenario is product specific and can be saved for future reference or revision. The information is password protected and login information is determined by the user.

The calculator uses four types of information:

- Product production
- Income (sales) type and price
- Production-related expenses
- Operation-related expenses

The product information entered in Step 1 is repeated throughout the calculator for reference. After users enter the units produced and the acreages, the system calculates the percent of production dedicated to this product. This value is used later in the calculator for allocating operation-wide costs to this product.

The screenshot displays the 'Produce Profitability Calculator' interface from Iowa State University. It is divided into several sections: 'Current Production', 'Expanded Production', 'Production Costs', and 'Harvest Costs'. Each section contains a table with columns for Quantity, Unit, \$/Unit, and Item Total. The 'Production Costs' section is further divided into 'Supplies' and 'Labor'.

Current Production				Expanded Production			
Crop:	Carrots			Expanded Units Produced:	900 (Pound)		
Current Units Produced:	100 (Pound)			Expanded acres of this crop:	0.1		
Current acres of this crop:	0.01			Total acres in produce:	0.5		1
Total acres in produce:	0.5			Percent of acres in this crop:	2.00%		10.00%
Percent of acres in this crop:	2.00%						

Production Costs - Supplies				Production Costs - Labor				
Quantity	Unit	\$/Unit	Item Total	Quantity	Unit	\$/Unit	Item Total	
Fertilizer	5.00	Pound	\$5.00	\$25.00	50.00	Pound	\$4.50	\$225.00
Seed	8.00	Packet	\$3.20	\$25.60	80.00	Packet	\$2.60	\$208.00
Bulbs								
Supplies Subtotal			\$50.60				\$433.00	
Owner/Operator	0.50	Hours	\$15.00	\$7.50	2.00	Hours	\$15.00	\$30.00
Employee 1 (Jason)	0.25	Hours	\$8.00	\$2.00	1.50	Hours	\$8.00	\$12.00
Employee 2								
Labor Subtotal			\$9.50				\$42.00	
Production Costs Total			\$60.10				\$475.00	

Harvest Costs - Supplies				
Quantity	Unit	\$/Unit	Item Total	
Bags	100.00	Bag	\$0.02	\$2.00
Boxes	4.00	Box	\$2.50	\$10.00
Expanded	900.00	Bag	\$0.01	\$9.00
Expanded	36.00	Box	\$1.90	\$68.40

Costs and units are entered and the system figures the totals. Users can select cost items to include from the list and determine the units appropriate for their situation.

The two-column format allows for current production costs to be entered on the left and estimated costs for expanded production to be entered on the right. The expanded production values must be determined by the user.

Resources

For more information, contact Catherine H. Strohhenn Hotel, Restaurant, and Institution Management Iowa State University Ames, Iowa (515) 294-3527 cstrohbe@iastate.edu

Visit these Web sites www.iastatelocalfoods.org www.leopold.iastate.edu

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