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.
Resources

For more information, contact Catherine H. Strohbehn
Hotel, Restaurant, and Institution Management
Iowa State University
Ames, Iowa
(315) 294-3527
cstrohbe@iastate.edu

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

Prepared by Jason Ellis, Ph.D., former extension specialist and Catherine Strohbehn, Ph.D., R.D., extension specialist. Edited by Diane Nelson, extension communication specialist. Cover art by Lonna Nachtigal.

This project was supported by a grant from the Leopold Center for Sustainable Agriculture.

... and justice for all
The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write USDA, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.


File: Economics 1-6