

Local Food Connections

Restaurants' Return on Purchasing Locally Sourced Foods



Local foods are important to consumers! Farmers' Market numbers have increased, more farms and consumers are participating in Community Supported Agriculture (CSAs), and chefs identified locally grown foods as the hottest menu trend in both 2009 and 2010. In addition, USDA has launched the "Know your Farmer, Know your Food" campaign and supports regional food efforts that promote sustainable practices.

Purchasing foods grown locally does produce challenges to the restaurant operator. Surveys of foodservice operations have identified challenges of variable product purchase cost and increased handling/production costs by the restaurant (Banepe et al., 2002; Sharma, Strohbehn, & Gregoire, 2008). Purchase costs are likely to be higher as produce from small to medium sized farms do not have the economies of scale of larger operations. But recent trials at Iowa State University found the higher purchase costs and handling/production costs could be recovered with promotion and premium menu pricing.

The Trials

The local ingredient option was offered during six trials conducted in the Joan Bice Underwood Tearoom on campus, a student-run quantity food production laboratory for hospitality management majors. The restaurant offers a fixed price menu with \$6.25 charged for a lunch which includes three courses and a beverage.

Six fresh and/or cooked food items with local ingredients were used to track the restaurant's purchase and time input costs. Three types of locally sourced foods were used in six menu items. Information about the producer and local product available and the premium upcharge per serving was promoted with table displays. The local foods and premiums charged were: carrots (\$.50); apples (\$.75); and grass fed beef (\$1.00). Of the 279 attendees, 124 guests selected the local option (44%).

- Of the 71 patrons for the two trial days featuring carrots, 25 patrons (35%) selected the local option and paid an additional charge of \$0.50 per serving (an 8% premium).
- Of the 79 patrons that were in the dining operation on the two days featuring apples, 47 patrons (59%) selected the local option and paid a premium of \$0.75 (12% more than non-local option).
- Of the 129 patrons that were in the restaurant for the two days featuring local ground beef, 52 patrons (40%) selected the local option and paid an additional charge of \$1.00 (16% premium).

These findings demonstrate that a good percent of consumers were willing to pay premium prices for menus featuring promoted local foods.

Inputs

During the trials, the additional time needed to arrange for purchases and delivery (or pick-up) of food, as well as any extra time needed for in-house preparation beyond what would have been spent with a conventionally sourced food were estimated by the person completing these tasks. The labor cost for these additional time inputs was calculated using minimum wage.

The greatest difference in purchase costs between conventionally and locally sourced foods was for the ground beef, at a differential of \$19.68. Some of this difference was due to a surcharge for delivery while the rest was due to a higher price per pound. (The higher cost per pound resulted from the supplier's chosen process of purchasing beef halves and grinding the entire carcass, minus the middle meat cuts). Less shrinkage was noted after cooking with the local ground beef.

Generally, more time was needed to arrange for steps of purchasing and delivery than in preparation of the carrots, apples, and ground beef in house.

Conclusions

Although local food costs are generally more expensive because of seasonality, labor intensive nature of production, or market constraints, these trials found additional costs can be compensated for with premium prices paid by customers choosing promoted, locally sourced ingredients and menu items.

Restaurants and other retail foodservices that promote the use of local ingredients in menu items may find this leads to a win-win-win situation for customers, restaurant operations, and producers.

MENU ITEMS FEATURED IN TRIALS

CARROTS

(\$.50 per serving premium)

Carrot sticks on relish plate

Carrot cake

APPLES

(\$.75 per serving premium)

Fresh apple salad

Apple Caramel Crisp

GROUND BEEF

(\$1.00 per serving premium)

Lasagna

Meat Loaf

TAKE AWAYS

- **Restaurant patrons selected and paid a premium for items they knew came from local farmers.**
- **Higher purchase costs of local foods can be compensated for by premium pricing of promoted local items.**
- **Restaurants can establish a competitive advantage with use of local ingredients.**
- **Restaurant buyers should allow additional time to develop purchasing relationships among local producers.**

Resources

Iowa State University Local Foods

www.iastatelocalfoods.org

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