



Selling to
**FOOD DISTRIBUTORS
& WHOLESALERS**
in South Carolina





SOUTH CAROLINA
FARM *to* INSTITUTION

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COOPERATIVE EXTENSION

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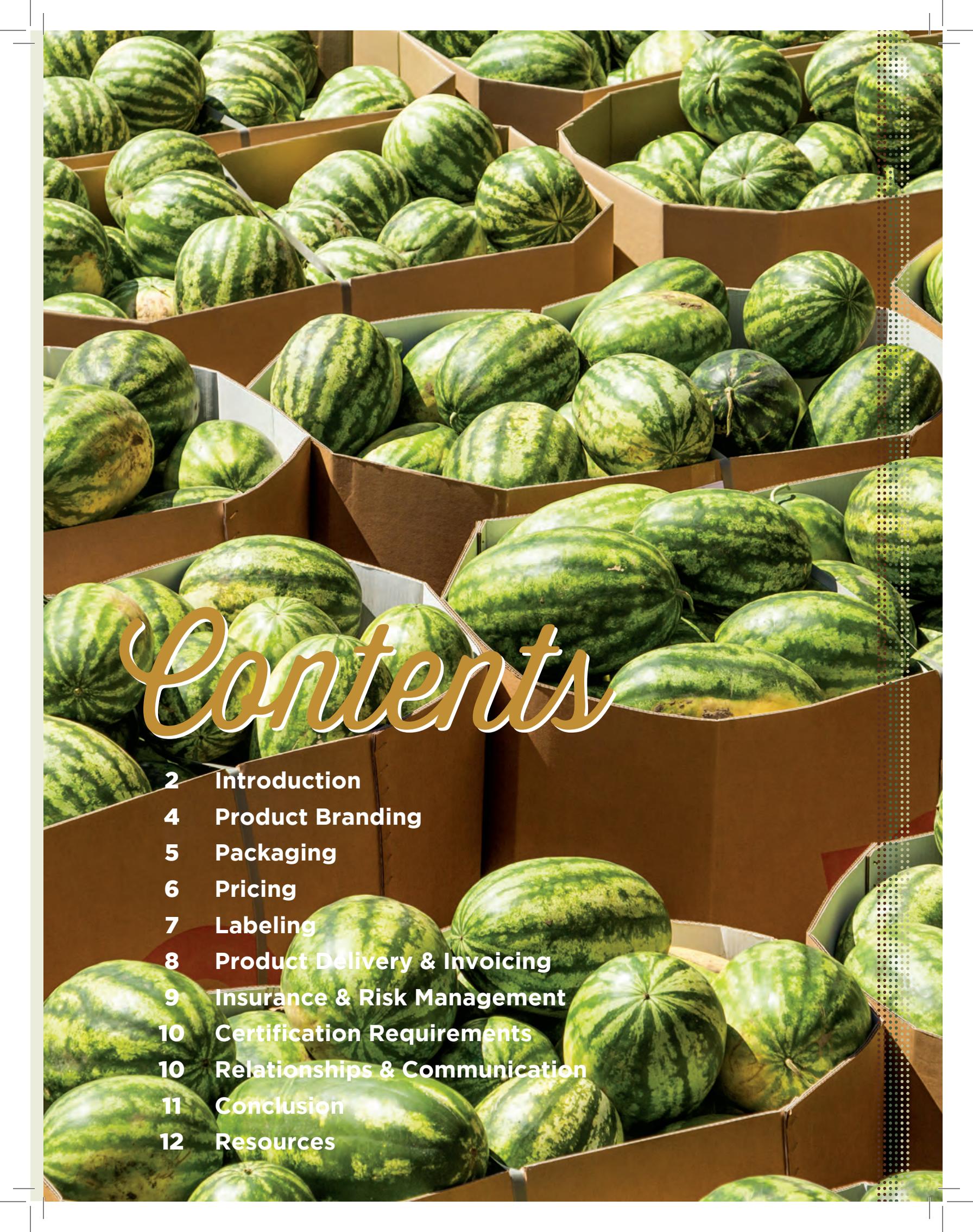
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Introduction

Most food consumed in the U.S. is purchased at grocery stores and restaurants. To illustrate, these outlets account for 99.2% of the food sold (Gunter, Thilamy, and Sullins, 2012). Moreover, grocery stores accounted for more than 90% of retail food sales – Figure 1 (Elitzak, 2017) (ers.usda.gov/topics/food-markets-prices/retailing-wholesaling/retail-trends/)

Furthermore, according to the 2012 census of agriculture, grocery wholesale volume accounted for approximately 41% of retail food operations – Figure 2 (Martinez, 2017)

Food distributors and wholesalers typically focus on either foodservice or the grocery trade. According to the Economic Census, the three most common types of food wholesalers include: i) Merchant Wholesalers, ii) agents and brokers, and iii) manufacturers’ sales branches and offices.

Sales by the first group accounted in 2012 for more than 55% of grocery wholesale sales (ers.usda.gov/topics/food-markets-prices/retailing-wholesaling/wholesaling/). In recent decades, the grocery supply chain for fresh food (especially produce, but also meat and dairy products) has changed to emphasize grower-shippers or vertically integrated processors shipping directly to grocery stores and regional grocery distribution centers (Cook, 2012).

Grocery consumers continue to judge it very important that the primary grocery store for a household’s food purchases offers locally grown produce and other locally packaged foods.¹ This consumer value for local food, as well as interest in reducing fuel costs and realizing other logistical savings, has stimulated more interest for wholesale purchases of local farm products.

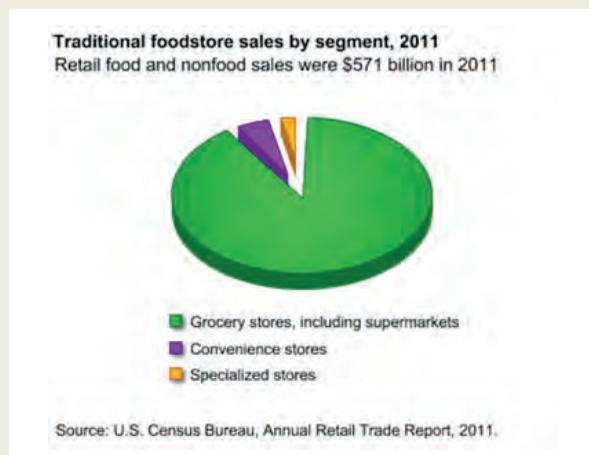


Fig. 1: Traditional Foodstore Sales by Segment

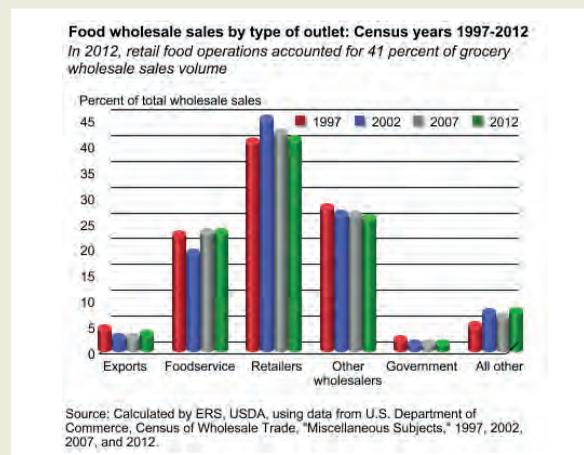


Fig. 2: Food Wholesale sales by Type of Outlet.

¹ In the 2012 National Grocers Association survey, 45.9% of consumers said “offers locally grown produce and other local packaged foods” was Very Important; 41.9% said it was “somewhat important.”

Larger buyers are often challenged to find adequate quantities of local food products, and the varied uses of “local” have created some challenges as a concept for in-store merchandising. In the last 10 years, there is some renewed interest in expanding regional and specialty food distributors. These can be an outgrowth of a single farm’s effort to expand its wholesale distribution network (Abatekassa, and Peterson, 2011). Other times, this is the outgrowth of a grocery or restaurant chain’s effort to market regional production through their retail outlets.

This report will identify important considerations for farmers related to the following areas:

- Product Branding
- Packaging
- Pricing
- Labeling
- Product Presentation, Delivery and Invoicing
- Insurance and Risk Management
- Certification Requirements
- Relationships and Communication

Volume, product quality, packaging and food safety are vital for successful sales to food wholesalers and distributors. Several publications with detailed information in these areas are referenced within this fact sheet and are also included in the bibliography.



Product Branding

A product brand “is the combination of name, words, symbols or design that identifies the product and its company and differentiates it from competition.” (Giddens, 2015). Branding can help create consumer trust, loyalty and repeat purchases. Food distributors and wholesalers may have different concerns relative to product brand, and these concerns may be tied to the kind of food sold. Bulk, unbranded products may be demanded for common items like squash or ground beef. Other products, such as specialty meat cuts or value-added foods, may be more brand-dependent. Private-label (store brands, etc.) goods also continue to grow as a part of consumer food purchases. The greatest growth in private-label fresh produce has come in fresh cut salads (Cook, 2013).

Some farms may have an established brand while others may want to pursue developing a unique brand for distribution. Conversations with food wholesalers and distributors can help a producer identify important aspects of a brand. A specialty or ethnic food distributor, for example, may view a particular brand very differently than a large foodservice distributor.

A producer interested in expanding a brand to food wholesalers or distributors should be engaged in conversations about branding preferences with those firms. Food producers interested in supplying wholesale quantities should also be aware that different brands may require different packaging guidelines from different types of wholesale buyers.





Packaging

In general, food distributors and wholesalers have well defined, industry- standard packaging requirements, especially in the case of local food products (Lamie et al., 2015). Moreover, distributors commonly require producers to follow USDA standard pack and grading (Alcorta, Dufour, and Hinman, 2012,1). Packaging requirements can be determined through initial conversations with food distributors and wholesalers. Packaged foods may have similar box sizing and count requirements across buyers; packaging requirements for fresh food could more often vary between buyer types. For example, a produce distributor selling to restaurants may be interested in large bags of lettuce while a wholesaler purchasing for grocery sale will likely demand standard consumer packs. Some buyers may require the use of reusable plastic containers. As packaging can be expensive, conversations with potential buyers about the proper packs can save a local food producer both time and money.

Produce should be graded, cleaned and packaged according to a buyer's standards. Standard grading and packaging standards for fresh items are available at the USDA Agricultural Marketing Service ([ams.usda.gov](https://www.ams.usda.gov)) under "Grading, Certification and Verification." Fresh produce industry standards for packaging may also be found in the produce availability guide published by The Packer, [thepacker.com](https://www.thepacker.com).

Food distributors who repack products, such as produce distributors, may have certain preferences for the containers in which a product is received. Producers should ask for clear guidelines before delivery.

Wholesale buyers will often work through a contractual agreement. When selling to wholesale buyers without a contract, it is still good practice to obtain a written outline of expectations for packaging and other guidelines, like product quality, delivery times and quantities.

Pricing

Prices obtained from selling farm products wholesale will be lower than direct market prices (Farmer and Betz, 2016); however, wholesale markets typically accept higher volumes of product and can potentially generate higher overall levels of profit. Additionally, producers may have higher profit because of the lower marketing costs associated with selling to wholesalers (Farmer and Betz, 2016). On the other hand, producers should consider that distributors may not pay for 30 to 60 days, thus, a well-organized invoicing system is required (Alcorta, Dufour, and Hilman, 2012.1). Similarly, wholesale buyers typically pay the farmers within 45 days after delivery (Alcorta, Dufour, and Hilman, 2012.2) Producers often reach a point where business expansion goals, especially when they value their time fairly, require shifting focus from labor-intensive direct marketing venues towards wholesale venues. A food producer should enter into pricing conversations with food wholesalers knowing the cost of production for growing or producing the farm or food products.

Contracts for acquiring food items may be used by distributors and wholesalers. Contracts lend assurance to both the buyer and the seller that food items will be available in the needed quantities at the given times and specified quality. Prices in contracts may be set in advance or tied to seasonal wholesale price trends. Understanding the obligations of both parties in a contract is important before entering into an agreement.

Producers unfamiliar with wholesale product pricing should learn about the range of wholesale prices paid for comparable products. Some wholesalers and distributors may be willing to pay producers wholesale price premiums based on certain quality and/or delivery arrangements. Many commercial buyers use standard margins for various products depending on product perishability and also employ standard retail pricing formulas to set prices for the numerous products they are managing.

A good overview of product pricing may be found in the Iowa State University publication “Pricing for Profit” at: extension.iastate.edu/agdm/wholefarm/html/c1-55.html

Wholesale prices for South Carolina fruits and vegetables are collected weekly at the South Carolina State Farmers Market in Columbia, listed at scstatefarmersmarket.com. These and other wholesale prices are also available through the USDA Agricultural Marketing Service’s Market News web portal, ams.usda.gov.



Labeling

Labels are an attractive and essential part of food merchandising. Attractive labels can stimulate customer interest in certain products or brands. Presentation is a critical element stimulating higher inventory turns and will be one of the primary ways a consumer recognizes a product as being local. Labels also provide customers with product and nutritional information meeting federal guidelines.

Food distributors and wholesalers will expect suppliers to follow federally mandated guidelines for food labeling. Answers to frequently asked questions about food labeling may be found in the FDA's "Food Labeling Guide," online at

[fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/LabelingNutrition/ucm2006828.htm](https://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/LabelingNutrition/ucm2006828.htm)

Food distributors and wholesalers will also expect products to contain UPC (bar code) information and may require price look-up (PLU) numbers on some fresh produce items. A list of PLU codes is available at plucodes.com. Bar codes contain information needed to scan a product at checkout; bar codes also can contain product information related to lot numbers and sources. Producers should include questions about bar codes in their conversations about labeling with food distributors or wholesalers.





Product Delivery & Invoicing

Wholesalers and food distributors will reject products that do not meet standards for resale. Producers should understand buyer guidelines for quality and deliver products that meet those requirements. If a producer believes he or she will not be able to deliver product meeting or exceeding the buyer's standards, it is recommended to engage the buyer in a conversation about that problem as soon as possible.

Distributors and wholesalers usually have set product receiving times and locations. Delivering products at the times and locations specified by the

distributor/wholesaler can only help keep the producer-buyer business relationship healthy.

Wholesale customers frequently cite improperly prepared product invoices from local producers as a barrier to developing more local business. Local food producers should ask up front what the wholesaler or distributor's requirements are for invoicing and be sure to submit the proper invoice to the proper person or department for payment. Payment terms for most wholesale food firms will be two or more weeks from product delivery.

Insurance & Risk Management

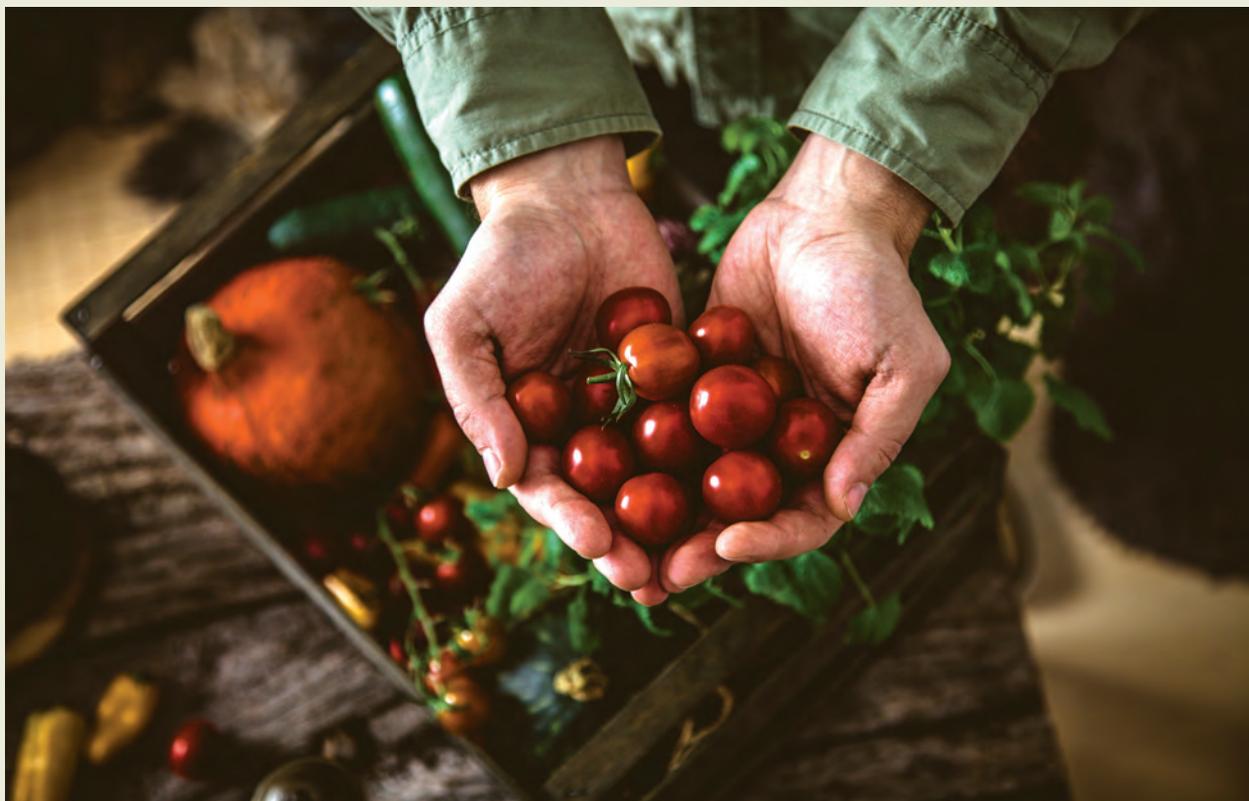
Selling to wholesalers and distributors will require product liability insurance (PLI). The producer's initial conversation with a food wholesaler or distributor should include a discussion of the level of insurance required.

Food wholesalers are more often requiring producers to have certain food safety certifications. Fresh produce is often required to have a USDA Good Agricultural Practices (GAP) and/or Good Handling Practices (GHP) audit. The Carolina Farm Stewardship Association has developed a GAP manual for small and diversified farms at carolinafarmstewards.org/gaps-manual/

Some buyers require a third party inspection using GAP guidelines, such as

the PRO*ACT certification now common in the fresh produce industry. For those producing packaged or value-added food products, hazard analysis and critical control points, (HAACP), and other food safety plans may be required. Penn State University has compiled a website listing various food safety and risk management resources for farms: extension.psu.edu/food/safety/farm/resources

A North Carolina State University publication about product liability insurance, specific to fresh produce growers, is available at: ncfreshproducesafety.ces.ncsu.edu/ncfreshproducesafety-good-agricultural-practices/nc-fresh-produce-safety-task-force/



Certification Requirements

Proof of insurance and food safety certifications are the most frequent certifications requested by food distributors and wholesalers. Other certifications sometimes requested are related to production or handling practices, like the USDA Certified Organic program. Religious and ethical certifications, such as kosher and halal, may be requested.

Some wholesalers and distributors may have their suppliers complete certification or quality programs specific to their company. Others may utilize third-party certifications, like Global GAP and the PRO*ACT program mentioned above.

Smaller wholesalers and distributors may request regional or state-specific certifications.



Relationships & Communication

The food distribution and wholesale business is very relational. Many individuals and firms operating in food distribution have a long history within the industry. Despite some industry consolidation, many of the firms are still either family-owned or managed or have their roots in a family business. However, most firms are also constantly seeking quality products from suppliers willing to meet quality and quantity specifications.

Food producers will need to build a solid footing of trust with wholesalers and distributors. Keeping phone and in-person

appointments, maintaining a timely stream of invoices and other business documents, and promptly addressing any product quality concerns will help build that trust and confidence.

Due to the size of some food distributors and wholesalers, it is possible that different contact people may be in different offices or warehouses or sometimes even different states. Producers should ask, before beginning to supply a wholesaler, who the proper people are to address questions about receiving, product quality, and accounts payable.



Conclusion

Food wholesalers and distributors are a potential market for large volumes of food products at wholesale prices. Food wholesalers and distributors will require proof of insurance and may require various food safety or quality certifications. Producers may be required to meet specific guidelines for product handling, packaging and labeling.

Risk management is a vital consideration for producers considering producing for the wholesale market. Producers can expect to be required to carry product liability insurance and may be subject to food safety and other audits. As with any business relationship, clear communication with the proper people can help propel a producer toward success when entering the wholesale market.

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