Buying into the Local Food Movement

The local food movement is spreading—from rural farm market stands to supermarket shelves. Can large grocery retailers capture the growing “locavore” market?
In Oak Park, Illinois, every Saturday afternoon, hundreds of bleary-eyed locals clutching their lattes and iPhones meet up at the village’s farmers market. Starting at the crack of dawn, small food producers from around the Midwest—including fruit growers from Michigan and corn farmers from downstate Illinois—gather to sell their fruits and vegetables, while local charitable organizations work at the popular doughnut booth. Oak Park is just one place among many across the world where grocery shoppers are returning to their roots, seeking “local food” that travels a shorter distance from farm to table, supports local farmers, offers fresher produce, and reduces the environmental impact of transporting food over long distances (see sidebar: The Local Food Movement).

It’s little surprise then that large grocery chains and big-box retailers worldwide have begun to take notice, as more shoppers are willing to pay a premium for local food—seeing it as better-tasting, more trustworthy, and more sustainable. Wal-Mart plans to increase its share of local produce to 9 percent by 2015. Supervalu, owner of the Jewel-Osco, Albertsons, and Lucky supermarkets in the United States, estimates that it buys between 25 and 40 percent of its produce locally. British supermarket chain Waitrose is one of many European grocers touting its local food sourcing. The chain sells more than 2,500 local products at its stores.

Yet people tend to question how “local” the food really is at those large grocery stores compared to the roadside farmstand where it is clear the products—vegetables and fruits—were just harvested from the field a few feet away. And the grocery chains have a long way to go operationally to deliver local food and make a profit on it.

The Local Food Movement

The local food movement is spreading fast in the United States and beyond. Examples include:

Wal-Mart. The world’s largest retailer has made local food a cornerstone of its long-term strategy. In 2010, the company announced a program to focus on sustainable agriculture from its suppliers, with a specific push to put more locally grown foods on store shelves. The company vowed to double the amount of local food sold in U.S. stores to 9 percent by 2015; in Canada, the goal is 30 percent. The company also pledged to invest in small and medium-size farmers, particularly in emerging markets.

Chicago’s Green City Market. The Green City Market, founded in 1998, was patterned after the open markets of Paris. Its goal is to increase the diversity of food in Chicago by supporting local farms. Its market in Chicago’s Lincoln Park draws roughly 200,000 visitors a year who are drawn to the allure of sustainably grown, locally produced food. The organization also connects local farmers and producers directly to Chicago chefs, restaurateurs, and the community as a whole, with a goal to create a model for distributing and promoting locally grown, more sustainable food.

Seoul Farmers Market. South Korea has taken to locally grown food. In June 2012, the Seoul Farmers Market opened in Gwanghwamun Plaza in the heart of the city. Nearly every item sold in the markets is produced in Korea, with food representing a wide variety of local produce: hand-pressed tofu, dried seaweed, and fresh greens, among other items.¹

Shokti doi. The movement is spreading in developing countries, as this locally produced yogurt snack in Bangladesh shows. Shokti doi, which translates to “power yogurt” in Bengali, is the result of a joint venture between Bangladeshi microfinance organization Grameen Bank and France-based food giant Danone. The food is designed to provide children from rural Bangladesh with many of the important nutrients that are missing from their diets while also adding jobs to the local community. It costs roughly 10 cents per package, about one-quarter of the normal price for yogurt in Bangladesh. The yogurt is produced in a plant in Bogra in northern Bangladesh.

Buying into the Local Food Movement

Late last year, we decided to survey grocery shoppers to (1) determine how shoppers make their decisions about buying local versus non-local food and (2) examine the strengths and weaknesses of large grocery retailers compared to other formats when it comes to local food (see sidebar: About the Study).

Standing Out in Local Food

The survey results emphasize the importance of local grocery for shoppers. Following are some of the major findings:

**People like to buy local food.** Grocery shoppers largely embrace the increase in local food options because they believe it helps local economies (66 percent), delivers a broader and better assortment of products (60 percent), and provides healthier alternatives (45 percent). Some shoppers say they buy local food to improve the carbon footprint (19 percent) and increase natural or organic production (19 percent).

When asked what “local” means to them, people have different opinions. Most (64 percent) consider food local if it is produced within a 100-mile radius of the store, while others (37 percent) consider products from the same state to be local.

**Many buyers are willing to pay a premium for local food**—and large grocers are taking note.

**Shoppers will switch stores for a better local food selection.** Almost 30 percent of grocery shoppers say they consider purchasing food elsewhere if their preferred store does not carry local foods. When asked about the availability of local food at their preferred supermarket, 65 percent say their supermarket offers at least some kind of locally sourced food. Only 5 percent indicate they shop for local foods at big-box retailers, and 15 percent at national supermarkets. Respondents say their main source for local food is still the local farmers market and farm stores.

**Shoppers don’t trust national and big-box retailers for local food.** While most people say they shop primarily at big-box or national supermarkets—where they can get all of their shopping done in one stop—they trust these retailers least when it comes to local food. When asked about the trustworthiness of the different formats to deliver local food safely, farmers markets and farm stores rank first, followed by natural foods supermarkets, and locally owned supermarkets.

About the Study

A.T. Kearney conducted the study in November 2012. It included an online survey of 1,300 U.S. respondents, with a 50-50 split between males and females. All respondents were over the age of 18, with household, income, and urban characteristics representative of the U.S. population as a whole. Sixty-nine percent of respondents indicated that they are the primary grocery shopper in their household.
Buying into the Local Food Movement

When it comes to local foods, national supermarkets and big-box retailers are less trustworthy, ahead of online grocers, which rank last. Relative to price, farmers markets and farm stores outperformed all other formats, followed by big-box retailers, national and local supermarkets, natural foods supermarkets, and online grocers.

**Figure 1**

*Online, big-box, and national chains rank lowest in food trustworthiness*

How much do you trust each format to deliver local food?

(1 to 10, with 10 as most trustworthy)

<table>
<thead>
<tr>
<th>Format</th>
<th>Trust Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online grocer</td>
<td>5.0</td>
</tr>
<tr>
<td>Big box retailer</td>
<td>5.4</td>
</tr>
<tr>
<td>National supermarket</td>
<td>6.6</td>
</tr>
<tr>
<td>Locally owned supermarket</td>
<td>7.4</td>
</tr>
<tr>
<td>Natural foods market</td>
<td>7.8</td>
</tr>
<tr>
<td>Farmers market</td>
<td>8.2</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

Clearly, large supermarkets have work to do to build customer trust when it comes to selling local food, particularly regarding stores’ definition of the term local (see sidebar: Defining Local).

**Shoppers will pay more for local food.** Freshness is the most important purchasing criteria (60 percent), followed by price (30 percent). Local sourcing is third—more important than organic or natural sourcing. Furthermore, when asked how they believe organic and locally sourced products contribute to sustainability, 68 percent say that local food contributes positively to sustainability while only 50 percent say the same thing about organic products. In other words, environmentally conscious buyers seek out local foods because of their associated benefits.

**Defining Local**

Unlike organic food, which is regulated by the USDA, there is no universally accepted (or legally binding) definition of local food. Many retailers tailor the term to their advantage with little transparency into how they define it. Fruits and vegetables harvested hundreds of miles away are often still declared local, which has drawn criticism from small farmer organizations—and skepticism from buyers.

In 2008, Congress passed an act that consolidated “regional” and “local” food to include food that is transported less than 400 miles from its origin to the store, or is from the same state. At a more basic level, local food is produce that typically involves smaller farms located in the proximity of where it is sold.

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2 The mistrust of online grocers may be explained by many consumers’ limited shopping experiences with online food retailers. To read our survey of online grocery shoppers, see “A Fresh Look at Online Grocery” at www.atkearney.com.
One interesting finding is that a majority of grocery shoppers are willing to pay a premium for local food (see figure 2). Not surprisingly, those from wealthy urban households had no problem paying more for local foods and would even go beyond the 10 percent mark. What is surprising is that lower-income grocery shoppers say they too (63 percent) would pay more for local food (see figure 3).

Figure 2
**Shoppers are willing to pay more for local food**

### How much extra are you willing to pay for local food?

(% of respondents)

<table>
<thead>
<tr>
<th>愿意支付更多百分比</th>
<th>多少百分比</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product would need to be cheaper</td>
<td>8%</td>
</tr>
<tr>
<td>Would not pay more than standard product</td>
<td>22%</td>
</tr>
<tr>
<td>Up to 5% more</td>
<td>38%</td>
</tr>
<tr>
<td>Up to 10% more</td>
<td>24%</td>
</tr>
<tr>
<td>More than 10% more</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

Figure 3
**Shoppers across all segments are willing to pay more for local**

### Are you willing to pay more for local food?

(% of respondents responding yes)

<table>
<thead>
<tr>
<th>类别</th>
<th>数值</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single urban households</td>
<td>95%</td>
</tr>
<tr>
<td>Young couples without kids</td>
<td>78%</td>
</tr>
<tr>
<td>Affluent families</td>
<td>71%</td>
</tr>
<tr>
<td>Senior citizens</td>
<td>68%</td>
</tr>
<tr>
<td>Middle income families</td>
<td>67%</td>
</tr>
<tr>
<td>Low income families</td>
<td>57%</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis
Local food even outperforms natural and organic food in many dimensions. Our findings indicate that customers associate sustainability-related attributes with locally sourced food as much as or more than organic food. Even though organic still runs strong, the willingness to pay for locally sourced items shows that it could be the next big thing in grocery.

There is plenty of room for improvement. Grocery shoppers are generally inclined to buy locally grown fruits and vegetables but often do not do so because the products are simply not available (57 percent), local food is too expensive to buy regularly (37 percent), or because the selection is just not very good (31 percent). Interestingly, quality is not an issue as local foods are perceived as fresher than foods shipped in from many miles. Many respondents say they would spend more on local groceries if retailers did a better job educating customers about the food’s origin (41 percent) and the products were more prominently displayed in store (39 percent).

Recommendations for Food Retailers

The survey indicates that big-box and national retailers are seen as offering lower-quality, less-affordable local food than farmers markets, natural food providers, and local supermarkets. So what should supermarkets and large national grocery chains do to devise the best local food strategy?

Understand that “fresh” matters. No matter the format, product freshness and quality are paramount. Some experts believe local food is healthier, because it is harvested just before the produce is fully ripe and has shorter transportation times. For larger grocers, convincing customers to purchase local food means proving that you can offer products of equal or greater quality than standard products. When displaying regular and local alternatives, retailers must make sure that local variants are adequately presented in terms of shelf space and location. Alternatively, just listing the local variant could be an option.

Some retailers must overcome customers’ suspicion about the origin of their local products.

Convey local products’ authenticity. As mentioned earlier, customers often don’t trust the origin of “local” foods at their national grocers and big-box retailers. These sellers must overcome those suspicions and generate trust for local products. Many retailers choose to showcase local food by dedicated in-store signs. Another way, albeit more expensive, is to create a new brand for local products and adjusting packaging and marketing material; some larger retailers have the economies of scale to make this happen. One powerful and relatively inexpensive way is to initiate co-marketing with local suppliers and allow customers to sample those products in-store. This effective tool would allow customers to learn about local farmers and establish long-lasting trust for the products and ultimately the retailers’ brand. Important for retailers is that these co-marketing events are standardized, with rules, regulations, and dates for participating local farmers, and require as little effort as possible from the category management and local store side.
Additionally, new digital media could allow customers to access information about local farm suppliers from grocers’ websites.

**Consider the implications to buying and category management.** While local supermarkets, farmers markets, and organic supermarkets often have close relationships with their regional farmers, national and big-box retailers have to establish these bonds and adjust their buying and category management accordingly. Since big-box and national players must guarantee an adequate supply, the task is far more complex. Category buyers must establish visibility within each defined region about quantities and price, and make a decision on local and regular assortments. These decisions must account for the premium customers are willing to pay for a broader assortment of local foods, the higher sourcing costs for local produce, and the higher price of running and maintaining these relationships. One innovative approach would be to test “shop-in-shop” concepts that would allow local farms to choose and run their own assortments. This could help to attract additional customers.

**Don’t underestimate the supply chain impact.** Large grocery retailers typically have dedicated networks operated with distribution centers and cross-dock facilities. These networks allow for the transport of products with significant economies of scale. Direct store deliveries from single producers, on the other hand, are uncommon. Adding local farmers to supply nearby stores, even in limited quantities, will force a reconsideration and redesign of the traditional supply chain model. And depending on the assortment and quantities, distribution center locations and setup may need to be changed.

**Going Local**

Clearly, local food cannot be ignored as a growth segment of the grocery industry, and large food retailers still have work to do to earn the trust of buyers in providing quality local food products. The additional work and costs are worth the effort. Customers are not only willing to spend more for local products, but also are willing to switch to competitors to find what they are looking for. Tapping into that willingness will help grocers gain an immediate impact and a longer-term growth advantage in a rapidly changing environment.

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