

Local Food Connections

Economic Impact of Use in Restaurants



Consumers have demonstrated their support for local food products.

Foodservices also are interested in purchasing foods from local sources. Knowledge of restaurants' cost of use and potential price premiums can help producers decide if this is a good market.

Knowing what problems face potential buyers of their products can help producers better understand why foodservice operators make some of the decisions they do. For example, what conditions make it feasible for a foodservice operation to use local food ingredients?

A recent exploratory study by an Iowa State University research team was funded by the Leopold Center for Sustainable Agriculture. Researchers compared costs for 60 menu items using local ingredients and those from a national vendor at ten independently owned restaurants in Iowa. All restaurant buyers had worked with local food producers for an average of four years and with a specified national vendor for seven years. They purchased local products an average of 1.3 times per week and from the national vendor twice a week.

Total costs of using local foods in a restaurant operation were calculated based on interview data and observations, and then compared to the costs of similar foods from national vendors. Total costs included economic costs associated with tasks of purchasing, receiving, pre-preparation, and preparation.

Purchasing costs included time spent finding products, communicating with vendors, lead time between order and delivery, and actual food costs.

Buyers reported spending an average of 128 hours to find local products compared to 92 hours for national products. This may be due to uncertainty about which producer has what products available and when, compared with the national distributor who is often aware of a restaurant's purchasing needs and can procure product quickly due to established infrastructure and sources.

Delivery time was longer for local products (1.4 days) compared to .76 days from a national source. This may be a function of the delivery route established by the local grower who delivers only when in the area.

Actual food costs (based on per pound of all foods purchased) were lower for local foods at an average of \$3.80 per pound compared to \$4.30 per pound for products from a national vendor. Local producers may include their distribution costs in the purchase price, whereas national distributors often charge a separate drop fee. However, national vendors can bring a wide range of products rather than just a particular category (such as meats or produce) with each delivery.

Receiving time was marginally longer with local producers than national distributors, with an average of about 8 minutes for each. However, in some cases the local deliveries took longer because relationships had been developed, time was spent discussing future orders, or products were transferred from producer packaging to another storage container at the request of the producer. This increased the amount of time spent at the restaurants by producers.

Pre-preparation of menu item ingredients included tasks such as washing or trimming product and weighing or measuring amounts needed. Standardization and consistency were more common in products from national vendors. Some specific local products had higher production inefficiencies when evaluated by retail price, portion size, and weight.

In addition, convenience forms of fresh produce were more readily available from national vendors. Local vegetables (i.e. asparagus) and fresh fruits (i.e. raspberries and strawberries used for dessert items) were found to be inefficient for use by restaurant operations. However, other menu items prepared with ingredients from national vendors also were found to be inefficient. Management skill and chef's commitment to using local foods were two factors that contributed to efficient production in the restaurant. Yet, commitment alone was not enough to ensure success of using local foods.

Preparation of menu item ingredients is a variable cost. Meat entrees prepared with local ingredients were highly inefficient compared to all 60 items tracked in the study when evaluated by retail price, portion size, and weight. Further research is needed but the difference may be

partially related to the retail price listed on the menu and/or the weight of the primary ingredient in the portion size.

Restaurants may need to consider evaluating plate presentation and mix of items served with the entrée. Possible action steps may be to increase the portion of the side dish, decrease the weight of the meat ingredient, and/or raise the price.

Patrons' Selection of Local Foods

Information about consumer selection of local foods in restaurants is limited. Few researchers have documented the actions taken by consumers when presented with a choice between a menu item prepared from local ingredients and one prepared with ingredients from an unknown source.

An exploratory study found that when given a choice, consumers would select menu items featuring local ingredients at a slight price premium. The study offered 323 patrons menu choices at three price options in a controlled setting. Menu descriptions noted the use of local foods. Close to half (41 percent) of all participants selected the local food item described on the menu. Of these participants,

- 45 percent selected the option without any price premium.
- 31 percent selected the menu item with a price premium of \$1 (18 percent higher price than regular menu item)
- Nearly one-fourth (24 percent) agreed to pay a price premium of \$2 (about 36 percent over the regular price).

These findings suggest consumers are willing to support higher menu prices when they are aware they are buying items prepared from local food sources. Marketing the use of local item ingredients on the menu or with

other point-of-sale promotions can result in a strategic differentiation for restaurants and higher revenue, which can offset increased costs of purchasing local foods.

With awareness of foodservice operational cost issues, producers can better package and price their products in units best suited for restaurants. Producers can help foodservices promote use of local food ingredients and use this knowledge to leverage premiums for ingredients sold to restaurants.

Resources

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Visit these Web sites
www.iastatelocalfoods.org
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