Local Food Intermediaries—Do They Matter in the NYS Economy?

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Introduction and Methodology
Evidence that ‘local’ food sales are dominated by farms that sell through intermediated markets continues to grow (e.g., Low and Vogel 2011). Intermediated markets include most farm-to-school, farm-to-institution, and farm-to-restaurant sales, where access to consumers is facilitated through an intermediary business (i.e., a distributor, broker, or regional food hub). Policy makers, encouraged by the mounting evidence, are seeking opportunities to expand intermediated markets, thereby increasing opportunities for farmers, and facilitating the availability of NYS-grown agricultural product to NYS consumers. This research focuses on the role of local food intermediaries (henceforth, ‘LFI’) in facilitating the distribution of agricultural products. In addition, it identifies barriers to the growth and efficiency of mediated transactions, assesses the economic impact of policies that support the development of LFI, and proposes policy recommendations.

Definitions
For the purpose of this paper, LFI are defined as businesses that purchase NYS farm-grown product directly from the farm for the purpose of re-sale. These businesses generally include brokers, processors, growers (who may purchase product from neighboring farms), and feed mills.⁴ Based on this definition, as of January 1, 2011, there were 423 businesses included in

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4 For the purpose of accessing relevant data, we defined LFI businesses as synonymous to businesses required by the New York State Department of Agriculture and Markets (NYSDAM) to obtain a farm product dealers license (article C license). One major weakness of this assumption, is that the license only includes businesses that purchase the follow commodities: fruits; vegetables; grain; hay; livestock; dry beans; horticulture; honey; maple products; rabbits; Christmas trees; straw; poultry; wool; grapes; soy beans. Thus, for example, the purchase of milk is an
the LFI sector in NYS, representing purchases totaling over $807 million of NYS agricultural products in 2010, and anticipated to grow to over $820 million in 2011.

**Data**

This research capitalized on two sources of primary data. During the summer of 2011, the authors conducted 19 interviews with LFI businesses across NYS, representing 443 NYS farm-suppliers. The interviewees were selected based on Cornell Small Farm Program’s Local Foods/Local Markets work team’s recommendation for obtaining a ‘representative’ NYS sample. Second, the researchers were able to obtain copies of the farm product dealer’s license applications for the license period May 1, 2010 to April 30, 2011 from the NYS Department of Agriculture and Markets (NYSDAM).

**Results and Discussion**

Based on the detailed sales and expenditure data from the interviews, as well as purchase information from the dealer’s license applications, we conducted an economic impact analysis of the LFI sector. Our results show that LFI is not a significant mediator linking NYS-agricultural products to markets (i.e., local intermediaries handle only about five percent of the total transactions between NYS farms and NYS retailers). We found that although a government subsidy to the LFI sector would have significant ripple effects across the broader NYS economy, the more critical question is whether the impact is supporting local agriculture. Our analysis demonstrates that though a subsidy to the LFI sector positively impacts the local agriculture sector, and likely increases the availability of NYS grown products to NYS consumers, the results appear to be small, and probably do not justify the subsidy.

In hypothesizing why a subsidy to the LFI sector may not provide the intended support to the local agriculture sector, we reflected on the literature that identifies the paths through which agricultural products travel from farm-to-market, and what might be missing from our LFI sector definition. Nationwide, grocery retailers have emerged as dominant players in agricultural markets, and exercise considerable vertical market control over upstream suppliers in terms of varieties produced, inputs utilized, and production schedules (e.g., Sexton 2010). Yet very few retailers were included in our definition of LFI (as they tend not to have NYSDAM dealer’s licenses). For example, many NYS retailers including Wegmans Food Markets, Inc., Aldi Food, Inc., Delhaize America (owner of Food Lion, Shop ‘n Save, Hannaford Bros, Save ‘n Pack, and Kash n’Karry) are not required to obtain licenses as the majority of their farm purchases are used within their own retail stores. Thus, in an era of increasing vertical integration, our analysis suggests that programs to enhance retail utilization of NYS grown products may be more effective in supporting the local agriculture sector.

**Interview Results**

Our interview results provide insight into the barriers to business efficiency and expansion for LFI. One of the challenges frequently cited by interviewees to scaling up LFI

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5 The Cornell Small Farm Program’s Local Foods/Local Markets work team includes University researchers, non-profit agencies, grant funders, and Cornell Cooperative Extension agents. The work team members are chosen for their first-hand knowledge of agricultural businesses across NYS.
businesses is that increasingly markets are demanding that LFI businesses work with farmers who adhere to Good Agricultural Practices (GAP). All of the LFI businesses we interviewed with over $10 million in gross sales, as well as a growing number of those selling to non-direct-to-consumer markets, require producers to be GAP certified (see table 1). Though some NYS farmers have started to implement GAP, there are challenges. In some cases, GAP implementation, and especially the requisite record keeping, can increase production costs. This may inhibit small-to-mid scale and diversified growers from becoming certified. Thus, LFI businesses interested in diversifying the types of market outlets they serve (for example to include sales to other distributors, retailers, or institutions) may require GAP certified producers in order to expand their business.

Many of the interviewees working with larger numbers of small and mid-scale farms sell their products to individual household customers or at farmers’ markets. Though the LFI businesses ranked individual household/farmers’ markets as the most reliable type of market outlet and the easiest point of entry, only distributors with the lowest average gross sales (under $10 million) sold to these markets. This implies that LFI businesses working with small- and mid-scale farmers have an impediment to expansion.

Table 1: Market Outlet and GAP Certification Requirements (black line shows the number of LFI businesses interviewed that require GAP certification, based on the market to which they sell product)

![Bar chart showing market outlet and GAP certification requirements](chart.png)

**Policy Recommendations**

If the goal of a policy is to find the best way to connect the local agriculture sector to NYS-consumers, than our results do not support a direct subsidy to local food intermediaries, as they are not the dominant path that NYS farmers use to transport their products to the consumers. Rather, we recommend that research is conducted to determine the paths through which NYS-grown products travel to consumers (i.e., grocery retailers), and whether or not NYS farmers could benefit from subsidies that better support and/or link these sectors.

If policy makers are insistent in providing direct subsidies to the LFI sector, then we recommend funding be used to remove barriers to business expansion. This can be

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6 For more information about GAP, please visit: http://www.gaps.cornell.edu/
accomplished, for example, by increasing support to programs that encourage and assist producers to adhere to GAP.

The full journal article is available from the authors upon request.

**References**
