



EMERGING AGRICULTURAL MARKETS TEAM

UW COOPERATIVE EXTENSION

Bill Wright

Take the time
to understand
the institutional
market's unique
dynamics.

Selling to Institutions

Selling your farm products to institutions such as schools, hospitals and nursing homes can be a very challenging—yet rewarding—experience. This market gives you the opportunity to sell large quantities to a few customers, thus reducing labor and delivery costs. Sales to institutions may also help to increase your sales at other marketing outlets (such as grocery stores or farmers' markets) due to your increased exposure in the community.

Keep in mind that institutions typically purchase products wholesale, and in general, expect lower prices than you would receive at farmers' markets. Selling to institutions also requires time and effort to establish and maintain business relationships with food service managers. When dealing with institutions, farmers generally do not receive payment on delivery and may need to wait as long as 30 to 90 days before invoices are paid.

Farmers who wish to sell to institutions will also be required to carry general liability insurance. The amount of coverage varies from \$1 million to \$5 million. You will need to consider this cost, as well as delivery, production and related expenses when looking at institutional markets and your pricing structure. Before entering this arena, take the time to understand the institutional market's unique dynamics.



Dynamics of institutions

There are basically two different types of food services. Institutions that operate their own food services are typically referred to as “self-operated.” In a self-operated arrangement, the food service manager has independent authority over food purchases.

In other cases, an institution contracts with an outside company to manage its food service. This is commonly referred to as “privately managed.” Privately managed food services are often run by large corporations (for example, Sysco or Aramark) and are generally bound by national food buying contracts.

In most cases, it will be easier for an independent producer to establish a working relationship with a self-operated food service. However, some privately managed food services do make local food purchases. In either case, the institution’s degree of willingness to purchase locally will be determined by the food service manager’s decision-making flexibility, willingness to create new programs and willingness to work with the local food and farming community.

Another factor to keep in mind is that most food services, including those that are self-managed, want to limit the number of vendors they work with to save time and reduce administrative costs. Therefore, they often establish “primary vendor” contracts with suppliers of certain items. (The terms **single source** or **prime vendor** may also be used). These contracts can be for one or more years and are agreements that call for the institution to purchase certain items from that vendor for the duration of the contract. However, most contracts allow for “off contract” purchases under certain circumstances. As part of your interview with the institution, you will need to determine its degree of flexibility for “off contract” purchases.

Another term that you may hear when dealing with food service institutions is “approved vendor.” Most institutions require vendors to supply certain information about their business, such as proof of liability insurance, credit references, customer references and other information to be approved as suppliers. During your interview with the food service manager, ask what information will be required for you to be approved as a vendor.

Where do I begin?

Begin by researching the institutions in your area using the yellow pages. Make a list of these places and then call to make an appointment to meet the food service manager (just “dropping by” may be viewed as unprofessional).

Spend some time getting ready for your meeting with the food service manager. First, be prepared to tell your farm’s story: where it is located, how long you have been in business, the type of products you have available (meat, fruit, vegetables, etc), your farm practices, whether you are certified organic, and why your products are fresher or better.

If you haven’t already done so, now is the time to prepare a brochure about your farm. The brochure should include all of the information mentioned previously as well as your name, address, telephone number(s) and email address. If you have established a web site, be sure to include the address in the brochure. Also, if the time of year is right, don’t forget samples. The best way to sell a product is to allow the customer to feel, smell and taste it. The importance of samples cannot be overstated.

Gathering information

In addition to meeting the food service manager and providing your samples and other information, you will be on a fact-finding mission during your visit. The information you want to gather includes:

- Is the food service self-operated or privately managed?
- Does it have primary vendor contracts? If so, for what commodities?
- What flexibility does it have to make purchases off-contract?
- What are the liability insurance requirements?
- Are there any other requirements for becoming an approved vendor?
- Are there any foods that are not available through contracted distributors?
- What is the ordering cycle?
- What are the receiving hours?
- What are the receiving days?
- What are the institution’s invoicing procedures?
- How must the product be packaged?
- What are the quality standards?
- Does the institution buy locally?
- What types of products would it be interested in purchasing?
- What are the quantities used per week?
- Are substitutions desired if an item is not available in a particular week?
- Are there space limitations?
- Can meals be prepared from scratch using raw ingredients or are ingredients needed in a processed form (for example, pre-cut carrots or apples)?

Having a thorough understanding of the institution’s operating procedures will give you a greater ability to serve the account and build a lasting relationship with the food service manager.

Formalizing the relationship

In most cases, it will take several meetings before you are successful in reaching an agreement to supply farm products to an institution. Once you have succeeded, it is important to formalize the relationship with a contract. (Note: Some institutions may not issue contracts but may instead issue a purchase order. Remember that the purchase order is a legal document. Review it carefully, including any “fine print” that may be on the reverse side of the form. If you are unfamiliar with contracts, you may want to have an attorney review the document before signing.)

The contract should include the following:

- The estimated volume of each item to be delivered
- The time frame for delivery (season)
- The agreed-upon price
- Delivery schedule (day of week and time)
- Packing requirements
- Payment terms

Building a lasting relationship

The most important thing to remember in building any successful business relationship is to always deliver what you promise. That includes consistent quality, deliveries that are on time and in the agreed-upon quantity. Always keep your customers advised of your production schedule. Farmers have very little control over weather and other factors, so it is extremely important to advise customers as far in advance as possible of any factors that will alter agreed-upon deliveries.

Another factor in building a lasting relationship is a clear invoicing procedure. Invoices should show date of delivery, products and quantities delivered, unit prices and total cost. It is important to have your full contact information and a unique number on each invoice.

As in any relationship, communication is the key to success. Talk to the food service managers periodically to keep informed of the institution’s needs, changes, problems and opportunities. Also, use these discussions to inform food service managers about the same type of information regarding your business. The extra effort it takes to build a relationship will pay off in additional sales opportunities in the future.

Selling cooperatively

Many farmers, especially those with smaller operations, may want to consider joining with other farmers to form a cooperative that meets the needs of one or several institutions. By establishing a cooperative, farmers are able to pool their production to meet the requirements of institutions, as well as distribute the costs of insurance, delivery, etc. among the members. Information on forming a cooperative can be obtained from the Wisconsin Department of Agriculture, Trade and Consumer Protection, University of Wisconsin–Extension and other sources on the Internet.

In conclusion, there are many things you must take into consideration before you attempt to market your farm products to institutions. Weigh all of these factors carefully in relationship to your resources (time, amount and types of products produced, etc.) to decide if this market is right for you.



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