

How to work with institutions

A guide for producers and food businesses



HEALTHIER FOOD » GUIDANCE DOCUMENT

Selling to institutions can feel like a puzzle for small or mid-sized producers and processors. The components of this report illuminate potential issues and help guide producers and processors to make decisions that help lead to an ongoing relationship with an institution.

Takeaways

- How to connect with hospitals and other institutions.
- What to do once a relationship has been established.
- Distribution options for small- and mid-sized producers.
- Key lessons for working with hospitals.

Background

From May 2017 through May 2019, Health Care Without Harm engaged with a group of producers as part of the USDA Funded Local Food Promotion Program Nourished by New England (Nourished). Nourished functioned as a supply-and-demand support program. Through the supply-side of the program, [Faces of New England](#), the Healthy Food in Health Care team engaged 19 farmers and food producers. The team connected them with a technical assistance advisor, Rosalie Wilson, created a marketing video, and offered enhanced support networking with hospitals throughout the region.

- Five producers engaged with the technical assistance provider for assistance evaluating and navigating expansions.
- Eleven worked with a technical assistance advisor to create or update business plans.
- Nine worked on market development, and others received help navigating new products, with collaborations within the group, and with enterprise analysis, among other business challenges.
- Those who engaged with the technical assistance provider highlighted this aspect of the program as very

valuable, and benefited from one-on-one help with the details of their business.

- Two of the producers ceased operations – one because the technical assistance provided exposed an ongoing and insurmountable budget deficit, and the other because the farmer decided to retire.

This document distills learnings from the experiences of the participants into a tool for local and regional producers who are interested in selling to hospitals and other institutions. The information and guidance was drawn from interviews with the producers, engagement with hospital purchasers and distributors, and insights provided by the technical assistance provider. This document will help producers and institutions better understand each others' needs and aid the development of more effective institutional procurement of regionally produced and processed foods.



How to connect to hospitals and other institutions

Focus on specific people at specific institutions. Although the contact information can be hard to find, the research is essential to building a relationship. If you don't have the right contact at the institution, find them through a Health Care Without Harm coordinator or other advocacy organization. Remember, this is just the first step, persistence is essential to landing a sale. If you've determined that a local distributor would benefit your business, you'll want to find the appropriate product purchaser at that company. Purchasers emphasized that businesses need to continue to follow up in order to get on their radar. For produce, contact information for many purchasers in New England can be found in [Navigating the wholesale maze](#).

What to do once you've established a relationship

Local, regional and sustainable businesses should know the bottom price below which they cannot negotiate. For help determining this price, see appendix B. If this price doesn't work for an institutional purchaser, there may be a better fit in another market. Don't negotiate yourself out of business. Beyond that, get to know your purchaser. You might have a product that fits their needs, and that could be the start of a fruitful relationship.

“The nice thing about doing things with hospitals at least from a business standpoint is that it's consistent and robust... and we are able to lock in standing orders for the things that we do that gives some structure and stability to other parts of our business that are otherwise more volatile.”

– JOE BOSSEN, VERMONT BEAN CRAFTERS

Distribution options

Small and mid-sized producers rely on various pathways to transport their product to hospitals and other institutions, each with benefits and potential costs. Below, we discuss the most common ways producers and processors move their product from point A to point B from the perspective of both the seller and the institutional buyer. This includes distributors, self-distribution, food hubs and other creative ways that producers fill orders.

Distributors

Institutions often prefer to purchase through distributors, and working with one or more can alleviate much of the marketing and logistics burden from the producer. **In some cases, getting onto a distributor's truck can be a turning point in a business's plan to scale up.**

Distributors often have two options for their services

For smaller volume or inconsistent purchases, many distributors will serve as a freight service, bringing product from one location to another without a stop in the warehouse. This is often a **fee-for-service** style of arrangement, where the distributor charges a flat rate for the service. While this can be useful, it can also lead to confusion if a customer doesn't know when product is available. If a producer is using freight services they should be ready to keep customers updated on shipments and availability, and maintain an open line of communications for customers who might want to commit to a standing order.

For larger volumes of sales or consistent purchases, distributors will take on full distribution of a product, including marketing and logistics. This is often **charged as a percentage of the sales**, and the product will then be added to the order guide and be available to purchasers throughout the distributor's network. Most distributors will rely on their purchasing customers to request specific product and many will require a minimum and ongoing purchase commitment in order to start carrying a product as part of their larger portfolio. **This means the first sale through a distributor might be the hardest for the producer, who is burdened with finding an anchor customer who commits to ongoing purchases.**

There are many benefits to working with a distributor. In large part, the benefits are the result of access to a large number of purchasers across a significant geographic area. By partnering with a distributor, a producer can decrease most of the labor burden of marketing and distribution logistics, and focus on production instead.

There is a long-term and ongoing labor shortage in institutional kitchens throughout New England, which makes purchasers particularly aware of the time required to order and receive products. Thus, many purchasers prefer to order local, regional and sustainable product efficiently through a pathway that is already part of their daily workflow.

If a product can be found on a distributor’s order guide, potential purchasers are already set up to buy and receive product shipments from that distributor. This creates opportunities for higher sales volumes.

Some producers have had **challenges working with distributors**. Distribution price structures can be confusing and even prohibitive. Distributors often require a purchasing commitment from a customer to onboard a product. If a producer does not have a prior relationship with an individual at a distribution company, they may find it hard to connect with a representative – the only answer to this problem is persistence and marketing your product until you have gotten someone’s attention.

Once the product is on a distributor’s truck, the producer loses control of how it is handled and marketed.

Depending on the product, this can be the next challenge to navigate with a distribution company. Expect some of your product’s shelf life to be spent on a truck or in a warehouse. Additionally, the product becomes one of many that the sales team at a distributor needs to market. Though distributors offer marketing services, some producers find it uncomfortable to give up this aspect of business development. Finally, distributors have been known to implement sales on items and pass the price difference along to the producer.

A producer should be sure to have a clear understanding of how the business will work and the product will be handled before entering into any distributor contracts. For more information about navigating distribution in New England, please see [Navigating the wholesale maze](#) and [appendices A, and B](#).

Self-distribution

Many local producers use their own vehicles and staff to get their product from the place of production to the purchaser. In this scenario, the producer maintains control over the product, price, and marketing message from start to finish. Although some purchasers love the personal touch of knowing the farmer or producer who made the product, there are also many challenges in self-distribution. **Some institutions do not have the ability to manage another step in their ordering or receiving departments.** Many institutions are trying to streamline their purchasing, so a self-distributed product will be less appealing than something that is on a distributor’s truck.



Heiwa Tofu, a tale of persistence and creativity

“Anytime you’re not on the shelf, you’re losing money.”

– Jeff Wolowitz, Heiwa Tofu

Jeff Wolowitz, owner of Heiwa Tofu, connected with Sean Buchanan from Black River Produce (a distribution company) during the Virtual Trade Show event for Faces of New England producers in January of 2018. While Buchanan was interested in Heiwa Tofu, he wasn’t able to get a truck to Rockport, Maine, to bring it into the Black River distribution system. “When a store tells me (they’re) out of product, that causes me pain,” Wolowitz says, describing his sales philosophy, “You have got to come through. No one wants to be out of stock.” Wolowitz was driven to get his product to Black River Produce and stock more shelves throughout New England. It took a few months and many conversations, but by April of 2018, Wolowitz had found his missing distribution link – a lobster truck that traveled to Boston on a regular basis – and was able to make his first sale to Black River Produce.

Additionally, distribution logistics can be time-consuming and expensive, including logistical management, time spent on the road, food safety certifications, and insurance and vehicle maintenance.

Food Hubs

These businesses are specifically developed to aggregate and distribute local products. They are often the “best of both worlds” when it comes to access to markets for small producers. They offer **more transparency around pricing** and are more likely to be mission-driven with a focus on local and regional food. Because Food Hubs are designed to work with local producers, they may be **better attuned to the marketing and logistical needs**. They still offer many of the benefits of broadline distributors such as access to markets and handling logistics, and are often well connected with purchasers who are interested in local foods.

While Food Hubs have a large network, they rarely have the type of reach that a producer will find with a broadline distributor. Though Food Hubs are smaller by nature and won't provide the same access to the market that a distributor would, they are often a great option for small- to mid-sized producers who are looking to expand their market.

Backhauling, cross-docking, other creative solutions

Sometimes local producers will find a network that helps them bring their product from point A to point B through various modes of picking up and dropping off through multiple entities. For example, one of the Faces of New England producers self-distributes throughout Maine and was able to pick up product from another producer in Northern Maine to create a link from a very rural area to a more established distribution chain. These types of solutions can create agility and help producers in rural areas move their product to pre-established distribution routes.

They can extend the network of self-distributors through cooperation and coordination. They do require a significant amount of logistical management and trust that the other producer will fulfill their commitments. For these reasons, many of these arrangements are temporary solutions that serve as a patch until a more permanent solution is found.

Key lessons for working with hospitals

The main lesson learned from the Faces of New England program is that **persistence is essential**. Hospitals and other institutions throughout New England are experiencing a long-term labor shortage, and **purchasing from a new local producer is often a time-intensive project**. Producers must act as salespeople to stay on the radar of the purchasers – even more so if they are establishing a forward contract, or are self-distributed.

Hospital purchasers vary widely in how they prefer to purchase from local producers. In fact, they even differ on how they define the term “local.” Health Care Without Harm and Practice Greenhealth define “local” as food produced and processed within 250 miles of the health care facility. Many facilities that we work with have adopted this definition.

Some others will have tiered purchasing preferences (see [appendices B, C](#)) with their top tier being as local as the town or county of the institution. Once they have defined “local,” hospital purchasers are equally varied in their preferences for purchasing pathway. Many highly-engaged purchasers prefer buying directly from producers to ensure that they get the best pricing and can manage the relationship. Some prefer the reliability and ease of use of ordering from their distributors.

In general, to make this decision, hospitals evaluate the following:

- Ease of ordering
- Managing the number of trucks on their docks
- Reliability of drivers and timing of drop-offs
- Shelf life once the product is in-hand
- Food safety
- Number of relationships required to meet their needs

Challenges

Together with the technical assistance provider, we identified common challenges for working with institutions.

Brand differentiation is difficult for raw produce Many broadline distributors are offering “native” produce, with their own definitions of the term. While this represents an opportunity for producers to sell to the larger entities, it makes the price premium and opportunity cost a harder “sell” for an institutional purchaser to buy direct.

Successful farmers of raw produce were able to consistently meet the demands of broadline distributors, were very reliable on logistics, and consistently prioritized their wholesale accounts to maintain consistency as much as the weather allowed.

Some of these farmers found success by forming relationships with specific institutional purchasers and providing marketing materials to share their story with the customer.

Hospitals, in particular, must standardize their meals and menus for dietary purposes. **They rely on consistent access to specific products and most have less flexibility to react to unexpected supply shortages.** This poses a challenge to animal farmers or smaller producers who might not be able to fill the needs of larger institutions. Some producers can manage this by working with a food hub or aggregating products from other local farmers.

Although hospitals and other institutions may have a larger volume of purchase, a producer has a floor price below which they cannot negotiate. Each producer should know their price and no amount of aggregate demand should push a sale below this price point. The Faces of New England technical assistance provider helped the producers understand their lowest possible price which in turn helped them find the appropriate market for their product. For example, when Mousam Valley Mushrooms and Misty Brook Farm collaborated to create a blended pork and mushroom sausage, they found that the nutrition profile and pricing were not a fit for hospital customers. Instead, they found a steady market at local food co-operatives.

Some local products are too expensive for a hospital environment, but might do well at a retail location with more flexibility in budget and menu, such as a university, food co-operative, or grocery store. Although many of the hospitals that work with Health Care Without Harm are expecting to pay some price premium for local or sustainable products, some items are simply not a good match. Universities sometimes have more flexible budgets than hospitals.

Distribution throughout the New England states has essential gaps that create issues transporting quality product to purchasers, especially along an East to West route. Some of these distribution challenges are being addressed, but this remains a significant issue in the regional system.

Successes

We noted that some producers had more success increasing their sales to institutions than others. The businesses that found new contracts during the program period often built ongoing relationships with a community champion within an institution. A community champion is a person who is willing to go out of their way in support of a product and set up a consistent purchasing relationship. Producers of value-added products that were either minimally processed or serve-ready were more likely to find success selling to institutions – these were products that were helping chefs solve issues of labor and meeting a unique need.



Commonwealth Kitchen, saucy solutions

“I sell to many institutions such as hospitals, universities, and K-12 schools. Their business is very important to me. Commonwealth Kitchen has helped me to increase my institutional revenue and avoid food waste.”

– Joe Czajkowski, Lakeside Organics

Commonwealth Kitchen of Boston met representatives from Boston Children’s Hospital during a facility tour led by Health Care Without Harm. Through conversation, the team at Boston Children’s Hospital hatched an idea to use co-branded applesauce as part of a complementary “apple a day” program for families. The producer and purchasers then met on a quarterly basis, which gave them the opportunity to understand each others’ needs and resulted in more contracts for CWK to produce and sell things like eggplant “meatballs,” pureed squash, and tomato sauce made by one of CWK’s member businesses.