

*Restaurants as a Potential Market Channel
for
Locally-Grown Food
in
Western North Carolina*

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by

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Local food campaigns are fundamentally public awareness initiatives aimed at increasing local consumption of local farm products. In an early review of ten emerging local food campaigns across the US, all ten included restaurants on a list of potential markets worth pursuing.¹ Today, hundreds of organizations and initiatives around the country are working to help farmers access the restaurant market. For local food campaigns interested in scaling up beyond direct sales of local farm products, restaurants are widely recognized as a good potential market.

One reason for the focus on restaurants is that they are thought to have good potential for higher returns to farmers than other large scale markets like food stores and institutions. This in turn may be due to the fact that it is easier to label food as local in restaurants compared to institutional foodservice establishments. Restaurants also typically feature fresh produce to a greater extent than other foodservice settings. And the majority of them – as many as 70% according to the National Restaurant Association – are small businesses.²

Restaurants have made up the largest category of business joining the Local Food Campaign operated by the Appalachian Sustainable Agriculture Project (ASAP) since 2000. ASAP is a nonprofit organization dedicated to supporting farms and farming in Western North Carolina (WNC) through programs and services designed to increase consumption of locally-grown food and farm products. The organization publishes a *Local Food Guide* each year, which is a comprehensive guide to food and farms in the region.

In 2006, 40% of organizational buyers listed in ASAP's *Local Food Guide* were restaurants. A cursory review of restaurants in the guide, however, suggests that only certain types of restaurants are interested in local food – generally those that are independently owned and operated and serve food from just one or a handful of locations. Research from other regions confirms that business structure is correlated with local food purchasing. Lower interest and lower levels of purchasing local food have been observed among franchises and chains than independently owned and operated eating establishments.³

ASAP's local food campaign has historically focused on the area immediately surrounding Asheville because of the high concentration of people and businesses in that area. The broader campaign area includes all 23 counties of WNC. Calculating projected restaurant spending on locally-grown food in the region can better equip ASAP for program planning outside of the campaign hub area. It can also give farmers in the region some information about the potential size of this market as they face decisions about whether to expand or shift into new crops for potentially higher value local markets.

¹ FoodRoutes Network, 2002. www.foodroutes.org.

² *Industry at a Glance*. Online document, National Restaurant Association. www.restaurant.org/research/ind_glance.cfm.

³ See, e.g. Tropp, D., Siebert, J.W., and Kim, S.Y. 2004. *Enhancing Commercial Food Service Sales by Small Meat Processing Firms*. USDA Agricultural Marketing Service.

This report uses data from the 2002 US Economic Census to project the potential for locally-grown food purchases by restaurants in the region. As a way to screen for business structure when calculating restaurant spending, it is possible to distinguish restaurant sales to full-service restaurants from sales to limited-service restaurants. According to the US Economic Census, a full-service restaurant is one that provides food to patrons who order and are served while seated. Using this category of restaurant excludes the majority of chains and franchises in the region, though not all.

Restaurant Food Spending in Western North Carolina

According to the U.S. Economic Census, there were more than 1700 *Eating and Drinking Places* in all of Western North Carolina in 2002, the most recent year for which data is available.⁴ This includes each physical location where a business with payroll prepares meals, snacks and beverages to customer order for immediate on-premises and off-premises consumption. Annual sales from those establishments totaled \$914.5 million in 2002. The high concentration of restaurants in WNC is due in part to the strong tourism industry in the region.

While county level data are incomplete, state-level data indicate that full-service restaurant sales accounted for 43% of total sales from *Eating and Drinking Places* in North Carolina in 2002. Applying that ratio to the \$914.5 million in total sales from *Eating and Drinking Places* in WNC in 2002 leads to estimated sales through full-service restaurants in the region of \$393.2 million. The U.S. Economic Census documented 724 full-service restaurants in the 23 counties of WNC in 2002.

According to the National Restaurant Association, the cost of food typically represents 33% of sales for the full-service category of restaurants.⁵ A corresponding estimate for food purchases by full-service restaurants in the region is \$129.8 million. How the typical food dollar is spent may vary considerably from restaurant to restaurant, though produce purchases are likely to represent at least 9% of total food purchases by restaurants.⁶ A conservative estimate of produce purchases by full-service restaurants in WNC, then, is 9% of \$129.8 million, or \$11.7 million. The focus on produce in this analysis reflects the fact that produce holds the greatest potential for local purchases in the short-term due to reduced infrastructure requirements compared to meat, dairy and processed fruits and vegetables.

Potential Local Food Purchases by Full-Service Restaurants in Western North Carolina

ASAP collects data each year from organizations participating in its local food campaign. Participating restaurants have reported spending anywhere from 1% to 75% of their

⁴ 2002 *Economic Census*. US Census Bureau. (Geographic Series: Accommodation and Foodservices).

⁵ *Restaurant Industry Operations Report*. Online document, National Restaurant Association. www.restaurant.org/research/operations/report.cfm.

⁶ Produce Marketing Association.

annual food budget on locally-grown foods, the majority purchased during the summer months. On average, the percent of total food purchases reported as local by restaurant campaign members in 2005 was 15%. Using the estimated \$11.7 million in estimated produce expenditures by the area's full-service restaurants as a starting point and applying a rate of 15% as a realistic target for local food purchasing, the estimated market potential for local produce purchases by WNC restaurants is around \$1.8 million.

It is important to note that the restaurant potential calculations reported here do not take into account many other issues identified as barriers to purchasing locally-grown food by restaurants and other organizational buyers. In surveys to organizational buyers throughout the region a number of barriers were identified as significant.⁷ Top among those were the challenge of coordinating purchase and delivery of locally-grown food and the challenge of finding an adequate supply of locally-grown food. In order for regional farmers to realize the potential of the restaurant market, it will be necessary to investigate and address those and other distribution issues. At the same time, continued efforts to generate strong consumer demand for local food will be essential to maintaining strong restaurant demand for local farm products.

⁷ See <http://www.asapconnections.org/special/research/index.html>.