

CHAPTER ONE

Introduction

1.1 Introduction

Throughout the United States, family owned farms and local processors are beginning to sell their products to public institutions including K-12 schools, colleges, and hospitals. In many states, farmers, processors and entrepreneurs are taking advantage of these opportunities and selling larger quantities to fewer institutional customers. Farm to cafeteria¹ and other programs are stimulating institutions interest in procuring sustainable, high quality, fresh and processed Montana-produced foods. These trends may provide new opportunities for rebuilding Montana's food-processing infrastructure and increasing farmers, ranchers and processors' share of the food dollar.

In Montana, public institutions remain a largely untapped market for agricultural producers and food processors. Although Montana's public institutions appear to offer potential because of the quantities purchased, the institutional buying structure is complex and can be difficult for suppliers. Purchasing food is often only one task that many institutional buyers conduct, making it difficult for them to commit to a new² purchasing process involving many farmers/processors. The real issues of budgetary constraints for procurement departments enhance the difficulties.

Purchasing more food that has been grown and processed in Montana will allow more of the foods value to be maintained in the state and keep dollars circulating in the local community. Montana's consumers will have a better choice and will know how the food is produced, its' freshness and quality. However, the total size of the potential institutional market opportunities for Montana growers and processors is not known. Barriers to market entry relating to market scale, lack of access to processing and distribution, product volume and form, insurance, and more, are also not fully understood.

The paragraphs that follow provide a summary of this study's objectives, as well as the methodology utilized to gather data and information, details of project beneficiaries, and an overview of the way the report is structured.

1.2 Objectives & Methodology

The research plan was designed to develop a robust framework to generate data and deliver specified outputs. It was based on both quantitative data relating to the supply and demand of regional food and qualitative information on how food moves through the supply chain, as well as how and when purchasing decisions are made. Semi-structured face to face or telephone interviews were conducted with over 60 institutions and businesses as part of the research process.

¹ Farm to Cafeteria is defined as programs "to serve locally produced foods from area farmers in institutional cafeterias and educate children, students, adults and communities about local food and farming." (Washington State Department of Agriculture, 2004)

² and possibly a more complicated and time intensive process.

The objectives of this study are to analyze the current market status of Montana’s public institutional food services; build projections for growth in the value, volume and diversity of Montana food products that could enter that market; and develop recommendations for changes needed to realize that growth potential. More specifically, this report provides:

1. An assessment of the current and potential value and volume of Montana’s public institutional food service market for Montana-produced food³.

The Montana Department of Administration suggests that public institutions (public colleges, universities (2 and 4 year), K-12 schools, hospitals/nursing homes and prisons) spent approximately \$11 million on food in 2005 (see Table 1.1)⁴. This number does not include food expenditures by schools⁵. Discussions with individual institutions indicate that these figures underestimate the true value of their food purchases⁶. However, as the information provided by the Department of Administration is the best that is available, it was used as a starting point for further research.

Table 1.1: Food Expenditures by Agency (FY 2004/2005)

Public Department/Institution Interviewed	Total Food Expenditure (\$)	Public Department/Institution (not interviewed)	Total Food Expenditure (\$)
Office of Public Instruction	62,670.50	Judiciary	240.68
Montana State University		Governor’s Office	17,600.31
Main Campus (Bozeman)	2,915,802.53	Department of Justice	1,047.59
College of Technology (Great Falls)	33,501.53	Commissioner of Higher Ed.	72.00
MSU Billings	123,150.99	Agricultural Experiment Station	3,006.33
MSU Northern	356,898.01	Extension Service	633.83
University of Montana		Montana Arts Council	13,249.64
Main Campus (Missoula)	2,398,969.88	Library Commission	878.04
Helena College of Technology	30,733.40	Department of Env. Quality	90.69
Montana Tech of the U of M	315,014.36	Department of Administration	37,342.22
Western Montana College	611,428.07	Public Employees Retirement Bd	411.91
School for the Deaf and Blind	53,424.41	Montana Consensus Council	597.11
Department of Fish, Wildlife and Parks	256,322.27	Department of Military Affairs	6,171.63
Department of Corrections	2,764,677.56	Department of Transportation	6,157.63
Public Health and Human Services	836,582.00		
Department of Commerce	54,292.33		
Department of Natural Resources & Conservation	78,224.88		
TOTAL			10,979,192.33

Source: Montana Department of Administration (2005)

³ “Produced,” means grown, harvested or processed throughout this report.

⁴ The report authors would like to thank Sheryl Olson at the Montana Department of Administration for the numerous hours of support and assistance that she provided in gathering and interpreting MDA data.

⁵ OPI purchases relate to direct expenditures by the Helena office for staff meals and conferences. Although education is a state program it is funded through federal funds, therefore total school food expenditures are excluded.

⁶ Interviews with purchasing managers to determine why the Department of Administration figures underestimate the true value of food expenditures suggest that some figures only cover prime vendor contracts for purchases over \$5,000. They did not always include food for resale.

All institutions with food purchases of more than \$50,000 per annum were interviewed as part of this study (indicated in color on the left hand side of Table 1.1). Face to face or telephone interviews were conducted with 32 institutional buyers to determine the opportunities and constraints associated with purchasing Montana grown and processed food⁷. Details of these discussions and a recalculation of total public institution food expenditures in Montana are presented in Chapter Three.

2. An assessment of the current and potential food production, processing and distribution capacity for serving Montana’s public institutional food service market.

Producers and processors of Montana-grown food who could potentially supply the institutional food service market were surveyed via personal and telephone interviews. More than 20 businesses were interviewed and supply related opportunities and barriers identified. Extensive secondary research was analyzed including USDA, U.S. Census Bureau and other publications in order to draw conclusions relating to Montana’s food processing capacity and ability to supply large purchasers such as public institutions.

3. Recommendations and a summary of the next steps that could be taken to enhance local food supply chains in Montana.

This report is intended to be a complement to a study of the impact of the University of Montana’s Farm to College program on the state. That in-depth study is focused on the social, economic, and transportation-related environmental benefits and challenges associated with Farm to College. The analysis of UM’s Farm to College program will reveal what is working well in the program for particular types of vendors participating in it, as well as areas in need of improvement. By contrast, this study takes a broader view of institutional markets.

For the purpose of this report, “local food,” is defined as agricultural products grown, processed or manufactured anywhere in Montana⁸. The focus is on “middle”⁹ sized farmers and processors such as Wheat Montana, Montola Growers, and Timeless Seeds who have the capacity and infrastructure necessary to access public institution markets in the immediate future. “Regional food” is defined as agricultural products grown, processed or manufactured in the nearby states of Idaho, Washington, Oregon, Wyoming, North Dakota and South Dakota¹⁰.

1.3 Project beneficiaries

This report provides a detailed analysis of the opportunities and barriers related to marketing Montana produced food to public institutions located in the state. It is hoped that the outcomes will:

⁷ Interviews were split between Universities (4), K-12 Schools (14), prisons (5), hospitals (5) and other institutions (5).

⁸ Adapted from the University of Montana Farm to College Program.⁸ In other words, Montana is local in reference to foods and markets for food.

⁹ “**Agriculture-of-the-middle**” refers to a disappearing sector of mid-scale farms/ranches and related agrifood enterprises that lack the necessary volume to successfully market bulk commodities and have too much volume to sell food directly to consumers.

¹⁰ Adapted from the University of Montana Farm to College Program.

- enable Montana’s farmers, ranchers, and other food entrepreneurs to make sound decisions about future commercial development;
- provide economic development specialists and policy makers with new information about the development potential of agriculture and food-related enterprises;
- identify strategic opportunities for new infrastructure that can meet documented market demand;
- allow administrators of public institutions who want to support Montana’s agricultural economy to target their procurement towards the producers, processors, and distributors who are best able to meet the food service market’s needs; and
- provide findings that are applicable across the state.

1.4 Overview of Report Structure

This report provides an overview of institutional food buying practices and analyses the feasibility of increasing the value and volume of food grown and processed in Montana and purchased by public institutions in the state. It is structured as follows:

- *Chapter 2: “From Farm to Fork: The Food Supply Chain”* provides an overview of the food supply chain and the distribution channels food moves through on its way to public institutional markets. The role of key players is described and the unique problems that geographic and demographic factors in Montana pose as food moves through the supply chain are identified.
- *Chapter 3: “Public Sector Food Procurement”* summarizes the results of research that measures the volume and value of food purchased by Montana’s K-12 schools, universities, prisons and other public institutions.
- *Chapter 4: “Montana’s Agricultural and Food Industry”* presents an overview of Montana’s agricultural industry and examines the extent to which Montana farmers, ranchers, growers and processors have the capacity to service or sell to public intuitions in the state.
- *Chapter 5: “Institutional Food Procurement: Barriers and Opportunities for Montana Growers/Processors”* provides a summary of the potential opportunities and barriers associated with increasing the volume and value of food produced in Montana that is sold to the state’s public institutional food service market. Examples of best practices from other states and countries are provided and recommendations for the future developed.