



INFLATION, FOOD AT HOME, AND SELLING TO THE USDA

FOOD MARKET TRENDS FOR NATIVE PRODUCERS



QUARTERLY AG REPORT

JULY 21, 2022

WELCOME

As outlined in Reimagining Native Food Economies, the Native American Agricultural Fund has written about the importance of the development of regional Native-owned and operated food hubs from coast to coast. As these hubs emerge and explore opportunities to market the “brand equity” of Tribally grown and processed food to the public outside of Indian Country, key market data is vital.



A VISION FOR NATIVE FOOD AND AGRICULTURE
INFRASTRUCTURE REBUILDING AND RECOVERY

THESE PERIODIC REPORTS WILL PROVIDE MARKET DATA AND INSIGHTS TO ASSIST PROJECT ORGANIZERS IN DEVELOPING SUCCESSFUL ENTERPRISES.

BEHIND THE SCENES

NAAF Marketplace Updates & Insights is compiled periodically with input from NAAF staff and Crystal Springs Consulting, Inc. who work alongside many Tribes embarking on food enterprises. We will dig into the data-rich environment of the SPINS Market Database, the premier food market information and data platform used throughout the food sector to help Native food producers.



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RISING PRICES IN FOOD



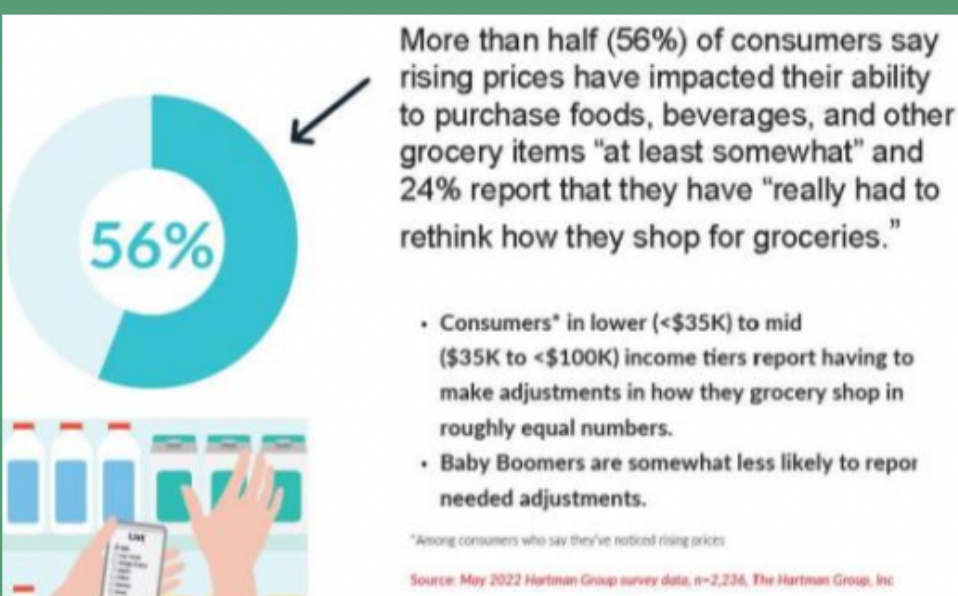
One word now dominates the food marketplace: Inflation. Battered by continued supply disruptions, lingering COVID concerns, the war in Ukraine, drought, and other factors, food-at-home prices jumped nearly 12% over the past year, marking the largest 12-month increase in 43 years, according to the U.S. Bureau of Labor Statistics' Consumer Price Index for May 2022. (1)

Rapid inflation has sent shockwaves through the food system on a scale not seen since the early days of the COVID pandemic. Consumer behavior is undergoing some dramatic changes. Whether those changes are short-term blips or long-term fundamental shifts may depend on the duration of this inflationary cycle.

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RIISING PRICES IN FOOD

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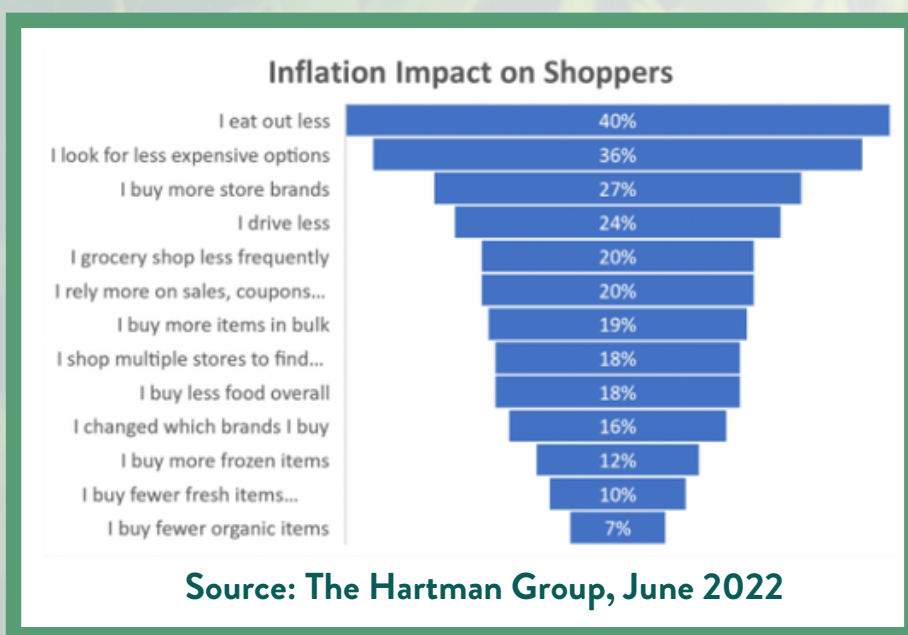
Source: The Hartman Group, June 2022

According to one Harris Poll survey in May 2022, 90% of consumers are concerned about food prices. (2)

More in-depth research by the Hartman Group

and Food Marketing Institute in May and June of 2022 delve into specific changes taking place. Restaurants may be feeling the largest impact, as 40% of the people surveyed reported eating out less because of inflation. In the retail sector, shoppers are making a series of changes in their behavior to shave the costs of their grocery bills.

In the Hartman survey, 36% of shoppers reported searching for less expensive options, 27% were buying more store brands, 20% are relying more on coupons and loyalty program rewards, and 18% are shopping in multiple stores.



Source: The Hartman Group, June 2022

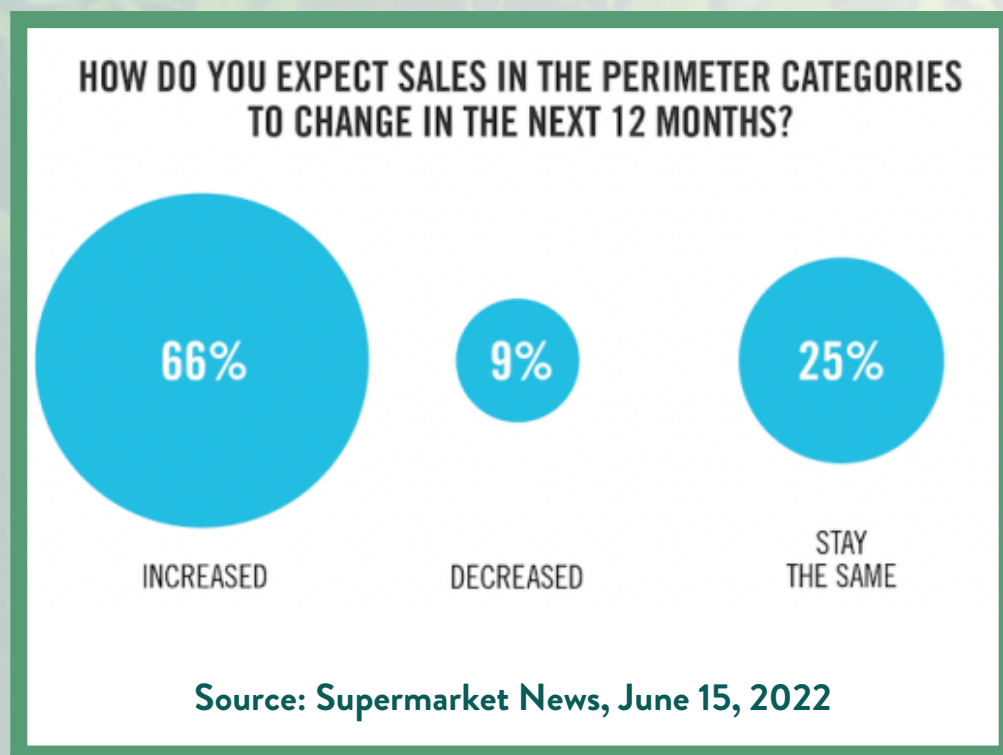
RIISING PRICES IN FOOD

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Ten percent of the shoppers' questioned reported that they are purchasing less fresh produce, meat/seafood, and dairy products. However, 12% of shoppers report that they are increasing their purchases of frozen products in those categories. (3)

Some sales statistics reported by grocery stores, though, contradict the shoppers' intentions to purchase fewer fresh products. In the Fresh Trends Report issued by Supermarket News in June, 70% of store managers responding to a survey reported that sales in the perimeter categories (produce, meat/seafood, dairy, and bakery) have increased over the past year, while only 4% reported a decrease. Most respondents reporting sales increases (88%) said that the increased sales ranged from 1% to 15%, so it's likely that the increased sales came from higher prices charged, rather than more units sold. (4) Nearly two-thirds of the store managers questioned reported that they expect to see sales of items in the perimeter of the store continue to increase over the coming year.



SHRINKFLATION: THE SILENT BATTLE



There's another—less visible way—that rising prices are impacting the cost of nearly everything people buy: Shrinkflation.

Manufacturers are trying to buffer the impact of rising prices by quietly shrinking the size of the packages for their products.

For example:



A small box of Kleenex[®] now has 60 tissues, compared to 65 a few months ago;



Walmart Great Value paper towels now have 120 sheets per roll, compared to 168;



Chobani[®] Flips yogurts are now 4.5 ounces, compared to 5.3 oz.;



General Mills' "Family Size" cereal boxes are 18.1 oz., compared to 19.3 oz.; and

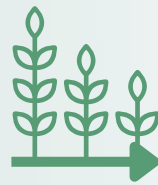


Folgers' Coffee[®] canisters are now 43.5 oz., compared to 51 oz.;



A "family-size" package of Tillamook[®] ice cream is now 48 ounces, compared to 56 ounces previously. (5)

SHRINKFLATION: THE SILENT BATTLE



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One industry analyst notes that packaging downsizing could have long-term impacts on dairy and beef producers. He noted that if all yogurt makers were to shrink their package size by the same amount as Chobani Flip containers and consumers were to continue buying the same number of containers, 16% less milk would be needed to meet single-serve yogurt demand.(6)

While shrinking packaging sizes will likely outlast the inflationary cycle, the persistence in changing consumer behavior may depend on how long shoppers face continued high prices.

PERSPECTIVE

ACCORDING TO FOOD
MARKETING INSTITUTE

In the short term, shoppers are more flexible in buying what they need. Searching for deals has become more common, as has shopping at different stores or channels to get the best quality at the best price. Longer-term inflation would mean a more significant erosion of buying power across all goods and services. As consumers buy less food overall, food volume would likely be sustained, but more shoppers would choose to make changes in what and where they buy. (7)

A close-up photograph of a hand dipping a piece of food, possibly a skewer or a piece of bread, into a bowl of sauce. The image is overlaid with a semi-transparent teal color. The text "EATING AT HOME MORE, ENJOYING IT LESS" is written in white, bold, uppercase letters across the lower half of the image.

**EATING AT HOME MORE,
ENJOYING IT LESS**



EATING AT HOME MORE, ENJOYING IT LESS

While inflation is one factor in more consumers eating at home, lingering concerns about COVID are also playing a role. According to a recent report by the Food Marketing Institute (FMI), only about half of the consumers indicate that it is acceptably safe to eat inside a restaurant. (8)

But the Food Marketing Institute notes that cooking fatigue is starting to set in among many shoppers. As people hunkered down at the beginning of the pandemic, cooking enthusiasm was high, with many people learning new skills and buying new devices like InstaPots®, air fryers, and sous vide (water bath) cookers. According to the latest FMI report, the number of people reporting that they “love cooking” has dropped by four percent in the past year.

Another poll conducted late last year found that more than half of the people interviewed are tired of cooking the same recipes over and over again, while 70% say they would like to have more variety in the food they cook every week. That same study found that most people want to spend less than 25 minutes cooking a meal. (9)

EATING AT HOME MORE, ENJOYING IT LESS

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IMPLICATIONS AND OPPORTUNITIES

Consumers eating at home are increasingly looking for ease and inspiration. New Tribal projects can offer consumers options that are different, delicious, and easy to prepare.

Consider: Indigenous meal kits and easy prep dishes – The growing Indigenous culinary movement provides an opportunity to connect consumers with a break from the “same recipe.”



Creating a multi-ingredient heat-and-eat product or a meal kit can provide home cooks with the ability to put something unique on the dinner table, without spending a lot of time in the kitchen. For meat processors, this can create an added-value opportunity for lower-value cuts.

Provide some inspiration – Gone are the days when promoting a product required significant financial outlays in conventional advertising or in-store flyers. Traditional ads, flyers, or store websites ranked at the bottom of the sources shoppers used to gain inspiration for their evening meals, according to FMI.

In the chart at right, shoppers utilized recipe websites/apps or food blogs and social media as their primary sources for cooking inspiration.



THE SHIFT TO STORE BRANDS

According to FMI's 2022 Power of Private Brands Report, 40% of consumers have purchased more store brands since before the onset of COVID-19, and three-quarters of those shoppers aim to continue putting private brands in their carts. (10) Store (or private label) brands are steeped in a history of “cheap” and “low quality.”

Consumer perceptions of these private labels have shifted over recent years as retailers introduced store brands that featured products which offered quality matching name brands. Kroger's Simple Truth and Albertsons' Open Nature and O Organics labels have essentially become name brands. Trader Joe's has built its business model around offering primarily Trader Joe's branded products throughout its stores. Most consumers now view these store brands as a means to save money without compromising taste or quality.

According to the FMI study, 42% of consumers who are buying more private brands report that they like the taste of private-label products. Sixty-six percent of customers said quality is key when choosing private-brand items and more than 43% indicated they purchase store brands because of their quality. (11)

THE SHIFT TO STORE BRAND

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IMPLICATIONS AND OPPORTUNITIES

Retailers offering store brands don't own the manufacturing facilities producing those products. Instead, they contract with outside manufacturers to produce private label products on the same equipment used to create branded products.

Many small meat and poultry processors already rely on co-manufacturing as part of their business model. Several fresh meat and value-added product brands rely on outside facilities to process their products and produce case-ready or shelf-ready items.

The movement to private labels in retail stores may create more opportunities for these types of products on a larger scale. That opportunity comes with some risk, though. First, the company owning the "brand name," will largely dictate all aspects of the product's production, including pricing.

And, facilities should never rely on one outside company for a significant share of their business. If those companies decide to drop a line of products, the manufacturer will be left scrambling to fill the sudden vacuum created by the loss of processing.





THE RISE OF ONLINE AND THE FALL OF STORE LOYALTY

THE RISE OF ONLINE AND THE FALL OF STORE LOYALTY

Before the pandemic, consumers tended to have a fairly predictable and comfortable range of stores they patronized. That all changed in March 2020, when store shelves were bare, and shoppers scrambled to find toilet paper and other necessities.

The rise of inflation has eroded loyalty to individual retailers—and individual brands, even further.

As noted above, 18% of shoppers participating in the Hartman survey reported shopping in multiple stores to save money. That information is backed up by other sources.

According to a review of shopper transaction data conducted by Symphony RetailAI, more shoppers are shying away from their usual grocery store for a more wallet-friendly alternative. According to McKinsey & Company, customer loyalty was devastated by the 2020 pandemic. They note that 75% of U.S. consumers tried a new shopping behavior in the pandemic's wake. Consumers are even more open than ever before to hunt for deals and affordable groceries.

“Mainstream grocery is losing these consumers faster than they can replace them,” said John McCann, RetailAI’s head of analytics. (12)

Many of those consumers are relying more heavily on online options, ranging from digital coupons to home-delivered groceries.

As noted by FMI, “Deal hunting and couponing are the most common ways shoppers are trying to mitigate the impact of rising food prices. While helping to support shoppers’ pursuit of value, deal-hunting and sales also allow shoppers to find better pricing without trading down the quality of their food and beverage products.” (13)

Many shoppers are online searching for digital coupons and comparing prices between retail outlets, while others are moving toward purchasing their groceries online for home delivery. Consumers shopping online tend to spend more each month on groceries, but tend to have little loyalty to any outlet.

According to the latest dunnhumby Consumer Trends Tracker in Supermarket News, multichannel online shoppers spend 1.5 times more on groceries than their in-store-only counterparts but spread their dollars at up to twice as many retailers. (14)

And, FMI notes that consumers are gravitating to online shopping in part to reduce the emphasis on a store’s proximity to their home. (15)

THE RISE OF ONLINE AND THE FALL OF STORE LOYALTY

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IMPLICATIONS AND OPPORTUNITIES

Marketing experts tend to talk about the need for “disruption” when introducing new products into the retail marketplace. In short, they look for opportunities to disrupt consumers’ perceptions of existing products and outlets so that they can build demand for something new.

The COVID-19 pandemic, supply chain shortages, and inflation have disrupted the retail marketplace in unimaginable ways three years ago. While e-commerce grocery shopping had been rising steadily for years, the onset of the pandemic sharply accelerated that trend as consumers went online to avoid exposure to COVID-19 and to simply find the products they needed. Those consumers are now relying on the internet to make shopping lists, prepare menus and find digital coupons, and are ordering their groceries for home delivery.

This disruption offers enterprises an opportunity to introduce new products to potential customers without having to undertake the difficult process of working with distributors and retailers and engage in costly traditional advertising and promotion.

Inflation is making shoppers increasingly price-conscious, but many of those consumers are still concerned about climate change and their personal health. Tribal brands can capitalize by promoting the value and the values of their products.



SELLING FOOD TO USDA



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SELLING FOOD TO USDA




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The U.S. Department of Agriculture purchases roughly \$6 billion of domestically grown fresh/frozen fruits, vegetables, meat and poultry, dairy products, and other commodities each year.

These purchases are conducted primarily through a partnership between USDA's Food and Nutrition Service (FNS), and the Agricultural Marketing Service (AMS). In most cases, FNS determines the need for commodities to supply a specific distribution program. Then, AMS purchases those commodities from eligible suppliers.

This overview will provide information on:

-  The types of food distribution programs;
-  The commodities purchased by USDA; and
-  How to qualify as a vendor to supply those commodities.

USDA FOOD DISTRIBUTION PROGRAMS

SCHOOL BREAKFAST/LUNCH & SUMMER FOOD SERVICE

The National School Lunch Program (NSLP) is a federally assisted meal program operating in public and nonprofit private schools and residential child care institutions. It provides nutritionally balanced, low-cost, or free lunches to children each school day. The NSLP has served more than 31.8 million children each year for the past five years

The Food and Nutrition Service (FNS) of the United States Department of Agriculture (USDA) administers the Program at the Federal level. At the State level, the NSLP is administered by State agencies, which operate the program through agreements with school food authorities. State agency contact information is available at: <https://www.fns.usda.gov/school-meals/schoolmeals-contacts>.

Participating school districts and independent schools receive cash subsidies and USDA Foods for each reimbursable meal they serve. In exchange, NSLP institutions must serve lunches that meet Federal meal pattern requirements and offer the lunches at a free or reduced-price to eligible children.

SCHOOL BREAKFAST/LUNCH & SUMMER FOOD SERVICE

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School food authorities are reimbursed for meals based on children's free, reduced price, or paid eligibility status.

In addition to cash reimbursements, schools receive USDA Foods. States select USDA Foods for their schools from a list of foods purchased by USDA and provided through the NSLP. Schools can also receive bonus USDA Foods as they are available from surplus agricultural stocks. The variety of USDA Foods that schools receive depends upon available quantities and market prices.

The School Breakfast Program (SBP) is patterned after the NSLP, except that schools are only reimbursed for the commodities they purchase.

The Summer Food Service Program (SFSP) is a federally-funded, state-administered program. The SFSP reimburses providers who serve free healthy meals to children and teens in low-income areas during the summer months when school is not in session.

Here is the list of foods available for purchase in the School Lunch, School Breakfast, and other school nutrition programs:



[USDA Foods Available List for SY 2023.](#) [Food and Nutrition Service](#)



CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

The Child and Adult Care Food Program (CACFP) helps child and adult care institutions and family or group day care homes provide nutritious foods to young children, at-risk youth, and chronically impaired adults.

Child care centers, adult day care centers, family day care homes, afterschool care centers, and emergency shelters receive cash reimbursement for serving meals and snacks that meet Federal nutritional guidelines to eligible children and adult participants.

In general, centers and daycare homes may be approved to claim reimbursement for serving up to two meals and one snack, or two snacks and one meal per day to each eligible child or adult participant.

Meals served to children in centers are reimbursed at rates based upon a child's eligibility for free, reduced-price, or paid meals.

In daycare homes, all meals are served free. Daycare home providers who serve children in low-income areas or meet low-income eligibility requirements themselves receive higher levels of reimbursement.



FOOD DISTRIBUTION ON INDIAN RESERVATIONS (FDPIR)

The Food Distribution Program on Indian Reservations (FDPIR) provides USDA Foods to income-eligible households living on Indian reservations and to Native American households residing in designated areas near reservations. USDA distributes both food and administrative funds to participating Indian Tribal Organizations and state agencies to operate FDPIR. (16)

Products distributed through FDPIR are limited to those on USDA's Foods Available List for FDPIR. Fresh/Frozen Beef products on the list are limited to 85% lean ground beef, and frozen beef round roast. (Canned beef and canned beef stew are also on the list.) Bison products on the list are limited to lean ground bison. Pork products are limited to boneless pork loin chops. (17)

The products are selected from the USDA's Foods Available List. USDA also determines the "unit" size of each item available. For example, one pound of ground beef qualifies as one unit of meat. Clients are eligible to receive three meat units each month at no charge.

FOOD DISTRIBUTION ON INDIAN RESERVATIONS (FDPIR)

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However, USDA has launched a pilot program authorized under the 2018 Farm Bill designed to assist Tribes in directly purchasing products for distribution in their programs. In November, FNS awarded \$3.5 million to eight Tribal Nations under the FDPIR Self-Determination Demonstration project.

This project empowers Tribal Nations by giving them more options in selecting foods for their FDPIR food packages so that they better align with their dietary preferences. The project also allows Tribal Nations to purchase directly from commercial vendors instead of USDA.

Here is a list of the foods available for purchase from FDPIR:



[USDA Foods Available List for FDPIR | Food and Nutrition Service](#)

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

CSFP is targeted exclusively at low-income senior citizens. Except for refrigerated cheese, most products purchased for distribution through CSFP must be shelf-stable.

Here is the list of the foods available for purchase list for CSFP:



[USDA Foods Available List for CSFP | Food and Nutrition Service](#)



TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

The Emergency Food Assistance Program (TEFAP) is a federal program that helps supplement the diets of low-income Americans by providing them with emergency food assistance at no cost. USDA provides 100% American-grown USDA foods and administrative funds to states to operate TEFAP. (18)

TEFAP was heavily utilized in 2020 as the primary program vehicle for the Farm to Family Food Box Program implemented during the COVID-19 pandemic.

Here are the foods available for purchase in TEFAP:



[USDA Foods Available List for TEFAP | Food and Nutrition Service](#)



BECOMING A QUALIFIED VENDOR



First, determine if your business is capable of supplying federal food distribution programs. USDA generally purchases products in truckload quantities, which will require them to process, store and deliver at least 40,000 lbs. of products at a time.

USDA's procurement standards include stringent food safety provisions. For example, beef and bison products delivered to USDA for federal nutrition programs must have microbiological tests conducted only at USDA-authorized facilities.

There are [five authorized facilities nationwide](#) for poultry. [Here are the testing requirements.](#) (Get info on USDA Authorized Labs for Beef/Bison). Because those labs may be located far from the processing facility, consideration should be given to the ability to hold the product in storage for the 3-4 days required to receive the test results. Planning should be made for the utilization of any products that do not meet the USDA's microbiological requirements.

For beef and bison products, USDA requires that all products reach 0° Fahrenheit within 72 hours of being placed in a freezer. That may require access to a blast freezer.

BECOMING A QUALIFIED VENDOR

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If you determine that you still want to become a qualified vendor, it's advisable to start the process before planning to submit a bid.

The place to start is the [AMS Commodity Procurement Qualification Requirements Checklist](#).

Among the requirements on that checklist are:

- System for Award Management (SAM) Registration
- Web-Based Supply Chain Management (WBSCM) Vendor Registration Form
- Company Letter certifying capability to perform
- Three Letters of Reference
- Current Audited or Reviewed Financial Statements

Please make certain that your company has passed the necessary inspections, food defense audits, and plant surveys before submitting a bid.

Once approved as a supplier, companies can [sign up with AMS](#) to receive notifications of pertinent solicitations for commodities.

After a solicitation has been issued, review it carefully to determine the ability of your business to supply the products.

BECOMING A QUALIFIED VENDOR

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The USDA specifications will include items like:

- Product Descriptions
- Grades/Standards; Commercial Item Descriptions (CIDS)
- Harvest/pack season – current production
- Formulation/Fabrication requirements (fat, sodium, sugar)
- Packaging/packing/labeling
- USDA inspection, grading, and/or auditing requirements
- Food Safety Requirements for Suppliers; Good Agricultural Practice/Good Handling Practice Audits; and
- Delivery points – USDA as designated delivery locations for each program/commodity.
- Be sure to review any amendments to the specification.

Approved suppliers can then use the WBSCM to submit their bids. In terms of calculating the pricing for your products, be careful not to low-ball your bid. Every contract will bring with it some hidden challenges, so make sure you submit your price proposal accordingly. It will be helpful to check past awards to determine the range of pricing.



RESOURCES

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14. Source: Supermarket News, [Online grocery shoppers spend more but less loyal](#), June 30, 2022
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