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Slotting Local Products

This report examines the feasibility of mandating Vermont grocery stores reserve shelf spots for Vermont products. Research indicates there is a demand in Vermont for locally sourced products, and many grocery stores, from town country stores to Market32, already sell a variety of Vermont products.¹ Important considerations regarding local products include slotting allowances and the costs for both retailers and suppliers, the current practices of Vermont grocery stores, and legislation passed in other states that is supportive of local products.

Local Products in Vermont Grocery Stores

Vermont has held the top spot on the Locavore Index since the project's inception in 2012. The Locavore Index assesses local food consumption patterns across all 50 states and Washington D.C.² Based on this assessment, Vermont has the highest per capita direct farmer-to-consumer sales, USDA local food grants, farmers markets, Community Supported Agriculture (CSAs), farm-to-school participation and hospitals serving local food.³ This multiyear trend indicates the popularity and demand of local food in the state. In 2009, Vermont legislators passed the Farm to Table program, which focuses on creating a more sustainable agricultural economy to boost Vermont's local agricultural production. This program does this through education throughout the entire food system (farmers, marketing channels, food safety, retailers, etc.), incentive programs for consumers and business owners to buy local, consumer education about the availability of local food movements, and efforts to improve water and soil quality for the continued vitality of Vermont farms.⁴ Since Vermont passed the Farm to Plate legislation in

¹ "Home Grown." Price Chopper. January 20, 2019. Accessed March 28, 2019.

<https://www.pricechopper.com/home-grown>.

² "How Locavore Is Your State?" Strolling of the Heifers, accessed February 24, 2019,

<https://www.strollingoftheheifers.com/locavore/>. <https://www.strollingoftheheifers.com/locavore/>.

This source is independent of Vermont and provides a thorough, in depth analysis of how local products are used in all 50 states. Opinions of the authors or sponsors of the sight are not used, just the results from a uniform evaluation of all states.

³ Strolling of the Heifers, "How Locavore Is Your State?"

⁴ Vermont Farm to Plate, "2018 Farm to Plate Annual Report," accessed February 24, 2019,

<https://www.vtfarmtoplate.com/resources/2018-farm-to-plate-annual-report>.

2009, purchases of local food in Vermont reached \$289 million in 2018, which accounted for 12.9% of total food and beverage sales in the state.⁵

Many of the grocery stores in Vermont, especially boutique grocery stores, natural foods stores, co-ops, and town country stores, already carry an array of Vermont products. The larger chain stores, Hannaford, Price Chopper/Market 32, and Shaw's also carry several local produce and grocery brands.⁶

What is Slotting?

Slotting allowances are fees manufacturers pay retailers to stock their products. Retailers often charge slotting fees for new or featured products.⁷ Slotting is a common practice in grocery stores, especially in larger chains. Slotting fees can also vary depending on shelf location. For example, in-demand spots at eye-level or at the ends of store aisles are often associated with higher slotting fees. Fees may also be required if a product is doing poorly, after the allotted time that a supplier paid for with initial slotting allowances.⁸

Since the 1950s, payments by manufacturers to retailers for promotional shelf space have been used for prime shelf space, end-of-aisle displays, and advertising.⁹ Slotting allowances, however, did not exist before 1984. Slotting differs from the promotional payments because slotting is based on per unit time—normally six months to a year—that a retailer uses to cover the costs of introducing a new product into the store. Promotional payments refer to trade promotions and include contracts that offer reduced wholesale price discounts and other variable payments.¹⁰ This could include paying to put a brand or product on eye-level shelves where customers are more likely to see them, or offering a discount on a product, such as buying two for the price of one.

⁵ 4 Vermont Farm to Plate, "2018 Farm to Plate Annual Report."

⁶ Hannaford, "Local," Hannaford, accessed March 23, 2019,

<https://www.hannaford.com/content.jsp?pageName=Local&leftNavArea=FoodLoveLeftNav;>

"Price Chopper/Market 32 Offers Local Bites," Progressive Grocer, March 29, 2017, accessed March 02, 2019,

<https://progressivegrocer.com/price-choppermarket-32-offers-local-bites>.

⁷ Mary W. Sullivan, "Slotting Allowances and the Market for New Products," *The Journal of Law and Economics* 40, no. 2 (1997): 461-94, accessed February 24, 2019, <https://doi.org/10.1086/467380>.

⁸ Timothy J. Muris, Mozelle W. Thompson, Orson Swindle, Thomas B. Leary, Pamela Jones Harbour, Susan A. Creighton, J. Howard Beales, III, Luke Froeb, William E. Kovacic, Anna H. Davis, and Rosemarie A. Straight, *Slotting Allowances in the Retail Grocery Industry: Selected Case Studies in Five Product Categories*, Report, Federal Trade Commission, FTC, accessed March 30, 2019, <https://www.ftc.gov/sites/default/files/documents/reports/use-slotting-allowances-retail-grocery-industry/slottingallowancerpt031114.pdf>, <https://www.ftc.gov/sites/default/files/documents/reports/use-slotting-allowances-retail-grocery-industry/slottingallowancerpt031114.pdf>.

⁹ Benjamin Klein and Joshua D. Wright, "The Economics of Slotting Contracts," *The Journal of Law and Economics* 50, no. 3 (November 8, 2006), accessed February 24, 2019, <https://doi.org/10.1086/524125>.

¹⁰ Klein and Wright, "The Economics of Slotting Contracts."

Research on the Significance of Slotting Fees

A 2003 study conducted on slotting allowances by the Federal Trade Commission (FTC) reported that slotting allowances help offset the costs and risks to grocery stores of introducing a new product.¹¹ The report found slotting fees generally range from \$2,313 to \$21,768, depending on the product and area in which it is being sold.¹² There is little data available on slotting fees because these transactions are negotiated privately and are not reported to the firms involved.¹³ Suppliers surveyed in the report told the FTC that a nationwide introduction of a new product would generally require \$1.5 to \$2 million in slotting fees.¹⁴

There is some debate regarding the necessity of slotting fees. Retailers use slotting to cover costs of introducing a new product. Some of these costs include labor for having to rearrange shelves in the store and make room in the warehouse for a new product and for setting up the new product in the computer so it can be sold. Retailers can also lose money if they have to mark down the price of a product being replaced by a new one, so they can sell the remainder faster and make room for the new product.¹⁵ Costs are also incurred in evaluating new product proposals. This can be time consuming and therefore expensive because it consequently increases labor costs.¹⁶ The FTC also reported the failure rate for new retail products is approximately 70 percent, and net revenue from their sales does not always sufficiently recover the product's introduction costs.¹⁷

In an article published in the *Journal of Law and Economics*, authors Benjamin Klein and Joshua D. Wright found that slotting allowances are most useful when introducing new perishable products.¹⁸ Perishables cost more to the retailer if they are not successful because will expire or be unusable quicker than nonperishable items, which retailers could leave on the shelves for some time.¹⁹ This issue is part of the risk retailers assume when introducing a new product—that it won't sell, and they will have wasted shelf space and resources on it—and that risk increases with perishable foods because of their short lifespan.²⁰

Manufacturers often argue that slotting is a form of price discrimination for retailers' profit gain. Refrigerated and frozen food tends to incur the highest slotting fees, and with the average fee beginning at \$2,313, these costs can be substantial to small companies.²¹ However, according to the FTC Report, the surveyed retailers all said they make exceptions to their

¹¹ Muris et al, *Slotting Allowances in the Retail Grocery Industry*.

¹² Muris et al, *Slotting Allowances in the Retail Grocery Industry*.

¹³ Sullivan, "Slotting Allowances and the Market for New Products."

¹⁴ Muris et al, *Slotting Allowances in the Retail Grocery Industry*.

¹⁵ Muris et al, *Slotting Allowances in the Retail Grocery Industry*.

¹⁶ Muris et al, *Slotting Allowances in the Retail Grocery Industry*.

¹⁷ Muris et al, *Slotting Allowances in the Retail Grocery Industry*.

¹⁸ Klein and Wright, "The Economics of Slotting Contracts."

¹⁹ Klein and Wright, "The Economics of Slotting Contracts."

²⁰ Klein and Wright, "The Economics of Slotting Contracts."

²¹ Muris et al, *Slotting Allowances in the Retail Grocery Industry*.

slotting fees, especially for vendors who do not pay slotting fees elsewhere in the market, and for minority, ethnic, or smaller vendors.²²

Practices of Vermont Supermarkets

The three largest grocery stores in Vermont are Hannaford, Price Chopper/Market 32, and Shaw's, each with at least 15 locations in the state. These three large supermarket chains were chosen for further analysis, because most small retailers, co-ops, natural stores and country stores already carry a large number of local products and even feature them. This report analyzes the practices both reported by the store and observed within the store in regard to local products. This information was obtained from online publications and reports the stores made about their efforts in using local products, reports by third party sources that are not sponsors of the supermarkets, or by the authors of the report observing the store and interviewing on site employees. Cautionary note: some of the information discussed below is citing the reported intent of the store owners, which may not reflect actual practices of the store.

Hannaford

Hannaford, based in Portland, Maine, has 18 locations in Vermont. According to Hannaford's website, "Hannaford is committed to carrying local products made or grown in the states we do business in, and we're bringing in more local products every year."²³ As evident from a quick trip to Hannaford, the grocer also has special labelling for products produced in Vermont and clearly advertises the process for local producers to have their products carried in stores.²⁴

Moreover, Hannaford's policy on local products is clearly demonstrated by their website, "we love local, and we know you do, too. Our local farmers and producers make life better for our communities, and help preserve thousands of acres of farmland."²⁵

Additionally, Chelsea Wagner, a specialist for Hannaford's Local program who works with farmers and producers across the region to give them more shelf space at Hannaford, says that Hannaford offers incentives to attract farmers and producers to sell their products at Hannaford. As Wagner, via the UVM Food Feed, said

We don't charge producers fees for shelf placement if they sell through our direct delivery program. Also, we help farmers by reimbursing some of their costs to comply with USDA Good Agricultural Practices (and other equivalent food safety certifications), which is a food safety check necessary before the farmer can sell to us. The audits are

²² Muris et al, *Slotting Allowances in the Retail Grocery Industry*.

²³ Hannaford, "Local."

²⁴ Hannaford, "Local."

²⁵ Hannaford, "Local."

between \$300 and \$1,000, and we typically reimburse up to \$750 for each local grower, which usually covers the entire cost for smaller growers.²⁶

Price Chopper/Market 32

Price Chopper is a New York based company, which currently has 15 stores in Vermont. Market 32 is the rebranded and modernized version of Price Chopper, which is set to take over all existing Price Chopper stores in the next several years.²⁷ In an interview, Mona Golub, part of the founding family of Price Chopper and Vice President of Public Relations and Consumer Services, said:

As a homegrown business ourselves, we like to call special attention to our trade partners who are producing right here in New York. We are deeply committed to sourcing locally grown, produced and manufactured products as a way of stimulating the economies in our local communities, satisfying regional tastes, ensuring farm-to-table freshness, and continuing our long-standing practice of supporting small family businesses and farms.²⁸

Price Chopper also uses over 500 Northeast dairy farms to produce the milk they use in their store brand, PICS Milk.²⁹ Through Market 32, the 137-store chain plans to work more with innovative local farm sourcing networks, smart environmental footprints, ambitious food waste reduction, and food recovery partnerships to elevate communities.³⁰ Stores require that local produce has at a minimum GAP (Good Agricultural Practices) certification and encourage larger growers to get SQF certified (Safe Quality Food Program).³¹ Price Chopper will not consider a contract for local producers without the GAP certification. GAP certification requires producers to agree to voluntarily audits to verify their fruits and vegetables are produced, packaged, handled, and stored as safely as possible to minimize the risks of microbial food safety

²⁶ "Hannaford Local Food Program Sets the Supermarket Standard," UVM Food Feed, April 07, 2017, accessed March 30, 2019, <https://learn.uvm.edu/foodsystemsblog/2017/04/07/hannaford-local-food-program/>.

²⁷ Kevin Tampone, "What's behind Market 32? A Look at Price Chopper's Move to Rebrand and Rename," syracuse.com, November 19, 2014, accessed March 02, 2019. https://www.syracuse.com/news/index.ssf/2014/11/price_chopper_name_change_market_32_strategy.html.

²⁸ Progressive Grocer, "Price Chopper/Market 32 Offers Local Bites."

²⁹ American Dairy Association North East, "Price Chopper Supermarkets PICS Milk is bottled in the Northeast with the help of over 500 Northeast dairy farms," March 2, 2019,

https://m.facebook.com/story.php?story_fbid=10156123964344673&id=82992869672&_rdr.

This Facebook post by the American Dairy Association North East is not the opinion of the Association or sponsor of Price Chopper. It is a report of what Price Chopper is doing in connection with the Association.

³⁰ Mira Slott, "Market 32 Reinvents Sustainability," *Produce Business*, September 23, 2016, accessed March 2, 2019, <https://www.producebusiness.com/price-choppers-market-32-reinvents-sustainability/>. *Produce Business* is a national and international publication that focuses on fruit, vegetable, and floral markets in supermarket retailers, restaurant chains, foodservice distributors, wholesalers and exporters.

³¹ Slott, "Market 32 Reinvents Sustainability."

hazards.³² The producer also must possess the necessary infrastructure for Market 32 to be able to bring a truck to pick up the produce.³³

Shaw's

Shaw's is a grocery store chain managed by Albertsons, with a total of 19 locations within Vermont.³⁴ Following renovations in several Maine locations in 2012, Shaw's President Mike Stiger stated that "the newly revamped stores were designed to offer customers an expanded variety of the freshest produce, top-quality meat and seafood and a large selection of local products."³⁵

Shaw's locations in Vermont are making an effort to expand their local product offerings. At the Shaw's in Burlington, a single aisle is currently dedicated to local products, but the store plans to showcase more local products on displays in the front of the store.³⁶ This is part of an effort by Shaw's Vermont District Manager to offer more Vermont goods at Shaw's.³⁷

Legislation in Other States and Countries

There is little data available on slotting practices and legislation in other states. Maine and Wisconsin help to shed some light on how local products are prioritized in other states. In 2001, the "Shaw's Bill" in Maine would have required high-revenue grocers to purchase produce from at least 75 farms in the state with no slotting fees for the farms.³⁸ In Wisconsin, the Department of Agriculture, Trade and Consumer Protection has competitive grant program to incentivize local food producers to have more effective advertising.³⁹ Unfortunately, there are very few examples of governments prioritizing local products, so Maine, Minneapolis, and Wisconsin offer the best evidence. The Minneapolis example is included to illustrate the potential difficulty of reserving space in grocery stores for specific products.

Maine

LD 1534, also known as the "Shaw's Bill," so called because it targeted large supermarkets like Shaw's was introduced in 2001 in the Main State Legislature. The primary goal of the bill was to

³² "Good Agricultural Practices (GAP) & Good Handling Practices (GHP)," Agricultural Marketing Service, accessed March 20, 2019, <https://www.ams.usda.gov/services/auditing/gap-ghp>.

³³ Slott, "Market 32 Reinvents Sustainability."

³⁴ "19 Shaw's Locations in Vermont," Shaw's Locations in Vermont, accessed February 24, 2019, <https://local.shaws.com/vt.html>.

³⁵ Good Shepard Food Bank, "Shaw's Celebrates."

³⁶ Sara Hancock (Store Director, Shaw's), in discussion with the author, 2019.

³⁷ Hancock, discussion.

³⁸ An Act to Prohibit Grocery Stores from Charging Maine Farmers Access Fees, Slotting Fees and Rebates, LD 1534, 120th Maine Leg. (2002), http://www.mainelegislature.org/legis/bills/bills_120th/billtexts/LD153401-1.asp.

³⁹ "Buy Local, Buy Wisconsin Grants," State of Wisconsin Department of Agriculture, Trade, and Consumer Protection, accessed February 24, 2019, <https://datcp.wi.gov/Pages/BuyLocalBuyWisconsinGrants.aspx>.

“prohibit grocery stores from charging Maine farmers access fees, slotting fees and rebates.”⁴⁰ The bill stipulated that any “person who owns a business that grosses over \$200,000 per month in which at least 75% of the sales are for grocery staples”⁴¹ must meet three requirements for reimbursement on taxes for the property used by the business. First, the business must purchase produce from at least 75 farms in the state. Second, the business cannot charge a farm a fee or rebate to carry the farm’s products. Lastly, the business must report the farms whose products are held in stores to the Commissioner of Agriculture, Food and Rural Resources.⁴² The bill failed to become law in 2002 when the Joint Standing Committee on Agriculture Conservation and Forestry recommended that the bill “Ought Not to Pass.”⁴³

Wisconsin

In 2008, the Department of Agriculture, Trade and Consumer Protection launched a “Buy Local, Buy Wisconsin” (BLBW) competitive grant program. The program was “designed to strengthen Wisconsin’s agricultural and food industries by working to reduce the marketing, distribution, and processing hurdles that impede the expansion of sales of Wisconsin’s food products to local purchasers.”⁴⁴ The grant program was designed to help local food producers and manufacturers more efficiently process, market and distribute products in local markets.

A total of \$170,000 will be available in grant funding in 2019, with maximum allotment for each project of \$50,000. According to a Wisconsin-based law firm that assists producers with the process, “projects must clearly demonstrate a need, show creativity, have significant support from Wisconsin producers, and benefit the food system.”⁴⁵ Additionally, “grant applicants must provide a cash or in-kind match of at least 50 percent of the total project budget.”⁴⁶ Since its inception, the program has funded 58 projects, totaling more than \$1.6 million. Previous grant recipients have generated nearly \$10 million in new local food sales, created and retained 211 jobs, and benefitted more than 2,700 producers and 2,900 markets.⁴⁷

Minneapolis, Minnesota

In 2014, the Minneapolis City Council revised the 2008 Minneapolis Staple Foods Ordinance to require “all licensed grocery stores within the city to stock a minimum amount and variety of

⁴⁰ LD 1534, 120th Maine Leg. (2002).

⁴¹ LD 1534, 120th Maine Leg. (2002).

⁴² LD 1534, 120th Maine Leg. (2002).

⁴³ LD 1534, 120th Maine Leg. (2002).

⁴⁴ State of Wisconsin Department of Agriculture, Trade, and Consumer Protection, “Buy Local, Buy Wisconsin Grants.”

⁴⁵ Ogden, Erin, “Erin Ogden,” Ogden Glazer Schaefer, February 11, 2019, accessed March 30, 2019, <http://www.ogs.law/business/ill-grant-you-that-datcps-buy-local-buy-wisconsin-grant/>.

⁴⁶ State of Wisconsin Department of Agriculture, Trade, and Consumer Protection, “Buy Local, Buy Wisconsin Grants.”

⁴⁷ State of Wisconsin Department of Agriculture, Trade, and Consumer Protection, “Buy Local, Buy Wisconsin Grants.”

healthy food items across ten required categories.”⁴⁸ Included among these requirements were standards mandating the presence of five gallons of milk, six pounds of cheese, six one-dozen egg containers, three varieties of canned beans, and four boxes of whole-grain cereal.⁴⁹

Numerous establishments found that such standards made it difficult for them to continue operating, with one owner of a joint deli and grocery store deciding that if “the amendment passes...the store might have to operate as just a deli. At that point, we’d probably have to dismiss the grocery license.”⁵⁰ The wording of the ordinance, and the specific requirement of goods like cow’s milk, posed challenges to smaller Asian grocers in the area who do not often carry milk or cheese.⁵¹ One such grocer, Eric Fung, explained how the ordinance was unintentionally hurting certain stores:

Ultimately, the aim of the staple foods ordinance was to remove food deserts in Minneapolis, which is a good cause...however, the implementation of it was forcing all supermarkets to sell a certain diet that really only pertains to certain people in Minneapolis, particularly Caucasians.⁵²

Additionally, inspectors often failed to acknowledge non-American products as fitting into the guidelines of the ordinance because they did not resemble American brands.⁵³

In December 2018, the Minneapolis City Council revised the Staple Foods Ordinance, this time to broaden the categories of products that are required to be carried. Rather than mandating a certain amount of milk, grocers can stock kefir or yogurt, eggs can come in any variation of box size, and whole grains have been consolidated into a single category.⁵⁴

Conclusion

Vermont currently has existing demand for local products, and many of the stores in the state already carry local products. Besides the smaller grocery stores such as boutique stores, natural stores, and country markets that already feature local products, larger chains are also making strides in selling local products. Hannaford, Shaw's, and Price Chopper/Market 32 already carry

⁴⁸ Maria Pechacek and Bengi Durgunoglu, *Minneapolis Staple Food Ordinance: Summary of 2015-2016 Compliance and Trends*, Minneapolis, Minnesota: Minneapolis Health Department, 2016,

<http://www.minneapolismn.gov/www/groups/public/@health/documents/webcontent/wcmssp-192695.docx>.

⁴⁹ *Minneapolis Staple Foods Ordinance: Comparison of Past to Current Requirements as of 12/7/18*, Minneapolis, Minnesota: Minneapolis City Council, 2018,

<http://www.minneapolismn.gov/www/groups/public/@health/documents/webcontent/wcmssp-216177.pdf>

⁵⁰ Nelson, Ethan, "Stocking the Staples," *The Minnesota Daily*, October 21, 2014, accessed February 24, 2019, <https://www.mndaily.com/article/2014/10/stocking-staples>.

⁵¹ Nelson, "Stocking."

⁵² Tiffany Bui, "City Officials Look to Change Grocery Regulations to Make Staple Foods Ordinance More Inclusive," *The Minnesota Daily*, July 17, 2018, accessed February 24, 2019,

<https://www.mndaily.com/article/2018/07/ctstaple>.

⁵³ Bui, "City Officials."

⁵⁴ *Minneapolis Staple Foods Ordinance: Comparison*.

numerous local products and produce, but all three state that they are taking initiatives to increase their offerings by featuring local products, offering subsidies, not charging slotting fees, and sourcing certain store-brand products through local producers. Introducing new products, local or not, can come at some cost to retailers, which is normally compensated with slotting fees. However, Price Chopper, Hannaford, and Shaw's are not currently charging slotting fees to local producers, and even featuring local products without charging promotional fees.

There is little information from other states on mandating spots for local products within states, since there are no other states that have passed legislation for this. The "Shaw's Bill" in Maine that failed to pass would have kept retailers from charging slotting fees to local producers to get their products into larger grocery stores. The "Buy Local, Buy Wisconsin" program in Wisconsin incentivizes local producers to expand their sales into more grocery stores. Minneapolis' Staple Foods Ordinance acts as an example of how legislation mandating space for certain goods can be challenging for certain varieties of grocers.

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Contact: Professor Anthony "Jack" Gierzynski, 534 Old Mill, The University of Vermont, Burlington, VT 05405, phone 802-656-7973, email agierzyn@uvm.edu.

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