

thought for food

A newsletter for the friends of Liberty Food Marketers Company
No. 1: June, 1999

Clayton Outlines New USDA Marketing Directives

Speaking to a group of small business vendors, Dr. Kenneth C. Clayton, Associate Administrator of USDA Agricultural Marketing Services (AMS) defined basic programs and funding and detailed the importance of new demands by school lunch administrators and other recipients. His remarks are of interest to both large and small business.



This is the first in a series of newsletters highlighting speakers at the Vendor's Meeting held in Washington, DC April 26 & 27, 1999.

This morning I would like to set the context within which we operate our purchasing programs so that you, as vendors, will be able to work effectively with us. I will discuss what drives our commodity program, the patterns of our purchases and what motivates us.

The **National School Lunch Program** is far and away the largest of programs for which we supply product. We provide food for school breakfasts, lunches and after-school snacks. Even in the summer months, when schools are not in session, we provide commodities for meals for summer programs.

The **Emergency Food Assistance Program** provides product to food kitchens and food banks.

There are also some food assistance programs on **Native American Reservations**. This is a counterpart to the food stamp program. Recipients may receive either food stamps or our commodity packages. Obviously, the skill and ability that we bring to providing products into commodity packages will have a lot to do with whether recipients select food stamps or commodity packages. We must be responsible to these customers because, at the end of the day, they will have

(Continued on page 2)

USDA Commodity Divisions

Commodities are divided into two groups that are operated by AMS and its sister departments.

GROUP A
COMMODITIES are considered perishable and fall into three categories:

- Chicken, turkey and eggs.
- Fruits, vegetables and nuts.
- Meats and fish.

GROUP B
COMMODITIES are purchased by Farm Service Agency and are designated non-perishables.

- Grain products (in the form of flour, bread and cereals).
- Peanut butter.
- Cheese.
- Rice.

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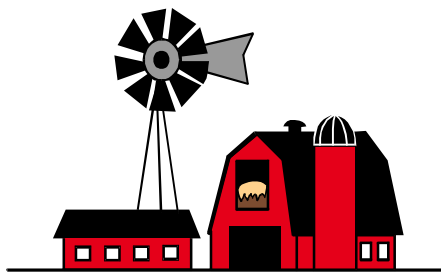
We are mandated to watch agricultural conditions. . .

choices to make that may or may not include us.

The **Commodity Supplement Food Program** is the commodity equivalent of WIC, the infant's and children's program. Food packages are provided to pregnant woman and children who are deemed to be at nutritional risk. As you can expect, there are nutritional aspects for the products which go into those packages in order to meet the particular needs and situations of these recipients.

The **Nutrition Program for the Elderly** is unique because it is run by the Department of Health and Food Services, whereas all of the foregoing programs are run by the Department of Agriculture. There are particular requirements placed upon us, some of which are actually coming from a different department of the government and are clearly beyond our control.

Disaster Feeding is the final program under which we operate. When a hurricane, earthquake or other natural disaster strikes, food products must be provided. Typically, food is taken from stock storage facilities and is later replenished. As you might expect, we have some flexibility in the types of products that we put back into storage as replacement. However, there was probably a reason why those food products were on hand and why they were



selected for disaster feeding. That puts some pressure on us to replace like products.

Price Support

Commodities are set up in

“As of the end of this year, the price support for dairy will cease. At the end of next year... price support for all the rest of the commodities will stop as well.”

two groups (*see page 1*). I will give you a little bit of historical trivia so you understand why the world ends up being divided this way.

For many years, the Federal Government operated price support programs for farmers. Now, those price support programs did not cover every product that was produced. In fact, those programs really tuned in on grains, soybeans, dairy and peanuts.

The government stood as the buyer of last resort. If the farmer could not sell his or her wheat, the government would take it over. Many of you will recall seeing pictures of, or hearing about the government wheat silos scattered across the

Midwest. They were part of the price support program. The Farm Service Agency managed those funds and had stocks of wheat, peanuts, cheese and honey. Farm Service provided funds, storage of the products and managed the methods by which those programs worked into the feeding program in order to get rid of those stocks. To some extent, the government was able to put them back on the market because the prices would come back up. However, in many cases products needed to find a home that was run competitively with purchases and sales.

These days we do not really have much in the way of stocks of dairy products and all of the price support programs are being phased out. In fact, as of the end of this year, the price support for dairy will cease, and at the end of next year, I believe, price support for all the rest of the commodities will stop as well.

Even though the price support programs are ending, purchases by the Farm Service Agency will continue. They will actually go out and buy items such as flour, breakfast cereal, peanut butter and cheese and provide those products to schools for the various programs for the needy. (The quantity purchased will be dependent upon the funds available and the orders placed by the USDA customers.

—Susan Proden, Chief, Fruits and Vegetables Division).

Funding: As I stated earlier, the vast majority of

and we must be responsible to the recipient.

expenditures that we make are for food products for the School Lunch Program, which functions according to the National School Lunch Act. A subsidy with a certain dollar value goes to local schools. By law, a portion of that dollar value must be in the form of commodities.

There are three possible areas from which AMS draws to make its purchases toward school lunches.

Section 32, in the Act of 1935 is the basic authority which says that USDA is to buy products that will provide support to the agricultural sector and provide those products to federal feeding outlets so there is some benefit from having purchased those products.

But the new Section 32, says we have to gage what is going on in the marketplace when we make a determination of which products we want to buy.

Every year about this time, we sit down and go through the process of assessing how we think the agricultural markets will develop in the coming months. We then devise a plan based on those projections. Then as you might expect, we make corrections throughout the rest of the year, depending on how those markets actually play out. This is especially true for fruits and vegetables because, for the most part, vegetables have yet to be planted; and fruit trees may be in flower, but it is too early to predict the actual level of production. We make an educated guess in the spring and, as crops progress over the

course of the summer, we do a lot of fine tuning.

Section 6 is money available to make sure we meet the commodity portion of the school lunch. These monies give us some flexibility. For example a year or two ago, we were in the middle of a ham emergency and the market cost went up. The problem was, it kind of blew a hole in the Surplus classification (*see below*). Fortunately we had Section 6 in place and we were able to switch funding sources



and keep that set of purchases going. The flexibility which Section 6 gives us can ultimately become very important to the vendor.

Surplus is a pool of funds, typically up to \$300 million, which is usually renewed by Congress at each budget cycle. These monies allow us to respond to a particular crisis in the agricultural sector when there is a desperate need for somebody to

help to try to move the markets a little bit. From your point of view as vendors, this source can be used to supply a product to the School Lunch Program.

We can reasonably expect that year in and year out we are going to make purchases with these sources of funds. We know more or less the purchasing level of the National School Lunch Act. Surplus purchases are contingency reserve purchases and we are fairly sure we will make purchases each year, but these purchases are driven by conditions in the agricultural marketplace. We may spend as little as \$50 million in a given year or we may go up to \$250 million or \$300 million, depending on the market. This will be one of those years where we will about tap it out.

3 Vital Factors

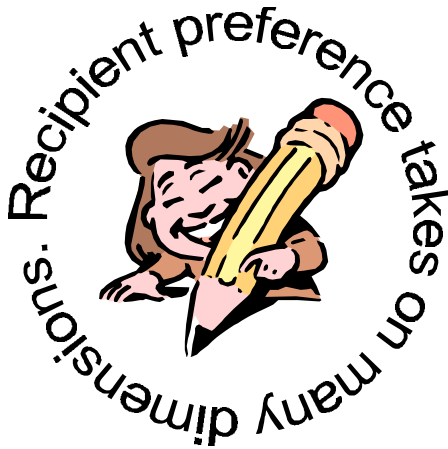
This brings me to a critical point that is vital for you, as vendors, to understand. Our purchases, certainly for the National School Lunch Program, are driven by three important factors.

Firstly, we are mandated by law to pay attention to conditions in the agricultural markets; try to remove surplus; and boost farm prices, if we can.

Secondly, we must to be responsible to the recipient. This is becoming an increasingly

It's all a matter of choices

important issue, particularly in the schools. Right now we are



actively looking at how we do business with the schools as they have been having difficulties in recent years. It is hard to get and keep help and school cafeterias have, by and large, become profit centers, which are expected to pay their own way. Some school boards are contracting out their school lunch to private food service organizations.

Double Bind

I have talked to a lot of school food service directors and they are in a double bind. On one hand, they are expected to actually generate a profit so funds can be taken from the school lunch program to buy items for other individual programs - soccer balls and stuff. On the other hand, they must offer products which meet certain nutritional standards required by law and by concerned parents. Then there is also the real world, particularly in high school, where, if the kids can sneak off campus and go to McDonalds, that is just what they do. All this puts pressure back on us to try to

help the food service directors be successful. Frankly, it is in all our interests to do so, because the alternatives are not good from your point of view or ours. The alternative is that the private companies take over, in which case we are out of the picture.

"They don't want to hear that the truck ran off the road."

Some school districts – in fact those in the entire State of Kansas – are no longer purchasing through our program. They have elected to take **Cash in Lieu of Commodities**. They no longer have personnel to bake the pies and cakes because they would rather have apple cake arrive ready to serve than boxes of apples which need further preparation. This does not meet our objectives since we can affect the market much more substantially if we purchase apples by the truckload. The impact of the prepared product is just not the same. The bottom line, however, is that recipient preference is a big deal and becoming even bigger.

I mentioned earlier that some of the school food service folks are in competition with McDonalds, but the problem is even larger than that. They want us to behave as if we were a wholesaler. They want to place an order and have the product show up good to go. They do not want to hear that the truck ran off the road. We have one state that just recently went on record

“If the hamburgers don't show up on time, they are just not going to buy them.”

saying, “Look, here is the deal. I will tell you which products we want and the time frame in which we want them. If you miss a shipment, we don't want the product.” If they are expecting hamburgers and the hamburgers don't show up on time, they are just not going to buy them. Figure that is an order lost.

As you can see, the recipient preference takes on many dimensions. This is the kind of pressure we are under and means we must put like pressure on you. Hopefully, we can join together and deal with these situations right now.

Thirdly, there is you, our vendor community. Our very sincere hope and expectation is that we will move to higher and higher levels of small business participation.

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