



Financial Strategies for Incorporating Sustainable Food into a Hospital's Budget

1. DO NOT ASSUME THAT SUSTAINABLE FOOD IS ALWAYS MORE EXPENSIVE

Buying local, sustainably produced food and beverages may cause an increase in a hospital's food and beverage expenditures, but according to two recent Health Care Without Harm (HCWH) surveys, this is not a forgone conclusion. The 2013 HCWH Healthy Food in Health Care (HFHC) survey found that among surveyed hospitals who are working to increase their use of local and sustainably produced foods, 57.9 percent (33 of 57 respondents) found that costs increased, but 36.8 percent (21 of 57 respondents) saw no change in their budget.¹ Interestingly these numbers have improved since HCWH's 2011 HFHC survey when 65.8 percent reported increased costs and only 26 percent reported no change, and some even reported decreases in overall food and beverage expenditures (8.2 percent).²

The same is true when comparing pricing of local, sustainable items to conventional items on a product-to-product basis. Local, sustainable food and beverage items are often priced higher than conventional counterparts, but this is not always the case. For instance, during a 2010 project conducted by the Institute for Agriculture and Trade Policy (IATP), at least one hospital found that most of the time the prices charged for local produce, including apples, purchased via their distributor, in this case Bix Produce,

were less than non-local options (exceptions were tomatoes and Honey crisp apples). At the time, Duane Pfeleger, vice president at Bix Produce, confirmed that this was usually the case, especially at the height of the season. Also, while many hospitals have found that the price per pound for local, sustainable meats can be two to five times higher than conventional meats, others have paid only slightly higher prices per pound or even less per pound, and in some cases significantly less.^{3,4}

2. WHEN PRICES ARE HIGHER OFFSET OR MINIMIZE THEM

■ **REDUCE SPENDING ON OTHER ITEMS:** Thirty-one percent (18 of 58) respondents to the 2013 HFHC survey and 29.7 percent (22 of 74) respondents to the 2011 HFHC survey reduced spending on other items as a way to offset costs of local and sustainable food and beverages. Two specific ways to achieve this include:

- Reducing or eliminating use of frying oil—Many hospitals have eliminated use of deep fat fryers and frying oils in order to promote a more heart healthy diet. In addition, since 90 percent of the U.S. commercial rapeseed (canola) crop is produced from genetically engineered (GE) seeds or plants, hospitals can

significantly reduce use of GE-food stuffs by eliminating the use of these oils.

- Reducing or eliminating use of paper tray liners—St. Luke’s Hospital in Duluth, Minn. has saved \$16,600 a year since eliminating the use of tray liners.⁵ Instead of using tray liners, they started using non-skid trays. Though the cost of the non-skid trays is about double the cost of the other trays, the non-skid trays easily last twice as long per Mark Branovan, St. Luke’s director of hospitality services.⁶

■ **FOCUS ON FOOD WASTE REDUCTION:** Seventy-six percent (44 of 58) respondents to the 2013 HFHC survey and 67.6 percent (50 of 74) respondents to the 2011 HFHC survey used food waste reduction as a cost containing strategy.

■ **COMMIT TO PURCHASE OF SPECIFIC VOLUMES:** Twenty one percent (12 of 58) of respondents to the 2013 HFHC survey and 16.2 percent (12 of 74) respondents to the 2011 HFHC survey used this strategy to contain costs associated with procuring local and sustainable food and beverages.

■ **STREAMLINE INVENTORY:** Forty percent (23 of 58) of respondents to the 2013 HFHC survey and 39.2 percent (29 of 74) respondents to the 2011 HFHC survey decreased use of convenience items, eliminated less popular items, and used other methods of streamlining their inventory to contain costs.

■ **BUY DIRECTLY FROM SUSTAINABLE FARMERS/ PRODUCERS:** By dealing directly with the farmer/producer, hospitals can sometimes obtain better pricing than they would for the same or similar products purchased via a mainline distributor, but this will depend on a variety of factors including but not limited to the mark-up charged by distributors, the farmer or producer’s delivery costs, volumes purchased, and growing methods used. Thirty-one percent (18 of 58) respondents to the 2013 HFHC survey and 41.9 percent (31 of 74) respondents to the 2011 HFHC survey purchased products directly from farmers as a cost containing strategy.

- Additional savings may be achieved if a hospital commits to purchasing a specific volume, especially of products for which production success and availability is more predictable and less weather dependent, e.g.,

beef, chicken, dairy, farmed fish, pork and turkey.

- Have farmers tell you when they have surplus you can buy and/or when they have seconds that can be used in soups, stews, salads and other food items where the look of a product does not matter as much.

■ **REDUCE SPENDING ON MEAT:** Many hospitals have found that by reducing the amount of conventional meat and poultry purchased annually, they can use the savings to purchase and serve potentially higher-priced products made from animals raised using more sustainable methods, such as chicken raised without antibiotics or grassfed beef. These changes can also help to reduce a hospital’s food system related climate impacts. To reduce meat expenditures, hospitals have reduced portion sizes, increased use of vegetarian options, and implemented other strategies outlined in the HCWH Balanced Menus Initiative. Through the Balanced Menus Initiative hospitals commit to achieving a 20 percent reduction in meat and poultry purchases from their baseline, and then to invest the cost savings in sustainable meat options. Hospitals may also be able to manage local, sustainable meat and poultry product pricing by choosing less expensive cuts and parts, buying beef and pork by the whole, half or quarter, and having whole animals from local, sustainable producers custom-processed.

■ **STAY UP-TO-DATE ON PRICE CHANGES:** As in retail markets there are always going to be times when local, sustainable items are sold at reduced prices. Usually this happens when some player in the food chain—farmer, manufacturer, etc.— ends up with excess inventory that it needs or wants to move quickly. Most food and beverage items have a limited shelf life, very limited in the case of fresh foods that will spoil. These are good times to buy extra if you know you can use it, freeze it or otherwise preserve it for a time when you cannot get these products at such a good price, or at all, such as local, sustainable strawberries in January. For an example of how this latter strategy has been working in school kitchens see the IATP report *Frozen Local: Strategies for Freezing Locally Grown Produce for the K-12 Marketplace*. Non-local, USDA Organic and other third-party certified produce will be most affordable during peak season in the state or country of origin. In most cases, the state of origin will be California. Organic foods also reportedly go on-sale around Earth Day in April.⁷ This, if

true, might make it easier to feature organic food for a day or a week around Earth Day.

How farmers determine pricing for health care markets

Taken from responses to the IATP 2012 SARE project survey of local farmers and producers:

- Same pricing as restaurants, hotels, etc. and include shipping costs
- Same pricing as other high-volume institutional accounts (K-12, colleges, corporate)
- Based on profit point, regional prices for similar product and what the market will bear
- Average of prices charged by other farmers who sell wholesale; sometimes influenced by need to move product
- Negotiation with buyer
- Negotiate the best price possible while selling the product we need to sell
- Institution/restaurant price is “discounted” since no middleman/distributor
- Prices determined by the board of the buyer-grower group
- Pricing generally determined by wholesale buyers, and similar to prices for produce coming out of California or Florida
- USDA vegetable pricing terminal
- Sells through Organic Valley, so they determine price.
- Health care facilities are NOT wholesale customers. They are direct retail customers that are buying foodservice products from a farmer that only sells to distributors

■ **ADJUST PRICES IN RETAIL SETTINGS:** Some hospitals, including 69 percent (40 of 58 respondents) respondents to the 2013 HFHC survey and 67.6 percent (50 of 74 respondents) to the 2011 HFHC survey, adjusted pricing as needed on food and beverage items and meal offerings in cafeterias and vending areas to accommodate use of higher priced local, sustainable items.

- Numerous studies have now demonstrated that consumers, regardless of the setting—farmers’ market, supermarket, restaurant or hospital cafeteria—and, regardless of age, income or family status, will pay more for local, sustainable food.^{8,9,10,11,12}

- Though consumers will pay more for USDA Organic food and meats raised without antibiotics and added hormones (in the case of beef, bison and lamb), they will pay the greatest increases for food identified as local, in part because they also attribute locally produced food with certain sustainability related attributes such as improving the carbon footprint, increasing natural and organic production, and supporting the local economy. Similarly, 77.5 percent of IATP SARE project food service survey respondents are willing to pay more for meals made with local, sustainable ingredients; some up to 30 percent more.
- Consumers need to know that a product is local or sustainable to exercise this preference, thus local and sustainable items need to be clearly identified at point-of-sale. Whenever possible, signage, menus, etc., should include the name of the farm/producer, the city and state where located and third party certifications such as USDA Organic. Ongoing education and marketing is also helpful to building support. Though time consuming, try to keep track of how cafeteria and vending patrons respond to pricing changes per product. Collection of even the most basic information—dates, types of changes, observations, and patrons comments—could be helpful when the time comes to justify a particular expense. Thirty-eight percent (22 of 58) of respondents to the 2013 HFHC survey and 47.3 percent (35 of 74) of respondents to the 2011 HFHC survey were sure to explain their reasons for increased pricing on local or sustainable items to cafeteria patrons.
- Allow cafeteria and vending customers to choose whether to pay more by selling local, sustainable food and beverage items and meals side by side with conventionally produced options. This approach could also be used to determine how easy it would be to switch an entire product line to local, sustainable and increase prices. For instance, all other things being equal, if most customers were willing to pay extra for Fair Trade Certified coffee when offered side by side with the conventional coffee option, it would likely be easier to eliminate the conventional item without much fuss. Hospitals can also engage patrons via surveys, new product selection, tastings, and meet-the-farmer events.

We believe the shorter the food chain, the better the food....It's important that the things we provide we can feel are wholesome, and devoid of anything that might cause harm to the body. So we take no shortcuts. For example, we make all our salads from scratch; no additives, no preservatives, no trans fats, no hydrogenated oils...It's an investment, if patients eat better, they'll feel better and leave the hospital quicker.¹³

Zach Erickson
 Director of Nutrition Services
 Fauquier Hospital
 May 2012

3. ADJUST THE HOSPITAL'S BUDGET TO BETTER REFLECT PRIORITIES

At their most basic, budgets reflect an institution's priorities. A hospital's food and beverage expenditures, not including labor costs, often make up a tiny percentage of their overall expenses for non-medical supplies. Ideally, hospital and health system administrators would consider the full benefits of providing truly healthy meal options to patients, staff and visitors, and base their food budgets on what it takes to accomplish this. Under this scenario, quality, nutrition and the potential human and ecological health impacts of certain agricultural and food production practices will be prioritized over price and budgets will be

Price versus full cost

While keeping food costs low may appear to be a money saving strategy in the short run for hospitals, the price of a food or beverage item is only one among many factors that determines the full cost, both internal and external, of a hospital's purchase.

Full cost = internal cost + external costs

COMPONENTS OF INTERNAL COSTS

- Price of food item including delivery charges and rebates
- Labor (placing orders, preparation, delivery)
- Time (meetings with distributors, distributor reps)
- Use of energy and water
- Equipment (coolers, freezers)
- Waste (expired foods, prep and plate waste)
- Waste disposal (food and packaging)
- Maintenance/service cost
- Occupational health cost (sick days, protective equipment)
- Patient health (malnutrition, hospital derived food borne illness and/or antibiotic resistant infections)
- Potential liability cost (foodborne illness from purchase of contaminated product and/or improper cooking and handling)

Externalized costs

- Human health
 - Obesity, diabetes, etc.
 - Exposure to pesticides and chemicals
 - Micro-organism

- ◆ Bacterial and viral outbreaks in food
- ◆ Antibiotic resistance
- Environmental health
 - Damage to water quality
 - ◆ Pesticides, nitrates and phosphates in drinking water
 - ◆ Eutrophication, loss of aquatic species
 - Damage to air quality
 - ◆ Emissions of methane, ammonia, nitrous oxide and carbon dioxide
 - Damage to soil quality
 - ◆ Erosion of fertile soils
 - ◆ Loss of organic matter and carbon dioxide
 - Damage to biodiversity and landscape
 - ◆ Loss of wildlife habitat and biodiversity
 - ◆ Bee colony and pollination losses
 - ◆ Increased risk of flooding and loss of water storage
 - Climate impacts
- Socioeconomic
 - De-population of rural communities
 - Loss of mid-sized farms and consolidation of farmland
 - Poor labor conditions and wages for farm and processing plant workers
 - Easier access to unhealthy foods than healthier options because of federal subsidies for corn, soy and other sweetener, oil and animal feed crops instead of fruits, vegetables, nuts, etc.
- Animal health and welfare

increased as necessary. Some hospital administrators have increased the food service budgets for their hospitals once they have seen the positive benefits that can accrue from making these changes, such as increased patient satisfaction and improved community profile, but hospital food service staff can make changes faster and more strategically when they know in advance that they can spend more for local, sustainable food. For instance, 26 percent (15/58) of 2013 HFHC survey respondents and 23.0 percent (17/74) of 2011 HFHC survey respondents increased their budget to accommodate higher prices.

Staff, patients and lots of students who come by just to eat—eating healthy and local is just important to everyone now. Everyone wants to know where their food is coming from. Last week we had a salad with spinach and salmon we had smoked in-house. Three separate people came up to tell me how good it was. And there was a patient who told us that our food is better than any restaurant in Burlington. When we started this, we had just hospital food. But now we've really got something to be proud of.¹⁴

Richard Jarmusz
Executive chef
Fletcher Allen Health Care
January 2012

SUMMARY

Local, sustainable food and beverage products may be priced higher than conventional counterparts, but, in some instances, may also be lower. While it is important for hospitals to consider the full cost of a food or beverage item and not just the price, there are enough ways to accommodate, minimize and offset the purchase of higher priced local, sustainable items that over time and with good planning, price alone should not limit a hospital's ability to meet and exceed any local, sustainable food and beverage procurement goals. It is also important to acknowledge that there is no parity between a conventionally produced apple and a local, sustainably produced apple and it may be beneficial in the long run for hospitals to increase food service budgets and enable staff to prioritize quality, nutrition and the potential human and ecological health impacts of certain agricultural and food production practices over price when warranted.

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