



702 SW 8th Street
Bentonville, AR 72716
Phone 123.456.7890
Fax 123.456.7892
www.walmart.com

Testimony of Ronald G. McCormick
Senior Director, Sustainable Agriculture
Produce, Floral and Local Sourcing
Wal-Mart Stores, Inc.

Before the
United States Senate Agriculture Committee

“Healthy Food Initiatives, Local Production, and Nutrition”

Wednesday, March 7th, 2012

Local and Regional Produce Sourcing Initiatives at Walmart

Chairwoman Stabenow, Senator Roberts, Members of the Committee, thank you for the opportunity to be here this morning.

My name is Ron McCormick, and I am the Senior Director for Sustainable Agriculture for Walmart US, the largest division of Wal-Mart Stores, Inc.

It is an honor to speak with you today about Walmart's locally grown produce sourcing program and some of the nutrition initiatives we have implemented to encourage greater consumption of healthier foods.

At Walmart, we see multiple benefits for customers, for farmers, and for the economies of local communities by sourcing more fresh fruits and vegetables locally.

Buying local products has long been a priority for Walmart. Our origins are rooted in rural Arkansas, and we've since grown into a global company serving more than 200 million customers a week in over 10,000 stores in 27 countries around the world. In the U.S. alone, Walmart operates more than 3,800 retail stores serving customers in all 50 states and Puerto Rico.

Today, consumers all across the country—not just those who shop in our stores—have a growing interest in where their fruits and vegetables are grown, and supporting farms and farmers in the communities and regions where they live.

Our own consumer insights research shows that more than 40 percent of our customers tell us that buying local produce matters to them. In addition, the 2010 U.S. Grocery Shopper Trends survey prepared by the Food Marketing Institute, consumers demonstrated that they like locally sourced produce because it offers more freshness, and they like supporting local economies. They also perceive the taste to be better, and they like knowing the source of the product.

Today I will share more information about those benefits, our commitment to local sourcing, the challenges and successes we have encountered to date, and what we see as the path forward.

Our Commitment

Although we had been sourcing local produce for many years, in 2010, we announced a formal commitment, pledging to double our sales of locally grown produce -- 9 percent -- of all produce we sell from local farms by the year 2015.

Today, I am proud to announce that it is 2012 and we have already surpassed that initial goal. In fact nearly 11 percent of our produce today is locally sourced.

Why did we make this commitment?

Since Walmart buys more United States agricultural products than any other retailer in the world, we saw an opportunity to use our market position to improve access to healthy, affordable, local foods not only for the customers who shop in our stores, but for consumers across the nation.

Aside from our scale, we also saw that our geographic footprint—literally where our facilities are located—provided us with a unique ability to effect change.

Walmart operates 41 grocery distribution centers (DC's) located across the country. These are essentially the clearinghouses for almost all perishable food we sell in our stores. The great advantage here is that many of these DC's are located in rural areas. We see incredible potential to source from productive areas within close proximity these DC's.

The closer food grows to our DC's, the fresher it is when it hits our stores and the better off we are from an efficiency perspective.

In addition to our ability to make an impact on a national scale, there are numerous other reasons that we source locally.

Nutrition

One of the most important benefits of local sourcing relates to a larger Walmart initiative we launched to address an issue our customers face every day: how to lower the cost of healthier foods, help our customers identify healthier foods, and consequently feed their families more affordable and nutritious meals.

Walmart's nutrition initiative is a commitment to work with suppliers to reformulate thousands of everyday foods by reducing sodium and added sugars and by removing all industrially produced trans fats.

It is also a commitment to locate more stores in food deserts, where access to healthy and fresh foods is limited. Since making that commitment alongside First Lady Michelle Obama last July, we've opened 23 stores serving food desert areas and expect to open 50-60 more this fiscal year.

Our commitment has already saved our customers over \$1 billion on fresh fruits and vegetables by working throughout the supply chain to cut costs and pass on those savings to customers.

With the understanding that making it easier to eat healthy starts by making it easier to shop healthy, our commitment also included supporting nutrition education programs through the Walmart Foundation. To date, we have distributed more than

13 million dollars to organizations like Share Our Strength to fund important programs like “Cooking Matters” and “Shopping Matters,” which teach low-income families how to select and prepare nutritious meals so they have the skills and the tools to provide the best nourishment possible to their families.

Finally, we are working to help busy families identify great-for-you options with a simple, front-of-pack icon.

The “Great For You” icon we launched last month was inspired by our customers, informed by nutrition experts, and driven by a desire to help busy customers identify healthier, affordable choices for their families. Our icon stems from our belief that we have a responsibility and an opportunity to address an issue that many feel is too complicated or too hard, and to demonstrate that it doesn’t have to be.

It will begin to appear on our shelves this spring in produce aisles, and then gradually roll out on packages of our private brand food items as we run through packaging inventory.

Local sourcing supports this nutrition initiative in two important ways. First, by sourcing products from regions closer to their point of sale, we’re able to reduce the miles that products have to travel, and in turn, cut transportation costs out of the supply chain. We can then pass those savings along to customers. This is one way we have been able to save customers more than \$1 billion on fresh fruits and vegetables.

Value to Consumers

As mentioned earlier, our own consumer insights research, and the 2010 U.S. Grocery Shopper Trends Survey by FMI, illustrates that locally sourced produce is important to customers for multiple reasons.

Sourcing locally allows us to deliver a fresher product to our customers. Customers have to make a very important risk calculation when they step into the produce aisle. If they buy a produce item, will they have time to prepare it at home before it spoils? Buying locally often gives customers a few extra days of freshness, and lowers some of the risk of that purchasing decision.

Another important benefit for consumers is that it allows us to strengthen ties with local communities. Wherever we operate, we strive to be a store of the community—whether it’s tailoring our merchandise to fit the cultural demand from customers or supporting local charities that are important to our associates. Sourcing from local farmers is one more way that we can live our commitment to our communities.

The local farms we support are often an important component of their community’s economy. Just as the local taxes we pay create economic benefits for communities,

so do our relationships with farmers all across the country. They create jobs. As agriculture grows, related jobs in farming and directly related businesses increase—jobs in sales, service, and management related to farm equipment, packaging and packaging equipment, inputs and seeds, water and irrigation, refrigeration, real estate, insurance, credit, and legal services.

Importantly, sourcing from local farms enables our customers to play a role in supporting communities in their area—which we know, increasingly matters.

And, it goes a long way toward helping a segment of agricultural America that has been hard hit in recent years—the family farm. According to the USDA, the United States has lost 4.7 million farms since 1935 and that is coupled with an aging farmer population.

Sustainability

As the largest grocery retailer in the United States, we feel we have a responsibility and an opportunity to promote more sustainable practices in the food and agriculture supply chain. One of the most important steps we can take is reducing “food miles”—the distance food travels from farm to fork—by selling locally grown produce in our stores where we can.

Fresh produce in the U.S. travels an average of 1,500 miles from the farm that produced it to the table it’s served on—roughly the distance from Washington, DC to Denver, Colorado. We are working to shrink those food miles and take trucks off the road whenever it makes sense from an efficiency and sustainability perspective.

For example, in the past, fresh cilantro sold in Walmart stores came from California. Today, by diversifying our grower base, we now source all of our East Coast cilantro from South Carolina, Florida and Mississippi, resulting in a significant reduction of food miles. Additionally, several years ago we only sourced hot house English cucumbers from Canada. I’m proud to say we’re now sourcing those out of North Carolina.

It’s important to note that in this case, we worked with large farms to diversify the types of produce they grow. By capitalizing on their existing economies of scale, we were able to procure an efficiently grown product and take out the fuel, cooling, days in transit, and other transportation costs of that product. We then pass those savings on to our customers.

Similarly, just a few years ago, jalapeño peppers only came from a few southern states and Mexico. Now, with a growing Hispanic population across the country and greater demand for peppers, we’re now sourcing jalapeños from 27 states, including places as far north as Minnesota.

And by encouraging farmers in places like Minnesota to grow jalapeños, we are helping rural agricultural economies diversify their revenue streams, and become less reliant on a single, or a few, key crops.

Challenges and Opportunities

While the benefits of sourcing locally are numerous, our commitment has not come without challenges.

We regularly talk with our supplier partners —your constituents—and we clearly understand that farming specialty crops is a difficult and risky business. The challenges include unpredictable weather patterns, the lack of a ready labor force in some parts of the country, complex H2A visa requirements, a lack of capital, and the general aging of America’s farmers.

These big challenges indicate that large conventional farms in traditional large agricultural states will remain a very important part of our business. But as we grow, the US population grows, and if we can encourage greater consumption of fruits and vegetables, we’ll need local and regional sources of product to meet the demand we expect.

In light of these challenges, simply having a purchase order from Walmart isn’t always enough for these farmers. We realize there is an opportunity for us to do more to help small scale farmers mitigate the risks outlined above and advance from being a small scale farmer to become a medium sized grower, and in some cases, grow to become a large, national producer for Walmart.

One of the most effective steps we’ve taken is creating Small Farmer Intensive Workshops. Designed to help remove any misperceptions about the complexity of becoming a Walmart supplier, we have worked with farmers to walk them through the process of becoming a supplier. We’ve developed a very clear program, which outlines the steps farmers need to take to work with us.

This includes information about: our food safety requirements and food safety resources; requirements for “grown-in state” labeling; refrigeration and packing requirements; and equipment and workforce needs. We also share useful third-party resources.

As we expand this program, it’s very important to us that *everyone* has access to it. Therefore, one of our goals is to identify and create opportunities for women and minority owned growers to sell to Walmart. In fact, this ladders up to our company-wide goal of sourcing \$20 billion from women-owned businesses in the U.S. over the next five years.

Of course, it's virtually impossible for us to work one-on-one with every small grower, which is why we support the development of farmer-led agricultural cooperatives, or why we work with third party management partners. This may seem counterintuitive—as Walmart often works to eliminate “the middle man”—but in this case it's providing a very useful service and adding value to the product.

One example of where this is working is in South Arkansas. Here we are working with a grower whose two acres alone would never be able to supply the demands of our stores. But a local farmer has bundled several growers together to use a central packing system and work together as a team. Today, we are proud to call this team our partners.

Co-op's allow us to talk to a single legal entity while actually touching many grower members. It also uses fewer item numbers while maintaining traceability and reducing workload and system burdens.

Meanwhile, the advantages of a co-op to the growers are plentiful—it improves their ability to do business with larger customers who could not manage many direct farmer relationships; it allows shared ownership and shared use of expensive infrastructure; it monetizes reputation and performance; it avoids duplication of expenses; and it leverages economies of scale.

The advantages of third-party management include: helping growers prepare for food safety audits; putting growers in touch with the right people for timely assistance; expanding their network to create efficiencies and understand the differences in growing/harvesting practices; keeping up with the latest technology; assisting with freight services; and volume planning.

The bottom line is that these partnerships allow many farmers access to our market that they otherwise may not have had.

I would like to mention one additional challenge our local suppliers have encountered where we were able to help. For small growers producing items that cannot be sold in bulk, packaging and associated costs often create a barrier for growers to sell their products in a formal retail market. To address the challenge, we've been able to negotiate discounts on packaging by buying packaging in large volumes.

The packaging highlights the product as a local or regionally source item, and the label includes a window that allows a farm to put their own identifier or sticker on it, to “brand” the product. They can also apply another label like many state departments of agriculture use for promotional purposes.

Food Safety

Small & developing suppliers are an important group for Walmart and core to our commitment to supporting locally grown and produced products. However, sourcing locally cannot compromise food safety or the health and wellness of our customers.

Walmart has worked with the Global Food Safety Initiative (GFSI) to create a scalable approach to food safety for our small and developing suppliers providing locally grown and produced foods which aligns with GFSI principles. Using the GFSI guidance document as a reference, requirements have been created for two additional assessment levels, basic or foundational and intermediate for both processors and primary producers.

With these requirements, small suppliers use this scalable model to receive annual assessments which gives Walmart confidence these farmers have programs critical to food safety in place. As their business grows, these suppliers are positioned to follow a stair-step path towards full GFSI certification and continue to enhance their food safety programs as they provide safe, affordable products for our customers.

In addition, Walmart has created a training template for both processors and farmers which will help them understand the requirements to achieve the basic or foundational, and intermediate assessments. This template will be available for all small and developing suppliers in all Walmart markets around the world as a development tool to drive performance improvement and enhance food safety.

Local Successes

To make local sourcing scalable, we need to engage many stakeholders—including individuals in agriculture finance and risk management, technical assistance providers, and those who can build infrastructure and capacity. Our relationships and conversations with key opinion leaders and stakeholders are proving fruitful when it comes to understanding and overcoming challenges and sharing our successes.

In January, we met with USDA and the University of Arkansas to discuss the barriers faced by minority and women owned farmers, and how Walmart can help them enter the supply chain.

Last month, we had a session with the USDA, Auburn University, Tuskegee University, the Alabama Farmers Market Authority, C.H. Robinson (a third-party provider) and several co-ops to discuss funding the infrastructure to increase grower counts in the Delta states.

These are some of the ways we are making headway. But I think what speaks the loudest is the breadth of local produce you'll find in our stores today, and the number of states from which they are sourced.

Today, Walmart gets watermelons from 27 states; cantaloupes from 19 states; pumpkins from 26 states; strawberries from 11 States; blueberries from 15 states; apples from 23 states; citrus from 6 states; pears from 6 states; stonefruit from 17 states; potatoes from 25 states. All in all, we're sourcing locally from 41 states across the U.S.

Today, we're now sourcing apples, chilies, blueberries and cherries from Michigan; apples and squash from Minnesota.

We're sourcing hot-house tomatoes from a small grower in Kansas—Divine Gardens—who, with just a single acre of land, is supplying two of our stores in Kansas.

We're getting sweet corn and jalapeno peppers from Iowa.

We're sourcing onions, potatoes and leafy greens from Colorado, and from Garden Fresh in Nebraska, we're sourcing herbs, corn, bell peppers.

And we're sourcing broccoli, tomatoes, squash, bok choy, cabbage, green beans and fresh herbs from Georgia and Mississippi.

We have room for growers of all shapes and sizes. These are accomplishments in which our associates, local communities, and local farmers can take pride.

What Lies Ahead

We dedicate a lot of time bringing new suppliers into our supply chain – before a single seed is ever planted, farmers know what products we need the most, and that a viable business plan is in place.

But the real question is—what lies ahead? In the immediate future, we have four specific goals. They include:

- The expansion of controlled environment growing—for example, Hot Houses—to insulate Walmart from the volatile weather patterns;
- Micro-climate expansion to allow for a longer locally grown season;
- Diversifying our crop base through expansion of crops and through crop utilization; and
- Encouraging production in areas close to urban centers and food deserts like Chicago, New York and Washington, DC, where access to healthy foods can be limited.

All of these work together to support our overarching aim of continually increasing the amount of local produce we source.

Beyond pursuing each of these goals, another avenue we see to increase local sourcing is to look to areas where we are already sourcing. For example in Frio County, Texas—a region known as the “Winter Garden”—we now source lettuce. But in this county—where the average income is \$24,000, where 35 percent of residents live below the poverty line and where 78 percent of citizens are Hispanic—we see the opportunity to source much more, and in turn, improve the quality of life for the area’s farmers. We see the potential to source okra, cabbage, carrots, tomatoes and peas—at the same time fulfilling our commitment to source from more minority farmers.

As we see it, if a viable system is in place to begin with—even a small one—then specialty crop production should be sustainable over the long term and an economically viable proposition for farmers.

A second avenue—as mentioned earlier—is the concept of the regional produce hub around each of our 41 food distribution centers that we operate. Today, we are working to establish a supply base to supply those distribution centers, with a goal of having fresh produce that was harvested at noon one day and then in-store by noon the next day.

Conclusion

In conclusion, thank you again for the opportunity to be here today.

This is a significant and genuine commitment by Walmart. We are working with multiple stakeholders in the supply chain to make sure our commitment is substantial and commensurate with our total grocery business in the US.

But let me also emphasize that while we in industry can have an impact, we cannot do it alone. We need the partnership of many stakeholders to build long-term, sustainable sources for local produce, including you in the Senate, our peers in the private sector, support from the land grant institutions and state agricultural extension systems, and even USDA resources.

Working together, we see the possibility of doing so much more.