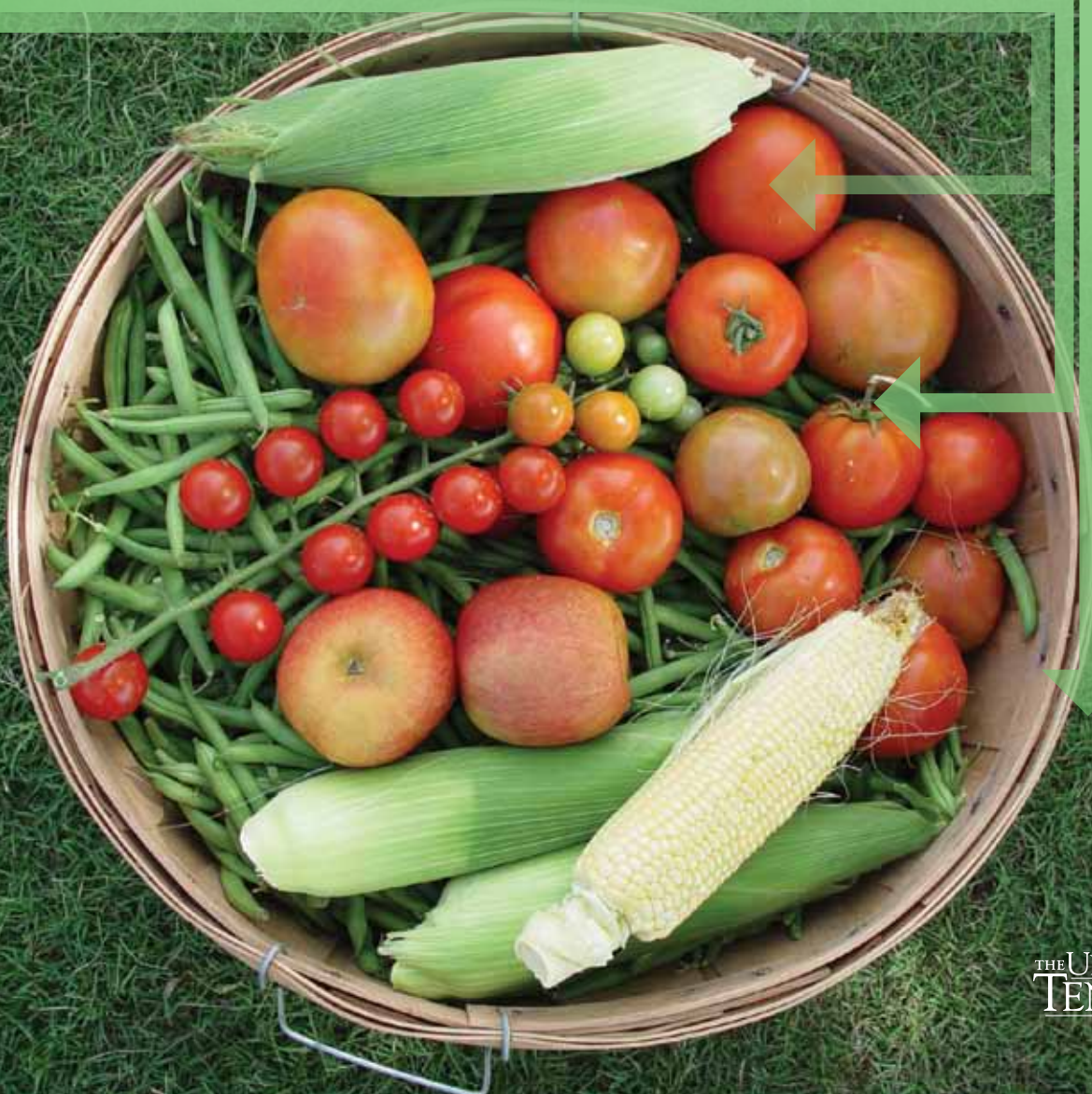


Choosing Direct Marketing Channels *for* Agricultural Products



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Megan L. Bruch, Marketing Specialist, and Matthew D. Ernst, Independent Writer
Center for Profitable Agriculture

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INTRODUCTION

Directly marketing farm products to consumers is a growing part of the Tennessee agricultural economy. Sales from farms directly marketing products to consumers for human consumption increased from \$8.4 million in 1997 to \$15.3 million in 2007, according to the Census of Agriculture. Total sales from direct farm marketing are likely much higher than reported, due to direct sales of non-food farm products such as Christmas trees and ornamentals.

Factors driving the increase include:

- » More consumer interest in purchasing locally grown products
- » More producers meeting this market demand
- » Diversification of direct market channels for marketing farm products

Direct marketing includes any marketing method whereby farmers sell their products directly to consumers. Examples of direct marketing channels include farmers markets, on-farm retail markets, roadside stands, U-Pick/Pick-Your-Own/Cut-Your-Own operations and Community Supported Agriculture (CSA).

Although not technically direct markets, marketing directly to retailers is often included in discussions of direct farm marketing. Direct-to-retail includes situations where a producer sells products directly to a restaurant, grocer or other food retailer. While not selling “direct” to the consumers, selling direct-to-retail has many similarities to market channels that move farm products directly from the farm to the consumer. Direct-to-retail is not covered in detail in this publication; however, an example of how it may be incorporated into a producer’s mix of channels is provided.

Farmers often have difficulty choosing a direct marketing channel from among the alternatives, determining whether a specific channel has potential for success for their operation or deciding whether or not to add an additional channel to their marketing mix. All producers have different skills and resources. Some producers are better-suited to certain market channels than others. A less-than-ideal market match is not guaranteed to fail – but extra work may be needed to overcome obstacles and make the market channel successful.

This publication provides information and tools to help producers evaluate how different direct marketing channels may fit into their operation. Overviews of common direct marketing channels, including definitions, advantages and disadvantages, are provided. Considerations for choosing a marketing channel are then discussed: production experience, customer characteristics, product characteristics, resources, opportunities and threats, and financial analysis.

AN OVERVIEW OF DIRECT MARKETING CHANNELS

This section presents an overview, including a definition, advantages and disadvantages for each of the following direct marketing channels:

- » Farmers markets
- » On-farm retail markets
- » Roadside stands
- » U-Pick/Pick-Your-Own/Cut or Choose-Your-Own operations
- » Community Supported Agriculture (CSA)

The overview provides background information on each market channel and helps farmers begin to analyze which channels match their resources, interests and goals.

Farmers Markets

A farmers market is a common facility or area where several farmers or growers gather on a regular, recurring basis to sell a variety of fresh fruits, vegetables and other farm products from independent stands directly to consumers.

Between 2006 and 2009, the number of farmers markets in the United States increased from 4,385 to 5,274 (a 20 percent increase). During the same period, the number of farmers markets in Tennessee increased 56 percent, from 55 in 2006 to 86 in 2009.

Advantages

Farmers markets have several advantages, including no requirements for sales volume, no standard pack or grade, and access to market information. Farmers markets can also create opportunities for farmers to springboard into other market channels. Advertising and promotion of the farmers market may benefit all participants.

Farmers markets are flexible market channels that accommodate producers with various levels of production experience, quantity of product and product mix. Peaceful Pastures (pictured right) markets beef, pork, lamb, goat, poultry and bath and body products through farmers markets and a CSA.



No requirements for sales volume

Farmers market vendors may bring any quantity of product to a farmers market – there are no upfront requirements for how much a vendor sells. A viable opportunity for experienced producers, farmers markets are also flexible marketing opportunities for inexperienced producers who may not know how much they are able to produce or are uncertain about production timing. Farmers markets may also be more flexible for producers more likely to face challenges in production, as well as producers wanting to market small volumes of product or test new products.

No standard pack or grade

No standard pack or grading is required for farmers market sales. This allows producers to be flexible in both the quality of product offered for sale and the methods by which products are presented for sale. This flexibility, however, does not diminish the importance of appealing product displays and consumers' desire for high-quality products.

Access to market information

A farmers market is also a place producers may gather information about the market for their products – prices, supply and demand, even consumer preferences and willingness to pay. Farmers markets are also a ripe opportunity to test-market new varieties and products and obtain instant feedback from customers. Selling at a farmers market may allow producers to experiment with how much product could move in a given market at a certain price.

Springboard to other market channels

The farmers market seller comes in direct contact with many consumers, creating the potential for growing additional markets for a farm's products. For example, farmers market vendors who build a loyal following of regular customers might decide to offer customers the option to participate in Community Supported Agriculture (CSA) or advertise an on-farm retail market at their farmers market stand. Others use the farmers market as a delivery point for larger volumes sold directly to restaurants or food service establishments.

Advertising and Promotion

Farmers markets are often advertised to entice customers to come to the market. Advertising may include roadside signs, billboards, websites and advertisements in newspapers or on the radio, for example. Promotions may feature events such as cooking demonstrations, music entertainment, customer appreciation day, vendor contests and other special activities designed to attract customers. The farmers market organization bears the burden of organizing and sponsoring advertising and promotional activities.



Karen Norton of Norton Family Farms markets baked goods at the Franklin Farmers Market.

Disadvantages

Farmers markets also have some disadvantages, including face-to-face selling, many small transactions, relatively high marketing costs, potentially grueling market schedules and limited space for vendors.

Requires selling face-to-face

Some see selling face-to-face as a natural advantage of the farmers market. “Face time” allows sellers to find out more about their customers and customers to learn more about them. Face-to-face selling, however, requires more producer marketing time, possibly resulting in higher marketing costs. It also requires that the person selling products at the market be skilled in customer service. Some producers who do not have the time, desire or personality to sell at a farmers mar-

ket may recruit a family member or employee who has the passion and skills to interact with people and can represent the farm well.

Many small transactions

Farmers markets usually involve many small transactions, increasing the amount of labor needed to make each sale.

High marketing costs

Marketing costs consist of the expenses incurred to make the sale, including labor at the market, market fees, transportation (the time, fuel and vehicle wear-and-tear for delivery to market) and packaging (the bag, box or carton for the product). The cost of marketing at farmers markets can be relatively high per unit of product sold. Certain requirements for selling at farmers market, such as organic certification and domestic kitchen certifications, might also add to marketing costs.

Finding ways to add additional product sales to existing marketing time, such as coordinating CSA or restaurant deliveries at the farmers market, is a good strategy for increasing direct marketing profitability.

Grueling market schedules

Market schedules can be grueling, especially if selling multiple days or at several markets. Travel time, often early set-up times, serving customers, etc. can make for an exhausting schedule.

Limited space for vendors

Successful markets may not have enough space to accommodate all of the producers who would like to sell at the market. Some markets have lists of producers waiting to get in on the action.

On-Farm Retail

On-farm retail describes the various ways in which producers sell their products directly to consumers at the farm. On-farm retail markets may range from simple operations, such as selling pumpkins and bales of straw for fall decorations at a farm stand, to more complex operations, such as an orchard with a retail store.

Advantages

Advantages to on-farm retail include no transportation costs, no standard pack or grade, an experiential buying experience for the customer and instant credibility for locally grown products.

No transportation costs – customers come to the farm



In an on-farm market, customers purchase products at the farm. The customer incurs the transportation time and fuel needed, thus reducing product marketing costs.

Sweetwater Valley Farm cheese is available at the on-farm retail market near Philadelphia, TN six days a week. Customers can also take part in a walking tour of the dairy to learn about the process “from cows to cheese.”

No standard pack/grade

Like the farmers market, no standard pack/grade is required to sell products on the farm. It is important not to overlook product presentation, however, as well-displayed products can garner greater sales. Keeping a generous quantity of superior products available in the market and creating attractive displays encourages customers to return. Offering value-added products, serving fresh food and offering on-farm activities for visitors also help differentiate operations. No matter whether the on-farm market is a modified shed or a full-scale retail store, the cleanliness of the facility and the freshness of the product go a long way in making customers want to return.

Experiential buying

On-farm retail creates a destination for customers, adding value through the experience that is different than purchasing products at a typical retail location. The experience of purchasing farm products at the farm is even distinct from that of the farmers market and may particularly appeal to those wishing a deeper connection with where the product is grown. Well-managed, on-farm retail creates a well-rounded retail experience for customers. By incorporating the sights, smells and sounds of a working farm into a unique buying experience, on-farm retail can create a setting where customers wish to return. They may also spread the word to friends, family and co-workers who may also enjoy such an experience.

Provides instant credibility for “locally grown”

Many retailers attempt to cash in on interest in “locally grown.” Selling products from the farm where it’s grown provides instant credibility. If products other than those grown on the farm or locally by other farmers are offered for sale, signage indicating that products are farm- or locally grown can draw attention to those products.

Disadvantages

Disadvantages to on-farm retail markets include selling face-to-face, customers stretching boundaries, location challenges, liability, many small transactions and the potential to be capital-intensive.

Requires selling face-to-face

As with farmers markets, producers selling at on-farm retail markets must interact face-to-face with customers.

Stretched boundaries

Customers often stretch boundaries by showing up on all days and at all hours to shop or explore the entire farm. Setting standard days and hours of operation and abiding by those standards will help make customers aware that the farm store is not open 24 hours a day, 365

The Dixon family offers mums, pumpkins, gourds, squash and other fall decorations in their on-farm retail market in addition to school tours and family fun activities.



days a year. If the producer's residence is on the farm, locating the on-farm retail site away from the home will also discourage customers from intruding. This does not mean that producers should not try to accommodate customers, but producers should determine how far they will go in the name of customer service to keep some boundaries between their on-farm retail business and their personal life (not to mention keeping one's sanity).

Location challenges

There is much truth in the mantra that the three keys to retail success are "location, location and location." Some on-farm retail operations begin because of a farm's natural strength of a good location. Good location is vital for any retail business, and on-farm retailing should be cautiously considered for a farm site located far off the beaten path. Some less-than-perfect locations have been overcome by effectively marketing the experience of shopping at the farm, sometimes incorporating additional agritourism opportunities for customers. The retail market location should also be an inviting environment for customers. It should be an aesthetically pleasing and a comfortable place to shop.

Some potential on-farm retailers may decide that their product or farm is unique and may choose to become a "destination" to which people are willing to drive a few extra miles. Destination marketing can work for on-farm retail, especially for farms with unique products or settings (such as wineries). But remember: assuming that "if you build it, they will come" is a risky way to open any retail business – including on-farm retail. In day-to-day shopping, consumers value convenience.

Liability

When the public comes to the farm, liability risk increases. Before opening an on-farm retail market, producers should assess the risks and develop a risk management plan. This should

include a visit with the farm's insurance agent to inform the agent of the plans for direct marketing on the farm and to determine if additional insurance is needed. Producers should also objectively evaluate and reduce any potential sources of liability risk that exist near the on-farm retail outlet and provide a safe environment for shoppers and their families.

Tennessee law limits the liability for some farms involved in agritourism operations, which may include on-farm retail markets. Find out more about the law in UT Extension publication PB1787, *Liability and Agritourism*, available at <http://utextension.tennessee.edu/publications/Documents/PB1787.pdf>.

Many small transactions

As with a farmers market, on-farm retail markets usually involve many small transactions with high costs per transaction.

Can be capital-intensive to develop market

Selling sweet corn from the end of your farm lane may not require capitalizing new construction. Many on-farm retailers decide to construct a retail space at some point, however, and often at significant expense. Such aspects of on-farm marketing may create a need for larger amounts of capital investment than is required for other direct market channels.

Roadside Stands

A roadside stand is a temporary facility set up to sell product at a roadway or other heavy traffic area away from the farm or organized farmers market.

Advantages

Advantages to roadside stands include no volume, packing or grading requirements; the possibility of serving as a test market for products; the producers' ability to set the schedule; and improvement to a farm's marketing location.

No volume or packing/grading requirements

Like the farmers market and on-farm retail market, a roadside stand eliminates the need for specific volume or packing and grading requirements. Appealing product displays are also important – even though there are no packaging or grading requirements for a roadside stand.

Test market for products

A roadside stand can be a good test market. If people are willing to stop along a road or in a parking lot to purchase a product – and come back again – those products may also sell well elsewhere.

Producers set schedule

The producer selling at a roadside stand is in control of the times when products are sold. Regular days and hours of operation, however, are helpful in developing repeat business. It is an advantage to select consistent roadside stand “hours” that fit into both producer and customer schedules.

Improvement to farm’s marketing location

A roadside stand may offer a way for a producer whose farm is too far off the beaten path to sell products to consumers at a more convenient location. The roadside stand brings the products closer to the consumer and can thus expand a farm’s potential market. Roadside stands may also offer farmers with easily transportable products a method to create satellite locations to provide consumers more convenient access to products over a larger geographic area.

Disadvantages

Disadvantages of roadside stands may include location challenges, many small transactions and relatively high marketing costs and selling face-to-face.

Location challenges

A roadside stand must be located in a high-traffic location where it is safe and easy for customers to park and purchase products. Producers should be sure to ask permission to use the property and be prepared to address owner concerns about changes in traffic flow and liability. Owners may also require a fee for setting up a stand on their property. Some cities or counties may require a permit to set up a stand. Contact the county clerk and recorder office to determine whether local regulations exist.

Many small transactions and high marketing costs

The disadvantage of having many small transactions is true for roadside stands as well as previously discussed methods. Marketing costs may also be relatively high due to labor and transportation costs for moving products from the farm to the roadside stand.

Requires selling face-to-face

A roadside stand may require a little less interaction with customers than a farmers market or on-farm retail site. People are usually interested in stopping, buying and getting on their way, but operating a roadside stand still means making many face-to-face sales.



ARCY Acres near Crossville, TN offers Christmas trees at their on-farm retail market. Customers can also choose and cut trees from the field.

U-Pick/Pick-Your-Own/Cut or Choose-Your-Own Operations

U-Pick/Pick-Your-Own/Cut or Choose-Your-Own operations occur when consumers visit the farm where a product is grown and go to the field to pick, cut or choose their own product. Berries, tree fruit, pumpkins and Christmas trees are commonly marketed using this method.

Advantages

Advantages to U-Pick operations include reduced need for product harvest and handling labor, lower equipment costs, the potential for larger transactions and the ability to sell lower-quality produce.

Reduced harvest and handling labor

U-Pick operations are often used to reduce labor requirements for crops requiring labor-intensive harvest. U-Pick can also eliminate time needed to pack, grade or prepare crops for retail sale. Labor cost savings can result in favorable returns to land and management for U-Pick when compared to other direct marketing channels for the same crop.

Lower equipment costs

U-Pick may help reduce equipment costs. Fruit, for example, will not need to be stored in cold storage after U-Pick harvesting. Some producers develop a U-Pick market in the early years of a perennial fruit crop to delay purchasing cold storage equipment until plants have reached full-bearing age.

Potential for larger transactions and to sell lower-quality produce

U-Pick customers enjoy the experience of harvesting or choosing their own product. Coupled with the fact that U-Pick prices are usually, but not always, less than on-farm retail prices, this may entice some customers to buy a larger volume of product. U-Pick customers may also pick inferior fruit or have more tolerance for “seconds.” In this way, produce may sell through U-Pick that may not have retailed or wholesaled at full price.

Disadvantages

Disadvantages of U-pick operations may include the need for an excellent location or superior advertising, liability risk of having customers on the farm, the need for customer supervision and the potential for crop damage or reduced yield from improper harvesting.

Requires excellent location or superior advertising

U-Pick operations require an excellent location easily accessible to customers. However, depending on the availability of U-Pick in the area, simply offering a U-Pick product may compensate for a less-than-ideal location. Marketing will be especially important to inform potential customers about the operation.

Liability

Farm owners incur increased liability risk when customers visit the farm. U-Pick customers may be more likely to venture onto unsupervised farm areas than on-farm retail customers. U-Pick operators should consult with their insurance agent to determine if additional coverage is needed and learn more about Tennessee's agritourism liability law. Producers should also make efforts to reduce hazards to which customers are exposed.

Staffing and supervising customers

Running a U-Pick operation means someone must be on-site to serve customers. It is essential that farm staff be completely trained in customer service, farm safety and other issues relevant to serving U-Pick customers. In addition, some U-Pick customers may wish to purchase more product than they can pick themselves. Farms marketing with U-Pick often find that providing access to pre-picked product can help increase total sales.

Potential for crop damage and reduced yield volumes due to improper harvesting

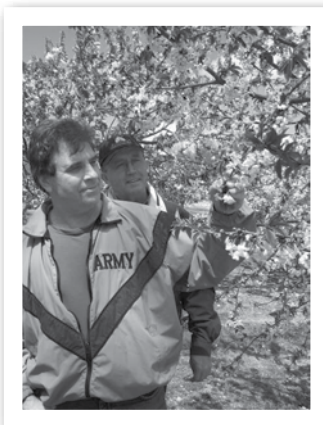
U-Pick customers who are careless may damage crops through improper harvesting. For example, customers new to berry harvesting may break canes or branches that experienced pickers would not, or customers new to picking green beans may damage the plants for future harvest. Customers new to harvesting their own crops may need to be instructed in proper harvest techniques.

U-Pick may also affect crop yields. U-Pick customers may not get the entire crop off the plant. This can create the need for additional harvest labor to "clean up" the plants.

The potential for damage to a Christmas tree cut improperly, as well as concerns over liability from customer injuries, have resulted in many Christmas tree farms adopting a "Choose Your Own" policy. Customers select their tree and are then aided by a farm worker in its harvest. This preserves the quality of the product and minimizes the risks for customers.

To help preserve customer safety and reduce liability risk, many pumpkin farmers cut the pumpkins from the vine prior to allowing customers into the field to choose their pumpkins.

Forgie's Fruit Farm offers peaches and sweet cherries pre-picked in the on-farm market or by pick-your-own.



Delvin Farms distributes CSA shares to customers at various locations including the farm, farmers markets, and school and church parking lots.

Community Supported Agriculture (CSA)

In a CSA, the farmer sells shares or subscriptions for farm products to customers. A diverse selection of products is delivered to or picked up by customers at designated sites regularly for a specified time period. CSAs are typically used to market produce, but can also be used to market other products such as meat and flowers or a mixture of products.



Advantages

Advantages to CSAs include reduced grower risk and need for operating capital, reduced customer sensitivity to cosmetic defects of products, building a sense of community and farm brand and a reduced amount of time required for selling during the production season.

Can reduce grower risk and operating capital needs

Many CSAs request members or subscribers pay for all, or at least part, of the subscription before the growing season begins. This results in two advantages that help CSA producers manage financial and production risks:

1. Provides cash before the season begins to purchase supplies
2. Helps estimate product volume needs before planting

May reduce customer sensitivity to cosmetic defects

Members of a CSA are often interested in both supporting local food production and in obtaining the freshest food possible. Some are interested in knowing the farmer responsible for producing the food and the production methods used. Because of the relationship with the farmer, CSA members may be less selective about minor defects in products. This does not exempt CSA producers from delivering high-quality produce to their customers. In fact, CSA production demands some of the greatest grower expertise, because of the full-season commitment to deliver a share of produce to each member/subscriber.

Can help build sense of community and farm brand

The typical CSA customer is often very interested in connecting with how and where his or her food is produced. Successful CSA marketers have appealed to such consumers by using methods to build community around the CSA enterprise. Such methods include publishing

newsletters, offering updates through electronic and social media and conducting special events at the farm for CSA subscribers/members. Frequently, CSAs offer customers recipes featuring the produce or products in a given week's "share." Having access to simple recipes using the food a CSA is producing and distributing can enhance the CSA experience for customers.

Reduces selling/marketing time during the production season

While a CSA program requires time to communicate with members and build a sense of community during the season, much of the marketing to sell the program (recruiting members or subscribers) is done during the off-season. This leaves more time for farmers to focus on production, harvest, assembling CSA shares, delivering products and building relationships with members during the production season. This also may leave time for producers to market additional products through other channels.

Disadvantages

Disadvantages to CSAs may include intensive marketing to recruit members, heavy reliance on word-of-mouth advertising and potential negative word-of-mouth referrals, and the need for careful crop planning and season extension. Other disadvantages are related to the season-long agreement entered into with customers.

Requires intensive marketing

Although there is less in-season time required to market CSA production, the CSA usually requires intensive marketing time out-of-season to obtain subscribers or members. This most often includes electronic advertising (like websites), presentations to community groups and brochures or other print advertising.

Marketing efforts will be required each year due to annual turnover in CSA customers. Many existing CSAs maintain waiting lists for future customers, to reduce out-of-season marketing needs. The member agreement and terms used by some CSAs may also require considerable time and expertise to develop. As CSA marketing increases beyond the initial core CSA consumers, producers could potentially find less enthusiasm for members to pay the



CSA shares from Delvin Farms wait to be distributed to customers at the Franklin Farmers Market.

total membership fee before the season begins. Many CSA have begun to provide agreements for installment payments over the season.

Heavy reliance on word-of-mouth – risk of dissatisfied customers

A CSA may appeal to a smaller customer demographic than a farmers market or on-farm stand. Because of a smaller customer base, the impact of disgruntled customers creating negative word-of-mouth referrals for a CSA operation may be greater than for other direct market channels. CSA operators will need to be vigilant to identify concerns of disgruntled customers before damage can be done to the farm's reputation.

CSA operators can encourage positive word-of-mouth referrals by asking customers to recommend the program to their friends, providing them with materials to share and offering incentives for new recruits.

Requires careful crop planning & season extension

Careful crop planning and experience with season extension are necessary with any CSA. A CSA contract establishes that each member will receive a share of the harvest at specified time periods. To attract members, many produce CSA operators employ season extension techniques that help them deliver products earlier and later than members might otherwise be able to purchase locally grown produce. CSAs also typically incorporate a diverse selection of products. For example, a produce CSA should plan to provide a mix of products for each delivery. A week's share consisting of only tomatoes, for instance, would likely be disappointing for customers.

Season-long agreement with customers

The development of a legally binding customer agreement for CSA shareholders may take significant time and expertise. Enforcement and compliance of the agreement may be a hassle at times. While the agreement has benefits for planning purposes and bringing in income before the growing season, it also reduces producer flexibility to change the price received for shares as costs of inputs or market prices increase.

ADDITIONAL CONSIDERATIONS FOR CHOOSING DIRECT MARKETING CHANNELS

Understanding direct marketing channels and the advantages and disadvantages of each is a good way to choose which channel(s) may be best for a producer. Producers need to consider some additional factors, however, to fully analyze the options. Further consideration of the following topics is helpful in identifying market channels with potential for success:

- » Production experience
- » Customer characteristics, values and preferences
- » Product characteristics
- » Resources (land, labor and capital) available
- » Opportunities and threats
- » Financial analysis

Production Experience

Production experience is a major consideration for selecting a market channel(s). Some direct markets do not require as consistent a product volume, and consumers at some direct markets may be more forgiving of sporadic product quality. Other channels require special skills in production timing, season extension and diversity in product selection. Choosing a market channel or channels consistent with level of production experience increases producers' potential for success. Figure 1 illustrates the relative levels of production experience helpful for various direct marketing channels.

Figure 1. Relative Levels of Production Experience Necessary for Various Direct Marketing Channels

Market Channel	Level of Production Expertise
Roadside stand	Relatively low
Farmers markets	
U-Pick	
On-farm retail	
CSA	Relatively high

In general, farmers markets and roadside stands are the easiest direct markets for new, inexperienced producers to access. There is no obligation to deliver a set quantity of products to the market and there is no standard grading, although customers will be looking for visually appealing products and displays. Farmers markets and roadside stands, therefore, require relatively less production experience than other direct marketing channels (see Figure 1). That is not to say that farmers markets and roadside stands are not good market opportunities for experienced producers, however. These channels are options for producers of all experience levels.

The market channels that use a farm as the market location – U-Pick and on-farm retail – require a slightly greater level of production expertise. Customers coming to the farm will expect adequate quantities of high-quality product to purchase. Offering poor-quality

products or running out of the quantity demanded may create a negative image of the farm for consumers.

The direct market retail channel that demands the highest level of production expertise may be the CSA. CSA customers expect a consistent quality and quantity of product throughout the time period specified in the contract. The producer's failure to deliver high-quality, consistent volume and a wide mix of products can create a barrier for repeat business from CSA customers and negative word-of-mouth referrals. CSA consumer/members may tolerate some variation in product quality, depending on customer commitment to certain production techniques or the perceived value received by the customer. Inexperienced producers would likely be challenged to meet the needs of most CSA customers.

Customer Characteristics, Values and Preferences

Characteristics, values and preferences of target customers should be considered for every decision related to marketing products. Choosing a marketing channel is no different.

Producers considering a direct marketing channel should ask themselves questions that help identify the consumer demand for their products. Such questions include:

- » Where are your customers or potential customers located?
- » Where or how far are they willing to travel to purchase products?
- » Where do they currently shop for similar products?
- » How frequently do they purchase similar products?
- » How much product do they typically purchase at one time?
- » How much do they value convenience? How convenient will it be for customers to purchase through a particular market channel?
- » How much do they value an experience on the farm?
- » How much are they willing to pay for products with various characteristics?
- » Would customers value products with "organic," "locally grown" or other niche characteristics?
- » Which methods of communication will be most likely to effectively reach potential customers?

Producers should compare answers to these questions to the characteristics, advantages and disadvantages of the various market channels. Customers who are extremely busy and value convenience, for instance, are not likely to travel to the farm regularly to shop at a retail market or U-Pick operation. They may be more likely to shop at a farmers market, roadside stand or pick up a CSA share delivered to a point close to their home or workplace.

Product Characteristics

Some products lend themselves to certain market channels better than others. For example, a farmers market may not be the best marketing option for Christmas trees, since the product is relatively more difficult to transport and farmers markets may not even be open in November and December when sales are likely to take place.

Questions producers should ask themselves about their products related to choosing a direct marketing channel include:

- » How much product do you plan to have available for market?
- » Are you prepared to supply an appropriate quantity of products for the market?
- » Are you able to employ season-extension techniques?
- » What will it take to harvest and prepare the products for the market?
- » Is it possible for customers to harvest the products themselves through U-Pick?
- » Are the products easily transportable?
- » What, if any, special equipment is needed to transport or market the products?
- » What, if any, special labor skills are needed in transport or marketing?
- » Are there any special regulatory requirements for marketing your products through specific channels? If so, can you meet those requirements?

Producers should compare answers to these questions to the characteristics, advantages and disadvantages of the various market channels.

Resources (Land, Labor and Capital) Available

Producers should consider resources they have available related to the needs of various direct marketing channels. Resources are often divided into three general categories: land, labor and capital.

Land

Land resources are important to assess if producers are considering on-farm retail, U-Pick or other channels involving customers visiting the farm, such as CSA pickup at the farm. The term “land resources,” in this case, refers to more than the actual land. Of course, a producer needs an adequate amount of land and right type of soil, etc. to produce the products. In this case, the term “land resources” also refers to the location of the farm and equipment and facilities available for use in marketing.

Questions producers should ask themselves about their land resources related to choosing a direct marketing channel include:

- » Where/how far is your operation located in relation to your target customers?
- » Is your operation easily accessible to customers (easy to find, good roads, etc.)?
- » What facilities or equipment do you have available for use in marketing?
- » Does your farm match the image you want customers to have of your business?
- » Is your farm aesthetically pleasing?
- » Do you have adequate space for customer parking?
- » Are there any extraordinary safety issues that would increase risk of inviting customers to the farm (ponds, farm equipment traffic, etc.)?
- » Are you comfortable taking on the risk of having customers visit the farm?
- » Are you able to offer an experience at the farm?

Labor

Labor resources relate to the time and skills possessed by people involved in the enterprise – the quantity and quality of labor. Costs of additional labor should also be considered. Producing and marketing a product can take a lot of time, as well as skills in management, marketing and customer service. As operations grow in the amount of product handled, number of customers and the number and location of markets, more and more labor may be required. The cost of additional labor should be compared to the expected return from marketing additional products or from adding or changing marketing channels.

Questions producers should ask themselves about their labor resources related to choosing a direct marketing channel include:

- » How much labor and which skills are required for the direct marketing channel(s) being considered?
- » How much time is available from existing labor sources (family and hired labor)?
- » What skills are possessed by available labor related to production, marketing and customer service?
- » What are the costs of available labor?
- » Which skills need to be sought from other labor sources?
- » If additional labor is needed, what is the expected cost?

Capital

Capital is also an important resource consideration. Some market channels will require little to no expenditures in infrastructure or equipment to get started. For example, marketing at a farmers market may require a small amount of investment such as a table, display materials

and vendor fee if the farmer has an adequate method of transportation. Other channels, such as building a new on-farm retail market, may require large amounts of capital.

Questions producers should ask themselves about their capital resources related to choosing a direct marketing channel include:

- » Which types of infrastructure and/or equipment are necessary for the direct marketing channel(s) being considered and how much is the total estimated cost?
- » Which type of marketing (communication/advertising) will be needed to initially reach out to potential customers and how much is it estimated to cost?
- » How much capital do you have or have access to for necessary infrastructure, equipment and marketing expenses?

Producers should compare answers to these questions related to available resources to the characteristics, advantages and disadvantages of the various market channels.

Opportunities and Threats

Farmers considering entering a direct marketing channel should also consider opportunities and threats in the marketplace that may impact the success of the venture. Questions producers should investigate about opportunities and threats related to choosing a direct marketing channel include:

- » Which new marketing opportunities exist for your product?
 - For example:
 - › Where are farmers markets located?
 - › What are the days of operation, fees and other requirements for these markets?
 - › Are additional vendors being accepted?
 - › Do existing markets have an acceptable customer base?
 - › Which products are already offered in existing markets?
 - › How will you determine demand for your product(s)?
- » Do threats or obstacles exist for the marketing method you are considering?
 - › Does competition exist from similar products or other producers using specific marketing channels for similar products?
 - › Are there any zoning, permitting or other regulatory requirements and restrictions related to the market channel? (Although not technically a “threat,” regulatory requirements might require significant effort or investment by producers.)
 - › Will entering this market channel create distractions or diminish your ability to meet the demands of existing profitable markets?

Financial Analysis

Before deciding to market products through any market channel, producers should evaluate the potential profitability of the venture. This includes estimating potential revenues and costs of the direct marketing channel being considered.

There are three categories of costs to be considered: variable costs of production, fixed costs of production and marketing costs.

Variable costs of production are costs incurred during the production of a product that vary in proportion to the quantity of product produced. Examples of variable costs may include seed, fertilizer, labor, fuel, etc.

Fixed costs of production or overhead are costs that do not vary with the amount of production. Examples of fixed costs may include insurance, interest payments, rental payments, equipment depreciation, land rental, etc.

Marketing costs are costs incurred in marketing or moving products from the farm to the customer. Marketing costs may include packaging, fuel for transportation, farmers market fees and labor for marketing. Additional costs of marketing may include advertising expenses, signage, permits or licenses, parking lots, retail structures, etc.

Total costs are calculated by adding total variable costs of production, fixed costs of production and marketing costs.

Gross revenue is the total amount of sales generated. This can be estimated by multiplying the price of each product by the quantity of that product expected to be sold and summing the total for all products. For example, if a farmer expects to sell 800 pounds of tomatoes at \$1.50 a pound and 600 pounds of squash at \$1.00 a pound, total revenue would equal \$1,800 [(800 x \$1.50) + (600 x \$1.00)].

Net revenue, or profit/loss generated, is gross revenue less total costs.

Producers should take care to include all costs of producing and marketing products in their analysis. Producers often neglect to include costs of labor for themselves or family members.

Example Financial Analysis of a Direct Marketing Channel Decision Scenario

It may be helpful to consider an example of financial analysis in which a farmer needs to analyze whether or not to add a market channel to his or her operation.

Consider this scenario:

A producer is selling high-quality heirloom tomatoes at the local farmers market for \$1.50 per pound. A local chef purchases some of the tomatoes and is delighted with them. The next week, the chef inquires if it is possible to purchase 50 pounds of the heirloom tomatoes to be picked up weekly at the farmers market but is unable to pay the full retail price for that quantity of product. The grower is interested in the opportunity, although he is disappointed that the chef is unwilling to pay the full retail price. The grower tells the chef that he will consider the opportunity and contact her in a few days to discuss it further.

In this case, a farmer is already involved in direct marketing at a farmers market. The farmer must decide whether or not to expand into direct-to-retail marketing to the chef and accept a price lower than the full retail price received at the market. The farmer cannot produce more tomatoes in the current year because it is well into the growing season and harvest has begun. The only option would be to divert some of the tomatoes originally planned for farmers market customers to chefs. Selling tomatoes to the chef may reduce his time marketing that amount of product to individual consumers at the farmers market. He believes he still has enough tomatoes to keep farmers market customers happy. In addition, if the arrangement with the chef works out, he could produce more tomatoes next year. The farmer would like to take advantage of this market opportunity, but needs to conduct a financial analysis to determine if it could potentially be a profitable move.

First, the farmer estimates variable costs of production. Table 1 shows a sample “variable production cost budget” for the small-scale tomato producer. The farmer estimates the variable production cost of producing 800 lbs of tomatoes is about \$0.45 per pound.

Table 1. Sample Tomato Variable Production and Harvest Costs (Four 4'x50' Rows)

Receipts	Quantity	Unit	Price/Unit	Total
Tomatoes	800	lbs	\$1.50	\$1,200
Variable Costs				
<i>Supplies</i>				
Cover crop seed	2	lbs	\$1.00	\$ 2
Tomato seed	0.5	Packet	\$4.00	8
Soil mix	0.5	Bag	\$6.00	3
Fertilizer	20	lbs	\$0.20	4
Straw (mulch)	8	Bales	\$2.50	20
Cages	40	Cages	\$0.15	6
<i>Labor</i>				
Preplant prep	1	Hour	\$12.00	\$ 12
Soil mix	2	Hours	\$12.00	24
Fertilizer application	0.5	Hours	\$12.00	6
Transplanting	3	Hours	\$12.00	36
Irrigation	0.5	Hours	\$12.00	6
Mulch, set cages	4	Hours	\$12.00	48
<i>Harvest</i>				
Harvest lugs	3	Lugs	\$10.00	\$ 30
Labor	8	Hours	\$12.00	96
Packing/sorting	1	Hour	\$12.00	12
Remove cages/vines	4	Hours	\$12.00	48
Total Variable Costs				\$ 361
Variable Costs per Pound				\$ 0.45

The farmer then estimates that the fixed costs of producing these heirloom tomatoes are around 15 cents per pound. This brings the total cost of producing a pound of tomatoes for this particular grower to about 60 cents per pound of tomatoes.

The farmer must also estimate the marketing costs (the costs incurred to get products to customers through the farmers market). For this example, assume that heirloom tomatoes make up half of the producer's total farmers market sales. Half of the total costs to market the tomatoes at the farmers market can be assigned to tomatoes (Table 2). This brings the cost of marketing 800 pounds of tomatoes to 35 cents per pound.

Table 2. Sample Marketing Costs for Farmers Market Heirloom Tomatoes

	Total Cost	Cost Assigned to Tomatoes (Half of total)
Farmers market membership (1/2 total fee)	\$70	\$35
Transportation to market 12 weeks, 20 total miles per week = 240 miles @ 50 cents/mile	\$120	\$60
Marketing labor		
12 weeks, 3 hours per week = 36 hours @\$9.00/hour	\$324	\$162
Bags (1000 bags @ 5 cents/bag)	\$50	\$25
	Total Cost	Cost Assigned to Tomatoes (Half of total)
Total Marketing Cost	\$564	\$282
Marketing Cost per Pound of Tomatoes (800 pounds)		\$0.35

The farmer also estimates the cost of marketing tomatoes to the chef. How much will it cost to sell tomatoes to the chef who picks them up at the farmers market?

The farmer must consider variable and fixed costs of production as well as marketing costs. He has already estimated variable and fixed costs for this year's crop at 45 cents per pound and 15 cents per pound, respectively. The marketing costs of tomatoes sold at the farmers market will be different than marketing costs for tomatoes sold to the chef because of differences in labor and packaging requirements. The farmer must estimate the costs of marketing the tomatoes to the chef.

Assume it takes this grower 15 minutes to sort and pack a 25-pound box of tomatoes. Then, assume that each box costs the grower 75 cents (although many growers use reusable containers to create a cost much less than this amount). At a wage rate of \$12.00 per hour, the total cost of preparing a box of tomatoes for the chef for delivery at the farmers market is \$3.75, or 15 cents per pound for a 25-pound box. Sample marketing costs are listed in Table 3.

Table 3. Sample Marketing Costs for Heirloom Tomatoes

Marketing Cost	Total Cost
Box	\$0.75
Packing & Handling Labor (¼-hour per box)	\$3.00
Total Marketing Cost Per 25-Pound Box	\$3.75
Marketing Cost Per Pound	\$0.15

The producer now has the necessary information to determine whether a deal with the chef may be profitable and discuss a quantity price break with this chef.

First, the farmer calculates a breakeven price for the tomatoes, the price at which the farmer will cover all the costs of production and marketing. The producer conservatively estimates that total variable and fixed costs for producing the tomatoes are 60 cents per pound (45 cents per pound variable costs plus 15 cents per pound fixed costs). The marketing cost for a 25-pound box of tomatoes is 15 cents per pound. Therefore, any price above the 75 cents per pound breakeven point for a 25-pound box of tomatoes should yield this producer a positive return. This is the minimum price that the farmer could accept to cover his costs.

The farmer is certain he can negotiate a price higher than the breakeven of 75 cents per pound with the chef. He would like to earn the same return on the tomatoes sold to the chef as he does for the tomatoes sold at the farmers market, however. The farmer realizes that the marketing costs for selling to the chef (15 cents per pound) are lower than the marketing costs for selling the tomatoes at the farmers market (35 cents per pound), 20 cents lower in fact. Since fixed and variable costs are the same for the tomatoes sold at the farmers market and the tomatoes that would go the chef, then the producer can still earn the same return if the price is reduced by 20 cents for the chef because of the savings in marketing costs. Therefore the producer could charge the chef \$1.30 per pound (\$1.50 less \$0.20) and earn the same return as earned for the tomatoes at the market. This 20 cent per pound discount for the chef would equate to 13 percent off the farmers market price.

Providing tomatoes to the chef will put some extra stress on the farmer. The farmer would like to estimate how much net revenue, the dollars remaining after costs are deducted, selling to the chef would generate to help him understand the total impact of the deal on his operation. With a price of \$1.30 per pound and total costs of 75 cents per pound, the farmer calculates that he can earn 55 cents per pound. With 25 pounds in a box and 50 boxes delivered each week, the farmer would add \$687.50 in net revenue to his operation each week.

The farmer is satisfied that he can produce the extra tomatoes for the chef in the future and would be pleased to add an additional \$687.50 in net revenue to his operation each week. He decides to call the chef and determine if he can work a deal with her to supply tomatoes for \$1.30 per pound during this growing season.

SUMMARY

Direct marketing channels offer Tennessee farmers different options to sell farm products directly to consumers. The most common direct markets used by farms include farmers markets, on-farm retail, roadside stands, U-Pick and Community Supported Agriculture (CSA). Marketing to restaurants and local grocers, while not technically direct markets in that the farm does not sell directly to the consumer, also share some characteristics of direct market channels.

Choosing a direct marketing channel should not be done lightly. Different direct markets will offer different advantages and disadvantages for producers. Producers should choose direct market channels that match both their personal strengths and their farm production experience. Producers should also consider their customers, products, resources and the opportunities and threats affiliated with using a certain market channel. Of course, producers should always conduct a financial analysis to estimate costs and potential revenues and determine whether the market channel has potential to add to farm profitability.

REFERENCE

USDA-AMS. "Emerging Market Opportunities for Small Scale Producers." Available online as of August 23, 2010 at <http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5076556&acct=wdmgeninfo>

Jones Orchard in Millington, TN offers fresh fruits and vegetables as well as value-added canned and baked goods for sale at their on-farm markets and at local farmers markets. Some fruits are also available as pick-your-own at the farm.





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