



# Today's Agenda

- Adding Value
- Alternative Marketing Channels
- Understanding Marketing Costs
- Regulatory Considerations
- Planning for Profit



## **A Brief History**



- Before refrigeration (1920's)
  - Produce farmers did their own marketing
  - Most sales were local
  - Farmer did everything: farming, packing, selling, delivering, collecting money
  - Regional crop failures hurt entire community
- After refrigeration, cheap transportation, synthetic pest control & supermarkets (1940s)
  - Farmers specialized, some began contract growing
  - Increased scale of production, grew fewer crops
  - Prices dropped, due to economies of scale





# Modern Mainstream Marketing Options



- Grower sells to distributors, buying brokers, re-packers
- Grower sells direct to wholesale buyers
- Grower contracts with Grower-Shipper-Packer
- Grower works with grower agents/produce brokers



# **Marketing Alternatives**

- Farmers' Markets
- Selling direct to retail stores
- Chefs & restaurants
- CSA & subscription sales
- Roadside stands
- U-pick and Agritourism
- Schools, Hospitals, Institutions
- On-line marketing
- Buying clubs, co-ops
- Multiple channels





## **Farmers' Markets**



#### Advantages:

- Easy to get started
- Exempt from packing, sizing, labeling regulations
- No special packaging required
- Farmer sets prices
- Farmer controls display, sales staff, sampling
- Direct customer connection builds loyalty
- Social network with other growers & community
- Can be promotion for other marketing channels
- FM Management provides parking, restrooms, market promotions, etc.



## **Farmers' Markets**

Disadvantages:

- High labor cost (including cost of owners' time)
- Usually ties up vehicle for most of day
- Transportation cost & travel time if at a distance
- Risk of bad weather, unexpected competition
- Unsold product or empty tables
- Attendance requirements, product restrictions
- Hard to move large volumes at small markets
- Good markets often saturated, hard to get into & political



## **Direct to Retailers**

- Examples:
  - Large local farm stands
  - Independent retail stores
  - Regional supermarket chains
- Considerations:



- Can sometimes move large volume in season
- Depends on personal connection with buyers
- May buy at peak ripeness and move fast
- Usually requires standard pack & labeling
- Can now buy at farm stand or farmers' market free of pack, size & labeling regulations, with tracking receipt



## Chefs & Restaurants

- Advantages:
  - Customer demand for local produce creates interest
  - Can help popularize new varieties & crops
  - Can promote farm on menu & in reviews
  - Can buy at farm stand or farmers' market exempt from standard pack, size & label regs
- Disadvantages
  - Orders may be small and complicated
  - Menus planned in advance around your product may add to stress when problems occur
  - Payment may be irregular or late



# CSA & Subscription Sales

#### Advantages:

- Provides guaranteed market
- No middlemen = greater profit potential
- Potentially low capital costs
- Can absorb moderate over and under supply, flexibility to adjust product mix
- Regular delivery schedule
- No standard pack, size or labeling standards
- Reusable boxes or baskets
- Studies show CSA has best return to marketing cost



# CSA & Subscription Sales

#### Disadvantages

- Complexity of cropping system
- Need high degree of social skills to deal with customer personalities
- Need administrative & recordkeeping
  organization
- Need marketing plan, website, regular communication with customers
- Delivery may need to be coordinated with other marketing channels for efficiency

# CSA & Subscription Sales



- In 2008, 557 CSAs joined Local Harvest; and additional 300 CSAs joined Local Harvest in the first two months of 2009
- Local Harvest currently estimates the number of CSAs at over 2,900
- In the 2007 Census of Agriculture 12,549 farms reported they had marketed products through CSAs



## **Roadside Stands**



- No transportation or shipping costs
- Farmer controls product mix & prices
- Can connect with tourism promoters, be included on farm trails maps, tours, use social media promotions
- Introduces neighbors & community to farm
- Exempt from standard pack, size, label regulations when selling to public and to restaurants and organizations who distribute to end users
- Can sell value-added products
- Can sell neighbors' agricultural products, benefiting community





## **Roadside Stands**

- Disadvantages
  - Need good location
  - Regulations vary by county
  - Staffing time volume needed to justify staff time might be tricky
  - Liability considerations
  - Expense of parking lot, signage, etc
  - Need good location



# **U-Pick & Agritourism**

- Can build stronger links to the community and can be a problem for neighbors
- School field-trips remember to charge a fee!
- Sell the "Experience", then the product
- Regulations, accessibility and liability issues can lead to major time and money investments
- Good people skills needed
- Business planning, marketing strategy essential



# Other marketing channels

- Schools, Hospitals, Institutions
- On-line marketing
  - Individually or on a group site
- Buying clubs, co-ops



VerdeGrown





# Assessing Marketing Channels



#### **Considerations might include:**

- Investment and cash flow required/available
- Size of operation/volume of sales needed
- Growth potential & timeframe for growth
- Synergy with other marketing channels
- Risk of failure or loss
- Social considerations
- Market development potential
- Return to marketing comparison



#### MARKETING COSTS IN ALTERNATIVE MARKETING CHANNELS

- Marketing costs exclude production costs
- They are the costs involved in getting product from the field to consumers
- Different marketing channels have different costs
  - Capital investments (facilities & equipment)
  - Materials and supplies
  - Labor
  - Licenses, fees, permits, insurance, etc.
  - Unsold or unsellable product



#### MEASURING YOUR Marketing Costs

- Think about activities, investments, and other costs for each marketing channel
- Activities can be grouped:
  - packing and storage
  - transportation
  - marketing and administration





# Sorting & Packing Costs

- Sort & pack product facilities & equipment
- Sort & pack product labor & materials
- Load, unload truck labor
- Maintain market supplies & equipment labor
- Training & supervision labor





- Delivery vehicle capital & operating costs
- Delivery labor
- Contracted Trucking
- Tolls
- Driver training & delivery management labor

## Selling & Administrative Costs

- Market communications labor
- Wholesale sales labor
- Retail sales labor

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- Marketing materials costs labor and materials
- Sales staff administration labor

- •Office facilities, equipment, supplies, services use
- •Record keeping systems
- Account maintenance,
- banking, bookkeeping labor
- •Other office staff labor
- •Business planning labor





#### • Very Important note:

Because owners and family members usually do many marketing tasks on a small farm, payroll records are not sufficient for allocating costs. When computing the hours and miles for the different marketing activities, be sure to include time spent by the farm owners and family members, even if they are not paid a wage, in order to get an accurate picture of the labor cost of each channel.

 When figuring marketing costs, value farm owner and family labor at the rate that you would have to pay someone else to do the task





 Combining direct marketing and wholesale selling as a small or mid-size grower usually involves a complicated pattern of shared use of labor, vehicles and facilities by the different marketing channels.

#### Retail Selling Marketing Workflow for Midsize Multi-channel Farm Sell direct at Pre-pick selling farmers' market. Developing Markets Sales staff meet Create marketing driver at market signage. Investigate Potential site. Often Driver Estimate sales poten-Sorting, Packing, Storing Markets. becomes lead tial/prices. salesperson. Obtain certification. Farmers' Pack reusable Estimate product bins for Farm-Markets Apply to markets, ne-Administration availibility. ers' market. Transportation gotiate participation. Create product list Maintain & Complete paperwork. Personnel for weekly market. Maintain, Clean Coordinate Picking clean sales management & Obtain sales equipment Load Trucks. equipment & supervision. Hire, train sales staff materials. Drive to Farm-Coordinate Create combined ceting materials. Training. ers' Market or Wash & picking to Pick-List for pick-Sign up customers by regular CSA Payroll. order from Sort all Analyze Competition. ing crew. phone & email. picked and/or wholepick-list. Accounting & Plan potential Delivery (Include picking Maintain customer comsale delivery product. ack individu-Bookkeeping. Maintain needed for storage) Routes. nunication. d CSA boxes. route. Store or reongoing Production and Set up record-keeping Give all wholesale CSA Maintain record-keeping nsert newslet-Some wholecommunicatrieve from sales record-keepinvoices, CSA box system. system. sale deliveries tion between storage as ing. numbers & con-Develop promotion sales office. needed. or CSA boxes Create weekly newsletter. Banking. tents list, and FM are loaded on picking crew Create weekly delivery orders to packing Account Mainte-FM truck for Arrange drop-off sites. and packing crew. nance and collec-Pack wholedelivery on way crew. Hire, train office & tions communica-Determine weekly box sale orders to market. delivery staff. tons. contents, determine pick-Some delivery ing needed. Analysis. Label as routes combine Analyze Competition. Planning. CSA drop-offs Make connections with Discover market prices and wholesale Systems updating. Whole-& determine product deliveries. Networking. Sale \_availibility. Plan transportation of Create & distribute product availibility lists. Set up record-keeping Take orders, negotiate and maintain communication trucking buyers. or on-farm Create Invoices. pick-up by uyers Combine orders for pick-



# Figuring "Return to Marketing"



- Add up all the marketing costs for each marketing channel used.
  - Be sure to include an estimated part of costs shared by several channels, such as office and vehicle use
- Divide total marketing costs by total revenue for each channel to get marketing cost as a percent of revenue
- Subtract that number from 1 to get a percentage that is called "Return to Marketing"
- Compare this over your various channels