



Assessing your Marketing Opportunities



Alternative Markets for Small-scale Growers

UCCE Marin, Business Planning Workshop #2
February 25, 2010



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



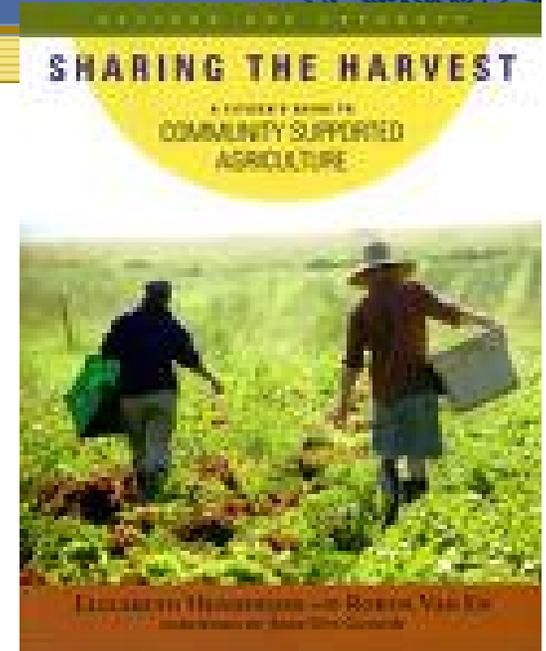


CSA & Subscription Sales



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



Advantages:

- 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





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



Transportation Costs



- 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
- 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:**

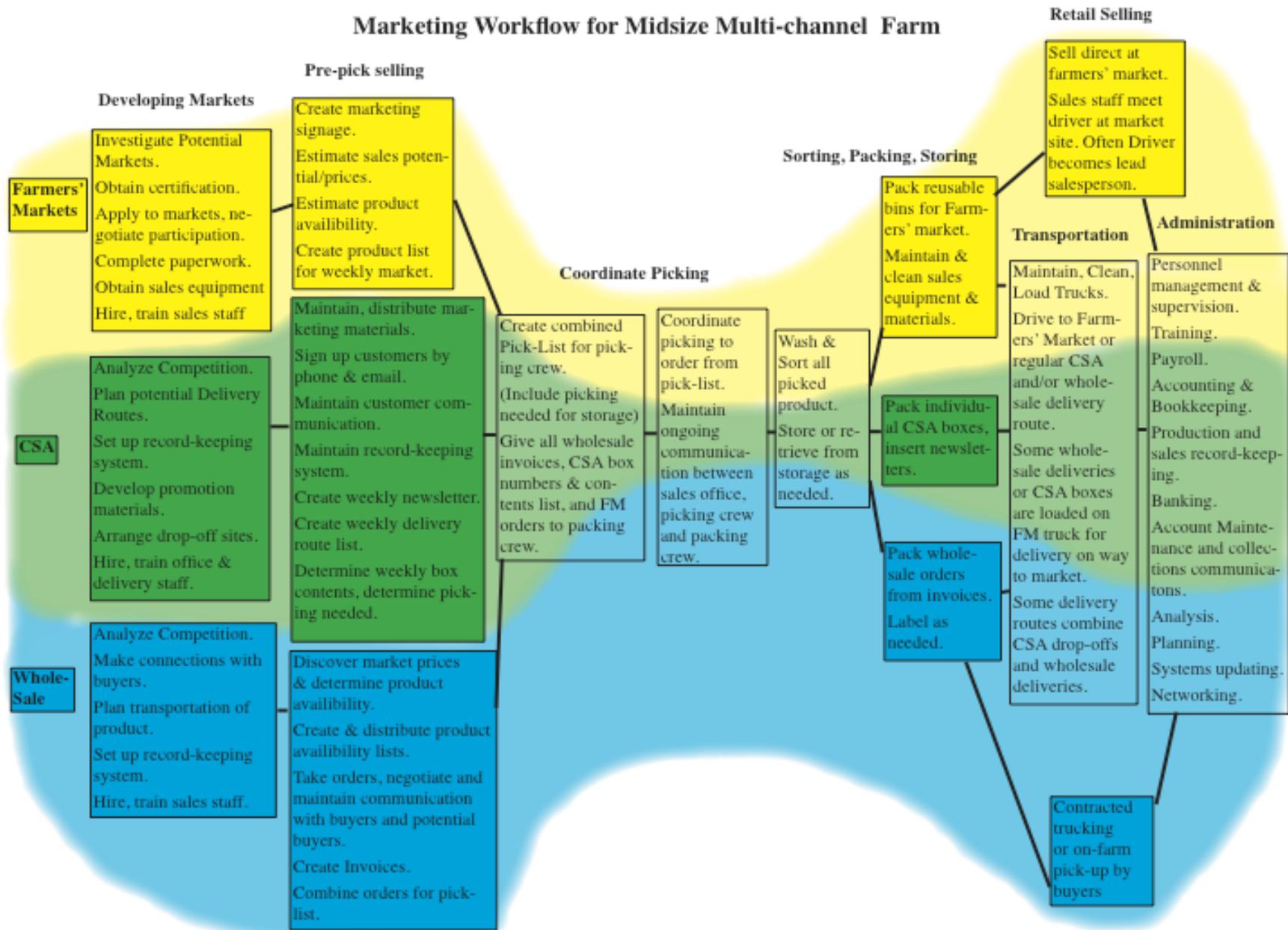
Because owners and family members usually do many marketing tasks on a small farm, payroll records are not sufficient for allocating costs. When computing the hours and miles for the different marketing activities, be sure to include time spent by the farm owners and family members, even if they are 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.

Marketing Workflow for Midsize Multi-channel Farm





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