Farmer-to-Consumer Marketing #1

An Overview

Basic Marketing Questions

Preliminary Evaluation
1. What are my marketing needs?
2. When farming, is my focus on profit, a way of life, or something else?
3. What are my expectations for marketing directly to consumers?
4. What are my marketing alternatives?
5. Are my marketing choices feasible?

Self-evaluation
1. Does my personality lend itself to direct marketing? Am I generally friendly and outgoing? Do I enjoy meeting people and having them visit my farm?
2. Do I expect to have the knowledge and experience to sell directly?
3. Can I produce a commodity that the public wants?
4. Is direct marketing compatible with my personal goals and future operating plans?

Business Evaluation
1. Will direct marketing fit into my existing operation?
2. Is necessary capital available to invest in this enterprise?
3. Can I produce enough volume to meet my marketing needs?
4. Can my family supply enough labor?
5. Is additional labor available locally to meet my business needs?
6. Are adequate facilities available and easily accessible?

Market Evaluation
1. Is there a demand for the product?
2. What advantages are there in selling directly to consumers?
3. Is my location satisfactory?
4. What will be my competitive environment?
5. Are there any regulatory restrictions on marketing my product directly?

Establishing a Farmer-to-Consumer Market
The reason to establish a direct farmer-to-consumer marketing outlet is primarily to increase your financial returns from farm production. The opportunity to increase returns stems both from reducing marketing costs attributed to “middlemen” and from consumer desire to buy riper, fresher fruits, vegetables, and other commodities. These two factors can combine to allow higher gains for you in several ways.
When producers become retailers, they can sell at or near retail prices and avoid paying for wholesalers’ and retailers’ services. Thus, producers receive a higher share of the consumer food dollar and a higher return per unit sold. With planning and effort, you can provide more economically the many services that wholesalers and retailers would otherwise provide.

Direct marketing may be an outlet for products that do not attract commercial buyers. For example, consumers often desire products that vary from commercial standards in size, maturity, appearance, volume, and grade. The tomato that is overripe by the time a wholesaler gets it to the supermarket may be just the one the consumer wants for tomato juice. Direct marketing might also turn vine-ripened, or field-run produce (which might have been lost produce, in a conventional-marketing setup) into additional income.

Operators of small farms or truck gardens may find that direct marketing means additional income when volume or product selection is too small to attract processors and commercial buyers. Though direct marketing may be the small farmer’s only marketing alternative, a substantial number of producers use direct marketing in addition to selling to wholesalers and processors, to reduce the risk of relying on a single market channel.

Although additional income is the primary motive for direct marketing, several other factors influence individual involvement. Flexibility within direct marketing operations enables almost anyone with the desire and a few acres to become involved. Many producers favor direct marketing, especially consumer harvesting or U-pick operations, because of reduced labor requirements in harvesting, grading, sorting, etc.

The most attractive aspect of direct marketing to some farmers is the opportunity to own their own business, be their own boss, and do their own thing. This flexibility allows farmers to determine their own product mix and to balance this production between consumer demand and individual talents for selling and market management. Producers who can raise specialty crops such as flowers, snow peas, or peppers, have successfully used direct farm-to-consumer marketing to provide products during special seasons or to special ethnic groups.

Direct farm-to-consumer marketing businesses have allowed many producers to use individual comparative advantages—such as good locations for roadside stands or help from retirees—to increase income or to supplement retirement incomes.

Another side to the “why” of direct marketing relates to consumer demand. The primary consumer attraction to direct marketing outlets is the opportunity to buy fresh, wholesome, flavorful products at their source. For the consumer, there is the lure of wholesome, flavorful freshness — usually coupled with the likelihood of being able to buy at lower prices, in larger volumes, and in a relaxed, friendly atmosphere.

Consumer demand for direct marketing products seems to be coupled with the popularity of automobile travel, leisure time, and a basic curiosity. Buying directly from farms, especially pick-your-own, is an opportunity for family recreation and learning. Many consumers also want to support local growers and to find out what “the good life is all about” in a rural agricultural setting.
**Considerations in Establishing a Farm-to-Consumer Market**

With the renewed interest in direct marketing activity, more and more farmers are asking, Is direct farm-to-consumer marketing the answer? This question can best be answered after assessing:

- Personal abilities and desire to sell directly to consumers
- The farming operation’s compatibility with direct marketing

The assessment should also include a review of direct marketing alternatives and their advantages and disadvantages. With a knowledge of direct marketing alternatives, producers can evaluate their marketing needs and assess the feasibility of direct marketing for satisfying those needs.

Producers’ marketing needs will vary depending on the variety of products grown, the volume of produce offered for direct sale, and the marketing channels available. Some producers may look for a produce outlet not intended for commercial buyers. Others may need marketing outlets for their entire crop; e.g., as a grower’s orchards mature. Producers seeking outlets for excess garden produce will require a substantially different marketing arrangement than will producers who regularly have a large volume of produce which is routinely moved rapidly to established markets. By assessing individual needs, producers can then compare these needs with direct farm-to-consumer marketing alternatives.

**Personal qualifications**

Begin the evaluation by assessing your abilities and desires to sell direct. That includes assessing personality, production knowledge, retailing knowledge, and plans.

**Personality** is important in direct marketing. Meeting and welcoming customers requires a friendly, outgoing personality. Direct market producers should enjoy meeting people and having them visit the farm or stand. If customers do not feel welcome, they probably won’t return. Producers who start direct marketing operations also should be prepared to work long hours, particularly on weekends and holidays when customers like to come by.

**Knowledge of production methods and techniques** is necessary to supply the quality and variety of products the public wants. Consumers who buy directly from you will be very interested in high quality, flavorful, and fresh products. Producers who don’t or can’t meet these expectations won’t sell much of their produce.

**Retail sales knowledge** is vital to successful direct marketing. The farmer becomes the retailer and thus needs to know the principles of merchandising, display, quality control, pricing, packaging, etc. Producers who have a working knowledge of retail sales operations have an advantage. Principles of retail selling can, however, be quickly learned. Your experience will be an excellent teacher. Substantial information about direct market management and operation is available. Don’t overlook other direct marketers. If things are going well in your local direct marketing area, they may be an excellent source of information. The Extension Service and the department of agriculture in your state can provide information as well.
Business factors

After your personal assessment, review your farming operation to determine whether a direct marketing business will really fit. The direct marketing business should complement your overall farming operation, not compete for land, labor, capital, or your management time.

Business plans for your farm as a whole need to be developed and considered when contemplating a direct marketing enterprise. The plan can help you assess the possible viability of your direct operations. For example, if long-range plans are to build enough volume to attract commercial buyers, and short-term plans are to establish a direct market operation to sell a lesser volume, then temporary structures and organization for direct marketing would be in order. If the intent, however, is to start from a small direct marketing operation and build into a substantial roadside market as production increases, then substantial capital investments may be warranted in the beginning.

Space and access Are marketing facilities, space, and parking adequate? Is it convenient for customers to get to your farm? Safe entry to and exit from your parking facility is a must. Inadequate parking space discourages consumers, whose repeat business you will need.

If parking would be a problem at your site, perhaps selling at a farmers market or a roadside stand on a major thoroughfare might be a reasonable approach. In any event, on-farm space must be set aside for your business without sacrificing needed production area. If a farmers market is a consideration, is the distance to the market reasonable given necessary transportation and labor costs?

Capital requirements Is enough capital available to build facilities and acquire equipment? Your financial requirements will vary substantially depending on the direct marketing approach you expect to use and the size of your operation. Estimates should be as detailed as possible. If borrowing is possible, ask lenders about their loan requirements.

Production capacity Analyze your production capacity. Does it match the direct marketing plans that you are developing? It is important that your direct marketing plans are designed to complement your farm production potential.

Product demand Is there sufficient consumer interest in the product or product mix that you expect to have available for sale? Is there a way to know? Checking with other growers or their customers may help.

Competition Is there room for another retailer? Do neighbor markets consistently sell out, indicating a short supply? Are other businesses willing to buy your locally grown products? Tight-lipped competitors in your area signal a potential market penetration problem: the local market may be saturated.

Legal requirements

A myriad of local, county, and state rules may limit the type of operation you can run. Your state department of agriculture and general business development programs in your state are good sources of information and cost very little, if anything, to access. See the sidebars on this and the next page to get started.
As you peruse business start-up materials, important items to consider include:

**Choosing a form of business**—i.e., single proprietorship, partnership, corporation, or limited liability corporation (LLC)—and a business name. These must be filed with your state government to protect both you and your customers. Licenses and permits may be required by your local or county government; for example, food-handler permits and kitchen license requirements if your business will include food preparation.

If you are employing other people, including family members, you will need to work with the state to establish proper income reporting, tax withholding, and insurance programs. State weights and measures programs apply if you sell products by the pound or other weight; however, if you sell by the box or other unit, you’re exempt. Sanitary concerns are of great importance—it is hard to go overboard on keeping your operation free from biological and chemical contaminates. You can learn much about this through your county health department and/or the Extension Service office that serves your county.

**What about zoning restrictions?** Be sure to check with your local and county regulators to ensure that you are in compliance. As you think about promoting your business, be sure your on-premises signs comply with county and state rules. You may find that local, county and state governments have something to say about this topic, even for temporary agricultural signs.

**Direct Marketing Alternatives**

Many direct marketing options are available. Selecting one depends on the individual, the farm location, the volume of products to sell, and other factors. Major direct marketing options include roadside stands, U-pick operations, roadside markets, and farmers markets. Other options include “honor selling,” gift baskets and mail-order or Internet sales, community-supported agriculture, selling direct to restaurants and other food institutions, agri-tourism, “peddling,” and rent-a-tree or rent-a-plot arrangements.

The following sections discuss some of these alternatives.

**Roadside stand**

The roadside stand is usually on the farm of the grower whose products supply the stand. The operation typically is seasonal and corresponds with the farm harvest. However, roadside stands allow considerable flexibility with respect to size, season, and method of operation. Occasionally, neighbors’ produce also may be sold, to offer a wider product variety. However, it’s important to maintain good quality control when buying from other producers. A successful roadside stand requires a suitable location with adequate access and parking and knowledgeable sales personnel. Either you or your employees need to have a strong interest in retailing; background and experience count.

Roadside stand advantages for producers include:

- You can do on-farm chores during slack periods, thus managing your time more efficiently.
- Product transportation costs are lower.
Frequently, roadside stands allow producers to expand as consumer demand and their abilities increase. It is entirely conceivable that a roadside stand could grow into a successful roadside market as you gain experience and the necessary capital.

**Roadside market**

With experience and capital, you may wish to develop your roadside stand into a roadside market. Typical sales include both your own and purchased products. The market often operates year-round and relies heavily on wholesalers for produce during the winter. You may retail products other than produce, but the operation generally is identified by its rural atmosphere and sale of “home-grown” products. The market is typically on or near your property, clearly indicating that it’s “direct.”

Roadside market advantages for producers include:

- Image created by on-farm location
- Diversity of products made possible by buying from wholesalers
- Year-round employment, which may encourage employee loyalty to your business and may eliminate the need for you or members of your family to work off-farm as well.

Limiting factors of a roadside market typically include the lack of a good location and too little capital for facilities and inventory. Successful operations inevitably require a strong retailing background and plenty of experience. Plan on staying open at least 7 months per year; year-around operations add to your probability of success.

Consumers expect to find a full line of produce, dairy products, and processed farm products no matter what time of year. Even though you must rely heavily on wholesalers and brokers for out-of-season supplies, the image of the rural environment and sale of “home-grown” products is essential. The possibility of offering cost-effective entertainment, such as musical performances, petting zoos, or displays, can enhance the success of your operation.

**U-pick operation**

Consumer harvesting, better known as U-pick or pick-your-own operations, means the consumer comes to the farm, does the harvesting, pays for the produce harvested, and transports it home. Consumer harvesting is a popular alternative for crops that have a distinctive indicator of ripeness, such as color or size, or crops that can or must be harvested all at once. However, almost any crop can be marketed this way.

Consumers enjoy selecting fully ripe, fresh products. U-pick prices generally are lower than retail, thus encouraging quantity buying for home canning and freezing. Consumers also assign some recreational value to their U-pick experiences. On the other hand, the extent of two-earner households does limit the number of customers who are interested.
U-pick advantages for producers include:

- Far less on-farm harvest labor, handling, packaging, shipping, and storage than other marketing alternatives
- Immediate payment upon harvest, with no deductions for shipping, handling, or spoilage, or risk of price change

Disadvantages include:

- Need to provide a large parking area
- Getting enough pickers
- Inexperienced and careless pickers, which result in some product loss; however, sometimes this can be compensated for by modestly higher product prices
- Safety issues and potential liability related to accidents; picking ladders, for example, in tree-fruit operations

The farmers market

Many names, such as open-air market, curb market, community produce market, and farmers retail market, are applied to the farmers market. The primary function, however, is to bring together a number of producers who sell locally grown produce to local consumers.

Farmers markets around the Northwest vary a lot. Facilities range from large permanent structures with individual stalls for sellers to a parking lot where vendors sell from trucks or between chalk marks on the pavement. The facilities may be owned and operated by individuals, corporations, cooperatives, or a municipality. Most farmers markets function under a formal set of rules, guidelines, or by-laws agreed to by the sellers and overseen by a hired manager.

A farmers market offers advantages to both producers and consumers:

- Collective selling attracts more customers because of the variety of products and services.
- Produce usually is fresher and may be less expensive than in some local stores.
- Entertainment such as music or special events may be more affordable for producers because costs are shared.
- Consumers can special-order produce in quantities for home preservation.

To the general community, advantages of a farmers market might include:

- Attracting customers to a declining or underused business district
- Improving farmer-consumer understanding through direct contact
- A buying opportunity, if centrally located, for people with limited mobility such as low-income families and the elderly

Disadvantages of a farmers market for producers include:

- You absorb the cost of transportation and other costs related to selling your products off-farm.
- If you are the sales person, you will spend time away from managing your farm and limited productivity when business at the market is slow.

For more information about farmers markets

Three OSU Extension publications examine farmers market operations in detail:

- When Things Don’t Work: Some Insights into Why Farmers Markets Close (SR 1073-E)

- Understanding the Link Between Farmers Market Size and Management Organization (SR 1082-E)

- Tools for Rapid Market Assessments (SR-1088-E)
• Your prices may be under pressure because price comparison is easy, and some buyers at farmers markets may be more bargain conscious than those who come to farm locations.

Farmers sometimes find that limited market days don’t provide enough sales volume to cover the added marketing costs. Most markets are not open year-round. Thus owners of the market space may find that other options would be more profitable. Farmers market organizations sometimes find it difficult to find good market managers who will accept an “affordable” salary and benefits.

**Other Direct Marketing Alternatives**

Other direct marketing options include Internet and mail-order sales, peddling, rent-a-tree operations, “self-serve selling,” and gift baskets. These selling options often are combined with other marketing alternatives to increase sales.

**Internet and mail-order sales**

You may find that selling from a website works well. Some farms successfully combine a website with a mail-order catalog or newsletter. You can sell everything from produce gift baskets to on-farm processed food products and Christmas trees. Destinations range from local to international. For many growers, this form of marketing is attractive because it lengthens the selling season and expands the customer base.

These methods are popular options with products that can be packaged attractively and are relatively nonperishable; for example, citrus fruits, herbs, holly, and flowers. Gift baskets and mail-order sales offer opportunities to increase sales, but success is often limited to specialty products, and sales usually are seasonal.

Some growers develop this as a second phase of their business. If you are gathering information on your on-farm or farmers market customers, it can be an easy next step to develop e-mail and postal address lists from contacts that you have made. Mailing lists also can be purchased. Often, using group websites or catalogs or contacting buyers’ clubs increases sales.

In some cases, producers cooperate to prepare and send products. The Internet provides a mail-order opportunity. You can design a website yourself by using a software package, or you can contract with a professional. Many growers browse websites of other farm businesses to get ideas on how to design their own site.

Increasingly, customers prefer to order and pay online, using a bank card; thus, you need to be able to accept credit card orders. Talk with your bank and your Internet service provider (ISP) to check out the possibilities, costs, and security requirements.

In most cases, growers ship or deliver their products in traditional ways. Quality preservation is a must if you are to be a successful shipper. If you will ship produce or other very perishable items, consider using express shipping and special packaging.
Community-supported agriculture

Community-supported agriculture (CSA), also called subscription farming, is another method of direct marketing. In one model of CSA, members buy shares of the farm’s harvest—and accept the risk that the crop may be damaged or lost due, for example, to weather. This differs from traditional production and marketing in which the grower accepts all risk. Membership may include an electronic newsletter, a harvest celebration event, and other “perks.” Usually, the grower sets a weekly pickup day and time at the farm or at a neighborhood location.

In another model, members pay a fee before the season and harvest their own produce. Frequently, farmers and customers discuss possible crops and production schedules at the time the fee is paid. Customers pay by the pound or piece for what they pick. Beyond the membership fee, the farmer assumes all the risks of crop failure.

In a third scenario, members of a food-buyers club pay an annual membership fee plus a per-pound fee for what they purchase. Rather than harvest their own, members fill out a produce order each week, and the grower takes the food to a central distribution point for pickup.

Many growers who have tried CSA think of it as a way to reduce their risk. It also can improve cash flow since customers provide at least partial funding up front. The grower has a dedicated market, and the buyers may guide in what to produce. In many cases, customers supply some labor at key steps.

Sometimes, growers find that this approach actually creates some complexity. Produce pickup can be a problem if locations are distant, and growing a wide variety of crops to meet customer demand can complicate the operation. This can be mitigated in part by developing relationships with customers. Getting to know one another better helps to reduce conflict and encourages repeat business.

Direct to restaurants and other food institutions

Selling directly to restaurants and other food institutions (hotels, schools, food-service vendors, etc.) is like selling directly to consumers, in that it eliminates one or two middlemen, but you have to provide the services that they would have performed. By assuming traditional wholesaler functions, the grower can keep the profit that normally goes to the wholesaler.

In restaurants, as an example, chefs and owners often are willing to make the extra effort to get high-quality and specialty items. However, they demand the same consistent quality and service from the farmer that they can get from a wholesaler—broad product line, partial cases of product, clean produce, frequent deliveries, convenient ordering, and expert advice.

Urban, suburban, and tourist areas usually have the number and type of restaurants that could make it economically feasible to sell directly to restaurants. A restaurant’s produce needs depend on its style of cuisine, chef’s
preferences, number of customers, and menu prices. Generally, restaurants that feature regional specialties, vegetarian dishes, or unusual cuisine are the best candidates for direct sales. For example, restaurants in areas like Seattle continue to position themselves in the marketplace using a “fresh, locally grown” angle in their menus.

Some restaurants seek out unusual varieties of vegetables and fruit, such as those usually grown in other countries, or old varieties often referred to as “heirlooms.” Organically grown produce is in demand by some restaurants. Restaurant menus may feature farm names, locations where produce is grown, variety names of produce, and health claims about their dishes. The restaurant may be willing to have on-table “tent” placards that provide additional information about your business and the produce you supply to the restaurant.

Expect to spend several years developing a profitable direct-to-restaurant business. You must make a dedicated, service-oriented commitment. Developing relationships, product line, and quality service takes good planning and hands-on experience. Restaurants often use the Web to market themselves and to order supplies. By using a restaurant’s web-based ordering system, you can set up “cyber” relationships with your restaurant customers.

An effective relationship with a chef involves annual planning to help the chef learn which specialty products can be grown in the area and to help you decide what crops to plant for the upcoming season. You’ll need to develop a product line broad enough to accommodate a group of restaurants and to justify the cost of delivery to each individual restaurant. Your service quality—e.g., product presentation, phone service, and delivery—must be excellent for a restaurant to justify reducing or dropping orders from its year-round produce wholesaler for the short, local growing season.

This type of sales may bring higher prices but requires more precise production planning. Sometimes, sales volume can be low compared to more traditional wholesale outlets.

**Agri-tourism**

Families often look for more than fresh produce and local products when visiting farms and related markets. They look for entertainment and educational opportunities, too. Corn mazes, hayrides, festivals, petting farms, and musical events are among many things that can be added to the fun of a farm experience. These types of activities, frequently referred to as agri-tourism, can draw customers from a wider area.

Many state and local governments have tourism programs, which can be very helpful to you in creating tourist events. Frequently, a group or community effort can be effective in drawing these resources into an agri-tourism project. Farm guides, community websites, tourism pamphlets, and news releases often are used in successful promotions. Northwest communities have many festivals centering on crop harvest: strawberries, lavender, pumpkins, apples, and wine grapes, to name just a few. Check out other festivals for good ideas that can help you develop a model for a new festival.
**Peddling**

In peddling, producers sell and deliver to individual consumers and groups such as buying clubs. Growers might sell off the back of the truck, take orders and deliver, or sell door-to-door where permissible. Peddling advantages include low overhead, easy entry when a product is in surplus, and easy exit when product supply is short. Legal restrictions and required licensing are a problem for some businesses. The image of a “fly-by-night” operation might also be a problem; counter it by developing regular routes.

**Rent-a-tree**

Also called plot arrangements, this option allows consumers to contract with you for the yield of a certain tree or row in the field. Generally, growers do all the work to produce the product, and they supply the equipment for harvesting. The consumers have the use of the tree or plot for the duration of the contract and do the harvesting. While not seen very much in the United States, it has been a successful sales technique in some European countries.

The primary advantage of the rent-a-tree arrangement is reduced harvest labor expense. However, increased effort in identifying individual trees or areas and in modifying cultural practices to satisfy customers may prove a disadvantage. Some growers find they have to deal with too many visits at all hours from some of their customers who want to check on their plot or have a family picnic under their tree.

**Self-serve or “honor” selling**

This method has proved successful for some small operators when sales volume does not warrant full-time sales personnel. The operator stocks the sales room or outlet with available products; consumers serve themselves and leave payment in a cash box. Many growers find this a good way to sell inexpensively and have no trouble with product or cash losses. One reported he had no problem as long as he regularly monitored the cash box to remove the larger bills. Yet, some growers report that customers really will steal from “poor farmers.”