

Marketing Your Products Directly

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Today in the U.S., based in no small part on the productivity of the American farmer, consumers have access to a safe, abundant and relatively cheap food supply. In the presence of this stable production of food, producers are challenged by the decreasing margins in terms of prices they receive for their products. Relatively low prices that producers receive for their products force them to keep production costs under control in order to remain viable when using traditional marketing channels. More producers are exploring direct marketing strategies in an attempt to increase profitability. Marketing products directly to consumers provides opportunities for producers to capture higher margins in the marketplace.

Food Marketing Costs

The U.S. food distribution system efficiently markets food from the farm (production phase) to the table (consumption). This system is good at changing the location and form of various products through processing and transportation but operates on very thin margins for the purchases of raw commodities. According to a recent USDA study (ERS 2001), farmers receive on average 19 cents of every dollar spent on food. This amount varies by the type of product (meat, produce, grain, etc.) and on the degree of processing.

Statistics taken from the USDA publication "Food Marketing Costs at a Glance" reveal that U.S. consumers

spent \$661.1 billion on food in 2000, excluding seafood and imports. Expenditures for farm foods increased \$211.3 billion from 1990 to 2000. The primary factor contributing to this increase was higher marketing costs. Over this time period, marketing costs increased by 57 percent and accounted for the largest part of the increase in consumer food expenditures. A large part of this increase is the result of value-added, further processing activities. Consumers have shown a willingness to pay a premium price for further processed or prepared (convenience) foods. Conversely, the farm value of food purchases increased by only 16 percent during this same period.

As the figure details inside, labor makes up the largest component of the food marketing bill. Labor represented 38% of the bill and accounted for \$253 billion in expenditures in 2000. Other components contributing to this marketing bill in 2000 are packaging with costs of \$53.3 billion (8%), energy costs of \$23 billion (3.5%) and advertising costs of \$26.1 billion (4%), respectively. The other components comprising the food marketing bill are transportation (4%), profits (4.5%), depreciation (3.5%), rent (4%), interest (2.5%), repairs (1.5%), business taxes (3.5%) and miscellaneous expenses (4%). *The remaining 19% in the farm value segment of the graph represents the returns back to the farmers.*

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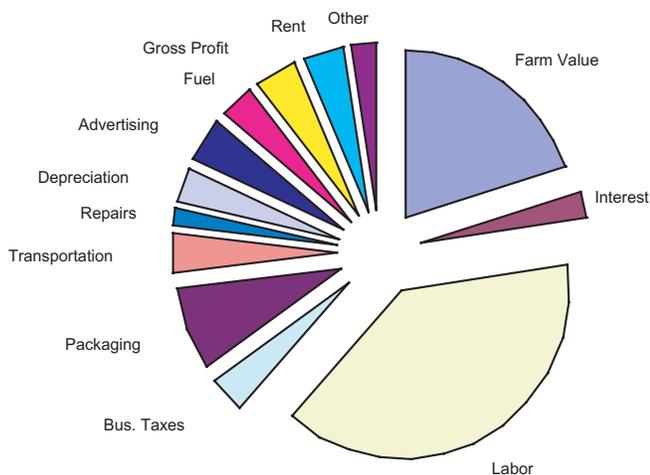
Farmers receive on average 19% of every dollar spent on food.

Legal Considerations for Direct Marketing

As demonstrated in Figure 1 outlining differences in pick-your-own, roadside and farmer's markets forms of direct marketing, all producers share some exposure to legal liability regardless of their chosen avenue of marketing. Those engaged in any form of direct marketing need to spend the time necessary to identify potential areas of legal liability in their operation. While this discussion can help the producer identify sources of legal liability, it cannot substitute for seeking local legal counsel to more fully discuss the liabilities the producer faces and what can be done to prevent legal problems associated with the operation.

Most states such as Arkansas have what are called recreational access liability limitation statutes. These statutes generally are designed to offer the private landowners some measure of limitations to their liability for allowing the public onto their land for the purpose of engaging in recreational pursuits. While useful in many instances, such statutes are of limited assistance in pick-your-own and farm stand operations, as one of the defining characteristics of the recreational access statute is that the liability protection may not apply if the landowner is engaged in business pursuits. Likewise, many insurance policies contain exclusions from coverage if individuals come onto the property pursuant to business activities.

Food Marketing Costs



Source: USDA's Economic Research Service

Typically, the difference between the cost of the raw product and the retail price is referred to as the marketing margin. These costs represent different activities from transportation to packaging. Producers interested in utilizing direct marketing strategies can perform some of these "marketing activities." It should be noted that there are costs associated with these activities. Producers involved with direct marketing efforts are likely to incur additional costs. With adequate planning, the relatively higher prices the direct marketers receive are likely to more than offset the added costs.

There are a number of direct marketing strategies that include pick-your-own operations, roadside and farm stands, internet sales, community supported agriculture (CSA) or subscription agriculture and farmer's markets. Figure 1 details three specific strategies: pick-your-own, roadside stands and farmer's market. The chart compares the different strategies in terms of investments, costs, pricing, etc. This chart is a valuable tool to assist in evaluating whether direct marketing fits a specific operation. Producers should examine the trade-off between the higher prices they receive as a direct marketer versus the costs of performing the marketing activities (transportation, packaging, processing, etc.) of the channel intermediaries.

Insurance policy coverage and exclusions.

Pick-your-own operations are usually intended as business or income-generating pursuits so they would fall within the exclusions for business pursuits or within the exclusions from liability limitation in recreational access statutes. Therefore, a comprehensive insurance examination with your local insurance broker is in order.

A complete record of risk management activities should be maintained and updated on a regular basis. Some landowners also employ the use of signage and written releases signed by those entering the property. There is also no substitute for supervision and attention to the activities of those on the property. If employees are used, they must also be trained in all aspects of risk management on the operation.

Figure 1. Direct Marketing Strategies for Agriculture Products.

Characteristic	Pick-Your-Own	Roadside Market	Farmer's Market
INVESTMENT	less capital investment: need containers, ladders, locational signs, parking, building or stand	need building or stand, parking, containers, signs, scales, coolers, etc.	very little capital investment: rent, parking or building space, containers, scales, bags, etc.
GROWER LIABILITY	high liability insurance: liable for accidents	liable for accidents: need liability insurance	need liability insurance unless covered by market
OTHER COSTS	need labor for field supervisors and check-out stand; field site transportation; advertising and promotion costs	need sales labor; advertising and promotion costs; some storage, packaging and handling costs; may need to purchase additional produce	need sales labor; stall or sales fees; display costs; transportation, storage, packaging and handling costs; no advertising and promotion costs
PRICING	large sales per customer; no transportation costs; no sales or broker fees	fairly large sales per customer; limited ability to sell large volumes; no transportation costs; no sales or broker fees	smaller sales per customer; direct competition from other growers
QUALITY	no grading; can sell whatever customers pick; freshness	can classify and sell more than one grade; can sell seconds; spoilage	highest quality needed
BARRIERS TO ENTRY	limited demand; limited crops; short season; location	limited demand; location; roadside access; marketing management zoning	municipal restrictions; conflicting goals of organizers; marketing management
SPECIAL ADVANTAGES	average value of purchase per customer may be higher than at other direct marketing outlets	can be expanded to meet needs of producer; can be tailored to customer's tastes and preferences	potential for large number of customers; low overhead; advertising done by organization
SPECIAL DISADVANTAGES	affected by weather; damage to field, trees, plants; location may be critical	affected by weather; location may be critical	time consuming; must transport produce; do not have as much control over promotion

Source: "Characteristics of Direct Marketing Alternatives" by Deborah Young

The trend across most jurisdictions is to afford all those coming onto your property a duty of reasonable care. Regardless, all those entering onto your property for pick-your-own activities have always been afforded the highest standard of care, which requires the landowner to take all necessary precautions against their injury and to warn of all known or hidden dangers.

Legal considerations when site is operated by third party.

If the roadside market is owned or operated by a third party, the producer should make inquiry whether the market owner has liability insurance for accidents that might occur on the property. Additionally, if the direct market producer is selling from a farmer's market, different issues should be

examined. Many farmer's markets require their member producers to carry general liability insurance to cover illnesses or injuries that might occur attributable to product or activities on the market. The producer must normally keep insurance coverage up to date and provide proof of coverage to the market or market manager, usually on an annual basis. Farmer's markets that take place on public property require different inquiry. Discussions between the farmers market board, the market manager and the public (usually municipal) government unit must take place, during which a careful examination of risks and responsibilities should occur.

The above discussion centers on risk of liability for physical injuries to those coming onto the property or into the market. There are other exposures that apply generally across all direct market locations. Specifically, all producers engaged in direct

marketing must ensure that their products are advertised truthfully and that the products are presented for purchase in compliance with all food safety requirements.

***Health and food safety codes,
regulatory requirements and
truth in advertising***

Depending on the product you desire to sell, a thorough examination of all health and food safety codes must be done. Your operations and marketing methods, handling, packaging, storage, etc., must meet all current regulatory requirements. In addition, if your product is labeled in a certain way, it must actually meet your own label representations, or if a public label (“organic”) is used,

the regulations controlling use of that label must be met. Failure to properly label or mislabel product may expose the producer to liability for violation of agency regulations in addition to breach of warranty or other product liability claims from the consumer. There is no substitute for compiling a comprehensive library of applicable regulations and updating regulations periodically, while at the same time examining all aspects of your operation to ensure standards are met.

Conclusion

Marketing agricultural products directly offers producers an opportunity to capture a higher share of consumer purchases. Producers should carefully consider the added costs and additional risk to evaluate whether direct marketing is a viable option for their business.

Printed by University of Arkansas Cooperative Extension Service Printing Services.

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