

Marketing Your Products Directly

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This fact sheet describes special production and implementation considerations for direct marketing and advantages and disadvantages of popular direct marketing channels. More producers are exploring direct marketing strategies as a way to increase profitability.

Producers are having a difficult time turning a profit in traditional marketing channels due to increased marketing costs. According to a recent USDA study (ERS 2008), farmers received an average of 19 cents of every dollar spent on food in 2006. This amount varies by the type of product (meat, produce, grain, etc.) and on the degree of processing. Marketing products directly to consumers provides opportunities for producers to capture higher margins in the marketplace since there are no intermediaries between producer and consumer.



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.

Conduct a Market Analysis and Develop a Marketing Strategy.

First, estimate marketing and production costs to initially determine if direct marketing is a profitable venture for your business. Identify your target market and your customers’ locations. Market Maker, a free online direct marketing tool, is capable of mapping the location of your target market. It can be accessed at <http://ar.marketmaker.uiuc.edu/>.

Next, assess the level of unfulfilled demand for your product(s), and estimate its market growth potential. Consider what direct marketing channel best suits your target market.

Finally, assess your competition. Determine prices consumers currently are paying. Evaluate the competitors’ strengths and weaknesses. Ascertain the differentiating characteristics of your product(s). Marketing strategy is also important in direct marketing.

Product, price, promotion and placement are “marketing’s four Ps” and are particularly applicable in direct marketing venues. Even if you have the premiere product, no one

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will buy it if you do not present it attractively.

Product refers to the product's differentiating characteristics that



help a consumer identify your product. Its packaging, quality, features and brand name should convey an image that is appealing to the target audience.

- Packaging could include characteristics such as selling appropriate volumes or presenting products commonly consumed together in a package.
- Quality refers to grading, "picked on" dates, physical blemishes, etc.
- Features of the product could incorporate special labels or signage to promote distinctive varieties, production practices ("natural," "chemical-free," "organic*," "greenhouse grown") or product origin ("Bradley County tomatoes," "Arkansas Grown*").
- Brand name is important to selling products to create customer loyalty, especially when marketing products that are traditionally considered commodities.

Price represents the value of your product. A price too low gives customers the impression of inferior goods; however, a price too high may be out of many customers' price ranges.

Be aware of supply and demand trends to accurately price your product. Low supply and

high demand creates an atmosphere for higher prices; however, the opposite is also true. Higher prices are also commanded by value-adding qualities.

There are two types of pricing schemes that can be used independently or in conjunction with each other: relative pricing and cost-oriented pricing. Relative pricing is based on competitors' prices. Although it may be the easier pricing method, it may not be the most profitable.

Cost-oriented pricing is dependent on your costs of production. You must initially determine the break-even price (price per unit at which variable costs are returned) to ensure that the retail price returns a profit (greater than the break-even price). However, producers that rely solely on cost-oriented pricing run the risk of pricing themselves out of the market. Before entering into a direct marketing venture, it is important to ensure that your desired price points are market feasible given the prices of competitors.

Promotion is advertising your product's availability, seasonality, differentiating characteristics and your location. Promotion early in the season attracts new customers, while promotion during the season maintains your customer base.

Traditional advertising strategies may not be as effective in direct marketing venues, but differentiating your product by developing personal relationships with customers has proven to be an effective promotional strategy. According to a University of Arizona survey, word-of-mouth is the most effective promotional strategy in direct marketing.

Placement is defined by the marketing channel you choose. There are risks and benefits associated with each venue, and some

products may be better suited to certain sales channels than others.

Choose a Direct Marketing Venue.

There are a number of direct marketing strategies: pick-your-own operations (U-pick), roadside or farm stands, internet or mail order sales, restaurant sales, retail sales, community-supported agriculture (CSA), farm-to-school and other institutional programs and farmers' markets. 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.) that accompany a direct marketing enterprise. (For a comparison of direct marketing strategies, see Table 1.)

1 U-pick is the least labor-intensive option for the producer. The location of your farm is vital to your success. Crops that are better suited to home-processing and/or value-added processing, e.g., fruit and nut trees or berry and pumpkin patches, are the best options for pick-your-own operations. Select varieties with different ripening dates in order to extend the harvest season. This practice allows for a more sustained and distributed income stream and provides some protection against weather-related risks.

2 Roadside or farm stands are currently the most common systems of direct marketing. Stands can accommodate single or multiple producers, depending on the location and organization of the venue. The location of the stand is vital to your success. High-visibility signage is the most effective advertising strategy for stands.

*These labels require official certification to use legally.

Table 1. Characteristics of Popular Direct Marketing Channels

Characteristic	Channel							
	U-Pick	Roadside/ Farm Stand	Farmers' Market	Institutional Sales	Internet Sales/ Mail Orders	CSA	Restaurant Sales	Retail Sales
Investment	Need containers, ladders, locational signs, parking, restrooms and hand-washing facilities, building or stand for customer breaks, product weighing and checkout.	Need building or stand, parking, containers, signs, scales, coolers, etc.	Rent, parking or building space, containers, scales, bags, etc.	May have to rent distribution space.	Very little capital investment: must have a web site and/or catalog; registering on Market Maker is free.	Very little capital investment: may need to set up a pick-up area for members; web site maintenance or newsletter production.	A vehicle suitable for deliveries; coolers or other refrigeration in delivery vehicle.	A vehicle suitable for deliveries, coolers or other refrigeration in delivery vehicle.
Grower Liability	Need premises liability insurance. Some states have laws protecting U-pick operations or agritourism liability statutes.	Need premises liability insurance. Some comprehensive farm liability policies include "operation of roadside stands."	Need liability insurance. May be required to list market as additional insured. May need food product liability insurance.	May need food product liability insurance; understand contractual obligations.	Need product liability insurance; understand contractual obligations.	May need liability insurance; understand contractual obligations.	May need food product liability insurance.	May need food product liability insurance.
Miscellaneous Costs	Need labor for field supervisors and check-out; field site transportation; advertising and promotion costs; no transportation costs.	Need sales labor; advertising and promotion costs; some storage, packaging and handling costs but no transportation 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.	Transportation, storage, packaging and handling costs. No advertising and promotion costs.	Packaging and shipping costs; regular transportation costs with each purchase. Need labor to update web site, process and ship orders.	Packaging costs and possibly transportation if products are delivered. Member recruitment is usually word-of-mouth but can be augmented by newspaper ads and/or promotion at farmers' markets.	Transportation, packaging and handling costs.	May require credit rating, on-farm food safety audit, additional insurance.
Pricing	Large sales per customer; no sales or broker fees.	Fairly large sales per customer; limited ability to sell large volumes; no sales or broker fees.	Smaller sales per customer; direct competition from other growers.	Large sales per customer; first priority is to minimize costs. May be a distribution fee.	62% of customers spend \$10-\$100. Be competitive with similar products in other direct marketing channels. Emphasize your products' differentiating characteristics.	Determined pre-season by contract which guarantees customers for the season. Usually paid monthly, quarterly or by season. Some CSAs charge a membership fee.	Small sales per delivery. Payment may be on a periodical basis instead of upon delivery.	Large sales per customer. Prices must be competitive with traditional wholesalers.

Adapted from Young (1995).

(Continued on page 4)

Table 1. Characteristics of Popular Direct Marketing Channels (continued)

Characteristic	Channel							
	U-Pick	Roadside/ Farm Stand	Farmers' Market	Institutional Sales	Internet Sales/ Mail Orders	CSA	Restaurant Sales	Retail Sales
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.	A single producer may not be able to meet demand. Consider working in cooperation with other producers.	Some products are not well-suited for shipping because of either physical characteristics or prohibitively expensive shipping costs.	May need to collaborate with other producers to meet members' demand with diverse products year-round.	Farm location must be within a reasonable driving distance of restaurant for delivery or pick-up.	Some grocery chains require corporate approval before entering into a business relationship with a vendor.
Special Advantages	Average value of purchase per customer may be higher than at other direct marketing outlets.	Can be expanded to meet the needs of the producer. Can be tailored to customer's tastes and preferences.	Potential for large number of customers; low overhead; advertising done by the organization.	Large volume of products per customer; may contract for products in advance.	Ability to reach a wider customer base than with physical sales locations.	Pre-season contracts yield consistent and stable revenue. Expect about 60% repeat customers, so revenue can be factored into budget earlier. May increase or account for the majority of revenue in winter.	Building relationships enables the producer to plan special crops in advance for certain customers.	Products are viewed by a large volume of consumers in store; brand publicity.
Special Disadvantages	Considerable weather risk, so a backup plan is important in the event that weather depresses customer turnout during a key harvest window. Location and on-farm atmosphere/set-up is critical to success.	Affected by weather; location is critical.	Time-consuming. Must transport produce. Do not have as much control over promotion.	Distribution may have to be handled by a third party. Growing season does not match school year.	Very little face-to-face interaction with customers. Minimizes the element of connection between producer and consumer.	Usually only accounts for about 15-20% of gross revenue. Lower profit margins than some other channels. May have a decrease in demand in late summer due to members' vacations. May exclude potential customers who are unable to pay in advance.	Delivery is strongly preferred. Small quantities are necessary frequently on the restaurant's schedule. Repeat business dependent upon the success or failure of restaurant.	Costs of entry into this channel may be too expensive to return a profit for very small producers. Repeat business is dependent upon the success or failure of retailer.

Adapted from Young (1995).

3 Internet or mail order sales usually require shipping (except in cases of online CSAs and other local pick-up systems). Some products are not well-suited for shipping because of either physical characteristics or prohibitively expensive shipping costs.

Registering your business on Market Maker is a free method of online advertising, and potential customers can search for your business by characteristics such as product or location.

Creating a web site for your business is a widely used and easily accessible promotional tool that not only benefits internet and mail order sales but is also a channel for farm news, updates, available products, locations where your products can be bought, etc.

4 Restaurant sales is a channel for locally grown products that is growing in popularity and is becoming more feasible as producers and restaurant managers/chefs gain more experience in the matter. Transportation logistics can be an issue: restaurants need small quantities of exceptional quality to be delivered frequently. Managers/chefs usually cannot pick up products and work on different schedules than producers. Note that e-mail is usually the best contact method due to schedules and the volume of communication a restaurant manager/chef receives.

5 Retail sales is a channel that is benefiting from consumer demand. Some grocery chains may have more barriers to entry than others because of corporate approvals or decisions. In general, retail outlets purchase larger volumes per delivery and expect prices

to be competitive with other wholesale vendors.

6 CSAs are also called subscription agriculture or grower contracting. A wide variety of products must be available to the customer base for the duration of the season, which makes CSAs a good option for groups of producers in the same vicinity. Cooperating with other producers presents a wider variety to the customer base than a single producer could accomplish.

Most CSAs try to offer something year-round to their consumers. Some CSAs are going online, and with the online presence, they can take orders and market their products. Customers pick up products at a predetermined weekly or biweekly location, eliminating the necessity of delivery.

7 Institutional sales include marketing to schools, nursing homes, hospitals, prisons, etc. Farm-to-school may be the most advanced channel, as programs exist in most states. This channel may be the least feasible for a single producer to enter due to the large volume required by most institutions, so group efforts including multiple producers may be necessary.

Keep in mind that a main goal of many institutions is to minimize costs. Reliable and adequate supply is also of primary importance to these customers.

8 Farmers' markets are a popular venue in both large and small communities. Since they are usually held in town, you may incur some significant travel time and storage requirements, depending on your operation's location. However, selling products at farmers' markets can offset

the disadvantage of a remote production location.

Learning to predict sales to bring an ample amount of product is essential – not too much, not too little. Farmers' markets usually have larger volumes of potential customers, but it is important to differentiate your product/stand in order to attract customers because of increased competition.

Understand and Comply With Health and Food Safety Codes, Regulatory Requirements and Truth in Advertising Laws.

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.

Different products may be subject to different regulations; i.e., the USDA regulates meat, and the FDA regulates other food products. Value-added and/or further processed products must be prepared in certified and inspected kitchens.

In addition, if your product is labeled in a certain way, it must actually meet your own label representations, or if a public label, e.g., "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.

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