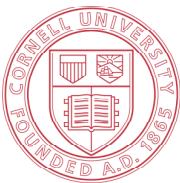




## Guide to Marketing Channel Selection:

### How to Sell Through Wholesale & Direct Marketing Channels



**Cooperative  
Extension**  
Tompkins County

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### **Introduction to this guide**

Market channel selection is as important as production decisions for the small to medium sized fruit and vegetable operation. This publication is a decision-making aid for new farmers and for those considering marketing through a new channel. The guide focuses on describing the marketing of fresh-market produce, however, many of the principles apply to the marketing of other agricultural products including cut flowers, meats, honey, maple syrup, and dairy products. While generalizations are made about the channels, exact details are subject to conditions with individual farms, their location, potential customer base size, and other factors.

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## INTRODUCTION TO MARKETING CHANNELS

Marketing channels are divided into two broad groups, direct and wholesale. These terms are often used inconsistently, however, the definitions used in this guide are below.

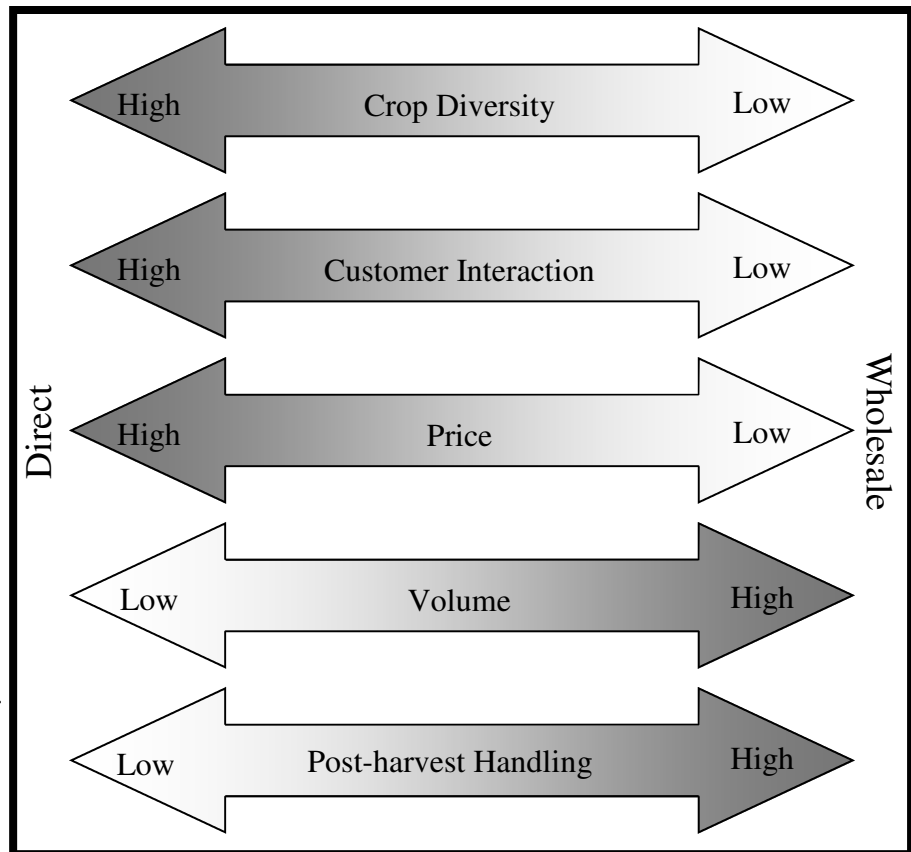
### DEFINITION:

**Wholesale Marketing:** *Selling a product to a buyer who is not the ultimate end user.*

**Direct Marketing:** *Selling a product directly to the end user.*

The size and scale of a farming operation, number of years of operator experience, the demographics of the surrounding region, and the preferences of the farmer will determine which channels are best suited to the farming operation. A beginning farmer may choose to start out using direct channels, such as a farmers' market; however, depending on a farm's business model, growing fewer crops on a large scale for high volume buyers may be preferred. Understanding each channel, its benefits, requirements and limitations is an important starting point for channel selection. It is also important to know the volume of production required and average prices paid in order to assess the potential returns of a channel.

In marketing channel selection, farmers are faced with a dilemma: they can move large volumes of product through wholesalers at relatively lower prices or seek higher prices in direct market channels and run the risk of unsold product. Figure 1 is an illustration of the typical characteristics of the two types of channels.



**Figure 1: Generalizations about Wholesale and Direct Marketing Channels.**



# MARKETING CHANNEL CHARACTERISTICS

## How to evaluate marketing channels

Choosing the right mix of marketing channels includes consideration of many factors, including sales volume, risk, lifestyle preference and stress aversion, labor requirements, and channel-specific costs. Below is a description of each of the factors that contribute to a channel's "performance." The importance assigned to each of these factors is unique to the individual farm. Additionally, the nature of highly perishable crops, along with the risks and potential sales volumes of particular channels, requires combining different channels to maximize gross sales in order to sell everything when it is ready. Appendix 1 summarizes the major characteristics to consider when evaluating alternative marketing channels.

### CHECK IT OUT!

**Evaluating Marketing Channel: Options for Small-Scale Fruit and Vegetable Producers: Case Study Evidence from Central NY. See the full study online:**

[http://aem.cornell.edu/outreach/extensionpdf/2009/Cornell\\_AEM\\_eb0903.pdf](http://aem.cornell.edu/outreach/extensionpdf/2009/Cornell_AEM_eb0903.pdf)

## Sales Volume and Price

The volume that can be sold through a given channel has an impact on profitability. The more perishable a crop, the more important it is to have a channel that can absorb the volume harvested as quickly as possible. As such, a channel's risk and potential volume are closely associated. Farmers are challenged to balance the lean and the plenty when selling through different channels. As one farmer described, the constant challenge is finding an outlet for the varying and sometimes unexpected harvest volumes, "Even if a whole field ripens at once, I am not going to pick it unless it is sold." While that may mean letting a crop

spoil in the field, spoilage is less expensive than paying people to harvest produce that may not sell.

Optimizing sales of perishable crops requires the flexibility of combining different channels capable of absorbing unpredictable volumes. In general, wholesale distributors and retailers can be counted on to buy large quantities at once. Also, through direct marketing, Community Supported Agriculture (CSA) can consume a large volume. With a CSA, it is always possible to give members more in a share if a particular crop is plentiful, but this does not translate into more income, just less wasted produce and perhaps more satisfied customers.

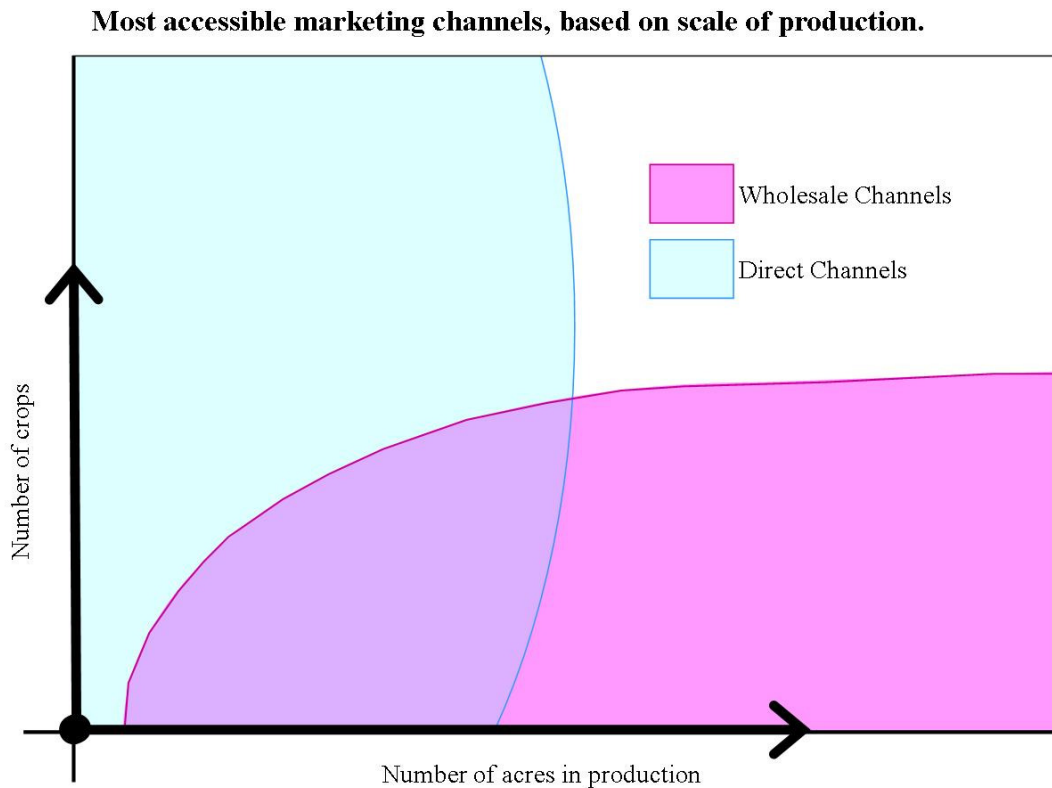
**Table 1: Comparison of price and volume for strawberries in direct and wholesale channels.**

|                        | Sale Price/Pint | Pints Sold | Total Gross Sales |
|------------------------|-----------------|------------|-------------------|
| <b>Farmers' market</b> | \$4.00          | 36         | \$144.00          |
| <b>Grocery store</b>   | \$1.50          | 300        | \$450.00          |

The volume that can be sold through other direct channels such as farm stands, u-pick, and farmers' markets depends on weather, location, advertising, drive-by traffic, and population size. Volume for these channels is more dependent on weather, customer numbers and location than wholesale channels.

The general tradeoff between relatively high and low-volume marketing channels is

price. Table 1 gives an example of the quantities and prices paid for strawberries in both a direct and wholesale marketing channel. Despite lower prices, high-volume channels offer the benefit of increased efficiency for harvest and post-harvest labor. Additionally, wholesale buyers make large purchases in as little as a five-minute phone call once a relationship is established.



**Figure 2: Direct and/or wholesale channels are the best marketing choice depending on the number of crops and scale of production for each crop. (Figure is an estimation).**

## Risks and Lifestyle Preferences

In addition to regular production risks such as weather and pests, each marketing channel offers a set of risks to the producer. Marketing risk comes in many forms, including market demand for a crop, price, competitors, failure to offer a diverse selection, and low volume sales. Additional risks include the possibility of low customer turnout due to weather, such as at farmers' markets, farm stands, or u-pick businesses resulting in unsold perishable products. Risks for any channel that allows customers

on the farm are injuries, crop damage, litter, and other problems.

In a survey conducted with Central New York vegetable farms (results shown in Table 2), farmers were asked what they felt were the primary risks with each channel. The responses are categorized into seven basic challenges: low volume sales, high labor and marketing costs, the ability to provide product of consistent quantity and quality, buyer failure to fulfill commitments, competition, unpredictable customer turnout, and low price risk.

**Table 2: Frequency of Mentions for Risks and Challenges associated with Marketing Channels, from survey of fourteen Central New York fruit and vegetable producers.**

| Risk or Challenge                                  | CSA | U-pick | Farm Stand | Farmers' Market | Restaurant | Distributor | Grocery/Retail |
|--|-----|--------|------------|-----------------|------------|-------------|----------------|
| Low sales volume, unsold produce                   | 1   |        |            | 3               | 1          |             |                |
| High labor and other marketing costs               |     |        | 3          | 7               | 2          | 5           | 2              |
| Ability to provide quality & quantity consistently | 2   | 1      |            | 2               | 2          | 1           | 2              |
| Market competition                                 |     |        |            | 1               |            |             | 1              |
| Unpredictable customer turnout                     |     | 2      | 2          | 2               |            |             |                |
| Low prices & profits                               |     |        |            |                 |            | 4           | 1              |
| Buyer back-out, failure to fulfill commitments     |     |        |            |                 | 1          | 1           | 1              |
| Other  | 1   | 1      | 1          |                 |            | 1           | 1              |



The two main reasons given for avoiding a particular marketing channel were lifestyle preferences and stress aversion. Wholesale channels tend to create stress because they require higher levels of preparation (e.g., washing, grading, packing, and delivery), product specifications, and volume commitments. Distributors were also perceived to be very demanding, where producers must accept dictated prices, deadlines, and delivery logistics. Alternatively, direct marketing channels were perceived as ones that imposed relatively low levels of stress on producers. This was particularly mentioned with the CSA channel where customers share the risks and may have lower expectations in terms of washing, sorting and packaging.

As expected, questions about direct marketing channels, except for CSA,

provoked concerns over customer turn-out. Factors such as weather, location, and the availability of parking are all risks when direct marketing.

The most frequently cited concern regarding all marketing channels was high labor and marketing costs. Among the direct channels, “high marketing costs” was most frequently mentioned for farmers’ markets because they tend to be labor intensive and carry additional marketing costs, such as market fees, advertising, and travel. Sales to distributors were cited as having the highest marketing costs. Respondents mentioned a high level of labor needed to solve the “logistical headaches” of delivery, the high level of quality control work, and the added “time and energy for good service” when selling wholesale.

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## Labor Requirements

In general, wholesale channels require more labor devoted to harvesting, washing, sorting, and packing due to the high volume of product marketed while direct channels tend to require higher levels of sales time and customer interaction.

While many farmers enjoy customer interaction and feedback, some prefer not to deal with customers. Farmers’ market, farm

stand, and u-pick generally require a high degree of customer interaction and are channels that reward a tidy appearance and welcoming display. Of course, farm stands and u-pick sales can be conducted using honor system payment, but some minimal level of customer interaction is inevitable. CSAs require customer interaction during weekly pick-up times, however, CSAs also may have newsletters or email updates for

their members. Community Supported Agriculture sales, though done off-season, require customer interaction as well.

Wholesale customers require less customer interaction, except when discussing orders or making deliveries. Once a

relationship is established with a wholesale buyer, sales calls take less time. Wholesale accounts allow more anonymity; however, promotion in the form of cases of free sample product is common.

### Other Channel-Specific Costs

While some operational costs are common among all marketing channels (utilities, equipment, insurance, licenses and certifications, vehicles, and buildings etc.), each channel has costs and requirements that are specific to that channel. Due to the



**Illustration 1: Multiuse plastic crates are cost effective and reusable.**

potential for large variations in the scale of sales through each channel, and the operator's chosen level of marketing management and staffing, it is difficult to compare the channels in regard to these costs

in this guide. However, associated costs should be considered when individual operations decide on their optimal marketing channel mix. A list of associated costs by marketing channel is summarized in Table 3.

Reusable plastic crates, like the one in Illustration 1, are used for harvest, storage, and transport of produce. They are convenient and cost effective (around \$14 each) because they are durable, washable, and can be stacked when full of produce.

Crops are harvested directly into the plastic containers in the field, then moved into a cooler, and brought to the direct marketing site. In contrast, with wholesale channels, the container is lost into the supply chain, so cardboard boxes are used, adding cost. In addition to boxes, an assortment of other marketing supplies are purchased, including quart and pint containers, plastic bags, twist ties, and rubber bands. These supplies are usually purchased in large quantities once or twice per year.

**Table 3: A sample of the costs commonly associated with different marketing channels.**

|  | Farmers' Market | CSA | U-Pick | Farm Stand | Wholesale: Restaurant, Grocery, & Distributor |
|--|-----------------|-----|--------|------------|---|
| Reusable plastic crates  | R               | X   | O      | R          | R   |
| Single use boxes   | O               | O   | O      | O          | X   |
| Packaging Materials  | X               | O   | NA     | R          | X   |
| Customer shopping bags   | X               | O   | X      | X          | NA  |
| Farm sign (s)  | X               | X   | X      | X          | NA  |
| Building/Tents, tables, tablecloth, chairs                                 | X               | X   | X      | X          | X   |
| Cash register/box, scale, calculator                                       | X               | NA  | X      | X          | NA  |
| Pricing signs  | X               | NA  | X      | X          | NA  |
| Market fees  | X               | NA  | NA     | NA         | NA  |
| Brochures & flyers   | O               | R   | R      | O          | O   |
| Advertising  | NA              | R   | R      | O          | NA  |
| Transport/Delivery   | X               | NA  | NA     | NA         | X   |
| Washing & sorting equipment  | O               | O   | NA     | O          | R   |
| <b>KEY: X = Necessary R = Recommended O = Optional NA = Not applicable</b> |                 |     |        |            |   |

Some costs specific to farmers' markets are membership fees and daily market fees. In addition, a tent, along with tables, a scale, shopping bags, and signage with the farm's name and prices are all common supplies and equipment needed for most markets. In addition, brochures, business cards and other point-of-purchase materials may be used to promote sales. A benefit of membership in a

farmers' market is that the advertising is done by the market. Individual farms do not need to advertise, but must maintain a high level of product quality and variety to attract customers to their booth.

CSAs require advertising, generally through a combination of brochures, print ads, websites, and signage. Presence at a farmers' market and word of mouth are also

useful ways to sell memberships. CSAs require a high level of organization and administration in selling memberships, as well as having a suitable location for member share pick-up.

The u-pick and farm stand channels have varying levels of associated costs depending on the scale of the operation and the marketing skills of the operator. Some stands involve a simple, inexpensive tent and table set-up, with one roadside sign at the location and a cashbox for money. Larger operations may include specialized buildings, walk-in storage coolers, refrigerated display cases and tables, a cash register, bags, boxes

and staff. The choice of whether or not to staff a stand or u-pick will have a large impact on the operation's profitability.

Wholesale channels involve significantly fewer associated costs. While the number of these costs may be fewer in number, the level of these costs can be high. Fuel costs for delivery, refrigerated equipment, training and certifications for food safety, packaging, and washing and sorting equipment are all anticipated costs for the producer selling wholesale.

### 5 Keys to Marketing Channel Decision Making

#### Value Your Time

As a farmer & business owner, you should place a value on your own time when evaluating marketing channel opportunities.

#### Keep Records!

Take the time to keep records, even if only for "snapshot" periods, so you can make informed decisions about your business.

#### Use the 6 Factors of Performance

Evaluate a channel for its: Weekly sales volume, profit, labor requirement, risk, associated costs, and lifestyle compatibility.

#### Rank & Compare

Rank each channel for each performance factor (give a "1" to the best), add them up, & the channel with the lowest total is the best!

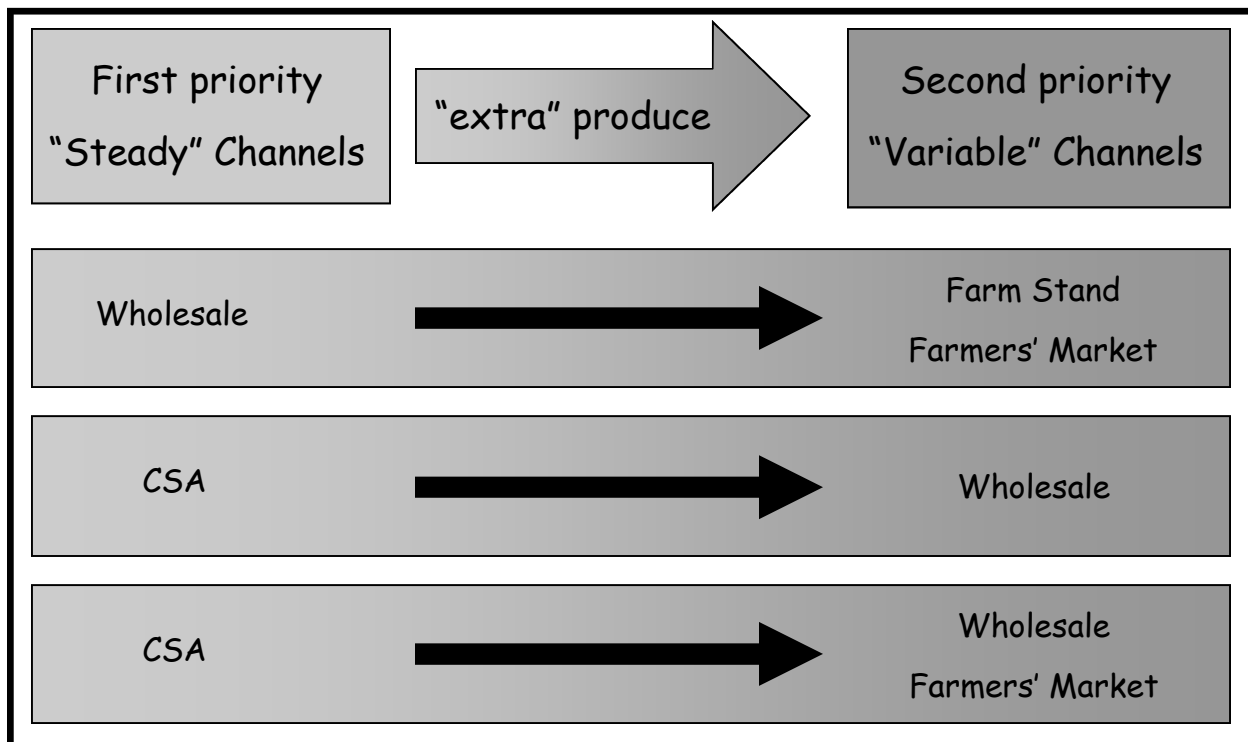
#### Multiple Channel Strategies

Combine channels to maximize sales. Have at least one "steady" channel and one that is flexible in its volume demand.

## Marketing Channel Combination

Channel combination strategies allow a farm to maximize sales and help to reduce some risks. Figure 3 illustrates some marketing channel strategies used by real farms allowing them to diversify the sources of their income, as well as optimizing sales of unpredictable levels of harvest. Each farm has a “steady” marketing channel with a relatively consistent demand. This channel represents the farm’s first priority for the weekly harvest. Once that channel is satisfied, the farm’s other channels can be supplied with additional harvest. For

example, Farm #3’s priority is its weekly CSA distribution. Once sufficient produce is available for CSA members, the farm can market “extra” products to its farmers’ market and wholesale customers. In contrast, Farm #1 first satisfies wholesale orders, then bring surplus product to the direct channels of farm stand and farmers’ market.



**Figure 3 : Examples of marketing channel combination strategies.**

## Wholesale Marketing Channels

Wholesale channels typically require the ability to move large quantities of produce quickly, usually, but not always, at a lower price than through direct channels. Wholesale marketing channels include selling directly to restaurants and retailers (without the use of a broker or distributor), distributors, produce auctions, processors, and produce brokers. Selling to processors and produce brokers is not specifically addressed in this guide.

### Wholesale Buyer Expectations

Farmers wishing to enter wholesale channels should take the time to learn about the expectations and requirements of typical wholesale buyers. The most common expectations and requirements are summarized below. Wholesale customers, in general, require a high and consistent level of washing, sorting/grading and packing.

Interviews with produce distributors revealed that quality, consistency, and proper packing were the top concerns with product cleanliness, ripeness, and sorting for size also mentioned as important.

#### Wholesale Buyers Expect:

- ★ High Quality
- ★ Clean product
- ★ Communication
- ★ Proper packing
- ★ Sorting for size
- ★ Timely delivery
- ★ Consistency

#### Wholesale Buyers May Require:

- GAPs certification
- Vendor permits
- Liability Insurance
- Refrigerated trucks
- Promotional products



## Communication is Critical

Wholesale buyers do not like to be surprised. They depend on quality produce, complete orders, and timely delivery. When this is not possible, advance notice can make all the difference. In fact, wholesale buyers say that it is more important that a farmer clearly communicate the quality and quantity of produce available than it is to maintain a

steady supply. Buyers want to be kept informed of how crops are doing, so that in the case of shortage, crop failure, or poor quality, they have time to source a replacement. Clear communication done in advance can make the difference between losing an account with a wholesale buyer, and maintaining a good working relationship.



**Illustration 2: Clear communication is key when dealing with wholesale buyers. Here, the farmer drops off an order and reviews paperwork with a grocer.**

## Post-harvest handling

### Washing & Food Safety

Wholesale buyers demand produce which has been cleaned and absent of soil or other foreign materials. Increasingly, wholesale buyers also require some level of food safety assurance, such as the national voluntary Good Agricultural Practices (GAPs) program. GAPs is a food safety program which includes farmer education, a written food safety

plan for each farm, and third-party inspection for certification. Even in the absence of an official food safety requirement, proper washing and chilling of produce is necessary for successful wholesaling to preserve crop quality and shelf life.

**CHECK  
IT  
OUT!**

**For more information on Good  
Agricultural Practices visit:  
[www.GAPs.cornell.edu](http://www.GAPs.cornell.edu)**

### **Food safety assurances that farmers should consider:**

- ♦ Educate farm workers about proper hygiene.
- ♦ Wash and sanitize containers, tables, and packing equipment.
- ♦ Keep domestic and wild animals away from washing and packing areas.



**Illustration 3: Carrots and salad greens are thoroughly washed for wholesale customers.**

### **To keep produce looking and tasting its best:**

- ♦ Harvest at the right stage of ripeness.
- ♦ Leave room for air to circulate around produce in storage.
- ♦ Don't pack too tightly or too deep in harvest containers.
- ♦ Avoid impact injury to produce caused by throwing or dumping.
- ♦ Shade produce from direct sunlight.
- ♦ Remove field heat quickly and store properly.
- ♦ Avoid chilling injury by checking thermostats and thermometers in coolers.
- ♦ Don't store incompatible produce in the same cooler.

**CHECK  
IT  
OUT!**

**For more information on handling and storage, get  
Produce Handling for Direct Marketing, NRAES-51.  
Available at <http://palspublishing.cals.cornell.edu>**

## Sorting & Grading

Typically, wholesale customers expect produce to meet standardized or uniform size, color, maturity, grade, and shape. Sorting is necessary with crops that vary in size such as tomatoes, potatoes, eggplants, squashes, melons, and apples as well as many others. For many crops there are standards and definitions for size and quality grades. For example, apples are graded on a scale ranging from “extra fancy” to “utility”.

### An example of USDA quality grades:

**Apple:** Extra Fancy, Fancy, No. 1, Utility.

**CHECK  
IT  
OUT!**

A description of the standards for a full range of fruits and vegetables is available from the USDA Agricultural Marketing Service (AMS) on their website.

**For Vegetables:**

<http://www.ams.usda.gov/AMSV1.0/ams.fetchTemplateData.do?template=TemplateN&page=FreshMarketVegetableStandards>

**For Fruits:**

<http://www.ams.usda.gov/AMSV1.0/ams.fetchTemplateData.do?template=TemplateN&page=FreshMarketFruitStandards>

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## Packaging

Wholesale customers also expect standard packaging sizes so they can manage inventories and compare pricing. Grocery, retail, and distributor customers will most likely expect standardized packing, however, restaurant customers may have more flexibility.

### An example of standardized packing requirements:

**Radishes:** Radishes should be well-formed, bright and crisp. Tie 8 to 12 in a bunch so that 20 bunches fill a 1/2 bu. or 40 bunches a 1 1/9 bu. box.

**CHECK  
IT  
OUT!**

For specific information on industry standards for packaging vegetable crops visit:

<http://agmarketing.extension.psu.edu/Wholesale/ProdPkgGuide.html>

## **Five important steps for successful wholesale relationships**

### **Step 1: Make the Connection**

To approach a wholesale buyer, call first and ask with whom you should speak about buying produce from your farm. Be sure that you talk with the decision maker when negotiating sales. Once you have identified with whom you should talk, give a brief description of your farm and products and ask for an appointment to meet them in person and discuss your products. When you meet with them, bring samples of your products.

### **Step 2: Define Expectations**

Ask buyers about their expectations in terms of delivery, ordering, billing and payment, quality, size, and volume. Find out what products interest them and how much they need, what they want the produce/products to look like, and what packaging is desired. Does the buyer require: refrigerated trucks for delivery, Good Agricultural Practices (GAPs) certification, liability insurance, vendor permits, or free cases of promotional products?

### **Step 3: Establish Schedules**

Ask buyers their preferences for how and when they would like to place orders and when they prefer deliveries. Set up an order schedule (standard day per week) and specify when orders must be placed so you have time to harvest products before delivery. Ask exactly when and where to deliver the products, and be sure to follow those instructions. Make it clear that you need a certain number of hours or days notice for special orders. Be on-time with your deliveries and supply exactly what you have promised. Reliability is a must!

### **Step 4: Establish Pricing and Payment**

Consider establishing a consistent price throughout the season rather than fluctuating up and down. Account for your production and marketing costs (including delivery time and mileage) when formulating prices. Make sure that prices and payment terms are clear in advance; ask about the billing and payment schedule. If the payment terms will not work for you, discuss possible changes. You may also want to set order size minimums if you offer delivery.

### **Step 5: Partners in Promotion**

Help buyers communicate your local, homegrown quality to their customers. You may want to provide farm literature for them to distribute to customers. Offer to do in-store or restaurant appearances. Offer to educate the sales team and staff about your products or a tour of your farm. Show them the freshness of your product and give them a sense of how things are grown or made.

### Avoid Common Mistakes!

- **Don't just "show up"** when trying to win a new customer, call to make an appointment. Wholesale buyers, whether at a distributor, grocery store, or restaurant are busy and a "drop in" can ruin an otherwise promising opportunity.
- **Communicate**, if a crop falls short of expectations, tell the buyer immediately. Wholesale buyers report that giving them adequate warning is more important than falling short on an order. If they are aware of your situation in advance, they can seek alternative sources and still have a good relationship with you. If you leave them short without notice, it will likely destroy the relationship.
- **Know your potential** – make realistic projections before you make commitments.

### Distributors

Distributors are wholesale buyers who specialize in managing inventory and delivery logistics. They carry a broad array of products, from produce, dairy, meats, and dry goods to paper and cleaning products. Distributors sell their products to restaurants and retail stores, as well as to institutional buyers such as schools, hospitals, and nursing homes. While sales to distributors are typically characterized by low prices, they are able to buy large volumes of product. In addition, distributors serve the role of sales and delivery, which are time consuming for farms distributing on their own. Distributors usually require that the product be delivered to their site, though some are willing to pick-up at the farm.

Distributors have high expectations for quality, proper packing, and keeping schedules. It is not unusual for distributors to refuse a load of produce if it is not in keeping with their expectations. This high level of service and risk discourages many small-scale farms from selling to distributors. In fact, surveyed farmers cited distributors as the most risky and stressful of the wholesale channels, citing the high level of labor needed, the pressure to deliver quality and

### Snapshot: Distributors

#### Finger Lakes Organic/Regional Access (FLORA)

FLO is an organic produce growers cooperative which wholesales its goods and partners with Regional Access for distribution. Regional Access is a distributor supplying restaurants and stores with foods made in Central NY as well as specialty foods from other regions. Regional Access purchases produce directly from farms, and is easier to work with than large distributors due to their flexible catalogue and pricing. On their website, Regional posts what is available and at what price and their customers order accordingly.

quantity in a timely manner, and the risk of “buyer back-out” as sources for stress. “When dealing with distributors, you are powerless and it is stressful”, said one farmer during an interview. “Distributors call all the shots, like price and pick-up time, and require extra labor for grading, sorting and packaging.”

Despite the negative perceptions, distributors are an efficient way for a farm to move large quantities of product to many wholesale customers. Also, distributors can be an easy “shortcut” to buyers seeking local produce by eliminating barriers such as vendor permits, insurance requirements, delivery by refrigerated truck, and others. Distributors also vary in their buying policies and business procedures. Large scale,

national distribution companies may be less small-farm friendly and smaller, regional distributors may be more flexible and willing to work with local farms, however both generalizations present exceptions. Some distributors have a sales team and promote sales of your product while others do not, in which case the farm may still need to engage customers to create demand for their products. In addition, distributors are increasingly sourcing locally produced foods in response to requests and pressures from their customers.

## **Snapshot: Distributors**

### **Maines Produce Express**

Maines is a high volume produce distributor associated with the national Maines Paper and Food distributors. Maines is a traditional distributor, serving restaurants and retail stores with a consistent supply of produce sold at typical wholesale pricing. Maines has begun to seek an increasing amount of locally and regionally grown produce to serve customers that demand local. In order to work with regional farms, Maines offers to pick produce up at the farm, a nice touch not offered by many other high volume distributors. In addition, Maines requires GAPs certification for all farms from which it buys.



## Restaurant Sales

Although wholesale marketing is typically associated with moving products on a large scale, this is not always the case. Restaurants, for example, may require small quantities of products relative to other wholesale customers.

In a 2008 study of two 18 acre Central NY produce farms selling directly to restaurants, the farms sold to an average of 14 restaurants weekly, with sales averaging \$86 per restaurant, and some sales as low as \$17/week/restaurant. However, many restaurants will pay a premium for quality

local products. At a minimum, restaurants typically pay 10% over wholesale for standard items, and higher percentages for specialty items (those that cannot be readily found from other wholesale sources).

Many chefs (especially from high-end restaurants) are looking for fresh, local products to feature in their menus. Develop a personal relationship with chefs, find out what they want and grow a wide range of products for them for as long a season as possible. You need to offer clean, high quality products and reliable, timely delivery.

### SPECIFIC POINTERS: RESTAURANTS

- ◆ You will find that chefs are as busy as farmers. Call during the restaurant's "downtime" not during mealtime or preparation before meals (avoid 10 am-2 pm for lunch and 4 pm-11 pm dinner).
- ◆ Provide chefs with your farm's harvest schedule so they can plan their menus around it.
- ◆ Chefs especially appreciate when orders are delivered per their specific instructions, such as in the walk-in cooler, on a shelf in the kitchen, etc.
- ◆ Chefs often move from restaurant to restaurant, so center your business agreement on the restaurant and not only the chef.
- ◆ When you make your delivery, make it a habit to speak with the staff as well as the chef so they can talk knowledgeably to customers about your products.

## Grocery Stores and Food Retailers

Increasingly, food retailers are interested in sources of locally/regionally grown food. Such retailers vary from farm stands, farm stores, natural food stores, independent grocery stores, and large grocery chains. Many farm stands and stores do not grow all that they sell and will seek additional local products to purchase. Generally,

retailers will pay wholesale prices found at regional markets.

Large chain stores each have their own unique methods and requirements for purchasing. Some purchasing decisions are made at the local store level, but most require approval from regional or central

### Snapshot: Grocery & Retail

#### Wegmans

Wegmans is a large chain of grocery stores which has a long history of working with local producers at the individual store level. Wegmans is open to products from area farms and food producers and uses signage to draw attention to local specialties. They use a computerized buying system and use market pricing as a benchmark when buying from local vendors. Relationships are created in the off-season, discussing what items to grow. Then, during the growing season, stores rely on the electronic procurement system to order from the farm. Wegmans, like an increasing number of wholesale buyers, requires GAPs certification.

management. Try starting with someone in the produce department, and ask to whom you should speak.

Food retailers expect local prices to be in line with regional wholesale prices.

Understand buyer expectations and prices before agreeing to deliver. Retailers reserve

#### SPECIFIC POINTERS: GROCERY & RETAIL

- ♦ Work your way into a retailer by offering quality and/or hard to find items; then build up the order by educating buyers about what other products you can supply.
- ♦ Call before you leave the farm to make a delivery to confirm the order and to ask if there are any other products they could use.
- ♦ If you anticipate a shortage, call at least two weeks in advance to warn the store.

the right to reject a delivered load of produce based on its quality or if their supply needs have changed. One advantage of selling to food retailers is that you can move more volume to fewer buyers, reducing your marketing labor and “face time” with

customers. Also, they are regular, weekly purchasers. A disadvantage is that it can be a fickle, price-driven market. A good strategy is to spread your marketing risks by selling in more than one channel.

## **Snapshot: Grocery & Retail**

### **GreenStar Cooperative Market**

GreenStar is a natural foods cooperative in Ithaca, NY with two stores currently owned by its over 7400 members. GreenStar is committed to local farmers and producers and gives preferential pricing and placement to local products and assists producers with developing and marketing their products. GreenStar is committed to a local economy and ensuring that the relationships between farmers, producers, shoppers and the co-op are most beneficial to all parties. GreenStar has a long history of working with local farmers and has developed a clear and consistent contract system so both parties know what to expect in a given season. Weekly orders are discussed over the phone or by email. Payment comes from the store on a net 10 basis. GreenStar carries both organic and conventional produce. Organic foods require certification.

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### **Institutional & Food Service Buyers**

There is increasing interest in local foods among institutional buyers. The institutional food service marketplace is opening to local producers; however, farmers must be prepared to serve this market that deals in high volume and low prices. Schools are very interested in local purchasing as a way to increase fresh fruits and vegetables in the diets of children. Some schools, colleges,

nursing homes, hospitals, and prisons can purchase products from local farms. However, many are part of a buying consortium, and have a single goal: keeping costs low. Foods served at institutions are often pre-prepared or ready to serve, using few fresh ingredients.

Sales to institutions also come with institutional barriers, including regulations, requirements, and permits that dictate their

purchasing practices. Their purchases are often made via contracts that specify how the food is delivered. Many institutions must follow federal food safety regulations and require delivery via a refrigerated truck. Liability insurance is also required, which farmers should have regardless of their marketing strategy. It may be easier for

farmers to deliver to distributors who meet the requirements for selling to institutions. While this approach adds a middleman and reduces returns, it simplifies the marketing process for the farm. Even when working through a distributor, farms can approach institutional buyers and ask them to request their products.

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### **Produce Auctions**

A unique wholesale marketing channel is the produce auction. Produce auctions are a highly flexible wholesale channel. Unlike other wholesale channels, auctions will accept variable quantities of produce, sporadic supplies, as well as variation in quality grade and size. As with other wholesale channels, produce should be washed, sorted, and packed in a professional manner in order to command the best price. Farm stand operators are common customers at produce auctions.

Price is the riskiest aspect of selling through a produce auction. Several factors including season, volume, produce quality, buyer attendance at the auction, and the quantity of competing produce can affect prices. Aside from price risk, produce auctions can be a way for a farmer to “move” large quantities of perishable goods quickly and potentially a way to salvage the loss if a crop would otherwise go unsold.

## Direct Marketing Channels

Direct marketing channels include farmers' markets, seasonal farm stands and farm stores, u-pick (also called pick-your-own) and Community Supported Agriculture (CSA). Some also consider "direct to restaurant or retailer" as direct marketing however, for the purposes of this document both retail and restaurant sales are considered wholesale because the farmer is not selling directly to the end user. Direct marketing also includes internet and mail order, however, those channels are not addressed in this guide. Direct marketing channels generally offer higher prices than wholesale and may require a greater diversity of products, though usually in smaller quantities. Because direct marketing involves more producer-customer interaction it consumes more time and demands customer-oriented skills of the producer.

### Farmers' Markets

With the growing popularity of "local" foods, the health and wellness movement, the surge of organic, natural, and eco-friendly foods, and the proliferation of "foodie" culture, farmers' markets have seen growth in popularity. Many consumers and farmers believe that farmers' markets deliver higher profits to farmers because they eliminate the

"middle man". However, farmers' markets are also labor intensive for producers and usually result in sales volumes which are lower than wholesale. The combination of high prices, low volume, and high time demands can contribute to relatively low profits.



Illustration 4: A typical set up for a farmers' market.

However, farmers' markets do offer benefits beyond simple cash income. For example, they provide advertising for the farm's other channels, including u-pick, CSA, farm stand and even wholesale. In addition, they offer exposure to area chefs which may result in sales to restaurants. The opportunity to interact face to face with customers provides farmers with direct feedback on product demand, quality expectations and customer satisfaction, which helps farmers hone their marketing skills. Additionally, the opportunity to observe and interact with more experienced farmers at farmers' markets is an ideal setting for a beginning farmer to learn about marketing. Competition at a market helps farmers identify a niche that works for them.

A successful farmers' market vendor will grow crops for as long a season as possible in order to have a weekly presence at a market or several markets. A diversity of crops is generally needed, however, in a busy market, single crop producers can also be successful. For example, fruit producers may come for a few weeks only but because they are offering a high demand product for a short period of time, their sales can be significant. Additionally, a market is a good place to promote u-pick at their home farm.

The low barrier to entry in farmers' markets is a double-edged sword. Backyard and hobby growers can easily sell there, making the farmers' market a good channel for new farmers. On the negative, the accessibility of this channel to hobby farmers who may not need to maximize profit may drive down prices for larger scale "career" growers.

Prices vary at farmers' markets, some have a reputation for having high prices, others low prices. Visit several markets before choosing where to sell. Learn about the rules, evaluate customer traffic, products and prices being offered, estimate sales per vendor and then decide which market will meet your product and sales goals. By visiting several times during the season you can also determine if the traffic is steady throughout.

The potential for waste poses a challenge for producers marketing through the farmers' market. When preparing for a farmers' market, growers harvest crops in anticipation of a high volume sales day, but there is always the risk of low attendance (and resulting poor sales) due to bad weather or other factors. In studies, such losses have been measured or estimated to be as much as 20% or more of the produce brought to the farmers' market. Another factor that



contributes to high losses when selling through a farmers' market is the popular strategy of keeping the sales table stocked with large quantities of produce. "Stack it high and watch it fly" is a strategy based on evidence that a display of large quantities and variety of produce is appealing to

consumers and increases sales. However, this strategy requires keeping the display stocked well, even when the market day draws near to closing. Thus, producers are apt to bring more to market than they expect to sell, adding costs from the associated production, harvest and prep labor.

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## Sales on the Farm

### Farm Stands, Stores and U-Pick

Roadside farm stands and u-pick operations vary in their requirements depending on the scale of the operation. Each of the two channels can be managed as intensively or minimally as a producer's time and resources allow. However, to be successful and profitable, quality factors

such as freshness and variety of the produce must be maintained at a high level. Each of these channels can be managed as staffed, with a sales representative tending to the customers, or unstaffed. Whether staffed or not, a well managed, well stocked u-pick or farm stand brings steady repeat business while a poorly managed one will not. The sales volume that can be sold through these channels varies depending on the level of



**Illustration 5: A seasonal roadside farm stand.**

drive-by traffic, location, price, and degree of advertising, as well as other factors such as weather and competition. Such variation in sales volume makes these channels appropriate for a wide range in the scale of production.

Potential risks and problems with these channels include factors that affect customer turn-out, theft, in the case of honor system payment, and inefficient harvest in the case of u-pick.

For successful on-farm retailing, you must enjoy having people on the farm and in your fields picking crops. Some farmers are not comfortable with this level of invasion and the liability risks presented with “people on the farm”. Building a loyal clientele is the key to successful on farm sales and this can take many years to build. Incremental growth based on realistic customer numbers and sales projections must be built into a farm retail business plan.

Work to develop a reputation for high quality produce. Word of mouth is the primary means by which consumers learn about local farms. Pay attention to what customers are looking for and start to build a product line based on what they want. Farm stands located on a busy road may attract enough customers to generate sales that warrant investing in improved facilities and

staff. When considering locations, you can research traffic counts on your road or nearby roads.

## Farm Stands & Stores

Selling farm products at your farm can involve a simple self-serve stand to a full-scale farm store with multiple departments, as well as a u-pick operation, or combination of u-pick and farm store/stand. Farm stores bring higher overhead and staffing costs which usually means slimmer margins, however when managed well, stores also bring more customers and sales. Self-serve stands are a good way to assess the potential draw from drive-by traffic. Crops that stop traffic include strawberries, sweet corn, tomatoes, peaches, and pumpkins.

## U-Pick

U-pick is a cost effective way to expand direct marketing. U-pick presents the risks of bad weather during short crop seasons. Generally a pick-your-own operation will offer some products picked for the convenience of customers.

One u-pick business owner pointed out that u-pick is an inefficient marketing channel, in his opinion, because “amateur” pickers only “cherry pick” the biggest, easy to find produce. Much of the harvestable crop then spoils in the field. However, it is

possible to salvage such potential losses by regularly harvesting u-pick crops for a farm stand or other channel.

**Table 4: “Pro’s” and “Con’s” to consider with on-farm retailing**

|                                    | Pro  | Con   |
|------------------------------------|--|---|
| <b>Farm Stand &amp; Farm Store</b> | <ul style="list-style-type: none"> <li>♦ Low pressure for crop availability, consistent supply compared to wholesale.</li> <li>♦ No people in the fields.</li> </ul> | <ul style="list-style-type: none"> <li>♦ Potentially high overhead costs.</li> </ul>  |
| <b>U-pick</b>                      | <ul style="list-style-type: none"> <li>♦ Customers provide the harvest labor.</li> </ul>   | <ul style="list-style-type: none"> <li>♦ Lost crop, crop left in fields, timing of customers and crop readiness.</li> <li>♦ Liabilities of people on the farm.</li> <li>♦ Weather sensitive marketing.</li> </ul> |
|                                    | Pro  | Con   |
| <b>Staffed</b>                     | <ul style="list-style-type: none"> <li>♦ Delivers a high level of customer service.</li> </ul>   | <ul style="list-style-type: none"> <li>♦ High labor costs.</li> </ul>   |
| <b>Unstaffed</b>                   | <ul style="list-style-type: none"> <li>♦ Low-overhead</li> <li>♦ Flexible market</li> </ul>  | <ul style="list-style-type: none"> <li>♦ Location is critical.</li> <li>♦ Potential theft of produce and cash.</li> </ul>   |

## Community Supported Agriculture

Community Supported Agriculture (CSA) is a marketing channel which, like farmers' markets, has seen a tremendous surge in popularity in the past 10 years. CSA operations have experienced a dramatic rise, expanding from an estimated 60 operations in 1990 to approximately 1,100 operations by 2006 according to the USDA Agriculture Marketing Service (AMS).

CSA has been gaining momentum since its introduction to the US from Europe in the mid-1980s. The CSA concept originated in

the 1960s in Switzerland and Japan, where consumers interested in safe food and farmers seeking stable markets for their crops joined together in economic partnerships. With a CSA, consumer members purchase “shares” of the farm’s produce. Shares are purchased before the growing season begins and in this way, the risk of crop failure is shared among the members and the farm owner. Once harvest begins, members pick up their share of fresh produce once a week, usually at the farm.



**Illustration 6: A typical set-up for “free choice” CSA share pick-up.**

There are two main types of shares used: boxed shares and free-choice shares. While definitions vary, free choice shares mean that the member can take a variety of produce in the quantities that they choose. For example,

at one CSA, members can each fill one regular grocery bag with any combination of available produce. If limited quantities of a certain crop are available, a sign will note it and members will be asked to limit what they

take. Boxed shares are pre-packed for the member and the variety and quantity of produce in the box is set by the farmer. Additionally, farms offering free choice shares ask members not to “split” shares and ask that they only take what their family can consume in one week.

CSA’s require a large variety of crops and season long production in order to supply weekly shares and satisfy customer expectations. In Central NY, most CSA’s run for 20-22 weeks. Farmer interactions are highly valued by CSA customers, so farmers will need to be customer oriented and enjoy interacting with

their members. Many CSA farms host special events or family days to strengthen the bond between farmer and consumer.

A benefit of the CSA channel is that farmers are paid at the beginning of the season. In this case, they are paid even if a crop fails. Customers share the risk and enjoy whatever products are available on a weekly basis.

CSA share prices range from as low as \$250 for a small share to as high as \$600 per season. Depending on the share options offered, farmers can plan production to meet the weekly share needs and price according to their costs of production plus margins they wish to achieve. Through good recordkeeping of yields and labor, CSA

farmers can assess whether the price they charge is covering their costs. Additional outlets may be needed if the CSA does not meet the income goals or absorb all of the farm’s products. A farmers’ market or restaurant sales are compatible channels for CSA farmers who seek full-time income.

### **A Sample of produce offered in one week’s CSA share:**

**1 lb. Field Mix Salad Greens**

**1 Bunch basil**

**1 lb. Spinach**

**2-3 Summer Squash**

**1-2 Broccoli heads**

**2-3 Onions**

**1 Bunch Scallions**

**2-3 Cucumbers**

The degree of marketing labor through the CSA channel is relatively low since the customers are satisfied with lower levels of packaging and washing as compared to other channels. Additional marketing expenses for a CSA include delivery, if offered, and the costs of recruiting and managing members. If farmers fail to deliver, customers can be dissatisfied and may not join the CSA the

next season. Retaining customers is a plus since it is costly to recruit new customers.

Suggested marketing materials for a CSA include a website, brochure, and possibly a newsletter. The sales time required for a CSA is highly variable, but can be relatively small compared to other direct marketing channels, especially considering the volume of produce that can be distributed during one pick-up time.

Besides time spent selling memberships, which occurs during the off-season, CSA requires the coordination of one or two days weekly for members to pick-up their shares. Farmers report that a pick-up day entails about four hours of “sales time,” spent meeting and directing members as they pick-up their shares.

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## IDENTIFYING YOUR MARKETING CHANNEL STRATEGY

### Choosing the right channels for your farm

This guide has identified the most important factors to consider when evaluating a marketing channel and given a brief overview of wholesale and direct marketing channels. Whether you are a beginning farmer, or an experienced farmer looking to improve your farm’s marketing, this guide is intended to orient you to marketing channels and aid in decision making.

In order to select the marketing channels that best suit your farm and your personal preferences take some time brainstorming. Consider which channels are practical in your area, say within a 10-20 mile radius of your farm’s location. For example, if the farm is in a very rural location, u-pick may not be a good fit.

Once you identify some marketing channels that interest you, visit other farms or marketplaces of that type. How are their prices? How many customers are there and what is the volume of produce being sold? What overhead costs and amount of labor are necessary for those farms to sell there? When you visit, take notes and try to rank each marketing channel for your perceptions of how well they fit your goals in terms of: risk, lifestyle preferences, volume sold, prices and profit, labor required, and associated costs.



### Marketing Channel Assessment Exercise

Using the table below, write in each marketing channel that you currently use and those that you are considering. Next, rank the channels against each other. A “1” is given to the channel that is the “best” for each criteria. In other words, a “1” for Price means the highest prices you receive, a “1” for Risk means the least risky channel. Channels that you feel are equal for a certain criteria get the same score and the next number in the rank is skipped (see Labor Required for example). In the Total Score column, simply add across for each channel. For Final Rank, give the channel with the lowest score a “1”, this is the best channel. A blank table is included in Appendix 2.

| Marketing Channel     | Volume | Price | Risk | Labor Required | Assoc. Costs | Total Score | Final Rank |
|-----------------------|--------|-------|------|----------------|--------------|-------------|------------|
| Self-serve farm stand | 1      | 2     | 2    | 1              | 2            | 8           | 1          |
| Farmers' Market       | 2      | 1     | 2    | 3              | 1            | 9           | 2          |
| Restaurant            | 3      | 2     | 1    | 1              | 2            | 9           | 2          |
|                       |        |       |      |                |              |             |            |
|                       |        |       |      |                |              |             |            |
|                       |        |       |      |                |              |             |            |
|                       |        |       |      |                |              |             |            |
|                       |        |       |      |                |              |             |            |
|                       |        |       |      |                |              |             |            |
|                       |        |       |      |                |              |             |            |

## Appendix 1 : Major characteristics of marketing channels to consider.

|   | <b>Farmers' Market</b>  | <b>CSA</b>  | <b>Farm Stand</b>   | <b>U-Pick</b>   | <b>Distributor</b>   | <b>Grocery</b>   | <b>Restaurant</b>  |
|---|---|---|---|---|--|--|--|
| <b>Risks</b>                                  | Low customer turn-out, price competition, leftover unsold product.                | Farmer commitment up-front, customers share the risk.                                   | Low customer turn-out.  | Low customer turn-out.<br>Weather.<br>People on the farm.                             | Distributors “call the shots.”<br>Inconsistent orders, buyer back-out.         | Inconsistent orders, buyer back-out.   | Unpaid debts, buyer back-out.<br>Can be slow to pay.                   |
| <b>Prices &amp; Profit</b>                    | Prices varies.<br>Can be highest among the channels. Labor costs relatively high. | Price is similar to wholesale, however, profit is generally higher.                     | Prices vary, but high profit potential.<br>Location is a big factor in price. | Prices vary, high profit potential.<br>Location is a big factor in price.             | Price is low: Producer is a “price taker.” Wholesale prices are generally low. | Price is low: Producer is a “price taker.” Wholesale prices are generally low. | Prices vary.<br>Usually higher than other wholesale prices.            |
| <b>Volume</b>                                 | Varies with market. Low to medium.  | High: It is possible to “move” all the produce harvested.                               | Medium to low: location and competition pendant.                              | Medium to low: location and competition pendant.                                      | High   | High to variable.  | Variable, usually small.   |
| <b>Level of Marketing Management Required</b> | High: Many hours dedicated to selling. Most markets run 3-5 hours/day.            | High: Must sell memberships & facilitate weekly share pick-ups. Less post-harvest work. | Variable: Ranges from understaffed honor system to staffed stores.            | Variable: Ranges from understaffed honor system to staff supervision. Must advertise. | Low: Relatively quick & easy for volume sold. Must meet packing standards.     | Low: Relatively quick & easy for volume sold. Must meet packing standards.     | Variable: A high level of service for the volume sold.                 |
| <b>Associated Costs</b>                       | Market fees, equipment, travel, hired labor.                                      | Packaging materials, advertising, brochures.  | Road side signs and other advertising. Sales staff is optional.               | Road side signs and other advertising. Sales staff is optional.                       | Washing, cooling & packing equipment for high volumes. Delivery costs.         | Washing, cooling & packing equipment for high volumes. Delivery costs.         | Washing, cooling & packing equipment for high volumes. Delivery costs. |
| <b>Farmer Stress</b>                          | Low: “Show up or don’t show up.”  | Low to medium. Must meet customer expectations weekly.                                  | Variable: Depending on overhead & scale.                                      | Low   | High: Distributors cited as highest stress customers.                          | Medium to high.  | Medium to high.  |

## Appendix 2 : Marketing Channel Assessment Exercise

A rank of “1” is given to the “best”.

| Marketing Channel | Volume | Price | Risk | Labor Required | Assoc. Costs | Total Score | Final Rank |
|-------------------|--------|-------|------|----------------|--------------|-------------|------------|
|                   |        |       |      |                |              |             |            |
|                   |        |       |      |                |              |             |            |
|                   |        |       |      |                |              |             |            |
|                   |        |       |      |                |              |             |            |
|                   |        |       |      |                |              |             |            |
|                   |        |       |      |                |              |             |            |
|                   |        |       |      |                |              |             |            |
|                   |        |       |      |                |              |             |            |
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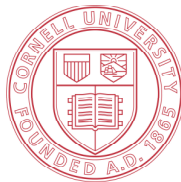
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# Guide to Marketing Channel Selection



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