

Market Development for Farmers: Tips for Service Providers

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Overview

- Introduction
- Concepts
 - Situational analysis
 - Target market
 - Position
 - Market research and information
 - Marketing mix
 - Marketing plan
- Keys to success and lessons learned
- Wrap-up

Acknowledgements

Funding for this research comes from:

- The USDA/NIFA Agriculture and Food Research Initiative (Award # 2010-85211-20464)
- The Vermont Agricultural Experiment Station

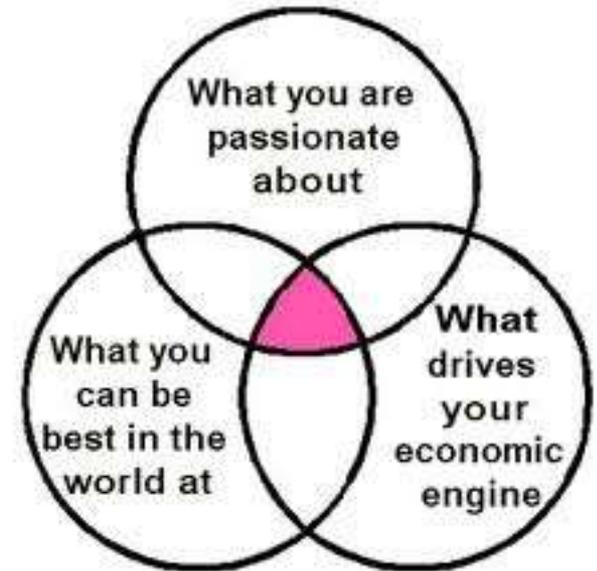


Intro-keys to success

Collins' Hedgehog Model

Success depends on finding the intersection of:

- Passion-love to do, dedication and persistence
- Ability-better than anyone else
- Make money-create value, drive an economic engine



Introduction-Definition

Market Development is the process of finding

- New customers for existing products
- New products for existing customers
- New products for new customers

Introduction: What is marketing

- “...an organizational function and set of processes for managing, creating, communicating, and **delivering value** to customers and for **managing customer relationships ...**”
- Frederick Crane
- Not “Selling Stuff”

Value

$$\textit{Customer value} = \frac{\textit{Perceived benefits}}{\textit{Cost}}$$

- What counts as benefits?
- What kinds of costs count?

Disclaimer

- This presentation imposes a linear structure on an inherently iterative if not chaotic process...

Key concepts

- Situational analysis
- Target market
- Market research
- Position
- Marketing mix
- Marketing plan

Situational Analysis

- Strengths
- Weaknesses
- Opportunities
- Threats

SWOT ANALYSIS



External environment

What are the trends (long terms changes in behavior) in the external environment?

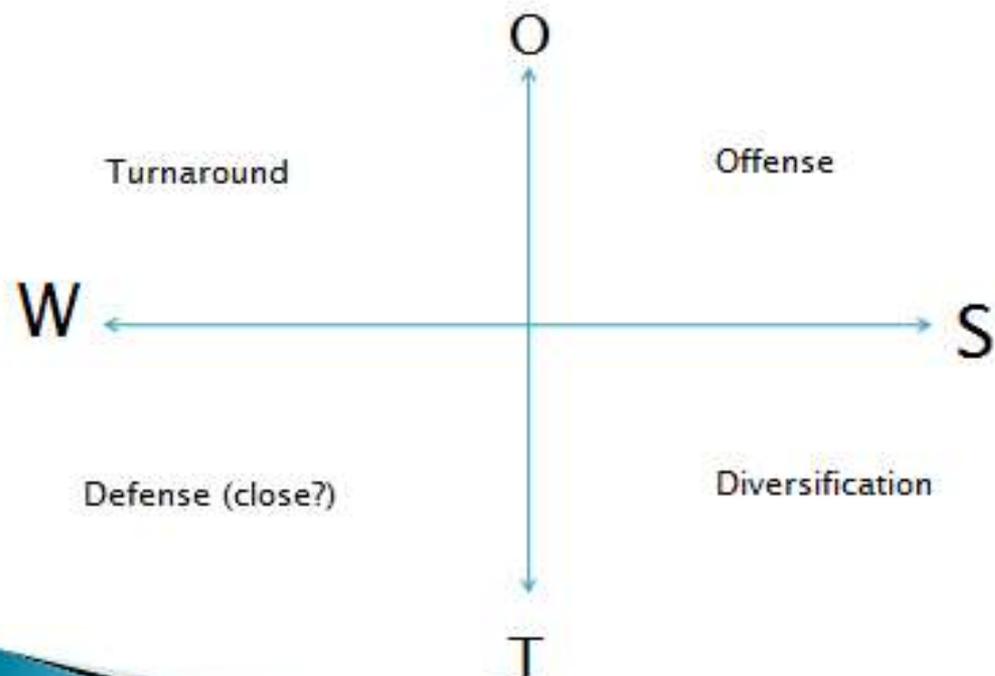
- Demographic
- Psychographic
- Economic
- Technological
- Environmental
- Regulatory
- Competition

Trend spotting

How to do an environmental scan?

- Adjust your reading/listening/viewing habits
- Network with innovators
- Be self-observant, reflexive
- Challenge your assumptions
- Talk with customers/buyers

Putting into Action



The Sweet Spot

- Where do your Strengths meet Opportunities?
 - Strengths-passion, ability, resources
 - Opportunity-create value
- Where is there a gap in the marketplace?
- Key question: who will buy it?

Words of Wisdom...

Question:

- “Who will buy your products?”

Answer:

- “EVERYONE”



Customers and Competitors

Who are your likely customers

- Demographic
- Psychographic
- Geographic

How can you target them?



Who are your competitors? What do they do well? Not well?

Position in the Marketplace

- What is the image, idea, identity you want customers to have when they think of you?
- Where you place yourself in the market compared to competitors?



Product Differentiation Continuum

Commodity

- Homogeneous
- Low information
- Price taking/price driven
- High competition
- High volume

- Examples:
 - Corn
 - Soybean oil
 - Milk

Differentiated

- Different/unique
- High information
- Price making/value driven
- Low competition
- Low volume

- Examples:
 - Heirloom
 - Fair trade
 - Organic

Distribution Models

- Direct market: farmers sells directly to consumer (farmers market, CSA)
- Farm-Direct: farmer has an account with a chef/institution/retailer and delivers food to one or more locations
- Food hub/specialty distributor: farmer works with distributor specializing in local/regional foods
- Mass market: farmers sells to food distributor or broker who supplies products to many types of buyers

Compare and Contrast

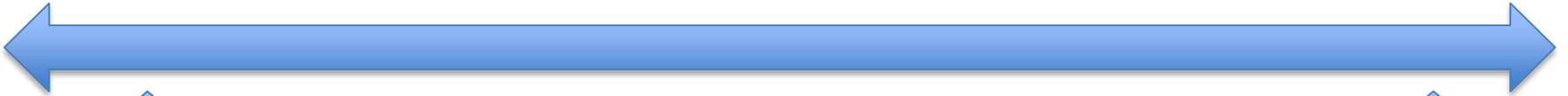
How do these models compare and contrast in the following factors?

- Product volume
- Percent of consumers' dollar to farmer
- Connection and information exchange with consumers
- Variety of products sold

Sales Continuum

Low: volume
High: %food dollar,
connection with
consumer, variety

High: volume
Low: %food dollar,
connection with
consumer, variety



Direct
sales

Mass
market
sales

C&C: Direct Sales

Examples: farmers markets, CSA shares, U-pick

- Lowest volume
- Highest percentage of final dollar to farmer
- Most connection and information exchange with consumers
- Highest variety

C&C: Mass Sales

Examples: to/through distributors, brokers, wholesalers

- Highest volume
- Lowest percentage of food dollar to farmer
- Least connection to end consumer
- Lowest variety

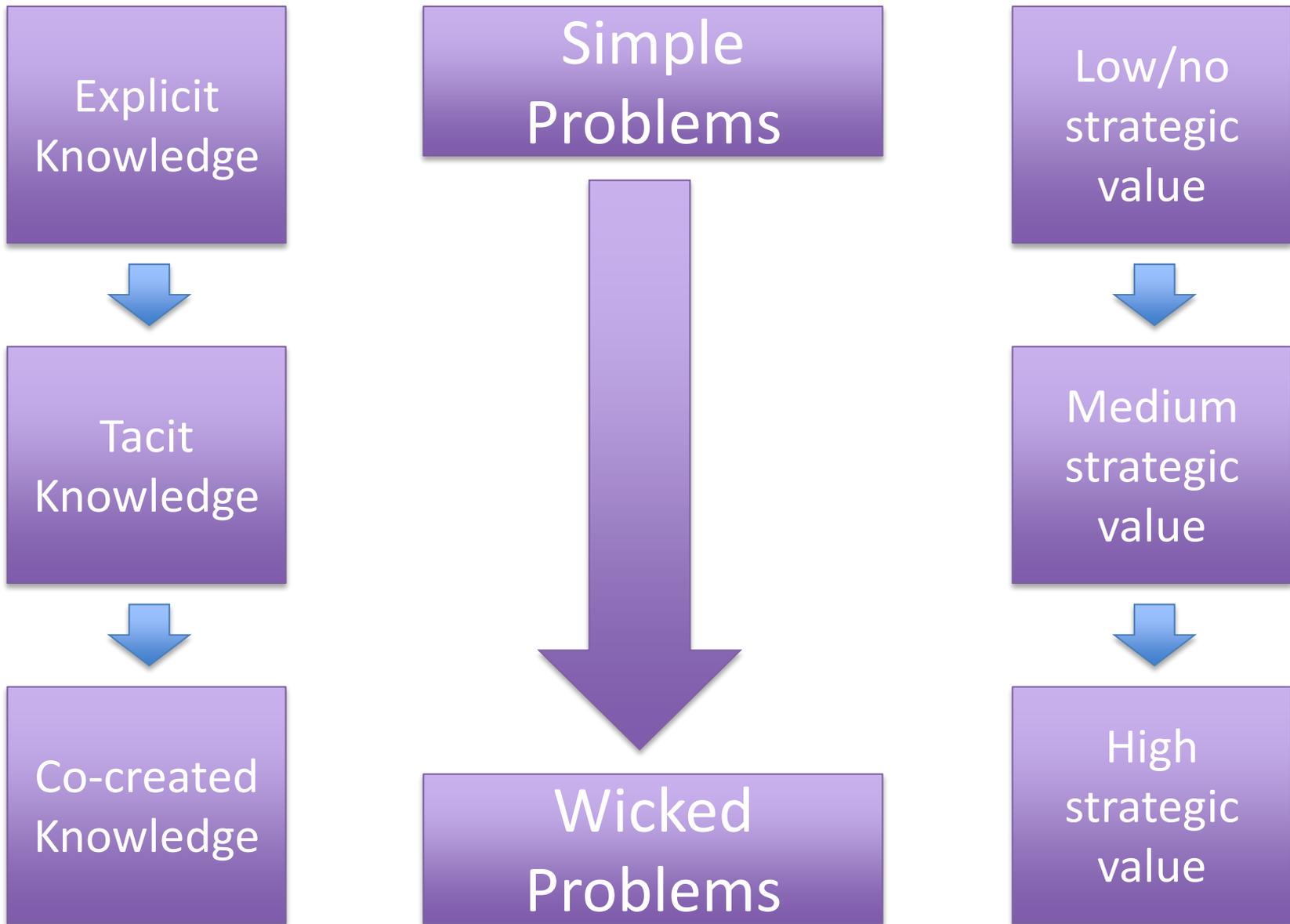
Sweet Spot



- How to test it out?

Types of knowledge

- Explicit knowledge
 - Written, codified facts
 - Context independent, general
 - Knowing *that* or *what*
- Tacit knowledge
 - Gained through experience, by doing
 - Knowing *how*
- Co-created knowledge
 - Answers do not exist yet
 - Context specific
 - Gained by collaboration and experimentation



Adapted from: Batie, 2008; Peterson, 2008; Kania and Kramer 2011

Market Research

Gathering data to test feasibility of your idea

Two types

- Secondary data
- Primary data

Secondary data

- Data someone else has already collected
- Explicit
- Examples
 - Government: USDA, Census, VAA, UVM Extension
 - Mintel, Market Maker
 - Publications

 - What do you/your client farmers use?

Primary data

You collect

- Observations
- Interviews
 - Key informant (buyer, chef)
 - Focus group
 - Person on the street
- Surveys
 - In-person
 - Phone, mail, on-line

Exercise

- You are a beginning farmer engaged in market development. You decide to grow <product X> to <market channel Y>.
- What secondary data sources would you use? What info would you hope to gain?
- What primary collection would you do? How and with whom?

Marketing Mix

Classical theory: 4 P's



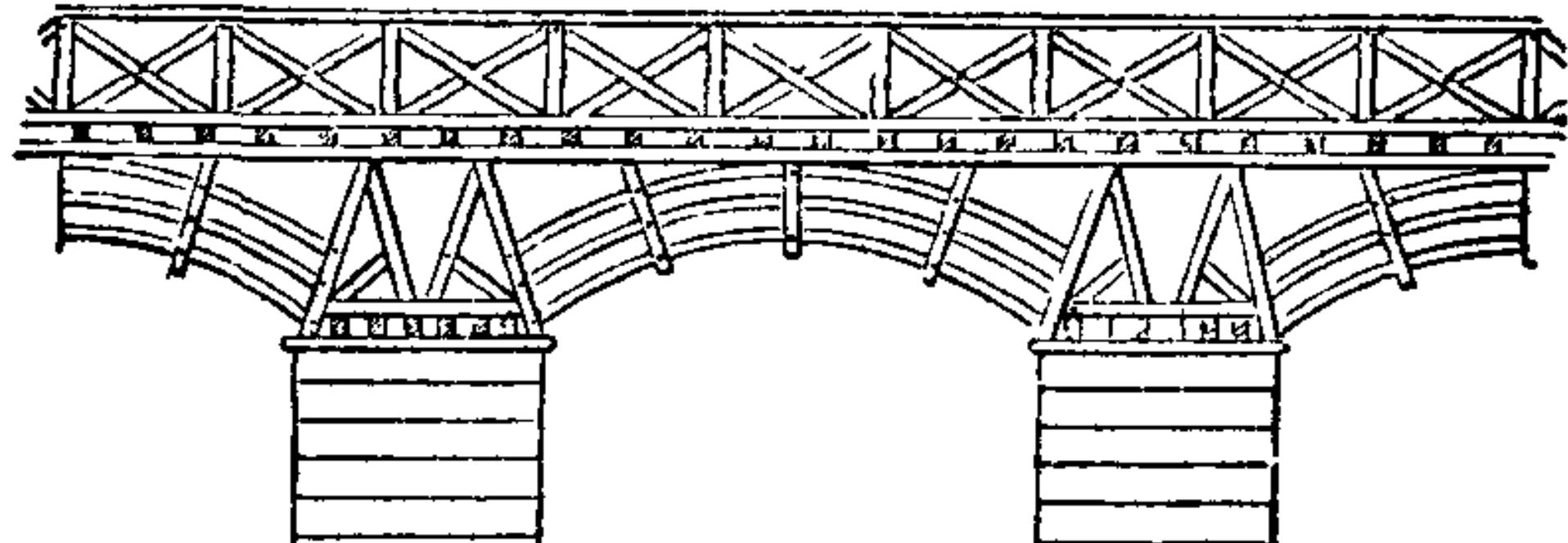
Marketing Mix

The “4 P’s” is a classic model to outline key strategies for a firm

- Product: what do we sell?
- Place: where do we sell?
- Price: how much do we charge?
- Promotion: how do we get the word out?

Marketing Mix

- You bridge your target market with your position via your marketing mix



Product

- What products will you sell?
- How will they be different than competitors' and create value for customers?
- Recall Commodities versus Differentiated Products
- Do you produce it well? Is there a market gap?

Place

Where will you sell?

- Direct markets?
- To individual accounts: retail stores, restaurants?
- To institutions/schools?
- To brokers/wholesalers?

Promotion

How will you communicate with customers and promote your product

- Brochures?
- Social media?
- Advertising?
- Partnerships with buyers?
- Other?

Promotion

- Does it reach your target audience?
- Does it reinforce your position?

Basic Price Parameters

- Price ceiling: consumer willingness to pay
- Middle ground: Competition
- Price floor: your costs

Cost-based

- Unit price = (Costs of doing business + desired profit)/Expected volume
- Costs include
 - Fixed costs
 - Variable
 - Labor
 - Inputs
 - Marketing

Target-based

Example adapted from Conner et al., HortTech 2008

- Farmer Sue raises fresh produce on ten acres
- Her goal is to net \$60,000 as a viable family income = \$6,000/acre
- She has $\frac{1}{4}$ acre of carrots

Target based examples

Costs (1/4 acre)

- Inputs: \$200 (seeds, compost, fuel...)
- Marketing \$300 (farmers market stall fees, transportation, ...)
- Fixed: \$500 (land, equipment, utilities, ...amortized and allocated per acre)
- Total: \$1,000

- Yield: 4,500 lbs

Target based

- Break even: \$0.22/lb
- Desired net: \$1,500/quarter acre plot
- Price= $(\$1,000 + \$1,500) / 4,500 \text{ lb}$
- = \$0.56/lb
- Assuming she sells all she grows!

Cost-based

Pros and Cons

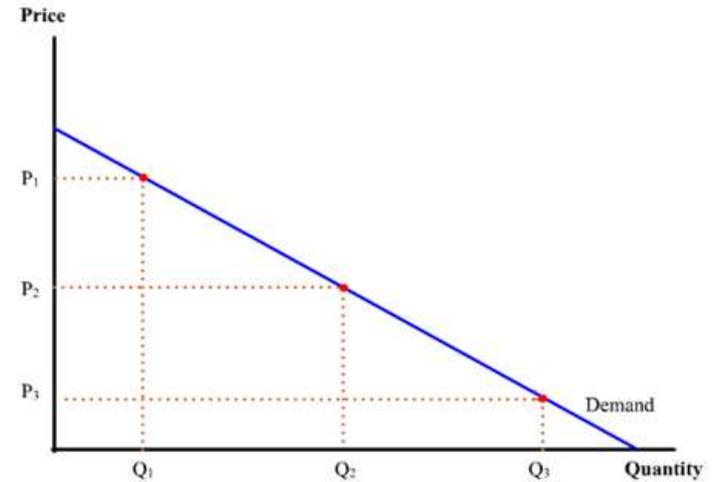
- Pros:
 - Simple
 - If done right, will ensure profit
 - Stems from break-even analysis
- Cons:
 - Ignores customer and competitor
 - Customer costs: travel, search
 - No signal of quality

Competition-based

- “Going rate”
- Slightly above” high quality (real or perceived)
 - Skim
- Slightly below (bargain)
 - Penetrate

Customer-based

- Max WTP=ceiling
- Elasticity determines slope



- What determines elasticity?

Keys Questions

- Know the right products and channels for your farm
 - How much price flexibility do you have?
 - How much time are you willing to invest in relationships with customers?
 - What volume do you wish to sell?

The Deodorant-Tractor Scale

Deodorant

Tractor



High prices
Low volume
High schmoozing

Low prices
High volume
Low schmoozing

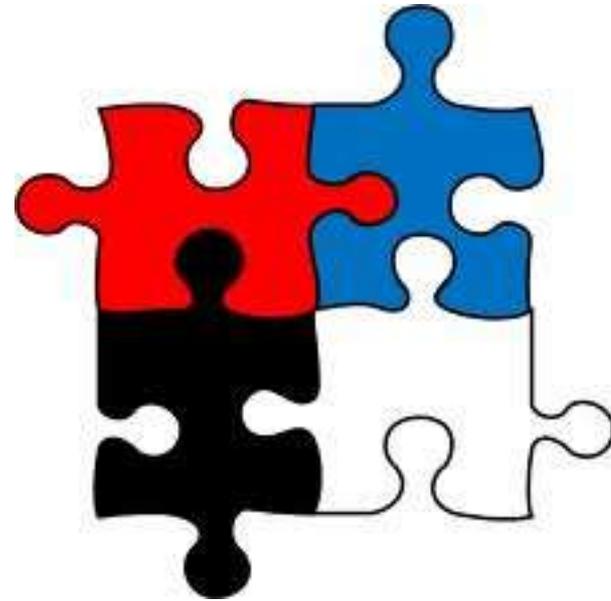
Images: <http://images.yourdictionary.com/deodorant>; www.deere.com.

Idea adapted from Chris Fullerton, former manager, Tuscarora Organic Growers Cooperative

Lessons Learned

Hedgehog Model

- Right products
- Right target market
- Right position
- Right marketing mix



Does it all fit?

Wrap Up

- Situational analysis
- Target market
- Position
- Market research
- Marketing mix
- Marketing plan

Thank You!

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