Market Development for Farmers: Tips for Service Providers

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Overview

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

\[
\text{Customer value} = \frac{\text{Perceived benefits}}{\text{Cost}}
\]

- 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

http://upload.wikimedia.org/wikipedia/commons/0/0b/SWOT_en.svg
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

Turnaround

Defense (close?)

Offense

Diversification

W

S

T

Peterson

https://www.msu.edu/course/aec/857/STRATanal2.pdf
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

Direct sales

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

Mass market sales

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

Your strength

Opportunity

Few Competitors
• 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 exit yet
  - Context specific
  - Gained by collaboration and experimentation
Explicit Knowledge

Tacit Knowledge

Co-created Knowledge

Simple Problems

Low/no strategic value

Medium strategic value

High strategic value

Wicked Problems

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 ¼ 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 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

High prices
Low volume
High schmoozing

Tractor

Low prices
High volume
Low schmoozing

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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