3.0 Overview of Produce Marketing

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Introduction: Overview of Produce Marketing

UNIT OVERVIEW

The choice of a marketing option is one of the most critical decisions produce farmers must make. This unit introduces students to the history of produce marketing and provides information on the most common marketing options. The historical overview discusses the changes growers made to their marketing practices after the advent of supermarkets and 20th century technology. Three main marketing options (Wholesale Buyers, Grower Shipper Packers, and Brokers) are introduced, stressing the advantages and disadvantages of each. Three alternative marketing options are discussed briefly (Direct to Retail, Farmers’ Markets, and Community Supported Agriculture); these topics will be covered in detail in later units.

MODES OF INSTRUCTION

> LECTURE (1 lecture, 1–1.5 hours total)

LEARNING OBJECTIVES

CONCEPTS

- Why vegetable farmers stopped doing their own marketing
- The main components of the deal when a grower: sells to Wholesale Buyers; contracts with a Grower Shipper Packer; works with a Broker
- The advantages and disadvantages to the farmer of deals involving Wholesale Buyers, Grower Shipper Packers, and Brokers
- Three alternative marketing choices for farmers, and the advantages and disadvantages to the farmer of each choice
Lecture Outline: Overview of Produce Marketing

A. Produce marketing is all the steps between the crop leaving the farm and arriving at the table

B. Brief History of Modern Produce Marketing in the U.S. and Canada
   1. Before refrigeration (1920s) –
      a. Produce farmers were scattered all over the U.S. and Canada and mostly did their own marketing
      b. Local sales – Sales were direct to retail stores, at the farm gate, or at street markets
      c. Most items were unavailable to consumers during off-season
      d. Farmer did everything including: farming, packing produce, selling, delivering, and collecting money
      e. Few were (and are today) equally proficient at all these tasks
      f. Regional crop failures resulted in communities having nothing for people to buy in local markets. This provided an opportunity for long distance transport of produce to supply local markets.
   2. Following the development of refrigeration, cheap transportation, synthetic pest control agents, and supermarkets (1940s) –
      a. Most farmers stopped doing the marketing themselves and instead specialized in growing crops. They hired professional marketing help, or began contract growing for specific wholesale buyers. These new buyers didn’t care who the farmer was or how he or she farmed, they just wanted the commodity.
      b. Farmers began to increase their scale of production to take advantage of the economies of scale, producing fewer crops per farm unit. Cheap and effective pesticides and fertilizers enabled farmers to grow large monocultures without crop rotation.
      c. Scale of production grew exponentially and production concentrated in a few specific regions (e.g., apples in Central Washington, lettuce and cole crops in the Salinas Valley of California), each with its own massive infrastructure for production, packing, processing, and distribution
      d. Specialization – Businesses developed with specialized skills and/or equipment to take over harvesting, cooling, sales and delivery, etc. of fresh produce
   3. Summary
      a. Local production and sales are still the primary system in many parts of the world, but not in the U.S. and Canada
      b. Cheap and efficient refrigeration and transportation, plus the rise of supermarket outlets, lowered profit margins for most U.S. farmers and forced many regional farmers and small produce retail stores out of business (see Unit 1.0: Small Farm Viability Today)
      c. Local production is still valued by some consumers, but is a very small portion of total produce sales

C. Mainstream Marketing Options for Today’s Farmers: Advantages and Disadvantages
   1. Distributors, buying brokers, re-packers, or multiple store buyers who buy crops “wholesale”
      a. Two goals of wholesale buyers are: to get product at the lowest prices, and to get enough of all the different products they need
      b. Wholesale buyers are the main customers of growers selling direct to wholesale, Grower/Shipper/Packers, grower agents, and produce brokers (described below)
   2. Grower does his or her own sales to wholesale markets
      a. Wholesale is defined by a customer (not the end consumer) who re-sells or distributes produce to retail outlets and/or other wholesale markets. Examples include: distributors, buying brokers, re-packers, and multiple (chain) store buyers.
      b. Very few growers sell directly to wholesale markets, but some are very successful
c. The main advantages of wholesaling directly are to keep more money on the farm, sell to a very large market, and stay independent
d. Disadvantages of grower selling directly to wholesale markets
   i. Hard to keep customers—not enough year-round products
   ii. Need good market price information (can be hard to get)
   iii. Need on-farm sales office for customer service
   iv. Must bill customers and try to collect money
   v. Have to have own cooler or arrangement with a cooler
   vi. Have to have own label, standard cartons and packaging, harvest crew, delivery
3. Grower contracts with a Grower-Shipper-Packer (G/S/P)
a. 80–90% of U.S. and Canadian produce is handled this way
b. Originally started by individual successful growers going direct to wholesale. They built coolers, hired harvesters and salespeople, and offered their services to other growers for slightly more than cost. Over time, many G/S/Ps stopped farming and became service providers and farming partners.
c. Today G/S/Ps make contracts with independent farmers to provide services for everything needed after a given crop matures (e.g., harvest, pack, refrigerate, ship, sales, collections, etc.). The G/S/P also provides 50–60% of the money for growing costs. The grower takes responsibility for growing the crop. The G/S/P up-charges the services it provides and deducts these from the sales returns. What is left is divided up between the G/S/P and the farmer in proportion to their shares of the growing costs.
d. The G/S/P’s large contribution to up-front capital for initial growing costs has several implications. Their contribution is absolutely necessary for many large-scale farmers because the delay between investment and return from sales is often so long that farmers can’t borrow the large sums of money to capitalize the start of farming operations each year.
e. Due to uncertainty of weather and markets many banks will not provide individual farmers with agricultural loans, or will charge high interest rates for their loans
f. G/S/Ps are often more informed than banks about market fluctuations and have expert staff. By providing financing, G/S/Ps become farmer partners and make some growing decisions independent of the farmer, such as about which crop to grow, and how it will be grown. Farmers begin to lose significant control over their businesses.
g. 40 years ago there were many G/S/Ps, many of which were family-owned operations. Today there are only ~20 large, mostly corporate G/S/Ps, with some being publicly traded on the stock market.
h. As the number of G/S/Ps has declined, they have been able to increase the markup on cooling, sales, harvesting, etc.
i. Economic advantage over farmers: G/S/Ps make money on their services’ up-charges, even in marginal market circumstances when farmers are losing money on the crop sales. G/S/Ps also have a larger financial base that can withstand temporarily deflated market prices for longer than farmers.
j. Advantages of contractual arrangements between growers and G/S/Ps
   i. Growers reduce their personal financial risk, as the G/S/P has an investment in the crop
   ii. Growers are able to take advantage of a G/S/P brand name, facilities, and advice
   iii. Growers can concentrate on farming—cropping system may be very simple
k. Disadvantages of contractual arrangements between individual growers and G/S/Ps
   i. Growers are in competition with one another for the contracts with G/S/Ps. This competition depresses the produce market and growers become price-takers for the G/S/P services.
ii. In response to the trend towards lower prices for wholesale produce, growers have increased their scale of production in an attempt to take advantage of the economies of scale. This, in turn, results in fewer farmers with more land, more start-up costs, more product, and thus more dependence on the G/S/P.

iii. Although growers can concentrate on farming, they lose their independence and must farm in partnership with the G/S/P.

iv. Although just growing a few crops on large acres may be simple, it results in a loss of agroecosystem complexity and diversity, resulting in many negative ecological consequences.

4. Grower works with grower agents/produce brokers
   a. Grower agents are a subset of brokers that provide sales and coordination services for the farmer for a fee but usually have no investment in the farming. Grower agents try to get the best deal for the farmer and do not provide services for buyers.
   b. Non-grower agent are produce brokers who do not work for farmers, but put deals together between a farmer and a buyer. Broker finds product, finds a buyer, and puts the two together. Brokers can work for the buyer, or be an independent deal-maker, billing both buyer and farmer for putting the deal together.
   c. Brokers use their prior experience, skills, and connections to find potential buyers. Market knowledge of current market value and product availability determine what price to offer.
   d. Produce broker’s income is made in two ways
      i. Fixed price for selling each unit of product. This can result in little incentive for broker to pursue a high price for the grower because the broker gets paid the same regardless of price.
      ii. Broker percentage/commission derived from the sales price, typically 4–10%. This can result in little incentive for a broker to sell when market price is low because the broker gets very little commission for each low-priced unit sold.
   f. Advantages of working with grower agents and produce brokers
      i. More independence than with a G/S/P
      ii. Freed up from the responsibility of sales and can concentrate on farming and harvesting
      iii. No splitting of profits with G/S/P
   g. Disadvantages of working with grower agents and produce brokers
      i. Farmer/grower needs to find his/her own financing
      ii. Farmer needs to provide delivery
      iii. Standard cartons and packaging required
      iv. High quality standards
      v. Grower agents expect a high degree of crop planning and predictable harvest
      vi. Low prices paid and high charges of brokers and grower agents can prove uneconomical for grower

D. Marketing Alternatives for Growers (see Unit 5: Other Direct Marketing Options, for more on alternative markets and marketing)

1. The driving force behind alternative markets and marketing
   a. Some farmers are looking for more profit and decreased scale of production
   b. Consumers desiring direct market relationships in order to have –
      i. Personal connection to farms and farmers
      ii. Provide direct financial support to growers
      iii. Indulge their perceptions of freshness, absence of pesticides, and farmworker safety
   c. Innovative farmers have gone back to doing everything themselves, or brought in new ideas. Many of the innovative farmers are relatively new to farming.
2. Examples of direct marketing
   a. Marketing directly to retail stores
      i. Similar to direct market to wholesale
      ii. Advantages
         · High prices
         · Less stringent standards than wholesaling – less difficult to get good market price
           information; less elaborate (or no) on-farm sales office because there are relatively
           few customers; less elaborate billing system, cooling, label, standard cartons and
           packaging, harvest crew, delivery because the products don't need to travel a long
           way and customers do not require standardized packaging
      iii. Disadvantages
         · Farmers need marketing skills
         · Fairly complicated, need much more infrastructure than with a G/S/P
         · Limited market
         · Small amounts per customer
         · Customer service is most important, yet can be costly and difficult
         · Some supermarket chains are closed to local growers because they have year-round
           contracts with G/S/Ps
   b. Farmers’ markets
      i. Big resurgence in recent years
      · Shopping as recreation
      · Perceived freshness and quality
      · Consumers seek out their favorite farms and support them every week
      · Customers get personal attention
      ii. Advantages of farmers’ markets to growers
         · Easy to get started
         · Quality standards are lax – Possible to use (wholesale) sub-standard product
         · No special packaging or post-harvest handling
         · Farmers don’t always have to attend themselves
      iii. Disadvantages of farmers’ markets to growers
         · Tend to favor growers with additional marketing outlets who can divert crops to the
           farmers’ market when needed
         · Good markets are often saturated/not accepting new growers, are highly price
           competitive and political
         · Can be hard to move large volumes of produce at small markets
         · Often must provide a high diversity or specialty crop to be accepted
   c. Subscription farms/Community Supported Agriculture (see Unit 4: Community
      Supported Agriculture, for more information)
      i. Individual consumers pay fee/purchase share at the beginning of the season and
         receive regular boxes of produce throughout the season when it is ready
      ii. Attracts sophisticated consumers who want to provide financial and other forms of
         support for regional agriculture
      iii. CSAs often afford the opportunity to visit farm in order to confirm the land use practices employed
      iv. Advantages
         · Solves pre-plant financing
         · Provides guaranteed market
         · No middlemen = greater potential profit
· Potentially low capital costs
· Moderate over and under supply can be handled by shareholders
· Regular delivery schedule

v. Disadvantages
· Complexity of cropping system – Quality and quantity can be difficult as few farms can grow a wide range of high-quality product every week
· Need high degree of social skills – Dealing directly with a wide range of customer personalities
· High degree of cropping system and administration organization is often required
Resources

BOOKS


Making the Connection pulls together the experience of many innovative projects. While describing the diversity of CSAs, this 198-page handbook for producers also addresses common questions and concerns. Order from UCCE Placer, Attn: CSA Handbook, 11477 E Ave., Auburn, CA 95603.


A publication with direct marketing alternatives and strategies for beginning and established producers. Available online at cecommerce.uwex.edu.

Includes case studies of different direct marketing enterprises, Midwestern state and federal marketing contacts, and an extensive resources section.


An informal book dedicated to the sole topic of selling at farmers’ markets. Save two years of trial and error just by studying and implementing the tips found in this book.

Overview of Produce Marketing

The author is a successful farmer, attorney, and professor of agricultural law. This comprehensive guide is essential for anyone considering direct farm marketing. Hamilton covers liability, regulations, labor law, processed foods, and meat marketing issues in layman’s terms. 235 pages, paperback. Available through the New England Small Farm Institute Library: www.smallfarm.org.

Covers marketing and balanced farm management for the beginning or experienced farmer. See: www.smallfarmtoday.com.

Market Farm Forms: Spreadsheet Templates for Planning and Tracking Information on Diversified Market Farm, by Marcie A. Rosenzweig. 1999. 
Developed to help with planning, planting, and income diversification. The book explains how to enter your farm’s information into the templates, and what the calculated data tells you. Cross-platform CD works seamlessly with Excel. Computerless farmers can use the printed forms with a pencil and calculator. 100 pages plus diskette. Order from Full Circle Organic Farm, 3377 Early Times Lane, Auburn, CA 95603. E-mail: fullcircle@jps.net.


Publication exploring various marketing options for producers of vegetable crops. Available online at www.ca.uky.edu/agc/pubs/id/id134/id134.htm.


Thorough and fun to read, this book generates a million ideas and helps you chart your course for creating a new small farm enterprise. See: www.metrofarm.com.

Provides extensive information in a clear, nuts-and-bolts manner. Contains invaluable insight and advice for both those selling at market, and those organizing them. See: www.sare.org.

Great general guide for the principles of intensive crop management. Includes strategies on defining market opportunities and marketing.

Traces the development of the U.S. produce industry.

“This 20-page bulletin offers snapshots of the many alternatives to marketing commodities through conventional channels. Describes how to break into farmers markets; establish pick-your-own operations and farm stands; begin entertainment farming; open a Community Supported Agriculture (CSA) farm; join or start a cooperative; sell to restaurants or through mail order and the Internet; how to process and direct-market meat; and ways to add value to farm products.” Online version at: www.sare.org/publications/index.htm.
Rebirth of the Small Family Farm: Handbook for Starting
Successful Organic Farm Based on the Community
Supported Agriculture Concept, by Bob and Bonnie
Gregson. Island Meadow Farm, 1996.
Describes how two middle-aged relatively novice
farmers make a decent living from two acres of land.
Order from IMF, Box 2542, Vashon Island, WA 98070.
$9.95, including postage.

Sell What You Sow, by Eric Gibson. New World
Great overview of marketing techniques for a variety
of situations. Appendices and resource list. Aimed at
small to medium scale farmers. E-mail egibson@jps.
.net.

Selling Produce to Restaurants: A Marketing Guide for
Small Acreage Growers, by Diane Green. Sandpoint,
ID: Green Tree Naturals, 1999.
A concise guide to direct marketing to restaurants
for small-scale growers. Includes chapters on:
selecting restaurants; what to grow, deliveries and
sales, working with caterers, working with other
growers, market surveying, and sample letters use for
approaching restaurants. See: www.greentreenaturals.
.com.

Sharing the Harvest: A Citizen’s Guide to Community
Supported Agriculture, by Elizabeth Henderson;
with Robyn Van En. Chelsea Green Publishing Co.,
2007.
A revised and expanded version of this excellent
introduction to the CSA model. Covers all aspects of
CSA from organization to production and distribution
considerations, including how “community support”
may be applied to other industries.

The Small Commercial Garden, by Dan Haakenson. Pc-
Services, 1995.
Detailed information from his own records on
designing the garden to grow for sale, marketing,
commercial design of necessary structures, planning,
growing, harvesting, and intensive advice on basic
crops that are the mainstay of any good market
garden—no unusual crops. Highly recommended for
small market growers. Accompanying video available.

Successful Small-Scale Farming, An Organic Approach,
This book goes beyond growing crops to show
everything you need to know—including which
direction to begin plowing your fields, machinery
you might not need, how to pull up old fence posts,
and other info you missed from your farming
grandparents!

Sustainable Vegetable Production from Start-up to
Market, by Vern Grubingers. Natural Resources
Agriculture and Engineering Services (NRAES), 1999.
Covers equipment thoroughly, as well as farm
planning and business management. Contains a
section on grower profiles for 18 crops, including
their enterprise budgets. A great overview for farmers
starting out or those looking for different angles. See:
www.nraes.org.

USDA Risk Management Agency, Farm Services Agency
and Farm and Agriculture Collaborative Training
Systems. Risk Management Training for Diversified
Family Farmers.
Based on a series of workshops, the 7-workbook
series is designed to assist diversified family farmers
to manage risk proactively through addressing many
elements that contribute to creating a financially
healthy farming operation. Covers the following
topics: Introduction to Risk Management; Managing
Family and Personal Risk; Managing Financial Risk;
Managing Production Risk; Managing Marketing Risk.
Available online through CAFF (see below): www.caff.
.org/programs/rma/rma.shtml.

Western Profiles of Innovative Agricultural Marketing:
Examples from Direct Farm Marketing and Agri-
Tourism Enterprises. Western Extension Marketing
Committee, Cooperative Extension of the University
Provides 16 case studies of successful innovative direct
farm marketing enterprises.

PERIODICALS
American Vegetable Grower/American Fruit Grower
A subscription magazine for produce growers
meistermedia.com/vegetables.
Growing for Market
A very useful national monthly newsletter for direct
market farmers. Covers production and marketing
of vegetables and flowers. P.O. Box 3747, Lawrence,
Kansas 66046. Phone: 785-748-0605, Fax: 785-748-
0609. E-mail: growing4market@earthlink.net. Also see
Marketing Your Produce
A compilation of the best marketing articles that
include information on specialty produce, selling to
restaurants and/or supermarkets, farmers’ markets,
CSAs, and expanding your market. See above for
ordering information.
The Packer
A business newspaper for the produce industry. See: www.thepacker.com.

Small Farm Digest
A subscription newsletter published three times a year by the Cooperative State Research, Education, and Extension Service, United States Department of Agriculture (USDA). Discusses issues impacting today’s small farmers. Small Farm Digest is available on the CSREES home page: www.reeusda.gov/smallfarm.

Small Farm News
The Small Farm Newsletter is a quarterly publication of the UC Small Farm Center. The newsletter features farmer and farm advisor profiles, research articles, farm-related print and web resources, news items and a calendar of state, national and international events. See: www.sfc.ucdavis.edu/pubs/SFNews/news.htm for the online editions.

ARTICLE

WEB SITES
Agribusiness Online:
www.agribusinessonline.com/
Agribusiness Online is a free market intelligence and technical information service for agribusiness professionals. Provides market news, prices, surveys, trade regulations, research, events, past harvest and production guides from various extension services

Alternative Farming Systems Information Center’s Organic Agriculture Products: Marketing and Trade Resources:
www.nal.usda.gov/afsic/index.html
A comprehensive listing of electronic resources addressing the following subject areas: Regulation, Laws, and Legislation governing organic production and trade; How-to Guides on Marketing, Business Planning, and Sample Enterprise Budgets; Guides to Data, Suppliers, Outlets, and Events; Industry and Data Sources; Market and Consumer Studies; Support Organizations. Compiled by Mary V. Gold of the National Agricultural Library in association with the Agricultural Research Service of the U.S. Department of Agriculture.

ATTRA—National Sustainable Agriculture Information Service. Direct Marketing. Business Management Series:
attr.a.ncat.org/marketing.html
Contains extensive listings of concise online publications addressing all aspects of direct marketing and alternative marketing arrangements including: marketing of organic products, institutional buying relationship, cooperatives, value added, selling to restaurants, agricultural tourism, farmers’ markets and CSA.

California Department of Food and Agriculture Regulations:
www.cdfa.ca.gov/cdfa/pendingregs/
California Department of Food and Agriculture Regulations (CDFAR) is a California state agricultural agency with divisions of Animal Health & Food Safety Services; Fairs and Expositions; Inspection Services; Marketing Services; Measurement Standards; and Plant Health & Pest Prevention Services. The web site contains links to the services and programs of the above agencies as well as links to county agricultural commissioners and official statements and policies of the USDA, FDA, and CDFAR on current events in agriculture.

California Federation of Certified Farmers’ Markets:
www.cafarmersmarkets.com/
An information clearinghouse on certified farmers’ markets in California. A comprehensive information on certified farmers’ markets; links to locate farmers markets in a given area; product specific listings of associations and organizations; links to information on agriculture and trade policy and much more. The California Federation of Certified Farmers’ Markets is a statewide non-profit membership organization of California Certified Farmers’ Markets.

Community Alliance with Family Farmers (CAFF):
www.caff.org
This extensive annotated listing includes practical, high-quality resources such as print publications, videos and web resources that will help growers meet direct marketing goals. The resources are organized into 9 categories including: Farmers’ Markets; Community Supported Agriculture; Agricultural Cooperatives; Farm-to-School/Selling to Institutions; Direct Marketing Livestock; Roadside Stands/Markets; Selling to Restaurants; and Value-Added Production/Marketing.

Nolo Press: www.nolo.com
Dedicated to helping people handle their own everyday legal matters or make more informed legal decisions, Nolo Press publishes reliable, plain-English books, software, forms and up-to-date legal information covering almost any legal topic. Includes an extensive list of publications and online articles on the types of legal ownership structures that are available and do-it-yourself manuals on forming sole proprietorships; partnerships; limited partnerships; limited liability companies (LLC); nonprofit corporations; not-for-profit cooperatives. Includes links to other helpful web sites.

Organic Agricultural Products: Marketing and Trade Resources: www.nal.usda.gov/afsic/AFsIC_pubs/OAP/srb0301.htm
A collaborative program of the USDA Agricultural Research Services and the National Agricultural Library to provide marketing and trade information for organic agriculture products. Contains information on: Regulations, Laws and Legislation; How-to Guides; Guides to Data, Suppliers, Outlets and Events; Industry Data Sources; Market and Consumer Studies; Support Organizations; and a listing of appendices containing USDA National Organic Program standards for certification, production, labeling, and marketing.

The Organic Trade Association (OTA): www.ota.com/index.html
The Organic Trade Association (OTA) is the membership-based business association for the organic industry in North America. OTA’s mission is to encourage global sustainability through promoting and protecting the growth of diverse organic trade.

Produce Marketing Association: www.pma.com
Home page of the Produce Marketing Association. Lists conventions, other events, links to the web pages of major produce companies including organic.

UC Small Farm Center: www.sfc.ucdavis.edu
The Small Farm Center was established to enhance the viability of small- and moderate-scale agricultural producers by stimulating research and extension education in production systems, marketing, and farm management. Contains a fully searchable library and database for many topics on small-scale agriculture in California, including many marketing references.

USDA Agricultural Marketing Service: www.ams.usda.gov
The Agricultural Marketing Service includes six commodity programs providing standardization, grading, and market news services for those commodities. The AMS Science and Technology Program provides centralized scientific support to various AMS technical programs (e.g., Plant Variety Protection, Pesticide Testing, and Pesticide Recordkeeping Programs). The AMS Transportation Program addresses problems of U.S. and world agricultural transportation. The Marketing program serves to increase the overall effectiveness of the food marketing system, provide better quality products to the consumer at reasonable cost, improve market access for growers with small-to medium-sized farms, and promote regional economic development.

An extensive listing of online resources related to farmers’ markets and other direct marketing efforts.

Provides current U.S. price and sales information. One of the best sources for daily to weekly reports for all kinds of commodity prices, bids, imports and exports in the U.S., from dairy, feedstuffs, fruit and vegetables, futures, grains, hay, livestock, meat, poultry, tobacco. Reports cover both domestic and international markets. Other reports include information on volume, quality, condition, and other market data on farm products in specific markets and marketing areas.
POWERPOINT PRESENTATION

“Reap New Profits: Marketing Strategies for Farmers and Ranchers”— A PowerPoint presentation for Educators on CD-ROM

This PowerPoint presentation developed by the Sustainable Agriculture Network depicts some basic alternative marketing strategies and helps answer common questions from producers seeking to increase profits. The presentation describes how you might help farmers explore new ways to market and add value to their products through such tried-and-true techniques as: farmers’ markets, farm stands, agrotourism, community supported agriculture, creating value-added farm products, working in a successful cooperative, selling directly to restaurants, mail order, and Internet sales. Available from Sustainable Agriculture Research and Education (SARE), 301.504-5326, or email san_assoc@sare.org. Order online at www.sare.org/publications/marketingCD.htm.

VIDEO


This video presents eight Northeast vegetable farmers who describe their successful use of a variety of innovative marketing strategies. 48 minutes. Available from www.nraes.org/publications/nraes139.html.