Selecting the Appropriate Marketing Channels

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The marketing alternatives selected by a particular farming enterprise will have a tremendous impact on the operation’s profitability. Therefore, the potential marketing channels should be carefully evaluated and selected before a crop is ever planted. There are a wide variety of potential market outlets for farming operations and a major task for the producer is evaluating the available resources and selecting a combination of marketing outlets that complements their current farming operation.

Intercept surveys of 14 Alabama farming operations, who sell their products through one or a combination of these marketing channels, were conducted at the 2013 Alabama Fruit and Vegetable Growers Association Conference. Our primary goal was to evaluate their use of marketing channels and identify factors that influenced their decision to utilize particular outlets. These operations have been in business an average of 13 years with a range from 1 to 54 years. Survey participants were given eight marketing channel choices, which included community supported agriculture (CSA), farmers market, pick-your-own, roadside stand, wholesale, institutional, and other. We found that each operation diversified their income streams by using multiple marketing outlets. Almost 36% of the operations used 5 of the 8 marketing options and 71% of operations utilized 3 or more outlets. Producers have the option of selling products through one of the following three broad marketing channels: 1) wholesale, 2) intermediate, or 3) direct-to-consumer. Producers maintain a higher percentage of the food dollar, at each stage, as they move from wholesale to direct-to-consumer marketing.

Wholesale Marketing

First, wholesale marketing is, in general, more appealing to producers with a large volume of products to sell. These products normally require very minimal processing or packaging, and the quality/grade for wholesale outlets is not always as strict as direct marketing channels. Upon delivery, this outlet offers a market price, which is typically significantly lower than intermediate or direct-to-consumer marketing. Profitability for wholesale marketing is based on cost savings that can be generated as a result of producing large volumes. Approximately 57% of the operations used this marketing outlet, however, only one operation indicated this outlet was their primary target market. One of the primary benefits listed by operations utilizing wholesale marketing is the ability to sell larger quantities. However, wholesale suppliers were sometimes unhappy with being a “price taker” when selling their products. They typically have no influence over the price they receive.
from one marketing period to the next. Labor and product storage capacity were also listed as challenges for larger operations.

**Intermediate Marketing**

Intermediate marketing channels involve producers selling to restaurants, grocery stores, or other retailers. These markets typically have quality standards similar to direct-to-consumer outlets and they pay a premium above the wholesale price. Given the growth in demand for locally produced food, these outlets often highlight the source of the products, in order to attract new customers and receive price premium. Intermediate markets vary tremendously in terms of the product mix and quantity desired. As a result, producers with different size operations can find intermediate outlet willing to purchase their products. Intermediate outlets that are independently owned more commonly purchase from local producers as compared to corporately owned chains. Some intermediate markets have strict product quality verification standards such as Good Agricultural Practices (GAPs), which serve as a barrier for some producers. These food safety standards are necessary to protect the health of final consumers. Intermediate outlets are abundant; however, in order to compete with large distributors producers must identify a competitive advantage such as freshness, locally produced, or niche crops. About 43% of the operations used intermediate marketing but none used this outlet as their primary target market.

**Direct-to-Consumer Marketing**

Finally, producers can market direct-to-consumers through outlets such as on-farm, pick-your-own, roadside stands, farmers markets, community supported agriculture (CSA), mail order, or internet sales. These markets typically provide the highest price to producers due to the elimination of intermediaries in the marketing chain. Direct marketing can translate into increased profits for small farm operators who do not have the volume or product selection required to attract large processors and/or commercial retail buyers. Although direct marketing yields the highest price, many direct-to-consumer outlets require producers to incur additional marketing costs such as advertising, delivery, storage, packaging, and/or processing. The amount of time required for marketing by the producer or farm employees usually increases with direct marketing also.

Farmers markets and on-farm sales were used by a greater percentage of operations, with 78.6% and 71.4% of operations utilizing these outlets, respectively. This finding is supported by the increase in the number of farmers markets in the US from 3,706 to 7,864, respectively, between 2004 and 2008. CSA and pick-your-own represented the least utilized market outlets for the group surveyed with 14.3% and 21.4% utilizing these outlets, respectively. About 43% of the operations sold the majority of their products through farmers markets, and the operations that did not sell at farmers markets had some other retail-type outlet such as a road side stand or internet marketing. Each survey participant
was asked to indicate reasons they selected their primary marketing channel. In summary, producers who primarily utilized farmers markets preferred this outlet because of the large volume of customers looking for products and their willingness to pay premium or retail prices. Producers appreciated the fact that they did not have to advertise to get customers at farmers markets and most indicated they enjoyed developing relationships with their customers. Producers who market products primarily on farm or at road-side stands, preferred these outlets because they can receive premium prices with no competition. They also have the advantage of relatively low overhead costs.

Producers indicated that product quality was the most important factor for maintaining their primary marketing outlet. Customer service was also found to be an important factor for attracting and retaining customers. Producers who indicated that customer service was the most important either had a CSA, internet sales, or on-farm sales. Producers who utilize these outlets develop a more reliable customer base and work hard to keep their regular customers.

Producers also articulated challenges and concerns with supplying their primary marketing outlet. Producers who sell through farmers markets were limited by short growing seasons and limited hours per week that markets are open. Most farmers markets open when fruit and vegetable production is at a relatively high level. As a result, producers must find outlets for early and late season products or products that are produced all year. Some also stated that the level of public awareness about farmers markets should be increased given the increase in the number of markets in the state. Producers who operated roadside stands indicated that the daylight savings time was a challenge, given the early sunset in fall. Consumers returning home from work are less likely to patronize these businesses when it is nearly dark just after 5:00 p.m.

Selecting a market requires conducting a market analysis of the targeted channel and developing a marketing plan by the farm operator. The risks and returns vary with each marketing outlet; however, each outlet is an appropriate match in the marketing mix for some specific operation. Producers may identify multiple market outlets to effectively manage their price risk. Producers may identify their competitive advantage over similar producers and target a selection of marketing outlets. Unique competitive advantage may result from relatively lower production costs, unique products, packaging capacity, customer service, and/or product quality. Other factors that may significantly influence the selection of marketing outlets are the size of the operation, the facilities available, desired interaction with customers, and location. Every farming operation is unique and the marketing channels utilized should complement the operation.