

THE INCREASING ROLE OF DIRECT MARKETING AND FARMERS MARKETS FOR WESTERN US PRODUCERS

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Farmers markets have a rich history in the development of agriculture in the United States. They represented an important community food distribution system long before the rise of the retail agribusiness system, and began to re-emerge (after years of decline) after the passage of the Farmer-to-Consumer Direct Marketing Act of 1976. Some argue that they are now integral part of the food community linking consumers and producers through business and social relationships, while others view markets as an appropriate marketing channel for entrepreneurial and small farmers who strive to establish a loyal customer base through personal selling and quality differentiated (vs. low margin commodity) marketing strategies.

Still, direct markets, including farmers markets, are seldom studied. For market analysis, it is important to understand supply side (number of producers, mix of products and marketing channels) and demand side (growth in sales, as well as number and types of potential consumers) factors, as well as how direct marketing activities influence the financial performance of farms that adopt such business strategies.

The objectives of this article are to summarize the findings of some recent analyses of farmers market and direct marketing by agricultural producers, including the US Ag Census, USDA's Agricultural Marketing Service (AMS) 2000 study of Farmers markets and Farmers market data collected every two years by the USDA-AMS. By examining trends in the number of farmers markets, sales made directly by producers and how direct marketing strategies relate to other farm characteristics, one can assess the potential role of such channels in agricultural development, especially for small farms or producers with specialty and value-added agricultural products.

Direct Marketing by Producers

Data on direct marketing from the 2002 Ag Census show some interesting trends in the US and Colorado. For the US, the value of agricultural products directly sold by producers increased from \$591,820,000 to \$812,204,000 between 1997 and 2002 (Table 1), an increase of 37% compared to a slight decline in total revenues sold through all channels. The number of farms direct marketing also increased from 110,639 to 116,733 (5.5% growth in farms) at the same time total farm numbers declined from 2.2 million to 2.1 million (5% decline). Although revenue from direct sales on the average farm is very small in absolute terms, it increased from \$5349 to \$6958 (30% higher). This represents a little over 7% of average revenues per farm (\$94,245).

The increase in direct marketing among most Western states is even more dramatic (Table 1). Between 1997 and 2002, 1,266 farms began direct marketing in this region (26,149 up from 24,833) so that 8.5% of all farms now do some direct marketing (compared to 5.5% for the US as a whole). The greatest share of farms direct marketing are in Oregon (15.9%) and Washington (12.6%), suggesting strong institutions and consumer support in those states. The greatest growth in number of farms direct marketing was in Nevada (48% growth since 1997) and Wyoming (35% since 1997).

Table 1-Direct Marketing Trends in Western US States

	<i>Direct Marketing (Farms, 2002)</i>	<i>Direct Marketing % of Farms, 2002</i>	<i>Direct Marketing (Farms, 1997)</i>	<i>Direct Market Value, 2002 (,000)</i>	<i>Share of Value Direct Marketed, 2002</i>	<i>Direct Market Value, 1997 (,000)</i>	<i>Direct Market Sales Growth (1997-2002)</i>	<i>Direct Market Value/Farm, 2002</i>	<i>Direct Market Value/Farm, 1997</i>
Arizona	711	9.7%	592	\$3,911	0.2%	\$3,707	5.50%	\$5,501	\$6,202
California	6,436	8.1%	7,268	\$114,356	0.4%	\$78,712	45.28%	\$17,768	\$10,830
Colorado	2,343	7.5%	1,866	\$17,406	0.4%	\$6,926	151.31%	\$7,429	\$3,712
Idaho	1,632	6.5%	1,408	\$5,889	0.2%	\$3,306	78.13%	\$3,609	\$2,348
Montana	1,164	4.2%	1,048	\$4,523	0.2%	\$2,181	107.38%	\$3,886	\$2,081
Nevada	246	8.2%	166	\$1,606	0.4%	\$707	127.16%	\$6,528	\$4,258
New Mexico	1,071	7.1%	1,111	\$6,582	0.4%	\$4,648	41.61%	\$6,146	\$4,183
Oregon	6,383	15.9%	5,461	\$21,411	0.7%	\$15,696	36.41%	\$3,354	\$2,874
Utah	1,115	7.3%	1,148	\$6,983	0.6%	\$6,609	5.66%	\$6,262	\$5,757
Washington	4,527	12.6%	4,428	\$34,753	0.7%	\$16,540	110.11%	\$7,677	\$3,735
Wyoming	521	5.5%	387	\$2,381	0.3%	\$871	173.36%	\$4,570	\$2,251
US	116,733	5.5%	110,639	\$812,204	0.4%	\$591,820	37.24%	\$6,958	\$5,349

Source: USDA Ag Census, 2002

This increase in activity resulted in an 80% increase in direct sales revenues for the region as sales jumped from \$139,903,000 to \$219,801,000 in 2002. Similarly, the average sales per farm increased from \$4,385 to \$6,612 (50% growth). These revenues include a number of marketing channels (farmers markets, roadside stands, CSAs and pick-your-own) and illustrate a notable shift in marketing strategies by Western producers.

Not surprisingly, California accounts for over one-half the direct marketing revenues, but Oregon, Washington and Colorado also exceed \$10 million dollars. The greatest growth in direct marketing revenues was reported among farms in Wyoming (173%), Colorado (151%) and Nevada (127%). Although Colorado and Nevada's large population growth may be fueling the consumer demand, Wyoming's growth appears to be supply driven (given the high growth in farms choosing this marketing strategy). The average sales per farm grew by over 100% in Colorado, Washington and Wyoming, while the average sales per farm increased by an average of 56% across the whole region.

All of the top ten counties with respect to total direct marketing revenues are in California, which is not surprising given its longer seasons and climates that can produce a wide variety of consumer-ready products (fruits, vegetables, nuts). Still, the highest growth in direct marketing activities is in states, such as Colorado, Washington, Montana and Utah, where there is upwards of 1000% growth as producers go from nearly zero direct marketing to significant revenues in 2002. Table 2 shows the largest direct marketing counties in each state (ranked by total direct marketing revenues) and the county with the highest growth in direct marketing revenues in each state (conditional on at least \$200,000 in sales since highest growth was often in counties with a very small revenue base in 1997).

Table 2: County in each State with Greatest Revenues from Direct Marketing and Greatest Growth in Direct Marketing between 1997 and 2002

<i>State/County</i>	<i>Direct Mktng Revenues (,000s)</i>	<i>State/County</i>	<i>Growth in Direct Mktng Revenues (1997-2002)</i>
Arizona\Maricopa	\$1,248	Arizona\Cochise	188.9%
California\San Joaquin	\$8,165	California\Modoc	1064.7%
Colorado\Adams	\$3,187	Colorado\Rio Grande	1973.9%
Idaho\Canyon	\$775	Idaho\Lemhi	354.5%
Montana\Lake	\$620	Montana\Ravalli	177.0%
Nevada\Clark	\$551	Nevada\Washoe	719.3%
New Mexico\Bernalillo	\$1,141	New Mexico\Lea	720.7%
Oregon\Lane	\$2,327	Oregon\Benton	291.1%
Utah\Cache	\$2,938	Utah\Cache	1680.6%
Washington\Skagit	\$3,695	Washington\Pacific	5690.7%
Wyoming\Park	\$317	Wyoming\Sheridan	1371.4%

Source: USDA Ag Census, 2002

Similar to the states themselves, there is a great degree of difference in the direct marketing revenues among the counties, with the Pacific Coast showing the greatest direct marketing activity, but high population growth states such as Colorado and Utah also appear to have significant direct marketing activity and growth.

Direct Marketing and Farm Characteristics

To look for more generalizable trends between direct marketing and other farm structure, location and profitability factors, a correlation was calculated across the cross-section of all Western counties. First, the correlation between direct marketing revenues and several variables, including number of farms in different sales categories, total income from farm-related sources, net farm income, value of organic sales, the urban continuum code and the natural amenity index (available from USDA-ERS data sources). Then, the same correlations were estimated against the total market value of products sold across counties.

First, it is interesting to note that there is a positive correlation between value of direct marketing sales and net farm income, total farm income, and total organic sales. Moreover, direct marketing revenues appear to be positively correlated with more urban-adjacent counties with a high natural amenity index. This could suggest both demand (a large number of interested consumers) and supply (favorable climate for growing a diverse set of products) effects.

Statistical comparisons of correlations between total market value and direct market value are even more interesting. Gross market sales values are positively correlated with income, as expected. But, pairwise comparisons suggest that gross farm income is more highly correlated with direct marketing revenues, while net cash farm income is less strongly correlated to direct marketing activity. Organic sales value is also more positively related to total market sales value (suggesting scale economies), but less correlated with direct marketing revenues which counters the usual argument that organics are relatively more likely to be marketed directly. Although all revenues are enhanced by proximity to urban areas and natural amenities, the relationship is stronger with direct-marketed agricultural sales. This not only confirms that concentrated populations assist producers who want to direct market, but also, those drawn to high amenity areas may also prefer to buy direct from producers (perhaps to support open space in amenity rich areas).

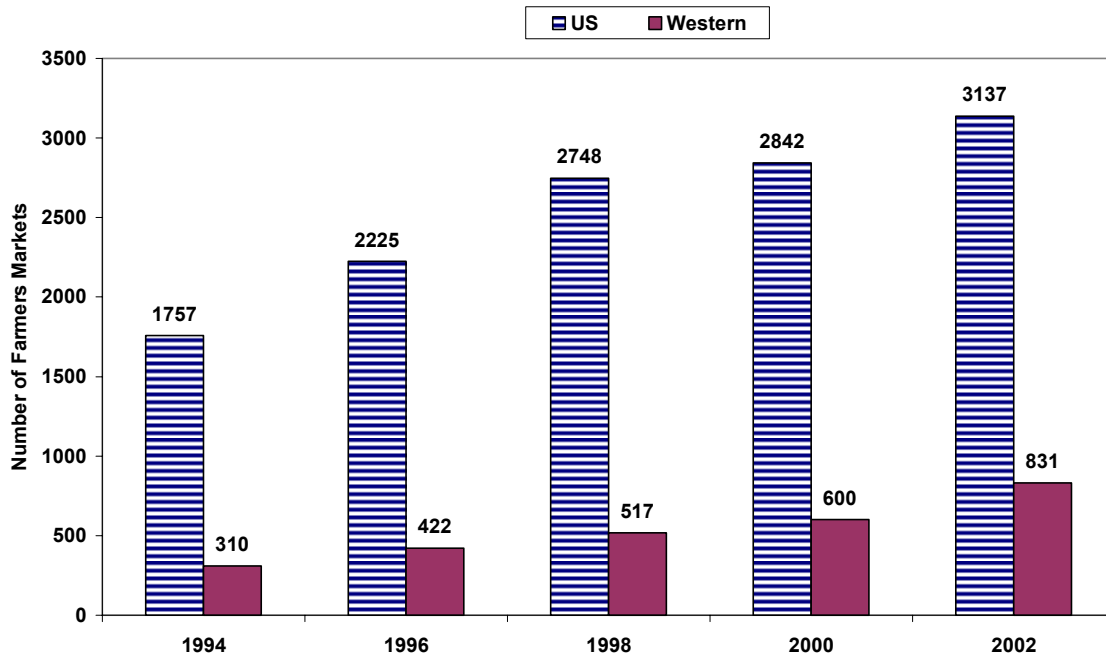
In terms of market structure, there are few surprises. The positive correlation between direct marketing sales and number of farms is always positive, but it is relatively higher than the correlation with total market sales value for only farms below \$25,000. The number of larger farms is more strongly correlated with total market value of ag products sold. So, it is clear that direct marketing is far more likely to be a marketing strategy for the very smallest of operations.

Farmers Market Trends

The presence of farmers markets is one of the most apparent signals of consumer and producer interest in developing direct markets, since there are some organizational costs in establishing such markets, and such markets will only continue or develop in the presence of sufficient consumer demand (and proven sales records by participating vendors). The USDA's Agricultural Marketing Service states that, "Farmers markets, now an integral part in the urban/farm linkage, have continued to rise in popularity, mostly due to the growing consumer interest in obtaining fresh products directly from the farm."

The number of farmers markets in the United States has grown dramatically, increasing 79 percent from 1994 to 2002, with over 3,100 farmers markets operating in the United States (Figure 1). Table 3 shows the number of farmers markets in Western states has grown even more dramatically, with over 831 markets, representing 168% growth since 1994 (or about 20% annually). It is interesting to note that this growth is very similar to that seen in the value of sales marketed directly by producers in the Western region.

Figure 1: Growth in US and Western Farmers Markets, 1994-2002



Source: Brown (2002) and USDA-Agricultural Marketing Services (2002)

Table 3: Farmers Markets Numbers by State, 1994-2002

	1994	1996	1998	2000	2002
US	1757	2225	2748	2842	3137
Western Region	310	422	517	600	831
Arizona	5	5	12	12	32
California	169	249	305	340	443
Colorado	29	30	34	39	62
Idaho	19	20	21	24	26
Montana	7	7	7	16	28
Nevada	0	0	4	10	17
New Mexico	19	23	27	27	42
Oregon	18	24	36	44	64
Utah	3	3	3	8	19
Washington	35	55	62	74	87
Wyoming	6	6	6	6	11

Source: Brown (2002) and USDA-AMS (2002)

According to a 2000 USDA study on farmers markets, such markets are likely the most important direct marketing channel for US producers (Payne, 2002). Moreover, with recent growth in revenues from farmers markets, the importance of farmers markets to farm income is expected to rise. In 2000, 19,000 farmers reported selling their produce only at farmers markets. Yet, farmers markets are not necessarily an exclusive marketing channel for producers, as 69% of farmers market participants also have retail and wholesale markets to which they sell higher volumes of product at lower margins (Payne 2002). Looking at direct marketing of agricultural products in the broader context of farm sales growth and number of farms participating in these activities may indicate the relative importance of direct marketing activities.

Payne (2002) also found that the Pacific Coast and Rocky Mountain regions exhibited the largest growth in the number of producers involved in each market (10% vs. 6% nationally), and a higher share of producers who use markets as their only method of sales. Still, the rapid population growth in Western states is not clearly beneficial to farmers markets. In the Western region, producers are far more likely to drive over 50 miles to markets (20%) than the national average (12%), suggesting less proximate market access. But, this is supported by the higher share of producers who make over \$25,000 in annual sales at Western region markets (11% vs. 7% nationally).

The Role of Farmers Markets in Local Food Systems

There are broader community and policy issues that relate to farmers markets and direct marketing as well. Hilchey, Lyson and Gillespie suggest that farmers markets enhance producers' business opportunities, foster business skills and have positive effects on producer-vendor families. For the broader community, they conclude that markets may have spillovers to other adjacent businesses on market day, support entrepreneurial start-ups in ag and food industries and support food nutrition, security and educational goals.

Because of the broader economic and social benefits, there are some who believe that public support for farmers markets should grow. The USDA found that 82 percent of markets are already self-sustaining and market income is sufficient to pay for all costs associated with the operation of the market (not including grant or in-kind support). But, this may be misleading, as the study focused on existing markets, and there is no information on what other markets might exist if public support were available. This is especially true in more rural areas, where there is an insufficient consumer base relative to what is necessary to support a market's overhead.

Farmers markets appear to play a significant role in food security and assistance. According to the USDA, 58 percent of markets participate in WIC coupon, food stamps, local and/or state nutrition programs, but the participation rate is lower in the Western region. To support more localized assistance efforts, 25 percent of markets participate in gleaning programs that assist food recovery organizations in the distribution of food and food products to needy families in local communities. In 2000, Western region markets reported over one million pounds of donated food, averaging 5900 pounds per market, which is lower than the national average.

Current trends suggest that farmers markets will continue to grow in popularity as producers seek to personally connect with consumers. Yet, some markets are already experiencing difficulties in attracting producer-vendors who must balance marketing activities with their production obligations. Still, this growth does motivate the need to further explore the relationship between direct marketing, local economic development, farm financial performance and producers' ability to differentiate their products.

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