

# Surviving and Thriving Through Direct Farm Marketing

by

Russell Tronstad, Larry Lev, and Wendy Umberger<sup>1</sup>

## Introduction

In recent years, traditional commodity marketing channels have not provided sufficient returns for many small and medium sized farmers to maintain a viable livelihood through only farm activities (Hoppe et al.). While direct marketing allows farmers to retain a much higher share of consumer food expenditures, the elements needed to make this production-marketing strategy a success are not well understood. In part, this is because of their increased complexity as compared to commodity production-marketing systems. Albert Einstein's famous quote that "Everything that can be counted doesn't necessarily count; everything that counts cannot necessarily be counted," may seem all too appropriate when looking at what it takes to thrive at direct farm marketing and agri-tourism. Traditionally, producers have set goals for high yields and low costs of production in order to be a "low cost" commodity producer. This paper presents an alternative route. From a set of 17 case studies, it distills and deciphers the more subtle key elements that have allowed some small and medium sized farmers to achieve success through direct marketing.

Farmers selling direct to consumers has been a growing trend. As an example, the number of farmers' markets in the U.S. increased from 1,755 in 1994, when USDA first began tracking them, to over 3,100 in 2002 (USDA, AMS). What are the reasons behind this growth? This upward trend reflects both consumer and producer factors. Consumers have expressed a desire to purchase products directly from farms where they can obtain fresher products, make a personal connection with how their food was produced, support "locally-grown" agriculture, and purchase organic foods (USDA, APHIS). From 1990 to 1996, direct farm marketing was estimated to account for only 1.6 percent of U.S. fresh produce sales, yet it accounted for 17 to 22 percent of organic sales (USDA, ERS). The organic food industry has grown from a \$1 billion to an \$8.5 billion industry from 1990 to 2002. Conventional supermarkets have experienced the most significant growth in organic product sales, increasing from less than 10 percent of all organic products in 1995 to 49 percent of all sales by 2000 (Dimitri and Greene). Will small farms involved in direct marketing be able to compete with larger commercial farms supplying organic produce to conventional supermarkets? Govindasamy, Pingali, and Hossain found that farmers engaged in producing and retailing value added products such as jams, jellies, and breads, and in providing farm tours, festivals, picnic areas, and petting zoos were more profitable than farmers without these activities in New Jersey.

While several state and federal programs exist to promote direct marketing (e.g., Farmers' Market Nutrition Program, Senior Farmers' Market Nutrition Program, State logos that promote locally grown food, California's Certified Farmers' Market Program, etc.), developing and sustaining a successful direct marketing enterprise requires a different business model than a traditional commodity production-marketing system. Treacy and Wiersema in *The Discipline of Market Leaders* describe three alternative approaches (similar to Porter's generic strategies) a business can follow for success: 1) operational efficiency – producing at the lowest possible cost (Wal-Mart, McDonalds), 2) product leadership – being first with new products (Intel, Nike), and 3) customer intimacy – meeting the specific needs of select customers (Nordstrom, Airborne Express). Commodity-oriented agriculture almost exclusively follows the "operational efficiency" strategy while a "customer intimacy" approach appears essential for direct farm marketing enterprises.

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<sup>1</sup> The authors are Russell Tronstad, Extension Economist, Department of Agricultural and Resource Economics, University of Arizona, Larry Lev, Extension Economist, Department of Agricultural and Resource Economics, Oregon State University and Extension Economist, Department of Agricultural and Resource Economics, Colorado State University, respectively.

“Customer intimacy” was an overriding theme for the 17 different and successful direct farm marketing and agri-tourism enterprises that were recently examined by the Western Extension Marketing Committee (WEMC) and other contributors. A primary objective of the WEMC in examining these enterprises was to provide a publication that describes how these operations evolved from traditional, commodity farms that tended to be focused on an operational efficiency approach, towards a “customer intimacy” and market-driven business within the last 10 to 15. Declining profit margins that would not sustain the families’ livelihood on the farm was the main reason that prompted these operations to consider direct marketing. A set of articles surrounding the transition and development of these operations has been put together in a publication by the WEMC entitled, “Western Profiles of Innovative Agricultural Marketing: Examples from Direct Farm Marketing and Agri-Tourism Enterprises.” The publication is intended to identify the unique factors behind the failures and successes of these enterprises and make known their strategies for meeting future challenges and risks. This overview article distills the most significant themes that emerged from the 17 case farms (see also a similar study by Born).

### **Four Key Strengths**

Although the featured case farms are extraordinarily varied, we distilled four key strengths that distinguish these successful direct-marketing farms from most others. These strengths represent challenges that the case study farms have accepted. Each of the strengths provides a significant competitive advantage and a means for escaping from the difficult economic environment of commodity agriculture.

#### *Personality Type and Interpersonal Skills*

In looking back over the 17 farms, we were struck by the similarities in the personality type and interpersonal skills of the operations’ management. Because direct marketing involves selling a product directly to the consumer, producers must be willing to listen to their customers and be willing to adapt their product offerings as the market (consumer) changes. For example, the new farm businesses:

- Represented an increase in the complexity of the farm business. Often times direct marketing involves developing several markets, more involvement with the end consumer, and keeping more “balls in the air.”
- Required a willingness to experiment. All of the managers of the case farms had failures as well as successes. They were able to overcome their failures and keep trying in order to become successful. Well-thought out ideas and perseverance were critical for success.
- Resulted in an increase in the quantity and intensity of interactions with customers. Not all producers have the flexibility needed for dealing with change and the personality and patience necessary for dealing with the public. In production agriculture, producers are often used to being their own boss, in direct-marketing, the consumer also should play a role in decision-making.
- Generally required the management of an increased labor force. Family labor was typically the main labor source prior to developing the direct marketing enterprise. Direct farm marketing is difficult for a single individual or family to accomplish since labor efforts are generally torn between full-time production and marketing duties. Learning how to manage the people that assist in developing, producing and delivering products becomes very important for successful direct-marketing enterprises.

All of the farm families began with recognition that their traditional business focus was not sustainable. The search for new, profitable alternatives led them to more complicated production and marketing plans.

- Marshall Farms (Nevada) transformed a geographically isolated hay farm into an internet-driven production/processing unit that is selling a wide range of companion animal products in both the U.S. and overseas.

- Sunfresh Farms (Arizona) branched out from large-scale vegetable production enterprise to also become a major agricultural entertainment/education provider.
- Thompson Farms (Oregon) changed from producing four crops for a cannery to producing more than 40 crops for sale through diverse direct marketing outlets.
- English Farms and Mebane Farms (both in Colorado) developed a corn maze and pastured poultry enterprises to complement existing farm enterprises.

All of the farms recognize that they will need to continue to change as markets and competitors warrant. The farm manager's willingness to accept complexity and change are necessary, but not sufficient conditions for the transformation these farms achieved. The owners of these operations must also enjoy and be excellent at dealing with both their customers and employees. The customer intimacy approach defined in the next section requires that the farms provide excellent customer service and gather valuable feedback from customers. To a great extent, the excellence in service and products that these farms have achieved results from the efforts of their employees.

### *Target Marketing/Customer Intimacy*

The farms all share the recognition that their escape from commodity agriculture can only be accomplished if they continue to better satisfy the needs of their specific customers. By building relationships with their customers (and by offering superior quality products as discussed below) the producers gain customer loyalty and greatly reduce their concerns with price competition. By continuing to seek and to act on customer feedback they stay ahead of their potential competitors.

- Coffee producer Ken Love studied the Japanese language and culture so that he knows what to provide his high-end Japanese coffee customer.
- Aaron Silverman (Creative Growers) and Dean Okimoto (Nalo Farms) cultivated their restaurant customers by developing a close relationship with each restaurant's chef as well as the entire kitchen staff. They produce in greater quantity and of greater quality than they promise so that they can always exceed the chef's expectations.
- Seabreeze Organic Farm constantly tweaks the boxes of produce that they provide to their Community Supported Agriculture subscribers in order to maintain a satisfied customer base.

### *Superb Product and Service Quality*

In stepping out of the commodity world, these successful producers recognize that they must offer a product that far surpasses the quality of the standard product on the market. Product quality may be differentiated through both unique product attributes and customer service.

- Some of the featured enterprises offer upgraded versions of traditional farm commodities (locally-grown sweet corn, pastured poultry, natural beef, antibiotic-free lamb, or Kona coffee) that earn a much higher price.
- Others have developed new, innovative fresh and processed products through experimentation.
- A third category is farms that are providing one-of-a-kind farm-related experiences that compete successfully with other leisure time activities.

All of the case farms are competing based on providing the best value rather than the least expensive option. Producers who sell their product directly to the consumer must remember that the quality of their product establishes their firm's reputation. Successful direct marketers build strong customer loyalty by providing a quality product that is consistent and is served with excellent customer service.

### *Efficient Resource Allocation*

The personality description provided above should make it clear that these farms do a good job with the "soft" side of the business. The superb product and service quality that the farms achieve demonstrates a good grasp of the production side. One more element that plays an essential role in their success is a

profound and detailed understanding and control of their business so that they are cost efficient and allocate their scarce resources to their highest valued activity.

- Honeyacre Produce (CO) and Cattail Creek (OR) are two of many with superior budgeting and accounting skills. Because they keep track of returns and costs at the enterprise level they are able to make well-informed business decisions before going forward with production or marketing decisions.
- The case study farms also understand how their diverse enterprises complement other farm enterprises in terms of labor demands, customer overlaps and synergies.
- Because the farm operators thoroughly understand the dollars and cents they are better able to integrate these quantitative economic factors with other qualitative factors before making final enterprise decisions. They can then choose the most satisfying enterprise not just the most profitable ones.
- Even the most diverse of these firms have very explicit strategies for eliminating things that do not contribute to the overall goal of the firm. Customer intimacy *does not* mean being all things to all people. It means being able to satisfy targeted customers, focusing on producing and marketing the most profitable products and services well, and letting other parts of the business go.

### *Putting It All Together for a Successful Customer-Intimate Business*

To be successful in the transition from commodity agriculture to this new demand-driven model, a farm must be able to integrate all four of these skills or strengths. All the enterprises profiled have met these challenges and are now more confident about their future. Confident enough, in fact, that they were willing to share some of their secrets. Yes, successful customer-intimate farms do have an excellent understanding of their customers, but they also have the people skills, dedication to product quality, and business savvy that are needed to make the new enterprise thrive. All four strengths appear to be necessary for an enterprise to thrive at direct farm marketing, but they are probably not sufficient conditions for success. Proximity to a large urban or tourist population also came through as an important factor for most enterprises that revolve around agri-tourism.

### **Food versus Agri-Tourism Focus**

While all of the enterprises have roots in producing a commodity or food-oriented product, some farms have shifted their focus to agri-tourism or selling the farm experience. What are the factors that distinguish between a product versus agri-tourism choice? First, it should be noted that all enterprises integrate both a consumptive food product and the farm experience as part of their product mix. Schnepf Farms near eastern Phoenix focuses on providing family entertainment and agricultural education. Yet they also include the agricultural experience of picking fruit and getting one's hands dirty. On the west side of Phoenix, Sunfresh Farms provides a produce item to children that do school bus tours from the commercial vegetable side of their operation. The Seabreeze Organic Farm near San Diego markets organic produce through a Community Supported Agriculture program yet they provide education to consumers and the public that connects them to their farm. Harward Farms sells sweet corn at roadside stands throughout Utah County in a manner that identifies and connects consumers to their farm.

### *Product and Service Attributes*

Providing a very differentiated food product and high-end service is a common theme for enterprises with a food product focus. Cattail Creek Farm in Oregon provides lamb that has never received any GMO feed, hormones, steroids, or antibiotics to 26 restaurants and 7 retail outlets. They guarantee their product for consistent quality and on-time delivery. Honeyacre Produce Company in the front range of Colorado produces (year-round) vine-ripened and pesticide-free tomatoes and peppers. All of their produce is picked and packed by hand and delivered within 200 miles of their operation so that it will have better flavor and condition and taste better than competing produce. Nalo Farms in Hawaii

competes with mainland lettuce and greens by providing top quality, consistency, and customer service. Daily service and personal contact is provided for building and maintaining their resort restaurant accounts.

Enterprises that have migrated to an agri-tourism focus, that include festival events and on-farm tours, are usually located near large metropolitan areas. Fixed costs associated with bringing in entertainers and housing festival events are substantial, and a large crowd is needed to just break-even. Combining school tours throughout the year with seasonal festival events was found to be complementary to the product mix of several farms. While most enterprises just break-even from their school tours, they support a core infrastructure of personnel and facilities that allows them to gear-up for large festival event crowds where they can actually make money. School tours are also used as a promotional vehicle for drawing audiences to festival events. The English Farm in rural western Colorado has moved from a focus of selling produce at a roadside stand to a "Krazy Korn Maze." The fixed and sunk costs associated with developing a maze are not nearly as large as that needed for large festival events.

Other agri-tourism activities are rather targeted in their audience and activities. Love Family Farms in Hawaii rents coffee trees to Japanese customers, mainly to individuals that have visited their farm. Tree renters are allowed to make production decisions on how to maintain their tree and they can go to the farm's website to view the tree they have rented. Customers also receive a physical product of 50 seven-ounce bags of coffee with a custom designed label for special events like weddings or distinctive gifts for business clients. The Holualoa Kona Coffee Company uses farm tours as a way to build their customer base and consumer loyalty. Most of their sales are repeat mail order sales to individuals that have visited their farm before.

#### *Threats to Enterprises*

Most of the farms examined are small enough and specialized enough that they do not fear major agricultural firms invading their market and out-competing them by reducing prices. There are, however numerous other threats to the sustainability of their success.

Many of the threats that they face are from factors that are beyond their control. As with all agricultural firms, weather is a major concern. Weather may cause an agri-tourism event to be canceled or greatly reduce the attendance of the event. Since many of the festival-oriented farms make most of their profit for the year during October, a rained out October equates to a "hailed out crop year." Event insurance is available, but fairly expensive. Unforeseen weather conditions may also reduce the contracted quantity or quality of their product. In addition, whether they sell high-end products or farm experiences, these farms are dealing with much more income elastic markets than are typical for commodity agriculture. Consequently economic downturns and /or reductions in tourism will greatly decrease the demand for their products. As they put together their farm plans, they seek to incorporate some less volatile enterprises as well.

Many of these farms are located on the urban fringe and profit from the close proximity of their consumers. But creeping urbanization (and the increase in land prices and restrictions in land uses) also represents a significant threat to many of these businesses. As they expand into value-added and agri-tourism products, many farms are finding that their businesses are more influenced by regulatory, liability, and food safety concerns. While information was not specifically asked on gross sales and the percentage of household income they obtain from farming, most obtain the majority of their income from their farming enterprise. This also fits Agricultural Census and Agricultural Resource Management Study data where farms with sales greater than \$250,000 obtain most of their household income from the farm.

## University and USDA Resources Related to Direct Marketing

Currently, both human and capital resources are offered through land grant universities and the USDA to help producers develop and expand their direct marketing enterprises. The 2002 Farm Bill amended the Agriculture Risk Protection Act of 2000 and established a pool of funds worth \$40 million annually to assist producers with direct marketing and the development of value-added enterprises. The four programs include: (1) USDA's Value-Added Producer Grant Program (VAPG), (2) the Agricultural Marketing Resource Center (AgMRC), (3) Agricultural Innovation Centers (AIC's), and (4) the Value-Added University Research Grant program (<http://www.rurdev.usda.gov/rbs/coops/vadg.htm>).

The VAPG program provides the opportunity for independent agricultural producers to apply for competitive grant funds for planning and operating innovative value-added marketing enterprises (Parcell). AgMRC ([www.AgMRC.org](http://www.AgMRC.org)) is a partnership between Iowa State University, Kansas State University and the University of California. The AgMRC has developed a web-based library of economic, marketing and business development resources. Additionally, members of the AgMRC team provide their expertise to interested producers and conduct research and economic analyses on issues facing agricultural producers involved in value-added enterprises. The AIC program is designed to fund (up to ten grants funded at no more than \$1 million dollars for one year) centers to provide producers who are interesting in marketing or producing value-added products with technical and business development assistance (<http://www.rurdev.usda.gov/rbs/coops/aic.htm>). The first AIC grant funds were awarded in September 2003 to ten universities, state departments of agriculture commerce, and a state rural electric cooperative association (<http://www.usda.gov/news/releases/2003/09/0331.htm>).

## Obtaining the WEMC Case Studies

Direct marketing has proven a successful and sustainable alternative to traditional commodity markets for many agricultural producers in the western United States. As these 17 case farms have shown, direct marketing requires knowledge of long-term goals, substantial planning, flexibility, and adaptation.

A 120 page color publication with photos of the 17 enterprises studied is available at the Western Extension Marketing Committee's web site of <http://ag.arizona.edu/arec/wemc/wemc.html> and it can also be ordered online from <http://ag.arizona.edu/pubs/> or from CALSmart, College of Agriculture and Life Sciences, The University of Arizona, 4042 N. Campbell Avenue, Tucson, Arizona 85719. Phone: (520) 318-7275, Fax: (520) 795-8508, Toll-free: 877-763-5315 (\$10 for a single full-color copy). While the publication is targeted for producer audiences, it may also be a useful addition for undergraduate agricultural economic marketing, managerial economics, business strategy, and related courses.

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## **Apocalypse Cow: The Effect of BSE on Canada's Beef Industry**

By  
Danny G. Le Roy and K. K. Klein<sup>1</sup>

### **Introduction**

On May 20, 2003, brain tissue from a cow that was sold in northern Alberta tested positive for bovine spongiform encephalopathy (BSE). Reacting to this information, governments in 34 countries<sup>2</sup> prohibited the import of Canadian ruminant animals and products derived from ruminants.<sup>3</sup> The import ban created turmoil in the Canadian beef industry as exports normally generate approximately 40 percent of the industry's revenues. The real or potential risks associated with BSE have become a major economic and political issue and have been a rude and stunning wake-up call to stakeholders in the Canadian beef industry.

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<sup>1</sup> The authors are assistant professor and professor, Department of Economics, The University of Lethbridge, Lethbridge, Alberta T1K 3M4.

<sup>2</sup> Imports of Canadian bovine and ovine products were prohibited or restricted in Kenya, South Africa, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Vietnam, Turkey, Croatia, Romania, Russia, Ukraine, Kuwait, Saudi Arabia, United Arab Emirates, Australia, New Zealand, Antigua, Argentina, Barbados, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Peru, Trinidad and Tobago, Uruguay, Mexico and the United States.

<sup>3</sup> Ruminant animals include, among others, cattle, bison, goats and sheep.