Farmers Markets and Location Choice for Value Added Processing

Andrea Bouma  
WhiteWave Foods  
Research took place while at  
Oregon State University  
andrea.e.bouma@gmail.com

Catherine A. Durham  
Applied Economics  
Food Innovation Center  
Oregon State University  
cathy.durham@oregonstate.edu

Lisbeth Goddik  
Food Science and Technology  
Oregon State University  
lisbeth.goddik@oregonstate.edu

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ABSTRACT
A less examined facet of the local foods movement is the impact of the location of the producer on the feasibility of operating as a local supplier. Obvious variables are labor hours in travel to regional markets and fuel expenditures. The costs these end users is strongly related to the density of customers that are willing or able to deal with smaller scale delivery. Whether supplying produce or a value-added food, the viability of an enterprise which hopes to diversify its markets or products through a local channel is dependent on that density. Furthermore the price received varies greatly depending on whether the customer is a farmer’s market consumer, a local grocer or restaurant, or as those markets are exhausted a distributor. With value-added products (25% of farms engaged in entrepreneurial activities are producing value-added products [Martinez 2010]) the availability of alternative channels and pricing received in them is particularly important due to the capital investment required for equipment.

LOCATION ASSUMPTIONS
<table>
<thead>
<tr>
<th>Location Name</th>
<th>Assumptions</th>
<th>Production Thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural (50.20)</td>
<td>150+ miles away from a major urban area, could have access to towns, few could also be isolated. Few retail outlets in the area to sell wholesale. Needs a distributor to gain a larger population of consumers.</td>
<td>Direct -&gt; Wholesale: 52 days at Farmers Markets (FM) 2,600 lbs. Wholesale -&gt; Distributor: 6 outlets + FM sales = total = 6,200 lbs.</td>
</tr>
<tr>
<td>Semi-Rural (50.33)</td>
<td>150+ miles away from a major urban area, closer access to cities. Access to direct sales and wholesale sales.</td>
<td>104 days at FM 5,200 lbs. 16 outlets + FM sales + total = 11,200 lbs.</td>
</tr>
<tr>
<td>Sub-Urban (50.53)</td>
<td>Less than 150 miles away from large urban area. Access to farmers markets and more wholesale and direct sales.</td>
<td>156 days at FM 7,800 lbs. 15 outlets + FM sales + total = 16,800 lbs.</td>
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<tr>
<td>Urban (51.15)</td>
<td>Within the bounds of a major urban area. Large potential of direct sales to consumers and wholesale through local retailers/restaurants.</td>
<td>206 days at FM 10,400 lbs. 20 outlets + FM sales + total = 22,400 lbs.</td>
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CONCLUSIONS
The viability of an artisan cheese business is profoundly impacted by the location selected. Sensitivity analysis was undertaken across key revenue and cost variables, the most important being milk price, cheese style, product retail price, and geographical location of the creamery. Other variables examined include fuel and labor cost, distance to farmers markets, distance to wholesalers, cheese yield and aging time, processing days per year. Location produced a greater range in NPV than 25% swings in any of the other model variables except retail price.

CAVEATS
Marketing channels not included in the model include: Community Supported Agriculture systems (CSA), a retail space on site at the creamery, and direct sales through the internet. The first is limited, the second has potential, but probably will not see sufficient custom outside of an urban area to justify it economically. The most potential is in internet sales with mail distribution. However, it may require deep pockets, due to the need to establish the market and will need to have its own marketing costs, as with a distributor-internet marketing may require some time to establish and may be best suited to unique and well received cheeses which will benefit from broader distribution.

REFERENCES

Model Data and Development
Data on fixed and variable costs for cheese production and business startup for the model was collected in an in-depth survey of six operating artisan cheese farms. Supplemented with current information on equipment costs, retail space rental, and labor costs from business and governmental sources, a business model was designed within Microsoft Excel 2010 that effectively describes the business environment in which an artisan cheese company might exist. The model estimates size of the production and aging facilities and capital cost based on intended production volume and cheese types produced. Economic feasibility is measured through net present value (NPV) and Internal Rate of Return (IRR) of the investment.

Marketing/Sales Attributes
(Override in blank white at right of suggested values)

Geographical location (See description box below) 4
Wholesale Outlets: Average miles driven each week to deliver product 200
Wholesale Outlets: Suggested number of accessible outlets 6
Farmers Markets: Average miles to each (round trip) 20
Farmers Markets: days at farmers markets can attend per year 52
Current gasoline $/gal $3.50

OBSERVED LOCATIONS
Oregon Artisan and Farmed Baseball players and Farmers Markets

North West
- Quill Run (Portland Creamery)
- Briar Rose (Fairview)
- Willamette V (Central West)
- Willamette V (Central West)

Southwest
- Full Circle (La Mariposa)
- Ochoco #8

Central
- Geode (OSU Cheese)
- Alsea Acre (Fraga Farm)
- Peris’s Edge (Southwest)
- Face Rock
- Oak Leaf
- Photo Farm
- Terra Micro

Rural
- Juniper Grove
- Tumalo Farms
- New Moon

Urban
- City > 250,000 population
- Town ≤ 100,000 population
- Sub-Urban
- Rural