OVERVIEW OF FARM DIRECT MARKETING INDUSTRY TRENDS

Monika Roth
Agricultural Marketing Extension Educator
Cornell Cooperative Extension

Background

During the early part of this century, the US food production and distribution system was more regionally self-sufficient. After the second World War, production and distribution shifted from a regional to a national/global system. Improved transportation afforded buyers the opportunity to source supplies nationally becoming less dependent on local supplies from farms at terminal markets. Supermarket chains began coordinating purchases through a central warehouse. Consequently small producers unable to meet price, volume and delivery requirements, either went out of business or turned to direct marketing as a means of diversifying income and capturing a share of the consumer dollar.

In response, pick-your-own operations and farm stands emerged in the late 50’s and early 60’s. In Massachusetts, farm marketers surveyed a year ago had an average tenure of 40 years in direct marketing. While it has the longest tenure in the northeast, farm direct marketing can now be found in every state.

Farmers’ markets in the USA have a similar history only their rebirth began a decade later in the 1970’s. The central marketplace at the heart of cities at the turn of the century, nearly disappeared with the advent of supermarkets and suburbs. According to USDA-AMS, there were fewer than 100 farmers’ markets two decades ago, compared to 2,675 farmers’ markets nationwide today.

The need for alternate marketing channels for farm goods, along with economic and social forces contributed to the rebirth of direct marketing in the 60’s and 70’s. Increasing gasoline and food prices made shopping at a farmers’ market, farm stands or pick-your-own farms more economical for consumers. Consumers dissatisfied with picked-for-transit produce in supermarkets turned to local farms for in-season fresh quality. Concurrently, the back-to-the-land movement in the late 60’s and early 70’s produced a new generation of farmers who followed organic practices, and consumers who wanted healthy foods less dependent upon fossil fuel for production and transport.

Producer motivation to retain a greater share of the consumer dollar and to earn an equitable wage that affords them the opportunity to stay in farming has not changed since the 1960’s. What has changed in the last 40 years is the portion of the consumer dollar being captured. Expenditures for food consumed at home have increased less than 1% annually since 1970, while expenditures on travel and recreation have increased 5.5% per year. Farm direct marketers have moved from capturing a greater share of the consumer food dollar, to cashing in on entertainment dollars. Consumers have moved from a price/product orientation to a value/experience orientation. To remain viable, savvy farm direct marketers have changed in response to changing consumer interests and lifestyle.

What the Numbers Do/Don’t Tell
By the 1970’s, direct farm marketing via farm stands, pick-your-own farms, and farmers’ markets was well established. In New York, during the 10-year period from 1974 to 1984, farm stands grew at a rate of 5%, while pick-your-own farms grew by 110% and farmers’ markets by 378% (based on a survey of extension agents). Farm stands grew less rapidly because of overhead costs associated with moving into a building and staffing it.

Beyond growing in number, established farm market businesses expanded through product diversification and season extension. Unfortunately, growth and expansion of direct marketing is poorly quantified. The agricultural census provides data on the value of agricultural products sold to individuals for human consumption. In the period of 1982 to 1992, census data revealed a 40% decrease in numbers of farms selling direct to consumers and the value of products sold decreased by 20%. While there was some fallout of PYO farms in the mid- to late-80’s, that data seems contrary to observations of direct marketing experts.

In comparing Agricultural Census data with state surveys of farm direct marketers, significant discrepancies are revealed. A 1987 survey of New York farmers identified 6,125 farms with direct sales valued at $112 million (NYS Dept. of Agriculture and Markets). In contrast, the 1992 Agriculture Census for New York identified only 3,453 farms with sales of $32 million. There are now over 15,000 New York farm direct market enterprises. The number of US direct market farms reported in the 1992 Agricultural Census was 86,432 only 24,000 more than were reported in 1978 by Henderson & Linstrom in six mid-west states. The lack of credible and accurate data makes it impossible to talk about trends in farm direct marketing in measurable terms.

The significance of direct marketing in contributing to net farm income is poorly documented. Average sales per New York direct market farm reported in the census was $4,675, while in the 1987 survey New York farm markets it was $18,328. A survey of 409 New Jersey farm markets (1993) reported average gross sales of $221,000 with a total value of $189 million. The 1992 Census reported only $11.5 million in total sales from 1,508 New Jersey farms with an average of $7,400 per farm. The value of all farm products sold for human consumption as reported in the 1992 Agricultural Census was $404 million.

The significance of farmer-to-consumer direct marketing relative to other agricultural activity varies from state to state. According to extension specialists in Massachusetts and New Hampshire, between 70-90% of local produce moves into direct channels. In New York, 15% of farmers were engaged in direct marketing though the value of direct sales was only 4.4% of total agriculture sales (1987). For the nation, 4.5% of US farms sold products direct to consumers, representing only .2% of US agricultural sales (1992 Census of Agriculture).

One finding common to the Census of Agriculture and other surveys, is that direct marketing includes hobby farms, part-time farms and full-time farm market businesses. The Henderson & Linstrom (1978) study found 76% of farms had sales under $20,000. In New Jersey (1993), 67% of farm markets had sales under $100,000 (5% over $500,000). In a 1996 survey of Pennsylvania direct marketers, 63% had sales under $50,000 (9% over $250,000) (PA Dept. of Agriculture). The lack of consistency in data collection does not produce directly comparable results.

Evolution of Direct Marketing: from farm stands to entertainment farming
Farm marketers today are as diverse as the products they sell and the methods by which they market their products and services to the customer. You will find successful year-round produce businesses, that offer a full line of high quality produce (of which they grow only part) to consumers in affluent suburbs. Seasonal business base success on drawing in lots of customers with attractions and niche marketers have found success in catering to special interests such as herbs. Many farm marketers offer mail order and gift basket services and are venturing into on-line promotion and sales.

Products sold at farm markets and their contribution to sales have changed significantly in the last 30 years. In season fruit crops, tomatoes and sweet corn are mainstays, but bedding plants and pumpkins extend the season and increase the bottom line. For many farm marketers, produce is a less significant part of sales while added revenue comes from added-value products and enterprises like bakeries, delis, and full-scale restaurants.

Diversification of farm markets into entertainment includes harvest festivals, company picnics, Halloween attractions, school tours and gift shops. It is not uncommon to find over 20,000 people attending a farm harvest festival or find bus loads of school children at farms in fall. Farm markets have become a destination for families and tourists, including motorcoach travelers. Farm and ranch vacations and farm B&B’s are another successful marketing strategy. Tourism industry experts say agri-tourism attractions are in demand by travelers.

Evolution of Direct Marketing: from card table to haute cuisine restaurants

Since their rebirth, farmers’ markets have provided a venue for innovation in farm and food products. What began with in season vegetables and fruits has evolved to as many as 700 farm grown products available to consumers year-round (as is the case at Greenmarkets in New York City). Products include specialty cheeses, meat, poultry and fish, jams, honey, wine, plants, flowers and Christmas trees, hydroponically grown tomatoes and herbs—the list goes on. Side-by-side competition, the need to find a niche in the weekly market line up, and face-to-face customer interaction spurred agricultural innovation and produced an exciting, colorful, social, alternative shopping environment. Enhancements such as music, demonstrations, and events further entertain customers.

Farmers’ markets have taken direct marketing in another direction. Farmers’ markets are a common outlet for organic products. Added-value processing, sales to restaurants and specialty food stores, and special orders are significant spin-off enterprises emerging from farmers’ markets.

Some farmers utilize markets as their primary sales channel, while others use a combination of direct sales channels. In locations where several markets operate per week, farmers may earn all of their income at farmers’ market. Surveys of market vendors reveal seasonal sales from $1,000 to $100,000 or more; $10,000 to $15,000 is typical. In a 1996 USDA-AMS survey of farmers’ markets, average vendor sales per season were estimated at $6,229. A 1997 survey of Ithaca Farmers’ Market vendors revealed average sales of $11,500 per season. Total sales at US Farmers’ Markets are estimated at 1.1 billion dollars. Fortunately, due to the efforts of USDA-AMS in recent years, there is less of a data problem with farmers’ markets relative to other direct marketing channels.

Recent Evolution
Consumer interest in rekindling the bond between food and farming has produced a new direct marketing partnership—the CSA farm. Subscription farming engages consumers in sharing the risks, and sometimes work, with farmers. Producers provide a weekly food supply for which consumers pay at the beginning of the season instead of at the end. A successful CSA farm may provide food for 50-100 families on 2-5 acres. CSA farms are often organic, which adds value for consumers who want assurance that food is produced in a sustainable and humane way.

Pulled by demand, farm direct marketed goods are moving back up the marketing chain into restaurants, specialty food stores, natural food retailers, consumer and producer cooperatives. Even supermarkets, capitalizing on the success of farm direct marketing, are encouraging store door delivery of local produce. A New York chain who trains it’s produce managers to buy local, says “no farm is too small”. By featuring local farm products, supermarkets are meeting the needs of segment of the consumer market—those interested in supporting local farms, buying local, and who perceive local to be fresher. For farmers it offers another channel for their products though price is often compromised. Have we come full circle?

Success in selling produce, plants and pumpkins has caught the attention of other farm and food producers interested in a piece of the action. Increasingly dairy, poultry and meat products are finding their way into direct channels but not without significant regulatory requirements and added cost. Goat and sheep cheeses, fluid milk, pastured poultry, pork, beef, and fish, emu and ostrich, and farm-raised deer can be found at farmers’ markets and are following a similar trail through to restaurants and specialty food stores.

Benefits

The benefits of direct farm marketing accrue to producers, consumers, communities, the environment and our national food system. Producers enjoy higher returns that have allowed them to stay in farming. Because it is initially less capital intensive, farm direct marketing provides opportunities for new farmers and smaller-scale producers with limited resources. Direct marketing gives farmers the opportunity to respond to consumer needs, test new products and services, explore niche markets, and measure consumer response.

Having access to a variety of high quality, fresh, locally raised farm products is of increasing importance to consumers whether gourmet cook or low income mother trying to meet the family's nutritional needs. Consumers enjoy being able to visit a farm and interact with a real farmer. In light of growing food safety concerns, knowing where food comes from gives consumers greater confidence in the food supply.

Community impacts from direct marketing are significant. Direct market farms at the urban fringe, keep land in agriculture, make productive use of land, add to the economic diversity of the community, provide significant employment, support local businesses, utilize local resources and add to the tourism base in communities. A diversity of agricultural enterprises reduces economic risks to communities from the loss of farming.

Farmers’ markets offer unique economic and social benefits. They are proven business incubators where businesses are launched and products spun-off to other market channels. They have helped to revitalize urban centers and bring back a sense of community. They bring fresh products into low income neighborhoods where
grocery stores no longer exist. As an example of their economic impact, the Ithaca Farmers’ Market has gross annual sales of $1.3 million, sales beyond the Market from participating vendors add up to $5.2 million. A total of 440 people are employed by the 120 market businesses with a total payroll of $900,000. Additionally, vendors collect $140,000 in sales tax each year.

Given that many farm direct market operations are small, they tend to use their land more intensively but with fewer chemical inputs. Many direct marketers have responded to consumer interest in low-input, IPM grown and organic foods. Hence, small scale farming is a compatible land use at the urban fringe. Urban farmers’ markets can have a significant impact on ag land preservation. As an example, over 10,000 acres are maintained in farming because of NYC Greenmarkets.

Direct farm marketing has benefited agriculture by providing producers with an alternative consumer-oriented marketing system which can accommodate innovation and specialization increasing the options for all producers. Additionally farm direct marketing offers an entry point for new farmers and a means of regenerating agriculture. All of agriculture benefits from the role direct farm marketers play in educating consumers about farming. It provides the one remaining point of contact for the consumer with the food system. Policy choices pertaining to agriculture can be positively influenced because of this interaction.

Challenges

As one marketer put it, “in the 70’s and 80’s we grew in spite of ourselves, now in the 90’s it’s a different story”. Challenges faced by direct marketers today include narrowing profit margins and higher costs, regulatory overload, increasing competition, and the need for constant innovation to stay ahead of consumer trends.

The cost of innovation, advertising and promotion, competition, regulatory compliance, labor, management and operations require that closer attention be paid to the bottom line, especially in larger operations. Direct marketers lack industry standards by which to measure business performance. While they track growth from year to year, there are no benchmark data on the cost of business operations relative to sales.

For part-time or hobby farmers operating costs and profit expectations are lower. At least 50% of direct marketers have sales under $50,000. The perception of profitability in direct marketing has led many farmers and entrepreneurs to become involved only to find it more challenging and less lucrative than anticipated. Direct marketing is not a panacea for solving agriculture's income problem. Unless the size of the market expands, it becomes quickly saturated.

Farm direct retailers, unlike other retailers must live by rules that apply to farm and retail operations. Regulatory concerns include food safety, pesticides, labor and health. A checklist of regulatory compliance requirements and best management practices that apply to farm direct market operations would make compliance easier. At a community level, land use regulations may limit the ability of a direct marketer to diversify into added-value enterprises and entertainment, yet for agriculture to survive at the urban fringe, these enhancements are often necessary to justify higher labor cost, infrastructure and taxes.

As direct marketing has diversified, there are more outlets for consumers to access farm grown goods including from supermarket retailers and specialty food stores
where greater emphasis is being placed on quality, appearance and local sources. Maintaining a competitive edge in the face of competition from internal and external sources will depend on customer loyalty and responsiveness to customer needs.

Food purchasing habits, lifestyle and economic health will have a large impact on the future direction of farm direct marketing. Increased consumption of fruits and vegetables, increasing consumer interest in local food sources and concerns about food safety have changed consumer shopping habits and benefited direct marketers. Societal values associated with how and where food is grown and the connection between food production and community will influence the direction of direct marketing.

If the economy remains strong, it will support the degree of diversification in direct marketing we find today, but if the economy weakens entertainment dollars may once again be turned into food dollars and economies of scale will favor the food retailer.

In the short run, success in farm direct marketing requires knowing what customers value and what experiences they expect. Capitalizing on direct consumer feedback and tracking profit centers is critical. The unique attributes of farm direct marketing cannot be lost on the consumer…whether it is a visit to a local family-owned farm, the opportunity to interact with a farmer, or purchase fresh, high quality, locally produced foods direct from the farm.

Future success will depend on understanding the benefits derived from a locally produced, fresh food supply including agricultural preservation, open space conservation, less intensive farming practices, food security, dollars recirculated locally, jobs and greater economic security for communities. Hampered by poor documentation, means that a compelling case for direct marketing that changes consumer behavior, business practices and government policies has yet to be made. The Direct Marketing Act passed by Congress in 1976 provided funds for conducting studies on the scope and impact of direct marketing. It is time that funds be reappropriated under this Act.

In the longer run, further concentration and globalization of food supply and distribution systems will create more opportunities for local producers. Small farmers unable to compete in the homogenous, concentrated national and international marketplace, have turned to satisfying the needs and niches of local and regional markets which are under-served by large scale food and supply networks. As the gap between large and small continues to widen, more opportunities are being created for small farms who can satisfy buyers unable to justify the volume purchasing requirements of larger suppliers. A key challenge is to identify under-served markets and enhance the abilities of small scale producers and direct marketers to access these. The recommendations of the Small Farm Commission are one way to make the programs of the USDA more responsive to the needs of small farmers.