



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Discussion: Challenges of Entering and Succeeding in Southeastern Agriculture: Access to Credit, Supply Chains, and Consumers

Kelly Lange

The three articles in this invited paper session investigate challenges and opportunities for agricultural producers in the southeastern United States. Two of the articles focus on the increasing demand for locally produced food and offer insight into potential marketing opportunities that this growing demand may provide for beginning or young farmers. The third article centers on financing options that are available to beginning farmers and evaluates the use of Aggie Bonds as a financing source for beginning farmers.

Key Words: beginning farmers, direct-to-consumer marketing, locally produced foods

JEL Classifications: Q13, Q14, Q18

These three articles demonstrate the growing interest and desire to bring new producers into agriculture in the southeastern United States. Although beginning or young farmers will experience challenges in the establishment of any new business, these articles indicate potential marketing channels that new producers may wish to target. In addition, financing options for beginning or young farmers are also discussed.

A growing trend indicates that the general public is interested in knowing where food is produced and processed (Ahearn and Sterns, 2013). The U.S. Department of Agriculture (USDA) has addressed this interest through the establishment of the *Know Your Farmer, Know Your Food* policy initiative. This initiative encourages consumers to connect with and

support local agricultural producers (USDA, 2012). With this growing emphasis in locally produced foods, many potential markets are opened up for aspiring new and young farmers. The articles presented by Ahearn and Sterns (2013) and Maples et al. (2013) focus on identifying potential markets and customers for locally produced food as well as looking at prospective marketing methods. The article by Williamson and Katchova (2013) discusses Aggie Bonds as a potential source of start-up funding for first-time or beginning farmers. Together, the three articles address a growing market that beginning or young southeastern farmers can target as well as potential financing sources to get new businesses started.

The article by Ahearn and Sterns (2013) emphasizes direct-to-consumer farm product sales. Most farms that market their products directly to consumers are classified as small farms (Ahearn and Sterns, 2013; USDA, 2009). These farms often use small venues such as

Kelly Lange is an instructor, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, Virginia.

farmers' markets or roadside stands to market their products. Although the southeastern United States has a high proportion of small farms compared with other U.S. regions, it tends to fall behind in direct-to-consumer product sales. The purpose of this article is to investigate the economic issues and impacts associated with direct-to-consumer supply chains in the South and to determine how these issues affect the establishment of direct-to-consumer sales in this region. The authors present detailed background information and data highlighting regional differences in direct-to-consumer markets across the United States. This article then examines factors that affect the success of southeastern farms engaged in direct-to-consumer marketing as compared with other U.S. farms. It is interesting that in the South, growth in farmers' markets, but not the overall number of farmers' markets, significantly influenced farm profitability. This suggests that as farmers' markets in the South continue to grow, this could potentially provide more small farms with an outlet for direct-to-consumer sales. This article primarily focuses on farmers' markets as the data source for direct-to-consumer markets. Because there are additional potential venues by which consumers can connect with local producers such as roadside stands, pick-your-own farms, or larger retailers such as grocery store chains, additional data on these other markets would be useful for further analysis of factors affecting farm profitability. Beginning or young agricultural producers who are looking to improve their farm profitability may find that some of these direct-to-consumer markets offer unique options when used instead of or in conjunction with traditional market outlets.

The article by Maples et al. (2013) investigates attributes of southeastern U.S. consumers who purchase locally produced food directly from producers. Farmers who are aware of the characteristics and preferences of consumers who have purchased locally produced foods in the past will be better able to market their products to these consumers. The authors found that characteristics such as gender, education, physical activity level, history of family illness, and knowledge of agriculture influenced

how likely consumers were to purchase food directly from producers. Geographic location also had some influence on the likelihood of consumers to purchase locally produced food. Armed with this knowledge, producers can tailor marketing strategies to connect with consumers whose characteristics indicate that they may be more likely to purchase locally produced food directly from farmers. Additional research into the variety of potential product outlets available in the geographic regions studied in this article would provide useful information to producers looking to establish or expand their farming operations. Access to farmers' markets or retail outlets would provide markets for beginning or young farmers who are looking to establish themselves in a particular industry and take advantage of the opportunity to market food products to consumers who could be willing to pay price premiums for locally produced foods.

The article by Williamson and Katchova (2013) focuses on financing options for beginning and young farmers who are in the process of establishing their businesses. Although many beginning farmers approach traditional lending institutions for access to financing, barriers are often encountered as a result of a lack of available cash or collateral. For farmers facing these challenges, a potential option is to obtain financing through an Aggie Bond, which is a first-time or beginning farmer loan. This article examines the effects of the Aggie Bond program on beginning farmers in states that have introduced the program. The authors found that the Aggie Bond program did not appear to substantially increase the proportion of beginning farmers but may be responsible for a larger proportion of beginning farmers being full land owners as well as helping to increase the proportion of beginning farmers who are full land owners. The inability to secure reasonable financing is a significant barrier to entry for beginning or young farmers. Funding mechanisms such as the Aggie Bond program can provide a source of capital that these farmers can use to establish and grow their farm businesses. However, there appear to be some shortfalls of the Aggie Bond program. Aggie Bonds are not offered in all states and in

particular are not offered in many southeastern states. Thus, beginning farmers in the Southeast will likely have to pursue other varieties of financing for their businesses. Additionally, if a primary objective of the Aggie Bond program is to encourage more people to enter into agriculture, there does not seem to be evidence that the Aggie Bond program contributes to this mission. The finding that the Aggie Bond program does appear to have an impact on the proportion of full land owners among beginning farmers indicates that this financing avenue should possibly be promoted as a means for beginning farmers to increase their net worth through land ownership, which can provide a much needed source of collateral for future financing needs.

Although all beginning or young farmers will face certain barriers to entry, there are many potential opportunities available for those who are willing to investigate their options when it comes to pursuing local markets. However, before these markets can be fully used, it must be determined what local means to both farmers and consumers. There is wide variation in the definition of local food (Maples et al., 2013). Direct-to-consumer or direct-from-producer marketing channels tend to be seen as local in a relatively narrow sense of the definition. However, the interjection of intermediaries into this process such as producers selling to local retailers, who subsequently sell to consumers, may also fall into this narrow definition of local. Although the opportunity for farmers to sell their products to local retailers such as grocery stores or even local stores, which are part of much larger chains, can provide significantly more marketing channels for producers, the consumers cannot be overlooked. Some consumers may prefer to purchase local foods directly from producers because of the more personal relationship that they feel is established as opposed to an impersonal relationship with larger retail outlets. Similarly, consumers may find it difficult to believe that large retail outlets can truly provide locally produced foods and thus believe these marketing outlets to be untrustworthy in this regard. Additional research into consumer perceptions of local foods purchased directly

from producers versus local foods purchased through intermediaries should be conducted.

Direct-to-consumer sales may provide a niche market in which a competitive advantage could be established for both established farmers as well as beginning farmers. For established producers who are looking to expand their operations to include new enterprises or new marketing outlets, direct-to-consumer channels may provide an ideal complement to an existing farm business. Beginning farmers who are just launching their farm businesses may find that they can successfully market directly to consumers as the interest and demand for locally produced food continues to grow.

For beginning or young farmers looking to transition into farming businesses operated by family members, the direct-to-consumer market could provide a succession method by which to become involved in the family business. The younger generation could initiate new or additional farm enterprises that focus on providing food that can be marketed directly to consumers without upsetting other enterprises that may have already been established by the older generation. By marketing directly to consumers, this might provide the younger generation with the opportunity to not only establish itself in the farming profession, but also provide an additional source of farm income so that the family does not experience a financial drain as a result of multiple families living off of a single farm business.

In conclusion, each article addresses issues pertinent to entering and succeeding in agriculture in the Southeast. The emerging demand for locally produced foods creates new opportunities for both established and beginning farmers. In the southeastern United States, a region currently underserved by markets offering locally produced foods to consumers, the opportunity exists for many agricultural producers to enhance their businesses by delving into this area. The interest in locally produced foods especially provides an area for beginning or young farmers to enter into the farming profession and financing options for these farmers are available. Each of these articles provides useful information that can be expanded on as more research is conducted on these topics.

References

- Ahearn, M., and J. Sterns. "Direct-to-Consumer Sales of Farm Products: Producers and Supply Chains in the Southeast." *Journal of Agricultural and Applied Economics* 45(2013):497–508.
- Maples, M., K. Morgan, M.G. Interis, and A. Harri. "Who Buys Food Directly from Producers in the Southeastern United States?" *Journal of Agricultural and Applied Economics* 45(2013):509–18.
- U.S. Department of Agriculture. *2007 Census of Agriculture: United States Summary and State Data*. National Agricultural Statistics Service, 2009. Volume 1, part 51, February 2009.
- . *Know Your Farmer, Know Your Food*. USDA, Office of the Secretary, 2012. Internet site: http://www.usda.gov/wps/portal/usda/usdahome?navid=KYF_MISSION (Accessed February 11, 2013).
- Williamson, J.M., and A.L. Katchova. "Tax-Exempt Bond Financing for Beginning and Low-Equity Farmers: The Case of Aggie Bonds." *Journal of Agricultural and Applied Economics* 45(2013):485–96.