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Choosing the Right Marketing Channels for Small-Scale Vegetable Producers

Matthew N. LeRoux and Todd M. Schmit

Department of Applied Economics and Management, Cornell University

Growing demand for local foods is presenting new opportunities for small-scale agricultural producers, but understanding the relative costs and benefits of different local foods channels is important to maximize farm performance. Wholesale channels typically move larger quantities quickly, but usually at a lower price. Direct channels often have higher prices, but require more customer interaction. Farmers are faced with the decision of whether to move larger volumes of produce through wholesalers at relatively lower prices or seek higher prices in direct markets and run the risk of lower sales and unsold leftovers. In addition, for many producers, lifestyle preferences weigh as much or more in decision-making than profitability.

This article summarizes the results of a case study involving four small-scale diversified fruit and vegetable producers in central New York. We compare the performance of alternative marketing channels:

- wholesale (restaurant, retail/grocery, and distributor)
- direct-
 - community supported agriculture (CSA)
 - farm stand (unstaffed)
 - u-pick (staffed)
 - farmers' market

Channel-specific marketing labor and travel costs and sales data were collected during a typical peak-season week. A channel ranking system is used to weigh the factors of labor requirements, gross sales, net returns, and risk and lifestyle preferences across channels to provide insight into the collection of marketing channels that best fits a firm's objectives and preferences.

Important Factors

Gross Sales: To compare the volumes of multiple products moved through each channel, gross sales were evaluated (i.e., price x quantity). Despite lower prices, high volume channels offer the benefit of increased efficiencies in harvest and reduced odds of spoiled or unsold product. Gross sales are reported in Table 1 (column 2) as a ratio relative to farmers' markets sales (the lowest sales channel). Wholesale had the largest sales, about 3.4 times as much as farmers' markets, even with the lowest prices. CSA was a distant second and offered the same or slightly higher prices as wholesale.

Net Returns: Net returns focus on the price-cost differential for each channel. Here, net returns are calculated as gross sales less labor and travel marketing costs (Table 1, column 3). Expressed as a percentage of gross sales, the CSA was shown to have the highest net return percentage (i.e., net returns per sales dollar), followed closely by the unstaffed farm stand. As expected, percentage net returns were lowest for the wholesale channel.

Labor Requirements: While our participating farmers perceived that wholesale channels were more labor intensive than direct, the data showed otherwise. Labor hours per sales dollar are reported in Table 1 (column 4) as a ratio relative to the CSA channel (the lowest labor intense channel). Labor requirements for the wholesale channels were about in the middle of all channels evaluated, while the farmers' market and staffed farm stand had the highest labor requirements – over three times as high as the CSA.

Risk/Lifestyle Preferences: The two main reasons mentioned for avoiding channels were lifestyle preferences and stress. Wholesale channels created stress because of product consistency requirements, higher volume requirements, and risks of buyer rejection. Direct channels were perceived as relatively low stress, but concerns over poor sales and customer turnout risks were mentioned for all except the CSA. The risk rankings for our surveyed farmers are shown in Table 1, column 5.

Identifying Your Marketing Channel Strategy

Choosing the appropriate marketing mix includes consideration of all (or more) of the factors discussed above, and the relative importance of each factor is farm-specific. To address this, we estimate final channel scores by assigning scaled rankings across channels for each factor and then averaging them across all factors. The rankings are from 1 to 5, where 1 can be thought of as the 'best' and 5 as the 'worst' channel for that factor. Since some factors may be more important than others, we also compute weighted final scores based on weights assigned by the farmer. The final results are shown in the last two columns of Table 1. The lowest overall score is defined as the top performing channel; however, channels scoring low and close to each other provides some indication of preferred multi-channel strategies.

For our general case, the top performing channel was the CSA, including top rankings for net returns percent, risk, and labor requirements. Wholesale channels ranked in the middle. The farmers' market had the lowest overall ranking, although not the least profitable. That said, farmers' markets can still be a useful resource for farmers in terms of enhancing farm exposure and advertising for other channels utilized.

Changes in the rankings are evident when we assume differing weights across factors. In the example presented, more weight is placed on sales volume and less on perceived risks. In this case, wholesale improves its ranking, more readily suggesting a strategy that incorporates both CSA and wholesale channels. While the CSA appears to be the ‘best’ for these growers, optimizing sales of perishable crops requires the flexibility of combining different channels, and can be an effective way to have a ready market for all produce.

Market Channel	Gross Sales	Net Return	Labor	Risk	Final Score	
	Index	Percent	Index	Index	Unweighted	Weighted
CSA	1.7	87	1.0	1	1.7	2.1
Farm Stand (unstaffed)	1.3	82	1.5	3	2.8	3.0
Wholesale	3.4	58	1.9	5	3.4	2.8
U-pick w/Farm Stand (staffed)	1.5	62	3.4	2	3.9	4.2
Farmers' Market	1.0	67	3.0	4	4.3	4.4
Factor Weights	0.40	0.25	0.25	0.10		

Note: Gross Sales Index represents gross sales relative to the farmers’ market channel. Net Returns Percent represents gross sales less marketing costs, as a percent of gross sales. Labor Index represents labor hours per sales dollar and relative to CSA. Risk Index is based on farm responses, from 1 (least risky/stressful) to 5 (most risky/stressful). Final scores are averaged scaled rankings across factors, either unweighted or factor-weighted.

The simple tool illustrated here will be made available for interested producers and educators. Look soon for the AEM Extension Bulletin with all the details!

“Smart Marketing” is a marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews elements critical to successful marketing in the food and agricultural industry.

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