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"*Smart Marketing*"is a monthly marketing newsletter developed for extension publication in local newsletters and for placement in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. This series is coordinated by Wen-fei Uva and Brian Henehan, and articles are written by faculty members in the Department of Applied Economics and Management at Cornell University.

Special appreciation is expressed to colleagues in the Department of Applied Economics and Management at Cornell University for contributing articles to the series. All *Smart Marketing* articles can be found at *http://aem.cornell.edu/special_programs/hortmgt/index.htm*, including past articles beginning in February 1988.

Smart Distribution Strategies – A Review of Some Northeast Distribution Businesses and Their Strategies

Jude Barry
Extension Associate

Many individual agricultural producers and groups of producers are challenged by the real costs of distributing fresh product and consider it a bottleneck to effective marketing strategies. It's an issue that has challenged producers through the ages. While the fundamental solutions seem to be similar as years go by (producers working in partnership and in cooperation to effectively move product), the strategies required to meet the new trends of our ever-demanding consumer need to be innovative, dynamic and, of course, cost effective.

At the Cornell Strategic Marketing Workshop held in December 2005 (sponsored by the Department of Applied Economics and Management, Cornell University and the Agricultural Marketing and Management Program Work Team), innovative distribution strategies for producers were discussed at great length. Some businesses and organizations that are devoted to improving distribution of agricultural products in the Northeast presented a variety of messages of how to make distribution an opportunity for successful marketing. A handful of the messages they shared are discussed here.

1. Innovation = Opportunity

Innovation in distribution is a key strategy for those involved. Innovation can be referred to at different levels in terms of:

- the logistics of distribution,
- the physical movement of product in distribution,
- the packaging of the product, and
- the choice of target markets for developing distribution strategies.

Effective agricultural distribution businesses are looking for innovative strategies at all of these levels. An example of such innovation being adopted is demonstrated by Red Jacket Orchards in Geneva, New York. This business is a vertically integrated family farm that grows fruit in Central New York and then processes, packs and markets the fruit and other products through their own distribution network. The business transports their products and that of others to New York City.

In addition to directly delivering weekly to 25 New York City Greenmarkets, the Hunts Point Terminal Market, and a number of restaurants and specialty food stores in the city, they have recently leased 5000 ft^2 of warehouse space in Brooklyn to offer more efficient delivery to the smaller purchasers in New York City. They have adopted "innovative" packaging strategies as they work with their different niche markets. This area is very customer driven, and Red Jacket Orchards has worked with their consumers to provide fruit and vegetables in packaging of appropriate size, labeling and shape to attract the niche buyers. The business is continuing to look for innovative partnerships and products with which to develop the business.

2. Observe the Market Trends

Understanding trends in the market is vital in keeping ahead of the game with all aspects of marketing including distribution. An organization that presented at the Strategic Marketing Workshop in December and provides services to producers is USDA's Agricultural Marketing Service (www.ams.usda.gov/tmd/MSB) which strives to improve agricultural product distribution through identifying marketing opportunities and developing solutions and marketing channels.

An innovative distribution business that is demonstrating success in the monitoring of trends in the marketplace is Earthbound Farm - the nation's largest grower shipper of organic produce. At the Strategic Marketing workshop, they reported that external factors to the business, which they called "Megatrends", were critical in the decision making of their distribution strategy. Industry trends that they track include:

- changing models of distribution and transportation,
- the need to get business closer to the customer to ensure high quality product can be economically distributed. This includes regional positioning of where the product is grown, the distribution facilities and their employees. Earthbound Farm is building more regional warehouses including a New Jersey location.
- the declining supply and rising cost of natural resources,
- the availability of labor.

Over the years, Earthbound Farm has grown their distribution operations so that they now have their brand in 74% of the supermarkets in the USA (AC Nielsen, ACV data).

3. Diversifying Market Risk through Export

Distributing product to different locations and customers is a strategy that can spread the risk that a product is exposed to. Examples of such risk include loss of customers, competition from other products, and insufficient sales volume to cover the fixed costs of a product.

Food Export USA – Northeast is a non-profit organization comprised of state agricultural promotion agencies that use federal, state and industry resources to promote the export of northeastern food and agricultural products. In New York State (NYS) they work with NYS Department of Agriculture and Markets. The organization is committed to assisting US suppliers (including small and medium-sized suppliers) through their Export Education, Market Entry and Market Promotion strategies. Through these programs, Food Export USA – Northeast can assist companies to understand and discover new opportunities in the export market.

Export may help diversify market risk through expanding market opportunities (although it may also present other risks). If the market is correct, global export can increase sales. In addition, when an innovative food product lifecycle has finished here in the USA (for example alternative products have come onto the market and sales of a particular product have diminished), there may be opportunity to move the product across the border to rejuvenate sales and restart the lifecycle of the product. If the market is diversified and sales are increased, unit costs are reduced, making the product more cost effective to the business.

4. Supply of the Product

Good quality, reliable supply is a strategy that smart distributors need to ensure to minimize loss percentage of their deliveries, reduce unnecessary distribution costs and sustain their customer base.

David Rose, a representative from Sid Wainer and Son Specialty Produce based in Massachusetts spoke at the Strategic Marketing workshop in December 2005. His business grows and buys specialty produce and distributes it to specialty food buyers through the Northeast, particularly in the metro areas. Like all of our speakers, Sid Wainer and Son is very focused on the needs and demands of the consumer with respect to quality, supply and packaging. They receive and pay a premium price for the product that they handle, but in return require the quality and reliability that the consumer is paying for. In order to do this, they make regular contracts with their suppliers.

5. Partnerships

As I mentioned at the start of this article, partnerships and collaborations have always been a fundamental solution to effectively moving product from A to B. Successful partnerships are a key factor in successful distribution activities across the Northeast.

An example of collaborative partnerships working can be seen with the Foodlink Distribution Center based in Rochester, New York. Foodlink is a part of the national Food Bank network, and it serves to provide food, nutrition, education and resources to at-risk communities in 10 counties of Central and Western New York. In an effort for this community organization to build self-sufficiency, they have built a distribution business called the Foodlink Farmers Fulfillment Center, using their unique assets of warehouse space, refrigerated trucks, coolers, repacking facilities and freezer space. Foodlink partners with Freshlink Farms, Red Jacket Orchards and Pederson Farms to supply local New York Produce to schools, wholesalers, suppliers and restaurants in the Greater Rochester Area.

In Summary

Distribution strategies vary from business to business. Being unique and innovative in the way a product is distributed, understanding the target market and controlling risk factors through distribution can help develop a good marketing strategy for a product. Being able to sustain a reliable throughput of product in the distribution chain, and building strong partnerships can be effective strategies for smart marketing distribution operatives in the Northeast.

Resources

Distribution businesses represented at the Strategic Marketing Workshop in December 2005 and that are mentioned in this article:

David Rose, Sid Wainer and Son Specialty Produce, New Bedford, MA (www.sidwainer.com).

Brian Nicholson, Red Jacket Orchards, Geneva, NY (http://secure.redjacketorchards.com).

Edward Ragland, Agricultural Marketing Service, USDA, Washington, DC (www.ams.usda.gov/tmd/MSB).

Joy Canono, Generic Program Manager, Food Export USA – Northeast; Philadelphia, PA (www.foodexportusa.org).

Karen Pflaum and Todd Kodet, VP Supply, Earthbound Farm, San Juan Bautista, CA (www.ebfarm.com).

Tom Ferraro and John Montague, FoodLink, Rochester, NY (www.buyhereny.com).

Pricing Your Products to Survive Rising Energy Costs

Wen-fei Uva
Senior Extension Associate

It should not be a surprise to any of us by now. Due to a variety of factors, natural gas and propane prices have risen considerably over the past few years. Moreover, today's natural gas markets exhibit extreme volatility that makes it difficult for businesses to rely on conventional wisdom and past experience to try to establish an effective energy management strategy. With the high energy needs of many types of agricultural production, producers are becoming increasingly alarmed by the situation. Adding to their concerns, natural gas and electricity prices are linked more closely to one another than ever before.

What is the impact of rising energy costs? Let's look at greenhouse operations, one of the most intensive agricultural production systems, as an example. According to an informal survey of greenhouse growers around New York State, the prices they are paying for natural gas and heating oil have increased 50 percent, and the price of electricity has increased around 20 percent over the last two years. Facing the increase, many greenhouse growers have adopted or are considering adopting one or more energy saving techniques such as reducing air leaks, installing an energy-conserving blanket, double-covering greenhouse walls, increasing space utilization, updating heating and cooling systems for better efficiency, conserving electricity, improving management, and switching to less energy demanding crops. Combining these techniques, growers can sometimes realize energy savings of 20 to 40 percent.

However, faced with higher and more volatile energy prices, is conservation alone enough to maintain profitability and sustain business growth? I would dare to say no. Moreover, although these energy conservation strategies are all good practices to consider for better management, many of the technologies also require additional capital investment. Further, increased energy prices do not just affect heating and electricity costs. They also affect other input costs such as greenhouse plastics, fertilizers, and pots; and commonly, growers have to pay higher delivery surcharges for purchases. Besides, the costs of delivering products to customers are also higher due to higher gasoline prices.

How did these all add up? According to the Cornell Greenhouse Business Summary project, in 2003 the heating cost among New York greenhouse operations averaged around 7 percent of sales, the average cost for electricity was around 2 percent of sales, and the average cost for gas for delivery trucks was around 0.7 percent of sales. Moreover, the average costs for fertilizer, packaging materials and other greenhouse maintenance and repair supplies amounted to another 7 percent of sales. Assume that between 2003 and 2005 the greenhouse operation has not changed any production and management strategies, and during the same period the cost of natural gas and heating oil increased 50 percent, the price of electricity increased 20 percent, and costs for other related inputs and delivery increased 20 percent. Although it is not realistic, to simplify this analysis let's hold the percentages of all other costs stable during the same period. The greenhouse operation would have an increase of production costs of around 30 percent or 5.1 percent of sales. Assuming a greenhouse business has a profit margin of 15 percent in 2003, with these increases its profit margin would decrease 5.1 percent to 9.9 percent.

Along the same line, if a greenhouse business had energy related costs totaled around 10 percent of the sales, an increase between 20 to 50 percent would decrease the profit margin by between 2 to 5 percent. Table 2 demonstrates how increasing energy costs might affect the profit margin.

With the greenhouse example, the business is faced with 5 percent lower profitability, or it needs to market much better and sell 50 percent more products to maintain profitability, but then it would have to produce more products and incur more costs. Of course, growers can adopt management and technology to become more energy efficient and maybe look to government regulation to control the energy prices and volatility issues. One marketing component over which growers have control and which can definitely help the situation is smart pricing. Some growers have said to me that in order to survive, businesses have to have the "guts" to raise prices. Many greenhouse growers have

Table 1. The Impact of Increased Energy Costs - A Greenhouse Operation Example

	Cost in 2003 (% of sales)	*Increase between 2003 and 2005 (%)*	*Cost in 2005 (% of sales)*
Heating fuel	7.0%	50.0%	10.5%
Gas	0.7%	15.0%	0.8%
Electricity	2.0%	20.0%	2.4%
Other affected input costs & fuel surcharges	7.0%	15.0%	8.1%
Total	**16.7%**		**21.8%**
Profit Margin	**15.0%**		**9.9%**

Table 2. The Impact of Energy Cost Increases on Profit Margin

Energy cost before increases as % of sales	*% of energy cost increase*	*Energy cost after increases as % of sales*	*Profit margin decreases*
10%	20%	12%	2%
	30%	13%	3%
	40%	14%	4%
15%	20%	18%	3%
	30%	20%	5%
	40%	21%	6%
20%	20%	24%	4%
	30%	26%	6%
	40%	28%	8%

decided to raise the prices of bedding plant flats 10 percent this year. Many horticultural businesses, especially wholesale growers, have to determine their prices the summer before. Therefore, growers have to take their best guesstimate on how much energy expenses might increase in the coming year and adjust their prices accordingly.

We have little control over the energy prices, at least in the short run. If you want to make change happen, it is a lot easier to start with what you have control over. To survive rising energy costs, improving energy management efficiency will be important, but it will be just as critical to better market your business value and your products, communicate with your customers, know your costs, and raise your prices to maintain profitability.

Making Old Things New Again – Marketing Specialty Sauerkraut Products*

Wen-fei Uva
Senior Extension Associate

Per capita consumption of sauerkraut in the U.S. has exhibited a continuously declining trend, while per capita consumption of fresh cabbage has had a healthy increase during the last decade. The consumption trends of cabbage reflect today's consumers' strong interest in fresher and more exiting and complex food products. The incorporation of fresh cabbage to bagged salads and growth in away-from-home eating (which affects coleslaw consumption) are thought to be major factors to the increase in fresh cabbage consumption (Stanford, 2004). In contrast, sauerkraut sold in the U.S. market today is not that different from the sauerkraut made in the past.

In response to consumer desire for new products, Roberts (2002) developed for market testing various new sauerkraut formulations through the addition of savory ingredients to cabbage kraut in different amounts and blends. The new sauerkraut formulations were screened for consumer acceptance through a series of small sensory evaluation panels, and six formulations were found to be the most favored in the initial testing, including sauerkraut mixed with the following ingredients in concentrations indicated in parentheses: garlic (1%), onion (30%), dill seed (1%), jalapeño peppers (10%), green peppers (20%), and both onions and jalapeño peppers (25% and 5%, respectively). In collaboration with Roberts, a wide-scale consumer study was conducted in 2003 to determine which of the six new sauerkraut blends would most likely be successful in the consumer market and to formulate marketing strategy recommendations.

Given that three-fourths of the total U.S. sauerkraut consumption is concentrated in the Midwest and the East, five major cities and their suburbs in these areas of the United States were selected for the study, including New York (NY), Philadelphia (PA), Cincinnati (OH), Chicago (IL) and Detroit (MI). Following the mail survey, an in-depth sensory evaluation was conducted in Ithaca, New York.

What We Learned About Sauerkraut Consumers

Sauerkraut has a large consumer market base. According to the survey, three out of every four individuals surveyed have had sauerkraut in the 12 months prior to the survey and, therefore, are identified as "sauerkraut consumers." Sauerkraut consumers tend to be concentrated in the older age groups and are more likely to identify themselves as being of

* The complete report of *Marketing Opportunities for New York Sauerkraut Products* by Sandra Cuellar and Wen-fei Uva can be found at http://hortmgt.aem.cornell.edu/ or by contacting Wen-fei Uva at WL32@CORNELL.EDU.

European descent. According to a USDA report, in proportion to their population shares, both men and women over the age of 40 are strong consumers of cabbage in its different forms, compared to younger consumers; and whites consume 91 percent of all sauerkraut, while Asians and Hispanics consume very little (Lucier and Lin, 2002). Contrary to the findings in the USDA study, results from this survey did not show that males are more likely to be sauerkraut consumers than females, and the effect of higher sauerkraut consumption among higher income consumers is not evident.

However, consumption frequency is very low even among sauerkraut consumers. Most (76 percent) only eat sauerkraut once a month or less often. Consumption of sauerkraut takes place mostly at home, with 60 percent of sauerkraut consumers indicating they usually eat sauerkraut at home, and another 17 percent having had sauerkraut both at home and away from home. There was not a particular "key" type of food with which sauerkraut is consumed at home, and most sauerkraut consumed at home was bought at a retail store. Special events, such as fairs and festivals, sit-in restaurants and hot dog stands are indicated by consumers as locations where they eat sauerkraut away from home. Different types of sausages, pork, Reuben sandwiches and Polish/German dishes are the types of foods with which sauerkraut is commonly eaten away from home. Appetizers and salads, although only mentioned by a few, constitute interesting applications to explore for product development.

Among the six new sauerkraut formulations presented in the survey, the three receiving the highest interest among sauerkraut consumers were: sauerkraut with onion (47 percent of respondents indicated "interested" or "very interested"), sauerkraut with garlic (38 percent), and sauerkraut with dill (27 percent). Consumers who do not eat sauerkraut currently (non-consumers) are not a target market for new sauerkraut products. Eighty percent of non-consumers indicated no interest in any of the new formulations. Individuals identified as non-consumers of sauerkraut in this survey often indicated aversion to fermented, pickled, sauerkraut or cabbage-derived products and will not be persuaded to try new sauerkraut products.

Consumer Response to the New Sauerkraut Formulation

The three sauerkraut formulations that received the highest degrees of consumer interest – sauerkraut with onion, sauerkraut with garlic, and sauerkraut with dill – were tested for taste by a sensory evaluation panel. The panelists had to qualify as sauerkraut consumers – someone who had eaten sauerkraut at least once in the past year. Among the three products tested, the sauerkraut with garlic formula has the highest potential to succeed in the market. It received high ratings for overall acceptability, appearance and flavor, and high purchase intention results. While the overall acceptability and flavor ratings were high for the sauerkraut with dill formulation, the ratings for its appearance were lower, especially by the younger panelists. However, the purchase intent results were favorable for this formula in spite of the somewhat objectionable appearance. Therefore, before introducing the sauerkraut with dill formula to the market, product developers need to explore ways that might improve the appearance of this sauerkraut formulation.

Although sauerkraut with onion generated the highest interest among the mail survey consumers, it was not well accepted by the sensory evaluation panelists. The statistically lower ratings assigned to sauerkraut with onion by panelists in different age groups could indicate an unfavorable market perspective for this formulation.

Promotion of the new flavors should focus primarily on younger consumers (under 34 years old). While many panelists are interested in the new sauerkraut formulations (73 percent indicated the new flavors are "exciting" or "interesting"), the younger panelist group exhibited a higher degree of enthusiasm towards the new sauerkraut formulations. Moreover, to promote an increase in sauerkraut consumption and to market the new formulations, it will be advantageous to widely promote the health benefits of sauerkraut and new uses for it. Many of the panelists (74 percent) indicated that they were very likely or somewhat likely to increase consumption of sauerkraut if there were any health benefits.

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Marketing Specialty Fruit

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Many horticultural producers have encountered increased marketing and financial challenges due to globalization, retail consolidation, weather events, rising production costs, changing market demands and low prices. Many of them are also exploring new crops and new products to add value to their operations. In the July 2005 *Smart Marketing* article, I discussed the results of market research on how to sell specialty jams and jellies to gourmet consumers. Through the same market research project, we also explored ways to introduce a new fruit crop or product to the market. We studied three areas -- consumer marketing, gourmet chefs and produce distributors. I want to look at some relevant marketing issues in this article.

Who Wants Specialty Fruit? - Consumer Marketing

Gourmet consumers in metropolitan areas present the best market expansion potential for specialty fruits and new fruit products. These consumers usually purchase their gourmet food items from various independent stores or farmers' markets, not from supermarkets. To capture this market, specialty fruit marketers should first focus on gourmet food stores and independent produce retailers or farmers' markets, not major supermarkets in the target market area. Since consumers would have little or no experience with the specialty fruit or fruit product, impeccable packaging, along with price are the major communication tools, and marketing should be designed to reflect the image that the new fruit or product is special and gourmet. Once consumers have purchased and tried the product for the first time, quality and taste are the most important factors for return purchases. Overall, gourmet consumers are interested in new products and are willing to pay a premium price for them. To sustain this market interest, it is important for producers to build on high quality products and develop complimentary items for the product line.

Who is Cooking Specialty Fruit – The Gourmet Chef Market

In the food service sector, specialty fruit marketers should first identify cutting-edge operations and individuals, such as high-end restaurants,

Information presented in this article is derived from a marketing study conducted for the project "Beach Plum – A New Crop for New Markets". This project was supported by a joint research and extension program funded by Cornell University Agricultural Experiment Station and Cornell Cooperative Extension with funds received from the Cooperative State Research, Education, and Extension Service, USDA, and by a grant from the USDA Sustainable Agriculture Research and Education (SARE) Program.

For more information on the Beach Plum Project, see http://www.beachplum.cornell.edu/.

that have unusual menus and gourmet chefs who are innovative and willing to try new things. Generally speaking, initial contacts with restaurants should be done directly with chefs and not through produce wholesalers. Providing different forms of product samples such as fresh and frozen fruits in whole and pitted forms for chefs to test recipes is an effective way to establish interest. When selling specialty fruit to gourmet chefs, marketers could consider two major types of chefs – the sous-chef or pastry chef. Sous-chefs tend to use the new fruit products as sauce or garnish for their premium-priced entree dishes or appetizers on the menu, so they are willing to pay a premium price for the fruit, but the volume needed will be smaller. On the other hand, pastry chefs need higher volumes of fruit for their recipes, and they are more concerned about price of the fruit and the labor involved to process the fruit.

A key element that is appealing to this type of customer is the story that goes along with the fruit or vegetable. While the stories and history might seem boring to you, they are interesting and a quite possibly the deciding factor that determines whether a chef will give the item a try!! Other marketing strategies for this market include working with chefs to develop new recipes, providing them with materials and stories about the fruit, and helping generate publicity that the chefs can use to promote the fruit and dishes on their menus and thereby differentiate their operations. Fundamentally, it is important to make contacts with the restaurants or chefs a couple months before harvest so the chefs can plan their menus and promotion accordingly, and you can work out a viable delivery system. Also, maintaining consistent seasonal supply, high fruit quality and adequate quantity is crucial.

Who Will Sell Specialty Fruit? – The Produce Distributors

Another potential market for specialty fruit and products are wholesale food and produce distributors. Specialty produce purveyors are more likely to be interested in the new fruit and are often willing to test market with small quantities. Initial contact could be done directly with product samples. Produce buyers face an enormous influx of new products every day. To stand out among them, in addition to product features, sellers should use any tangible attributes (native to a region, interesting story or provenance, sustainability, etc.) that could promote the fruit and help generate buyers' interest in the product. Most likely, the specialty fruit in its fresh form would only be available seasonally. Therefore, clear communication about harvest time, quantity and quality will be very important, and also whether frozen products are available during the rest of the year or not. Among the wholesale markets, small processors, gourmet food retailers, and specialty produce wholesalers are the ones who would be most interested in purchasing new specialty fruits and products.

Developing a new fruit or new product takes time, effort, and money. At the product introduction stage, all the entities discussed in this article showed a willingness to pay a premium price for good quality specialty fruit or fruit products that would, in turn, help their own marketing or satisfy consumer interests in new products. This presents a potential for high returns to growers. Therefore, armed with a good understanding of marketing potential and premium price points for different market sectors, growers would be ready to reap the profit when the fruit is ripe.

July 2005

Marketing Specialty Jams and Jellies to Gourmet Consumers

Wen-fei Uva
Senior Extension Associate

Increased global supply has intensified competition in all agricultural and food commodities. Nevertheless, the Northeast offers premier marketing opportunities for high quality, specialty food products all along the Washington to Boston corridor, especially those perceived as having gourmet appeal or health benefits. In a recent marketing project, we interviewed gourmet consumers in the NYC metropolitan area to better understand their preferences when purchasing "specialty jams and jellies" and to explore marketing strategies to capture this high-end market effectively. This article describes some of those findings.

Gourmet Jams and Jellies are a Treat

Gourmet jams and jellies are perceived and used as self-indulgent luxuries by many of the consumers interviewed and, therefore, are eminently giftable. In fact, many consumers were introduced to their favorite gourmet jams and jellies as business gifts, host gifts and personal gifts from friends and relatives. Some also gave them as gifts themselves. They ate these jams and jellies with their friends at special occasions, or when they wanted to reward themselves with a treat.

Gourmet consumers were generally very excited about trying new products, as new products evoked their curiosity. They were willing to pay a higher price (upwards of $10.00 per jar) for it if they perceived the product to possess the exceptional characteristics that appeal to them. Packaging combined with price is the primary tool that consumers used to judge these products as gourmet, giftable and otherwise special. These consumers also indicated that the higher the price, the more quality they expected when they tried the products. Therefore, a successful packaging and pricing strategy can induce consumers to try the product for the first time, but only good quality will get them to purchase the product again.

What Packaging Says 'Gourmet', and Where Do They Buy It?

Among the consumers interviewed, brand plays virtually no role in gourmet jam and jelly purchase decisions. Thus, without a brand image and often with no past experience, these users are essentially reminded or prompted to buy by the packaging. Packaging, if appealing, is extremely important in terms of portraying the gourmet image and invit-

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ing sampling. Comments from consumers about gourmet packaging included – it should be "authentic," "homey," "... have a country look," "... look homemade," "pretty," "exotic," "very clean, like glass," "smaller," "wide-mouth jar (to fit spoon)". However, caution should be exercised in fashioning "homemade" packaging to a point where the look might not justify premium pricing, a core value to the appeal of the gourmet jam and jelly market.

Consumers interviewed in this study indicate that they purchase gourmet jams and jellies from various independent stores or farm markets and not from supermarkets. Many of these stores are small, thus they do not have burdensome slotting allowances for processors to sell to, but the number and geographical spread and diversity of these stores may make them difficult to service. Focusing on stores and markets with gourmet reputations in a target market area would be more effective for specialty jam and jelly marketers.

What Should Gourmet Jams and Jellies Taste Like?

In jams, the quality of a gourmet jam is measured by the pieces or "chunks" of fruit in it. Some consumers described it as, "...feel that you have to chew". And in jellies, the gourmet quality is measured by a pasty, non-runny consistency and the color of the jelly, which should look like the fruit in it. This study showed that some consumers have a strong preference toward jam or jelly, and more gourmet food consumers preferred jam than jelly.

The gourmet jam and jelly consumers claimed that they could definitely tell the difference in the quality of gourmet items versus mass-produced products, and Smucker's was used as an example of the mass-produced products. They indicated that the taste of gourmet jams and jellies should not be too sweet, no added sugar when possible, and natural – no preservatives, additives or aftertaste.

The most mentioned positive comments for their favorite jam or jelly products, include:

- "Made of interesting or exotic fruits"
- "Fruity, not much sweetness"
- "It was not too sweet or too tart"
- "I liked the consistency, thick and chewy"; "Rich and pasty"
- "Texture is extremely smooth"
- "Flavor was more full and more interesting".

When asked why they did not like a jam or jelly product, the most mentioned comment was "too sweet". It was associated with too much sugar, chemical and preservatives, low quality, and cheap. Other negative comments include most mentioned positive comments for their favorite jam or jelly products, include:

- "It tastes like regular jelly"; "Ordinary tasting"; "Very supermarket tasting"
- "I don't like the consistency; too much like Welch's or other supermarket brand"
- "Texture is runny"
- "Way too sweet and too fake"
- "Too tart"
- "Color was off, not like the fruit".

Marketing Opportunities

This study showed that urban gourmet consumers are very interested in trying new specialty jam and jelly products. A distribution opportunity could exist through gourmet food stores, farmers' markets, and bed & breakfasts in key Northeastern markets, as well as national gourmet food catalogs. The products could be sold individually and packaged as gift items with other gourmet products. That also presents additional new product opportunities for tie-in products. When marketing specialty jams and jellies to the premium food market, special attention should be paid to packaging that conveys a gourmet image and portrays other intangible image characteristics of the product, including history, any exotic nature and health benefits, or geographical tie-in of the fruit, the farm and the region. When selling to gourmet consumers, excitement counts. However, product quality and consistency are still the key for long-term profitability.

Premium Tree-Ripened Fruit – A Ripening Market Opportunity

Wen-fei Uva
Senior Extension Associate
and
Sandra Cuellar
Extension Associate

We've all heard consumers' complaints that they could not find good, ripe fruit in their supermarkets. Should we just let consumers accept that unless they have a home garden with fruit trees in the backyard, they can't find real tree-ripened fruit? Or can fruit growers capture this marketing opportunity?

Cornell Agricultural Experiment Station has been working with fruit growers to develop new peach varieties that are suitable for the growing environment in New York State and possess better quality and characteristics for the consumer market. In a recent marketing study, we set out to explore consumer interests in "New York-grown premium tree-ripened peaches" and develop strategic marketing recommendations on how the New York fruit industry could expand this market.

Is There an Opportunity?

This study showed that consumers, especially frequent fruit shoppers, are generally very interested in good quality peaches and would even be willing to pay more for premium tree-ripened peaches if quality is guaranteed. Consumers prize peaches for their juiciness, sweetness and good flavor. In consumers' minds, peaches also evoke pleasant childhood memories and excitement when in season. However, consumers are frustrated by the difficulty they perceive in selecting peaches at the proper ripening stage to get the quality they like. The main consumer complaint about peaches they bought is that the peaches were not ripe enough or never reached the proper ripening (or quality) condition.

Quality and consistency of the product are key factors for consumer satisfaction, and a high level of satisfaction, in turn, increases consumer demand and repeat purchases for fresh peaches. If consumers know that quality and consistency exist, they seem to be willing to pay higher prices and buy fewer peaches in order to get the product they like. Consumers in this study feel that good quality peaches are available at farm stands or farmers' markets but appear to be less available in the supermarkets where they typically shop. Dissatisfaction with peaches commonly available in supermarkets (usually from the West Coast) and the expectation of lower prices and better quality for locally-grown

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The complete report of Consumer Preference and Marketing Opportunities for Premium "Tree-Ripened Peaches" in New York State can be found at http://hortmgt.aem.cornell.edu/ or by contacting Wen-fei Uva at WL32@CORNELL.EDU.

products often lead shoppers to prefer and to search for locally grown peaches. This presents an opportunity for New York-grown peaches at the direct marketing outlets such as farm stands and farmers' markets, as well as for marketing of high quality, premium locally-grown peaches through supermarkets.

Moreover, although consumers who were disappointed by the quality of peaches they had purchased in the past were less likely to buy the fruit, or were planning to buy less of it in their future shopping trips, they were more willing than satisfied consumers to pay a higher price and give it another try if they could get something that guaranteed the quality they like. Many supermarket fruit shoppers are in this category. So the fruit industry should capture this market opportunity and develop a collaborative program with supermarkets that are interested in differentiating themselves as suppliers of premium produce for their customers.

What are the Challenges?

There are several challenges when designing a marketing program to receive a premium price for high quality New York tree-ripened peaches. Although consumers identify tree-ripened peaches as better quality than run-of-the-mill peaches, many did not know if the peaches they bought were tree-ripened or not, while others assumed that if the peaches were purchased from a local source (farm stand or farmers' market), they were tree-ripened. Consumers also showed little knowledge on the different varieties of peaches available in the market and of the production areas in the country.

In addition, New York peaches face significant competition from out-of-state peaches, especially California and Pennsylvania. Some consumers in this research viewed California peaches as larger and Pennsylvania peaches as more flavorful and predictable than New York peaches. Moreover, some expected a lower price for locally grown products. Therefore, the New York peach industry needs to be able to develop a production and marketing system that can deliver products that can better meet consumer expectations – such as quality guaranteed New York-grown premium tree-ripened peaches.

How to Market Them?

When promoting "quality-guaranteed New York-grown premium tree-ripened peaches", a good position statement, innovative packaging, and clear labeling at the point of purchase will be the major means of communicating and influencing a potential buyer. Labeling should emphasize high quality and be used as boldly and as creatively as possible to justify the higher price and stimulate sales for the "quality-guaranteed premium product".

Some recommended marketing strategies are:

- Use clear identifiers, such as "tree-ripened", "quality-guaranteed", "premium", "New York-grown", or "locally grown" to identify the fruit as being different from run-of-the crop peaches commonly available (perceived as unpredictable).
- Use a descriptor that can justify the higher price, and tap into the wellsprings of remembrances that people have about peaches (juicy, aroma, etc.).
- Communicate their local origin and thus underscore their freshness and dependability of quality and ripeness through labels such as "Premium Old-Fashioned Peaches", "Truly Tree-Ripened in XXX County, New

York".

- Use special marketing communication tools, such as a "Picked on (DATE)" sticker to emphasize freshness.
- Offer unique packaging to convey premium image. A "Peach Caddy" with 3-4 individual compartments can stimulate initial purchase interest, and making good quality, pre-assembled gift baskets available in supermarkets is an untapped market among female and older shoppers.

Moreover, given the narrow marketing window when fresh New York peaches are available and the excitement the arrival of the peach season appears to generate, both run-of-the-mill and premium varieties can benefit from intensive promotion of their arrival. Finally, results from this study show that demographic factors generally do not affect consumer behavior in terms of purchasing run-of-the-mill peaches or tree-ripened peaches. Therefore, promotional programs targeting specific consumer groups are not necessary. Generating consumer satisfaction through good and consistent quality products is the key to successfully marketing "New York-grown, quality-guaranteed, premium tree-ripened peaches."

March 2004

Getting the Edge – Understanding Marketing and Merchandising Practices for Fresh Sweet Corn in Northeast Supermarkets

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Consumption of fresh sweet corn in the United States saw a significant increase during the 1990s. This increase in popularity has been promoted by factors such as the new sweeter and longer shelf-life varieties and by new packaging options introduced to the market. According to a survey of sweet corn growers conducted by Cornell University in 2001, among the major marketing channels used by New York growers to sell fresh sweet corn, wholesale to supermarkets is the most important channel. More than half (64%) of New York fresh sweet corn is sold through supermarkets. Supermarkets are also the main point of purchase of fresh sweet corn for consumers in the United States.

However, selling to supermarkets has become more challenging for produce suppliers, particularly as a result of consolidation, increased global sourcing, and demands for year-round availability. To better understand this marketing channel, a survey was conducted with executives of 25 supermarket firms that operate stores in the market area of New York, New Jersey, and Pennsylvania to investigate key related issues in marketing fresh sweet corn through supermarkets. Information from this study should provide the New York fresh sweet corn industry with a better understanding of this marketing channel and its underlying challenges and opportunities.

Participating supermarket firms operated 921 stores in the studied market area, and their 2000 sales ranged from $21 million to $10.5 billion with total annual retail sales of $24.5 billion. In this study, firms were classified into small, medium and large categories on the basis of their total sales in 2000. They were defined as the followings: small firms with total sales of $100 million or less, medium firms with total sales between $100 million and $1 billion, and large firms with total sales above $1 billion.

Buying Strategies for Fresh Sweet Corn

The majority (57%) of supermarket firms in the New York-New Jersey-Pennsylvania market area sourced fresh sweet corn directly from grower/shippers during the summer season (July-September). During the rest of the year, wholesalers become more important for medium- and small-size firms as the main source of this product, due to their competitive advantage of being able to source products from different regions. To increase sales to super-

A complete report of "Marketing and Merchandising Practices for Fresh Sweet Corn in Supermarkets" by Sandra Cuellar and Wen-fei Uva can be downloaded from http://aem.cornell.edu/research/researchpdf/rb0406.pdf or by contacting Wen-fei Uva at WL32@CORNELL.EDU.

markets, growers could develop marketing strategies that will make it more attractive, or feasible, for supermarkets to buy directly from growers, particularly in the case of small supermarket firms. In the short run, growers could increase sales by targeting wholesalers that medium and small supermarket firms currently use to source fresh sweet corn.

The three most important methods used by supermarket firms to identify their fresh sweet corn suppliers are 1) personal relationships/referrals, 2) sales calls from grower/shippers, and 3) "other" ways, such as memory from previous years, through their wholesalers and from terminal markets. Large firms also emphasized their use of shippers' directories and field offices. The three most important characteristics sought in suppliers of fresh sweet corn by participating supermarket firms are supplier's ability to provide consistent quality, ability to make daily deliveries, and the prospect of developing a good relationship.

Preferences of Fresh Sweet Corn Supplies

During the summer season, fresh sweet corn grown in New York State plays an important role among supermarket firms in the trading area studied. Its major competitor is sweet corn from New Jersey. Supermarkets prefer to buy fresh sweet corn from local suppliers during the summer season. Therefore, the New York sweet corn industry should focus first on selling more products to supermarket firms in New York Sate, and then extend marketing efforts to reach more supermarket firms or wholesalers in other states.

When asked about sweet corn color and variety, small and medium supermarket firms and supermarket firms located in New Jersey and Pennsylvania preferred white corn, while large firms and firms in New York State preferred bi-color corn. These preferences are based on customers' preferences and demands. During the summer season, most of the fresh sweet corn marketed by participating supermarket firms is marketed bulk and un-shucked. The market share of tray-packed fresh sweet corn, either partially shucked or completely shucked, is still very small. Other forms of fresh sweet corn that supermarket firms would be interested in selling in their stores are mainly related to value-added and/or ready-to-cook products, such as microwave-ready trays. There are opportunities for the New York sweet corn industry to investigate alternative packaging options, and even go beyond the convenience factor to exploit consumers' cravings for innovation by developing convenient products with special seasonings or flavorings if technologically viable.

Promotional Strategies for Fresh Sweet Corn

Survey results confirmed that supermarkets mainly promote fresh sweet corn during the traditional holidays of Memorial Day, the 4th of July, and Labor Day. Quality, availability, and price are the other factors that determine when supermarket firms run a promotion on fresh sweet corn. According to participating supermarket firms, the most effective strategies to promote fresh sweet corn, and where the biggest expansion efforts should be focused, are: locally-grown, in-store display features, store flyers, and discount sales. A majority (77%) of supermarket firms do consider using State Promotional Programs to promote fresh sweet corn. Therefore, New York fresh sweet corn growers could explore the opportunity of promoting their product under the "Pride of New York" logo.

Evaluation of New York Fresh Sweet Corn Supply and Its Suppliers

Participating supermarket firms that purchased fresh sweet corn grown in New York State rated taste and quality of the New York product as "good". Availability, shelf-life, and shipping containers were rated somewhat lower -- between "average" and "good". Medium-size supermarket firms were less satisfied with New York products' attributes. In general, performance of New York grower/shippers was rated above "average". Dependability and on-time delivery were rated "good", except by small and New York State supermarket firms. Promotional support from New York sweet corn suppliers was the lowest-rated attribute (below average) across all firm categories, particularly among small and New York State firms.

These results clearly indicate that there are opportunities for the New York sweet corn industry to improve fresh sweet corn sales through supermarkets in the trading area of the study. Supermarkets of different sizes and in different regions (states of New York, New Jersey and Pennsylvania in this study) have different needs and expectations. Sweet corn grower/shippers need to strive to meet the needs and ensure the satisfaction of their various clients.

Sweet Corn Marketing Opportunities for New York State Growers

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Navigating marketing channels has become more challenging for produce marketers as a result of industry consolidation, increased global sourcing, intense competition, and buyer's demand for product quality, variety, and year-round availability. The changing dynamics of produce production and marketing systems often complicate produce suppliers' efforts to match available supplies with market demands, especially for growers in New York State, who have a shorter production season and are often smaller in size compared to their counterparts in the western United States. Therefore, to stay competitive, it is important for New York producers to better understand the produce marketing and distribution system and use the information to identify effective marketing strategies.

In spring 2001, a survey was conducted of 1,500 vegetable growers in New York State. Responses from 482 New York vegetable farms which produced sweet corn in 2000 are included in this analysis. These respondents had total production acreage of 37,786 acres (67 percent of the state's total) and total production value of $38.9 million (57 percent of the state's total) of sweet corn in 2000. The results of the survey provide a profile of New York's sweet corn growers and the marketing channels they use to supply fresh and processing sweet corn to the market.

Marketing Channels

Results from this study show that New York growers produce sweet corn mainly for either the fresh or processing markets. Among the respondents, more than three-quarters (77 percent) produced sweet corn mainly for the fresh market, with more than 75 percent of sweet corn produced sold for fresh use. The rest of the growers surveyed (23 percent) produced sweet corn mainly for the processing market, with more than 75 percent of sweet corn produced sold for processing. No respondents fell in the middle.

New York processing sweet corn supply was sold to two major outlets – New York processors (51 percent of the supply and used by 52 percent of growers) and growers' cooperatives (49 percent of the supply and used by 48 percent of growers). The majority of New York fresh sweet corn supply was sold to different wholesale channels (85 percent), and 15 percent was directly retailed to consumers by growers. Selling wholesale to supermarkets was

A complete report of "SWEET CORN MARKETING CHANNELS IN NEW YORK STATE -- A NEW YORK SWEET CORN GROWER SURVEY" by Wen-fei Uva can be downloaded from http://aem.cornell.edu/research/researchpdf/rb0405.pdf or by contacting Wen-fei Uva at WL32@CORNELL.EDU.

the most important marketing channel for New York fresh market sweet corn. More than half (64 percent) of sweet corn produced in New York was sold through this outlet. On the other hand, while only 22 percent of the New York fresh market sweet corn supply was sold by growers directly to consumers, about 90 percent of fresh sweet corn growers sold some of their corn through this channel.

Processing vs. Fresh Marketing Sweet Corn Growers

While New York processing sweet corn growers generally use only one main marketing outlet to sell their corn and do not use specific tools to promote their sweet corn sales, fresh market sweet corn growers usually use multiple marketing channels to sell their products and often apply different marketing tools to promote the sweet corn sales. When considering the most limiting factors to sweet corn profitability, processing sweet corn growers are more concerned about production factors, including low yield, adverse weather, disease and pest problems, and increased input costs. They also feel that opportunities for developing future processing sweet corn markets exist for expanding use of sweet corn in new processing products, improving processor competitiveness, and branding.

Although growers producing sweet corn for fresh market also indicated production factors such as low yield, adverse weather, and pest and disease problems as some important limiting factors to sweet corn profitability, they are more concerned about marketing factors. Several market factors, including price competition, market competition, oversupply, and inability to supply consistent quality products, are emphasized by fresh market sweet corn growers as major concerns. They also identify increasing and diversifying marketing efforts, supplying high quality and fresh products, developing new and improved varieties (better quality, disease/pest resistance, higher yield, etc.) as the top opportunities for future fresh sweet corn market development.

The two groups of sweet corn growers (fresh market and processing) have different concerns and needs. Therefore, while working with growers directly would be an effective way to develop marketing strategies for fresh market sweet corn, it might be more effective to work with processors and growers' cooperatives when exploring market opportunities for processing sweet corn.

Exploring Marketing Opportunities

With the major season for New York sweet corn being between July and September, extending the season for market development is in many growers' minds. Growers could target a bigger market share by extending their own production season through the adoption of new varieties, establishing production in other growing regions, or by developing strategic alliances with growers in other regions so that they could extend the supply season and perhaps even become year-round suppliers for sweet corn.

Identifying key markets to serve is critical. Supermarket is the most important marketing channel for New York fresh market sweet corn. Therefore, the ability to segment different sectors in the supermarket industry, understand buying trends and behavior in each sector, and meet the demands of supermarket buyers in those sectors is important for developing markets and ensuring profitability for New York sweet corn. Moreover, the surveyed growers received a wide range of prices for their fresh market sweet corn (between $1.00 per dozen and $3.50 per dozen for wholesale, and between $2.00 per dozen and $5.00 per dozen for retail). The wide range of prices received implies that whether selling through wholesale or retail channels, growers could find buyers who were willing to pay higher prices for specific products meeting their demands. Growers need to identify those markets and produce sweet corn to meet those markets' needs and avoid price wars among suppliers.

Different size farms have differing opinions on various marketing tools. This could be due to different size farms selling to different customer sectors. Generally, the marketing tools rated most effective by surveyed growers are word-of-mouth, reputation, personal relationships, and direct sales calls. Tools rated least effective are trade newspaper and magazine advertising, yellow pages in phone books, and web sites. As farms get larger, they generally are involved in more marketing activities. A key for successfully utilizing different marketing tools will be to select tools which can most effectively reach different target markets. Finally, a combination of increasing off-season demand, marketing catering to the general upward trend in vegetable use, focusing on new fresh and processing product development, and increasing industry interest in supporting a research and promotion program are key to expanding sweet corn markets.

Managing Marketing Risks

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There are a wide range of financial and product risks that producers assume when marketing their products. An important step in understanding and managing those risks is to take time to identify potential risks that might be encountered. Marketing risks can occur in a number of areas, including products, transactions, operations, pricing, and public policy. Managing each of these areas of marketing risk can involve a range of strategies and tools depending on the market and regulatory environment you operate in.

Producers may tend to focus their efforts on managing risk on the production side at the expense of improving their management of marketing risks. Producers and other suppliers, in general, are increasingly being required by large volume customers to assume more marketing risks.

Let's take a minute to review some of the common risks associated with marketing. A number of risks are associated with the actual products marketed, such as product safety and health issues, packaging, labeling, and consumer relevance. Consistent quality control measures can eliminate or minimize selling defective or off-quality products. Product liability risk may be reduced by purchasing product liability insurance. Marketers should be aware of potential health issues associated with the products they market such as allergic reactions as well as any labeling requirements. Be aware of labeling regulations - descriptive terms such as "organic" can only be used if the product is certified to meet that definition.

Although less tangible than other types of marketing risks, the possible decline of product relevance to consumers should be an ongoing concern for smart marketers. Staying in touch with the wants and needs of consumers can be a full-time job. With ever-changing purchasing patterns, eating habits, dietary fads, and shifting demographics, maintaining product relevance can be a challenge. It is essential to understand how relevant your products are to today's consumers.

Transaction risks can include customer payment defaults, disregard of agreed-upon terms of trade, or limited legal protection. Producers may be protected by government programs or regulations when marketing certain products. Some states require buyers to be bonded or provide letters of credit to be licensed to buy farm products. Other states may have producer security funds that might offer some protection if a buyer defaults or declares bankruptcy. If you have doubts about the creditworthiness of a particular customer, there are research services that provide credit ratings for firms, or state agencies that might offer valuable information about a buyer's payment history. Contractual arrangements that spell out the responsibilities of both marketers and customers may be useful in managing transactional risk. Be prepared to implement a "Cash on Delivery" policy for customers who have poor credit history or have exceeded agreed-upon payment terms. Be clear on when the title for your farm products changes hands and becomes the property and responsibility of your customer. And keep good records with clear terms of sale for each transaction.

Operational risks can include a wide range of activities associated with marketing a product, such as grading or processing, shipping and transportation. Operational risks can be minimized by instituting uniform policies for those involved in handling, processing, or selling your products. Various types of insurance products may be useful for protecting against operational or transportation accidents. Identify "pressure points" in your marketing operations where you may incur risks. What risks may be associated with hosting customers on your farm or at your farmers' market? How will you manage breakdowns in transporting perishable products or shrinkage in inventory?

Pricing risks can be associated with volatile markets, customer market power, or seasonal fluctuations. A number of agricultural commodities are traded on futures markets that allow marketers to decrease price risks, but most specialty crops are not publicly traded. The increasing market power of retail and food service firms and an intense focus on supply chain management and cost cutting are putting pressure on **ALL** suppliers to offer more services, assume more risk, eliminate costs and share marketing expenses. Contractual arrangements with buyers may be a useful tool to minimize longer term or seasonal pricing risks. There are relatively new types of crop insurance products (Adjusted Gross Revenue and Adjusted Gross Revenue Lite) available to producers that can help protect against revenue losses, including low prices.

Unanticipated changes in public policy can create risks in any of the former categories of risks such as labeling requirements, regulations affecting employees or transportation systems, government sponsored producer security funds or producer price support programs. Monitoring potential, detrimental changes in public policy can be a full-time job. There can be a valuable role for producer groups or associations to monitor and influence public policy.

To summarize, marketing any product involves risks. Smart marketers understand the risks they will encounter along the way and then develop management strategies to eliminate or minimize marketing risks. There can be "win-win" strategies to minimize marketing risks to both sellers and buyers. Those who can successfully manage risks will be in a much better position to reap the rewards.

Year-Round Marketing of the Seasonal Agriculture Enterprises - Tips and Techniques

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Well, here we are in the midst of the crazy midwinter conference season. Driving from one conference to another, you can spend a considerable amount of "windshield time" (a phrase meaning "non-productive time" in the world of sales) during this time of the year, and depending on your cell phone coverage and roads driven to meetings, you may have some time that you can't be in the barn, in the field or on the phone. You can make those miles productive and work to your advantage by taking the time to discuss and brainstorm ideas with your business partners. As a follow-up to the January 2006 Smart Marketing article, the focus of this article is around some specific year-round marketing techniques, strategies and ideas for your farm that you can consider.

Keep in mind that good ideas do not necessarily have to be new. Very few true "NEW" ideas surface each year. Often a modification, improvement in delivery, or a little personalization of a strategy already in place can make it more effective for your particular business. The fact that these thoughts are discussed in this article means there could be more than one farm evaluating the same idea at the same time.

So, let's begin with some ideas for:

Promotional Materials

- Select a format for your direct mailing or print materials so that they will be read. Regardless of method, technique, strategy or message chosen, take the time to personalize it and tie it to your business. For example, if you send a personalized greeting card during the winter holiday season, it will more likely be opened and not thrown out with the junk mail.
- Design the delivery schedule and promotional materials to be appropriate and timely. This means knowing when it is vacation season, shopping season, tax season. Think back to the exercise equipment flyers that you received right around the first of the year to help you work off those extra holiday pounds. During this time of year, consumers are tired of the cold and dreary winter so many sale ads are featuring spring merchandise to appeal to our emotional needs.
- Consider varying slightly the look of the marketing materials you use to avoid looking the same and being screened as repeats and thrown away. However, be careful with this

technique as you don't want to confuse your image and message in your customer's mind.

- Utilize true greeting cards and have them mean something to your customer. You can send an anniversary card to your best customers on the date of their "first encounter" with your business and use your database to personalize it with the number of years they have been a customer. They will be surprised and delighted that you care enough about them to know these details.
- Remember that many of your customers shop your business for other than "buying something". Share your agricultural life with them. You can send out postcards showing the life you take for granted on your farm, such as beautiful orchard blooms, or you or your employees working hard plowing, pruning, planting, weeding, preparing for harvest, or cleaning up after the season. A dairy farm can show cows walking in fresh show, new "baby" cows, or a truck picking up milk for the processor. Don't forget to make it human. You can also show customers how they can enjoy your product just before your season starts as a means by which you invite them back for the year. It reminds them of the great times they had and gives them something to look forward to.

Off-Season Promotion

- Develop a portfolio of value-added products that your customer can use throughout the year. This will extend your season and get your name in front of your customers more often.
- Participate in activities in your community during the off-season, such as county/regional tourism meetings, spring home shows, events at malls during Valentine's Day, St. Patrick's Day, etc.
- Find ways to use your space during off-season. Maybe someone will want to rent it for parties, corn roasts, etc. If you have a particularly scenic setting, consider hosting weddings and events.
- Collaborate with your neighbors. Organize a county-wide local food tasting involving farms throughout your county or region. This could be in partnership with the tourism agency that supports your region.
- Become a speaker for social organizations, such as boy/girl scout meetings, fraternal organizations (Lions, Rotary, etc.) and garden clubs. These groups meet regularly and want new topics. Once in the talk show circuit, you will become famous, and they will find you.

Creating Excitement and Teachable Moments

- Start a serial newsletter detailing stories of your operation, the history of the farm and family, and information about your products.
- Do educational events such as apple, strawberry or cheese tasting, and yes, you can do it with vegetables such as broccoli, carrots and lettuce. You know there are different varieties with different tastes but your customers may not. It doesn't have to be exotic, maybe just a "forgotten" fruit or vegetable, such as rutabagas, turnips, etc.
- Look for free or relatively low-cost press

opportunities. In my home town region of Michigan, we always looked forward to an annual auction of the first flat of strawberries for the year (it meant summer was here) by local farmers. The "first fruit" event doesn't have to end in an auction. It could include presenting the flat or fruit to the oldest person living in the county, to the county executive, a government official, etc….you get the idea.

- There are always the tried and true school tours and educational events. If you have camps close by, they might be interested in having an agricultural component in their offerings. Experience has shown it could be very rewarding when you help to "turn on the light" for a young farmer to be!! Moreover, can anyone with kids say that they haven't been heavily influenced by their kids when making some purchase decisions?
- Start a sign campaign by your fields explaining to those passing by what is happening in the fields during the growing season. Lots of people love the idea of farming, and you can help them tie themselves to agriculture. If you are using interesting harvest equipment, you might consider doing an event around it so customers can come and watch. Combining, potato digging and hay bailing can be very exiting for non-farm customers. Step outside yourself to see what others see and to see what you take for granted.
- Plant new or experimental crops/varieties and offer free tastings, or invite customers to stop in and monitor their progress with you.
- Cross-merchandise and market at other venues such as dig-your-own potatoes at pumpkin picking, u-pick fruit with spring lawn and garden sales, or Christmas tree operations with corn chowder tasting. This can be particularly effective if you have a neighbor who complements your operation. You both win.
- Participate in regional and statewide awareness programs that relate to your industry. One of the most successful exhibits at the Iowa State Fair included a pig birthing exhibit with a webcam that allowed the public to check in on the status of the mother-to-be and her piglets any time, day or night. Our local county fair has a cow birthing exhibit that has people running to see the magic event when word spreads around the grounds that the calf will make its appearance at any moment.
- Contests always seem to stir up excitement with customers, especially if they become personal and include their expertise such as a recipe contest where you can have customers take your product, make the recipe and bring it back for "judging". Other fun events we have seen include cherry pit and watermelon seed spitting, pumpkin carving, corn shucking, and zucchini cannon ball.

Regardless of what you choose to try, there are some critical details to attend to; otherwise, your time, effort and money will be less effective. You need to keep your database up-to-date and accurate, and monitor and use the database regularly. Also, it is helpful to keep an historical database. Only sending material to last year's customers means you are missing a significant number of customers from prior years. You can survey past customers who don't come again to find out why they didn't return. Maybe there is something you are missing when evaluating your business operations that could be improved upon.

Above all, try to look for individuals, other producers, small businesses or organizations with whom to collaborate as many of these activities as possible to avoid burning yourself out. And finally, it is more effective to be creative and not necessarily expensive. If you can use your marketing resources (time as well as money) well, you can spend more resources on fewer efforts to do them right, rather than developing a lot of less effective efforts.

Year-Round Marketing of the Seasonal Agricultural Enterprise - Should I or Shouldn't I?

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The summer and fall growing/selling season is done, the holiday sales season is but a memory as well. So now it is time to tuck away the tools and stress from a hard season and take that well earned rest. Right? or **WRONG?** Ultimately, this is a personal and business-specific decision that you will determine for yourself. But to give you something to think about during your "down" time, we would like to offer some thoughts to consider as you look towards the next business cycle.

First, many if not all farm and agriculture related enterprises would classify their sales activities as having some type of seasonality. Of course, there may be a variation in the length and time of the season, but, nonetheless, all are faced with finding ways to entice their customers back to them year after year. It becomes more complicated since during the "off-season" the customer has been given sufficient time to become accustomed to making his/her purchases elsewhere.

To address this dilemma, there are generally two basic strategies employed in the agriculture sector. The first, used by many large agriculture producers in the "major" growing regions of the US, is to find a way to provide year-round products from a range of growing regions or conditions. This can be in the form of protected production (i.e. hot house or greenhouse), or a more common approach, establishing a presence in other growing regions (i.e. the south, west, or overseas). In the case of very large producers, this is economically feasible and desirable due to efficiencies in modern large scale production and relatively low cost of transportation (although that card has been dealt a significant blow this past fall with the increase in fuel costs).

For smaller growers or growers who for whatever reason do not care to or cannot afford to pursue the last strategy, their option is to look for methods and techniques to bring the customer back each year when products become available. A fairly common approach employed by a significant number of small growers is to be passive about any marketing efforts until just prior to the start of the next harvest or the selling season. While this approach may have worked in the past, all signs indicate that the growing number of dual career families in the future results in a selling environment where people have less and less time available for errands and shopping. This comes at a time where there is increased competition for consumer dollars from a variety of industries each year. Consumers often do not have time to plan ahead and adjust their shopping habit to the seasonal schedule, or do not want to go through the trouble. Combining all of these factors, we see that customers will be more difficult to come by. So what can be done?

Industry statistics indicate that to retain one's past customers is a much more efficient use of time, effort and marketing dollars than working to establish or re-establish a new customer base each year. Admittedly, this is easy to say, yet difficult to do when a business is not open, or does not have products to sell during part of the year.

To begin working towards resolving this dilemma, the first step is to take stock of the resources a business has to work with. We would offer that a solid first step is to realize that a primary reason many people shop at smaller businesses is due to emotional, social, and environmental attributes not found at larger "big box" type outlets. These consumers are buying based on "VALUE" (see the August 2004 Smart Marketing article for insights into determining value). To keep the demand for your closed business means that you must keep your business's name and value proposition front and center in the consumer's mind. You will know you have succeeded when the customer sees or thinks of your business during the off-season and pines for the next season when they can utilize your services again.

Some means to accomplish this would include generating creative and innovative points of contact during the off-selling season. What might this look like in real life? It can be simply summarized as any effort that focuses on the unique personality and characteristic of each specific business. A fruit grower might send a postcard with a picture of their orchard being pruned in the late winter. A vegetable grower might send a similar card showing the fields being plowed or tilled in the late fall or early spring. Essentially, creating some point of contact that provides a visual and ultimately mental connection to the agriculture operation that maintains the emotional bond enjoyed by the customer and keeps them looking forward to the experience again.

Regardless of the method or message chosen, the key is to determine what it is that makes your business special and memorable. Keep your presence in your customer's thoughts and plans. Give them a story to tell. Your assignment this month is to determine how you want to spend your marketing efforts and dollars. In part 2 of this article, we will look in more detail at some techniques to consider if it makes sense for you to market your business all year round.

A Guide to Understanding the Value Chain

Brent Gloy
Assistant Professor

The value chain can be a very useful conceptual tool when trying to understand the factors that impact the long-term profitability of your business and when developing a successful strategic plan for your business. The value chain can be thought of as a set of activities, services, and products that lead to a product or service that reaches the final consumer.

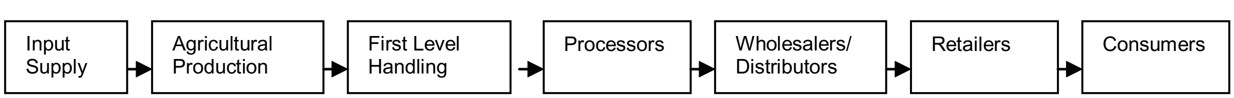
The value chain can help you answer questions regarding:

1) how the products you produce reach the final consumer;
2) the structure (economic relationships) between players in the chain;
3) how this structure is likely to change over time;
4) the key threats to the entire value chain;
5) the key determinants of your share of the profits created by your chain.

Agribusinesses that focus only on the firms nearest to them in the value chain are not likely to anticipate major structural changes that can dramatically impact their profitability. In order to understand your value chain, begin by drawing a simple diagram that shows the key processes and inputs that contribute to the final product. In general, the value chain of most agribusinesses looks like Figure 1. Your job is to replace the generic boxes with more detail where appropriate.

The amount of detail that you include in your value chain depends in part upon the final product that you most identify with. For many producers, this is a difficult question. Just identifying where the product goes after it leaves your business is an important first step. Ask yourself, how and in what ways your production finally reaches the consumer. This question can have very different answers depending where you are located in the value chain. Grain producers will likely have many different ways in which the product reaches the final consumer and may have little control over where or how their product reaches the consumer. For these producers, it is key to identify the major channels or classes of products that reach the consumer. For instance, grains are often converted to manufactured cereal products, feed and feed products, ethanol, etc.. On the other hand, fresh fruit or vegetable

Figure 1. A typical value chain for agricultural products.



growers may have a great deal of control over how their product reaches the consumer. These growers will likely want to be much more explicit with respect to the final product that they produce, i.e., fresh apples sold at roadside stand, apples picked by consumers in the orchard, apples put in storage and sold in a retail outlet, and apples processed for juice.

The key is to identify the various ways in which your product reaches the consumer. The amount of detail that you use in constructing the value chain will depend in large part upon the degree of **differentiation** that exists between you and your competitors. By simply considering the alternative ways in which your product reaches the final consumer, you can begin looking for ways to differentiate yourself from your direct competitors and making your product more attractive to members of certain value chains. For instance, look for ways to add value not only to the businesses you directly supply but to their customers as well. Also, you may begin to see opportunities for end markets that play to your strengths.

The next key factor to consider is the **economic relationship** between the various parties in your value chain. The **number and size** of the competitors at a particular stage of the value chain can have important consequences for other members of the chain. A dominant player at one stage in the chain can place many demands on smaller players with many competitors. Often, stages near the dominant player will react by trying to match the dominators size and influence. Sometimes this involves consolidation or forming cooperatives.

Another factor to look for at any stage is the importance of **economies of scale**. These are typically important in the processing stages. Economies of scale can dictate how processors want to interact with other players. Often, they will want to insure that product continues to flow through their plants. Food safety and contamination risk are even more important when a player has large economies of scale. A contamination can be very costly for any player, but one with large economies of scale and thus volume is especially at risk. Look for these firms to be very sensitive to the quality and origin of the product coming into their plants.

Biological production risk and perishability are frequently important characteristics of agricultural value chains. Biological production uncertainty can have important implications for the consistency of supply to supply chain members. This is especially important when there are economies of scale present. Perishability can have important impacts on the logistics and handling of food products. It will also influence the responsiveness of supply and will limit the amount of substitution that can take place when a weather event reduces production.

You will often want to examine the **economic relationships that govern the transactions** taking place at each stage of the value chain. These factors can be especially important because they can make price discovery difficult and can limit access to a value chain. For instance, many retailers and branded product manufacturers are moving toward networks of preferred suppliers. These networks do not operate like traditional agricultural markets which are open to everyone. In order to participate, the supplier must typically qualify or meet certain production standards. In many cases, the manufacturers and retailers are looking to reduce rather than expand their supplier networks.

Finally, you want to be aware of key **consumer trends and key technological advances**.

In agriculture, the development of biotechnology has the potential to dramatically change value chains because the technology has important implications at both ends of the value chain. Consumer attitudes toward biotechnology will create new niche markets for value chains which either do or do not use biotechnology. Likewise, new products will be developed and potentially create new value chains. Further, biotechnology will impact the role of food processors in the food system as food products are refined at the genetic rather than the plant level.

Understanding these factors will enable you to understand where the pressures that are likely to influence your profitability will likely come from. It will also allow you to understand how you can add additional value to your specific value chain. Ask yourself, what chain are you most suited to participate in, how can you deliver the most value to that chain, what relationships are necessary to successfully compete in your chosen value chain, what key factors can destabilize or adversely affect the value chain.

The structure of the value chain will have a direct impact on you and your direct competitors' profitability. Remember that to a large extent, the amount of profit that can be obtained by you is dependent upon the final value that your entire value chain delivers to the consumer. It is also important to realize that your value chain also competes against other value chains which may be delivering products and services to the same customers that your chain delivers to.

A Key to Successful Marketing Strategies – And We All Have It!

Judith A. Barry
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Here is a riddle. Within it contains one of the secrets to successful marketing strategies.

When you are born, you have lots of it. As you get older, it seems that you use it at a more rapid rate. Some people are good at keeping it; others are definitely not. Whether you are a good marketer or a bad marketer, you are likely to claim you never have enough of it.

What is it that I am talking about? The answer of course is **time**. Successful marketing strategies require wise use of time.

Every commercial farmer is both a producer and marketer. Whether you are selling your vegetables at a farmers' market or your milk to a dairy cooperative, your product must be marketed off the farm. How important it is to have detailed-planned marketing strategies will vary from farm to farm, but as every farmer knows, to produce and successfully market a product requires smart use of time. Here are some points to help you question your use of time and assess whether you are getting as much as you can out of your marketing strategy:

- **Time costs money**. As one of the most costly inputs into any business, the value of time is often underestimated and incorrectly predicted in a business plan. Whether the owner is paying him/herself or an employee, the business should be delivering adequate returns on time invested. If it is not, is the use of time being distributed in the correct areas of your business?

- **Assess your skills**. Successful marketers do not have more time than unsuccessful marketers, but the use of their time may be managed in a more effective and efficient way. Every person on this earth has his or her unique set of skills and personalities. Some extrovert personalities are great at facing people all day long and actually feel that by doing so, it charges their batteries. Introvert personalities, in contrast, are sapped of energy when they are with people all day but are energized when they are working on more solitary jobs. We all have skills and different personalities. Identifying those skills and the skills of others in the business can utilize people more efficiently and help give the highest return on time investment. Brainstorming and sharing ideas with family and co-workers will probably confirm what is already known, but may also help to recognize how the skill sets within the business can be better applied to operations.

- **Come in the middleman**! Recognizing the use of external people and their individual skills in your business may save money and time in the long run. Delegating tasks and concentrating on areas of competency may achieve a higher return on business time invested.

- **"Time costs money, but my time is free".** Families in farm businesses frequently misconstrue this concept as it shies away from the real costs of doing business. It becomes a problem when the person with the "free" time is incapable of working (illness, injury) causing costs to be incurred to pay someone else to do the job and bringing in some very real costs to the bottom line. People's time is the essence of successful marketing and should not be undervalued when calculating profitability. It is important to remember, of course, some return on time invested might not have a $ value. Lifestyle factors do not have a price tag but can certainly provide a positive return on time invested.

- **Where can I get more time?** It is probably safe to say that everyone needs more time. Food and product quality is increasingly in demand. However, quality production typically commands more time and energy. Many producers find that after producing the finest quality, they have insufficient time to actually get the product from farm to the consumer. Successfully marketing a quality product to the consumer is, no doubt, an extremely time consuming task. Strategic planning is a useful tool that can help allocate time and people to implement a marketing plan. Doing this establishes the feasibility of the marketing task with the skills and resources available. Producing and marketing a product to meet the demands of the consumer need to go hand in hand, but if there is not the time or resources to achieve both, the strategy may not be profitable.

All of this said, we all have 24 hours in a day. Some sleep less, some eat for less, but to be a producer **AND** a marketer it is necessary to make "smart" use of your time to succeed in managing your smart marketing strategies.

Reputation as Your Brand

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Senior Extension Associate

Many marketers of agricultural products are small businesses owned by individual producers or entrepreneurs. Customers typically associate the products marketed or services delivered with an individual or small group of people. Their individual or group reputation can become a key reason for doing business with them. And so their own names become, in many ways, the "Brand" for their products.

Most small businesses have limited resources to promote and build a brand name. But given that your reputation can be a key element of your brand identity, it is worth giving some thought to how your customers view your reputation. This becomes more important for food marketers operating in small or local markets resulting in a "small world" of contacts and relationships. Word can travel fast about transactions that didn't turn out well for buyers. Reputations can be quickly enhanced or tarnished in markets with a small number of players. This market reality creates both challenges and opportunities. Your positive reputation can give you a competitive advantage over those seen in a less positive light.

In fact, more publicly-traded firms are reviewing strategies to build their "reputational capital". With the recent flurry of ethical breakdowns of firms like Enron, Tyco, or World Com, companies are realizing that building reputational capital can result in improved investor or lender relations as well as creating a more positive work environment for managers and employees.

Small businesses with limited resources for conventional approaches to building a brand name like promotion and advertising might give some thought to relatively low-cost approaches to building your reputation. A starting point can be gaining a better understanding of how your customers view your reputation. Do your customers view you and your employees as conducting business in an honest and ethical way? Are you reliable and consistent in delivering the services or products that you market? How do you address complaints from customers about not being treated fairly? When customers think about your business, would the words "dependable", "sincere", or "trustworthy" come to mind?

Some strategies to consider when building or maintaining a positive reputation:

- When conducting customer surveys, incorporate a question or two about how they perceive your reputation.
- Develop a values statement for your business that all staff understand.
- Set and practice high standards for ethical behavior.
- Establish fair terms of trade that are transparent and understood by your customers to minimize misunderstanding.

- Gain a better understanding of business practices that might have a negative impact on your reputation.

Your reputation is an integral part of the "story" that you tell to customers or consumers. Some segments of consumers are very interested in how you produce a product or the values you adhere to in conducting business. Some examples include: the ethical treatment of animals, utilizing environmentally sound practices, or how employees are treated. Highlighting your reputation or the standards you set for conducting business can be a productive marketing strategy

In many situations, there are relatively low-cost, effective ways to build your reputation that can add value to your brand. Being perceived as a reliable, trustworthy business that treats customers fairly can yield increased sales as well as a more fulfilling work environment for you or your employees. Nice guys may indeed finish first as smart marketers!

Marketing Orientation – A Producer's View

Judith A. Barry
Extension Associate

Albert Rose used to be "on the other side" After completing his M.S research in direct marketing at Cornell University, Al moved to Chicago and was a buyer of potatoes for Frito Lay. He worked nationally and internationally (Canada) with producers to meet the specification of potatoes and the service required by Frito Lay. He did that for 4 years until the rat race chased him back to a different kind of lifestyle - farming.

In 2001, Al returned with his wife and children to the family farm in Phillipston, Massachusetts. He became the fourth generation of Roses to farm the land. Previously, the farm had produced apples that were mainly for the wholesale market. The focus of the business was on production and quality apples. Al's father, Bill, began the transformation of the farm from a predominantly wholesale operation into an exclusively retail business. On his return to the farm, Al decided that he wanted to expand the farm's focus to meet the needs and skill of his family and to position the business for the years to come. Red Apple Farm is now a popular get-away destination for the urban and suburban rat race that Al was once running in. They sell a farm experience with pick-your-own apples, pumpkins and a farm store. They have developed the farm to meet the demands of local and not-so-local (the greater Boston area) consumers, and he believes that he has developed a better market orientation for the business.

At a recent marketing training session for Cornell Extension Educators, Rose shared some of his views and the lessons he had learned in working for both Frito Lay (in the buyer's perspective) and Red Apple Farm (in the seller's perspective) in producer marketing orientation. This article provides a brief review of some of the points he shared on that day.

Rose observed that many producers, understandably, have a production focus rather than a marketing mindset. "A marketing mindset is a difficult thing to develop. Marketing is intangible and difficult to quantify in contrast to production that is scientific and quantifiable. Marketing is touchy-feely."

Rose added, "Farming is one of the few businesses where the majority of business managers start their careers in the family business and never leave it. The turnover of personnel, in contrast to other types of business, is slow. This leads to an 'inside out' perspective which, while good for excellent quality" he feels "is not conducive to developing marketing orientation".

Rose felt his time with Frito Lay, off the farm, was a beneficial part of his marketing education for returning to the farm. "Leaving the farm provides business operators to have an outside- in perspective on the way they view the farm, which supports a marketing orientation."

Rose made several points, which he believes have allowed him to be successful in making his business more market orientated:

1. **"I ask myself 'Why are you in business?'"** He believes that success is correlated to the farm's consumer orientation. "If we are in business to satisfy customers, we will be successful at marketing. If we are in business for other reasons, our business will struggle to be marketing orientated."

2. **"Marketing is the most important tool in my toolbox. This is the focus of my business."**

3. **"I add value to any product that I can."** He thinks it is important to sustain a front-line focus on whom you are serving. An example Al gave was when he went to a farmers' market in Mexico with his brother. A lady in a tropical fruit stand allowed them to try the fruits, and every time a tiny drip of the juicy fruits started dribbling down their chins, the lady held out a napkin. They didn't realize quite how effective the front-line strategy was until they walked away from the stall having bought several pounds of fresh fruit, without questioning the price and with pocketfuls of used napkins! The lady had made the tasting session such an enjoyable experience that Al and his brother had not considered the pricing.

4. **"I sell products as opposed to inputs."** Al elaborated that he is not selling apples, he is selling a product with a perceived value. He gave an example of both frontline focus and selling an input with a perceived value when he was working with Frito Lay (a Pepsi company). He commented that it never went unnoticed when he and his colleagues walked on a potato farm that was selling to Frito Lay, and the first thing on display was a Pepsi vending machine for the employees. A minor detail that showed the farmer had a strong marketing orientation.

5. **"I list both tangible and intangible goals and build an action plan."** One thing that supports their business in doing this is through their understanding of their customers. They survey customers through conversation and written survey and know where they come from, how they heard about the farm, if they have made repeat visits, why they come to the farm, what they want to buy, etc. It helps build goals for the business around their customers' needs.

Al's final comment about developing their business to have a marketing orientation is that on a regular basis they ask themselves three fundamental questions:

a) What business are we in?
b) What business should we be in?
c) What business do we need to be in?

With a constantly changing market, these questions not only address the needs and wants that they are currently trying to satisfy, but they also address what needs and wants are developing with their customers, and how their business can best meet those needs and wants. Al believes that he is in business for one reason alone: “to satisfy consumers’ ever-changing needs and wants (both tangible and intangible)”. This, he believes, has enabled him to develop an effective marketing orientation for his business.

Thanks to Al Rose of Red Apple Farm in Phillipston, Massachusetts for reviewing this article.

Identifying, Building, and Selling the Value in YOUR Business

Bob Weybright
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In the August 2004 *Smart Marketing* article, I discussed the issue of selling based on value rather than price in one's business. Admittedly, this concept is easier to discuss than implement. In this article, I will take a closer look at "value" - its attributes, what constitutes value, and how value can be identified.

Value itself is not a new concept in the business world. In fact, it has been recognized by the accounting profession in a term called "good will." "Good will" can, in fact, be assigned a numeric value and accounted for on financial reports. When a business is sold, it is not uncommon for the buyer to pay more for "good will" than the tangible assets of that business. A critical and key task is to assign a financial value to this "good will" that is believable by the rest of the world. This has been and will most likely continue to be an issue of much discussion in the financial world as it is based primarily on individual beliefs and opinions.

While it might be beneficial to determine a dollar figure associated with a business's "good will," we must first understand what characteristics are in place, and how they increase the value of a business to a point where they could be classified as "good will." To keep things simple, rather than getting into a dollar valuation of "good will," I will focus on identifying attributes that might create value and influence the buying decision. The assistance of a good financial advisor would be required to properly assign a dollar value to "good will."

To briefly summarize a key point from last month's article: Value is a combination of benefits, both tangible and intangible, that must be present in order for a buyer, whether a corporation or an individual, to feel that the purchase contained an appropriate level of benefits to satisfy the need that drove the desire to purchase in the first place. Essentially, what this means is that attributes of value are industry, company, and situation specific.

This is not to say that attributes of value are random. There must be reasons behind each and every value attribute. Some common value attributes one can consider include:

- Product safety
- Curiosity
- Variety
- Price
- Order convenience
- Pack size
- Package material
- Family ties
- Product story
- Personal safety
- Convenience
- Quality
- Order method
- Delivery method
- Color
- Seasonality
- Emotional ties

The list of possibilities is not finite. Essentially, value attributes are anything that could separate you, your product, or company from direct competition or anything that could serve as a substitute for your product or service.

However, determining what attributes to consider for providing value to a particular business is done individually. Knowledge of one's customers and market will guide which attributes to considered. One important and key attribute not to be dismissed is one's reputation. An example found in the recent press is that some poor business decisions of a private nature caused a drastic decrease in company worth of an established company owned by a certain household maven. This example demonstrated how personal reputation can raise or ruin one's business. What this means is that awareness of personal relationships as well as past business relationships must be considered in determining what value might be present.

To maximize the success when selling based on value, one needs to understand that value is an internal and variable feeling. When assessing one's business, and what value is provided, there are some key considerations to keep in mind:

- Value varies by individual or demographic group – The methods and styles of marketing specialty vegetables, meats, and cheeses demonstrates the depth of this concept. Other more common categories would include convenience foods, organic and natural foods.
- Value can vary from year to year – Remember the olive green appliances from the early 1970s? What would a consumer pay for an appliance in that color today?
- Value can change across the year – Would you want to be selling jelly beans in July? Maybe if you were a wholesaler taking spring shipment orders. Large retailers have clearly identified the seasonal value factor. Look at when you can buy snow blowers in the store. Now consider when they are put on sale and the associated price reductions to sell them quickly.
- Economic climate affects the value decision – Gourmet products are in much more demand when the economy is doing well.
- Regional consumer taste shifts – Look at the styles of barbecue sauce and how strongly attached to them the people of the region are. Ask a person from the South East (vinegar based sauce region) how much they would pay for a bottle of tomato based barbecue sauce from the north, and vice versa.
- Geographic region determines what is perceived as having greater value – How much value is there in earthquake insurance in New York versus California? The value is minimal even thought the Hudson River is a fault line.

In short, when looking at how to price one's services or products by value offered, three factors – customer, product and environment – need to be considered and balanced against each other. However, by far the most important area of understanding lies around the customer. Learning who they are, where they are from, and what brings them to be your customer will provide insight into learning what attributes you should have or strengthen, and those that need work. You will also learn what value customers place on your product or service to determine whether you are pricing correctly or need to adjust your price up or down. One more thing to keep in mind – once you have completed this analysis it is then time to start over, as time never stops and customers never stop changing.

As you continue to work at and adjust the value proposition of your business the process will become easier, you will increase your sales success, and your customer base will continue to grow. The net and ultimate benefit of all this is differentiation from the competition and a sales advantage that makes your business the one to beat.

Sell Value – Not Price

Bob Weybright
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Given the current "market winners" in the selling world, one would think that price is the primary reason people buy a product or service. Some evidence of this would be the phenomenal growth of such chains as Wal-Mart, Home Depot, Dollar Store, etc. To be able to sell at the lowest price, these chains are continually pushing, if not demanding, that their suppliers give them lower prices as well. Under this situation, one might conclude that selling at the lowest price is required to be successful in today's market.

I would argue that unless you are without a doubt the lowest cost provider or producer, you cannot and should not sell merely based on price. This then raises the question of how can one expect to survive in today's environment if an increasing number of potential market outlets for our products and services are squeezing to get the lowest price possible? The premise of my argument is that all organizations and people will buy, and continue to buy, if they believe that value has been received as a result of the transaction. What this means is that in addition to price, there are other benefits, both tangible and intangible, which must be present in order for a buyer, whether a corporation or an individual, to feel they have received value. The purchase must contain an appropriate level of total benefits to satisfy the needs that drove the purchase in the first place.

To illustrate the concept, let's apply the concept with a simple, real life situation. Let's look at two different types of coolers widely used in the summer. When identifying what value is being delivered in a cooler, the obvious one is that it keeps food and drink cold when used as directed with ice or ice packs. More subtle is the unique and/or specialized value being delivered by the respective coolers beyond initial purchase price. It is this deeper value that is a key element to identify and incorporate into the selling and pricing decision.

For example, a widely available low-cost foam cooler does not cost much more than a couple of dollars, and buyers usually only expect them to last one, maybe two uses before they are ready for the trash can. A unique value is that when there is high risk of losing or damaging a cooler, a relatively low-cost cooler that is expected to be thrown away very soon will provide adequate value for the money spent. For basis of comparison, one could state that a $2 foam cooler used once and then thrown away would result in a $2 per use transaction fee.

Now consider a high-end Coleman cooler with metal housing at a price range of $80-90. Who would ever buy an expensive cooler like that? This type of cooler has a much longer life expectancy. In fact, I have had one in use for over 19 years, with perhaps 45 uses total (a conservative 2.4 uses per year). This particular cooler has a per use transaction cost of approximately $1.66, based on a purchase price of $75 in 1985. Even at today's cost of $90, it would match the per use transaction cost of the lower cost foam cooler at $2. If one believes that low price is the only basis upon which buying decisions are made, it could be stated that I would not or should not ever consider using the foam cooler with it's per use transaction premium of more than 30 cents.

So what does this comparison exercise tell us, since both types are widely sold today? To sell simply by price, one would first need to define low price because, as in this example, it could be initial cost or per use transaction cost. An interesting paradigm is that while the foam cooler has a lower initial cost, it's per use cost ends up being higher than that of the metal-clad Coleman. To make the comparison even more interesting is the fact that the Coleman cooler with its lower transaction cost also keeps items colder for a longer period of time because of its superior insulation and construction. So, based on per use price and basic function, one could question why anyone would buy the lower-cost foam cooler. What becomes evident in this example is that there are different aspects of nonfinancial attributes that contribute to the value proposition for a particular product. Therefore, selling based on price alone would be a flawed tactic.

While this is a simple example, there is evidence throughout the country that demonstrates this concept. Brands such as Rolls Royce, Jaguar, Lincoln, Ford, and Hyundai all demonstrate the ability to satisfy a broad range of value propositions in the transportation industry. More relevant might be an example from the food industry's coffee category. Folgers, Maxwell House and Hills Brothers are working hard to maintain their sales, yet companies like Starbucks and Green Mountain Coffee are growing their sales leaps and bounds. The value being sold and delivered by Starbucks and Green Mountain Coffee, in addition to a quality coffee, is pampering in a complex and difficult world, cult membership, mental links to a scenic location (Vermont), and images of vacation and relaxing fun times. While the other national brands have a price advantage, their value is not equivalent to that of the newer premium brands in the eyes of the consumer.

While this might be a simplified example, the bigger question remains: How can I compete in today's environment? Simply stated, it means that one must look carefully at their product and service. Marketers need to assess the competitive climate in the region, country, and world to determine how it might affect the value of what they have to offer; learn to identify what the purchaser needs to see or experience that supports their sense of value while satisfying the needs that drove the purchase initially; and finally, apply what is learned when making a decision as to where products or services are to be sold, who (in the case of large organizations or commodity products) to sell to, and at what price.

The key to success is that price and value must be a conscious decision on the part of the company. Wherever the price and value position is for your product or service in the market right now, it can be changed. An example of a large company working to move its products up the price and value scale is Subaru. They are actively and carefully working to change the value proposition of the brand. The Subaru Company has accepted that they will most likely alienate some of their existing customers, in fact losing them to competitors, but still believes the changes in value proposition and price is where they want the company to be to maximize its sales and viability.

Is this concept easy to state on paper? Most certainly yes. Is this concept easy to implement? Most certainly no. It takes time and practice to develop an accurate picture of the value proposition. It is, however, a concept that can be worked on and applied over time to slowly improve the selling price and business position. While the examples I have cited are not specifically from the food or agriculture sectors, they can be learned from. Sales, buyers, and customers share common attitudes across all aspects of business sectors. Looking to other industries to learn from their success and mistakes can shorten the learning curve and help us to improve our business practices in a shorter time period.

Shortcuts to Measuring Crop Profitability: Are They Misleading?

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Introduction

Knowing whether a crop is profitable is a crucial piece of information for farm management. Yet for diversified vegetable farms, some growing hundreds of different crops or varieties, measuring this can be a daunting task. Many prominent organic farmers in the Northeast use and advocate the use of a simple rule of thumb: the "$30 per pick-pack hour rule." This rule states that for every hour spent harvesting and packing produce by the farmers and their crew, it ought to result in at least $30 in revenue. For example, if three workers spend two hours picking and one hour washing and packaging a given crop (a total of nine person-hours -- 3x2 + 3x1 = 9), this product should bring at least $270 (9x$30) in sales.

Using this rule is much easier than tracking all the costs (inputs and labor, plus indirect and overhead costs) associated with growing a crop. However, data collected over two growing seasons (2002 and 2003) from seven organic vegetable farms in the Northeast cast doubt on the usefulness of this rule. This doubt is based on two main arguments: (1) $30/hour may not cover the total cost of production, and (2) a key underlying assumption of this rule -- that all production costs associated with raising a crop (excluding harvesting and packing) are roughly equal for all crops -- is violated.

The production costs were gathered on seven organic vegetable farms in five Northeast states. They are participating in the Northeast Organic Network (NEON; see www.neon.cornell.edu) project and were identified as being "exemplary" farms. While these farms do not represent a random or even a "typical" sample, the results of the following analyses should provide a caution against relying too much on this shortcut measure of crop profitability.

Break-even Analysis

The first analysis measures the break-even revenue per pick and pack labor hour. It is calculated by taking the total production costs (direct variable costs like labor and inputs, plus overhead and indirect variable costs, including land, machinery, maintenance, marketing, etc.) and dividing by the total number of person-hours spent harvesting and packing. Farms that achieve this dollar per hour figure will exactly break even, i.e., will meet all costs but make no profit. A farm that fails to bring in this amount of revenue per hour will lose money; an amount greater than this figure indicates profit.

The following table (Table 1) shows the maximum, minimum, and average break-even revenue figures for each of ten crops. Some crops have only two observations (data from only one farm over two years); others have up to eight. Note that, on average, only four crops (beet, carrot, onion, and strawberry) would actually make money if the farmer only made $30/pick-pack hour. Five crops (Asian greens, lettuce, string beans, tomatoes and winter squash) would need, on average, to produce over $50/hour to break even.

Finally, out of 42 data points (all farms, all crops), only 16 would have made money at $30/hr, while 26 would have lost.

Table 1. Summary of Break-even Revenues ($/hour)

Crop	*Maximum*	*Minimum*	*Average*
Asian Greens	75	35	55
Beet	21	17	19
Carrot	23	23	23
Garlic	38	28	32
Lettuce	75	15	54
Onion	27	23	25
Parsnip	53	29	41
Strawberry	17	13	15
String Bean	100	78	89
Tomato	195	24	85
Winter Squash	90	27	65

Production Costs Before Harvest

The $30/hour rule assumes that the costs up to harvest are roughly equal on all crops; data from these seven farms call this assumption into question as well. For each crop on each farm, the harvest and packing labor costs were subtracted from production costs (inputs plus labor). The results were then compared across farms and across crops.

Looking at data from different crops over two years for the same farm, the differences in production costs before harvest are quite large. The costs differ from a minimum factor of 2.71 on one farm to a maximum factor of 10.89 on another. Clearly, costs before harvest are not roughly equal, even on the same farm. Looking at similar crops over different farms and years, the differences are much less pronounced. Four crops (beets, carrots, onions, and string beans) vary by a factor of 1.2 or less. It is important to note, however, that analysis of each of these crops used data from only a single farm; these factors reflect the difference between two consecutive crops years on the same farm. Four crops (garlic, lettuce, tomato and winter squash) vary by a factor of 2.5 or more; these data all come from multiple farms.

Implications

Certainly, the $30/hour rule has some value. Proponents claim that it may help growers gauge how fast and efficiently the crew is working, as well as providing information on the prices they received. It may also work better for growers who do much of the on-farm labor themselves and have less out-of-pocket labor expenses.

This analysis does suggest caution in relying too heavily on this rule. While this analysis uses data from a small number of crops and farms, the fact that so few would make a profit at $30/pick-pack hour is cause for concern. Furthermore, the key assumption of roughly equal costs for all crops before harvest is also questionable.

It is a daunting task to measure all costs across all crops on a diversified farm. However, reliance on quick but rough rules of thumb may lead to poor crop choices. Clearly, a measure in between these two extremes is in order. Here are some suggestions:

- Measure all costs for a handful of crops: perhaps select one you believe is a sure money maker, one you think may be less profitable, and one you are unsure about. Calculate and compare the break-even revenue per pick-pack hour for these crops.
- Given that costs for a single crop on a single farm changed little over the two years, do a few in-depth measurements on different crops each year.
- Calculate the break-even revenue for the whole farm (total farm expenses divided by total pick-pack hours), measure this figure for a few select crops, and compare.
- Use, with some caution, published Enterprise Budgets from other sources. Full budgets from the NEON project will be available in a book to be published shortly. Vern Grubinger's *Sustainable Vegetable Production from Startup to Market* contains budgets for several crops; they were compiled several years ago, so some price adjustment may be needed. Organic vegetable budgets from Rutgers (New Jersey) and North Carolina State Universities are also available.

Forms (both paper and spreadsheet) to guide the measurement of small fruit and vegetable crops are available from Dr. Wen-fei Uva, Senior Extension Associate, Department of Applied Economics and Management, Cornell University.

Managing Marketing Risks*

Wen-fei L. Uva
Senior Extension Associate

Marketing is the part of your business that transforms production activities into financial returns. However, many unanticipated forces, such as weather, market trends and government actions, can lead to uncertainty of costs, prices and demand in the market and, therefore, cause marketing risks. Marketing risk largely concerns price risk and market availability. Price risk is related to the volatility of product or input prices. Market availability risk is related to loss of market access due to competition or loss of a major customer, and loss of marketing power due to the small size of sellers relative to buyers.

Analyze Marketing Risks

As agriculture moves towards a more global market, marketing forces increasingly arise from world factors – consider how currency exchange rates affect international trades, and the impact of international supply on U.S. markets. These forces are often difficult to predict and impossible for individual growers to control. To effectively managing marketing risks, growers need to adopt strategies that are in accordance with their own risk attitudes, preferences, and business and family financial conditions. A better understanding of how risk tolerant you are, your financial situation, what risk factors you can control, and the possible consequences of your decisions will remove some of the uncertainty from making marketing decisions. To be systematic about analyzing marketing risks, you should:

- ♦ Identify the nature and importance of various sources in the market that might cause you to earn lower profits.
- ♦ Evaluate the impacts of different sources of marketing risks on the efficiency and profitability of your business.
- ♦ Focus on factors your can control and select risk management strategies to minimize those marketing risks.
- ♦ Evaluate various alternatives for managing marketing risks, potential costs and returns, and their impacts on risk reduction and the overall business.

Respond to Marketing Risks

The development of year-round supplies nd increased competition between global mega-merchandisers and regional/local retailers has expanded the range of mainstream and specialty agriculture

*This article is originally published as part of the risk management education effort by the Horticultural Business Management and Marketing Program at Cornell University. For more information on risk management topics discussed in this article, visit the Cornell Horticultural Business Management and Marketing web-site at http://hortmgt.aem.cornell.edu.

products. Agriculture producers have responded to this diversified market in a number of ways to control marketing risks: establishing production in multiple regions, forming strategic alliances with other producers or marketers, developing new products, and forcing early or late production. In addition, marketing contracts are becoming increasingly important to larger producers, as is spreading sales to reduce dependence on a small number of buyers or market segments. Smaller-scale producers are seeking specialty and value-added niches, and are utilizing additional marketing channels such as a variety of direct marketing outlets and marketing cooperatives to buffer market access and price risks in the wholesale market.

These new market developments have created opportunities as well as problems for producers and marketers of agriculture products. The new products often have special production, handling and marketing requirements, and the new markets often demand transformation of operation logistics. To make an informed and balanced decision to manage marketing risks, managers of agriculture businesses should begin with developing a strategic marketing plan and also take into consideration other aspects of risks in the operation including production, financial, legal, and human resource.

Some producers have also formed marketing clubs to improve their knowledge of marketing concepts and gain greater success in the marketplace. A marketing club is a grower-learning group, in which all participants contribute their knowledge and share tasks to increase their marketing know-how. It provides members with an opportunity to explore specific marketing-related topics that interest them, at the pace and level of depth they need. Extension educators and other resource people can play supportive roles, but it is the members who determine what they want to learn and how they will learn it.

Another risk management tool that is often overlooked, especially by specialty crop producers, is insurance. Insurance is not an investment tool. Nonetheless, in the event of a serious mistake by you or your employee, an accident, or a natural or man-made disaster, your insurance coverage is likely the only thing that will stand between you and a major loss. Both the type(s) of insurance you carry and the level of coverage provided through each type of insurance are important. Types of insurance to consider include liability insurance, hazard insurance on business property, business continuation insurance, insurance for employees, and crop insurance. Crop insurance relates to the marketing plan by helping to insure that in the event of a crop or market failure, you will be able to continue operating existing resources and serving your markets that you have worked hard to develop. Government provides cost-sharing incentives for growers to purchase crop insurance policies, especially in the underserved Northeast States.

Successful marketers are continually updating their abilities by learning new skills. Learning about the full range of marketing tools will allow you to become a better marketer and risk manager. Finally, marketing decisions should not be made independently of other business decisions; they should be integrated with other aspects of the overall business.

Finding Market Information for Agriculture Products – Where Can You Go?

Kristen Park
Extension Support Specialist

I recently worked on a project investigating the market potential of an item that, frankly, had such low consumption, no one bothers to report on it. I tried to be as creative as I could and investigated some very interesting chat rooms and blogs as well as a lot of black holes. So I can sympathize with all of you trying to investigate the market for a new crop or enterprise.

I thought I would share some of the more accessible websites which cater to producers and other entrepreneurs interested in value-added agriculture. I urge everyone who is interested in developing, expanding, or investigating a new business "opportunity" to either (1) own a computer which is linked to the internet, or (2) be prepared to go to your local library—a lot. (You could also consider hiring a poor college student to do the web research for you).

Below is a bibliography of some of the websites that I have bookmarked in my browser. Even though some are much better than others, there is something about every one of them that I appreciate, although not every one will be of use to you.

Bibliography of Websites Devoted to Value-Added Markets

Internet Resources

Agriculture Market Resource Center—AgMRC
(http://www.agmrc.org/homepage.html)

If there is one national information resource for value-added agriculture, this is probably it. Top notch resource. Sometimes contains too much information without a filtering mechanism. The website flow is good, however. Once you find some good sources, follow the links. These also lead to great information. The following categories contain articles, references, and research bulletins useful in obtaining information on agricultural businesses:

- Investigate Value-Added Products (Commodities & Products)
- Explore Market and Industry Trends (Explore Market & Industry Trends)
- Create and Operate a Business (Create & Operate a Business)
- Locate Consultants and Businesses (Locate Consultants & Businesses)

Agriculture Utilization Research Council—State of Minnesota (http://www.auri.org/research/research.htm)

AURI was created and is supported by the Minnesota state legislature, and its purpose is to help develop new uses and new markets for the state's agricultural products.

Contains reports and studies of alternative agriculture, energy sources, and more. Do some digging around on this site. It is not as logically laid out as AgMRC's (above), but there is a lot of very interesting information hidden in the newsletters and research reports. A lot of their grant projects offer confidentiality; however, they do offer a lot of useful information about what, how, and where on many agricultural projects. Some initiatives include:

- AURI Fuels
- Biodiesel
- Community Manure Food Waste Digestion System
- Growing Hybrid Poplar Trees as a Crop
- Manure Digester
- Meat Goat Initiative
- Meat Goat Enterprise Budget
- Meat Industry Impact Study
- Multi Species Report
- Oilseed Executive Summary

Appropriate Technology Transfer for Rural Areas (ATTRA) (http://www.attra.org)

This is a super resource about sustainable agriculture which I almost left off the list until prompted by a user. The publications are excellent, and they provide additional information about grants, breaking news, ask the expert, a "question of the week" and highlights of local, regional, USDA and other federal sustainable ag activities.

Center for Profitable Agriculture—State of Tennessee (http://cpa.utk.edu/level2/educmaterials/default.htm)

This partnership between Tennessee Farm Bureau and The University of Tennessee Institute of Agriculture provides assistance for producer projects by Extension specialists. This site lists all the projects undertaken with a useful 2-3 paragraph description of each project. In addition, the site hosts some nice Extension-type educational materials. Pages of interest on this site include:

- Value-Added Projects
- Educational Materials
    - Extension Publications
    - Information Sheets
    - Presentations and Slide Shows
    - Other

Illinois Value-Added Rural Development Center (IVARDC) (http://www.value-added.org/)

The website provides some online handbooks, research reports, presentations of value-added projects, primarily of commodities and projects targeted to Midwest agriculture. If you are a cooperative or are interested in forming a coop, you might want to review some of the research case studies provided. Does have 2 pre-feasibility evaluators for biodiesel and ethanol. Otherwise not much "how-to" information provided on the site.

Keystone Agricultural Innovation Center—Penn State University (http://kaic.psu.edu/resources.htm)

This site hosts a new look. The focus is to serve Pennsylvania businesses, but contains information useful especially to those in the Northeast. Hosts a page devoted to mail order/internet marketing accessed via <Business Management/Marketing Options>. You might also want to click on through the <Related Links> to the Farm Management site at Penn State: http://farmmanagement.aers.psu.edu/Default.asp

Michigan State University Product Center for Agriculture and Natural Resources *(http://www.aec.msu.edu/product/strategic.htm)*

This is a link to **The Strategic Marketing Institute** at Michigan State University, which has a number of opportunity assessment papers and white papers pertaining to market development for agricultural, food and natural resource industries. The papers are excellent information resources.

New Ventures for Food and Agriculture in Indiana—Purdue University *(http://www.agecon.purdue.edu/newventures/)*

A focused website listing practical resources for those looking to add or develop a new business venture.

- Purdue Value-Added Resources
- Value-Added Business Basics
- Value-Added Processing/Products
- New Ventures Team
- Upcoming Programs

Ag Innovation & Commercialization Center—Purdue University *(http://www.agecon.purdue.edu/aicc/Educational_Materials.asp)*

This page is also from Purdue and can be accessed from the New Ventures website. This site contains a web-based business plan workbook. All you need to do is register (for free) and you can run through the tutorial and workbook planner. This does require sitting in front of the computer, so if you want something that you can pick up and put down on a moments notice, you might want to use a workbook on hard copy (you can find an excellent pre-planning guide at: *http://www.nyfarmviability.org/aic/pre-planning_guide.htm*)

Government Sites

Economic Research Service *(http://www.ers.usda.gov/)*

Truly a wealth of information provided on their website. It provides more technical data about consumption and markets than the websites above, but is the best place to go for historical databases. You might want to go directly to their Food Sector page at: *http://www.ers.usda.gov/Browse/FoodSector/* for more information directly applicable to the ag sector. Don't ignore, however, their Food and Nutrition Assistance and Diet, Health, and Safety sites if you have a business proposition which would involve these issues.

National Agricultural Statistics Service *(http://www.nass.usda.gov)*

Again a wealth of databases at your finger tips. NASS provides production-level, or farmgate, information.

New York Ag Statistics Service *(http://www.nass.usda.gov/ny/)*

This site is the NY NASS and therefore provides farm-gate, production-level information for New York State.

Other web sites to visit if you have the time and need the statistics:

Government	Web Site
Fedstats: One-Stop Shopping for Federal Statistics	*http://www.fedstats.gov/*
STAT-USA/Internet Home Page	*http://www.stat-usa.gov/*
USDA	
U.S. Department of Agriculture Homepage	*http://www.usda.gov/*
USDA Economic Research Service	*http://www.ers.usda.gov/*
ERS/USDA Outlook and Yearbook Reports	*http://www.ers.usda.gov/publications/OutlookReports.htm*
Food Markets Briefing Room, USDA/ERS	*http://www.ers.usda.gov/briefing/*
ERS/USDA Data - Organic Production	*http://www.ers.usda.gov/data/organic/*
Food and Nutrition Surveys—Food & Nutrition Information Center-USDA	*http://www.nal.usda.gov/fnic/etext/000056.html*
Foreign Agricultural Service Home Page	*http://www.fas.usda.gov/*
Direct Marketing Home Page	*http://www.ams.usda.gov/directmarketing/*
Bureau of Labor Statistics	
Bureau of Labor Statistics Home Page	*http://www.bls.gov*
Consumer Expenditure Survey Home Page	*http://www.bls.gov/cex/*
Census Bureau	
U.S. Census Bureau Home Page	*http://www.census.gov/*
Statistical Abstract of the United States	*http://www.census.gov/prod/www/abs/statab.html*

The Hispanic Market in the U.S. – Opportunities and Challenges for the Food Industry

Sandra Cuellar
Research/Extension Associate

Hispanics constitute the largest minority and fastest growing consumer segment in the U.S. market and, as such, represent tremendous opportunities for the market at large and particularly for the food industry. This group accounted for 12.5% (35.3 million) of the total U.S. population in 2005 (296. 5 million), and its rapid growth is forecasted to continue and will account for 14.6% of the U.S. population by 2010 and 17.0% by 2020[1].

Furthermore, today's over 10 million Hispanic households are predicted to increase to 13.5 million by 2010 and to control $670 billion in personal income with Mexican-American households accounting for 61.0% of this total, or $409 billion, while 16.0% will be accrued by households with a Central or South American origin, 9.7% by Puerto Rican households, 4.8% by Cuban households, and the remaining 9.5% by Spanish, Dominican and "other Hispanic" households.

In addition, by 2010, the under-45 Hispanic market will increase to 8 million households, and its purchasing power will increase from the current level of about $295 billion to approximately $397 billion. This means that about $3 out of every $5 earned by Hispanic households will be in the hands of this younger-than average segment[2].

Opportunities that the Hispanic market represents for the food industry in the U.S. are related not only to its dynamic growth and increasing purchasing power but, very importantly, to the spending patterns, shopping habits and food preferences associated with Hispanic culture heritage and traditions. However, along with these opportunities, food marketers face significant challenges mostly related to the diversity of countries of origin and the different levels of acculturation of Hispanic consumers in the U.S[3].

Relevant Hispanic Cultural Heritage[4,5,6]

- Communicating in Spanish, a strong sense of family and pride in their food traditions constitute common denominators of Hispanics.
- Family relations are reinforced through frequent celebrations and social gatherings, including birthdays, baptisms, weddings, graduations and holidays.

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1 Census Bureau (*http://www.census.gov/popest/estimates.php*).
2 U.S. Hispanic Population to Reach 13.5 Million Households by 2010. *PMA Freshline,* Vol. 36, No. 46. November 17, 2004.
3 "Salsa Outselling Ketchup? Marketing to Hispanics is Hot." *Knowledge at Wharton,* http://knowledge.wharton.upenn.edu, November 2004.
4 Ibidem (*Knowledge at Wharton*, 2004).
5 U.S. Hispanics: Insights into Grocery Shopping, Preferences and Attitudes, 2002. Food Marketing Institute, Washington D.C., several pages.
6 "Eye on Food – Hispanics Bring Together Family and Food." *FMI Supermarket Research*, Vol. 4 No. 3, June 2002.

- Good food is at the center of most celebrations.
- Cooking traditional meals is regarded as important to the family.
- Love among family members is often expressed through the act of cooking and, particularly, through the preparation of meals from scratch, with spices and fresh ingredients.
- All these traditions are passed on from one generation to the next.

Opportunities Related to Hispanics' Spending Patterns[7]

- Hispanics don't eat out very often.
- They cook dinner at home 5.6 times a week.
- They spend more on food than non-Hispanics at almost $130 per week versus $91 per week.
- On average, they spend 47% more per year on produce as compared to non-Hispanics.
- They spend $228 on fruits and vegetables each, versus the national average of $157 and $152, respectively.

Opportunities Related to Hispanics' Shopping Habits[8]

- Hispanics shop for groceries more often, at an average of 26 grocery trips per month, three times the frequency of the general U.S. population[9].
- Supermarkets are the most common type of store for purchasing groceries among Hispanics, but they also spend over 30% of their total food dollars at non-supermarket stores, compared to 18% for all U.S. shoppers.
- Typical non-supermarket stores frequented by Hispanics include butcher shops, bakeries, bodegas, convenience stores, drug stores, specialty shops and warehouse store.
- Hispanics shop mostly on Sundays after church, spend more time shopping and also shop more as a family.

Opportunities Related to Hispanics' Food Preferences:

- Foods prepared from scratch and fresh ingredients are believed to be more nutritious than packaged foods.
- Hispanics buy more fresh food than processed foods.
- They prefer bulk over packaged products.
- Fragrance in very important, with 60% smelling a product before buying it.

Challenges Related to Country of Origin

According to the latest U.S. Census of Population (2000), people of Mexican heritage make up 67% of the U.S. Hispanic population, followed by Central and South Americans at 14.3%, Puerto Ricans at 8.6% and Cubans at 3.7%.[10] Important holidays and the dates in which they are celebrated as well as favorite foods can vary significantly from one country to another, as illustrated in Tables 1 & 2. Such diversity obviously has a significant impact on the choice of products as well as on the best marketing and promotional strategies any marketer such employ.

7 Hispanics and Fresh Produce. Produce Marketing Association (PMA) – Industry Facts Sheet, 2004. p.5.
8 Ibidem (PMA, 2004).
9 FMI Update: Ethnic Foods Offer "Much Bigger" Opportunity for Retailers, Experts Say.
10 "Salsa Outselling Ketchup? Marketing to Hispanics is Hot." *Knowledge at Wharton*. http://knowledge.wharton.upenn.edu., November 2004.

Table 1. Key Holidays by Country of Origin

January	February	March
6 - Three Kings Day (Mexico, Puerto Rico, Colombia)	27 – Independence Day (Dominican Republic)	Early March Carnival (Miami, Brazil, New Orleans)
April	**May**	**June**
	5 – Cinco de Mayo (Mexico) 25 – Revolution Day (Argentina)	9 – Puerto Rican Day Parade (New York) World Cup
July	**August**	**September**
20 – Independence Day (Colombia) 28 – Independence Day (Peru) 31 – Feast of St. Ignatius Loyola (Spain) World Cup		7 – Independence Day (Brazil) 16 – Independence Day (Mexico) 18 – Independence Day (Chile)
October	**November**	**December**
	1 – All Saints Day (Catholic) 7 – Independence Day (Ecuador)	12 – Our Lady of Guadalupe (Mexico) 16-24 Navidades (Puerto Rico, Colombia), Posadas (Mexico)

Source: Hispanics and Fresh Produce. Produce Marketing Association – Industry Facts Sheet, 2004, p. 6.

Table 2. Favorite Produce by Hispanic Group

All Hispanics	Puerto Rican & Caribbean	Mexican
Cilantro	Pepino melon	Tomatillo
Avocado	Malanga	Chiles (many varieties)
Plantain	Sapote	Yam
Yucca root	Chile, caribe yellow	Corn husk
Mango	Boniato	Beans
Bananas	Fava beans (fresh)	Jicama
Squash	Baby bananas	Cactus pear
Coconut	Black beans	Cactus leaves
Papaya	Red beans	
Beans	Tamarindo pods	
Corn		

Source: Hispanics and Fresh Produce. Produce Marketing Association – Industry Facts Sheet, 2004, p. 3

Challenges Related to Level of Acculturation

Acculturation, defined as the adaptation to the new cultural patterns of a dominant culture, plays a significant role in shaping the behavior of Hispanic consumers in the U.S.[11], who, in general, want to acculturate but not to assimilate. Acculturation can occur at different rates and, in fact, when Hispanics develop their own communities, they feel less need to interact with mainstream America and to acculturate[12]. Research has shown that food preferences and shopping habits of Hispanics will vary widely, depending on their level of acculturation[13]. In general, newly arrived Hispanics tend to shop in small, urban stores, while those whose families have been in the country longer are more likely to buy at retail chains and to shop at different supermarkets[14].

Segmentation Approaches to the Hispanic Market in the U.S.

Although there are many factors that reflect the level of acculturation, language preference is a primary indicator that consistently reveals salient differences among Hispanic consumers[15]. On the basis of language preference, the Hispanic market can be classified into three segments: a first generation of Spanish-dominant families; a second generation of bilinguals and a third generation that is English-dominant and upwardly mobile[16].

Another approach to segmenting the Hispanic market has been proposed on the basis of a study co-sponsored by ADVO, FMI and New American Dimensions which takes into account the demographic, attitudinal and shopping behavior characteristics of Hispanics in the U.S.[17]. According to this study's results. Hispanics can be classified into four segments: loyalists, budgeters, impulsives and inquirers, as follows.

- **Loyalists (20% of the shoppers):** those most brand loyal, typically less acculturated shoppers who are looking for familiar brands and are much less willing to try new ones, even when they are on sale.
- **Budgeters (25% of the shoppers):** also less acculturated. They typically operate under strict budgets and are very responsive to specials.
- **Impulsives (30% of the shoppers):** the largest segment, they typically have been in the U.S. longer but still have a strong Hispanic identity. They enjoy food shopping and use food to pass along their Hispanic heritage to their children.
- **Inquirers (25% of the shoppers):** the most acculturated on many different measures. They take a "more educated" approach to shopping. They look carefully at the ads and deals, and are less concerned about traditional Hispanic products. They are also the most likely to shop across different channels.

Yet another approach is suggested by the Wharton School of Business - University of Pennsylvania, that proposes to think of this market as

11 U.S. Hispanics: Insights into Grocery Shopping, Preferences and Attitudes, 2002. Food Marketing Institute, Washington D.C., p. 6.
12 Salsa Outselling Ketchup? Marketing to Hispanics is Hot. Knowledge at Wharton. http://knowledge.wharton.upenn.edu., November 2004.
13 U.S. Hispanics: Insights into Grocery Shopping, Preferences and Attitudes, 2002. Food Marketing Institute, Washington D.C., p.6.
14 Morse David and Bishop Bill, Seeing Opportunity in Hispanic Shopper Behavior. Retailwire http://www.reatilwire.com.
15 U.S. Hispanics: Insights into Grocery Shopping, Preferences and Attitudes, 2002. Food Marketing Institute, Washington D.C., p. 6.
16 It's time to think Latino. Connie Gore. GlobeStRetail. http://www.globest.com. June 27, 2005.
17 A study conducted with 1,650 Hispanic consumers in the top 10 markets across the U.S in: Morse David and Bishop Bill, Seeing Opportunity in Hispanic Shopper Behavior. Retailwire http://www.reatilwire.com.

one composed of younger than average families that tend to live in multigenerational households, that are most likely to make decisions as a group and tend to be brand loyal[18].

18 Salsa Outselling Ketchup? Marketing to Hispanics is Hot. Knowledge at Wharton. http://knowledge.wharton.upenn.edu. November 2004.

The Impact of Non-Traditional Food Retailers on Produce Distribution

Bill Drake
Extension Associate

Sweeping changes in the structure of U.S. food retailing are having a dramatic impact on the business models and go-to-market strategies of produce suppliers. Gone are the days where a shipper could execute a single "one-size-fits-all" strategy that aligned with the business models of largely homogenous traditional supermarket customers. New forms of retailing, each operating with distinctive and unique business models, are requiring suppliers to develop new competencies and execute a portfolio of strategies.

Food retailing is becoming increasingly fragmented as the market share of the traditional supermarket loses share to a number of relatively new and rapidly growing formats.

For the six years ending in 2006, it is estimated that non-traditional formats will have captured 12 points of market share from the traditional supermarket segment.

What are these non-traditional formats? Who are the leading companies? Most importantly, what are the unique characteristics of the business models to which produce suppliers must adapt?

Hypermarkets, the largest of the non-traditional segments at approximately $150 billion in annual sales (2004) are dominated by the Wal-Mart Supercenter. With a one-stop-shop offering of food and general merchandise and everyday low prices (EDLP), the Wal-Mart Supercenter holds an 85% share of the concentrated hypermarket segment.

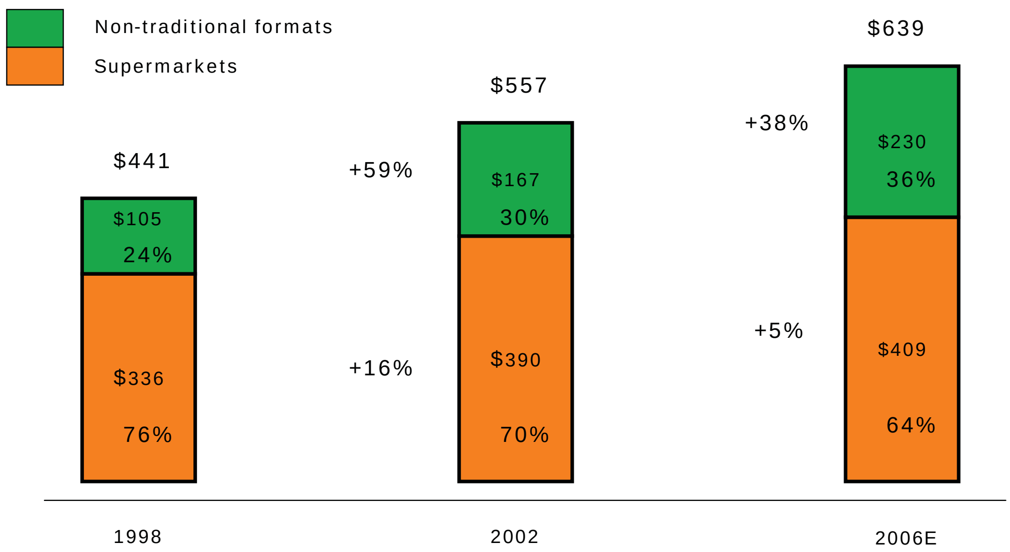
Wholesale Clubs, with 2004 sales of approximately $90 billion, is the second largest of the non-traditional formats. This segment is also concentrated, with Costco and Wal-Mart subsidiary Sam's Club owning a combined 90+ % of the segment's market share.

The Extreme Value segment, with $37 billion in sales, is smaller yet more diverse. Aldi and Save-A-Lot, with combined annual volume approaching $12 billion, are both food-based, limited assortment formats that offer severely edited selections of food products at market-leading prices. Family Dollar and Dollar General, both non-food-based formats that offer basic assortments of food products, dominate the Convenience Discount sub-segment. The Dollar Store sub-segment consists of a fragmented group of retailers that sell food and non-food at fixed prices – usually $1.00.

The Specialists are a diverse and fragmented group of formats that position themselves around either a focused food product offering (fresh produce specialty stores) or a focused customer segment or group of segments. Most prominent and rapidly growing at present is Whole Foods, which targets the organics/natural and upscale food customer segments.

With the exception of the Specialists segment, the non-traditional formats share certain

Retail Food Sales: Traditional vs. Non-Traditional Channels



Source: Management Ventures Inc.

Food Sales includes: perishables, dry grocery, dry grocery related items

The Non-Traditional Segments

Format	Differentiating Characteristics
Hypermarkets	•Combination of food and general merchandise •Full "one-stop-shop" •Low price position •Low-middle income consumer target
Wholesale Clubs	•Combination of food and general merchandise •Edited, high velocity assortments •Unique combination of low price and high quality •No frills shopping experience •B to B, middle-high income consumer targets
Extreme Value **•Limited Assortment** **•Convenience Discount** **•Dollar**	•Small stores, convenient shopping experience •Market-leading opening price points •Low-middle income consumer target: **Limited Assortment: Food driven; high velocity assortments**
Specialists	•Category Killers •Service and product expertise •High Quality •Upscale and/or ethnic consumer appeal

business model characteristics that require unique approaches that differ substantially from historical strategies deployed against the traditional supermarket segment:

- A consumer proposition rooted in everyday low prices
- Demand net pricing
- High sales volumes per SKU relative to conventional supermarkets
- Item merchants (as opposed to category merchants)
- Cultures of simplicity
- Importance of packaging in marketing and operations.

Everyday low pricing, and a desire to be lowest priced in the market at the SKU level, is the overarching commonality that drives many of the unique characteristics. An EDLP position is generally "margin unfriendly" to suppliers. The importance of price, combined with comparatively narrow food assortments, places the burden of fact driven price justification on suppliers rather than the traditional promotion–based negotiations that have historically characterized retailer–supplier relationships. In addition, these retailers by demanding either lower prices on identical products or measurable improvements at the same price increasingly desire a cycle of continuous product attribute improvement.

Typically, the non-traditional retailers operate on the basis of "net pricing" – eschewing many of the inefficient promotional and merchandising practices of traditional supermarketers - such as slotting fees, promotional and trade allowances - in favor of the lowest landed everyday net cost.

The category management selling practices that have been developed to align with traditional supermarkets are less applicable in the case of these price–based, non-traditional retailers, as most offer narrow assortments and adopt an item, rather than category merchandising, approach. High velocity at the SKU levels provides these retailers a degree of scale that is disproportionate to their size and places a high premium on meaningful product and item innovation.

Finally, most of the non-traditional retailers operate with what can be termed "cultures of simplicity". In their drive to lower costs and consumer prices, these retailers outsource complexity to their suppliers. Examples include custom palletization requirements; self-selling, unique secondary packaging; shrink control build-ins; pre-pricing; vendor managed inventories; superior in-stock performance; and likely in the future – RFID capabilities.

Together, the non-traditional formats are serving as an impetus for change among suppliers. It is essential that suppliers understand this new breed of retailers and their unique characteristics if effective and profitable response strategies are to be developed. Most importantly, the supply chain innovations, cost reductions and uniqueness desired by these retailers are not "one-way" - they stand to benefit retailers and suppliers alike. New and collaborative growth models are emerging that contrast sharply with the inefficient and tradition-bound practices that characterize the traditional supermarket segment.

RFID and Smart Marketing

Rod Hawkes
Senior Extension Associate

Radio Frequency Identification, or RFID, is a developing technology that is revolutionizing food distribution and many other industries. Essentially, in its application to the food industry, the technology involves very small microchips (and getting smaller all the time) with radio signal transponders (combination receiver and transmitters) embedded in labels, packaging, cases, or pallets and radio frequency readers (receive and send radio signals) positioned at strategic points along the supply chain.

These transponders serve three critical functions: receiving data, storing data, and transmitting data about the product. In a produce industry context, these data could include producer name, field and plot location, pick date, ship date, temperatures experienced en route from field to retailer, and much more. The transponder's radio signal can be translated into information by readers located at packers, shippers, processors, manufacturers, consolidators, wholesale distribution centers, and retail stores. Readers will be linked to computer databases where the information can be catalogued and analyzed.

Two major issues are driving the development and adoption of RFID in the food industry. First is the demand for efficiency, driven largely by the impact of Walmart's low cost procurement and distribution model. Walmart itself has accelerated the development and adoption of RFID by mandating compliance by its major suppliers by specific target dates. The second issue is food safety and security, driven primarily by retailer concern about ensuring the safe handling of food from the point of production to the retail shelf.

The benefits of RFID for the food industry fall into four main categories: improved supply chain information and tracking, lower costs and higher productivity, food safety recall traceability, and reduced shrinkage and spoilage.

While, ultimately, RFID technology might reach the level of consumer packaging, a variety of issues will limit RFID's impact to the case and pallet level where it will significantly impact supply chain costs and controls. Currently, the largest constraint to RFID being used at the consumer package level is cost. However, like all technologically based systems, the costs per RFID tag, per RFID reader, and for RFID system implementation continually decline. So, eventually, the cost barrier will be eliminated.

In the longer run, the tougher issue facing consumer package RFID adoption may revolve around consumer concerns regarding personal privacy. These concerns range from the security of data collected by retailers to fears that RFID signals could be read once the products leave the store, and the myriad of "Big Brother" type scenarios that could spin from those concerns. Some of these concerns have already been addressed (e.g., the RFID tags can be disabled at the point of sale) but the public perception could remain negative for some time as consumer advocacy groups actively trumpet the negative implications of RFID consumer packaging applications.

Supply chain applications alone, however, offer significant benefits in terms of cost savings, eliminating inefficiencies, ensuring quality and safety, and product source tracing related to product recall and food safety issues. For example, an RFID tag affixed to a pallet of broccoli picked in a field in California would maintain a record of the temperature the product experienced throughout transit from field to retail store receiving dock. If the ideal temperature range were violated, the source of the violation would be indicated, and the issue could be addressed at the source of the violation. This will help ensure that product is handled properly throughout the cold chain and that product quality is enhanced while food safety risk is reduced.

Despite the vision for the future, many issues with RFID must be resolved before full implementation is successful, even at the pallet and case levels. Some of these issues involve refinement of the technologies involved to ensure 100% accuracy. Other issues relate to the ability of small- and medium-sized producers, processors, manufacturers, distributors, and others to invest in the equipment, technology, and human resources necessary to function in an RFID-based world.

Remaining technological issues include improving "read rates", that is, the accuracy of the RFID readers through which pallets of product pass at each stage of the supply chain. While most tests have reported signal reading accuracies of 90+ percent, the goal is 100% accuracy. Some types of products (e.g., high moisture content) and some types of packaging (e.g., metal or nylon) have proven to be harder for RFID signal readers to penetrate and have resulted in reduced read accuracy. Another issue, especially relevant to farm and orchard produce, is that harsh field conditions (e.g., moisture, soil, and temperature extremes) can interfere with current RFID tags. Likewise, the lack of standards for pallets and shipping case materials in the produce industry is not optimal for RFID reader accuracy. Several other related issues are endemic to the produce industry.

While costs will continue to decline, the investment in RFID technology and systems will remain a major challenge for small- and medium-sized producers, processors, and other supply chain participants. The capital requirements may require small producers, for example, to form cooperative ventures to minimize the individual cost of compliance with demands of downstream customers for RFID capability. Cooperative ventures may also help address costly issues such as training and development, software license fees, equipment leases, repairs, and maintenance.

A great resource assessing the implications of RFID for the produce industry is the 2004 Produce Marketing Association (PMA) report entitled "Radio Frequency ID (RFID) in the Produce Supply Chain." Copies of the report can be purchased from PMA through their website www.pma.com.

RFID is an inevitable reality of the food industry. The only question is how soon will all producers be expected to comply with RFID expectations of downstream supply chain partners. The good news is that RFID is still more than five years from universal implementation. However, now is the time to become as familiar as possible with RFID and to begin planning for the world according to RFID.

Premier Apple Shows the Way Toward Smart Marketing!

Jerry White
Professor

Premier Apple Cooperative held its annual forum on June 28 and 29, 2004 in Syracuse, New York. Eighty-five participants included member growers, packers, and marketers from six states (NY, PA, MI, MN, VA, and MA). Other participants included Cornell University faculty, Cornell Cooperative Extension Educators and NY FarmNet consultants, and various agribusiness personnel. The theme of this year's forum was **"Partnering for Profit."**

Since it's formation in 2001, membership in Premier Apple has grown to over 100 members in eight states. Active committees include the Marketing Advisory Committee and the Quality Committee. Organization as an agricultural cooperative allows activities under the Capper Volstead Act that would otherwise be prohibited by anti-trust law. Through the cooperative, growers are able to communicate about the market, to share information about inventory concerns, and to suggest target pricing. Among the objectives for forming the cooperative were the following: to decrease market fragmentation, improve the flow of market information, and improve the level and consistency of fruit quality. The ultimate objective was to improve profitability for growers and the entire marketing chain.

What potential lessons does the experience of Premier Apple have for other commodities? The cooperative was formed in reaction to a string of bad years in the late '90s with depressed apple prices, tough competition for shelf space in the rapidly concentrating retail sector, and increasing competition from imported produce and processed products. These years left apple growers in New York, and indeed nationally, with depressed earnings and diminished net worth, with many firms who faced the most severe financial problems exiting the industry. Are these conditions unique to the apple industry?

While the timing of the down cycle of the apple industry may not conform to the unprofitable years of other fruit, vegetable, and floriculture commodities produced in the Northeast, the factors driving the difficulties experienced by apple growers are endemic to producers of horticultural commodities. In this article, I will highlight some ideas coming out of the recent Forum that are applicable for other commodity groups.

Building Effective Alliances (and Reducing Fragmentation)

Keynote speaker for the Forum was Welcome Sauer, former president of the Washington

For more information on the New York Apple Industry strategic planning process see http://aem.cornell.edu/research/researchpdf/sp0104.pdf.

Apple Commission until its demise in 2003 due to a negative court decision, and currently a consultant in Washington State. Sauer's compelling talk included a description of the current state of the industry in Washington State, and issues among various segments of the market (retailing, shippers, and growers) as well as global issues. Perhaps the most gripping part of his talk was the topic of building alliances for increasing critical mass and economies of scale. Sauer made the point that 10 sales desks in Washington sell about 60 percent of the Washington fresh apple crop (and Washington accounts for about 70 percent of fresh apple production in the US). In contrast, there were more apple marketers in the meeting room than in the whole state of Washington (more than 25)!

You don't need "bricks and mortar" to have an effective alliance—these Washington marketers maintain their own storages and packing lines. What is needed is an alliance based on confidence that leads to trust, communication, cooperation and collaboration. It was expressed that there is a premium for "working together as neighbors and friends rather than being competitors and enemies." Marketers on various panels at the Forum indicated that cooperation had developed to the point that they were able in some instances even to share accounts.

Marketing vs. Selling—Importance of Planning

Do you market your produce, or do you sell it? And do you know the difference? There are many differences between these two functions, but perhaps the most salient is the advance planning that goes into building success in your markets. Several marketers on a panel indicated the extent to which planning enters into successful marketing. Bob Rigdon of Apple Acres in Lafayette, NY indicated that by early June (well before the size of the crop is even known with any degree of certainty) he and his partner, Walt Blackler, had prepared a written marketing plan that involved evaluating customers, deciding on the prospects for continuing the relationship with each customer, and assessing export markets. At the end of this process, they have a list of how many apples of what varieties will be needed for the marketing year. Meetings are scheduled with growers to review what is working and not working in the relationship. At these meetings, growers need to ask, what is the situation with my fruit—what are the strengths and weaknesses, and what can be improved? Meetings with retail customers begin in early August. This is a good example of communication along the marketing chain, from marketer to customer, and from marketer back to the supplier, that needs to occur to develop an effective working relationship.

Communication with Retailers

Changes in retailing are among the major forces determining the situation that produce marketers find themselves in. Welcome Sauer noted that retail consolidation continues to be a driving force. As a result, fewer people are making produce buying decisions. Produce managers are time-constrained. They appreciate quality, trouble-free shipments, and critical-mass supplies. Retailers like innovative products. Results of consumer research, commissioned by the New York Apple Association and the Pennsylvania Apple Marketing Program, were presented. One of the findings was that most consumers prefer to buy "large" (100 to 113 count) rather than "extra large" (72-80 count) apples. Yet retail managers tend to emphasize the extra large apples in their displays by giving them more shelf space. This was presented as just one instance of the opportunity to communicate information to retailers that would help them build sales in the apple category. Of course category management, which has been used extensively and successfully by the Washington industry, is a primary tool that involves communication with retailers, but smaller suppliers must also find ways to communicate information that will help both shippers and retailers to maximize net returns.

Beyond the Bag: New Product Concepts

One segment of the Forum dealt with the topic, "Beyond the bag—packaging apples for the 21st century." This was one of several topics that generated discussion about new products. Other topics addressing this included value added and how growers can capture a greater share of the consumer's dollar. Kris Park of the Food Industry Management Program at Cornell University suggested that key steps in moving from a commodity to a marketing position included experimenting with new products and packaging and fitting products to changing customers and/or consumers. The poly bag has been the staple of the eastern apple industry for decades, even though no one would say that it is the most profitable pack for growers. Park made the case that new products are necessary to respond to changing consumers. Key motivators of consumers today are convenience, wellness, safety, and gratification (i.e. consumers are drawn to products that taste good and offer the feeling, "I am worth it"). A new product adjustment can be something as simple as suggesting a new use for an old product on point of purchase promotional materials. The boom in sales of fresh cut salads in the last decade is a reflection of responding to the motivators of convenience and wellness.

Some new products may respond to new technology (new packaging, shipping, and/or handling concepts such as display-ready packaging that is ready to be placed on the store shelf without further handling by the retailer). Such packaging techniques help to take advantage of new technology and to counter competitive thrusts. This is an example of a new packaging concept that appeals to the retail customer. Other product adjustment may appeal to other marketing intermediaries.

Implications for Marketers

One consistent theme that ran through the entire Forum was the rapid pace of change that has impacted retailers and all the players through the supply chain back to growers. This relentless pressure shows no sign of letting up. A colleague of mine sometimes asks commodity groups facing such competitive pressures the following question: "Are things bad enough now to force you to change?" The change necessary in most instances is the need to cooperate. Whether the best answer is a formal Cooperative, as players in the New York apple industry decided in 2001 when Premier formed, is a moot point, and so is the need for mergers and new facilities. In many cases, building alliances and stronger partnerships are the key to survival, and hopefully prosperity, in the current extremely competitive environment.

A Final Note

The crop value for New York's 2003 apple crop was released on July 7, 2004. The New York crop was valued at $148 million, a new record, surpassing the $141 million attained in 1997. Part of the reason for the high crop value was a relatively small crop nationally. But Premier Apple can also claim some credit for the strong fresh apple prices that New York growers received during the past marketing year!

Opportunities for Fresh Fruits and Vegetables are Many and Growing in the Food Service Industry

Sandra Cuellar
Research/Extension Associate

U.S. foodservice industry sales are expected to grow 4.5% in 2003 to reach $426 billion. Full-service restaurants, which encompass family, casual, and white tablecloth restaurants, are expecting to experience a 4.8% increase in sales, while limited-service establishments, which include quick-service and fast casual restaurants, are expected to have a 4.1% sales increase. This would be the 12th consecutive year of real growth for this sector. Benefiting from the long-term trend towards eating out among consumers of all ages in this country, the foodservice industry continues to flourish in spite of the weak domestic economy. Factors contributing to this trend -- including an increase in consumer disposable income, a decline in free time, and a desire for convenience, as well as a decrease in the cost difference between dining out and eating at home --, are expected to continue into the future. In fact, the National Restaurant Association estimates that by 2010 total sales in the restaurant industry will exceed $577 billion and will represent 53% of consumers' expenditures on food.

Nonetheless, as remarkable as the success of the foodservice industry is, it is a highly competitive industry, too. Operators are constantly faced with many challenges to keep up with the industry's continuous growth, to increase their market share, to find and retain employees, to control costs, and to ensure profitability. Competition is not only intense within segments of this industry but also among different segments. For example, fast casual restaurants that have been experiencing an amazing growth rate are enhancing their quick-service and casual dining experience with a "fresher", "healthier" and more "up-scale" image and better service. At the same time, some casual restaurants are adding take-out service, which is stealing away sales from the quick-service restaurants for which take-out has typically represented 67% of total sales, and even from fast food restaurants.

To successfully compete in this environment, operators are striving to improve customer choices, and to provide convenience and value by increasing their menu offerings and following consumers' fickle tastes. This implies that operators must continuously come up with new ideas to stimulate sales and long-term growth. Key demographic trends influencing restaurants' decisions in this area include the growing diversification of the U.S. population, a growing baby boomers' segment with an increasing interest in eating well, and younger consumers who are more sophisticated and

This article is part of the *2003 FreshTrack* study by the Food Industry Management Program at Cornell University developed for the Produce Marketing Association.

interested in new tastes. Underlying trends include the U.S. consumer's desire for convenience, healthier options, fresh and natural products, comfort foods, and ethnic cuisines, which nowadays extend beyond Italian, Mexican, and Chinese to include Japanese, Korean, Indian, Latino, and Mediterranean foods, all the way to fusion foods.

As the foodservice industry continues growing and as operators strive to conquer the market by delivering on consumers' tastes and preferences through their menu offerings, the opportunities for fresh fruits and vegetables and their suppliers are many and growing!

Inclusion of more fresh produce items in menus has become evident in restaurants' offerings from quick service to fine dining. An example is Wendy's successful Garden Sensations line of salads which has been quickly followed by others in this segment, including Burger King and McDonald's. More importantly, it has been confirmed by 69% of the operators participating in the *2003 FreshTrack* foodservice study that produce items are important or very important for them today when considering new menu items, and 83% anticipate that produce will be more important by 2005. Similarly, 70% of these operators indicated that they anticipate the number of fresh produce items on their menus will increase by 2005.

How Can Suppliers of Fresh Produce Identify What Products Operators will be Interested in and Develop Offers that will be Attractive?

When considering adding new produce items to their menu, the ability to "improve the value perception" of a meal was definitely the most important factor among operators participating in the *2003 FreshTrack* foodservice study. Additionally, "consumer request", "superior taste", and "color and appearance" are important factors identified by over 90% of participants. Furthermore, interviews with operators, as well as results from the operators' survey, revealed other specific characteristics desired for produce. Operators want products that will help their menu offerings be "trendy" or "ahead of trend", reflect a "healthy image", and be "more authentic and/or ethnic", and ingredients or garnishes that will "add eye appeal" to the dishes, with an "ethnic zip", and with "bold flavors" or a "hot or spicy" touch. Depending on the specific segment of the industry, operators are looking for additional specific characteristics in fresh produce offerings, such as "ready-to-use" and "easy-to-assemble" items in the fast casual and quick-service segments, products that will help them develop "signature items" in the casual dining segment, and "unique" and "specialty" products in the fine dining segment.

All this describes opportunities for produce items in many different ways. Just imagine all the new products and varieties that can be grown, and the multitude of ways in which they can be mixed, cut, packaged, and presented in order to satisfy these avid clients. However, in order to capitalize on these opportunities, suppliers of fruits and vegetables need to understand their target customers' challenges and be ready to offer not just a product but a "program" that will allow foodservice operators to use it for the intended purpose in an efficient and effective way. Yes, "a program" in which you can offer foodservice operators new fresh produce items in a properly executed service package at a reasonable price!

What's Ahead for Consumer Fluid Milk and Cheese Demands?

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Research Associate
and
Harry M. Kaiser
Professor

Trends in per capita demands for fluid milk and cheese in the U.S. have traced different paths over time – per capita cheese demand has been increasing while per capita fluid milk demand has fallen. U.S. dairy producers have questions about both trends; i.e., will the downward trend in fluid milk demand persist into the future, and is the favorable trend for cheese approaching its peak? Predictions of future market demands and farm prices for dairy products are important determinants in developing future marketing strategies and farm production planning decisions.

Studies have shown that recent changes in per capita demand for dairy products are mainly a result of changes in population demographics and food-spending patterns, and are less influenced by direct changes in economic variables such as real price or income. For example, recent reductions in per capita fluid milk demand are leveraged largely on decreases in the portion of the population that is five years old and younger, a high consuming cohort group. Over this same time period, important contributors to growth in per capita cheese demand has come largely at the hands of a growing Hispanic population and increases in per capita spending on food away from home.

Utilizing current USDA and U.S. Census market projections for the next ten years, combined with existing econometric models of demand and supply, we are able to forecast the retail demands for fluid milk and cheese and the supply and price of farm milk over the next decade. By doing so, we can investigate whether projections of population and consumer food-spending habits will extend or alter current consumption trends.

Some important projections affecting future supply and demand include:

- Retail consumer price indexes are expected to show steady increases, with average annual percentage changes over the next ten years of 2.9%, 2.3%, and 0.7% for all products, non-alcoholic beverages, and retail meat products, respectively.
- Minority populations are expected to continue to increase in both size and proportion. Specifically, strong growth in the proportion of Asians and Hispanics is anticipated at nearly 1.9% per year. This compares with proportional growth rates for African Americans and White populations of 0.3% and -0.2%, respectively.
- Recent modest gains in the portion of the

population under age five are expected to fade at the beginning of the forecast period and thereafter show modest increases until the end of the forecast period when reductions again are projected.

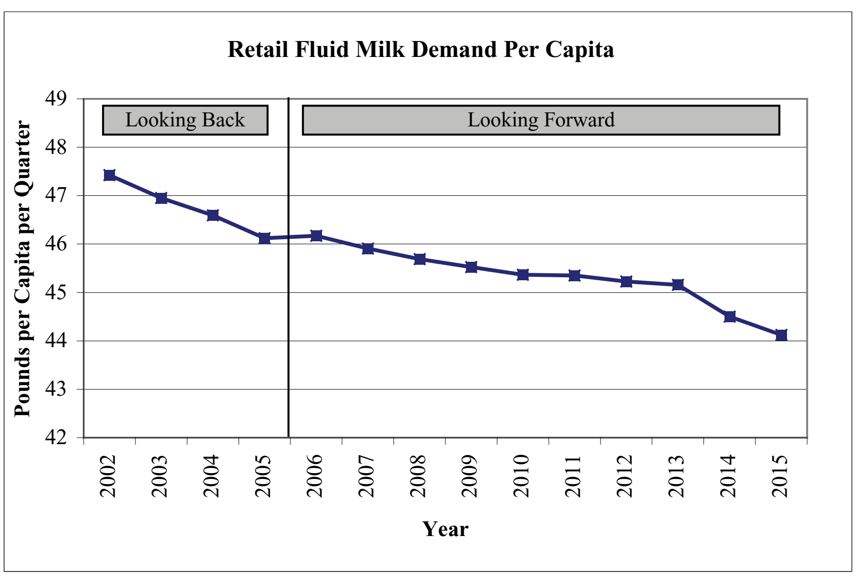
- Growth in real income is expected to be strong over the next decade with an annual average growth rate exceeding 2.5%.
- Average annualized growth in feed costs is expected to be a hefty 4.4% per year.
- The recent strong growth in energy costs is expected to stabilize during the next few years but begin increasing steadily thereafter, implying a modest annualized growth rate of 1.4%.
- Real per capita expenditures on food eaten away from home have shown steady growth in recent years and are expected to continue at an annual growth rate of 1.5%.

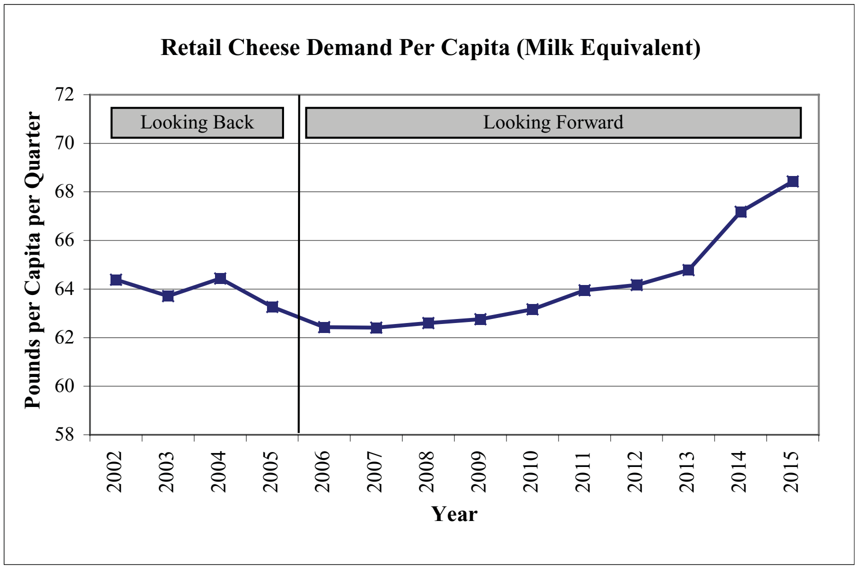
So What Do These Imply for Consumer Demand, Farm Supply, and Farm Prices?

Given the forecast assumptions, continued reductions in fluid milk demand per capita are expected over the next decade, but at a reduced rate from those realized more recently. Specifically, recent reductions on the order of 1.4% per year are projected to temper to a more subdued 0.4% per year. This is due largely to the expected modest growth in the younger-age cohort over the next few years before the proportion begins dropping near the end of the forecast period, and combined with continued, but modest, growth in the African American population.

Growth in retail cheese demand per capita is expected to roughly continue through the forecast period. In fact, relative to recent average annual growth rates of around 0.5%, the next ten years are expected to show an average annual growth rate of 0.8%. Stronger growth trends are due largely to the assumed strong growth in the spending for food away from home and in the size of Hispanic and Asian populations.

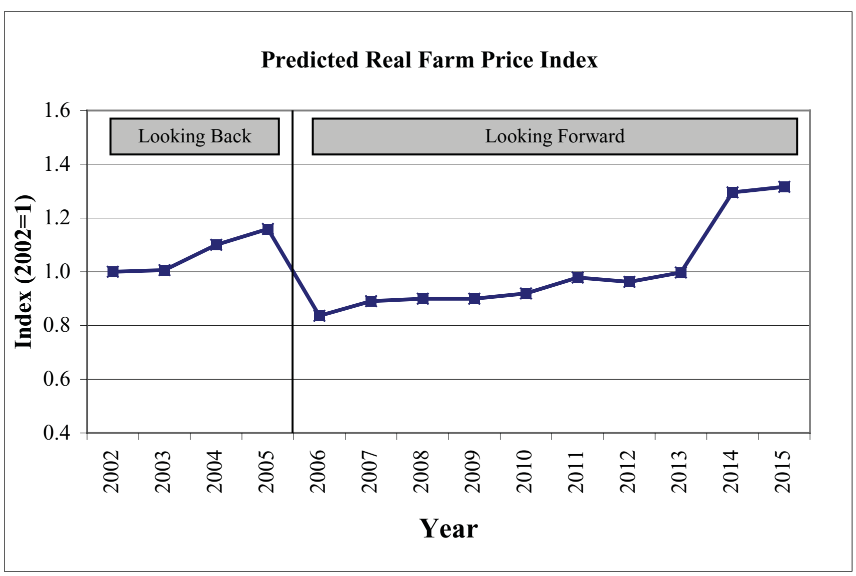
Given that the growth in demand for cheese more than offsets losses on the fluid milk side, we expect the total farm milk supply to increase during the next decade and be similar to recent trends





of around 1% per year. However, since milk destined for cheese generally receives a lower wholesale price than that for fluid purposes, we expect that real national farm milk prices (i.e., relative to expected feed costs) will remain at levels similar to those realized in 2002 and 2003, with moderate growth over time reflecting the overall increases in dairy product demand. In addition, the assumed relatively strong growth in feed costs dampens improvements in real prices. It is only the larger demand adjustments at the end of the forecast period that signal a distinct improvement in real farm prices.

In summary, it is important to remember that forecast predictions are just that, predictions of future economic activity and market adjustments based on the expected changes in various demand



and supply determinants over time and the underlying economic relationships that link them together. To the degree that the expected changes in the determinants come true and that the economic relationships estimated in the underlying economic models remain valid, this is our best prediction of the future at this point in time. A mix of positive and negative changes throughout the marketing system imply a continued but tempered reduction in fluid milk demand, a growth in cheese demand, and moderately improving real prices at the farm gate commencing in 2006.

Marketing Specialty Cheeses in New York: A Piece of Cake?

Angela Gloy
Research Associate
and
Mark Stephenson
Senior Extension Associate

Marketing specialty cheeses looks so easy. They're featured in mail-order catalogues and are described in newspaper and magazine articles using adjectives that tantalize our salivary glands. Specialty cheeses are even highlighted on the big screen, albeit as a favorite food of Wallace, of Wallace and Gromit fame. In short, this degree of infiltration across marketing platforms suggests specialty cheeses are resonating with consumers on a national level.

In the *Smart Marketing* article published in October 2004, we shared some of the product and market characteristics that appeared to be working in the New York specialty cheese maker's favor including proximity to a large urban market (e.g., New York City), increased demand, and available discretionary income for specialty food products on the part of consumers. The marketing report has since been completed, and in each of the three New York markets surveyed (New York wineries, New York City specialty/gourmet shops, and upscale, white tablecloth New York City restaurants) a few key points emerge that further help guide the small scale cheese maker.

New York Winery Market

All market respondents express interest in working with local cheese makers and in having access to their specialty cheeses. Winery respondents are motivated to work with local cheese makers for two reasons. First, retailers believe they will pay a lower purchase price when buying directly from the cheese maker versus a distributor. Second, respondents indicate a genuine interest in supporting their local economy. Additionally, respondents felt that direct purchases would encourage more information about the cheese's story—animal care, milk production, hand-crafted cheeses, etc.

Two critical drivers in the winery market revolve around product demand schedules and price point characteristics. Relatively small estimated demand volumes (e.g., up to 40 pounds per month), coupled with a strong seasonal component quickly shape the demand picture. While respondents believe their customers would look quite favorably at having a broader scope of local cheese and wine pairings, they note that total market size is still limited. The smaller-scale cheese maker may find this a more attractive market outlet in terms of the timing and volume compatibility of milk production and consumer demand.

Second, there was considerable uncertainty in respondents' perception of what consumers would be willing to pay per pound of specialty cheese. Of those providing price range estimates, respondents thought consumers would be willing to pay an average per pound price of $6.79. Weak price point interpretation suggests that this will be an area for the winery owner/manager and cheese maker to address early in their marketing relationship. Well-defined production cost knowledge on the part of the cheese maker will work to further enhance the price discovery process.

New York City Specialty/Gourmet Shop Market

The New York City specialty/gourmet shop market offers an opportunity to showcase products to a generous number of consumers. Retail respondents indicate continued growth and consumer interest in local food products, and cheeses in particular. Presently though, imported cheeses not only outnumber domestic cheeses, they are often less expensive. Granted, the production cost structure of specialty cheeses does not lend itself to scale benefits, but cheese makers will want to minimize production costs as much as possible to stay competitive with both domestic and foreign competitors. Collectively, respondents indicate they are typically willing to pay suppliers up to $7 per pound. In turn, they believe consumers would be willing to pay $14 plus per pound.

Specialty shop respondents also express concern about ensuring product quality and delivery format (i.e., frequency and volume per delivery) when working directly with cheese makers versus a distributor. On balance, this group's experience with specialty cheeses allows them to provide helpful price points with a certain degree of confidence. They are open-minded about working with individual cheese makers but are also mindful of the logistical challenges associated with self-delivery.

New York City Restaurant Market

Chefs in New York City seek high-quality, locally produced specialty cheeses because their patrons do. Specialty cheeses featured on cheese plates are typically sourced through specialty/gourmet shops in the city offering wholesale services, but chefs also shop the Greenmarket Farmers Market where they can purchase several locally produced food products in one shopping trip. In general, chefs are sourcing their specialty cheeses nationally which suggests that local processors who can achieve low production costs and excellent quality should have a transportation cost advantage over more distant cheese makers. The average per pound price that chefs are willing to pay suppliers is approximately $20. Because chefs are able to provide multiple samples per pound of cheese, customers still end up paying premium enough to offset the high purchase costs incurred by chefs.

In Summary

Can we really say that marketing specialty cheeses is a piece of cake? To be fair, there is always more work involved in supplying a product to market than appears on the surface. Careful attention to specific retail market characteristics and drivers is certainly a necessary step towards successful product launch. But with strong specialty cheese demand in general, attractive retail prices, and genuine interest in local food products, it may be worth a second look for some on-farm cheese makers.

Marketing Fundamentals – One Key to New York Specialty Cheese Markets

Angela Gloy
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and
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With the right confluence of product characteristics and market conditions, new value-added products need not be a challenge at all. But then this is the equivalent of asking the planets to align… if only it were so simple.

In the case of farm-produced specialty cheeses, however, it really may not be so complicated, at least from a marketing perspective. Initial inquiry into market dynamics suggests that attention to a handful of marketing basics can yield positive results for cheesemakers. Providing a high quality product, in addition to keeping a close eye on low production costs, are the key targets. This is in contrast to marketing issues that often plague producers trying to get their finished products to consumers. It would appear that marketing concerns (e.g., advertising and product distribution) present less of a challenge than we first expected.

Funded through a USDA value-added grant, the Cornell Program on Dairy Markets and Policy (CPDMP) is conducting a market analysis of specialty dairy products in select New York markets. The three identified markets include New York wine trails and New York City specialty/gourmet shops as well as restaurants. Consumers in these markets are increasingly well-versed in ethnic cuisines through travel, heritage, or self-inquiry and exhibit the discretionary income associated with purchasing high-quality specialty foodstuffs. In short, many consumers are looking for new taste experiences and have the wherewithal to experiment.

In general, the report is focused on all value-added dairy products though specialty cheeses play a prominent role. Although a number of interesting questions exist concerning this market, marketing was perceived as a potential hazard for many dairy producers who may not gravitate toward issues surrounding consumer demand and product distribution. As such, CPDMP identified this as a first step in providing information to New York State dairy producers interested in initiating new venture processing operations on-farm.

While still on-going, some interesting early feedback is emerging from the project. It seems that a number of product and market characteristics come together to work to the small New York cheesemaker's benefit. First, the proximity of Northeast dairy producers to East Coast markets, and particularly New York City, provides access to a large, diverse customer base. At the same time, geographic proximity works to minimize potential product transportation costs which are critical to providing perishable dairy products to niche markets.

Second, the strength of consumer demand for specialty cheeses translates to consumers "pulling" for product from their end of the supply chain. Producers, distributors and retailers alike have noted such strong consumer demand that it appears consumers are assuming some of the marketing responsibility (e.g., information sharing/consumer requests) in an attempt to bring new-found cheeses to their retailer. It would appear that positive consumer reaction travels quickly, both up and down the supply chain. In their interest to find new specialty cheese products, consumers are sharing their cheese finds with others, including their local retailer. Consumers who taste product at a farmer's market may well follow up with requests at their local retailer, creating an ideal situation for the cheesemaker.

Sales data offer another perspective on category growth. Information Resources Inc. (IRI) data indicate sales of specialty and artisanal cheeses topped $1.4 billion during the 52-week period ending May 2004. Relative to the same time period the previous year, this is an increase of 13 percent (DairyField, 2004).

Third, consumer interest in food production is growing. The story behind the specialty cheese often serves as a real catalyst luring new customers. Producer investment in promoting farm location, feed type, and cheesemaking techniques (i.e., pasteurization, mold-ripened) on labels and brochures is well-received by consumers who are increasingly interested in simpler, less processed production processes.

Fourth, and in a similar vein, niche products tend to highlight special consumer interests. For example, consumers may be drawn to organic products, or other production characteristics, for which they are willing to pay a higher price above commodity products. And, in fact, retailers are noting the growth of the organic dairy and raw milk cheese markets. Though little formal data is available on these types of products, retailers and producers both comment on increased consumer interest in these product categories. In short, consumers want to know where their food came from.

Moreover, niche markets are highly dynamic, and uniqueness of product is a priority. Specialty food stores are anxious to find one-of-a-kind locally produced cheeses. Assuming high product quality, retailers may be more inclined to relax some of their vendor "rules" as a means of working with small producers. For example, early discussions with cheese buyers at New York City specialty food stores indicated they are willing to work with producers in terms of delivery frequency and/or volume delivered in order to be able to carry a quality, novel product.

This combination of market factors, including producer proximity to market, increased demand, and available discretionary income for specialty food products, creates a favorable environment for specialty cheesemakers. These characteristics work to the on-farm cheesemaker's advantage to alleviate some of the marketing and product distribution effort.

That said, successful marketing of specialty cheeses in New York markets is still conditioned on paying careful attention to a handful of fundamental tasks. Lack of attention to marketing basics renders other questions secondary, such as whether or not to employ a distributor. In the specialty cheese market, it is important to

- Know the market (i.e., competitors, size of market)

- Provide quality product consistently
- Know product price points relative to production costs, and
- Provide the cheese "story."

In addition, those producers who are entering cheese competitions are finding that the publicity and recognition from winning awards can pay marketing dividends, simply from ensuring a superior quality product.

In sum, value-added dairy ventures can be challenging. Dairy producers looking to initiate on-farm value-added enterprises should certainly compile as many pieces of the new venture puzzle as possible. With respect to marketing, attention to the fundamentals is a necessary springboard to other marketing issues. Fortunately for New York State dairy producers, hitting the fundamentals is likely to be positively rewarded by both other supply chain participants and, ultimately, cheese aficionados.

Milk Protein Imports: How Much Impact and What Can Be Done?

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Agricultural trade policy is in the news again, this time focused on the dairy industry. Just over a year ago, the US International Trade Commission received a request from the Senate Finance Committee to conduct a study of the "competitiveness" of US milk proteins compared to imports of various milk protein products. This request was made under Section 332 of the Tariff Act of 1930, and falls under the heading of "general fact finding investigations." These investigations are referred to as "Section 332" investigations, and this particular one goes by the number 332-453. The results of the study were delivered to the Senate Finance Committee in mid-May, and released to the general public shortly after that.

The request came about due to a dramatic increase in imports of milk protein products during the late 1990s. Of particular concern was the dramatic growth in imports of products called "milk protein concentrates," or MPCs, which increased more than 600% from 1995 to 2000. At their peak in 2000, MPCs accounted for a bit more than 1% of the protein from milk produced in the US. This rapid growth, and low milk prices in 2000, led to a suspicion that MPC imports were causing the fall in milk prices.

Why the big increase in MPC imports? MPCs actually consist of a broad range of products having a protein content between 40 and 90%. They are typically made using relatively new ultrafiltration technology, in which skim milk is passed through one or more filters to separate a portion of the lactose and minerals in milk from the proteins, and then dried to a powdered form. MPCs have a wide range of potential uses in the food industry, including use in dairy product manufacture. For example, yields of cheese increase when the milk in the cheese vat is "standardized" to a certain ratio of fat-to-protein. Typically, this involves increasing the protein content of the milk, and nonfat dry milk is commonly used for this purpose. Because MPCs have less of the components that end up in whey (the lactose and minerals) than nonfat dry milk, interest in their use to make hard and soft cheeses has grown. In fact, a number of ultrafiltration plants that make ultrafiltered skim milk (which can be dried to make MPCs) have come online in the US in recent years, and more are planned. The ITC study

For more information, see Cornell Program on Dairy Markets and Policy website at: http://www.cpdmp.cornell.edu/.

found that more than two-thirds of MPC imports were high protein (greater than 70% protein), and the majority of these were used in the manufacture of processed cheese. More than 60% of the lower protein (less than 70% protein) MPCs were used in other dairy foods (such as cultured products or frozen desserts).

With a majority of MPC imports ending up in dairy products, what has been the impact of MPC imports on farm prices for milk? There has been a great deal of discussion about this issue during the past three years. Most of the estimates have suggested that the price impacts are relatively small as a percentage of the milk price. However, even a small percentage decrease, particularly in a low milk price year can be important to dairy farmers. Assessing the impact of MPC imports is complicated by two key factors. First, milk is composed of fat, protein, and other solids, so each of these components needs to be taken into account when figuring out how the protein part affects milk prices. Second, government dairy policies influence prices for these components, and how they interact with each other. Under Federal Milk Marketing Orders (FMMOs), wholesale prices for cheese, butter, nonfat dry milk, and dry whey are used to establish milk prices. The Dairy Price Support Program (DPSP) has been purchasing a good deal of nonfat dry milk in recent years, that is, it has been buying a good deal of milk protein. Assessment of the net outcome of the imports with government policy requires a fairly sophisticated analysis with an economic simulation model.

Using such a model, we determined that the impact of MPCs on US dairy prices in 2001 was about $0.08 per 100 lbs. of milk, or about 0.5%. This is a relatively small impact, but we also noted that the impacts on price will be larger in regions where milk is used primarily for bottling or to make cheese. If this impact is considered large enough to merit some change to trade or dairy policy, what can be done and what difference would it make? There are two basic options, and legislation for both has been introduced in Congress. First, the government can change trade policy to restrict imports of a variety of milk protein products (H. 1160 and S. 560). This will probably require us to provide compensation to countries affected by the new restrictions because we committed ourselves not to place additional restrictions on trade when we joined the WTO. Compensation in this case means allowing additional imports of some other product equivalent to the value of the trade we restricted. Second, we can subsidize the domestic production of milk protein products, so that they are more competitive with imports (H. 4223). This would increase the demand for milk to make these products, and reduce the amount imported.

Using the same simulation model, we examined these two options. It turns out that in a relatively high milk price year like 2001, restricting the imports of milk proteins and compensating with an increase in cheese imports results in a <u>lower</u> farm milk price, a decrease of $0.13 per 100 lbs of milk. Allowing the additional cheese imports is the main reason for this fall in milk prices. In a relatively low milk price year, like 2002, restricting imports does increase farm milk prices, by about $0.18 per 100 lbs. Given these offsetting effects, over the course of a few years it is likely that dairy farmers won't be much better off under these restrictions than if the government did not change trade policy. Providing subsidies to manufacturers of milk protein products increases average US milk prices by $0.40 per 100 lbs. (2.7%) and decreases milk protein imports, but costs the government about $192 million. Thus, the basic policy choices seem to be between one that doesn't increase average milk prices much over the long term, and one that does increase milk prices but at additional government expense. Debate on the legislation before Congress is likely to intensify in the coming months, in the wake of the release of the ITC report and the run-up to the fall elections.

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