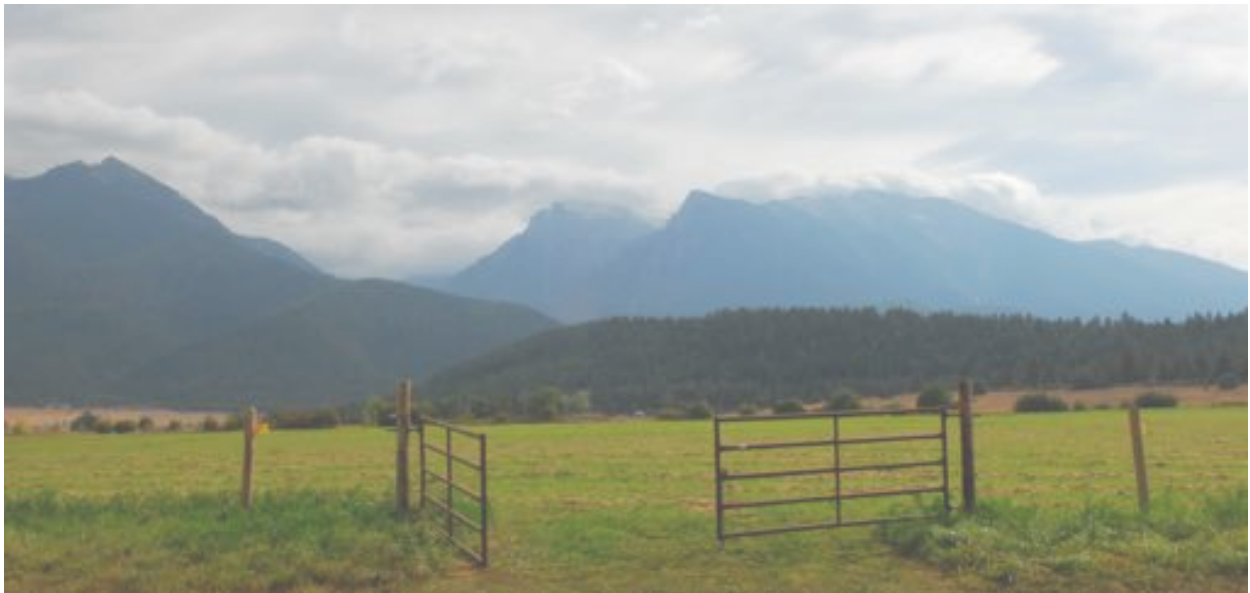


PLANNING FOR ON-FARM SUCCESS

*A Workbook for Montana's Beginning
Farmers and Ranchers*



Module 2: Market Analysis



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Minnesota Institute for Sustainable Agriculture. *Building a Sustainable Business: a guide to developing a business plan for farms and rural businesses*. College Park, MD: Sustainable Agriculture Research and Education (SARE), 2003.



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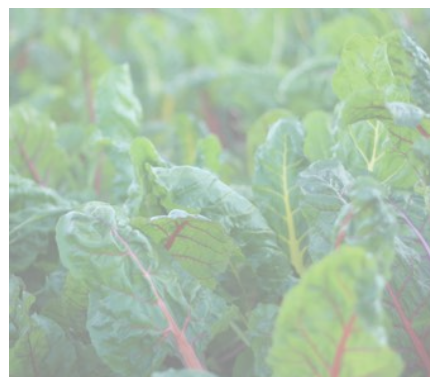


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Module 2: Market Analysis

For many of us, it's easy to have a great idea. You have always wished that someone would grow what you think is the perfect apple, but when you grow your ideal apple and take it to market, it seems like you're the only one who thinks it's perfect! Marketing experts warn that businesses that are product oriented—those that try to sell what they can produce without first looking at customers' needs—risk developing a product that won't sell. Instead, most successful businesses are customer oriented—they design marketing strategies around the needs of their customers. If this sounds like the Lean Startup model mentioned in Module 1, you're right!

The marketing component of your business strategy will determine, in large part, the success of your business. As marketing consultant Barbara Findlay Schenck said: "Without customers, a business is out of business."¹ Marketing is also one of the primary things that sets direct farmers apart from commodity farmers. Because commodity products become indistinguishable from one another once they enter the market – for example, you typically don't know which farm produced the ear of corn in the grocery store – marketing is far less significant in the commodity world. However, because direct farmers try to maintain value through the sales process, either by selling directly to their consumers or by selling through a value-added wholesaler, marketing is key to success.

This module will work through identifying your market, your channels to get to that market, and your competition. Module 3 will get into how to set yourself apart from the competition through promotion and price.

Markets: Who are our target customers and what do they value?

Most marketing plans begin with a description of the business' target market, or its potential customers. Your first task in building a customer strategy is to identify your target market: the people who are most likely to buy your products. In order to fully define your target market and corresponding customer strategy, you will need to identify your target market segment (who your customers are and what they value) and sales potential (how much they are willing to buy). This research is critical for building your business.

Market Segments

As you begin to explore your target market, you may realize that you have several different groups as potential customers. This process of identifying customers' preferences and dividing the larger target market into submarkets is called market segmentation. By identifying and targeting specific market segments you should be able to develop more effective packaging, price and promotion strategies. Markets can be segmented in a variety of ways. For instance, a market can be segmented into domestic and international subgroups if you are planning to market organic soybeans; or into on-farm and off-farm buyer groups for gourmet cheese. Your market can also be segmented by the frequency of customer purchases, for example, if a CSA farm had weekly versus monthly vegetable customers.

Answering the following questions will help you develop your list of target customers.

- *Who is your customer?* Think about their occupation and how that might affect their product needs. Also, take into account their gender, age, and socioeconomic group.
- *Where will you find your customer?* For instance, consider their geographic location, where they are day-to-day and whether they are located in an urban or rural area.
- *What does your customer value?* Think about their lifestyle, attitudes, and behavior. Do they cook from scratch? Do they value organically-grown food?

Once you have considered a range of potential customers, think about their pains and gains in relation to your product. Identifying pains and gains is a critical element of Lean Startup. That is, think about what might

¹ Barbara Schenck, *Small Business Marketing for Dummies*. Wiley Publishing, 2005.

frustrate them or what obstacles they face in buying the product they want. Maybe your consumer base is dissatisfied with a lack of a certain product's availability in their area and your product would help eliminate or lessen that pain. Are you providing a service that is more convenient for the customer, such as a delivery of fresh produce to the customer's home? Are you meeting an important value and need for a customer, such as a preference for organic food or for local food? How do you figure out the customer's pain? Ask them. Get feedback in any way that you can so you can understand how to better provide your service and product. The deeper you understand the customer's pain, the better you create your product or service to meet the customer's need. Sometimes, in the process of getting feedback, you may stumble upon a customer's need that you can meet by producing another product.

The next step is to understand the customer's gain. What benefits do the customers get from buying your product or service? Different types of gains may include the ability to find a product that wasn't previously available, cost savings, positive emotions, or other unexpected gains. Again, the deeper you dive into the customer's gains, the better you can understand how to potentially improve your product or service.

Sometimes, your farm or ranch will have several different products that have vastly different customer profiles that each require unique marketing. Alternately, you may choose to market differently to different customer profiles for the same product. For example, your grass-fed beef operation may have one market of selling feeder cattle into the commodity market, grass-finished cattle to local, high-end, health-conscious markets, and old heifers to farm-to-school programs in your community. While your ranch is only producing one basic product, cattle, those are three different markets that have very different requirements, needs, pains, and gains. Another example could be a vegetable farm that sells at the farmers' market, has a catering business featuring its produce, and a bed and breakfast. Those are three different products that each will have their own unique markets.

Do not be tempted to say that your market segment is the "general public"! The "general public" is far too large and generalized a group of people to help you achieve your marketing goals. For example, the "general public" might include 23-year-old college students, 40-year-old professionals with young families, 57-year-old empty-nesters, and 85-year-olds on a fixed income. Presumably, your marketing to each of those market segments is going to be markedly different. Spend some time thinking about which market segments would be most attracted to your products and would be most likely to purchase via the distribution methods you plan on using. You don't have to pick just one group, but having a clearer idea of two or three of your most important market groups will be a great help to you in developing your product and your marketing plans.

Conducting Market Research

This section draws heavily from Doing Your Own Market Research, by Judy Green.²

Market research can take a wide variety of forms. The first step is to understand that there is no magic to market research. It is not a crystal ball that can predict future markets with certainty. However, it can provide information that will make our projections about the future far more accurate, and it can help immeasurably in developing a successful marketing strategy. It is also important to know that you don't need any esoteric knowledge or advanced technical training to do useful market research. Like any other information gathering process, it is a matter of asking the right questions and looking in the right places for the answers. The goal of market research is twofold:

- To figure out how many people might buy your product and how much of it they might buy, which is information you will need to analyze your finances; and
- To gather information about potential buyers and competitors that will help in developing a marketing strategy and fine-tuning your product.

However you go about getting to know your target market better, use Worksheet 2A: Customer Evaluation Map to document what you know about them.

² Judy Green, *Doing Your Own Market Research* (1998). <http://www.start2farm.gov/resources/doing-your-own-market-research>
Module 2: Market Analysis

Research Using Existing Data

As noted above, you can use a wide variety of resources to understand how much people are spending and how many people exist in your region that fit your market segments. Some information on demographics in your community is already being gathered and you can tap into that data to get an overview of who's in your community to start brainstorming market areas. Information types and data sources include:

- Population and demographic data (such as the US Census: www.census.gov) provides information about the number of people within a given geographic area along with some key characteristics like income level, age distribution, level of education, household size, etc. This is important in estimating the total size of the market, and in knowing how many of each type of customer you might have access to. You can also use this data to analyze demographic trends – what segments are growing over time and which are decreasing?
- Information about your local and regional economy is sometimes available from your county or regional economic development district (see <http://www.eda.gov/eddirectory>). This can tell you the numbers of various types of business establishments, availability of support services, credit sources, zoning, and other regulations that might affect your strategy.
- Production data can sometimes be found from the Montana Department of Agriculture (<http://agr.mt.gov/>) or US Census of Agriculture (<http://www.agcensus.usda.gov>), which will show the existing level of production of the product or service you are considering, as well as production trends. However, if your idea is new or not a major commodity for your region, there may be little information available.

It can be tempting to use existing demographic data to inflate the number of potential customers you have. For example, let's say one of your target markets is affluent 50-60 year olds. Your review of the US Census finds that your community has 10,000 50-60 year olds making over \$200,000 per year. If you need to serve 1,000 people per year for your finances to break even, you might be tempted to assume that your plans are sure to be successful. But first, you should dig in more to find out how many of those 10,000 people are truly viable and interested customers. The best way to do that is by creating your own data.

Creating Your Own Data

Especially if you're planning on producing a niche product, plan on doing some of your market research yourself. Good research can be extremely elaborate, sophisticated, and expensive, but it can also be very simple and inexpensive. Be creative in developing the most cost-effective method for collecting the information you need. Some common research methods include the following:

- Observation can yield surprisingly helpful information. This can be as simple as counting the things that are relevant to your situation, such as the number of farmers' markets, the number of restaurants advertising locally-sourced products, the number of vendors selling the product you intend to sell, the number of roadside stands within a 30 mile radius of your farm, the number of customers per hour visiting farmers' markets or farm stands, the rate of traffic flow past your farm at various times of the day or week, etc.
- Written surveys can be used to solicit information from potential buyers about individual buying patterns, preferences, unfulfilled needs and wants, and other questions that may have an impact on your marketing success. For example, a new

Finding People to Survey

- If you're considering doing surveys or interviews, how do you reach your target market?
- If you already have a base of customers and you want to ask them about a new product or delivery method you're thinking of offering, survey them! Leave copies in your sales area, email it, or add it to your e-newsletter.
- If not, there are a few different places to find contact info.
 - Think of the listservs you're already a member of - could you send out a survey via those?
 - If you want to target a specific, small geographic area, say the homes around your proposed farm stand, you can get addresses from the Montana Department of Revenue.
 - Set up a stand at the farmers' market, grocery store, or community center with free samples - that people get only if they fill out your survey.
 - For more advanced survey ideas, contact the Bureau of Business and Economic Research at UM. They may be able to help you get phone numbers, addresses, or more. www.bber.umt.edu

pastured poultry business might want to ask customers how often and in what quantity they would like to purchase fresh broilers next year. They might also use the survey to find ways to improve their service to customers.

- If you already have customers, you can survey them every 18-24 months. Find out what they like and ask if there are additional products they would like you to offer. Find out how they feel about your prices relative to the quality of your product. Ask if they refer you to friends and family. Inquire about your hours or whether coming to the market is convenient for them. Once you have this information you can make adjustments that will pay off in terms of increased customer satisfaction.

Putting together a survey may seem like a daunting task but it can be prepared during the winter and then sent out 3-6 weeks into your peak season (or sooner if you have a very short season). A survey must be very carefully designed to yield useful information and distribution of the survey must be well planned to avoid biasing your results. Some tips for good survey design are:

- Keep it short. A single sheet of paper printed on two sides is almost too long. And if you're doing an online survey, consider a length that can be completed in five minutes or less.
- Phrase your questions so that you receive clear-cut and meaningful answers. For example, instead of asking "Would you buy more broilers from us next year if they were available?" you might ask "How many three pound broilers would you expect to purchase from us each month between June and October?"
- Use multiple choice questions rather than open-ended questions wherever possible. This makes it easier both to fill out the survey and to analyze the results.

Don't be afraid to request personal demographic information. For example, information about your respondents' ages, income levels, and areas of residence can be very valuable. You may even want to ask for an address for your mailing list. However, most people are sensitive to the way in which this information is solicited. Be sure to ask for, not demand the information, and explain how it will be used (e.g. "to serve you better"). Provide multiple-choice categories of ages and income rather than asking people to reveal their exact age and salary.

The procedure used to distribute the survey is critical in determining how to interpret the results. For example, let's say you wanted to find out about consumer interest in purchasing lean, chemical-free beef and you're planning on selling direct to grocery stores. If you decide to do a survey, you're likely to get very different responses depending on whether you survey shoppers at the local health food store or at the supermarket. Either approach would be valid – you simply need to be careful about interpreting your results and making projections based on your particular sample.

Test your survey on a small number of "guinea pigs" first. You will be surprised at how often your questions are misunderstood. A simple test usually results in great improvements in the survey's usefulness.

You can leave copies in your sales area, you can email copies, or, if you already send out a newsletter you can just add the survey to your newsletter. The advantage of having an electronic survey to send out is that you won't have to transfer the information from paper surveys to your computer in order to compile all of the results.

Personal interviews can be extremely informative and are the method of choice when dealing with a limited number of potential buyers. Even if you have a lot of potential buyers, personal interviews can be great for adding context if you've mainly been collecting quantitative data with a survey. When conducting interviews face-to-face, for example, you can ask more personal questions, such as "Why do you like that label?" or "What is your favorite part about the taste of the tomato?" You could conduct personal interviews with your Farmers' Market customers rather than, or in addition to, having them fill out a written survey. Again, the method of selecting people to interview will affect the results.

Other Tools for Market Research

A market research interview will often be your first step in establishing working relationships with wholesale buyers. An interview will not only provide you with detailed information on the buyer's policies and preferences, but will provide the buyer with that all-important first impression of your professionalism and commitment. Be

prepared with a list of specific questions and with solid information about the product or service you are proposing to provide. Be sure to leave a calling card. But, above all, don't make any commitments you can't live up to! There is nothing that will ruin a good marketing relationship faster than a broken promise.

Even if you aren't considering pursuing wholesale markets, wholesale buyers can provide a broad set of information about the market you're considering entering, including prices, market size, and other info. Harlequin Produce in Arlee states, "For a new farmer, I would scope the farmers' market and take an inventory of what's there, what's being offered, and think about how you would be different and unique. Also, talking with the Western Montana Growers' Cooperative if you're in Western Montana because they talk with so many buyers and have a sense of what people need. And if you aren't in their area, going through the same process with your local produce manager, and any other wholesale account managers who can give you a sense of what they will need is a great way to start. And when you have these interactions for the first few years, always try to have your highest quality products in hand."

Test marketing involves offering your product or service on a limited basis in order to evaluate potential sales. Test marketing is especially important when your product is new and unfamiliar to most of your customers. With the beef example, you might conduct a market test as simple as offering tastes of your lean beef to customers at the fair, or as elaborate as a three month sales campaign in cooperation with a regional supermarket chain. Remember to make sure that your test marketing project reflects your intended ultimate market – the customers at the county fair may be different than those at the regional supermarket chain!

Finding a Local Mentor

It can sometimes be challenging to find a farmer in your area who will advise you on marketing issues because once you start a business, you're the competition! Although some farmers will still be happy to help you, it's worth considering what the benefit might be to them. You could pay them for consulting hours, take them out to dinner, or volunteer on their farm. If they're successful, they're going to be busy and if they're successful, other people will want their time, too. Think about how you can help your mentors avoid burnout by providing value to them. It will also help to build a stronger relationship that will likely have long-term benefits for you!

Recommendations for Approaching Buyers

- (1) Become knowledgeable about the market by talking with farmers who are selling to retail stores within your own market region or outside of it. Try to find out individual buyers' expectations of volumes and prices to see if they match your situation before approaching the buyer.
- (2) Prepare an availability sheet listing products and prices. Make it neat and well-organized. Make sure there will be enough produce available to back up what is listed.
- (3) Send the availability sheet to buyers whose expectations best match what you have to offer. Buyers often prefer to see this sheet before they talk to a producer.
- (4) Project a professional image through your farm/ranch representative. This person should be well-informed about production, supply, produce condition, and be confident in the business' ability to meet the buyer's needs.
- (5) Work out the details of the sale with the buyer, such as volume, size, price, delivery dates and labeling requirements. Some buyers have a set of written requirements for growers.
- (6) Keep in touch with the buyer. Growers need to keep the buyer informed about potential problems so that buyers can look elsewhere for a product if there is a supply problem.

Test marketing will obviously be impossible until you are producing a product or service in some quantity. The best use of test marketing is as a follow-up to some of the previously discussed market research techniques, to fine tune your marketing strategy or to provide better information on costs and returns. It is also a useful strategy when evaluating minor changes in your enterprise, or when attempting to tap into a new market with a product or service you are already providing.

Finally, another great way of understanding a market is to work in the market on someone else's farm. Ian and Ellen Farm notes, "We had worked with a local farmer who became our first mentor. We worked with him for two seasons and ran the Hamilton market stand for him. We saw firsthand what people were interested in and what there wasn't enough of and what there was too much of. We saw potential in Hamilton and it gave us hope that we could start our own operation."

Conducting Research Outside Your Community

One of the best ways to understand how your own business might work is to contact other similar businesses in markets where you will not be competing. What you are really looking for are business mentors. Ideally, you want to find a business that sells similar products, has a similar

distribution system, and shares similar market size. Sometimes, this can be a challenge. If so, expand your research to talk to businesses in a bigger market size or to businesses that have slightly different business models. For example, if you can only find similar businesses in regions with a population twice your region's size, then it's logical to cut your estimates by half based on the data you get from them. The goal is to gather as much information from people who have done it before you. You don't need to always recreate certain processes or marketing strategies, especially if they have already worked for other businesses.

Here are some of the questions that you might want to ask other business owners:

- What are their products and services?
- What are their most and least profitable products?
- What is the size of their business?
- How many customers do they see per week, month, season?
- How regularly does a customer buy their product?
- What is the average sale per customer?
- What have they found to be the most and least effective marketing strategies?

Stories from the Fields

Dave Oien at Timeless Foods in Conrad began growing lentils alongside three other farmers in 1987. Dave recalls, "To grow lentils or peas or chickpeas, it was basically unheard of in Montana at that time. For us, it was less market analysis than market development. Where can we sell this stuff? There weren't that many options. Over the decades, the natural food industry has mushroomed, and there are a lot more marketing opportunities."

Dave discovered the market for his product when he attended a natural foods expo in Anaheim, California, several years after moving back to Montana to farm. Dave says, "Visiting the natural foods trade show in Anaheim, just walking the floor, not exhibiting, was really an eye opener. We didn't exhibit because it costs quite a lot to have a booth. It's easy to spend too much money on marketing. For us, that's really where we found buyers that were well-matched to what we produced, to the scale and volume that we were producing. Our markets are really more national and to some degree international than they would be for a farmer that was trying to market locally. We needed to hit the markets where the demand was, and in the early days that was primarily the west coast."

When asked how important it is to do market analysis early on, Dave explains, "One of the things we've learned over the years is the market is probably not what you think it is. It's not the size you think it is and it's not located where you think it is. Just because a person can grow a crop does not mean somebody wants to buy it, especially at the price that is required to keep the farm afloat. Over the years we have definitely massaged the product mix that we do and focused the market channel just by the school of hard knocks, by being out there and understanding where the demand is. You grow for the market, you don't produce something and then hope there's a market and then try to create it."

Recently, Timeless Foods pulled golden flax from retail shelves. "We used to grow flax and sell it in 25-lb bags and in 1-lb bags for retail," says Dave. "It wasn't market analysis that we did but the analysis that the market screamed to us. Fifteen or 20 years ago flax was really a trendy food and everybody had to eat flax and it was one of our best sellers 20 years ago. We dropped it from our line because the size of the market for flax really shrunk on the retail shelf. Flax was consistently the lowest seller. It was market analysis in the sense of "Gee, our sales are down. The market must not be there."

When introducing a new product to the marketplace, Timeless Foods typically starts on a small scale. According to Dave, "For us, we grow a small amount - 1000 or 2000 or 5000 pounds or so - then start showing it around. We tried to introduce a white lentil onto the marketplace, and we grew 20,000 pounds of it because I was so excited about it, and you know what, nobody actually wanted it. When we want to introduce a new variety, it's just a matter of going to distributors or sending them a sample saying 'We want to introduce this product. Is there space in the market to do this?' That's really the best feedback you can get because they're the ones that are going to buy it first."

As for ongoing market analysis, Dave says, "We do sales analysis, distributor by distributor, product by product as well. We do that semi-annually. What are the trends we see vis-a-vis six months ago, a year ago? Which distributors are doing the best job, and which products are trending up, which are holding their own, which are trending down?"

Dave emphasizes the value of word-of-mouth channels for market information, but he cautions, "At some point it makes sense to invest in a trade show or fliers or something like that, but that comes later."

The more businesses you can speak with, the better. Document your data so you can use it to help with projecting your sales and expenses. This data will also be a part of your assumptions supporting your cash flow projections. Another benefit is that you will start to build an important network of business owners who share a similar passion.

Although much of the market research needed for a business plan can begin with your own impressions and a little footwork at the library, you may reach a point where professional help is needed. Many businesses find it useful to hire a marketing consultant to develop proper surveys, lead focus groups, or to conduct telephone interviews. Representatives from your local Extension service or your state Department of Agriculture may be able to assist you in locating qualitative and quantitative information for a customer profile. For example, the Montana Department of Agriculture provides domestic marketing assistance to local farmers, including market planning assistance, plan reviews, market research, and more. Visit their website at <http://agr.mt.gov/agr/Programs/Marketing>.

Financial assistance may also be available to help cover some of the costs associated with your marketing research. You should check with the Montana Department of Agriculture and the United States Department of Agriculture (USDA) to see what programs might be available to fit your needs. You might also contact the Sustainable Agriculture Research and Education (SARE) Program in your region to see if they know of any programs available to fund market research for farmers (www.sare.org/).

Ongoing Market Research

This section draws from Tracking Sales by Mary Peabody.³

Now that you've completed your market research, developed your product, and started selling it, the work is still not over. Many new farmers make the costly mistake of being so enthusiastic about their products that they forget to evaluate their customers' reactions. Direct market outlets have built in systems for evaluating how customers feel about your product. The market is an honest, sometimes harsh place where customers vote with their dollars and with their feet. If you want to maximize your profits stay in touch with your customers' needs, wants, and wishes.

Here are a few easy, inexpensive methods you can use to monitor your customers reactions to your products.

- Collect contact info. If you are serious about direct marketing, one of the most important things you can do is to know who your customers are. Use every opportunity to collect a mailing list of your customers. Names, addresses, emails, and phone numbers are useful to have, but think thoroughly about which you will actually use before you collect them. Have signup sheets available near the cash register or slip an invitation to sign up into every customer's bag when you're cashing them out. It may seem like a lot of work to compile this information but it will pay dividends down the road when it is time to do a customer survey.
- Track repeat customers. What is the percentage of your first time customers that come back a second, third and fourth time? When customers come to your market the first time it indicates a willingness to support you. Consider it a 'first date' — they like what they see but they aren't making any commitments. When they come back the second and third time it indicates that they feel they are getting good value from the exchange. This is when the real relationship begins. Regular, loyal customers are a great group of individuals to test market new products. They already know what you are capable of producing and can tell you honestly whether a new product makes the grade or not. If you take down names, addresses, and emails, as described above, you can use those to track your customers. Otherwise, a great way of tracking customers is to introduce yourself whenever you make a sale and then quickly make a note of their name and purchase. This will also help you to build a better rapport with your customers, building a relationship that will be easy to tap when it comes time to interview them or conduct other market research.
- Track your sales closely. It is important to know what people are buying, what they are not buying, and why. Be alert to items that are staying around too long. Pay particular attention to what your most loyal customers are buying a lot of — that is your indicator of how the market values your product. It is also helpful to notice

³ Mary Peabody, *Tracking Sales*. University of Vermont, 2007. www.nofanj.org/LiteratureRetrieve.aspx?ID=104108

whether sales are evenly distributed across all customers or whether a few customers are buying a lot of a particular product. For example, you could sell one jar of pickles to 24 different customers or one customer could buy all 24 jars. In the first case you have a broad spectrum of customers who are interested in the product. If most of them come back and buy more of the same product that lets you know the product has broad taste appeal. If sales are restricted to just a few customers that might indicate that your product is an acquired taste which means you need to think long and hard about whether that product will develop enough of a customer loyalty to be worth your time in producing it. How you track your sales will depend on your own technical interest and aptitude. It can be as simple as buying a business record book in which you track your sales, as complex as utilizing a comprehensive software like AgSquared, or something between, like a simple Excel spreadsheet.

- Be honest with yourself. If you have an item that is not selling well and doesn't develop a customer loyalty then reassess your commitment to that product. It may be that your price is higher than a competitor's, or it may be that the product doesn't have broad market appeal, or it may be that customers don't know what it is and how to use it. But it is also possible that your customers are telling you that the quality is lacking. If that is the case, you need to stay open to improving the quality or discontinuing the product. You may have to do some market research to find out why a product isn't selling. Sometimes customers (especially those that have a relationship with you) will be reluctant to say that your product isn't very good so they may not come right out and say they don't like it. And then again, some will be only too happy to share the unpleasant truth. Always let your customers know that you want to hear what they think and that you are open to suggestions for improvement. Keep comment cards handy so they can respond anonymously if they prefer. And, on market day, spend some time at the cash register so that you can see firsthand who's buying what.
- Appreciate the assistance. The information that your customers have to share with you is valuable. When you conduct a customer survey, acknowledge that gift by offering them something in return for their participation. It could be a small discount on their next purchase, a coupon toward future purchases, or a free sample of a new product. The gift does not have to be large or expensive but should be sincere. It will increase participation and make your customers feel good about helping you.

Competition: Who are our competitors and how will we position ourselves?

This section draws heavily on The Myth of Excellence⁴ on the concepts of Price, Product, Access, Service, and Experience, and The Internal Analysis of Your Farm Business⁵ on Product and Competition Considerations.

Nearly every business or product has competition of some kind. We mentioned evaluating your competition in the section above on *Conducting Research Outside Your Community*. It is critical that you build an understanding of everyone who is participating in your playing field. Even if you gain an understanding of your customer's pains and gains through great market research, you need to understand who else is trying to address those pains and gains – and *how* they're trying to address them. Once you know who your competitors are and the markets they serve, how do you evaluate your own competitive edge? How can you find a way to position your own farm so that you have an advantage?

Knowing your competition isn't about being manipulative or sneaky. It's about understanding your business landscape and building a business that can survive, thrive, and keep you farming.

A good way of evaluating your competitors is based on Price, Product, Access, Service, and Experience. Your goal should be to excel in one of these categories, be very good in another, and then you can be equal to your competitors in the other three categories. The categories can be further defined as follows:

- Price: Is your price better than your competitors'? If you choose to have the most competitive prices, do your customers know that? Would a customer who shops with you once every 3-4 months know that your policy is

⁴ Fred Crawford, *The Myth of Excellence*. Crown Business, 2003.

⁵ Gray, et al. *The Internal Analysis of Your Farm Business*. Purdue Extension, 2004. <http://www.extension.purdue.edu/extmedia/EC/EC-721.pdf>
Module 2: Market Analysis

to have the lowest price? Equally important, is your pricing strategy sustainable? Can your policy of having the lowest prices be subverted by another farmers' bargain basement sale prices on one special occasion?

- **Product:** Is your product better than your competitors'? Are your products rare? Inspirational? Can you keep them in stock long enough or continue to rotate several exceptional products so your customers know that that's your policy? Does your product or service allow your customer to think of themselves in new and exciting ways? Do all your products pull their own weight? Or are there some that you keep producing even though they're less than the best?
- **Access:** Is your product easier to access? Are you willing to go the extra mile to make sure your customers get your product, say, arranging extra CSA drop points or attending another farmers' market each week? Are you willing to go to your customers or do they need to come to you? Look at your competition – how convenient is it to do business with them? Is there a clear advantage in using your business or accessing your products?
- **Service:** Is your product consistent? Also, and perhaps more importantly, do you provide a better service than your competitor? Are you truly willing to customize your product or service to meet your customers' needs? Do your customers know that that's why they should return to you again and again? Do your customers know you care about them? Do you routinely check in with them to make sure you're continuing to exceed their expectations? Have you evaluated whether your competitors are also providing exceptional service? How does it make you feel to shop with them?
- **Experience:** Can you provide an experience for your customer that goes beyond what your competitors provide? Are you providing your customers with an exceptional experience – something that goes beyond simple entertainment or fulfilling basic needs? How do you show your customers you care about them? Do you have enough information about your customers' broader needs and concerns in order to provide them with the kind of experience they truly want? Can you make your customers feel great about doing business with you?

Use Worksheet 2B: Competition to analyze the competition that exists for each of the products you plan to offer. List your competitors. Then, consider where you have an advantage over them. Can you produce at a lower cost? Do you have access to markets that they cannot reach? Are you better at working with people—at attracting and keeping customers? Do you have better business skills? In other words, what's your niche?

If you find that you do not have a competitive edge over other businesses or you don't like the competitive advantage that you have, take some time to reconsider. What could you change about your business idea, structure, or product to be competitive?

Getting Your Product to Your Target Market

Now that you have a customer and product in mind, your next task is to identify how to move or distribute products from your farm to the customer's dinner table, store shelves, elevator or barn. Alternately, you may have different customer segments depending on your different marketing channels!

Traditionally, farmers have been positioned at the bottom of the distribution channel—offering a bulk commodity that required further processing or packaging before it could be sold to customers. Distribution intermediaries, such as brokers and cooperatives, were seen as the only option for moving products from their farm to the final customer. However, a growing number of farmers are doing their own processing, packaging and delivery. This adds value to their raw product and helps them to retain a greater share of the profit. As a result, farmers have expanded their distribution strategies to include direct marketing and intermediary marketing. These options are further outlined on the following pages.

When considering direct marketing options, think about the investment required, marketing and labor costs, pricing options, grower liability, and barriers to entry. While direct sales can be a profitable strategy for the individual grower, some farmers choose direct marketing for only a portion of total sales because direct

marketing can be costly in terms of time. You often take on wholesaler responsibilities such as grading and packing, and of course, you take on the responsibility of distribution and much more involved customer service.

The majority of consumer goods reach grocery stores or restaurants through some type of intermediary. Intermediaries are businesses that help buy, sell, assemble, store, display and promote your products; they can help you move your product through the distribution channel. Intermediaries include retailers, wholesalers, distributors, brokers and cooperatives. The advantages and disadvantages of distributing through well-known intermediaries are briefly described below. Note that some of these may be considered an advantage by one person and a disadvantage by another, such as the lack of in-person contact with a wholesale option.

Direct Marketing Options	Intermediary Options
<i>This section draws heavily from Choosing Direct Marketing Channels for Agricultural Products, by Megan Bruch and Matthew Ernst. It also draws from To Market, To Market by Dr. Ron Brumfield and Marketing Strategies for Farmers and Ranchers by Laura Sayre.*</i>	<i>This section draws heavily from Teaching Direct Marketing & Small Farm Viability, edited by Jan Perez, Martha Brown, and Albie Miles. It also draws from Marketing Local Food by Jane Grimsbo Jewett, Beth Nelson, and Derrick Braaten.**</i>
Community Supported Agriculture (CSA) operations have “members” that purchase “shares” at the beginning of the year or season. In return, they receive weekly or bi-monthly deliveries of your products. <i>Advantages</i> • Provides initial operating capital and allows for early estimate of product volume needs. • Minimizes marketing and selling during season, as CSA shares are sold before or at the beginning of the season. <i>Disadvantages</i> • Demands heavy marketing as customer turnover can be high. • Requires careful crop planning & season extension.	Retailers, such as grocery stores and restaurants, can be an excellent way to reach customers. <i>Advantages</i> • Storage, logistical support, and advertising are already established with retailer. <i>Disadvantages</i> • Often requires giving a larger share of your profit to the retailer than with a wholesaler or broker. • Typically requires meeting quality, packaging and delivery requirements set by retailer.
Farmers’ Markets are a relatively low-cost alternative if there is one already operating in your area. Typically a full-year or a per market fee is required to reserve stall space at farmers’ markets. <i>Advantages</i> • No standards for packing, grading, or sales volume. • Provides opportunities for market research and can open up opportunities for other markets. • Promotion and advertising are already established and handled by market organizers. <i>Disadvantages</i> • Requires good customer service skills as sales are made in-person. • Can increase marketing costs with added labor and transportation. • Involves an often inconvenient and tedious schedule.	Wholesalers and Distributors either buy the products or take possession and act as commission merchants. They can be particularly helpful to businesses that are trying to introduce new products. Wholesalers can use their leverage and expertise in the industry to push your product into a retail outlet. <i>Advantages</i> • Opportunity for large volume sales. • Does not involve in-person sales. • Wholesaler handles distribution, delivery, and customer billing. <i>Disadvantages</i> • Competitive and often difficult to access. • Requires longer shelf life for produce.
Mail Order and Internet Sales may be a good choice if you are not close to a large urban area and if your product stores and ships well. Perishable and heavy products are not good candidates. <i>Advantages</i> • Helps develop your brand as customers can learn more about your farm on your website. • Convenient for both seller and customer. <i>Disadvantages</i> • Can be slow to get started and attract customers. • Often means increased competition, since many producers will be selling similar products online. • Requires considerable internet skills.	Brokers and Handlers are agents who represent farmers for a commission but do not take possession or title of your product. If you produce a bulk commodity or plan to ship overseas, a broker is usually needed. The University of Illinois offers a checklist to help you understand and evaluate specialty commodity contracts. <i>Advantages</i> • An expert spends the time selling your product instead of you. <i>Disadvantages</i> • Often requires meeting quality, quantity and price standards set by the broker. • Typically gives a substantial portion of your profit to the broker.

Pick Your Own (PYO) is a relatively low-cost marketing option. It works best for products in which ripeness is easily recognized. Fruit is the traditional example of a PYO enterprise, but fresh flowers are fast becoming a favorite. <i>Advantages</i> • Reduces labor and equipment costs, as the customer does most of the harvesting. • Can allow for larger transactions and sale of lower-quality produce. <i>Disadvantages</i> • Increases potential for liability issues if customers are injured on-site. • Risk of damaged crops and lower crop yields.	Cooperatives and other collaborative marketing groups (CMGs) can be beneficial for small-scale growers. The Coulee Region Organic Produce Pool (CROPP), which markets under the Organic Valley label has been very successful at accessing markets and building profits for member-owners. There are a number of resources available at the national and state government levels to assist with the development of or to help with the decision to join a CMG. <i>Advantages</i> • Share risks with other members. • Access otherwise unreachable markets. • Increases bargaining power to negotiate more favorable prices. <i>Disadvantages</i> • You may hand over some control of your marketing to the co-op. • Often you will not be able to distinguish your product, as it will be pooled with other members' products.
Roadside Stands require a good location and cheap labor. Capital requirements can be near nothing if you are in the right location, or they can be substantial if you have to rent space. Check with local authorities for legal requirements and regulations. <i>Advantages</i> • No requirements for volume of sales, packing or grade. • Allows for a fairly flexible schedule. <i>Disadvantages</i> • Involves in-person sales, requiring good customer service skills. • May be difficult to find ideal location. • Can increase marketing costs, as it requires more labor and transportation than other market channels.	

* See footnotes 6, 7, and 8. ** See footnotes 9 and 10.

Another thing to keep in mind as you consider market channels is that the closer you get to the customer, the higher the prices you can typically charge. For example, if you're selling directly to the consumer at the farmers' market, you can charge the full price for your product. Alternately, if you're selling through a restaurant, grocery store, or distributor, the price you receive is typically lower because they're adding value, doing marketing, or providing other assets. We will cover pricing more in the module on Market Differentiation.

It's also worth thinking about how harvesting and production planning is different depending on the market you're considering. For example, if your primary market is the farmers' market, you are typically harvesting whatever you think your market consumers will purchase, whereas with a restaurant market, you're typically waiting until the day before delivery to receive orders and harvesting specifically what they want. If you have a lot of restaurant buyers, that can get a bit hectic. On the other hand, with a wholesale buyer, you typically have a contract that lines out what you're producing on specific dates so you are harvesting a set amount for your allotted sale. With a CSA, you harvest whatever is ready, but your production planning has to ensure that you will have enough ready each week to keep your CSA members happy. Consider your preferences for work flow, management, and production planning when you think about market channels.

For more ideas on each of these, check out NCAT's Marketing Tip Sheets. They cover a wide range of marketing options and include tips for each. You can find them at <https://attra.ncat.org/attra-pub/summaries/summary.php?pub=440>.

⁶ Megan Bruch and Matthew Ernst, *Choosing Direct Marketing Channels for Agricultural Products*. University of Tennessee, 2010.

⁷ Robin Brumfield, *To Market, To Market*. Rutgers University, 2005.

⁸ Laura Sayre, *Marketing Strategies for Farmers and Ranchers*. Sustainable Agriculture Research and Education (SARE), 2006.

⁹ Jan Perez, et al. *Teaching Direct Marketing & Small Farm Viability*. University of California, 2015.

¹⁰ Jane Jewett, et al. *Marketing Local Food*. Minnesota Institute for Sustainable Agriculture, 2007.

Overall Considerations in Establishing a Direct Market

Is direct farm-to-consumer marketing the answer? This question can best be answered after assessing your personal abilities and desire to sell directly to consumers, the farming operation's compatibility with direct marketing, and whether direct markets in the operation's vicinity have opportunities worth pursuing (considering competition, access, etc.)

Personality is important in direct marketing. Meeting and welcoming customers requires a friendly, outgoing personality. Direct market producers should enjoy meeting people and having them visit the farm or stand. If customers do not feel welcome, they probably won't return. Producers who start direct marketing operations also should be prepared to work long hours, particularly on weekends and holidays when customers like to come by.

Also, retail sales knowledge is vital to successful direct marketing. The farmer becomes the retailer and thus needs to know the principles of merchandising, display, quality control, pricing, packaging, etc. Producers who have a working knowledge of retail sales operations have an advantage. Principles of retail selling can, however, be quickly learned. Your experience will be an excellent teacher. Substantial information about direct market management and operation is available. Don't overlook other direct marketers. If there are successful direct marketers in your area, they may be an excellent source of information. MSU Extension and the Montana Department of Agriculture can provide information as well.

The direct marketing business should complement your overall farming operation, not compete for land, capital, or your time. Although we think business planning is smart for all businesses, it's key for direct marketing operations. The plan can help you assess the viability of your direct operations and your short-term and long-term financing needs. For example, if long-range plans are to build enough volume to attract commercial buyers, and short-term plans are to establish a direct market operation to sell a lesser volume, then temporary structures and organization for direct marketing would be in order. If the intent, however, is to start from a small direct marketing operation and build into a substantial roadside market as production increases, then substantial capital investments may be warranted in the beginning.

There are also questions to ask when you're considering land to buy or lease. Are marketing facilities, space, and parking adequate? Is it convenient for customers to get to your farm? Safe entry to and exit from your parking facility is a must. Inadequate parking space discourages consumers, whose repeat business you will need. If parking would be a problem at your site, perhaps selling at a farmers' market or a roadside stand on a major thoroughfare might be a reasonable approach. In any event, on-farm space must be set aside for your business without sacrificing needed production area. If a farmers' market is a consideration, is the distance to the market reasonable given necessary transportation and labor costs?

Overall Considerations in Establishing an Intermediary Market

If your distribution strategy includes sales to retailers or wholesalers, you will need to conduct substantial research. While retailers, such as grocery stores or restaurants are oftentimes very interested in selling locally-grown products, they may be unwilling to do so because of past negative experiences with relationships or inconsistent product quality. "Consistent quality means a predictable product for customers... When it comes to quality, many buyers want it all—produce that is shaped and sized consistently and of uniform ripeness and flavor; something they can get from California growers."¹¹

Similarly, wholesale outlets can be difficult to access. Many of the same retail marketing principles apply to the wholesale market. You will need to concentrate as much management on grading and packing as on production. Lastly, and perhaps most importantly, you will need to prove to your buyer that you are a dependable and consistent source of high-quality product.

If one of your distribution alternatives includes the wholesale market, you may want to begin your research by contacting local grocers and restaurants to find out who supplies their produce and other food products. Next, contact the wholesaler. There are a number of resources available to help you identify and reach intermediaries.

¹¹ Center for Integrated Agricultural Systems, *New Markets for Producers: Selling to Retail Stores*. University of Wisconsin, 1999.

One of the best resources is the Cooperative Grocer Online. This site offers links to retailers, such as cooperative grocers, as well as other intermediaries, such as manufacturing cooperatives, wholesalers and distributors.

For more in-depth information on choosing direct or intermediary marketing, check out the Minnesota Institute for Sustainable Agriculture's guide, *Marketing Local Food*. There is also an excellent guide to direct marketing titled *Farmer-to-Consumer Marketing: The Series*, a publication of Pacific Northwest Extension. For more from these worksheets, visit ir.library.oregonstate.edu.

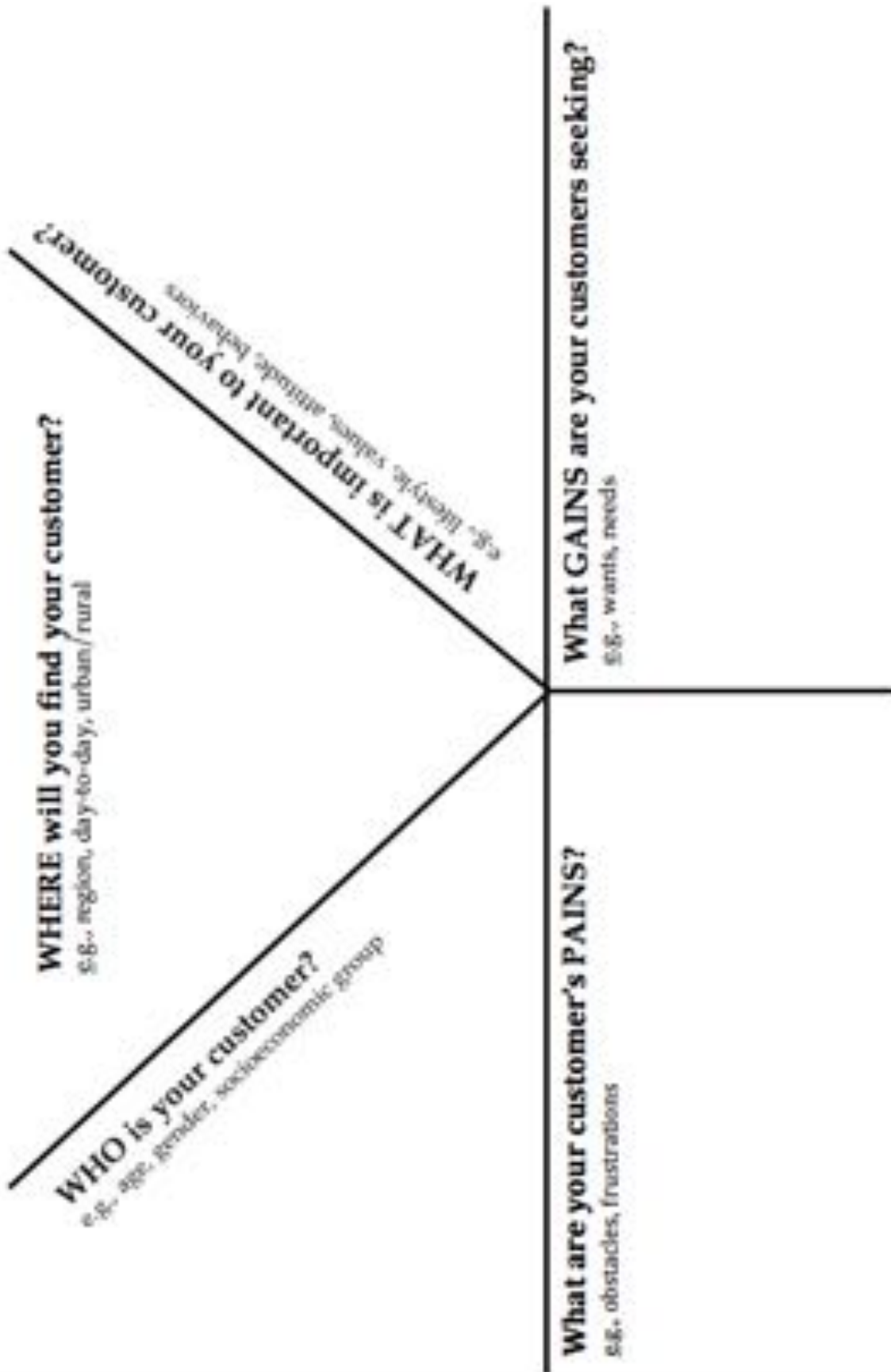
Delivery scheduling and handling

Your distribution strategy should also take into account how often you will need to make deliveries, either to satisfy customer demand or to fill intermediary requirements. What type of delivery schedule will be necessary? If you offer a perishable product, delivery schedules will be critical. Moreover, if you are marketing through an intermediary, your ability to meet delivery commitments may determine their continued business. "Retail buyers rely on delivery at the promised time so they know how much may need to be supplemented to meet demand and so they can schedule workers to handle delivery and display."¹² As you develop a delivery schedule, be aware of peak production periods (if your business is seasonal) as well as industry handling requirements. Organic producers are required, in most cases, to verify that their products were handled (cleaned, stored and transported) in accordance with organic standards.

Use Worksheet 2C: Distribution and Packaging to develop and describe your overall distribution strategy or strategies. The decisions you make here will affect your future workload and consequently, your human resources strategy.

¹² Larry Burt, et al. *Farmer-to-Consumer Marketing: The Series*. Pacific Northwest Extension, 2009.

Worksheet 2A: Customer Evaluation Map



Worksheet 2B: Competition

Complete this worksheet for each major product you plan to produce. List your competitors in each market segment for this product. Describe competitors' product marketing strategies and the prices they charge for each product. Note any advantages and disadvantages you may have with respect to your competition. Then, develop and describe your strategy for competing or positioning your business in the marketplace.

Customer Segment:	1:	2:	3:
Product:			
Competitor Names and Products			
Major Characteristics			
Rank the competition on the following categories. Are they better, worse, or the same in:			
Price Range			
Product Quality			
Access to Product			
Service/Consistency			
Customer Experience			
Summary			
Our Advantages			
Our Disadvantages			
Competition Strategy			

Worksheet 2C: Distribution and Packaging

Complete this worksheet for each major product you plan to produce. Describe how you intend to move and package this product for each target market segment. Note where and how the product will be shipped (location and scope) and what type of distribution channel you will utilize (movement). Next, based on each distribution plan, research and describe one or more packaging strategies for this product. Consider what type of packaging might be valued by customers (e.g. convenience) or required by intermediaries and distributors. Then, describe a delivery and handling schedule by month, season, or year.

Product 1: _____ Period: _____

Customer Segment: _____ Location: _____

Market Channel: _____

Industry packaging requirements/certification requirements: _____

Delivery schedule and handling: _____

Product 2: _____ Period: _____

Customer Segment: _____ Location: _____

Market Channel: _____

Industry packaging requirements/certification requirements: _____

Delivery schedule and handling: _____
