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## Direct Marketing

### *Strategies and Opportunities*

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Mykel Taylor  
Assistant Professor  
Dept. of Agricultural Economics

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## Agricultural Marketing

- Commodity marketing
  - You are a price taker
  - Low-cost producer wins
  - Economies of scale: volume
- Direct marketing
  - Product differentiation
  - Customer segmentation
  - Pricing is under your control (somewhat)



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## MARKETS DEFINED



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## Commodity or Niche?


- Some niche markets are commodity markets in the making
  - Can your business plan, product, or marketing strategy be easily replicated?
  - Can it be scaled up?
  - Do you have market power that can hinder competition?



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## Commodity or Niche?

- Barriers to entry
  - Imposed from external source or from your business strategy
- External
  - Federal organic standards (local may be next)
  - Farmer’s market rules: reselling, distance travelled
- Internal
  - Exclusive access to inputs (genetics)
  - Partnership with retail outlets or marketing channel



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## Direct Marketing


- Marketing assessment/plan is first step
  - Product characteristics
  - Competition
  - Customers
  - Pricing strategies
  - Cost of production
  - Product promotion
- Implementation and evaluation of your plan



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## Direct Marketing

Producer				
Pick Your Own	Roadside Stand	Farmers’ Market	Direct to Retail or CSA	Produce Auction
	Pick	Pick	Pick	Pick
	Clean	Clean	Clean	Clean
			Pack	Pack
		Transport	Transport	Transport
				Wholesale
				Ship
Sales	Sales	Sales	Sales	Sales
Customer				



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## WHAT ARE YOU TRYING TO SELL?



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## Product Characteristics


- Tangible
  - Visually available to the consumer
  - Color, size, price
- Intangible
  - Taste, quality, production methods, location
  - Must be on the label or otherwise conveyed



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## Product Characteristics

- Other product characteristics
  - Free range, cage free, vegetarian fed, antibiotic free, rBGH-free, GMO-free, grass fed/finished
  - Third-party certification (USDA, OTCO)
  - Free (fair) trade
  - Green power used for processing or transporting (wind, ethanol)
  - Recycled packaging





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## Product Characteristics

- A tale of two tomatoes...

<ul style="list-style-type: none"><li>• Price \$2.00/lb</li><li>• Not field ripened</li><li>• Not sustainably produced</li><li>• Farmer unknown</li><li>• Not good for canning</li></ul>	<ul style="list-style-type: none"><li>• Price \$3.00/lb</li><li>• Field ripened</li><li>• Sustainably grown by Jim Bob Farmer</li><li>• Great for canning</li></ul>
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## WHO IS THE COMPETITION?



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## Competition

- Who are you competing with when you bring a product to market?
  - Supermarkets — Good quality, convenient hours, well established, price competitive
  - Natural foods store
  - Other vendors at farmers' market
  - Roadside stand, PYO

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## Competition

- Who are you competing with when you bring a product to market?
  - Supermarket
  - Natural foods store
  - Other vendors at farmers' market — Good service, well established, limited selection
  - Roadside stand, PYO

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## Competition

- Who are you competing with when you bring a product to market?
  - Supermarkets
  - Natural foods store — High quality food, good service, large organic selection, higher prices
  - Other vendors at farmers' market
  - Roadside stand, PYO

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## Competition

- Who are you competing with when you bring a product to market?
  - Supermarket
  - Natural foods store
  - Other vendors at farmers' market
  - Roadside stand, PYO — High quality, price competitive, limited customer base

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## Competition


- Competitor analysis needs to focus on
  - Product position
  - Brand strength
  - Prices
- Make sure you are distinctively different from your competitors in ways that matter to your customers
- Emulating their good ideas may be a key to success...



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## Customers

- Demographics
  - Age, income, gender, family size
- Usage level
  - Frequent customers vs. rare purchases
- Lifestyle
  - Soccer moms, college students, foodies
- State and federal programs
  - WIC & Senior Farmers Market Nutrition Program



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## WHO ARE YOUR CUSTOMERS?

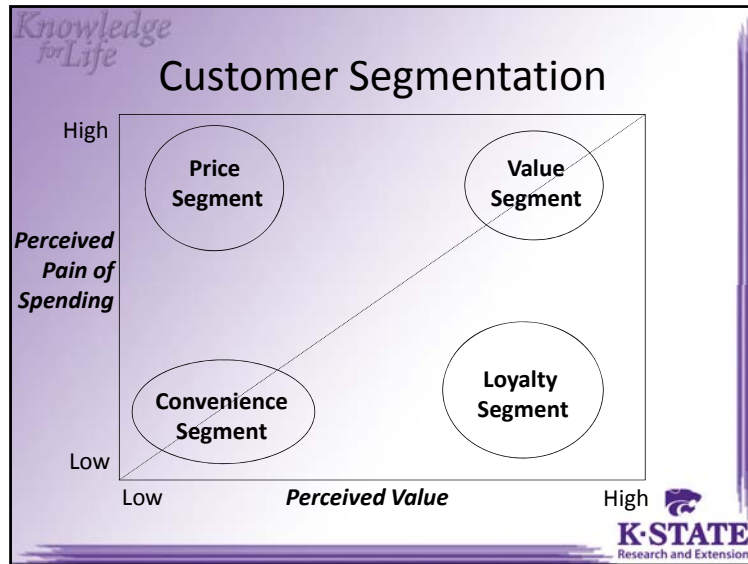


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## Customers

- What are customers looking for?
  - Value, safety, convenience, unique culinary experience, small carbon footprint, healthy food
- You aren't likely to provide all these attributes in one product
  - Target your customers based on your product's *desirable* characteristics
- Market segmentation
  - Targeting strategies vary across customers





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## Customer Segmentation

- Product location distribution
  - Where customers purchase your product or how purchases are made
    - Internet, marketing co-op, on farm
  - Do customers translate your sales location into part of your identity?
- Promotional marketing
  - Differ product offerings by market, share information on your product (tastings)
- Pricing strategies...

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## Customer Segmentation

- Loyal
  - return customers: less worried about costs, want a relationship
- Value
  - Hardest to keep happy, but recognize and value quality
- Convenience
  - Likely to make impulse buys, less price sensitive
- Price
  - Not as attractive unless you compete exclusively on price

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## PRICING STRATEGIES

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## Pricing Strategies


- Cost-based pricing
  - Set price as a function of production costs
- Competition-based pricing
  - Set price to match to similar products of your competition
- Value-based pricing
  - Match price to perceived value by customer



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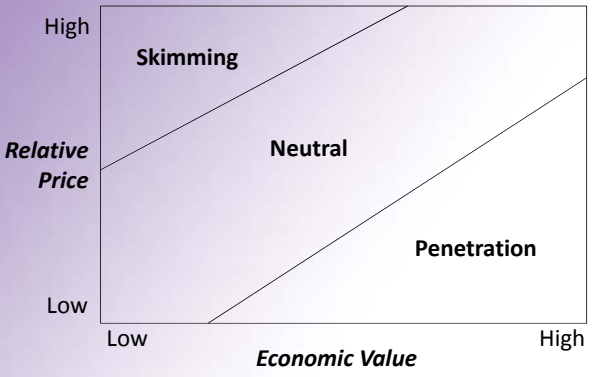

## Pricing Strategies

- Skimming
  - Convenience customers may respond to this if placement is right
- Penetration
  - First time buyers might be attracted with this strategy (coupons, volume/bundle discount)
- Pricing strategies by customer segment can increase revenue
  - Identify segments with less price sensitivity (loyal, convenience)



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## Pricing Strategies

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## PRODUCTION COSTS



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## Costs of Production


- Costs can be categorized
  - Fixed costs: incurred whether you produce or not
    - Land, machinery, buildings, processing equipment
  - Variable costs: incurred when you produce
    - Seed, fertilizer, labor, packaging, transportation
- All costs are variable in the *long-run*
- Costs will vary by
  - Marketing channel, extent of post-harvest processing



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## Costs of Production

- Historical costs
  - Good recordkeeping helps you accurately compare this year to previous years
  - Allows you to assess efficiency in your current marketing and production plans
- Projected costs
  - Based on historical, but reflect changes you plan to implement
  - Be conservative when evaluating a new enterprise based on projected costs (good and bad scenarios)



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## Costs of Production

- Controlling costs
  - Best done by knowing all your costs
  - Good recordkeeping system
  - Regular financial statements
- Is it better to control costs or increase prices?
  - Net returns are what matters
  - New marketing opportunity or product has to be evaluated by *costs and sales*



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## PRODUCT PROMOTION





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## Product Promotion

- Yes, you need to do it
  - If people don't know about you, they can't tell their friends
- Promotion strategy and delivery can be as diverse as your customer base
  - Segment marketing
  - Relationship marketing
  - Print media, websites, social media, etc.



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## Product Promotion

- Social marketing is the new 'word of mouth'
  - Facebook, Twitter, smart phone applications
  - People self-select into groups with common interests
  - Personalize messages to different segments
  - Stay in touch with existing customers (loyalty, brand recognition)



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## Product Promotion

- Segment marketing
  - Use penetration pricing strategy to stabilize seasonal demand fluctuation
  - Reward loyal customers with coupons, other perks
- Relationship marketing
  - Concerns about authenticity and consumerism
  - Shared values and mission are key
  - Word of mouth promotion



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## Product Promotion

- Choose a media that fits your customers
  - Newspapers, websites
  - Marketing networks (LocalHarvest)
  - Keep all your media current and relevant,
- Bring in outside expertise
  - If you don't know how (or don't want to learn) hire someone to do your promotion



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## MARKETING PLAN IMPLEMENTATION



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## Marketing Plan

- Implement
  - Everyone knows how the plan will be carried out
  - Communication within (and outside) business is vital
- Monitor
  - Keep track of costs, revenues, and other relevant information during marketing year
- Evaluate
  - How do you measure the success (or failure) of a marketing strategy?
  - Benchmarks for long run success



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## Marketing Plan

- Now you have a plan...what's next?
- Checklist:
  - Is this plan possible with your current resources?
  - Are you addressing a market opportunity?
  - Do you have clear objectives and vision behind each marketing strategy choice?
  - Is everyone in your operation aware of your plan and on board?
- If you answered yes, then put it in action



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## Marketing Plan

- Adjust the plan to reflect your evaluation
  - Keep what works and try other approaches
  - Be objective in your evaluation and adjustments
- Re-implement
  - Business marketing plans are not linear
  - The process is one of continual evaluation and adjustment



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## PARTING THOUGHTS



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## Business Plan Resources

- K-State  
[www.agmanager.info/agribus/busdev/assess](http://www.agmanager.info/agribus/busdev/assess)
- Iowa State & USDA  
[www.agmrc.org/business\\_development/starting\\_a\\_business](http://www.agmrc.org/business_development/starting_a_business)
- AgPlan, Univ. of Minnesota  
<https://www.agplan.umn.edu>
- Sustainable Ag Research & Education  
[www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business](http://www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business)

43 

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## Parting Thoughts...

- Consider writing a business plan
  - Includes a marketing plan, financial plan, goals and values, management & organization
- Business plans are helpful to
  - Management (that's you) and employees
  - Lenders, investors, or business partners
- Excellent way to determine the feasibility of a new venture *before* capital is invested



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## Parting Thoughts...

- What does it mean to be *successful* at farming?
  - Paying down debt
  - Continuing a family tradition
  - Farming full time (or some other %)
  - Taking time to rest and vacation
  - Working together with your family
- A profitable business is a sustainable business



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## Questions?

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