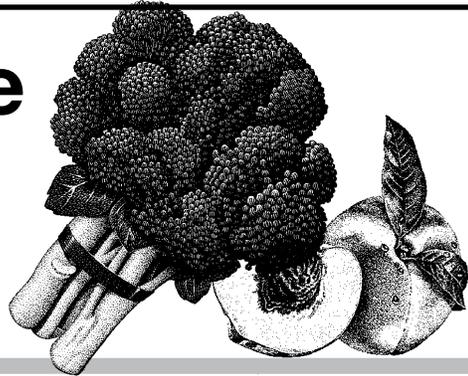


AGRICULTURAL ALTERNATIVES

Fruit and Vegetable Marketing for Small-scale and Part-time Growers



Marketing is important to all farm enterprises, regardless of size. Some farmers, such as cash grain farmers or dairy farmers, have large, well-established markets. They can use existing organizations to perform the marketing function for them, or they can band together, form a cooperative, and market their products jointly.

Small-scale fruit and vegetable growers generally have more difficulty finding established markets; therefore, they usually develop marketing systems tailored to their unique situations. It is strongly recommended that you identify and research your market before you become a fruit and vegetable grower.

Major Markets

Fruits and vegetables are produced seasonally, but the market requires products throughout the year. For many decades, this problem of matching product availability with consumer demand was solved in two ways: (1) selling fresh products during harvest and shortly thereafter, and (2) processing the rest to meet demand during the rest of the year. As technology improved and consumer incomes increased, it became possible to provide fresh produce year-round. American consumers now expect fresh tomatoes, strawberries, and sweet corn every month of the year. In addition, a strong demand remains for processed fruits and vegetables.

Fresh Markets

Increased consumer incomes and year-round demand for fresh produce force retailers or their representatives to establish buying points both in different growing areas of the United States and in foreign countries. Some retailers contract year-round with fresh fruit and vegetable packers, who may in turn contract with growers. Contracts and large-volume buying practices enable packers to obtain sufficient quantities of individual products.

Large fresh fruit and vegetable packers may contract with growers in several different production regions to ensure that fresh fruits and vegetables are available every week of the year. These packers generally contract only in regions with a large number of growers. Further, they contract mainly with the largest growers, even in concentrated production regions. Some packers ensure supplies by growing commodities themselves. Large retailers and packers are unlikely to purchase products directly from a single small-scale grower, especially a grower in a remote production area.

As a small-scale fresh fruit and vegetable grower, you may consider selling directly to retailers. Although some chain stores and independent retailers have buy-local programs for fresh produce, such stores and programs are not common. You must develop your own marketing system. In effect, you must become the grower, packer, and wholesaler.

This publication was developed by the Small-scale and Part-time Farming Project at Penn State with support from the U.S. Department of Agriculture-Extension Service.

Processing Markets

To stay competitive, processors must keep unit costs low, so large corporations generally do the processing. Many of the smaller local processors have found it difficult to compete with these corporations and have gone out of business. Almost all processors contract with growers for their raw-product needs. Over the past twenty to thirty years, most processors have moved their plants to major production areas. Only a few processing firms are left in the Northeast. Therefore, it may be difficult to locate processors interested in buying from small-scale growers. If a processor does indicate a willingness to buy, insist on a purchase contract with the processor before planting the crop.

You may wish to process your own fruits and vegetables. This is how many of today's processors entered the business decades ago. If you are considering a processing operation, contact your state Department of Agriculture to learn more about food regulations pertaining to the processing, packaging, and labeling of your product. It will probably be impossible for you to process and market produce at costs as low as those incurred by larger processors. As a result, it may be very difficult to compete for sales with your processed fruits and vegetables through conventional retail outlets. Consider processing specialty items with strong local or regional demand where you will be able to charge a "premium" price.

Sometimes a small processor will process fruits or vegetables for a grower on a contract basis, especially if the product being produced does not interfere with its own processing requirements. Of course, its busy time is often when you need to process your product, so this works best for something with an especially early or late processing season.

Selling processed fruits or vegetables may, in addition, increase your exposure to product liability suits. Check with an attorney and an insurance carrier to determine the degree of liability exposure and to secure the proper level of protection.

Evaluating Market Demand

Larger growers, particularly those located in major production areas, can pursue either of the two traditional marketing alternatives: wholesale fresh marketing or processing. Small-scale growers who find these marketing avenues closed to them will need to take a direct-to-consumer approach. This requires thorough research of the market and customer behavior before planning crop production.

Some farmers generate profits by planting first and then looking for a market, but this is extremely risky for fruit and vegetable growers. There are far more failures than success stories in this situation. If you are a new grower, or an established one planning to produce a new item, you should first attempt to evaluate the market demand for the product and then decide which direct marketing channel(s) will best meet the needs of your consumers. Your estimates of profitability should include the marketing channel costs as well as production costs.

Small-scale growers should collect three types of information before deciding to produce and market fresh fruits and vegetables.

- Determine and define the geographic area where you will market fresh fruits and vegetables. Identify potential customers before you investigate consumer demand.
- Assess the level of unfulfilled demand among consumers within the defined marketing area. It is advisable to estimate the amount that consumers (buyers) within that market buy at present. In the process, you will gain insight into how they might be better served.
- Consider the competitive structure of your market. Knowing who your potential competitors are, where they are located, and what services they provide are important pieces of information for you as a new grower-marketer. Note potential competitors who might have marketing advantages (lower costs, better locations, and higher-quality produce) or may provide potential consumers with similar products.

You must find out as much as possible about consumers who may buy your product(s). What products are your potential consumers buying, where are they buying, and when are these products available? Visiting other areas in your state or the United States can help you better understand consumer behavior and produce-marketing practices. Cooperative extension personnel are a valuable source of information about the local marketing situation. In addition, cooperative extension offices often provide training workshops and seminars specifically for direct marketers. Data on customer demographics is collected by the U.S. Census Bureau. This information can be found online at uscensus.gov.

Determine the likely impact of increased production on future selling prices. If you place more produce on the market, and the products are not of different quality or do not meet some other "unmet need" for which consumers are willing to pay a higher price, then it is likely that prices will drop from current levels. An expected price is a vital piece of information for planning purposes. There is no simple, reliable way of predicting local market prices, but such information is very important to growers. Estimate prices by considering all the available information and using good judgment. When using these estimated prices for planning, remember to include marketing costs and the cost of unsold product.

Introducing a new product to consumers and getting them to buy it is difficult because most will not be familiar with it or its potential uses. The learning process takes time. A new item may provide you with a foothold in a market that will grow rapidly. However, it is more likely to grow slowly, which may result in product waste during the first few years. If fruits or vegetables are commonly consumed, you must find out whether buyers will increase purchases when more is grown and sold in the manner you choose.

Supermarkets are major suppliers of fresh fruits and vegetables but generally are not strong competitors for sales of in-season crops. For example, supermarkets sell very little sweet corn when it is available at farmers markets or along roadsides. Other direct marketers, whether they are pick-your-own operations, roadside markets, farmers markets, or curb markets, are your primary competition. Be aware that entry and exit from the market can occur very quickly. In recent years direct marketers have expressed concern about the increased number of competitors and the possibility of profit loss in existing operations.

Here are some important questions that you as a grower-marketer must answer:

- Who are the likely consumers of your produce and where do these consumers live?
- How many people live within your marketing area?
- Are consumers currently buying a particular fruit or vegetable?
- How much of the product(s) do your potential customers currently use? Is this use seasonal?
- What prices are consumers paying for high-quality products?
- Are consumers adequately served at present?

If consumers in the area are being adequately served, here are some additional questions:

- Can you do the job better and draw part of the market away from competitors?
- Can the quantity that consumers purchase be increased by providing better quality than is now available?
- Will your anticipated production come at a time when little else is offered for sale?
- What level of quality must you produce to meet the need unfulfilled demands of consumers?
- How must you prepare and package the produce? What size containers are most popular? What marketing costs will be incurred?

Selecting a Direct Marketing Channel

Several factors must be considered when choosing a direct marketing channel. Location can have a major impact on an enterprise's profitability because location affects the direct marketing channel used as well as the ability to attract customers. Furthermore, some direct marketing channels, such as pick-your-own operations, work well for some products but not as well for others.

Bringing fruits and vegetables to market requires special handling. To preserve quality and maintain marketability, each crop must be harvested, prepared for market, packaged, and shipped. (Special handling requirements are noted for specific fruits and vegetables covered in this *Agricultural Alternatives* series.)

Any direct marketing of produce may increase your exposure to risk. Your farm owner's insurance policy may offer limited product liability insurance; however, additional coverage should be considered. Check with your insurance salesperson to determine your level of exposure. More information on agricultural business insurance can be found in *Agricultural Alternatives: Agricultural Business Insurance*.

Small-scale growers use four different direct marketing channels. These channels vary in the amount of labor and capital the marketer must provide and in the location of the marketplace.

1. Roadside marketing is by far the most common direct marketing system. The system requires some capital investment in a facility, and you have to provide the harvesting, market preparation, and retailing labor. Customer relationships are extremely important, but they are more conventional than the relationship between a clerk and a customer. Location is very important for roadside marketing. More information on developing and operating a successful roadside market can be found in *Agricultural Alternatives: Developing a Roadside Market*.
2. Farmers markets or "curb markets" are similar to roadside markets, but the retailing function is simply moved closer to the consumer. This enables you to offset the disadvantages of your production location. One advantage is the generation of high levels of customer traffic. Staffing needs are simple to plan because operations generally occur only during specified hours. One big disadvantage, however, is the need to predict sales so that enough produce can be harvested and prepared each market day. At a farmers market you generally cannot replenish stock by quickly harvesting more, which can sometimes be done at roadside stands. Also, a rainy farmers market day can result in unsold stock that cannot be sold on the next market day. In addition, farmers markets typically have several sellers on the site with the same products. This can be good or bad for you. The other vendors can help attract customers, but they may also be direct competition. You should look at the market to see how your products will compete.
3. Pick-your-own, sometimes referred to as U-pick, operations require the least grower labor and capital for market facilities. Your customers perform a large amount of the marketing function and do the harvesting. This method works well for some commodities and in some locations, but not for all crops or for all growers. It usually works best for fruits or vegetables that are purchased in fairly large quantities for home processing. Customers who want to buy a quart of strawberries or a half-dozen ears of sweet corn for the evening meal are not likely to buy from a pick-your-own operation (although some growers have a limited amount of already-picked produce available for purchase). Also, your ability to deal with the public is an important consideration. As a U-pick marketer you must be willing to accept a certain amount of unintentional damage caused by customers. Picker instruction and supervision are tasks certain growers do not handle well.

As with roadside marketing, location is very important in pick-your-own operations. There is a limit to how far people will drive to your farm.

4. Subscription farming is essentially grower contracting. This is also sometimes called community-supported agriculture (CSA). You “contract” directly with the consumer to produce and deliver a specific vegetable or fruit. This system may require maintenance of a delivery vehicle, good consumer relations, and availability of a wide variety of fruits and vegetables throughout the season. This approach may be a good way to profit from special attributes of your produce, such as products with ethnic appeal, organically grown produce, and gourmet items. The success of subscription farming often will depend on a long growing season and imagination in having something of value for the consumer throughout the season. By working with other growers, you can provide your CSA customers with a wider variety of produce than you can grow by yourself. This will help strengthen your business, reduce your risk, and support other local farmers.

Quality Is the Key to Marketing Success

Price and quality are synonymous in fruit and vegetable production. Unfortunately, it is not always easy to know what is meant by “high quality” and quality judgment often varies from year to year. Federal grade standards do not exist for all horticultural crops and those that have them are often not very specific. Often there is only one recognized quality grade, U.S. No. 1, which means the produce is of “good average quality.” Buyers and consumers, however, often have additional criteria by which they judge produce quality, including flavor, ripeness, odor, cleanliness, and the presence of insects and foreign material.

Proper disease management, harvest practices (including picker instruction and supervision), and postharvest handling are critical to marketing success. Cooling produce to remove field heat and improve shelf life is especially important. Treatments to reduce decay may be another important consideration. Sorting and washing of some fruits and vegetables can also be done to help maintain quality and improve appearance. For certain crops, such as small fruits and other delicate produce, sorting and/or washing is not an option; harvest crews must be well trained and quality continuously monitored to ensure a marketable crop.

Good Agricultural Practices (GAPs) and Good Handling Practices (GHPs) are voluntary programs that you may wish to pursue for your operation. The idea behind these programs is to ensure a safer food system in light of previous outbreaks of foodborne illnesses resulting from contaminated products. Also, several major food distribution chains are beginning to require GAP- and GHP-certified products from their producers. Many of the requirements concern worker hygiene, use of manure, and the quality of the water supply used for irrigation and washing produce.

These programs will require an inspection from your state Department of Agriculture, and there are fees associated with the inspection. Prior to an inspection you will need to develop and implement a food safety plan and designate someone to oversee this plan. One component of the certification is that you will need to have your water supplies checked at least twice each year. Another component is field sanitation for harvest workers, among other considerations. For more information about the GAP and GHP programs, consult your local extension office, your state Department of Agriculture, or USDA’s Agricultural Marketing Service website (www.ams.usda.gov; search for “Good Handling Practices”).

For More Information

Bartsch, J. A., and R. Kline. *Produce Handling for Direct Marketing*. Ithaca, N.Y.: Northeast Agricultural Engineering Service, 1992.

Dunn, J. W., J. W. Berry, L. F. Kime, R. M. Harsh, and J. K. Harper. *Agricultural Alternatives: Developing a Roadside Market*. University Park: The Pennsylvania State University, 2006.

Dunn, J.W., J. K. Harper, and L. F. Kime. *Agricultural Alternatives: Cooperatives*. University Park: The Pennsylvania State University, 2005.

German, C., et al. *Guide to Planning the Farm Retail Market*. Newark: University of Delaware Cooperative Extension Service Agricultural Experiment Station, 1994.

How, R. B. *Marketing Fresh Fruits and Vegetables*. New York: Springer-Verlag, 1991.

Kime, L. F., J. A. Adamik, E. E. Gantz, and J. K. Harper. *Agricultural Alternatives: Agricultural Business Insurance*. University Park, PA.: The Pennsylvania State University, 2004.

Kime, L. F., W. W. McGee, S. M. Bogash, and J. K. Harper. *Agricultural Alternatives: Developing a Business Plan*. University Park: The Pennsylvania State University, 2004.

Lee, A. W., and P. Foreman. *Backyard Market Gardening: The Entrepreneurs Guide to Selling What You Grow*. Buena Vista, Va.: Good Earth Publications, 1995.

Selders, A. W., et al. *Facilities for Roadside Markets*. Ithaca, N.Y.: Northeast Regional Agricultural Engineering Services, 1992.

Tronstad, R. *Direct Farm Marketing and Tourism Handbook*. Tucson: University of Arizona, 2007. ag.arizona.edu/arec/pubs/dmkt/dmkt.html.

Wilson, C. L., ed. *Intelligent and Active Packaging for Fruits and Vegetables*. Florence, Ky.: Taylor and Francis, 2007.

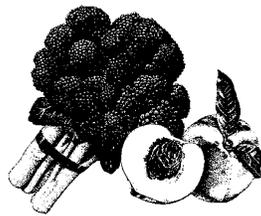
Websites

Clemson University Fruit and Vegetable Marketing and Economic Information
cherokee.agecon.clemson.edu/fruit.htm

ERS/USDA Briefing Room Farm and Commodity Policy Program
www.ers.usda.gov/Briefing/FarmPolicy/fruitAndVegetables.htm

USDA Agricultural Marketing Service
www.ams.usda.gov/fv/moab.html

USDA Fruit and Vegetable Market News
marketnews.usda.gov/portal/fv



Prepared by James Dunn, professor of agricultural economics; Jayson Harper, professor of agricultural economics; and Lynn Kime, senior extension associate.

Penn State College of Agricultural Sciences research and extension programs are funded in part by Pennsylvania counties, the Commonwealth of Pennsylvania, and the U.S. Department of Agriculture.

This publication is available in alternative media on request.

Penn State is committed to affirmative action, equal opportunity, and the diversity of its workforce.

Produced by Ag Communications and Marketing

© The Pennsylvania State University 2009

Code UA262 03/14pod