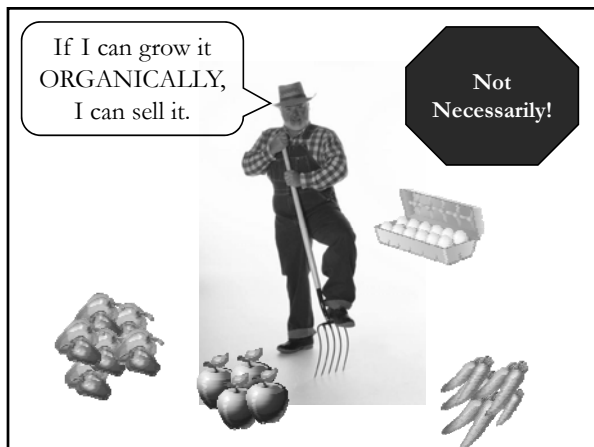




Shasta Hubbs

Center for Profitable Agriculture
 931-486-2777
 shubbs@tennessee.edu
 http://cpa.utk.edu



Do the Rules of Traditional Marketing Still Apply?



YES - Traditional Marketing Rules Still Apply When Marketing Organics!




What Marketing is NOT!



- Only ADVERTISING – Newspaper, Radio, Billboard
- A GUARANTEE of success


What Marketing IS...



Planning and executing a set of objectives to bring buyers and sellers together so that a sale can take place.



Key Marketing Concepts



- ### Key marketing concepts
- Know yourself
 - Know the market
 - Identify your target market
 - Understand customer values
 - Link customer values to marketing mix
 - Positioning, Place, Price & Promotion
 - Budget
 - Measure effectiveness
- 

- ### Components of a Marketing Plan
- Market Analysis
 - Market Situation
 - Target Market
 - Marketing and Financial Goals & Objectives
 - Marketing Mix
 - Product
 - Price
 - Place
 - Promotion
 - Marketing Budget
 - Marketing Plan Check List

- ### Market planning helps to determine...
1. If a market exists to generate a **PROFIT**
 - Able to produce at a cost low enough and sell at a price high enough to generate a profit
 2. The identity of the **TARGET MARKET**
 - Who is likely to purchase the product
 3. How to reach the target market – 4 P's
 - Price, Place, Promotion, Packaging

Know yourself – the good, bad and the ugly

- Perform a SWOT analysis
- Identify strengths of your business
- Identify weakness of your business



Analyze SWOT

- Able to use strengths to take advantage of opportunities?
- Able to change weaknesses and threats into opportunities?

Know the market

- Learn about market situation and trends
- Identify opportunities created by the market
- Identify threats presented by the market



Identify your TARGET MARKET



A portion of the population with

1. A Need that your business can fulfill
2. A Willingness to purchase
3. An Ability to make a purchase

Target Market Characteristics

- Demographic Analysis
 - Age
 - Gender
 - Geographic location
 - Annual income
 - Marriage/family status
 - Ethnicity
 - Education level

Target Market Characteristics

- Psychographic Analysis
 - What do they VALUE?
 - Specific product characteristics
 - Price
 - Convenience
 - How do they make decisions?
 - Recommendations
 - Advertising

Understand Customer Values

- Become your customer
- What's in it for them?

- The customers' 4 Cs
 - Customer benefit
 - Customer cost
 - Convenience
 - Communication



Link Customer Values to Marketing Mix Strategies

- | | | |
|-----------------------|---|------------------------|
| • The buyer's four Cs | ↔ | • The seller's four Ps |
| – Customer benefit | ↔ | – Product positioning |
| – Customer cost | ↔ | – Price |
| – Convenience | ↔ | – Place |
| – Communication | ↔ | – Promotion |

Source: <http://www.foodsci.purdue.edu/outreach/vap/materials/marketing.pdf>

Why Businesses Fail (The 3 Ms)

- Money
 - Sufficient operating capital and cash flow
- Management
 - Skills and experience
- Marketing
 - Knowing and accessing your customer

Clark, Scott. Reasons for business failure come in three broad groups. Puget Sound Business Journal. July 21, 1997.

Begin with the End in Mind

- Develop a marketing plan BEFORE you begin
- A marketing plan helps to determine
 - What to grow
 - What else to offer – should you diversify
 - Who will likely buy it – your target market
 - Where to sell it
 - When to sell it
 - How to reach potential customers
 - How much you are likely to sell → How much to grow
 - Expected revenue and cost (Profit/Loss Potential)

Organic Marketing Trends & the Market Situation



Organic Food Facts

- U.S. organic food sales have grown between 17 and 21 percent each year since 1997, to nearly triple in sales
- Total U.S. food sales over this time period have grown only 2 to 4 percent a year
- Organically produced products as milk, cheese, meats, and baby food are growing in popularity.

Organic Food Facts

- Organic sales in the United States reached \$24.6 billion in sales in 2008.
- Organic food is the largest segment of organic products, totaling \$22.9 billion in sales and accounting for 93% of all organic product sales.
- Organic food now accounts for 3.47% of all food products sold in the U.S.

Organic Food Categories

- The fruit and vegetable category accounts for the largest portion of organic food sales.
 - 37% of total Organic Food Sales 2008
- The second largest categories are beverage and dairy.
 - representing just over 14% each
- The strongest growth in 2008 is in the categories of breads and grains (35% over 2007) and beverages (32%).

Overall Organic Usage Has Leveled Off

Organic users in 2006 – 73%
Organic users in 2008 – 69%

	2000	2006	2008
Daily	8%	9%	7%
Weekly	9%	14%	12%
Monthly	5%	6%	8%
Occasionally	34%	44%	42%
Never	45%	27%	31%

Sources: Healthy Living, August 2000 (n=4,942); Organic 2006 Survey, December 2005 (n=2,109); Organic 2008, March 2008 (n=2,161)
Note: Percentages may not sum up to 100% due to rounding.

Who Buys Organic Foods?

- 73% of U.S. families have purchased at least some organic products
- **Newly Organic Families** (32%), have begun purchasing organic products in the past two years
- ***Experienced Organic Families** (20%), with between 2 and 5 years' experience in the organic market
- ***Seasoned Organic Families** (21%) are the most experienced organic buyers with at least 5 years in the market

2009 U.S. Families' Organic Attitudes & Beliefs Study June 2009
http://www.ota.com/organic/www.ota.com/pics/documents/01b_FinalOTA-KiwiExecutiveSummary.pdf

Who Buys Organic Foods?

Consumers with household incomes of **>\$70K** are MORE LIKELY than other consumers to be organic users.

Consumers with household incomes **<\$30K** are LESS LIKELY to be organic users.

However, it is important to keep in mind that 52% of all organic users have a household income of **<\$50K**

Hartman Group "Current State of the Organic Consumer" Webinar <http://www.hartman-group.com/webinar/current-state-of-the-organic-consumer>

Who Buys Organic Foods?

- Consumers who have children
- Consumers with a family member with a health condition
 - food allergy, cancer, etc.

<http://www.organicconsumers.org/organic/millions033004.cfm>

Why Some Consumers Choose Organics

- The number-one reason consumers buy organic food is that they perceive it to be a better product, health wise.
- The second factor is TASTE, which was cited as important by 38% of consumers in the research.
- FOOD SAFETY is third at 30%.

<http://www.organicconsumers.org/organic/millions033004.cfm>

Why Consumers Don't Buy Organic?

- The number-one reason is that they have never really considered it before
- Price is second on the list
- Availability -- or a lack of availability -- is third on the list of why people don't purchase organic food

Organic Consumers Association www.organicconsumers.org

Marketing Mix Considerations for Organic Products



Marketing Mix

Position

Place

Price

Promotion

Position - Merchandising

- Merchandising of organic produce is similar to that of conventional produce
- Special activities may be necessary for proper organic identification and for maintaining shelf life
- Organic produce must meet or exceed acceptable cosmetic standards
- Growers should cool, pack and deliver produce as soon as possible.

Place

- Farmers Markets
- Roadside Stands
- U-Pick/Pick-Your-Own/Cut-Your-Own
- On-Farm Retail Market

Farmers Markets

- Advantages
 - Can sell a little or a lot
 - No standard pack/grade, though presentation is important
 - Can be springboard to other market channels
 - Lots of social interaction
 - Tend to give preference to local farmers
 - High margin—full retail price
 - Provides good access to market intelligence - prices, consumer demand, popular varieties

Farmers Markets

- Disadvantages
 - Hard to move large volume of product
 - High costs per unit of product sold (in terms of labor and transport requirements)
 - Market schedules can be grueling
 - Waiting lists for successful markets
 - Small transactions
 - Requires selling to customers face to face
 - Requires good produce mix

Roadside Stands

- Advantages
 - Can sell a little or a lot
 - No standard pack/grade, though presentation is important
 - Can be springboard to other market channels
 - Can create your own schedule

Roadside Stands

- Disadvantages
 - Have to find/obtain good location
 - Hard to move large volume of product
 - High costs per unit of product sold (in terms of labor and transport requirements)
 - Small transactions
 - Requires selling to customers face to face

U-Pick/Pick-Your-Own/ Cut-Your-Own

- Advantages
 - Reduces harvest labor requirements
 - Potential to sell lower quality produce
 - Elimination of most grading, packing and storing
 - No intermediaries
 - Immediate payment
 - Lower equipment costs
 - Larger transactions than farmers markets

U-Pick/Pick-Your-Own/ Cut-Your-Own

- Disadvantages
 - Possible liability
 - Long hours
 - Challenge in getting customers to picking site
 - Matching volumes to number of pickers
 - Dealing with all types of people
 - Inability to sell all the crop at one time
 - Need to supervise customers
 - Need to have either high traffic location or excellent word of mouth
 - Loss of yield, e.g., crop damage due to improper harvesting

On-Farm Retail Market

- Advantages
 - Customers come to you – no transportation cost
 - No standard pack/grade, though presentation important
 - No fees

On-Farm Retail Market

- Disadvantages
 - Need inviting environment for customers
 - Potential for liability risk
 - Requires selling to customers face to face
 - Location key to success
 - Management and time intensive
 - Need capital for building
 - Many small transactions

Source: USDA-AMS. "Emerging Market Opportunities for Small Scale Producers."
<http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5076556&acct=wdmgeminfo>

Price

- How to determine your price
- Pricing Premiums

Pricing

- Consider
 - Cost of production
 - Competitor prices
 - Product characteristics
 - Willingness to pay
- Be careful not to under price



Pricing Premiums

- Organic fresh fruit commanded a significant price premium, varying from 13 cents per pound for bananas in 2006 to 88 cents per pound for strawberries
- The per pound premium for fresh vegetables ranged from 19 cents for onions and carrots to 54 cents for peppers.

Consumers willing to pay a premium for organic produce, April/May 2009
<http://www.entrepreneur.com/tradejournals/article/200409391.html>

Additional Factors Influencing Price

Soaring energy costs and a deterioration in the housing market are expected to contribute next year to an overall decline in consumer spending.

However 7 in 10 of the consumers surveyed said they would remain willing to pay **20% more** for environmentally friendly products.

<http://www.foodnavigator-usa.com/Financial-Industry/Green-products-can-sustain-price-premium-report>

Promotion

- Based on target audience
 - Signage/Billboards
 - Web Site
 - Direct Mail/Email
 - Newspaper/Magazines
 - Radio
 - Television
 - Social Media
 - Word of Mouth



Regulatory Considerations



Allowable Units/Weights and Measures

- May be sold by weight or count
- Produce sold by weight must be weighed on scales that are “legal for trade”
- Scales must be inspected and permitted by TDA Weights and Measures Department
- Weight must be figured as net weight
 - (Does not include weight of carton or container)
- More information
 - Produce Scales Permit Fact Sheet
<http://cpa.utk.edu/pdf/files/cpa166.pdf>
 - Robert Williams at (615) 837-5109 or robert.g.williams@state.tn.us

Sales Tax Considerations

- A farmer who grows 50% or more of farm/nursery product sold in a calendar year is exempt from collecting sales tax on all sales of farm/nursery products
- A farmer who grows less than 50% of farm/nursery product sold must collect and remit sales tax on the portion of farm/nursery product he/she did not produce
 - UNLESS customers are from a tax exempt organization
 - if billing is made to the name of the organization, the bill is paid directly from the organization and exemption certificate is presented, then no sales tax is collected
 - Also, dealers (example-grocery stores) buying the products for resale may present the farmer with a resale certificate to buy free of tax.
- Use gross sales dollars as units

Sales Tax Example 1



- Farmer John sold \$2,000 in apples at the farmers market in a calendar year. \$1,200 from apples he produced and \$800 from apples he bought from Farmer Sue.
- Should Farmer John have collected and remitted sales tax on any of the apples sales?
- No, Farmer John grew more than 50% of the value of the apples sold.

Sales Tax Example 2



- Farmer John sold \$2,000 in apples at the farmers market in a calendar year. \$800 from apples he produced and \$1,200 from apples he bought from Farmer Sue.
- Should Farmer John have collected and remitted sales tax on any of the apple sales?
- Yes, Farmer John should collect and remit sales tax on the \$1,200 from apples he did not grow.

Sales Tax Example 3



- Farmer Dan offers a hayride to the apple orchard and a bag of apples he grew for a package price of \$6.
- Should Farmer Dan collect and remit sales tax on the hayride package price?
- Yes, bundled products that include a taxable product/service are taxable (unless tax-exempt criteria is met).
 - Farmer Dan could charge for each item separately, then he would only need to collect tax on the price of the hayride.
 - Farmer Dan could charge \$6 for the apples he grew and give the customer a free hayride to the apple orchard and not collect tax.

Sales Tax Example 4



- Farmer Clara also makes and sells value-added products such as jams, jellies and salsas made with fruits and vegetables from her farm. She uses jars, lids, labels, preservatives and other items to produce these products as well.
- Should Farmer Clara collect and remit sales tax on these products?
- No, the jams, jellies and salsa are made up of 50% or more of farm product grown by Clara versus other ingredients so these value-added products are tax exempt.
- Clara can also register with the Tennessee Department of Revenue for a Dealer Certificate, which she can use to purchase ingredients for her value-added products tax exempt.

Sales Tax Example 5

- Farmer Clara also makes and sells value-added products such as breads and cakes that incorporate a small amount of her farm products and many products she buys from the grocery store.
- Should Farmer Clara collect and remit sales tax on these products?
- Yes, in this case, the value-added products are made from a majority of products not produced on Clara's Farm so the sales price of the value-added product is taxable.
- Clara can purchase the ingredients and packaging used for the value-added products tax exempt using her Tennessee Department of Agriculture Dealer Certificate.



Sales Tax Procedure

- If sell taxable products, must file no-cost application with Tennessee Department of Revenue for "Certificate of Registration" to be a "Dealer"
- Must submit sales tax returns monthly with payment (whether or not have sales to report)
 - May submit quarterly if average tax payment is \$200 or less per month with approval
- Sales and Use Tax Guide
<http://www.tennessee.gov/revenue/taxguides/salesuse2008.pdf>

Risk Management



Manage Your Risk

- **Product Liability**
 - Raw products (fruits, vegetables, etc.) **may** be covered under farm owner insurance policy
 - Processed products (jam, meat, etc.) would likely need a commercial liability policy
 - Normal limits of coverage are \$100k, \$300k, \$500k and \$1 million
 - Umbrella policy can provide excess/additional coverage in \$1,000,000 increments
 - One insurance provider recommended at least enough to cover the value of your assets
 - **Coverage varies from company to company. Please discuss your particular situation with your insurance agent to verify your coverage.**

Manage Your Risk

- Landowner Liability
 - When people come to farm to purchase products or participate in agritourism activities, farm owner policy likely does not cover
 - Visit with your insurance agent to see if you need a special landowner liability policy
- New Agritourism Liability Law
 - Limits liability for injury or death resulting from inherent risks of agritourism
 - Warning must be given in contracts and with signage



Additional Resources



Marketing Resources



- Pick Tennessee Products
 - www.picktnproducts.org
 - Promotes Tennessee produced food products, farmers markets, etc.
- Tennessee Farm Fresh
 - www.tnfarmfresh.com
 - Promotes farms that direct markets products to consumers



Questions or Comments?