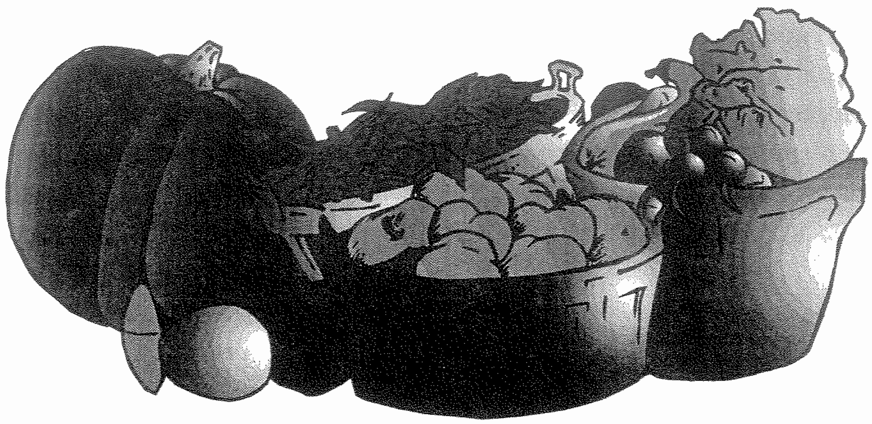
Extension Report 55

Taking a Market Approach to North Dakota Vegetable Production



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General

Potential vegetable producers need to consider a number of factors. For example, the food supply system is subject to shifts in supply and demand which affect pricing decisions. This is very critical for perishables where price fluctuation can occur several times daily. Next, a well thought out business plan based on a market study is needed. Success then requires two things: a willing seller and a willing buyer.

In many cases buyers are eager to buy locally grown produce. They cite freshness, better price, marketing edge with competitors, and better quality as major factors for wanting to buy local produce (Peterson, 1998). Buyers do, however, have some reservations about a new supplier's ability to supply consistent quality, proper grading, competitive packaging, consistent delivery practices, and sufficient volume. These factors must be addressed in order to be successful, so a carefully planned working relationship between participants is essential to success.

Market Study

First, potential producers must assess the need for the product and/or service. Does the need actually exist, and are potential buyers willing to work with local producers? This can be done by personal research through interviews, trade journals, telephone surveys of potential buyers, local bankers, extension agents, and Internet searches. Every source should be thoroughly checked. Although this takes time, it is better to know that a valid market demand exists before production starts than to find out there is no market after the crop is planted.

Second: Ask the following questions of yourself as a potential producer to assess the local market area.

- What is the geographic area in which the product will be sold?
- Is the business plan consistent with the market plan?
- Do we have the resources to be successful in developing the market plan?
- Will sufficient revenue be generated in the market to produce a profit?
- Can we afford to go into the business? (Green, 1988)

Third: Test the waters — talk to some buyers, find out what they sell, and what they would like to sell. Make personal contacts; some will be uneasy with this approach at first, but it does get easier with practice (Hanson and Rada, 1994). One proven way to conduct a market analysis for a locally grown vegetable crop is to simply invite area produce managers to a meeting. In Nelson County we used a **"Grower to Grocer"** concept to find out what the grocers want and to determine production. By showing up, produce buyers are indicating an interest in your product. Buyers will ask some tough questions that producers need to be able to answer. Product knowledge is very important. Listening to your customers to learn what they want, when they want it, and the price and quality they will accept is an important skill to learn.

Research the following:

- What quality does the buyer expect?
- Can we provide a consistent supply?
- When will the product be available and for how long?
- Strategies to insure loyalty to the customer.
- What price do we expect?
- Does the buyer want a specific variety or type of product such as Walla Walla onions or Beefsteak tomatoes? (Davidson, 1996)

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Production and Marketing Considerations

The potential producer must take into account the following:

Product quality should meet the current buyer product supply requirements at the very minimum. If possible, the quality should be even better. Make your product superior by choosing the best seed, fertilizer, land, and other inputs. Then the *marketable yield* must be selected. This is very different from small grains, for example where total yield is normally expected. A grower can't be afraid to cull unacceptable fruits and vegetables. In the long run, a producer will be able to sell more product by culling blemished, misshapen product. A grower needs to be attentive to objections and treat them as questions, not rejections (Hanson and Rada, 1994). If a buyer objects to a certain product, you must ask why. Many times buyers are suggesting ideas to improve the relationship between buyer and seller.

The producer needs to be able to provide a consistent product supply. Buyers must be able to depend on a certain amount of product to stock their shelves for a given time period. For example, the producer will provide four lugs of tomatoes every Tuesday and Friday for the month of August. Visit with the buyers, find out how much of a product they go through in a week or month. Production should then be planned accordingly. *Ask them to buy* – many buyers indicate that they have never been directly asked to purchase a locally grown product.

The grower needs to plan ahead for the marketing season. Let the buyer know when production will start and start marketing accordingly. Early in the season, only a few items of product are ready to harvest. Use them as a "loss leader", taking samples to the buyer(s), not for sale, just as samples to use as they see fit. Some will put them on the shelves and assess their salability; other buyers will use the products themselves. These types of efforts reinforce and build the working relationship. It is important to find out what the buyer thinks of the product. Vegetable production usually starts slowly, peaks and declines rather rapidly. The producer can manage this by learning and utilizing proper storage to help even out the marketing season. Let buyers know early enough for them to plan for the incoming produce. At peak production, the grower may have an excess of product. Marketing this excess profitably is an important part of a grower's strategy. Plan ahead with the buyer to help both parties sell product at peak production times. For example, offer a "weekend special." The producer may at this time be supplying all a buyer's needs, so constant communication is important. If the product is not highly perishable, storage for a short period of time may be an option. In the case of some vegetables, such as green peppers, the fruit may be left on the plant for a longer period of time before losing quality. As production starts to decline, growers need to tell their buyers, so that the buyers can begin to contact other sources for the product.

The grower must build customer loyalty. One way for the producer to do this is to maintain a loyal relationship with the buyer. Loyalty goes both ways – if the producer is loyal the buyer will reciprocate. It is wise to sell to the primary buyer first. A supplier should avoid selling to a buyer's competitor – especially at a lower price. This can be very tempting during peak production. Don't sell in the buyer's parking lot! Maintain dialogue with buyers. Telephone calls, visits and deliveries are prime times to visit with buyers about any questions they may have about the product. The current thought in the food industry is for producers to work side-by-side with buyers and retailers until the products are sold. In this way the grocer connects the consumer to the grower and continues to develop working and personal relationships (Hanson and Rada, 1994).

Pricing can be the most troublesome but most rewarding part of a relationship. It is highly unlikely that the buyer will initially give you a premium price, no matter how good your product. The challenge is to prove one's self over time, and credibility is part of relationship building. It pays to do your homework on local and national wholesale prices. Ask buyers what they are willing to pay. In many cases buyers will show you their wholesale price sheet if asked. If the buyer shows you a wholesale sheet, keep it confidential. It is important to check terminal prices, and add reasonable freight. One source of these prices is the USDA Chicago IL Terminal Market Prices at *http://gnv.ifas.ufl.edu/~Marketing/fvcity/hxfv020.html*. A supplier should give a price, be firm, but expect to negotiate (Davidson, 1996). Remember that prices fluctuate during the growing season, depending on total supply. If there is an oversupply, such as during peak production, prices are likely to drop. If there is an under-supply, such as early in the season, then prices will rise.

Contracting is a powerful marketing tool. In the produce business contracts require negotiations and special knowledge. Do not expect a contract the first year. In certain cases, the exact price will not be in a contract, but the parties can set a floor and ceiling price (boundaries). A good contract will include an agreement on the part of a buyer to purchase the product from a grower, and not from a competitor. Conversely the contract will require the grower to supply product to the buyer exclusively in a certain market. Other terms and conditions may include quality standards, delivery days/dates, packaging standards and method of payment.

Business Considerations

Producing for a local market requires time, energy and dedication and the business needs to be consistent with family goals. After determining the compatibility of the new goals to the existing business, the producer needs to inventory resources, including land, buildings and equipment, management and marketing skills, financial capabilities, and available labor. The producer needs to capitalize on underused resources and avoid conflicting resource needs. An example is to avoid duplicating labor needs at peak times of production/harvest of different enterprises (Green, 1988).

The only reason a producer should attempt to add a high-value enterprise to the family/farm business is to increase profitability. Income and cash projections need to be developed using an "average" year production and production costs to determine if sales will exceed production costs. Each producer needs to develop a budget based on the particular market. Production of high-value fruits and vegetables demands early planning and budgeting to determine profitability. A producer growing a high risk crop, must be able to bear that level of risk. Risk usually leads to reward, but only if managed properly. The grower must match the scope of production to the amount of risk that is acceptable.

Start-up costs may keep many producers from even entering the high-value crops or value-added businesses. Equipment, labor costs, increased input costs and other factors can deter a potential producer from starting as a new grower. The new grower can prepare for this by starting small with existing equipment, labor, and resource base or budget in a less-than-profitable start-up year with lenders in agreement with long term projections. An enterprise may take several years to become profitable (Green, 1988).

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