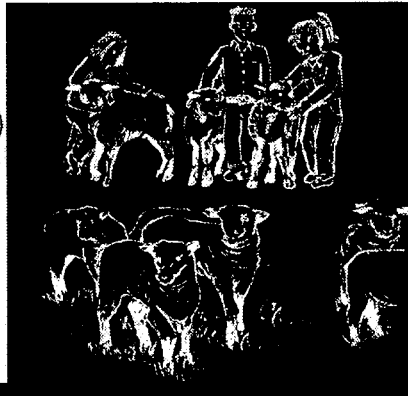
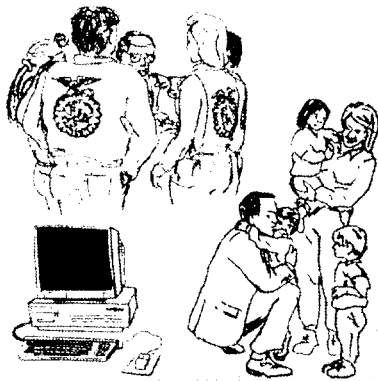


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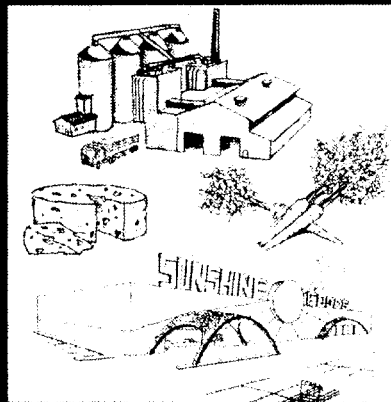


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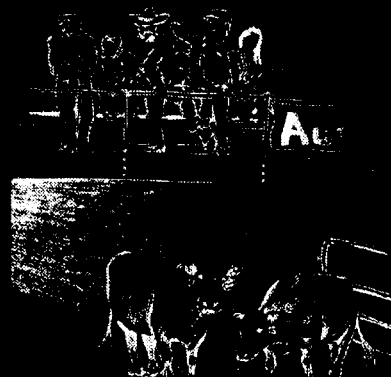
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# Alternative Markets for the Individual Producer

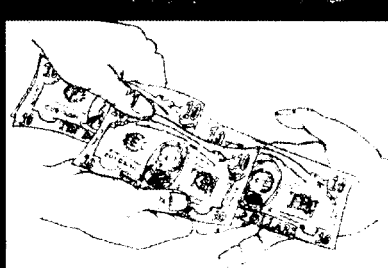


First in a Series Devoted to Exploring Marketing Alternatives for the Individual Producer



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**T**he producer considering alternative crop and livestock market possibilities to capture additional profit margins needs a framework for making initial crop, livestock and marketing decisions. With agricultural markets increasingly consumer-oriented, meaning driven by consumers' demands for various products, a **market-oriented approach to production becomes crucial to success**. Therefore, the producer should consider what the various alternative markets are by beginning to think in terms of being consumer responsive. Markets contain many submarkets, customer segments and distinct subtleties that have a direct effect on how much a consumer buys of a certain product at any given point of purchase and therefore a direct effect on how much the producer can profitably produce.

A basic assumption in this series is that the producer wants to consider some type of value-added enterprise. With this in mind, the producer is already thinking about changing the basic raw commodity being produced into some other form. Examples include cleaning, sorting, grading, dehydrating or freezing. In most cases, packaging and distribution become major factors.

## Preparing for the Decision

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The decision to sell in a wholesale or retail market or to take on the function of a wholesaler or a retailer adds a new dimension to the producer's inventory of skills. For those not mentally prepared it can be overwhelming or financially tragic. This is a long term decision and commitment. For those who take the proper time to prepare, it presents a new educational and management challenge and the risk/reward or profit/loss aura that attracts entrepreneurs in the first place.

# Alternative Wholesale Markets

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The alternative wholesale markets available to the producer are listed in the insert below. We start with the established alternative markets of other farmers and ranchers.

## **Other Farmers and Ranchers.**

This is a traditional market for producers selling their own value-added products. Examples include selling certified seed to other farmers and selling feed to feedlots or dairy farms. If a producer has already established such a market, they do have an additional option to concentrate on improving profitability.

**Auctions and Stock Exchanges.** This is the modern form of centralized trading where a wide array of buyers and sellers assemble under one vast roof. In agriculture, farmers and ranchers bring their products for examination by the buyers and the merchandise is sold through open bidding. Sale price is reached by using the buyer/seller exchange process commonly referred to as price discovery, i.e. Western Livestock Auction, Dickinson, ND. At commodity exchanges buyers and sellers call or wire in their orders. Commodities are bought and sold in specific contract unit amounts for immediate or future delivery, i.e. the Chicago Board of Trade, Chicago Mercantile Exchange, or Minneapolis Grain Exchange.

## **Food Manufacturers.**

Regional firms like NuGrain Products, Harvey, ND, Hormel, Austin, MN, or multi-national

firms like Kraft Foods, Chicago, IL, in many cases will consider operating similar to a general building contractor who subcontracts various aspects of a building project. These mid-sized to large companies will process products themselves or subcontract private label finished end products for production or distribution by a specialized food processor, a food ingredient company, an independent or specialty food manufacturer, or a food distributor.

**Food Processors** (slicers, dicers, fresh-cut, chilled, frozen, dehydrated, pickled or canned and prepared foods). A food processor is an enterprise specializing in converting bulk commodities or semi-processed foods into a different product and packaging form to better

meet consumer demand; an industry participant who converts raw, fresh agricultural products to a different form and then packs the new product for sale, i.e. Aviko french fry plant, Jamestown, ND, and Dakota Dairy Specialties, Hebron, ND.

**Food Service Distributors.** A distributor is a food product merchant who bulk purchases food and food items for distribution to the food service establishment market. Examples of types of food service establishments are restaurants; cafeterias; hotels and motels; retail store delis; local, state and federal building environments; the military; hospitals, and other institutional users, i.e. Grand Forks Grocery, Grand Forks, ND, Drayton Foods LLC, Fargo, ND.

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## **Alternative Wholesale Markets Available to the Individual Producer**

1. Other Farmers and Ranchers
  2. Auctions and Commodity Exchanges
  3. Food Manufacturers
  4. Food Processors
  5. Food Service Distributors
  6. Food Service Establishments
  7. Supermarkets
  8. Other Wholesalers
  9. Any combination of the above.
-

### Food Service Establishments.

These enterprises dispense prepared meals and snacks for *on premise* or immediate consumption. Further, vended foods qualify as food service only when tables or counters are available in the immediate area and a person with records of food receipts is present at the establishment, i.e. franchises like Subway, Valley City, ND, or independent restaurants such as Paradiso, Fargo, ND.

**Supermarkets** (includes coops and voluntary groups). Traditionally these are large volume grocers which include familiar names like SuperValu and Sunmart as well as independent cooperatives and voluntary buying groups. Contact is usually made with a regional purchasing agent or buyer for the chain. Two very important trends in grocery chains are in-store delis and other prepared food services (i.e. salad bars) that are supplied (catered) by food service companies, and a move away from buying and ownership of shelved products to a consignment role where ownership is retained by the food manufacturer (i.e. Frito-Lay, Nabisco, General Mills).

**Other Wholesalers** (terminal market receivers, integrated wholesale-retailers, exporters, institutional wholesalers). A wholesaler is a merchant who buys products from producers, processors, or other marketing intermediaries (i.e. brokers) for resale, i.e. Garske Produce Sales, Bismarck, ND, Valley Vegetables, Minot, ND. **Other wholesalers also includes buyers of agricultural products for non-food uses.**

Any combination of the above.

## Types of Wholesalers

Many producers may be considering expanding or diversifying their present farm or ranch business. One progressive step is to evaluate becoming a wholesaler. Therefore we have included a discussion of the various types of wholesalers.

**Full-function wholesalers** (from the retailer's viewpoint) take title to merchandise, provide *storage* for sufficient quantities to fill retailers' orders, offer delivery and financing of orders, and distribute food manufacturers' point-of-sale materials and insert mats for newspaper advertisements. Such wholesalers also (from the food manufacturers' viewpoint) provide salespeople to call on retailers, eating establishments, and institutions to help develop sales volume. Deliveries may be made directly to individual retail stores, a practice known as *drop shipments*.

**Limited-function wholesalers** reduce the services offered in any or all of the following ways: (1) warehousing may not be provided, making it necessary for manufacturers to lease space in public warehouses for the major part of backup supplies; (2) no sales staff — or only a small one — may be available, since orders are taken almost entirely by telephone; (3) promotional material must be sent by the processor directly to the retailer at the retailer's request; (4) orders must be paid for in cash and picked up at the delivery dock by the retailer. (wholesalers using this system are referred to as *cash-and-carry* wholesalers.)

**Full-line wholesalers**, as the name implies, carry a wide range of products that meet almost all the retailers' requirements. In the so-called dry grocery line (canned and packaged goods not requiring refrigeration or freezer storage) and/or in the chilled, refrigerated or freezer line products, emphasis is on a complete line of products and several major brands.

**Limited-line wholesalers** supplement or may compete with full-line wholesalers. Limited-line wholesalers restrict the products they sell to frozen foods, fresh fruits and vegetables, meats, or specialty items like tobacco, candy, and nuts. Limited-line distributors may complement one another and full-line wholesalers who do not handle produce and frozen foods. Limited-line distributors may also carry only selected brands. They may be franchised distributors whose sales staffs devote most of their efforts to the brands involved. Thus it is possible to be a limited-line, full-service wholesaler for processors who want extra sales efforts.

A very important aspect of wholesaling products is the service aspect. It is important to be aware of the nature of these services. In today's consumer responsive food chain, quality and timeliness of delivery precede price in importance. This fact allows for considerable profit margin building and therefore creates the environment for enhanced profitability the nearer one gets to the consumer.

## Services provided by wholesalers include:

*Buying* from a diverse group of processors and assembling products so that they are available from one source. *Selling* to retailers for processors who lack the resources or a broad enough line of products to field their own selling effort. *Dividing wholesale cartlots or truck lots* into individual cases or packages for distribution to retail stores. *Transporting products* to retail stores (drop shipments). *Financing*, if credit is offered to retailers. *Risk bearing*, when damaged products are found and credit is given for them and price risks are incurred from holding inventories. *Management services* are offered by some wholesalers to help retailers operate their businesses better. *Product promotion services* may be offered: delivering and setting up special displays, stocking regular displays or offering marketing allowances.

# Retailing Your Own Product(s)

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The decision to take on the function of retailing presents another new dimension to the producer's inventory of skills. Those who succeed learn how to apply sound business practices to this specialized mode of selling. Some basic questions to answer when considering retail operations are:

- Can we adapt our operation to the special demands of selling to the public?
- Will this venture add income?
- Do we have the capital to invest?
- Can we produce sufficient quantities over a long enough period of time?
- Are we willing to buy additional product if necessary?
- Do we have the management ability and temperament to succeed?

## Alternative Retail Markets

The alternative retail markets available to the producer are listed in the insert below. We start with a discussion of roadside stands.

**Roadside Stand.** An enterprise engaged in the growing, buying and selling of agricultural products directly to the consumer, this enterprise may or may not be located on the farm property (i.e. Old Trail Market, Moorhead, MN). Management is usually done by farm family members. Usually seasonal in nature, these retail outlets will extend the selling season to include major holidays and in some cases operate year round. Usually one major product such as apples, corn, or potatoes is the leading product.

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## Alternative Retail Markets Available To The Individual Producer

1. Roadside Stand
  2. U Pick or Pick Your Own
  3. House to House
  4. Farmers Markets
  5. Mail Order
  6. Independent or chain grocery stores, restaurants, food establishments
  7. Any combination of the above
-

### U Pick or Pick Your Own.

These are a variation of the roadside stand operation where the grower allows customers to pick their own ag products at harvest time. Prices are customarily reduced by the cost of harvest labor.

**House to House.** This method is self explanatory and encompasses development of a customer base and a scheduled delivery route. This may vary from daily to once per week depending on the product use. The historic milkman, current premium ice cream products, and in-season vegetables are examples. Today, Dominoes Pizza offers a successful variation of this marketing alternative by utilizing a new combination of a product (pizza), a delivery person (a teenager) and a vehicle in response to a phone-in order (Schwann's Ice Cream is another example).

**Farmers Markets.** These are the modern counterpart of the market square in a central location similar to the auction where a large array of sellers of ag products and buyers are gathered in one area. Some farmers markets are open air. These markets operate one or two times per week while those in larger cities may be roofed or enclosed and operate on a daily basis. Many markets are enhanced by craft merchants and a wide variety of other add-on merchants.

**Mail Order.** A mail order business is a retail business that offers its goods and services for sale by catalog, flyer, or other media. The buyer then orders sight unseen with prepayment and the goods are delivered through the mail or a delivery service.

**Independent or chain grocery stores, restaurants, food establishments.** Large or small scale producers may consider this alternative by matching product output to outlet size and number. This alternative offers the potential for volume sales directly to the consumer.

**Any combination of the above.**

The preceding alternative markets are by no means an all inclusive list and other lists are acknowledged.

## Types of Retailers

Many producers may be considering expanding or diversifying their present farm or ranch business. One progressive step is to evaluate becoming a retailer. Therefore, we have included a discussion of the various types of retailers.

**Full-line retailers** are stores that sell a full array of the product lines involved — foods, apparel, or farm and ranch supplies. (*Full-line*, in most cases, also indicates that several brands of the major products are sold.) In everyday terminology, these stores are called, respectively, *general grocery stores, clothing stores, and farm supply dealers.*

**Limited-line retailers** concentrate on only a selected portion of the general product lines. Examples are convenience food stores, delicatessens, ice cream parlors, fruit and vegetable stands, and — more recently — health food stores.

**Family centers** are at the opposite extreme: they include — aside from foods — apparel, automobile supplies, hardware, sporting goods, and small appliances.

The search for the optimum mix of product lines for retail stores is a never-ending process and the "optimum mix" varies with the competition and consumers' groups or market in a market area.

*Limited-service stores* are self-service operations, though some service is available in the meat

departments (where the shopper can ring a bell for special service). *Full-service stores* provide personnel to help the customers; and delivery, telephone orders, and charge accounts may be available.

Types of ownership (as noted earlier) include independent stores, corporate chains, and cooperative chains.

*Independent stores* are single stores, or no more than five stores, under one ownership and management.

Retail operations consisting of more than five stores are considered by the Census as a food chain. A *corporate chain* operates multiple stores, may be a private or public corporation, and typically is integrated backward into wholesaling or even some lines of processing.

A *cooperative chain* is an affiliation of independent stores for the purpose of gaining the same large-volume buying power of corporate food chains. Cooperative advertising under the group name is possible. All the stores buy through one wholesaler or establish their own wholesale operation. IGA (Independent Grocers Association) and Affiliated Food Stores are examples.

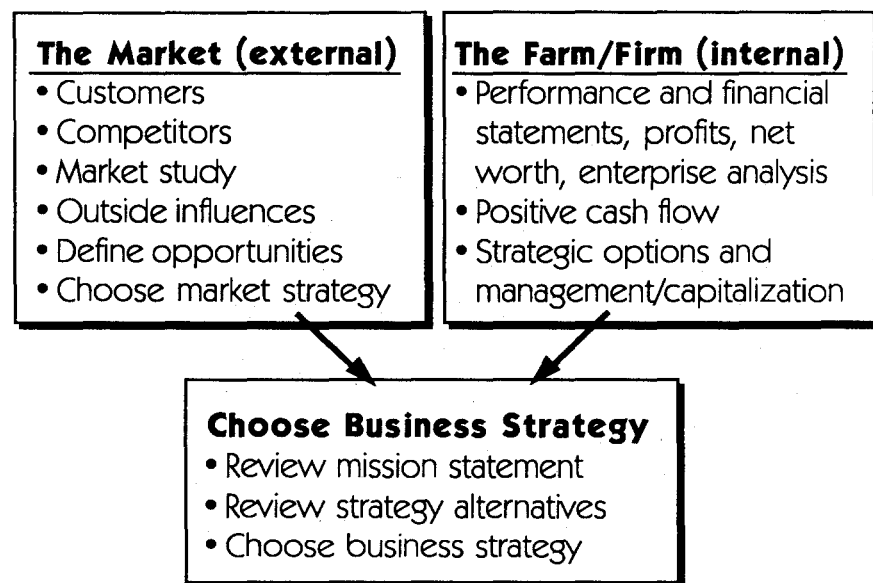
## Considerations – Strategic Marketing Management (SMM)

Whether you choose to wholesale or retail your product, Strategic Marketing Management provides a useful framework to think about things.

### Strategic Marketing Management

Of all the necessary considerations, marketing management is the most important. A realistic assessment of one's natural abilities versus desires is a must. Astute management can make or break an enterprise. How are decisions made? Is there one decision maker or a consensus?

#### Strategic Marketing Management



### Other Considerations

1. **Analyzing Alternatives.** The identification and study of existing and potential markets and channels includes local, regional, domestic, national and international markets. Critical questions that must be answered include: What is the customer base? What products do they buy? Where do I need to deliver? When is the product required? How do I identify the existing competitors?

2. **Selecting Alternative Markets.** Decide which alternative or group of alternatives offers the most flexibility while retaining a good profit potential. For example, given what my production capability and preference is, which markets would support the volumes necessary to be profitable?
3. **Developing a Marketing Mix.** What is the best initial market outlet to begin with? What are the opportunities for additional growth of my product line by adding complementary products (crops, livestock)? Are there intercropping possibilities that meet consumer desires?
4. **Implementing and Controlling the Marketing Effort.** Given when consumers are willing to buy, when can I plant my acreage? What varieties give me the most flexibility in my growing area? What breeds bring in a certified premium? Will irrigation give me more control over harvest? What is a reasonable acreage level to begin with? What is a reasonable herd to start with? How do we get feedback from the marketplace in order to adjust to changing consumer needs? How do we build long term buyer relationships?

*The decision to pursue the additional profit margins available in the value-added chain requires serious information gathering and study. An approach to this pursuit is presented in Extension Report 36, "A Preliminary Study of the North Dakota and Minneapolis/St. Paul, Minnesota Wholesale Food Markets," October 1997. Once a producer has decided to venture away from the price taker commodity markets, the potential for higher rewards exists but must be weighed against the inherent higher risks and additional costs of the competitive market place. These risk and return decisions can be directly measured as profit and loss in the marketplace.*



# Glossary of Strategic Marketing Management Terms

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**Allowance** – A grant of money made by a manufacturer to a wholesaler or by a wholesaler to a retailer for rendering services such as advertising and promotion.

**Attributes** – The characteristics by which products are identified and differentiated.

**Benefit (product)** – The value provided to a customer by a product feature.

**Brand** – A label, trademark, name, term, design, symbol, or other feature that identifies one seller's commodity or service as distinct from those of other sellers. The Trademark Act defines a trademark as "any work, symbol or device or any combination thereof adopted and used by manufacturer or merchant to identify their goods and distinguish them from those manufactured or sold by others."

**Brand Image** – The perception of a brand in the minds of persons.

**Cannibalization** – Loss of sales in established products experienced by a firm resulting from its own introduction of new products that are partial or complete substitutes.

**Channel Leader** – A channel member who influences the decisions and behavior of other channel members.

**Channel of distribution** – An organized network of agencies and institutions which, in combination, perform all the activities required to link producers with users to accomplish the marketing task.

**Closing** – The culmination of a sales presentation in which a sales person attempts to get a customer to commit to buying a product or service.

**Comparative Advantage** – Economic concept where each area, county, state, region, or country will specialize in the producing and marketing of those goods in which it is most efficient.

**Competition** – Refers to rivalry among sellers trying to achieve such goals as increasing profits, market share, and sales volume by varying the elements of the marketing mix.

**Competitive Advantage** – Exists where there is a match between the distinctive competencies of a firm and the factors critical for success within the industry that permits the firm to outperform its competitors.

**Concentration** – A measure of dominance of a market exercised by the top few firms in an industry.

**Corporate Culture** – The patterns and norms that govern the behavior of a corporation and its employees, particularly the shared values, beliefs, and customs.

**Cost plus** – Method of determining the selling price of goods or services whereby cost is increased in an amount equal to an agreed increment to cost.

**Dumping** – The practice of selling a product at a lower price in a distant market other than at a home market.

**F.O.B. (Free On Board)** – Indicates that the seller agrees to pay the cost of placing the goods on board a carrier at a certain point. F.O.B. destination indicates that the seller pays the freight.

**Food broker** – Any person engaged in the business of negotiating sales and purchases of food products in commerce for or on behalf of the vendor or the purchaser. Someone who, for a fixed or percentage fee, arranges a sale but does not take title to the product. In negotiating a contract, a broker usually acts as an agent of the buyer or seller but not as an agent of both parties. Frequently, brokers never see or take title of the product they are quoting for sale or negotiating for purchase by the buyer. They carry out their duties by relaying offers and counteroffers between the buyer and seller until a contract is done.

**Food product** – Any product offered for sale for human consumption and nourishment. These products must meet the Food and Drug Administration's quality, packaging, storing, distribution and consumption standards to protect human health.

**Food service** – The dispensing of prepared meals and snacks intended for on premise or immediate consumption, except for the following products when other solid foods are not available: candies, popcorn, pretzels, nuts, and drinks. Further, vended foods qualify as food service only when tables or counters are available in the immediate area and a person with records of food receipts is present at the establishment.

**Food service distributor** – A food product merchant who bulk purchases food and food items for distribution to the food service establishment market. Examples of types of food service establishments are restaurants; cafeterias; hotels and motels; retail store delis; local, state and federal building environments; the military; hospitals and other institutional users.

**Forecasting** – Estimating future magnitudes and trends of elements of business activity on the basis of historical data and/or predictions of coming environmental conditions.

**Franchise** – The privilege, often exclusive, granted to a distributor or dealer by a manufacturer to sell the manufacturer's products within a specified territory.

**Frozen food processor** – An industry participant who converts raw, fresh agricultural products to a different form and then freezes and packs the new product for resale.

**Generic brands** – Products which are named only by their generic class.

**Image** – Consumer perception of a product, institution, brand, business, or person which may or may not correspond with reality or actuality.

**Life cycle of product** – The pattern of the sales volume of a product as competition and natural processes bring the product through maturity to decline, and eventually, extinction.

**Market coverage** – The number of available outlets in a given line of retail or wholesale trade, relative to a saturation level, that are marketing a manufacturer's brand in a given market area.

**Market penetration strategy** – The move by management to increase its market share held by current products in currently serviced markets.

**Market potential** – An estimate of the maximum possible sales of a commodity, a group of commodities, or a service for an entire industry in a market during a stated period.

**Market segmentation** – The process of subdividing a market into distinct subsets of customers that behave in the same way or have similar needs.

**Market share** – The proportion of the total quantity or dollars sales in a market that is held by each of the competitors.

**Marketing information system** – A set of activities for collecting and disseminating data about the present or prospective outlook for sales of a product.

**Marketing mix** – The mix of controllable marketing variables that the firm uses to pursue the desired level of sales in the target market. Four Ps – price, product, promotion, and place.

**Markup** – The amount of an increase in price over total unit costs.

**Merchant** – A person whose business is buying and selling goods for profit; trader; especially one in the wholesale trade who deals with foreign countries.

**Opportunity cost** – The cost attributable to doing a thing caused by foregone opportunities that are sacrificed in order to do this one thing.

**Pioneering stage** – A non-specific period early in the life cycle of a new type of product, during which the pioneers are trying to build primary demand for the product type more than secondary demand for their particular brands.

**Primary advertising** – Advertising whose purpose is to promote generic demand for products or services.

**Product positioning** – How consumers, users, buyers, and others view competitive brands or types of products.

**Psychographic analysis** – Technique that investigates how people live, what interests them and what they like.

**Pull strategy** – Communications and promotional activities by the marketer to persuade consumers to request specific products or brands from retail channel members.

**Push strategy** – Communications and promotional activities by the marketer to persuade wholesale and retail channel members to stock and promote specific products.

**Reach** – The number of different persons or households exposed to a particular advertising media vehicle or media schedule at least once during a specified period of time.

**Receiver** – Anyone, whether a retail chain, a co-op, a voluntary buying group, a wholesaler or a terminal market operator, who receives product shipments from production areas for further distribution.

**Retailer** – Merchant middleman who is engaged primarily in selling to ultimate consumers.

**Selective distribution** – A form of market coverage in which a product is distributed through a limited number of wholesalers or retailers in a given market area.

**UPC (Universal Product Code)** – A national coordinated system of product identification by which a ten-digit number is assigned to products.

**Wholesale frozen food product handler** (frozen food-wholesale) – A wholesale merchant who specializes in buying manufactured frozen food products from a processor for resale to retail consumer outlets.

**Wholesale fruits and vegetables handler** (fruits and vegetables-wholesale) – A wholesale merchant who specializes in fresh or packaged fresh cut fruits and vegetables for resale to retail consumer outlets.

**Wholesale grocer** (grocers-wholesale) – A merchant who buys products from producers, processors, or other marketing intermediaries for resale to retail outlets.

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