

Sales Channels for Your Product

Once you've started producing a viable crop or value added product, the next step is getting it to your customers. In an earlier article, we discussed the distribution methods to use (how you will physically transport your goods). In addition, you will need to decide on the appropriate sales channels to use (how your products will end up in the customers hands). The sales channels include direct to consumer (farmer's markets, CSA bags, roadside stands, etc.), retail (markets, restaurants, etc.) and wholesale outlets (distributors such as Armstrong, Y Hata, etc.). Finding the right combination of these for your farm is key to profitably distributing your product within Hawaii.

The Sales Channels

After considering how you will physically transport your product, you will need to decide on the best sales channel for you. As with the distribution options, it is easier to reach more buyers if someone helps you, whether that is an employee or a wholesaler. Deciding on the proper sales channel requires you to consider your volume of production, quality and sales goals.

Selling directly to the end user provides the most profitability per unit and allows you to interact with your customer on an individual basis, however, whether you are selling at a farmers market, roadside stand or providing a CSA bag, there is a significant investment in time (yours or your employee) to set up/break down operations, coordinate deliveries/pick ups, outreach/developing new customers, etc. that should be considered.

Selling directly to a retailer/restauranteur lowers profitability per unit as the retailer/restauranteur will need to add a markup to your price when selling to the end consumer. However, it allows you to potentially move higher volumes of product and reach a wider consumer base. Also, interacting directly with chefs/buyers provides opportunities to develop relationships and possibly have them work with you in marketing/promoting your farm.

Selling to a wholesaler provides the lowest profitability per unit as your products will receive a wholesale markup and retail markup before ever reaching the customer. Additionally, as wholesalers aggregate products there is the probability that you will lose brand identity with your customer base.

Pros and cons of each sales channels:

Direct to Consumer

Pros: Highest price point and profit margins; personal interaction with customers; opportunity to get direct feedback; quick receipt of payments

Cons: Time away from farm or sales labor costs; requires additional skills in the area of sales (customer relations); may require purchase of delivery equipment/vehicles, lower sales volumes

Retail

Pros: Second highest price point and profit margin other than selling directly; doesn't take you away from operations; reaches larger number of customers

Cons: Retailer adds a markup; relatively little control over placement and promotion of product in market/restaurant; may require purchase of delivery equipment/vehicles; requires follow-up for payment

Wholesaler

Pros: Larger access to markets/customers; higher sales volumes; minimizes the need to purchase delivery equipment/vehicles; doesn't take you away from operations

Cons: Lowest price point profit margin; no direct interaction with customers; no last-minute quality control over end product

As you can see, each sales channel has its trade-offs. The sales channel that is right for you depends on many factors including:

The quality and volume of production – What are your production volumes per week? Can you deliver consistent volumes on a weekly basis? How much of your production is high quality (good for direct sales) vs. lower quality (need to sell to processor or restaurant)?

Your farms stage of development – Are you in early stages of development with lower production volumes or mature with consistent production? Is your farm a startup or has it been around for years and is known in the community?

The business strengths and weaknesses of you and your employees – Are you or do you have resources skilled in sales? Do you have competent farm managers or do you need to be in the field 100% of the time?

Your business goals – Do you want to be a larger single commodity grower or are you going to grow multiple crops in different volumes?

It is important to consider all of these factors carefully when selecting the right sales channels for your farm. Be sure to revisit your decision on a regular basis and make necessary modifications as your business and sales goals change.