

## Direct Marketing of Your Agricultural Products

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Producers often wonder about the large difference between the prices that consumers pay for food and the prices that farmers receive. This concern about marketing costs led to the Agricultural Marketing Act of 1946, which directs the United States Department of Agriculture (USDA) and the Economic Research Service (ERS) to measure, analyze and disseminate the farm-to-price spread data.

To compile with this policy directive the ERS uses three different approaches. The first is a farm-to retail price spread database for about 40 specific foods and nine commodity categories. The second involves the calculation of a Food Marketing Cost Index for the purpose of analyzing changes in the farm-to-retail price spread. The third estimates a marketing bill which measures aggregate food marketing costs and 12 categories of marketing cost components, including labor, packaging, etc. In addition, ERS publishes *The Food Cost Review* to provide farm-to-retail price spread data, analyzes changes in retail food prices, assesses the impact of farm to retail price spreads and food marketing costs on food prices and expenditures, and reports the farm value percentage of the food dollar for a variety of individual foods. Price spread data are also published periodically in *Agricultural Outlook*, *The Food Review*, *Agricultural Statistics*, and *Statistical Abstract of the U.S.*

*Food Prices and Margins* <http://www.reeis.usda.gov/web/crisprojectpages/406245.html>

Analysis of the most recent data indicates that the retail cost for the market basket rose 6.7 percent, while the farm value increased 3.6 percent. The combined effects of these changes yielded a 7.6-percent increase in the farm-to-retail price spread or marketing margin, and a concurrent 0.7-percent drop in the farm value share to 22.9 percent. The actual price spreads vary by type of product and degree of processing. Labor remained the largest marketing cost at 35.5 percent of consumer food expenditures. Packaging, transportation, energy and advertising are the next most significant components of marketing costs.

*Food Prices and Margins* <http://www.reeis.usda.gov/web/crisprojectpages/406245.html>

As a result of high marketing margins, producers may be interested in direct marketing to consumers in order to increase profitability by receiving higher margins. However, producers involved in direct marketing efforts are likely to incur additional costs. Planning is needed to ensure that direct marketers receive prices high enough to cover the additional costs.

Direct marketing strategies may include pick-your-own operations, roadside and farm stands, internet sales, community support agriculture (CSA) or subscription agriculture and farmer's markets. Table 1 outlines a few differences between pick-your own, roadside and farmers' markets as forms of direct marketing. The



*Pick your own pumpkins, O'ahu*

largest issue of concern, other than increased costs, in direct marketing is the increased exposure to legal liability. This article addresses a few points associated with this type of risk, but legal counsel is needed before a producer can feel confident that all liability problems have been addressed.

**Table 1: Comparison of Pick-Your-Own, Roadside Markets and Farmer’s Markets as Direct Marketing Strategies**

Issue	Pick-Your Own	Roadside Market	Farmer’s Market
Investment	Signage, parking and supplies for packaging; restrooms	Signage, stand, parking and supplies for displaying, storing and packaging	Stand, and supplies for displaying, storing and packaging
Grower Liability	Liable for accidents, need liability insurance	Liable for accidents, need liability insurance	Need liability insurance unless covered by market
Other Costs	Labor for supervision in fields; transportation to field site; promotion	Sales labor; promotion; Some storage, packaging & handling costs; may need to buy additional products to sell	Sales labor; stall or sales fees; transportation
Pricing	Sales per customer may be large; no product transportation costs; no sales or brokerage fees	Hard to sell large volumes; No transportation costs	Smaller sales per customer; direct competition from other producers
Quality	No grading; very fresh	Can sell more than one grade; Sell seconds; Expect spoilage	Highest quality needed
Barriers to Entry	Limited demand; limited crops; locations	Limited demand; location; roadside access; marketing management; zoning	Municipal restrictions; conflict with goals of organizers
Special Advantages	Average value of purchase may be higher than other direct marketing outlets	Can be expanded as needed; can be tailored to specific customer preferences	Potential for many customers; low overhead; advertising done by organizer
Special Disadvantages	Open to weather, damage to field/farm by visitors; location may be critical	Open to weather, location may be critical	Time consuming; transporting product; less control of overall promotion

Adapted from Deborah Young, CHARACTERISTICS OF DIRECT MARKETING ALTERNATIVES  
<http://ag.arizona.edu/AREC/pubs/dmkt/CharacteristicsTable.pdf>

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