



# Extension FactSheet

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## Direct Marketing as a Value-Added Opportunity for Agriculture

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Ohio's agricultural industry contributes approximately \$68 billion to the state's economic growth and employs one in six Ohioans in areas related to agriculture. Agriculture production contributes total agricultural sales of \$4.5-6 billion annually. The trend of reduced gross agricultural sales for producers has created an interest in value-added enterprises for agriculture. The emergence of Heartland AgVenture came out of that interest. Heartland AgVenture is a non-profit corporation established in the Midwest heartland to identify agricultural value-added opportunities and facilitate establishment of business entities to increase producer profits through further processing. This endeavor is a joint effort of the Ohio Farm Bureau Federation and the Farm Income Enhancement Program of The Ohio State University.

As agricultural producers find it more difficult to make ends meet with diminishing profit margins from increasing input costs and shrinking commodity prices, more emphasis is being placed on adding value to those products with processing. Value-added agriculture does not, and probably never will, increase commodity prices, but it can add value to those products by performing activities usually performed by others. So the benefit comes from the value-added activity performed, not by increasing commodity prices. Another distinction is that the value added goes back to producers not agribusiness processors. Some of the ideas being developed for value-added enterprises are a strawboard plant that will produce a construction material similar to particleboard, a corn ethanol plant which will produce ethanol as a fuel, and a livestock-processing plant that will wholesale and retail meat in the region. There are many other ideas waiting to be developed. These developments are needed to support and sustain agriculture in Ohio.

Predicted future trends in agriculture that support the development of value-added agriculture opportunities are:

- To stay competitive, U.S. farming must adopt a model to cooperatively produce products with improved consumer-driven attributes. The focus of the production sector will continue to move away from growing products and towards the manufacturing of goods with value-added, consumer-driven attributes.
- Food supply chains will rely on vertical integration and coordination techniques of production, marketing, and/or processing to optimally deliver products with attributes that meet specific end user needs.
- Food safety and quality control will become driving forces in the food sector.
- Production will be increasingly dependent on precise information to manage production on a site-specific basis. This trend will be driven by biological and environmental factors but will include additional production cost reductions and enhancement of product quality. Precision agriculture will include global positioning, variable application rates for inputs, and integrated pest management.
- In general, technology for value-added processing is available. For most value-added technology, the critical issue is developing that technology so it is appropriate to the scale of groups of producers and is economically feasible. If the development of appropriate technology is not feasible, the development of producer-controlled institutions large enough to generate the capital and input base needed to fit the existing technology will be a critical issue.

- The development of organic and nutraceutical industries based on agricultural products is starting to develop at a rapid rate. The term nutraceutical refers to substances that may be considered food or part of a food and provide medical or health benefits, including prevention and treatment of disease. The movement to organic and nutraceuticals (a.k.a. functional foods) is one that could represent the most significant trend affecting the food industry during the next decade should result in numerous opportunities for value-added products.

In 1910 about 44 percent of consumer food expenditures went back to the farm. By 1990 that figure was less than 10 percent, and it is projected that this trend will continue. Many producers are finding that if they sell their products directly to consumers, it significantly affects their profits. Direct marketing does not require substantial capital investments or additional business development. It fits into the urban-development trends now occurring in Ohio and a consumer-demand trend for healthy food products. The berry industry is an example of production driven by a consumer-demand trend for a healthy and nutritious product. There is also growing consumer interest in locally-grown food with information available about where the food came from and how it was produced.

Direct marketing does require a change in focus by producers. They have to focus production around their market rather than produce a commodity. The underlying concept is that there is a difference between marketing and selling. It's possible to add value to products by direct marketing when producers assume the marketing functions traditionally done by others. By doing this, producers become price makers in their market, not price takers. Direct marketing of fruits and vegetables can describe the market channels that are available to producers. The alternatives are presented in Figure 1.

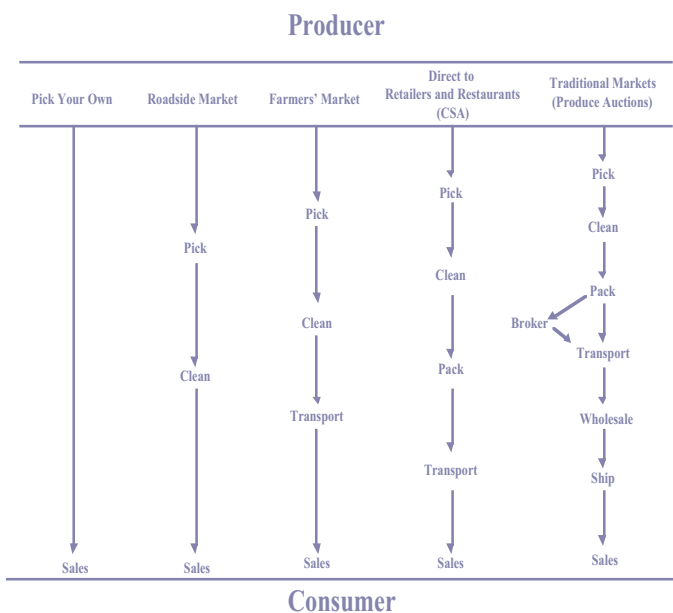


Figure 1. Marketing options for fruits and vegetables.

## Wholesale Market Channel

There are many steps in that market channel, including picking, cleaning, packing, transporting, possible broker services, wholesaling, shipping from wholesale to a retail outlet, and retail sales. Typically, the price retailers charge for products are at least two to three times higher than what is paid to the producer. Producers can market large quantities of product through this alternative, but their profit margin is very small. Because of fluctuating wholesale prices, at times producers sell their products below break-even prices.

## Direct Sales to Restaurants and Retailers

Selling directly to restaurants or retailers eliminates at least two steps in the market channel, which adds to the value the producer receives for the products. A producer often also supplies transportation, which can be looked at as value-added service. Another feature of marketing directly to restaurants and retailers is that the price received is usually more stable, thus reducing price uncertainty.

## Farmers' Markets

This direct-marketing alternative reduces the need for packing, which is a substantial cost reduction for producers. It provides a higher price because producers sell their products as a retailer. Price fluctuations are usually reduced or eliminated. For this marketing alternative, growers provide all of the steps from producer to the consumer, which adds value to their products. Selling through farmers' markets is flexible and is a good alternative for producers getting started in a suitable agricultural alternative or as an outlet for excess production.

## Roadside Markets

This alternative eliminates the need for transportation because products are usually sold on the farm where they are produced. Again, growers provide all of the steps from producer to retailer, which increases the price and reduces price fluctuations, thus reducing price uncertainty. Roadside markets also give producers opportunities to further act as retailers by buying products wholesale and selling them retail. This phenomenon also gives roadside marketers an opportunity to expand their market beyond what they grow themselves. Many agricultural roadside markets have grown and developed into multi-million-dollar retail outlets.

## Pick-Your-Own

Consumers drive out to the farm, pick the products themselves, and transport those products back to their home. The price received at a pick-your-own operation is often very close to the price consumers would pay for those products at a retail level. Consumers are willing to pay that price because of the freshness of the products and the on-farm experience that goes with it. Costs for the producer are significantly reduced, and the value added by this alternative is highest of all the marketing alterna-

tives.

## Ag Entertainment

Agricultural entertainment has become one of the most profitable ways to add value to a product and/or farm. Corn mazes, pumpkin patches, school tours, petting zoos, festivals, and catered parties are just a few of the opportunities farmers are utilizing to add value to their products and generate income on their farm. In the case of agricultural entertainment, farmers are not only selling products they produce, they are charging admission to consumers who want to participate in the on-farm activities.

## Summary

In summary, there are many ways to add value to agricultural products. Most people think of some form of commodity processing into a more valuable consumer item as the most logical way to add value to commodities. This is true for grain crops and the need for value added business development for those crops in

Ohio is great.

When it comes to adding value to agricultural products by directly marketing them to consumers, Ohio is doing well. With its high population density and a growing demand for locally produced food, the future for adding value to agricultural products by direct marketing in Ohio is very good. As one of the largest fruit producers in Ohio recently said; “I have packed and shipped out semi load after semi load and eventually realized that most of the profits on the farm came from the small percentage of product direct marketed from the farm. I’m changing the scope of my operation to expand those profitable alternatives.”

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