UW Growing Beginning Farmers & Ranchers

Getting Started in Ag: Marketing Options

MARKETING IS IMPORTANT

Most new or beginning agricultural producers are actively looking for ways to increase profitability in their business. Building a new business of any kind is difficult and production agriculture is no exception.

Managing the supply side of your business should include goals targeting profitability, such as maximizing production while keeping costs as low as possible. Goals should also include an objective to maximize prices received for the commodities produced, as part of an overall marketing plan.

Marketing strategies often take the form of protecting downside price risk through insurance, futures markets, or strategic market timing to get the best price possible. However, when producing a standard commodity (crops or livestock), the more traditional approach to marketing may not be enough to ensure long-term profitability, especially for smaller scale and new or beginning producers.

A marketing strategy that considers the demand side of the equation can also boost profitability. Instead of focusing on producing a standard commodity, some agricultural businesses go the extra mile to tailor production to what the consumer wants.

American consumers have become much more health conscious and local food focused in recent years, opening up many opportunities for production agriculture to fulfill those wants and needs. When considering how these opportunities might benefit your operation, start by examining the strengths of your business to determine what marketing avenues, if any, might offer the greatest potential.

Not every niche or specialty product works well for every operation. It is important to research potential markets to determine if they might be a viable and potentially successful alternative in the longer term.

Next, you should list the goals and objectives for the marketing strategy, including financial targets. Finally, whatever marketing direction you choose, make sure to include any additional costs in your revised financial plans (cash flows, record keeping and financial analysis) to ensure that the strategy fits with other dimensions of your business.

Value-added products should add benefits for the customer based one or more of the following:

- **Quality**: Advantage from higher quality production
- **Ease of purchase**
- **Form**: Is it what the customer wants?
- **Time**: Is it available when the customer wants it?
- **Function**: Does it provide the functionality desired?
- **Place**: Is it where the customer needs it?

A farmers market stand selling fresh produce.

ADDING VALUE THROUGH MARKETING

Value-added, in an agricultural setting, is most often defined as any way you can add value to your current production by taking it to the next stage or level. This can be as simple as grinding corn to sell to small producers, selling certified weed-free hay or making a switch to organic certified production. In a livestock setting, examples include retaining ownership of a calf crop instead of selling them off the cow or selling show-quality (club) livestock instead of commercial livestock. There are nearly endless opportunities to add value in a way that fits with existing operations and addresses needs for additional profitability.

When considering a value-added approach, it is important to identify who your potential customers might be and what creates value for them. What product attributes are they looking for that your value-added product could provide?

There should be advantages to purchasing your commodities in the form of functionality, need, quality, or other factors. For instance, a cattle feedlot may be willing to pay more for weaned and preconditioned calves, since buying this type of cattle is less labor intensive and more profitable.

Farm-based recreation and produce sales represent marketing options for some agricultural producers.

DIRECT MARKETING

Direct marketing is most often thought of as selling directly to the end consumer. There are many steps in the conventional food supply chain that add costs before a product reaches the customer. Selling directly to the consumer may allow the producer to capture more of the value that is gained through the supply chain, while satisfying the desires of the buyer.

This type of marketing is often more involved than a value-added approach and, depending on the business, often requires many additional steps to get the product into the hands of the consumer. Some examples include raising beef and selling it directly to consumers, selling farm fresh produce at a farmer's market or offering "pick your own" options.

Risk management is also an extremely important consideration in this type of business, especially the human and legal risks associated with dealing directly with buyers.

STEPS TO IMPROVE BARGAINING POSITION

1. Determine a reserve price
2. Have a best alternative to negotiated agreement (BATNA)
3. Set a target price
4. Know your break-even costs and market information
5. Start the negotiation (offer the first price)
6. Focus on the target price
7. Be prepared to make a counteroffer
8. Be willing to make more than one counteroffer

Negotiation.FarmManagement.org

MARKETING NEGOTIATION

Once you have settled on a marketing plan, the next step is to make sure you receive the best price possible, especially if your product is now worth substantially more. An often overlooked aspect of production agriculture is negotiating prices for the output sold; it is also an uncomfortable subject for many producers. Do you hold out for the highest price and risk losing a buyer? Do you take the first price offered? Or is the best course of action somewhere in the middle?

Producers often face several forms of risk in these scenarios; it is important not to let these risks overshadow an opportunity to seek the best price for your production. Value-added or direct market producers tend to have higher upfront costs and are more likely than traditional operators to make concessions on price due to worries about finding more than one buyer.

It is important to prepare for the negotiation and ensure that a given price fits with your marketing plan. This includes knowing your break-even costs, understanding how a sale opportunity fits with your broader marketing strategy and resisting the urge to simply accept the first offer received.

FOR MORE INFORMATION

There are many more marketing options available to new and beginning producers than can be covered in this limited space. Visit farmanswers.org/library for comprehensive resources on marketing education, including direct marketing, value-added marketing, commodity marketing and more. For more information on financial tools that can help you implement and evaluate your marketing plan, visit RightRisk.org.

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