

Helpful Resources

The following resources provide information that will assist direct marketers in making more informed managerial decisions.

General Direct Marketing Resources

The Direct Marketing Guide for Producers of Fruits, Vegetables, and Other Specialty Products (PB 1711) is an overview of direct marketing strategies for the budding entrepreneur. This bulletin provides practical advice on selling through farmers' markets, roadside stands, and pick-your-own operations. Business planning, market research, advertising and promotion, and pricing are also discussed. <http://www.utextension.utk.edu/publications/pbfiles/PB1711.pdf>

The ATTRA *Direct Marketing Business Management Series* website focuses on direct marketing alternatives with emphasis on niche, specialty, and value-added crops. It features farm case studies, as well as information on enterprise budgets and promotion and publicity. A new section discusses the implications of Internet marketing and e-commerce for agriculture. <http://www.attra.org/attra-pub/PDF/directmkt.pdf>

Profiles of Innovative Agricultural Marketing: Examples from Direct Farm Marketing and Agri-Tourism Enterprises by the Western Extension Marketing Committee. This publication examines 17 direct farm marketing and agri-tourism enterprises from the Western United States. The end of each section provides contact information for the enterprises examined and for the contributing authors. <http://cals.arizona.edu/arec/wemc/westernprofiles.html>

Direct Farm Marketing and Tourism Handbook, produced by the University of Arizona Agricultural and Resource Economics department, is designed to help individuals who grow or process food products market their products and services directly to the consumer. <http://ag.arizona.edu/arec/pubs/dmkt/dmkt.html>

Direct Marketing of Farm Produce and Home Goods, by John Cottingham, James Hovland, Jordana Lenon, Teryl Roper, and Catherine Techtmann of University of Wisconsin Extension, discusses the different alternatives available through direct marketing. Some of the options addressed include pick-your-own, roadside markets, farmers' markets, subscription farming, home delivery, and selling to stores, restaurants, and other institutions. Topics covered in addition to marketing include financial planning, regulations, merchandising, and general management issues. <http://cecommerce.uwex.edu/pdfs/A3602.PDF>

The UT Center for Profitable Agriculture (CPA) was established to provide technical and educational assistance to agribusinesses, farmers and entrepreneurs in Tennessee who

may be considering business expansion or an initial market entry. The CPA website provides a multitude of links explaining the different facets of adding value to agricultural products. The Educational Resources section includes extension publications, fact sheets, presentations and slide shows, and other published documents. <http://cpa.utk.edu>

A PRIMER for Selecting New Enterprises for Your Farm, by Tim Woods and Steve Isaacs of the Department of Agricultural Economics at the University of Kentucky, is an excellent resource for detailed analyses in evaluating alternatives for new enterprises. It includes detailed descriptions along with questions and worksheets to aid in determining the feasibility of the proposed enterprise under consideration.. "PRIMER" is an acronym for Profitability, Resources, Information, Marketing, Enthusiasm, and Risk. http://www.uky.edu/Agriculture/AgriculturalEconomics/pubs/ext_aec/ext2000-13.pdf

Direct Answers for Direct Marketing is a handbook that helps you answer the questions that most direct marketing manuals tell you that you need to answer. Currently available from Gary Bullen, NCSU, email gsbullen@ncsu.edu or from Karen Mundy, Virginia Tech, email karenm@vt.edu.

Resources on Best Business Practices

In the Eyes of the Law: Legal Issues Associated with Direct Farm Marketing provides a brief introduction to legal issues that may affect direct marketing businesses to help avoid or minimize risk and liability. It is not intended to constitute legal advice or address every situation, since direct marketing can be as varied as creativity, ambition, intuition, and resources allow. <http://www.extension.umn.edu/distribution/resourcesandtourism/DB7683.html>

Facilities for Roadside Markets is valuable for anyone considering a roadside market or looking to improve or expand a current one. Selling produce from a roadside market can be satisfying and profitable, but only with careful planning. Three chapters cover site considerations (visibility and accessibility, utilities, drainage, zoning, and building ordinances); market layout (areas for sales, preparation, and shipping and receiving); and market structure and facilities (parking, lighting, fire protection, security, and more). <http://www.nraes.org/publications/nraes52.html>

Produce Handling for Direct Marketing is valuable for growers who sell seasonal produce at local farmers' markets or roadside markets. It describes post-harvest physiology, food safety, produce handling from harvest to storage, refrigerated storage, produce displays, and specific handling and display recommendations for over forty types of fruits and vegetables. <http://www.nraes.org/publications/nraes51.html>

Refrigeration and Controlled Atmosphere Storage for Horticultural Crops discusses general construction procedures for storage facilities, such as site selection, structural considerations, thermal insulation, vapor barriers, and attic ventilation. Different refrigeration systems are explained, including descriptions of equipment and operating procedures. <http://www.nraes.org/publications/nraes22.html>

ATTRA *Farmer's Market Marketing and Business Guide* is a resource for those farmers who want to organize a farmers' market or sell at one. <http://www.attra.org/attra-pub/PDF/farmmarket.pdf>

Marketing Specific Resources

How to Direct Market Farm Products on the Internet provides basic information and suggestions for direct farm marketers on selecting and tailoring a website to meet their marketing needs and goals, including: (1) reasons for considering using the Web for direct farm marketing, (2) how to develop a marketing plan, (3) how to research the market, and (4) how to set up and market the website. <http://www.ams.usda.gov/tmd/MSB/PDFpubList/InternetMarketing.pdf>

Choosing Your Market: A Direct Marketing Decision Tool for Small Farmers is an on-line workbook by Georgia Organics to help farmers identify the direct marketing strategies that will best fit their farms. It focuses on four of the major direct-marketing strategies: farmers' markets, on-farm markets, community supported agriculture, and internet marketing. It provides up-to-date, key information on these markets in the South and additional references to successfully meet the challenges and opportunities in direct marketing. <http://www.georgiaorganics.org/markettool/workbook.pdf>

Simple and Successful Vegetable Farming: How to Sell Your Crops: Marketing, by the Communication and Educational Technology Services, University of Minnesota Extension Service, describes various ways to market farm products. It includes wholesale marketing and direct marketing via farmers' markets or roadside stands. <http://www.extension.umn.edu/distribution/horticulture/DG7618.html>

Marketing Alternatives for Specialty Produce is an excellent guide for growers producing and marketing specialty crops. Worksheets are included to aid in estimating post-harvest costs. <http://extension.oregonstate.edu/catalog/pdf/pnw/pnw241.pdf>

What Can I Do with My Small Farm? Selecting An Enterprise for Small Acreages by Oregon State University Extension Service outlines different alternatives and characteristics needed for small farms to expand beyond the normal farming options. <http://smallfarms.oregonstate.edu/what/>

Marketing on the Edge: A Marketing Guide for Progressive Farmers, available from the North American Farmers' Direct Marketing Association (NAFDMA), includes topics on consumer trends, components of direct marketing, merchandising, advertising and promotions, and value added processing. Check the NAFDMA website for price and ordering information. <http://www.nafdma.com/Publications/Edge/>

Farmers and Their Diversified Horticultural Marketing Strategies: An Educational Video on Innovative Marketing, NRAES-139 (\$15.00 plus S&H/sales tax, 49-minute video, 1999) profiles vegetable, fruit, and horticultural growers who have pursued a variety of rewarding approaches adapted to their unique products and conditions. The video will help both new and established growers and their advisors carefully as they consider the marketing options that can enhance income and promote the sustainability of their farms. <http://www.nraes.org/publications/nraes139.html>

Government Resources

The USDA Agricultural Marketing Service homepage provides links to relevant information pertaining to, among other things, direct marketing and farmers markets. USDA's website can be daunting, so you are better off using one of the links below to get to a specific publication or section than just going to the USDA website.

Farmer Direct Marketing, developed as an extension to the USDA Ag Marketing Services Website, offers a plethora of links to direct marketing information sources.

AMS Farmers Market is another link off of the Agricultural Marketing Service homepage. This site offers links to farmers' market facts, the National Directory of Farmers Markets, resources and information, and a look into the USDA Farmers' Markets in Washington, D.C. In addition it has a link to an interactive children's section. <http://www.ams.usda.gov>

Community Supported Agriculture by CSREES, NAL, and the USDA is a website is dedicated to defining and locating a CSA farm and to further explain sustainable agriculture. For the CSA farmer there is a section to assist in locating specific resources and a set of direct marketing links. <http://www.nal.usda.gov/afsic/csa/>

Organic Produce, Price Premiums, and Eco-Labeling in U.S. Farmers' Markets by Amy Kremen, Catherine Greene, and Jim Hanson, Outlook Report No. VGS-301-01, April 2004, describes the significance of farmers' markets as market outlets for many organic farmers and recent shifts in relationships between organic growers, market managers, and customers. Market managers in more than 20 states answered questions by phone pertaining to the 2002 market season. Their responses provide insight into recent grower, manager, and customer decision-making and attitudes about foods advertised and sold

as organic at farmers' markets. The popularity of farmers' markets in the United States has grown concurrently with organic production and consumer interest in locally and organically produced foods. <http://www.ers.usda.gov/publications/VGS/Apr04/vgs30101/>

Tax Information for Businesses, a website provided by the IRS, is a good source of information for tax rules and regulations. The Small Business/Self-Employed web-page, also provided by the IRS, offers information and links for starting a business, employee records, employer id numbers, and many other aspects of owning and operating a small business. <http://www.irs.gov/businesses/index.html>

Association Resources

American Community Garden Association is a national, nonprofit organization that supports community greening in urban and rural communities. How to start a community garden or what benefits are gained by having a community garden, and other issues are addressed through this list of publications. A few of the publications are offered for a fee, others are available for free. <http://www.communitygarden.org/publications.php>

North American Farmers' Direct Marketing Association website is for family farmers, extension agents, and farm market managers to network with each other on issues affecting the profitability of direct marketing operations. This website has links explaining the benefits of membership, the purpose of the association, conferences, membership application form, and contact information. <http://www.nafdma.com>

Pickyourrown.org and *Localharvest.org* (not case sensitive) offer free listings to small farms and farm businesses. These sites also allow prospective customers to search for farms and related businesses by state, product, etc.

Farm to School programs are appearing all over the U.S. These programs connect schools with local farms with the objectives of serving healthy meals in school cafeterias, improving student nutrition, providing health and nutrition education opportunities, and supporting local small farmers. <http://www.farmtoschool.org>

Legal and Regulatory Checklist for North Carolina¹

Regulations can have a significant impact on a business and need to be addressed up front. Small businesses, even home-based business, must comply with numerous local, state, and federal regulations. Avoiding or ignoring regulatory details may be easier, but it may come back to haunt you down the road.

The following areas provide some of the more common requirements impacting small businesses. This list tries to include all general applicable regulations; however, it cannot address all regulations since some are industry specific. *Ultimately, you are responsible for investigating and addressing the regulations that apply to your business. Failure to comply could result in legal consequences.*

Business Organization—Your business could be one of many legal forms. The most common are Sole Proprietorship, General and Limited Partnerships, C-and S-Corporations, and Limited Liability Companies. Each legal structure provides different organizational options that provide differing levels of liability protection and varying tax and liability. You should consult an attorney and/or accountant to help you decide the best form for your business. For information you can go to the Secretary of State website and scroll to the bottom of the page

Source: North Carolina Secretary of State
<http://www.secretary.state.nc.us/corporations/>

Business Licenses—Generally, any person or entity involved in commerce will need a business license. However, the State of North Carolina does not provide a single business license that will ensure compliance with the numerous state licenses, permits, and regulatory requirements. You must obtain the various licenses from the applicable agency and or governing entity (city, county, or municipality) where your business is located.

Source: Business ServiCenter
Phone: 919 715-2864 or
Toll-free (in NC) at 1 800-228-8443 or
Send fax to 919 715-2855
<http://www.nccommerce.com/servicenter/blio/redbook>.

¹Karen Mundy, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, VA and Gary Bullen, Department of Agricultural and Resource Economics, North Carolina State, Raleigh, NC. September 2007.

Adapted from material by Kent Wolfe, Department of Agricultural Economics and Applied Economics, University of Georgia, Athens, Georgia

Assumed Business Name (Fictitious Name)—If you do business under a name other than your personal or legal name or register as a business under a business name other than your legal or personal name or when a registered corporate name, partnership, or trademark mark, you are required to notify the public. For example, you're a sole proprietorship and use the name Toad Hollow for your farm, products, and advertising. The purpose is to protect the public by providing information in a public record of the identity of the identity of the business owner. Corporations doing business under their corporate name or those practicing any profession under a partnership name are exempt. You can obtain forms to register an assumed name from the Business ServiCenter.

Source: Business ServiCenter

Phone: 919 715-2864 or

Toll-free (in NC) at 1 800-228-8443

Send fax to 919 715-2855

<http://www.nccommerce.com/servicenter/blio/startup/nameinfo.asp>

Taxes

Sales and Use Tax Number—Businesses that generate sales are required to obtain a Sales and Use Tax number (AS/RP1 form) because North Carolina charges a sales and usage tax. North Carolina state sales tax is 4.5%. Food is excluded from the state sales tax but subject to local taxes.

Source: North Carolina Department of Revenue

Post Office Box 25000

Raleigh, North Carolina, 27640-0640

Telephone: 1-877-252-3052

<http://www.dornc.com/downloads/sales.html>

North Carolina State Tax Information—Operating a business in North Carolina requires paying North Carolina State taxes as well as Federal and local taxes. To find out more about the State taxes see

Source: North Carolina Department of Revenue

Post Office Box 25000

Raleigh, North Carolina, 27640-0640

Telephone: 1-877-252-3052

<http://www.dor.state.nc.us/business/>

Federal Employer Identification Number—Businesses with employees are required to obtain a Federal Employer Identification number (SS-4 form) and a North Carolina withholding tax number.

Source: Internal Revenue Service

<http://www.irs.gov/businesses/small/article/0,,id=98350,00.html>

Federal Self-Employment Tax—Everybody is required to pay Social Security Taxes, even

if you are self-employed. The self-employment tax is a social security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners. For more information, including rates, contact Internal Revenue Service.

Source: Internal Revenue Service

<http://www.irs.gov/localcontacts/article/0,,id=98320,00.html>

Insurance

Insurance—You need insurance for protection against fire, theft, and other losses. Your business may require specialized insurance, some of which is required by law. Having an insurance specialist thoroughly analyze your business to determine your insurance needs is important. Remember, insurance may have limitations, waivers of coverage, and exemptions that you need to be aware of. Some of the most common business insurance are

Unemployment Insurance—You are required by the state to pay unemployment insurance tax if your business has one or more employees for 20 weeks in a calendar year or if you paid gross wages of \$1,500 or more in a calendar year. Rates and where to send your payments are found at

Source: Employment Security Commission of North Carolina

<http://www.ncesc.com/>

Workers Compensation—Workers compensation insurance is required if your business employs three or more people. It provides protection to workers injured on the job.

Source: http://www.ncdoi.com/Consumer/consumer_home.asp

Liability insurance protects your business from liability in the event someone or something is injured while using your product.

Property insurance provides protection for your property including equipment and buildings. A rule of thumb says “if you cannot afford to replace it, insure it.”

Business interruption or income insurance covers fixed costs when your business is not operational because of some type of damage. It covers taxes, utilities, and other continuing expenses.

“Key Man” insurance is often required if the company is borrowing money. It provides income if a critical member of your business becomes ill or dies and provides capital during the transitional period.

Automobile insurance is obvious: a vehicle owned by your business should be insured for both liability and replacement purposes. What is less obvious is that you may need special

insurance (called “non-owned automobile coverage”) if you use your personal vehicle for company business. This policy covers the business’ liability for any damage which may result for such use.

Officer and Director insurance covers the officers and directors of the business. You may want to consider this insurance to provide protection from any personal liability they may incur as a result of the actions taken on behalf of the business.

Home Office insurance covers you if your business is based in your home. You want to make sure your homeowners’ policy will cover office equipment.

Labor Issues

Labor laws—Federal and state laws regarding employee protection apply to all businesses that employ people. These laws encompass a variety of topics including state labor laws, work force availability, prevailing wages, unemployment insurance, unionization, benefits packages, and employment services contact your state government.

Source: *U.S. Department of Labor*

Frances Perkins Building
200 Constitution Ave., NW
Washington, DC 20210
Telephone: 1-866-4-USA-DOL
<http://www.dol.gov>

Source: North Carolina Department of Labor

4 West Edenton Street
Raleigh, NC 27601-1092
Telephone: 919-733-0359
Fax: 919-733-0223
<http://www.nclabor.com>

Immigration Act—The Federal Immigration Reform and Control Act of 1986 requires all employers to verify the employment eligibility of new employees. The law obligates an employer to process Employment Eligibility Verification Form I-9. The Immigration and Naturalization Service (INS) Office of Business Liaison offers information bulletins and live assistance for this process through the Employer Hotline. In addition, INS forms and the Employer Handbook can be obtained by calling the Forms Hotline.

Source: U.S. Department of Labor

http://www.dol.gov/esa/regs/compliance/ofccp/ca_irca.htm

Occupational Safety and Health Administration (OSHA) outlines specific health and safety standards employers must provide for the protection of employees. It is important to minimize workplace risks and associated costs.

Source: U.S. Department of Labor <http://www.osha.gov/>

North Carolina State offers an on-line course designed to help businesses owners identify and minimize workplace risks.

Source: <http://www.ies.ncsu.edu/safetyhealthmgmt/>

Source: North Carolina Department of Labor <http://www.nclabor.com/osha/osh.htm>

Inspections

Certificate of Occupancy—Using a building may require a Certificate of Occupancy (CO) from the city or county zoning department. According to the North Carolina State website, all new buildings and existing commercial properties that are renovated or expanded or require a building permit are required to have a CO inspection before you can occupy the building. The building contractor is the responsible for notifying the fire inspector when the building is ready for the CO inspection. A CO checklist can be found at the Charlotte Fire Department's website

Source: Charlotte Fire Department

<http://www.charmeck.nc.us/Departments/Fire/Prevention/Certificate+of+Occupancy.htm>

Health Department Inspection—Businesses involving lodging or the sale of food and businesses such as hair salons will generally have health inspection requirements. To find out if your operations must comply with health department regulations contact the North Carolina Department of Health and Human Resources and your the local county Health Department, which is often the enforcement body for state health regulations and inspections.

Source: North Carolina Department of Health and Human Resources

<http://www.ncpublichealth.com/>

Fire Department Inspection—Businesses having regular entry and use of the facilities by the public, as well as housing flammable materials, will generally need a fire department inspection. Consult your local fire department for more information.

Environmental permits—Your business may require an environmental permit. Environmental permit information can be found under the Department of Environment and Natural Resources.

Source: North Carolina Department of Environment and Natural Resources

<http://www.enr.state.nc.us>

Zoning

Zoning—You will need comply with local zoning regulations for business use in your geographic area. Zoning regulations may also apply to a business in your home. Check

with your local city or county agency to determine if your business meets the current zoning ordinance.

Trademarks, Patents, and Copyrights

Trademarks can be a word, phrase, symbol or design, or a combination of these that identifies and distinguishes one product or business from another. Trademarks can be obtained at the state level and at the national level. National trademarks supersede state trademarks.

State registration of a Trademark—Department of the Secretary of State, Trademarks Section registers and renews trademarks and service marks in North Carolina under the provisions of Chapter 80 of the North Carolina General Statutes.

Source: North Carolina Department of the Secretary of State
<http://www.secretary.state.nc.us/trademark/ThePage.aspx>

Federal registration of a trademark provides nationwide protections for a \$325 registration fee (small entity). The trademark lasts indefinitely if renewed every 10 years. However, between the fifth and sixth year, an affidavit must be filed to keep the registration alive.

Source: U.S Patent and Trademark Office
<http://www.uspto.gov/main/trademarks.htm>

Federal Patent Registration—a number of different types of patents are available. So that you understand and file the patent correctly, you should seek professional help. Only attorneys and agents registered with the U.S. Patent Office may represent you in related matters and perform searches. You can obtain many types of patents. Provisional Patent Application, Non-provisional (Utility) Patent Application, Filing Guide Design Patent Application, Filing Guide Plant Patent Application, and International Application.

Source: U.S Patent and Trademark Office
<http://www.uspto.gov/web/patents/types.htm>

Copyrights—Protects your original artistic or literary work. A copyright prevents illegal copying of written matter, works of art and music, and computer programs. To ensure copyright protection, you, as the copyright owner, should always include notices on all copies of the work.

Source: Library of Congress Copyright Office
<http://www.copyright.gov/>

Uniform Code Council

If your business will involve selling products through retail establishments, you will probably need to get a Universal Product Code (UPC) bar code. Most retailers require these UPC codes on products, and you should have it incorporated into your label and/or packaging.

The UPC is obtained from The Uniform Code Council, Inc., which is not a government agency. The Council assigns a manufacturer's ID code for the purposes of bar coding.

Source: Uniform Code Council, Inc.
P.O. Box 1244, Dayton, Ohio 45401
(513) 435-3870.
<http://www.uc-council.org/>

Worksheet/checklist

The following checklist is targeted to new businesses, but much of it will apply to existing businesses adding new enterprises.

Business Structure

- Sole proprietorship
- S-Corporation
- Limited Partnership
- Other (specify) _____

Business name

- Assumed (fictitious, trading as, AKA, if not company or your name but totally made up)
- Real (your name or company name)

Business license

- Federal Employer Identification Number

Taxes

- Withholding
 - Social Security
 - Income (state and federal)
- Tax identification number
- Sales and use tax
- Local taxes
 - Real property
 - Personal property
 - Business equipment, inventory, etc.
- Self-employment taxes (federal)

Insurance

- Unemployment
- Workers Compensation
- Liability
- Buildings
- Equipment
- Business interruption
- Key man
- Vehicle
- Officers and directors
- Home office
- Other (specify)

Labor

- Workers permit for under 16 years old
- H2A and other immigrant workers
 - Housing
 - Required documentation
- OSHA notices
- Workers compensation notices

Health Department

- Inspections
- Licenses

Zoning

- Appropriately zoned for type of business
- Occupancy permit
- Signage
- Road access

Fire Department

- Inspections

Environmental permits

- Aquaculture
- Other (specify)

Other

- UPC required
- Building permits
- Building inspections for electrical and plumbing

Identifying Your Customers¹

Perhaps the most challenging problem when you start a new enterprise is finding out if you can sell your product, an especially challenging task if you have never directly marketed. No a crystal ball can predict what a market will want. In fact, Edgar R. Fiedler said, “He who lives by a crystal ball soon learns to eat ground glass.” However, market research provides information that will make projections about the future more accurate, and it helps you develop successful marketing strategies.

Part 1. What information you need

Two types of market research involve primary and secondary data. Primary data are anything that involves gathering information for yourself—by observing people; by counting things; or through surveys/questionnaires, interviews, or other direct means. Secondary data is assembling and analyzing data someone else collected and published. Chances are you will need to use both primary and secondary data to understand your market. Keep in mind that all data have limitations—no “perfect data” will be available to answer your questions completely and totally accurately. The result is that you will have to use the data judiciously.

Primary Data are especially important when you are considering an new enterprise, a new market, or a very small or local market for which published data aren’t available. Furthermore, you are unlikely to find all the answers to your marketing questions using secondary data. Good primary data will be far more beneficial to you than secondary data because it focuses on local people and their economic and social conditions.

Good primary research can be extremely elaborate, sophisticated and expensive, but it can also be very simple and inexpensive in terms of dollars—time is a different matter. Having a small budget is no excuse for not conducting market research. Instead, be creative in developing the most cost- and time-effective method of collecting the information you need. Some common methods for conducting primary research are

☞ *Observation* involves counting the number of things or events that may be relevant to your marketing situation. For example, the number of roadside stands within a 30-mile radius of your farms, as well as specific locations, hours of operation, what they sell, what the quality is, how full the parking area is, etc. Observe the customers to learn about them: what they value, how they spend their money. Look at the kind of

¹Karen Mundy, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, VA and Gary Bullen, Department of Agricultural and Resource Economics, North Carolina State, Raleigh, NC. September 2007.

Adapted from material by Charles Hall, Department of Agricultural Economics, University of Tennessee, Knoxville, Tennessee

vehicles they drive, and how they are dressed (labels on clothes, watch, rings, etc.) what they drink (sodas, coffee, water) and the labels on these. How long do they spend at the market? If you're at a farmers' market, do they wander from seller to seller buying some produce here and other there, even if the first farmer had the same produce as they bought elsewhere? If you're in a grocery store check-out line—what magazines do they pick-up to look at while they wait? Do they buy them or put them back? What's the focus of these magazines? These observations tell you about consumers' lifestyles.

- ☞ *Talking to people* can be extremely informative. You might visit a local farmer's market a couple of times. Look at what people are buying and ask them about the product. You can ask
 - if they often buy it;
 - if they are satisfied with the quality and price;
 - if they would consider a different variety of the same product—for example, blue potatoes versus yellow potatoes, bi-colored corn versus white or yellow;
 - why didn't they buy that corn at the stand where they bought tomatoes since both farmers were selling corn and tomatoes;
 - how long does it take them to get to the market;
 - how often do they come to the market?
- ☞ *Network*. Join the local business group, trade associations like vegetable and fruit growers association, or whatever other organizations will bring you into contact with other business people. Run ideas by them. Ask what they are doing. A word of caution, don't join so many organizations in the name of networking that you don't have time for your own business.
- ☞ *Written or verbal questionnaires* work best for an existing business because you can ask your customers to complete them. What you will get from questionnaires is what other produce, meat, poultry, cheese, activities your customers would be willing to purchase. You will learn who your customers are. What you won't get is any really useful information from them about what your customers are willing to pay for an item—what they say and what they do with their pocketbooks are totally different. If you decide to use a questionnaire (see sample in Appendix A), remember . . .
 - Ask only for information you will use to make a decision.
 - Make your questions clear and to the point.
 - Keep your questions simple and short.
 - For oral questionnaires, keep paper and pencils at cash registers for clerks to write down customer comments.
 - If using a written questionnaire, keep it to one page, one side, and leave room for comments where appropriate—these can be made on the back.
 - When asking for ranking things like friendliness of employee, use an even number of choices or all your answers will be right in the middle.

- Have knowledgeable friends test the questionnaire for you—you don't want questions to be misunderstood or spelling errors because spell-check fails to differentiate between "you" and "your."
 - Try coding the questionnaire based on your test results.
 - Consider giving an incentive for completing a questionnaire—a coupon, a small bag of apples, etc.
 - Before you try analyzing your results, be sure you have a code number on the questionnaire which you also enter with the results. You need this so that you can go back and check a result that looks strange.
- ☞ *Experimenting* is not a good way to do primary research, sometimes it's intuition that goes along with it that makes it acceptable. A word of caution—try it on a small scale to see if it works. You really don't want to lose your shirt, as the saying goes, by investing all your time, energy, and money in your new enterprise. If it's something you can market at a farmers' market along with other things you produce, take it to see if sells. If it's an agritourism idea, add it to your existing array of activities. Don't expect whatever you offer to be the product that saves the farm—it might be just the opposite. And one season might not be sufficient to prove the value of the product.

Secondary Research is often the easiest and least expensive way to obtain market information. You can get several necessary types of information through secondary data. Most secondary data either will be national or by county/city or zip code. You have to use secondary data with the knowledge that it may not totally reflect your target market. Another difficulty with secondary data is putting it into a useful format. A word of caution about secondary research—the most useful may be lifestyle information, and it is the hardest to obtain without paying a huge amount for a professional questionnaire. However, you can get some of it for free if you are willing to make some assumptions about the people in your area.

- ☞ Population and demographic data provide information about the number of people within a given geographic area (city/county/zip code) and their demographic characteristics, such as income, age distribution, level of education, household size, ethnicity, race, etc. You want this information to estimate the total size of your market and to know how many customers of various ages, ethnicities, income, educational level, etc. you have access to. Demographic trends within your area can be analyzed using data from the *U. S. Census Bureau* and the *Bureau of Economic Analysis* websites and others such as *www.city-data.com*, which bases its information on census data, but you may find it easier to use.
- ☞ Information about your local and regional economy is usually available from local economic development agencies or county/city administrators' offices. These sources can tell you the number of various types of business establishments, the availability of support services and credit sources, and zoning and other regulations which may affect your operation and marketing strategy.

- ∅ Production data can *sometimes* be found for your region as well. It will show the existing level of production of the product/service you are considering, as well as production trends. However, if your idea is new or that product is simply not a major commodity for your region, little information will be available.
- ∅ Consumption data show the per capita level of purchases by consumers for a given product or service. This information may not be available for your particular product, and it is usually national not regional. This information comes from U. S. Department of Agriculture (USDA).

You have access to numerous sources of secondary data including the Internet, the Cooperative Extension, *USDA*, public libraries, the U. S. Census Bureau, U. S. Bureau of Economic Analysis (*BEA*); U. S. Internal Revenue Service (*IRS*), local Chambers of Commerce, local transportation departments, planning and zoning boards, economic development agencies, and trade and commodity associations. Extremely useful information often can be found in the most unlikely places. In fact, the most difficult aspect of secondary research may be figuring out where to find the information you need.

Planning market research

Your market research can be as complex and expensive in both time and money as your needs and budget allow, but keep your research targeted and cost effective.

- ∅ First, allocate a reasonable amount of time and money to this effort and plan to work within that allocation. What is “reasonable” depends on your judgment of the risks and rewards involved.
- ∅ Second, develop a list specific questions about your market that you feel you must answer before proceeding to develop the new enterprise.
- ∅ Third, define the specific type of data you need to collect to answer those questions.
- ∅ Fourth, determine which of that data are already available from secondary sources.
- ∅ Fifth, determine what primary research techniques you will use to collect data which isn’t already available.
- ∅ Sixth, seek assistance. You can save a tremendous amount of time and energy by enlisting the aid of competent professionals, and you need not spend a dime to do so. A small business development program or *SCORE* in your area has staff who can review your market research plans, suggest tactics, and even help in developing and analyzing questionnaires, if you choose to do one. A librarian can help track down the secondary data you need. Your Chamber of Commerce can help identify local resources available to help you design and carry out your market research.

Revisit your market research to decide whether you need to make changes in your marketing strategies.

Develop a Customer Profile

Learning about people who buy/will buy from you consists of developing customer profiles and dividing the market based on customers that have similar demographics and lifestyle characteristics (interests, activities, and opinions, and/or product usage characteristics).

To begin to build your customer profile, start with the easy part—secondary information. Your first decision is the geographic area you expect to draw customers from. You need a geographic area such as county or zip code so that you can get the Census data you need for demographic information.

Next, go to the US Census Bureau website and select Gateway to the 2000 Census and Summary File 1 (Figure 1). When you get to Summary File 1, select “Access to all tables and maps in American FactFinder,” detailed tables, and follow from the drop down menus for geographic type, state, and counties. Select the tables you want: population, gender, age, median household income either by itself or based on educational attainment, and educational attainment. For race and ethnicity, go to Summary Table 3, Table P7. You want median income because it’s midway between the highest and lowest income in the area. Average household income may be very much higher or lower depending on how many people have low or high incomes in the area and how much difference you find between the high and the low. For example, the median household income in 2005 from the American Community Survey (found at bottom of Figure 1) for New Hanover County is \$44,793, while the average household income is \$58,842. Two things to keep in mind with these data are 1. Census data are from 2000; 2. the American Community Questionnaire data are estimates using sophisticated computer models based on the 2000 Census, and these data are not calculated for all counties. They are the best you have available. You might be able to make some educated guesses about changes in income based on local economic conditions for example, a major employer moving into or leaving the area.

Once you have your demographic data, look at the types of stories and advertisements in your local newspaper. Do they focus on sports or fashion or social activities of the more wealthy or gardening or food? What are the most frequent ads on the local radio stations? What does the local newspaper say about gardening and food—you can learn a lot about what people are looking for in the market. Observe the people at the farmers’ market, the grocery store—what do they buy, how long do they spend shopping, how are they dressed, what do they drive?

For purposes of these tools, we make the distinction between lifestyle characteristics and psychographic characteristics. The names given to various characteristics are a function of the company compiling the information and how they define the groups.

Lifestyle characteristics reflect how customers allocate their time and resources. These characteristics include dress, athletic activities, political involvement, work habits, daily routines, eating and drinking characteristics, travel, community involvement, hobbies,

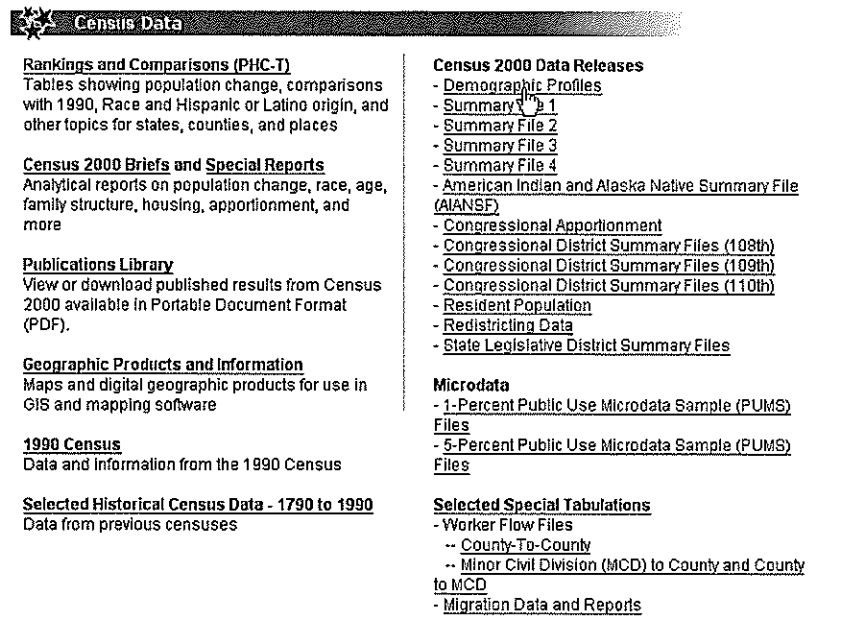


Figure 1. Summary File 1, U. S. Census Bureau 2000 census website

and cultural endeavors. Some of these you can easily observe; others you may need to ask about in a questionnaire.

Psychographic characteristics relate to psychological ideas—how people view themselves, why they do what they do. These traits are related such characteristics as people being aggressive, gregarious, ambitious, creative, risk-taking, passive, depressed, abused, disciplined, competitive, resistant to change (Winston).

Frequently, psychographic and lifestyle studies lead to stereotypes like “soccer mom.” It is not easy to get these data, but they may be as useful to you as demographic data or production and consumption data that you find for a given product. Lesser and Hughes showed that psychographic information is generalizable from one market location to another.

Go to one of the lifestyle websites and look at what they have to offer. For some idea of the questions you might ask on a survey to identify lifestyles, take the test offered by SRI Consulting Business Intelligence (<http://www.sric-bi.com/VALS/types.shtml>). Remember the results will be this company’s interpretation of your answers. Another company will probably give you slightly different classifications to you answers. Can you adapt any of these questions to gain insights into your target customers?

Assume you would like to convert your family farm into a hunting plantation. Determine both the demographic and lifestyle characteristics of your target market—avid hunters and fishermen. Combining the demographic and lifestyle characteristics, you develop the following profile of your target market.

Demographic	
Race/ethnicity	White
Age	25-54
Education	High school
Median household income	\$63,200
Marital status	Married
Home ownership	Owns
Children	2

Lifestyle

NASCAR fan
 Owns a Ford truck
 Camps, fishes, hunts
 Listens to county music
 Owns boat
 Listens to outdoor life TV shows
 Belongs to NRA

The hunting example is only one way to characterize your potential customers.

Consider the characteristics of the following types:
 ☞ “Soccer moms” middle to upper class, drives SUV or minivan, doesn’t work, spends time driving children to numerous activities, of which soccer is only one. The children are involved in numerous activities from sports to music to dance or gymnastics. The constant busy schedule of the children

keeps the soccer mom on the road and leaves little time for food preparation or other domestic activities. Convenience is the most important criteria for these busy lifestyles.

☞ Home schooled families are found in any geographic area—cities, rural areas, suburbia. The families tend to be either religious or frustrated with public school education for various reasons. Some home schooling families are working, single mothers. In families with both parents, the top three occupational groups of homeschooling fathers were accountant or engineer (17.3 percent); professor, doctor, or lawyer (16.9 percent); and small-business owner (10.7 percent). [These occupations tend to put the families in the mid- to upper-class category.] According to the same survey, 87.7 percent of mothers who have chosen to stay at home and teach their children list “homemaker” as their occupation (Brian D. Ray, “Home Education across the United States,” Home School Legal Defense Association research study, March 1997, p. 12. cited at Isabel Lyman. “Policy Analysis: Homeschooling: Back to the Future?” Cato Institute. http://www.cato.org/pubs/pas/pa-294.html#N_34_). They often take their children on outings to local places—similar to public school field trips.

According to Danziger in *Why People Buy Things*, consumers purchases fall into four groups: utilitarian, lifestyle luxuries, aspirational luxuries, indulgences. Utilitarian purchases include aren’t necessarily needed, but they make life easier—microwaves, food processors, water purifiers. Lifestyle luxuries are practical as well as prestigious name brands. They include cars like BMW, designer clothes and accessories, fine china and glassware. Indulgences have emotional gratification as their primary justification. They include gourmet chocolate, books, flowers, magazines, entertainment. Aspirational luxuries express consumers’ values, interests, passions. They include original art, boats, fine jewelry; buying them offers emotional satisfaction. Danziger found only 39 percent

of respondents to a series of telephone surveys identified impulse buying as important in their decisions to buy (Table 1). Quality of life ranked highest and status lowest.

Table 1. Justification for purchases

	Percent identify as important
Quality of life	89
Pleasure	84
Beauty	83
Education	83
Relaxation	82
Entertainment	78
Planned purchase	75
Emotional satisfaction	74
Replace existing items	73
Stress relief	66
Hobby	66
Gift for self	54
Bought on impulse	39
Status	30

Source: Danziger, p. 60.

Remember, these definitions are just one author’s labels for consumer buying characteristics. They compiled the information using three telephone surveys in 2000, 2001, and 2003. Telephone surveys are expensive. Finding work that someone else has done and made available will be you most cost-effective way of dealing with why people buy. You can also learn a lot from observation and reading about trends.

After you gather your information, create a table similar to the one that follows. This table will help you organize the information you have so that you can get a picture of you potential customers.

After you gather your demographic and lifestyle information, start looking for information on trends. A web search on food trends gives you a long list of possible articles. Narrow your search to something more specific like sweet and hot pepper trends or agritourism trends. These articles will probably be about other areas of the country or about the nation in general. Use the information to see how closely the demographic and lifestyle characteristics of your area match those described in these articles. If you are interested in agritourism for example, consider any activity on your farm where you have people who are neither family members nor employees. An agritourism presentation from Kansas shows the percent of people participating in various agritourism activities (Tolle). These numbers are probably national, the presentation doesn’t say. From the lifestyle characteristics of your potential customers, you can get an idea of which activities will be most popular for your business. Another paper on using cheese as the basis for agritourism, says that studies show that agritourism has grown 30 percent in the U. S. from 1997 to 2007 (Dairy Innovation Business Center). These data are national,

Customer Profile Table			
Customers	<u>County</u>	<u>County</u>	Total
Total population			
Age			
0-9			
10-19			
20 - 25			
26 – 45			
45 – 65			
Over 65			
Male (over 19)			
Female (over 19)			
Race/ethnicity			
White			
African American			
Asian			
Mexican			
Other			
Educational attainment			
No high school			
Some college			
College degree			
Advanced degree			
Median household income			
Primary occupation (percent)*			
Blue collar			
White collar			
Professional			
* You may have to estimate these percentages based on your knowledge of the area.			

Observable lifestyle characteristics such as dress, vehicle, newspaper and magazine choices, etc*.

Vehicle driven	
Magazines looked at/purchased	
Ads in local newspaper and on local radio stations	
Vacation spots	
Other	

* You may have make some educated guesses based on the emphasis in the local newspapers and radio stations.

but as you look around your county and assess what is available for entertainment, see where you might fit in the expanding agritourism industry.

While knowing WHY people buy may be more important than demographic data, you may not be able to obtain the information without a lot of expense, time, and work.

Trends, demographics, and observation will be your primary sources of relatively low-cost information. You will have to draw your own conclusions about the impact of these results for your operation.

Part 2. How do you use the information?

To illustrate how to use the information you gather, consider yourself an agritourism farm in Johnston County, North Carolina.

Step 1. Define your geographic market area

You go to a map of North Carolina and find approximately where your farm is located (more on defining your market area in *Estimating Market Potential*). You decide a 30 mile radius is probably about all you want to tackle as a new agritourism operation. You put a dot on your farm and draw a circle with a 30 mile radius (Figure 2). You find that it includes Harnett, Wake, Wayne, and Wilson counties. Half of Sampson is also included, but you decide you might not get enough business from there to include it in your analysis. You also figure that most people in that area can get to your farm in an hour or less—probably the longest anyone would be willing to drive for entertainment (other than the beach!).

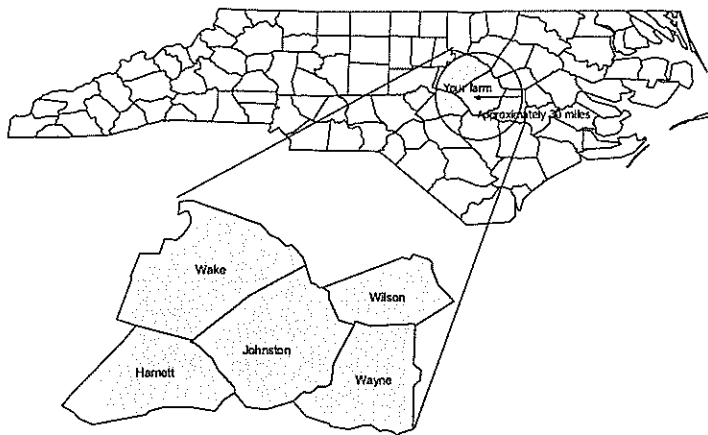


Figure 2. Target market area

The next thing you do is go to the U. S. Census Bureau and start collecting data.

After you have your demographic and lifestyle table, think about specific groups within these broader areas that you might want to target. For example, if you decide to do educational farm tours, contact home school parents, elementary schools, or older, depending on the level of your educational program. If you want strictly entertainment—a day in the country—target church groups, both youth and adult. Refine your general information, depending on what you believe will best suit your needs, abilities, and resources.

Customer Profile Table	
Customers	Harnett County
Total population	100,634
Age	
0-9	14,894
10-19	14,793
20 - 25	24,756
26 - 45	22,139
45 - 65	14,994
Over 65	9,057
Male (over 19)	31,204
Female (over 19)	32,756
Race/ethnicity	
White	62,574
African American	20,208
Asian	595
Hispanic	5,179
Other	2,469
Educational attainment	
No high school	14,271
Some college	12,589
College degree	5,347
Advanced degree	1,951
Median household income \$	38,142
Primary occupation (percent)*	
Blue collar	40
White collar	50
Professional	10
* You may have to estimate these percentages based on your knowledge of the area.	

Observable lifestyle characteristics such as dress, vehicle, newspaper and magazine choices, etc.*
Dress: casual, good, but not expensive
Vehicles: trucks, SUVs, economy cars, Fords, Chevys, Hondas, Toyotas dominate
Newspapers: local
Magazines: Sports Illustrated, food, gardening, diet
Church: parking lots of Baptist, Presbyterian, Methodist, Unitarian full on Sundays
* You may have make some educated guesses based on the emphasis in the local newspapers and magazines.

Worksheet

Define your geographic market area (zip codes, counties, driving times, circle—be specific about area).

Define your target customer (school children, Asians, church groups, etc.)

Fill in as much of the following table as you can for your geographic location/locations.

Customer Profile Table			
Customers	County	County	Total
Total population			
Age			
0-9			
10-19			
20 - 25			
26 - 45			
45 - 65			
Over 65			
Male (over 19)			
Female (over 19)			
Race/ethnicity			
White			
African American			
Asian			
Mexican			
Other			
Educational attainment			
No high school			
Some college			
College degree			
Advanced degree			
Median household income			
Primary occupation (percent)*			
Blue collar			
White collar			
Professional			
*You may have to estimate these percentages based on your knowledge of the area.			

Observable lifestyle characteristics such as dress, vehicle, newspaper and magazine choices, etc*.

* You may have make some educated guesses based on the emphasis in the local newspapers.

Appendix A. Sample questionnaire

1. Have you completed a survey for us previously? yes no
2. Are our employees

Friendly <input type="checkbox"/> yes <input type="checkbox"/> no	Courteous <input type="checkbox"/> yes <input type="checkbox"/> no	
Helpful <input type="checkbox"/> yes <input type="checkbox"/> no	Dressed appropriately <input type="checkbox"/> yes <input type="checkbox"/> no	
3. How would you rate our produce?

<input type="checkbox"/> Excellent	<input type="checkbox"/> Good	
<input type="checkbox"/> Satisfactory	<input type="checkbox"/> Poor	
4. What products do you buy most often?

5. What time of day do you usually shop at our market?

<input type="checkbox"/> Before 11 a.m.	<input type="checkbox"/> Between 11 a.m. and 3 p.m.
<input type="checkbox"/> Between 3 p.m. and 6 p.m.	<input type="checkbox"/> After 6 p.m.
6. Is the information we provide clear and useful? yes no
7. If you answered "No" to question 6, what can we do to improve it for you?

8. What don't we grow that you would like to have?

9. What can we do to improve our service to you?

10. Do you have children or grandchildren living in your home? yes no
11. What community or sports groups do you and your family participate in?
 - 1.
 - 2.
 - 3.
12. What are your hobbies?
 - 1.
 - 2.
 - 3.
13. Do you read the local newspaper? Yes No
14. What are your three favorite magazines?
 - 1.
 - 2.
 - 3.
15. What is your gender? Male female
16. Please give a range in which your household income falls

<input type="checkbox"/> Under \$20,000	<input type="checkbox"/> \$20,000 to \$29,999	<input type="checkbox"/> \$30,000 to \$39,999	
<input type="checkbox"/> \$50,000 to \$75,000	<input type="checkbox"/> \$40,000 to \$49,999	<input type="checkbox"/> Over \$75,000	

Thank you for your help. Please ask the cashier for your coupon.

Appendix B. Helpful References and Websites for Conducting Market Research

- Census of Agriculture – http://www.nass.usda.gov/Census_of_Agriculture/
City-Data.com – <http://www.city-data.com>
Dairy Innovation Business Center. “Cheese Tourism in Wisconsin: Issues and Prospects.” Found at <http://www.dbicusa.org/resources/finalversiondbiccheesetourismreport.pdf>
Danziger, Pamela. *Why People Buy Things*. 2004. Do search on Pamela Danziger.
Economic Indicators – <http://www.census.gov/cgi-bin/briefroom/BriefRm>
Horticultural Business Information Network – <http://www.utextension.utk.edu/hbin>
Lesser, J. A. and M. A. Hughes. “The Generalizability of Psychographic Market Segments across Geographic Locations,” *Journal of Marketing*, Vol. 50, No. 1. (Jan., 1986), pp. 18-27 found at <http://links.jstor.org/sici?sici=0022-2429%28198601%2950%3A1%3C18%3ATGOPMS%3E2.0.CO%3B2-2>
MapStats – <http://www.fedstats.gov/qf/>
SRI-Consulting Business Intelligence. <http://www.sric-bi.com/VALS/Stat-USA/Internet> – <http://www.stat-usa.gov>
The Right Site offers numerous free demographic profiles—www.easidemographics.com/cgi-bin/login_free.asp
Tolle, F. *Agritourism: The New Frontier*. Oklahoma Agritourism. Found at <http://www.k-state.edu/projects/wmf/pdffiles/AgritourismPresentation.pdf>
USDA Economic Research Service Briefing Rooms – <http://www.ers.usda.gov/Briefing/>
Winston, W. J. *Psychographic/Lifestyle Aspects for Market Targeting*. The Haworth Press, Inc. 1984 Go to Hawthorn Press at <http://www.haworthpress.com/default.asp> and do a search for the book.

Product, Price, Place, and Promotion¹

The essence of marketing is putting the right product in the right place, at the right price, at the right time. On the surface marketing is easy: you just need a product that a sufficient number of customers want, sell the product at a place customers visit, set the price that match the customer's perspective of the value of the product. However, the hard part of marketing is knowing what customers want and being able to produce the product at a price the customers are willing to pay. All four elements must fit together. Any one of them being wrong may cause your business to fail. You could have the best product in the world but market the product in the wrong place where no one would buy your great produce. The 4Ps or market mix is a good place to start. "The 4-Ps of Marketing" or the marketing mix are product, what you have to sell; price, how much it costs; place, where someone can buy it; and promotion, which tells potential customers about it. This tool gives an overview of these elements of marketing.

Before you start planning your 4-Ps, develop a marketing budget. Marketing does not need to be inexpensive. A marketing budget will help you put limits on your spending. It will also help you when you evaluate your efforts to see where money was allocated and spent.

Product

Product includes every characteristic of your product (what you produce to sell)—both tangible and intangible. The tangible characteristics include quality, appearance, packaging, logo (brand, trademarks, etc.), guarantees. The intangible characteristics are consumers' perceptions of your product and your operation: taste—every customer likes or dislikes certain tastes—smell—again, every customer likes or dislikes certain smells. How you or your employees deal with customers will reflect on the image of your product. Even if they like the product itself if they have been treated poorly, they may not come back to buy more. People purchase products for many different reasons: to fill a need, to fill a desire, to use as a gift or souvenir, and so forth. Where they buy them and how often depends on why they are buying them. Products that meet needs like food are purchased often and frequently from a grocery store because of price. Products that fill desires may well be impulse purchases. Specific products purchased as gifts or souvenirs are not sought, but they are the result of the salespersons actions, advertising, or special discounts. These unsought purchases describe impulse purchases as well. For your specialty honey, you may target tourists and people looking for a unique gift. Keeping in mind who you want to target will help you with how you package.

¹ Karen Mundy, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, VA and Gary Bullen, Department of Agricultural and Resource Economics, North Carolina State, Raleigh, NC. September 2007.

A package conveys an image to your customers. A product has to be packaged according to what your target market expects and wants. For example, if you package your specialty honey in a non-descript jar with an unimaginative label, you won't catch the eye of the tourist or gift-seeker.

How would you describe your product? What are its characteristics? What benefits does it offer to the buyer? Will your customers recognize those benefits? What's unique about your product? When and how can the product be used? How is it distinctive from your competitor's product? Can your competitors easily copy your product? Can the buyer afford your product? (Determan). The big question is, "Why will someone buy your product?"

Product Analysis

Product	Characteristics	Benefits

Price

Pricing works to create a product's image. For example, you are marketing a very high quality specialty honey. You need to price it accordingly to help enhance the perception that it is a high quality product. Consumers have a perception that expensive products are of higher quality than less expensive, competing products. This perception is evidenced in the adage, "you get what you pay for." Pricing is a balancing act between charging too much, which may lead customers to believing your prices are out of line, and not charging enough, which may lead them to believe the product is of lower quality. You will have to set a price that will generate sufficient revenue to cover all your costs of production and create real value for consumers. The questions to ask are, "Is my product a high end or low end product? Or is it the same as everyone else's?" The answer becomes your pricing objective. How do you perceive your products? Will your customers perceive them the same way?

In addition to creating an image, pricing can result in a reaction from your competitors. If you price your products too low compared to your competition, you risk having others lower their prices. With profits from farming already low, it doesn't make sense to price below your competition and reduce everyone's revenue. However, if your price is high, competitors may see you making a profit and enter the market to take advantage of the high price. The result of that strategy is to drive your price down as well as theirs. Know your competition's prices, even if you don't know their costs. Only if your products are better or different in some significant way, will you be able to obtain a higher price for them.

Putting a low price on your product, one that just covers your cost of production, may expand your market, but it may also create an image of poor quality. If it's a new product, one unfamiliar to many people such as lavender honey, a low price may create a willingness in people to try it. If, however, it's a product that several others have such as mixed flower honey, a low price relative to your competition may attract people to your honey rather than someone else's. A low price is basically a price floor—a price below which you cannot afford to sell the product without hurting your operation, image, and other producers.

A high price, while implying something of good quality, may mean you price yourself out of the market. A totally unique product can be priced higher than a product that many producers sell. For example, at a farmers' market with 20 farmers, 15 of them sell Yukon Gold potatoes. You are the only producer to sell fingerlings—a gourmet type potato, and your fingerling potatoes are yellow, red, and blue. You can charge a higher price than the producers selling Yukon Gold. However, the risk you run is that you make the price so high that you have priced your product beyond the willingness of buyers to pay. Putting a high price on a product to increase profits may be a goal, but a word of caution—you may not sell enough at that price to make any difference in your total revenue from that product. Setting a high price that still encourages customers to buy is putting a ceiling on what the market will accept at that price.

The third pricing objective is to simply price at the same level as everyone else because you cannot offer anything better than or different from anyone else.

The questions to ask when considering your pricing objectives are

1. How much must you charge to cover your cost of production?
2. How much will someone be willing to pay for your product if he/she can buy it elsewhere for less or the same price?
3. What makes your product different enough so that you can charge a higher price?
4. Will charging a lower price attract more customers resulting in more revenue than if you sold fewer at a higher price?
5. What are others in the market charging?

Service goes a long way toward creating the image of a high end product. That service also has a cost to it—the time and perhaps money you invest. For example, a customer buys your product and finds something wrong with it. He/she brings it back to you and complains. Because you want your customers to view your products as high end, you spend the time talking to him/her to find out exactly what the problem is. You want to be able to correct the problem for future sales, but, more importantly, you want your customer to leave feeling good about your products. If he/she leaves feeling dissatisfied, he/she will tell all his/her friends how bad your product is. If the customer leaves satisfied with the solution, others will know you stand behind your product. In addition to discovering the source of the dissatisfaction, you offer to replace the product or refund his/her money. These actions take time. If you succeed in setting things right, you will have a happy customer who will return.

Place

Place refers to where and how you make your product available to customers. Place involves communicating with prospective customers. Place also plays an important role in determining a product's overall image. Descriptions of different market outlets, their advantages, disadvantages, and legal requirements are found in *Direct Answers for Direct Marketing*, Chapter 3, Which Direct Marketing Outlet Is Right for You?

You have many market outlets from which to choose:

- On-farm market
- Roadside market
- CSA
- Farmers' market
- Restaurant
- Internet
- Specialty stop

As you consider the possible market outlet for your product, ask yourself

- Is the market the right one for the product? Can you sell your specialty honey at a farmers' market or would it sell better at a specialty shop in a tourist area?
- How will you get it to the market? Do you have to provide the transportation or shipping? Can potential customers come to directly you for the product?
- Do you like to deal with people? Do you have someone working for you who does? Can you afford to pay someone to sell your product if you don't sell it on the farm?
- What are the legal issues associated with the market you choose? What is your liability at that market? Do you have any fees to pay to use the market? What do they cover?
- Will the customers come to the market you are considering? Is it the market where customers would think about looking for your product?

Promotion (and Advertising)

Generally, in marketing terms, advertising is any paid form of non-personal communication for a good or service by an identified sponsor. Promotion is an incentive or activity to get the customer to buy the product or service NOW. For direct marketers whose business is small, most forms of advertising do not work. Look at your options carefully so you don't waste money. Having made that observation, you may still find some advertising is useful. Obviously, some methods are more costly than others. You'll need to choose very carefully and learn what works and what doesn't. What doesn't work, you stop using. If you set up an advertising budget, you'll be better prepared to determine how much you are willing and able to spend on any specific type of advertising.

Promotion can take the form of writing articles for the local newspaper about honey, taking a hive display section to the local schools and explaining how honey is made, inviting newspaper writers to visit and write about your operation, making samples available. Advertising can be as simple as well designed and places signs or as complex as television spots. You can use the internet—always a good option even if you don't sell over it.

Promotion and advertising and the related topics of customer and public relations are a huge topic: For a more detailed description of them, go to *Direct Answers for Direct Marketing*, Chapter 6. How Will You Reach Your Customers?

Market Planning: An Example

Product

Your product is specialty honey made from a variety of different pollens. You decide to bottle your honey in two sizes. The smaller one is nine ounces in a bee shaped jar. The larger one is a pound in a multifaceted jar (Figures 1 and 2, respectively).

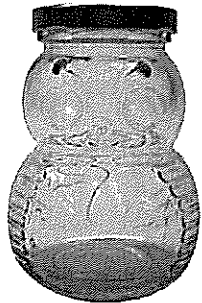


Figure 1. Bee jar



Figure 2. Multifaceted jar

You describe your specialty honey as being local, all natural, and based on the pollen from which the honey is made—buckwheat, lavender, and orchards. You face competition from the grocery stores, but they don't sell local honey. You have competition from one other apiary in an adjoining county, but he/she only sells clover and mixed honey.

Price

As far as price goes, you need to cover your costs, but you don't want to make your price so high that no one will buy your honey, even as a gift. When you looked at the prices over time from USDA (http://www.nass.usda.gov/Statistics_by_State/New_York/Publications/Statistical_Reports/honey.htm), you find that it varies from year to year, but in 2006, it averaged \$1.94 for North Carolina. "Prices are based on retail sales by

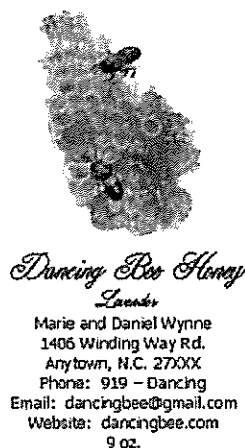
producers and sales to private processors and cooperatives. State level honey prices reflect the portions of honey sold through retail, co-op, and private channels.” March 2007, NY Honey Production, NASS. Since the price is an average for all types of honey marketed through both wholesale and retail outlets, you decide, based on your cost of production and these prices, that you will well your buckwheat and orchard honey 9 oz. jar for \$5.99 and the 16 oz. jar for \$8.99. The lavender honey you decide to see for \$6.99 and \$9.99 because it is harder to find sufficient lavender to produce the honey. While an even number for price would make it easier to calculate change and require you keep fewer coins, you know that psychologically \$5.99 seems to be a lot less than \$6.00.

Place

You decide to sell you honey at a Saturday farmers’ market in Oldtown because you want to interest tourists in buying it and you think you’ll have better success attracting them at a farmers’ market. You decide to use a combination of a table and crates to make your display attractive. Since you’re using glass jars, you know you can’t stack it more than two or three high or someone will knock it over. You also decide to take a display hive section to show customers how the bees work and to attract customers. You have an educational poster that describes your pollen sources and tells about the nutritional value of the different kinds of honey. You plan to participate in any local festivals and fairs.

Promotion and advertising

Since the flavor of your honey probably isn’t familiar to people, you decide to have samples of each kind. You have your signs telling people about the honey. You include on your label your farm name and address, specialty honey and the type, and the weight. Your price signs are done on a blow-up of your label with the type of honey shown and the different prices.



Honey jar label

Honey type	Price	
	8 ounce	1 pound
Lavender	\$6.99	\$9.99
Buckwheat	\$5.99	\$8.99
Orchard	\$5.99	\$8.99

Price sign

You plan to use word of mouth, your samples, and your web page to advertise. You also plan to participate in local festivals to get the word out.

Worksheet

Where do you plan to sell your product?

Product Analysis

Product	Characteristics	Benefits

- A. Where do you live—primarily urban or rural area?
- B. Does your product need to be in a specialty store?
- C. Can it be sold on the farm?
- D. Will you sell at a farmers' market?
- E. Do you want to interact with your customers?
- F. What legal or inspection services are needed for the market?
- G. Will your potential customers look for your product at this market?

Price—high price, low price value, convenience, uniqueness

☒ What is your variable cost?

☒ What is your total cost?

☒ What are your pricing goals?

➤ High price—what do you expect to accomplish using a high price?

➤ Low price—what do you expect to accomplish using a low price?

➤ Same as everyone else?

☒ Will you use a break-even method to price?

Will you use a margin?

Will you use markup?

What promotion and advertising outlets might you use?

Samples

News releases

Educational information

Newspapers

Teaching a class at local school

Trade and association shows

Internet

Word of mouth

Other (specify)

What will be the cost of the various types of promotion?

What do customers look at for information?

How will you evaluate its effectiveness?

References

- American Express. Open for small business. Found at http://www133.americanexpress.com/osbn/Tool/biz_plan/description/pricing_tool.asp
- Determan, Michele. Marketing 101—Some basic marketing theory. Found at <http://www.determan.net/Michele/mposition.htm>
- Moses, Jeffrey. The Scientific Way to Determine the Price of Your Products or Service. 2005. Found at http://www.nfib.com/object/IO_19659.html
- USDA (http://www.nass.usda.gov/Statistics_by_State/New_York/Publications/Statistical_Reports/honey.htm)

Estimating Market Potential¹

Market potential is an estimate of the amount of money you can expect to make from the product or service you plan to market. *Your estimate will only be as good as the information you use and the assumptions you make.* There are seven pieces to estimating market potential:

1. Define your market segment;
2. Define the geographic boundaries of your market;
3. Define your competition;
4. Define the market size;
5. Estimate market share;
6. Determine the average annual consumption; and
7. Estimate an average selling price.

Estimating the market potential will allow you to determine if the market will support your business—that is cover your costs and pay you a salary. Generally, the market potential is the most net revenue that you will realize from your enterprise. One way to use your market potential analysis is to change your assumptions and see if you can still cover your costs. You can either lower your expectations of the number of people who will buy from you, or you can raise your price. Write down the assumptions you use to estimate your market potential and the changes you make to those assumptions.

To illustrate the concepts discussed, we use an agritourism example of a farmer wanting to add a corn maze and educational tour.

Define your market segment

Think of the target market as the customers who are most likely to buy from you. They are generally described using demographic variables: gender, age, education, and income. They are also described using psychographic variables: lifestyle, interests, and belief system variables. You might have more than one target market. Think about the food industry. It has a number of target markets such as organic, vegetarian, dieters, and any combination of these consumers and more. Develop specific profiles for each of your target markets using demographic and psychographic (lifestyle) variables. When you target a market, you are effectively dividing it into segments based on characteristics of your buyers.

¹Karen Mundy, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, VA and Gary Bullen, Department of Agricultural and Resource Economics, North Carolina State, Raleigh, NC. September 2007.

Adapted from material by Kent Wolfe, Department of Agricultural and Applied Economics, University of Georgia, Athens, Georgia.

The *first* method of describing your target market segments is using a set of demographic descriptors like

- ✧ age
- ✧ marital status
- ✧ household income
- ✧ gender
- ✧ race/ethnicity
- ✧ education

Describing your target market with these demographic variables is important. Use your demographic profile to determine how many people fit your profile using various demographic data sources (Appendix A). Because creating a demographic profile alone may be too general to provide specific enough information to accurately determine your market potential, look at lifestyles and, perhaps, psychographic data (“**Tool Identifying Your Customers**”). Lifestyle observations, by telling you something about what people spend their money on, will help you better estimate the percent of all people who might buy what you are offering.

After you define your target market, put a geographic boundary around where you intend to operate. This boundary can be as small as a city block; it can span the area between two rivers; or it can be the entire world. The geographic boundary defines the area where potential consumers live, work, and/or play. Since not everyone in the defined market area will be a customer, you need to compare your target market profile to the population in the market area. Market areas are defined in a number of ways. Some methods are easy to get data for while others are more difficult and require the services of a marketing professional.

Define the geographic boundaries of your market

A market area is generally defined by geography, ring analysis or radius, trade area, or drive-time.

Geography is the simplest form of defining a market area. It defines the market area by using landmarks or some jurisdictional boundary to define the market area such as

- ✧ neighborhoods (based on U.S. Census block data),
- ✧ zip codes,
- ✧ city or county boundaries,
- ✧ Metropolitan Statistical Areas (MSA),
- ✧ state (multi-state) borders,
- ✧ nation,
- ✧ continent,
- ✧ world.

One of the limitations with data is that if you want to do ring analysis or drive time analysis, the data you need will focus on political boundaries, for example, counties/cities, zip codes, and the like, not on a circle on the map or a driving distance. Don't discount these options, however. Accept that your data will not cover the exact area you want. Keep in mind that some information is better than no information. You can find sources for geographic market area information in Appendix C, Section A.

A **ring or radius market area** is created by drawing circular ring a specified number of miles from your business location. This technique is as simple as taking a road map and drawing a circle with your operation at the center. The ring analysis allows you to evaluate the demographics of people residing within a pre-defined distance from specific location. However, the ring analysis may include obstacles such as large bodies of water or mountains that make access to your location difficult. You can find sources of ring study information in Appendix C, Section B.

Drive-time analysis is a more sophisticated analysis than the radius analysis since a number of variables are used to estimate of the time it will take to drive to a given location. The analysis uses speed limits, road type, vehicle, time of day, and congestion. Customers may be willing to drive 15 miles, but given traffic conditions the 15 miles may take only 20 minutes to travel. A customer may be willing to travel 15 minutes, but in a heavily congested area, 15 minutes may translate in to a considerably shorter distance. As a result incorporating these driving related variables may give you a better estimate of the market area than by using a ring study. You can find sources of drive-time analysis in Appendix C, Section C.

Define your competition

Another piece of the puzzle is your competition. You need this information for several reasons. First, you can tell if they really are competition or if their market is different from yours. By evaluating how your competition advertises its business, you can determine the markets it's targeting. For example, if they are advertising in *Southern Living*, readers tend to be affluent, middle age individuals. However, if they are advertising in the sports section of a metropolitan newspaper, they are probably targeting males. You can also learn how your competition gets their product/service to their customers. Second, a competitor analysis can show you packaging preferences. Are they producing family packs or individual serving sizes of their processed food product? What type of packaging material are they using? Third, you can learn about their pricing strategy. Are their products value priced, or are they priced for the high-end market? Are they focused on convenience, quality, or quantity? You accomplish these activities by evaluating the products and services your competitor provides. You can find sources of competitor information is Appendix E and in "**Tool Evaluating the Competition.**" Continuing the agritourism example, you find who your competitors are in the market and what they are offering. You find three other operations with corn mazes. One has a petting zoo and a pumpkin cannon included in their price. The other two operations offer the corn maze as one of several activities including pick-you-own pumpkins and apples,

hay rides, a haunted house—each priced separately. You decide that you will offer the corn maze and an educational tour of the farm. Each participant will get a small bag of apples at the end of the tour. The tour includes a hay ride around the farm with stops at various picture signs that point out production practices used and crops grown.

Define the market size

Once you have defined the market area and target market, calculate the number of potential customers for your business. This step provides you with an estimate of the number of potential customers in the market. The total market potential will typically have to be adjusted downward to account for those who will not buy from you. Typically, you would start with the total population with specific characteristics, such as gender, income, age, number of children in household, etc., in your target area. Then estimate what percentage of consumers would use your products or services. The demographic information you need is readily available; sources are found in Appendix A.

Assume your farm is an agritourism operation. You want to offer a corn maze as well as something educational. Decide you will target children in kindergarten through third grade. Your target market area is Wake County which has 45,700 children between five and nine years of age. Therefore, N (number of potential customers) = 45,700. You found this number in the U.S. Census for 2000.

However, not all children under nine will visit any agricultural facility. Your next step is to adjust the 45,700 to get more accurate estimation of the actual market potential. A survey of elementary school teachers showed that only 60 percent of kindergarten through third grade teachers are willing and able to take an agriculturally related field trip in the next year.

As a result, the 45,700 kindergarten through third graders needs to be adjusted downward by multiplying by 60 percent. This calculation results in an adjusted market potential of 27,420 potential students.

$$\begin{aligned} \text{Number of Potential Consumers} &= 45,700 * 0.60 \\ &= 27,420 \end{aligned}$$

Determine the average annual consumption.

Next, determine how often your target market segment uses your product or service. This figure will have a significant impact on the estimated market potential. For instance, is the product purchased frequently, occasionally or infrequently? Obviously, the more frequently the product is purchased, the larger the market potential. An abundant amount of consumption information from the government as well as industry trade associations is available. USDA collects volumes of disappearance data for a multitude of commodities. They then convert it into per capita annual usage (consumption) estimates. You will find sources of consumption information in Appendix D.

The quantity of what you are selling would vary based on the product being sold. For example, if you sell honey, the same customer may buy it five times in a season. If, however, you are selling hayrides, a customer may only buy one in a season. For the educational hay rides and corn maze you are offering, you probably assume that each student would only come once with his/her class. If you offer the same package on weekend or for special events like birthday parties, a student might come two or three times.

In the agritourism example, usage would be how often these school groups will take an agriculturally based field trip this school year. The same study of elementary school teachers indicated that they will take only 1 agriculturally based field trip this year. Therefore, you use 1 as your estimate of use of agriculturally based field trips or Q (quantity used) = 1.

Calculations for Estimating Market Share

Market share is the percentage of a market (either in number of units sold or revenue) accounted for by an individual business. This figure is important because it provides insight into how much of the total potential market you might capture. If the market share is not large enough to support your business, you have a problem. Also, if the number of units needed for the business to break-even financially is known, you can determine what share of the market you have to have for your operation to achieve this break-even point (see *Direct Answers for Direct Marketing*, Chapter 8 How Do You Estimate Your Price?)¹ Be careful not to estimate an unrealistic market share. The result will spell financial problems.

Estimating market share is difficult because of the lack of information. Some trade associations or market research publications and stories will supply some basic market share information, but finding directly applicable information for your business may be impossible. Estimate various scenarios based on what information you have. Remember to write down the assumptions you use so that you can go back later and revise based on new information.

Assume the same three existing agritourism operations in your market area. What percent of the total market you might be able to acquire? Since data on agritourism in the area are not collected, you won't be able to come up with an accurate number. However, for planning purposes, you can guesstimate a market share. In this example, it is the number of units sold, that is number of students going on the farm tour, that are being calculated.

First, you assume that each of the competing businesses in your market area has an equal share of the potential market or 33.3 percent of the total 45,700 children between five and nine. Next you assume that if you enter this market, you will take an equal part of each existing operation's business. Your goal is to capture 25.0 percent of the total. To calculate the market share for each of your competitors, use the formula

$Market\ share = 100.0\% \div \text{number of competing businesses.}$
 $Market\ share = 100.0\% \div 3$
 $Market\ share = 33.3\%$ for each of the existing agritourism businesses.

To assume you can will get 25.0 percent of the market (assuming you divide the existing market evenly four ways) is probably unrealistic since your business is new, and the others have existing customer bases. You can easily change your assumptions. For example, assume that can capture 3.3 percent from each of the three existing operations. You would then have 10.0 percent of the total potential market.

But you decide that the other operations don't have 100 percent of the total potential market because a percentage of the potential market will not come to any of the operations. Reduce the 100% by whatever you estimate the real potential market to be. Using the earlier example, the total population of 45,700, you estimate that only 60.0% of those children would probably be able to go on a field trip. When you do the calculation, you find only about 42,958 ($45,700 * 0.60 = 27,420$) would actually go to an agricultural field trip. You decide to use this lower number, 10.0 percent—the market share for your first year. You find you will have about 2,742 ($27,420 * 0.10 = 2,742$) children. If you charge \$8.00 per child, you will gross \$21,963 ($2,742 * \$8.00 = \$21,963$) from the corn maze and farm tour. If you have done a reasonably good job of estimating the break-even number of units you have to have, you will be able to tell if what you plan is feasible.

The market potential is the number of potential buyers, an average selling price, and an estimate of usage for a specific period of time. The general formula for this estimation is simple:

Estimating Market Potential

$$MP = N \times MS \times P \times Q$$

Where:

MP = market potential

N = total number people

MS = market share—percent of consumers *buying from you*

P = average selling price

Q = average annual consumption

You have the following pieces of information to use in calculating the market potential for your agritourism operation:

Total number of consumers (Wade County census)	45,700
Market share* (based on information from teachers times your estimate of how much you of the market you think you can capture from your competition)	0.06
Average selling price (your cost production)	\$8.00
Average annual consumption (number of visits/student based on teachers' survey)	1

$$\begin{aligned}MP &= N \times MS \times P \times Q \\MP &= 45,700 \times 0.06 \times \$8.00 \times 1 \\MP &= \$21,963\end{aligned}$$

(*To calculate the percent of consumers buying from you, multiply the percent of consumers who are potentially customers by the percent of the market you expect to capture from your competitors.)

Keep in mind that your market potential estimate is only as good as the assumptions you make and the data you use. You are better off estimating on the low side and setting your price to cover your costs. If your estimate of market potential is low, you will show a profit above your costs. If, however, your estimate is too high, you may find it difficult to pay your bills at the end of the season.

Market Potential Worksheet

1. Describe your customers for each of you target market areas

Market area 1. Demographic Characteristics (examples)	
Gender: Male or Female	
Age or age group	
Education	
Household Income	
Marital Status	
Children in Home	
Other (specify)	
<i>Lifestyle Characteristic, i.e., type vehicle, dress, etc.</i>	

2. Market Area (Where are they from)

Where is your market area county/city or zip code	
	Location (county/city/zip code)
1. Market area 1	
2. Market area 2	

3. Total number of people within target market area

How many people matching your demographics live within the defined market area?	
Market Area	Number of people (target market)
County 1	
County 2	
Total number of people	

4. Consumption Figures (how often is the product consumed and how much of the product is consumed.)

How much product is consumed by your target customers?	
Market Area	Consumption or usage (pounds)
1. Market area 1	
2. Market area 2	
Total all market areas	

5. Competition (number of competitors, products/services offer, and at what price)

Who is your competition?		
Competitor	What offer	Price
Competitor 1		
Competitor 2		

6. Calculating market share

What percent of total potential customers go to the competition?			
Competitor	Number of customers	Percent of market	Market share (customers X percent)
Competitor 1	X		
Competitor 2	X		
Total all competitors			

7. Totaling your information

Market Potential

Numbers you need to estimate your market potential	
Total number of potential customers	
Total consumption (usage)	
Total market share	
Your price per customer (\$)	
Market potential (\$)	

Estimating Market Potential: $MP = N \times MS \times P \times Q$

Where:

- MP = market potential
- N = total number customers
- MS = market share
- P = average selling price
- Q = average annual consumption (usage, number of times individual would attend)

Your numbers

- N =
- MS =
- P =
- Q =
- MP =

Appendix A: Demographic Information Sources

- ∅ A Guide to Sources of Information - <http://www.loc.gov/rr/business/marketing/>
- ∅ Advertising Age -Database related to advertising - <http://adage.com/datacenter/>
- ∅ U.S. Census Bureau - www.census.gov.
- ∅ QuickFacts - <http://quickfacts.census.gov/qfd/index.html>
- ∅ American FactFinder.- <http://factfinder.census.gov>
- ∅ The Right Site offers numerous free demographic profiles
www.easidemographics.com/cgi-bin/login_free.asp
- ∅ Development Alliance - Religious affiliation - www.adherents.com
- ∅ Demographics USA - www.tradedimensions.com , published by Market Statistics
Reference: Click on Demographics
- ∅ USADATA - fee based service- <http://dtg.usadata.com/geography> /<http://www.usadata.com/>
- ∅ Trade Associations - Trade associations collect information on their members or the customer group their members are interested in. This information generally includes lifestyle information. Contact a trade associations that represents your industry and inquire.
- ∅ Universities - Collect and publish applied research that includes lifestyle information.
- ∅ Electronic and Print Media - Collect information on their subscribers, including lifestyle information. Contact them and ask about the possibility of advertising with them and request a subscriber profile.

Appendix B: Sources of Lifestyle Information

- ∅ *Claritas* - Some information is free, have to pay for detailed reports. Lifestyle Profile by Zip code www.claritas.com/MyBestSegments/Default.jsp?ID=30&SubID=&pageName=Segment%2BLook-up
- ∅ Advertising Age -Database related to advertising - <http://adage.com/datacenter/>
- ∅ Trade Associations - Trade associations collect information on their members or the customer group their members are interested in. This information generally includes lifestyle information. Contact a trade associations that represents your industry and inquire.
- ∅ Universities - Collect and publish applied research that includes lifestyle information.
- ∅ *Electronic and Print Media* - Collect information on their subscribers, including lifestyle information. Contact them and ask about the possibility of advertising with them and request a subscriber profile.

Appendix C: Sources of Geographic Market Area Information

Section A: *Geographic Information*

- ∅ A Guide to Sources of Information: <http://www.loc.gov/rr/business/marketing/>
- ∅ Claritas—some information is free, have to pay for detailed reports:
www.claritas.com/MyBestSegments/Default.jsp?ID=0&SubID=&pageName=Home
- ∅ U.S. Census Bureau: www.census.gov.
- ∅ QuickFacts: <http://quickfacts.census.gov/qfd/index.html>
- ∅ American FactFinder: <http://factfinder.census.gov>
- ∅ Demographics USA: www.tradedimensions.com , Click on Demographics
- ∅ USADATA—fee based service: <http://dtg.usadata.com/geography> /<http://www.usadata.com/>
- ∅ Advertising Age—Database related to advertising: <http://adage.com/datacenter/>
- ∅ U.S. Census Bureau: www.census.gov. Other Census data sources.
- ∅ QuickFacts —<http://quickfacts.census.gov/qfd/index.html>
- ∅ American FactFinder: <http://factfinder.census.gov>
- ∅ The Right Site offers numerous free demographic profiles:
www.easidemographics.com/cgi-bin/login_free.asp
- ∅ Development Alliance—Religious affiliation: www.adherents.com

Section B: *Ring Information*

- ∅ The Right Site offers numerous free demographic profiles:
www.easidemographics.com/cgi-bin/login_free.asp
- ∅ TetraFLy—Ring study reports: www.terrafly.com/TP/reports.html
- ∅ ESRI Mapping Software—fee service: www.esri.com/software/busmap/about/ringstudy.html

Section C: *Drive Time Analysis*

- ∅ Spatial Insights—fee based service: www.spatialinsights.com/catalog/default.aspx?category=18
- ∅ Empower Geographics—fee service: www.empower.com/pages/services_drive.htm
- ∅ Imaptools—demonstration service—more sophisticated for a fee: <http://imaptools.com/demos1/?tab=3>
- ∅ ESRI Mapping Software—fee service: www.esri.com/software/busmap/about/ringstudy.html

Appendix D: Sources of Consumption Information

- ☞ The U.S. Bureau of Labor Statistics—Consumer Expenditure Survey information on consumers www.bls.gov/cex/
- ☞ Bureau of Economic Analysis: www.bea.gov
- ☞ Census Bureau's Survey of Income and Program Participation (SIPP): www.sipp.census.gov/sipp/sipphome.htm
- ☞ The American Customer Satisfaction Index focuses on goods and services from major companies in a limited industries: www.theacsi.org
- ☞ Surveys of Consumers: www.sca.isr.umich.edu
- ☞ Demographics USA: www.tradedimensions.com/prod_dus.aspx published by Market Statistics Reference: DANA, KLMR REF HF5438.4.S87
- ☞ USADATA—fee based service : <http://dtg.usadata.com/geography/>
- ☞ USDA—Food consumption data sets: www.ers.usda.gov/data/foodconsumption/FoodAvailSpreadsheets.htm/
- ☞ ERS—Food Consumption, Prices and Expenditures <http://usda.mannlib.cornell.edu/data-sets/food/89015/>
- ☞ ARS—What we eat in America: www.ars.usda.gov/is/pr/2004/040923.htm

Appendix E: Sources of Competitor Information

- ☞ Sites USA—fee service: <http://www2.sitesusa.com/data/merchantwizard/>
- ☞ Allows a ring search: www.superpages.com
- ☞ Yahoo directory: http://dir.yahoo.com/Reference/Phone_Numbers_and_Addresses/Businesses
- ☞ Use white pages to determine competitors in your market: www.Whitepages.com
- ☞ Use yellow pages to determine competitors in your market: www.yellowpages.com
- ☞ Trade associations
- ☞ Trade shows
- ☞ Chamber of commerce and their websites
- ☞ Magazines and Journals targeting your specific industry
- ☞ Websites
- ☞ Advertising
- ☞ Fliers
- ☞ Visiting the business

Calculating your price

Know what it costs to produce your product. Not just the input costs of seed, land preparation, fertilizer, etc, but also the cost of your management time and labor. Once you know these costs, you can calculate your breakeven price—the price at which you cover all your costs of production. You can use the breakeven price as the price for your product or you can add something to that breakeven price. You can also calculate either your mark-up price or your margin. More information on how to determine your price is found in *Direct Answers for Direct Marketing*, Chapter 8. Determining Your Price.

Costs are broken down into variable costs and fixed costs. Variable costs will change with how many acres you produce and harvest. They are the costs you pay as you go along—seed, fertilizer, pesticides, labor, etc. Fixed costs are long term costs that you may not be able to easily attribute to a specific crop—land, equipment, advertising, telephone, electricity, etc. Other fixed costs like trellising, fruit trees, brambles, cows, etc. are paid for over more than one production season. Once you have invested in these inputs, you have to pay for them whether you produce or don't produce. The best example of variable and fixed costs is machinery. The variable cost of machinery is fuel, repairs, maintenance. These vary based on how much the machinery is used. Fixed costs is the insurance, taxes, depreciation, and the interest on the loan you might still be paying. You have these costs whether you use the machinery or not. Depreciation is simply allocating the replacement cost over a period of time. Labor could be either variable or fixed depending on whether you keep the workers employed only when they are needed or year round whether you need them or not.

Developing start-up budgets will help you determine how long it will be before you realize a profit from your investment. In other words, how much money do you need to have before you can sell your product and how long before you will be able to repay that money? It makes no difference if the money is borrowed or yours. Start-up budgets may cover more than one year. If you produce trellised apples, for example, it will be four years before you harvest: the first year is preparation, second year is planting, the third year is training and maintenance, and the fourth year is the beginning of harvest. The following budget is a start-up budget for honey.

¹Karen Mundy, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, VA and Gary Bullen, Department of Agricultural and Resource Economics, North Carolina State, Raleigh, NC. September 2007.

Adapted from material by Charles Hall, Department of Agricultural Economics, University of Tennessee, Knoxville, Tennessee

Initial resource requirements (first-year establishment based on a 10-hive unit in a 50-hive production system).

Item	\$
Apiary sites	
10 Package bees (3 lb each) plus shipping	500.00
Capital investment	
Brood boxes, frames, and foundation	467.00
Top, bottom, and inner covers	250.00
Supers with frames and foundation	623.00
Protective clothing	40.00
Hive and tool/smoker	35.00
Feeder	23.00
Queen excluders	57.00
Fume board	25.00
Extractor	950.00
Bottling tank (300 lb) with cover & strainer	715.00
Uncapping tank	195.00
Uncapping knife	67.00
<i>Total equipment investment</i>	3,442.00
Building	
Adapting and upgrading existing facility	1,500.00
<i>Total start-up cost</i>	5,442.00

Source: Frazier, M., G. Greaser, T. Kelsey, J. Harper. "Alternative Agriculture: Beekeeping." Penn State University 2001. Found at <http://agalternatives.aers.psu.edu/default.asp>

How long will it take you to cover these start-up costs? Whether you produce anything or not, these costs expenses must be paid.

Calculating price

Production budgets help you calculate your variable costs for the year. In your production budgets, try to allocate some amount of the fixed costs to each crop you produce. Many producers use a percentage of the total fixed costs based on the acreage of the crop. Julie, who has 1 acre of tomatoes, 2 acres of brambles, and seven acres of trellised apples, allocates 10 percent of her fixed costs to tomatoes, 20 percent to brambles, and 70 percent to apples. You can other methods, but this one is simple.

In the bee example, a typical production will look like the one below. Assume that weights 0.625 pounds and that from 10 hives that pollinate lavender, you get 600 pounds of honey, which will fill 960 8-ounce jars. Your budget will help you know how much you need to charge to cover your variable costs, your total cost, and what you will have left to help repay the startup costs.

To calculate a break-even price, you assume you know how many units you can sell. Alternatively, you can try different amounts that you might sell and see how much your

Sample Honey Production and Pollination Budget (established operation)

Summary of estimated costs and returns for 10 mature hives.

Item	Unit	Amount	Receipts or costs per unit	Total receipts or costs (one crop)	Your estimate
Receipts					
Honey (extracted)"	pounds	600	\$2.00	\$1,200.00	
Pollination fee'					
Spring	hives	10	\$30.00	\$300.00	
Summer	hives	10	\$25.00	\$250.00	
Wax	pounds	5	\$2.00	\$10.00	
"Total receipts after establishment				\$1,760.00	
Variable costs					
Bees (replacement bees)'					
Package (3 lb)	hive	2	\$45.00	\$90.00	
Queens (replacement)	queen	2	\$12.00	\$24.00	
Parasite and disease control					
Terramycin	6.4 oz pkg	2	\$4.75	\$9.50	
Varroa chemical control	pkg of 10	4	\$28.00	\$112.00	
Fumidil-B	2 gm bottle	1	\$27.00	\$27.00	
Menthol	10 1.8 oz packs	1	\$21.95	\$21.95	
Sugar	pounds	50	\$0.50	\$25.00	
Jars	cases of 24	21	\$10.10	\$212.10	
Labels (supplier & quality id)		500	\$0.10	\$50.00	
Chemical for fume boards	quart	1	\$16.50	\$16.50	
Paint	gallon	2	\$22.00	\$44.00	
Buckets	5 gallons	10	\$5.00	\$50.00	
Vehicle (fuel, maint., depreciation)	miles	150	\$0.45	\$67.50	
Marketing (advertisement)	one year	1	\$100.00	\$100.00	
plus bee management and production information					
Registration fee (\$20) for two years	one year	0.5	\$20.00	\$10.00	
<i>%blot variable costs</i>				\$859.55	
Fixed costs					
Brood boxes with frames and foundation				\$46.70	
Top, bottoms, and inner covers				\$25.00	
Honey supers with frames and foundation				\$62.00	
Protective clothing				\$4.00	
Hive tool/smoker				\$3.50	
Feeder				\$2.30	
Queen excluder				\$5.70	
Fume boards				\$2.50	
Extracting equipment (based on 50 hives)					
Extractor (\$945)d				\$94.50	
Bottling tank (300 lb with covered strainer) (\$715)d				\$71.50	
Uncapping tank (\$195)d				\$19.50	
Uncapping knife (\$67)"				\$6.70	
Upgrading existing facilities (\$1,500)"				\$75.00	
<i>Total fixed costs</i>				\$418.90	
Total costs				\$1,278.45	
Returns					
Returns over variable costs				\$900.45	
Net returns				\$481.55	

'Retail price. 'Rental fee may vary depending on the crop. 'Estimated 20% loss each year. 'Depreciate over 10 years. 'Depreciate over 20 years.
'Building may not be necessary. Sideline beekeepers often convert a garage, basement, or outbuilding into a honey house.

price changes. Assume your honey costs you \$3.56 per 8 ounce jar—\$1.43 variable costs and \$2.13 fixed costs. The formula to calculate a break-even price is

Break-even price = Per unit variable cost + (Annual fixed costs ÷ projected units sold)

Break-even price = \$1.43 + (\$1,278 ÷ 960)

Break-even price = \$1.43 + \$1.33

Break-even price = \$2.76

The more you think you can sell, the lower your price can be after you cover your variable costs because you are spreading the fixed costs over more units.

Both markup and margin require you to choose a percent that you want to increase your total costs by.

Markup is the amount the cost is raised to achieve the desired selling price. Using the same example as above you decide to consider using a markup. You decide you want to add a 30 percent markup to that your calculation would be

Markup amount (in \$) = Total Cost X Percentage markup

Markup = \$2.76 X 0.3

Markup = \$0.83

Selling price = \$2.76 + 0.83

Selling price = \$3.59 per 8 ounce jar

Margin is the percentage of the selling price above the cost of producing the product. You decide you want a margin of 30 percent. Your calculation would be

Selling price = Total Cost ÷ (1.00 - Margin percent)

Selling price = \$2.76 ÷ (1.00 - 0.30)

Selling price = \$2.76 ÷ 0.70

Selling price = \$6.70 per 8 ounce jar

Even though you are starting with the same costs, using a markup gives you a much lower price than using the selling price method. Check to see what specialty honeys are selling for elsewhere. It might be that an average of the two methods provides a better alternative to just selecting the higher price.

A study from the University of Chicago School of Business and the Sloan Institute found that prices ending in 9 sold product than prices ending in any other number for the same product. Consumers think they are getting a bargain, even if they are not. If you want to sell something for \$8.00 a pound, price it at \$7.99 a pound. However, if everything you sell ends in 9, you lose the effectiveness of it.

Consider three things when you are trying to price your products: your cost of production, how much consumers would buy, and your goals for your operation. These three elements determine whether you price high, low, or the same as everyone else.

Worksheet

What are your pricing goals: high price, low price, same as everyone else?

Will you have product to sell in the first year?

If you have no product to sell in year one, in what year will product be available?

How much are your startup costs? The items suggested will change based on what you are producing.

Startup costs		
Item	Units	Cost (\$)
Irrigation		
Pump		
Pipe	Feet	
Drip tape	Feet	
Sprinklers		
Equipment		
Transplants		
Containers for transport		
Other (specify)		

How much are your variable costs? The items listed and units will be changed based on what you are producing.

Variable costs per acre

Item	Unit	\$/per unit	Total cost/acre (\$)
Seed	Pounds		
Fertilizer (specify)	Pounds		
Herbicide (specify)	Gallon		
Insecticide (specify)	Gallon		
Other pesticides (specify)	Gallon		
Labor (production)	Hours		
Fuel, oil, maintenance	Acres		
Scouting	Hours		
<i>Harvest and post harvest costs</i>			
Labor	Hours		
Grading	Hours		
Packing	Hours		
Transportation	Hours		
<i>Total variable costs</i>			

How much are your fixed costs? The items listed and units will change based on what you are producing and how you decide to organize your operation.

Fixed costs

Item	Units	\$/unit	Total cost (\$)
Tractor	1		
Equipment			
Interest on loans	%		
Telephone	Monthly		
Electricity	Monthly		
Insurance	Annual		
Taxes (real estate)	Annual		
Taxes (machinery/equipment)	Annual		
Other			

Total fixed costs

How much do you think you will be able to sell in the first year of production?

What will be your breakeven price?

Break-even price = Per unit variable cost + (Annual fixed costs ÷ projected units sold)

What percent mark-up will you use?

What will be your price at that percentage markup?

Markup amount (in \$) = Total Cost X Percentage markup

What percent margin will you use?

What will be your price at the percentage margin?

Selling price = Total Cost ÷ (1.00 - Margin percent)

References

Frazier, M., G. Greaser, T. Kelsey, J. Harper. "Alternative Agriculture: Beekeeping."
Penn State University 2001. Found at <http://agalternatives.aers.psu.edu/default.asp>

Evaluating the Competition¹

A necessary component of any market research is a thorough assessment of the competition. Studying your competition helps you determine the volume of similar products and services already in the marketplace, the strengths and weaknesses of your competitors, and the specific types of buyers being served by your competitors. This information may help you identify niches in the marketplace where you can meet a market demand that is not being met. It can also help you determine what percent of the total possible customers you might expect to have. Use the following four steps to evaluate your competition.

Step 1. Identify the Competition

When identifying competitors, use a broad interpretation. Assume you plan to sell grass fed beef. Your competition is all other farmers in the market who are also selling grass fed meats, the local grocery stores, health food stores, and even the Internet. These outlets are all competitors. If you want to become an agritourism attraction, your competition is other agritourism operations, the beach, Kings Dominion, national and state parks, and so forth. However, your most direct competition is going to be other agritourism operations in the area. These operations are what you should be most concerned with.

Step 2. Determine Areas of Competition

Areas of competition involve price, quality, location, customer service, convenience, range of products/services, marketing strategy, delivery/turnaround time, etc. Why do your potential customers have a need for your product/service rather than your competitors'? What do your potential customers consider before making the purchase? These factors are the areas of competition you need to focus on.

Competitor Analysis Worksheet						
Competitor	Products/ services offered	Price	Quality	Location	Customer service	Convenience

¹Karen Mundy, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, VA and Gary Bullen, Department of Agricultural and Resource Economics, North Carolina State, Raleigh, NC. September 2007.

Adapted from material by Charles Hall, Department of Agricultural Economics, University of Tennessee, Knoxville, Tennessee

Step 3. Obtain the Information

You learn about your competition in a number of ways: by visiting their businesses, using their products or services, paying attention to their customer service, surveying their customers, or interviewing them directly. Some competitors may refuse to share any information with you, but some are quite helpful. What suggestions can you provide that can decrease direct competition or even be of mutual benefit? Other ways you can learn about your competition are to

- ☒ Ask an employee to periodically become a competitor's customer. Have this person gather brochures, catalogs, price lists.
- ☒ Read their ads carefully.
- ☒ Read your trade magazines or newsletters, paying close attention to new products/ services being offered, customer service policies, etc.
- ☒ Be visible at professional meetings. People love to talk about their businesses: what's new, what's working for them.
- ☒ Network, become acquainted with industry leaders, buy them coffee, and *listen*. Listen for what's not said as well as what is. Getting to know other people in business for themselves provides you with support, a potential source of information for identifying and solving problems, and an idea of what problems and successes you might face.
- ☒ Attend your industry trade shows and conferences, paying careful attention to the issues being discussed in groups and individually.
- ☒ Survey your customers. Develop a simple questionnaire that asks what they like and don't like about your business and how you compare with the competition. You'll learn a lot about your business and your competitors.

Step 4. Prepare the Analysis

Once you've identified your competitors, chosen the areas you want to compare, and obtained the information, compile a chart to compare yourself to each of your competitors. In what areas are you strong? Where do you need to focus more attention?

How Put It Together

Knowing what your competition is doing will help you do something different so that you aren't competing with them directly. As an agritourism operation, you'll never compete with Kings Dominion, but that kind of competition is probably a poor goal anyway. For this example, assume you decide on educational tours during the week with the possibility of being closed to the public on the weekend or open for market purchases only. Your educational tour will target high school age students so that you can teach something about food production and the environment. To find who your competitors are go to the North Carolina Department of Agriculture and Consumer Services (NCDA&CS) website, <http://www.ncagr.com/> and then to the General Store. There you find a list of activities that the agritourism operations engage in. Access a list either by topic or by county. In Johnston County where you are located, you find eight operations

offering school field trips or summer camps. One of them targets K – 3, one is a winery, one a museum, another targets special needs people. None seem to do exactly what you are interested in. However, don't discount the museum, which offers demonstrations, hands on activities, and celebrations of various types. Next check out the other counties you expect to draw from. Wilson County has an operation that might compete directly with you for some customers.

What you learn from this exercise is that you have some competition, but only the educational hayride may provide direct competition for school tours.

Competitor Analysis Worksheet						
Competitor	Products/ services offered	Price	Quality	Location	Customer service	Convenience
Pumpkin Patch	Pumpkin hayride and educational tour, free pumpkin,	\$10/person	Has great pumpkins for kids	15 miles from you	Well trained employees	Rides convenient to pumpkin patches
Glowing Grape Winery	Specialty wines, winery tours	Individually priced	Relatively new, unknown	10 miles	Well trained employees	Lots of walking
Ole Time Farm	Museum, produce, hands on demonstrations	Individually priced	Excellent	15 miles	Excellent	Tailored to customers
Little Acres	Produce, tours, gleaning	Individually priced	Excellent	5 miles	Tailored to meet special needs customers, excellent	Tailored to customers

Worksheet

Identify your geographic market area.

Who are your competitors? What do they offer? Complete the table.

Competitor Analysis Worksheet						
Competitor	Products/ services offered	Price	Quality	Location	Customer service	Convenience

References

- Govindasamy, R., M. Zurbruggen, J. Italia, A. Adelaja, P. Nitzsche, and R. VanVranken. *Farmers' Markets: Consumer Trends, Preferences, and Characteristics*. New Jersey Agricultural Experiment Station P-02137-7-98. June, 1998. Found at http://aesop.rutgers.edu/%7Eagecon/pub/FM_CN.PDF.
- TetraFLy—Ring study reports—www.terrafly.com/TP/reports.html.

Drive Time

- Spatial Insights – fee: www.spatialinsights.com/catalog/default.aspx?category=18.
- Empower Geographic's—fee: www.empower.com/pages/services_drive.htm.
- Imaptools—demonstration with more sophisticated for a fee: <http://imaptools.com/demos1/?tab=3>.
- ESRI Mapping Software—fee service: www.esri.com/software/busmap/about/ringstudy.html.

Suggested Resources

To access these resources click on the website listed

Chapter 1. What is “Direct answers for Direct Marketers”?

To Market, To Market

<http://www.cook.rutgers.edu/~farmmgmt/marketing/tomarket.pdf>

Direct marketing guide for producers of fruits, vegetables, and other specialty products

<http://www.utextension.utk.edu/publications/pbfiles/PB1711.pdf>

Direct marketing

http://attra.ncat.org/new_pubs/attra-pub/PDF/directmkt.pdf?id=Virginia

Chapter 2. What should you produce?

To Market . .to market . . .Seven steps to a marketing plan for horticultural products

<http://www.reap.vt.edu/publications/reports/r29.pdf>

What do goals mean to a business?

<http://www.ext.vt.edu/cgi-bin/WebObjects/Docs.woa/wa/getnews?cat=tt-news-fnu&issue=199706>

A PRIMER for selecting new enterprises for your farm

http://www.uky.edu/Ag/AgEcon/pubs/ext_aec/ext2000-13.pdf

Evaluating a rural enterprise

http://attra.ncat.org/new_pubs/attra-pub/PDF/evalrural.pdf?id=NorthCarolina

Identifying new enterprises: A checklist of factors to consider

<http://cals.arizona.edu/arec/wemc/papers/NewEnterprise.html>

Chapter 3. Which direct marketing outlet should you use?

Choosing your market

<http://www.georgiaorganics.org/markettool/>

Farmers' markets

http://attra.ncat.org/new_pubs/attra-pub/PDF/farmmarket.pdf?id=Virginia

Critique checklist for roadside markets

<http://agmarketing.extension.psu.edu/Retail/chklistRdSideMkt.html>

Chapter 4. Who will be your customers?

Conducting market research

<http://ohioline.osu.edu/cd-fact/1252.html>

Where to find information for doing marketing and business studies

<http://www.extension.iastate.edu/agdm/>

Chapter 5. What do your customers want?

Food and agriculture: Consumer trends and opportunities

<http://www.ca.uky.edu/agc/pubs/ip/ip58a/IP58a.pdf>

Consumer demand for fruit and vegetables: The U.S. example

<http://www.ers.usda.gov/publications/wrs011/wrs011h.pdf>

From supply push to demand pull: Agri strategies for today's consumers

<http://www.ers.usda.gov/Amberwaves/november03/pdf/supplypush.pdf>

Chapter 6. How will you reach your customers?

Promoting your business

<http://www.agmrc.org/agmrc/business/operatingbusiness/promotingbusiness.htm>

Advertising: An investment in your business

<http://ohioline.osu.edu/cd-fact/1276.html>

Creating a winning display for your farm products

<http://72.14.209.104/search?q=cache:PW0IGKcHOtQJ:s142412519.onlinehome.us/uw/pdfs/A3811-2.PDF+creating+winning+display+farm+products&hl=en&gl=us&ct=clnk&cd=1&client=firefox-a>

Direct marketing of fresh produce: Understanding consumer interest in product and processed based attributes

http://agecon.lib.umn.edu/cgi-bin/pdf_view.pl?paperid=21912&ftype=.pdf

The Internet as a marketing tool

<http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-2491/F-566web.pdf>

Chapter 7. How can you plan for profits?

Using enterprise budgets to make decisions about your farm

<http://cru.cahe.wsu.edu/CEPublications/pnw0535/pnw0535.pdf>

Twelve steps to cash flow budgeting

<http://www.extension.iastate.edu/agdm/wholefarm/pdf/c3-15.pdf>

Financial record keeping for farmers and ranchers

<http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-2483/F-302web.pdf>

Chapter 8. How do you set your price?

Pricing horticulture products

[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex918/\\$file/845-4.pdf?OpenElement](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex918/$file/845-4.pdf?OpenElement)

Selecting an appropriate pricing strategy

<http://muextension.missouri.edu/explorepdf/agguides/agecon/G0649.pdf>

Estimating breakeven sales for you small business

<http://www.ces.purdue.edu/extmedia/EC/EC-725.pdf>

Break-even pricing, revenue and units

<http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-180.pdf>

Chapter 9. Directory of marketing regulations, licenses, permits, taxes, and insurance

Starting a small business: Licenses and regulations

<http://www.bizmove.com/starting/m1a6.htm>

Recreational use of private lands: Associated legal issues and concerns

http://www.nationalaglawcenter.org/assets/articles/mceowen_recreationaluse.pdf

Zoning limitations and opportunities for farm enterprise diversification

http://www.nationalaglawcenter.org/assets/articles/branan_zoninglimitations.pdf

Laws and regulations

<http://www.sba.gov/library/lawroom.html>

Agricultural alternatives: Agricultural business insurance

<http://agalternatives.aers.psu.edu/farmmanagement/startbusiness/>

[AgBusinessInsurPM7.pdf](#)

