

Evaluating a New Business Idea

Estimating Income and Cost:  
Calculating a Price

Researching Your Market:  
Identifying Your Customers

Researching Your Market:  
Evaluating the Competition

Estimating Market Potential:  
Is There a Market?

Legal, Regulatory, and Insurance  
Checklist for North Carolina

Product, Price, Place,  
and Promotion

Helpful Resources

Introduction to Business Tools

# The Business Development Files

## *Tools for Evaluating New Business Ideas*

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This guide for Extension agents provides a set of seven business tools. These tools are designed for use with clients who are evaluating new business ideas. After you review the material in each tool with a client, ask the client to complete the business tool worksheet before your next meeting. These tools were designed as a whole, with one tool building on the next as a client evaluates each aspect of a new business ideas. Although Web sites and contact information are provided, we cannot guarantee their accuracy because this information changes constantly. At the time of publication, the information was accurate.

Each tool is divided into two parts. Part I explains the basic concepts covered by the tool that can be used to guide meetings with your clients. Part II is a worksheet for each client to complete based on the information received in Part I. Before each meeting, copy the worksheet and give it to the client to take home and complete. At the next meeting, discuss any questions arising as a result of the worksheet. If at any time during the process, a client decides the enterprise isn't feasible based on the information collected, the process can be terminated or other avenues explored.

These tools provide a framework for discussion that helps your clients make informed decisions about whether a proposed enterprise would be feasible, given their individual situations. *They are not intended to put you in the position of being an expert or making decisions for your clients.*



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# Introduction to The Business Development Files

Each file builds upon the previous file. Work through the files in the left-hand column first, then move to the second column.

## Evaluating a New Business Idea

Covers the first meeting. It includes questions for you to ask your clients, comments by your clients that should help you guide the discussion and finally a set of questions in the worksheet that are designed to help your clients outline their new business ideas before they commit any resources to their new enterprises.

## Estimating Income and Cost: Calculating a Price

Covers a discussion of startup and production budgets, variable and fixed costs and methods of calculating price. Sources for budgets are suggested. Methods for calculating price include breakeven, markup and margin. Examples are provided for each method.

## Researching Your Market: Identifying Your Customers

Differs slightly in format from the other tools. It has three parts rather than two. Part I provides you with general information you need to guide your clients. Part II shows you how to use this information, and Part III is the worksheet for your clients. Part I covers primary and secondary market data, including finding appropriate census data, definitions of lifestyle and psychographic data and some sources. Caution your clients that as with all research, their results will only be as good as the data they use.

## Researching Your Market: Evaluating the Competition

Covers identifying the competition, determining areas of competition, obtaining the information, preparing the analysis and how to put it together. Competition is defined very broadly as anyone who does something similar to what your clients are proposing. For example, your clients decide to sell grass-fed beef. Their competition could conceivably be other farmers in the area, the grocery store, health food stores, Web-based sales by other farmers and restaurants. This tool is designed to help your clients focus on who their competition really is and how your clients compare with their competition.

## Estimating Market Potential: Is There a Market?

Covers seven areas: defining the market segment, the geographic boundaries of the market the competition, the market size, estimating market share, determine the average annual consumption and estimating an average selling price. This tool addresses this question: "Is there a market for my new product?"

## Legal, Regulatory, and Insurance Checklist for North Carolina

Describes some resources that can help you and your client avoid as many legal, regulatory and insurance problems as possible. The tool provides contact information and Web sites. Part II is a checklist for your clients to help them be sure they have contacted the appropriate agencies. The tool is not intended to make you an expert nor is it intended as legal advice for your clients.

## Product, Price, Place, and Promotion

Is a summary of all that has been done. Promotion is not covered in a separate tool but is covered in-depth in Direct Answers for Direct Marketers, which you can obtain from Gary Bullen at [gary\\_bullen@ncsu.edu](mailto:gary_bullen@ncsu.edu), by phone at (919) 515-6096, or by mail at this address: Agricultural and Resource Economics, Box 8109, N.C. State University, Raleigh, NC 27695-8109.

## Helpful Resources

Provides a list of resources if you want more information than is provided in the tools.

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# Evaluating a New Business Idea

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“Evaluating a New Business Idea” is the first tool in this series. It provides an overview of the factors Extension agents should consider when meeting with clients to evaluate the feasibility of a new farm business.

The process of deciding on a new enterprise is complex because of the many decisions that your clients must resolve to determine if an enterprise is feasible. Caution your clients not to take shortcuts as they work through each decision that a new enterprise requires. Shortcuts can lead to failure. After the clients complete the worksheet at the end of this tool, they may decide that this is the only tool they need to use for business enterprises they decide not to pursue.

This tool is divided into two parts. The first part is designed for you as the interviewer. Often by watching a client’s behavior and listening carefully to his or her words, you can tell a great deal about the person being interviewed. Part I provides some guidance in helping the client being interviewed become comfortable and more focused. Part II is directed to clients. The questions and worksheet were designed to get them thinking about all aspects of their proposed plans. The take-home section is to help clients decide if they are willing and able to continue planning for their enterprises.



## Part 1. How to Begin the Interview

When a client who is considering a new enterprise comes to you for help, you may find it difficult to know where to start asking questions. At this initial meeting, the most important thing you can do is to build your client’s trust in you.

Everyone tends to judge others based on their dress, mannerisms, and ability to communicate. Although sometimes it is difficult not to judge, you can build trust faster and more easily if you simply listen and assess what your clients are trying to tell you as well as what they aren’t saying. Asking a lot of questions, even the same question asked differently, may help stimulate the conversation. Writing down a list of possible questions to ask will help you focus the conversations. (A checklist of questions is provided in Part 2.) Writing down your clients’ responses will help everyone as you work through the facets of creating new enterprises.

Several things greatly enhance the chance of success for a new business venture and should be listened for during the initial conversation with a client. Not having all of these attributes does not mean the proposed idea will fail. They include, but are not necessarily limited to the following:

- a unique combination of resources—such as a microclimate that allows for earlier production or people with special talents in selling and graphics,
- labor management skills,
- an ability to adapt to new situations,
- strong organizational skills,
- a strong financial position,
- a commitment to the long term,
- people skills,
- marketing savvy,
- a quality control mindset,
- a well-articulated idea
- strong family support,
- passion for the idea,
- creativity,
- diverse managerial abilities and
- good financial and production records for past and on-going enterprises.

Not all of these are necessary or sufficient conditions for success, but they increase the likelihood of success.

Various signals indicate over-zealousness and a lack of proper perspective and forethought. If one or more of these ideas are expressed during the course of your conversations, you should treat them as caution signals.

## Evaluating a New Business Idea

Hearing them does not mean the operation is doomed to failure. Ask questions to find out what is behind these words:

- “We already know it will work.”
- “We’ve got a good name for it already.”
- “Now all we need is a feasibility study.”
- “We don’t have any competition.”
- “We don’t need to advertise, it will sell itself.”
- “We just need to get it into a restaurant or major chain store.”

Often the line between creativity (seeing around the corner) and stupidity (not seeing the corner) is a fine one. Weigh all information before you make up own mind. Even then you must recognize that the client’s decision is ultimately the one that counts. Sometimes what seems an absurd idea to you will somehow turn into a successful venture. Who would have thought it possible 20 years ago that it would ever be feasible to sell a bottle of water?

### Part 2. Questions to Ask about the New Enterprise

What should you ask someone who comes in for help with evaluating the potential of a new farm enterprise? While diversifying products offers potential benefits, the extent to which farmers will increase net returns depends on their individual attributes, goals, geographic region, technological feasibility and competition. Be sure that your clients write down the answers as you work through the following questions. If they have previously written down their thoughts on any of these areas, having them bring that information to your first meeting will help facilitate discussion and make the time together more efficient for both of you.

The following list of suggested questions is long and may overwhelm your clients. You may want to ask about broad areas rather than overwhelming your client with such a long list. Some of these questions they will not have answers to, and they will need to research the answers. The responses will give you some idea of a client’s commitment to a new enterprise. Even after going through these questions, your clients are still responsible for developing detailed budgets, financial statements, contingency plans and a strategic business plan so that they can make a final decision as to whether the enterprise is feasible for their situation. When you have finished asking questions, have your clients take the worksheet home to complete and bring back to your next meeting.

### Ask Your Clients to Consider

#### *Personal and Family*

- What are your goals and objectives for your business and personal life?
- Are your family members in agreement on this proposed venture?
- Do you have the resources (time, capital, knowledge, labor, land, equipment) you need to accomplish these goals and objectives?
- Are you willing and able to make any required sacrifices so that this enterprise will be profitable (such as time, lifestyle, privacy)?
- What do you wish your business to look like five years from now?

#### *Enterprise Feasibility*

- Is this enterprise technically feasible for your location? Technically feasible means you have the conditions (such as soil and climate) and the knowledge to produce your proposed product.
- How have you verified its technical feasibility? That is, will it actually grow in your geographic location or can you obtain the necessary inputs for a value-added product?
- Is the proposed enterprise complementary with or supplementary to existing enterprises, or does it compete with them for resources (such as land, labor, equipment) and managerial time?
- What are your building, machinery, equipment, management, and labor requirements for producing the product?
- Is additional labor available in your area?
- If no local labor is available, will you have to hire migrant workers?
- Do you have the necessary resources to produce the product?
- What are the building, machinery, equipment, management and labor requirements for producing the product?

#### *Market Factors*

- Have you clearly defined what your product or service is? Your description should include features such as size, quality specifications, varieties, packaging, and benefits to the buyers.



## Evaluating a New Business Idea

- What market are you targeting? The target market includes alternative market outlets, the geographic location, and demographic and life-style characteristics of potential customers.
- Have you considered the number of potential buyers, their annual per capita consumption, and average size of purchase?
- If a current market doesn't exist, can you create one?
- If a current market does exist, can you take some of that market from those already in it?
- Who are the competitors in your geographic region?
- What do you have to offer that makes you than better your competition? Is it possible to work with a competitor to offer a wider variety or selection of a product?
- What is your expected sales volume? What are the minimum and maximum volumes of product you believe you will likely sell in one season?

### Profitability Considerations

- How long will it take to get this enterprise to market?
- What start-up investment is required?
- Do you have or are you able to obtain the necessary start-up capital to establish the enterprise?
- How will you finance the annual operating funds necessary to continue the enterprise?
- How will varying output—for example, yield, acreage, number of head of livestock, amount of processed output—affect profitability?
- How will the additional costs and returns of the new enterprise affect the cash flow for the business?
- What percentage do you want to make over variable and fixed costs? Consider both per unit and total.
- How many units will you produce?
- How will the new enterprise impact the profitability of existing enterprises?

### Risk Considerations

- What are the production, marketing, financial, human resource, environmental and regulatory risks associated with the new enterprise?
- How will investment of additional resources and the diversion of existing resources from present uses affect the financial risk position of the overall business?
- What are your contingency plans, including an exit strategy?

### Legal, Regulatory, Permits, and Insurance

- Which government agencies and regulations apply to your operation?
- What permits do you need?
- What employment regulations and taxes do you need to comply with?
- Have you selected a name for your business?
- What is your business structure?
- Have you filed for a tax identification number?
- Do you have to collect sales tax?
- Do you need any health department inspections or permits?
- What zoning regulations must you follow?
- Do you have adequate liability insurance?
- Do you need product liability insurance?

### Miscellaneous Considerations

- Do you or does someone in your family have the management skills required for the new enterprise?
- If you don't, what will it cost (in dollars and time) to acquire them or to hire someone to provide them?
- Does the enterprise require any special record-keeping for managerial decision-making or regulatory compliance?
- Do you need a regular supply of special production inputs?
- How many of those input suppliers are available and where are they located?



## Evaluating a New Business Idea

### Evaluation Worksheet

(Ask your client to complete the worksheet before your next meeting.)

Write out your goals for your new enterprise.

Describe your products—including their features and benefits.

What market are you targeting? Where is this market?

What resources—for example, machinery, equipment and labor—will it require? Which of these resources do you currently have?

What are the start-up costs? Be as specific as possible—for example, trellis posts, trellis wires, labor to build, tractor and auger, number of brambles required.

Do you have the necessary money to get the enterprise started? Where will you get the money?

What are your labor requirements? Where and at what cost will you find additional labor?

What production and financial risks might you face with this new enterprise?

List the insurance required for the new enterprise:

General home and farm liability

Product liability

Special event insurance

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## Evaluating a New Business Idea

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What permits, inspections, and zoning requirements must be resolved for the new enterprise?

Do you need “good agricultural practices” training (to reduce microbial risks in fresh fruits and vegetables) for you and your employees? Where do you get it?

If you require special inputs, can you get them? Where? For example, if you are organic, can you get the approved inputs?

List your contingency plans:

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# Estimating Income and Costs: Calculating a Price

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## Part I: What the Agent Needs to Know

At your first meeting, you discussed what, in general, your client needs to know. At this second meeting, you will cover what it will cost to produce a product. Farmers need to know not only the input costs—such as seed, land preparation, and fertilizer—but also the cost of management time and labor. Once they know these costs, they can calculate their breakeven price—the price at which they cover all costs of production, assuming they can sell 100 percent of that production. They can use the breakeven price as the price for their products, or they can add an additional amount to the breakeven price. They can calculate either their mark-up price or their margin. More information on how to determine price is found in *Direct Answers for Direct Marketing* (available by e-mailing [gary\\_bullen@ncsu.edu](mailto:gary_bullen@ncsu.edu) them to the website)

To understand pricing, you first need to know something about production costs. Before clients have actual costs, they need to develop budgets. Budgets are based on the actual average costs of producing a product. You can find budgets for many agricultural products on university Web sites. In North Carolina, for instance, go to [http://www.ag-econ.ncsu.edu/extension/Ag\\_budgets.html](http://www.ag-econ.ncsu.edu/extension/Ag_budgets.html) and select the appropriate category and budget.

Budgets typically show income from the expected production and market price shown first, then costs broken down into variable costs and fixed costs. *Variable costs*

will change with how many acres a client produces and harvests. These costs are the ones your clients pay as they go along—such as seed, fertilizer, pesticides, labor. *Fixed costs* are long-term costs that your clients may not be able to easily attribute to a specific crop—such as land, equipment, advertising, telephone, electricity. Other fixed costs (like trellising, fruit trees, brambles, cows) are paid for over more than one production season. Once your clients have invested in these inputs, they have to pay for the inputs whether they produce or don't produce. The best example of both variable and fixed costs is machinery. The variable costs of machinery include fuel, repairs and maintenance. These vary based on how much the machinery is used. Fixed costs are insurance, taxes, depreciation and the interest on the loan a client might still be paying. Farmers have these costs whether they use the machinery or not. Depreciation is a "paper cost" to allocate the replacement cost over a period of time. Labor could be either variable or fixed depending on whether a client keeps the workers employed only when they are needed or year-round whether they need them or not. All of this information is necessary to to calculate price.

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





## Estimating Income and Cost: Calculating a Price

### Example—Honey

<b>Initial resource requirements (first-year establishment based on a 10-hive unit in a 50-hive production system).</b>	
Apiary sites	\$
10 Packages of bees (3 lb each) plus shipping	500.00
<b>Capital investment</b>	
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 smoker	35.00
Feeder	23.00
Queen excluders	57.00
Fume board	25.00
Extractor	950.00
Bottling tank (300 lb) with cover and strainer	715.00
Uncapping tank	195.00
Uncapping knife	67.00
<i>Total equipment investment</i>	3,442.00
<b>Building</b>	
Adapting and upgrading existing facility	1,500.00
<b>Total start-up cost</b>	<b>5,442.00</b>
Source: Frazier, M., G. L. Greaser, T. W. Kelsey, J. K. Harper. Beekeeping. <i>Agricultural Alternatives</i> publication series. Pennsylvania Cooperative Extension, College of Agriculture & Life Sciences. University Park: The Pennsylvania State University Online: <a href="http://agalternatives.aers.psu.edu/">http://agalternatives.aers.psu.edu/</a>	

How long will it take to cover these start-up costs?

Whether your clients produce anything or not, these costs must be paid.

### Calculating Price

Production budgets help your clients calculate their variable costs for the year. In production budgets, some amount of the fixed costs are allocated to each crop produced. Many farmers use a percentage of the total fixed costs based on a crop's acreage. Julie, for example, who has 1 acre of tomatoes, 2 acres of brambles, and 7 acres of trellised apples, uses a simple method to allocate her fixed costs: 10 percent of her fixed costs go to tomatoes, 20 percent to brambles, and 70 percent to apples. Your clients can use other methods.

A budget will help your clients know how much they need to charge to cover their variable, fixed and total costs, and what they will have left to help repay the startup costs. Note that no labor costs are included in the sample budgets.

Your clients need to include labor unless they are donating their time to the operation. In the honey example, a typical production budget will look like the one below.

### Example—Honey

Honey weighs, on average, 0.73 pounds per liquid ounce. From 10 hives that pollinate lavender, your client collects 600 pounds of honey, which will fill 820 8-ounce jars.					
<b>Honey Production and Pollination Budget</b>					
(established operation) Summary of estimated costs and returns for 10 mature hives.					
Item	Unit	Amount	Receipts or costs per unit \$	Total receipts or costs (for one crop) \$	Your estimate
<b>Receipts</b>					
Honey (extracted) <sup>a</sup>	pounds	600	2.00	1,200.00	
Pollination fee <sup>b</sup>					
Spring	hives	10	30.00	300.00	
Summer	hives	10	25.00	250.00	
Wax	pounds	5	2.00	10.00	
<i>Total receipts after establishment</i>				1,760.00	

# The Business Development Files

## Estimating Income and Cost: Calculating a Price

<b>Variable costs</b>					
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	510.10	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 <sup>d</sup>	miles	150	0.45	67.50	
Marketing <sup>e</sup>	one year	1	100.00	100.00	
Registration fee (\$20) for two years	one year	0.5	20.00	10.00	
<i>Total variable costs</i>				860.55	
<b>Fixed costs</b>					
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					
		for 50 hives			
Extractor	945 <sup>f</sup>			94.50	
Bottling tank (300 lb with covered strainer)	715 <sup>f</sup>			71.50	
Uncapping tank	195 <sup>f</sup>			19.50	
Uncapping knife	67 <sup>f</sup>			6.70	
Upgrading existing facilities	1,500 <sup>g,h</sup>			75.00	
<i>Total fixed costs</i>				418.90	
<b>Total costs</b>				<b>1,278.45</b>	
<b>Returns</b>					
Returns over variable costs				900.45	
Net returns				481.55	
<p>Source: Penn State University. Online: <a href="http://agalternatives.aers.psu.edu/Publications/bees.pdf">http://agalternatives.aers.psu.edu/Publications/bees.pdf</a></p> <p>a Retail price.</p> <p>b Rental fee may vary depending on the crop.</p> <p>c Estimated 20% loss each year.</p> <p>d fuel, maintenance, depreciation (10 years)</p> <p>e including advertising, production information, and bee management</p> <p>f Depreciate over 10 years.</p> <p>g Depreciate over 20 years.</p> <p>h Building may not be necessary. Sideline beekeepers often convert a garage, basement, or outbuilding into honey house.</p>					

## Estimating Income and Cost: Calculating a Price

To calculate a break-even price, a beekeeper must know how many units they need to sell based on production of 60 pounds per hive and 10 hives. The producer uses 8-ounce jars, and the honey in them weighs about 11 ounces each. Based on these estimates, this client would estimate production of about 820 8-ounce jars from the 600 pounds. Assuming the variable honey cost is \$1.05 per 8-ounce jar, this formula would calculate a break-even price:

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

Break-even price = \$1.05 + (\$419 ÷ 820)

Break-even price = \$1.05 + \$0.51

Break-even price = \$1.56

Using these figures, your client concludes that at least \$1.56 per jar for must be charged for the honey. This break-even price does not include any marketing costs. Marketing costs (such as rent at a farmers' market and labor to man the market) are not included in this example. Your clients must consider these costs as well when they prepare their budgets.

To determine what the price needs to be if more or less honey is sold, simply change the projected number of units and recalculate the price. The more the client thinks he or she can sell, the lower the price can be after variable costs are covered because the fixed costs are spread over more units.

Show your clients two other methods to calculate the price of their products: Mark-up and margin. Both of these methods require a client to choose a percent of increase in the total costs. These methods do not take into account the quantity available to sell.

**Markup** is the amount the cost is raised to achieve a desired selling price.

### *Example—Honey*

Your client decides to consider using a markup. If a 30 percent markup is added, the calculation would be:

Markup amount	=	Total cost/unit × percent of markup
Markup	=	(\$1,278/820) × 0.3
Markup	=	\$1.56 × 0.3
Markup	=	\$0.47
Selling price	=	\$1.56 + \$0.47
Selling price	=	\$2.03 per 8-ounce jar

**Margin** is the percentage of the selling price above the cost of producing the product.

### *Example—Honey*

Suppose your client decides she wants a margin of 30 percent. The calculation would be: a

Selling price	=	Total cost /unit ÷ (1.00 - Margin percentage)
Selling price	=	(\$1,278/820) ÷ (1.00 - 0.30)
Selling price	=	\$1.56 ÷ 0.70
Selling price	=	\$2.23 per 8-ounce jar

Even though the client starts with the same costs, using a markup gives a lower price than using the margin method. Break-even pricing will result in the lowest price of all. This client needs to determine 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 more 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 a 9, it loses its effectiveness.

## Estimating Income and Cost: Calculating a Price

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Your clients need to consider three things when they are trying to price their products: what their cost of production is, how much consumers would buy and what their goals are for their operations. These three elements determine whether they price high, low or the same as everyone else.

### Part II: Income and Costs Worksheet

Ask your clients to complete the worksheet at home. They may choose not to discuss the results with you because they consider production costs confidential information. Ask them if they compared their costs to any budgets produced by Extension from either their state or other states. Extension budgets often vary because costs of production vary by location.

Have your clients complete the following questions and, to the extent possible, the budgets. The items shown in each budget are to remind your clients to include them in addition to all other costs. These costs are often overlooked.

What are your pricing goals: make as much money as possible, only cover your total costs or keep your price the same as everyone else's?

Will you have product to sell in the first year?

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

How much are your startup costs? List the items needed, the number of units of each item, the cost per unit, and calculate the total cost (number of units  $\times$  cost/unit)

#### Startup costs

Item	Units	Cost/unit (\$)	Total cost (\$)
Labor			

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How much are your variable costs? List the items needed, the number of units of each item, the cost per unit and calculate the total cost (number of units  $\times$  cost/unit)

#### Variable costs

Item	Units	Cost/unit (\$)	Total cost
Labor			

Marketing

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## Estimating Income and Cost: Calculating a Price

How much are your fixed costs? List the items, the number of units, the cost/unit, and calculate the total cost.

### Fixed costs

Item	Units	Cost/unit (\$)	Total cost
Depreciation			
Interest on debt			
Loan principal payments			
Management			

What will be your price at that percent markup?

What percent margin will you use?

What will be your price at the percent margin?

$$\text{Selling price} = \frac{\text{Total Cost}}{1.00 - \text{Margin percentage}}$$

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

What will be your breakeven price?

$$\text{Break-even price} = \text{Per unit variable cost} + \left( \frac{\text{Annual fixed costs}}{\text{projected units sold}} \right)$$

What percent markup will you use?

Calculate your selling markup price

$$\text{Markup selling price} = \text{Total Cost} \times \text{Percent markup}$$



## Estimating Income and Cost: Calculating a Price

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# Researching Your Market: Identifying Your Customers

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With the preceding tool for calculating a price, you took your client through the process of determining the price needed to break even, given the quantity of product available and the size of the enterprise. However, the philosophy “If I grow/make it, people will buy it” doesn’t work for 99 percent of what’s produced. Your clients need to know something about the people who might buy the products they want to produce. This tool addresses the steps needed to accomplish that task. It differs slightly from the others in that it has three parts rather than two. The first two parts are information for you as you work with your clients; the third part is what you will ask your clients to do as follow-up.

Perhaps the most challenging problem your clients face when starting their new enterprises is finding out if they can sell their products, an especially challenging task if they’ve never directly marketed. No crystal ball can predict what a market will want. Market research provides information, however, that clients can use to make projections about the future more accurately, and it helps your clients develop successful marketing strategies.

## Part 1. What the Agent Needs to Know

The two types of market research involve primary and secondary data. Primary data collection involves gathering new information—by observing people; by counting things; or through surveys, questionnaires, interviews or other direct means. Secondary data collection involves assembling and analyzing data that someone else collected and published. Chances are your clients will need to use both primary and secondary data to understand their markets. Keep in mind that all data have limitations. No “perfect data” will be available to answer any client’s questions completely and with 100 percent accuracy. Your clients will have to use the data judiciously.

**Primary data** are especially important when considering a new enterprise, a new market or a very small or local market for which published data aren’t available. Further-

more, your clients are unlikely to find all the answers to their marketing questions using secondary data. Good primary data will be far more beneficial to them than most secondary data because it focuses on local people and their economic and social conditions.

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

- Observation involves counting the number of things or events that may be relevant to a marketing situation. Examples would be counting the number of roadside stands within a 30-mile radius of a farm, noting specific locations and hours of operation, and observing what competitors sell, their product quality and how full the parking area is. Observe the customers to learn about them: what they value and how they spend their money. Look at the kinds of vehicles they drive, how they are dressed, what they drink (sodas, coffee, water) and the labels on these. How long do customers spend at the sales location? Do your clients’ potential customers wander from seller to seller at a farmers’ market buying some produce here and other items there, even if the first farmer had the same produce? If your clients’ potential customers are in a grocery store checkout 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 your clients about consumers’ lifestyles. Lifestyle analysis involves identifying individuals spend their time, what they consider important and their interest, and their opinions on various interest. Products can be developed based upon knowledge of the benefits sought by customers. Market strategies can be developed based on how well competitors’ brands satisfy these

## Researching Your Market: Identifying Your Customers

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benefits. Pricing decisions can be developed based upon customers willingness and ability to pay a price for a perceived benefits.

- Talking to people can be extremely informative. For example, a client might visit a local farmers' market a couple of times and look at what people are buying and ask them about the products they purchased. Here are some sample questions:
    - How often do you buy the product?
    - Are you satisfied with the quality and price?
    - Would you 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 you buy an item at the stand where you bought another when both stands were selling the same items?
    - How long does it take you to travel to the market?
    - How often do you come to the market?
  - Networking. Encourage your clients to join local business groups, trade associations (such as vegetable and fruit growers' associations) or whatever other organizations will bring them into contact with other business people. Advise clients to run ideas by the other business people in these organizations and to ask what others are doing. Deliver these words of caution, however, to your clients: 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 your clients can ask their customers to complete them. What your clients will get from questionnaires is what other products their customers would be willing to purchase, such as produce, meat, poultry, cheese or activities. They will learn who their customers are. What clients won't get from customers is any really useful information about what they are willing to pay for an item. What customers say and what they do with their pocketbooks are often different. If your clients decide to use a questionnaire (see the sample in Appendix A), remind them to follow these guidelines:
    - Ask only for information they can use to make a decision,
    - Make their questions clear and to the point.
    - Keep their questions simple and short.
    - For oral questionnaires, keep paper and pencils at cash registers for clerks to write down customer comments.
  - Keep written questionnaires to one page, one side and leave room for comments (when appropriate) on the back.
  - Use an even number of choices when asking for rankings on things such as friendliness of employees. Otherwise all the answers will be right in the middle of the ranking scale.
  - Have knowledgeable friends test the questionnaire. They can detect questions that won't be understood or spelling errors because spell-check fails to differentiate between "your" and "you're."
  - Try coding the questionnaire based on the test reading results.
  - Consider giving an incentive for completing a questionnaire, such as a coupon or a product sample.
  - Before analyzing the results, be sure each questionnaire has a code number that is entered with the results. This code identifies the questionnaire so a result that looks strange can be checked.
- Experimenting is not a good way to complete primary research. Sometimes, however, the intuition that goes along with it makes experimenting acceptable. A word of caution for your clients—try it on a small scale to see if it works. Your clients really don't want to invest all their time, energy and money in their new enterprises. For example, if a new item is something a client can market at a farmers' market along with other existing products, take it to see if it sells. If it's an agritourism idea, add it to an existing array of activities. Clients can't expect whatever they 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. Your clients can get several necessary types of information through secondary data. Most secondary data will be either national or by county, city or zip code. They must use secondary data with the knowledge that it may not totally reflect their 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. Your clients can get some secondary data for free, however, if they are willing to make some assumptions about the people in their target area.



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- Population and demographic data provide information about the number of people within a given geographic area (city, county or zip code) and their demographic characteristics (such as income, age distribution, level of education, household size, ethnicity and race). Your clients need this information to estimate the total size of their markets and to know how many customers they have access to in these various data groups. Demographic trends within their area can be analyzed using data from the U.S. Census Bureau and the Bureau of Economic Analysis Web sites and others such as [www.city-data.com](http://www.city-data.com), which bases its information on census data and which they may find easier to use. Your clients need to keep in mind that most of the data they find will be based on census data, which is taken every 10 years only and generally takes 2 to 3 years to be made available.
- Information about their local and regional economy is usually available from local economic development agencies, county agencies or city administrators' offices. These sources can provide the number of various types of business establishments, the availability of support services and credit sources, and zoning and other regulations that may affect a business operation and marketing strategy.
- Production data can sometimes be found for a region as well. It will show the existing level of production of a product or service, as well as production trends. However, if a client's enterprise is new or that product is simply not a major commodity for a 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 a particular product, and it is usually national or by state rather than regional. This information comes from U. S. Department of Agriculture (USDA).

Your clients have access to numerous sources of secondary data including the Internet, 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 your clients need.

### Planning market research

Your clients' market research can be as complex and expensive in both time and money as their needs and budget allow. Caution them to keep their research targeted and cost effective with these steps:

1. Allocate a reasonable amount of time and money to this effort and plan to work within that allocation. What is "reasonable" depends on a client's judgment of the risks and rewards involved.
2. Develop a list specific questions about the target market that must be answered before the clients proceeds to develop the new enterprise.
3. Define the specific type of data needed to answer those questions.
4. Determine which data are already available from secondary sources.
5. Decide what primary research techniques will be used to collect data that aren't already available.
6. Seek assistance. Clients can save a tremendous amount of time and energy by enlisting the aid of competent professionals, and they need not spend a dime to do so. A small business development program or SCORE in their area has staff who can review market research plans, suggest tactics and help to develop and analyze questionnaires if needed. A librarian can help track down secondary data. The local chamber of commerce can help identify city and county resources that are available to help your clients design and carry out their market research.

### Develop a Customer Profile

Learning about people who buy or will buy from your clients consists of developing customer profiles and dividing the market into groups of customers with similar demographics and lifestyle characteristics (interests, activities, opinions, or product usage characteristics or combinations of these).

Advise your clients to start with the easy part—secondary information—when they begin building customer profiles. The first decision is to select the geographic area from which they expect to draw customers. They must identify a geographic area, such as a county or zip code, so that they can get the census data they need for demographic information.

## Researching Your Market: Identifying Your Customers

Advise your clients to visit the U.S. Census Bureau Web site (<http://www.census.gov>) and select “Census 2000” to reach the Gateway to the 2000 Census and Summary File 1 (Figure 1). Follow these steps to obtain demographic data:

1. Select “Summary File 1” from the right-hand menu.
2. Select “Access to all tables and maps in American FactFinder.”
3. Choose “Detailed Tables” for the desired Census 2000 Summary File.
4. Use the drop-down “geographic type” menus to highlight a geographic area (such as region, state, or county). Click “Add” to place the highlighted selection in the box labeled “Current geography selections. Click “Next.”
5. Highlight the desired tables: population, gender, age, median household income (either by itself or based on educational attainment), and educational attainment. Click “Add” to place each highlighted table in the “Current table selections box.”
6. For race and ethnicity, select “Summary Table 3” for Step 1, and “Table P6 Race” for Step 5. Also choose “Table P56 Median Household 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 exists between the high and the low. For example, the median household income in 2005 from the American Community Survey (see the bottom of Figure 1) for New Hanover County is \$44,793, whereas the average household income is \$58,842.

Advise your clients to keep two things in mind with these data: (1) The census data are from 2000, and (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 data available. Your clients 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.

**Census Data**

**Rankings and Comparisons (PHC-T)**  
Tables showing population change, comparisons with 1990, Race and Hispanic or Latino origin, and other topics for states, counties, and places

**Census 2000 Briefs and Special Reports**  
Analytical reports on population change, race, age, family structure, housing, apportionment, and more

**Publications Library**  
View or download published results from Census 2000 available in Portable Document Format (PDF).

**Geographic Products and Information**  
Maps and digital geographic products for use in GIS and mapping software

**1990 Census**  
Data and information from the 1990 Census

**Selected Historical Census Data - 1790 to 1990**  
Data from previous censuses

**Census 2000 Data Releases**

- **Demographic Profiles**
- [Summary File 1](#)
- [Summary File 2](#)
- [Summary File 3](#)
- [Summary File 4](#)
- [American Indian and Alaska Native Summary File \(AIANSF\)](#)
- [Congressional Apportionment](#)
- [Congressional District Summary Files \(108th\)](#)
- [Congressional District Summary Files \(109th\)](#)
- [Congressional District Summary Files \(110th\)](#)
- [Resident Population](#)
- [Redistricting Data](#)
- [State Legislative District Summary Files](#)

**Microdata**

- [1-Percent Public Use Microdata Sample \(PUMS\) Files](#)
- [5-Percent Public Use Microdata Sample \(PUMS\) Files](#)

**Selected Special Tabulations**

- [Worker Flow Files](#)
  - [County-to-County](#)
  - [Minor Civil Division \(MCD\) to County and County to MCD](#)
- [Migration Data and Reports](#)

Figure 1. Summary File 1, U. S. Census Bureau 2000 census. Online: <http://www.census.gov>

## Researching Your Market: Identifying Your Customers

Once clients have the desired demographic data, they need to look at the types of stories and advertisements in their local newspaper. Do these stories and advertisements focus on sports, fashion, social activities of the wealthy, or gardening and food? What are the most frequent ads on the local radio stations? What does the local newspaper say about gardening and food? Your clients can learn a lot about what people are looking for in the market through the local media. They also need to observe people at the farmers' market, the grocery store, and other retail locations with these questions in mind: What do they buy? How long do they spend shopping? How are they dressed? What do they drive?

For this toolkit, 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 demographic 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 and cultural endeavors. Some of these anyone can easily observe; others your clients may need to ask about in a questionnaire.

Psychographic characteristics relate to psychological ideas—such as how people view themselves and why they do what they do. These traits are related to such characteristics as aggression, gregariousness, ambition, creativity, risk-taking, passivity, depression, abuseiveness, discipline, competitiveness and resistance to change (Winston, 1984).

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

Frequently, psychographic and lifestyle studies lead to stereotypes such as "soccer mom." It is not easy to get these data, but they may be as useful to you as demographic data or the production and consumption data that you find for a given product. Lesser and Hughes (1986) showed that psychographic information can be generalized from one market location to another.

### *Example—Hunting Site*

Assume a client wants to convert the family farm into a hunting plantation. Determine both the demographic and lifestyle characteristics of the target market—avid hunters and fishermen. Combining the demographic and lifestyle characteristics, the client develops the following profile of their target market. Data suggest that people who are most likely to come to a hunting plantation are NASCAR fans, own Ford trucks, belong to NRA, and like outdoor activities such as hunting, fishing and camping (Table 1).

**Table 1. Demographic and lifestyle characteristics of hunters**

Race/ethnicity	White
Age	25-54
Education	High school
Median household income	\$63,200
Marital status	Married
Home ownership	Owns
Children	2
<b>Lifestyle</b>	
NASCAR fan	
Owns a Ford truck	
Camps, fishes, hunts	
Listens to county music	
Owns boat	
Listens to outdoor life TV shows	
Belongs to NRA	

## Researching Your Market: Identifying Your Customers

The hunting example is only one way to characterize potential customers. Consider the characteristics of the following types:

- “Soccer moms” are middle to upper class, drive SUVs or minivans, don’t work and spend time driving children to numerous activities, of which soccer is 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 people.
- 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 home-schooling fathers were accountants or engineers (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 (Ray, 1997, p. 12, as cited in Lyman, 1998). Home-schooling parents often take their children on outings to local places—similar to public school field trips.

According to Danziger in *Why People Buy Things*, consumer purchases fall into four groups: utilitarian, lifestyle luxuries, aspirational luxuries, indulgences. Utilitarian purchases aren’t necessarily needed, but they make life easier—such as microwaves, food processors and steamers for clothing. Lifestyle luxuries are practical as well as prestigious name brands. They include cars such as BMWs, designer clothes and accessories, and fine china and glassware. Indulgences have emotional gratification as their primary justification. They include gourmet chocolate, books, flowers, magazines and entertainment. Aspirational luxuries express consumers’ values, interests and passions. They include original art, boats and fine jewelry. Buying them offers emotional satisfaction. Danziger found 39 percent of respondents to a series of telephone surveys identified impulse buying as important in their decisions to buy (Table 2). Quality of life ranked highest, and status lowest.

**Table 2. Justification for purchases**

	<i>Percent identify as important</i>
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, 2004, 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 the most cost-effective way of obtaining data on why people buy. Your clients can also learn a lot from observing and reading about trends.

After your clients gather their information, they will use it to create a table similar to Table 3, Customer Profile. This table will help them organize the information they have so that they can create a picture of their potential customers.





# The Business Development Files

## Researching Your Market: Identifying Your Customers

<b>Table 3. Customer Profile</b>			
<b>CUSTOMERS</b>	<b>COUNTY</b>	<b>COUNTY</b>	<b>TOTAL</b>
Total population			
<b>Age</b>			
0-9			
10-19			
20 - 25			
26 – 45			
45 – 65			
Over 65			
Male (over 19)			
Female (over 19)			
<b>Race/ethnicity</b>			
White			
African American			
Asian			
Mexican			
Other			
<b>Educational attainment</b>			
No high school			
Some college			
College degree			
Advanced degree			
Median household income			
<b>Primary occupation (percent)*</b>			
Blue collar			
White collar			
Professional			
<i>* You may have to estimate these percentages based on your knowledge of the area.</i>			
<i>Observable lifestyle characteristics such as dress, vehicle, newspaper and magazine choices, etc.*</i>			
Vehicle driven			
Magazines looked at or purchased			
Ads in local newspaper and on local radio stations			
Vacation spots			
Other			
<i>*You may have to make some educated guesses based on the emphasis in the local newspapers and radio stations.</i>			

## Researching Your Market: Identifying Your Customers

After they gather their demographic and lifestyle information, your clients need to look for information on trends. A Web search on food trends gives a long list of possible articles. They need to narrow their search to something specific to the enterprise, 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. Your clients would use the information to see how closely the demographic and lifestyle characteristics of their area match those described in these articles.

### Example—Agritourism

If a client is interested in agritourism, ask what activities on the farm already involve people who are neither family members nor employees. These activities are, in the broadest sense, agritourism. Lesser and Hughes (1986) found that lifestyle characteristics could be generalized to areas other than that for which they were collected. Based on their findings, your client could use an agritourism presentation from Kansas that shows the percent of people participating in various agritourism activities (Tolle, undated). These numbers are probably national; the presentation doesn't say. From the lifestyle characteristics of potential customers, your client can get an idea of which activities will be most popular for her business. Another paper on using cheese as the basis for agritourism says studies show that agritourism grew 30 percent in the U.S. between 1997 and 2007 (Greenberg, 2006). These data are national, but as your client looks around the target county and assesses what is available for entertainment, she might see where she can fit her farm in the expanding agritourism industry.

Although knowing WHY people buy may be more important than demographic data, your clients may not be able to obtain the information without a lot of expense, time and work. Trends, demographics and observation will be their primary sources of relatively low-cost information. They will have to draw their own conclusions about the impact of these results for their enterprises.

### Part 2. How to Use the Information

To illustrate how to use the information your clients gather, we present a hypothetical agritourism farm in Johnston County, North Carolina.

### Example—Agritourism

Study 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 in your new agritourism operation. Put a dot on the map for your farm, and draw a circle with a 30-mile radius (Figure 2). You find that the circle includes Harnett, Wake, Wayne and Wilson counties. Half of Sampson is also included, and you decide you might not get enough business there to include it in your analysis. You also decide 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).

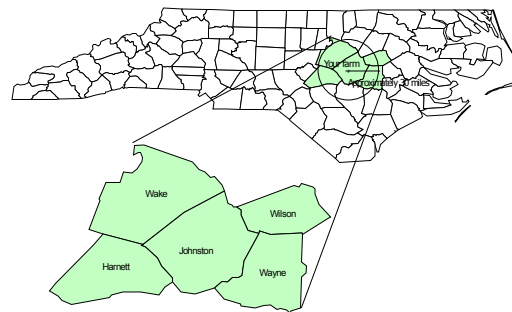


Figure 2. Target market area

Next, visit the U. S. Census Bureau Web site and start collecting data.

After your client has created a demographic and lifestyle table from the census data, think about specific groups within these broader areas that might be targeted. For example, if a client decides to offer educational farm tours, contact home-school parents, public schools and private schools. If a client wants to offer strictly entertainment—a day in the country—target church groups, both youth and adult. Refine the general information, depending on what will best suit each client's needs, abilities and resources.

<b>Table 3. Customer Profile Table</b>	
<b>Customers</b>	<b>Harnett County</b>
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\**

*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 to make some educated guesses based on the emphasis in the local newspapers and magazines.*

### Part 3: Customer Identification Worksheet

Ask your clients to complete the worksheet on their own after you've reviewed with them what is needed.

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

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



# The Business Development Files

## Researching Your Market: Identifying Your Customers

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

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

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

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

## Researching Your Market: Identifying Your Customers

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### Appendix A. Sample questionnaire

1. Have you completed a survey for us previously?  yes  no
2. Are our employees  
Friendly?  yes  no      Helpful?  yes  no  
Courteous?  yes  no      Dressed appropriately?  yes  no
3. How would you rate our produce?  Excellent  Good  Satisfactory  Poor
4. What products do you buy most often?
5. What time of day do you usually shop at our market?  
 Before 11 a.m.  Between 11 a.m. and 3 p.m.  Between 3 p.m. and 6 p.m.  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 buy?
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:  
 Under \$20,000  \$20,000 to \$29,999  \$30,000 to \$39,999  
 \$50,000 to \$75,000  \$40,000 to \$49,999  Over \$75,000

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

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SRI—Consulting Business Intelligence. Menlo Park, Calif.: SRI. <http://www.sric-bi.com/VALS/>

Stat-USA®/Internet™. Washington, D.C.: U.S. Department of Commerce. <http://www.stat-usa.gov>

The Right Site. Free demographic profiles. Bellmawr, N.J.: Easy Analytic Software, Inc. [http://www.easidemographics.com/cgi-bin/login\\_free.asp](http://www.easidemographics.com/cgi-bin/login_free.asp)



# Researching Your Market: Evaluating the Competition

NC STATE UNIVERSITY



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## Part 1. What the Agent Needs to Know

You have looked at pricing and identifying customers with your clients. This tool continues the process by looking at who your competition is, where they are located, and what they offer and its quality. Looking at the competition, your clients can easily lose objectivity. They might think they are offering something that is obviously of better quality and service, lower priced and totally different from their competition. Studying the competition, however, will help your clients determine the volume and price of similar products and services already in the marketplace, the strengths and weaknesses of their competitors, and the specific types of buyers being served by their competitors. This information can help your clients identify niches in the marketplace where they can meet a market demand that is not being met. It can also help them determine what percent of the total possible customers they might expect to have. Work through the following four steps with your clients to help them evaluate their competition.



## Step 1. Identify the Competition

When identifying competitors, use a broad interpretation. For example, assume a client plans to sell grass-fed beef. The competition is all other farmers in the market who are also selling grass-fed meats, including local grocery stores, health food stores and on the Internet. All of these outlets are competitors. If you're a client wants to become an agritourism attraction, the competition is other agritourism operations and tourism locations, including the beach, Kings Dominion, national and state parks and so forth. However, the most direct competition is going to be other agritourism operations in the same area. These operations are what the client should be most concerned with.

## Step 2. Determine Areas of Competition

Areas of competition include price, quality, location, customer service, convenience, range of products or services, marketing strategy and delivery and turnaround times. Why do potential customers have a need for a client's product or service rather than for the competitors'? What do the potential customers consider before making the purchase? These factors are the areas of competition your clients need to focus on.

## Step 3. Obtain the Information

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

## Researching Your Market: Evaluating the Competition

Ask an employee to periodically become a competitor's customer. Have this person gather marketing items, such as brochures, catalogs and price lists.

- Read the competitors' ads carefully.
- Read trade magazines or newsletters, paying close attention to details, such as new products and services being offered and customer service policies.
- Be visible at professional meetings. People love to talk about their businesses: what's new, what's working for them, what problems they're having.
- 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 your clients with support, a potential source of information for identifying and solving problems, and an idea of the problems and successes they might face.
- Attend industry trade shows and conferences, paying careful attention to the issues being discussed.
- Survey the customers. Develop a simple questionnaire that asks what they like and don't like about the competitors' businesses and how your clients compare with the competition. Surveys can help your clients learn a lot about their businesses and their competitors.

### Step 4. Prepare the Analysis

Once your clients have identified their competitors and obtained the information to compare themselves with each of their competitors, they need to compile the information in a meaningful fashion. In what areas are your clients strong? Where do your clients need to focus more attention?

### Step 5. Putting It Together

Knowing what the competition is doing will help your clients do something different so that they aren't competing directly. For example, consider an agritourism operation. A client probably should never try to compete with Kings Dominion. Instead they should look for other agritourism operations in their target market area.

#### *Example—Agritourism*

Assume a client in Johnston County decides to offer educational tours during the week with the possibility of being closed to the public on the weekend. The educational tours will target high school students so that they can learn something about food production and the environment. To find who the competitors are, the client visits the North Carolina Department of Agriculture and Consumer Services (NCDA&CS) Web site, <http://www.ncagr.com/>, and links to the "General Store." The site provides a list of activities offered at agritourism operations in North Carolina. The client accesses the list, either by topic or by county. In Johnston County, they find eight operations offering school field trips or summer camps. One of them targets K – 3, one is a winery, one a museum and another targets visitors with special needs. None seem to do exactly what your client is interested in. But you and your client shouldn't discount the museum as a competitor because it offers demonstrations, hands-on activities and celebrations of various types. Next, the client checks out other nearby counties. Wilson County has an operation that might compete directly with your client for some customers.

After collecting the information, your client compile data on the competition as shown in Table 1. By doing this exercise, your client learns that an agritourism enterprise will have competition, but only the educational hayride may provide direct competition for school tours.



## Researching Your Market: Evaluating the Competition

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

## Researching Your Market: Evaluating the Competition

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### Part 2. Competition Worksheet

Ask your clients to complete this worksheet at home. It is relatively short but will require some time and effort on the part of your clients. Encourage them to be objective when evaluating the competition.

Ask each client to identify a geographic market area. This step was completed in the previous exercise for identifying customers. Now it should be a matter of making sure the area is the same.

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

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

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# Estimating Market Potential: Is There a Market?

NC STATE UNIVERSITY



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Gary Bullen, Department of Agricultural and Resource Economics, N.C. State University  
Adapted from material by Kent Wolfe, Department of Agricultural and Applied Economics,  
University of Georgia

## Part 1. What the Agent Needs to Know

Your clients have decided the price they want, the geographic location of the market, their possible customers, and who and where the competition is. Next, they must calculate the portion of the market they can reasonably expect to capture. *Market potential* is an estimate of the amount of money your clients can expect to make from the product or service they plan to market. Their estimate will only be as good as the information they use and the assumptions they make. There are seven steps to estimating market potential (they have already completed the first four steps).

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

Step 5, estimating the market share or potential, will allow your clients to determine if their markets will support their businesses by covering their costs and paying them a salary. Generally, the market potential is the highest estimated net revenue that they will realize from their enterprise. In the second meeting, you covered estimating a price. When they estimate market potential and use the price they calculated, they will see if they have covered their costs. One way for your clients to use their market potential analysis is to change their assumptions and see if they can still cover their costs. They can either lower their expectations of the number of people who will buy from them, or they can raise their prices. ***Writing down the assumptions they use to estimate their market potential and the changes they make to those assumptions is essential.***



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 of potential consumers

MS = market share—percent of consumers buying from you

P = average selling price

Q = average annual consumption

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

## Define the market segment

Your clients have identified the target market of the customers who are most likely to buy from them. The target market was generally described using demographic variables: gender, age, education and income. The market is also described using psychographic variables: lifestyle, interests and belief system variables. A client might have more than one target market. The most important piece of information from identifying the market is how many potential customers fit the target market description based on the variables a client chooses:

## Estimating Market Potential: Is There a Market?

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

Because not everyone in the defined market area will be a customer, each client needs to compare the target market profile to the population in the market area (see Bullen, 2006). Market areas are defined in several ways. Some methods require easy-to-collect data, whereas others require more complex data and the services of a marketing professional.

### Define the geographic boundaries of their market

Your clients have defined their market areas by geography, ring analysis or radius, trade area, or drive-time. Most likely, they used geography, the simplest form of defining a market area. It defines the market area by using landmarks or some jurisdictional boundary, such as

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

### Define their competition

The next piece a client needs is information about the competition. Continuing the agritourism example, your client finds out who the competitors are in the market and what they are offering.

#### *Example—Agritourism*

Assume your client finds three other farms with corn mazes. One has a petting zoo and pumpkin cannon included in the admission price. The other two farms offer the corn maze as one of several activities, including pick-your-own pumpkins and apples, hay rides and a haunted house—each priced separately. Your client decides to 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 a client has defined the market area, target market and total number of people in that market, he calculates the number of potential customers for the business. The total market will typically be adjusted downward to consider those who will not buy from your client. From the total people in the target market, the client estimates the percentage of consumers who would use the products or services.

#### *Example—Agritourism*

Assume the farm is already an agritourism operation. Your client wants to offer a corn maze as well as something educational. The client decides to target children in kindergarten through third grade. The target market area is Wake County, which has 45,700 children between 5 and 9 years of age. Therefore, N (number of potential customers) = 45,700. They found this number in the 2000 U.S. Census.

However, not all children under 9 will visit any agricultural facility. The client's next step is to adjust the 45,700 to get a more accurate estimate of the actual market potential. A survey of elementary school teachers showed that 60 percent of kindergarten through third-grade teachers are willing and able to take an agriculturally related field trip.

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

$$\text{Number of Potential Consumers} = 45,700 \times 0.60 = 27,420$$

### Determine the average annual consumption.

Next, your clients determine how often their target market segment would use their product or service. This figure will have a significant impact on the estimated market potential. For instance, is a 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 is available from the government as well as industry trade associations. For example, the USDA

## Estimating Market Potential: Is There a Market?

collects volumes of disappearance (consumption) data for many commodities and converts it into per-capita annual usage (consumption) estimates.

The quantity of product your clients are selling would vary based on the product being sold. For example, if a client sells honey, the same customer may buy it five times in a season. If, however, a client is selling hayrides, most customers will buy only one in a season.

### *Example—Agritourism*

The client offers educational hay rides and a corn maze and assumes that students would come only once with their classes. If the client offers the same package on weekends or for special events like birthday parties, some students might come two or three times.

Usage would be how often these school groups will take an agriculturally based field trip within a school year. The survey of elementary school teachers indicated that each teacher plans to take only one agriculturally based field trip this year. Therefore, use “1” as the estimate of use:

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 each business. It provides important insight into how much of the total potential market a client might capture. If the market share is not large enough to support the business, the client has a problem. Also, if the number of units needed for the business to break even financially is known, the client can determine what share of the market must be captured to achieve this break-even point. Your clients need to be careful not to estimate an unrealistic market share. The result could 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 each client’s business may be impossible. Your clients should estimate various scenarios based on what information they have. Remind your clients to write down the assumptions they use so that they can go back later and revise based on new information.

### *Example—Agritourism*

Assume three existing agritourism operations are in a client’s market area. What percent of the total market might your client be able to acquire? Because data on agritourism in the area are not collected, your client 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—the number of students going on the farm tour—hat is being calculated.

First, your client assumes that each of the competing farms in the market area has an equal share of the potential market, or 33.3 percent of the 45,700 children between ages 5 and 9. Next, the client assumes that if he enters this market, he will take an equal part of each existing operation’s business. The goal is to capture 25 percent of the total potential market. To calculate the market share for each of the competitors, use this formula:

Market share = 100% ÷ number of competing businesses

Market share = 100 ÷ 3

Market share = 33.3% for each of the existing agritourism businesses

To assume your client will get 25.0 percent of the market (assuming they divide the existing market evenly four ways) is probably unrealistic since the business is new, and the competitors have existing customer bases. Your client can easily change the assumptions. For example, he assumes that he can capture 3.3 percent from each of the three existing operations. The client would then have 10 percent of the total potential market.

Using the total population of 45,700, your client estimates that only 60% of those children would probably be able to go on a field trip. When completing the calculation, the client finds only about 27,420 ( $45,700 \times 0.60 = 27,420$ ) would actually go on an agricultural field trip. Your client decides to use this lower number (27,420) and 10 percent for the market share for the first year. Your client finds he will have about 2,742 ( $27,420 \times 0.10 = 2,742$ ) children. This market potential number potential will help your client determine an if the plan is feasible.

### Estimating Market Potential: Is There a Market?

Your client has the following information to use in calculating the market potential for an agritourism operation:

N Total number of consumers (based on Wade County census): 45,700

MS Market share (based on teacher survey results times the client's estimate of how much of the market can be captured from the competition): 0.06\*

P Average selling price (based on cost of production): \$8.00

Q Average annual consumption (number of visits per student based on teachers' survey): 1

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

$$MP = 45,700 \times 0.06 \times \$8.00 \times 1$$

$$MP = \$21,963$$



\*To calculate the percent of consumers buying from a client, multiply the percentage of consumers who are potential customers by the percentage of the market the client expects to capture from competitors. In the example, this calculation would be  $0.6 \times 0.1 = 0.06$

Any market potential estimate is only as good as the assumptions a client makes and the data used. Your clients are better off estimating on the low side and setting their prices to cover their costs. If an estimate of market potential is low, the client will show a profit above their costs. If, however, the estimate is too high, your client may find it difficult to pay the bills at the end of the season.

## Estimating Market Potential: Is There a Market?

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### Part 2. Market Potential Worksheet

Ask your clients to complete this worksheet at home.

1. Total number of people within the target market area
2. Consumption (How often is the product consumed, and how much of the product is consumed?)
3. Competition (number of competitors)
4. Calculate the market share:

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

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

<b>Who is your competition?</b>		
Competitor	What product is offered?	Price
Competitor 1		
Competitor 2		

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## Estimating Market Potential: Is There a Market?

<b>What percent of total potential customers go to the competition?</b>			
Competitor	Number of customers	Percentage of market	Market share (customers × percentage)
Competitor 1			
Competitor 2			
Total all competitors			

7. Total the information:

<b>Numbers you need to estimate your market potential:</b>	
Total number of potential customers (N)	
Total consumption (Q)	
Total market share (MS)	
Your price per customer (P)	

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

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

N = \_\_\_\_\_

MS = \_\_\_\_\_

P = \_\_\_\_\_

Q = \_\_\_\_\_

MP = \_\_\_\_\_

## Estimating Market Potential: Is There a Market?

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# Legal, Regulatory, and Insurance Checklist for North Carolina

NC STATE UNIVERSITY



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## Part 1. What the Agent Needs to Know

After all the preliminary work of deciding if a planned business is going to work, each client needs to consider its legal aspects. Clients who are starting new businesses rather than just adding new enterprises need to consider all the legal, regulatory and insurance aspects that might apply. If they are just adding new enterprises to existing businesses, some of the legal issues will already be addressed.

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 than confronting them, but doing so may come back to haunt your clients.

The following topic areas describe some of the most common requirements that have an impact on small businesses. This list represents our attempt to include all general applicable regulations; however, it cannot address all regulations because some are industry specific. ***Ultimately, your clients are responsible for investigating and addressing the regulations that apply to their businesses. Failure to comply could result in legal consequences.***



To the best of our knowledge, these phone numbers, addresses and Web sites are correct. However, please keep in mind that they often change.

### General Requirements

**Business Structure**—Businesses can take one of many legal forms. The most common are sole proprietorship, general and limited partnerships, C corporations, S corporations and limited liability companies. Each legal structure provides different organizational options that provide differing levels of liability protection, taxation and liability. Your clients should consult their attorneys, accountants, or both to help them decide the best form for their businesses. For information, they can visit the Secretary of State Web site and scroll to the bottom of the page.

Source: N.C. 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. Your clients must obtain the various licenses from the applicable agency (for some types of businesses) and the governing entity (city, county or municipality) where their businesses are located.

Source: Business ServiCenter, N.C. Department of Commerce. Phone: (919)715-2864 or toll-free (in North Carolina) at 1-800-228-8443. Fax: (919) 715-2855. <http://www.nccommerce.com/servicenter/blio/redbook>

**Assumed Business Name (Fictitious Name)**—A client who does business under a name other than a personal or legal name or who registers as a business under a business name other than a legal or personal name (or a registered

corporate name, partnership, or trademark) must notify the public. For example, if a client has a sole proprietorship and uses the name “Toad Hollow” for a farm, products and advertising, the client must identify the proprietorship as “trading as Toad Hollow.” This requirement protects the public by providing information in a public record of the business owner’s identity. A corporation doing business under a corporate name or those practicing any profession under a partnership name are exempt. Your clients can obtain forms to register an assumed name from the Business ServiCenter.

Source: Business ServiCenter, N.C. Department of Commerce. Phone: (919) 715-2864 or toll-free (in North Carolina) at 1-800-228-8443. Fax: (919) 715-2855  
<http://www.nccommerce.com/servicenter/blio/startup/nameinfo.asp>

### Taxes

**Sales and Use Tax Number**—Any business that generates sales is required to obtain a sales and use tax number (AS/RP1 form) because North Carolina charges a sales and use tax. North Carolina state sales tax is 4.5 percent. Food is excluded from the state sales tax but subject to local taxes.

Source: N.C. Department of Revenue, P.O. Box 25000, Raleigh, NC, 27640-0640. Telephone: 1-877-252-3052  
<http://www.dornc.com/downloads/sales.html>

**N.C. State Tax Information**—Operating a business in North Carolina requires paying N.C. state taxes as well as federal and local taxes. To find out more about state taxes, contact the N.C. Department of Revenue.

Source: N.C. Department of Revenue, P.O. Box 25000, Raleigh, NC, 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 the individual is 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 the Internal Revenue Service.

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

### Insurance

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

**Unemployment Insurance**—A business is required by the state to pay unemployment insurance tax if it has one or more employees for 20 weeks in a calendar year or if it paid gross wages of \$1,500 or more in a calendar year. Rates and where to send payments are found at the Employment Security Commission Web site.

Source: Employment Security Commission of North Carolina <http://www.ncesc.com/>

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

Source: N. C. Department of Insurance  
[http://www.ncdoi.com/Consumer/consumer\\_home.asp](http://www.ncdoi.com/Consumer/consumer_home.asp)

The following types of insurance may not be required but are good business practices. A licensed, knowledgeable insurance agent should be consulted to obtain information about them—such as what they cover, what the limitations are, and their availability. As an Extension agent, you are not responsible for providing specific information about a type of insurance. You are responsible only for raising the issue with your clients.

**Liability insurance** protects the business from liability in the event someone or something is injured while on a client’s farms or using its products.

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

**Business continuation or income insurance** covers fixed costs when the business cannot operate 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 the business becomes ill or dies and provides capital during the transition.

**Automobile insurance** is obvious. A vehicle owned by the business should be insured for both liability and replacement purposes. What is less obvious is that your client may need special insurance (called “nonowned automobile coverage”) if they use a personal vehicle for company business. This policy covers the business liability for any damage that may result from such use. The client must also consider whether drivers under 25 will be using the vehicle.

**Officer and director insurance** covers the officers and directors of the business. A client may want to consider this insurance to provide protection from any personal liability that may occur as a result of actions taken on behalf of the business.

**Home office insurance** covers a business that is based in the business owner’s home. Each client should make sure his or her homeowner’s 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 department of labor for more information.

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: N.C. 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 its 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](http://www.dol.gov/esa/regs/compliance/ofccp/ca_irca.htm)

**Occupational Safety and Health Administration** (OSHA). This federal agency outlines specific health and safety standards employers must provide for the protection of employees. Minimizing workplace risks and associated costs is important.

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

Source: N.C. State University offers an on-line course designed to help businesses owners identify and minimize workplace risks.  
<http://www.ies.ncsu.edu/safetyhealthmgmt/>

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

### Inspections

**Certificate of Occupancy (CO)**—Using a building may require a CO from the city or county zoning department. According to the state of North Carolina Web site, 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 someone can occupy the building. The building contractor is 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 Web site.

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 a client's operation must comply with health department regulations, contact the N.C. Department of Health and Human Resources and the county health department, which is often the enforcement body for state health regulations and inspections.

Source: N.C. Department of Health and Human Resources  
<http://www.ncpublichealth.com/>

**Fire Department Inspection**—Businesses having regular entry and use of their facilities by the public or that house any flammable materials will generally need a fire department inspection. Local fire departments should be consulted for more information.

**Environmental permits**—Businesses may require an environmental permit. Environmental permit information can be found on the Department of Environment and Natural Resources Web site.

Source: N.C. Department of Environment and Natural Resources  
<http://www.enr.state.nc.us>

### Zoning

**Zoning**—Your clients must comply with local zoning regulations for business use in their geographic area. Zoning regulations may also apply to a business in a home. Each client needs to check with local city or county agencies to determine if the business complies with current zoning ordinances.

### Trademarks, Patents, and Copyrights

**Trademarks** can be a word, phrase, symbol, 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 N.C. General Statutes.

Source: N.C. 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 your clients understand and file the patent correctly, they should seek professional help. Only attorneys and agents registered with the U.S. Patent Office may represent people in related matters and perform searches. Your clients can obtain many types of patents: provisional, nonprovisional, design patent, plant patent, and international. Each requires a different application

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

**Copyrights**—A copyright protects an individual's 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, a client who owns a copyright should always include a copyright designation on any copy of the work.

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

### Uniform Code Council

If a business will involve selling products through retail establishments, the client will probably need to get a Universal Product Code (UPC) bar code. Most retailers require these UPC codes on products, and your client should incorporate it into any labels and packaging. The UPC is obtained from The Uniform Code Council, Inc., which is not a government agency. The Council assigns a manufacturer's identification code for the purposes of bar coding.

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

# The Business Development Files

## Legal, Regulatory, and Insurance Checklist for North Carolina

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### Part 2. Legal Checklist

Ask your clients to complete the following checklist at home. It is targeted at new businesses, but much of it will apply to existing businesses that are 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)

Contact information: \_\_\_\_\_

Real (your name or company name) \_\_\_\_\_

#### BUSINESS LICENSE

- Federal Employer Identification
- Number Contact information: \_\_\_\_\_

#### 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)

Contact information: \_\_\_\_\_

#### INSURANCE

- Unemployment
- Workers Compensation

Contact information: \_\_\_\_\_

- Liability
  - Buildings
  - Equipment
-

## Legal, Regulatory, and Insurance Checklist for North Carolina

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- Business interruption
- Key man
- Vehicle
- Officers and directors
- Home office
- Other (specify) \_\_\_\_\_

Contact information: \_\_\_\_\_

### LABOR

- Worker's permit for any employee under 16 years old
- H2A and other immigrant workers
  - Housing
  - Required documentation
- OSHA notices
- Workers compensation notices

Contact information: \_\_\_\_\_

### HEALTH DEPARTMENT

- Inspections
- Licenses

Contact information: \_\_\_\_\_

### ZONING

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

Contact information: \_\_\_\_\_

- Occupancy permit

Contact information: \_\_\_\_\_

### FIRE DEPARTMENT

- Inspections

Contact information: \_\_\_\_\_

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# The Business Development Files

## Legal, Regulatory, and Insurance Checklist for North Carolina

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### ENVIRONMENTAL PERMITS

- Aquaculture

Contact information: \_\_\_\_\_

- Other (specify) \_\_\_\_\_

Contact information: \_\_\_\_\_

### OTHER

- UPC required
- Building permits

Contact information: \_\_\_\_\_

- Building inspections for electrical and plumbing

Contact information: \_\_\_\_\_

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# Product, Price, Place, and Promotion

NC STATE UNIVERSITY

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## Part I. What the Agent Needs to Know

You have met with your clients over a period of time and helped them work through the basics of their marketing plans. This tool, “Product, Price, Place and Promotion,” summarizes what you have covered with the exception of promotion, which is only briefly mentioned in this tool since a thorough discussion is found in another resource: *Direct Answers for Direct Marketers* (available by sending an e-mail request to [gary\\_bullen@ncsu.edu](mailto:gary_bullen@ncsu.edu)). The worksheet at the end of this tool is a checklist for your clients to be sure they have covered everything you have helped them with in developing their marketing plans. If a client cannot check off any part of the worksheet, advise him or her to review the tool that deals with that subject and review it.

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. Each client just needs a product that a sufficient number of customers want, sold at a place those customers visit and at a price that matches a customer’s perspective of the product’s value. The hard part of marketing, however, is knowing what customers want and being able to produce the product at a price they are willing to pay. All four elements must fit together. Any one of them being wrong may cause a client’s business to fail. A client could have the best product in the world but market the product in the wrong place. “The 4–Ps of Marketing” (or the marketing mix) are product, what you have to sell; *price*, how much it costs the consumer; *place*, where someone can buy it; and *promotion*, which tells potential customers about it.

### Product

Before your clients begin to produce anything, ask them if they have the resources to do so. These resources include land, labor, equipment, time, knowledge of production, soil type and other production requirements. If any of these are missing, your clients need to consider how to compensate for them.

Have your clients describe their products to you in as much detail as possible. Each client needs to answer these questions:

1. How would you describe your product?
2. What are its characteristics?
3. What benefits does it offer to the buyer?
4. Will your customers recognize those benefits?
5. What’s unique about your product?
6. When and how can the product be used?
7. How is it distinctive from your competitor’s product?
8. Can your competitors easily copy your product? (Determan)

Product includes every characteristic of the product (what each client produces to sell)—both tangible and intangible. The tangible characteristics include quality, appearance, packaging, logo (brand and trademarks, for example), and guarantees. Intangible characteristics involve consumers’ *perceptions* of a client’s products and operations. These perceptions include taste (every customer likes or dislikes certain tastes), smell (again, every customer likes or dislikes certain smells), and image (how your client appears to the consumer). How a client’s employees deal with customers will reflect on a product’s image. Even if customers like the products, if they have been treated poorly, they may not come back to buy more.

People purchase products for many different reasons, including to fill a need, to fill a desire or to use as a gift or souvenir. Where and how often people buy often depend on why they are buying products. Products, such as food, that meet physical needs are purchased frequently from a grocery store because of price and convenience. Products that fill desires may well be impulse purchases. Specific products purchased as gifts or souvenirs may not be sought, but they are the result of the customer’s whim, salesperson’s actions, advertising or special discounts. For example, consider specialty honey. The target customers may be tourists and people looking for a unique gift or souvenir.



## Product, Price, Place, and Promotion

Keeping the target customers in mind will help your clients with deciding how to package their products. Packaging is part of the product, too. A package conveys an image to customers. A product has to be packaged according to what the target market expects and wants. For example, if a client packages specialty honey in a nondescript jar with an unimaginative label, the product won't catch the eye of a tourist or gift-seeker. Have your clients describe, in as much detail as possible, how they plan to package the product.

1. What size will the package be?
2. What will the container look like?
3. What label will be used to identify the product?

### *Example—Specialty Honey*

Consider specialty honey made from a variety of different nectars. Your client decides to bottle her honey in two sizes. The smaller size is 9 ounces in a bee-shaped jar. The larger one is a pound in a multifaceted jar (Figures 1 and 2).



Figure 1. Bee jar



Figure 2. Multifaceted jar

Your client describes the specialty honey as being local, all natural, and based on the nectar from which it is made—buckwheat, lavender, and orchards. The client faces competition from grocery stores, but the stores don't often sell local honey. Your client also has competition from one other apiary in an adjoining county, but it only sells clover and mixed-flower honey.

## Price

Pricing is always difficult. Calculating a price that covers all production and marketing costs requires that records be kept. Recordkeeping is a necessary evil. Besides covering

the producer's costs of production, pricing works to help create an image of the product. After calculating the cost of production, several methods are available to calculate the price. The *break-even* method covers all cost. The mark-up method relies on dividing the total cost by the percentage of desired mark-up. The margin method involves dividing the price by 1 minus the percentage of desired increase. The selection of an appropriate pricing strategy will help each client determine which method to use.

Ask each client these questions when discussing their pricing strategy:

1. How much must you charge to cover your production costs?
2. How much will consumers be willing to pay for your product if they can buy it elsewhere for the same price or less?
3. What makes your product different enough 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. How many more jars will you need to sell at the lower price to cover your production costs?
6. What are other producers in the market charging?

### *Example—Specialty Honey*

Consider that very high-quality specialty honey. Your client needs 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 evident in the adage, "You get what you pay for." Pricing is a balancing act between charging too much, which may lead customers to believing a client's prices are out of line, and not charging enough, which may lead them to believe the product is of lower quality. Your client will have to set a price that will generate sufficient revenue to cover all the production costs and create real value for consumers. Ask these questions:

- Is your product a high-end or low-end product?
- Is it the same as everyone else's?
- How do you perceive your product?
- Will customers perceive the product the same way?

The answers become your client's pricing objective.

## Product, Price, Place, and Promotion

In addition to creating an image, pricing strategy can provoke a reaction from competitors. If a client prices a product too low compared to the competition, the competitors may lower their prices. With profits from farming already low, it doesn't make sense to price below the competition and reduce everyone's revenue. If the price is high, however, competitors may see your client making a profit and enter the market to take advantage of the high price. The result of that strategy is to drive the client's and the competitor's price down. Your clients need to know their competitors' prices, even if they don't know their competitors' costs. Only if your clients' products are different in some significant way, will they be able to obtain and sustain higher prices for their products.

Putting a low price on a product, one that just covers the cost of production, may expand a client's market, but it may also create an image of poor quality. If the product is new and 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 the competition may attract people to the client's honey rather than a competitor's. A low price is basically a price floor—a price below which a producer cannot afford to sell the product without hurting the business, its image and other producers.

A high price, while implying something of good quality, may mean pricing a product out of the market. A totally unique product can be priced higher than a product that many producers sell.

### *Example—Fingerling Potatoes*

At a farmers' market with 20 farmers, 15 of them sell Yukon Gold potatoes. Your client is the only producer to sell fingerlings—a gourmet type potato, and these fingerlings are yellow, red and blue. Your client can charge a higher price than the producers selling Yukon Gold. The risk the client runs, however, is making the price so high that the product is priced beyond the buyers' willingness to pay.

Putting a high price on a product to increase profits may be a goal. But caution your clients that they may not sell enough at that price to make any difference in their 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 strategy is to simply price at the same level as everyone else because your client cannot offer anything better than or different from anyone else.

### *Example—Speciality Honey*

Your client needs to cover production costs, but not make the price so high that no one will buy the honey, even as a gift. Some products have published prices. Honey is one of these products. What the prices represent varies by product. Your client must understand what these prices represent. For example, honey is defined as follows: "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" (NASS, 2007)

Your client can find historical prices for honey on the USDA Web site: [http://www.nass.usda.gov/Statistics\\_by\\_State/New\\_York/Publications/Statistical\\_Reports/honey.htm](http://www.nass.usda.gov/Statistics_by_State/New_York/Publications/Statistical_Reports/honey.htm)

The price varies from year to year, but in 2006, it averaged \$1.94 for North Carolina. Because the price is an average for all types of honey marketed through both wholesale and retail outlets, your client decides, based on the production cost and these prices, to sell the buckwheat and orchard honey 9-ounce jar for \$5.99 and the 16-ounce jar for \$8.99. The lavender honey will sell for \$6.99 and \$9.99 because it is harder to find enough lavender to produce the honey. Although an even number for price would make it easier to calculate change and require fewer coins for change, studies show that psychologically \$5.99 seems to be a lot less than \$6.00.

## Place

Place refers to where and how your clients make their products 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 and their advantages, disadvantages and legal requirements are found in *Direct Answers for Direct Marketing* (Bullen, 2006).

## Product, Price, Place, and Promotion

The clients have many market outlets from which to choose:

- On-farm markets
- Pick-your-own fields
- Roadside markets
- Community Supported Agriculture (CSA) groups
- Farmers' markets
- Restaurants
- Internet
- Specialty shops

Ask each client to consider the possible market outlet for a product by answering these questions:

1. Is the market the right one for the product? Can you sell your product at a farmers' market, or would it sell better at a specialty shop in a tourist area?
2. How will you get it to the market? Do you have to provide the transportation or shipping? Can potential customers come directly to you for the product?
3. 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?
4. 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?
5. What are the costs of supplying a particular market, including time, travel, equipment, and fees?

### *Example—Specialty Honey*

Your client decides to sell the honey at a Saturday farmers' market in Oldtown because she wants to interest tourists in buying it and tourists often visit the farmers' market. She decides to use a combination of a table and crates to make the display attractive. The honey is packed in glass jars, and your client knows the jars can't be stacked more than two or three high or someone may knock the jars over. Your client also decides to take a display of a hive section to show how the bees work and to attract customers. She creates an educational poster that describes the nectar sources and tells about the nutritional value of the different kinds of honey.

### Promotion (and Advertising)

Generally, in marketing terms, advertising is any form of paid nonpersonal 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 with small businesses, most forms of advertising do not work. Your clients need to look carefully at their promotion options so they don't waste money. Having made that observation, your clients may still find some advertising is useful. Obviously, some methods are more costly than others. Your clients will need to choose very carefully and learn what works and what doesn't work. If they have set up their marketing budgets, they will be better prepared to determine how much they are willing and able to spend on any specific type of advertising.

Promotion can take many forms. For the honey example, promotion could be 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 reporters to visit and write about the operation, and making samples available. Advertising can be as simple as well-designed and placed signs or as complex as television spots. The Internet is always a good option, even if your clients don't use it for selling.

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 your clients invest. Customer service takes time. If your clients succeed in setting things right, they will have happy customers who will return.

### *Example—Customer Service*

A customer buys a client's product and finds something wrong with it. She brings it back and complains. Because your client wants the customer to view the products as high-end, he spends time talking to the dissatisfied customer to find out exactly what the problem is. Your client wants to correct the problem for future sales, but, more importantly, he wants the customer to leave feeling good about the product and service. If the customer leaves feeling dissatisfied, she will tell all her friends how bad the product is. If the customer leaves satisfied with the solution, others will know your client stands behind his product. In addition to discovering the source of the dissatisfaction, your client might offer to replace the product or refund the customer's money.

## Product, Price, Place, and Promotion

Promotion and advertising and the related topics of customer and public relations are a huge topic: For a more detailed description of them, see Bullen, 2006.

Advertising can be inexpensive or very costly depending on the method used. Television advertising is probably one of the most costly methods, whereas a classified ad is one of the least expensive. Word-of-mouth advertising costs nothing in dollars but requires time spent to make it effective. Customer service and quality products are what make word-of-mouth advertising effective. One unhappy customer will complain to at least 10 other people, while one satisfied customer will tell only one or two other people. Other methods include flyers, brochures, magazines, radio ads, the Internet and roadside signs. (Have your clients check with local zoning or state department of transportation about regulations for signs.) All of these methods of advertising and promotion have a cost to them. Make sure your clients understand the cost of each.

### Example—Specialty Honey

A display can also be a form of promotion. Consider the hive section display that your client has set up at the market. It serves to educate people. Furthermore, because the honey's flavor probably isn't familiar to people, the client decides to put out samples of each kind. Your client has signs telling people about the honey. The label on each jar of honey includes the farm name and address, the type of specialty honey and the weight. The price signs are created on an enlargement of the product label with the type of honey shown and the different prices.



Figure 3. 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

Figure 4. Price sign

Your client plans to use word of mouth, samples, and a Web site to advertise. She also plans to participate in local festivals to get the word out.



## Product, Price, Place, and Promotion

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### Part 2. Client Checklist

Because this tool is the last one and basically a review, your clients should be able to check off boxes for what has already been done. If they cannot, take them back to the worksheets for any tools they have not fully completed.

#### PRODUCT DESCRIPTION

- Product described
- Package size described
- Characteristics described
- Add space to described
- Benefits
  - Quality described
  - Healthy living characteristics described
  - Production practices (such as organic, IPM) described
- Uniqueness described
- Use of product described
- Why someone will buy your product rather than your competitors' described

#### PRICE

You clients might have more than one strategy, and they might have more than one pricing plan. Remind them that they **MUST** cover all their costs or ultimately their businesses will fail.

- Variable costs calculated
- Total costs calculated
- Pricing goals identified
  - 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—what do you expect to accomplish using the same price as everyone else?
- Pricing method selected
  - Break-even
  - Margin
  - Markup

#### PLACE

List possible market outlets you might use and suggest reasons why each would or would not work by answering the following questions:

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



Product, Price, Place, and Promotion

PROMOTION AND ADVERTISING

If your clients have not completed a table like the one below, have them do so. They should be answering this question: "What promotion and advertising outlets might you use?"

- Identified sources of information potential customers might use

Table with 4 columns: Promotion and Advertising Outlet, Pros, Cons, Cost. The table contains 10 empty rows for data entry.

- Have you developed a method to evaluate the effectiveness of your marketing and promotion efforts?



## Product, Price, Place, and Promotion

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### References

- Bullen, Gary. *Direct Answers for Direct Marketers*. Marketing resource CD developed as part of a Southern Region Sustainable Agriculture Research and Education (SARE) grant. Raleigh: Department of Agricultural and Resource Economics, N.C. State University. See <http://www.ag-econ.ncsu.edu/faculty/bullen/bullen.htm>
- National Agricultural Statistics Service, USDA. 2007, May. New York honey production statistical report. Online: [http://www.nass.usda.gov/Statistics\\_by\\_State/New\\_York/Publications/Statistical\\_Reports/honey.htm](http://www.nass.usda.gov/Statistics_by_State/New_York/Publications/Statistical_Reports/honey.htm)
- Natural Resource, Agriculture, and Engineering Service (NRAES). *Produce Handling for Direct Marketing*. Publication Number NRAES-51. Ithaca, N.Y.: Cornell University Cooperative Extension. Available for sale online: <http://www.nraes.org/publications/nraes51.html>



## Helpful Resources

Karen Mundy, Department of Agricultural and Applied Economics, Virginia Tech  
Gary Bullen, Department of Agricultural and Resource Economics, N.C. State University

NC STATE UNIVERSITY



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 published by Utah Extension. This bulletin provides practical advice on selling through farmers' markets, roadside stands and pick-your-own operations. Business planning, market research, advertising, promotion and pricing are also discussed. <http://www.utextension.utk.edu/publications/pbfiles/PB1711.pdf>

The ATTRA *Direct Marketing Business Management Series* Web site 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://learningstore.uwex.edu/pdf/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 Web site 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, 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

## Helpful Resources

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](http://www.uky.edu/Agriculture/AgriculturalEconomics/pubs/ext_aec/ext2000-13.pdf)

*Direct Answers for Direct Marketing*, by Gary Bullen in the Department of Agricultural and Resource Economics at N.C. State University, is a handbook that helps you answer the questions that most direct marketing manuals say you need to answer. Currently available from the author, email [gsbullen@ncsu.edu](mailto:gsbullen@ncsu.edu)

## 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 Web site 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 Web site. <http://agmarketing.extension.psu.edu/Retail/howdrctmrktoninternet.html>

*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*, a Pacific Northwest Extension publication, 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://extension.oregonstate.edu/catalog/html/ec/ec1529/>

*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 Web site for price and ordering information. <http://www.nafdma.com/Publications/Edge/>

*Farmers and Their Diversified Horticultural Marketing Strategies: An Educational Video on Innovative Marketing*, published by the Natural Resources, Agriculture, and Engineering Service of Cooperative Extension in New York (NRAES-139, \$15.00 plus shipping, handling, and 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>

## Resources on Best Business Practices

*In the Eyes of the Law: Legal Issues Associated with Direct Farm Marketing*, published by University of Minnesota Extension, 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. Call (612) 624-4947 or email [tourism@umn.edu](mailto:tourism@umn.edu) to order this publication (\$59 plus shipping and handling).

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*Facilities for Roadside Markets*, published by the NRAES of Cooperative Extension in New York, 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*, another NRAES publication, 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*, an NRAES publication, 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>

*Farmer's Market Marketing and Business Guide*, published by ATTRA, 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>

## Government Resources

The USDA Agricultural Marketing Service homepage provides links to relevant information pertaining to, among other things, direct marketing and farmers markets. The USDA's Web site can be daunting, so try using one of the links below to get to a specific publication or section rather than searching from the USDA Web site.

<http://www.ams.usda.gov>

Farmer Direct Marketing, developed as an extension to the USDA Ag Marketing Services Web site, 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 (CSA) by the Cooperative State Research, Education, and Extension Service (CSREES), National Agricultural Library (NAL), and the USDA is a Web site 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 Web site provided by the IRS, is a good source of information for tax rules and regulations. The Small Business/Self-Employed Web site, 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>



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### Association Resources

American Community Garden Association (ACGA) 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/learn/resources/publications.php>

North American Farmers' Direct Marketing Association (NAFDMA) Web site 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 Web site has links explaining the benefits of membership, the purpose of the association, conferences, membership application form, and contact information. <http://www.nafdma.com>

[Pickyourown.org](http://Pickyourown.org) and [Localharvest.org](http://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 and other topics.

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>

### Demographic Information Sources

A Guide to Sources of Information is published by the Library of Congress, Business Reference Services. <http://www.loc.gov/rr/business/marketing/>

*Advertising Age* magazine, published by Crain Publishing in Louisville, Kentucky, provides an online database related to advertising. <http://adage.com/datacenter/>

The U.S. Census Bureau provides several demographic information sites, including Quick Facts and American Fact Finder. [www.census.gov](http://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, many of which are provided by visitors to the site. The accuracy of visitor-provided content cannot be verified, but it can be used to get a rough idea of demographic information for a particular location. [www.easidemographics.com/cgi-bin/login\\_free.asp](http://www.easidemographics.com/cgi-bin/login_free.asp)

Development Alliance provides demographic data on religious affiliation –by state location that is gathered from various government and organizational sources. [www.adherents.com](http://www.adherents.com)

Demographics USA, published by Trade Dimensions in Westport, Connecticut, provides marketing guidance for retailers. The site includes PDF profiles that can be downloaded. [www.tradedimensions.com](http://www.tradedimensions.com), click on Demographics USA.

USADATA provides of sales leads and mailing lists for a fee. <http://www.usadata.com>

Trade associations collect information on their members or the customer groups their members are interested in. This information generally includes lifestyle information. Contact a trade association that represents an industry of interest for more information.

Universities collect and publish applied research that includes lifestyle information. Visit a university Web site in your state and search for “market demographics” to get started.

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Electronic and print media collect information on their subscribers, including lifestyle information. Contact the publisher to ask about the possibility of advertising with them and request a subscriber profile.

### Sources of Lifestyle Information

Claritas Solutions, part of The Nielson Company, provides targeted consumer information. Some information is free, and detailed reports require payment. Lifestyle profiles by zip code are available via the Claritas market segmentation page: <http://www.claritas.com/MyBestSegments/Default.jsp> Advertising Age magazine, published by Crain Publishing in Louisville, Kentucky, provides an online database related to advertising. <http://adage.com/datacenter/>

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 association that represents an industry of interest and inquire about lifestyle information.

Universities collect and publish applied research that includes lifestyle information. To get started, visit Web sites of universities in your state and search for “lifestyle research.”

Electronic and print media collect information on their subscribers, including lifestyle information. Contact publishers to ask about the possibility of advertising with them and request a subscriber profile.

### Sources of Geographic Market Area Information

#### Geographic Information

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The U.S. Census Bureau provides geographic information on consumers, including Quick Facts and American Fact Finder. [www.census.gov](http://www.census.gov).

QuickFacts. <http://quickfacts.census.gov/qfd/index.html>

American FactFinder.- <http://factfinder.census.gov>

Demographics USA, published by Trade Dimensions in Westport, Connecticut, provides marketing guidance for retailers. [www.tradedimensions.com](http://www.tradedimensions.com), click on Demographics USA.

USADATA provides sales leads and mailing lists for a fee. <http://www.usadata.com> Advertising Age magazine, published by Crain Publishing in Louisville, Kentucky, provides an online database related to advertising. <http://adage.com/datacenter/>

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Development Alliance provides demographic data on religious affiliation –by state location that is gathered from various government and organizational sources. [www.adherents.com](http://www.adherents.com)

#### Ring Information

The Right Site offers numerous free demographic profiles, many of which are based on content provided by visitors to the site. The accuracy of visitor-provided content cannot be verified, but it can be used to get a rough idea of demographic information for a particular location. [www.easidemographics.com/cgi-bin/login\\_free.asp](http://www.easidemographics.com/cgi-bin/login_free.asp)

TerraFLy, affiliated with the School of Computer Science at Florida International University, provides data reports for geographic zones and ring study reports. [www.terrafly.com/TP/reports.html](http://www.terrafly.com/TP/reports.html)

ESRI, a developer of GIS and mapping software offers ring study analysis for a fee: <http://www.esri.com/software/busmap/about/ringstudy.html>

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### Drive Time Analysis

Spatial Insights, a geographic information service that provides information for a fee, offers two different drive time analysis products. <http://www.spatialinsights.com/catalog/product.aspx?product=37>

Empower Geographics in Des Plaines, Illinois, sells products and services that analyze drive times. [www.empower.com/pages/services\\_drive.htm](http://www.empower.com/pages/services_drive.htm)

ESRI, a developer of GIS and mapping software offers drive time analysis for a fee: <http://www.esri.com/software/busmap/about/ringstudy.html>

### Sources of Consumer Spending Information

The U.S. Bureau of Labor Statistics collects data on consumer expenditures, income, and family units via a Consumer Expenditure Survey. The latest data are from the 2006 survey. [www.bls.gov/cex/](http://www.bls.gov/cex/)

The Bureau of Economic Analysis within the U.S. Department of Commerce provides national, regional, and local data on personal income and outlays. [www.bea.gov](http://www.bea.gov)

The U.S. Census Bureau's Survey of Income and Program Participation (SIPP) provides income and asset information on consumers. [www.sipp.census.gov/sipp/sipphome.htm](http://www.sipp.census.gov/sipp/sipphome.htm)

The American Customer Satisfaction Index, produced by the Stephen M. Ross School of Business at the University of Michigan, provides customer satisfaction data on goods and services from major companies in particular industries. [www.theacsi.org](http://www.theacsi.org)

Surveys of Consumers contains archive and historical data from the Reuters and University of Michigan Surveys of Consumers. Public access is available. [www.sca.isr.umich.edu](http://www.sca.isr.umich.edu)

For the most recent data, visit [www.reuters.com/universitymichigan](http://www.reuters.com/universitymichigan).

Demographics USA, published by Trade Dimensions in Westport, Connecticut, provides marketing guidance for retailers. [www.tradedimensions.com](http://www.tradedimensions.com), click on Demographics USA.

USADATA provides consumer data for a fee. <http://www.usadata.com>

The USDA Economic Research Service provides food consumption data sets. <http://www.ers.usda.gov/Data/FoodConsumption/Links.htm>

The USDA Agricultural Research Service provides food consumption data that focuses on what we eat in America. [www.ars.usda.gov/is/pr/2004/040923.htm](http://www.ars.usda.gov/is/pr/2004/040923.htm).

### Sources of Competitor Information

Sites USA in Chandler, Arizona, helps clients with site selection decisions for a fee. <http://www2.sitesusa.com/data/merchantwizard/>

Superpages allows a ring search for competitors. [www.superpages.com](http://www.superpages.com)

Yahoo directory provides business phone numbers and addresses. <http://dir.yahoo.com/Reference/>, select phone numbers and addresses.

WhitePages, an online search site, can be used to determine competitors in a market. [www.Whitepages.com](http://www.Whitepages.com)

Yellowpages.com LLC is an online search site affiliated with AT&T Inc. that can be used to determine competitors in a market. [www.yellowpages.com](http://www.yellowpages.com)

Trade associations

Trade shows

Chambers of Commerce and their Web sites

Magazines and journals targeting a specific industry

Web sites

Advertising

Fliers

Visiting the business