

# Module Four

## Managing Market Risk





**MANAGING MARKET RISK****LEARNING OBJECTIVES**

Given a discussion of marketing risks associated small farms in California, you will be able:

to use the Risk Assessment ant Strategy Worksheet to select those strategies and tools most appropriate for their individual operations

Given a discussion of the benefits and drawbacks of market contracts, you will:

understand where to get assistance in determining if a market contract is apporproate for them.

Given an explanation of channel diversification strategy, you will

begin a list of appropriate marketing channels for their own operation

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## MANAGING MARKETING RISK

Classic market risks for agricultural products have been based on the inability of a producer to control price when selling into a commodified marketplace. The management tools developed for those risks have been largely around locking in a price through contracts or using hedging vehicles to cushion price swings. For small producers the risks are different.

Statistically, small producers grow animals and specialty crops to a much greater extent than large producers. For these products, access to markets that allow for recovery of the larger costs of production incurred by small producers based on their inability to use economies of scale is arguably the largest market risk.

Managing this risk requires knowing what market segments you can access and what the requirements of that segment are BEFORE you produce is key. Developing a channel strategy to access diversified markets lowers the risk of losing access to one market or having product languish unsold.

As producers grow in scale, understanding contracts to lock in price for that higher volume is an excellent tool.

Collective action by smaller producers such as co-branding and forming cooperatives may create a critical mass of product that allows for market access.



## THE NEW DYNAMICS OF BUYING AND SELLING<sup>1</sup>

**It's change and opportunity, not  
doom and gloom.**

**BY GERALDINE WARNER**

The last couple of years have been a period of tremendous change in the produce industry, but also a period of great opportunity, according to Bryan Silbermann, Produce Marketing Association (PMA) president.

Silbermann was in Yakima, Washington, this spring to share results of research done at Cornell University's Food Management Program, New York, on the new dynamics of buying and selling.

"It's not doom and gloom," Silbermann said. "It's changes you can take advantage of."

However, not all the players in the industry will benefit equally from the opportunities, he warned, and producers need to develop strategic plans that take the changes into account.

One of the positive trends in retailing is that produce departments are growing faster than the rest of the grocery store in terms of space, sales, and the number of items (referred to as stockkeeping units, or SKUs). And that's because produce generates higher profits than most other departments, Silbermann said.

"Produce is the one department showing tremendous growth. The news is good. Retailers are saying, 'We're going to depend more and more on produce, and give it more space, and have more items.'"

In contrast, meat sales have declined dramatically. Dairy and grocery business is also down.

For smaller retailers, produce accounts for more than 20 percent of their total sales, and it is expected to increase to 24 percent by 2004. Overall, 11 percent of retail sales come from

produce. That figure should rise to 15 percent within four years.

Between 1960 and 1990, the average number of items sold in the produce department increased steadily from 200 to 275, but then rose dramatically. The average store now stocks almost 600 produce items, and the amount of space devoted to each item has declined slightly.

The consolidation trend continues. In 1994, the top eight retail chains took almost 30 percent of total supermarket business. By 1999, they were doing 60 percent of the total business. The latest trend is the merging of large retail chains with food service companies.

Although there are fewer retail firms than in the past, there are more buyers and category managers per firm than ever before, particularly in regional and field offices.

Retail produce buyers usually work strictly on the supply side, handling negotiations, procurement, and logistics, and are increasingly sourcing produce from around the world.

They have nothing to do with the demand side. "The people you're dealing with are great buyers," Silbermann said, "but they don't understand merchandising and consumers."

Just because the trend is for retailers to get larger, it doesn't mean that buying is done the same way by all the various retailers, he pointed out. Direct buying continues to increase, but there are still many retailers—particularly the smaller ones—who like to buy from wholesalers. Brokers are surviving by providing more services to their retail customers.

People questioned in the survey expect half of all fresh produce will be bought directly from shippers by 2004, up from 43 percent in 1999.

Retailers seem less interested in playing the market than they used to be, and are doing more business with fewer suppliers. This is reflected in the fact that the top 20 shippers of Washington apples supply almost 60 percent of the state's total apple sales.

### **Available year-round**

Although year-round availability of product does not rank at the top of buyers' needs, it is becoming increasingly important to many, as they look for ways to make their life easier. However, this is not the strategy of all retailers. Costco jumps in and out of different items and couldn't care less about year-round supply, Silbermann noted, whereas other chains like to tantalize their customers with absolutely everything that's available.

There are mixed signals about contracts. In 1994, retailers did little buying on contract, and that was mainly with banana suppliers. Now, almost half the retailers buy a significant proportion of their produce under contract. That's expected to increase to 86 percent of retailers by 2004, although Silbermann said that figure could reflect some wishful thinking on the part of respondents.

There is increasing use of technology, by retailers of all sizes. In many cases, the larger chains are having the greatest difficulty with new technology because of having merged multiple companies.

Use of new technology by growers and shippers lags behind that of retailers, Silbermann said, and those who are experimenting and working with retailers are developing a competitive edge.

Fear of Y2K glitches made retailers hesitant to fully computerize their transactions in the 1990s, but by 2004, most retailers will prefer suppliers who use Electronic Data Interchange (EDI), and 40 percent will want case coding, Silbermann reported.

### **Bottom line**

The response of growers and shippers to the changes in buying practices must be strategic, he emphasized. "You can't tinker around the edges and make small modifications in how you're doing business."

The response of shippers has been to:

- " expand horizontally by offering more products
- " integrate vertically
- " develop new products
- " launch programs to expand demand
- " adopt new technology to cut costs
- " develop new distribution systems.

While retailers are wanting to sell more produce, there are more people competing for that business, Silbermann warned.

"More sophisticated management will be needed at the shipper level because you're not just marketing apples anymore. You're being asked to provide a whole bunch of different services and understand the needs of your customer."

He said suppliers must focus on value, not just volume. "Just selling what you grow is history."

Big retailers are getting larger, but Silbermann said suppliers should not forget the many other players in the business, such as the regional and independent retailers.

"Things are changing dramatically. You have to act now because in the long run, being a spectator only guarantees that you'll watch the game from the sidelines. If you want to be a player, you have to be on the field."

For a copy of the FreshTrack '99 report, contact the PMA at (302) 738-7100 or check on the Internet at <[www.pma.com/prodserv/ft99newdynamics.html](http://www.pma.com/prodserv/ft99newdynamics.html)>.



## BUILDING YOUR BRAND<sup>2</sup>

By Nancy Giddens and Amanda Hofmann

Value added products need a distinct identity - they need a brand. This article is the first of a five-part series and will examine what branding is, why it is important, and the necessary steps to brand your new product. Next month, we will discuss flanker branding.

### What is Branding?

Branding is one of the most important factors influencing an item's success or failure in today's marketplace. A brand is the combination of name, words, symbols or design that identifies the product and its company and differentiates it from competition.

Businesses use branding to market a new product, protect market position, broaden product offerings, and enter a new product category. Four types of branding are:

**New Product Branding:** creating a new name for a new product in a category completely new to the company. Example: A Taste of the Kingdom jellies.

**Flanker Branding:** protect market position by marketing another brand in a category in which the firm already has a presence. Example: **HORMEL®** chili and its flanker brand, **STAGG®** chili. **Brand Line Extension:** use of the company's brand name in the firm's present product category. Example: PepsiCo's Pepsi and Diet Pepsi. **Brand Leveraging (Franchise Extension):** use of the existing brand name to enter a new product category is called leveraging. Example: Mr. Coffee (a coffee maker) and Mr. Coffee coffee.

### Why is it Important to Develop a Brand for Your Product?

A brand offers instant product recognition and identification. Consumers identify branded products and, as a result of effective advertising, have confidence in product quality. Retailers like branded products because they make the store

profitable - shoppers attracted to branded products spend three to four times more on groceries than do private-label shoppers.

### Branding is beneficial for four reasons:

*Differentiation:* A brand provides a clear and definitive reason for customers to buy your product. If this reason does not exist, your product is a commodity and the only measure of value is price. Small, value added businesses cannot compete on price successfully and need to incorporate some form of differentiation.

*Conveys value:* Consumers perceive brand-name products as higher quality, more reliable and a better value than non-branded products. Generally speaking, the number-one brand in a category can command a 10% price premium over the number-two brand, and a 40% premium over the store brand. This price premium is known as a brand tax. Consumers understand that a strong brand can reduce getting stuck with disappointing or faulty products.

*Builds Brand Loyalty:* Brand loyalty is the recurring stream of profit generated by repeat and referral sales of a specific brand. Repeat sales can be as much as 90% less expensive to a company than new customer development.

*Builds Pride:* Branded, recognizable products invoke a sense of pride in those associated with production, promotion, sale and distribution of those products.

### What is the Process of Branding a Product?

A brand must be clear, specific, and unique to your product. For example, the Wheaties brand differentiates the cereal from its competition due to its association with health and "sports excellence." To achieve the same successes with your products, you need to execute four main steps to establish an effective brand:

1. Choose an appropriate name that is easily remembered and specific to the product. The name should be restricted to three words or less - anything longer is difficult for customers to recall. This process may require legal screening to guarantee availability of the name and customer input to assess attractiveness and appropriateness of the name.
2. Develop a slogan. The selected slogan needs to be two to three words, catchy, and easily remembered. To generate slogan ideas, you must stay focused on the buyer. Why should they buy the product? What will they like about the brand? How does competition compare? The slogan should take into account answers to these questions.
3. Create an appropriate symbol or logo. It can be as simple as a geometric shape or as elaborate as a silhouette of a person or object.
4. Use the name, slogan and symbol on every piece of correspondence related to the product - e-mails, invoices, letterhead, business cards, advertisements and promotions, etc. This system will eliminate inefficiencies in creative and production fees and extend the branding process throughout everything you do. In a sense, it will prevent "recreating the wheel" with each new media effort.

### **What are the Challenges of Building a Brand?**

The greatest challenge faced when developing and building a brand is creating just the right name, slogan and symbol for the product. It will take a great deal of time and consideration! A thorough thought process and feedback from others will help to get past this obstacle.

It is often difficult to achieve initial customer recognition of a new product, regardless of branding. However, branded items are more recognizable and memorable. Effective

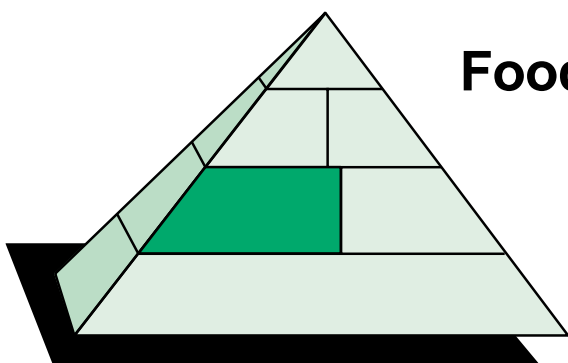
advertising before and after the sale is key to overcoming this obstacle. Advertising and promotion before the sale are essential to obtain first purchases and follow-up advertisements after the sale will promote customer satisfaction and repeat purchases.

Repeat purchases are one of the primary objectives in brand development. Repeat purchases are critical to your businesses long-term success and contribute to brand loyalty, which will be discussed in the final article of this series.

### **(Endnotes)**

<sup>1</sup> Good Fruit Grower December 27, 2000.

<sup>2</sup> From the Missouri Value Added Development Center (MOVADC), a program of University Outreach and Extension. , e-mail ValAdAg@missouri.edu <http://valueadded.missouri.edu/vantage/index.asp>, Volume 2, Number 4 Article 2 of 6 November 2001



# Food and Agriculture: Consumer Trends and Opportunities

## Vegetables

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This publication describes the trends in consumption, nutrition, health, lifestyle, and marketing for the vegetable sector of the agricultural economy. This publication is part of a series that seeks to integrate the consumer aspects of food and agriculture in an effort to help Kentucky vegetable farmers. Each publication is organized around the USDA's Food Guide Pyramid. The series is designed to bridge gaps in understanding about the economics of food consumption, health and lifestyle trends, and food production and to provide a resource for food marketing efforts. The following information should be helpful for farmers wanting to better understand consumers and their consumption patterns. Consumers may gain a better understanding of the nutritional implications of their diet.

### Vegetable Consumption Trends

Which vegetable products do consumers purchase? Figure 1 shows the trends in domestic per capita consumption (in pounds) for fresh, canned, and frozen vegetable products from 1970 to 1995. These data are based on the disappearance<sup>1</sup> of the vegetable supply, rather than actual vegetable consumption. Generally, disappearance data overestimate consumption. However, by keeping track of disappearance trends over time, researchers can determine relative changes in vegetable products consumed.

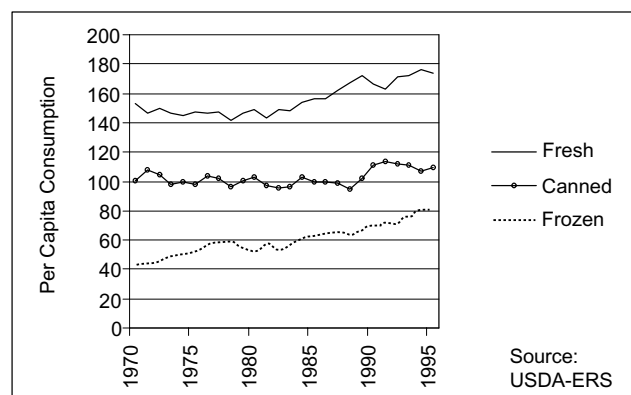
Fresh vegetables were the primary source of vegetable consumption during the last quarter century. Although there were periods in which consumption fell temporarily, the overall increase was 13 percent, from 152.9 pounds in 1970 to 173.5 pounds in 1995. Canned vegetable consumption largely remained flat throughout the period, but recently ticked upward from 1990 to 1995. Overall, canned vegetable consumption increased 9 percent from 100.7 pounds in 1970 to 109.8 pounds in 1995. Frozen vegetable consumption, however, grew by 87 percent during the last 25 years from 43.7 pounds in 1970 to 81.8 pounds in 1995. Changes in relative prices, income, preferences, and advertising have largely shaped these trends.

Staples such as cabbage, celery, sweet corn, head lettuce, onions, potatoes, and tomatoes make up

roughly three-quarters of per capita consumption of fresh vegetables. With the exception of potatoes and tomatoes, the demand for staple fresh vegetables has been roughly flat from 1970 to 1995.

Figure 2 highlights four fresh vegetables that have realized rapid gains in per capita consumption.

**Figure 1. Per Capita Vegetable Consumption (Pounds), Disappearance Data: 1970-1995**



<sup>1</sup> This term, as defined by the USDA-ERS, means beginning food stocks, production, and imports minus exports, shipments to the U.S. territories, and ending stocks. So it is a reasonable proxy for consumption, given that data for consumption is not collected overall.

Broccoli consumption increased 540 percent from 0.5 to 3.2 pounds, while bell pepper consumption increased 164 percent from 2.2 to 5.8 pounds from 1970 to 1995. Carrot consumption rose 68 percent from 6.0 to 10.1 pounds during the same period. After a 12-year plateau from 1970 to 1981, tomato consumption edged upward 37 percent, ending 1995 at 16.6 pounds.

**Figure 2. Per Capita Consumption (Pounds), Disappearance Data: 1970-1995**

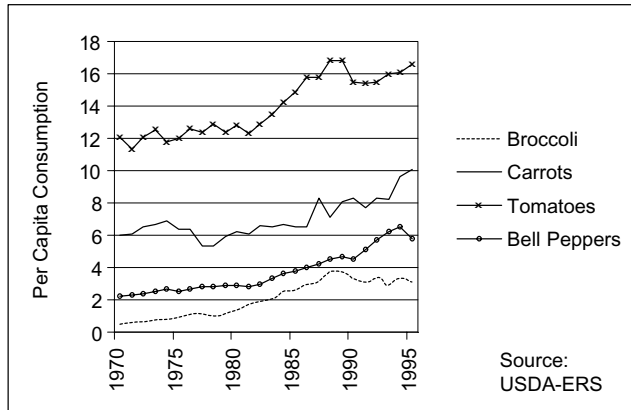
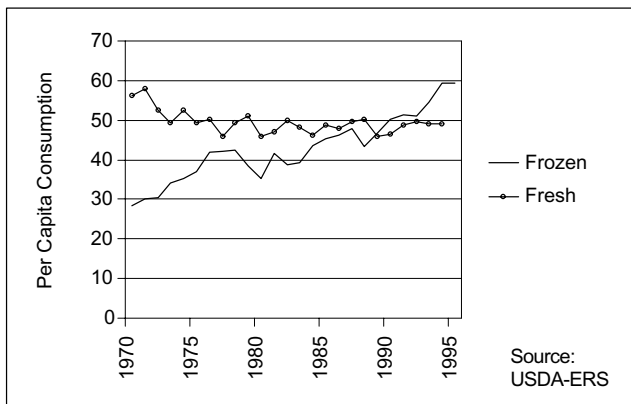


Figure 3 shows a gradual decline in fresh potato consumption. The potato is preferred by consumers today in frozen forms such as shoestring fries rather than fresh. Juxtaposing the results with those in Figure 1, we notice that fresh potato consumption has rapidly shrunk as a percent of total fresh vegetable consumption. In 1970, potatoes comprised 40 percent of all fresh vegetables consumed. In 1995, that figure was only 28 percent. However, per capita frozen vegetable consumption increased 108 percent from 28.5 to 59.3 pounds in the last 25 years.

**Figure 3. Per Capita Potato Consumption (Pounds), Disappearance Data: 1970-1995**



## Vegetable Consumption Is Increasing

Health, taste, and convenience are the factors driving the increased consumption of vegetables, in particular more fresh and frozen vegetables. Consumers are eating more nutrient-dense vegetables, such as broccoli, bell peppers, carrots, and tomatoes. New convenience packaging has made consuming vegetables easier. Pre-packaged, peeled, baby carrots, mixed dark greens, and broccoli florets are bagged in small portions. These products are ready-to-eat or ready to add to fast, one-dish meals such as salads, stir-fry dishes, or casseroles. Tomatoes have become popular again as an ingredient in many tomato-based ethnic foods. Many new exotic produce items, such as specialty lettuces and peppers, have been introduced or expanded in the last decade. Romaine and dark green leaf lettuces are gaining popularity over iceberg lettuce. These trends reflect consumers' changing demand for vegetables.

Although a greater number of Americans are eating more food away from home and are consuming more processed foods, there are opposing trends as well. Gardening as a hobby is one of Americans' favorite pastimes. Cooking for pleasure and health is also ranked high. Market research studies have identified changes in consumer attitudes toward environmental issues regarding food production and safety. Consumers are seeking more information from food labeling to guide their food choices.

Consumers also have a greater number of market venues for purchasing fresh produce. The number of health food, gourmet, and ethnic food stores is rising. Markets that sell directly to consumers are growing. The number of farmers' markets has risen nationally and in Kentucky. Many retail and large supermarket stores are offering greater sales of environmentally friendly products and locally grown produce. Internet sites are now available to consumers to purchase vegetable produce and other products.

## Diversity in Vegetable Marketing

Kentucky farmers sold more than \$31 million in commercial vegetable produce in 1996. Many farmers are identifying ways to increase the sale of their produce and to promote the attributes of health and freshness of their farm produce. Several new direct marketing mechanisms have been developed or expanded such as produce auction markets, buying clubs, community farmers' markets, wholesale distribution centers, and marketing cooperatives. The Kentucky Department of Agriculture offers labeling designated for fresh produce grown in Kentucky and provides an

organic certification program for farmers wishing to promote their vegetables as organically grown. The Kentucky Farm Bureau Federation has a statewide advertising and promotion program for roadside markets.

Kentucky farmers have had profitable enterprises in tomatoes, pumpkins, cabbage, peppers, and sweet corn, and interest in vegetable production in Kentucky will likely continue to increase. As the market and production segments continue to consolidate, many farmers may form partnerships or expand their operation to compete in the wholesale markets. Others may look for opportunities in the local direct sales of produce. While direct marketing can be a way for farmers to keep a larger share of their profit, it may also limit the growth potential in their operation.

Consumers can benefit from the greater selection of fresh produce both at retail and direct market outlets, such as farmers' markets. Typically, these markets have six to ten farmer members who sell produce. Members typically pay a fee to cover insurance and advertising costs. Consumers approach individual growers to purchase a variety of produce ranging from corn to cantaloupe. Produce is sold by weight or by the count. Many farmers' markets accept WIC food vouchers from limited-income families. Some markets have special events with activities that promote farm produce, and some offer fresh produce and value-added products such as homemade breads and jams and jellies.

Buying clubs are one of several new marketing mechanisms for selling fresh produce directly to consumers. (CSA channels are a similar kind of mechanism.) The Organic Kentucky Producers' Association in the Danville and greater Lexington area offers two buying plans, both of which include a non-refundable \$25 member fee and a small delivery charge. The difference between the two plans is the amount of produce delivered. A variety of produce is offered during the 24-week season. For example, a typical spring box includes turnips, beets, cabbage, potatoes, spinach, strawberries, leaf lettuce mixes, radishes, broccoli, peas, and tomatoes. Weather conditions may affect the availability of some of the produce. The advantages of the buying club approach is that consumers help share the production costs with the farmer in return for a steady supply of fresh produce during the season. Home delivery can be convenient for time-conscious consumers, and the buying club approach gives farmers a pre-determined, consistent market and customer base. Several CSAs and buying clubs sell both organic and nonorganic produce.

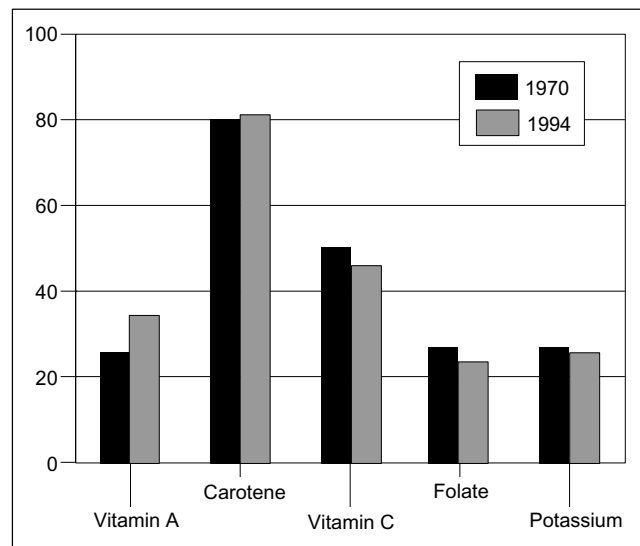
## Vegetable Nutrition and Health

Because fruits and vegetables supply many similar nutrients, their consumption is often tracked as a composite. From 1970 to 1995, consumption of fruits and vegetables has increased 22 percent per capita (Putnam and Allshouse, 1997). Eighty percent of this increase has occurred since 1982 (Figure 1), when the National Academy of Sciences (NRC, 1982) published a landmark report *Diet, Nutrition, and Cancer*, which emphasized the importance of fruits, vegetables, and whole grains to promote health and reduce risk of cancer.

Vegetables, unless fried, are relatively low in calories while supplying many needed nutrients. Throughout the world, vegetables provide less than 5 percent of total energy (AICR, 1997). This is true in the United States, where vegetables have contributed approximately 5 percent of calories throughout the 25-year period from 1970 to 1995. Despite their small contribution to calories, vegetables consistently provide significant amounts of important nutrients to the U.S. food supply, as shown in Figure 4. As a plant-based food, vegetables are a source of "phytochemicals" (chemicals from plants), antioxidants, minerals, and dietary fiber to help decrease disease risk.

While increased vegetable consumption is generally consistent with dietary recommendations for good health, this does not hold true for the current trend in potato consumption. Frozen potatoes, potato chips, and shoestrings accounted for more than 10 percent of total supplies (farm-weight basis). These higher-fat versions of potatoes are a popular fast-food and

**Figure 4. Percent of Total Nutrients Provided by Vegetables in the U.S. Food Supply, 1970 and 1994**



snack choice. However, another food trend, increased consumption of ethnic foods and the associated increase in canned tomato products, may be good for health. Tomato products are rich in nutrients. Americans are also choosing dark green, carotene-rich lettuces, such as romaine and leaf lettuce, over the less nutrient-dense iceberg variety.

The health message about fruits and vegetables is the basis for the "5-A-Day" program which promotes eating at least five servings per day of fruits and vegetables (National Cancer Institute, 1997). In Kentucky, only 17 percent of adults eat the recommended 5-A-Day servings of fruits and vegetables (Kentucky Department for Public Health, 1997). In the U.S., self-reported intake of vegetables averaged 3 1/3 servings per day during 1994-96 (USDA, 1997). However, consumer awareness of the 5-A-Day recommendation increased from 8 percent in 1991 to 39 percent in 1997 (Produce for Better Health Foundation, 1999). As Americans become more aware of the health benefits of vegetables, producers and processors will have opportunities to supply these nutritious, colorful foods to informed consumers.

## What You Can Do

The food choices we make within our food and agricultural system impact our local, state, and national economy, the environment, and the well-being of our communities, as well as our own personal health. Here are some practical things you can do:

### As a Consumer

Learn more about your community food system and the origins of your food purchases. Determine if your neighborhood food stores and restaurants use and sell Kentucky produce. Join a vegetable buying club or frequent a farmers' market for fresh, locally grown produce. Read food labels for health and nutrition information.

### As a Community Leader

Establish a local farmers' market. Work with your local Cooperative Extension Service office or chamber of commerce to promote local agricultural educational and economic development activities.

### As a Farmer

Learn about your customers' needs and wants. Educate consumers about farming and the farm produce you market. Join community organizations that foster interest and support in farming. Learn more about the costs and benefits of value-added agricultural opportunities.

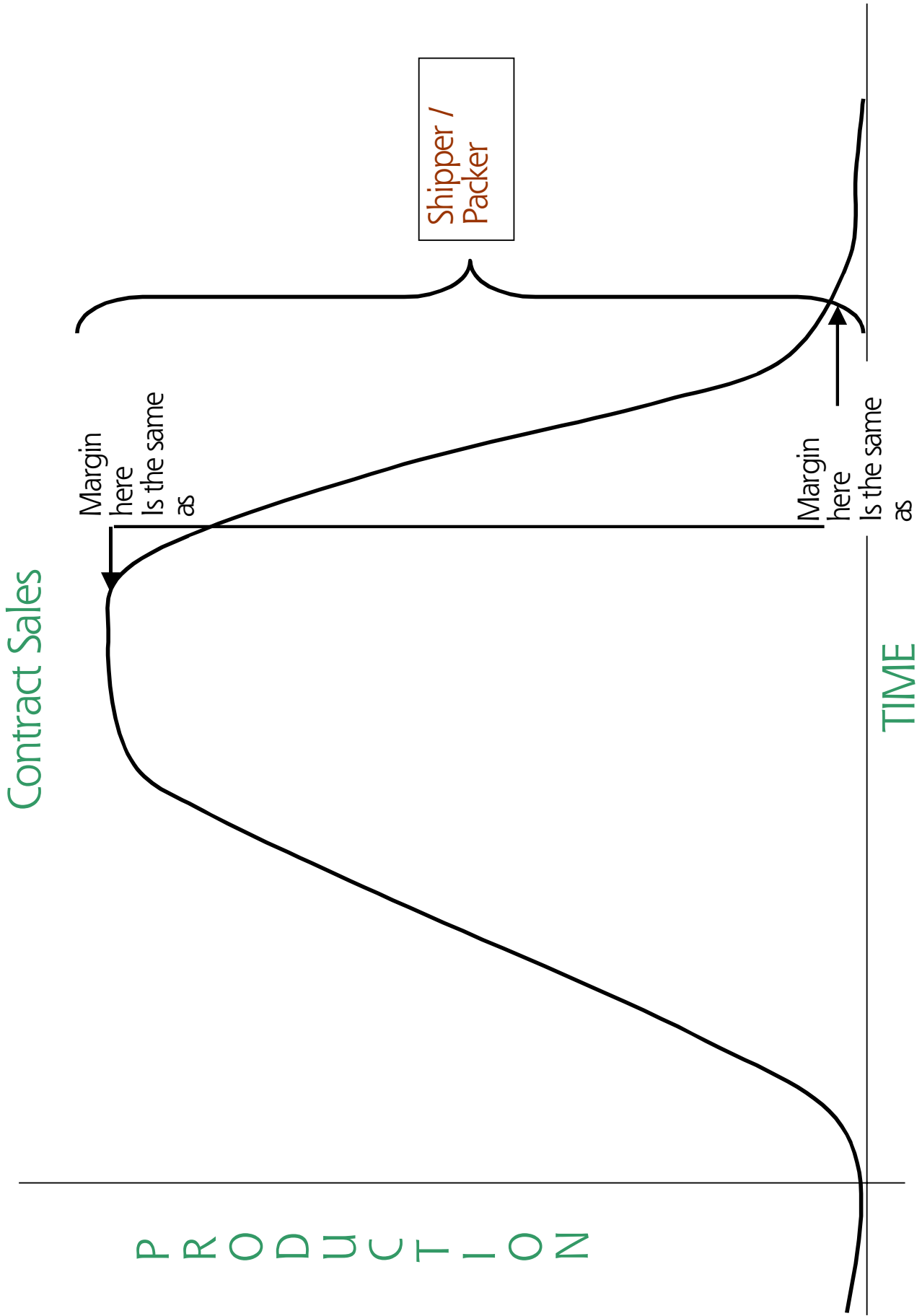
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Additional Extension publications are available in the *Food and Agriculture: Consumer Trends and Opportunities* series. Ask your county Extension office for these publications

No special endorsement of the companies named in this publication is implied.







# VEGETABLE PRODUCTION CONTRACTS<sup>1</sup>

## CHECK LIST OF IMPORTANT CONSIDERATIONS

### General understanding of the contract:

1. What is the overall compensation being offered and what are the charges assessed?
2. What is the gross compensation on typical production of 3.0 tons of beans, 7.5 tons of sweet corn, or 1.5 tons of peas?
3. After you subtract all possible charges, such as seed costs, Integrated Pest Management, crop insurance, pool contribution, pesticide fees, service charges, etc., does the contract still look profitable?
4. What does each line of the contract require? Each line has a monetary value.
5. Assuming the worst possible scenario, how does the contract compare with worst possible scenarios for corn, soybeans, and wheat production on the intended acreage?
6. If the contract is a sale, am I protected under a state produce dealers' law or under PACA?
7. Does my state regulate vegetable production contracts or protect producer bargaining associations?
8. Who determines the quality of the crop I deliver, and can I appeal any determinations that reduce its value under the contract?
9. Will I have to alter any of my normal production practices to produce a crop for human consumption?
10. Who determines which chemicals I can use on the crop and when I can use them?
11. If the company refuses to take my crop or releases it, what can I do with it? Are there alternative local markets?

### Seed charges:

1. How are they determined? For example: dollars/acre, pound, no charge + \$/lb. in excess, \$/acre + \$/lb. in excess + \$/lb. of production. This will be the biggest charge in the contract.
2. What is the recommended seeding rate from the company and from the seed dealer?
3. Does the company warranty the seed?
4. How is the seed refunded, by \$/acre or \$/lb.?
5. Check for planting date so as not to lead into frost threat. Compensation for frost damage is generally much less.
6. When are cost deductions made? Some companies deduct all costs from the first crop payment.

### Disease and insect control:

1. Who has the responsibility to treat the crop for pests, the grower or processor?
2. What is the cost if the grower treats the field or if the processor treats the field?
3. Regardless of who treats the field, do you assume all responsibility?
4. Does the company compensate less for insect damaged crop? If so, how much?

### Harvesting:

1. Who is responsible for harvesting? The company may endeavor to harvest but may not guarantee that it will harvest the crop.
2. Does the company have a right to decline to harvest and not compensate for a crop due to unsuitable quality? What if it has not been the growers' fault?

3. Does the company have sole judgment in deciding when to harvest? Premature harvest may become a problem. If harvest is at the convenience of the company, this may cause ruts, compaction, etc. Are you reimbursed?
4. Does the company charge for hauling or harvesting?

**Passed acres (non-harvested crop/ minimum return/crop adjustment fund):**

1. What is the maximum amount the grower contributes?
2. What is the maximum amount the processor can contribute?
3. What does the fund pay for: frost, unsuitable quality, minimum return, bunching, excessive yields, etc.?
4. What happens if the funds are insufficient? Proration back to those eligible for funds, proration back to all participants, no proration?
5. What are the deductions from minimum payment? Any other deductions under the non-harvested crop clauses?
6. Are there any alternatives to the fund, such as insurance? What does the insurance cover?
7. What constitutes abandoned acreage: unsuitable quality, wet at harvest, low yields, etc.? Is abandoned acreage paid for via minimum return or no compensation at all?
8. Who oversees the passed acreage pool?

**Bonuses and premiums:**

1. What needs to be done to achieve a bonus?
2. How is the bonus determined? A yield bonus is actual tonnage divided by contracted acreage. (Planting premiums may lead to frost or other perils.)
3. At what point and by whom are quality measurements made: on the truck, at the plant—loaded or unloaded?

**Mystery clauses:**

1. How is your acreage determination made? Is it a simple calculation of seed used divided by established seeding rate? Is acreage actually measured? (Different parts of the contract have different ways of determining acreage.)
2. What is the contract? Is it a rental/lease agreement? Are you an independent contractor?
3. Some charges are hidden under their respective parts of the contract. Charges for pesticides, harvesting, and planting are separate deductions from the passed acreage pool.
4. Are all charges subject to change each year? While compensation may remain stable or even decline, the charges may increase.
5. Check for a provision for a requirement of water (e.g. 1" per week).
6. What are the payment dates? Figure your time value of money. Bankers worry about these payment dates.

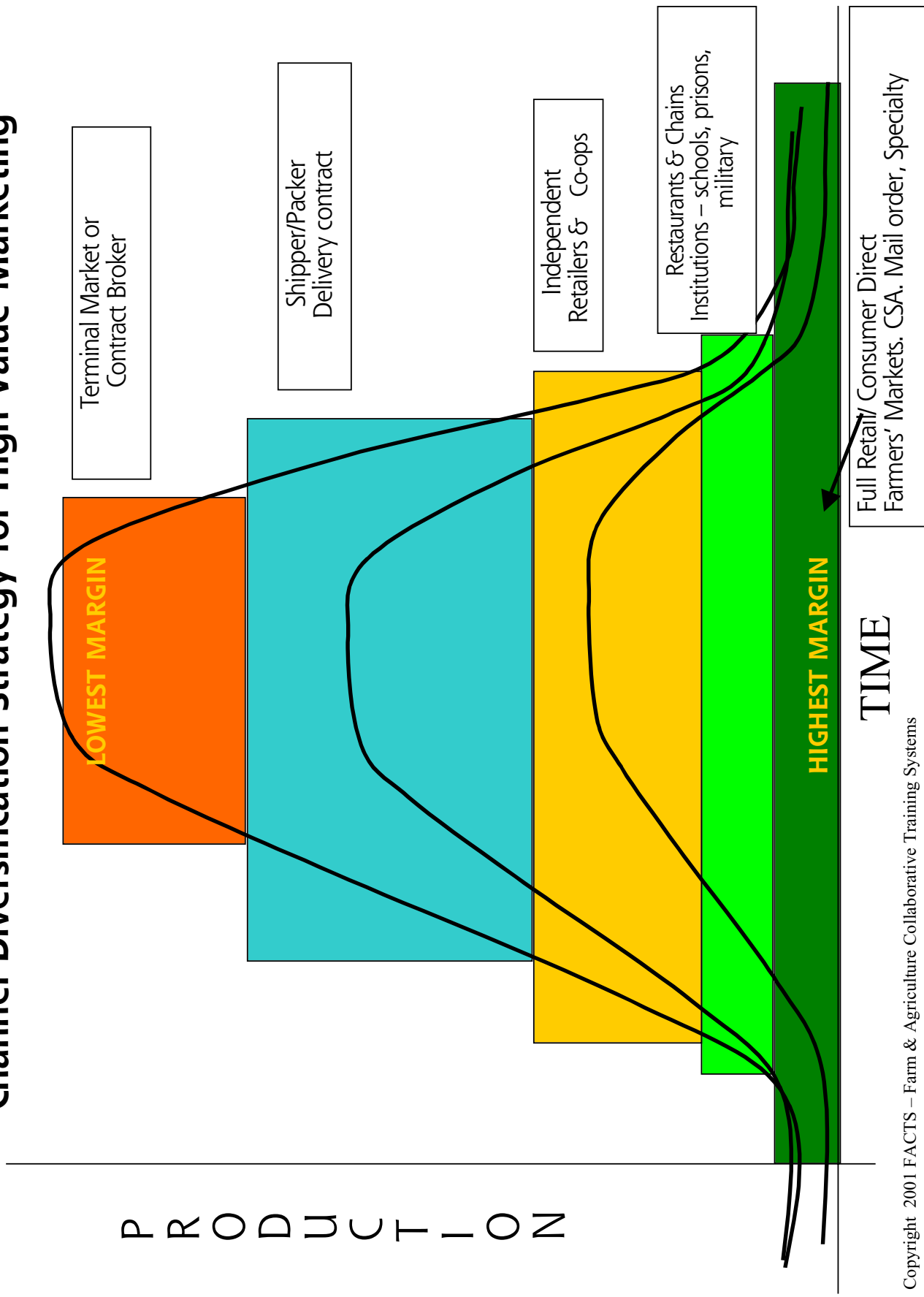
**GROWER RESPONSIBILITIES:**

1. Check into the financial strength of the company. How long has it been in business; what is its reputation in other areas? Best recommendations come from past growers.
2. You may have to harvest one day and plant second crop the next day.
3. How is the acreage treated by Farm Service Agency?
4. How does the contracted crop fit in with your rotation?
5. Will you be able to comply with your conservation compliance?
6. What are the machinery requirements and the length of time to pay them off?

7. The company fieldman greatly determines the value of your contract. He is generally your crop consultant.
8. What chemicals can or cannot be used? Are there any clauses prohibiting the use of sludge on the land?
9. Are there a certain number of days during which you can back out of the contract?
10. Contracts generally stay with the operator, not the land. Is this a problem?
11. Except in the case of seed corn and popcorn, when you sign a contract, you have probably marketed the crop.

Channel strategy involves identifying markets you can access, supplying the highest margin customers first, then moving to the next tier as your product supply increases. As your supply of product decreases, you will consciously disappoint your highest margin customers the least rather than supplying a little product to everyone. This allows you to optimize your return over time and supply.

# Channel Diversification Strategy for High Value Marketing





## RISK ASSESSMENT AND STRATEGY WORKSHEET

Risk Category	Specific Risk within Category	Tolerance for this Risk	
<b>Strategies Available to Manage Risk based on Tolerance</b>	<b>Tool(s)</b>	<b>Resource Contact</b>	<b>Annual Cost</b>
<b>Avoid</b>			
<b>Shift/Transfer</b>			
<b>Reduce</b>			
<b>Retain/Assume</b>			





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## RESOURCES

### WEB-BASED RESEARCH TOOLS

#### **USDA Agriculture Marketing Service (AMS)** <http://www.ams.usda.gov/marketnews.htm>

**Your Tax Dollars At Work** AMS provides current, unbiased price and sales information to assist in the orderly marketing and distribution of farm commodities. Reports include information on prices, volume, quality, condition, and other market data on farm products in specific markets and marketing areas. Reports cover both domestic and international markets. The data is disseminated within hours of collection via the Internet and made available through electronic means, in printed reports, by telephone recordings and through the news media.

The Market News Branch of the Fruit and Vegetable Programs collects information on the current supply, demand and prices on nearly 400 domestic and 70 international fruits, vegetables, nuts, ornamental and specialty crops. The data is collected during face-to-face interviews and telephone conversations with salespersons, brokers and buyers, and the information is analyzed and consolidated into fruit and vegetable market news reports that provide an unbiased view of market conditions. The market news service is important to industry members whose business is always affected by crop size, customer needs, and availability of transportation, weather and other economic factors. Fruit and Vegetable Market News reporters, employed jointly by USDA and State agencies, are stationed at prominent growing regions and wholesale markets throughout the United States. More than 400 different reports (issued daily, weekly, monthly or annually) are disseminated free to users by satellite, newspapers, radio, television, the Internet and E-mail. Mailed and faxed reports can be obtained on a subscription basis.

Located in Fresno, CA, the Customer Service Center provides one-stop shopping for customers

seeking market news reports. Employees of the Center make for easier and more timely access to reports for industry members. Call the Center at (559) 487-5178 or (800) 487-8796 for more information. FAX: (559) 487-5199.

For additional information, contact Terry Long, Chief, Market News Branch, Fruit and Vegetable Programs, USDA, Agricultural Marketing Service, Room 2503-S, P.O. Box 96456, Washington, D.C. 20090-6456. Internet: [Terry.Long@usda.gov](mailto:Terry.Long@usda.gov). Phone: (202) 720-2745. FAX: (202) 720-0547.

#### **USDA Economic Research Service** <http://www.ers.usda.gov/>

The Economic Research Service (ERS) is the main source of economic information and research from the U.S. Department of Agriculture. Located in Washington, DC, with approximately 500 employees, the mission of ERS is to inform and enhance public and private decision making on economic and policy issues related to agriculture, food, natural resources, and rural development. To accomplish this mission, highly trained economists and social scientists develop and distribute a broad range of economic and other social science information and analysis.

#### **USDA National Agriculture Library Alternative Farming Systems Information Center** <http://www.nal.usda.gov/afsic/>

The Alternative Farming Systems Information Center (AFSIC) is one of several topic-oriented information centers at the National Agricultural Library (NAL). The Library, located in Beltsville, Maryland, is the foremost agricultural library in the world, and is one of four U.S. national libraries along with the Library of Congress, the National Library of Medicine, and the National Library of Education. AFSIC is supported, in part, by USDA's Sustainable Agriculture Research and Education (SARE) program.

AFSIC specializes in locating and accessing information related to alternative cropping systems including sustainable, organic, low-input, biodynamic, and regenerative agriculture. AFSIC also focuses on alternative crops, new uses for traditional crops, and crops grown for industrial production.

**USDA – AMS The Wholesale and Alternative Markets (W&AM) program**

<http://www.ams.usda.gov/tmd/wam/wam.htm>  
The Wholesale and Alternative Markets (W&AM) program promotes and enhances the overall effectiveness of the domestic food marketing and distribution system and promote better quality and variety of products to the customer by improving market access for small to medium-size farmers.

Errol Bragg, Acting Program Manager  
Wholesale and Alternative Markets - USDA  
P.O. Box 96456 Room 2642 - S  
1400 Independence Ave.,S.W.  
Washington, DC 20090-6456

**WEB PUBLICATIONS AND ARTICLE SITES**

**ATTRA - Appropriate Technology Transfer for Rural Areas**

<http://www.attra.org/>

This is arguably the best site on the web for small farmers. Practical, readable resources on everything from soil management to alternative cropping systems, to business management. AND they're opening a West coast office in Davis in June of 2001.

**Sustainable Farming Connection – <http://sunsite.unc.edu/farming-connection/>**

Another site aimed at family farmers. This site was started by Craig Cramer, former editor of the much missed “The New Farm” published by Rodale.

**USDA Direct Marketing <http://www.ams.usda.gov:80/directmarketing/>**

USDA's site with links to a list of every farmers' market and CSA in the states. Extensive

bibliography, resources and on-line publications on direct marketing.

For my apple growers: here's one from the other side of the globe:

**ENZA <http://www.enzafruit.com/sitemap.html>**

**Good Fruit Grower - <http://www.goodfruit.com/>**

Excellent searchable database of past articles, calendar, classifieds

**Fruit Online - <http://www.fruitonline.com/>**

Fruit prices, market analysis, fruit industry news, statistics and information to evaluate market trends and prices in the fresh fruit trade.

**The Fruit Growers News <http://www.fruitgrowersnews.com/>**

Searchable archives, calendar, classifieds, links

**The Vegetable Growers News <http://www.vegetablegrowersnews.com>**

Searchable archives, calendar, classifieds, links

**Capital Press Agriculture Weekly <http://www.capitalpress.com>**

Information rich website, searchable database, forums, links

**American Farmland Trust's** information site on grass-based farming systems.

<http://www.grassfarmer.com>, Grassfarmer.com brings online visitors information on a variety of topics related to grazing and grass farming. Visit [grassfarmer.com](http://www.grassfarmer.com) often to check us out and see what's new! EXTENSIVE links list NEW! Seasonal Dairy Grazing: A Viable Alternative for the 21st Century - A financial case study of six seasonal dairy grazing operations. By Jonathan R. Winsten and Bryan T. Petrucci.

Other financial case studies and enterprise budgets are linked on this site.

**North Carolina State University College of Agriculture and Life Sciences**

Department of Agricultural and Resource Economics

ARE 052 Agricultural and Agribusiness Marketing

<http://www.cals.ncsu.edu/course/are052/intro.html>

**Sustainable Agriculture Network – <http://www.sare.org>**

“Reap New Profits: Marketing Strategies for Farmers and Ranchers”

<http://www.sare.org/market99/slideshow/index.htm>

**Smart Marketing Cornell Horticulture Department** - <http://www.cals.cornell.edu/dept/arme/hortmgt/pubs/smartmkt/index.htm>

**North American Farmers’ Direct Marketing Association (NAFDMA) –**

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

**California Federation of Certified Farmers’ Markets**

<http://farmersmarket.ucdavis.edu/>

**Local Harvest**

<http://www.localharvest.org/>

**LISTSERVES**

Market-farming –

FAQ and how to join <http://www.marketfarming.net/mflistfaq.htm>

Archives <http://franklin.oit.unc.edu/cgi-bin/lyris.pl?enter=market-farming>

CSA-l

E-mail List Homepage-<http://www.prairienet.org/pcsa/csa-l>

Archives <http://csf.colorado.edu/archive/csa.html>

**BOOK RESOURCES**

Corum, Vance; Rosenzweig, Marcie; and Gibson, Eric

*The New Farmers’ Market: Farm-fresh Ideas for Producers, Managers, and Communities*

2001, New World Publishing, Auburn, CA

<http://www.nwpub.com>

King, R. *Collaborative Marketing, A Roadmap & Resource Guide for Farmers*

2000 University of Minnesota Extension Service Bulletin BU-07539-GO

<http://www.extension.umn.edu/distribution/businessmanagement/DF7539.html>

Levinson, Jay Conrad, *Guerilla Marketing: Secrets for Making Big Profits From Your Small Business*, 1998, Houghton Mifflin Company 3rd Edition, [www.gmarketing.com](http://www.gmarketing.com)

Visher, David. *Workshop: Business Planning and Innovative Financing*. Sponsor, California Farm Link, in Chico, February 22, 2001

Whatley, Booker T., 1987, *How to Make \$100,000 Farming 25 Acres*

Regenerative Agriculture Association, Emmaus, PA



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