



Marketing Options for Commercial Vegetable Growers

Brent Rowell, Extension Vegetable Specialist; Tim Woods, Extension Horticultural Marketing Specialist; Jim Mansfield, Director, Division for Value-Added Horticulture and Aquaculture, Kentucky Department of Agriculture

Tobacco Is Not a Vegetable

Many Kentucky tobacco growers are taking a closer look at commercial vegetable production as a way to increase farm income. (Figure 1). Apart from important differences in crop management, the primary difference between vegetable and tobacco enterprises is how the crops are marketed. No federal programs or pools, price supports, or quotas exist for vegetables, and most vegetable crops are highly perishable and seldom storable.

Commercial vegetable production and marketing can lead to disaster for the uninitiated and those who cannot afford to take the risks involved. Although these risks can be minimized by careful marketing and production planning, they can never be eliminated entirely.

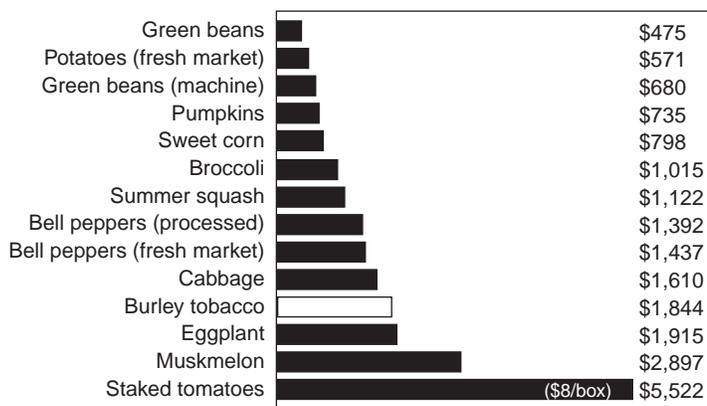
State surveys show that many opportunities exist for expansion of fresh vegetable production but they are under-used. Although few producers have been willing to abandon the comfort of tobacco's guaranteed prices and markets for the risks in commercial vegetable production, some of Kentucky's more adventurous tobacco growers have so diversified that vegetable production has become their dominant farm enterprise. For many of these growers (and others like them in neighboring states), market opportunities and farm income continue to increase. Produce marketing is sometimes a free market roller coaster (Figure 2), but some growers have learned that it can be extremely profitable for those who have learned how to ride it and take some control of it.

Joint Marketing and Production Decisions

Two major obstacles to success in vegetable production are finding markets and establishing prices. Some producers, attracted by success stories about a particular crop, have carefully researched and grown it. Unfortunately, they never bothered to determine where, to whom, and at what price their products would be sold.

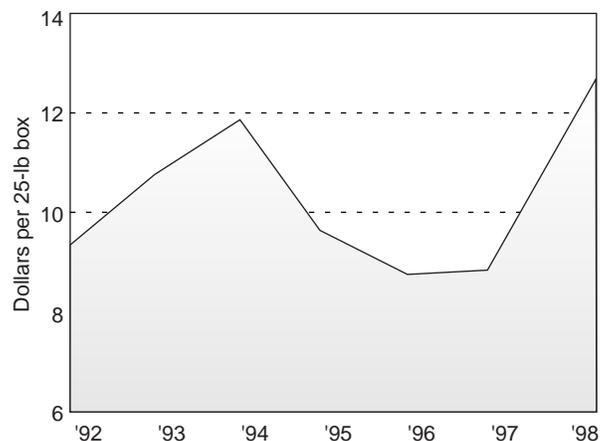
Good marketing plans start with the customer and work backwards to production. Potential growers should first determine exactly what buyers want, how they want it, and when they want it. Then, they should determine how these crops should be grown. Even selecting varieties and determining planting times are basic marketing decisions.

Figure 1. Vegetable returns per acre.



Source: Horticulture Crop Enterprise Cost and Return Estimates for 1998, University of Kentucky Extension publication ID-99.

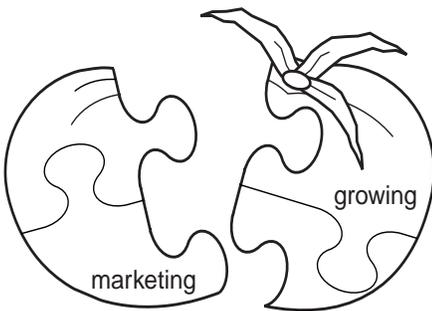
Figure 2. Changing tomato prices.



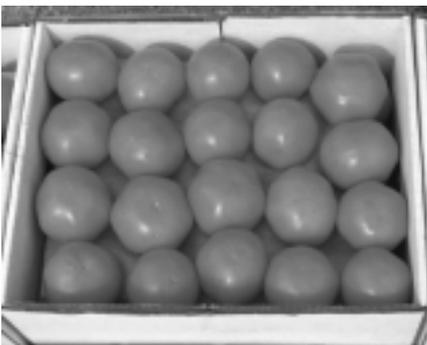
Source: Average weekly prices for June through October, Atlanta terminal market.



Fresh-cut vegetable processors prepare salad mixes and cut vegetables for supermarkets and food service businesses.



Vegetable marketing and production plans need to be developed simultaneously; the most successful growers put equal emphasis on growing and marketing their products.



Growers must pack produce in the manner and in the containers specified by the buyer.

Playing by the Rules

For wholesale market channels, growers must play by the buyer's rules. Wholesale produce buyers in the state are well established and are able to obtain products from a variety of sources around the country. Unlike tobacco companies, they don't need the grower's political support. Long-established marketing conventions in the fresh produce industry are unlikely to bend to accommodate new Kentucky growers.

The key to success in produce marketing has always been the establishment of good relationships with buyers over time. New growers, in many cases, will have to prove to potential buyers that they are serious about the business and are able to grow, grade, pack, and in some cases, pre-cool produce in the way the buyer specifies.

Fortunately, high transportation costs make local produce more attractive to buyers within the state. Also, local consumers have become more interested in buying fresh, high quality Kentucky-grown vegetables—

part of a rising national demand for fresh, locally-grown products. The demand for fresh products from local growers is also increasing nationwide. At least one large supermarket chain with stores in Kentucky has been featuring locally-grown produce and apparently would like to feature more. Transportation costs and consumer interest are creating more demand and opportunities for both direct and wholesale marketing.

Counting the Costs

Despite the apparent opportunities and favorable signs, vegetable production is certainly not for everyone. Day-to-day production decisions regarding pest management, irrigation, and other cultural practices are critical. Would-be growers unwilling to make serious investments of time (and money) should not attempt to expand beyond a space at the farmer's market. All too often, vegetable crops are neglected or abandoned for tobacco harvesting or other urgent concerns on the farm.

To help current and prospective growers evaluate their opportunities, this publication compares the main characteristics of several different marketing channels. This comparison is summed up in the table "Comparing Marketing Options for Kentucky Vegetables" at the end of the publication. Kentucky growers should pay particular attention to comparisons of marketing time required, compatibility of off-farm employment, and compatibility with tobacco production. Individual situations vary, and producers must often learn about their particular markets by starting small and getting a foot in the door.

What you're attempting has more than likely been tried before, so don't repeat someone else's mistakes. Your planting decisions should be based on information from several sources, especially your potential buyers. Also ask experienced vegetable producers what marketing approaches have worked for them. The Cooperative

Extension Service is another source of information, although vegetable marketing may be unfamiliar to some Extension agents. (See the “Getting Help” section in this publication for more information about help through the Cooperative Extension Service and other organizations.)

Choosing a Market

Among the main factors influencing success and your choice of marketing options are:

- marketing options and facilities available in your area
- time you have available for marketing
- your potential production volume
- adequate financing
- your commitment and attention to detail.

Direct Marketing

Direct marketing—marketing directly to consumers—includes sales at local farmer’s markets, on-farm markets, roadside stands, farm festival markets, pick-your-own sales, or any combination of these methods. All forms of direct marketing, with the exception of pick-your-own, appear to be expanding in Kentucky as well as other states in the region. Some require less time and grower commitment than others.

On-farm or roadside markets

These markets need not be elaborate, but do need to be neat, clean, and well organized. A visible location close to high traffic areas is usually a prerequisite for a successful farm or roadside market. Direct marketing can also succeed in more remote locations, but it will require more advertising and promotion.

Many consumers in urban centers now consider visits to on-farm or farmer’s markets as recreational activities because families enjoy seeing farms and talking with farmers. Some growers have developed seasonal festival days and markets to satisfy this demand. Such



Prices at local farmer’s markets are usually higher than wholesale prices, but more marketing time is required by individual growers.

entertainment farming and some other forms of direct marketing require liability insurance coverage, large time commitments, and employees with friendly, courteous attitudes.

Pick-your-own, or “u-pick” sales

This type of direct marketing appears to be declining nationally because consumers have less time and energy available for harvesting produce. U-picks eliminate some of the harvesting, transportation, and marketing costs for growers but may require additional management, supervision, and liability insurance coverage.

Local town or community farmer’s markets

These markets are probably the easiest way for new growers to sell small volumes of produce. Marketing time is required, but individual growers do not usually bear all advertising and promotion costs.



Autumn and other on-farm festivals near urban centers have become popular forms of direct marketing.



Growers can sell small volumes at a produce auction without having to spend much time in marketing.



Serious vegetable production requires serious investment. Plastic mulch and drip irrigation have become standard practices for many vegetable crops.

Community-supported agriculture (CSA)

This a term for marketing by subscription. Individual growers or a group of growers solicit subscribers within a community who pay a fixed monthly or seasonal fee to have a specified mix of fresh vegetables delivered to them on a weekly basis.

Produce Auctions

Produce auctions have been popular for small growers in Pennsylvania, New Jersey, and a few other states. Growers bring produce to the auction facility, where it is sold to the highest bidder. The auction company (sometimes a growers' organization) charges a flat commission of about 10 percent. Both large and small lots are accommodated at some auctions. At the largest Pennsylvania auction, most of the bidders are operators of medium-to-large retail produce markets and stands.

A group of Kentucky growers began a produce auction near Hopkinsville in 1996 and built an auction structure by selling \$1,000 shares to growers and others in the community. The group is now selling an increasing volume of produce to buyers from as far away as Lexington and Nashville, Tennessee.

Marketing Cooperatives

A marketing cooperative is just one form of indirect marketing in which the producer deals with an intermediary rather than the final consumer. Although most forms of indirect marketing require less time

of individual growers, they usually demand more product uniformity, quality, and postharvest care.

Grower-owned cooperatives or marketing associations are able to assemble truckloads of produce required by large customers, which would not be possible for small growers acting individually. Formally organized cooperatives may also provide technical assistance to growers and help secure seeds, boxes, and other needed supplies. In some cases, specialized equipment is shared by growers.

Co-ops usually own and operate facilities with some combination of grading, packing, cooling, and storage equipment for their members. Members typically employ a manager to oversee the co-op's daily operations. Several small growers cooperatives with grading, packing, and cooling facilities have formed recently in Kentucky. They offer good marketing opportunities for new growers in counties near the co-op facilities.

Local Wholesalers, Grocers, and Restaurants

Many potential buyers can be found among local wholesalers, grocery stores, and restaurants. Most metropolitan areas have produce wholesalers who can be dependable buyers of moderate volumes. Local grocery stores (and even some chain stores) are sometimes willing to buy directly from growers through *direct store deliveries* (DSDs). DSDs are often possible with smaller grocery stores or chains but are discouraged by many larger chains.

Most large chain stores want the quality control check that occurs when produce is handled through a regional distribution center. This situation may be changing, however, and growers would be wise to contact supermarket produce managers to discuss marketing possibilities.

Many restaurants buy from local or regional wholesalers. However, more

and more of them (usually upscale establishments) are promoting locally grown and seasonal items on their menus, so individual growers may be able to sell to them. Like most other forms of produce marketing, restaurant sales are based on good relationships developed over time.

Regional Wholesalers, Chain Store Distribution Centers, Terminal Markets, and Brokers

Marketing to *regional wholesalers* or large *chain store distribution centers* requires consistent quality, often requires significant volumes, and in some cases, year-round supplies. These buyers often have specific and demanding requirements for product uniformity, types of containers, cooling, transportation, and delivery of fresh produce. In some cases, especially when supplies are plentiful, produce quality must exceed USDA grading standards. Increasingly, grower-shippers are also being asked to supply produce to their supermarket chain buyers with price look-up (PLU) stickers already applied.

Larger buyers look for quality and consistency. They need good incentives to interrupt year-round supplies from other parts of the country in order to buy more local produce. Some chain store buyers will pay a premium for top quality local produce.

Terminal markets are central locations (historically located at a major city's railway terminus) where several wholesalers, distributors, and/or brokers are clustered together. Kentucky still has a traditional terminal market in Louisville. The produce dealers formerly located at the Cincinnati terminal market are now scattered, with the largest firm relocated in northern Kentucky.

Terminal markets have declined significantly in importance in most major cities over the years, and they are no longer the marketing opportunity they once were. These groupings of buyers and brokers may still have



Roadside markets need not be elaborate, but they require a good location.

the potential to move large volumes of produce, however. They are also a good source of price information for selected cities. (This price information is available free on the Internet; see "Getting Help," below.)

The terminal market is not for the uninitiated, and good long-term relationships between buyers and sellers are critical to success. Consignment sales at terminal markets probably should be the selling option of last resort.

Some growers use *brokers* to market produce. They negotiate either purchases or sales of produce on behalf of a buyer or seller. Unlike wholesalers, brokers do not take delivery nor assume ownership (title) of the produce. Brokers usually never see what they are quoting for sale or negotiating to buy. Brokers charge a percentage commission on all sales or a flat rate for each carton of produce sold.



Some supermarket and chain store buyers require growers to apply price look-up (PLU) stickers to produce.



Cooperatives have equipment to clean, grade, and cool produce.



The Kentucky Farm Bureau provides this sign to participants in the Certified Roadside/Farm Market Program.



The Kentucky Department of Agriculture Division for Value-Added Horticulture and Aquaculture supplies this logo to qualified growers and marketers.

Processors

Nationwide consumption and demand for most canned and frozen vegetable products have been flat or declined. Much consolidation of production of processing vegetables has occurred in recent years, with most of the industry now located in California and a handful of northern states. No traditional vegetable processing companies are left in Kentucky, and only one out-of-state processor still contracts for peppers grown in the state.

Several *fresh-cut* processors exist in the state and have indicated a desire to buy more products from within Kentucky. It is unlikely, however, that fresh-cut and other forms of processing will represent a significant market for Kentucky produce in the near future.

Getting Help

A number of organizations are currently working to create new marketing opportunities for Kentucky vegetable growers:

Cooperative Extension Service

Many county Extension agents know the production and marketing opportunities in their counties. They can provide vegetable production information and access to marketing and production specialists. In addition, county Extension offices should have access to produce industry directories like *“The Red Book”* or *“The Blue Book.”* These publications list produce buyers by city and state and also include ratings for promptness of payment and other pertinent information. Another useful publication for starting or bolstering farmer’s markets is *Starting and Strengthening Farmer’s Markets in Pennsylvania*. A copy of this publication can be obtained through most county Extension offices.

The Kentucky Vegetable Growers Association

This organization sponsors annual educational meetings (usually during the first week of January) that include special sessions on produce marketing. Ask your county Extension agent to be put on the mailing list for the Kentucky vegetable growers’ *NewHarvest* newsletter, which contains the annual meeting program and registration form.

The Kentucky Department of Agriculture

The Kentucky Department of Agriculture Division for Value-Added Horticulture and Aquaculture maintains a directory of Kentucky vegetable growers, marketing cooperatives, and produce markets and is working to develop several new programs linking vegetable producers and buyers. The department also supplies the “Kentucky: Where Quality Grows” logo to qualified growers and marketers.

The Kentucky Farm Bureau

The Kentucky Farm Bureau’s Certified Roadside/Farm Market Program literally can put your farm market on the map. Attractive brochures with your market location, featured products, and other details are made available at the state’s welcome centers, at some state tourist attractions, and on the Internet.

The Commodity Growers Cooperative

A subsidiary of the Burley Tobacco Growers Cooperative in Lexington, this organization is also actively involved in helping develop new marketing opportunities for Kentucky vegetable growers, has organized statewide direct marketing conferences, and is particularly interested in creating new opportunities for Kentucky’s most tobacco-dependent counties.

Comparing Marketing Options for Kentucky Vegetables

Things to consider	Available Sales Opportunities					
	Direct: On-Farm, U-Pick, Farmer's Markets, CSA	Produce Auctions	Marketing Cooperatives	Local Wholesalers, Local Grocers, DSDs, or Restaurants	Regional Wholesalers, Chain Store Distribution Centers, Terminal Markets, or Brokers	Processors or Fresh-Cut
<i>Production and Marketing Challenges</i>						
Difficulty getting into the market	low	low	low-medium	medium	high	medium-high
Marketing time required	high	low	low	medium-high	medium	low
Compatible with off-farm employment	yes	yes	somewhat	somewhat	difficult	yes
Compatible with tobacco production	yes	yes	somewhat	somewhat	not in fall	yes
Importance of product quality (especially shelf life)	medium	medium-high	high	medium-high	high	medium
<i>Investments: Time and Money</i>						
Initial commitment level required	low	low	medium-high	high	high	low-medium
Management level required	low	low	medium	high	high	low
Level of service buyers expect from individual growers	low-high	low	low	high	high	low
Initial capital investments required	low	low	medium	medium-high	high	variable
Postharvest equipment and facilities investment required	low	low	low	medium	high	variable
<i>Income and Potential</i>						
Prices	high	variable	medium	medium-high	medium	low
Price stability	high	medium	medium	medium	medium	high
Product volume required	low	low	medium	medium	high	medium
Market/sales volume potential	low-medium	low-medium	high	medium	high	low
Likely further development potential in Kentucky	excellent	good	good	good	fair-good	low-fair

The Internet

A wide variety of information on vegetable production and marketing is available on the Internet. Internet resources include Extension publications on how best to grow, harvest, cool, grade, and pack vegetable crops. Wholesale prices are also posted from markets around the country along with situation reports for certain crops. For some of the best Web sites for commercial vegetable growers, go to the University of Kentucky's College of Agriculture home page at:

<<http://www.ca.uky.edu>>

Click on "Departments" and then on "Horticulture and Landscape Architecture." On this Web page, you will find a link to "Commercial Vegetable Web Sites."

Acknowledgments

The authors gratefully acknowledge the inspiration for this publication from "Cucurbit Marketing Alternatives," pp. 34-36, in *Cucurbit Production and Pest Management*, Oklahoma State University, Oklahoma Cooperative Extension Service Circular E-853. Portions of the table "Comparing Marketing Options for Kentucky Vegetables" were adapted from the "Marketing Channel Comparison Matrix," pp. 146-47, in *Comparing Marketing Channels for Kentucky Fruits and Vegetables*, M.S. thesis in Agricultural Economics by James R. Mansfield, University of Kentucky, 1987.