



Guide to Marketing Channel Selection:

How to Sell Through Wholesale & Direct Marketing Channels





Introduction to this guide

Market channel selection is as important as production decisions for the small to medium sized fruit and vegetable operation. This publication is a decision-making aid for new farmers and for those considering marketing through a new channel. The guide focuses on describing the marketing of fresh-market produce, however, many of the principles apply to the marketing of other agricultural products including cut flowers, meats, honey, maple syrup, and more. While generalizations are made about the channels, exact details are subject to conditions with individual farms, their location, potential customer base size, and other factors.

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INTRODUCTION TO MARKETING CHANNELS

Marketing channels are divided into two broad groups, direct and wholesale. These terms are often used inconsistently, however, the definitions used in this guide are below.

DEFINITION:

Wholesale Marketing: *Selling a product to a buyer who is not the ultimate end user.*

Direct Marketing: *Selling a product directly to the end user.*

The size and scale of a farming operation, number of years of operator experience, the demographics of the surrounding region, and the preferences of the farmer will determine which channels are best suited to the farming operation. A beginning farmer may choose to start out using direct channels, such as a farmers' market; however, depending on a farm's business model, growing fewer crops on a large scale for high volume buyers may be preferred. Understanding each channel, its benefits, requirements and limitations is an important starting point for channel selection. It is also important to know the volume of production required and average prices paid in order to assess the potential returns of a channel.

In marketing channel selection, farmers are faced with a dilemma: they can move large volumes of product through wholesalers at relatively lower prices or seek higher prices in direct market channels and run the risk of unsold product. Figure 1 is an illustration of the typical characteristics of the two types of channels.

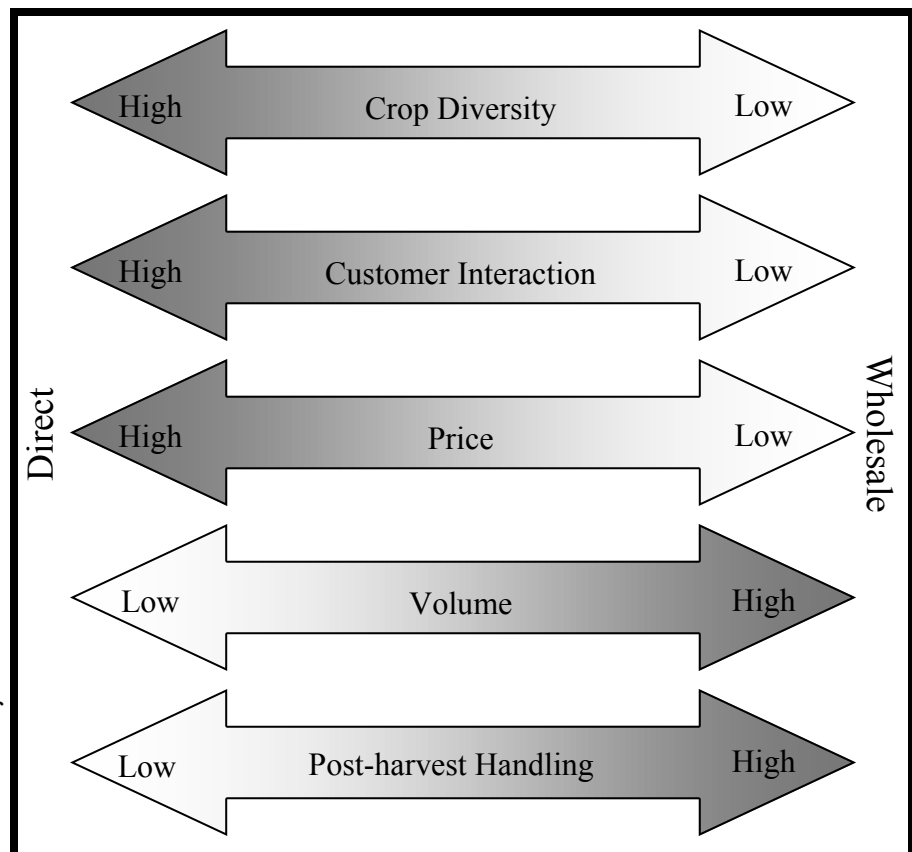


Figure 1: Generalizations about Wholesale and Direct Marketing Channels.

Many various definitions of marketing channels exist in between direct and wholesale. One example is short channel marketing, which is defined as any type of distribution or selling where the end customer is one level removed from the producer. Wholesale marketing, defined as selling a product to a buyer who is not the ultimate end user, can sometimes be referred to as long channel marketing. For the purposes of this guide we will use the definitions of wholesale and direct marketing as outlined on the previous page. All forms of marketing channels referred to in this guide will fall under wholesale or direct marketing channels.

Figure 2: Examples of wholesale, short channel, and direct marketing channels.

Wholesale (long) Channel Marketing

Producer ➡ wholesaler ➡ retailer ➡ end consumer

Short Channel or Indirect Marketing

Producer ➡ retailer ➡ end consumer

Direct Marketing

Producer ➡ end consumer

Key factors for evaluating marketing channels

Evaluating direct vs. wholesale marketing channels

Choosing the right mix of marketing channels includes consideration of many factors. This guide discuss **6 key factors** identified by Cornell University's Cooperative Extension that can be used to help identify the right marketing channel combination for you and your farm: **sales volume, price, risk, lifestyle preferences (stress aversion), labour requirements, and channel-specific costs.** This section provides a description of each of the 6 factors that contribute to a channel's "performance." The importance assigned to each of these factors is unique to the individual farm. Additionally, the nature of highly perishable crops, along with the risks and potential sales volumes of particular channels, requires combining the different channels (refer to page 14) to maximize gross sales in order to sell everything when it is ready.

Sales volume and price

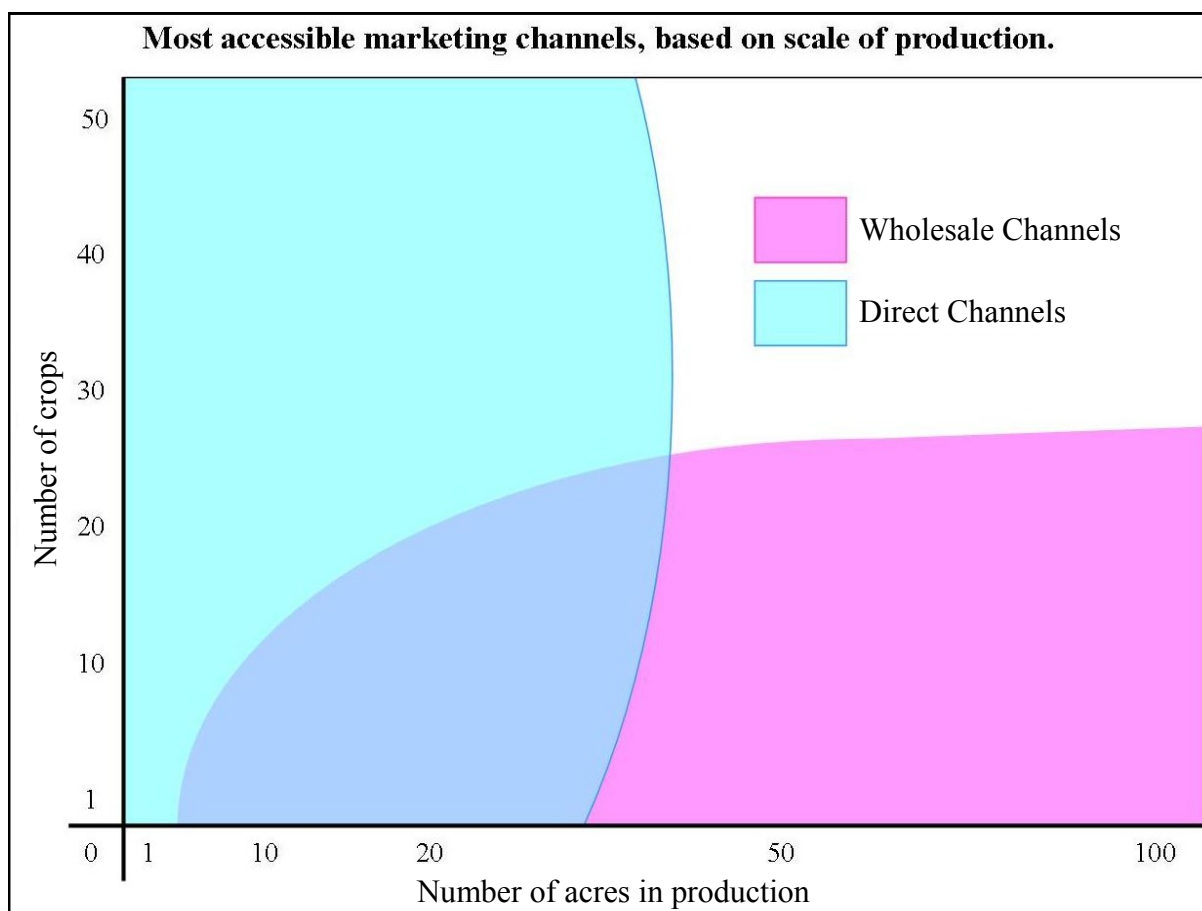
The volume that can be sold through a given channel has an impact on profitability. The more perishable a crop, the more important it is to have a channel that can absorb the volume harvested as quickly as possible. As such, a channel's risk and potential volume are also closely associated. Farmers are challenged to balance the lean and the plenty when selling through different channels. As one farmer described, the constant challenge is finding an outlet for the varying and sometimes unexpected harvest volumes, "Even if a whole field ripens at once, I am not going to pick it unless it is sold." While that may mean letting a crop spoil in the field, spoilage is less expensive than paying people to harvest produce that may not sell.

Optimizing sales of perishable crops requires the flexibility of combining different channels capable of absorbing unpredictable volumes. In general, wholesale grocery distributors (referred to in this guide as Produce Marketing Companies) and some other retailers can be counted on to buy large quantities at once. Also, through direct marketing, some Community Supported Agriculture (CSA's) can consume a large volume. With a CSA, it is always possible to give members more in a share if a particular crop is plentiful, but this does not translate into more income, just less wasted produce and perhaps more satisfied customers. The volume that can be sold through other direct channels such as farm stands, u-pick, and farmers' markets depends on weather, location, advertising, drive-by traffic, and population size. The general tradeoff between relatively high and low-volume marketing channels is price. Table 1 gives an example of the quantities and prices paid for strawberries in both a direct and wholesale

Table 1: Comparison of prices for strawberries in a direct and wholesale channel.

	Sale price/Qt	Qts Sold	Total Gross Sales	COP	Mktg Cost	Net
Farmer's Market	\$4.00	36	\$ 144	lower	higher	?
Grocery Store	\$1.50	300	\$ 450	higher	lower	

marketing channel. Despite lower prices, high volume channels offer the benefit of increased efficiency for harvest and post-harvest labour. Additionally, wholesale buyers can make large purchases in as little as a five-minute phone call or simple e-mail once a relationship is established. On the other hand, the cost of production and post harvest preparation can be higher for wholesale than at a farmers' market, whereas marketing costs are often higher for produce sold at farmers' markets. This is why evaluating channels using the 6 factors can be helpful in the deciding where to focus your money, time and effort.

**Figure 3: Direct and/or wholesale channels are the best marketing choice depending on the number of crops and scale of production for each crop (figure is an estimation).**

Risks and Lifestyle Preferences

In addition to the normal production risks of weather and pests, each marketing channel offers a set of risks to the producer. Marketing risk comes in many forms, including market demand for a crop, price, competitors, failure to offer a diverse selection, and low volume sales. Additional risks include the possibility of low customer turnout due to weather, such as at farmers' markets, farm stands, or u-pick businesses resulting in unsold perishable products. Risks for any channel that allows customers on the farm are injuries, crop damage, litter, and other problems.

In a survey conducted with Central New York vegetable farms (results shown in Table 2), farmers were asked what they felt were the primary risks with each channel. The responses are categorized into seven basic challenges: low volume sales, high labour and marketing costs, the ability to provide product of consistent quantity and quality, buyer failure to fulfill commitments, competition, unpredictable customer turnout, and low price risk. The two main

Table 2: Frequency of Mentions for Risks and Challenges associated with Marketing Channels, from survey of fourteen Central New York fruit and vegetable producers.

Risk or Challenge	CSA	U-pick	Farm Stand	Farmers' Market	Restaurant	Distributor	Grocery/Retail
Low sales volume, unsold produce	1			3	1		
High labour and other marketing costs			3	7	2	5	2
Ability to provide quality & quantity consistently	2	1		2	2	1	2
Market competition				1			1
Unpredictable customer turnout		2	2	2			
Low prices & profits						4	1
Buyer back-out, failure to fulfill commitments					1	1	1
Other	1	1	1			1	1

reasons given for avoiding a particular marketing channel were lifestyle preferences and stress aversion. Wholesale channels tend to create stress because they can require higher levels of preparation (e.g., washing, grading, packing, and delivery), product specifications, and volume commitments. Distributors were also perceived to be very demanding, where producers must accept dictated prices, deadlines, and delivery logistics. Alternatively, direct marketing channels were perceived as ones that imposed relatively low levels of stress on producers. This was particularly mentioned with the CSA channel where customers share the risks and may have lower expectations in terms of washing, sorting and packaging.

As expected, each of the direct marketing channels, except for CSA, aroused concerns over customer turn out. Factors such as weather, location, and the availability of parking are all risks when direct marketing.

The most frequently cited concern regarding all marketing channels was high labour and marketing costs. Among the direct channels, “high marketing costs” was most frequently mentioned for farmers’ markets because they tend to be labour intensive and carry additional marketing costs, such as market fees, advertising, and travel. In wholesale channels, sales to distributors were cited as having the highest marketing costs. Respondents mentioned a high level of labour needed to solve the “logistical headaches” of delivery, the high level of quality control work, and the added “time and energy for good service” when selling wholesale.

Labour Requirements

In general, wholesale channels require more labour devoted to harvesting, washing, sorting, and packing due to the high volume of product marketed while direct channels tend to require higher levels of sales time and customer interaction.

While many farmers enjoy customer interaction and feedback, some prefer not to deal with customers. Farmers’ market, farm stand, and u-pick generally require a high degree of customer interaction and are channels that reward a tidy appearance and welcoming display. Of course, farm stands and u-pick sales can be conducted using honor system payment, but some minimal level of customer interaction is inevitable. CSAs require customer interaction during weekly pick-up times, however, CSAs also may have newsletters or email updates for their members. Maintaining business relationships with wholesale customers requires careful

attention, however, likely requires less direct customer interaction, except when discussing orders or making deliveries. Once a relationship is established with a wholesale buyer, sales calls take less time. Wholesale accounts allow more anonymity; however a potential drawback for some producers may be that promotions such as a weekly price feature or cases of free product is common.

Other Channel-Specific Costs

While some operational costs are common among all marketing channels (utilities, equipment, insurance, licenses and certifications, vehicles, and buildings etc.), each channel has costs and requirements that are specific to that channel. Due to the potential for large variations in the scale of sales through each channel, and the operator's chosen level of marketing management and staffing, it is difficult to compare the channels in regard to these costs in this guide. However, associated costs should be considered when individual operations decide on their optimal marketing channel mix. A list of associated costs by marketing channel is summarized



Illustration 1: Multiuse plastic crates are cost effective and reusable.

in Table 3. Reusable plastic crates, like the one in Illustration 1, are used for harvest, storage, and transport of produce in many of the channels. They are convenient and cost effective (around \$15 to \$20 each online) because they are durable, washable, and can be stacked when full of produce. Crops are harvested directly into the plastic containers in the field, then moved into a cooler, and brought to the direct marketing site. This trend is emerging in wholesale

channels as well where traditionally the container was lost in the supply chain so cardboard boxes were used at an additional cost. An assortment of other marketing supplies are often purchased in wholesale channels which increase cost, including quart and pint containers, plastic bags, twist ties, and rubber bands. These supplies are purchased in large quantities once or twice per year.

Table 3: A sample of the costs commonly associated with different marketing channels.

	<i>Farmers' Market</i>	<i>CSA</i>	<i>U-Pick</i>	<i>Farm Stand</i>	<i>Wholesale: Produce Mktg Co, Rest. & Food Service</i>
Reusable plastic crates	R	X	O	R	R
Single use boxes	O	O	O	O	O
Packaging Materials	X	O	NA	R	X
Customer shopping bags	X	O	X	X	NA
Farm sign (s)	X	X	X	X	NA
Building/Tents, tables, tablecloth, chairs	X	X	X	X	X
Cash register/box, scale, calculator	X	NA	X	X	NA
Pricing signs	X	NA	X	X	NA
Market fees	X	NA	NA	NA	NA
Brochures & flyers	O	R	R	O	O
Advertising	NA	R	R	O	NA
Transport/Delivery	X	NA	NA	NA	X
Washing & sorting equipment	O	O	NA	O	R
KEY: X = Necessary R = Recommended O = Optional NA = Not applicable					

In direct channels, some costs specific to farmers' markets are membership fees and daily market fees. In addition, a tent, along with tables, a scale, shopping bags, and signage with the farm's name and prices are all common supplies and equipment needed for most markets. Brochures, business cards and other point-of-purchase materials are often used to promote sales. A benefit of membership in a farmers' market is that the advertising is done by the market. Individual farms do not need to advertise, but must maintain a high level of product quality and variety to attract customers to their booth.

CSAs require advertising, generally through a combination of brochures, print ads, websites, and signage. Presence at a farmers' market and other means to generate word of

mouth are also useful ways to sell memberships. CSAs require a high level of organization and administration in selling memberships, as well as having a suitable location(s) for member share pick-up.

The direct u-pick and farm stand channels have varying levels of associated costs depending on the scale of the operation and the marketing skills of the operator. Some stands involve a simple, inexpensive tent and table set-up, with one roadside sign at the location and a cashbox for money. Larger operations may include specialized buildings, walk-in storage coolers, refrigerated display cases and tables, a cash register, bags, boxes and staff. The choice of whether or not to staff a stand or u-pick will have a large impact on the operation's profitability.

Wholesale channels involve significantly fewer associated costs. While the number of these costs may be fewer in number, the level of these costs can be high. Fuel costs for delivery, refrigerated equipment, training and certifications for food safety, packaging, and washing and sorting equipment are all anticipated costs for the producer selling wholesale.

Summary: Key Factors for evaluating marketing channels

This section has discussed 6 key factors that can assist producers when evaluating direct and wholesale marketing channel performance: **sales volume, price, risk, lifestyle preference, labor requirement, associated costs**. Each channel has pros and cons related to each of the 6 key factors. The right strategy will depend on the individual farmer, their lifestyle preferences, and their short and long term goals for their business. The next section will briefly discuss channel combination before further exploring wholesale and direct marketing channels.

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Evaluating Marketing Channels: Case Study Evidence from Central NY. Follow the case study completed on four farms using Cornell's applied model for evaluating and choosing the optimal mix of marketing channels.

See the full study online: <http://dyson.cornell.edu/>

Combining Direct and Wholesale Marketing Channels

Channel combination strategies allow a farm to maximize sales and help to reduce some risks. Figure 4 illustrates some marketing channel strategies used by real farms allowing them to diversify the sources of their income, as well as optimizing sales of unpredictable levels of harvest. Each farm has a “steady” marketing channel with a relatively consistent demand. This channel represents the farm’s first priority for the weekly harvest. Once that channel is satisfied, the farm’s other channels can be supplied with additional harvest. For example, Farm #3’s priority is its weekly CSA distribution. Once sufficient produce is available for CSA members, the farm can market “extra” products to its farmers’ market and potentially to wholesale customers. In contrast, Farm #1 first satisfies wholesale orders, then brings surplus product to the direct channels of farm stand and farmers’ market.

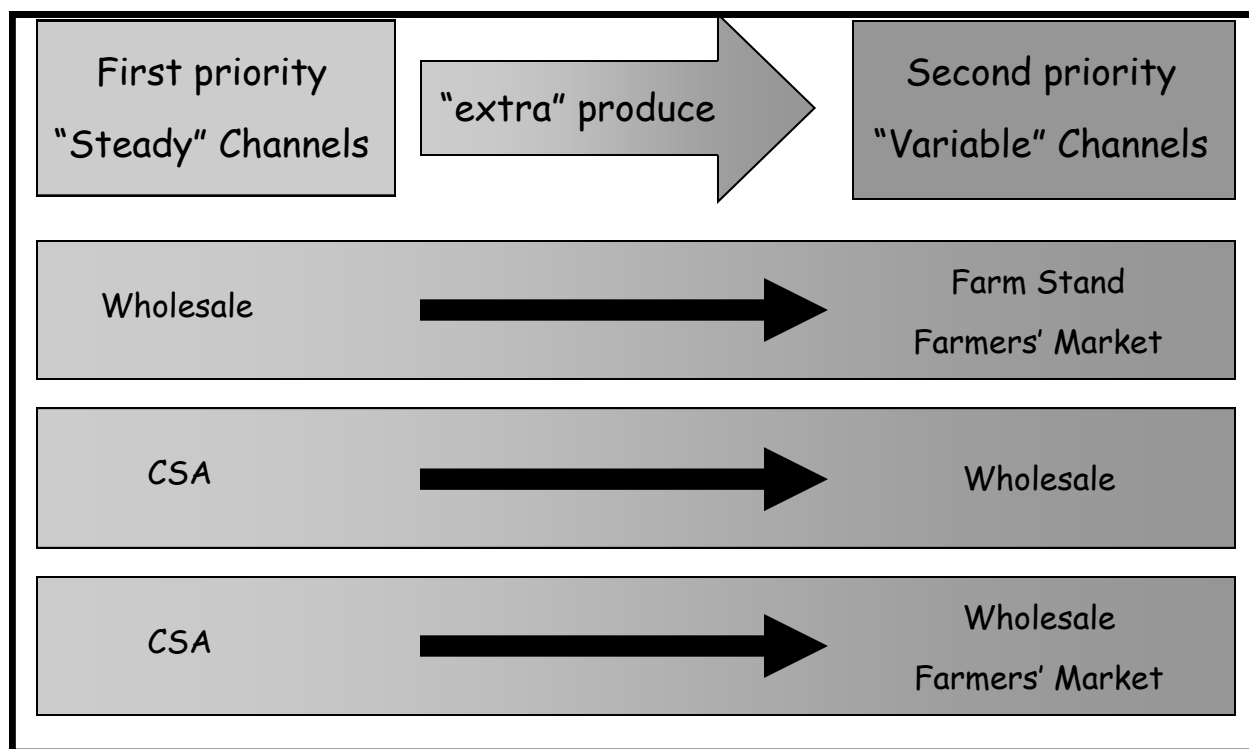


Figure 4 : Examples of marketing channel combination strategies.

Wholesale Marketing Channel Requirements

Wholesale channels typically require the ability to move large quantities of produce quickly, usually, but not always, at a lower price than through direct channels. Wholesale marketing channels include selling directly to restaurants, grocery stores and other food retailers (such as natural food stores), produce marketing companies, and institutional and food service buyers/distributors. This section discusses some of the key factors, sometimes regarded as barriers, generally required by wholesale buyers.

Wholesale Buyer Expectations

Farmers wishing to enter wholesale channels should take the time to learn about the expectations and requirements of typical wholesale buyers. The most common expectations and requirements are summarized below. Wholesale customers, in general, require a high and consistent level of washing, sorting/grading and packing. Some produce distributors have noted that quality, consistency, and proper packing were the top concerns with product cleanliness, ripeness, and sorting for size also mentioned as important factors.

Wholesale Buyers Expect:

- ★ High Quality
- ★ Clean product
- ★ Communication
- ★ Proper packing
- ★ Sorting for size
- ★ Timely delivery
- ★ Consistency

Wholesale Buyers May Require:

- On farm food safety
- Vendor permits
- Liability Insurance
- Refrigerated trucks
- Promotional products
- Traceability

Communication is Critical

Wholesale buyers do not like to be surprised. They depend on quality produce, complete orders, and timely delivery. When this is not possible, advance notice can make all the difference. In fact, wholesale buyers have noted that it can be more important that a farmer clearly communicate the quality and quantity of produce available than it is to maintain a steady supply. Buyers want to be kept informed of how crops are doing, so that in the case of shortage, crop failure, or poor quality, they have time to source a replacement. Clear communication done in advance can make the difference between losing an account with a wholesale buyer, and maintaining a good working relationship.

Post-harvest handling

Washing & Food Safety

Wholesale buyers demand produce which has been cleaned and absent of soil or other foreign materials. Increasingly, wholesale buyers also require some level of food safety assurance, such as the national voluntary Good Agricultural Practices (GAPs) program. GAPs is an on farm food safety program which includes farmer education, a written food safety plan for each farm, and third-party inspection for certification. HACCP (Hazard Analysis and Critical Control Points) is often required by large chain retail stores for food manufacturers. Even in the absence of an official food safety requirement, proper washing and chilling of produce is necessary for successful wholesaling to preserve crop quality and shelf life. Whether selling direct to grocery or integrating through a produce marketing company, producers are generally required to have Canada GAPS which is often viewed as a barrier to entry for smaller producers.

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**For more information on Good Agricultural Practices
for fruit and vegetable producers visit:
www.canadagap.ca**

To keep produce looking and tasting its best:

- ♦ Remove field heat quickly and store properly.
- ♦ Proper cooling and the type of cooling used is specific to the product; following the recommendations is critical for shelf life.
- ♦ Harvest at the right stage of ripeness.
- ♦ Leave room for air to circulate around produce in storage.
- ♦ Don't pack too tightly or too deep in harvest containers.
- ♦ Avoid impact injury to produce caused by throwing or dumping.
- ♦ Shade produce from direct sunlight.
- ♦ Avoid chilling injury by checking thermostats and thermometers in coolers.

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For more information on handling and storage, get the Produce Storage Guide from the Canadian Produce Marketing Association :
www.cpma.ca/en/reResourcesAndStore.aspx

Sorting & Grading

Typically, wholesale customers expect produce to meet standardized or uniform size, color, maturity, grade, and shape. Sorting is necessary with crops that vary in size such as tomatoes, potatoes, eggplants, squashes, and apples as well as many others. For many crops there are standards and definitions for size and quality grades. For examples, apples are graded on a scale ranging from “Canada extra fancy” to “Canada No. 2 Peelers”.

An example of CFIA quality grades:

Apple: Canada Extra Fancy, Canada Fancy, Canada No. 2 Peelers.

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A description of the standards for a full range of fruits and vegetables is available from the Fresh Fruit and Vegetable Regulations on the Department of Justice website: http://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,_c._285/page-19.html#h-27

Packaging and Labeling

Wholesale customers such as produce marketing companies (produce resalers to grocery stores) expect standard packaging sizes so they can manage inventories and compare pricing. Wholesaling to produce marketing companies or direct sales to grocery and retail will be the most likely channels to expect standardized packing, whereas restaurant customers may have more flexibility. Standardized packaging requirements are determined by the Government of Canada and are outlined in the Fresh Fruit and Vegetable Act. An example of requirements from the act are: “any transparent container in which the net quantity of the produce is not more than 3 lbs, except for the following kinds of produce that are packed in bags, namely beets, carrots, parsnips, rutabaga and onions.”

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For specific information on industry standards for packaging and labeling produce visit:

http://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,_c._285/page-4.html or www.cpma.ca/en/regulations/fruit-and-vegetable-labelling.aspx

Six important steps for successful wholesale relationships

Step 1: Make the Connection- To approach a wholesale buyer, call first and ask with whom you should speak about buying produce from your farm. Be sure that you talk with the decision maker when negotiating sales. Once you have identified with whom you should talk, give a brief description of your farm and products and ask for an appointment to meet them in person and discuss your products. When you meet with them, bring samples of your products.

Don't just "show up". When trying to win a new customer, call to make an appointment. Wholesale buyers, whether at a distributor, grocery store, or restaurant are busy and a "drop in" can ruin an otherwise promising opportunity.

Step 2: Define Expectations- Ask buyers about their expectations in terms of delivery, ordering, billing and payment, quality, size, and volume. Find out what products interest them and how much they need, what they want the produce/products to look like, and what packaging is desired.

Know your potential – make realistic projections before you make commitments. Does the buyer require: refrigerated trucks for delivery, Good Agricultural Practices (GAPs) certification, liability insurance, vendor permits, or free cases of promotional products?

Step 3: Establish Schedules- Ask buyers their preferences for how and when they would like to place orders and when they prefer deliveries. Set up an order schedule (standard day per week) and specify when orders must be placed so you have time to harvest products before delivery. Ask exactly when and where to deliver the products, and be sure to follow those instructions. Make it clear that you need a certain number of hours or days notice for special orders. Be on-time with your deliveries and supply exactly what you have promised. Reliability is a must!

Step 4: Establish Pricing and Payment- Consider establishing a consistent price throughout the season rather than fluctuating up and down. Be sure to consider your production and marketing costs (including delivery time and mileage) when formulating your prices. Make sure that prices and payment terms are clear in advance; ask about the billing and payment schedule. If the payment terms will not work for you, discuss possible changes.

Step 5: Communicate- Have **constant, ongoing communications** about your crop with your wholesale contact. If a crop falls short of expectations, tell the buyer immediately. Wholesale buyers report that giving them adequate warning is more important than falling short on an order. If they are aware of your situation in advance, they can seek alternative sources and still have a good relationship with you. If you leave them short without notice, it will likely destroy the relationship.

Step 6: Partners in Promotion- Help your buyers communicate your local, homegrown quality to their customers. You might want to provide farm literature for them to distribute to customers. Offer to be available for in-store or restaurant appearances. Offer to educate the sales team or other staff about your products and to take them on a tour of your farm. Show them the freshness of your product and give them a sense of how things are grown or made.

Wholesale Marketing Channels for produce in Nova Scotia

Produce Marketing Companies

Produce marketing companies are large scale wholesale buyers who specialize in managing inventory and delivery logistics. Produce marketing companies sell most of their products to grocery stores but may also sell to other retail stores (specialty grocery stores, natural food stores), restaurants, internationally through exporting, as well as to major food service distributors supplying institutions (schools, hospitals, nursing homes and prisons) and hotels. While sales to produce marketing companies are typically characterized by low prices, they are usually able to buy large volumes of product. This means that you can move more volume to fewer buyers, reducing your marketing labor and “face time” with customers. In addition, produce marketing companies serve the role of sales and delivery, which are time consuming and costly for farms distributing on their own. Produce marketing companies usually require that the product be delivered to their site.

Produce marketing companies have high expectations for quality, proper packing, and keeping schedules. It is not unusual for produce marketing companies to refuse a load of produce if it is not in keeping with their expectations. This high level of service and risk discourages many small-scale farms from selling to produce marketing companies.

Specific Pointers: Produce Marketing Companies & Retail

- ◆ There are some examples of producers in Nova Scotia who sell direct to large grocery stores and retailers. Work your way into this channel by offering quality, trendy, innovative (value added or preserving) and/or hard to find items; then build up the order by educating buyers about what other products you can supply. Often, though, selling to a produce marketing company can be the best route to land products in a large chain retailer.
- ◆ Be in constant contact with your customers about your crop. Consistency in quality, food safety, supply and pack size is most valued through this channel.
- ◆ Large chain retailers indicated that when selling direct to their store, branding your products through labeling and packaging is very important to gain customer recognition and loyalty.
- ◆ Produce marketing companies and direct store delivery (DSD) ie. Direct to retail, will likely require CanadaGAP certification and/or HACCP (depending on your products).

Some farmers have identified such wholesale channels as the most risky and stressful, citing the high level of labor needed to clean and package produce, the pressure to deliver quality and quantity in a timely manner, and the risk of “buyer back-out” as sources for stress.

“Distributors call all the shots, like price and pick-up time, and require extra labor for grading, sorting and packaging.” Be sure to understand buyer expectations and prices before agreeing to delivery. Produce marketing companies vary in their buying policies and business procedures, as do large chain grocery stores they supply. Some purchasing decisions are made at the local grocery store level, but most require approval from regional or central management. This means that produce marketing companies can be a good channel in which to integrate products from a smaller farm operation into a large chain grocery store. A good strategy is to spread your marketing risks by selling in more than one channel.

Despite potential negative perceptions toward barriers to entry, produce marketing companies can be an efficient way for a farm to move large quantities of product to other wholesale customers. Also, produce marketing companies provide market access to buyers who are seeking local produce by reducing a grower’s need for such things as vendor permits, insurance requirements, delivery by refrigerated truck, and others. Finally, produce marketing companies also tend to be more regular purchasers, creating a more predictable income source.

Snapshot: Apple Packers in NS

Apple wholesaling in Nova Scotia has its own group of apple packing companies that manage the majority of apple sales to all other wholesale marketing channels. Some of these companies are separate from the other produce marketing companies referred to above. If you are considering becoming an apple producer and selling through the wholesale marketing channel in Nova Scotia contact your local department of agriculture or visit www.nsapples.com for more information.

Institutional & Food Service Buyers

An increasing interest in local foods among the public may be having an influence on institutional buyers. With the institutional food service marketplace opening to local producers, farmers must be prepared to serve this market that deals in high volume and low prices. Some schools are interested in local purchasing as a way to increase fresh fruits and vegetables in the diets of children, and there are a few examples of publicly funded institutions in Nova Scotia purchasing direct from the farm in small amounts. However, many institutions are part of a buying consortium, and have a single goal: keeping costs low. Foods served at institutions are often pre-prepared or ready to serve, using few fresh ingredients. Sales to institutions also come with institutional barriers, including regulations, requirements, and permits that dictate their

Snapshot: Food Service Buyers

H.E. Keddy: Commodity Produce Distributor

H.E. Keddy is a Nova Scotian based commodity distributor to food service companies. H.E. Keddy has a 'buy local' focus, purchasing mainly from larger scale producers supplying the produce marketing companies in Nova Scotia. During the local season, H.E. Keddy estimates that approximately 70% of the produce they purchase is locally sourced. Although the company does purchase direct from producers, their customers require that the producers have some form of on farm food safety such as HACCP or GAPS certification. H.E. Keddy has a diverse customer base, including restaurants, ships, publicly funded institutions and independent grocery stores. H.E. Keddy picks up produce from the farm in their own refrigerated trucks, and the majority of their suppliers are located within a 15-20km radius of their warehouse, maintaining their buy local focus and reducing impacts on the environment.

purchasing practices. Their purchases are often made via contracts that specify how the food is delivered. Many institutions must follow federal food safety regulations such as HACCP and require delivery via a refrigerated truck. Liability insurance is also required, which farmers should have regardless of their marketing channel. It may be easier for farmers to sell to food service buyers who meet the requirements for selling to institutions. While this approach adds a middleman and reduces returns, it simplifies the marketing channel process for the farm. Some of the food service buyers have a broader reach than just institutions (such as independent retail stores) which can help to gain customer loyalty for produce that is branded properly. Even when working through a food service buyer, farms can approach institutional buyers

individually and ask them to request their products. It is possible to sell direct to institutions in Nova Scotia, although like large chain grocery stores, there are few producers who do so due to strict and systematic procurement policies. Most publicly funded institutions in Nova Scotia, which include correctional facilities, hospitals, continuing care facilities and schools, purchase from one of the major multinational Food Service Distributors with operations in Nova Scotia. The majority of universities in Nova Scotia hire a multinational Food Service Management Company to run their food service operations. Food Service Management Companies typically buy their supplies from a food service distributor or grocery distributor, discussed in the previous section. Information on becoming a supplier to publicly funded institutions and or the major companies that supply them is available in the ‘Growing Demand’ report noted below. Refer to Appendix 3 for a detailed summary of the produce marketing channels in Nova Scotia.

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The Nova Scotia Government has released a detailed report titled “Local food procurement at publicly funded institutions in Nova Scotia”. The full report is available at: www.gov.ns.ca/agri/marketing/research/growing-demand.pdf

Restaurant Sales

Although wholesale marketing is typically associated with moving products on a large scale, this is not always the case. Restaurants, for example, may require small quantities of products relative to other wholesale customers. Although sales amounts to restaurants may be lower, many restaurants will pay more for quality local products. Restaurants typically pay slightly above wholesale for standard items, and sometimes higher percentages for specialty items (those that can not be readily found from other wholesale sources). There are 850 restaurants in Nova Scotia, with 16 Billion in sales per year. This means for you, the producer, that Nova Scotian restaurants have a purchasing power of \$530 million. These numbers include fast food chains, however, many chefs (especially from higher end restaurants) are looking for fresh, local products to feature in their menus and their purchasing power can also be significant. Develop a personal relationship with chefs, find out what they want and grow a wide range of products for them for as long a season as possible. Be sure to offer clean, high quality products and reliable, timely delivery.

Snapshot: Tempest Restaurant

Tempest Restaurant in Wolfville, owned and operated by Chef Michael Howell, is a restaurant open year round committed to quality products, menu offerings, and local food. Chef Howell is very active in the restaurant industry in Nova Scotia and is knowledgeable about penetrating this marketing channel. Chef Howell stresses quality produce above all else, authenticity, and sustainability as selling features when marketing products to local restaurants. Include direct selling to restaurants as a part of your business plan. Identify the restaurants you wish to target and market your produce directly to them through personal calls, visits, professional flyers, or industry newsletters for example. Don't forget to market your CSA as well. CSA's allow the Chef to plan their menus. Just remember if you are going to fall short on an item, be sure to communicate it immediately so they can plan an alternate dish or pick up the required items.

Specific Pointers: Restaurants

- ◆ You will find that chefs are as busy as farmers. Call during the restaurant's "downtime" not during mealtime or preparation before meals (avoid 10 am-2 pm for lunch and 4 pm-11 pm dinner).
- ◆ Provide chefs with your farm's harvest schedule so they can plan their menus around it.
- ◆ Chefs especially appreciate when orders are delivered per their specific instructions, such as in the walk-in cooler, on a shelf in the kitchen, etc.
- ◆ Chefs often move from restaurant to restaurant, so center your business agreement on the restaurant and not only the chef.
- ◆ When you make your delivery, make it a habit to speak with the staff as well as the chef so they can talk knowledgeably to customers about your products.
- ◆ Large chain restaurants typically have national agreements with large food service distributors, making this a much more difficult channel to enter.

Summary: Selling through wholesale channels

The Nova Scotian marketing channel model for produce is complex and unique. There are opportunities to penetrate these channels with the right combination of knowledge and research. This section discussed accessing large grocery stores through produce marketing companies and potentially selling direct to grocery stores and retailers. It then looked at selling to food service distributors and direct to restaurants. The combination of marketing channels that work for each producer will vary on the individual and the business, as discussed throughout this guide. If you identify wholesaling as the right channel for you, contact the companies directly to discuss how to become a supplier. Research the locations that you wish to penetrate throughout Nova Scotia and include these companies as a part of your marketing plan. This guide presents generalizations about the ways to access various wholesale channels in Nova Scotia, the reality being that procurement procedures tend to vary for each and every business. Success for you, the producer, will come through market research, a solid plan, and careful execution.

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IT
OUT!**

A number of excellent business planning templates and tips are available on the Nova Scotia Department of Agriculture's website:
www.gov.ns.ca/agri/bde/bp-resources.shtml

Specific Pointers: Selling through wholesale channels

- ◆ It is important to understand the relationship between all of the wholesale channels in Nova Scotia if you are thinking of selling your produce through these channels.
- ◆ Contact your local department of agriculture for assistance with identifying wholesale produce buyers in Nova Scotia. To inquire about DSD (direct store delivery) to large retail chains, contact the produce manager.
- ◆ Some institutional and food service buyers sell to many diverse clients, including independent grocery stores. Once you have identified the companies that wholesale the types of products you offer, contact each one to discuss their specific requirements for their suppliers.
- ◆ Be sure to add the information you gather and the companies you wish to penetrate to your business and marketing plan for future reference.

Direct Marketing Channels

Direct marketing channels include farmers' markets, seasonal farm stands and farm stores, u-pick and Community Supported Agriculture (CSA). Some also consider "direct to restaurant or retailer" as direct marketing however, for the purposes of this document both retail and restaurant sales are considered wholesale because the farmer is not selling direct to the end user. Direct marketing also includes internet and mail order, however, those channels are not addressed in this guide. Direct marketing channels generally offer higher prices than wholesale and may require a greater diversity of products, though usually in smaller quantities. Because direct marketing involves more producer-customer interaction it consumes more time and demands customer-oriented skills of the producer.

Farmers' Markets

With the growing popularity of "local" foods, the health and wellness movement, the surge of organic, natural, and eco-friendly foods, and the proliferation of "foodie" culture, farmers' markets have seen growth in popularity. Many consumers and farmers believe that farmers' markets deliver higher profits to farmers because they eliminate the "middle man". However, farmers' markets are also labor intensive for producers and usually result in sales volumes which are lower than wholesale. The combination of high prices, low volume, and high time demands can contribute to relatively low profits.



Illustration 2: A summertime farmers' market in Nova Scotia.

However, farmers' markets do offer benefits beyond simple cash income. For example, they provide advertising for the farm's other channels, including u-pick, CSA, farm stand and even wholesale. In addition, they offer exposure to area chefs which may result in sales to restaurants. The opportunity to interact face to face with customers provides farmers with direct feedback on product demand, quality expectations and customer satisfaction, which helps farmers hone their marketing skills. Additionally, the opportunity to observe and interact with more experienced farmers at farmers' markets is an ideal setting for a beginning farmer to learn about marketing. Competition at a market helps farmers identify a niche that works for them.

A successful farmers' market vendor will grow crops for as long a season as possible in order to have a weekly presence at a market or several markets. A diversity of crops is generally needed, however, in a busy market, single crop producers can also be successful. For example, fruit producers may come for a few weeks only but because they are offering a high demand product for a short period of time, their sales can be significant. Additionally, a market is a good place to promote u-pick at their home farm. To extend the season and use up "extra" produce or waste, consider developing value added products to increase profits.

The low barrier to entry in farmers' markets is a double-edged sword. Backyard and hobby growers can easily sell there, making the farmers' market a good channel for new farmers. On the negative, the accessibility of this channel to hobby farmers who may not need to maximize profit may drive down prices for larger scale "career" growers.

Prices vary at farmers' markets, some have a reputation for having high prices, others low prices. Visit several markets before choosing where to sell. Learn about the rules, evaluate customer traffic, products and prices being offered, estimate sales per vendor and then decide which market will meet your product and sales goals. By visiting several times during the season you can also determine if the traffic is steady throughout. The potential for waste poses a challenge for producers marketing through the farmers' market. When preparing for a farmers' market, growers harvest crops in anticipation of a high volume sales day, but there is always the

Necessary food safety assurances that farmers should consider:

- ◆ Educate farm and market workers about proper hygiene and food safety.
- ◆ Wash and sanitize containers, tables, and packing equipment.
- ◆ Keep domestic and wild animals away from washing and packing areas.

risk of low attendance (and resulting poor sales) due to bad weather or other factors. In studies (conducted with NY farmers), such losses have been measured or estimated to be as much as 20% or more of the produce brought to the farmers' market. Another factor that contributes to high losses when selling through a farmers' market is the popular strategy of keeping the sales table stocked with large quantities of produce. "Stack it high and watch it fly" is a strategy based on the assumption that a display of large quantities and variety of produce is appealing to consumers and increases sales. However, this strategy requires keeping the display well stocked, even when the market day draws near to closing. Thus, producers are apt to bring more to market than they expect to sell, adding costs from the associated production, harvest and prep. labor.

Sales on the Farm

Farm Stands, Stores and U-Pick

Roadside farm stands and u-pick operations vary in their requirements depending on the scale of the operation. Each of the two channels can be managed as intensively or minimally as a producer's time and resources allow. However, to be successful and profitable, quality factors such as freshness and variety of the produce must be maintained at a high level. Each of these channels can be managed as staffed, with a sales representative tending to the customers, or



Illustration 3: A seasonal roadside farm stand.

unstaffed. Whether staffed or not, a well managed, well stocked u-pick or farm stand brings steady repeat business while a poorly managed one will not. The sales volume that can be sold through these channels varies depending on the level of drive-by traffic, location, price, and degree of advertising, as well as other factors such as weather and competition. Such variation in sales volume makes these channels appropriate for a wide range in the scale of production.

Potential risks and problems with these channels include factors that affect customer turn-out, theft (in the case of honor system payment) and inefficient harvest in the case of u-pick.

For successful on-farm retailing, you must enjoy having people on the farm and in your fields picking crops. Some farmers are not comfortable with this level of invasion and the liability risks presented with “people on the farm”. Building a loyal clientele is the key to successful on farm sales and this can take many years to build. Incremental growth based on realistic customer numbers and sales projections must be built into a farm retail business plan.

Work to develop a reputation for high quality produce. Word of mouth is the primary means by which consumers learn about local farms. Pay attention to what customers are looking for and start to build a product line based on what they want. Farm stands located on a busy road may attract enough customers to generate sales that warrant investing in improved facilities and staff. When considering locations, you can research traffic counts on your road or nearby roads.

Farm Stands & Stores

Selling farm products at your farm can involve a simple self-serve stand to a full-scale farm store with multiple departments, as well as a u-pick operation, or combination of u-pick and farm store/stand. Farm stores bring higher overhead and staffing costs which usually means slimmer margins, however when managed well, stores also bring more customers and returns. Self-serve stands are a good way to assess the potential draw from drive-by traffic. Crops that stop traffic include strawberries, corn, blueberries and pumpkins.

U-Pick

U-pick can sometimes be a cost effective way to expand direct marketing. U-pick presents the risks of bad weather during short crop seasons. Generally a pick-your-own operation will offer some products picked for the convenience of customers.

One u-pick business owner in central New York pointed out that u-pick is an inefficient

marketing channel, in his opinion, because “amateur” pickers only “cherry pick” the biggest, easy to find produce. Much of the harvestable crop then spoils in the field. However, it is possible to salvage such potential losses by regularly harvesting u-pick crops for a farm stand or other channel.

Table 4: “Pro’s” and “Con’s” to consider with on-farm retailing

	Pro	Con
Farm Stand & Farm Store	<ul style="list-style-type: none"> ♦ Low pressure for crop availability, consistent supply compared to wholesale. ♦ No people in the fields. 	<ul style="list-style-type: none"> ♦ Potentially high overhead costs.
U-pick	<ul style="list-style-type: none"> ♦ Customers provide the harvest labor. 	<ul style="list-style-type: none"> ♦ Lost crop, crop left in fields, timing of customers and crop readiness. ♦ Liabilities of people on the farm. ♦ Weather sensitive marketing.
	Pro	Con
Staffed	<ul style="list-style-type: none"> ♦ Delivers a high level of customer service. 	<ul style="list-style-type: none"> ♦ High labor costs.
Unstaffed	<ul style="list-style-type: none"> ♦ Low-overhead ♦ Flexible market 	<ul style="list-style-type: none"> ♦ Location is critical. ♦ Potential theft of produce and cash.

Community Supported Agriculture

Community Supported (or shared) Agriculture (CSA) is a marketing channel which, like farmers' markets, has seen a tremendous surge in popularity in the past 10 years. CSA's began in the US on two East Coast farms in 1986 and emerged as a marketing strategy in Canada in 1989. It is estimated that in 2004 there were over 1,700 CSA's in North America. CSA has been gaining momentum since its introduction to North America from Europe in the mid-1980s. The CSA concept originated in the 1960s in Switzerland and Japan, where consumers interested in safe food and farmers seeking stable markets for their crops joined together in economic partnerships. With a CSA, consumer members purchase "shares" of the farm's produce. Shares are purchased before the growing season begins and in this way, the risk of crop failure is shared among the members and the farm owner. Once harvest begins, members pick up their share of fresh produce once a week, usually at the farm or a central, predetermined location in the community.

CSA in Nova Scotia has a variety of goals and forms depending on the farm and producer. The majority of CSA's in Atlantic Canada are subscription or farmer driven, where the farmer organizes and promotes the CSA and interested consumers buy shares for the produce. There are two main types of shares used: boxed shares and free-choice shares.

While definitions vary, free choice shares mean that the member can take a variety of produce in the quantities that they choose. For example, at some CSA's, members can each fill one regular grocery bag or basket with any combination of available produce. If limited quantities of a certain crop are available, a sign will note it and members will be asked to limit what they take. Boxed shares are pre-packed for the member and the variety and quantity of produce in the box is set by the farmer and varies throughout the growing season. Additionally, farms offering free choice shares ask members not to "split" shares and ask that they only take what their family can consume in one week. CSA's require a large variety of crops, season long production, being

**A sample of produce that may be
offered in one week's summertime
CSA share:**

tomatoes, greens,

strawberries, herbs

zucchini, sweet corn

blueberries, cucumbers

celery, garlic

able to supply weekly shares, and satisfy customer expectations. In Nova Scotia, CSA's run for a variety of time periods depending on the operation and its goals. One CSA, for example, runs mid-June to mid-October, where yet another is working to run year round using greenhouses and root vegetables. Farmer interactions are highly valued by CSA customers, so farmers will need to be customer oriented and enjoy interacting with their members. Many farmers also include a newsletter and recipes with the weekly produce.

A benefit of the CSA channel is that shares are normally sold and paid for at the beginning of the season. In this case, farmers are paid even if a crop fails. Customers share the risk and enjoy whatever products are available on a weekly basis.

Snapshot: Snowy River Farms

Snowy River Farms was started just a few short years ago by David and Amy Hill, (Amy is a self proclaimed city girl with a passion for farming and local food). Snowy River is unique in their product delivery, differentiating from other CSA's and grocery store products by offering only heritage and heirloom varieties of vegetables, eggs and meats (think pink beans and colorful eggs), while maintaining competitive pricing. David and Amy are quick to use

intuition as well as informal market research to match their offerings to what the customers want. They also use channel combination strategy, operating a continuously growing 45 member CSA with four drop off locations, farm gate sales, as well as selling at the Truro Farmers' Market. The success of Snowy River to date has been a combination of planning, listening to customers, combining marketing



Illustration 4: Promoting eggs at the market

channels, allowing the business to grow organically and taking things day by day. While their unique products may not be for everyone, Snowy River Farms has been able to seek out customers who are looking for local, naturally produced commodities, and like to have a little fun with their food too. They have used a variety of small scale advertising strategies such as professional posters, a website, generating word of mouth for the CSA by attending the farmers' market, and the creation of 'Snowy River dollars' to encourage customer loyalty and retention.

One farmer from a local Nova Scotian CSA noted “Financially, it is more secure than growing for a market, and we really wanted to focus on....building community connections here as opposed to selling everything in the city”. CSA share prices range from as low as \$330 for a small share to as high as \$600 per season. Depending on the share options offered, farmers can plan production to meet the weekly share needs and price according to their costs of production plus margins they wish to achieve. Through good recordkeeping of yields and labor, CSA farmers can assess whether the price they charge is covering their costs. Additional outlets may be needed if the CSA does not meet the income goals or absorb all of the farm’s products. Farmers’ market or restaurant sales are compatible channels for CSA farmers who seek full-time income.

The degree of marketing labor through the CSA channel is relatively low since the customers are satisfied with lower levels of packaging and washing as compared to other channels. Additional marketing expenses for a CSA include delivery, if offered, and the costs of recruiting and managing members. If farmers fail to deliver, customers can be dissatisfied and may not join the CSA next season. This can be a high source of stress for many farmers running a CSA, who note that they work hard to provide a variety of produce and to ensure that “customers boxes” are full each week. Retaining customers is a plus since it is costly to recruit new customers. Suggested marketing materials for a CSA include a website, brochure, and possibly a newsletter. Many CSA’s secure new customers through word of mouth, but this only works by offering a quality product, being reliable, friendly, and dependable. The sales time required for a CSA is highly variable, but can be relatively small compared to other direct marketing channels, especially considering the volume of produce that can be distributed during one pick-up time.

Besides time spent selling memberships, which occurs during the off-season, CSA requires the coordination of one or two days weekly for members to pick-up their shares. Farmers report that a pick-up day entails about four hours of “sales time,” spent meeting and directing members as they pick-up their shares.

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For more information on CSA in Atlantic Canada including farm profiles visit: <http://www.acornorganic.org/pdf/CSAmanual.pdf>

IDENTIFYING YOUR MARKETING CHANNEL STRATEGY

Choosing the right channels for your farm

This guide has identified the most important factors to consider when evaluating a marketing channel and given a brief overview of wholesale and direct marketing channel options. Whether you are a beginning farmer or an experienced farmer looking to improve your farm's marketing, this guide is intended to orient you to marketing channels and aid in decision making. In order to select the marketing channels that best suit your farm and your personal preferences take some time brainstorming. Consider which channels are practical in your area, say within a 20-30 km radius of your farm's location. For example, if the farm is in a very rural location, U-pick may not be a good fit. Once you identify some marketing channels that interest you, visit other farms or marketplaces of that type. How are their prices? How many customers are there and what is the volume of produce being sold? What overhead costs and amount of labour are necessary for those farms to sell there? When you visit, take notes and try to rank each marketing channel for your perceptions of how well they fit your goals in terms of:

volume sold, price and profit, lifestyle preferences, labour required, and associated costs.

Once you have chosen your channels, remember that a well prepared and executed marketing plan will help to ensure your success. Plan your work and work your plan!

5 tips for successful Marketing Channel Decision Making

Value Your Time

As a farmer & business owner, you should place a value on your own time when evaluating marketing channel opportunities.

Keep Records!

Take the time to keep records, even if only for "snapshot" periods, so you can make informed decisions about your business.

Use the 6 Factors of Performance

Evaluate a channel for its: sales volume, price, risk, lifestyle preference, labor requirement, associated costs

Rank & Compare

Rank each channel for each performance factor (give a "1" to the best), add them up, & the channel with the lowest total is the best!

Multiple Channel Strategies

Combine channels to maximize sales. Have at least one "steady" channel and one that is flexible in its volume demand.

Marketing Channel Assessment Exercise

Using the table below, write in each marketing channel that you currently use and those that you are considering. Next, rank the channels against each other. A “1” is given to the channel that is the “best” for each criteria. In other words, a “1” for Price means the highest prices you receive, a “1” for Risk means the least risky channel. Channels that you feel are equal for a certain criteria get the same score and the next number in the rank is skipped (see Labor Required for example). In the Total Score column, simply add across for each channel. For Final Rank, give the channel with the lowest score a “1”, this is the best channel. A blank table is included in Appendix 2.

Marketing Channel	Volume	Price	Risk	Labor Required	Assoc. Costs	Total Score	Final Rank
Self-serve farm stand	1	2	2	1	2	8	1
Farmers' Market	2	1	2	3	1	9	2
Restaurant	3	2	1	1	2	9	2

Appendix 1 : Major characteristics of marketing channels to consider.

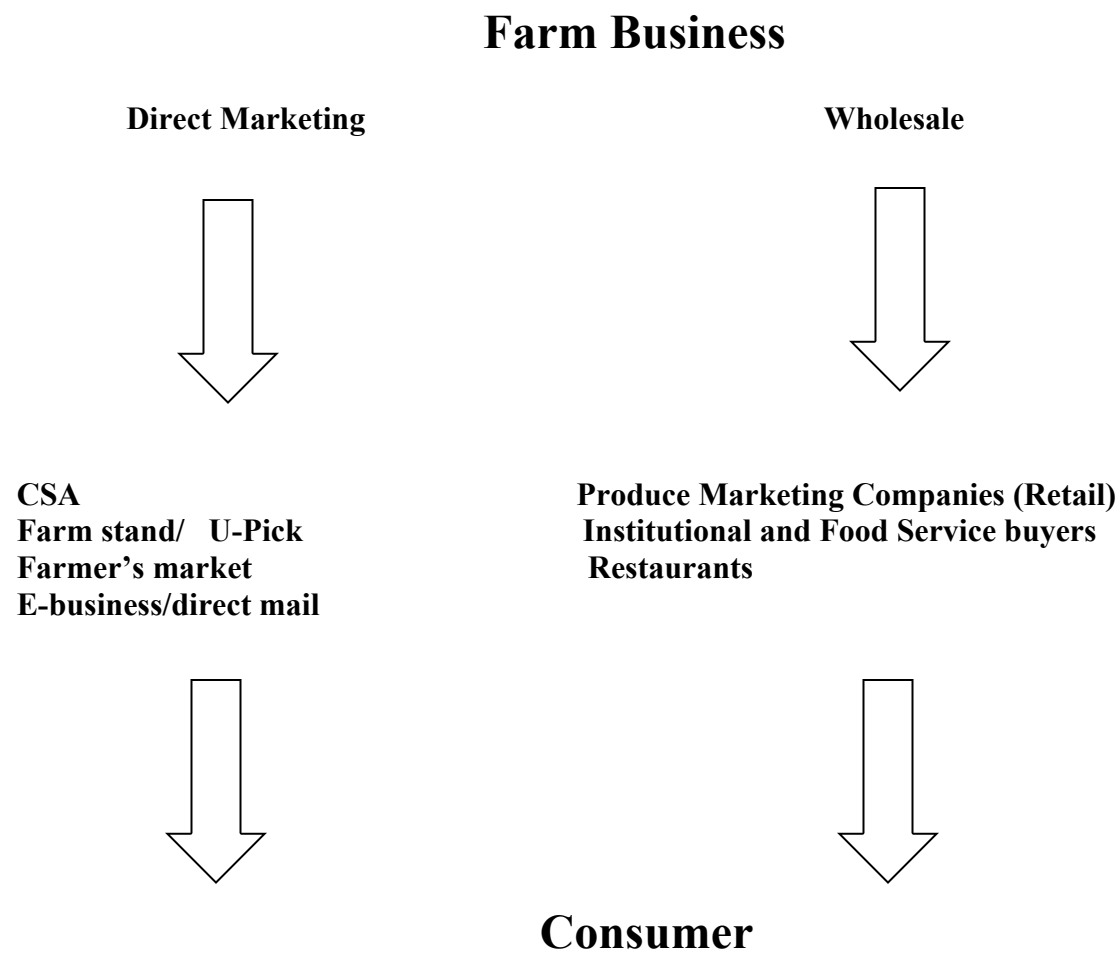
	Farmers' Market	CSA	Farm Stand	U-Pick	Distributor	Grocery	Restaurant
Risks	Low customer turn-out, price competition, leftover unsold product.	Farmer commitment up-front, customers share the risk.	Low customer turn-out.	Low customer turn-out. Weather. People on the farm.	Distributors "call the shots." Inconsistent orders, buyer back-out.	Inconsistent orders, buyer back-out.	Unpaid debts, buyer back-out. Can be slow to pay.
Prices & Profit	Prices varies. Can be highest among the channels. Labor costs relatively high.	Price is similar to wholesale, however, profit is generally higher.	Prices vary, but high profit potential. Location is a big factor in price.	Prices vary, high profit potential. Location is a big factor in price.	Price is low: Producer is a "price taker." Wholesale prices are generally low.	Price is low: Producer is a "price taker." Wholesale prices are generally low.	Prices vary. Usually higher than other wholesale prices.
Volume	Varies with market. Low to medium.	High: It is possible to "move" all the produce harvested.	Medium to low: location and competition pendant.	Medium to low: location and competition pendant.	High	High to variable.	Variable, usually small.
Level of Marketing Management Required	High: Many hours dedicated to selling. Most markets run 3-5 hours/day.	High: Must sell memberships & facilitate weekly share pick-ups. Less post-harvest work.	Variable: Ranges from unstaffed honor system to staffed stores.	Variable: Ranges from unstaffed honor system to staff supervision. Must advertise.	Low: Relatively quick & easy for volume sold. Must meet packing standards.	Low: Relatively quick & easy for volume sold. Must meet packing standards.	Variable: A high level of service for the volume sold.
Associated Costs	Market fees, equipment, travel, hired labor.	Packaging materials, advertising, brochures.	Road side signs and other advertising. Sales staff is optional.	Road side signs and other advertising. Sales staff is optional.	Washing, cooling & packing equipment for high volumes. Delivery costs.	Washing, cooling & packing equipment for high volumes. Delivery costs.	Washing, cooling & packing equipment for high volumes. Delivery costs.
Farmer Stress	Low: "Show up or don't show up."	Low to medium. Must meet customer expectations weekly.	Variable: Depending on overhead & scale.	Low	High: Distributors cited as highest stress customers.	Medium to high.	Medium to high.

Appendix 2 : Marketing Channel Assessment Exercise

A rank of “1” is given to the “best”.

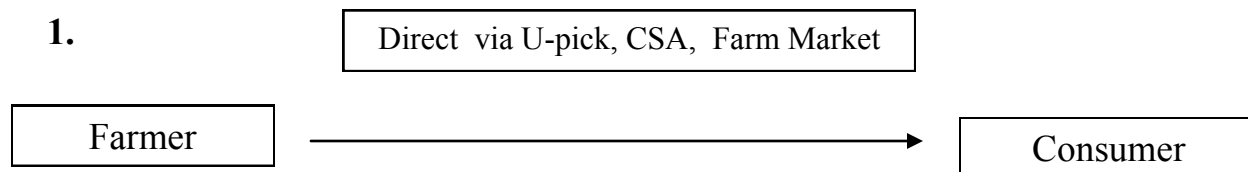
Marketing Channel	Volume	Price	Risk	Labor Required	Assoc. Costs	Total Score	Final Rank

Appendix 3 : Summary of NS Marketing Channels for fruit and vegetables

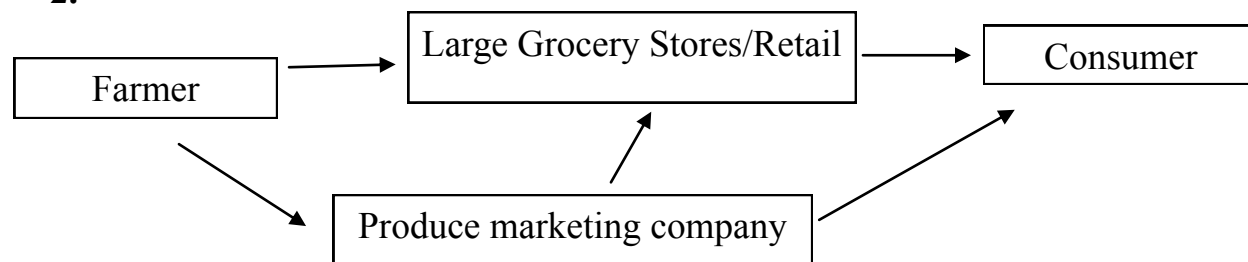


Appendix 4: Three models for Marketing Channel Distribution for produce in Nova Scotia

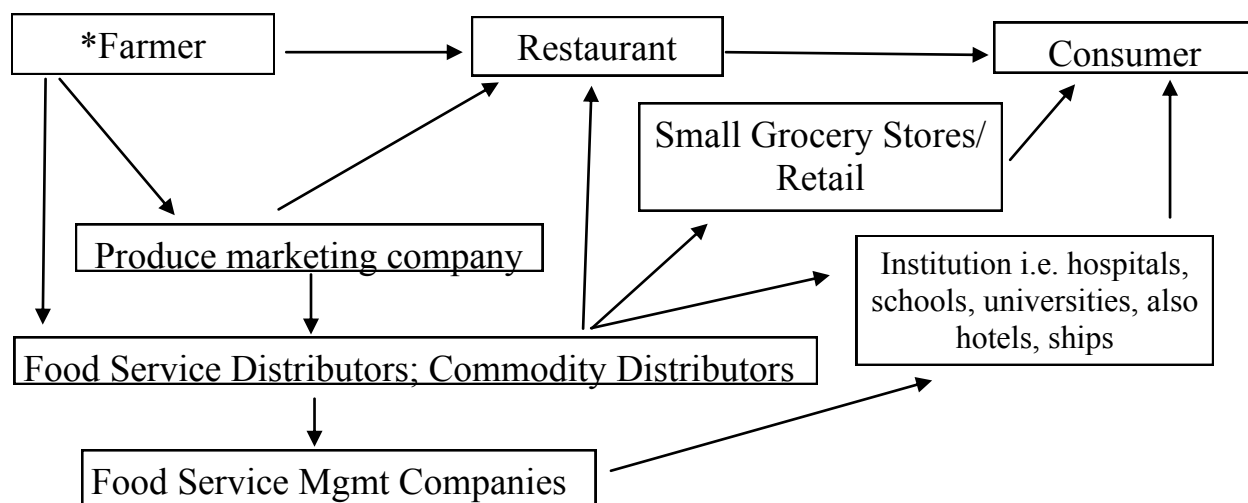
1.



2.



3.



*Refer to 'Growing Demand' report

Note that marketing through any channel requires research and a marketing plan.

Appendix 5 : List of sources and resources

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Guide to Marketing Channel Selection

