



Costs to Consider When Choosing Marketing Channels for Agricultural Products



College of Agriculture
Cooperative Extension

Ye Su, PhD

Lincoln University of Missouri
Assistant Professor of
Agribusiness

Reviewed by Eleazar
Gonzalez, PhD

Edited by Janice Carter-
Curtiss

Lincoln University
Jefferson City, MO
573-681-1234

LincolnU.edu
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1. Market vs. Marketing

Definition of Market and Market Structure

A market is any arrangement, either physically or virtually, that facilitates buyer(s) and seller(s) to engage in a transaction. A few examples of physical markets are farmers' markets, supermarkets, and auction yards. A few examples of virtual markets are Facebook Marketplace, online grocery stores, and commodity exchanges. Markets can be classified in many different ways by:

- Location of customers: local^a, regional (e.g., Midwest), national (e.g., U.S.), and international (e.g., European countries).
- Time: a specific month (e.g., September), year (e.g., 2023), or any time frame (e.g., next five months).
- Type of commodities (e.g., livestock, grains, fruits, and vegetables).
- Production method: organic, conventional.
- Institutional level: farm level, wholesale level, and retail level.
- Transaction format: face-to-face and virtual.
- Innovative concept: such as climate-smart commodity, sustainable and eco-friendly labels.

The number of buyers and sellers, the degree of product differentiation, and the

^aUSDA defines local food is produced less than 400 miles from the origin of the product, or within the state in which the product is produced.

freedom of entry and exit of a market determine the level of competition in a market. For farmers, the more farmers sell the same commodity, the higher degree of competition and the less likelihood to make a profit. By differentiating their products from their neighbors and other fellow farmers, they can reduce the competition and increase their chances of making a better profit, such as converting from conventional to organic production.

Definition of Marketing

Marketing can be any activity that facilitates a product moving from producers to consumers¹. Marketing is conducted in a market that benefits producers, consumers, and many other market participants. It can be as simple as farmers telling their neighbors that they have a new product to sell or that one of their products is on sale. It can also be high-price commercials on TV to provide product information for the public. Marketing can also be learning more about the consumers' needs and producing products to meet their needs. Marketing helps farm businesses to build awareness, attract customers, and drive sales. Farmers can use many different approaches to increase their exposure to consumers. Currently, social media, such as Facebook, Twitter, and Instagram have become

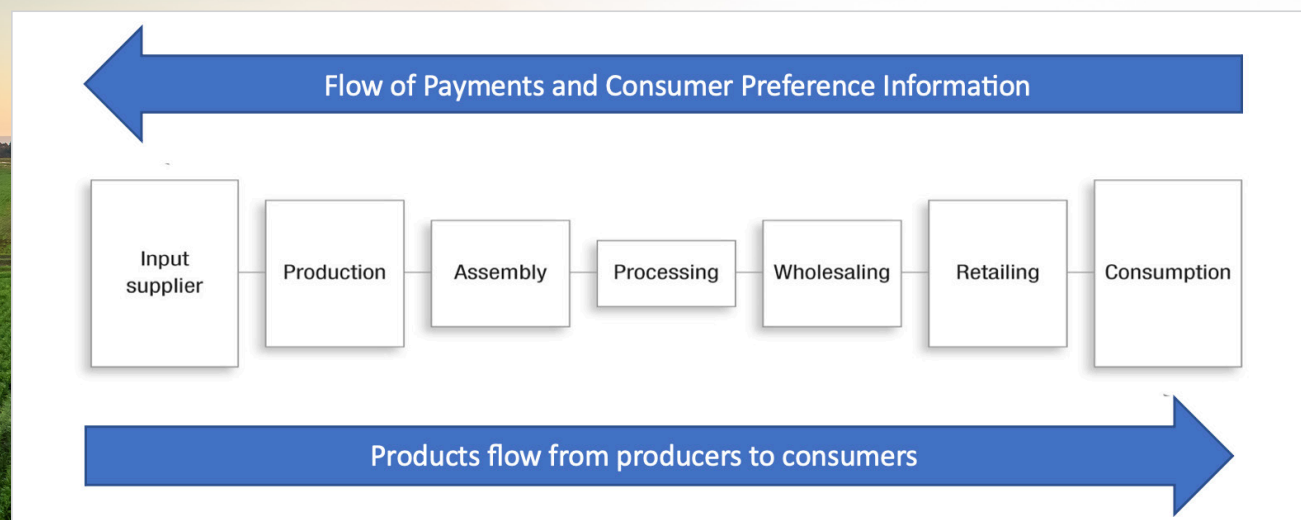
extremely popular and are cost-effective ways to market almost any product.

2. Marketing Channel

A marketing channel is a set of firms that move a product from farms to consumers (Figure 1). A marketing channel includes many participants, such as farmers, input suppliers, intermediaries, processors, and consumers. Within the channel, a business or individual promotes and distributes information about their company, products, or services to their potential customers. Marketing channels help firms build awareness, attract customers, and drive sales. Consumers also use this channel to express their preference for different products and product features with their payment.

Overall, two marketing channels are available for farmers to sell and promote their products: direct to consumer sales (DTCs) and intermediated sales³. Direct to consumer sales refer to direct farm to final consumer transactions, either face-to-face or online, such as farmers' markets, roadside stands, pick-your-own, on-farm stores, and community supported agriculture (CSA)⁴. Intermediated sales refer to producers selling their products indirectly to final consumers through food hubs, wholesalers,

Figure 1. Stages in a Marketing Channel ²



distributors, restaurants, farm-to-school programs, and/or other institutions⁵. Intermediary agents aggregate products from producers, processors, manufacturers, distributors, or sell to final consumers^{3,6}.

3. Costs to Consider When Selecting Market Channel(s)

Based on our survey (n= 140) of small farmers in the state, we found that more small farmers sold directly to consumers than those who sold to intermediaries, and many of them used a combination of both. Farmers need to consider some factors when choose appropriate marketing channels to maximize their profit (profit = revenue minus cost of production and the cost of marketing the products). It is easy for farmers to track the revenue and the cost of production but it's not easy to track the cost of marketing, especially when there are no monetary costs involved, such as unpaid family labor. Table 1 (see p. 4) summarizes the activities and related costs that farmers need to consider when choosing a market or marketing channel.

When choosing a marketing channel, farmers can choose the channel(s) which give them the highest net return(s) (the differences between price and costs of marketing) because the cost of production is the same across different marketing channels, and it can be neglected when choosing a marketing channel. Since there are so many costs involved in marketing a product, farmers can use a spreadsheet with the items in Table 1 below to record all costs and compare the total costs of different choices to choose the combination that works best for their farms.

4. Closing Remark

When choosing a market or marketing channel, many factors come into play other than cost, such as the availability of quality labor, distance to market, the characteristics of farm products, and the level of competition in the markets. In many cases, it is hard to calculate the costs of all activities related to a particular market. However, it is possible to categorize the costs in different markets as low, medium, or high for a specific activity. Therefore, farmers can order the costs of marketing for different marketing channels and make a selection.

In some other cases, farmers may use a particular market or marketing channel to build a network, maintain good customer relationships, or extend their current customer base. Therefore, decisions need to be made case by case.

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Table 1. Marketing Activities and Related Costs

ACTIVITY AND/OR COST	DESCRIPTION
Transportation costs	
Load, unload truck- labor	Includes only time measured by hours to load truck at farm for delivery route or farmers' market, and time to unload truck upon return.
Delivery vehicle - capital and operating costs	Costs to own, maintain and operate delivery vehicles, including fuel, insurance, maintenance and parts, registration and depreciation; Mixed load costs allocated proportionate to product value for each channel in the load.
Delivery-labor	Labor to drive to and from each channel's selling or delivery sites. For farmers' markets, delivery labor includes the driver's time for entire farmers' market set-up, sales and reloading time, as well as driving time. For mixed loads, actual driving time per each channel.
Contracted trucking	Transportation charges for contracted trucking.
Tolls	Toll- fees, allocated proportionate to product value for each channel in the load.
Selling and administration	
Market communications - labor	Labor cost to attend conferences, networks, to communicate with marketing partners (site hosts, market managers, brokers, distributors, other farmers, advocates, and associations).
Wholesale sales - labor	Labor to discuss orders by phone, negotiate prices and quantities available, create invoices, schedule deliveries, communicate with picking and packing staff about availability and special orders, create pick lists, update and change invoices and compile availability lists to distribute as needed to buyers.
Retail sales - labor	Labor to sell to individual customers, including restaurants pre-orders. Tasks include setup and take-down of stalls, restocking products, -stall clean-up, offerings of product samples, donations of unsellable product and other cleanup tasks.
Marketing costs - labor and materials	Labor and materials used to create, maintain, and update website, advertisements, brochures, signage, newsletters, display materials, fees for consultants, etc.
Recordkeeping	Recordkeeping software development or purchase costs.
Account maintenance, banking, bookkeeping - labor	Labor for ongoing maintenance of accounts: receive and process payments, issue invoices, update contact info and other related information, ,prepare receipts for deposit. Prepare startup bank for future days of sell, respond to customer inquiries/complaints, maintain, update record keeping system-and pay bills.
Other office staff - labor	Labor for marketing personnel administration, payroll, general office maintenance, general communications and updating of certifications.
Business marketing - labor	Determine marketing strategies, prices, policies, equipment needs and sales goals.
Searching and Communication	
Search for potential buyers - labor	Labor for searching potential buyers through the Internet, intermediaries, phone calls, social media, or other means.
Communications with potential buyers -labor	Labor to follow up with potential buyers to provide products information for future sales and orders.