



*Market*

*Planning*  
*for*  
*Value-Added Agricultural Products*

*by Lynda Brushett & Gregory Franklin*

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This workbook is based on presentations by Lynda Brushett, Niche Marketing, Barrington, NH, Greg Franklin, Gregory S. Franklin Associates, Lebanon, NH and Jim Miller, Miller Business Navigators, Canterbury, NH for the Marketing U Seminar on Market Planning For Value-Added Agricultural Products held at East Hill Farm in Troy NH, January 26 & 27, 2000.

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*The future of agriculture  
in New Hampshire  
depends on  
profitable farms  
that can nurture families  
and be passed on  
to future generations.*

*NH Coalition for Sustaining Agriculture*

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# Market Planning for Value-Added Agricultural Products

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by Lynda Brushett and Gregory Franklin

## *The Bottom Line:*

*To be successful in business*

*you need enough customers to buy your product  
over a sustained period of time  
at a profitable price.*

Success requires

*knowledge*

*research*

*focus*

*communication*

*knowledge:* an understanding of the needs of your customers (your market) and how those needs relate to your product's features and benefits;

*research:* information that helps you determine whether there is enough of a market to keep your business thriving and whether the costs of producing, distributing and selling can be done for a price that your market will pay and that yields a profit to you;

*focus:* the discipline to know whether there is a match between the needs of a prospective customer and what your business offers;

*communication:* an ability to convert the market and product match into repeat sales.

No one can tell you exactly how to achieve success. The path is unique to each business. However, the experience of successful entrepreneurs strongly points to business planning based on strategic thinking and research about an enterprise and its potential customers as a common trait.

Business planning encompasses all the interdependent issues about which a business must be concerned and informed: production, labor, financing, management, organization, marketing, and so forth. This workbook focuses on one aspect of business planning: marketing. It is directed at agricultural producers considering or engaging in earning adding financial value from their enterprises through processing, packaging, distribution and other services.

## MARKETING BASICS

Every entrepreneur starts with a gut feeling—a strong intuitive sense of having come upon a truly great business idea. Making the transition from concept to a profitable venture requires vision enhanced by information and planning. Marketing savvy is a key element.

Marketing is a purposeful process of identifying and satisfying customer needs. Marketing encompasses everything a business does to direct its products to a defined set of customers.

Marketing products to an undifferentiated mass market is rapidly becoming a thing of the past. Demographic changes, intense competition and information technology are dividing the mass market into more and more separately definable segments. Just the sheer volume and variety of available products alone means that no-one has to make do with a product that does not quite fit a specialized need.

Surveys, scanning, computerized data bases, the Internet, cable television are just a few of the methods making it possible to identify, understand and communicate with well-defined customer groups. Trying to be all things to all people is ineffective. Customers expect and demand products and services that fit them perfectly. Effective marketers give them what they want.

Marketing is a customer focused way of thinking and acting. The customer's needs and desires determine the marketing strategy—product positioning, packaging, promotion, presentation and pricing. In a sense, the customer's interests are wrapped around the product.

The four fundamentals of marketing are: **Product, Place, Price, Promotion**. Your **Product** must provide consumers with something they perceive has value. **Place** is where the customer will purchase the product and how it gets there. **Price** is the art of assessing the value of your product. **Promotion** is what you do to make the connection between your product and the buyer. Based on the 4-P's, every business needs to develop a marketing plan which outlines marketing goals, strategy and implementation activities and designates who is responsible for sales and marketing.

### Market Planning: Matching your product to its market

Marketing requires focus and differentiation. Success depends on research and careful attention to detail. Putting together a marketing plan helps assure that a product matches its market. Four basic questions need to be addressed:

*Market Analysis*

*Product Development*

*Market Positioning*

*Market Connection*

1. What is my target market?
2. What am I going to market?
3. How does my product match the needs of my market?
4. How will the market know I have what they need?

Market planning is a circular rather than linear process. Answers found for one question help inform and clarify answers to the others. These questions guide a continuous cost benefit assessment of the information gathered in order to determine:

1. What will it cost to reach each potential market segment?
2. Where can my business reach the best market at the least cost?
3. Which market/channel options do we now develop?

The result of planning is reasoned, strategic decision making about your business specific market goals and activities and a commitment to put your plans into action.

## Where do I find this information?

- ◆ *If you are currently engaged in marketing, ask your customers: Why are they buying from you? What keeps them buying? What levels of need or interest is your product filling? What do they think about your product or service? Does it meet expectations? What would cause them to buy a competing product? Are there other products they would like you to provide?*
- ◆ *To learn about new opportunities, trends, marketing channels, demographics and marketing trends or to understand the competition, visit a good business library and discuss your research questions with the reference librarian. Identify and consult appropriate trade associations, business directories and industry publications, government publications (Departments of Commerce, Labor, Agriculture, etc.) and business data bases. A visit to your local Small Business Development Center or Service Corps of Retired Executives is recommended. For those with patience, the Internet is a tremendous source of information.*
- ◆ *If yours is a retail product, visit a variety of retailers who carry similar products (supermarkets, mass merchandisers, warehouse clubs, specialty stores, farm stands, etc.). Compare product assortment, shelf placement, added value attributes, quality, packaging, display conditions, volume, number of facings. What is the store and its supplier doing right? What improvements could be made? Check retail prices. Work back to the wholesale price and determine your ability to be a competitive supplier. Develop a feel for the type of consumer the retailer serves. Make frequent visits to the retailer over time. Estimate product sales and movement. Does the product mix change?*
- ◆ *Talk with store managers. What do they see as opportunities in your category? Obtain information about buying and distribution procedures and ask for the name of the person responsible for buying decisions. Can the person help you identify distributors?*
- ◆ *Determine which distribution companies within the regional market area best fit your product market. Identify the name of the buyer for your category and create a script for approaching that person to determine new product entry criteria.*
- ◆ *If yours is a business to business product, check out similar firms and find out what they are doing. How are they attracting and keeping customers? What image are they projecting and what messages are they sending? Are their communications strategies effective? Why? What is the price range? How is value established?*

## Doing your own market research

The following worksheets are designed to help you conduct and organize your market research into a marketing plan for your business. As noted earlier, keep in mind that this is not a step by step process. Everything you learn will influence your previous understanding and lead to new questions. Also keep in mind that the questions raised on the worksheets are a starting place. Use your research, your experience and your intuition to raise other issues and follow market leads.



# Market Analysis

## Worksheet #1



### Market Analysis: What is my target market?

A target market is a well defined group of customers. Markets can be found within any broad category: consumers, businesses, industries, institutions *etc.* Consumer groups, for instance, can be characterized by demographics, geography, lifestyle, values, leisure, occupation. Business customers can be defined in terms of markets, products, management styles, distribution channels, size. Value-added product marketing includes the end consumers of your products and services and the businesses who distribute and sell your product to that consumer (the channel customers).

Begin market planning by clearly identifying the market you want to target. Note that this may or not be the market you are working with now. The idea here is to think creatively about your product so as to determine what set of customers are going to give your business the cash flow, profit and growth it needs.

Start with a big piece of paper. Across the top write a brief description of your product as currently conceived. Next, write your answers to four key questions:

- Who will buy my product?
- Why will they buy my product?
- What will they pay for my product?
- Where do they expect to find this product?

The questions listed in the charts below (and those you add) will help you find the answers.

When you are finished, step back, consider what you have learned. Write

- 1) a brief, focused description of your target market
- 2) an assessment of which aspects of your business need to change in order to attract this market, and
- 3) a list of what is involved with making needed changes.

# 1. Who will buy my product?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What do my customers look like (demographics, characteristics)?		
Where are these buyers located?		
How do they cluster or group together in market segments?		
Why do they or should they want my product?		
What quantities will they buy? Will they increase or decrease their purchases over time? Why?		
Where am I going to find more of these buyers?		
What else do I need to know?		



## 2. Why will these customers buy this product?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What are the reasons someone will buy my product? Is it for status? taste? health? recreation? or .....?		
Why are they interested?		
What are they looking for? Why?		
When are they looking for it? Why?		
What is important to them? Why?		
What else do I need to know?		

### 3. What will these customers pay for this product?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What are they buying now from the competition?		
At what price?		
In what quantity?		
Is my product price sensitive? Why?		
What else do I need to know?		

### 4. Where do buyers expect to find this product?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
Where are they buying a similar product now? Why?		
Will they go out of their usual way to find or buy this product?		
What is the best method to move this product to this market?		
What channels are involved?		
What is the channel cost?		
Who makes the channel buying decision?		
What is important to the channel buyer?		
What else do I need to know?		



# Product Development

## Worksheet #2



### **Product development: What am I going to market?**

Now that you have a clearer idea of who your market is and what they want, how does your product meet their needs? Remember that products are continually fine tuned as you better understand the needs of your customers and the mechanics of your business. The challenge is to think about your product from the perspective of your target market, both end consumer and channel customer.

When you have finished answering the following set of research questions, take a second piece of paper and summarize your answers into:

- 1) a creative, market-informed description of your product and
- 2) a concept for how you will make your product meet the needs of your end consumers and channel customers while being competitively priced and profitable.

# 1. What is my product?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What are its benefits and features?		
What is needed to produce my product (technology, equipment, packaging, labor, utilities, facilities, regulatory compliance)?		
What does it cost to produce? At what quantities?		
What are the costs, benefits and trade-offs of alternative systems and scale?		
Is my pricing appropriate to my customers (consumer and channel)?		
What is important to the channel buyer?		
What else do I need to know?		

## 2. What is the best method to package and present my product?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What size?		
What message?		
What style?		
What are the packaging requirements of alternative channels?		
What else do I need to know?		





# Market Positioning

## Worksheet #3



**Market Positioning: How does my product satisfy the needs of my market better than my competition?**

Market positioning is the way you communicate precisely the place your product holds in the marketplace. How you position your product in the mind of your customer determines how the product is perceived.

Positioning is the strategic component of marketing. It ties together information about your product, your market, your competition and your industry. It is the answer to a very basic question: What business am I in? “the what’s for dinner business?” “the family vacation business?” or ? You can distinguish yourself on the basis of the needs you fill, the services you provide, the distribution channel you use, the pricing strategy you employ.

Think about your product from the perspective of your customer and that of your competition. Note that buying usually comes down to a decision of choice: your task is to figure out how to make the customer choose YOUR product.

When your research is complete, take a third piece of paper and summarize your findings into a position statement of 50 words or less that answers two questions:

- 1) What business am I in?
- 2) Why will the market want my product rather than that of my competition?

# 1. What need does my product fill?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What interest does my product satisfy?		
What is my competition offering?		
To what needs/ values are they appealing?		
What position are they aspiring to own?		
How are they communicating their position to the consumer (image, message, packaging, distribution channels, service, pricing)?		
How is my product the same and different?		
What do my customers really value?		
How can I appeal to those values better than anyone else in the marketplace?		
What else do I need to know?		

## 2. Organize a competitor file

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
Name of competitor(s)		
Product (names, contents, sizes, etc.)		
Packaging (design, message, etc.)		
Pricing strategy		
Where can you buy this product?		
Shelf Placement		
Number of facings		

## 2. Organize a competitor file (cont.)

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
Promotional support		
Distributors		
What are the product's strengths?		
What are the product's weaknesses?		
What is the target market for the product?		
How is the product positioned?		
What else do I need to know?		

# Market Connection

## Worksheet #4



### **Market Connection: How will the market know I have what they need?**

Making connections with your target market lets the customer know you have the product they need. Unless you are a consumer-direct marketer, these connections are made with the assistance of intermediaries: businesses that warehouse, transport and sell your product to those with direct consumer contacts and the businesses that represent your product to that system. These businesses are the marketing channels that move products from the point of production to the final buyer. Some, such as wholesalers and retailers, buy and resell the product, others, such as independent warehouses and transportation companies provide distribution services for a fee. Others, such as brokers, represent the product in the marketplace for a commission.

Channel businesses are a key component of your marketing strategy. How a channel business warehouses and distributes products, how it targets consumers, and how it features and merchandises goods all define its particular set of needs and resulting buying criteria. To be an effective marketer, producers need to identify and understand the differences among channel markets and market their products accordingly. No single marketing program works for all markets.

When your research is complete prepare a strategic response to these questions:

- 1) What will it cost to reach each potential market segment?
- 2) Where can my business reach the best market at the least cost?
- 3) Which market and channel options should I develop now?

# 1. What distribution channels are best suited to my product, my customers and my business?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What will it take to connect my product to my target market?		
What existing channels could I use?		
What new channel relationships will I need to develop?		
What will it take for my product to fit into these channels (transport, warehousing, packaging, fees, promotions, etc.)? At what cost?		
How will I enter the marketplace?		
What is the most effective channel I could use to reach our market?		
What else do I need to know?		

## 2. What are channel cost/benefits?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What are each channel's marketing costs?		
What is the impact on market price? margin?		
What are my most cost effective channel/market options?		
What else do I need to know?		

### 3. What will it take to sustain market/channel connections?

<i>What do I need to know?</i>	<i>Where do I find the answers?</i>	<i>Results</i>
What mix of personal selling merchandising, advertising and promotional activities will be needed?		
What are my long term marketing costs?		
What will it take in time, revenue, marketing effort to sustain each market channel option?		
How does my packaging, advertising and promotions link my product to its market?		
How does the appearance and style of my business reinforce my market message?		
What else do I need to know?		



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# Notes











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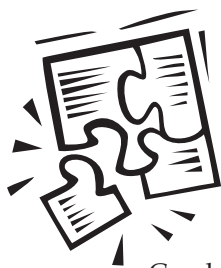
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# Special Topics

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	<b>Practical Market Research</b> ..... 27 Gregory Franklin, Gregory S. Franklin Associates, LLC. Lebanon, NH 03766. December 2000.
	<b>Pricing</b> ..... 29 Adapted from <i>Specialty Food Business Fundamentals</i> by Lynda Brushett, Niche Marketing, Barrington, NH 03825 for NH COOKS, Epping, NH 03042. November 1997.
	<b>Making Pricing Decisions</b> ..... 31 Gregory Franklin, Gregory S. Franklin Associates, LLC. Lebanon, NH 03766. December 2000.
	<b>Break-even Analysis</b> ..... 35 Michael Sciabarrasi, Business Management Specialist, UNH Cooperative Extension. Durham, NH 03824. December 2000.
	<b>Mark-Up &amp; Profit Margin Formulas</b> ..... 37 Michael Sciabarrasi, Business Management Specialist, UNH Cooperative Extension. Durham, NH 03824. December 2000.
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	<b>Market Support</b> ..... 47 Adapted from <i>Specialty Food Business Fundamentals</i> by Lynda Brushett, Niche Marketing, Barrington, NH 03825 for NH COOKS, Epping, NH 03042. November 1997.
	<b>Direct to Consumer Markets</b> ..... 49 Adapted from <i>Specialty Food Business Fundamentals</i> by Lynda Brushett, Niche Marketing, Barrington, NH 03825 for NH COOKS, Epping, NH 03042. November 1997.





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## Practical Market Research

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by Gregory Franklin, Gregory S. Franklin Associates, LLC  
Lebanon, NH

Conducting marketing research is a challenge. The information you need is not available in an off-the-shelf publication, nor can it be accessed from any single source. The reality is that every business person has to create their own unique market resource base. The key to such an undertaking is double pronged: Be practical – Be organized. Most small or start-up businesses do not have sophisticated research capabilities, so be able to capture and store information when you see it.

When preparing yourself for conducting research follow this advice:

- Make a list of the information you are looking for
- Always adopt the attitude of a start-up – you can't know enough
- Develop a research habit – make it an on-going task
- Allow time to think and ponder upon what you are learning

### Where to go for information

1. **Libraries**, especially those at colleges with business schools and those in large cities. The more focused you are, the better the assistance you will receive from reference librarians. Be sure to bring change for making copies and computer discs to download information. Many libraries are now set-up for lap-top computers. Take a look at books about advertising, marketing, public relations, direct marketing, telemarketing, mail-order marketing, e-commerce, *etc.* Search on-line databases for journals, business publications, *etc.*
2. **Review available publications**, including directories, magazines and newspapers. Make a list of those publications most appropriate to your businesses and read them on a regular basis.
3. **Mailing lists** are great sources of research information and they come in two types – those you purchase and those you create. Your house list of prospects and customers will become your single most important source of information. Make every effort to keep it growing and up-to-date, and then mine it for information about your business, your customers and your products.
4. **Business development and management assistance**. Public sources include the Small Business Development Centers, Cooperative Extension, Service Corps of Retired Executives, Economic Development Corporations, *etc.* and various organized business networks. Business schools often provide opportunities for assistance from students.
5. **Internet Websites**. While information is not well organized and sometimes hard to determine credibility, a well focused search can unearth a gold-mine of data. Use your information list as the basis for your searches. Bookmark those sites you find valuable and use your browser to organize these sites by topic for fast and easy reference.
6. **Colleagues and competition**. These contacts often have the same interests and challenges that you do, and are great sources of information. Their knowledge is real-time and market tested, so be willing to share what you're learning in return. These relationships, if carefully developed, maintained and reciprocated, will provide long term dividends to your business as well as some great friendships.
7. **Other small, successful businesses** not in your category. These folks have experience and are willing, on a limited basis, to share their insights and resources with

you. Their advice is market tempered and not constrained by the same issues you are. Again, be willing to share what you're learning in return.

**8. Public and private business organizations.** Contact groups which support or promote business such as NH Stories, NH Travel Council, Chambers of Commerce, NH/VT Direct Marketing Association, *etc.* as well as trade associations. These are great places to hear what and how others are launching products, managing their businesses, and handling many of the same challenges you are experiencing.

**9. Federal, state and local government agencies.** Staff can provide or help identify sources of statistical information and publications, make referrals, *etc.*

### **How to organize your findings**

1. Make a list of key information topics.
2. Prepare file folders, real and digital, for each topic, to store what you find.
3. Clip and file information on a regular basis.
4. Periodically review the contents and revise your topic list.
5. Constantly clip, download, file and review - make it a habit.

### **Suggestions for further reading**

*Advertising and Promotions: An Integrated Marketing Communication Perspective.* George E. Belch and Michael A. Belch, Irwin McGraw-Hill, 1998.

*The Business Planning Guide: Creating a Plan for Success in Your Own Business,* 8th ed. David H. Bangs, Jr., Upstart Publishing, 1998.

*Building a Mail-order Business: A Complete Manual for Success.* William A. Cohen. John Wiley and Sons, 1985.

*Fundamentals of Marketing.* William J. Stanton, McGraw-Hill, 1981.

*Guerrilla Marketing: Secrets for Making Big Profits From Your Small Business.* Jay C. Levinson, Houghton Mifflin, 1998.

*Mail-order Moonlighting.* Cecil C. Hoge, Sr., Ten Speed Press, 1988.

*Phone Power: How to Make the Telephone your Most Powerful Business Tool.* George R. Walther, G. P. Putnam's Sons, 1986.

*Positioning: The Battle for your Mind.* Al Reis and Jack Trout. McGraw-Hill, 1993.

*The Publicity Handbook: How to Maximize Publicity for Products, Services and Organizations.* David R. Yale, NTC Business Books, 1991.

*Innovation and Entrepreneurship: Practice and Principles.* Peter E. Drucker, Harper & Row, 1985.

*State of the Art Marketing Research.* A. R. Blankenship and George E. Breen, NTC Business Books, 1993.



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## Pricing

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Adapted from *Specialty Food Business Fundamentals*  
by Lynda Brushett, Niche Marketing, Barrington, NH

The price of a product is based in an assessment of cost, quality, image, and profit, as well as the cost of competing products and demand. Pricing strategy is an important part of the marketing strategy.

Buyers use the terms 'mark-up' and 'margins' when negotiating a wholesale price. Because the terms have significantly different dollar value implications, producers are cautioned to clarify what the buyer means. Buyers are most often dealing with margins not mark-up.

**Margin** is retail price (what a buyer sells the product for) minus the buyer's gross profit.

**Mark-up** is the difference between the wholesale price (what you sell it to the buyer for) and the retail price (what your buyer sells it for), or gross profit.

*Example:*

The wholesale price of your jam is \$2.50. A buyer wants a 40% margin. The retail price of the product will be:  $\$2.50 / (1.00 - .40) = \$4.16$ . Will your product sell at this price?

If the buyer wanted a 40% mark up the result would be quite different. The retail price would be  $\$2.50 * (1.00 + .40) = \$3.50$ . Is this an appropriate retail price?

Within a product category, margins can vary depending on turnover. Low volume, slower moving items like specialty foods have higher margins than high volume products like toilet paper or milk. Distributors are generally looking for a 30% margin; retailers want a 40 to 50% margin.

Setting a price is a forward and backward analytical process. *Forward:* develop a thorough understanding of all your costs, add distribution and buyer margins to find a retail price. *Backward:* research the retail price of competing products, work backwards through typical margins to the wholesale price, the price you would have to sell it for in order to be competitive. For example, take the retail price, subtract 40 to 50% to find the retailer's cost; subtract 25 to 30% to find the distributors cost; then subtract 15 to 20% to find your cost. At what volume of product (your break-even point) can you compete? At what point will sales meet costs?

In determining price attach a dollar value to everything it takes to get your product to market: ingredients, packaging (containers, shipping boxes, etc.), production, labeling, marketing and sales (staff, advertising, materials, promotions, public relations, etc.), overhead, administration, salaries, benefits, etc. Consider and factor in the intangibles: quality, image, market position. Is the price competitive?







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# Making Pricing Decisions

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by Gregory Franklin, Gregory S. Franklin Associates, LLC  
Lebanon, NH

## What do we mean by price?

The utility (desirability) of your product creates value that is measured by price. The actual dollar amount of the price is determined by the cost to produce the product, the cost of business operating expenses, the desired profit you want to make, the level of service provided, the image you are creating, the price of competing products and the demand for your product.

## How is price determined?

Price is determined through an assessment of your manufacturing, distribution and margin (profit) costs.

1. First **consider your pricing strategy**. What are you trying to achieve? Is your objective to earn a specified return on investment? a specified profit level? an increase in market share? parity with the competition? creation of an image? maintenance of market share? a combination of objectives?
2. Next, **determine your manufacturing costs**. Conduct a full and honest financial assessment of all the elements of your business and your product. State all your assumptions. Seek assistance from an accountant or from a business consultant.

- a. Use this formula to determine what it costs to produce your product:

*Total Manufacturing Cost equals Direct Costs plus Indirect Costs*

### 1) Direct Costs include:

- Raw materials
- Direct labor
  - What you pay (or should pay) yourself
  - Staff (part time and full time)
  - Benefits, *etc.*
- Packaging and shipping
- Promotion
- Advertising
- Public Relations
- Trade shows
- Direct mail, *etc.*

### 2) Indirect Costs include:

- Allocated overhead (allocate to the product on a percentage basis)
  - Heat, electricity, telephone and other utilities
  - Insurance
  - Non-production labor (*e.g.*, administration)
  - Rent or mortgage
  - Transportation
  - Amortized equipment
  - Production equipment
  - Depreciation, *etc.*

- b. Once the total cost of producing your product is known, you can **determine the unit cost** of your product with this formula:

*Total Manufacturing Cost divided by Number of Units Made equals Unit Cost*

**Note: We are not yet considering price.** Rather we have determined the basis to begin pricing. The business manages cost; the market determines price.

3. Now you are ready to **determine market price.**

- a. Conduct market research
- \* Begin in the marketplace. Take a note pad and go shopping to determine what is selling to whom at what price.
  - \* Talk with vendors, suppliers, *etc.*
  - \* Talk with competitors
  - \* Check trade publications
  - \* Check competitor advertising
  - \* Check out trade shows
- b. Determine the *gap* between your *unit cost* and the *retail price* of the competing unit. This will give you an indication of the per unit dollar amount the marketplace may make available to cover distribution and margin costs. The actual amount will come only when you set your price and find that you can actually sell your product for that amount.
- c. *What does the gap cover?* It covers the difference between the retail price and manufacturing, distribution and margin (profit) costs. To estimate the gap, these percentages generally apply:

retail price per unit minus 40/50% = the retailer channel cost per unit  
25/30% = the wholesaler channel cost per unit  
5/10% = the broker channel cost per unit  
10/15% = your manufacturing cost per unit  
10/15% = your margin (profit) cost per unit

- d. Make your pricing decision by reviewing your pricing strategy (objectives) and all product elements. What can you adjust?
- \* Cost?
    - Review cost assumptions and history. Do your figures represent reality?
    - Examine how you have allocated overhead.
    - Are there any ways you can adjust:
      - group purchasing?
      - rework production processes and practices?
      - reconfigure product to fit the market?
      - other cost items?
  - \* Markets?
    - Are you targeting your market?
    - Does your product match market needs?
    - Have you selected markets that fit your capabilities?
    - Can you find lower cost segments to reach?

\* Distribution?

Conduct a distribution channel cost - benefit analysis: evaluate what each component of the channel requires versus the benefit it will deliver to your business.

Do the channels you have selected match the goals and objectives of your business and marketing plan?

\* Volume?

Can production be adjusted to match market demand?

How does production capacity relate to production output?

How does volume relate to cost?

What are the incremental costs of production scale?

\* Perceptions of Value?

Examine your strategies for:

Positioning

Packaging

Promotion

Place

Pricing

Partnering

What changes would affect value?

\* Margin?

Revisit your margin strategy and question assumptions and goals

**Summary: Points to remember**

*Pricing*

Know your costs - be honest - make assumptions known

Today's marketplace demands information - lack of knowledge is like flying blind

Price and market research is not a one time task - must be on-going

Develop a system to constantly mine the marketplace for information

*Distribution*

Select channels to fit your business strategy

Select channels to fit target markets

Know channel costs

Use multiple channels where possible

Do not try to be all things to all markets

Do what you do well





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## Break-even Analysis

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Michael Sciabarrasi, Business Management Specialist  
UNH Cooperative Extension, Durham NH

Break-even analysis tells you the level of sales at which your business will neither profit nor suffer a loss. It can also help you determine the level of sales needed to meet a profit (margin) goal, assess the impact on profit if sales fall short of your projections, or examine the effects of various prices on profits.

Determining the break-even point for a business requires careful review of expenses and their relationship to sales. Some expenses will remain the same (or change very little) regardless of business volume; these expenses may be classified as *fixed expenses* and include costs related to general operation and overhead. Other expenses will change with, and often in proportion to, business volume; these expenses are *variable expenses* and include costs directly related to production or sales. In reality, many business expenses are neither totally variable nor totally fixed, but more nearly fit either one category or the other.

### Estimating Break-even Sales

The steps below, along with the worksheet that follows, can be used to estimate break-even sales.

1. Review the expenses on your projected income statement and classify each as either a fixed or variable expense. If in doubt, classify a given expense as fixed.
2. Determine what percentage of sales is needed to cover variable expenses. On the worksheet:
  - a) Write the dollar amount of projected sales.
  - b) Itemize variable expense and the corresponding dollar amount.
  - c) Determine the percentage of sales represented by each line item. (Projected sales divided by the dollar amount of the line item multiplied by 100%)
  - d) Total the percentages. This is the percentage of sales needed to cover variable expenses.
3. Determine what percentage of sales is needed to cover fixed costs. From 100% subtract the percentage of sales needed to cover variable expenses (2d). This is the portion of sales needed to cover fixed costs.
4. Itemize fixed expenses and the corresponding dollar amounts.
5. Divide estimated fixed expenses by the portion of sales needed to cover fixed costs. The resulting dollar amount equals the sales necessary to cover all expenses, without earning a profit, *i.e.*, break-even sales.

If sales fall below the estimated break-even amount, the business will not be able to cover projected expenses and will sustain an operating loss. Sales above the break-even amount will result in a profit. The amount of profit will depend on what percentage of sales go to cover variable costs.

If a desired profit percentage is identified, then a firm's gross sales goal can be estimated. The desired profit percentage is treated as a variable expense and is deducted from the portion of sales needed to cover fixed costs. The result is divided into total fixed costs to estimate gross sales desired.

# Break-even Sales Worksheet

(use data from the Projected Income Statement)

## I. Projected Sales \_\_\_\_\_

## II. Classify Expenses as Variable or Fixed

<u>Variable Expenses</u>	<u>\$Amount</u>	<u>% of Sales</u>	<u>Fixed Expenses</u>	<u>\$ Amount</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Total	\$ _____	_____ %	Total	\$ _____

## III. Break-even Sales Formula

$$\frac{\text{Total Dollar Amount of Fixed Expenses}}{(100\% \text{ minus Percent of Sales Needed to Cover Variable Expenses})}$$

## IV. Gross Sales Goal Formula

$$\frac{\text{Total Dollar Amount of Fixed Expenses}}{[(100\% \text{ minus Percent of Sales Needed to Cover Variable Expenses}) \text{ minus Desired Profit Percentage}]}$$

### Example

I. Projected sales: \$200,000

<u>Variable Expenses</u>	<u>\$ Amount</u>	<u>% sales</u>	<u>Fixed Expenses</u>	<u>\$ Amount</u>
Cost of goods	80,000	40%	Depreciation	7,000
Hired labor	30,000	15%	Manager	30,000
Supplies	4,000	2%	Rent	18,000
Other	6,000	3%	Taxes, insurance	15,000
Total	\$120,000	60%	Total	\$70,000

Desired Profit Percentage: 5%

### III. Break-even Sales

$$\$70,000 / (100\% - 60\%) = \$70,000 / 40\% = \$175,000$$

### IV. Gross Sales Goal

$$\$70,000 / [(100\% - 60\%) - 5\%] = \$70,000 / 35\% = \$200,000$$



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## Mark-Up & Profit Margin Formulas

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Michael Sciabarrasi, Business Management Specialist  
UNH Cooperative Extension, Durham NH

Markup\* (with respect to cost in dollars)

$$\text{Selling Price} = \text{Cost} + \text{Markup}$$

$$\text{Cost} = \text{Selling Price} - \text{Markup}$$

$$\text{Markup} = \text{Selling Price} - \text{Cost}$$

\*where Markup equals cost times a percent Markup

$$\text{Selling Price} = \text{Cost} \times (1 + \text{Percent}^{**} \text{Markup})$$

\*\*where Percent is expressed in decimal form

Profit Margin Percent\*

$$\text{Selling Price} = \text{Cost} / (1 - \text{Percent Profit Margin}^{**})$$

$$\text{Cost} = \text{Selling Price} \times (1 - \text{Percent Profit Margin})$$

$$\text{Percent Profit Margin} = 1 - \text{Cost} / \text{Selling Price}$$

\*where Percent is expressed in decimal form

\*\*where Profit Margin is expressed in dollars

$$\text{Profit Margin} = \text{Cost} - \text{Selling Price}$$







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## Product Differentiation

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Adapted from *Specialty Food Business Fundamentals*  
by Lynda Brushett, Niche Marketing, Barrington, NH

*How can I differentiate my product so that it stands out to the target consumer?*

### **Packaging**

In retail markets, packaging is what sells the product to a consumer. What is inside the package is what generates repeat sales. The type of jar (or box, bag, bottle, *etc.*), the lid, the label, the graphics and the text sell the product to the consumer and distinguish the product from competing items.

Packaging serves a functional purpose by protecting the product from spoilage and breakage, serving as a display device and providing a convenient way to use and store the contents; an informative purpose by listing ingredients, nutrition, health claims, recipes and usage tips; a promotional purpose by telling the product's story.

Packaging sends a message about quality and price. Things to consider: types and sizes of containers (especially impact on usage, retail price), federal laws, product safety, weight, fragility, tamper proofing, *etc.*

### **Labels**

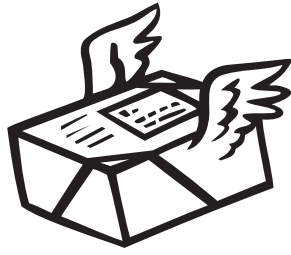
Labels are a key packaging component. The label positions the product to the consumer. The label draws the customer to the product. The label tells the product's story and strongly influences the purchase decision. Keep foremost in mind that the label must appeal to your target customer. Friends and family can be a help - if they fit your customer profile - but all too often producers make the mistake of appealing to themselves rather than their market.

Labels, even simple ones, are expensive. Design, text or printing errors can be financially devastating to a company. Professional assistance is recommended. Consulting a graphic designer, design firm or advertising agency with strong text writing and graphic expertise is a wise investment.

### **Company and product name**

While most producers start with one or two products, eventually a line of products will evolve. While initial appeal may be local, eventually the product will be marketed outside the state or region. Will the company and product name meet the challenges of wider distribution?





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## Distribution Resources and Channels

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Adapted from *Specialty Food Business Fundamentals*  
by Lynda Brushett, Niche Marketing, Barrington, NH

### **In-house Sales Marketing**

In-house marketing (do-it-yourself direct sales to consumers, retailers, foodservice and distributors) is how most businesses begin. Doing your own marketing requires that the company conduct research, develop promotion programs, public and media relations, media kits, advertising, sell-sheets and other materials and provide the services of a broker/sales representative or a distributor.

As market targets and areas change, as marketing budgets increase and as volume grows, it may become appropriate to work with a broker or a distributor. Often these businesses will require that a product has demonstrated sales viability before they will work with you.

### **Brokers and Sales or Manufacturer Representatives**

Brokers and sales or manufacturer representatives are professional sales people whose job it is to be a sales agent. They do not buy product; they sell. They work for you and are paid a sales commission based on the invoice. The rate varies from 5% for distributor sales to 10% for retailer sales. They tend to serve specific market categories and geographic areas and frequently maintain show rooms, especially those in the gift market.

Consequently a company will have more than one broker, for example one for New England, one for New York City, one for California, *etc.* Because they work on commission, the broker needs to have confidence that the volume of your line will be sufficient to compensate his/her time and effort. The broker works for many different companies. The broker needs sales literature, samples, a promotion program and materials, pricing and credit information.

Find brokers by talking with other producers and retail customers and researching trade organizations and publications. Choosing a broker requires information about their sales territory, major accounts, business requirements, current client lines and size of sales staff in order to determine how well the company matches with your marketing plan. You are also looking for confidence that the broker understands his/her market, has good contacts and working relationships with buyers, services the market and protects clients against bad deals. Ask for and check references. Check stores to see how the broker's products are presented to the consumer.

A broker will look for evidence that your business is on solid ground, has demonstrated sales potential and will be able to satisfy sales (production) commitments. Some companies only want to work with companies that have been in business for a while, are members of business and trade associations and have participated in trade shows. They will carefully review sales support provided by the producer. They too will consider how well your product fits with their other lines. Once selected a contract is developed which lays out all the details of the relationship: territory (noting any excluded accounts, so-called house accounts), commission conditions, expenses, credit, collection sales and promotion policies, order submission method, reporting, conflicting lines, terms and termination process, *etc.*

Once hired, the broker needs to be managed, supported, evaluated and rewarded. Your business must teach the broker how best to sell your products and reward the broker for successful results.

## Distributors

Distributors buy, sell and deliver products to retailers, other distributors, restaurants, *etc.* They are intermediary marketing customers. Distributors serve the function of brokers to their clients. They make sales calls, prepare sales plans, provide sales and profit reports, provide inventory and billing services, deliver and sometimes stock and price products, train store personnel how to merchandise products, set-up and conduct in-store demonstrations, provide and place shelf tags and other point of purchase (POP) merchandise (created by the producer), create in-store promotions, provide co-op advertising, handle damaged and broken products, rotate stock, remove unsold products with store credit - in other words everything it takes to warehouse and sell a product for a typical 30% margin.

As with everything else, finding and selecting a distributor begins with research. The goal is to find a company that matches your needs based on your marketing and business goals and plan. Contact other producers, trade associations and retailers. Obtain from the distributor information about the products they carry, the market segment they sell to, sales staff and responsibilities and experience with companies of your size and type. Identify the buyer for your category and determine presentation procedures and forms; when ready, call for an appointment. During the interview be prepared to discuss pricing, allowances, delivery specifications (pallet type, weight, shipping point, order/reorder schedules), labeling requirements (*e.g.*, Universal Product Code (UPC), nutritional labeling/exemption), shelf-life, ingredients or materials, promotional plan, product liability. Bring samples of the product and sales materials. This is a sales meeting. You want to leave with an order. Preparation and attitude is important. Be ready to handle buyer objections. You need to have a clear idea of how your product will benefit the buyer.

## Food Retailers

### 1. Supermarkets

The decision to sell to supermarkets is a marketing decision. While most people buy their food in a supermarket, placement of a specialty product in a supermarket can be seen as making it less special or more convenient, especially in the view of specialty retailers. Producers need to weigh the benefits and costs against their goals.

To market to a supermarket a producer must be able to produce a product line in volume, be prepared to provide promotional support and deal with the specific business requirements of the company, *e.g.*, slotting fees (money paid up front to secure shelf or warehouse space for a specified number of cases), warehousing, UPC labeling, distribution systems, credit terms, *etc.* Before approaching a supermarket conduct research so that you understand with whom you are hoping to do business. You must learn about their market, competition, promotional methods and business criteria and you must know about your product, competition, promotion, and movement. Visit a few stores and determine how products like yours are handled, check competition, numbers of facings (rows facing the consumer), sizes, variety, prices, *etc.* and develop a concept of where you fit (if you fit) and why.

After you are certain the company is an appropriate market for you, research how to approach the market. How do they buy products in your category - direct? with broker assistance? through distributors? do they have their own warehouse? *etc.* Who are the buyers for your category? Are there presentation formats and new item forms? Decisions to accept new products are usually made by a buying committee. They will be concerned about category management: Is there room for another line? Is the category growing, flat or in decline? Will the potential new product add, detract or simply duplicate what is currently available? Packaging is an issue: Will your product stand

out? Pricing is important: How does your final retail price compare to similar quality products? How does it compare to national brands? The typical margin for a mass-market product is @ 30%, but because turnover is slower, a specialty product has a 40% to 50% margin. Remember that supermarket margins are very low @ 1-2%. Supermarkets make money on inventory turnover - the more a product turns or sells, the more profit. That is why they are concerned about movement. An annual product merchandising plan is an important part of the sales presentation.

### 2. Specialty retailers

Specialty retailers are the core market for specialty foods. Owners are usually on site and are usually the primary buyer. They look for items which support the store's image, items which are not available in the mass market, up-scale, hard-to-find, unique, etc. Personal service is an important part of their business. Specialty retailers find new products at trade shows, (e.g., the Fancy Food Show, the Natural Foods Expo) from trade publications, through word-of-mouth and customer recommendations. Most buy direct from manufacturers and through distributors. They are looking for professional companies with innovative products and well thought out promotional programs.

As with supermarkets, the specialty food producer must first research the store and the competition before making an approach. You must know your target market: to whom does your product appeal? how does your target market support their target market? You must know your competition and know how your product will stand out and sell. Non-perishables are the most crowded segment of the store. Presentation preparation is similar to that of the supermarket buyer interview. Bring samples, POP materials and promotion plans including a strong sampling program. Determine how products are distributed to the store, whether UPC labeling is required, pricing structure, etc. Product liability insurance is usually required as well as evidence of licensing. Exclusivity is often important to specialty retailers - meaning the product is not carried by supermarkets or other mass merchandisers, and sometimes meaning not carried by others in their market area.

### 3. Natural foods retailers

Natural food products need to be sensitive to packaging (environmentally conscious and appealing, nutritional information) and ingredients (no preservatives, additives, chemicals, coloring agents, artificial sweeteners). Retailers have ingredient and packaging standards. Many natural food retailers are expanding into specialty foods that are not strictly natural and into prepared foods. Organic foods are a fast growing segment of the natural food market. The natural foods customer is well educated and label conscious.

The market entry process begins with research similar to that for specialty retailers: What is the store's market? What is the competition (for the store and for the product)? Where and why does my product fit?

### Gift basket businesses

These businesses are often part of a food, floral or gift retail business. Markets can be local or regional, corporate or consumer. Research companies, determine how your product fits and make contact with the buyer.

Gift basket buyers are always on the look out for new products; they may keep you on a vendor list for future reference depending on client needs. It is important to note the seasonality of this business. For example, buyers often make decisions in the spring for baskets which will be delivered in December.

### **Foodservice**

Foodservice - restaurants, caterers, hotels, hospitals, schools, *etc.* - is an emerging market for specialty food products. The best products are ones that are difficult or time consuming for the chef to make and that add value to the menu. Packaging is different: larger sizes, plastic rather than glass, large openings, resealable, *etc.* Retail type labeling is not important.

Research the market. Determine how your product would benefit the operation; determine the appropriate distribution system, direct or through food service distributors (often called purveyors); determine the appropriate entry point. Be aware that brand identity may be lost in dealing with this market. On the other hand sometimes it is in the chef's best interest to identify the specialty product by name.

Entry to the foodservice market segment is achieved directly or by working through food service distributors. As with the retail food system, foodservice distributors generally fall into three basic groups: chains, buying organizations and unaffiliated independents. Unlike the retail food system, foodservice distribution channels tend to be less concentrated, centralized and dominated by large firms. Chains, buying group members and independents purchase goods and services from a variety of suppliers. Selection and approach is similar to that described for distributors.

### **Mass-merchandisers**

Mass-merchandisers, stores like K-mart and Wal-mart, buy in volume and sell in volume. National large volume retailers, discount stores, retail warehouses and clubs prefer working with large wholesale suppliers with wide distribution capabilities.

The marketing process begins with research and usually leads to the development of written sales proposal. Visit prospective stores, develop a feel for what they handle and how they merchandise specialty products, who their customers are. If you feel there is a place for your product, call corporate headquarters and identify the appropriate buyer; call him/her and determine on the phone whether your product is feasible (volume, entry point - direct, through a wholesaler, UPC labeling, other criteria) and whether a proposal would be accepted. If so, ask for proposal information and forms.

### **Warehouse clubs**

Warehouse clubs are approached in the same manner as other mass-merchandisers. Their needs are slightly different. Clubs tend to want a changing mix of products, rather than the same item each week. Frequently changing merchandise creates a sense of buying urgency - desirable products are here now, gone tomorrow; new and different things coming all the time.

Visiting the store provides a sense of the company's merchandising style, product needs and customers. Notice how products are packaged. Buyers are located at corporate headquarters. When talking to the buyer determine product, packaging, volume and delivery needs. Because warehouse clubs are not tied to an advertising schedule, they can make deals on short notice. Most are on the lookout for good, quality bargains and can frequently market surplus items. Again the caution is to make sure that selling to a warehouse club fits your marketing plan.



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# Conducting a Channel Buyer Interview

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Adapted from *The New England Wholesale Produce Market Guide*  
by Lynda Brushett, Niche Marketing, Barrington, NH

A buyer interview may or may not be a sales presentation. Establishing new business relationships takes time and effort. The interview will surface concerns that need to be addressed in a sales presentation. When it comes time to close the sale, the producer must be able to express how his or her products and services help the buyer satisfy business as well as customer needs.

✓ Be prepared. Be professional. Good preparation enables you to make the most of the time allotted to the interview. Be sure you have visited several of the buyer's stores beforehand so that you are familiar with the operation and especially with competing products.

✓ Use the conversation to define what the prospective market needs and wants. Spend as much effort listening to the buyer as talking.

1. **Product needs and specifications:** What are the buyer's volume needs? What are the labeling standards? Are slotting fees required?
2. **Relationship:** On what basis does the firm do business - purchase, consignment, or commission?
3. **Delivery requirements:** Should product be delivered to the warehouse or directly to the store? Who is the receiver? What is the company's typical order lead time? Are there any special instructions?
4. **Financial arrangements:** What are the company's payment terms? Can the buyer supply credit references? Is the firm bonded?
5. **Shortfall, surplus, unsold and damaged goods policies and procedures:** What happens if the product does not move in a timely manner? What is the buyer's responsibility for maintaining product quality after delivery?
6. **Merchandising support:** Is the buyer interested in labels, signage, displays, point-of-purchase materials?
7. **Product liability insurance:** Determine the buyer's requirements and compare with your policy.
8. **Price:** Distinguish between margin and mark-up. Given your wholesale price, will the retail price of the product be competitive? Is the value of any support services provided by your business considered?
9. **Packaging materials:** What are the packaging requirements? Do cases have to be palletized? Does the buyer have a packaging recycling or re-use program? Does the buyer have a preference for specific packaging materials?

- √ During the interview, communicate to the buyer why he or she should do business with you. Be prepared to express the special qualities about your product and services that distinguish your business from competing suppliers.
  1. **Product:** Share information about your product and how it is made.
  2. **Expertise:** Photographs, awards, press clippings help tell your story.
  3. **Experience:** Demonstrate industry knowledge and leadership. Provide references.
  4. **Services:** Provide information about merchandising and promotional support programs and materials, special handling, value-added services or custom programs.
- √ Determine whether the market is a good opportunity for your business. Is there a good fit with your marketing plan?
- √ Follow up the interview with a note and any information requested by the buyer. If appropriate arrange for a sales presentation.





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# Market Support

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Adapted from *Specialty Food Business Fundamentals*  
by Lynda Brushett, Niche Marketing, Barrington, NH

## Public Relations

Public relations efforts are directed towards “free” promotion or publicity. Public relations is a planned program to create awareness of a company, its products, to influence public and corporate opinion. Public relations communication is harder to manage and control than paid promotional efforts. It can involve participation in or sponsorship of community events or projects, media releases, seminar leadership, open houses, *etc.*

Develop a list of press contacts for trade and consumer media (names and addresses, phone/fax, e-mail) and put together a press kit. The kit should be attention grabbing. Items to include: cover letter, information or fact sheet, brochures, press photo, press clippings, business card, a newsworthy press release. Follow press contacts with a telephone call to determine whether the material got to the right person and to answer their questions.

## Advertising

Advertising is paid communication. In determining the mix of promotional activities needed to support your product, every business will need to decide if, where and what kind of advertising fits. What do you expect advertising to do for your product? Who is the market: members of the trade? or consumers? What media is most appropriate? What message? What frequency? What budget? What professional assistance will you need?

## Trade promotions

Promotions are an essential part of doing business with retailers and distributors (the trade). Sales staff need to be fully informed about the program. Promotions are targeted at the trade and at consumers. Promotion costs need to be factored into your budget and into your wholesale price. Their purpose is to increase sales. They are designed for specific goals.

To get the trade to purchase product in the first place, promotional allowances are used such as: introductory discounts taken off the invoice over a specified period of time; slotting fees; free goods (a specified number of free cases per sale); buy-out or set-up agreements (payments, usually in retail value, for the removal of goods in order to make room for your product); trial size displays (a pre-priced package in a shipper display unit sold to the retailer at a higher gross margin, usually 50%), *etc.*

Promotions to stimulate sales are usually scheduled and repeated through the year. They include purchasing allowances (an off-invoice discount); movement allowances (a payment based on sales during a specified period); performance allowances (fees paid to support the buyer’s promotional activities such as advertising, displays, features, *etc.*); shipper display allowances (a higher margin or discounted multi-case display); sampling (free goods provided to the buyer for sampling to consumers, usually one jar per case).

Special promotions are created to support a buyer’s particular promotional effort. Examples include: advertising through store posters, sales flyers and media ads; fees to have a display in a buyer’s booth at a trade show. All promotional efforts need to be evaluated to assess qualitative and quantitative results. Promotions are designed

to meet specific sales objectives, for example, to introduce a new product or to create greater consumer awareness of a product.

### **Trade Shows**

Trade shows are an opportunity to expand markets, introduce new products, make direct sales, meet buyers, gather market information, identify brokers and distributors. Planning for trade shows happens in three parts: before, during and after the show. First before participating in a show, you need to determine whether the show is appropriate to your business. Will it enable you to reach your target market? Who attends the show? How many buyers? What types of business segments? How are buyers qualified? If participation seems appropriate, visit the show. Note how well it is organized; check out your competition; talk with exhibitors. Determine the cost of attending: transportation, accommodations and meal expenses, show fees (including booth cost, set-up, electricity, floor covering, *etc.*), booth design, sampling, sale literature, *etc.* Is there an organization or another producer you can partner with and still meet your marketing objectives? Do you have the production and cash flow capability to handle orders generated by the show? Do not participate in a show until you are ready.

Before the show thoroughly review your product in terms of your competitors' offerings. How does your packaging, unit sizes, contents, sales materials, pricing distribution methods, freight cost and promotional program compare? Develop a list of customers (current and new) you would like to contact at the show and begin communicating with them (do this at least 3 times before the show). Why should they do business with you? Ask for a show media list and make contact. Determine how you are going to qualify buyers at the show so that time is not wasted on unqualified visitors. Practice your opening comments and sales pitch. How are you going to handle the leads you generate at the show? How will you distinguish the "hot" ones? How will you 1) design your booth (yourself or with professional assistance?), 2) display and sample product, and 3) staff the booth? How will you qualify and handle brokers/sales representatives and distributors interested in your company?

At the show you need to collect visitor and lead information, keep track of notes, requests, ideas, *etc.* and respond quickly to a potential buyer's request for assistance (within a minute). You need to allow time to visit the show. You need to pace staff so as to avoid burn-out and stay focused. At the show you need to engage the buyer. Avoid opening questions or comments that can be answered with "I'm just looking". SMILE. Don't be passive; try for maximum interaction. Ask questions which get at the potential customer's needs. Control brochure distribution to gain maximum value as a sales tool. Create a situation where the brochure is offered during the conversation (to interest the person further or close the conversation) or when the prospect asks for it, rather than being available without an interaction.

After the show, evaluate the experience. What percentage of the people contacted before the show stopped by? Who made orders? Part of the evaluation depends on being able to implement a system for following up leads and tracking orders. Personal notes on brochures boost interest. Evaluate the results of the show after three months.



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## Direct to Consumer Markets

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Adapted from *Specialty Food Business Fundamentals*  
by Lynda Brushett, Niche Marketing, Barrington, NH

Direct marketing simply means that the business is marketing products directly to the consumer.

### Fairs, Festivals and Community Events

Direct selling to consumers at fairs is an important way to assess consumer response to a product and a good way to build a direct mail list. An inviting, well-designed booth staffed by an engaging person is critical. For food products, sampling is essential and should be designed to sell product, not as an expensive free food opportunity (*e.g.*, by using miniature spoons for tasting rather than crackers). Depending on the type of show, labeling is often less important because the person is able to buy on sight or taste, whereas in a store the label has to sell the product. Shows can be a good opportunity to test label design, text, sales pitches, new products, gift packaging, *etc.* Producers need to carefully research and select events appropriate to their target market. For example, a fair featuring low-cost crafts will not appeal to the upscale customer. Advertising and promotional support varies, as does booth size and cost. Fairs are a labor intensive endeavor. Visit a potential fair and note the mix of vendors and mix of buyers. Talk to vendors. Ask organizers about consumer traffic, publicity and promotion programs, how vendors are selected, *etc.*

### Mail-order

Mail-order is direct marketing to consumers through the mail. It can be as simple as maintaining a mailing list of customers and sending them periodic letters. Or it can be as complicated as L. L. Bean. The number of mail-order catalog shoppers grew almost 60% in the past decade while the number of catalogs doubled. The consumer mail-order segment of the industry is comprised of categories such as food, electronics, clothing, gardening, books, *etc.*

Factors which affect growth include: Database management skills and cost, paper availability and cost, catalog postal rates, shipping rates (and strikes) and problems with 3rd class delivery (lost catalogs, time). Response rates are a function of the offer and the mailing list. Text, layout and graphics help determine the effectiveness of the offer. Selecting or developing the mailing list to target likely buyers improves results substantially.

Food-by-mail is a small part of the overall mail-order industry. Food sales tend to be seasonal with largest volumes in the fall/winter holiday gift-giving and entertaining season (October to January). Increasing costs of doing business have affected food catalogs somewhat more than other categories. Growth in food catalogs is expected to come from corporate gift giving - incentives, business to business, *etc.*

The consumer clientele for mail-order food tends to be the sophisticated city dweller who wants convenience and quality and who regards fine dining as fashionable fun. Mail-order shopping offers easy access to a prestigious diversity of dining tastes and experiences. Delivery turnaround must be quick. Consumers are increasingly demanding instant gratification.

Successful mail-order requires attention to detail. Catalogs must be well-planned in terms of eye appeal as well as sales potential per page. Database design and management is critical to identifying profitable products and key customer groups. Mailing lists have to be efficiently maintained to avoid waste and duplication. Mailings have to be carefully and strategically planned and coded for response rates. Inventory must be

efficiently managed and quality control strictly maintained. Telephone service programs are important to consumer satisfaction. Allowances must be made for returned, lost and broken products and refunds. Shipping and handling are additional expenses. A highly targeted mailing list will cost more than a generic or geographic one. Consequently overhead costs are a factor and need to be carefully analyzed.

The best mail-order products are those that are not easily obtainable in stores, that have unusual features and whose appeal can be communicated with words and pictures. Mail-order requires highly targeted marketing. Potential buyers must have a need for the product. The item must match the potential buyers taste and lifestyle. It must be priced to sell. It should appeal to the majority of potential buyers. Success is enhanced if the product is lightweight and relatively easy to ship.

New entrants to mail-order need to carefully estimate the potential market and assess the likelihood of repeat business. Will someone buy the product at least once a year, more frequently or less often? Does the product have gift as well as personal use potential?

Food which is marketed by mail is directed at impulse oriented, upscale consumers. Food catalogs present prospective buyers with a taste-tempting display of fabulous, mouth watering entrees, condiments, desserts, *etc.*, for use at home or to send to others as gifts. The emphasis can be on gourmet, natural, or organic foods, or a mix. Special product catalogs whether food or housewares or recreational goods contain specialty condiments, sauces, jams, baking mixes, *etc.* to add interest and appeal.

Selling to a mail-order catalog requires a business and market understanding of the catalog company. What is your product's connection to the catalog's consumers? What is its appeal? Who is your competition in the catalog's market? What is the proposed retail price? Other considerations: shipping weight and requirements, breakage, shelf-life, discount programs, *etc.* From simple to sophisticated, developing a catalog is another approach to mail-order.

### **Internet**

The World Wide Web is a new and emerging market, an electronic version of mail-order marketing. A survey of people who visit food and beverage sites on the Internet conducted by the University of Maine revealed that users were well-educated (75% had 4 years or more education ) middle aged men and women (median age 37) with above-average incomes (median income: \$58,000). Producers can develop their own web site, join existing ones or be a product selection in another company's catalog. Producers should get on-line and visit a variety of sites as part of the research process. Website design is an art unto itself. The site has to be engaging, interactive, kept up-to-date, well-connected to other sites and indexed to search engines. Marketing requirements are similar to that of mail-order. Contact NH Stories (888-647-8674) for information about their made in New Hampshire web site.

### **Farmers' Markets**

Farmers' markets provide an opportunity for regular weekly sales. Stonewall Kitchen, a multi-million dollar specialty food company with world-wide distribution, began their business at the Seacoast Growers Market in Portsmouth, NH. They acknowledge that the farmers' market was a perfect opportunity to test consumer acceptance of flavors, packaging, pricing, *etc.* and to make business contacts. Contact the NH Department of Agriculture, Markets and Food (603-271-3788) for a listing of farmers' markets in the state. Call the market manager to determine consumer traffic, space availability, market rules, cost, and other market planning details.

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# Notes

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