

Connecting with Commercial Buyers

Dr. Kimberly L. Morgan, Extension Economist, VA Tech
French Price, Value Chain Coordinator, VA Cooperative Extension

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Somerset, VA

Thank you, Sponsors!

Virginia Cooperative Extension, Purely Piedmont, 'Tween Rivers Trail,
Rappahannock-Rapidan Regional Commission & The Market at Grelen

Plan of the Day

- ▶ Build relationships with commercial buyers
- ▶ Prepare for networking events (i.e. food expos and trade shows)
- ▶ Resources available to find a market for your products

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Build Relationships

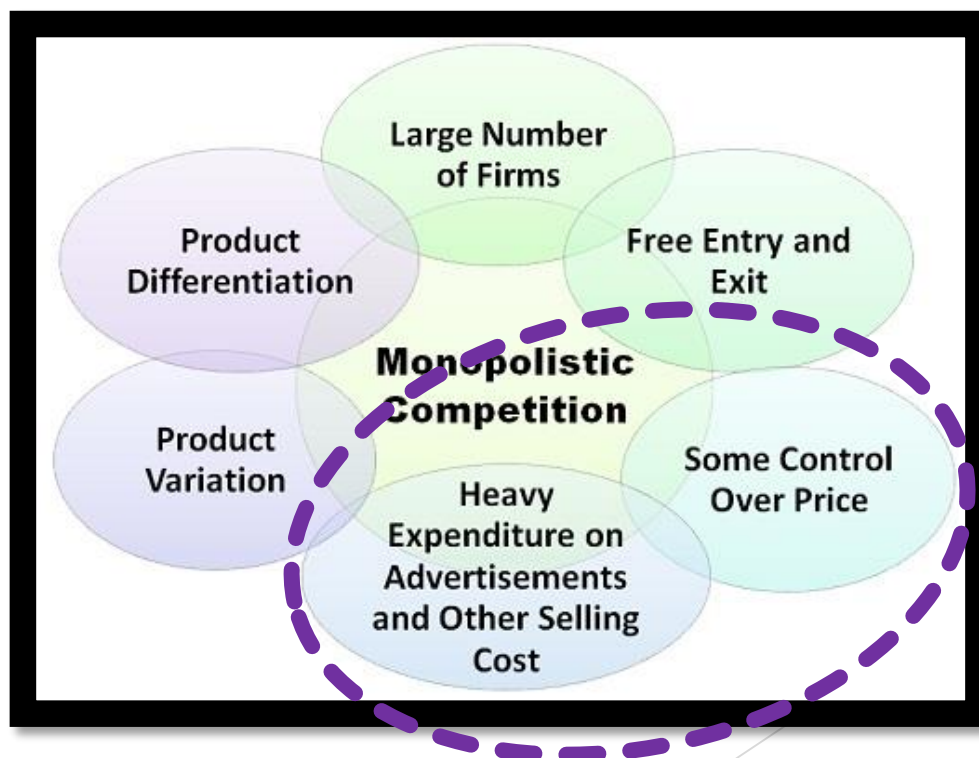
Connecting with Commercial Buyers

Market Economics



Market Economics

Or...is it **IMPERFECT** competition?



Market Economics



What to produce?

When?

Where?

For whom?



FINDING THE “WHY”

Market Economics

DEFENSIBLE DIFFERENTIATION

- ▶ Profitability = larger piece of food dollar (farm gate price v. retail)
- ▶ At what cost(s)?
 - ▶ Different sourcing needs
 - ▶ Different issues facing meat, produce, processed food product
- ▶ At what location?

Market Economics

- ⇒ FIRST identify a market need
- ⇒ THEN grow products that satisfy that need
- ⇒ At a PRICE customers are willing to pay,

AND

- ⇒ Returns a PROFIT to the business.



Use Pricing to Navigate Different Market Sectors

How do I price to profit?

Need to determine:

1. Total cost to produce
2. Gross margin
3. Gross profit

How do I price to profit?

1. Determine total cost to produce
 - ▶ Fixed costs
 - ▶ Variable costs

How do I price to profit?

2. Determine gross margin

- ▶ What do you want to pay yourself?
- ▶ Percentage of sales dollars available to pay fixed costs and return a profit
- ▶ Industry standards:
 - ▶ Fresh produce 30-40% depending on volume
 - ▶ Value-added shelf stable 15-20%
 - ▶ Baked goods 40-55%

How do I price to profit?

3. Determine gross profit

- ▶ Gross margin percentage expressed in dollar terms
- ▶ Gross profit equation:

$$\begin{array}{rcl} \text{Total revenue} & - & \text{Total costs} \\ (\text{units sold} * \text{price per unit}) & - & (\text{units sold} * \text{cost per unit}) \end{array}$$

Profits are...?

What can YOU control?

- Number of units produced vs. number of units sold?
- Costs?
- Prices?

What's my selling price?

Selling price

= variable costs / (100% - percent gross margin desired)

Ex.:

Variable costs = \$2.25/unit

Desired gross margin = 40%

Selling price = \$2.25 / (100% - 40%) = \$3.75/unit

What's my breakeven point?

- ▶ Break-even analysis
 - ▶ Point at which revenues equal expenses
 - ▶ Zero profit is made
 - ▶ Zero losses are incurred

What's my breakeven point?

How many units do we have to sell to breakeven?

Break-even equation:

Total revenues = Total costs

units sold*price per unit = variable costs*units sold + fixed costs

What's my breakeven point?

How many units do we have to sell to breakeven?

Ex.:

Variable costs = \$2.25/unit

Desired gross margin = 40%

Selling price = \$3.75/unit

Fixed costs = \$5,000

$\text{units sold} \times \text{price per unit} = \text{units sold} \times \text{variable costs} + \text{fixed costs}$

$\text{Units sold} \times \$3.75/\text{unit} = \text{units sold} \times \$2.25/\text{unit} + \$5,000$

$\text{Units sold} (\$3.75/\text{unit} - \$2.25/\text{unit}) = \$5,000$

**So, units need to sell to break even =
 $\$5,000 / \$1.50/\text{unit} = 3,333$**

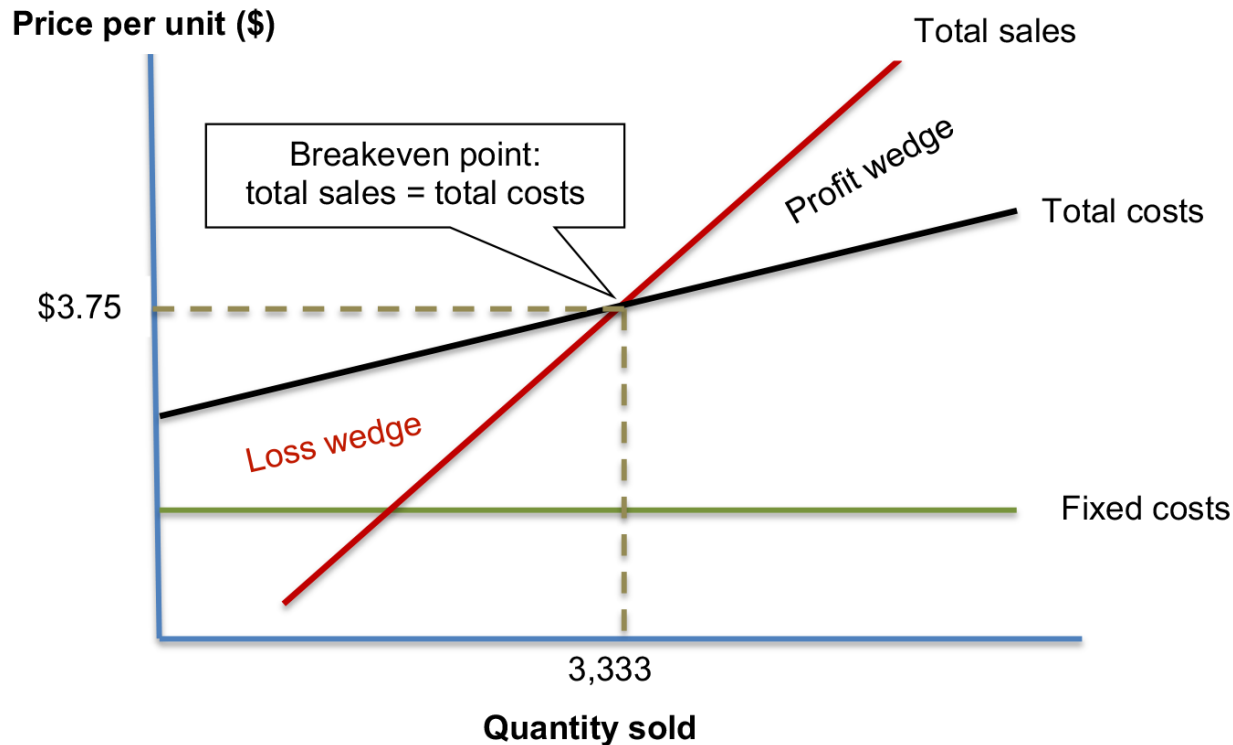
What's your zero profit/loss point?

Sell 3,333 to break even @ \$3.75/unit = \$12,498.75

Therefore, every unit sold beyond the 3,333 unit will generate profits after variable costs are paid.

What is the profit per unit sold beyond the 3,333 unit?

What's your zero profit/loss point?



Tell your PRICE STORY!!

Strategic Pricing Answers

- ▶ How do I know why people want to buy?
 - ▶ Study changing market demand conditions
 - ▶ Do your homework, inside and out
- ▶ How much will they pay?
 - ▶ Targeted marketing based on product attributes
 - ▶ Control your costs

Overcome Market Access Barriers!

Communication, Communication, Communication

- ▶ Ease of accessibility
- ▶ Transparent, open line of communication
- ▶ Understand market sector needs
- ▶ Customer feedback driven
- ▶ Relationship results in signature product

Overcome Market Access Barriers!

Key points to uphold satisfaction guarantee:

- ▶ Understand how product SHOULD be priced based on product attributes
- ▶ Be willing to “go the extra mile”
- ▶ Nurture long-term relationship
- ▶ BUT! Be wary of unreasonable demands

Prepare for Networking Events

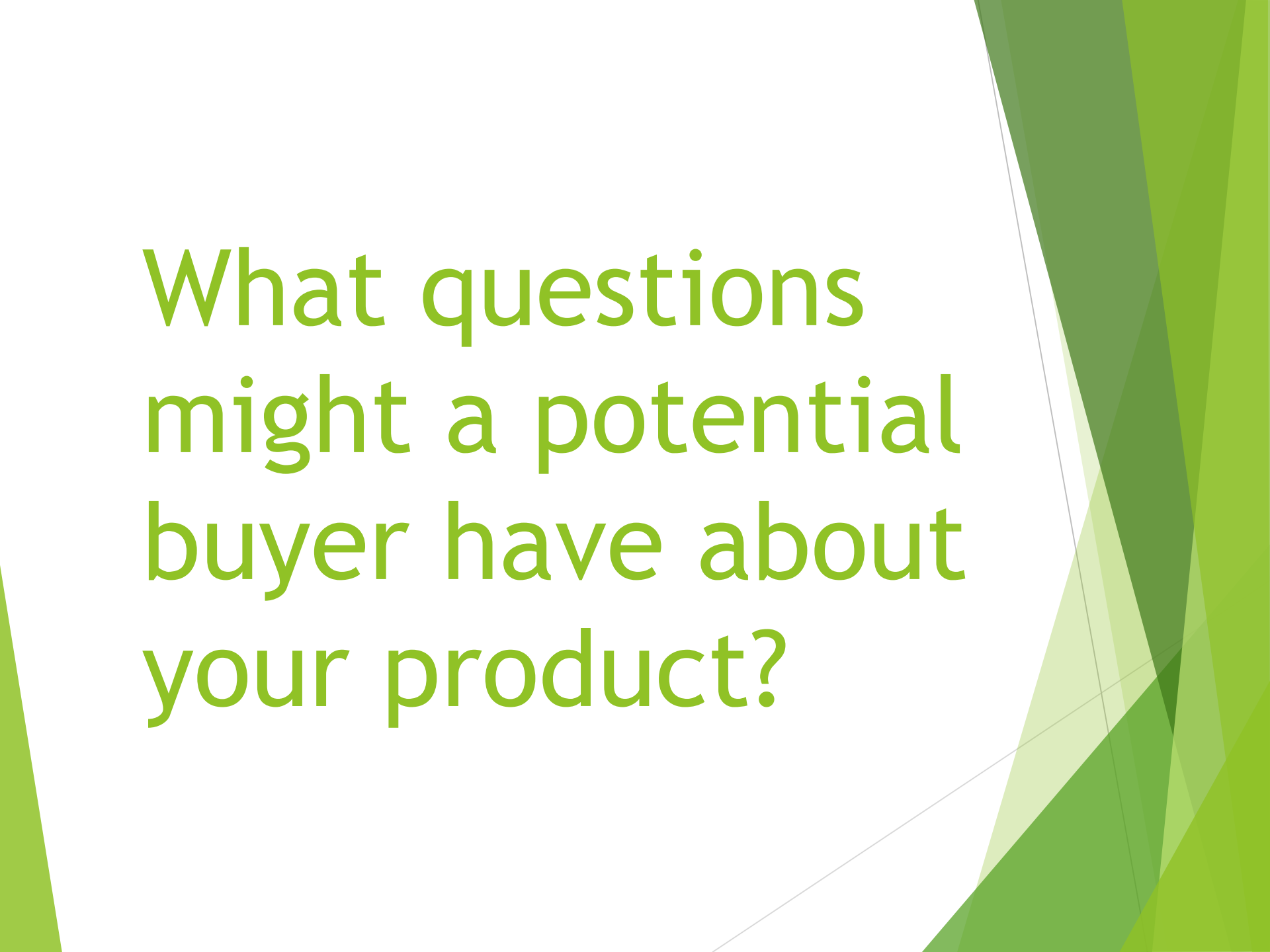
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Preparing for Networking Events

- ▶ Build your Brand Promise
- ▶ Answer the WHY
- ▶ Sample Displays - What TO do, What NOT To Do

Your Brand Promise

- ▶ **THINK:** What are the **VALUES** of your company/brand? What **ASSOCIATIONS** do you want people to have with your brand?
- ▶ **ANSWER:** What do you produce? Who uses or consumes your product? What is the experience of your product like for them?

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What questions
might a potential
buyer have about
your product?

- ▶ When is your product available? (seasonality)
- ▶ What's the lead time (1-3 business days from order)?
- ▶ Where do you source your ingredients?
- ▶ What volume do you sell in?
- ▶ Pricing? Wholesale prices?
- ▶ Do you deliver? Work with distributors?
- ▶ What is your standard pack size, and are you willing to modify it for special orders?
- ▶ How much does it cost? Can I get a discount?
- ▶ What does x term (grass-fed, natural, free range) mean?
- ▶ Are you GAP certified?
- ▶ Is your product traceable?
- ▶ Do you have product liability insurance?
- ▶ Shelf life?
- ▶ What makes your product different from the other guy?
- ▶ What happens if I receive an order from you and it's not up to snuff?
- ▶ Is the kitchen where you make your value added products inspected?
- ▶ References from current clients?
- ▶ How do you take orders and do invoicing?
- ▶ Where are you located?
- ▶ UPC codes?

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What makes a
great sample
display?























Polyface, Inc.

The Farm of Many Faces

*We are in
the redemption business:
healing the land,
healing the food,
healing the economy,
and healing the culture*



Specializing in...
Salad Bar Beef
Pigaerator Pork
Pastured Eggs, Broilers,
& Turkeys
Forage-Based Rabbits
Forestry Products













Sample Display Tips

- ▶ Stand out
 - ▶ Table Runner adds depth
 - ▶ Business signage
 - ▶ Add different levels (Larger items in the rear, shorter in front)
- ▶ Free Stuff!
 - ▶ Giveaways
 - ▶ Drawings
 - ▶ Certificates on first order
 - ▶ Samples!
 - ▶ Flyers, business cards, product lists

Follow-up Best Practices...

- ▶ Who to contact?
- ▶ Means of Communication?
- ▶ Time of Day? Day of the week?
- ▶ Consider when they do seasonal planning
- ▶ Do things in advance - crop planning, appointments, notifications

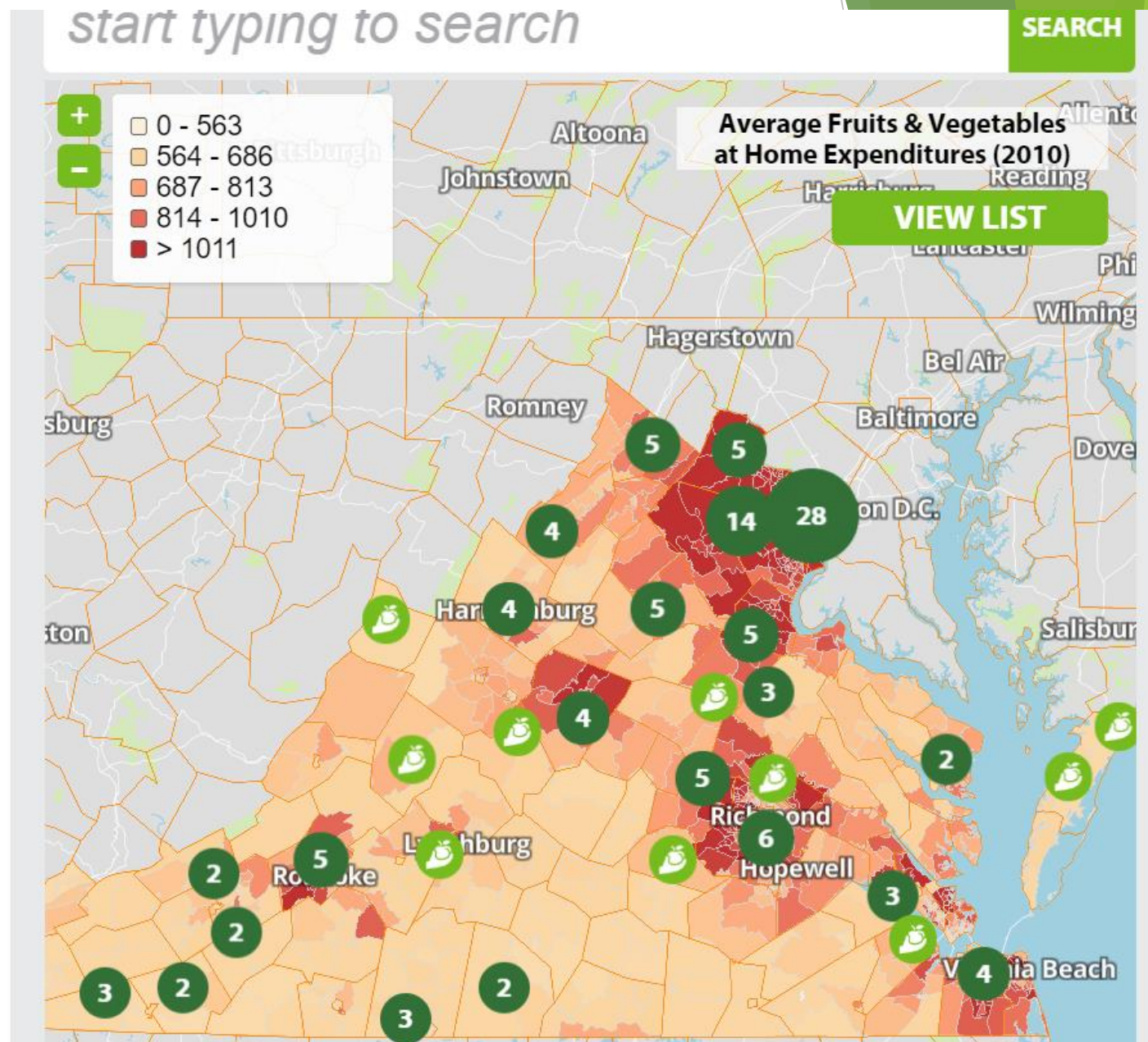
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Available Resources

Connecting with Commercial Buyers

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Virginia Market Maker



Top 10 Restaurant Trends - 2019

#1 Cannabis/CBD oil-infused food & drinks

#3 Zero-waste cooking (elevated cuisine using food scraps)

#4 Globally-inspired breakfast

#5 Global flavors in kids meals

#6 Hyper-local (e.g. restaurant gardens, onsite beer brewing, house-made items)

Top 10 Restaurant Trends - 2019

#7 New cuts of meat (e.g. shoulder tender, oyster steak, Vegas Strip Steak, Merlot cut)

#8 Veggie-centric/ vegetable-forward cuisine (e.g. fresh produce is star of the dish)

#9 Chef-driven fast-casual concepts

#10 Craft/artisan/locally produced spirits

Find Competitive Advantage!

Average Meat Prices Collected at Virginia Retail Farmers Markets

Commodity	Unit	2015	2016	2017	2018	Range	Mostly Range	4 Year Average
Beef (Ground)	Pound	6.90	7.25	7.16	7.48	3.00 - 9.00	6.00 - 8.25	7.20
Beef (Roast)	Pound	8.43	8.22	8.60	8.52	4.90 - 16.00	7.00 - 9.00	8.44
Beef (Steaks)	Pound	15.40	15.37	17.16	16.78	7.00 - 29.95	11.95 - 19.00	16.18
Chicken (Whole)	Pound	4.59	4.54	4.72	4.76	2.95 - 7.99	4.00 - 5.50	4.65
Chicken (Thigh/Legs)	Pound	6.38	5.94	7.17	6.59	4.25 - 13.50	4.50 - 7.99	6.52
Chicken (Breast)	Pound	10.50	10.18	11.57	10.37	4.85 - 16.99	8.50 - 13.50	10.66
Pork (Ground)	Pound	6.08	6.95	7.02	7.33	4.00 - 12.00	5.00 - 9.00	6.85
Pork (Chops)	Pound	8.46	9.06	9.35	9.37	4.59 - 20.00	6.50 - 10.75	9.06
Pork (Sausage)	Pound	7.08	7.35	7.47	7.66	3.99 - 15.00	5.00 - 8.50	7.39
Lamb (Ground)	Pound	10.17	10.26	10.95	10.39	6.00 - 18.00	9.00 - 12.00	10.44
Lamb (Chops)	Pound	15.28	15.55	16.41	12.26	8.75 - 22.99	9.98 - 17.00	14.88
Lamb (Leg)	Pound	12.06	11.91	12.48	12.23	5.00 - 22.89	10.98 - 14.00	12.17

Visit Virginia Grown online for Farmer's Market resources.

Information is available for market managers, vendors and consumers.

<https://www.vdacs.virginia.gov/pdf/fmoctober2018.pdf>

Find Competitive Advantage!

Average Prices Collected at Virginia Retail Farmers Markets							
Commodity	Unit	2014	2015	2016	2017	2018	5 Year Average
Apples	Pound	1.72	2.06	2.06	2.38	2.15	2.07
Asparagus	Pound	4.96	5.66	5.71	4.80	5.50	5.32
Blackberries	Pint	4.47	4.52	4.57	5.03	4.67	4.65
Broccoli	Pound	2.56	2.76	2.64	2.45	2.45	2.57
Butter Beans	Pound	3.62	2.95	2.69	3.50	2.91	3.13
Butter Beans (Shelled)	Pint	5.25	5.17	NA	5.20	5.90	5.38
Cabbage	Pound	0.77	0.95	1.02	1.02	1.29	1.01
Cantaloupes	Each	3.01	3.14	3.32	3.31	3.28	3.21
Cucumbers	Each	0.87	0.74	0.72	0.77	0.70	0.76
Green Beans	Pound	2.38	2.39	2.44	2.76	3.04	2.60
Greens	Pound	2.64	1.92	2.16	2.38	2.12	2.24
Peaches	Pound	2.20	2.16	2.11	2.48	2.49	2.29
Peas	Pound	2.96	2.36	2.35	2.76	2.60	2.61
Peppers	Each	0.93	0.73	0.76	0.88	0.82	0.82
Potatoes	Pound	1.58	1.70	1.67	1.81	1.90	1.73
Squash	Pound	1.66	1.82	1.81	1.99	1.94	1.85
Strawberries	Quart	5.00	5.47	4.63	5.07	5.75	5.18
Sweet Corn	Dozen	5.08	5.29	5.90	6.70	6.96	5.98
Tomatoes	Pound	2.73	2.53	2.45	2.54	2.54	2.56

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DTC Market Resources

- ▶ The Virginia Market Ready Farm-to-Fork Direct Marketing Resources portal
- ▶ Access resources and upcoming trainings specific to market access and marketing beyond the farm gate



ext.vt.edu/agriculture/market-ready.html

DTC Market Resources

- ▶ Virginia Market Maker = FREE online database available to Virginia agribusinesses and consumers worldwide
- ▶ Promote your business, network, marketing tools



ext.vt.edu/agriculture/market-maker.html

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Thank you!

Dr. Kim Morgan, VT Extension Economist

KLMorgan@vt.edu

French Price, Value Chain Coordinator

frenchprice@vt.edu

Study the Research: WHY do customers want to buy DIRECT from growers?

Source: Thapaliya, S., M.G. Interis, A. Collart, L. Walters, and K.L. Morgan. 2017. Are Consumer Health Concerns Influencing Direct-from-Producer Purchasing Decisions? *Journal of Agricultural and Applied Economics* 49(2): 211-231.

Customers are....

- ▶driven by higher level of concerns about the safety of US foods, NOT US food price trends
- ▶ ...searching for food relationships in response to diet-related disease incidences in themselves and their family members

Repeat Customers are also....

- ▶ ...immigrants
- ▶ ...prepare more meals at home
- ▶ ...obesity of respondent and/or spouse/kids increase likelihood of purchasing at farm stands and number of purchases at farmers market

Direct marketing strategy

FOCUS ON CUSTOMER ENGAGEMENT

- ▶ Cost effectiveness of sale promotions to influence expenditure levels and frequency of existing customers are related to consumer willingness to engage with product

Direct marketing strategy

BUDGET MARKETING COSTS!

- ▶ Post large maps and have visitors add pushpins to indicate their home zip
- ▶ Count shoppers - paid and unpaid
- ▶ Collect names & addresses to create client database
- ▶ Provide free samples to showcase freshness & features
- ▶ Hire/train professional sales folks who will foster long-term loyal customer relationships

Direct marketing strategy

MESSAGE AT THE MARGIN

- ▶ Grown using less water
- ▶ Contain lower pesticide residue
- ▶ No petroleum-based fertilizers
- ▶ Shorter distances to final point of sale

Direct marketing strategy

THREE-WAY PROMOTION

- ▶ Attract new consumers
- ▶ Adopt sales promotion tools that encourage existing customers to purchase more frequently
- ▶ Encourage consumers to spend more per visit

Virginia Market Sector Assessment



How Do Producers Navigate Buyer Requirements?



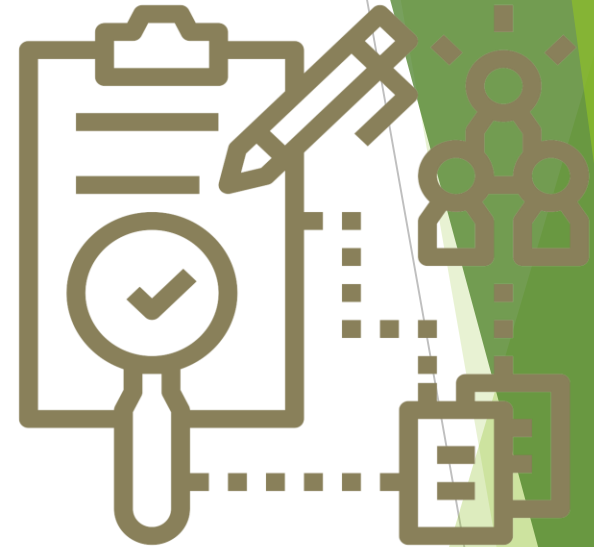
Virginia Market Assessment

- ▶ In 2015-2016, Virginia Fresh Produce Food Safety Team conducted a state-wide market assessment
- ▶ Goal was to better understand current expectations and perceptions across multiple market sectors in Virginia
 - ▶ Direct markets (i.e. farmers markets, CSAs, etc.)
 - ▶ Colleges/Universities
 - ▶ Hospitals
 - ▶ Public Schools (K-12)
 - ▶ Restaurants
 - ▶ Retailers
 - ▶ Wholesalers



Assessment Approach

- ▶ Online survey coupled with subsequent Focus Groups (FG)
- ▶ Response rate lower than anticipated within some sectors like hospitals and colleges & universities
- ▶ Supplemented survey and FG data with literature review and recorded interviews to corroborate



Survey Question Emphasis

- ▶ On-line Survey Questions focused on principal buyers of various markets:
 - ▶ Purchasing roles
 - ▶ Produce sources used
 - ▶ Frequency of purchasing during peak and off season
 - ▶ Annual fresh produce expenditures
 - ▶ Amount Virginia-grown produce sourced
 - ▶ Purchasing Priorities & Barriers
 - ▶ Food Safety Requirements



Buyer Purchasing Expectations

- ▶ Although survey specifically targeted food safety perceptions and expectations, other constraints related to buyer purchasing were consistently mentioned

Product characteristics important across all sectors

- **Quality**
- **Availability**
- **Price**
- **Delivery Consistency**
- **Product Variety**
- **Quantity**
- **Food Safety Certification**
- **Grower Proximity to Buyer (market)**
- **Product Liability Insurance**

Buyer Purchasing Requirements

- ▶ Across sectors and sometimes within sectors, food safety requirements were inconsistent given varied procurement strategies, i.e. schools, chain vs local restaurants
- ▶ Mixed bag with food safety certifications when required



Buyer Purchasing Requirements

- ▶ Need for food safety certifications and liability greater in institutional settings, i.e. public schools, colleges & universities, and hospitals
- ▶ Hospitals exemplified most complex system due to extensive structure, hierarchy of management, personnel, and policy hurdles



Buyer Purchasing Requirements

- ▶ Where certifications were not required, distributors purchasing local produce often verified supplier adherence to food safety practices and overcame logistical challenges
- ▶ In other cases, buyers purchasing directly often relied solely on verbal assurances and established relationships to address food safety and quality assurances



Key Lessons Learned

- ▶ Regardless of market sector, purchasing direct from producer was prioritized, but logistical hurdles faced were also substantial
- ▶ These hurdles can pose significant barriers for producers trying to tap into new markets (scale up)
- ▶ Perception that intermediaries like food hubs could streamline access to local foods



Key Lessons Learned

- ▶ Regardless of market sector, communication of requirements, expectations, needs, and priorities by buyers to producers was THE KEY take-home message!
- ▶ Communication by producers to buyers as to how they meet or don't meet marketplace criteria was also critically important!

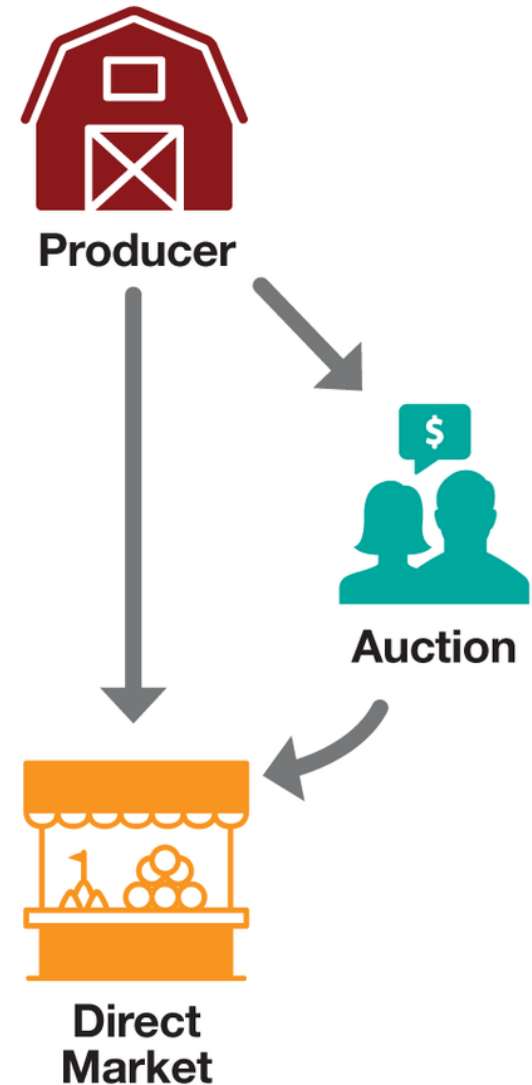


Market-Specific Recommendations



Direct-to-Consumer Markets

- ▶ For Farmers' Markets, important to contact market manager to know broader rules and food safety regulations for selling at that market
- ▶ What food safety practices do you have in place and how to verify?
 - ▶ Simple written food safety plan and conveying to public to boost your marketability?
 - ▶ Handling practices at market?
 - ▶ Had you had training in on-farm and market food safety?



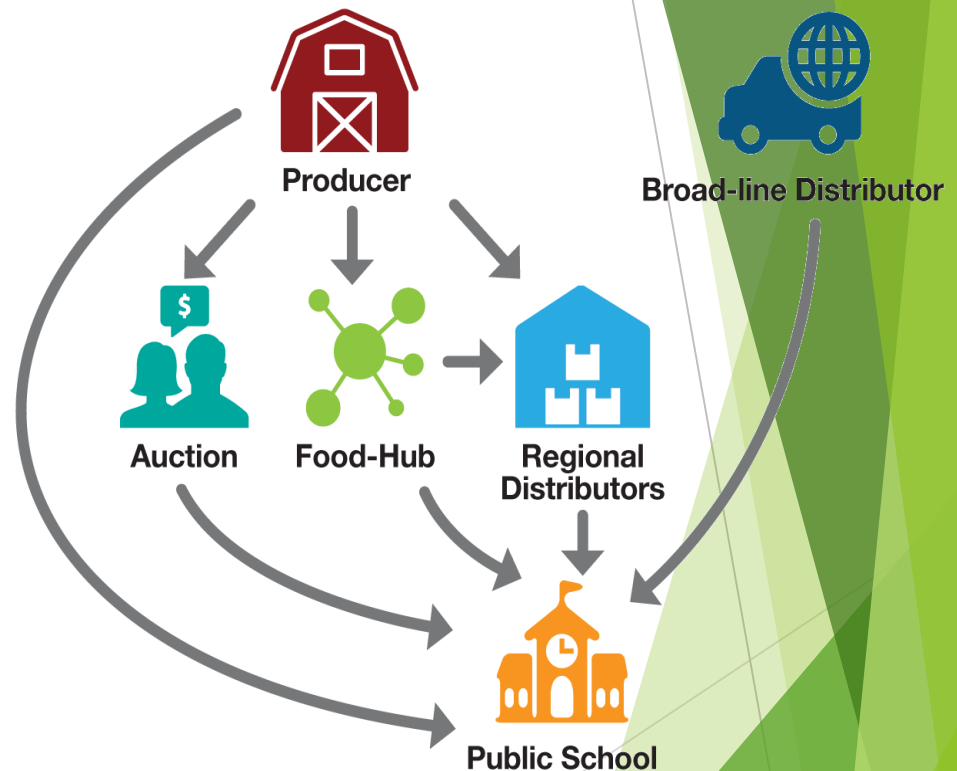
Public Schools

- ▶ A growing number of schools are gradually transitioning from pre-made foods to more fresh, scratch cooked options
- ▶ In Virginia, F2S movement is strong and the demand for procurement of locally-sourced products increasing
- ▶ Different school districts may be constrained by size of the school district and the amount of funds and flexibility they have to procure locally sourced products
- ▶ Public schools have contracts with vendors already set in place



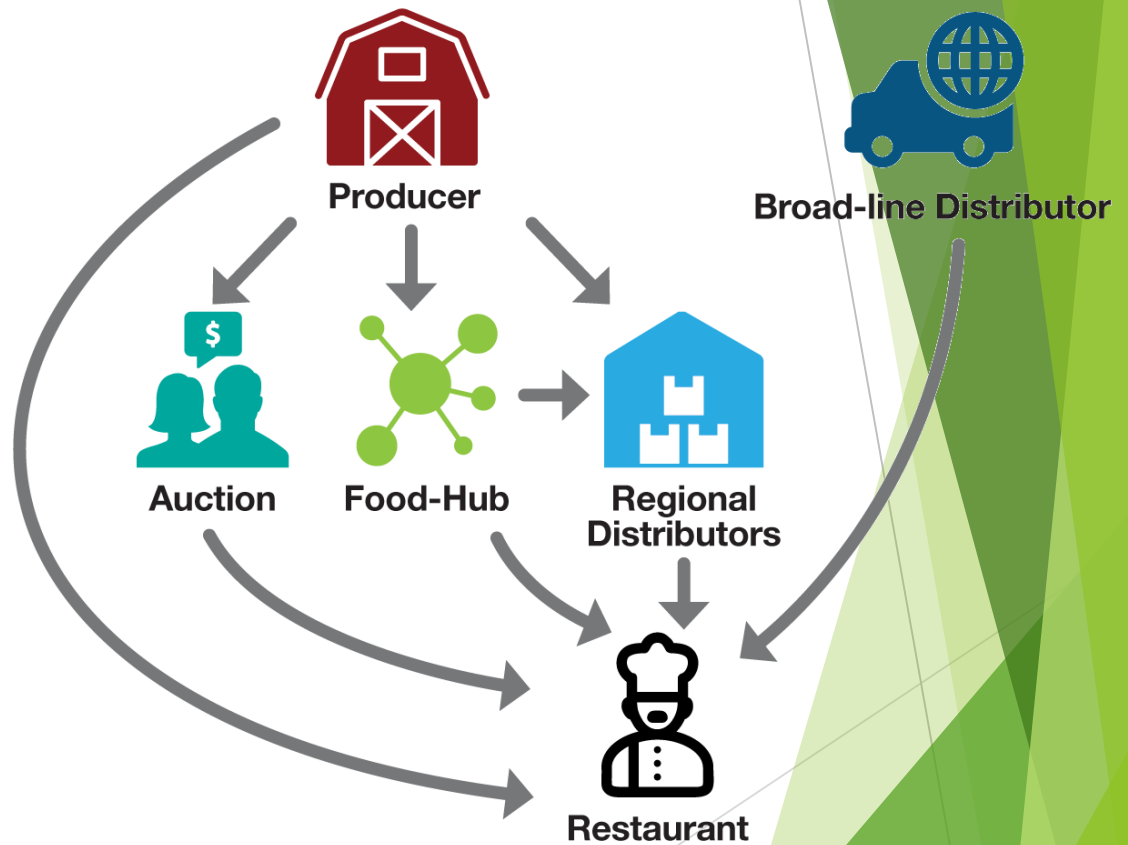
Public Schools

- Communicate with school nutrition director/ procurement person to see if you need a 3rd party safety audit, such as GAP (Good Agricultural Practices) certification, and/or having a HACCP plan implemented in your operation
- Be open to selling to a local auction, food hub, or distributor, who may already have a business relationship with the school system
- This can help with food safety req'ts and logistical issues such as transport and meeting volume needs



Restaurants

- ▶ Producers should recognize restaurant markets have different needs [volume, timing, flexibility]
 - ▶ “Mom and Pop” (independent)
 - ▶ Chains
 - ▶ Caterers
 - ▶ Part of Institutions



Restaurants

- ▶ Most restaurants are interested in purchasing locally
- ▶ Consistent volume/availability of product is often cited by chefs as barrier to purchasing locally
- ▶ Reliable, clear communication regarding changes in product volume or quality are key to managing supply issues.



Restaurant

- ▶ Pre-planning on volume and market season
- ▶ Chefs & growers review seed catalogs prior to planting season
- ▶ Regular updates on products available NOW and UPCOMING
 - ▶ Email/fax blasts
 - ▶ Phone calls
 - ▶ Personal appointment

Restaurants

- ▶ Be a reliable partner - find an answer!
- ▶ Local grower volumes - opportunity to differentiate!
 - ▶ Small volume = Less “commodity-like”, more unique if limited sales to “select” chefs, i.e. berries, specialty meats (lamb), short shelf life desserts
 - ▶ Medium volume = Serve multiple buyers, diversify/substitute product offerings, i.e. cultural cuisine
 - ▶ Large volume = Serve chain restaurants/institutions, more commonly used, every day and/or processed products, i.e. tomatoes, breads, butter, jams, sauces

Restaurants

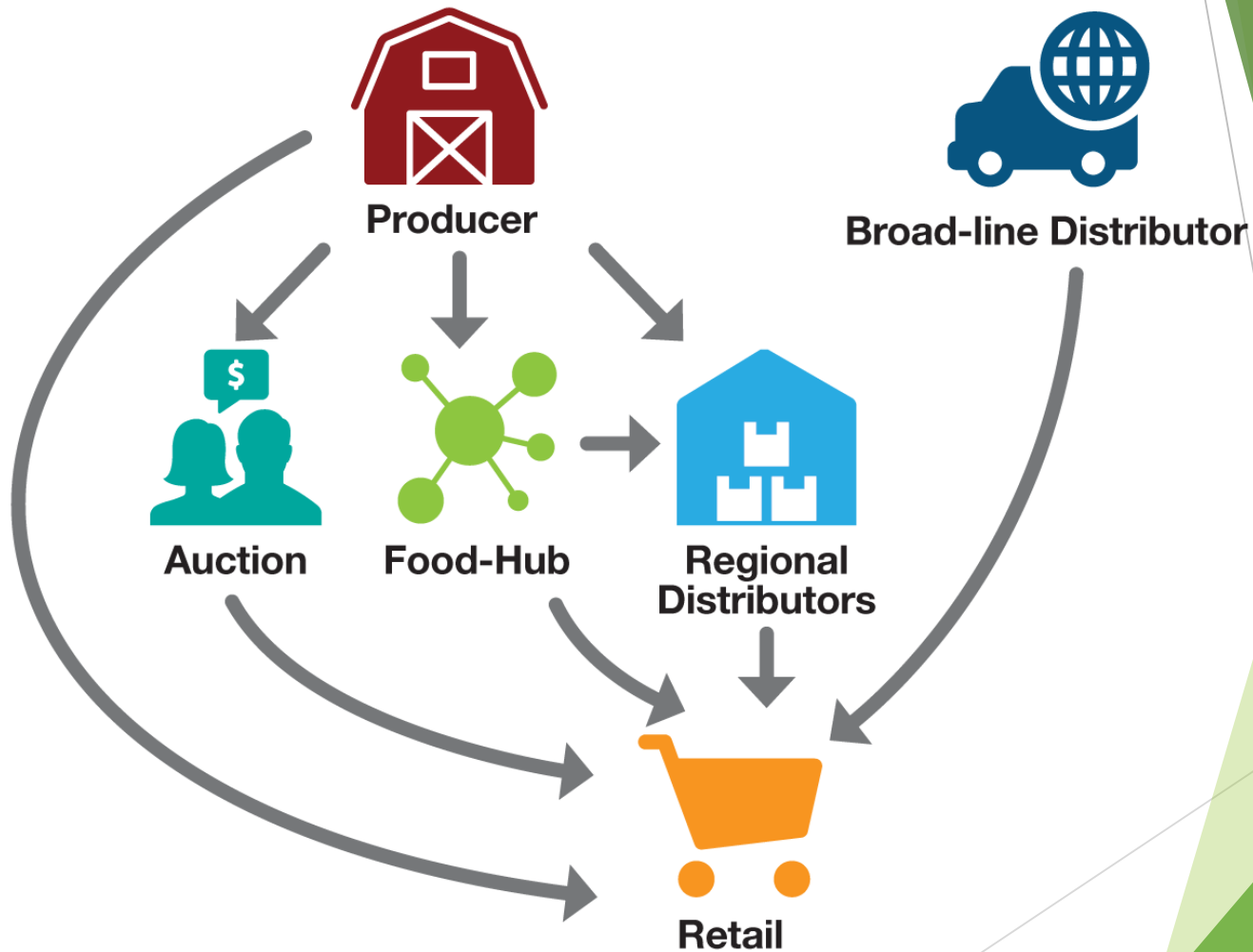
- ▶ Remember, chefs expect “local” to be at least as good as, if not better than, wholesale sources
- ▶ Ensure chef understands the product and quality s/he can expect to receive upfront
- ▶ Different restaurants may have different expectations in product quality
- ▶ Chain restaurants are inherently more stringent on food safety policies, so make sure to ask about vendor food safety requirements > Third party audits and/or HACCP?

Retailers

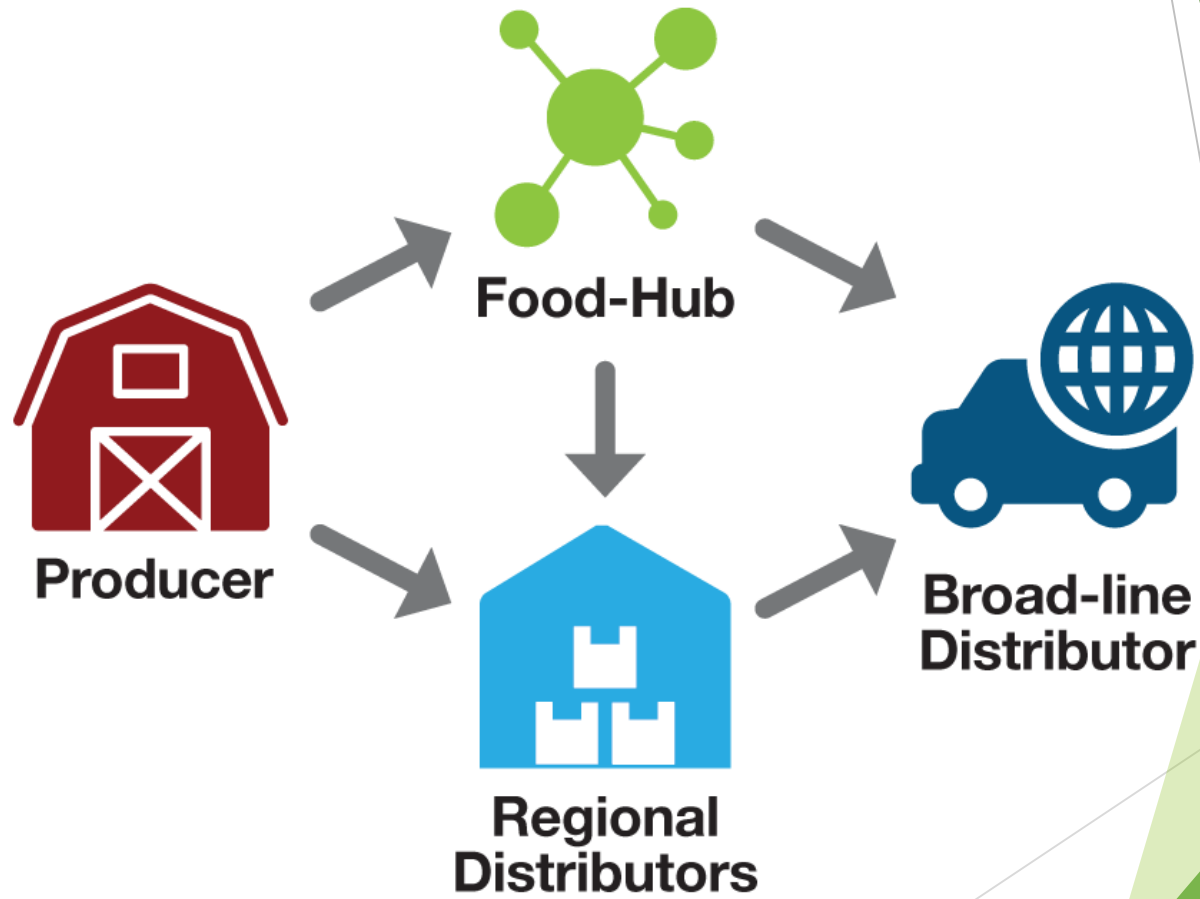
- ▶ Like restaurants, be aware of the type of retailer (i.e. “mom and pop” stores vs. chain stores) and their readiness to source locally
- ▶ Know corporate policies as well as size limitations of the produce being sold
- ▶ It is likely retailers would increase purchasing VA-grown produce if more producers met food safety requirements



Retailers



Wholesale Markets



Wholesale Markets

- ▶ Regional wholesaler- centrally located facility with business management structure facilitating the aggregation, storage, processing, distribution, and/or marketing of locally/ regionally produced food products
- ▶ Regional food hub- business or organization that actively **manages** the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand



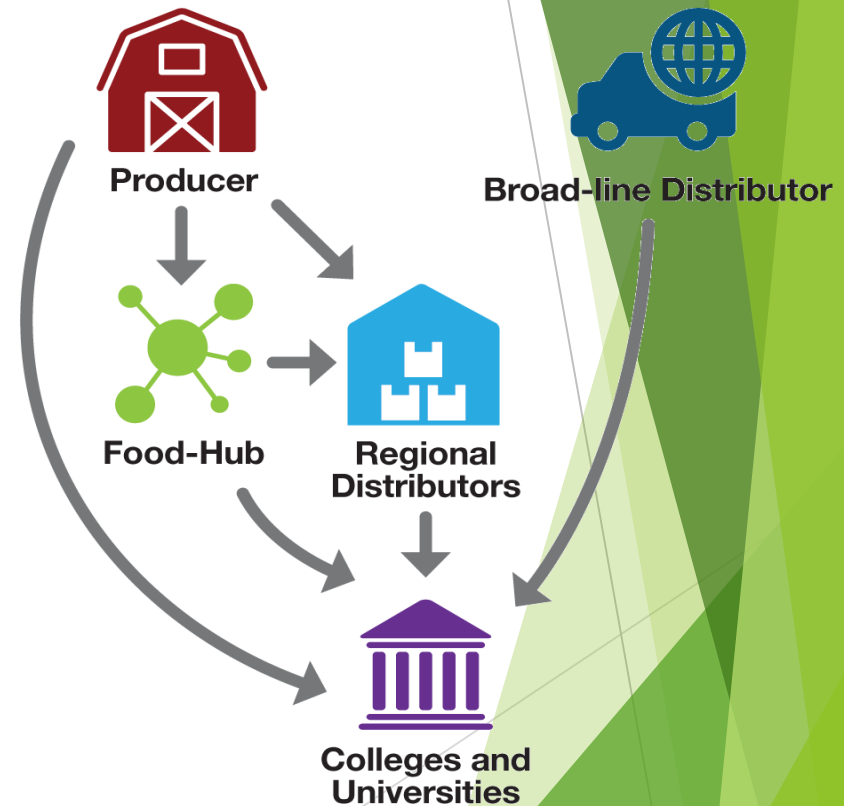
Wholesale Markets

- ▶ Many logistical issues can be alleviated by choosing to sell your product to a distributor or wholesaler, rather than DTC
- ▶ Down side is lower prices
- ▶ Wholesalers and aggregators would increase their purchase of Virginia grown produce if more Virginia growers met food safety requirements
- ▶ Consider these markets, what support they offer (training, incentives), and what food safety policies they have



Colleges/Universities

- ▶ Crucial to establish effective communication
- ▶ Be cognizant of large volume needs of particular institutions; selling to them means being able to provide a consistent flow of product and meet exacting quality standards
- ▶ Obtain and maintain third- party food safety certifications, and be aware that comprehensive liability insurance may also be a necessity in this market
- ▶ Become familiarized with FSMA produce safety regulations and understand how they affect you as a local producer



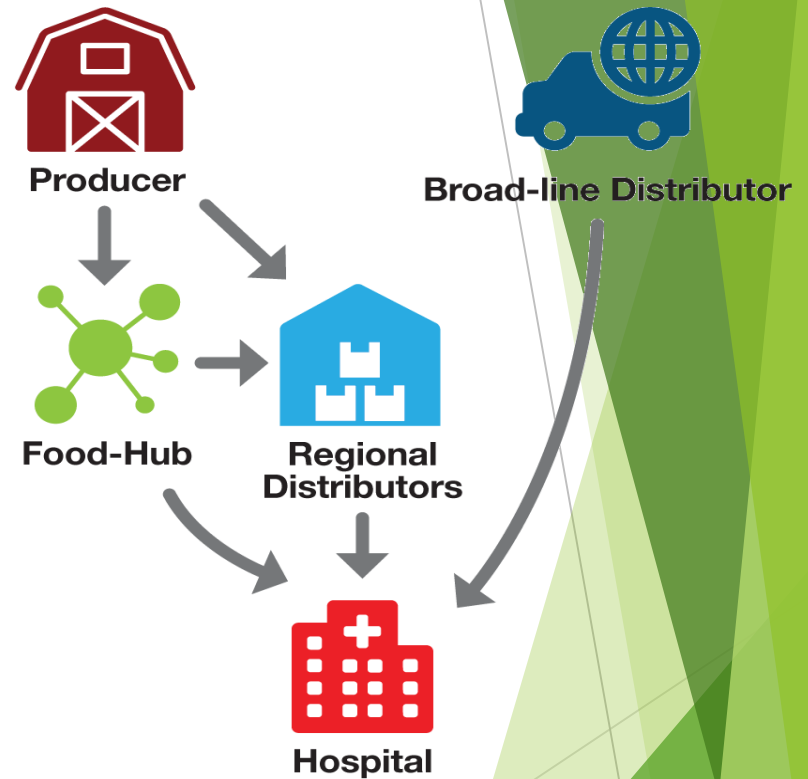
Hospitals

- ▶ Hospital food procurement is one of the most complex purchasing systems, with an extensive hierarchy of management, personnel, and policy hurdles
- ▶ **Important to ask right questions!**
 - ▶ What is the size of the hospital?
 - ▶ Is it a private hospital or part of a larger corporate structure?
 - ▶ Be open to supplying rural hospitals, since smaller institutions may have less hurdles, thereby making it easier for local farmers to tap into these smaller hospitals.



Hospitals

- ▶ Have you considered how you will get in touch with the right person in regards to selling to a hospital?
 - ▶ Recognize the person responsible for food procurement may not be flexible in their purchasing capabilities due to stringent corporate policies
- ▶ Have you considered using a local food-hub or other intermediaries to be able to tap into this market?



Hospitals

- ▶ Best on-farm food safety practices are critical since the majority of people receiving your produce have a weakened immune system
- ▶ Have you obtained and are you maintaining third-party food safety certification?

