

Role of Direct Marketing in California

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Farmers' markets re-emerged after passage of the Farmer-to-Consumer Direct Marketing Act of 1976. This article investigates the benefits of direct marketing and the characteristics of producers who utilize this alternative marketing system, and provides an appraisal of its future prospects.

Farmers' markets have become a common sight in many communities throughout California and the nation. However, the marketing of produce by farmers directly to consumers is not a recent innovation; it was the norm during the nineteenth century, but waned in popularity when improved refrigeration and transportation made it possible to ship produce longer distances. Nationally, the resurgence of direct marketing is linked to the passage of the Farmer-to-Consumer Direct Marketing Act of 1976. In California, the Department of Food and Agriculture enacted regulations in 1977 that exempted farmers from packing, sizing, and labeling requirements for their fresh fruits, nuts, and vegetables and enabled them to sell only those products which they grow themselves at Certified Farmers' Markets, if they are certified by their county agricultural commissioner.

Thirty years later, there are more than 4,385 farmers' markets in operation across the nation. The number of farmers' markets increased by 150 percent between 1994 and 2006. There are approximately 500 farmers' markets in California, with half of them operating year-round.

Community Supported Agriculture programs (CSAs) have become another popular form of direct marketing; usually, these programs involve prepaid

subscriptions to purchase part of a farm's production for a month, quarter, or longer time period. Some producers offer "u-pick" programs, allowing consumers to pick berries, apples, and other crops directly at their farms. Other forms of direct marketing by agricultural producers to consumers include roadside farm-stands and sales through the Internet or mail order. This article examines the benefits of direct marketing to consumers and producers and the characteristics of producers who utilize this marketing system. It concludes with an appraisal of the outlook for direct marketing.

Benefits to Consumers and Producers

Many small-farm programs encourage producers to participate in farmers' markets and other forms of direct marketing. Previous studies indicate that direct marketing offers benefits to both consumers and producers. Consumers have reported that quality is the number one reason they shop at farmers' markets; they are attracted by the fresh-picked, and vine- and tree-ripened produce. They also gain a stronger sense of food safety by knowing more about the food they are consuming—how it was produced and who produced it. Consumers value the opportunity to meet producers and "attach a face to the food they eat." The relationships they develop with the producers of their food reduce the degree of information asymmetry they have about the food they purchase.

Producers have indicated that direct marketing provides a means of increasing their profitability because they can generate sales at "full retail," when, on average, they receive less than 20 cents of the consumer's food dollar. It also enables them to move smaller volumes of produce and to sell ripe fruit that is too delicate for the traditional packing and shipping process. Because of the limited capital investment required, direct marketing is seen as a means of entry for new small farms. Direct marketing also improves producers' access to market information and provides them with an opportunity to integrate into the community and expand their customer base.

National and Statewide Trends

Data from USDA's Census of Agriculture provide insights regarding the producers who engaged in direct marketing to consumers. USDA began tracking the significant growth in producers' direct marketing revenues with the 1992 Census of Agriculture. Nationally, the number of farms engaged in direct marketing increased from 86,432 in 1992 to 110,639 in 1997 and 116,733 in 2002. The rise in sales has been even more dramatic—increasing from

Table 1. Direct-Marketing Revenues of Agricultural Producers by Year (in \$1,000)

Rank 2002	State	2002	1997	1992	% Change 1992-2002
1	California	114,356	73,179	35,967	217.9%
2	New York	59,724	40,088	32,321	84.8%
3	Pennsylvania	53,760	48,745	35,806	50.1%
4	Michigan	37,269	28,720	21,093	76.7%
5	Washington	34,753	13,700	10,863	219.9%
6	Massachusetts	31,315	19,825	14,982	109.0%
7	Wisconsin	29,072	21,866	13,889	109.3%
8	Texas	25,639	17,379	12,188	110.4%
9	Minnesota	22,763	14,198	9,434	141.3%
10	Oregon	21,411	14,287	10,323	107.4%

Source: USDA/NASS, 2002 Census of Agriculture

Table 2. California Farms Engaged in Direct Marketing by Acreage Class, 2002

	FARM SIZE--ACRES												
	All Sizes	1–9	10–49	50–69	70–99	100–139	140–179	180–219	220–259	260–499	500–999	1,000–1,999	2,000+
Number of Farms Direct Mktg	6,436	2,704	2,302	302	223	206	149	76	67	151	113	71	72
Percent of All Farms in Size Class Engaged in Direct Mktg	8.1%	12.4%	8.4%	7.3%	5.5%	5.9%	5.6%	4.5%	4.6%	3.3%	3.1%	3.0%	3.0%
Direct-Mktg Revenues (\$1,000)	114,356	11,841	28,356	6,652	9,132	5,813	5,587	5,528	6,391	13,886	8,846	7,928	4,396
Average Direct-Mktg Revenues/Farm (\$)	17,768	4,379	12,318	22,026	40,951	28,218	37,497	72,737	95,388	91,960	78,283	111,662	61,056
Direct-Mktg Share of Total Revenues	0.4%	1.7%	1.2%	0.8%	0.8%	0.4%	0.6%	0.8%	0.7%	0.5%	0.2%	0.2%	0.1%

Source: USDA/NASS, 2002 Census of Agriculture

\$404.1 million in 1992 to \$591.8 million in 1997 and \$812.2 million in 2002—more than doubling during the ten-year period. Nevertheless, direct marketing sales represented only 0.4 percent of total farm revenues in 2002.

California has led the nation in direct marketing revenues since the reporting began (Table 1); the state’s agricultural producers generated \$114.4 million in sales through direct marketing in 2002. This represented a 45 percent increase from the \$78.7 million revenues in 1997. New York ranked a distant second with \$59.7 million in direct-marketing revenues in 2002. California’s prominence in direct marketing is not surprising; given its favorable growing conditions, the prevalence of production of high-value crops and producers’

relative proximity to major metropolitan areas with high consumer demand.

Farm Size

Direct marketing is usually linked to small farms, in terms of both acreage and sales. Thus, it is not unexpected that the farms in the smallest acreage and sales classes represented the largest group of direct marketers in 2002 in California (Tables 2 and 3). Although the number of farms involved in direct marketing tended to decrease as farm sales increased, there were 139 farms with sales of \$1 million or more that engaged in direct sales to consumers. The incidence of direct marketing declined with overall sales class size (based on total farm sales, not just direct marketing revenues),

ranging from 10.3 percent for farms with sales between \$10,000 and \$24,999 down to 2.8 percent for farms with \$1,000,000 or more in sales.

Although direct marketing revenues accounted for a decreasing share of total revenues as sales-class size increased, there was direct positive correlation between sales-class size and both total and average direct marketing revenues; the largest sized farms generated the highest direct marketing revenues (\$37.2 million—which represents a third of the state’s total direct marketing revenues). The largest farms averaged \$267,324 from direct marketing sales; this is contrary to the perception that direct marketing is dominated by small producers. While direct marketing generates a small share of the state’s

Table 3. California Farms Engaged in Direct Marketing by Sales Class, 2002

	TOTAL FARM REVENUE SALES CLASS IN DOLLARS									
	All Sales Classes	Under \$10,000	\$10,000–\$24,999	\$25,000–\$49,999	\$50,000–\$99,999	\$100,000–\$249,999	\$250,000–\$499,999	\$500,000–\$999,999	\$1,000,000+	
Number of Farms Direct Mktg	6,436	3,756	970	580	379	356	162	94	139	
Percent of All Farms in Sales Class Engaged in Direct Mktg	8.1%	10.2%	10.3%	8.1%	5.6%	4.9%	3.9%	3.0%	2.8%	
Direct-Mktg Revenues (\$1,000)	114,356	5,682	6,501	7,722	9,956	15,847	13,462	18,028	37,158	
Direct-Mktg Share of Total Revenues	0.4%	6.3%	4.2%	3.0%	2.0%	1.4%	0.9%	0.8%	0.2%	
California-Average Direct-Mktg Revenues/Farm	\$17,768	\$2,798	\$6,702	\$13,314	\$26,269	\$44,514	\$83,099	\$191,787	\$267,324	
U.S. - Average Direct-Mktg Revenues/Farm	\$6,958	\$1,404	\$4,836	\$9,179	\$15,293	\$24,590	\$43,700	\$73,781	\$142,442	

Source: USDA/NASS, 2002 Census of Agriculture

Table 4. California Farms Engaged in Direct Marketing by Major Crop Type, 2002

	MAJOR CROP TYPE										
	All Crop Types	Veg./ melon farming	Fruit/ tree nut farming	Green-house, nursery & floriculture production	Other crop farming	Beef cattle ranching & feedlots	Dairy cattle & milk production	Hog & pig farming	Poultry/ egg production	Sheep & goat farming	Animal aquaculture & other animal production
Number of Farms Direct Mktg	6,436	785	2,785	326	148	805	49	215	216	644	443
Percent Engaged in Direct Mktg	8.1%	27.1%	7.6%	7.4%	3.1%	6.8%	2.1%	34.3%	23.6%	25.9%	4.4%
Direct-Mktg Revenues (\$1,000)	114,356	26,334	55,677	7,718	3,791	3,523	3,471	2,891	NA	1,263	6,298
Avg. Direct-Mktg Revenues/Farm	\$17,768	\$33,546	\$19,992	\$23,675	\$25,615	\$4,376	\$70,837	\$13,447	NA	\$1,961	\$14,217
Direct-Mktg % of Total Revenues		0.54%	0.65%	0.23%	0.21%	0.27%	0.09%	10.81%	NA	2.92%	3.65%

NA = Number of Observations too Small to Report Source: USDA/NASS, 2002 Census of Agriculture

agricultural revenues overall, it is an important source of revenue to those producers who use this alternative marketing system; among participating operations, it contributed at least a fifth of the sales revenues within each sales class. Furthermore, farms in California generated a higher proportion of their revenues from direct marketing within each sales- class size, when compared to the nation as a whole.

Crop Type

As expected, fruits and nuts comprised the largest crop category among California's direct marketers in 2002 (Table 4). However, the highest participation rates for direct marketing were for the state's animal operations (hog—34 percent), sheep/goat—26 percent and poultry/egg—24 percent), as well as vegetable and melon producers (27 percent). Additionally, the vegetable and melon operations ranked second in total direct marketing revenues, surpassed only by the 2,785 fruit/nut operations that generated almost half (49 percent) of California's direct marketing revenues. This is expected since produce comprises the majority of the product sold directly to consumers at farmers' markets and through CSAs.

Another unexpected finding is that the 49 dairy producers who engaged in direct marketing had the highest average revenues from direct marketing of any crop/commodity category—\$70,837; this was significantly higher than the second highest average of \$33,546 for vegetable/melon farms. Although hog farming is very limited in California, 10.8 percent of the total revenues of hog operations were attributable to direct marketing. The only other farm types for which direct marketing generated at least one percent of total revenues were aquaculture (3.7 percent) and sheep/goat farming (2.9 percent). This alternative system appears to provide marketing opportunities for producers who are otherwise too small to supply large-scale processors. Consumer interest in meats from alternative production systems is growing; it is unclear whether more livestock producers will opt to direct market, or if existing producers will expand their operations and move into more traditional marketing systems.

Counties

Given California's dominance in direct marketing, it is not surprising that the top three counties and 13 of the top 20 counties for direct marketing revenues

nationally in 2002 were in California (Table 5). The 92 operations in Yolo County led the nation with \$8.3 million in direct marketing revenues in 2002, averaging \$90,304 per farm in direct sales to consumers. Yolo County producers' prominence in direct marketing in 2002 is remarkable given that the county ranked, respectively, 25th and 58th nationally in 1997 and 1992. Nevertheless, revenues from direct marketing comprised only 2.6 percent of the value of Yolo County's total agricultural production (\$315.2 million) in 2002.

Following Yolo County producers were farmers in San Joaquin County, whose direct marketing revenues totaled \$8.2 million. Producers in Fresno County ranked third nationally with direct marketing revenues of \$7.8 million (while leading the nation in the overall agricultural production of \$2.8 billion in 2002). Worcester County producers in Massachusetts placed fourth in the United States with \$7.6 million in direct marketing sales. Overall, seven of the top ten counties for direct marketing sales were in California. The high sales volumes from direct marketing in most of these counties are related to their relative proximity to major population areas, as well as their diverse crop mixes.

Yolo County producers can be seen at the local farmers' markets in Davis and Woodland. They also travel to farmers' markets in San Francisco, the East Bay, and Marin County. However, it is likely that much of the growth in their direct marketing revenues can be attributed to CSAs that connect consumers with farmers through direct purchases of shares of farm product. Currently, seven Yolo County farms operate CSAs; most market their fruit, vegetables, nuts, flowers, and value-added products to consumers throughout the Bay Area, as well as to local families in Yolo and Sacramento Counties. They are clearly capitalizing on their proximity to major metropolitan markets.

Prospects for Direct Marketing

The next Census of Agriculture will be conducted in 2008. Although it is highly likely that producers in California will lead the nation again in direct marketing revenues, the future ranking of specific counties is less clear. What is clear, though, is that direct marketing generates a significant portion of the total revenues for producers who utilize this alternative system, and that its utilization is not limited solely to smaller producers or fruit and vegetable growers. It is possible for producers to generate revenues in excess of \$250,000 annually from direct marketing. However, there are additional costs associated with direct marketing and little is known about its profitability relative to conventional marketing methods. This topic warrants further analysis.

Current consumer interest in sustainable production, locally grown produce, artisanal foods, grass-fed beef, and free-range poultry appears to provide a promising outlook for direct marketing. However, demand could become significant enough that grocery chains would expand their offerings of such foods; this could have an adverse impact on direct marketing since grocery stores are a

Table 5. Direct-Marketing Revenues by County-Top 20

Rank	State/County	Direct Sales	Rank	State/County	Direct Sales
1	California/Yolo	\$8,308,000	11	California/Merced	5,436,000
2	California/San Joaquin	8,165,000	12	Connecticut/Hartford	5,367,000
3	California/Fresno	7,752,000	13	New York/Ulster	5,051,000
4	Massachusetts/Worcester	7,644,000	14	California/Stanislaus	4,920,000
5	California/San Diego	7,299,000	15	New York/Suffolk	4,866,000
6	Massachusetts/Middlesex	7,108,000	16	California/Riverside	4,473,000
7	Pennsylvania/Lancaster	7,073,000	17	Washington/Skagit	3,695,000
8	California/Kern	6,558,000	18	California/Santa Cruz	3,556,000
9	California/Tulare	6,520,000	19	California/San Luis Obispo	3,364,000
10	California/Sonoma	5,866,000	20	California/Ventura	3,350,000

Source: USDA/NASS, 2002 Census of Agriculture

more convenient shopping outlet. But consumers who value their relationships with producers will continue to use direct marketing.

Two structural characteristics of direct marketing appear to constrain its growth. Direct marketing is often very labor intensive; farmers' markets require considerable effort (often directly by the producer) to load, unload, and transport products to each market, as does the fulfillment of Internet/mail orders to individual consumers. In addition, the expansion of product offerings, such as meat, fish and poultry, is welcomed by consumers but the infrastructure and food safety requirements associated with processing, packaging, transportation and storage of such products can be challenging to most direct marketers.

Collaboration could expand direct-marketing opportunities by alleviating these structural constraints; currently, producers usually engage in direct marketing on an individual basis. Instead, producers could coordinate among themselves to process, transport, market, and fill orders for their products jointly, while preserving the separate identities of their products. This collaboration could be structured formally as a service cooperative or less formally by producers taking turns to perform various activities. The cooperation would also enable producers to meet the product volume and variety requirements of larger

customers, including institutional food service operations. Additionally, producers could coordinate their marketing activities with downstream entities while maintaining their identities throughout the marketing system to the consumer. For example, the leading natural foods chain, Whole Foods, now identifies specific growers when displaying their produce and other products, as well as having the producers interact with consumers in some stores. Public markets, which preceded grocery stores, could be resurrected to provide permanent or semi-permanent stalls for producers, including overnight storage for perishable products.

Producers have been successful in developing new forms of direct marketing. Incorporating collaboration could broaden the consumer base and considerably increase producers' revenues from direct marketing.

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