

Farmers who commit totally to sell locally can make a profit, study says

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Farmers can make a profit selling their produce directly to local businesses, but they must not let possible new costs weaken their commitment to the new venture, according to an international team of researchers.

"We found that the [farmers](#) who really made a conscious decision to sell local and who made more of a commitment tended to do better than those who are just testing the waters with local direct selling," said Amit Sharma, associate professor of [hospitality management](#), Penn State.

Sharma added that farmers who were only testing the idea of selling to local restaurants tend to either never try to reach the [local market](#), or quickly opt out of local selling.

The researchers, who report their findings recently in the *Journal of Agriculture, Food Systems and Community Development*, said that farmers face a number of higher costs when they sell to local restaurants and shops, especially locally owned businesses that are not associated with national chains.

The added costs include money for additional marketing and transportation and delivery costs.

Costs can also increase when [local businesses](#) require special packaging, according to Sharma, who worked with Catherine Strohbehn, extension specialist and professor of apparel, events and management, Iowa State University; Rama B. Radhakrishna, professor of agriculture and extension education, Penn State and Allan Ortiz, lecturer, University of Costa Rica.

However, farmers can manage most of the costs, Sharma said.

"For some farmers, it may seem like making a web site, for example, is a monumental task," Sharma said. "But, it actually may be easy to make a web

site, or even hire someone to create one for very little money."

In addition, many farmer organizations, extension units, and state agencies host websites with templates that producers can use to market their products. These organizations often use grant money to make the templates free for the farmers.

Farmers can capture additional revenue for the venture through higher prices and improved sales margins, the researchers said.

"The local foods movement is huge and retailers are wishing to meet the desires of their customers," Sharma said. "Other research conducted by our team has found that 40 percent or more of people will pay a premium for identified local ingredients."

Most local outlets can charge a slightly higher price for goods, giving farmers a premium on products sold to those businesses. Selling produce themselves, instead of through a distribution company, may also improve margins for the farmers, since they are not losing revenue to the distributor.

"Farmers may find that their margins may be higher when they sell locally," Sharma said. "They are cutting out the middleman."

For example, farmers can ask the restaurant operator to identify where menu ingredients came from, and possibly feature the farmers' marketing materials or information about other items and locations where diners could purchase these products.

"If you do it properly, you will do it well and you can manage the costs and make money from this marketing outlet," said Sharma.

To study the costs and added work for farmers who want to enter the local market, the researchers

interviewed ten farmers who were selling food to the local market near a Midwestern university. The farmers, who were identified through a local growers' directory, were then asked about direct and indirect costs of their operations, including production, storage, packaging, marketing, transportation and delivery.

Sharma said that farmers can take the first step to create a local sales channel by meeting with chefs and shop owners. They can learn what types of products these local businesses need and what they would be willing to pay for the items. "Local foods are valued by chefs because of the relationships that are formed—the chefs know where and how the product is grown or produced and they trust the farmer," Strohbahn added.

Farmers can start these relationships by opening communication with their restaurant partners, according to Sharma.

"The farmers first have to start talking to the chefs in these restaurants," he said. "But the chefs also need to work with farmers."

The principal that businesses must know their market is also true in direct retail foodservices sales.

Sharma expect some farmers to seize the opportunities to sell to the local market. Other farmers will pass because of the perceived costs, extra work and multiple requirements of the different restaurants.

"A lot of times there's a status quo that exists and it's difficult for farmers to get out of that mindset," said Sharma. "Farmers are reluctant to take on these extra costs."

Provided by Pennsylvania State University

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