

MARKET CHANNEL SELECTION TOOL

BEGINNING FARMER AND RANCHER
DEVELOPMENT PROGRAM GUIDE SERIES

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About This Publication Series

This document is one of six resources in the Toolbox for Vegetable Farm Business Viability. The toolbox helps smaller scale vegetable farmers begin and progress along the path to business viability by assisting with planning, expenditures, and marketing. Toolbox resources are grouped into three categories:

- 1) Strategies for how to reach \$100,000 in sales: *Pathways to \$100K in Farm Sales* and *Pathways to \$100K Calculator*
- 2) Guidance on selecting a market that fits your farm: *Market Channel Selection Tool*
- 3) Suggestions for equipment and infrastructure investments for different scales (sizes) of farms: *Scale of Production Matrix* (information in table form and as a changeable Excel document), *Scale of Production Narrative* (a companion to the matrix with more details about different scales), *Scale of Production Optimization Tool* (generates suggestions based on your acreage, sales, etc.)



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➤ OVERVIEW OF TOOL

The tool is designed in three parts:

STEP 1. MARKET SELF-ASSESSMENT

Use the **Market Self-Assessment** to evaluate different aspects of your farm operation, your market opportunities, your businesses situation, and more to get an overall market channel score. Simply write in the right column the score that most reflects your farm at the current time, then add up the numbers in the column when finished.

STEP 2. MARKET SUITABILITY INDEX

The **Market Suitability Index** provides comparison scores for various market channels for the same criteria in the Self-Assessment component to help you identify what market channels might work best for your current or planned farming operation. Choose a market channel that interests you.

STEP 3. SCORING AND EVALUATION SHEET

Follow the steps in the **Scoring and Evaluation Sheet** to help you evaluate your market channel choices. Compare and contrast your farm's score with the market channel(s) you are interested in.

Repeat step 3 for each market channel you want to explore using.

MARKET SELF-ASSESSMENT

MARKET CHANNEL CONSIDERATION	GUIDING QUESTION	HOW WOULD YOU RATE YOURSELF/YOUR FARM?								YOUR NUMERICAL SCORE	
FARM CHARACTERISTICS											
Farmer Experience (1)	How many years of vegetable production, marketing, and management experience do you have?	< 1 year	1	< 3 years	2	< 5 years	3	> 5 years	4	> 10 years	5
Production Capacity (2)	How willing <i>and</i> able are you (or what is your desire) to handle high-volume production (e.g., 20–50 cases of a particular product a day)?	Farm is not designed for or interested in high volume	1	Very limited capacity to manage a high volume of product	2	Can manage some high volume of product	3	Mostly manage high volume of product	4	Expert at managing high volumes of product	5
Mechanization/Systematization (3)	What is your level of mechanization?	Very low mechanization, highly dependent on manual labor	1	Some mechanization but mostly labor dependent	2	A balance of mechanization and hand work	3	More emphasis on mechanization than hand labor	4	Very high level of mechanization	5
Access to Land (4)	How much land do you have access to in order to farm?	< 1 acre	1	1–5 acres	2	6–10 acres	3	11–15 acres	4	> 15 acres	5
MARKETING/ADVERTISING											
Farm/Brand Visibility (5)	How important is it that people know what food came from your farm?	Critical that our products carry our farm brand	1	Prefer that people connect products with our farm	2	Neither important or unimportant	3	More interested in producing than brand identity	4	Not important at all, just like to get our food to lots of people	5
Face-to-Face Interaction & Presence (6)	Is it important to you to have face-to-face interactions with your customers?	Connecting directly with customers is very important	1	Prefer a connection to customers, but it isn't critical	2	Neither important or unimportant	3	Prefer to produce more and work with customers less	4	Don't like working with people, just want to grow food	5
Persistent Follow-Up Needed (7)	Continuous follow-up is an important part of managing some customer relationships. Can you do that?	I won't "hound" buyers to get sales	1	I may be willing to do this, but only if I need to	2	I could do it but don't enjoy it	3	I would like to have some customer accounts	4	I prefer this kind of one-person marketing strategy	5
PRODUCT CHARACTERISTICS											
Product Diversity (8)	How many vegetable/herb crops do you or would you like to grow?	Very diverse: 40–50 crop types	1	Diverse: 30–40 crop types	2	Moderately diverse: 20–30 crop types	3	Low diversity: 10–20 crop types	4	Minimum diversity: less than 10 crop types	5
Food Safety Requirements (9)	How willing <i>and</i> able are you to implement food safety requirements?	Can't/won't implement food safety measures	1	Open to implementing some food safety measures	2	Willing and/or have some food safety measures in place	3	Very willing and/or already have many measures in place	4	Have met one level of food safety certification (e.g., GAP)	5
Product Consistency Needed (10)	How able are you to produce consistent product?	Unable to provide consistent product quality and quantity	1	Product quality and quantity consistency is a challenge	2	Able to provide some product quality and quantity consistency	3	I am good at product quality and quantity consistency	4	My product quality and quantity consistency is excellent	5
PRICING											
Setting Product Prices (11)	How important is it to you to set your own prices?	Very important that I set prices	1	Somewhat important that I set prices	2	Neither important nor unimportant	3	I am comfortable when others set the price	4	I prefer to work with a set price	5
Price Point (12)	How important is it to get the highest price for your products?	It is critical for me to get the highest price for my product	1	I prefer to sell less for a better price than more at a lower price	2	I strike a balance between volume and price	3	I'm comfortable with some products at higher volume/lower prices	4	I would rather move a lot of product at a lower price	5
FARM LOCATION											
Access to 100,000+ Population (13)	How close are you to a larger city or metro area with a population of 100,000 or more?	Less than 15 minutes away	1	Less than 30 minutes away	2	Less than 45 minutes away	3	Less than 1 hour away	4	More than 1 hour away	5
LABOR											
Sales Labor (14)	How easy is it to hire enough capable people to staff markets/CSA/farm stand, process orders, manage accounts, or make deliveries?	Very easy	1	Easy	2	Can meet my needs	3	Difficult	4	Very difficult	5
FARMER CHARACTER											
Farmer Stress (15) and Risk (16)	Not included in the 1–5 rating scale but discussed on the next page. These are included because perceptions about stress and risk are often associated with different kinds of market channels.										
										TOTAL	

(1) Farmer Experience

A farmer's experience is one of the most important criteria for success in whatever market channel is chosen. What is most important for beginning farmers, or those choosing new market channels, is to determine where inexperience is not catastrophic. A lack of experience in production, sales, post-harvest handling, and so on, when selling at a farmers market or farm stand, has immediate consequences that provide immediate feedback so that problems can be corrected quickly. As you are learning, it may be OK to have a lot of production variability at a farmers market or a very small (15–20-member) CSA, but a relationship with a chef or produce buyer could be damaged if you are not yet able to provide consistent product. Therefore, we suggest that moving to wholesale accounts and especially distributor accounts should be undertaken after you have more experience and can produce a consistent product reliably. Also, starting out with much more than a 15–20-member CSA, when you have little experience, is a very risky commitment. You are committing to a healthy share of vegetables for each and every CSA member, each and every week for 18–22 weeks.

(2) Production Capacity

This is an attempt to look at minimum needs to be able to work within a particular market channel. Generally, if small or very small, a farm may be able to produce enough for a farmers market or farm stand stall, a CSA, or some small wholesale accounts but not be able to meet minimum quantity requirements for a large retail processor or distributor (unless the farm is highly specialized). As a farm gets bigger and production increases, it may have the capacity to meet the needs of a large processor, retailer, or distributor. Some large farms may opt for wholesale, but others might sell at many farmers markets or manage a very large (2,000+ member) CSA instead.

(3) Mechanization/Systematization

In general, there is a need to increase mechanization and simplify practices to be able to profitably sell large amounts of produce at a lower price, such that larger farms selling to distributors and processors need to have more mechanization and lower relative labor costs than a farm selling through farmers markets or CSA. However, many exceptions exist. How much, how integrated, and what parts of the farm operation are mechanized all make a very big difference on the impact of mechanization. Being mechanized from seeding through to delivery (highly integrated mechanization) has a very different impact on labor, profit margin, and production capacity than being mechanized in a few points in the production cycle. For instance, as one researcher/farmer noted, a very diverse vegetable operation may have a lot of different machines for cultivation of a lot of different crops and therefore could be said to be very mechanized, but that does not mean that they have mechanized efficiency in harvesting or washing and packing. Nor is it clear what specific mechanization strategy is the best for any one farm.

(4) Access to Land

Again, this is an attempt to look at minimum needs to be able to work within a particular market channel. You can sell at a farmers market or farm stand without needing a lot of land, but you may need considerably more to be able to provide a minimum order for a processor or distributor. But no matter what market channel, as the farm production increases, there will be some corresponding increase in land needed to grow on.

(5) Farm/Brand Visibility

For many growers, it is very important to have the farm's name and its story directly connected to its products, most easily communicated by direct sales to customers. While many wholesale accounts are not interested or able to carry the farm's name or story to the end customer, many restaurants, food hubs, institutions, and grocers with encouragement and creativity may be willing to work with a farmer to share these stories as well.

(6) Face-to-Face Interaction & Presence

Many farmers want to know and be able to respond to the people who consume their produce. They want to hear the customers' thoughts and share their own. While selling through wholesale accounts—especially to large distributors and wholesalers—does not allow the same interaction, chefs, produce managers, and buyers can be very supportive, engaged, and thoughtful about locally sourced products. However, if you are not the kind of person who wants the farmers market level of interaction, you can hire people to be at the market for you, but make sure that you know what is happening at the market. What kind of aesthetic and presence or image you create at a farmers market matters; be very careful to manage that, too.

(7) Persistent Follow-Up Needed

If you don't like being persistent and following up with buyers, chefs, and produce managers, then wholesale is not for you. While this need for persistence may change as your relationships with the buyers develop, it may not get easier over time. Similarly, there is often turnover in these positions, requiring the farmer to start these relationships over again. Note too that CSA member renewals and other relationships also take persistence and follow-up.

(8) Product Diversity

While smaller, very diverse vegetable growers tend to market through farmers market stands, farm stands and CSA, direct markets are not the only option—a diverse farm may specialize in growing a larger quantity of a few crops to wholesale, or a large and diverse farm may be able to sell a large range of crops wholesale.

(9) Food Safety Requirements

While food safety requirements for larger businesses and those selling to them are more stringent, food safety is an important issue for any scale of farm and any market strategy, as the health and safety of every customer is important. Every farm should strive to provide the highest level of food safety possible and have a food safety plan and some level of monitoring in place.

(10) Product Consistency Needed

While the degree of product consistency requirements for large distributors (size, color, shape, etc.) can be exacting and determine sale or rejection, most customers do prefer consistent product or at least consistent quality and price. CSA, farmers market, and farm stands do offer more flexibility for moving odd-sized or odd-shaped products as long as flavor and taste quality is good.

(11) Setting Product Prices

When selling through CSA, farmers markets, farm stands, U-pick, many food hubs, and restaurants, the farmer can set the price of the product—the farmer is a "price maker." Conversely, when selling to institutions, larger grocery chains, processors, and distributors, the customer or rather the regional wholesale markets set the price paid—here, the farmer is a "price taker." While "price makers" get to dictate the price per unit, the farmer is often more limited than a "price taker" (wholesale distributor) as to how much volume can be sold.

(12) Price Point

Many factors support the higher price point of direct-to-customer sales, including the limited shelf life/ripeness of the crop (e.g., a fresh heirloom tomato), the direct relationships, the aesthetic of the market, and the "story" of the farm. These are factors that take a lot of labor, thought, and energy to create and support. Sometimes, too, these factors are valued by regional buyers, many restaurants, and some grocery chains, but most indirect or wholesale accounts, especially the largest, do not value them and won't pay as much for the product. And

while these accounts will push product consistency, they do not require the personal investment in creating and supporting the story behind the product. Often, higher prices come at a higher cost of production and lower prices at a lower cost of production.

(13) Access to 100,000+ Population

To sell, you need people to buy your product. While there is no certain population size that will make a farm successful per se, having a large enough community to have a viable farmers market, a customer base for CSA, or a farm stand and to support a handful of locally owned restaurants is important. We suggest that a population upwards of 100,000 will offer such opportunities for direct and local wholesale markets. Access to large food hubs, regional wholesale distributors, and large processors is less dependent on proximity to population centers.

(14) Sales Labor Needs

There are great differences in the amount and type of sales labor needed for different marketing strategies and at different size operations. A U-pick farm may require very little sales personnel, while a very busy stall at a farmers market may take four or more people for a large part of the day. Selling to restaurants may only require one person to manage but a lot more communication by text, fax, or online order form. You may be able to increase the number of wholesale accounts without adding sales people, but you can't increase the number of Saturday farmers markets without adding sales labor.

(15) Farmer Stress

Every market channel creates its own stress. Farming on a small scale may be stressful from a lack of income. Being very diverse has stresses of managing so many different varieties that a larger wholesale farmer growing only one or two crops doesn't have to contend with. Having the commitment to provide produce for 22 weeks to 200 CSA members seems like a commitment risk that brings its own kind of stress, as does the thought of having a whole truckload of produce rejected by a distributor or not selling enough of what you bring at a farmers market to make it worthwhile. No one source of stress is easier to deal with, but they are all part of the business. Getting "too big" seems stressful or risky to some, and being "too small" seems risky to others. Often, too, what you perceive as risky or stressful when starting out can evaporate or even seem attractive and comforting as you gain perspective.

(16) Risk

There are risks of failure at every stage in production and marketing of every market channel, and no one is better. Just know what risks you choose to manage. Every farmer perceives risk differently—some are enlivened by it and others find it stressful. In almost all cases, risk has two sides: a cost and a benefit. While it may seem risky to have a whole truckload of cucumbers rejected or bought for far too low a price, there is comfort in knowing that one can relatively easily, with a phone call, have whatever is in the field sold. It is a financial boon to have operating capital early in the season, afforded by CSA members, but some see the commitment to satisfying all those customers as very risky. Some see the possibility that you might sell very little on a rainy day at the farmers market as a risk, but others like the benefit of flexibility in what you can offer at any one time and the ability to weather crop failures or bumper crops flexibly.

MARKET SUITABILITY INDEX

Minimum Expectations & Considerations for Entry into Various Market Channels¹

MARKET CHANNEL CONSIDERATION	FARMERS MARKET		FARM STAND		CSA		SMALLER FOOD HUB (\$1-5 MILLION IN SALES)		RESTAURANT OR INSTITUTION		LARGER GROCERY		LOCAL/REGIONAL PROCESSOR		DISTRIBUTOR & LARGE FOOD HUB	
FARM CHARACTERISTICS																
Farmer Experience	Low	1	Low	1	Medium to High	4	Medium	3	Medium	3	High	5	Medium	3	High	5
Production Capacity	Low	1	Low to Medium	2	Low to High	3	Medium to High	4	Low to Medium	2	Medium	3	High	5	High	5
Mechanization/Systematization	Low	1	Low	1	Medium	3	Medium	3	Medium	3	Medium	3	High	5	High	5
Access to Land	Low to Medium	2	Low to Medium	2	Medium	3	Low to Medium	2	Medium	3	Medium to High	4	High	5	High	5
MARKETING/ADVERTISING																
Farm/Brand Visibility	High	1	High	1	High	1	Medium to High	2	Low to Medium	4	Low to Medium	4	Low	5	Low	5
Face-to-Face Interaction & Presence	High	1	Medium to High	2	High	1	Low	5	Medium	3	Low	5	Low	5	Low	5
Persistent Follow-Up Needed	Low	1	Low	1	Low to Medium	2	Medium	3	Medium to High	4	Medium	3	Low to Medium	2	Medium	3
PRODUCT CHARACTERISTICS																
Product Diversity	High	1	High	1	High	1	Low to Medium	4	Low to Medium	4	Low to Medium	4	Low	5	Low	5
Food Safety Requirements	Medium	3	Medium	3	Medium	3	High	5	Medium to High	4	Medium to High	4	High	5	High	5
Product Consistency Needed	Medium	3	Medium	3	Low to Medium	2	Medium to High	4	Medium to High	4	High	5	Medium	3	High	5
PRICING																
Setting Product Prices	High	1	High	1	Medium	3	Medium to High	2	Low to High	3	Low to Medium	4	Low	5	Low	5
Price Point	High	1	High	1	Medium	3	Medium	3	Medium	3	Medium	3	Low	5	Low to Medium	4
FARM LOCATION																
Access to 100,000+ Population	Very Important	1	Very Important	1	Very Important	1	Not Important	5	More Important	2	Less Important	3	Not Important	5	Not Important	5
LABOR																
Sales Labor Needs	High	1	Medium	3	Low to Medium	4	Low	5	Low	5	Low	5	Low	5	Low	5
TOTALS		11		13		17		28		25		28		33		34

¹ Detailed discussion of these various market channels (farmers market, CSA, restaurants, retail, etc.) are also found in *Pathways to \$100K in Farm Sales*, also published as part of this series.

Portions borrowed or adapted from *Guide to Marketing Channel Selection* (2010), Cornell Cooperative Extension, p. 34.

➤ SCORING AND EVALUATION SHEET

YOUR MARKET SELF-ASSESSMENT SCORE

Score of market channel
you think you want to use
(farmers market, sell to
restaurants, etc.)

What scores from your Market Self-Assessment and the Market Suitability Index are the same for the market channel you want to use?

- 1)
- 2)
- 3)
- 4)
- 5)

What does this tell you about your plan to use this market channel?

What scores from your Market Self-Assessment and the Market Suitability Index are very different (by 3+ points) for the market channel you want to use?

- 1)
- 2)
- 3)
- 4)
- 5)

What does this tell you about your plan to use this market channel? What things can you or can't you change?

What steps might you take as a result of this self-assessment tool?

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CRFS envisions a thriving economy, equity, and sustainability for Michigan, the country, and the planet through food systems rooted in local regions and centered on Good Food: food that is healthy, green, fair, and affordable. Its mission is to engage the people of Michigan, the United States, and the world in applied research, education, and outreach to develop regionally integrated, sustainable food systems. CRFS joins in Michigan State University's pioneering legacy of applied research, education, and outreach by catalyzing collaboration and fostering innovation among the diverse range of people, processes, and places involved in regional food systems. Working in local, state, national, and global spheres, CRFS' projects span from farm to fork, including production, processing, distribution, policy, and access.

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