Farmer-to-Consumer Marketing #3

Merchandising, Pricing, and Promotion

Merchandising Strategies

Merchandising is a combination of factors used to increase sales or trade. Through merchandising, sellers offer services and choices intended to increase customer satisfaction. Merchandising includes many aspects of direct-market selling, such as:

- Product selection
- Processing and packaging
- Pricing
- Display
- Inventory control
- Advertising
- Sanitation
- Customer service
- Employee appearance and behavior

In summary, merchandising is the art of selling.

The goal of merchandising should be to sell available products as profitably as possible and to build satisfaction and repeat sales within your clientele. Accomplishing this goal cannot be left to chance—few succeed this way. Instead, successful direct market managers develop a comprehensive merchandising plan that considers various merchandising alternatives and draws on information sources as needed to improve total market performance.

In developing a direct market merchandising plan, be creative and imaginative. Success in merchandising means supplying what the customer wants. In direct marketing, customers expect, above all, to find high quality and freshness. Customers also expect some choice of products and package sizes. Proper product selection and handling, therefore, must be part of a successful merchandising plan. You can work to meet these customer expectations by regularly assessing and improving your merchandising plan—aspects such as customer service and facility design, maintenance, and sanitation.

The scale of market merchandising plans depends primarily on volume of sales and variety of products available for sale. Each marketer typically employs a different set of techniques in an attempt to make his or her markets different from or better than competitors’ markets. However, many merchandising principles generally apply to all direct marketing enterprises.
Products Offered for Sale

We know from numerous surveys that freshness and quality are more important than product variety. Customers are attracted, however, by opportunities to select from a number of products. Often you can increase sales by offering companion products (e.g., dill and pickling cucumbers, tomatoes and lettuce). If you offer only one product, such as apples, consider offering a number of varieties or alternatives in processing or packaging, such as cider or apples by the pound, peck, or bushel. Although variety attracts customers, don’t be afraid to sell just one product if that is all you have. Freshness, high quality, attractive environment, and outstanding service are still of greatest importance and can make a profitable business.

Handling and Storage

Because fresh and flavorful products are prime factors in attracting customers, be sure your merchandising plan includes proper product handling and storage. Protect perishables from sun, overheating, and drying out. Grade your products when possible. Although you may not choose to meet U.S. Department of Agriculture (USDA) grade standards, you can create a grade system of your own based on USDA-type standards such as size, shape, color, and condition. Repeat customers may begin to rely on your grading names to judge the overall suitability of your products. When you handle produce, avoid bumping and bruising, and caution customers about that, too. It can’t be said too often that good quality is the best merchandiser in direct farm marketing.

Display and Packaging

Attractively displaying and packaging products can increase sales with little extra effort or cost. Display items in bulk quantities when possible; this gives customers the impression of good selection and adequate supply. Displays in wooden baskets give that country-fresh look. You can transfer items later, at sale, to paper or plastic carrying bags. The carry-out bag offers another opportunity to put a trademark or logo to work as a silent salesperson.

Packages and containers should be as large as conveniently possible. Consumers tend to fill containers; as a result, you will end up selling more of the product. This is especially effective with U-pick selling. Don’t ignore small sales, however. Customers may just be sampling and later, if satisfied, may make a larger purchase.

The stand layout itself is important to customers. Displays that allow nearly all fresh items to be seen at one glance, and in which everything appears to be neat, clean, and tidy, including the floors and salespeople, will satisfy customers. Satisfaction is a frame of mind conducive to impulse buying. Thus, if the items on display are easy to reach, are properly marked with neat and clean price tags, and if recipe cards or information sheets are also available, the impulse to buy may be difficult to overcome.

Most customers hesitate to show ignorance of what an item is or how it might be prepared; thus, provide a descriptive card, a recipe folder, or a picture of a prepared dish featuring the item to tempt customers into trying something new and different.
Use display tables and racks whenever possible. Products displayed on the ground are difficult for customers to inspect. It takes about four times as many products displayed at floor level to give the same visual impact as a display at elbow level. Proper placement helps customers concentrate on the product itself.

**Pricing**

Establishing a market pricing plan or policy is also an element of merchandising. Price tags are a must. Many customers are embarrassed to ask a price. Displayed prices will spare customer embarrassment and help bring in more sales. It is also possible to sell the same basic product at different prices by separating items according to quality factors, such as color, size, shape, blemishes, minor cuts or bruises, and displaying each subgroup on a different table. This satisfies most consumers and influences purchases if price is a limiting factor. Sometimes a basket, box, bag, or a package priced as a unit will return the same price per pound, but will appear to be a better buy from the consumer’s view.

**Customer Service**

Customer service often is overlooked or not associated with a merchandising plan. However, poor customer relations will destroy a business more quickly than anything else. People do not have to trade at just one stand. They can and will go where they feel appreciated and where the salespeople put the customer ahead of everything else. Minor tasks in the stand, such as visiting with other salespeople, talking on the phone, and straightening the displays, all rank second to giving good customer service.

Good salespeople will learn basic things about their regular customers over time. They will learn such things as names, addresses, family size, names of family members, likes and dislikes, social life, how frequently the customers entertain, whether the customers like to try new recipes, new products, and whether the customers like to be sold on a product or to shop only from a shopping list. Some customers may appreciate suggestions while others may consider suggestions a type of pressure selling and take offense. These are personality traits, and each customer is different. Keeping records of this information for you and your employees to refer to—such as in a computer database at the stand—can easily promote sales.

Show appreciation for customer patronage by being courteous, such as greeting customers by name or inquiring about members of their family. Any courtesy that will make a lasting impression on customers and make them feel appreciated should be practiced.

Occasionally reward regular customers with an extra apple, peach, or vegetable. A “baker’s dozen” every once in a while is always a good sales technique and a nice way of saying thanks for continued patronage. The slight cost will be likely recovered in future visits.

In merchandising, always think ahead. Keep customers informed about items coming onto the market in the next few days, weeks, and even month; for example, when the first sweet corn will be ready for that annual corn roast. Also advise them to plan purchases for home canning or freezing.
Posting a schedule of items expected in the stand or U-pick operation, and perhaps running a contest (not a lottery) for customers to guess the exact date and time the “firsts” will show up in the stand are other effective ways of planning as merchandising. There may be several winners in the contest, but so what? A pound or a dozen of a commodity to several good customers isn’t going to be too costly, and you can charge it to advertising because it promotes good word-of-mouth exchanges between regular customers and potential new customers.

Merchandising, as the art of selling, requires imagination, uniqueness, initiative, and experience. The experience is extremely valuable, and experience shared among marketers will help avoid repeating others’ mistakes. Common sense and providing customers with what they want is a basic part of merchandising.

**Pricing Strategies**

Planning before the production period begins will help you decide what to produce and how much of the product, at various price levels, you can expect to sell to provide adequate returns to cover the cost of the item and contribute something to overhead and profit.

Steps required to grow a seed to a marketable product are more defined and easily understood than principles governing commodity pricing. Pricing is influenced by the interaction of supply and demand, but usually all the supply and demand factors become apparent only after the growing season. When you set prices for a perishable commodity, particularly one with a very short marketing season, you cannot consider all those factors. Trial and error may be the solution; that is, if the product moves quickly or slowly, the price may be too low or too high, and you should consider adjusting it to change the pace and volume of sales.

**Breakeven analyses**

A breakeven analysis will tell whether the adjusted price will cover all production and marketing costs and provide a profit. A typical breakeven analysis focuses on price at a given volume or on volume at a given price. To understand breakeven analysis, it is necessary to understand fixed and variable costs.

Fixed costs exist whether or not you sell any merchandise and regardless of sales volume. Taxes, insurance, salary, interest, basic utility costs (whether you are open or not), advertising, and depreciation are all fixed costs. Variable costs are those associated with sales volume. Price is designed to cover fixed and variable costs and provide a profit.

As an illustration, consider a hypothetical single-commodity produce stand. Fixed costs amount to $300/week, and the seller is asking $0.25/lb for the commodity. The $0.25 from every pound sold will cover variable costs (assumed to be $0.15/lb) and will contribute $0.10 to covering the $300 fixed costs. This latter amount ($0.10) is called contribution to overhead (CTO).

How many pounds must be sold each week to exactly cover all fixed costs? Calculate as fixed costs divided by CTO per unit sold:

\[ \frac{$300}{0.10} = 3,000 \text{ lb} \]
Thus, 3,000 lb is the volume needed to break even on fixed costs.

In this imaginary stand, the seller wants a 40-percent margin for each item sold. This means that for every sales dollar, $0.60 or 60 percent goes to cover the cost of the goods (production costs), and the remaining $0.40 or 40 percent goes to cover variable marketing costs, overhead, and profit. What is the dollar sales volume needed to break even? It is calculated by dividing fixed costs by CTO:

\[
\frac{300}{0.40} = $750/week \text{ sales}
\]

If prices are cut and produce sold at a 30 percent margin, then CTO becomes $0.30 of every sales dollar. To see what happens to the breakeven point when prices are dropped, again calculate as fixed costs divided by CTO:

\[
\frac{300}{0.30} = $1,000/week \text{ sales}
\]

If lowering prices can increase sales by more than enough to offset the lower contribution to overhead, then it may pay to lower prices. On the other hand, a higher margin and higher contribution to overhead may generate greater profit due to a lower breakeven point, even though total sales are less than at a lower price. Be sure of the likely results, however, before changing prices too much.

By treating a desired profit level as a fixed cost, you can determine the sales volume needed to reach a profit goal. Calculate by dividing CTO into the sum of fixed costs plus desired profit. For example, if the profit goal is $100/week and the margin is 40 percent:

\[
\frac{(300 + 100)}{0.40} = $1,000/week \text{ sales}
\]

**Markups and margins**

A markup is a percent of cost and a margin is a percent of selling price. Either can be used to establish prices.

The following example illustrates the use of markups to determine prices. Selling price (SP) equals the cost of the item plus the percent markup desired. For example, the item costs $0.80 and the desired markup is 40 percent; thus:

\[
0.80 \times 0.40 = 0.32 \text{; then, } 0.80 + 0.32 = $1.12 \text{ SP}
\]

Use margin to determine SP by first subtracting the dollar value of the margin from $1.00, then dividing the remainder into the cost of the item:

\[
0.80 \text{ cost of item} \div (1.00 - 0.40 \text{ margin}) = $1.33 \text{ SP}
\]

Many retail stores attempt to operate on a 35- to 40-percent margin on sales, or a 54- to 65-percent markup on cost. An easy way to keep margins and markup straight is to remember the figures 20, 10, and 30. The 20 equals the cost of the item, the 30 equals the selling price, and the 10 equals one-half of the cost and one-third of the selling price. Thus, there can be a 50-percent markup on cost and a 33-percent margin on sales.

Regardless of costs and desired margins or markups, you will have price competition from other sellers. Supermarkets typically “average out” on the produce counter by pricing some items lower than the cost of production and pricing other items at what the traffic will bear. Given a large volume of

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produce and a long time, this strategy works well. Very few direct marketers, however, have the volume to make this work for them.

Some direct marketers price their produce somewhere between the wholesale and retail prices. This is workable, but keep your operating budget and your competitors in mind as well. Cost control may be exceedingly important in this approach, and budget analysis will be important.

Following a price leader is good if the competitor is knowledgeable and if price is based on quality. That is, price high-quality produce at one level and price lower quality items to meet competition. If sales volume drops, however, prices may be too high.

Some consumers expect prices to be lower at the farm than at the supermarket. Probably just as many consumers, however, want quality defined by freshness, and prices mean less to them. If this is the case, prices can be set to cover all costs plus a profit.

Marketers, selling large volumes of produce for home canning and freezing, may at the peak of the season change their pricing strategy to encourage customers to buy in larger units, such as flats of berries, boxes of tree fruits, and 20- and 25-lb units of vegetables.

Examples of differential pricing with berries would be $0.59/pint, $1.75/3 pints, or $6.50/12-pint flat. U-pick, on the other hand, might be $0.35/lb. An example for sweet corn is $5/5-dozen crate, $1/ten ears, $0.13/ear, or $0.25/two ears. The customer who furnishes the container might get a price break. Yet, if you are making a profit on containers that you provide, that is part of the business you may want to encourage. Your time, or your customer’s, shouldn’t be wasted changing from one container to the other, unless a special picking container is furnished.

In addition to pricing strategies, certain pricing techniques have proven successful. Supermarkets use the rule of 9s; i.e., $19, $0.29, $59, or $79 per unit. This seems cheaper to many consumers than pricing in even numbers. At the roadside stand, however, 5s are just as effective and save pennies; e.g., $0.05, $0.15, $0.25, $0.35, or $0.75 per unit. This technique permits specials to stand out. For example, by shifting the special items from prices ending in 5 to prices ending in 9, it is easy to show savings for buying in volume: at $0.39/each, a three-for-$1 price saves $0.17.

When considering specials, it is important to keep in mind expected sales volume. For instance, mid-week specials may attract extra customers during the week when business typically is slower. Evening specials may attract those returning home from work. Approaches like this can increase sales volume during peak harvest. Clean-up specials may be posted near the close of a business day—but be careful because some customers might anticipate that and put off shopping until late in the day.

Finally, it is important that you watch your business image. Keeping standards high, prices fair, and, above all, knowing your costs of doing business are important. Knowing costs will help keep your business profitable. Knowing your customers will help you decide what and how much to produce and
how best to market it. Production costs and competitor prices will establish the lower and upper limits of your pricing. Only you can control the quality, the volume to offer, and the price to ask.

**Promotional Strategies**

A decision to sell directly to the consumer means you must let people know of your business and its location and hours of operation. Having the best produce, the best service, and the best price is inadequate if customers don’t know about it. Attraction comes first; then the process of winning long-term satisfied customers begins.

To increase the volume of products to sell, farmers may increase plantings, improve efficiency (output divided by input), or borrow or buy products from another farm or market. To increase the number of buyers (customers), direct marketers have to employ some advertising and promotional techniques (A & P). These techniques are a cost of doing business and a legitimate business expense.

However, it is difficult to measure dollar return on A & P dollars spent. Therefore, you need to know what techniques are available, the cost of using them, what results you can expect from each, and when and how to employ them.

Before using any A & P techniques, it is a good idea to establish some specific objectives or an operating plan for your direct marketing business. Then, select the A & P techniques that, separately or in combination, will help to accomplish the stated objectives.

We know from Extension surveys that the more common A & P techniques used by Pacific Northwest direct farm marketers include:

- Word of mouth
- Direct mailing and Internet
- Signs
- Radio ads
- Newspapers
- Television ads
- Local buyer guides and maps
- Point-of-sale material
- Fairs, exhibits, display windows, and bulletin boards

**Word of Mouth**

Compared to other advertising and promotional techniques, word of mouth is the least expensive but most difficult to control. It cannot be purchased outright, as can others, but instead has to be earned from satisfied customers. They will “sing the seller’s praise”; dissatisfied customers will “shout the seller’s doom.” Thus, if sellers rely on word-of-mouth advertising and promotion, they certainly want to maintain satisfied customers who will sing their praises.
Most direct marketing activities will have a few customers to begin with and will need to attract more as the selling season progresses. Therefore, cultivate the friendship and satisfaction of these potential word-of-mouth advertisers. You will begin to see more repeat business.

Attracting customers by word of mouth can best be done by applying a lot of tact, showing interest in your customers and their families, and offering courteous service, high-quality produce, and reasonable prices. Give these few early customers something to talk about and “brag on” so they will sing your praises and encourage their friends. This will more than offset the occasional customer who can never be satisfied and is, at best, silent about your enterprise. The better marketers develop a sense of how far they can go in satisfying hard-to-please customers.

**Signs**

Signs are an excellent advertising buy because they can be relatively low in cost. You probably will have rules to follow, however, about the placement and type of signs. Make it your business to stay within national, state, county, and local regulations. Before you erect a sign on a building, a piece of property, along a highway, at an intersection, or on a county road, ask at least the city or county clerk about what, if any, regulations apply.

A sign is usually the first notice passers-by have that your direct marketing location is just ahead. In less than 10 seconds, the sign must attract attention, identify the seller, tell the location, and announce what is for sale. The effectiveness of a sign depends upon its appearance, content, visibility, and location.

Signs should be easy to read and depict a farm-fresh image. Avoid blackboards and messages scrawled in crayon on cardboard; they are difficult to read and give the impression of a second-rate, unprofessional market. The exception might be inside a roadside stand or market, to announce a special or markdown price. Signs should be consistent with the image you want to project; for example, a farm-fresh image may be clouded by the use of a soft-drink sign.

Signs should encourage motorists to shop at your business. Novelty attracts attention. Listing a variety of products will attract more customers than a sign that merely reads “fruits and vegetables.” Don’t advertise products no longer in season or available. Do include a distinctive name or trademark on your signs.

Skillful use of symbols (e.g., an apple or ear of corn) may convey ideas better than words. Try not to put too much information on a sign; a passing motorist will be unable to read all of it. Because signs are used to attract customers to high-quality, fresh produce, highway signs usually should not mention prices.

The distance at which signs can be seen and read depends very much on the colors and sizes of the letters. Legible color combinations for roadside signs include bottle green on white, scarlet red on white, black on white, and navy blue on white. Colors should also contrast pleasingly with the background against which the sign will be viewed, and should distinguish it from other distractions. Signs, if properly made and displayed, can be one of your most effective A & P techniques.
Newspapers

Newspapers offer several types of advertising and promotional techniques: news stories, display ads, and classified ads. Each of these is somewhat different in approach but can help you achieve the same result. They are intended to inform new as well as existing customers about who you are, your location, the items you have for sale now or in the near future, and your business hours. Most of all, the three methods can tell customers that you value their patronage.

News stories with pictures may be the most difficult to obtain. Usually, no money is exchanged, but it may require some effort on your part to seek writers and editors who are interested in doing a story about some aspect of your business. The effort will be well worth the time, since new articles can be the most effective means of attracting customers to your direct marketing activity. It is your responsibility to entice the reporter into writing a story about a particular direct marketing activity. Creating interesting activities related to your business may be the key to soliciting interest from news story writers.

In today’s consumer-oriented marketing, it is better to play up direct marketing’s advantages to the consumer. But that can be tied to capitalize on the farming aspects, also. Freshness of product, courteous service, and reasonable prices should always be at the center of any discussion with a news writer about your business.

The display ad is another effective means of catching the attention of customers and potential customers. It may help in getting news story coverage as well. If you plan to buy an ad, give considerable thought and planning to the layout – and to using professional services, whether at the newspaper or in the community, to create the ad.

The classified ad, although much smaller in size and cost than the display ad, is designed to reach potential customers who want to buy a farm commodity for home use and preserving. It is surprising how many consumers read the classified ads, and it is just as surprising to know how much information can be presented in such a small space. The classified ad staff will help prepare the ad. Over time, repeat customers may stay tuned with your operation because you use regular classified ads for communicating the “latest positives” happening at your business.

Newspaper advertising can prove effective if used continually through the season. Use display ads regularly to announce new items or an oversupply of one commodity and perhaps a short supply of a substitute item. In using the display ad, used a logo, trademark, or identifying typeface so consumers will recognize and be conditioned to look for the ad regularly.

Many direct marketers try a display ad and then make the mistake of shying away from further advertising if results are not immediately apparent. Advertising takes patience and repetition to develop a conditioned reflex.
A buyer’s guide, directory, or map requires cooperative action, either on the part of individual growers or, better, through a formal group such as a tourist promotion or economic development organization.

Several different types of directories, guides, and maps have been used in the Northwest, but essentially they contain the same type of information. A good buyer’s guide will include the name and address of each direct marketer in the area covered, the location and directions for getting to the markets, a listing of commodities handled, the season of availability, the methods of sale, and the hours of operation.

In addition to written descriptions, the guide may include a stylized pictorial map, a county road map, or a sketch of the highways, roads, or streets on which the various farm operations are located. Thus, in one place the consumer has access to all the information needed to start buying. Some guides provide a product index; i.e., a list of all growers who produce and direct market a certain product.

Direct Mail and Internet Sales

Customer names and addresses compiled into a mailing list can be used as an A & P medium. You can collect names in a number of ways; maintaining a guest register, or asking customers to fill out a card, are the most common and perhaps the easiest. You can try coupons, contests, and surveys, but they are difficult to use. Mailing cards, flyers, or letters to a long list of people is time consuming and expensive. Thus, if you want to use a mailing list, make sure it’s up-to-date.

Some growers segment their customer mailing lists into interest groups, according to interest in a particular commodity or event, for example. Computerized systems for this are well within financial reach and a relatively efficient investment for you to consider.

Some operators use direct mail to:

- Remind customers that the stand opens for business on a certain date
- Announce that specific commodities have come into season
- Express appreciation or send a simple thank-you at Christmas, New Year’s, birthdays, anniversaries, and other special occasions. That personal touch is valuable as a promotional technique.

Using direct mail to help alleviate an oversupply is not very effective because the mail is too slow. On the other hand, announcing the arrival of a particular commodity by direct mail may prevent an oversupply.

Many growers find the Internet a valuable tool in several ways; for example:

- Advertising via a locally oriented “classified listings” websites, such as craigslist.org, can attract new customers and tell everyone what’s available that week at the stand
- Setting up a direct-sale website as an additional storefront
- Using customized e-mail lists to keep in touch with current customers
Some farms combine a website with a mail-order catalog or newsletter. They sell everything from produce gift baskets to on-farm processed food products and Christmas trees. Destinations range from local to international. Growers like this form of marketing because it lengthens the selling season and expands the customer base.

You can design a website yourself by using a software package, or you can contract with a professional. You will need a “domain name” and an Internet service provider (ISP) to host your website. Browse websites of other farm businesses to get ideas on how to design your own.

Often, growers include order forms or coupons on the website. Customers can fill out and submit order forms, either electronically or by regular mail, for product delivery to their homes. Increasingly, customers like to pay for online or on-farm purchases by using a credit card, and credit card sales on-farm may encourage purchases. Talk with your bank and your ISP to check out the possibilities. The grower ships or delivers all orders in the traditional way.

**Radio**

Although radio time is expensive, radio spots are well within the budget of many direct marketers. Radio spots, however, must be carefully planned and executed to reach the intended audience. Most local radio stations know their listener composition at different times of day. Thus, radio advertising salespersons can help you prepare the script, determine the length of the spot (usually 10, 15, or 30 seconds), and select the appropriate time of day to reach the greatest number of listeners of the type you want.

**Television**

Television is usually more expensive than radio, but it may reach a much larger audience. Depending on your location relative to the station’s broadcast area, and the station’s policy about agricultural A & P, you may find this is a medium you can’t overlook. Visit with local stations to learn what you can accomplish within your A & P budget constraints. You may be surprised at how cost-effective this approach can be.

**Point-of-sale Materials**

Point-of-sale or point-of-purchase material, incorporating your business name, is another means of A & P. Many consumers will appreciate and save recipes and other suggestions for using seasonal produce. This can be valuable when you introduce products your customers don’t know, and it can increase sales.

**Fairs, Exhibits, Display Booths**

Fairs, exhibits, and display booths are another way of putting your product before the public. A direct marketer can gain a tremendous amount of community good will through these means. In addition, you may have an opportunity to collect names and addresses for mailing lists.

Depending on the time of year and seasonality of the produce, participating in exhibits, fairs, and display booths often works best as a group action, with other growers, rather than an individual one. It might be a good idea for
growers to keep open their places of business during the exhibit, fair, or booth
display. Many regular customers probably will attend the fair, and new custom-
ners may follow up with a visit to your place of business.

**Additional Methods**

Once the customer is in your place of business, other ways to increase sales
include:

- Attractive displays, which may prompt impulse buying
- A free sample or a taste of a top-quality item can melt away buying
  resistance
- A friendly atmosphere with courteous service and a few tie-in suggestions
  (e.g., dill and pickling cucumbers, tomatoes and lettuce)

A nicely rounded set of A & P approaches, word-of-mouth, signs, displays,
general merchandising techniques, a pleasing attitude, and personal attention
aimed at satisfying the customer are the groundwork for a successful, long-
term direct marketing business.