

MARKETING FOR THE VALUE-ADDED AGRICULTURAL ENTERPRISE

Concepts, Principles and Practices for Planning,
Developing and Evaluating New Market Opportunities



AGRICULTURAL DEVELOPMENT CENTER

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FOREWORD

The term *marketing* continues to best encompass some of the most limiting factors of successful value-added enterprises, and the assistance most often provided by The University of Tennessee *Agricultural Development Center* (ADC) is marketing. While many other guides and texts related to marketing exist, this publication uses the results of a previous Federal-State Marketing Improvement Program (FSMIP) project and actual one-on-one, value-added enterprise evaluations by the ADC to emphasize marketing concepts that specifically apply to value-added agricultural enterprises.

In 1999, a FSMIP-funded market development project in Tennessee documented marketing activities by doing case studies of four value-added businesses and conducting marketing surveys for three additional value-added enterprises. The case study interviews found that identification of a product's specific target market is critical to appropriate product positioning. The case studies also revealed that most of the direct costs for marketing and promotion were incurred in the early years of the business and that "word-of-mouth" advertising is one of the most effective long-term marketing tools.

In more specific findings, the marketing surveys found that value-added catfish operations that target restaurants can increase revenues by selling directly to individual restaurants, and that a consistent and sometimes high-volume supply is often needed. For retail farm wineries, billboards are a very effective form of advertising and a very specific period of peak sales can be expected each fall. Tennessee gift basket companies appear to be a good market channel for value-added fruit products, but not-so-good a channel for value-added meat products. Most gift basket companies obtain information and products for their baskets at trade shows and from wholesalers.

The results of the 1999 FSMIP project in Tennessee set the stage for the general guide to marketing that this document represents. The 1999 project substantiated the importance of proper market research, market analysis and market development, the importance of various marketing channels, the significance of pricing and overall sales, competition, niche marketing and packaging.

In general, this publication first presents a handful of marketing issues with specific implications to value-added agriculture operations. Then, specific marketing concepts are presented in a brief "marketing plan" format. This guide to marketing is unlike other textbooks and publications on the topic because it specifically addresses marketing for a value-added agricultural enterprise perspective.

Sincere appreciation is extended to the many contributors who have assisted in the development of this document, namely, Anne Dalton, Shasta Hubbs and Kent Wolfe for their writing, editing and layout; Tina Johnson for photos; Gary Dagnan for publication design; Alan Barefield, Wanda Russell and George Smith for their participation in the peer review and Joe Gaines, Ray Humberd and Dan McLemore for their assistance and leadership in the project's administration.

Additional information regarding this project may be obtained by contacting the *Agricultural Development Center* at 865-974-3824 or www.utextension.utk.edu/ad/.

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CONCEPTS, PRINCIPLES AND PRACTICES FOR PLANNING,
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1

A LESSON IN MARKETING

To many, marketing is synonymous with advertising . . . yet others view marketing as the act of merely selling raw commodities. Marketing may be a combination of functions involved in transferring title and moving goods from producer to consumer, including, among others, buying, selling, storing, transporting, standardizing, financing, bearing risk and supplying market information. In essence, marketing can be thought of as planning and executing a set of objectives related to bringing buyers and sellers together so that a sale can take place. Indeed, the study of marketing is broad and often complex, but can be eased by a clear understanding of some key components and a systematic application to specific enterprises and situations.

When it comes to new and value-added agricultural enterprises, many people seem focused on working out the production and technical aspects of the business with little regard to marketing. However, guaranteed market success is virtually non-existent in value-added agriculture and is a thing of the past in most agriculture arenas. Thorough market research and development should rank as high in importance as production. The adage “success in agriculture is 10 percent production and 90 percent marketing” seems to have more widespread accuracy today than ever before, especially in value-added enterprises.

The age-old ‘chicken or the egg’ scenario seems ever-present in the arena of evaluating new agricultural enterprises . . . “do you first need to know if you can produce it or if you can sell it?” The fact is that you not only have to be able to produce and sell, but you have to produce at a cost low enough **and** sell at prices high enough to generate a profit.

To think of marketing as simply moving products from the farm to the consumer/

retail channel is not sufficient for successful value-added enterprises. Marketing in the value-added agriculture arena must include a study and understanding of market channels, buyer preferences, buyer demographics, seasonality, positioning, advertising, packaging, promotion, distribution and so on. Marketing cannot begin after harvest or production. In today’s competitive and consumer-driven environment, marketing must begin before production and must continue long after an actual sale is made.

Understanding the marketing process is essential when striving to operate a successful value-added enterprise, and reviewing several marketing resources is often helpful. Many marketing resources are available. The publications listed below have been developed by the ADC and are available at county Agricultural Extension offices, the ADC Website and directly from the ADC by phone or e-mail.

- *Considerations for a Value-Added Business*
- *Considering an Agritainment Enterprise in Tennessee?*
- *Results of Marketing Surveys for Case Study Businesses*
- *Using Case Studies to Enhance Success*
- *Documenting Successes of Value-Added Agriculture Enterprises: A Series of Case Studies*



2

MARKETING CONSIDERATIONS FOR VALUE-ADDED AGRICULTURE

Determining the most effective and efficient channels to provide products to the consumer is important – sometimes even critical. Several channels and hybrids of marketing channels should be considered. Of course, as in other stages of marketing, there is rarely a single best choice, and oftentimes a successful business will use various combinations of marketing channels. A brief description of the most common marketing channels is presented below.

BROKER:

A broker is normally described as an independent sales force who performs the essential functions required to facilitate sales between the buyer and seller. Brokers normally provide their services to a number of different producers. Brokers can use their own discretion as to where they market products. The producer must make sure that the broker understands the product's position and markets it accordingly. The broker's responsibilities may be more complex than

the definition implies. The broker's job is to please both the producer/manufacturer and the buyer. Broker services are often compensated by a commission fee. Generally, the broker does not receive any money unless a sale is completed.

DISTRIBUTOR:

Another market channel used to sell value-added products is a distributor. The main function of a distributor is to warehouse, take orders, invoice and deliver products. Distributors **are not** normally responsible for selling products. A typical distributor is involved with various product lines and usually covers a multi-state region. Distributors are not necessarily interested in carrying new products if they do not have a good track record of proven sales. When approaching a distributor, it is helpful to have historical sales data for the product(s). Distributors charge for their services, and this charge can be a flat fee or a percentage of sales. Many large retail channels encourage their vendors to use distributors to reduce the problems of a relatively large number of delivery trucks and invoices.

WHOLESALER:

Wholesalers sell to retailers, other wholesalers and industrial users, but normally do not sell directly to the end user/consumer. Wholesalers are often segmented into agent wholesalers and merchant wholesalers.

Agent Wholesalers act as sales representatives on behalf of their clients. They



One of the main functions of a distributor is to warehouse products.



Retailers sell directly to the consumer.

work on behalf of individual producers to identify alternative buyers and new sales locations and finalize orders with retail outlets. Most agent wholesalers represent specialized products and provide their service for a fee or commission.

Merchant Wholesalers use their knowledge of the product and industry to buy and sell products for their own gain. These agents will purchase a product from a producer or supplier and resell it for profit. Unlike the agent wholesaler, merchant wholesalers do not act on behalf of a producer client. As with the broker, it is important that wholesalers

are aware of the producer's market positioning strategy. If a product is marketed as a high-end product, wholesalers should not market it to discount channels or set prices that do not reflect a high-end product.

RETAILER:

A retailer sells to the end user. The sale is made directly to the consumer and is usually in small quantities. The retailer does not purchase for personal consumption, but buys to resell. Most retailers buy products from distributors or through wholesalers. However, when properly arranged and carried out, sales directly from the producer to the retailer can be achieved.

CONSIGNMENT:

Perhaps the most obvious difference in consignment and other ways of selling a product is **when** the producer gets paid. In consignment arrangements, a product is normally offered for sale at no cost or obligation until a sale is made. Usually the product is consigned to a retail store. The sale could take place

quickly, or it could take months or years. The producer bears all the risk and cost, and the store has none. In this case, the retail channel does not pay for the product until it is sold to a consumer. For processing/production businesses trying to sustain themselves, consignment can be very risky because of the uncertain cash flow. In fact, the lack of cash up front can spell failure for a small business.¹ However, consignments may provide a new producer with a way to test retail markets without a proven sales record.



Farmers' markets provide consumers the experience of not only purchasing fresh produce from the producer but also the opportunity to learn how it was produced.

DIRECT-TO-CONSUMER:

A consumer is one who consumes/acquires goods or services for personal use or ownership rather than for resale. A consumer's behavior is influenced by many factors, including taste, preferences, culture, class, family, role, status, age, occupation, lifestyle, beliefs, attitudes, learning and income. Because of these influencing factors, consumers with like characteristics often frequent the same type of markets. Descriptions of typical consumers of three markets are discussed below.

Farmers' Markets:

Consumers at direct markets, such as farm markets and farmers' markets, typically do not frequent these outlets merely to purchase a product. Most consumers go to these markets looking for an experience. Usually they are seeking fresh produce along with a direct link to where their food is produced. The direct market consumers are generally white females with above-average income, age and education.²

Internet:

The profile of the typical online consumer is more closely resembling the typical US resident. Online shopping is growing rapidly,

and spending in this market is increasing. One of the largest groups using this market is the older, more experienced population, including empty-nesters and retirees. About half of online shoppers are women, approximately 40 years old. The majority of shoppers are married, and 41 percent are college-educated.³

Catalog:

Catalog consumers tend to be characterized as demanding people. They want to know all about the product before purchasing: cost, origin and other specifications. They are members of the baby-boomer generation, male and female, mostly married, somewhat affluent and college-educated. Not only are they demanding, they want instant gratification. These consumers have high expectations, and their expectations generally increase with age and experience.⁴

Value-added agriculture entrepreneurs should evaluate several alternatives to help determine which marketing channels to focus on or target. Strengths and weaknesses of various channels should be considered. Normally, the most important factors include the cost of participating in a certain channel, the potential net revenue to be generated from sales, the retail price and the physical distribution environment.

3

NICHE MARKETING AND ALTERNATIVE MARKETING

Gone are the days of selling only what is produced on the farm. Now, special efforts have to be made to determine the consumers' wants and then develop a product (and package) that satisfies those wants. Many consumers in today's marketplace have "special" needs and wants. That is, they prefer a product that is "specialized" in some way or they are a "specialized" group with a well-defined demand. This situation may be best referred to as a *niche market*. A niche market, however, should not be confused with an alternative market. An alternative market may best be thought of as a market opportunity that has not been utilized, tapped or fully exploited. Often used interchangeably, the activities, details and challenges of niche and alternative markets may actually be quite different.

Niche marketing is still somewhat of a buzz-word in the agricultural arena and does not have a complete and consistent definition. The word "niche" is derived from the French word that means "to nest."⁵ Niche marketing refers to targeting a product or service to a limited segment of the mainstream market. In agriculture, a "niche" may be best described as a normal product in a specialized market or a specialized product in a normal market. For instance, a 50-pound bale of hay may generally be

worth \$3 to most livestock producers . . . or worth \$5 if featured to a marketing niche of thoroughbred race-horse owners. Similarly, bulk honey may be processed for a certain niche as a gelatized gourmet delicacy, "Honey Jelly." In addition, niche markets for specialty corn products, such as high-lysine and high-oil corn, are developing. Production and marketing niches do exist, and they should be determined and pursued; however, for marketing niches to be a widespread solution for an entire agricultural industry or even an agricultural enterprise, there will have to be many niches that either currently exist or are developed. For example, if too many farmers decide to market hay to thoroughbred horse owners or gourmet "Honey



"Honey Jelly" targets a niche in the specialty food market for consumers who "don't like their honey rummy."

Jelly” to affluent retirees, the over-production of these products would tend to convert these niche markets into commodity markets. Likewise, the over-production of highlysine corn would result in a market for that product which closely resembles the market for No. 2 yellow corn. Marketing niches provide success only to the extent that they remain a niche.⁶

While a *niche market* is more demand driven with a more narrow market potential, few substitutes and less sensitivity to price, a *market niche* is more supply driven with products that have broader demand and greater price sensitivity.⁷

Alternative marketing may be best described as new or different methods of marketing than previously used by the firm. Therefore, an alternative marketing method for one entrepreneur may be a traditional marketing method for someone else. Historically, however, only a few marketing methods (such as selling grain to the country elevator, feeder calves at the stockyard and fresh produce to a broker) have been used by a majority of farmers. This means that several other marketing methods (such as roasted soynuts to grocery stores, retail meat stores on the farm and bagged salads to national distributors) are possible alternatives for many.

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RESEARCH, MARKET ANALYSIS AND MARKET DEVELOPMENT

In January 2001, ABC radio news reported that “according to officials from the Washington Zoo, a 20 percent increase in attendance can be expected from the inclusion of panda bear exhibits.” This is valuable marketing information and is obviously the result of a very detailed market research and analysis project. Such detailed information should be the goal of all market studies. But determining and using such information requires an understanding of various steps of the marketing evaluation process.

Market research, market analysis and market development are concepts, stages and tools that are very important to the success of value-added enterprises. Unfortunately, they are often used interchangeably and rarely completely understood and applied. In years past, **market research** may have been accomplished by getting the phone number of two different buyers, while **market analysis** may have involved comparing the prices offered by each of the buyers, then **market development** would be finding a third buyer. While

this general description continues to have limited application today, it oversimplifies the activities required for long-term market success with value-added products.

Before beginning to produce a product or start a new business, time and effort should be invested in market research. This involves a study, review and analysis of the overall market environment for a product. Market research is the collection and evaluation of data pertaining to consumers’ usage, interest, preference and awareness of products and services. The first step in market research is to investigate and assemble existing information pertaining to a particular market. Hopefully, examining existing information will reveal existing secondary data, data that was originally collected, analyzed and published for another purpose but is relevant to the market being evaluated. Secondary data can be useful in providing insight into a market but not always sufficient for thorough market research. Market research for a value-added agriculture product often should also include



Gathering data is necessary, but data must be analyzed in order to make effective marketing decisions and develop marketing plans.

collecting or gathering primary data, information that is gathered specifically for an identified product or market. Primary data may be obtained from a survey, focus group or interview process where questions are developed for a specific product. An example of primary data might be actual supermarket sales and quantity information for a similar product. Primary data usually has a higher cost, but is often more relevant, specific and accurate than secondary data.

While gathering market research data is necessary, the act of obtaining the data is not sufficient. This data must be studied and analyzed. Market analysis includes the interpretation and application of all the marketing information that is obtained. Market analysis can be as simple as analyzing the data obtained from the market research or may include a study of historical sales information, competitor analysis and marketing strategies within the business. That is, an existing firm considering a new product line may conduct a market analysis that looks at the sales trends, consumer demographics and promotion strategies for their other products. The market analysis stage may best be de-

scribed as an in-depth study and application of marketing data and variables that are relevant to the product or project being evaluated. A successful market analysis will greatly enhance a product's success by reducing marketing mistakes that are associated with "not knowing" what the market demands.

If obtaining and analyzing market data are considered 90 percent of the marketing effort, then market development is the remaining 10 percent without which the first 90 percent is worthless. Obtaining and analyzing marketing data can streamline and improve the path toward sales, but it can not replace the work and effort of marketing and promoting the product. Once the necessary data has been obtained (market research) and evaluated (market analysis), the market must be developed by packaging, distributing, pricing, advertising, promoting and persuading consumers to purchase the product. Market development often emphasizes the "sales" segment of the business – getting people to buy more, getting more people to buy and making the product more widely available.

5

PRICE PROJECTION
AND SALES ESTIMATES

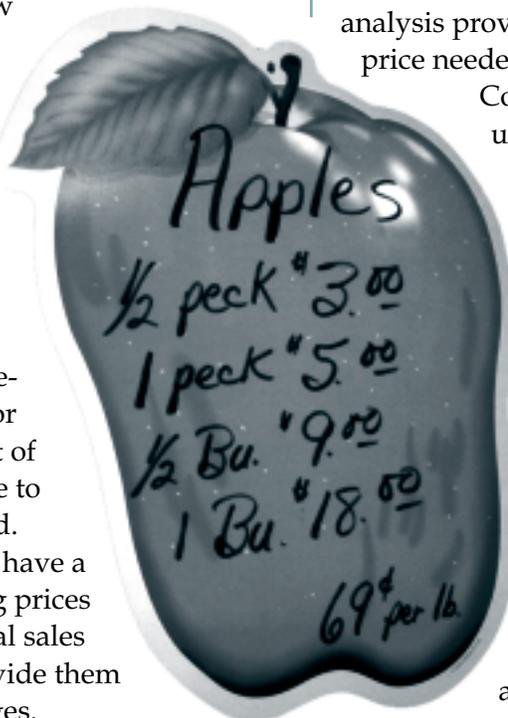
Even after top-notch market research, analysis and development activities have been completed, setting prices and projecting sales are still daunting tasks of marketing a value-added product. These are exceptionally tough tasks to achieve for new value-added products with no history and new businesses, oftentimes with a limited line of products. Regardless of the difficulty, the process of determining an effective pricing plan and actually developing a projection of sales will pay off. The experience itself will be an eye-opener, not to mention the fact that the sales projections (price and sales estimates) are critical to a financial analysis and economic feasibility study.

PRICING:

Profit is a must if a business is to succeed. Therefore, developing a pricing strategy to insure a profit is critical – but not easy. A price must be high enough to cover costs and generate a profit, yet low enough to attract consumers. This may sound simple, but as the old saying goes, “it ain’t easy to hit a moving target.” Trying to strike a balance between costs, profit, sales volume and price can be down-right nerve-racking. For a planned or fledgling business, most of these variables will have to be estimated or assumed. Experienced businesses have a track record with setting prices and can rely on historical sales data, which should provide them with ballpark price ranges.

Oftentimes, developing a pricing strategy will require several “if this happens, then this will happen” scenarios. That is, if it costs \$2.00 per unit to make the product and 4,000 units are sold at \$2.50 each, profit will be \$2,000. Such “if then” scenarios are referred to as **sensitivity analysis** and can be evaluated by developing a table with various “if then” scenarios as rows and columns. The sensitivity analysis shows the sensitivity of changes in price, cost, profit and sales variables. Information presented in the following table provides an example of a sensitivity analysis. The table shows various prices that need to be charged if an enterprise wants to break even at various sales volumes and variable cost scenarios. For example, if the business has \$120,000 of fixed costs, the variable cost per unit is \$3 and 40,000 units are sold, each unit must be sold for \$6 to break even (see outlined box in the following example). As variable costs or the expected number of units sold changes, the sensitivity analysis provides a quick evaluation of the price needed to break even.

Costs need to be thoroughly understood and used in determining the price of a product. Without a thorough review of the costs, products could be placed on the market at a price lower than the cost to make them. This may sound impossible, but some value-added agricultural products have actually been priced lower than their cost of production. A successful pricing strategy for value-added agriculture enterprises will be heavily influenced by an accurate projection of the associated costs. It is not easy to



Per-Unit Price Needed to Break Even on Various Levels of Sales and Variable Costs (Assumed \$120,000 in Fixed Costs)				
Units Sold	Variable Cost Per Unit			
	\$2.00	\$3.00	\$ 4.00	\$ 5.00
20,000	\$8.00	\$9.00	\$10.00	\$11.00
40,000	\$5.00	\$6.00	\$ 7.00	\$ 8.00
60,000	\$4.00	\$5.00	\$ 6.00	\$ 7.00

project all the costs that will be incurred in a value-added enterprise – labor, advertisements, signs, packaging, construction, brochures, equipment and the list goes on.

The complexity of evaluating costs may be eased by grouping types of costs together. It is often best to list all the expenses expected to be incurred prior to opening the business as “start-up costs.” The start-up cost section should include expenditures for renovations, construction, regulatory and business establishment fees, initial marketing efforts, start-up labor and other costs during the start-up phase.

Expenses that will be incurred during the year, regardless of the level of sales, should be listed as “fixed costs.” Fixed costs are overhead-type expenses such as electricity, marketing and promotions, liability insurance, taxes, business licenses, operating labor, maintenance and management. Interest payments made toward the start-up costs should also be included in the fixed costs.

The remaining cost category will include the expenses required for each individual unit of production. The unit of production may be a jar for a jelly product, a bag for a fertilizer product or a bottle for a wine product. These costs evaluated on a per-unit basis are referred to as “variable costs,” because they will vary or change as the level of production changes.

After an accurate assessment of the fixed costs (including interest and depreciation on the start-up costs) and the variable costs per

unit has been made, a quick calculation of the price needed to break even can be made. Break-even sales price is calculated as:

$$\frac{\text{Variable Cost} + \text{fixed cost}}{\div \text{estimated number of units sold}}$$

This calculation of the break-even price determines the price per unit that will generate the same amount of revenue as there are costs. Once again, this may be oversimplified because, in this case, an estimate of the total units of sales is needed. An example of break-even calculation is provided later in this section.

Two concepts used in price determination are percentage mark-up and gross margin percentage. Mark-up is the **percentage by which total cost is increased**, and the gross margin percentage is the **percent of the selling price that is profit**. These concepts are used by the wholesalers, distributors, brokers and retail channels to describe how they adjust the prices of products they handle or sell. These two terms are often used interchangeably, even though they refer to two different methods of calculating a product’s price. The producer needs to understand the language used by those with whom they will be dealing.

As a value-added product moves through the marketing channel, additional costs are incurred. Every organization that

handles a product charges a fee for their efforts. According to general rule-of-thumb mark-up percentages established by the ADC, if a product is marketed through a distributor, the distributor will typically mark-up a product's price by 25 percent.⁸ Therefore, a product being sold to the distributor for \$1.00 will sell for \$1.25 after the distributor's fee. The retail channel may mark-up the product an additional 30 percent, raising the price to \$1.63 per unit. As a result, the value-added product's selling price is \$1.63 per unit. The question that must continue to be addressed is if the product remains price-competitive.

Not to be forgotten when determining the price is the importance of building in a profit component. The purpose of going into business is not to break even but to eventually generate a profit. A rule-of-thumb is to generate a profit of 25-30 percent per unit.

SALES:

Estimating sales is a difficult task and is seldom addressed by start-up enterprises. Unfortunately, not evaluating and quantifying sales can lead to a costly mistake. How does one know the amount to produce unless an estimate of sales is made? If production and sales are not in balance, neither are costs and income. Several factors impact total sales and therefore should be considered in sales estimates.

The number and type of marketing channels where products will be sold are probably the most obvious factors to consider.

- Will grocery stores, malls, farmers' markets, mail order or a combination of these be used?
- How many activities in each channel can be used?
- What is the estimate for total units of the product (including all brands) that might be sold at each channel?

- How many competing brands will be marketed through each of the target channels and how will a new product impact the market?

National trends should be studied and applied regionally.

- Is the demand for the product increasing or decreasing?
- What is the per-capita consumption?
- Is the product a seasonal item?
- How will the product be promoted, advertised and packaged and what will be the affect of each of these activities on sales?



More sales per customer may result from multi-unit packages priced at a discount than sales from individually-priced items.

Example: How to Determine Break-Even Price and Sales for Raspberry Jam

Janet's Jam Galleria would like to begin producing raspberry jam. However, before production begins, Janet would like to know the lowest price she can charge per jar and still cover the costs associated with production. She would also like to know the level of gross sales that must be generated to cover the production costs.

To determine these, Janet must know, estimate or assume three pieces of information:

- Variable cost per jar
- Annual fixed costs (including a payment toward start-up costs)
- Estimated number of jars sold

Janet knows that the variable cost per jar of jam is \$2.00, and she estimates that fixed costs are \$120,000 per year with sales of 40,000 jars.

Break-Even Sales Price & Gross Sales

Break-Even Sales Price =

Variable Cost per Jar + (Fixed Costs/Estimated # of Jars Sold)

Break-Even Sales Price = \$2.00 + (\$120,000 / 40,000)

Break-Even Sales Price = \$2.00 + \$3.00

Break-Even Sales Price = \$5.00

Break-Even Gross Sales = (Estimated Number of Jars Sold)x(Break-Even Price)

Break-Even Gross Sales = (40,000)x(\$5.00)

Break-Even Gross Sales = \$200,000

After determining the break-even sales price, Janet decides that her customers would not pay \$5.00 per jar. She estimates that they would only be willing to pay \$3.50 per jar. Now, she needs to know how many jars she must sell at this lower price to break even if everything else remains the same.

Number of Jars That Must Be Sold to Break Even at \$3.50

Number of Jars = Fixed Costs / (Sales Price - Variable Cost per Jar)

Number of Jars = \$120,000 / (\$3.50 - \$2.00)

Number of Jars = \$120,000 / \$1.50

Number of Jars = 80,000 jars

By lowering the estimated sale price from \$5.00 to \$3.50 per jar, Janet must sell twice as many jars (80,000 rather than 40,000) to break even.

- Will the product be advertised continually, annually or only at start-up?
- Do consumers prefer that the product be packaged with a green lid rather than a white lid?

Finally, but equally important, production capabilities should also be considered. Are sales projections in line with production capabilities? These issues and factors affect sales and must be considered when determining that all-important sales estimate. Unfortunately, there is no standard formula for estimating sales; nonetheless, significant effort should be invested in planning and evaluating the number of units that will be purchased by consumers. Again, a sensitivity analysis should be constructed to project sales given changes in variables such as advertisement success and competitive reaction (changes made by competitors such as packaging, lowering prices and offering at-home delivery).

OTHER CONSIDERATIONS FOR PRICING AND SALES ESTIMATES:

Below are additional factors that should be considered when price and number of units sold are considered.

Competition – Competing products should always be evaluated in terms of price, sales, packaging and general product positioning. A simple way to do this is to estimate sales of various competitors and use that as a guide to determine the potential market share, a product's portion of the total sales for a given product category. Realistically, a product will not capture 100 percent of a competitor's market.

Discount/Markdowns – Prices should be discounted only when necessary to generate business or to increase cash flow. However, it is important to note that price discounts/markdowns can be used effectively to introduce new product lines.

Inflation – Prices must be adjusted as the cost of doing business rises.

Location – Regional differences can affect prices. Prices in urban, suburban and high-income areas may be higher than prices in rural and low-income areas.

Market Position – The price of the product needs to reflect its upscale status if an upscale market is to be targeted. Keep pricing consistent with marketing and product positioning strategies.

Odd Number – Odd-number pricing refers to setting prices just below even dollars. For example, a price may be set at \$9.95 rather than \$10.00, because consumers often perceive they are purchasing the item at a savings.

Prestige – Some consumers are willing to pay more than market price for a product or service that is perceived to be of higher quality or have brand-name prestige.

Professionalism – Products that are portrayed in a professional manner are usually worth more in the eyes of the consumer.

Quality – In many cases, the higher the quality, the more consumers are willing to pay for a product or service. Top-of-the-line products and services can command top-of-the-line prices.

Seasonality – Some products or services sell better at certain times of the year (for example, holiday items).

Volume – Increased sales volume may or may not warrant lower prices. Sometimes it is more economically efficient to produce multiples of the same product. Any added savings gained through efficiency must be weighed against the expense of selling additional items.

6

THE REALITY OF COMPETITION

Competitors are firms that may be offering the same basic product, slightly different varieties of the same basic product or a different product that serves the same purpose as the basic product. Many times new and different products are thought to have no competition. This is rarely the case. Even if a brand new “mouse trap” is invented, existing mouse traps will still compete to some degree, at least in the short run. Even if a new mouse trap is more effective and is less expensive than its competitors, the new product will still have to compete with other potential attractions for a consumer’s disposable income. Granted, most references to a product’s competition refer to similar or like products. But to stop here can provide a false sense of



Competition...yes, the raw pumpkin (above) must compete with canned pumpkin for use in pies and with the plastic pumpkin for making jack-o-lanterns. The products at right not only compete with the raw and canned pumpkin but with each other. The sweet potatoes and apple pie filling compete with the pumpkin to be used as pie filling. The ready-to-bake pie could be used and a pie filling would not be needed or the ice cream could be used for dessert, eliminating any pies. Thus, all products are competing for the “dessert dollar” and are thus each other’s competition.

security. When evaluating the market for a value-added product, it is important to go beyond competition from like products and consider the relevancy of substitute products and how well the product will compete for a consumer’s dollar.

Being competitive does not simply mean that prosperity can be achieved by simply imitating what other people do. Competition is the means to serve consumers in a better or cheaper way without being restrained by privileges granted to those whose vested interests the innovations hurt. Success is more likely to be achieved, regardless of the size or age of the company, if a product fills the unsatisfied needs of the consumer or meets the needs at a lower price than offered by a competing product.⁹

Because products do not have to be identical to be competitors, they are sometimes not recognized, and therefore overlooked. It is important that competitors be identified and their abilities assessed. Determining why consumers buy from a competitor will help determine the competitor’s strengths and weaknesses. Do consumers buy because of service, price, convenience or product reputation? This information will be helpful in determining market strategies.¹⁰



7

PERCEPTION AND PACKAGING

Some of the best-tasting and highest-quality products do not achieve market success because consumers are simply not enticed to take them off the shelf and try them. Taste and quality will only generate a sale if consumers are able to taste or test the product. Sampling can be a very effective promotion tactic, but can rarely be the only way to instigate all sales. Misleading packaging can draw attention or pique curiosity, but in the long run, packaging alone cannot sustain sales. Packaging needs to reflect a product's personality. If the product is a fine wine, it should have a label that conveys this message. A product's packaging has to attract consumers' attention to make the consumer aware of the product. In fact "in retail stores, packaging should be viewed as the silent salesman."¹¹

Granted, continual and repeat sales will only be sustained if a product's taste and/or quality measure up to a consumer's expectations, but the first sale must be achieved through effective packaging. To become aware of the large variety of packaging features, such as color, graphics, container, size and creativity, look no further than your local grocery store – jams and jellies, cereal and specialty sauces tend to take advantage of packaging features.

It is not always clear whether the packaging is made for the product or if it is made for the consumer. Although the basic function of packaging is to protect and preserve the product, in today's competitive market, it is also used as a tool to sway the consumer. How is this accomplished? Because it is the first thing the consumer sees, packaging is used to influence the consumer to purchase



Packaging a product in different sizes and types of containers allows the producer to target different audiences—families may purchase in large quantity, while individuals may purchase in small quantity.

by attracting and arousing interest, providing a sales pitch, promoting the product it contains, and of course, delivering a message about the product. It is also used to give "life" to the product. It tends to reflect culture. To be effective, packaging information must be readily communicated, which is usually achieved by easy-to-read text and simple graphics that attract consumers' attention. Therefore, packaging must be competitive with the competition, as it can be a means of boosting sales.¹²

Packaging can also provide additional marketing opportunities for a product. The same product can be packaged in two totally different packages and then targeted to two totally different consumer groups. For example, the same jelly product can be packaged for children or as a sophisticated, gourmet gift just by changing the label, jar, product name and graphics. The product itself is only one element of a sale. The perception delivered to the consumer by the packaging is often more valuable than the product.

8

TYING IT ALL TOGETHER: DEVELOPING A MARKETING PLAN

Marketing value-added products is often an entirely new arena for some farmers and agri-entrepreneurs. Guaranteed, understood and well-established markets rarely exist for value-added products and enterprises. Marketing a product takes planning to be successful and developing a comprehensive marketing plan is the process that identifies the steps necessary to create and implement a successful marketing strategy.

There is no single formula for success or “silver bullet” strategy that will guarantee success. Instead, marketing is more like an art than a science, in that it is a creative process rather than an exact formula that should be followed in all situations. Creating a marketing plan does not guarantee success; it only reduces the chance of failure.¹³ This statement provides a very good beginning point for a discussion on developing a marketing plan.

A marketing plan can be compared to a road map, because it gives direction on how to get from a given situation to a destination. The marketing plan provides the same guidance as a road map in that it outlines a business’s plan for bringing buyers and sellers together. Attracting and retaining customers is fundamental to the success of a business. Customers provide the money that is essential for a business’s daily operation, payroll, debt servicing and profit.

A comprehensive and properly prepared marketing plan can provide valuable information pertaining to a value-added product’s potential in the marketplace. It is easy to brainstorm and hold strategy sessions. These meetings can generate brilliant marketing strategies as ideas are conceived and communicated. However, if these ideas are not recorded and implemented, they are useless. Lee Iacocca, former chairman of Chrysler,

provided great insight that supports the creation of a marketing plan when he said: *“the discipline of writing things down is the first step toward achieving them.”*

Constructing a marketing plan is similar to putting a jigsaw puzzle together. Many individual components provide specific pieces of information, but none of the individual pieces provides enough information to see the big picture clearly. However, when the individual components are combined, the big picture hopefully becomes clear and the business has a plan for marketing its wares.

A marketing plan can be broken down into the eight different elements outlined below. An explanation of each element follows.

ELEMENTS OF A MARKETING PLAN

- I. Introduction
- II. Market Research and Analysis
 - Situational Analysis
 - Product/Service Analysis
 - Target Market Identification and Description
 - Competitor Analysis
- III. Marketing and Financial Objectives and Goals
- IV. Marketing Strategies
 - Market Penetration
 - Market Development
 - Diversification
 - Product Development
- V. Marketing Mix/Marketing Tactics
 - Product
 - Price
 - Place
 - Promotion
- VI. Marketing Budget
- VII. Monitoring and Evaluating Market Response
- VIII. Marketing Plan Check List

INTRODUCTION

The introduction section of the marketing plan should include a detailed description of the business and the products or services involved. The description should include how the products or services fit into the current business environment and where the company would like to be in the future. The introduction should be written so that a layperson unfamiliar with the business would be able to understand the company's products or services, as well as what is envisioned for the future. For example, the introduction section should include a straightforward statement such as **"The business will have products in 100 retail stores with average sales per channel of 600 units and annual gross sales of \$200,000."**

MARKET RESEARCH AND ANALYSIS

A thorough and easy-to-understand section that summarizes the results, analysis and implications of the market research is an essential component of the marketing plan. Broadly, this section should contain pertinent information resulting from the market research and market analysis. Specifically, information in this section should reveal details on target consumers, competitors, industry trends and other pertinent information collected in the market research and analysis.

Situational Analysis

The situational analysis can be thought of as a comprehensive investigation into the business environment in which the company will be operating. The situational analysis can be separated into the industry overview and the regulatory and social implications. The industry overview primarily focuses on industry trends and should provide a general review of the industry. For example, is demand for the product category increasing, decreasing or stable? An example might be: Is

the product category moving toward fat-free products or have consumer tastes and preferences shifted to fresh and tasty products? The regulatory and social implications of the situational analysis should focus on government regulations and social trends that would directly or indirectly impact consumer demand for and consumer perception of a product. There may be social trends with positive or negative product sales ramifications. An example of social implications and their impact on product consumption could be the current public sentiment toward tobacco products.

Product/Service Analysis

The product/service analysis should provide details to describe the actual product(s) and resources of the business. The strengths and weaknesses of the product and its competition should be described. Identification of product strengths and weaknesses will help determine why individuals should use the product over the competition. A line in the movie *Field of Dreams*, "build it and they will come," probably does not apply in the world of value-added products. It is essential that a new value-added product's strengths and weaknesses be carefully weighed against the competition to showcase the new product's strengths and to compete in the marketplace against potential substitutes. It is also important to gauge consumer interest in purchasing a product containing these attributes and characteristics, since it is much easier to sell a product that consumers want rather than to sell what can be produced.

Target Market Identification and Description

The target market identification and description should provide details of the typical consumer of the product. The concept of a target market refers to identifying the segment of the population that is most likely to represent main users of the product. This population segment is normally described by a set of demographic characteristics, such as

parents in their 20s and 30s, with small children and annual household incomes between \$50,000 and \$70,000. The notion of identifying a specific target market does not exclude potential consumers outside the target; it simply provides a focus on the group of consumers who are most likely to purchase a product. Because a product can not be everything to everyone, marketing efforts should focus on addressing the needs of the consumers who are most likely to use the particular product.

A small percentage of a product's consumers often account for a majority of the product's total sales. By targeting consumers who are most likely to purchase a product, marketing resources can be used more effectively and efficiently. However, demographic data alone may not be sufficient to adequately segment potential consumers. General demographic information can be supplemented with psychographic (i.e., attitudes and values) and lifestyle (i.e., activities and interests) information to more narrowly define a target market. "Luxury products, premium brands and stylish services sell by appealing to the second kind of consumer attribute: psychographics, or attitudes and values. When products are sold on their image, the consumers' values matter much more than their demographics."¹⁴

Competitor Analysis

A competitor analysis focuses on identifying competitors and documenting pertinent information about them. The analysis should contain a list of the strengths, weaknesses, resources, market channels and strategic plans (if available) of the competition. By identifying the competition's strengths and weaknesses, it is possible to enhance a new product's competitive advantage. Also, knowing the number of competitors will provide the basic information that can be used to estimate market share. Market share can be determined for all businesses by comparing total product category sales with total competitor sales in the same category.

MARKETING AND FINANCIAL OBJECTIVES AND GOALS

The marketing objectives section of the marketing plan should define detailed and specific sales goals and market objectives for a value-added product. In this section, the marketing goals and objectives should be quantified and easily measurable. Goals are helpful in keeping on task and focused. For example, specific goals, such as "to sell 1,000 units of brand X and 2,500 units of brand Y by the end of the fiscal year," should be defined.

MARKETING STRATEGIES

The marketing strategies section should define and describe particular strategies that will be used to reach the specific marketing and financial objectives and goals outlined in the previous section. A variety of marketing strategies may be used to launch and enhance sales of a value-added product. Specific marketing strategies are generally grouped under the following four primary categories:

- Market Penetration
- Market Development
- Diversification
- Product Development

Market Penetration

The market penetration section should document the reasons and activities that will be aimed at acquiring more market share in the current market. For a company to enhance its market penetration, it can try one of these three approaches.

1. Encourage customers to buy more of the product during the month. This works if they currently purchase the product infrequently and can be shown the benefits of increased purchases.
2. Attract competitors' customers. This works if flaws are noticed in competitors' products, marketing, etc. and their customers can be lured away.

3. Convince those not buying the product to purchase it. This works if there are a lot of people who have not tried the product or do not know of its existence.

Market Development

Market development strategies are those that will identify and tap new markets or new uses for a value-added product. A value-added product whose target market has traditionally been described as “parents in their 20s and 30s, with small children and annual household incomes between \$50,000 and \$70,000” may desire to expand sales to tourists. In this case, a strategy for developing the tourist market would be described and planned. In addition, an explanation of how a new market will be developed would need to be included in the marketing plan if a product was going to be positioned for new uses. If a fresh fruit preserves product was going to

be pitched as an ice cream topping, the market development section of the marketing plan would provide an analysis of why consumers would use this product as a topping, as well as an explanation of how the consumer would be enticed to purchase the product for this use. Another example of a market development tactic might be to position honey as a safe, all-natural sweetener that could be substituted for sugar. In this example, the honey could be packaged in a container featuring marked measurements for easy use in food preparation.

Diversification

Product diversification includes strategies that will be used to attract new groups of customers by producing new products for new or existing target markets. Diversification normally refers to the addition of revenue-generating products or activities not currently undertaken by the business. A



Diversification...not only can apples be sold fresh, but they can also be used to produce pies, muffins, apple butter, cider, dried apples, fried apples and other products limited only by imagination.



business often has resources that would allow its product to compete in different markets. For example, a farm winery may diversify its operation by developing a restaurant or offering a line of beer. Diversification strategies often attempt to increase sales by offering new products that will attract new customers or increase sales to existing customers. Because diversification activities often push producers into new and uncertain markets, it is perhaps the most risky of the marketing strategy categories. Examples of diversification may include expanding a pick-your-own apple orchard business to include selling ready-to-use apple pie filling, apple cider, jams and jellies, fried pies or dried apples for food preparation and crafts/decorations.

Product Development

The product development section should describe the reasoning behind and the processes related to changes or addition of new products or services. Product development strategies could add value to existing products or develop entirely new products. For

example, a producer could add value to sweet potatoes by developing a new product, such as pre-packed sweet potato patties. A product development tactic might be adding nuts, candies, and/or coconut to cookies, icing cookies, making different-shaped cookies or making holiday cookies.

MARKETING MIX/ MARKETING TACTICS

The detail of information in the marketing mix/marketing tactics section will depend on the detail provided in the previous marketing strategy section. Despite the detail, the marketing mix should provide a means of describing the specific tools that the firm will use to pursue its objective in the target market. The marketing mix, as shown in the illustration above, is normally segmented into four categories that are generally thought of as the four “Ps” of marketing: **P**roduct, **P**rice, **P**lace and **P**romotion. The four Ps can be used to develop subsections in the marketing mix section.



Billboards have large audience exposure and can provide travel directions. However, an “ideal” location for billboards is a must.

Because **product** refers to the physical and perceived attributes of the product being sold, this section should include tactics that will use these attributes. Here, tactics may include packaging, product characteristics and image.

Detailed pricing tactics should be described in the **price** section. In addition to how and why the product’s price will be established, variations in pricing for different markets, different outlets, different quantities and different seasons should be described. The relationship between a product’s price and its marketing position should be described here as well.



Providing sampling opportunities to customers allows the product to sell itself.



Offering a discount on multi-product purchases will increase gross sales.

The **place** section should describe how the product will get to consumers. This is normally where the planned marketing channels are described. The place component of the marketing plan should also include the distribution plans that will be used to deliver products. This section should also address issues related to the needed distribution services and resources.

The **promotion** section should be used to describe and plan activities and tactics that will be used to promote the product. It is important to understand that there is a difference between promotions, advertising and publicity. However, the three are frequently used together to increase the sales of a product. Advertising relies on printed and electronic communication to deliver information about a product to potential and existing customers. Some of the traditional forms of advertising are newspaper, radio, television, billboards and signs. Promotions can best be described as activities to prompt or entice customers. This could take the form of clearance sales, free shipping and in-store sampling. An example of a tool used to advertise and promote is a billboard advertisement that displays a buy-one-get-one free product promotion. Publicity is often thought of as inexpensive or free advertising. A good example would be a newspaper running a feature article about a locally produced product. It is important to remember that promo-

tions, advertising and publicity alone cannot generate significant, sustainable demand for a product if consumers do not like the product or it does not meet a specific need.

Below is a listing of tactics, materials and activities that have been included in the marketing plans of other value-added agricultural businesses and enterprises.

- Logo
 - Open house
 - Business card
 - Brochure
 - Flyer
 - Coupons
 - Stationery
 - Mailing lists
 - Newsletters
 - Free shipping via Web purchase
 - Answering machine message
 - Advertising items*
 - Toll-free telephone numbers
 - Product samples
 - Door-to-door calls
 - "Mention ad and get 10% off"
 - Cash sales discount
 - Media day
 - Clothing articles (hats, shirts, etc.)
 - "Buy-1-get-1-free"
 - Free gift wrapping
 - Co-advertising (buy a product, get a coupon for another store)
 - Point-of-sale display
 - Festival
 - Kids stay/eat free
 - Food fair
 - Sponsor community event
 - Recipe give-away
 - Sponsor Little League event
 - Frequent purchase card for free product
- (*examples include: stickers, pens, pencils, refrigerator magnets, balloons, buttons, pot holders, key rings, measuring spoons, coupons, hand fans, drinking cups, bottle/can openers, spatulas, calendars, drink holders, rulers/measuring tapes and children's toys)

The following table presents advantages, disadvantages and costs to consider when deciding on specific media for advertisement and promotion.

Advantages and Disadvantages Associated with Specific Media		
Media	Advantages	Disadvantages
Newspaper	<ul style="list-style-type: none"> Large coverage area Low cost relative to other media Immediate/timely (daily or weekly) Access to many socioeconomic groups Can target a specific audience via specialty sections Can use color and flexibility in size Visibility of the product (i.e., picture) Use of coupons to measure effectiveness Short lead time (do not need a long time to create) 	<ul style="list-style-type: none"> Inconsistent reproduction One-day exposure, typically Clutter (can be lost among others) May be limited to text or black-and-white print Lack of movement and sound
Radio	<ul style="list-style-type: none"> Specific audience (demographics) Immediate/timely/frequency (multiple exposure) High entertainment value Celebrity endorsement or pitch Time and content flexibility Use of a human voice (celebrity pitching product) Sound reinforcement 	<ul style="list-style-type: none"> Time limitations restrict message Need for repetition Clutter (can be lost among others) Ad recall is low "Station surfing" during commercial breaks Short ad exposure
Magazines	<ul style="list-style-type: none"> Large coverage area Can target a specific audience Can use color and flexibility in size Visibility of the product (i.e., picture) Use of coupons to measure effectiveness Large repeat and secondary exposure Easy to reproduce advertisement 	<ul style="list-style-type: none"> Clutter (can be lost among others) Cost associated with repeat exposure Lack of movement and sound Not immediate; publication may be weekly, monthly or less frequent
Television	<ul style="list-style-type: none"> Large coverage area Can target a specific audience Uses both visual and auditory stimulants Large repeat exposure Easy-to-reproduce advertisement 	<ul style="list-style-type: none"> Costly to air and produce Time limitations restrict message Need for repetition Clutter (can be lost among others) Short ad recall Inverse relationship between hours watched & income
Direct Mail	<ul style="list-style-type: none"> Can target a specific audience More opportunity to educate on benefits of the product Timeliness (can reach customers in 2 to 3 weeks) 	<ul style="list-style-type: none"> Expensive (\$1 to \$2 per piece) Difficult to obtain "clean" mailing list Perception of junk mail Not immediate, 2- to 3-week lag time May be discarded unopened
Point of Sale	<ul style="list-style-type: none"> Can influence impulse purchasing Helps product "stand out" among competition Customer has opportunity for direct response at time of ad presentation (i.e., purchase) 	<ul style="list-style-type: none"> Can be expensive Clutter (ad can be lost among other point-of-sale material)
Outdoor	<ul style="list-style-type: none"> Large audience exposure Use of color Can provide information and directions Continuous exposure (temporary or permanent) 	<ul style="list-style-type: none"> Limited message length Initial production and preparation costs Difficulty in "ideal" site selection
<p>Sources: "Small Business Marketing," Mississippi State University Extension Service and "Evaluating Promotion Expenditures for Agribusiness and Food Processing Firms," Phil Kenkel, Extension Economist, Oklahoma Cooperative Extension Service.</p>		

MARKETING BUDGET

The marketing budget may be the most important section of a marketing plan and can be developed in many different formats. The marketing budget can serve as a summary of planned marketing tactics, as well as a time line for implementation. To say that the marketing budget section is near the end of the marketing plan does not imply that it should be an afterthought to the previous sections. To the contrary, marketing tactics must only be planned if there is reasonable notion that they can be funded and implemented. The marketing budget will not only include the estimated costs of the planned marketing tactics, but should also include the costs associated with market research and market analysis. The marketing budget section should also include an explanation of the source of funds (borrowed, savings, percent of revenue).

For an existing business, the marketing budget can be partially based on marketing costs and revenue from previous years. However, for a new business, marketing costs will have to be estimated based on data from previous sections of the marketing plan. Cost

estimates in the marketing budget should not be carved in stone, but they should be used as a guide and modified according to the operation's changing marketing needs and projected income. Marketing budgets are often set at 5 to 10 percent of expected annual sales. An infinite number of marketing tactics and activities could be implemented as a means of increasing product awareness and sales. Each type of marketing and/or promotional activity has an associated cost that must be considered. The marketing budget should be used in conjunction with the entire marketing plan to monitor and evaluate the best marketing activities to pursue.

MONITORING AND EVALUATING MARKET RESPONSE

Because monitoring and evaluating the effectiveness of marketing efforts is important, a section describing how this will be done should be included in the marketing plan. For example, if \$255 is spent each week for a 2" x 3" advertisement in the local newspaper and \$400 is spent per week for a radio spot aired twice daily, it is important to know which of these two advertisements is having



Evaluating marketing effectiveness can be as simple as surveying consumers.

the most positive impact on sales. Monitoring and evaluating the impact of each marketing tactic/activity should provide an indication of the impact of each tactic and/or the overall campaign/strategy.

There are two main categories in which market response can be evaluated – communication effect and sales effect.

Communication effect measures how well the advertisement/promotion communicates with consumers. Many times copy-testing can be used. Copy-testing is allowing individuals to see or be exposed to the advertisement or promotion to determine their understanding before and after it is ran.

Sales effect measures the level that sales are generated by an advertisement or promotional activity. This is harder to measure than communication effect because many factors affect sales, such as features, price, availability and competitor’s activities.

Monitoring the effectiveness of different advertising and promotional strategies can be as simple as asking the customer or inquirer how they heard about the business/product. If print media or the Internet is used, inclusion of a coupon that is redeemable at the time of purchase can help determine the impact of the method. A similar technique can be employed with radio and television advertising that includes “mention this ad and receive a discount on your purchase.”

MARKETING PLAN CHECK LIST

The marketing plan check list section provides another opportunity to streamline, balance and evaluate the entire market planning process. The check list provides a simple means of tracking some of the planned marketing activities as the marketing campaign evolves. In addition to providing a summary, the check list can also be used to record or

check-off the planned activities as they are implemented. While a variety of formats are possible for the check list, the most effective tool should include a place for noting the tactics/activities used as marketing strategies, the dates that these strategies will be implemented, their cost and an assessment of evaluation/impact.

While the process of developing a marketing plan may seem complicated, this process helps a business to better understand its place in the market. It also helps the business owner to better organize the various types of marketing strategies that will be used and provide a sense of when these strategies will be implemented. Following is an example marketing plan for a fictional store named “A Cut Above” that is getting ready to open for business. This example plan should be helpful in understanding the different components of marketing as they are described in this guide. It reflects a significant level of detail that can be gathered from the processes described previously.



Example Marketing Plan for “A Cut Above”

A Retail Meat Market Featuring Local, Superior Products

This example is included for educational purposes and has been developed using fictitious data. The details of the example should not be used as a basis for or included with any other business or marketing plan. Assume that the example plan has been prepared by one of several partners in the example business and written primarily for implementation for “the” business rather than for “our” business.

Introduction

“A Cut Above” is a family-owned partnership that began in 2001 as a value-added venture for the family livestock operation. The 450-acre farm is located about five miles from the county seat and is now farmed by the fifth generation of the family. The farming activities have always centered around the production of livestock, although various degrees of integration and diversification have occurred over the years. Activities have evolved from pure-bred beef and a farrowing operation to commercial cow-calf, backgrounding and finishing cattle and a farrow-to-finish hog operation. In the late 1990s, the freezer beef enterprise was expanded from about 25 head per year to 100 by coordinating with a local USDA-inspected facility and offering less than half-carcass units for sale.

“A Cut Above” is now planning the construction and management of a retail meat market that will feature a full line of beef and pork cuts and barbeque. This venture will allow the family to capture a greater portion of the consumer’s dollar spent on meat purchases. Within the third year of operation, “A Cut Above” plans to sell 80,000 pounds of fresh beef products (100 head) and 90,500 pounds of fresh pork products (624 head) from the retail market. At this level of sales, “A Cut Above” estimates a net return in the third year of \$42,100.

Market Research and Analysis

Situational Analysis:

While per-capita consumption has been steady to decreasing, the total US consumption of pork and beef has generally trended upward for the past 40 years. In the most recent years, there has been a significant increase in the demand for specialized beef and pork products, including niche markets for convenience items and natural, organic and other eco labels. A recent survey by leading researchers in the restaurant industry found two pork items in the dozen foods that show the greatest increases as sales gainers. In describing consumer desires, one chef explains that people want different things that are familiar to them. The research also shows that in the greatest sales gainers, the barbequed pork sandwich ranked fifth and pulled pork barbeque ranked twelfth. Consumption of pulled pork sandwiches rose 59 percent from two years ago. These cuts are from the shoulder, which is about 17 percent of the pig. According to meat science specialists, “the increase in the pork that comes from shoulder cuts is important because that part is typically underutilized.” In addition, bacon is the leading breakfast seller in casual and family dining, hotel/motel, hospitals and other noncommercial companies such as business, industry and military food service.

Local and county zoning regulations do not restrict the retail meat market or the on-

site processing that will be done by “A Cut Above.” Locating the facility within a municipality with sewer services has merit for waste concerns. However, waste management will be accomplished at the farm retail market by a properly sized septic system and short-term storage for regulated classifications of waste that will be hauled to the proper disposal sites. A county business license has been obtained from the county court clerk’s office (one-time application fee of \$25) and an additional local business tax that will be assessed in the amount of 1/10 of 1 percent of gross is understood. Tennessee Department of Agriculture (TDA), Food and Quality Division will inspect “A Cut Above,” as it will be operated primarily as a retail meat market/grocery store. This type of inspection will prevent “A Cut Above” from selling meat for future resale. TDA will issue a retail food store permit that will allow food and food products to be offered only to end-consumers and intended for off-premise consumption.

Product/Service Analysis:

The products and services of “A Cut Above” can best be described with the following phrase: “fresh, quality beef and pork cuts and products from sources in the local community.” “A Cut Above” will offer primal cuts of beef and pork, as well as ground meat (beef and pork patties), bacon, sausage, summer sausage, cured hams and various specialty items. Custom meat cutting will also be offered. A variety of pre-defined “mix and match” variety packs will also be available in larger volumes (20 to 80 pounds). Custom cutting, volume variety packs and some of the primal cuts are currently not available in the local area. These products and services will be heavily promoted. Competing with existing local suppliers of ground beef will be a significant challenge, because most of the competing stores can market ground beef at a lower price. To address this challenge, the lean-to-fat ratio of “A Cut Above’s” ground beef, which is more favorable than that of the competition, and the safety benefits of “handling” policies at “A Cut

Above” will be heavily promoted. Pork patties will be offered and widely promoted, because no other local supplies of pork patties are available. Seasonal specials will be an ongoing theme for the business. Country hams and special-recipe bacon will be featured during the fall, along with seasonal vegetable favorites. Random personal interviews with 10 percent of the households in the local area have indicated a significant demand exists for meat products that are prepared in the “old-fashioned way.” In addition, special gift packages will be developed that will tie “A Cut Above” into the local harvest festival and the local industrial board’s spring fling. These events bring some 60,000 visitors to the community. These visitors spend more than \$450,000 on local souvenirs and gifts that are sent out of the area.

Target Market Identification and Description:

Based on the local, regional and national data and trends, “A Cut Above” has classified its primary consumers into three defined areas:

- consumers with meat-dominant appetites
- consumers wanting spicy, regional, specialty and/or labeled favorites
- consumers wanting gifts & gift packs

Estimates are that 30 percent of the county residents can be classified as those with meat-dominant appetites. However, 80 percent of these residents are constrained by freezer space on the amount of meat they can purchase at one time. Most of the meat dominants desire a high-quality and consistent product at a competitive price. The meat-dominants are best described as being above age 60, residing in the more rural areas, willing to prepare home-cooked meals, having an average household size of 2.1 persons and having an average annual income less than \$20,000.

Only about 10 percent of the local residents are considered spicy, regional, specialty and label consumers, but this group could

account for 30 to 40 percent of sales. A “local” theme with community loyalty at the forefront will drive most advertisements for “A Cut Above.” Special labels and logos (branded products) will be used to increase the average sale per customer. The most popular labels will be “farm-raised,” “organic,” “grass-fed” and “select-pride.” Standards and perimeters for these labels will be defined and presented to the public. The spicy, regional, specialty and label consumers are best described as age 25 to 35, residing in the city limits and suburbs, often rent their home, have an average household size less than 2.8 persons, with an average annual income of \$35,000 to \$50,000.

Finally, the gift consumers are barely present in the community, about 3 percent of all residents, yet gift sales should account for nearly 50 percent of all sales. Corporate, industrial, tourist and e-commerce consumers will be targeted with specialty gift options.

Competitor Analysis:

To closely evaluate the market environment within 30 miles of the proposed location (on the family farm), information was used from a college marketing class that conducted some market research, including a telephone survey in the local area. The students found that four existing supermarkets have 80 percent of the market share for fresh meat products, with one of those capturing 40 percent of the market alone. Local residents typically shop at two different stores in a given week for grocery items. Residents drive on average 6.21 miles to purchase their pork and beef meat products, with a median distance of 4.00 miles. Nearly two-thirds of the residents in the area say they would likely shop at “A Cut Above” for fresh meat products. The residents would be willing to travel, on average, 18.96 miles to shop at “A Cut Above.” The survey

respondents were “less than very satisfied” with their current store’s meat. Selection appears to be the biggest problem at existing grocery stores. In terms of selection, there is a significant opportunity for “A Cut Above” to outperform the competition. The taste, appearance, quality, freshness and packaging of meats at existing grocery stores are not totally satisfying consumers’ demands, which creates additional marketing opportunities for “A Cut Above.” The respondents cited appearance, freshness and quality as the most important criteria in their selection of a cut of meat. “A Cut Above” will offer and promote products that meet or exceed customer expectations regarding these product characteristics.

Marketing and Financial Objectives and Goals

A combination of beef, pork, barbeque, grocery and other items will contribute to overall sales at “A Cut Above.” The sales goals presented below have been developed from conversations with other retail meat operations, surveys in the local area and industry research.

Sales Goals			
	Year #1	Year #2	Year #3
Pounds of Beef Sold	20,000	40,000	80,000
Pounds of Pork Sold	20,000	40,000	90,500
Gross Beef Sales (\$)	\$68,000	\$150,000	\$280,000
Gross Pork Sales (\$)	\$50,000	\$100,000	\$230,000
Gross BBQ Sales (\$)	\$12,000	\$ 30,000	\$50,000
Grocery Sales (\$)	\$30,000	\$50,000	\$80,000
Other Sales (\$)	\$10,000	\$30,000	\$60,000
% Sales from Retail	95%	90%	75%
% Sales from E-Commerce	1%	5%	15%
% Bulk Sales	4%	5%	10%



Marketing Strategies

“A Cut Above” will incorporate numerous marketing strategies in pursuit of the goals mentioned above. It is expected that the business will be in a constant state of addition and adjustment regarding marketing activities. Although efforts will be needed to increase the total number of customers, efforts will also be needed to retain customers, as it costs 10 times less to retain an existing customer than to recruit a new customer. Strategies will also be implemented to increase the average sale per transaction and increase the average sale per customer. The following sections provide detailed plans to achieving these objectives.

Market Penetration

Products and services at “A Cut Above” will be portrayed as alternatives to the existing competing firms. Terms such as fresh, local and quality will be used. An attempt will be made to acquire 10 percent of the local market share for fresh beef and pork in the first year and 25 percent by the third year. An intensive, six-month local media blast will be used for wide-spread exposure about the operation of “A Cut Above.” Satisfied repeat customers will be the basis of future sales for the business. The business will continually launch new business and product awareness campaigns as a way to increase market share over time.

Market Development

Four strategies will initially be used to develop the overall market for fresh beef and pork at “A Cut Above”:

- 1) provide products that target the “spicy, regional, specialty and label consumers” who are currently unserved in the local area
- 2) provide barbeque meals
- 3) feature various new recipes and uses for various meat cuts and meat products; and
- 4) feature needed inputs for complete meals (such as potatoes, beans, bread and desserts)

Diversification

Development of the barbeque enterprise will be top priority in the early years of the business. Barbeque is a high-profit enterprise for “A Cut Above.” It uses products with lower fresh-market value, it addresses an untapped opportunity in the local area and it represents a way to diversify the total operation. According to national food consumption data, the majority of evening meals are prepared at home (4 out of 7), yet 73 percent of the residents are likely or very likely to include local barbeque in at least one meal per week. Recent studies indicate that of the weekly meals prepared at home, 2.7 contain pork and 2.3 contain beef. On average, the per-capita consumption of pork in the 30-mile area is 51.52 pounds and the per-capita consumption of beef is 77.50 pounds. This is based on at-home consumption only.

Currently, the respondents do not consume take-out meals often (0.71 meals/week). When respondents were asked why they do not eat take-out meals, the four top responses were: no take-out businesses in the area (35 percent), prefer to cook myself (19 percent), price (13 percent), taste and quality (10 percent). These issues will be overcome by using in-store sampling and pricing ready-to-eat meals competitively. By offering tasty samples, the fresh meat store could overcome skepticism regarding the taste and quality of the ready-to-eat meals. The respondents do not eat fast food very often at breakfast; lunch and supper fast food meals are eaten only about once a week. Consumer interest in fast food meals from “A Cut Above” is low. However, the notion of “pre-prepared” staple meats as part of traditional meals is attractive to the residents in the area. Fifty-seven percent of the respondents indicated they would be likely to try a “pre-prepared” staple meat for supper. Other popular products and services mentioned by the respondents were custom meat packing (48 percent), ready-to-eat lunch meals (complete meals, not fast food – 37 percent) and custom meat processing (35 percent).

Product Development

No real product development changes are planned for the early years of the business, at least not for the fresh beef and pork lines. New bakery-type products will continually be featured at "A Cut Above" as a way to incorporate the "local" and "old-fashioned" themes and as a way to sustain interest and intrigue in the business. Bakery-type products will include items such as sweet potato pies, pumpkin bread, apple cider, molasses cookies and organic soy-muffins.

Marketing Mix/ Marketing Tactics

Product

The broadest categories of products to be sold at "A Cut Above" are presented in the section on Marketing and Financial Objectives and Goals. However, some important sub-categories with notable marketing angles are described here. Three brand names will be developed for fresh meat products: *Family Pride*, *Select Quality* and *Rangeland Supreme*. At least four brand names will be used on bakery-type goods: *Aunt Granny's Own*, *Spice House Original*, *Celestial Seasons* and *Cream of the Crop*. Premium cuts of fresh meat will be wrapped on standard meat trays and individually labeled. A majority of products will carry a logo/brand label of some sort. All products will be backed with a money-back guarantee. Bakery-type items will generally be available in two sizes, although pre-defined custom orders will be filled.

Price

Prices will be openly displayed at "A Cut Above." Most of the meat products will be priced at a slight-to-moderate premium over standard competitors. A line of lower-priced (less attractively packaged) meat products will be available. To approach larger volume sales, barbeque will be priced competitively with other barbeque prices, although little competition exists in the local area. Most bakery items will be priced slightly above

comparable, non-gourmet items. Discounts will be given for cash payments of bulk orders and service charges will be applied to accounts more than two weeks old. Grocery items will be priced slightly above competing supermarkets.

Place

Presenting and selling products to consumers will occur primarily at the retail facility, with some sales through "A Cut Above" Web site and wholesale relations. Mail-order and Internet sales will require the burden of shipping and distribution on the buyer. Wholesale transactions will be available FOB-plant.

Promotion

In the early months of operation, a significant number of feature articles will be placed in the local press. Various radio and newspaper advertisements will be purchased. For additional exposure, "A Cut Above" will host the Chamber of Commerce monthly coffee break. Inside the store, optimal use will be made of the floor plan to direct shoppers throughout the store. Impulse items will be placed near the check-out registers and high-profit products will be placed in multiple locations in the store. A summary of planned promotional activities is given in the following table. In addition to the month-by-month plans during the first three years of business, a great deal of marketing efforts will be invested prior to the actual business opening, including development and trademarking of a business logo and brand logos, designing and printing business cards, brochures and stationery and the development of radio and print advertisements to run regularly.

Summary of Planned Promotional Activities

	Year #1	Year #2	Year #3
Month #1	- Grand opening celebration - Local feature articles on the farm page of one newspaper - Activate 1-800 number	- Begin frequent buyer program - Direct mail campaign	- Sampling campaign
Month #2	- Daily radio ads on two stations & two print ads per week in one newspaper for the month	- Local feature articles	- Local feature articles
Month #3	- In-store promotions with point-of-purchase displays	- Local recipe contest	- Host annual festival
Month #4	- Host Chamber Coffee	- Host Chamber Coffee	- Host Chamber Coffee
Month #5	- Target local media for free publicity by submitting news leads	- Target local media for free publicity	- Target local media for free publicity
Month #6	- Implement a sampling campaign at retail store	- Sampling campaign	- Sampling campaign
Month #7	- Host media day	- Host media day	- Host media day
Month #8	- Coupon campaign through newspaper, radio, direct mail & flyers	- Coupon campaign	- Coupon campaign
Month #9	- Unveil Web Page and distribute magnets & pencils with printed Web site address	- Barbeque promotions	- Barbeque promotions
Month #10	- Barbeque promotions	- Pork promotions	- Pork promotions
Month #11	- Pork promotions	- Host Open House	- Host Open House
Month #12	- Seasonal features	- Seasonal features	- Seasonal features

Estimated Marketing Budget

	Year #1	Year #2	Year #3
Initial Marketing (Includes market research, surveying and initial advertising & promotion tools)	\$9,500	\$3,000	\$3,000
Month #1	\$1,200	\$80	\$200
Month #2	\$800	\$100	\$100
Month #3	\$400	\$350	\$1,000
Month #4	\$350	\$350	\$350
Month #5	\$80	\$80	\$80
Month #6	\$150	\$200	\$200
Month #7	\$300	\$300	\$300
Month #8	\$600	\$500	\$500
Month #9	\$1,200	\$500	\$500
Month #10	\$500	\$500	\$500
Month #11	\$500	\$500	\$500
Month #12	\$200	\$200	\$200
Total Budget	\$15,780	\$6,660	\$7,430



Marketing Budget

A substantial amount of the costs associated with starting the business will be charged to the marketing budget. Some of these items include print media, signs and in-store features aimed at enhancing image to increase sales. As shown in the estimated marketing budget given at the bottom of page 34, approximately \$9,500 will be invested in marketing even before the store opens for business. In addition, \$6,280 will be spent during the first year. Overall, approximately 9 percent of expected first-year gross sales will be invested in marketing. Approximately 6 percent of expected gross sales will be used for marketing in the second and third years.

Monitoring and Evaluating

Market Response

Where possible, most marketing efforts will be monitored and evaluated on an indi-

vidual basis. Various radio advertisements will feature the *"mention this ad and get a coupon for in-store savings."* The effectiveness of radio advertisements running simultaneously on different stations may be monitored by *"be sure and ask about the WUTK special going on this week."* Coupons will be used in newspaper advertisements. A registration book will be used at the retail facility and a mail list will be generated for use with business newsletters and direct-mail promotions. Special occasions at the retail facility (open house, Chamber of Commerce Coffees and media days) will be monitored as to their direct result on sales.

Marketing Plan Check List

The following check list presents the planned marketing activities, date of implementation, expected cost and methods of evaluation for "A Cut Above's" first year of operation.

Marketing Plan Checklist – Year #1				
√	Tactic/Activity	Date of Planned Implementation	Expected Cost	Method of Evaluation/Monitoring
	Plan Grand Opening (radio ads, newspaper ads, decorations)	First Month	\$1,200	Monitor overall sales.
	Radio and print ads	Second Month	\$800	Include "mention this ad" and "ask about the..."
	In-store promotions (sampling, daily product features)	Third Month	\$400	Evaluate average sales per receipt.
	Host Chamber Coffee	Fourth Month	\$350	Monitor overall sales and types of products sold.
	Develop news releases for local media	Fifth Month	\$80	Monitor use of articles and overall sales within one week of printing.
	Develop, promote and implement sampling campaign	Sixth Month	\$150	Evaluate average sales per receipt types of products sold.
	Host media and local celebrity day	Seventh Month	\$300	Monitor overall sales and types of products sold.
	Unveil new coupon campaign	Eighth Month	\$600	Monitor overall sales and types of products sold.
	Promote new Web page	Ninth Month	\$1,200	Evaluate sales from Web site.
	Develop intensive promotion of barbeque for the month	Tenth Month	\$500	Monitor overall sales and types of products sold.
	Develop intensive promotion of pork products for the month	Eleventh Month	\$500	Monitor overall sales and types of products sold.
	Develop product features and specials appropriate for the season	Twelfth Month	\$200	Monitor overall sales and types of products sold.

9

SUMMARY

Building a successful value-added enterprise is rarely the result of luck alone. Usually, a significant amount of planning, research and investigation, study and learning takes place as a business develops and grows. Often this knowledge results from trial and error and learning from mistakes – as the old saying goes, “hindsight is 20-20.”

Some of the most valuable lessons and experiences of other entrepreneurs are referred to as “tricks of the trade.” In fact, learning from the experiences of others is a proven and effective tool for shortening the learning curve of start-up, value-added entrepreneurs. Listed below are some quotes that identify some tricks of the trade gleaned from previous work by the ADC with value-added entrepreneurs in Tennessee. These help summarize the marketing issues presented in this document.

Packaging, planning and production are obviously big players in value-added agricultural businesses.

- *Attractive containers and the quality of product have contributed to sales success.*
- *Not having an inventory plan proved to be a mistake.*
- *A premium, high-quality product is our biggest strength.*

The role of **advertising and promotion** is obviously critical to the success of a business.

- *Our toll-free telephone number is printed on the product label.*
- *It seemed expensive, but advertising paid off.*
- *The best marketing tool has been personal contacts.*
- *Giving away free samples greatly increased sales.*
- *Word-of-mouth is the best free advertising for the business.*
- *Advertising and promotion is really needed in the start-up phase.*



- *We do well by contributing products for charitable events, fund-raisers and such.*
- *Making door-to-door sales calls has been the best for us.*

Some of the best advice from successful entrepreneurs has widespread application to the **total management** of the business.

- *Persistence is the answer to doing market research and a marketing plan well.*
- *The smartest thing I've ever done in business is to surround myself with smart people.*
- *Growth of a company is attributed to excellent employees and a good working relationship with the banker.*
- *Understanding of local public relations is essential.*
- *I have obtained a great deal of information and contacts from association meetings.*

Marketing continues to best represent one of the most limiting factors of successful value-added enterprises. Perhaps this is due to the limited understanding, planning and implementation of marketing concepts, principles and activities for new products and enterprises. Marketing is not just advertising, and it encompasses much more than identifying a channel through which to sell a

commodity. Marketing involves research, analysis, planning and ongoing evaluation of a complicated interaction of activities aimed at moving products to buyers.

Just as the officials at the Washington Zoo could quantify the positive effects that panda bear exhibits would have on the zoo's attendance, value-added entrepreneurs should develop, analyze and evaluate very specific marketing strategies. To be successful, value-added entrepreneurs should become active in market research, market analysis and market development. Guaranteed sales do not exist in the value-added agriculture industry, and detailed price discovery methods do not apply. Sales projections are difficult to forecast, and niche markets have very little predictability. Unlike traditional commodity markets, value-added marketing efforts tend to require attention to packaging and consumer preferences. As an aim toward success in the value-added marketing arena, entrepreneurs should plan to develop a written marketing plan that includes documentation of what will be done, why it will be done, when it will be done, how it will be evaluated, what it will cost to do it and the expected results from doing it.



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Additional information on agriculture and marketing can be obtained from
your county
Agricultural Extension Service office.

Additional marketing information can also be obtained by contacting the
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Knoxville, Tennessee 37996-4521
Telephone: (865) 974-3824
E-mail: adc@utk.edu
Web site: <http://www.utextension.utk.edu/adc>

and

the Tennessee Department of Agriculture Market Development Division
P.O. Box 40627
Nashville, Tennessee 37204
Telephone: (615) 837-5160
Web site: <http://www.picktnproducts.org/>

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Agricultural Extension Service, Charles Norman, Dean