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Identifying domestic markets

Indirect marketing of produce

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There are two ways to sell your produce in the fresh market. One way is to sell directly to consumers through roadside stands, farmers' markets or pick-your-own operations. The direct method is fully described in a 1992 University of Idaho College of Agriculture publication, *Marketing Your Produce Directly to Consumers* (see "For further reading"). Another way is to sell in indirect market channels where growers and consumers don't meet. The purpose of this publication is to explain the indirect method.

Obstacles to indirect marketing

Traditional markets have long been established for many agricultural commodities. Livestock producers can take their animals to livestock auctions, grain growers can sell to local grain elevators, and sugarbeet growers can sign a contract with a sugar processor. But it's not that easy for people who grow horticultural crops, especially in regions where the crops are not traditionally grown.

One of the differences between fresh produce and major commodity markets is the perishability of the product. Grain can be stored for long periods and livestock can be kept and fed, but when raspberries are ripe they must be marketed fast or they will spoil.

Perishability causes another difference — price volatility. Prices for grains are dampened because of grain in storage, but with fresh fruits and vegetables, the storage life is much shorter. Crops such as potatoes, onions, and apples are stored for extended periods, but even these crops are not carried over into the next crop year like grain.

Crops such as lettuce and berries cannot be stored at all. Markets for these crops can easily be flooded if many areas are in full harvest at the same time. On

the other hand, prices can rise to very profitable levels if only a few areas are harvesting or if weather causes harvest delay.

Another difference between fresh produce and major commodities comes from what must be done to prepare the food for the consumer. Wheat must be processed into bakery products and livestock into meat products, but fruit can literally be eaten off the vine. It is as simple as that if you run a pick-your-own operation. However, if you don't market directly, you must make packing and shipping arrangements to enter various indirect market channels.

Packing and shipping

While produce in the fresh market is not "processed," it must still be prepared for consumers. Preparations include washing, sorting, grading, and packaging. Some product lines also include drying, cooling, and waxing. The firms that do these things are called packers, and their facilities are usually called packing sheds.

Some growers are also packers, but the expensive equipment required for packing some fruits and vegetables puts packing beyond the reach of many individual growers. As a result, packing and marketing cooperatives are common in some fruit and vegetable growing regions. Since fresh fruit and vegetable prices are volatile, cooperatives need to have clearly written rules regarding the pricing of members' products. For example, a member would not want all of the product sold when prices are low.

If you do not have your own packing shed or belong to a cooperative, you have two other options: sell to a packer or hire a packer. When you sell to a packer, you are usually quoted a flat price for a given quantity or a variable price based on quality. It is the

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packer who bears the risk of price declines before the final product is sold. On the other hand, the packer, rather than you, benefits from price increases.

There are packers who are willing to shift the price risks and opportunities to you. They will pack your product for a fee, usually a certain amount per pound, hundredweight, or bushel. Under this arrangement the packer's interest is volume rather than selling for top prices.

After the product is packed it must be shipped to the next part of the marketing chain. This involves assembling loads and selling them. The people who do this are called shippers. Shippers are usually located where the product is grown. Most packers are also shippers, but some growers who pack still rely on a shipper to handle the assembling and selling functions. Some growers do all three functions — grow, pack, and ship.

Shippers have several market outlets as described below. Even if you are not involved in selling the packed product, you should still be aware of where shippers are sending your product.

Market outlets

Wholesalers

Wholesale produce terminal markets are located in large cities — near consumers rather than growers. The two largest, Los Angeles and New York City, make up 16 percent of the total wholesale market for produce in the fresh market.

Terminal markets can be owned by the state, city, or private companies. The purpose of terminal markets is to provide a distribution facility. Shippers send truckloads of produce from the growing areas to the terminal. The people or firms at the terminal markets are called receivers. They are also known as wholesalers, distributors, or jobbers (small lot buyers).

Wholesalers usually buy truckloads of fresh fruits and vegetables, unload them at the terminal markets, then make up new, mixed loads for sale to retailers, institutional buyers, or other wholesalers. In the past many shipments were sent to terminal markets unpriced and auctioned or sold after arrival. The current trend is for shippers to sell to wholesalers before transport to the terminal.

Retailers

The next logical step is for wholesalers to sell to retailers, and this has been the traditional pattern in the industry. Not long ago there were many "mom-and-pop" grocery stores that could not handle large loads of fruits, vegetables, or other food. Wholesalers performed a vital function for them by delivering

small, mixed loads of the products needed by these small grocers.

The retail industry has changed. Now there are large retail chains that can handle large quantities of produce. Many even have their own distribution systems. Some of these retailers have little need for the traditional wholesalers; many fresh fruit and vegetable shippers sell directly to large retailers.

Individual retail stores close to production areas can also be important markets. Local branches of some grocery chains are often willing to buy local produce. The keys to breaking into these markets are to provide consistent high quality for long periods at a reasonable cost. Retail buyers need a good reason to buy local rather than through their chain's distribution system. Advantages you can provide as a local shipper include less time in transit and higher quality (fresher) produce.

Institutional buyers

Americans are eating more and more meals away from home. In the early 1990s they were spending nearly half of their food dollars for meals away from home. If the trend continues it will soon be more than half. These meals are eaten not only in restaurants, but also in schools, hospitals, military bases, hotels, prisons, and nursing homes. This institutional market is also known as the food service market.

The smaller institutional buyers deal with wholesalers. As with retailers, there is an increasing number of large institutional buyers; some of the largest are the fast food chains. These large firms are also increasingly buying direct from shippers rather than from wholesalers.

Brokers

Brokers negotiate sales between shippers and other receivers. They provide a valuable service to shippers who don't have the experience, contacts, or expertise to sell all of their product to wholesalers, retailers, or food service buyers. They usually serve as a buyer representative in the growing/shipping region. Brokers have traditionally purchased in the buyer's name and made arrangements for terms of sale and transportation and charged a brokerage fee for their services.

Like other parts of the produce marketing chain, the brokerage business is changing. A growing trend is for brokers to buy directly from the shippers and take title to the product. These brokers, in effect, replace a brokerage fee with the potential for earning a profit on the difference between buying and selling prices. Other brokers operate like agents — they handle sales for a group of shippers.

Market information

Fresh produce production is seasonal. You need to know when competing regions are going to market their crops. Demand is also seasonal. For example, pumpkin demand is high at Halloween and cranberry demand is high at Thanksgiving. Seasonality together with perishability contribute to volatile prices. In order to reduce risk of low prices and expand opportunities for high prices, you need reliable market information.

Fortunately, unbiased market information is available from public sources. The Federal State Market News Service (FSMNS) provides terminal market reports and shipping-point reports for fruits, vegetables, and ornamentals. The terminal market reports cover truck and rail shipments to the largest cities. The shipping-point reports cover shipper prices for the major growing areas. Grower prices are also reported in some shipping-point reports.

FSMNS market information is available in daily reports, weekly reports, and annual summaries. Reports can be sent by mail or FAX to subscribers. Some offices also provide radio reports and daily telephone recordings. The information is also available electronically from several computer database services.

The headquarters of FSMNS in Washington, D.C., may be contacted for additional information about what reports are currently available. The address is U.S. Department of Agriculture, Agricultural Marketing Service, Fruit and Vegetable Division, Market News Branch, P.O. Box 96456, Washington, D.C. 20090-6456, telephone (202) 447-2745.

There is also a weekly publication that serves the fresh fruit and vegetable marketing industry — *The*

Packer. Subscriptions are available from Vance Publishing Corporation, 7950 College Blvd., Overland Park, Kansas 66210-1855, telephone (913) 451-2200.

Information on individual firms involved in fresh fruit and vegetable marketing is available in *The Red Book* and *The Blue Book*. They are both subscription services that provide confidential information on firms to subscribers. The information includes ratings on the firm's financial health, trading practices, business methods, and paying practices. Listings are sorted by location and type of service, which includes shippers, receivers, and transportation firms. Shippers and receivers usually look in one of the books before doing business with a new customer. Since the books have comprehensive lists of firms in the industry, they can also be used to solicit new business.

More information can be obtained from *The Red Book*, P. O. Box 2939, Shawnee Mission, Kansas 66201, telephone (913) 451-2200 and *The Blue Book*, Produce Reporter Company, 315 West Wesley Street, Wheaton, Illinois 60187, telephone (312) 668-3500.

For further reading

EXT 741 Marketing Your Produce Directly to Consumers (\$1.00)

To order copies of this or other University of Idaho College of Agriculture publications, contact the University of Idaho Cooperative Extension System office in your county or write to Agricultural Publications, Idaho Street, University of Idaho, Moscow, Idaho 83844-2240 or call (208) 885-7982.

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