Direct Marketing with Value-added products

"Give me the biggest one of those berry tarts!"

Jeri L. Ohmart

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Introduction

As you amble past Al Courchesne and Becky Smith's Frog Hollow Farm stand at the Berkeley Farmers Market and eye flaky apple crisps, Meyer lemon bars, blackberry gallettes and sundry other tarts, cookies and pastries, you are not thinking "value-added products." You are salivating. Yet in the business, these delectables are "value-added" products, defined as a raw product grown by the farmer and modified, changed and/or enhanced in order to turn it into another product with a higher net worth. In the case of Frog Hollow Farm, all the fruit for the pastries is grown on Courchesne's organic farm in Brentwood, California.

Most commonly, value-added products derive from fruit or vegetables that are transformed into gourmet food items. Typical value-added products include jams, jellies, preserves, fruit sauces and spreads, pickles, preserved vegetables, tapenades, hot chili sauces, extra virgin appellation olive oils, herb-flavored olive oils and vinegars, and salsas. Value-added can also include other types of products: cut flowers, dried flower arrangements, wreaths and wall swatches, braided garlic, painted gourds, dried herbs, sachets, soaps made from home-grown herbs, and herbs grown and sold for medicinal properties. Any product can be considered value-added if it is originally grown by the farmer and increased in value "by labor and creativity."[2] Value-added products are now being developed by small- to medium-scale farmers who do their own processing and sell direct to customers through farmers markets, individual and direct wholesale orders, or a Web site. Growers also typically sell wholesale to specialty outlets, such as high-end grocery stores or to exclusive catalogue businesses. The common factor is that the farmers develop and process the end product themselves and do not work through a distributor or middle person to distribute it.

This case study looks at the value-added enterprises of five small independent farmers in Northern California, focusing on their motivations, their decision-making processes, the benefits of pursuing this avenue of business and the challenges they face in doing so. Interviews reveal that value-added products significantly enhance farmers' businesses, affording them a steady income throughout the year when their sales of fresh produce tend to dip. Farmers also emphasize that real satisfaction has come from the knowledge they have developed a high quality, distinctive and unique product that garners loyal customers and consistent positive feedback.

Farm and Farmer Profiles

FROG HOLLOW FARM

Frog Hollow Farm, co-owned by Al Courchesne and Becky Smith, is located in Brentwood, on the cusp of the San Francisco Bay Area and California's Great Central Valley. The farm is beautifully positioned for a direct marketing farm operation: It is geographically a part of the valley, with its rich soil and wide variations in seasonal weather patterns, but is culturally and economically connected to the Bay Area. Frog Hollow specializes in at least 30 varieties of stone fruit, all grown organically-peaches, nectarines, apricots, cherries, plums and pluots (an apricot/plum hybrid). The exquisite quality of their fruit has attracted national attention and high-end customers. They sell to Alice Waters' Chez Panisse Restaurant in Berkeley, to Oakland's well-known Oliveto Restaurant and to other specialty restaurants and markets, such as Bill Fujimoto's Monterey Market in the Bay Area.

Courchesne and Smith have also sold at Bay Area farmers markets for over 20 years. This is their arena for testing and selling value-added products. Courchesne and Smith estimate that about 90 percent of their value-added products are sold at farmers markets (their farmers market sales account for about 20 to 25 percent of their total sales.) The other 10 percent of their value-added products are sold to specialty stores. In addition to farmers markets, Frog Hollow hosts a Web site,[3] which brings in orders from individuals as well as businesses and corporations. These customers are located all over the U.S., including retail stores on the east coast, restaurants in Chicago, and corporations in Seattle and other cities that send Frog Hollow products to their clients as gifts.

Each and every value-added product created by Frog Hollow features fruit grown on the farm, including a range of jams, sauces, preserved fruits and chutneys. Popular items include Saucy Cherry (a scrumptious jar of cherries in a deep, rich cherry sauce), and Abundantly Apricot (a chunky sauce filled with organic apricot pieces), Asian pear chutney, preserved quince and blackberry jelly, and marmalades of navel oranges, peaches, nectarines and Meyer lemons. In addition to processed fruit, Frog Hollow sells a range of pastries, cakes and cookies, all of which contain fruit from the farm. The gallettes are large fruit tarts with a flaky pastry crust. Atop the crust is perched organic apples with applesauce glaze, or fresh blackberries, or a pear and frangipani combination. Smaller fruit tarts, turnovers, cookies and pastries with cream cheese crusts and jam filling also adorn their farmers market tables. These pastry items have been enormously popular and are a staple of Frog Hollow's weekly value-added offerings.

In addition to consistent sales each week at their farmers market stands, Courchesne and Smith have also developed a way to sell the gallettes direct to customers through the prestigious Dean & DeLuca catalogue, which appears both on-line and in mail-out catalogues. Through a process of quick freezing, they fill orders from the Dean & DeLuca account within two days, delivering the frozen pastries directly to customers.

LAGIER RANCHES

John Lagier states his mission as "recognizing our responsibility as stewards of the earth." He began his farming operation, Lagier Ranches, in 1979 when he purchased a vineyard near his family's farm in Escalon in the Central Valley. About 1990, Lagier decided to diversify his farm by planting three varieties of cherries, berries and citrus. Because of family health concerns, he began the transition to organic farming in 1992, and now all 200 acres are certified organic. In addition to the cherries and table grapes, Lagier grows two varieties of almonds and several kinds of berries, including blueberries, boysenberries, Marion berries and black currants. He also grows some small crops on an occasional basis, such as paw paws, white corn, and jalapeno peppers.

Lagier has been selling at farmers markets since 1993, beginning with the Marin County market, and then moving in 1994 to San Francisco's Ferry Plaza Market. In the early days, this farm's mainstay was fresh fruit and unprocessed nuts. However, since these vines have come into production, the global market has wielded a stronger influence on local markets, with more surplus fruit from the Balkans showing up on U.S. shores. This, in turn, resulted in an oversupply on the market. To help with the over-supply problem and generate year-round income, he decided to explore the opportunities available in value-added products.

Lagier's value-added business evolved in stages. For about the first year, he rented kitchen time in Ripon a small town about 20 minutes from his farm, and processed his products in batches twice a month. At that time, he used Mason jars and hand-written labels, a "low-tech" operation. Since then, Lagier's business has grown-he now has his own kitchen and his products sport professionally designed labels.

Pre-testing products was an important part of Lagier's strategy. Before developing his own products, he tested several jams and spreads sold at farmers markets by other vendors. As he tasted, he felt that most were too sweet and masked the natural flavors of the fruit. With this in

mind, he began to develop and test his own line of four varieties of low sugar organic fruit spreads-Marion berry, blackberry, boysenberry and bing cherry. He also makes low-sugar wine jelly. These fruit spreads are now the backbone of his value-added product line. In addition, he sells three kinds of organic fruit pies and a seasonal apple/pumpkin pie.

Wanting to extend the business, Lagier put in a packing shed and kitchen at his own farm. Then he began to extend the range of products by drying and packaging organic cherries and raisins. Next came the change from bulk almonds to his almond-based products, which include plain roasted almonds, flavored almonds (tamari, cinnamon and mandarin orange). A popular item is his almond butter, which he sells both in crunchy and smooth styles, using roasted Carmel almonds. Lagier says that what sets this product apart is that he uses a fresh, high quality nut, unlike many nut spreads, which are made from the previous year's harvest or poorer quality nuts.

One unusual aspect of Lagier's business strategy is his arrangement with Big Tree Organic Farms. He leases a portion of his property to Big Tree and they grow and harvest the almonds. He then purchases back the amount of almonds he wants to use for his own purposes. Lagier feels this is a less risky arrangement as he generally gets a good return on the almonds.

Lagier has developed a variety of sales outlets. Currently he and his co-workers sell year round at three farmers markets: San Francisco Ferry Plaza twice per week, Marin County twice per week, and Oakland Grand Lake market once per week. He makes about 50 to 70 percent of his value-added sales at the farmers markets (value-added product sales account for about 10 percent of his total farm income.) He also sells direct to retail outlets such as health food stores and small, specialized markets in his local area. In addition, he sells to distributors and wholesale to natural product food chains such as Whole Foods, Veritable Vegetable and Sacramento Natural Foods Coop. The larger food chains such as Whole Foods ship to the east coast, but Lagier makes a point of marketing his berries locally, primarily in the Bay Area, in order to maintain control over quality and freshness. Lagier has plans to develop additional flavors of fruit spreads and more varieties of flavored almonds. As he perfects his recipes and procedures, he will test market new varieties at farmers markets and produce those that sell well.

FONTANA FARMS

Sharon Fontana owns and runs Fontana Farms, a family farm located in the Central Valley. The secret of her success appears to be based on developing a diversity of products and sales strategies. She sells a variety of products in many venues, and she contracts out to smaller growers who supply her with diverse crops to process.

Fontana and her husband bought their 20-acre farm near Turlock in 1979. At the time, they grew table and winegrapes, but over time have diversified to stone fruits, tomatoes, peppers and zucchini. From this produce they make ten different flavors of jam, pear and plum sauce, two fruit-based pepper sauces (apricot and peach) used for meat glazes, five different fruit sauces for dessert toppings, dried fruits, nuts and hot sauce that they sell at their roadside stand and in bulk to restaurants. They also reprocess dried fruits into sauce for Traina Dried Fruits in Patterson, Calif.

To develop her products, Fontana leases a commercial kitchen. In addition to her own products, she processes and packages produce for eight other farms-"co-packing" in the trade. Fontana also develops labels and recipes for those farms. This portion of their business constitutes an extension of their original value-added business. At least 50 percent of Fontana's overall farm business derives from processing either her own products or those of other farmers.

Sharon Fontana began her value-added business by taking over a small retail gift shop in Turlock. However, she found that the parking was inconvenient for customers so products did not move fast enough. When a rural building near her farm came available, she jumped at the chance to take it, as it gave her more room and therefore more flexibility to feature the entire range of her value-added products. Because of the building's larger size, she has been able to share upkeep with her son, who sells food gifts in one section of the building, an arrangement that has brought in more customers as well. Even though it is out of town, she discovered that the convenient location-it is on a main conduit to Highway 5-brings in a lot of commuter business.

Sharon Fontana has developed several business streams in order to stabilize her farm operation. Much of the family business income is derived from sales at the roadside business and at farmers markets. In addition, Fontana sells direct to other roadside stands, and wholesale to a range of retail outlets including Whole Foods, Nugget Market, O'Brien's Market, and small boutique specialty shops in Carmel and Modesto. She also sells year-round at

farmers markets in Modesto, Danville and Pleasanton, three markets in San Jose, Los Gatos and Oakland.

The fruit from Fontana Farms is tree-ripened, and although it is not certified organic, they do not use chemical pesticides on their crops. Most of their customers are familiar with their growing techniques, since direct marketing allows Fontana and her family enough face-to-face contact to explain how they manage their crops. Direct customer contact and diversified business strategies have strengthened the business over time.

GOOD HUMUS FARM

For 25 years, Jeff and Annie Main have owned and farmed Good Humus Farm, a 20-acre farm located in the Capay Valley, a rich agricultural valley to the northwest of Davis. A fourth generation Californian, Annie grew up visiting her grandparents' farm and working alongside them. This farm became the prototype for Jeff and Annie's, as it was a self-sufficient operation with animals and a variety of vegetables as well as the main crops of grapes and prunes.

Jeff and Annie are pioneers of the Farmers Market movement, having helped established the now acclaimed Davis Farmers Market in the 1970s.[4] The Mains have worked on their organic farm since that time, and now sell exclusively at the Davis Farmers Market, though they have sold at markets in the Bay Area in the past. In addition to farmers market sales, Jeff and Annie run a Community Supported Agriculture (CSA) subscription business and sell direct to local retail businesses such as the Davis Food Coop. The Mains grow a variety of fruit, including boysenberries and apricots, and fresh winter and summer vegetables. Out of this crop, they produce a variety of jellies, jams and marmalades. They also grow flowers and herbs that Annie transforms into wreaths and various other home products.

Annie, who is primarily responsible for developing the value-added products, emphasizes that a value-added enterprise is not static-her line of products is continually evolving-and in order to be successful, a farmer must be flexible and inventive. In the late 1970s she began making salsas in a certified community kitchen in Woodland (about one half hour from her farm) that no longer exists. Perfect for canning, it had all the necessary kitchen equipment, including huge vats and sinks for washing and processing fresh produce. The salsas were popular at that time because they were new, but eventually many farmers started producing them, so their uniqueness waned. When the kitchen became unavailable, Annie's salsa production came to a halt.

Annie continued her experiments, but ran into obstacles, some related to health regulations and others to restrictions on what could be sold at farmers markets at that time. For example, after the salsas, she experimented with chutneys, but the health department began to raise questions about whether there was enough sugar in the chutney to keep it preserved. Later, Annie wanted to develop a line of herbal vinegars with her home-grown herbs, but at the time, this was not considered a suitable product because farmers market policies then stipulated that farmers must grow or make the products they sell. Since she did not make the vinegar herself, but only let it steep for six months with the herbs, it could not be sold at the farmers market. For these and other reasons, Annie stopped her value-added business for a while in the 1980s.

In the 1990s, Annie picked up the value-added concept again, and since then has had a consistent business with her new items. Her products include a popular coarse-cut orange marmalade, various jams and jellies (including rose jelly), dried fruit and seasonal arrangements of dried flowers, wreaths, herb sachets and other herb-based products. Popular new items in 2001-2002 were pomegranate jelly and pomegranate syrup, which she sold during the Thanksgiving and Christmas season. At Christmas, Annie typically offers a gift basket that clients can custom order. Before the season begins, she sends a list to the farm's CSA customers of all available value-added products, offering suggestions about how they can be combined into gift baskets. Subscribers build their own gift by checking off items they want and Annie arranges them into attractively packaged baskets. This strategy has been enormously successful over the past two Christmas seasons-actually doubling her Christmas orders-and Annie plans to expand it.

Philosophically committed to selling only locally, Jeff and Annie Main are faced with more challenges than those farmers who diversify by developing markets on the Web or at farmers markets farther from their farm. Nevertheless, the Mains are widely admired and loyally supported by their regional customer base.

Bonnie Z's Dragonfly Floral

Bonnie Z, located in Northern California's Sonoma County, has established an enterprise that is a unique twist on the typical value-added business. In 1989, Bonnie began farming in specialty vegetables, but because this was so commonplace, she decided to grow organic flowers, foliages and vines, which she has been doing since about 1995. As she expanded her flower and herb garden, she established Dragonfly Floral-a "florist without the florist shop."

To supply her floral business, Bonnie grows all kinds of flowers, shrubs, trees and plant materials on six acres in Healdsberg. Her gardens are full of unusual flowers, including over 1500 varieties of roses, both antique and modern. Designed to host a variety of forms, textures, fragrances and colors, the garden allows her to build arrangements that are uncontrived and seasonal, and take full advantage of nature's palette.

Like the other farmers detailed here, Bonnie sells her product directly to consumers without benefit of advertising or a middle person. She builds business through word-of-mouth referrals from other vendors who work special events, from photographers and from people she has met through the years in the organic farming and farmers market business. Bonnie's specialty is weddings and festive events. She provides a full floral service to individuals, restaurants, wineries, caterers and event coordinators. She also delivers to funeral homes, hospitals, churches and area businesses. Even without advertising she has more business than she can handle.

Conclusion

At some point, all of these farmers saw the opportunity for expanding their direct farm marketing business by using their products in innovative and lucrative ways. Doing so allowed them both to develop outlets for their creativity and stabilize their farm income.

Farmers' motivations for developing value-added products

Farmers cited three major reasons for expanding their farming business to include value-added products: to use excess produce, to supplement their regular farming income, and to provide an outlet for their creative talents. In the words of Annie Main, "New products are fun!"

Value-added products eliminate waste, use excess produce

If there's one thing these farmers detest, it's waste. They hate to see perfectly good fruit rot on the ground or be added too early to the compost bin. The first response to the question of what motivated them all to develop value-added products was that it was an excellent solution to the waste problem.

- Annie Main, Good Humus: "We could see how much fruit went to waste each year as the season was drawing to a close. Often the fruit wasn't quite up to market standards for selling fresh, but was perfectly good for canning or making jams or drying."
- Sharon Fontana, Fontana Farms: "The best thing about this way of selling is that I don't have to throw away my fruit. I can use the fruit that is left over or not quite right for fresh selling in jams and sauces."
- John Lagier, Lagier Ranches: "Due to the perishability of the berries and cherries, I needed a use for the slightly damaged and too ripe fruit that I could not ship or sell fresh to the market. When it is sorted and frozen quickly, then it is available for making small batches of fruit spread and pies year-round."
- Al Courchesne, Frog Hollow Farm: "This is fruit we can't sell to stores or fresh at the market. After 20 years of dumping fruit back onto the soil and seeing all that waste, I wanted to capture this value."

As these farmers have discovered, less than perfect fresh fruit is not valued in today's competitive and cosmetic market. Those who sell to exclusive restaurants, niche markets and restaurants that specialize in high quality, organic produce know their fruit and vegetables must be in near-perfect condition. Chefs like Alice Waters or retail markets like Monterey Market in Berkeley hire "foragers" to seek out the highest quality, fresh, seasonal food; hence, the quality requirements are high and the competition is fierce. Says Al Courchesne, "Much of the fruit off the trees and vines is not cosmetically perfect enough to sell to our high-end customers. But the blemishes are minor and don't interfere with the quality of the fruit." Sometimes the fruit is just overripe or becomes ripe at a time that is not quite right for their customers. Sometimes, as with John Lagier's berry crop, there is an overabundance. Value-added products provide an excellent use for this extra, less-than-premium-quality produce.

VALUE-ADDED PRODUCTS ADD PROFIT AND STABILIZE FARM INCOME

Close on the heels of the desire to use all their produce is the potential profit that value-added products offer farmers. Off-season months present a problem to farmers, especially small farmers who rely on direct marketing. By putting their excess produce to good use, they can supplement their regular farm income in the slow season. It also allows them to recoup some of the loss incurred from fruit that does not receive top dollar due to minor damage. Sometimes, as with almonds, lower prices are not due to reduced quality, but to market fluctuations. Value-added products can help smooth out these dips (see Table 1).

TABLE 1: PERCENTAGE OF FARM INCOME DERIVED FROM VALUE-ADDED PRODUCTS

Farm	Approximate % of farm income derived from value-added product sales (reported as year-round averages)
Frog Hollow Farm	25
Lagier Ranches	10
Fontana Farms	50
Good Humus	25
Dragonfly Floral	80

Note: Seasonal averages can vary significantly from these percentages.

Overall sales at farmers markets are boosted by value-added products, especially during the off season. In the mid-1980s, Annie Main could see that the farmers market was growing and customers' dollars were being spent on items other than produce. She saw also that farmers could charge about 10 to 20 percent more than wholesale prices for a value-added product at the farmers market. At that time, Good Humus was at a financial low point so she was looking for ways to capture more of the consumer dollar. She did this by reviving her value-added business. Because several holidays occur during winter months, she and other farmers often create products that complement holiday tables or that can be used for gifts, like the pomegranate syrup and jelly, both of which were very popular. Nuts, spreads, sauces, pies and pastries and home decoration items such as wreaths and herbal sachets move especially well during late fall and winter when fresh fruit and vegetables are not as abundant.

Similarly, John Lagier could see that customers were beginning to buy packaged or processed products. Knowing that he grew berries and nuts, some of his regular customers even began asking for items like trail mixes and flavored nuts. Recognizing that this was an ideal way to boost sales and increase profit, he took his customers' advice.

Al Courchesne's operation shows the extent to which value-added products can augment overall farm income. During the peak summer season, about 90 percent of his farm income is derived from fresh fruit sales, but during the off-peak winter season, the proportions are

reversed with value-added products contributing about 90 percent to the farm income. The value-added portion of the direct marketing business plays a critical role in the farm's year round income. Similarly, for Sharon Fontana, value-added products account for about 50 percent of her overall farm income. This includes income derived from her "co-packing"arrangements with other farmers, which she considers a part of her "processing" business.

VALUE-ADDED PRODUCTS ALLOW CONTROL OVER PRICING

Developing value-added products also gives farmers more control over pricing and sales outlets. For example, almond prices fluctuate from year to year. Lagier's flavored almonds and almond butters allow him to boost sales, increase his profit margin and ride out the price variations. Sharon Fontana also stated that this was an important aspect of her value-added business. Previously she sold their produce to processors, canneries and markets, where the pricing could vary from day to day. If she sold to a cannery, the cannery had the power to set the price on the basis of the way the handlers graded the product. For example, with grapes, one of Fontana's early products, the processor set a price per ton and then began deducting from that price, imposing penalties based on factors like the number of leaves and stems left in the bunches. Fontana says they never got the price they were originally quoted. Now, with their own products and their own marketing system, they set the prices, choose their own market outlets and customers, and consistently get what they ask for.

VALUE-ADDED PRODUCTS AFFORD AN OUTLET FOR CREATIVITY

Several farmers emphasized that developing their value-added business affords them a creative outlet. Becky Smith is the creative force behind Frog Hollow Farm's value-added products. A professional chef who previously worked at Oliveto, an up-scale Oakland Bay Area restaurant, Smith brought all her expertise, enthusiasm and creativity to bear on the organic farming business. She loves working with high quality fruit in Frog Hollow Farm's professional kitchen, coming up with new product ideas, and taking them out to the public. She continually tries out new products on farmers market customers, which she says brings enormous satisfaction because of the immediate feedback she gets on her pastries and other goodies.

Annie Main, too, endorses the fun, artistic and creative side of her business. She plays with new ideas, trying out as many as she can. For her, a fun challenge is to come up with a product not already being sold at the farmers market. In 2002, for example, she wants to try something "old-fashioned" with her quince and crabapples. The dried flower, wreath and herb-related products

afford Annie a lot of creative leeway as well. She can combine these in endless variations, and can create new items for special events, seasonal events or simply for home decorating. The feedback she gets from customers reinforces her motivation to create new products because she can see first-hand when people love a product and want more.

For Dragonfly Floral, the business is an art form in and of itself. Bonnie Z's love of art infuses her business. Trained as an artist, Bonnie Z designed hats before starting this business. (Among her more famous customers was Robin Williams.) She transferred her artistic and creative talent to farming. She saw working with flowers as another art form-they are a color palette. Realizing this, she began to convert the vegetable field into a lush flower and shrub garden. Now the garden has evolved into such a beautiful and peaceful spot that, after the attack on the World Trade Center on September 11, 2001, many people asked to come and just sit among the flowers. Year 'round, she gives tours.

For Bonnie, as for the other farmers, the farm itself is a source of great love and creative energy. But while the other farmers create value-added products from only a portion of their produce, Bonnie uses her whole crop. Although she could sell her flowers to a wholesaler, she grows them in order to help create beautiful events for people. The entirety of Bonnie Z's product involves creativity-the unique and artistic arrangements of her flowers, plants, herbs and shrubbery. For her, the business is "magical, beautiful and nurturing."

Costs of developing a value-added business

EQUIPMENT COSTS

Value-added helps with overall farm income, but there are extra costs as well. Many of these additional costs are extensions of their normal operating costs. However, there are new costs, and depending on the operation, these can be quite substantial. For example, to expand their capacity for value-added, both Frog Hollow Farm and Lagier Ranches installed commercial kitchens built according to health department code standards. This is a substantial investment requiring a large initial capital outlay-in one case $250,000- and ongoing costs in maintenance to keep them up to code. For an investment like this, the farmer must feel fairly confident of a consistent, and even growing, market for his or her products. Even if the market seems to be reliable, these investments add pressure to the business enterprise.

Even though Becky Smith loves her kitchen and feels she could not develop quality products

without it, both she and John Lagier remarked that a major challenge of value-added business is the need to continue expanding in order to help pay for large equipment investments. For Lagier, sales have not quite reached a high enough point yet to cover the costs. Although he does have a kitchen, he requires special equipment that is hard to get. Lagier points out that equipment is available at good rates for large commercial producers, and very small producers can use home equipment, but the middle-sized producers find it difficult to secure appropriately-sized equipment, some of which needs to be specially made. In his case, he needs to produce large volumes but in small batches, as he must carefully control the fruits in his jams.

Not having a kitchen can also cost, though in the long run, not as much. Farmers like Annie and Jeff Main do not have their own certified kitchen, so they must rent one for their processing. This is less expensive than putting in their own kitchen, but it does cost them and it is somewhat inconvenient, since the rental kitchen is used daily for other purposes. This means they must arrange the best time to do their processing. Originally the kitchen they used was in Woodland, about 20 minutes from their farm. Now they use one in Winters, about 40 minutes from their farm and must transport all their canning and processing equipment to it. Typically, they end up doing "a marathon canning session about four times a year, working until the wee hours of the morning," in order to make the most of the rental time. Sharon Fontana, too, leases a certified kitchen through the state and county. It comes equipped with a 40-gallon steam-jacketed kettle, which has allowed them to increase their output by about 40 percent. In this case, the lease has been worth the cost, since it has increased their volume.

OTHER COSTS

Al Courchesne and Sharon Fontana pointed to many additional direct and indirect costs. Several apply to the entire year-round business, not just to the value-added portion, but are nevertheless higher because of the expanded year-round enterprise. Gas is a major expense for Fontana, as she drives to up and down the Central Valley several times per week, not only to farmers markets, but to roadside stands, her processing kitchen, and client outlets. Labor, of course, is a major expense for all farmers (see below). Other expenses that people may not anticipate include upkeep of equipment (especially transport trucks), electricity, and ingredients that are not grown on the farm, such as spices, fixers, sugars, oils or vinegars. In an interview on this subject, Robert Farr says in "The Chile Man," "We have to purchase all the things we can't or don't have time to grow or make. Things like nutmeg, cinnamon and lime; vinegar, pepper, salt and mustard flour; bottles, labels and shipping supplies. And then there's the expense of marketing."[5] Bonnie Z reaffirmed this when she said that she must purchase all the

support materials for her floral arrangements, such as ribbons, tying string, foam pieces, wrapping papers and so on.

In addition there are such costs as amortization of buildings, insurance, leasing fees and stall fees at the market, and truck insurance.

CODES

Any time a farm operation makes structural changes or constructs new buildings, building permits must be obtained from the county's building code offices, which costs time as well as money. The California Health and Safety Code is the state law that governs food sanitation for food handling and processing, including farmers markets and commercial kitchens for value-added, processed products. Under this law, any processed foods sold to the public must be prepared according to commercial kitchen standards. Commercial kitchens must be approved during the planning and construction stages by both the county and the state, and after they are operating, they are subject to regular inspections by both. Frog Hollow Farm's kitchen was built according to all code specification from the beginning, so after the initial inspections, they have not been subject to penalty fees or design changes. Lagier Ranches' kitchen is certified as a processing kitchen for both conventional and organic products, and certified by California Certified Organic Farmers (CCOF). This requires abiding by strict sanitary and health rules, including storage temperature and pH factors, hazard analysis and manufacturing practices. The CCOF certification also determines what kinds of products can be used for preserving or fixing (as with jams and jellies). Lagier Ranches' packing shed also falls under these regulations.

In addition to kitchens, other buildings must be code-approved, and any expansions, upgrades or upkeep for these spaces cost money. The Mains need drying, processing and storage space on the farm because Annie prepares dried flowers, wreaths and a variety of herbal arrangements. Similarly, Bonnie Z requires refrigeration and storage space, even though the flowers are not as perishable as food. Since her old barn was overflowing, she has begun to build a new barn with a walk-in cooler. Even though she does not have to store her flowers for long, refrigeration is essential because the flowers need to look picture perfect when they arrive.

Health codes regulate the types of food than can be processed as well. Early on, Annie Main tried to can chutney, but a health inspector told her that "low acid" foods require special certification to guard against botulism. This includes vegetables used in chutney, like peppers,

onions, etc.-anything that does not contain enough sugar or acid to protect the produce. Because of this restriction, she abandoned the experiment with chutney and focused on foods that are easier to process and store.

Health code issues vary from county to county, with some counties stricter than others. For example, Health Department regulations apply to what can be sold in various zoning regions, which Sharon Fontana discovered when she wanted to expand the parameters of her roadside stand. Under the original owners, the roadside stand sold products (dried nuts and dried fruits) that fell under the agriculture category. At one point, she expanded it so that a portion was a delicatessen and got a "use" permit for that change. However, when Fontana's family bought in and wanted to modify it into a more comprehensive small store, they ran into difficulties because the area is not zoned for commercial space. Eventually they got approval, subject to other requirements such as getting the water tested and bringing the well and septic system up to code. Fortunately for them, their septic system fell under a grandfather clause, which helped defray costs. Nevertheless, health codes and regulations are a major factor in determining whether a farmer can or should expand his/her business.[6]

LABOR

Labor constitutes the largest portion of farm costs, and increases because of the value-added business. As John Lagier says, "Running a farm is labor and equipment intensive. There's a lot of labor required for picking small fruit by hand. About 20 percent of the gate value of my produce is absorbed in picking and packing." Lagier notes though that value-added products help recoup some of the extra expense.

Farmers vary in the way they deal with labor and the cost of labor. Only one of the farmers interviewed pays health benefits or workman's compensation to employees. Originally John Lagier prepared most of the spreads himself, but now has an employee who has assumed the production while he has returned to the core business of farming. Although the additional employee adds cost, overall it pays off economically for Lagier to be able to get back to farming.

Frog Hollow Farm is a larger operation, supporting about 15 people during the peak season in the kitchen, packing shed and out in the field. During the winter months, it employs three people, who range from field laborers and kitchen assistants, to packers, administrative, Web site and computer help. Value-added products help regulate yearly expenses by building income during the off season when the need for labor is less intense.

Bonnie Z employs two people to work in her garden and between two and five people at various times doing the design work. Most of her events occur from Thursday through Sunday, and on a typical weekend, she has about six people working at five events. Labor is a major expense for her, but she says she has an excellent staff who work hard as a team and very much enjoy their work.

Some farmers are able to keep labor costs down. Sharon Fonatana keeps hers to a minimum by having her son run the retail portion of their roadside deli stand. She does the farming and all family members share the farmers market visits. They hire one worker in the summer to help with picking. Most of her costs are for packaging and labeling, as well as for the gas and upkeep of the trucks. Similarly, Annie Main does most of the value-added work herself, occasionally putting her kids to work as well! Her husband, Jeff, does most of the farming, while Annie develops and modifies their products.

Additional labor costs accrue in the form of indirect expenses. For example, Becky Smith reports that she spends about 30 to 40 percent of her time ("too much!") at the computer on orders and accounting and/or devoted to marketing their products. Although she would much prefer to be in the kitchen, these aspects of the business cannot be neglected, and if a family member does not take them on, someone would need to be hired. Also, for those farms with a Web site, someone must provide fairly continuous attention. Again, this is often attended to by a family member, but if that is not possible, the farmer must pay an outside employee.

MARKETING

In today's business environment, making a good product is not enough-you have to be able to market it. As John Lagier states, "Producing the product is the easy part of the equation. The hard part is trying to break into and keep up with the really good markets."

Marketing is costly, mostly in time and effort, but also in materials. Becky Smith noted that at Frog Hollow Farm, they are constantly trying to figure out the most attractive and servicable packaging and labeling. For example, the cakes and gallettes need to be nicely packaged both for the farmers market stand and for other wholesale sales. When they choose wrappings for the Dean and DeLuca catalogue products, they must look for certain types of packaging materials that hold up better in shipping and are more attractive for that upscale market. Although farmers market clients are not as particular, Becky still must think about packaging for

freshness, attractiveness and portability because many pastries are not consumed on the spot. Thus, she spends a lot of time "tweaking the look" as she puts it-selecting the best cellophane or other wrapping, deciding whether and where to place a label, practicing the most attractive ways to tie the wrapping (ribbon, string, etc.), deciding what kind of paper or cardboard to use on the bottom of the cake, and whether the pastry needs something around the sides to support it.

Design work also is demanding, as design and logos are an essential component of marketing strategy. The original look of Frog Hollow Farm's logo-a variation on the "Wind in the Willows" book theme-was designed in the early 1990's. Al Courchesne wanted a image that connoted animals' connection to the earth, a return to nature, community and home, values that seemed to him present in "Wind in the Willows." Deb Russell, a graphic artist, was commissioned to draw the design in such a way that it would convey a unique brand identity that was both appealing and resilient. It has served them well, but because of their desire to keep the image fresh, they must revisit it frequently to make minor adjustments.

Each time farmers modify an aspect of their product or create a new one, they must reconceptualize their design. For example, Frog Hollow Farm changed their jams to smaller jars because feedback from customers indicated that people would prefer less quantity in a smaller jar. This change entailed reworking the jars' labels to proportionally fit the new size. Other considerations can include whether to print a label in two or four colors. Four color printing is livelier and more attractive, but much more expensive and less flexible if quick and easy changes are needed.

Farmers must also consider whether there is someone in-house who can do the design work, or whether it needs to be contracted out. Bonnie Z designed her own distinctive dragonfly logo and it has worked well since the beginning. One way to cut costs is to do as Annie and Jeff Main did and trade for services. Annie has a friend who is a botanical illustrator, and who has always done their label work for trades. Annie herself consults label books for ideas, content issues and names. John Lagier approaches the labels with costs in mind as well. He has an Allegro printer that he uses to print his own labels, and prints them in bulk. He also owns a machine that can produce stock labels, which he uses for some of his products. For others, like his cherry boxes, he has an artist custom design the label.

Becky Smith emphasizes that the overall marketing effort requires a lot of time, energy and hard work. Competition is keen, and, like any business, growers need to be aware of what other

companies are doing. This is even more true for farmers who sell at venues other than farmers markets. When selling at farmers markets, operations like Frog Hollow Farm compete with other farms, and because the same people sell each week, farmers quickly become familiar with their competition. They also develop personal relationships with their customers, who tend to be regular and loyal. However, on the open market they must compete with faceless commercial businesses. In this environment, jams and sauces are especially difficult to market because grocery outlets have many large-scale suppliers who sell a range of products. Not only are small farmers competing on a large scale, but they do not have the opportunity to talk to customers about their products. Therefore, they cannot develop personal relationships, which is such an important factor in direct marketing.

Bonnie Z also notes how much time it takes to work on marketing and consulting. Since she works with people on all kinds of special events, including weddings, parties, birthdays, bar mitzvahs and sometimes funerals, each event is different and requires special attention. Bonnie estimates that she works 16 to18 hours per day seven days a week and emphasizes the physically demanding nature of the job. Of that time, she estimates that she spends up to 50 percent consulting with customers on their upcoming event, working out costs and logistics. She speaks for all the interviewees when she says she loves the work and the people but dislikes the paperwork.

Robert Farr, author of "How the Chile Man Got his Skin," quotes one of his first bosses as saying, "Marketing only works if well promoted." Farr continues, "That means you just have to tell people what it is you do-and you have to tell a lot of them."[7] Even though a farmer may know why his or her product is superior to a mass-produced product, a buyer may not. Farmers have to market aggressively and be proactive in explaining exactly how the fruit, vegetables or flowers are grown, how the product is made and exactly why it is better than a product that might cost less. Whether it's giving taste tests, providing customer testimonials, or offering a portfolio of photographs, farmers must pay attention to what works well-and repeat it!

HOW FARMERS DETERMINE PRICING FOR THEIR VALUE-ADDED PRODUCTS

Farmers use a combination of direct experience at the farmers market and some analysis of the overall market to determine how much to charge for their products. They also have an intuitive sense of how much their product is truly worth and they use all this information to set their price. Farmers know that their value-added product will be set at a higher price than supermarket equivalents, but they know too that the quality is worth the extra dollars. Al Courchesne, for

example, knows that most Americans expect to buy jam for $3 to $4 per jar or less. The fact that they are not used to paying for high quality can become an obstacle in direct marketing. However, he knows too that his fruit is premium quality and his jam is worth the higher price of $7 to $9 per jar. Part of knowing what to charge is knowing the clientele. Courchesne and others acknowledge that, in general, their clientele is upper middle class, which constitutes a niche market of consumers interested in good food and willing to pay for it. Another aspect of marketing is consumer education. Knowing that people are resistant to paying higher prices for quality food, Courschesne is prepared for the long slow process of re-orienting and re-educating the general public about farming and food. For him, educating customers and wholesale buyers is an on-going process.

For the most part, Courchesne and Smith set their retail prices by their experiences at the farmers markets. It is there that they determine what sells to customers, and at what price customers will return to buy a product. They ask themselves, "What are they willing to pay AND come back for?" This is the question Courchesne uses as a benchmark. He noted that a farmer can sell a product to anyone once, but it is only when customers return to buy at the same price that a viable market price has been determined. And the farmers market is the best place to ferret out this information because farmers talk directly to their customers. "Our customers tell us!" they say. By interacting directly with their customers, they can determine the top price people are willing to accept, but they also "roughly cost things out," according to Becky by estimating their various costs and figuring out how much they need to make to cover them.

Frog Hollow Farm keeps prices the same at all the farmers markets, but they sell wholesale to retail outlets so the store can sell to their customers at the same retail price the product is sold for at the farmers market. The example Al Courchesne gave was selling a jar of jam to a retail outlet for $4 so the retail store can sell it at $7.00-the same price a customer would pay at the farmers market. Each retailer has a different formula for mark-up, so wholesale prices vary depending upon the store. The grocery chain Whole Foods, for example, has a company-wide policy to double the price of whatever they buy, so depending on the general market price of a product, Frog Hollow Farm might get less from them than they would elsewhere.

John Lagier has a similar pricing structure. He figures his costs for making a product and then figures what he needs to receive to make a profit. He also does a competitive analysis of the competing products. He has a three-tiered pricing system: farmers market prices are the highest, next comes wholesale, while the lowest prices go to the two distributors he sells to in the Bay Area. For Annie Main the farmers market prices are higher than wholesale by about 10

to 20 percent. Main says that she is "constantly evaluating the market. It's always changing, and I am always changing products. Part of marketing is knowing what to charge and how to appeal to customers."

Sharon Fontana does the majority of her business at farmers markets and roadside stands. She empahsizes that when she sells wholesale to markets, she has control over pricing. She sets the price, and they can take it or leave it. She chooses the markets she wants to sell to, and makes a point of selling to a wide range of clients, from Save-Mart grocery stores to upper end markets like Nugget Market in the Woodland, Sacramento region. This way, she maintains a diversified market base. Indeed, Fontana says that it is difficult to separate the percentage of income originating from the different arenas of her business because there are so many different marketing avenues.

Bonnie Z is more methodical in her approach. She checks standard prices for her type of product and service and is aware of market demand. Like all the farmers, she also relies on her experience. After several years, she has learned where to set her prices and feels she is competitive. Unlike most floral shops, which charge by the stem and then multiply by 5.5, Bonnie bases her prices on the arrangement. Bonnie notes that she would find out quickly if her prices were too high, because people would balk at ordering from her, not come back, or not promote her business by word of mouth.

Bonnie Z also knows her clientele. The typical age range is 25 to 35 because she does so many weddings (although she also does many weddings for older couples). In the main, her clientele are educated professionals, such as doctors, lawyers and administrators. She forms personal relationships with them and then "tend[s] to give good people good prices"-she accommodates different needs and circumstances. All this helps to build a reliable reputation, which keeps her customer base consistent.

Overall, then, these growers recommend knowing your product and feeling confident about it, knowing your clientele and having face-to-face conversations with them, spending at least some time analyzing the market, and figuring out a cost/profit ratio all of which contribute to a sound pricing policy.

Satisfaction and benefits

The work these farmers do is definitely a labor of love. Although they all report some profit, the margin is slim, the risks are high and the work is very hard. Yet they all get an enormous amount of satisfaction out of it. Their satisfaction is difficult to quantify, but appears to be made up of equal parts of the following:

- love of farming and the farming life
- enormous pride in the quality of their products
- enthusiasm for the challenge and creativity required
- dedication to farmers markets and customers.

Annie Main says that she can not separate out the product and the process-the veggies, the value-added, the farmers market are all cut from the same cloth. She and Jeff are completely dedicated to the philosophy of buying and selling locally. They have decided not to travel to other farmers markets or to include produce from other areas in their CSA boxes because then they would not be living and working in their local region. It is important to them to live out their philosophy, not just speak it.

As far as the value-added process goes, Annie says it "fun, artistic and creative." Over time, she has realized that people like new items and she rises to the challenge by coming up with new ideas each year. She realizes that in some years she does better than in others, and it is challenging to figure out why. The farmers market is her venue for this exciting process. The market is where she gets new ideas from customers and other vendors, and where she tries out ideas. It is a way to talk to customers to see "what's hot." And it allows her the immediate feedback she needs to see what works. For Annie, and for her husband Jeff, farming and the farmers market is a way of life.

Frog Hollow Farm partners Al and Becky also wax poetic about farmers markets and their market customers. The face-to-face contact with customers is vitally important to them. Al says, "It's great fun!" And Becky agrees, "There's a lot of satisfaction in selling at the market because the feedback is so immediate, you form relationships with the customers." For them, selling at farmers markets is definitely more satisfying than selling to retails stores, even than to special niche market stores. When they sell to a store, they have no idea how the products are displayed or handled. They don't have a chance to talk to customers to tell them what goes into the product and why it is so good. But all this they can do at the market, which is what makes it

so very satisfying. Al is very outgoing, and enjoys seeing his regular customers week after week. During our interview, I overheard him speaking on personal terms to many of his customers. Having grown up in Berkeley, he has formed customer friendships that stretch back many years. He says "It's a sensuous experience! It heightens my experience of life."

The farmers market has also helped expand Al and Becky's value-added business. The San Francisco Ferry Plaza market in particular is a magnet for all kinds of people interested in good food. Famous chefs, restaurateurs, food specialists, and retailers come to that market to be a part of the city food scene and to see what is new, fresh and available. Many chefs plan their menus around seasonal fresh foods. For all farmers interviewed, the farmers market generates significant outside business from restaurants, stores and businesses all over the U.S. Here, too, farmers come up with new ideas. For example, Becky Smith freely gives tastes to customers and engages them in conversations about the products. She finds the interaction and creative challenge most stimulating and satisfying, and with that energy, she keeps the value-added business alive and fresh.

Pearls of Wisdom

During the course of the interviews, farmers offered several pieces of advice to farmers who are contemplating beginning a value-added business:

Al Courchesne (Frog Hollow Farm): Quality of the fruit makes all the difference. People can taste the difference. It separates your products from other similar products. Having a great chef (Becky) who knows how to make superb pastries also makes a big difference. Finally, nothing can take the place of being at the market and representing the products face-to-face. We get to know our customers personally and create a personal relationship with them. We love what we are doing, and this adds to our success.

Becky Smith (Frog Hollow Farm): Marketing takes a lot of time, energy and work. You have to stay on top of it all the time. You have to know what other people are doing, and you have to be aggressive, very active. The work is very labor intensive. You have to love it-we do!

John Lagier (Lagier Ranches): This kind of business takes time and is capital-intensive. Farming isn't "a slam dunk thing." You have weather and all sorts of variables to contend with. Do as much competitive analysis beforehand as possible. Figure out pricing. Look at price points and see if you can compete. If your product is priced too high, it won't move. Do your

homework. Be willing to put a lot of effort into it. It takes a lot of time.

Sharon Fontana (Fontana Farms): Be willing to put in long hours. Find good locations for roadside stands, where the traffic patterns are good. Be proactive with the Health Department. Find out about the codes and requirements and figure out how to cooperate with county officials.

Annie Main (Good Humus Farm): Be willing to live your philosophy! Stay local.

BonnieZ (Dragonfly Floral): Create a beautiful and nourishing space and a business that you love. The rest will follow.

Conclusion

Passion is a word that frequently springs up when farmers talk of their work. John Lagier, after stating that you have to "have some screws loose" to do this kind of work, admitted that he is passionate about it. He loves farming and enjoys making a product that he knows is very high quality. The positive feedback from customers confirms his feelings about his products. The farmers market becomes the arena for interacting with his customers, trying out new ideas and keeping his creative energy alive.

Although Bonnie Z does not sell at farmers markets, she echoed the sentiments of others when she said that the most positive aspect of this business is "people's appreciation." Her business in particular is built around meaningful occasions. For this reason, people truly appreciate her flowers and arrangements. She often receives thank-you letters, such as the one from the mother whose son had died and for whom Bonnie had arranged funeral flowers. "Flowers have real meaning to people," says Bonnie. "The great appreciation and pleasure people get from the flowers, the arrangements and the garden itself are the real payoff."

Sharon Fontana speaks for all when she describes her feelings: "It's really hard work," all the farming, developing products, processing, marketing, the long hours and the long drives. But the reward for all that hard work is when she can go to the markets, meet people, get direct feedback on her products and "soak up some of the praise." For these farmers, what keeps them going is the immense satisfaction of knowing that they have grown something living on their own soil and through their own hard work and creativity have produced a unique, high

quality product that people love. These are the reasons that farmers are driven, screws loose or not, to continue in their chosen endeavor. And we are the luckier for it.

[1] This case study is part of a tri-state research project on Retail Farmers markets and Rural Development funded by the USDA.
[2] Farr, Robert, How The Chile Man Got His Skin: Value-Added Marketing for Farm Success in ACRES, USA, Vol 32, No 6, June 2002.
[3] www.froghollow.com
[4] See the Davis Farmers Market Case Study on UC SAREP's Web site: sarep.ucdavis.edu. Click on Community Development/Public Policy.
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[6] University of California Small Farm Center. Agritourism and Nature Tourism In California: A How-To Manual for Farmers and Ranchers. Division of Agriculture and Natural Resources publication, 2002 (Ch 4, p13). Contains further information on code requirements.
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