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Marketing Farm and Food Products

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What is marketing?

The American Marketing Association defines marketing as the "activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

More simply, marketing is the process of deciding what to sell and how to sell it. A producer or seller must decide what products to produce (and how to produce them) or sell. She must decide when to sell it, where to sell it, and how much of it to sell. She must make decisions about packaging, labeling, and branding of the product. All of this is under the umbrella of marketing.

This factsheet accompanies a webinar on "Essentials of marketing farm and food products", available at https://video.vt.edu/media/1_6gbcielh. The webinar and factsheet are part of the *Virginia Sustainable Farms and Agribusiness Education Initiative* offered by Virginia Tech's Department of Agricultural and Applied Economics and Virginia Cooperative Extension. More information about the program is available at https://aaec.vt.edu/extension/va-sustainable-farms-agribusinesses.html.

How do I decide what products to produce and sell?

Producers and sellers should try to anticipate or understand the needs of their customers. Ideally, you will have a product that sells itself instead of a product that needs to be sold. The best product to sell is one that customers need (or think that they need). Many markets have unmet needs (Barnard et al. 2012, 124). Sometimes a producer is the first person to identify this unmet need. Other times, many producers know about this 'market gap' but they are not able to profitably fill that gap. The first step in marketing is finding a product that you can profitably sell.

What is the role of product differentiation?

Differentiating products provides consumers with exactly the product that they want. It also allows sellers and producers to maximize profits. Say customers A and B are interested in purchasing apples. Customer A is only willing to pay $2 per apple. Customer B is only willing to buy organic apples but they will pay $3 for them. If the market only provides non-organic red apples at $2, customer B will not buy any apples. If the market only provides organic apples at $3, customer A will not buy any. If the market provides organic and non-organic apples, revenue and customer satisfaction increase.

There are two types of product differentiation—vertical and horizontal. Vertical differentiation is when a seller offers a range of higher and lower quality products at a higher and lower price (Chamberlin 1948, 56). For example, General Motors offers a full range of pickup trucks. Customers who want the bare minimum or have strict budgets can purchase a Silverado 1500 work truck. Customers who want a luxury pickup and have bigger budgets can purchase the Denali trim.

Horizontal differentiation provides a range of products with different characteristics. However, these differences do not necessarily make the products better or worse than others. Instead, these differences suit customers with different preferences (Chamberlin 1948). For example, manufacturers can offer pickup trucks in different colors or with different wheels to ensure that all consumers can buy the "perfect truck".

How should producers and sellers determine their prices?

Many things will influence how producers and sellers choose prices for their products. Most importantly, available pricing strategies will be determined by the market that the product is sold in. Some markets are highly competitive while others have little—or no—competition. Understanding how these market forces affect pricing strategies is the first step.

A price discovery market is one with many sellers competing for business. It is hard to charge higher prices because there are so many sellers (Rhodes 1998, 174). If another firm can sell the product for a lower price and still make a profit, they will be able to lower their prices and increase their market share. This keeps pushing the price down until it reaches a "market price." Customers will go to a different company if a seller tries to charge more than the market price.

In price setting markets, producers and sellers can choose the price they want to charge (Rhodes 1998, 180). Sellers may find it easiest to charge a simple markup percentage. Alternatively, they can engage in variable pricing strategies. For example, by charging high initial prices they can earn more revenue from less patient customers. Then they can lower the price to increase sales and accommodate more patient customers with smaller budgets. They could also lower prices to undercut local competitors and increase their market share. Finally, of course, sellers in price setting markets can seek to reduce their costs to increase their profits.

What strategies can help producers determine their marketing strategy?

Producers can assess their current position by using SWOT analysis. SWOT analysis is also helpful in identifying possible openings in the market (Barnard et al. 2012, 126). SWOT stands for *strengths, weaknesses, opportunities,* and *threats.* Firms can begin by assessing their competition. We know that consumers will compare prices and products. Maintaining and growing your market share requires you to know what the competition is doing. Firms should also study trends in the market and attempt to identify changes in preferences. These changes may be subtle. Firms that strategically test out new products may be able to identify those trends more quickly. Finally, it is important to always be aware of your own firm's strengths and weaknesses (ibid., 131). What do you do well? Which of your products is most profitable? Do you have a comparative advantage anywhere?

Another strategy for making marketing decisions is to follow the Four P's. Firms must decide on a *product*, its *price*, the *place* it will be sold, and how to *promote* it. Producers should try to identify market needs when selecting and marketing a product. Producers should also consider whether they will increase their profits by selling value-added products instead of raw commodities. In some cases, the place a product is sold may determine its price. Producers may find it valuable to sell their products in different places where it will be more profitable. Finally, how a product is promoted will impact profitability in the short and long term. Promotion builds branding and branding builds customer loyalty (Bernard et al. 2012, 143).

An important part of promotion is creating an aesthetic. This is done through advertising, packaging, and labeling. Many companies in the United States have invested considerable time and money into their aesthetic. Think about Coca-Cola's instantly recognizable font, Apple's iconic logo, and the golden arches of a McDonalds sign. In addition to logos, packaging impacts customer perception. Products in glass containers may be perceived as higher quality than products in plastic containers. Products with monotone packaging may be perceived as more sophisticated or mature than flashy, multicolored packaging. Curating the aesthetic of the product may help producers reach their targeted customers and establish customer loyalty.

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