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Refining Market Channel Selections Based on Cost

Agricultural producers, processors and entrepreneurs can choose from multiple market channels to sell products. Examples include farmers markets, roadside stands, community supported agriculture (CSA) subscriptions, and distributors. These channels require different resources to cultivate customer relationships and transact with buyers.

Read about market channels and their pros and cons in MU Extension publication, G6221, [Market Channels for Locally Raised Foods](extension.missouri.edu/publications/g6221) (extension.missouri.edu/publications/g6221).

Using the Market Channel Cost Assessment Tool (muext.us/marketchannelassessment), you can compute costs incurred by market channel and then compare those estimated costs with projected revenue to gauge the channel-by-channel return on marketing investments. This guide describes the importance of quantifying marketing costs, defines terms you see in the cost assessment tool and shares examples of how to apply the tool to different scenarios your farm may experience.

Choose your market channels

Deciding whether to sell product through a given market channel depends on several factors: product volume, barriers to entry and whether a product's target customers typically shop via the channel. The decision should also account for the costs associated with selling product through that particular channel. Costs that might vary by channel include sales labor and delivery.

With respect to labor, consider the difference between selling on-farm versus at a market. Selling at a farmers market requires labor hours to pack product for transport, drive to markets, set up displays, staff booths during market hours, tear down booths and drive home. This work may sum to several hours per market day for one or more people. Operating an on-farm stand that uses the honor system may involve less labor. This stand would have no sales staff and minimal transportation costs as the product is sold where it is made.

These examples illustrate how a product's costs can change significantly depending on how it is sold. Without estimating costs, a farm may misjudge whether a market channel provides a strong profit opportunity or absorbs more resources than it generates in sales.

Count marketing costs in break-even price analysis

A break-even point informs pricing decisions, and it should reflect marketing-related expenses. The Market Channel Cost Assessment Tool (muext.us/marketchannelassessment) adds precision to your marketing cost estimates. It's meant to pair with the Break-even Analysis Tool (muext.us/breakevenanalysis), which aggregates a product's variable and fixed costs to approximate a break-even production cost. Your marketing approach will affect how to use these two tools in combination.

- If you sell product in **one market channel**, use the market channel cost assessment to estimate marketing-related costs. Then, input your marketing estimates into the break-even analysis.
- If you sell product in **multiple market channels**, start with the break-even analysis. Then, move the break-even estimate into the market channel cost assessment, where you will compute marketing costs by channel.

Although some marketing costs vary by channel, others stay the same regardless of the market channel used to make sales. Labeled as fixed costs, these expenses include market research, labor effort for planning and executing marketing efforts, and advertising placements.

Estimate marketing-related fixed costs

The fixed costs outlined in the Market Channel Cost Assessment Tool stay consistent regardless of the number of units a farm sells or the market channels it uses. These are the baseline expenses to establish and grow a marketplace presence and transact with buyers.

The cost assessment tool lists the following fixed costs and gives you the opportunity to input your own values. Refer to the following definitions as you're entering values into the tool to ensure you capture all costs.

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Market research

Doing market research ensures your farm satisfies buyer needs and positions itself to pursue market opportunities as they emerge. It carries some costs. You can order reports that share grocery store sales data or subscribe to magazines or other publications that report market data. To test whether general trends apply to your target customers, you may conduct surveys or host focus groups. When approximating market research costs, account for personnel time and out-of-pocket expenses.

Learn your local market

A market intelligence report (intelforag.org/market-intelligence) from the Intel for Ag website will outline nearby market outlets, describe demographics, estimate food demand by county, and present consumer preferences for food products.

Strategy and planning labor

Your marketing efforts should support your business in meeting its goals. Write goals that are specific, measurable, attainable, relevant and time-bound so that you can measure your progress. Examples include increasing annual sales by 10%, converting 5% of first-time customers into repeat customers within three months, and expanding brand awareness by tallying 10,000 social media impressions in the next quarter.

A marketing plan formally links business goals and marketing strategy. It outlines specific activities called tactics (e.g., social media posts, ads, events) that align with the strategy and shares key messages intended to help the business realize its goals. Making the upfront investment in planning time will yield benefits because your marketing choices will be driven by what you want your business to achieve. In effect, a marketing strategy prioritizes how to spend limited marketing dollars.

Differentiate marketing strategy and tactics

MU Extension publication G6229, Harnessing Social Media to Build Your Business (extension.missouri.edu/publications/g6229) discusses choosing marketing strategies and tactics that align with business goals.

Content development labor

Guided by their marketing strategies, businesses direct labor time toward developing tactics to support those strategies. Tactics refer to content created and disseminated to help a business reach its goals. Content development labor estimates should reflect time invested in activities such as taking photos, making videos, organizing events and writing social media posts.

Consultant or freelancer services

In some cases, you may decide to hire a contractor to help you conduct market research, structure the marketing planning process or implement a marketing plan. These consultants or freelancers (e.g., ad agencies, photographers, videographers) provide professional skills. They may be hired to do a specific project or work on retainer, where they receive a fixed price to execute a more comprehensive scope of work.

Content development subscriptions

Implementing your marketing strategy may require subscription-based services used to develop content. Many products on the market can be used to design print or online materials, edit photos, organize content schedules and schedule social media posts. Some have free versions with basic functionality. Often, these services charge fees to users who want to unlock additional features.

Email distribution system

If you make email part of your marketing plan, you could use a service to manage your contact list, prepare messages, distribute emails and monitor your analytics. These services often charge fees based on the number of contacts in your list and the count of messages you send during a specified period.

Website and domain hosting

To launch a website, you could use a do-it-yourself website builder or hire a web developer. Your choice will depend on the level of sophistication you have in mind for the final product and the time and skill you can dedicate to web development. Whichever you choose, consider the initial design costs and the recurring expenses (e.g., hosting, security). Farms that sell products online will also need e-commerce capabilities for their websites.

Point of sale subscription and hardware

A farm doesn't complete a sale until it receives payment, and payment options (e.g., cash, swipe a credit card, Apple Pay, Venmo, online transaction) will vary somewhat by market channel. For customer convenience, consider accepting multiple payment forms.

To process card transactions, you'll need a point-of-sale system, which typically requires a hardware purchase (e.g., card reader) and charges processing fees per transaction. In the "FixedCost" tab of the cost assessment, record the cost of buying and using the hardware in the capital expenditure section, and note any related recurring costs (e.g., annual subscriptions) in the subscription line. Later, the tool will prompt you to estimate transaction-based processing fees for each market channel you use to sell products.

Capital expenditures

A farm's need for capital (e.g., delivery vehicles, storage space) may vary by market channel. For example, a farm with a weekly distribution day (e.g., CSA, farmers market, home delivery) may need cold storage as it scales, so it can harvest product at peak maturity and preserve its condition until distribution day. By comparison, a U-pick farm that only sells to customers who pick the produce themselves would not need cold storage.

The market channel cost assessment includes a cash-based account of the cost to finance or rent capital. Use the gray-highlighted cells in the "capital expenditures to access markets calculator" to account for annual costs. Note, other ownership costs represent a farm's expected costs to repair and operate capital investments. These costs include taxes, insurance and overhead costs. They may be small and "unseen" costs of doing business.

Other

You can replace the "other" lines with additional fixed expenses crucial to marketing work. Remember, fixed costs are not specific to one market channel, and they won't change as you sell more or fewer units.

Approximate channel-specific expenses

The market channel cost assessment is built to track how several types of costs vary by channel. The following discussion explains more about how to consider these line items as you work through the tool.

Labor

Regardless of the market channel you choose, you or your team will put in time to make the sale. In your labor cost estimates, include time spent on post-harvest activities. Examples include packing containers, setting up sales displays, staffing a register, offering a sample station and providing customer service.

Packaging and labels

For a market channel, packaging and labeling costs depend on how a product is transported and how it must be presented to buyers along the supply chain. For example, a farm selling goods to a distributor will need wholesale-style packaging and labeling. Often, the product will also need to be packaged and labeled for retail sale (e.g., smaller package, label printed with a UPC code). Restaurant buyers may have little need for fancy labels on each product unit and appreciate bulk packaging. The cost assessment tool provides flexibility for distinguishing these costs by market channel.

If you use the market channel cost assessment and break-even cost of production tools in combination, avoid double-counting costs for packaging and labeling. Depending on your operation, you might find it easier to account for the cost of a label used on every packaged product in the break-even cost of production tool. In such cases, you would only input other packaging and labeling costs that are specific to a market channel in this tool (e.g., shrink-wrapped pallets for distributors, cardboard boxes and plastic bags for the farmers market).

If you, however, will sell your product in different types of packaging for different market channels, you might zero out packaging expenses in the break-even cost tool and use this tool to quantify those costs instead.

Delivery

A delivery expense is inherent in offering home delivery or a CSA with multiple pickup locations. A U-pick farm would have little or no delivery cost because buyers visit the farm and take products home. As appropriate, the market channel cost assessment provides space to estimate delivery costs.

For some market channels, a calculator is provided to help you estimate delivery driver pay. Also, a mileage calculation box helps you account for fuel costs (i.e., divide average fuel price by a vehicle's average miles per gallon to estimate rate per mile) or a vehicle rental rate. These options provide farms the flexibility to capture delivery expenses in different ways.

Payment processing

Accepting payments other than cash incurs costs that vary by payment processing service and sometimes by market channel or how you accept the payment (i.e., in-person, online, manual card entry). Including these differences in your cost estimates will help you compare costs by channel.

For example, assume you had $10,000 of credit card sales across 285 transactions at your farmers market in the past year, and your payment processing system charges 2.5% of total sales plus $0.10 for every in-person transaction. You would enter $278.50, computed as ($10,000 × 0.025) + (285 × 0.10), into the payment processing line on the tool's "FarmersMarket" tab.

Avoid any double-counting of point-of-sale costs (e.g., payment processing hardware, software subscriptions) in the "FixedCosts" and specific market channel tabs.

Other

The tool identifies other costs unique to a market channel — for example, customer appreciation days for CSA subscribers; brokerage fees to break into wholesale markets; slotting fees to secure grocery shelf space; and certifications (e.g., GAP, HACCP) or product liability insurance coverage policies to meet grocer, restaurant or distributor requirements.

Support your market channel decisions

The "Summary" page in the cost assessment provides information to determine high-potential market channels. It prompts you to enter your projected sales and sales price per channel. Then, it compares the sales estimates with the costs you entered to suggest the extent of profit opportunity provided by market channel.

Sales estimates

Enter your estimated annual sales for each channel. To facilitate comparison across channels, report sales volume for the same unit size (e.g., a 12-ounce jar of salsa) across market channels. For example, if you sell salsa by the pallet to a distributor, then count the number of jars on a pallet and multiply the count by the number of expected pallets. Similarly, if you sell salsa in gallon buckets to a restaurant, then convert gallons to jars. (The 128 ounces in a gallon equals 10.667 12-ounce jars.) Make sure the unit size on the "Summary" sheet matches the unit size for which you stated costs (e.g., packaging, labeling) per unit on the other sheets in the tool.

Next, enter an estimated sales price per unit. Make any necessary calculations to ensure the per-unit price assumes the same product unit size across market channels. Price depends on demand and buyer willingness to pay, so do research before setting a price.

Explore pricing strategies

Learn about premium, value, cost/plus, competitive and penetration pricing strategies in MU Extension publication, G649, Selecting an Appropriate Pricing Strategy (extension .missouri.edu/publications/g649).

Cost estimates

This section of the tool pulls data you entered on channel-specific cost tabs, and it allocates fixed marketing costs by market channel in proportion to the business' expected sales in a channel. Allocated fixed costs will change as you adjust your expected unit sales.

By channel, the tool calculates the marketing cost incurred to yield $1 in sales. This analysis will point to the market channels that most efficiently generate sales — that is, require the least cost to produce revenue. Note, this analysis only considers marketing costs, so it's not a complete measure of profitability. However, the results will help you choose market channels that best support the business financially.

Incorporate your break-even production costs

This tool is meant to add precision to your marketing cost estimates. You can use it as a companion to the Break-even Analysis Tool (muext.us/breakevenanalysis), which helps to develop a more complete understanding of your expected production costs. Avoid duplicating costs in both tools.

Final analysis and decision making

After estimating costs, production units and sales prices, the market channel cost assessment summarizes the takeaways in two columns shown on the "Summary" tab. First, the potential-profit-per-unit column allows you to compare profit by market channel. Double-check that you have calculated your expected number of units sold consistently — for example, 12-ounce jars — across market channels so that you make equal comparisons. The tool multiplies potential profit per unit by your unit-sold projections to estimate total profitability by channel.

Now, step back and assess your potential business profitability. Within the tool, adjust the units sold and sales price per unit estimates to understand the financial effect of manipulating these variables. As you run different scenarios, always test price and quantity estimates through market research, competitive analysis, conversations with potential buyers and other means to verify your approximations are reasonable.

Ultimately, this tool intends to inform your efforts to create a marketing budget, identify profitable market channels and make key decisions as you scale a farm business. You may use this as a planning tool or a tool to assess the effectiveness of a previous year's activities. With a complete set of data including actual sales volumes, prices and marketing expenditures, a farm with good records could quickly evaluate its business performance across market channels. The assessment may boost confidence in deciding how to evolve the business in future years.

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