



The Northeast Sustainable Agriculture Working Group

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Distribution – the Forgotten P

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Anyone who's studied or practiced marketing learns about the 4 Ps – product, price, promotion, and placement (or distribution). Along with capitalization and personnel, they're the building blocks of a marketing plan or business plan.

It's not fair to say that we sustainable agriculture practitioners have forgotten distribution. All our efforts at direct marketing -farm stands, farmers' markets, CSAs, home delivery, mail order-are distribution-driven strategies that eliminate shipping and handling steps in order to reach customers more directly and capture more margin for producers. And they're among our most important work.

It is my experience that many of the efforts that aim to increase the mainstream market share of local and sustainable farm products in stores and institutions overemphasize promotion while underestimating the power of distribution.

Promotion and education

Promotion includes everything we do in the way of communication to let customers know about our product/organization, and to entice them to get involved. This includes personal sales work (cold calling/relationship building), point-of-sales materials, advertising, public relations (pursuit of

media coverage), and I would include community organizing.

Point-of-sales materials, product labels, posters, ads, radio spots, and videos are all out there waving our image around in the public eye like a flag, or so we like to believe. We tend to put major emphasis on their design and production, including formal research to ensure we get the message and the image right. I bet the design of logo, letterhead, point-of-sale materials and/or advertisements have sparked some of the most intense debates your organization has experienced!

This is important stuff. But in small, low-budget marketing efforts, strategic problems arise when promotion is overemphasized at the expense of distribution.

Distribution (or placement), the forgotten P

Distribution is everything involved in physically getting product in front of the customer. The visible parts of distribution are the ones made of concrete, steel, and rubber: the trucks, warehouses, walk-in coolers, stores, and kitchens. The less visible component is the set of relationships and structures that govern what products move where and how, and who decides.

Why distribution matters so much - Example #1

Imagine a successful campaign to promote organic produce in one region of the country. A combination of smart strategy, well-done point-of-sale materials, hard work and persistence raises peoples' awareness of the benefits of organic produce, and demand grows appreciably. Without a corresponding distribution effort, it is likely that the benefits of this campaign will accrue more to California and extra regional organic producers than to local organic producers. These distant organic producers are part of a broker/shipper network that supplies on a year-round basis at a relatively low cost. Small-scale independent organic farmers find it increasingly hard to break into these networks.

Why distribution matters so much - Example #2

Imagine a 1998 chain supermarket initiative to promote locally-grown fruits and vegetables. During the past three decades, most supermarket chains centralized the purchasing and handling of produce, virtually eliminating direct store service from farmers. Now, this new initiative is emphasizing freshness, good neighbor policy, and local farmers, whose photos appear at point-of-sale.

The easy part of this initiative is designing the slogan and point-of-sale materials-the promotion piece. More challenging is the management of quality control and inventory control to ensure that the freshest produce is made available to customers-the distribution component.

This chain has been serving 200 retail stores from a central location for three decades. The central chain buyer knows how much corn is needed at different times of year. The central chain receiver/quality control manager knows what to watch out for on loads coming from particular places. Kinks in these centralized systems have been ironed out wrinkle by wrinkle over the years. Sophisticated information

systems are in place to control things from headquarters.

Historically, retail store buyers (produce department managers) have been responsible for daily usage and need numbers which they report to the central facility they rely on for everything at all times. Now, in this new buy-local initiative, we transfer responsibility for quality control and inventory control over local produce to 200 retail managers who are still dependent on the central warehouse for non-local produce, and for back-up when local items are unavailable (which is often).

What happens when the central warehouse is overstocked on an important highly perishable item like corn while retail outlets are each buying directly? Experience suggests that the central warehouse has but one option, to force the over supply through its own retail outlets, creating back pressure against local buying. Either local buying will be slowed down or stopped, or else incoming local corn will sit around a few days before being merchandised.

What happens when extra-regional product is available for 25% below what local growers think is a fair price, this in a system in which pricing and sale items have been centrally planned for decades? Does each store choose their own selling price? No. Typically, price will be controlled centrally, contracted in advance with all participating growers over the winter/spring based on historical prices. The contract price will be lowered to slightly above the lowest available price.

In determining the price, will the chain account for the fact that the farmer is now bearing the cost of delivery? In other words, in the central purchasing/distribution model, the chain performed handling and storage which the local scheme eliminates.

Why distribution matters so much - Example #3

In the Boston area, some of the most exciting examples of direct marketing are between local farmers and chefs. No one appreciates freshness like a chef. And none seem able to capture the attention of local media like chefs can. The farmer-chef connection in greater Boston has led to new business for farmers (sometimes at above average prices) as well as increased interest in buying direct from farmers and trying new varieties such as heirloom tomatoes, Asian greens, heirloom and unusual winter squash, etc.

The caveat here is that when a local farmer delivers to a restaurant, the volume can be prohibitively small. Sometimes, the relationship is lucrative because of the appreciation exalted upon the grower. Sometime it's worthwhile because of above average prices. Sometimes a well orchestrated route works as a whole, even if each stop is small. Sometimes, the above factors obscure the reality that these deliveries lose money when all costs are considered (especially opportunity cost!)

The point is this: The farmer-chef connection is a great success at the level of promotion and supply for the best restaurants. However, deliveries must be economical if this model is to be spread to many more chefs and to other metropolitan areas. This is ultimately a distribution problem. There are few commercial options available for moving small quantities of fresh food, small distances in refrigerated trucks in and around a metropolitan area, other than doing it oneself.

If we don't solve this problem, the farmer-chef direct connection will have limited impact in terms of volume of local produce moved.

Access is step one, but it may not solve the problem

Institutional buyers often say: I'm already getting local stuff from my regular distributor. So, why do I need Red Tomato? I have a two-part answer:

- (1) It's fresher direct, in fact, it doesn't get any fresher. Corn through Red Tomato is picked just after sunrise and delivered within hours. The corn through your regular distributor is 2-4 days post-harvest.
- (2) Prices in the conventional system are heavily influenced by the world's largest producers, those with the lowest unit cost of production. When zucchini passes through a distributor the farmer may get \$6.-8. a half-bushel (20 pounds); in a direct relationship, the grower may receive \$10 or more. That extra \$2+ a case can be the difference between break even and profit.

Access to markets is a badly needed first step. For small-scale growers who choose to wholesale, it is probably not enough. Getting the right price may require a change in the structure of distribution, for example, cutting out one level of handling.

It's not promotion versus distribution

It's not one or the other. In the best marketing strategy, the four Ps are balanced and in sync.

Consider this: Why do Red Delicious apples from Washington state have the dominant share of the domestic apple market? A superficial look suggests it might be due to effective advertising or a large promotion budget. The right answer would necessitate an historical study of how Washington's Red Delicious apples rose to prominence over a period of twenty-five or more years, and it would probably show that repeated discount sales, quality control, controlled atmosphere storage, and effective, reliable year-round transportation and customer service account for getting the market share, whereas the ever visible advertising and

promotional dollars kick in later to ensure they keep that share.

Think about it a different way: To compete effectively against Washington state Red Delicious, what's a local apple cooperative or regional trade association to do?

I say, if sales or market share is the measure of success, then being there, that is, getting local apples in front of people, is more important than getting the message out. It may seem silly to try to choose one over the other. Of course, the best effort does both things well simultaneously.

But we don't have endless dollars. We don't even have lots of dollars. Many of us operate with close to no dollars. In our budget-tight reality, I caution against rushing to a promotion-driven strategy whose main purpose is getting the message out. The distribution side of the strategy is worthy of as much or more consideration, time, and dollars.