

Strategies to Revitalize Rural America

Strategy #3: Niche Markets

Family Farms and Ranches Can Benefit from Niche Markets

One of the most promising ways to increase family farm and ranch viability is to tap into high-value niche markets.

The farm and ranch share of profit in the food systems is falling. But there is an opportunity to turn that around. The “mass market” is breaking up in market segments – groups of consumers seeking unique products with specific attributes. Some are willing to pay premiums for those attributes. For example, the nationwide Hartman survey found that over half of consumers would pay a premium for food produced in a more healthful and environmentally sound manner.

That offers an opportunity for farmers to go beyond producing cheap, undifferentiated commodities to adding value and earning premiums by delivering unique products that are highly valued by different groups of consumers. That may be food that tastes better. Perhaps it is locally produced and fresher or is produced in a way that improves its flavor.

It may be food that is healthier or perceived as consistent with a healthier lifestyle – such as products raised without pesticide, hormones, and antibiotics. Or it could include products that are healthier because of what they have in them such as the beneficial fats in flax and grass fed beef.

There is also a growing group of consumers who will vote with their dollars for alternatives to industrial agriculture. For example, consumer surveys and panels find that about two-thirds of consumers say they would pay premiums for pork produced humanely, on environmentally responsible farms or on family farms.

There is opportunity for family farmers and ranchers in these markets, but it is important to keep some basic principles and strategies.

Markets with more Difficult Standards Offer Higher Premiums – Farmers will earn and sustain higher incomes by serving niche markets only to the extent it requires more from them – more management and more skilled labor than the conventional market. Premiums for organic crops and unconfined natural pork have generally remained higher because they require more intensive management and more skilled labor in the field and barn than conventional production.

In contrast, the premiums for specialty corns – high oil corn, etc. are much smaller because they require a little extra effort, but not enough to force buyers to pay larger premiums. The companies buying it can find enough farmers willing to produce it for only a small premium. Similarly, the premiums for natural beef will be less if they require only withholding hormone use than if they also require meeting standards for family farm, humane, and environmentally sound production.

Sometimes our first instinct in agriculture is to tell wary consumers that there is nothing wrong with the way food is produced in this country. But a more profitable approach might be to ask them how they want it produced and what they will pay to get it.

Look for Markets and Fight for Standards that Fit the Strengths of Family Farms and Ranches – The greatest strength of family farms and ranches is the presence in the field and barn of a motivated, experienced, and skilled worker-owner who watches and understands what is happening, exercises judgment, and make decisions.

Corporate farms take markets away from family farms when the labor requirements become sufficiently routine and unskilled to be done by low-wage laborers. Hog production used to be the small farmer's niche. It was only when confinement and antibiotics provided a controlled and more predictable environment for hog production that corporations could raise hogs effectively with wage labor.

Family farmers and ranchers will find their greatest opportunity in markets that are difficult for corporate agriculture to serve. It is critical to work for a standard for high-value markets that fits the strengths of family farms. For example, family farmers will gain the advantage if markets for organic and humanely raised natural milk and pork preclude conventional total confinement systems.

A big corporate farm gained a foothold for its pork in some natural markets by simply stating that its hogs had access to sunshine and fresh air. Confinement buildings with curtains for ventilation provide that. A clear, strong, and meaningful standard for “natural” pork would help family farmers capture that market and ensure more significant and more lasting premiums.

It would be especially helpful to have a clear and strong standard for family farm and ranch produced food – to make that term a meaningful product standard that gives small and mid-size farms an edge in the market.

Not all niche markets are a good fit for small and mid-size farms. There has been much talk about producing crops that are genetically engineered to produce pharmaceuticals. The primary management challenge in raising them appears to be instituting a regulatory regime to prevent pollen and seed from escaping into other fields.

Whether pharmaceutical crops offer opportunities to small and mid-size farms may depend on the nature of those requirements. In general, larger businesses are more adept at meeting regulatory requirements because they can spread the costs over many more units of production.

Banding Together to Market and Bargain – It is to the advantage of family farmers and ranchers to band together in cooperatives or other organizations to collectively market and bargain in niche markets.

Only together can small and mid-size producers guarantee food processors or retailers the

volume they need when they need it. Most food companies don't have systems to find and do business with many different producers who meet the standards for their niche market. By banding together as a single source that can offer the supplies and quality food companies need, family farmers and ranchers are more likely to get their business. And they are in a far stronger position to negotiate a good price.

Banding together may also enable family farmers and ranchers to influence the standards for premium markets. If a family farm cooperative offers natural livestock to a retail or food company and that livestock also meets family farm, humane, and environmental standards, that company is likely to use those claims in promoting the product. They give that company an edge in the market.

Once that product is established using those claims, it will be hard for a corporate farm that doesn't meet those standards to come in and take the market away.

There are still opportunities for farmers selling niche products individually in local markets, especially in highly populated areas where they can cost effectively sell to one person at a time. But when family farmers enter larger national and regional niche markets, collective marketing and bargaining pays.

Pitfalls to Avoid in Niche Marketing – There are also some pitfalls in niche marketing to avoid. Starting out with a big debt to build or buy processing facilities has been the undoing of many new cooperatives. Like commodity production, the processing business can be a high volume and low margin business. And it falls outside the knowledge and expertise of most farmers and ranchers.

In many cases, *the best way for farmers and ranchers to add value is by raising crops or livestock* in ways that make them worth more, while leaving processing to others who know that business well. If farmers and ranchers need to do the processing, it may be best for them to *find a small or mid-size processor that does custom work at a reasonable price.*

Resources at the Center

The Center is working with organizations and producers across the region to develop a multi-state regional cooperative to capture national natural meats markets for family farmers and ranchers. To learn more, contact Wyatt Fraas: wyattf@cfra.org, 402.254.6983.

We are also working with several Nebraska cooperatives developing high value niche markets. To learn more contact Mike Heavrin: mikeh@cfra.org, 402.846.5428, extension 15.

Finally, we're working for public policies that provide grants and assistance to family farmers and ranchers in developing new cooperatives and higher value niche markets. For information on the federal Value Added Agricultural Product Development Program contact Kim Leval: kimleval@qwest.net, 541.687.1490.

To learn about our efforts to restore the Nebraska value added program, contact Jon Bailey: jonb@cfra.org, 402.846.5428, extension 26.