

A Study of

Local Foods and the Value of Direct Marketing in Virginia

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INTRODUCTION

The entire agriculture industry has experienced tremendous pressures and changes resulting in significant vertical integration and horizontal concentration.

While large-scale producers benefit from the value added to products through efficient marketing and sales strategies, small-scale farmers have to sustain themselves by allocating a majority of their capital, time, and energy to production, which leaves few resources for marketing. As a result, farmers are typically the last to reap the financial rewards of their production efforts.

Over the past ten years, the demand for locally produced foods in the United States has soared. As a response, the availability and amount of local food products are unprecedented, and this demand for local foods and specific product characteristics has created new marketing opportunities for farmers, ranchers, and other producers.

The new opportunity for agricultural producers to reach the customers directly is critical for the viability of small-scale, local farms in today's competitive environment. Small agricultural producers can now supersede the established system and change their statuses as price takers by selling directly to consumers, retailers, and other outlets.

In this way, local farmers have an advantage over commercial farmers. Capitalizing on the rising trend toward local foods in conjunction with direct marketing can prove to be highly profitable for small farmers and allow them to directly make a profit.
There are various outlets that serve as entry points for the direct marketing of local foods. Farm stands, farmers markets, and community supported agriculture ventures (CSAs) are just a few examples of marketing strategies that have proven useful to small-scale producers. These types of markets provide excellent selling points for locally produced food items and reduce the capital investment necessary for small farmers to gain income.

Small agricultural producers can now supersede the established system and change their statuses as price takers by selling directly to consumers, retailers, and other outlets.

Because agriculture is Virginia's largest and oldest industry and is significantly diverse[1], there are a variety of opportunities for agricultural producers to capitalize on the local foods market and increase profitability and long term sustainability of their farm or ranch. Traditional crops, fisheries, livestock ranches, dairies, wineries, and cideries are all burgeoning industries in Virginia as a result of these significant new opportunities to directly access consumers.



[1] www.vdacs.virginia.gov/news/releases-a/060612agfacts.shtml

BACKGROUND



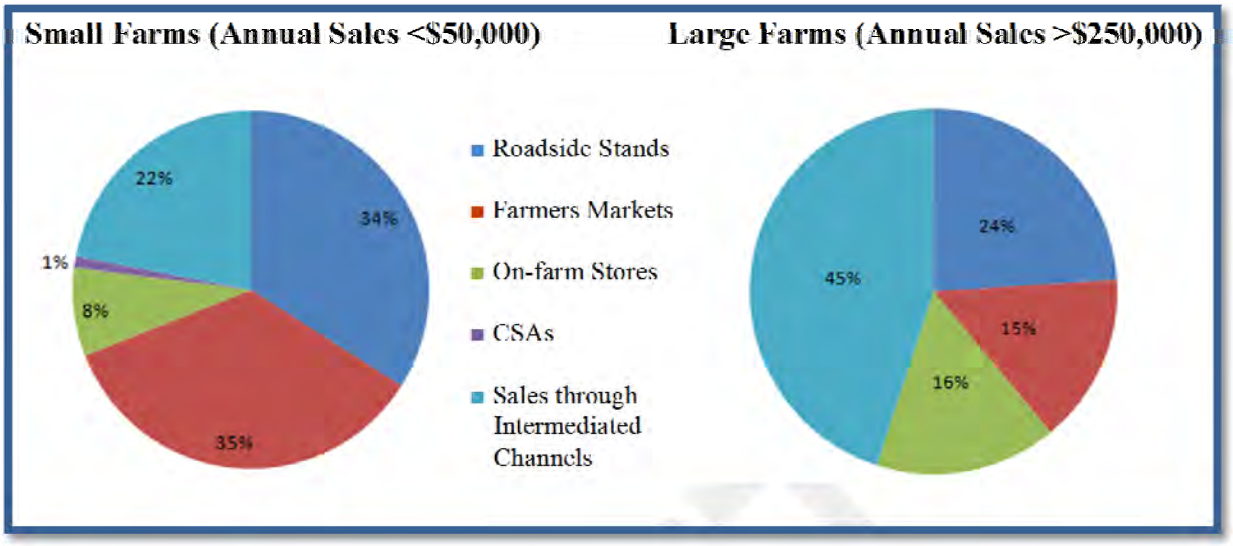
The growth of direct-to-consumer food marketing across all regions has far exceeded the growth of total agricultural sales. From 1997-2007, direct-to-consumer food marketing grew by 104.7 percent in the United States, while total agricultural sales increased by only 47.6 percent with vegetables, fruits, and nuts accounting for 70 percent of the total direct marketed sales.

As the demand for local food and specialty varieties has increased, producers have been able to differentiate themselves from large, wholesale growers who typically distribute their products across a wide geographic area. Capitalizing on this information, local food sellers have determined that consumers are willing to pay a premium for their foods and have begun to seek higher prices, while marketing directly to local consumers, restaurants, and specialty retailers.

The 2007 Census of Agriculture reports that nearly 137,000 farms sold products directly to consumers, totaling a little more than $1.2 billion. Direct sales represented about 0.5 percent of all sales in 2007, a 50-percent increase from 2002, with an additional 20,000 more farms each selling about $2,000 more per farm each year.

From 2002 to 2007, average annual direct sales per farm increased from $6,958 to $8,853. These statistics do not include sales to regional grocers, restaurants, or institutions that in turn sell to consumers (called intermediated sales).

Analysis by the United States Department of Agriculture (USDA) found that marketing of local foods via both direct-to-consumer and intermediated channels grossed $4.8 billion in 2008—about four times higher than estimates based on direct-to-consumer sales. Of this total, direct-to-consumer sales accounted for $0.9 billion, and intermediated sales (through local grocers, restaurants, and distributors) were $2.7 billion in local food sales with $1.2 billion being sold through channels marketing through both retailers and wholesalers.[2]



[2] Low and Vogel. 2011.

The direct sale of local products is not just a movement based on demand by individual consumers. Another important driver for increasing local foods demand is the "green" campus movement. The Center for Green Schools defines a green campus as "a higher education community that is improving energy efficiency, conserving resources and enhancing environmental quality by educating for sustainability and creating healthy living and learning environments." This concept drives universities to reduce energy consumption, reduce the environmental impact of campuses, and source products locally.



The Virginia Agricultural Industry

Agriculture has been the backbone of Virginia's economy for almost four centuries. It generates approximately $36 billion annually, utilizes about 34 percent of the land in the state, and accounts for about 12 percent of all state sales. About 18 percent of these sales are associated with red meat (cattle, calves, hogs, sheep and lambs).

More than 98 percent of Virginia's farms are family owned and operated, and because of the broad scope of the agriculture industry beyond just farm ventures, the Virginia Department of Conservation and Recreation states that about 20 out of every 100 jobs in Virginia are in agriculture or related downstream industries.[3]

Virginia's infrastructure possesses an extensive and efficient interstate highway system and numerous commercial airports, thereby providing the ability to bring to market high value and niche agricultural products. The efficiency of the system makes it possible to access the all-important consumer demographics that are upwardly mobile in terms of income, cultural and ethnic diversity, as well as education.

To a large degree, it is this demographic that has fueled the demand for locally produced goods, as well as the direct marketing channels that have gained momentum in the past decade. Mirroring this growth in demand, direct marketing channels have increased in both size and scope.

Virginia possesses unique resources that have complemented the demand for local foods with the ability to produce a broad range of agricultural products, from fresh fruits and vegetables to more processed products such as jellies, jams, and spirits.

Hand in hand with the diversity of food products, the types of venues and sales channels available to producers to service local demand has expanded as well. Virginia has a thriving local foods culture utilizing farmers markets, farms stands, food hubs, and other venues to forge lasting bonds between producers and consumers.

[3] www.dcr.virginia.gov/virginia_naturally/education-resource-guide/virginias-agricultural-resources.shtml

Many small-scale farmers can now have a successful, sustainable business on far less acreage than was ever thought possible years ago. By utilizing specialized growing techniques and equipment (high tunnels, for example), and by understanding customers and their needs, the small-scale farmer can grow produce to meet the local demand.

Taking advantage of the increases in technology and demand, " many smaller and mid-scale farmers have capitalized on growing consumer interest in food provenance to sell through direct-to-consumer food markets such as farmers markets, community supported agriculture (CSAs), and farm stands. According to the USDA National Agricultural Statistics Service (NASS), direct marketing of all types was worth $1.2 billion in 2007, having grown 105 percent in value from 1997 to 2007, compared to a 48 percent increase in total farm sales for the same period."[4]



According to a survey conducted by the International Food Information Council Foundation[5], consumers are broadening their consideration of food choices by taking into account production methods, food safety and health, as well as cost. Because customers now desire to know more about the origin of their food and the methods used to produce it, there is a need to establish a relationship with the producers. Customers want to develop personal relationships and more individualized customer service with local vendors and are placing increased importance on supporting local economies along with local and regional culinary traditions.

This need has spawned the creation of collaborative supply chains to market these differentiated products.[6] Many successful producers have responded by diversifying their marketing strategy. The increased demand for local foods is evident in the growth of direct marketing channels and in the number of farmers using those channels to move their products. A 2010 report by the USDA Economic Research Service (ERS) indicates that one of the main constraints to the entry and expansion of local foods is the "lack of distribution systems for moving local foods into mainstream markets."[7]

From farmers setting a basket of fresh vegetables on their driveway, to multimillion dollar cooperatively owned processed food factories, direct marketing ventures often begin on a limited individual basis, and grow to incorporate multiple producers with more and more complicated legal structures.

[4] Diamond, Adam and James Barham, "Moving Food Along the Value Chain: Innovations in Regional Food Distribution", U.S. Department of Agriculture Agricultural Marketing Service, October 2011

[5] *Food & Health Survey: Consumer Attitudes Toward Food Safety, Nutrition & Health*, 2011.

[6] Diamond and Barham, 2012

[7] Martinez et al., 2010

Number of Local Food Sales Outlets Used

Sales Channels	Small (<$50,000)	Medium ($50,000-$249,999)	Large (>$250,000)	Total
Local Food Sales Outlets Used	**121,198**	**15,202**	**5,301**	**160,795**
By Marketing Outlet (%):	**100%**	**100%**	**100%**	**100%**
Direct-to-Consumer Outlets	**78.0%**	**70.7%**	**55.5%**	**75.3%**
Roadside Stands	34.1%	24.9%	23.7%	31.8%
Farmers' Markets	34.6%	25.9%	14.7%	31.8%
On-Farm Stores	8.3%	17.4%	15.7%	10.4%
CSAs	1.1%	2.5%	1.4%	1.3%
Intermediated Outlets	**22.0%**	**29.3%**	**45.0%**	**24.7%**
Grocers and Restaurants	17.2%	26.0%	23.7%	19.2%
Regional Distributors	4.8%	3.4%	21.4%	5.5%

The venues utilized for direct marketing are as varied as the producers and the products they sell. In addition, the challenges producers face differ based on the constraints of labor and the availability of capital.

The preceding figure presents the number of sales outlets for different size farms from a 2008 survey of producers. Smaller-scale producers depend most on direct-to-consumer marketing channels, while larger farms on average rely more on wholesale marketing outlets. Farms using local foods outlets reported selling product through more than 160,000 outlets nationwide[8].

The USDA has provided a resource for finding the locations and types of support available by regions via their Know Your Farmer, Know Your Food "Compass." This interactive map interface provides searchable information regarding the locations of farmers markets, food hubs, green schools, as well as other significant information impacting local foods[9].



The site contains case studies of projects and communities working in local foods. Though not designed to cover specific obstacles faced by those considering each channel, but are intended to broadly categorize the issues and benefits of local food efforts.

[8] Low and Vogel. 2011.

[9] The Role of Local Food Systems in U.S. Farm Policy. Johnson et al. 4 April 2012. Congressional Research Service 7-5700. The Know Your Food Compass is available at www.usda.gov/maps/maps/kyfcompassmap.htm.

FARM STANDS



A farm stand is the most basic form of direct marketing, and they are as varied as the producers who operate them. A farm stand can be as simple as a farmer using the back of their truck to sell the last few end-of-seasons melons, to a regular sales venue with paid employees operating a large year-round roadside stand with a permanent structure.

When a farm stand is located on the farm property (an "on-farm market") consumers are connected with the producer even more strongly than roadside stands. Visitors to the on-farm market can see where the product is grown and are able to have an intimate experience with the producer. In many cases, customers are also able to tour the farm facility and view the process by which the farmer produced the product. Because of this reliance on the customer attending the stand, a main factor affecting the success of farm stands and on-farm markets is their location. Choosing high traffic or highly visible areas can often determine the success or failure of a farm stand.

People frequent farm stands to receive service and products that they cannot find at traditional supermarkets. Whether this service entails access to fresher products, or the opportunity to talk to a local grower about where their food is coming from and how it was produced.

From the operator's point of view, this interaction provides an opportunity to create a more educated consumer. Growers can educate consumers about foods they may not have tried before, as well as tips on determining freshness and preparation methods.

Because of the sometimes temporary nature of farm stands, there are few sources of reliable information regarding the actual numbers of farm stands typically operated in Virginia. More permanent farm stands can be found by utilizing local foods sites that provide listings of local foods venues including CSAs and Farmers Markets.

Farm Stands	
Pro	Con
Operator	
Local Delivery and Sale	Small Scale
Retail Prices (and Higher)	Time Intensive
Easy to Start, Can Be Done by an Individual	Limited Range
	Not All Locations are Suitable as a Venue
Consumer	
Availability of Fresh Produce	Not Sure if Actually Local (Fraud)
Support of Local Agriculture	Inconvenient
Interaction with Grower	Lack of Recourse (If Product Unsatisfactory)
Knowledge of Product Source	

CSA COMMUNITY SUPPORTED AGRICULTURE



CSA farmers produce foods directly for the local community. A farmer, either alone or in conjunction with other famers in the area will sell "shares" which entitle the purchaser to a specified quantity of the harvest.

In the spring, CSA members commit to a full-season price, which allows the farmers to diversify their production risks. Being less focused on risks, the farmers are able to allocate additional energy and resources to farming and maintenance of the land.

The CSA idea, also known as "subscription farming", originated during the 1960's in Japan and Switzerland as a method for consumers to ensure the sustainability of their local agricultural producers.

This idea of communities supporting their local agriculture producers has steadily gained momentum since their introduction in the U.S. in the 1980s. While the government does not track the number of CSAs, LocalHarvest.org, a website maintaining a national directory of local food sources, lists over 4,000 individual CSAs in their list.

"Although CSAs take many forms, all have at their center a shared commitment to building a more local and equitable agricultural system, one that allows growers to focus on land stewardship and still maintain productive and profitable small farms."[10]

A CSA can be as diverse as the community it is located in and the producers who participate. While it is typically based around fruit and vegetable production, CSAs often incorporate an array of farm based produce, from vegetables, fruits, eggs, and meat, to more processed items such as jellies, jams, or breads. LocalHarvest.org lists 169 CSAs in the state of Virginia as of January 2013, and fresh produce, meat, eggs, fruit, honey, dairy products, and other goods are all well represented by the CSAs available in the state.

CSAs	
Pro	Con
Operator	
Direct Support for Farm Production	Delivery (Time, Cost, Labor)
Paid in Advance for Product	Obligation to Provide Set Amount of Product
Ability to Focus on Farm Activities vs. Selling	Significant Organization and Planning Time
Consumer	
Fresh Sourced Food	Share of Risk
Direct Link to Farmer	Inconvenience
	Limited Choices

[10] National Agriculture Library: 1993 Community Supported Agriculture (CSA): An Annotated Bibliography and Resource Guide. www.nal.usda.gov/afsic/pubs/csa/at93-02.shtml

U-PICKS AND AGRI-TOURISM



A U-pick is a farmer selling products to consumers by allowing self-serve picking straight from the field. This direct marketing tactic permits consumers desiring to shorten the distance between themselves and their foods as much as possible. Allowing for a hands-on experience with food production cements the importance of the local food system in the community.

Customers interact with the farmer and have direct accesses to the growing location. While fruit often sells better at a u-pick facility, vegetables are also included with some, thus combining a u-pick with a CSA that allows customers to harvest their own produce.

While the price varies, growers tend to charge half the retail price, or charge slightly over the wholesale market price. A per person picker fee is also a common method for collecting payment. When successful, u-pick operations have the potential to become highly profitable for smaller parcels of land.

Linking additional on-farm experiences with something already being produced for sale on the farm is another successful strategy for increasing farm profitability. Some facilities feature play and picking areas for children, horseback riding, and picnic areas.

By featuring the farming activities themselves, some producers involve the community through classes and the experience of planting, harvesting, or touring farm facilities. Activities such as corn mazes, pick-your-own pumpkin patches, apple orchards, hayrides, Christmas tree farms, and stocked fishing ponds are all types of activities agricultural producers have used to attract traffic to their area.

As of January 2013, the Virginia Grown website lists 124 pick-your-own locations in the state, and a localharvest.org search for the state shows between 60-110 u-pick or pick-your-own locations. Because these types of operations are frequently conducted in conjunction with other farm activities, it is difficult to assess the size and number of u-pick and agri-tourism providers.

U-Pick and Agr-Tourism

Pro	Con
Operator	
Greater Public Awareness of Agriculture	Insurance Liability
Decreased Need for Harvesting Labor	Customer Damage to Production Areas
No Need to Travel to Customers	Personnel Who Can Deal with Public
Increased Traffic to the Farm	Increased Traffic to the Farm
Producer Controls the Story	Weather Dependency
Consumer	
First-hand Farm Experience	Labor Intensive
Known Source	Time Consuming
Freshness	Weather Dependence

FARMERS MARKETS

On a national scale, farmers markets have long served a function for smaller scale

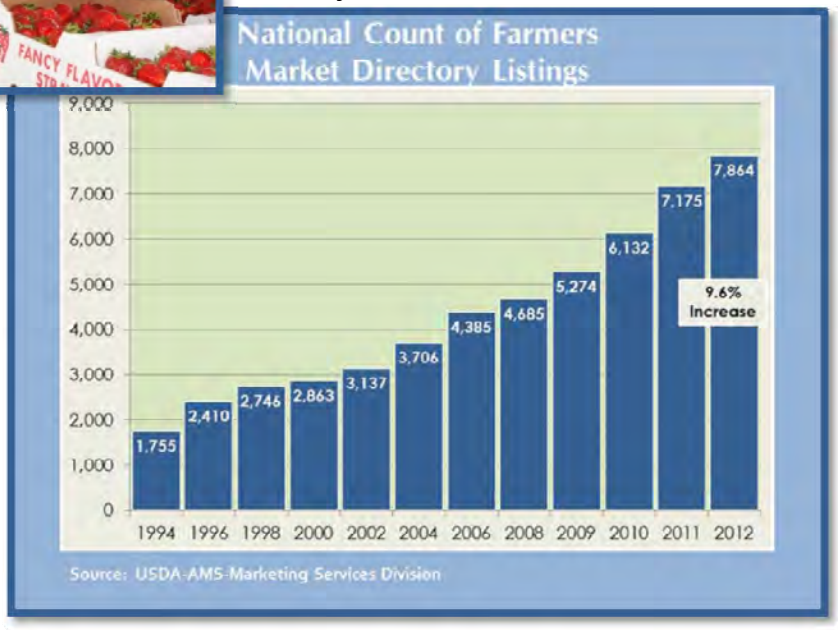


producers that do not produce enough quantities to operate more commercialized sales channels; though they are still a small portion of all sales, they provide a direct marketing channel for farm products and serve as an important sales outlet for producers.

With the increased interest in locally produced food, their popularity has increased dramatically. As of 2012[11], there were 7,864 farmers markets operating throughout the U.S., up from 7,175 the previous year for a one-year increase of nearly 10 percent and representing a 150 percent increase from 2,863 in 2000[12].

The market is a great way for farmers to educate their customers on healthy eating and the benefits of eating naturally grown products. Customers have the opportunity to talk directly with growers, which is a main reason they like to shop at farmers markets.

In addition to allowing customers to gain valuable information about their food, farmers markets also provide the opportunity for farmers to network with each other. Farmers join markets, meet each other, and exchange ideas, which can lead to partnerships on certain projects. With more farmers, more ideas are created that will increase the size and variety of the food market for the benefit of the farmers and the customers.



Many farmers markets serve a great variety of products, from fresh fruit and vegetables to baked goods and ready-to-eat foods. The farmers who provide a larger variety tend to be more successful. The sales of organic and local products are an especially important initial driver of sales at farmers markets. Markets with organic products tend to carry more meat, poultry, and dairy products than markets that do not, which implies that the

[11] www.ams.usda.gov/AMSv1.0/farmersmarkets
[12] "The Role of Food Hubs in Local Food Marketing"; USDA RD SR 73. Matson et al. January 2013.

farmers market can be an important location to access consumers looking for these organic products.



While designations such as “natural,” "hormone- or antibiotic-free,” “pesticide-free,” and “chemical-free” were other attribute claims used at about half of all markets surveyed, the use of the term “locally grown” as a marketing message has increasingly become more and more prevalent.

Farmers markets are also excellent locations for consumers to pick up pre-orders and can be an opportunity to meet local buyers for restaurants, food service institutions, and generate word-of-mouth marketing. They have also grown to provide local restaurants looking for a steady supply of locally grown produce for their menus.

As of 2012, the USDA Agricultural Marketing Service (AMS) currently lists 227 farmers markets in the state of Virginia.[13] Markets in Virginia range in size and scale from simple meeting places for farmers and local producers to sell their excess product direct to consumers, to large scale operations that provide a place for local grocery owners and restaurateurs to access fresh locally grown products for sale in their establishments.

Producer-only markets, often considered the top tier of farmers markets, require producers to be at the market. In some cases, unscrupulous vendors purchase cheaper, non-local food from a wholesaler and mark it up to a rate that undercuts local growers who grow on a smaller scale with more care for the process.

By requiring that the producer attend the market, shoppers can ask questions about production practices and quickly identify those who are trying to take shortcuts. Because of this stringent criterion, producer-only markets tend to have a larger and more loyal clientele. At most markets, family members or other farm partners can staff a table if the farmer wants to attend simultaneous markets.

Farmers Markets	
Pro	Con
Operator	
Access to Larger Customer Base	Labor Intensive
Direct Contact with Customers	Competition from Similar Vendors
Retail Pricing	Travel Away from the Farm
Consumer	
Variety of Local Goods	Possible Fraud
Fresh Food	Weather Dependent
Support of Local Agriculture	Price

[13] http://search.ams.usda.gov/farmersmarkets/#

FOOD HUBS



USDA's working definition of a food hub is "a business or organization that actively manages the aggregation, distribution and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand."[14]

Although the definition focuses on the physical movement of goods, USDA notes that a food hub can also be defined by market efficiency functions, in addition to more abstract goals of building a diversified food culture.

Food hubs represent a strategy for small- and medium-size agricultural producers to market their production. Food hubs create new marketing opportunities for rural food producers. They help connect rural producers as directly as possible to rural, suburban, and urban markets.

A food hub creates a system of linkages, developed through food hubs, that enables both rural producers and urban consumers to learn from each other.

Entry into local food markets can prove difficult for small farmers, with capacity constraints and the lack of distribution systems often being the largest hurdles to overcome.[15] Food hubs are part of a growing local food system that strengthens rural economies by lowering entry barriers and improving infrastructure to create, as well as expand, sustainable and regional food markets.

They can also create rural jobs. This rural on- and off-farm employment can expand opportunities and encourage skilled people, including youth, to remain in rural areas by providing opportunities to learn agricultural management skills and gain experience in a variety of agricultural fields.

Food Hub Functions

- **Market access for local producers;**
- **Information sharing;**
- **Transportation and distribution;**
- **Brokerage services;**
- **Product bundling and aggregation;**
- **Season extension;**
- **Maintaining producer-consumer connections; and Producer- oriented technical assistance.**



[14] Barham et al., 2012

[15] Martinez et al, 2010

While the other sales channels discussed in this document have referenced mostly physical venues, there is an emerging trend that provides the benefits of food hubs via an online format. Rather than centering on physical locations, these virtual food hubs provide an online purchasing portal that connects consumers with food hubs or cooperatives servicing an area through online purchase and physical distribution points.



With a virtual food hub, items are ordered via an online sales site from local producers that have joined the network. The open sales period typically takes place over the course of several days, after which the orders are assembled and transported to a predetermined meeting location and are available for pick-up.

Virginia currently has five listings for physical and virtual food hubs. These operations combined service 32 cities and regions by selling to individuals, and an additional 150 businesses, institutions, restaurants, and food banks.

Food Hubs

Pro	Con
Operator	
Sales Outlet for Medium Scale Farmer	Organizationally Complex
Wider Customer Market	Coordination Between Farmers and Hub
Less Time Than Other Direct Marketing Methods	Less Direct Contact Between Farmer and Consumer
Less Direct Contact Between Farmer and Consumer	Producer May Receive Less Than Retail Pricing
Consumer	
Convenience of Online Ordering	Less Connection with Farmer
Price	Price
Access to a Wide Range of Local Products	Lack of Choice with Some Food Hubs
Time Saving	Consistency of Quality

WHAT'S HAPPENING IN VIRGINIA- SELECTED PRODUCTS



The term "local foods" mainly carries the connotation of fresh produce, farm products, and minimally processed items. One feature of the trend's continued growth is an explosion in the variety of products being offered. In recent years, "local foods" has expanded to encompass niche products as well as traditional crops.

Virginia as a state has a significant diversity in agricultural production. Broiler production remains the top commodity at 25 percent of the total cash receipts, followed by Cattle/Calves and Milk at 14 and 12 percent respectively[16].

In order to promote the economic sustainability of local producers, Virginia introduced the Virginia's Finest Trademark Program in January of 1989. The program seeks to select high quality, Virginia-produced items in a variety of categories-- such as snacks, candy, nuts, cider, meats, and produce-- review the product quality and labeling, and then allow them to display a distinctive "Virginia's Finest" logo on their label or marketing materials to indicate that they have been selected as the "best of the best" of Virginia-produced products.

The Virginia Foundation for Agriculture, Innovation, and Rural Sustainability (VAFAIRS) is another program that assists farmers in developing and advancing agricultural, economic, and social interests. VAFAIRS helps clients focus on local foods opportunities by exploring and developing value-added products, making production

VIRGINIA'S TOP 20 FARM COMMODITIES

RANK	COMMODITY	CASH RECEIPTS ($)
1	Broilers	623,000,000
2	Cattle/Calves	373,000,000
3	Milk	332,000,000
4	Turkeys	285,000,000
5	Nursery/Greenhouse/Sod/Turfgrass	262,000,000
6	Soybeans	164,000,000
7	Corn, Grain	94,000,000
8	Tobacco (Unprocessed Leaf)	78,000,000
9	Eggs	77,000,000
10	Hay	72,000,000
11	Hogs	63,000,000
12	Aquaculture	53,000,000
13	Tomatoes (Fresh Market)	52,000,000
14	Cotton (Lint and Seed)	51,000,000
15	Wheat (Winter)	40,000,000
16	Apples	33,000,000
17	Potatoes (Summer)	12,000,000
18	Grapes	11,000,000
19	Barley	10,000,000
20	Peanuts	7,000,000

[16] www.vdacs.virginia.gov/agfacts/top20shtml

and marketing strategies more financially rewarding, addressing challenges and issues of individual farmers as well as the whole rural industry of Virginia, and consolidating and offering Virginian resources and expertise to farmers.

The great variety in products offered has also meant an expansion of the types of customers that are seeking out local foods. In addition to individual consumers, institutions such as schools are initiating farm to school programs, more closely linking school lunch programs with local producers; hospitals are tapping into local agriculture to supply food for patients; and nutrition initiatives are taking a community approach to dealing with food desserts.

The great variety in products offered has also meant an expansion of the types of customers that are seeking out local foods.



The sale of fresh local foods is subject to ever increasing government regulation. As recently as January 2013, two new regulations have been released by the Food and Drug Administration stemming from the Food Safety and Modernization Act of 2011.

In general, the regulatory aspects of the local foods movement in Virginia are similar to federal regulations with some minor exceptions. For example, traceability requirements and the sale of selected items such as raw milk, which is prohibited in Virginia, are two specific examples of products or processes whose state regulations differ from federal.

The state agency responsible for the oversight of a particular food product is dependent on the type of product that is being produced and sold. In Virginia, both the state Department of Health and federal agencies can be involved depending on applicable law, the level of processing, or the type of service. In general, the more an agricultural product is processed, the more regulation the good is subject to.

Additionally, depending on the size, scale, and items being produced, there often may be a need for written documentation of procedures and policies. If applicable, Hazard Analysis and Critical Control Point (HACCP) plans, Good Manufacturing Practices (GMP), and even Food Defense plans may need to be addressed by producers.

PRODUCTS AVAILIBLE AT DIRECT MARKETING LOCATIONS



Because the variety of products that can be sold through direct marketing channels is vast, the following section presents only specific categories of products that make up the majority of local sales. In many cases, there are no specific data sets showing sales figure trends, or dealing with particular product categories. As a result, some categories are dealt with in a general way, and smaller segments have been combined for ease in presentation.

The 2006 national Farmers Market Manager Survey[17] presents numerous categories that are typically present at farmers markets as an example of the most popular food items sold through direct marketing; however, the variety of venues means that these categories are rarely all-encompassing.

Foods requiring little or no processing for sale, such as fruits, vegetables, herbs, and flowers top the list on the national survey of products sold by farmers markets, with fresh fruits and vegetables being carried by nearly all farmers markets; other more perishable items, such as fish and seafood, are less common, but still available.

Items that have a particular connection to Virginia production are presented below, along with popular categories as expressed in the national survey table above.

PERCENTAGE OF U.S FARMERS MARKETS SELLING PRODUCTS

Product	Percentage of Markets Carrying Product	Percentage of Vendors Selling the Product
Fresh Fruit and Vegetables	92%	45%
Herbs and Flowers	81%	15%
Honey, Nuts and Preserves	78%	9%
Baked Goods	73%	9%
Meat or Poultry	45%	3%
Prepared Foods	38%	4%
Processed Foods	28%	2%
Dairy	27%	2%
Fish or Seafood	16%	1%

[17] National Farmers Market Manager Survey 2006, USDA AMS.

FRESH FRUITS AND VEGETABLES



Fruits and vegetables constitute the largest segment of goods sold through direct marketing channels, with the 2006 national Farmers Market Manager Survey estimating that fruits and vegetables are sold by 92 percent of farmers markets.

The fruit and vegetable industry can be classified into two categories: product destined for fresh market sale, and those intended to be used for further processing, such as canning, freezing, and dehydrating. The USDA's Economic Research Service (ERS) estimates that approximately half of all production of fresh fruits and vegetables is ultimately destined for further processing.

According to the USDA National Agricultural Statistics Service (NASS), the value of the 2011 vegetable crop was up by about one percent over the previous year to approximately $11.1 billion. The ERS estimates that the industry accounts for 13 percent of all crop receipts and 6 percent of all farm cash receipts.[18] The total value of production of citrus and non-citrus according to the USDA Economic Research Service's Fruit and Tree Nut Yearbook was just over $15 billion for 2010.

Though not all destined for direct-to-consumer sales, according to the USDA NASS[19], Virginia harvested approximately 16,200 acres of Vegetable Area in 2011 representing just over $61 million in value.

The Virginia Department of Agriculture and Consumer Services (VDACS) reports the top 20 commodities by value of cash receipts, with number 13, tomatoes, at $52 million; number 16, apples, at $33 million; number 17, potatoes, at $12 million; and number 18, grapes, at $11 million. While not all these are sold through direct-to-consumer sales channels, these four are the only fruits or vegetables included in the list.

Fresh market sales are dependent on climate and seasonality, which causes varied production because of differences from season to season. The recent drought conditions experienced by the American Midwest have had significant impact on the availability and pricing of products within the fresh fruit and vegetable category.

Dealing with perishable goods presents challenges. It is estimated that as much as 20 percent of all produce is thrown away. Consequently, markup percentages are generally higher to account for these losses. Mass merchandisers such as Wal-Mart and Target have found ways to reduce sales prices by purchasing produce in large quantities from suppliers, and grocery store chains have implemented their own sales strategies to increase produce sales. These stores use product differentiation as well as a lower cost of labor and improved customer service to boost sales of fruits and vegetables.[20] These tactics increase competitiveness between retailers, making it more difficult for small farmers and direct markets to increase profitability and market share.

[18] www.ers.usda.gov/topics/crops/fruit-tree-nuts.aspx. Overview of Fruit and Tree Nuts.

[19] Vegetables 2011 Summary (January 2012); USDA, National Agricultural Statistics Service.

[20] USDA Economic Research Service. U.S. Fresh Produce Markets: Marketing Channels, Trade Practices, and Retail Pricing/AER-825.2000.

HERBS AND FLOWERS



Sales of herbs and cut flowers are typically seen as items to supplement sales or heighten visibility at a farm market or farm stand. Because of the low volumes, limited shelf life, labor intense production, and extreme seasonality of locally produced herbs and flowers, products are not typically able to solely sustain a venture.

Because most local markets will not provide enough demand for the volume produced on even a 10 acre parcel, the industry as a whole is tending toward smaller acreage for cut flower production, typically 0.5-2 acres. Some consumers have noticed that plants sourced from a locality may not face the adjustment necessary for plants brought in from varied climates or other regions.

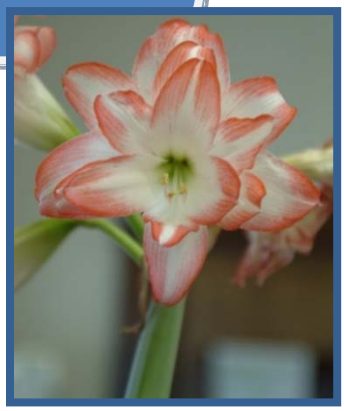
Though not necessarily a local food, bedding crops are also an important part of local sales. A diverse range of plants, including annuals, perennials, flowering plants, ground cover, herbs, as well as some small fruits fit into this category. They can contribute significantly to the profitability of a venture, particularly in the spring rush.

There is limited information regarding the economics of growing and selling cut flowers at a local level, with floriculture industry sources providing the closest approximations of costs and sales practices. However, these typically focus on wholesale and retail florists which provide an extensive array of services beyond the scope of most farm stand operations.

According to the USDA Census of Horticulture Specialties, while not in the top 15 states producing cut flowers with only 0.3 percent of total U.S. cut flowers, Virginia had total sales of cut flowers in 2009 totaling just over $1.2 million. About 5 percent of sales take place via wholesale channels, and the remaining 95 percent through retail. While not all retail channels are direct to consumer operations, these contrast with large producer states such as California, whose retail sales as a percent of total cut flower sales for 2009 were only 2.8 percent.

Flower Sales Peak Days

- **New Year's Day (1st January)**
- **St. Valentine's Day (14th February)**
- **Mothers' Day (third Sunday before Easter)**
- **Christmas Day (25th December)**



In Virginia, numerous opportunities exist for the sale of direct sales of cut flowers and herbs, with extensive outlets for local products such as farmers markets. Growers have also found success with "cut-your-own" operations utilizing greenhouse cultivation of herbs and flowers coupled with the u-pick strategy. More permanent-style local markets often add additional sales in the form of bedding crops, cut flowers, or herbs in an effort to increase their product diversity and create a more retail-like atmosphere.

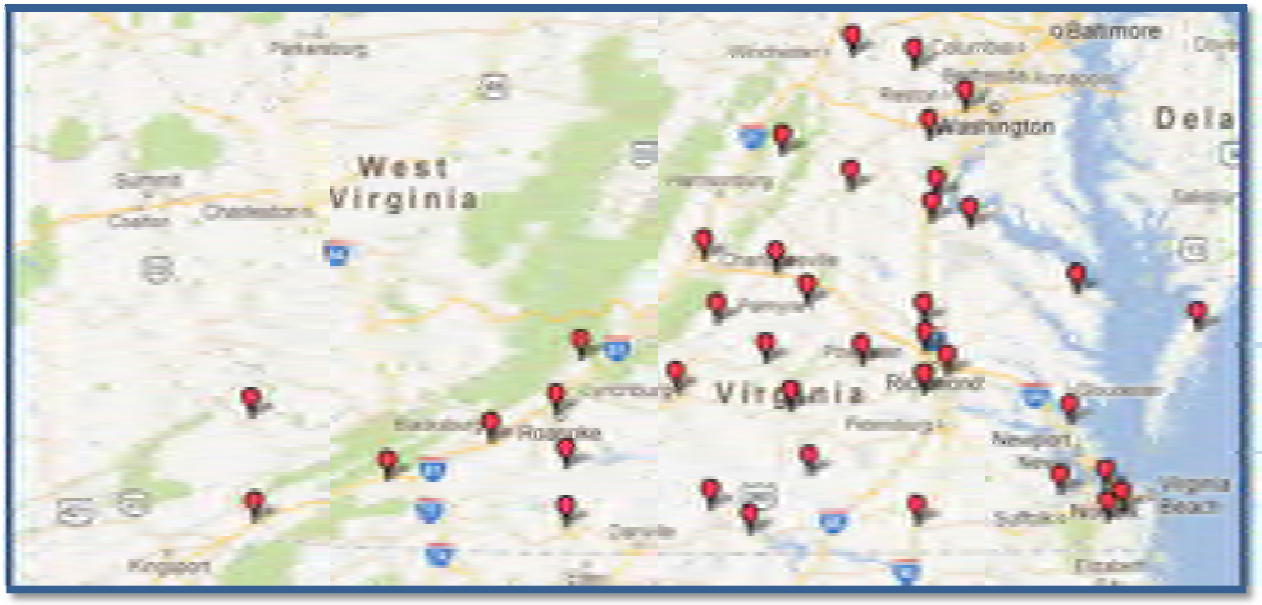
HONEY AND NUTS



While not relatively large industries for Virginia compared to other states, honey and peanut production are nonetheless affected by increased demand for local and all-natural foods. Some producers have attempted to access higher price markets to offset costs by directly targeting local markets as a way to maintain production and sustainability.

According to the USDA NASS March, 2012 Honey Report, the production value of honey in Virginia was just under 0.3 percent of the national total of $256.5 million, and is home to nearly 5,000 commercial bee colonies. The website for the Virginia State Beekeepers Association lists approximately 40 registered beekeeping clubs in the state.

REGISTERED BEEKEEEPING CLUBS IN VIRGINIA



U.S. tree nut production increased significantly over the past three decades, from 306.4 million pounds (shelled basis) in 1970 to an average of $400 million per year since 2005. California is the Nation's number one producer of tree nuts. California orchards produce almost 90 percent of U.S. tree nuts annually, including virtually all almonds, pistachios, and walnuts.[21]

Most peanut production is grown as a commodity crop to produce oil or feed; however, a larger percentage of Virginia's production is for consumption as a whole nut. The USDA NASS 2011 State Agriculture Overview for Virginia places the value of production dollars for "Peanuts for Nuts" at just over $19 million. While not a significant producer of tree nuts, according to 2012 USDA figures, Virginia is the 7th largest producer by weight and the 9th largest by acres.



[21] www.ers.usda.gov/topics/crops/fruit-tree-nuts/background.aspx

MEAT POULTRY AND FISH



The National Restaurant Association's Chef Survey: What's Hot in 2012 reports that locally sourced meats and seafood is the number one trend for main dishes.[22] Combined with changing tastes, consumers are ready for choices in the type of meat and meat products they buy and will pay more for superior, distinct products.

In recent years, it has proved feasible for small "boutique" farming and processing facilities to fill requirements of niche markets for artisan local meats. In order to be profitable, these smaller operations have had to work to create high value meat products and utilize highly qualified and experienced staff to operate the business as it grows.

Consumers are ready for choices in the meat products they buy and will pay more for superior distinct products.

There are many opportunities for local meat producers to market directly to consumers. It is estimated that 45 percent of farmers markets carry meat and poultry products.[23] Markets exist not only for local or traditionally raised meat items but also for organic, "natural," free range, grass-fed, and cultivated fish and seafood products. There is also an ever-increasing demand for specialty meat products from specific ethnic populations.

A main driver of locally raised meat products has been the demand for organic foods. The 2007 Census of Agriculture carried out by the USDA states that in the United States there are more than 20,000 organic farms and over $1.7 billion in sales of organic goods. United States organic livestock and poultry production accounted for approximately $3 billion in sales in 2008. There were 3,353 farms producing organic poultry and livestock.

Virginia is one of the ten states that fall under the jurisdiction of the Talmadge-Aiken Act, also known as the Federal-State Inspection Act. Signed into law in September of 1962, the act allows state inspectors to also conduct federal inspections at facilities located in rural areas. The purpose of this act is to provide federal inspection services in remote locations while also reducing the travel costs of assigning federal employees to these rural plants. Products that pass inspection by state employees under the Talamadge-Aiken Act are granted federal marks of inspections.

One major selling point for locally produced meats is that they are a locally produced food, raised by family farmers. The American consumer has compassion for farmers, especially local ones. The locally produced family-farmer connection is a valuable marketing tool. Most consumers support small and medium-sized beef producers, who add to their rural communities, not detract from them.

Further processed meats offer another avenue of potential profit. Undervalued or difficult-to sell meat items from beef for example, are often further processed in the form of grinding into a variety of fresh and frozen products such as ground patties and sausages, and can also include cooking for the selling of precooked roasts.

[22] National Restaurant Association. What's hot in 2012 Survey. 2012.
[23] National Farmers Market Manager Survey 2006, Debra Tropp, et al., USDA, AMS.

Beef



The beef industry is one segment of meat producers in the United States that has been expanding into the arena of alternative or specialty meat products. Organic and pasture finished (grass fed) beef products are becoming increasingly popular among American consumers.

In recent years there has been a resurgence of interest in pasture finishing among North American graziers. The monthly periodical *The Stockman Grass Farmer* is a forum for these new pioneers. Its editor, Allan Nation, proposes that producers of beef cattle begin to think of themselves as grass farmers, with pasture as their main crop. The term "grass farming" reflects the fact that high quality pasture is the prerequisite for healthy animals and healthy profits.

The Virginia Grown website provides 149 listings for farms and farmers markets with local beef for sale.

Most of the terms used in conjunction with locally produced meats are intended to highlight some difference between the locally raised meat and commercially raised products. Designations such as “organic,” “natural,” “locally raised,” “family-farm,” “humanely produced,” or “pasture-finished” (or grass-fed or grass-finished) highlight production practices. Other descriptors provide information on the product itself, such as “lean,” “antibiotic-free,” and “heritage breeds” (breeds originally used before commercial selective breeding took place, often believed to have greater flavor, tenderness, or other desirable characteristics).

Numerous laws and regulations govern the proper labeling of meat, and specific guidelines are provided that must be followed in order to use designations such as “organic” or “free range.” For example, before a beef product can be labeled with terms that denote uniqueness or superiority of some kind, the producer must file an “Animal Raising Claim” with the Labeling Review Branch of the USDA. This involves submitting a label application and a prepared (manufactured) label that includes the claim in question. In addition, an Operational Protocol (OP) that describes in detail the production practices employed, affidavits and testimonials, feed formulations, and any applicable certificates must also be submitted with the application.

The Virginia beef industry encompasses more than half a million head raised on about 26,000 farms across the state.[24] The Virginia Grown website provides 149 listings including farms raising local beef for sale as well as markets where local beef is available.



[24] VirginiaTech College of Agriculture and Life Sciences. www.apsc.vt.edu/extension/beef/

Poultry



Over the past three years, the overall national market for poultry has grown. According to the U.S.A. Poultry and Egg Export Council, exports of U.S. Poultry set new records for the January - March quarter of 2012. For the first quarter, broiler meat exports were valued at $796 million, which is a gain of 31 percent from 2011.[25]

Virginia, the ninth largest broiler producing state in the nation,[26] is currently home to at least six major poultry processing companies: Cargill Turkey Products, George's Foods, Pilgrim's Pride Corp., Perdue Farms, Tyson Foods, and Virginia Poultry Growers Cooperative Inc.

Customers' increased interest in the quality and origins of their foods has also lead poultry producers to enter into the specialty meat market. Similar to other meat ventures, there has been a movement towards specially raised poultry products such as "organic", "natural," "free-range," and "heritage breeds" among others.

In addition to meat products, the table egg industry has changed dramatically in response to the local foods movement. Most grocery stores and farmers markets carry eggs labeled as "Organic," "free-range," or "all-natural" in addition to the traditional commodity type eggs offered for sale.

Similar to other retail ventures, local and specialty meat producers must create brand recognition and loyalty among consumers in order to stand out in the market place. So, the challenge for producers is to create a marketing "story" and brand identification that resonates with targeted consumers and to find novel ways to market "difficult-to-sell" cuts in order to decrease costs.

Virginia Grown's website lists 104 venues for accessing locally raised poultry products. These venues vary from farmers markets offering local meat items, to farms selling chickens direct to the consumer.



[25] www.breakbulk.com/refrigerated-bagged-goods/poultry-exports-set-all-time-high-records-05-14

[26] Virginia Farm Bureau: Poultry Virginia Ag Facts (2010) http://vafarmbureau.org/Portals/Fed/documents/fact_cards/poultry_single.pdf

Non-Traditional, Ethnic, and Other Meat Products

With the rise of globalization, new opportunities for profit have presented themselves for meat producers. In addition to traditional cuts of meat, exports of trimmings and offal not traditionally consumed in the U.S. have allowed producers to capture additional revunue streams through exports or marketing to specific ethnic groups. Within the poultry industry especially, items that typically incur a cost for disposal are being further processed for exportation and sale to other cultures.

Offal is an industry term referring to the internal organs of a butchered animal. Offal is typically considered a waste product in the meat processing industry. Most often meat processors will pay to have offal removed from the processing facility's premises by a rendering plant, where it will then be used for the manufacture of other products such as pet foods, compost, and cured hides. Some processors are able to bypass the rendering plants and establishing direct contact with businesses willing to purchase the offal for use in their products, thus reducing the disposal cost of offal material.

Chicken paws, also long considered a waste product of poultry processing, are now being exported in significant numbers, primarily to regions in Asia. In 2012, China and Hong Kong were the leading importers of United States chicken paws, importing 17 percent and 81 percent respectively.[27]

While exports quantities have varied over the last two years, primarily due to trade disputes and Chinese antidumping tariffs imposed on U.S. exports of chicken paws, popular demand has continued. Exports of United States chicken paws have increased since 2010 and throughout 2012. Total exports from January through July 6 of 2012 were equal to 213,218 tons, a 6 percent increase over 2011 and a 27 percent increase over 2010. The total value of United States chicken paw exports was greater than $220 million during the first six months of 2012.[28]

There also exists a market for chicken giblets (poultry heart, liver, and gizzard). While some consider these as waste products, giblets are usually packaged inside the body cavity of a broiler chicken to be consumed or used as a seasoning in certain dishes as well as sold separately for consumption. There is also a large market for the use of giblets as ingredients in high end pet foods. One such Virginia based pet food manufacturer sells 1.5 pound bags of organic pet food for over $6.00 per pound.

In addition to the mainstream meat categories mentioned above, the variety of geographic regions and attempts of local producers to cater to specialized consumer tastes and desire for variety has led to the greater number of less traditional meat products.

Bison, goat, and other more exotic meats are all experiencing increased attention due to the local foods trend. The Eastern Bison Association lists eight bison farm members in Virginia; Virginia Grown lists seven goat farms growing goats for meat products, and also contains listings for emu/ostrich and rabbit.

[27] USDA International Egg and Poultry - 18 September 2012 www.themeatsite.com/reports/?country=US&id=960

[28] US chicken paw, feet exports up through July 2012 - 24 Sept 2012 www.wattagnet.com/US_chicken_paw,_feet_exports_up_through_July_2012.html

Fish and Seafood



According to the Food and Agriculture Organization (FAO) of the United Nations, aquaculture is the fastest growing food production sector and about half of all food fish consumed today is produced via aquaculture. Twenty percent of marine species consumed are produced via aquaculture, though about 60 percent of the marine aquaculture production worldwide occurs in China.

Demand for wild, marine finfish is increasing faster than the wild stocks can support without catastrophic negative impacts on the health of wild fisheries. This pressure has resulted in many species of popular and valuable food fish only being available in limited amounts or during short fishing seasons which are not sufficient to satisfy demand. "Fish farming" has become very successful in recent years.

Much of the fish we buy today is raised in a fish farm, rather than caught from our rivers and oceans.

Much of the fish we buy today is raised in a fish farm, rather than caught from our rivers and oceans. The FAO predicts that aquaculture production will soon overtake wild production of fish. Total aquaculture production in the U.S. in 2008 was 551 thousand tons with a value in 2007 of $1.42 billion (U.S. Census of Agriculture). Aquaculture production in the U.S. continues to grow. According to National Oceanic and Atmospheric Administration (NOAA), the U.S .imports about 84 percent of all fish consumed annually. The FAO reports the U.S. is the second largest importer of fish but only the 13th largest producer.

As evidenced by the fact that aquaculture is the 12th largest commodity by cash receipts in Virginia, the state is ideally suited to pond or cage raised aquaculture given its climate, topography and presence of existing farm ponds and greenhouses. Many species of fish have been identified as being suitable for production in existing farm ponds amenable to aquaculture. Local niche and live markets exists for these fish species and related products. Some of the species raised in Virginia include channel catfish, rainbow trout, hybrid striped bass, tilapia, and freshwater prawns.

Much of Virginia is part of the Chesapeake Bay Estuary, which is the largest estuary system in the United States. There is a great deal of agricultural land in the Commonwealth located adjacent to sea water and extremely suitable for the use of a land-based re-circulating aquaculture system. The use of land-based re-circulating aquaculture systems has the potential to avoid the negative marine ecosystem impacts which consumers have often associated with the production of marine species in pens or cage, but faces a more expensive cost of production.

DAIRY GOODS



Increasingly people across the U.S. are willing to pay a higher price for a plethora of fresh dairy products made in small batches on small farms and in small creameries. "These artisanal operations are turning cow, goat or sheep milk into simple, straightforward foods like crème fraîche, butter, buttermilk, ice cream, puddings, custards, yogurt, yogurt-based sauces, and yogurt drinks. Many of these dairies also sell non-homogenized, and in a few cases even unpasteurized, milk with an old-fashioned farmhouse flavor."[29]



Even though there are large companies that produce dairy products, local artisan farmstead products are able to compete on the basis of local product, quality, taste, and brand attributes. Local creameries are able to create a distinctive line of value-added dairy products because locally produced dairy that has been minimally processed is often perceived as being "more natural" or having superior flavor compared to conventional grocery store products. Any differentiation similar to this can be used to bring consumers back again and again.

The artisan food movement has spread to further-processed dairy products such as cheese and butter too. Crafted by hand fifty years ago, cheeses and butter have largely become mass-produced in recent decades. Now, these products are also seeing revived interest along with the increased demand for flavorful, hand-crafted food. A Bon Appetit magazine, article from September 2011, states that flavor is a key sales driver and that artisan butter is positively related to a healthier diet; "If you eat butter that has tons of flavor, you really don't need to eat a lot".[30]

The Virginia Grown website, lists dairy as Virginia's third largest agricultural commodity with 82 listings offering cheese products. The Income Report issued in the Virginia Annual Statistical Bulletin shows that milk represents over $265 million in value of milk produced.

A growing trend in Virginia, especially among producers already managing herds for milk production, is the desire to add value to their milk in order to reap the higher than commodity prices available for locally produced cheeses, yogurts, and butter. Producers who were formerly tied to fluctuating milk prices have found stability in producing these more shelf stable items.

Local creameries typically sell their product at their own farm store and farmers markets, as well as to specialty food shops, retailers, restaurants, and schools. Farmers markets have proven to be an ideal way to introduce items to many consumers at once.

The main advantage of direct marketing for dairy operations is that selling through such channels generally allows the creamery to realize higher prices. Another benefit, word-of-mouth advertising, can result in repeat sales at other venues, such a local restaurant, featuring the locally produced items.

[29] www.nytimes.com/2008/02/20/dining/20dairy.html?pagewanted=all

[30] www.nwitimes.com/niche/shore/food-and-drink/article_cbe98d48-6c0a-5a48-871e-7334a2a6d427. html

PREPARED AND PROCESSED FOODS

Baked Goods

While increasing along with interest in other locally produced foods, baked goods are another category with limited ability to support stand alone ventures and also experience significant seasonality depending on the type of goods that are sold. The category includes sweet goods and desserts, as well as more traditional baked goods such as whole loaf breads and rolls.



Bread and baked goods, along with the produce traditionally associated with local foods is an increasingly popular food category, with an estimated 73 percent of farmers markets selling some type of baked goods. These goods often take the form of fresh baked, or "day" bread offered for sale, as well as desserts such as pies, cakes, and sweet rolls.

Within the category of baked goods, there is debate regarding what constitutes a local product. Some claim the designation based on the fact that the products have been made by a local baker, whether or not the product includes any locally sourced ingredients. Other products focus on the source of each ingredient used to make the product, though they may be made in commercial style facilities.
There is limited information regarding baked goods, specifically in regards to the amount of sales by small-scale independent producers and sellers. Because of the varied types of baked goods that are offered for sale locally and the lack of statistical information available regarding specific states, the best idea of the availability of such products in Virginia is based on the Virginia Grown website, which has 101 listings for markets or producers of baked goods, shown in the pie chart on the right.

As an approximation, the numbers for bakery department sales provide information regarding trends in the retail baked goods industry. Basic sales trends for small-scale grocer bakeries along with averages performance are presented below.

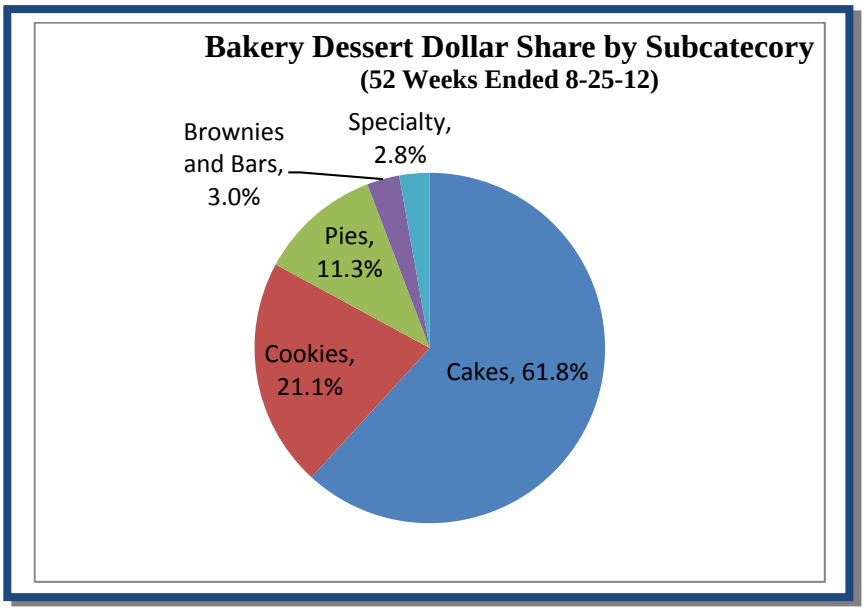
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RETAIL BAKERY STATISTICS

	2010	2009
Gross Margin	46.8%	47.9%
% of sales from Self-service Bakery	73.2	74.8
Avg. Size of Bakery Dept. (Sq. Ft.)	1,335	1,320
Bakery Dept. Labor as % of Sales	29.8	29.4
Bakery Dept. Shrink as a % of Sales	7.4%	7.6%
Bakery SKU's	271	252
EMPLOYEES PER STORE:		
Full-time	4	3.6
Part-time	3.6	3.4
Full-time Equivalent	5.8	5.6
CHANGE IN BAKERY DEPARTMENT PROFITS:		
Profits Are Up	45.2%	60.0%
Profits Are Down	33.2	13.3
Unchanged	21.6	26.7

Source: Progressive Grocer Market Research, 2011

cording to the Nielson Perishables Group, a leading global provider of information and analytics, dessert sales for the 52 week period ending August 25, 2012 were responsible for nearly 50 percent of bakery dollar sales, a slight increase from the previous year. The top selling item within baked goods were cakes, with a significant majority of product sales by category.



Growth in the baked goods industry in recent years has largely been fueled by the "mini" movement. Customers who look to satisfy cravings while also controlling portion-size have caused the production of the mini cupcake and mini brownie. With an increase of flavors and types of mini cupcakes, this product line alone has increased average dollar sales by 16.6 percent.[31]

foods makes the production and sales of fresh and other value added forms of fruits and vegetables more marketable than ever

Canned Fruits and Vegetables

In 2010, the U.S. fruit and vegetable canning industry shipped $22.3 billion worth of product. This industry includes companies which canned, pickled or brined fruit and vegetables and produced items such as fruit and vegetable juice, pickles, relishes, pickled vegetables and jams, jellies and fruit butters, as well as tomato based sauces like catsup, salsa, spaghetti sauce, and tomato paste. In 2010 alone, jam, jelly and preserve shipments represented $954 million dollars.

An increase in health consciousness combined with the increased interest in local

before. Demand has increased as consumers focus on issues like sustainability, environmental impacts, flavor, and healthiness.

These types of preserved items often capture portions of the local food market by working with fresh, locally produced fruits and

[31] http://modern-baking.com/bakery_management/mini-products-produce-sales-growth-0612

vegetables, using minimal processing techniques, no preservatives, and focusing on superior flavor and taste.



Frequently, consumers with discretionary disposable income prefer to purchase natural products that are sourced close to home, and want the product they are buying to live up to their memories of flavors they recall from childhood. Small batches, heirloom recipes, and a lack of chemical preservatives are all major selling points for these products that taste "just like grandma used to make."

These types of further processed, more shelf-stable items are often offered in conjunction with pick your own or small scale growing operations. After seeing how the berries and vegetables are grown, taking some jam, jelly, or salsa home is a natural choice for many visitors, and the canned and preserved products offer farmers the ability to spread sales throughout the year and be less dependent on the seasonality inherent in agricultural operations.

Wholesale markets have also taken notice of the local foods trends, and the preserved nature of these types of products mean that wholesale channels such as gourmet food stores, local foods stores, or gift shops are proving to be significant outlets for locally produced items.

Like jams and jellies, canned vegetable products and salsas have also benefited from the focus on healthy, all natural, preservative-free, unique flavor, quality and authentic recipe products. Individuals will often buy local products over more well known brand names because of fresher ingredients and overall better taste that has been achieved without preservatives. This local foods "brand loyalty" significantly contributes to the profitability and long term economic sustainability of these types of products.

Producers in Virginia have found success marketing within venues such as craft shows and fairs, where locally produced foods are a natural complement to the hand-made artisan emphasis of the arts and crafts circuit, and others have coupled the sales of jellies and jams with u-pick operations. The u-pick creates local awareness, and the shelf stable nature of jellies and jams allows a natural extension of sales beyond the growing season, while providing an outlet for product not necessarily cosmetically suitable for fresh market sale.

Consumers want products that live up to the memories of flavors they recall from childhood.

ALCOHOLIC BEVERAGES



The United States has a profitable and growing market for alcoholic beverages. The USDA ERS reports total sales of alcoholic beverages at over $162 billion in total expenditures for 2011, a 6.5 percent increase from 2010.32 The industry employs thousands of workers from farm hands growing apples and grapes to production workers and delivery drivers serving the industries distribution needs.

The Virginia alcoholic beverage industry is part of this ever increasing sector of the United States economy. Preliminary figures reported in the Virginia Department of Alcoholic Beverage Control (VDABC) 2012 Annual Report show approximately $734 million in gross sales, an increase of almost $41 million from the previous year.

The alcohol industry is highly regulated. In administrative terms, the Alcohol and Tobacco Tax and Trade Bureau (TTB) works at the federal level to regulate alcoholic beverages and the VDABC works at the state and local level.

Virginia is currently one of 18 states with some form of state monopoly that functions at the wholesale and/or retail level. While beer and wine may be sold in stores with the proper licensure, all liquor in Virginia is sold in ABC stores, with prices for spirits set by an array of mark-ups, taxes, and fees.

The significant amount of tax and regulatory paperwork that must be completed and permits that must be obtained before a distillery, winery, or cidery can even begin production could take up to two years to complete. The extensive regulation of the alcohol industry also limits the availability of direct marketing channels a local producer can utilize.

Despite these obstacles, Virginia is home to a variety of small-scale producers capitalizing on direct marketing of locally produced alcohol. Liquor (distilled spirits), wine, beer, and the emerging hard cider category are several of the major types of alcoholic beverages produced in the state and marketed to some degree as local foods.

The most common way for a small-scale alcohol producer to direct market is through on-site tasting rooms. In general, a tasting room is the final stop at the end of a tour of a winery or distillery. This provides a way for customers to taste the product they have seen being produced, as well as a way to interact with and connection to the people who make it – an important selling point for local food producers.



[32] USDA ERS Food and Alcoholic Beverages: Total Expenditures-Table 1

Spirits



Within the alcoholic drinks sector (beer, wine, and spirits), the spirits' share of the market was approximately 33 percent in value terms and 31 percent in volume as of 2010. There was a positive tendency to the growth in market share of the spirits market between the period 2000 and 2010, which indicates a consumer preference for higher end spirits, smaller volumes, and higher quality.

According to the Distilled Spirits Council of the U.S. (DISCUS), the total economic activity attributed to the U.S. economy by the distilled spirits industry in 2009 was $117 billion, or around 30 percent of total economic activity from all alcoholic beverages. The American Distilling Institute states that their membership has more than tripled since 2003, from 69 to the present 240 members.

The U.S. distilled spirits market is fragmented in several product categories: whiskey, vodka, rum, tequila, gin, brandy and cognac, cordials and cocktails, and sub divisions (value, premium, high end premium, super premium).

On the local level, Virginia is one of two states in the United States that allows farm distilleries. To qualify as a farm distillery, at least 51 percent of the ingredients must be grown on the owners land and at least 75 percent of the ingredients used in making the product must be Virginia grown. Distillers must obtain state and federal permits as well as approval from the TTB of the U.S. Department of the Treasury. Once the proper legal permits have been obtained, the distillers will be able to begin producing spirits and selling their own products to Virginia ABC liquor stores.

Micro-distilleries, similar to micro-breweries in size and intent, are becoming more common in the state of Virginia. These business models allow smaller producers to enter into the spirits market by capitalizing on the overall local food trend without large-scale investment in equipment and labor.

There are some considerations that affect the spirits industry, and in particular, smaller scale producers such as farm based and micro-distilleries. The process of distilling and producing hard liquor has the potential to be extremely time consuming as well as capital and labor intensive. The cost of the raw input crop, particularly where corn is involved, is another expense that must be considered when opening a distillery, especially with the drought conditions experienced by the American Midwest.



Wine



Wine is a very labor-intensive agri-industrial activity, providing jobs for U.S. rural workers, professionals, and suppliers of goods and services. Wine production creates a long food production chain in terms of people, value, and the business life cycle.

Global competition has made the industry very competitive and even more difficult for smaller wineries to survive. However, the highly fragmented nature of the market creates an opportunity for smaller wineries to focus on delivering a higher-value wine to consumers according to their specific tastes.

In an effort to provide Virginia wineries an alternative to using independent wine wholesalers, the Commonwealth of Virginia, in association with the Virginia Department of Agriculture and Consumer Services (VDACS), commenced operation of the Virginia Winery Distribution Company (VWDC) in 2008. Any Virginia winery that chooses to participate may distribute up to 3,000 cases of their wine per year through the VWDC. In 2008 more than 70 percent of Virginia wineries had signed up to use VWDC, demonstrating a good response from the wineries to the initiative, according to a VDACS press release.

In addition to an existing market for locally produced wine, many wineries have also found success offering agri-tourism, including events and site rentals, as an additional source of revenue. Other non-wine items are often offered for sale, which attracts additional winery visitors. An economic impact study conducted regarding Virginia wine and related industries[33] found that the number of tourists increased from 1 million in 2005 to approximately 1.6 million in 2010.

Estimates of the total potential size of these markets are difficult to make. The proliferation of wineries in the state would lead one to believe that there are profitable markets for wine products. The sale of Virginia-produced wine has increased steadily, from 361,784 cases in 2008 to 452,414 in 2011, an average growth of 25 percent according to figures gathered by the Virginia Wine Marketing Board. According



to the Economic Impact Study completed in 2010, the number of bonded wineries within the state has increased by nearly 50% over the period from 2005 to 2010, and the wine and grape industry in Virginia contributed an estimated $747 million to the economy of the state in 2010.

[33] "The Economic Impact of Wine and Wine Grapes on the State of Virginia-2010". Frank, Rimerman + Co. LLP, on behalf of the Virginia Wine Board.

As reported in the Virginia Wine Board's Economic Impact Study of 2010, more than 95% of the Virginia wine produced in 2010 came from small wineries, producing less than 10,000 cases of wine annually. Boutique operations offer increased flexibility in adjusting bottling times and quantities. Utilizing a flexible bottling system allows volumes to be managed more easily once the sales increase to a certain base and more human resources and technology are available in slower marketing periods.

Data released by the United States Department of Commerce (USDC) indicate that there are 14,000-16,000 grape vineyards in the country and more than 90 percent of those are in plots smaller than 100 acres. This is very important in social terms for the country since vineyards are a family style of farming that also requires a highly intensive labor source.

Virginia wines are gaining national and international recognition for their elegant qualities. Virginia's terroir – those special characteristics of the land that affect wine – helps vintners create wines stylistically between those of California and Europe which go particularly well with food. Within Virginia, there are seven recognized wine regions. The oldest of which is the Monticello region, and the most recent being the Middleburg added in October of 2012.



The current and predicted future of the green trend in consumer preference to "buy local" will be an important factor in expanding the customer base for Virginia wines. The American consumer has compassion for farmers, particularly local ones. The locally produced family-farmer connection is a valuable marketing tool. Regional consumers will support small and medium-sized wineries whose efforts sustain the rural community and reduce the carbon-footprint of coastally and internationally shipped wines.

Virginian Viticulture Areas	Acreage	Effective date
Virginia's Eastern Shore	436,480	2/01/1991
Rocky Knob	9,000	2/27/1987
Monticello	800,000	2/22/1984
North Fork of Roanoke	N/A	2/27/1987
Northern Neck	590,080	5/21/1987
Shenandoah Valley (VA, WV)	2,400,000	2/27/1987
Middleburg Virginia	121,600	10/15/2012

Hard Cider

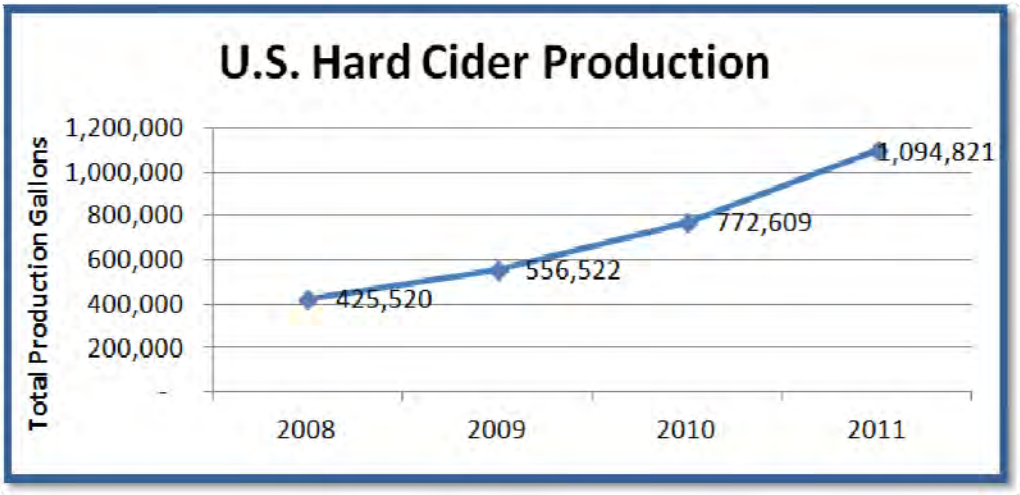
Hard or alcoholic Cider has been a part of American history since colonial times. Before clean water was plentiful, families would drink a lightly fermented cider product as a substitute. Apples were abundant, and cider was less likely to cause illness than unknown water sources.

With the rise in popularity of beer and increased access to clean water, the popularity of hard cider waned. After Prohibition, cider drinking never returned to pre-Prohibition levels and largely faded away; however, mirroring the craft and artisan movements in other categories of the alcohol industry, the popularity of small scale, locally produced hard cider is again on the rise.

In Virginia, higher price premiums of wine-styled cider products have formed the bulk of hard cider ventures, possibly because lower price point, high-volume beer style production requires economies of scale that may be beyond the reach of a family cidery.

Consumers are interested in higher quality ciders with unique regional flavors, so small scale cideries can focus on filling such markets with artisan cider. Similar to wineries, cideries use direct on-site distribution approaches such as tasting rooms to gain an awareness of consumers' tastes through direct contact, while capitalizing on visitor's propensity to buy non-alcohol goods at the same time, thus increasing per-visit income.

While gathering reliable statistics on the sale and production of hard cider in the U.S. is difficult, comparisons of the year-to-year production statistics provided by the TTB prove that production is on the rise.
Source: Alcohol and Tobacco Tax and Trade Bureau



The growing hard cider industry has provided an additional market for local apple growers, and cideries located within Virginia have the advantage of a significant history of apple growing to draw from as a source for a ready supply of apples.

The need for both commercial and heirloom apple varieties in hard cider production has resulted in additional revenue channels becoming available to local apple growers; farmers of less commercial apple varieties have found it increasingly profitable to capitalize on their niche varieties.

While the proliferation of new cideries nationally as well as within the state of Virginia means that a profitable market for cider products exists, comparisons to mature cider markets in other countries such as the United Kingdom indicate that the U.S. market also has ample room for expansion in the future.

CONCLUSION

The increased popularity of locally grown food items has greatly benefited small farmers who lack access to the extensive distribution channels available to large wholesale growers. With the growing trend in local food consumption, local growers now have the ability to charge a premium for their produce, which many customers consider to be superior in quality and taste as compared to the supermarket varieties. This premium allows for increased profitability over what these farmers would have received from intermediary distributers.

Virginia is well poised to capitalize on direct marketing and the local foods movement.

Coupled with the expansion of the local foods movement, direct marketing has proven to be one of the most profitable and cost effective marketing venues for these small farmers. On farm direct marketing, such as farm markets and u-pick operations, grant farmers the freedom to oversee their selling operation while avoiding transportation costs and vendor fees that may be charged at off site locations. These are also other options for those producers who choose not to invest in the buildings and equipment necessary to set up an on farm selling point, which include involvement in CSAs or food hubs.



Direct marketing aids in communicating the value of local foods. Interactions with local food producers and access to farms build confidence in the consumer as to the safety and quality of the food they are purchasing. The reduced costs of direct marketing benefit the small farmers who lack the capital resources to compete with large scale wholesalers. Many of these farmers prefer the self reliance that comes with direct marketing, as well as the strong relationships that are established with consumers.

Virginia is well poised to capitalize on direct marketing and the local foods movement. Many regions within the state are supportive of these trends; several of the major population centers of the state have developed significant support networks for the movement as a whole. The strength of the agricultural industry in the state provides a diversity of producers and products to supply this increasing local food demand that should continue to grow and expand into the foreseeable future.

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