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Direct Marketing of Agri-Food in Atlantic Canada: Situation and Outlook

Prepared by
Kelco Consulting Ltd.

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Executive Summary

Over the last decade, farmers in the Atlantic region have faced a number of challenges from an increasingly globalized food system and issues arising from changes in world trade. Farmers have responded to these challenges in a number of ways. Some have adopted cost-saving technologies and attempted to increase farm productivity and efficiency, while others have chosen strategies that bring their products closer to the consumer by adopting direct marketing and value-adding practices.

This study is designed to provide information on the extent of development of direct marketing in Atlantic Canada, its impact on the agricultural sector and rural economy, opportunities for growth, and actionable projects that will help support that growth. The specific objectives of this study are:

- 1) To develop a better understanding of the direct-marketing industry in Atlantic Canada, examining strengths, weaknesses, opportunities and threats/constraints;
- 2) To develop a series of case studies/profiles that highlight best practices, focusing on business development skills and marketing; and
- 3) To define actionable projects that government, industry and direct marketers can cooperatively develop and implement to further the effectiveness of the direct-marketing sector.

The study methodology included reviewing literature on direct marketing and completing in-depth industry consultation through a survey of direct marketers and industry stakeholder interviews. Information necessary to complete an Input-Output Model impact assessment was gathered in the survey. Case studies of five direct-marketing businesses that exhibit characteristics that have made them viable farm operations were completed. A SWOT analysis reviewed the general strengths, weaknesses, opportunities and threats of direct marketing and identified specific issues for individual provinces. For the purposes of this study, direct marketing included sales direct to the consumer, sales through a small specialty retail outlet (farmer or non-farmer owned), and indirect sales through a restaurant or institution.

The economic impact analysis estimated direct market sales of agri-food products in the Atlantic Region of \$91 million. The economic impact of the estimated \$91 million is conservatively estimated as follows:

- 2,177 person years of direct and spin-off employment within Atlantic Canada.
- \$23.3 million in direct and spin-off wages and salaries (household income) within Atlantic Canada.
- \$67.7 million in Atlantic Canadian GDP (at market prices).

- \$4.1 million in Atlantic Canadian direct and spin-off provincial tax revenue.
- \$6.1 million in Atlantic Canadian direct and spin-off federal tax revenue.

The information gathered in the study process resulted in recommendations for industry and government, with actionable projects, in six areas:

- 1) **Expand definition of modern agriculture (Section 8.1):** Agriculture has changed from an industry that produces only food to one that encompasses food, non-food items (e.g. plant nurseries, landscape materials), agritourism, and, as part of the sales activity, entertainment. Programs and policies do not reflect these changes in a comprehensive and coherent manner. While some changes have been made to programs to recognize the evolving agricultural sector, these changes have not been made as a result of a comprehensive review of the new agricultural reality. The study recommendation is:

Policies must recognize that modern agriculture includes farmers and activities that may not fit into the definition of agriculture as a production-oriented business. Policies need to be developed that encourage all levels of government to support the future development of agricultural direct-marketing opportunities in Atlantic Canada.

Actionable projects identified were to form industry-government bodies, including municipal authorities, to examine programs and policies and their relation to direct-marketing businesses; establishment of an office or officer in each provincial department of agriculture to assist direct marketers to work through the regulatory regime associated with establishment of retail venues; and a review of existing programs to ensure that they apply to all sectors of the agricultural industry.

- 2) **Strategic partnerships and alliances (Section 8.2):** Cooperation between all direct-marketing value chain stakeholders was identified as an important requirement to develop opportunities. Innovative approaches to partnerships and cooperation need to be identified and developed to reflect the features of the direct-marketing sector. The traditional approach of forming relationships along commodity lines will not work for the direct-marketing sector because of the range of production and marketing systems used by direct marketers. The study recommendation is:

Strategic partnerships need to be explored, created and encouraged to develop at all levels of government and industry to facilitate the development of new direct-farm sales opportunities for producers of agricultural products.

Actionable projects identified were the creation of a permanent direct-marketing committee consisting of representatives of each provincial government to coordinate among government departments and across the region; establishment of an industry-government working group to define the requirements of the major groupings in the

sector (e.g.: Farmers' Markets, U-picks, roadside farm markets); and the creation of organizations to represent the interests of the various groupings based on input from the industry-government working group and direct marketers in general.

- 3) **Marketing (Section 8.3):** Successful direct marketing is based on producing a high-quality product and marketing that product to the consumer. Generic “buy local” campaigns were identified by farmers and industry stakeholders as having a positive impact on sales by direct marketers. Barriers to successful marketing were identified and the recommendations address these issues. The study recommendations are:

- *Create a regional entity to cooperatively market and promote buying Atlantic-Canadian produced agricultural products to the consumer.*
- *Develop uniform symbols and signage for the region to promote direct-farm marketing and the various sectors of direct-farm marketing.*
- *Develop central websites to promote direct-farm marketing in the region linking consumers and local farm products.*
- *Encourage the development of directories and maps to help the consumer find direct-farm market sales outlets, sites and markets.*
- *Create an annual award that recognizes excellence in farm direct-marketing in Atlantic Canada.*
- *Encourage and support the development of Community Supported Agriculture (CSA) and buying group programs for direct sales.*

Actionable projects expanded on the points above and discussed methods for meeting the recommendations, such as reviewing signage regulations and ensuring that direct-market venues are well advertised, establishing programs to assist with the cost of signage and promotional materials, and instituting programs to develop e-commerce opportunities.

- 4) **Education (Section 8.4):** Direct-marketing education programs should be designed to address issues specific to direct marketing and needs to take a variety of forms to address the constraints of a diverse sector (e.g. small farms, life-style farmers). The study recommendation is:

Facilitate educational programs, conferences and forums to develop direct-farm sales skills and direct-sales farm business management skills. These programs should be designed so that they can be made available to direct-farm marketers in all regions of Atlantic Canada.

Educational programs identified included customer relationship building, food quality and safety, preparation of case studies to provide examples of successful direct marketing, cost of production and product pricing, value-adding, and farm diversification. A variety of delivery options is necessary to reflect the diversity of

sector participants. Delivery should be through workshops, conferences, web-based courses and other self-directed methods.

- 5) **Infrastructure (Section 8.5):** Infrastructure, whether on -farm or in the community, enhances the sale of farm-produced products. Direct sales infrastructure includes signage, point-of-sale displays, Farmers' Market structures, distribution systems, cooperative marketing networks, trained staff, and communication systems. The study recommendation is:

Ensure that existing programs are available to all direct marketers and, where gaps exist, create new programs to support the development of infrastructure to support direct-farm sales.

Much of the required infrastructure is for human resource development, marketing-related investments, and to address transportation and distribution challenges. Actionable projects identified were designed to provide funds to direct marketers and direct-marketing groups (using existing or new programs) to train staff, establish permanent structures for Farmers' Markets (both new and adaptations of existing facilities), identify storage requirements and innovative ways for direct marketers to store and distribute products, and support investment in processing and value-added activities.

- 6) **Regulations (Section 8.6):** While regulations were identified by survey respondents and interviewees as a major barrier to sector development, a close review of individual responses identified only a few areas of concern. Much of the concern appears to result from frustration over the lack of information and assistance to address regulatory requirements. However, some regulations, at all levels of government, appear to be barriers to growth of direct marketing of agri-foods and services. These regulations relate to interprovincial trade, food processing, and municipal planning requirements. Some of these issues have been dealt with in Sections 8.1 and 8.2 as policy issues requiring industry consultation; however, the issue of barriers to interprovincial trade was the most frequently mentioned regulatory barrier. The study recommendation is:

Harmonize regulations that affect agricultural products, further processed and value-added agri-food products between the provinces in Atlantic Canada. The sectors that would benefit most are meat, specialty products and wine.

Actionable programs identified were to conduct a survey of provincial regulations that impact the ability of direct marketers to expand production both within and outside their respective provinces, and to establish an Atlantic-wide industry-government committee to review the results of the survey and make recommendations for changes.

While six action areas are identified above, the first two are the most immediate. Those areas reflect policy, communications along the direct-marketing value chain, and sector organization and information and, to a certain extent, are a necessary condition for successful development of the other four recommendations.

Direct marketing of agri-food products is not a solution to all of the challenges faced by the agricultural industry. However, it is currently a significant component of the Atlantic-Canadian agricultural industry and has substantial potential for expansion based on farmers making rational business decisions to take the necessary steps to move closer to the consumer. Based on information from stakeholders, direct marketing also appears to be a preferred avenue for new entrants to agriculture. This feature is important to the long-term viability of the agricultural industry in Atlantic Canada and should be supported.