



Confronting the Issues

Creating Local Demand for Niche Markets PFB Policy Development June 2021

Issue

In recent years, farmers have been searching for ways to increase local demand for niche agricultural products. Niche markets are a subset of a market that has its own unique characteristics or differentiated preferences. In agriculture, this can include specialty crops, organic products, goods that comply with dietary restrictions or foods that are unique to certain cultures and groups. Many niche markets have the potential to bring in a substantial profit, however sellers must be aware of consumer preferences and adapt to suit their needs.

Questions

1. How can farmers build local demand for niche markets? How would the addition of community supported agriculture (CSAs) and farmer's markets be useful for increasing demand?
2. What changes are needed to government programs that provide support to niche and specialty agricultural products? Are there other public policy options needed to help support this growing sector of agriculture?
3. What could be added to the current policy to better support niche markets and specialty crops?

Background

Niche markets offer specialty and unique goods to consumers. Within niche markets, producers need to analyze the wants and needs of the consumer and produce a product to meet consumer demand within their target market. Local demand can be increased by considering the market capacity, selling to a variety of consumers, better local food education, and unique marketing techniques.

Much like any other market, there is always a cost to enter, the market capacity is something that needs to be examined and taken into consideration. For example, there may be regional differences in how much a consumer is willing to spend on a product. In 2019, urban households spent seven percent more on food as their rural counterparts. These same households also spent 28 percent more on food away from home.¹ Adjusting these prices to have the maximum profit while still maintaining consumer demand is imperative.

Selling agricultural goods to restaurants is another place to market niche goods. A 2020 National Restaurant Association survey revealed that 76 percent of adults were more likely to visit a restaurant if it served food that was produced locally.² With restaurants composing over 70 percent of the food away from home sector of the economy, local producers are finding that restaurants are a great, steady market for niche products.³ Selling niche products to restaurants, provides a much more stable source of income, as the sales are steadier.

Better education surrounding the product is a way to create local demand for unique or niche markets. This requires the farmer to educate the consumer on their product, including the best uses, health benefits and where it is grown and sold. Poor knowledge about the products can lead to a lack of consumer demand. For example, consumers may be willing to pay a premium if they know that the eggs they are buying were gathered from a farmer just a few miles from the market. Community supported agriculture (CSAs) and farmers' markets allow locals to connect with the farmer and learn where their food is coming from, and consumers are often willing to pay a premium for local, fresh products.

Marketing for agricultural commodities sold through traditional means is very different than marketing for niche markets, as advertising for niche markets also requires exposing the local population to the farm product. Direct marketing, where farmers market and sell their agricultural products directly to the consumer without the utilization of an intermediary, helps to improve sales and profit margins for niche markets. Between 2002 and 2007, there was a sales increase of over 32 percent for farms with direct marketing of agricultural products.⁴

¹ See: https://www.bls.gov/opub/btn/volume-2/expenditures-of-urban-and-rural-households-in-2011.htm#_edn1

² See: <https://restaurant.org/2020-soi-release>

³ See: Reynolds-Allie, Kenaha and Fields, Deacue. March 2012. "A Comparative Analysis of Alabama Restaurants: Local vs Non-local Food Purchase"

⁴ See: https://www.ers.usda.gov/webdocs/publications/42805/51173_ap068.pdf?v=3262.3

On the marketing side, the Local Food Promotion Program (LFPP) provides grant money to projects that help businesses and restaurants increase access to locally grown produce.⁵ The Microloan program run by the Farm Service Agency is also very beneficial to niche market farmers. They offer flexible loans to small farming operations, niche or non-traditional farms and local producers.⁶ The Specialty Crop Block Grant Program (SCBGP) funds projects that enhance the competitiveness of specialty crops but is only offered to state departments of agriculture.⁷ Pennsylvania's Specialty Crop Block Grant Program was created to provide funding to crops not currently eligible under the federal program.⁸

Farm Bureau Policy

PFB, Farmers Markets and Restaurants, page 33

We recommend:

1. Guidelines be established by representatives of the PA Farm Bureau, the PA Retail Farm Market Association, and the Penn State Ag Engineering department before implementation of any significant change in Department of Agriculture regulation, inspection, or certification of farm markets, rides and amusements. ('15)
2. The wording on the vouchers for Farmers Market Nutrition Program to be changed from "to be used to purchase produce eligible under Pennsylvania's FMNP program" to "to be used to purchase Pennsylvania grown produce only." ('15)
3. Restaurants and stores be required to name their source of "locally" produced products, which shall be defined as no greater than 150 air miles. ('19)

AFBF, 162 / Retail Agriculture, page 38

1. We support:

- 1.1. Programs that promote the marketing and purchase of agricultural goods produced or manufactured in the United States of America;
- 1.4. Farm wineries, farm breweries, farm cideries and farm distilleries being allowed to use social media;

AFBF, 208 / Specialty Crops, page 49

1. Specialty crops are an integral part of U.S. agriculture.

2. We support:

- 2.1. The inclusion of a specialty crops title in future farm bills;
- 2.2. Additional research into harvest and cultural practices;
- 2.3. Expand disease and pest research programs and improved pest exclusion programs;
- 2.4. Funding to promote market expansion of U.S.-produced specialty crops;

AFBF, 224 / Marketing Philosophy, page 53

2. We support:

- 2.2. The principle of keeping farm-to-consumer channels open;
- 2.7. Providing value-added marketing opportunities for farm producers and encouraging the use of U.S. farm products;

5. We will:

- 5.7. Aid farmers in forming small local producing groups that could aid farmers in capturing specialty production premiums;

AFBF, 338 / Direct Marketing, page 116

1. We support:

- 1.1. The USDA definition of Direct Marketing Farmers: Farmer-producers that sell their own agricultural products directly to the general public, which includes fruits and vegetables, meat, fish, poultry, dairy products, animal fiber and grains;

⁵ See: <https://www.ams.usda.gov/services/grants/lfpp>

⁶ See: <https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/microloans/index>

⁷ See: <https://www.ams.usda.gov/services/grants/scbgrp>

⁸ See: <https://www.agriculture.pa.gov/Pages/Specialty-Crop-Block-Grant-Program.aspx>