

Marketing a Food Product:

Marketing Considerations for a Small-Scale Food Processor

Do you make the best barbeque sauce this side of the Mississippi River? Do your friends and family rave about your famous salad dressing? Does your grandma's secret bread recipe put all other breads to shame? Maybe you are thinking of starting your own small-scale food processing business.

The most critical issue to figure out is how you will market your new products. Marketing is the key to the success of any business. To get started, develop a written marketing plan with strict timelines and then follow it. A marketing plan will help identify the market and potential demand for the product. Demand for the product determines the quantity of the product consumers will buy, at a given price, from the marketplace. Marketing can be summed up as the 4 P's: product, place, price and promotion. The following discussion will consider each of the 4 P's of marketing.

Product

The first step is to check the local Health Department regulations about regulations related to processed food. If the product is a meat item, also check with United States Department of Agriculture (U.S.D.A.). What are you going to sell? What form will the product take after processing? Will the product be cooked, dried, frozen, solid or liquid? The answer to these questions will help determine the type of packaging needed. What about the recipe? Many new food products are born in a home kitchen, based on a recipe that produces small quantities.

Two problems must be addressed. The first problem is most home kitchens are

not designed to meet health regulations required of a commercial food processor. Second, recipes may need to be converted to larger volumes to be more cost effective for commercial purposes. Doubling or tripling a recipe does not always result in the same product. Recipes should be increased by weight and percentage of total ingredients, which may alter the original recipe. Seek help from a food scientist when converting small household recipes to larger, commercial-volume recipes. Staff in the Department of Food Science, Nutrition and Health Promotion at Mississippi State University can help with this process.

Once the product process and form have been determined, the packaging and labeling must be designed. Proper packaging and labeling of the product will help ensure shelf life but are also important marketing tools. Packaging is more than just something to hold the product until a customer buys it. Many times the package's appearance, shape, and style are the reasons a consumer purchases the product the first time. The package becomes the silent salesman when the product is sitting on a store shelf with several other similar, competing products. The package needs to catch the attention of the consumer.

Of course, the quality of the product is important also, as repeat purchases will be made based on quality after the initial purchase. However, the package and label can become the brand image for the product and the company. The goal is to create a brand in the mind of the consumer that will promote loyalty and encourage repeat purchases. Package material, color combinations, and design are important in the marketing process.



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Choose color combinations that enhance the product. For example, a red label on a bottle of red, tomato-based barbeque sauce will not attract attention as quickly as a yellow label. The two red colors tend to blend together, while the yellow provides contrast. A box made from 100 percent recycled paper might be the key to attracting environmentally conscious consumers to a new product. Packaging manufacturers and label design companies offer services to their clients and have the knowledge, skills and equipment necessary for correct package identification and design.

Place

The second “P” in marketing is place—that is, getting your product in the consumer’s grocery cart. Place involves distribution from the point of manufacture to the final consumer. Different levels or stages of distribution create opportunities for different markets and strategies for marketing the product. A simple example of the flow of goods from manufacture to consumer is as follows: manufacturer to wholesaler to retailer to final consumer.

One marketing option would be to sell to a wholesale distributor in the food service industry. The food service industry includes businesses like restaurants, hospitals, schools and other large-scale food providers. This requires a different marketing plan than selling directly to a retail store or directly to final consumers. Generally the packaging and labeling requirements vary, and the margin between processing costs and selling price will shrink. Food service buyers usually require products in larger size units because they are involved in large-scale food production in order to manage operations. A processor may package a product in 1-gallon containers to sell to a restaurant but package the same product in 10-ounce jars to sell to a grocery store.

Each step in the distribution supply chain offers services for marketing the product. Wholesale distributors offer the benefit of their sales force to sell the product to multiple retail outlets. A manufacturer does not necessarily have to hire and manage a dedicated sales force. The manufacturer can use wholesalers or contract with food brokers to find buyers. A food broker earns a fee for representing different food products for many manufacturers to sell product. Food brokers usually contract to sell food products for a percentage of the total sales they make.

A manufacturer may also market a product to retail outlets without the aid of wholesalers. This method usually requires the manufacturer to have a dedicated sales staff to call on retail buyers. Large retail outlets, such as grocery chains, will generally have a central buying office for a region. Most purchases are made by the regional buyer and shipped to

all the stores in the region. Specialty retail markets generally require more time and effort by the manufacturer but usually return a higher margin. Specialty markets may include independently owned food stores and gourmet food shops. Many specialty stores are independently owned, so selling effort involves more time dealing with numerous managers, owners, or operators as opposed to calling on one central buyer in a region. Lastly, direct sales to final consumers can be accomplished in many ways: through a farmers market, a retail outlet at the point of manufacture, mail order, or a web site, to name a few.

The place to market a product can be any one of the different stages of distribution or a combination of several market channels. A marketing plan should help identify the market place or combination that offers the most potential profitability.

Price

The third “P” of marketing is price. Many new food processors ask, “How should I price my product?” Price depends on cost of producing and delivering the product to the market. The price needs to cover total cost, return a profit, and be competitive in the market place.

Consider the total cost when determining the price of a product. Total cost is equal to the variable cost plus the fixed cost. Variable costs are expenses that vary proportionally with the amount of product produced. Fixed costs are costs associated with the business that are fixed for a period of time regardless of the amount of production. Fixed costs include rent, insurance, property taxes, depreciation, and interest on debt.

Variable costs can be broken down into two categories, cost of goods sold and operating expenses. Cost of goods sold is all expenses related to processing the product and getting it ready to sell. The cost of goods sold figure includes raw ingredients and supplies used directly in making the product, labor to process the product, direct utilities used in process, and packaging. Operating expenses include office supplies, other utilities, advertising, repair and maintenance, bookkeeping and others. In other words, operating expenses include any variable expenses not directly involved in the production of the product but needed in the daily operation of the business.

Now that the costs have been broken down into categories, we can explain a few more terms that are used to calculate a selling price based on cost. Gross profit is sales in dollars less cost of goods sold in dollars. The gross profit is the amount available to pay for fixed costs and return a profit. Gross profit can also be called gross margin, or the percentage of sales available to pay fixed costs and profit. Understanding the costs involved in production and the term “gross mar-

gin," the following formula can be used to calculate a price:

$$\text{(Selling price per unit)} = \frac{\text{(cost of goods sold per unit)}}{\div (100\% - \% \text{ gross margin desired})}$$

For example, if the desired gross margin is 40 percent and the cost of goods sold per unit of production is \$1, the formula would result in the following selling price:

$$\begin{aligned}\text{Selling price} &= \$1 \div (100 - .40) \\ \text{Selling price} &= \$1 \div .60 \\ \text{Selling price} &= \$1.67\end{aligned}$$

This pricing formula is a good tool for developing a price schedule to be used when negotiating price with a potential buyer. A schedule of prices can be developed from, say, a 20 percent gross margin up to 45 percent at 5 percent increases. Then as price negotiations take place, different price points can be offered to potential buyers to encourage larger quantity purchases. For example, a customer buying only one to ten cases of product would pay the price at 45 percent margin while a customer purchasing 100 cases might pay a price based on 20 percent margin.

Failure to account for the total cost is a common mistake made when setting a selling price. Good recordkeeping is the key to knowing the total cost involved in product production. Building and maintaining a good recordkeeping system will provide the required information for accurately pricing a product for market. The price should always be based on cost first, and then adjustments can be made for other considerations. Some other considerations that can affect price setting are the competition's price, seasonality of product, volume purchases, specialization, and location.

Promotion

The fourth "P" of marketing is promotion. What is so great about the product? What need does the product fill? How can this product make life better? These are just a few of the questions that can help build a promotion campaign.

Advertising is one way to promote a product. Advertising can be accomplished through a multitude of media outlets. Radio, television, newsprint, magazines, signage, and the Internet are some of the more common media outlets used for advertising. However, paying for advertising can be expensive and even cost prohibitive for small companies in some situations. Choose the media carefully when deciding to advertise. Make certain the media reaches the right audience for the product being sold. For example, if the target market includes senior citizens, radio ads on a rock-and-roll radio show would most likely be a waste of advertising dollars. Be selective with advertising expenditures and target the audience to get the most from the money spent.

Free advertising is great when it is available. Build a relationship with local media people and encourage them to do information stories about the business or product. Keep the media informed of any special activities associated with the product or business. Participate in food shows across the region. Mississippi Market, sponsored by the Mississippi Development Authority (MDA), is a great food show to attend. Food shows allow a business to expose a product to many buyers in one location. Volunteer to do food tastings for retail customers. This is a great way to get consumers to try the product, and retailers generally like any activity that encourages customer traffic. Do not overlook the yellow pages in the phone directory, business cards, and vehicle signage. Promotion is all about exposure and brand awareness. Be creative and be visible on repeated occasions in order to make the customer aware of the product.

This is only a short discussion about marketing a food product. Hopefully this information provides a better understanding about getting started in the food product marketing process. If you would like to learn more, or if you would like some assistance with marketing, please contact Dr. Ken Hood, hood@agecon.msstate.edu or Dr. Kim Morgan, morgan@agecon.msstate.edu, Department of Agricultural Economics: P.O. Box 5187, Mississippi State, MS, 39762. (662) 325-2750.

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