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AGRICULTURAL MARKETING REPORT

for the

JOINT LEGISLATIVE COMMISSION ON GOVERNMENTAL OPERATIONS

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DIVISION OF MARKETING

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I BACKGROUND

The success of every business venture depends upon its ability to earn a profit. Agricultural ventures are no exception to this basic principle. The last decade has seen a steady decline in agribusiness' ability to operate at a profit. Dwindling markets, uncontrollable production cost and competition from producers in other states and foreign countries lead the list of reasons for the decline. Many farmers have lost even their ability to secure production financing. North Carolina has an abundance of production resources and quite willing producers who will be able to remain in business only if profitability can be returned to farming.

While millions of dollars have been spent on production research, such research tends to increase supply but does nothing for demand. Since agriculture is quite susceptible to the law of supply and demand, we must find ways to balance our increasing supply with increasing demand. In years past when the volume of production was more balanced with available markets, our marketing efforts were more service oriented. While these strategies continue to serve us well, new and expanded markets must be our top priority.

Realizing this need led us to request funding from the General Assembly to support an organized, multi-faceted program to expand markets for North Carolina agricultural products. The 1985 General Assembly authorized funding for market development and required a report on these activities in Section 133 of Chapter 479 of the 1985 Session Laws.

II PREVIOUS MARKETING STRATEGIES

The Division of Marketing is basically service oriented, providing farmers and the agricultural community with assistance in marketing their products, and in creating new outlets for those products. There are two primary functions of the Division of Marketing--service, and grading and regulatory. Many of the services rendered by the division are on a request basis. Other services include interpreting and certifying the official grade of farm products according to prescribed standards. This is handled strictly on a voluntary basis and is supported from fees collected for the service.

A. GRADING AND REGULATORY

The North Carolina Department of Agriculture provides grading to both producers and processors on a number of commodities. This permits the official USDA Grade Mark to be applied through a cooperative arrangement between NCDA and USDA. Products include grain, poultry, fruits and

vegetables and red meats. Products under these various groupings will be graded on a fee basis and paid for by the user. The Williamston grading office, located centrally in the peanut and vegetable production area of the state, serves as headquarters for the temporary field based grading work force. Grain grading offices are located in Bonlee, Fayetteville, Greenville and Raleigh. The regulatory phase of work consists of enforcing the provisions of the following: 1) North Carolina Egg Law; 2) North Carolina Apple and Peach Labeling Law; 3) Apple Maturity Regulations; and, 4) United States Egg Surveillance Act.

B. SERVICES

This phase of work is organized under the heading of Market Development and includes the following programs: Market News; Domestic and International Trade; Horticultural Crops; Livestock; Grain, Cotton and Transportation; and, Tobacco. Service work also includes an Engineering Program and three state-owned Farmers Markets located in Asheville, Charlotte and Raleigh plus the Western North Carolina Agricultural Center. The latter includes the Horse Arena. The Farmers Markets and Horse Arena all operate on a user fee basis. The Engineering Program is also included among available services.

The Market News Program accurately collects, analyzes, summarizes and disseminates market information (prices, supply, demand and conditions) on all major agricultural commodities in North Carolina. Dissemination is through daily radio programs, Market Newline on educational television, toll free telephones and printed weekly and seasonal reports through the mail.

Personnel within the Domestic and International Trade Program are available to help producers and processors locate buyers, identify potential marketing areas, develop new uses for products, promote products at trade, food and consumer shows, design new packaging and promote products through radio, television and newspapers. This program is also responsible for the "Flavors of Carolina" and "Goodness Grows In North Carolina" campaigns.

The objective of the Horticultural Crops Program is to assist the North Carolina horticultural industry to obtain the best market for their products. Growers are assisted in marketing through harvesting, grading, transporting and promoting their crops. The program also administers the Handler's Law.

The objective of the Livestock Program is to assist the livestock industry of North Carolina in the orderly and profitable marketing of livestock and livestock products. This includes dairy and beef cattle, swine and sheep with the additional objective of improving quality and marketability of the product and income for the producer. These objectives are accomplished through working with various segments of the industry, including producers of both purebred and commercial animals,

livestock market operators and packing plant operators. The Livestock Program also conducts grading services for swine sales within the state on a self-supporting basis.

The Grain, Transportation, Cotton and Cooperatives Program covers a broad area. Grain producers, buyers and processors are provided, on request, information and assistance relative to quality control in the harvesting, drying, handling, storing and processing of grain. Economic feasibility studies are made to determine the need for new or expanded marketing, storage and processing facilities. In regard to transportation, information and assistance is provided to public carriers in developing rate structures that will allow the shippers and receivers to better serve the agricultural interest of the state. Information and assistance is provided in developing cotton marketing procedures and criteria which will enable the producer to maintain the inherent quality of the cotton as it enters the domestic and or export market. Finally, this program also provides the technical assistance to all interested groups desiring to form cooperatives. North Carolina statutes require annual reports be filed reporting the status of cooperatives. These are filed in the Division of Marketing.

The Tobacco Program responds to requests for information relative to all facets of the tobacco program. Tobacco sales data is collected from all markets and each of the 190 auction warehouses annually. The Tobacco Bulletin is prepared containing all major statistical data annually.

The Division of Marketing also houses the three state-owned Farmers Markets. Markets are located in Asheville, Charlotte and Raleigh. All three markets operate on a fee basis, providing facilities for farmers to sell fruits, vegetables and other farm products. Facilities are provided for both wholesale and retail operations. These markets contact buyers informing them of products available. In addition, the Western North Carolina Agricultural Center, located near Asheville, houses the Horse Arena, attracting events from across the nation. This facility is also fee supported.

The Engineering Program provides assistance to the North Carolina agricultural industry through consulting with, and making recommendations to, clients concerning better methods and facilities for the handling, processing, storing and marketing of agricultural products to achieve greater efficiency and quality control.

III - EXPANDED MARKETING STRATEGIES

A. WHAT THE GENERAL ASSEMBLY PROVIDED

The General Assembly provided additional funds for personnel and other operating support for developing new and expanded markets for North Carolina agricultural products.

The total funds appropriated amounted to \$429,060. Of this amount \$89,185 was for equipment such as a needed garbage truck for the Western North Carolina Farmers Market, agricultural equipment for the Western North Carolina Agricultural Center, renovation of the test kitchen and office furniture and equipment for three new positions. For the 1986-87 fiscal year the program was continued at \$347,381.

Three new positions that were allocated were an Agricultural Development Representative and two Agricultural Marketing Specialists. The two Marketing Specialists were employed in September and October. The Agricultural Development Representative reported to work on March 3, 1986.

B. PROGRAM ELEMENTS

1. "Flavors of Carolina" is a new marketing concept where we take our products to a target audience with decision making responsibility for buying. This program was started in 1982 here in Raleigh on very limited funds. It was first tried out of state in Cincinnati, Ohio, in 1983, by targeting the tri-state area of Ohio, Kentucky and Indiana. The next out of state "Flavors of Carolina" was conducted in Philadelphia on April 16, 1985, and April 17, 1985, in Columbia, Maryland. Here we reached the metropolitan areas of Philadelphia, Baltimore and Washington, DC.

The program is designed by surveying agricultural processors, packers, shippers and other agribusinesses to determine what cities they think their products have the greatest market potential. Once the survey is completed, "Flavors of Carolina" receptions are scheduled for a specific place and date. Major chain store buyers, convenience store buyers, institutional buyers and brokers are invited to attend the function. The "Flavors of Carolina" reception is usually held from 5:30 p.m. to 8:00 p.m. with from twenty to thirty-five North Carolina exhibitors (processors, packers, shippers, etc.) displaying their products from North Carolina in a well planned, professional manner, usually giving away samples. Heavy hors d'oeuvres are served featuring North Carolina products. Only buyers and sellers are permitted to attend, giving dedicated time for sellers to meet buyers. The people exhibiting are prepared to write orders on the spot as sales are finalized. Immediate follow-up is necessary to secure additional sales contacts. Buyers have been very complimentary of the program because it exposes them to so many different products in such a short period of time.

The sellers participating in the "Flavors of Carolina" receptions have been a good representation of North Carolina agricultural commodities. For example, at past receptions we have had such products represented as chickens, eggs, turkeys, corn meal products, fresh pork, country ham, cheese, mountain trout, wine, peanuts, seafood, apples, tomatoes, sweet potatoes, jam, jellies, hot sauces, honey, snack foods, ducks, etc. The sellers have reported some successful sales and are very pleased to be able to participate in the program. Participation is based on a first come first serve basis with no more than 10 percent of any specific product represented.

The additional marketing funds have permitted this successful program to be expanded. This fiscal year, five "Flavors of Carolina" receptions were planned as follows: November 7, 1985, Charlotte, NC; January 14, 1986, Jacksonville, FL; January 16, 1986, Tampa, FL; April 23, 1986, Atlanta, GA; and, April 24, 1986, Birmingham, AL. The latter two have not taken place at this writing.

The three "Flavors of Carolina" receptions held in Charlotte, Jacksonville and Tampa cost approximately \$19,000. These three functions assisted fifty companies in exposing North Carolina products to 565 major buyers. Sellers of these products are reluctant to report sales because of the confidentiality of private enterprise, but twenty respondents to a survey have reported \$3,353,100 in sales over the next twelve months with projected sales for the fifty companies estimated at 14 million dollars.

2. Trade Shows - The purpose of trade shows is to introduce North Carolina agricultural products to buyers in other states and foreign countries. In some cases, North Carolina firms rent booth spaces and sometimes they will work out of booth space operated by the North Carolina Department of Agriculture. Certain shows are appropriate for specific commodities while other shows are suited for all commodities. Buyer contacts are made by Marketing Specialists and specific trade leads are referred back to North Carolina firms or producer groups for follow-up and successful sales. Buyer contacts that are made at shows are placed in a computer and are cataloged by commodity and location for future use when inquiries are received from North Carolina firms seeking a market for a specific commodity. Our participation in some domestic trade shows are scheduled in strategic areas to research the potential for a "Flavors of Carolina" reception and serve as a recruiting tool for buyers.

Statistical information available through the National Association of Exposition Managers indicates that direct cost per trade show visitor versus sales cost is \$89 versus \$209. It takes 5.1 calls to close a direct sale and .8 calls to close a trade show lead. Sixty-three percent of attendees purchase as a result of a trade show, 55 percent place orders by telephone and 22 percent place orders by mail.

The expanded marketing funds are permitting the staff to participate in twenty trade shows of which seven are remaining on the schedule. The domestic shows are as follows:

Aug. 19-21, 1985	South East Petro	Charlotte
Aug. 18-20, 1985	Georgia Restaurant	Atlanta
Oct. 19-23, 1985	Product Marketing Assoc.	San Francisco
Oct. 26-29, 1985	Maryland Food Dealers	Ocean City
Oct. 27-29, 1985	Florida Food Dealers	Orlando
Feb. 16-19, 1986	United Fresh Fruit & Veg.	New Orleans
March 2- 4, 1986	East South Restaurant Show	Washington
March 16-19, 1986	National Grocers Assoc.	New Orleans
April 13-15, 1986	North East Food Service	Boston
April 26-28, 1986	Tennessee Food Dealers	Nashville

May 17-22, 1986	National Restaurant Assoc.	Chicago
June 7-10, 1986	South Carolina Food Dealers	Myrtle Beach
June 15-17, 1986	Pennsylvania Food Dealers	Philadelphia

The international shows are as follows:

Dec. 4- 6, 1985	US International Food Show	Los Angeles
Jan. 26-28, 1986	Canadian Fruit Wholesale	Calgary
Feb. 22-26, 1986	Middle East Food Exhibition	Bahrain
March 10-14, 1986	Tokyo Food Exhibition	Tokyo
March 24-28, 1986	US Products '86	Taiwan
May 6- 7, 1986	US Food Exhibition	Hong Kong
May 13-16, 1986	Hotel and Food Asia	Singapore

Thus far our expenditures in the trade show area have been approximately \$43,000. We have exhibited 106 products from 62 companies in the state. Our primary emphasis at these shows has been to market new products and the response has been overwhelming. In some situations we created more demand than we have supply. We also try to highlight our traditional agricultural crops and expand existing markets for these commodities.

We strongly encourage company representatives to attend the exhibitions but when financial restraints prohibit, we exhibit for them. Companies view our state booth as a tremendous opportunity for them in that they can receive excellent exposure for their products at a minimal expense.

Sales resulting in an average thirty-day period following an exhibition were estimated at \$586,000. Preliminary twelve-month projections are \$6,500,000 in North Carolina products. Although all figures are estimated and confidential, we feel these are on the low side and anticipate much higher figures if other anticipated sales materialize.

3. (a) The Agricultural Development Representative position has been filled by J. Bryan Smith, Jr. effective March 3, 1986. He brings to the work a reputation established by contacts throughout the nation and with many foreign countries. He is recognized as being one of the best agricultural industry recruiters in the United States.

There are several paramount reasons why agribusiness/food processing is important for North Carolina. It creates new and expanding markets for our farm commodities. Agribusiness furnishes steady growth and has exhibited near immunity to fluctuations in business activity and develops more opportunity for the labor force in our state. The productive agricultural areas of our state, coupled with seasoned and willing farmers, serve as enormous sources of raw products. We are ideally situated to larger populated consumer areas of our country which minimizes distribution costs. At the same time, markets for food products are expanding.

The fact that North Carolina has unusually strong programs to attract all types of industry makes it easier to refine a program to attract agribusiness industries. With more than one-fourth of the nation's consumer dollar going for foods, beverages and related products, it is easy enough to justify increased activity to attract agribusiness industry. Several major agribusiness industries are considering North Carolina for location presently. Model studies of costs, including labor, transportation, utilities and taxes will determine location decisions.

Working with all state agencies for maximum productivity will be a prime objective of this program. The Department of Commerce has primary responsibility for new industry growth. Our department wants North Carolina to receive every opportunity for agribusiness to grow. It has been over five years since North Carolina located a new agribusiness industry. Conferences have been held between Commissioner Jim Graham and Secretary Howard Haworth to establish lines of communication and cooperation between the two departments. Additional conferences have been held between the Director of Marketing, the Assistant Secretary of Commerce, White Watkins, and Alvah Ward, Director of Economic Development. At these conferences specific methods of cooperation have been discussed and agreements reached on ways and means of working together to accomplish goals and benefiting the people of North Carolina.

(b) Institutional Sales - The number of meals served outside the home has increased tremendously over the past several years. Fast food establishments, restaurants, schools, hospitals, penal institutions, nursing homes, youth camps, etc. are examples of institutions that are using a large percentage of our agricultural products. For example, a state-owned hospital with 3,000 patients will serve approximately 10,000 meals per day including those meals eaten by support personnel. It is imperative that North Carolina agriculture gets its share of this business.

The marketing specialist working in this area is developing a program already showing results. One of the first projects was to develop a set of institutional specifications on poultry products that have been approved by the United States Department of Agriculture. These specifications now permit state institutions to bid on a competitive basis and a turkey processor is now getting his product into the Charlotte-Mecklenburg school system as a result of these specifications. Exhibiting in institutional trade shows is proving to be a valuable tool in making contacts to get our products into these markets. An example of these results is one North Carolina firm that has made a contract with a national chain that has put his product in eighty-two restaurants. Other activities include working with restaurant chains encouraging them to include North Carolina items in their menus such as serving raw sweet potatoes in salad bars. Examples are Golden Corral, Red Lobster and K & W Cafeterias. A firm that processes and freezes fruits and vegetables is now selling to the North Carolina Department of Correction and the Mecklenburg School System.

This marketing specialist has also assisted the staff in the Marine Fisheries Division of Natural Resources and Community Development in marketing some seafood. Assistance was given to Mid-Atlantic Smoke Houses in getting seafood into the Big Star and Farm Fresh chains.

The results of this area of work have been very encouraging thus far and it is anticipated that many additional returns will be reaped as the program grows.

(c) The Marketing Specialist for promotion of North Carolina agricultural products has developed a new promotional program known as "Goodness Grows In North Carolina." The purpose of this program is to increase consumer awareness of North Carolina agricultural products. The "Goodness Grows" logo is also to serve as a seal of quality indication to the consumer that the products which bear the logo on its label exceeds minimum USDA or NCDA requirements.

The logo has been registered with the Secretary of State in order that its use can be controlled. It will permit Marketing Specialists to promote specific products rather than having to promote generic products. Once a firm makes application and is approved for use of the logo, the firm can then print the logo on their label as representing a specific high quality product. The process of identifying and approving products has begun. Guidelines have been established, agreements written, sales presentations developed, etc. The logo and "Goodness Grows" program are now being introduced to media and retailers. Details of an advertising campaign are being finalized with the help of a major media blitz scheduled for May, 1986.

Once the program is in full swing, shelf talkers can be placed in the grocery stores to point out to the consumer that a particular product is a North Carolina product and will result in consumer awareness.

The "Goodness Grows In North Carolina" program will serve the citizens of North Carolina in the following ways:

1. Creates awareness and visibility of North Carolina produced products.
2. Offers a short, catchy and memorable marketing slogan.
3. Projects a positive, visual image of North Carolina agriculture.
4. Provides a cost-efficient promotional program.
5. Promotes continual exposure in electronic and print media.
6. Impacts on state, national and international markets.
7. Promotes pride in North Carolina agricultural products and our heritage.
8. Reinforces current marketing efforts for products.

Even though the marketing programs described in this report are new, they are being developed at a fast pace and the initial results are very positive. It is believed that when they are fully developed and in full operation, they will be recognized as being a part of the best agricultural marketing program in the United States, resulting in higher sales of our agricultural goods--both in volume and value.