

# Market Driven Enterprise Screening Tool



UC Small Farm Program Specialty Crops Conference  
December 12, 2007

Ramiro E. Lobo  
UC Farm Advisor, Small Farms & Agricultural Economics



# Presentation Overview

---

- San Diego County Agriculture facts & figures
- What is a Small Farm?
- Background - avocado & valencia oranges
- Specialty crops – ID, evaluation, challenges/opps
- Assessing the potential for New crops/enterprises
- Conclusions

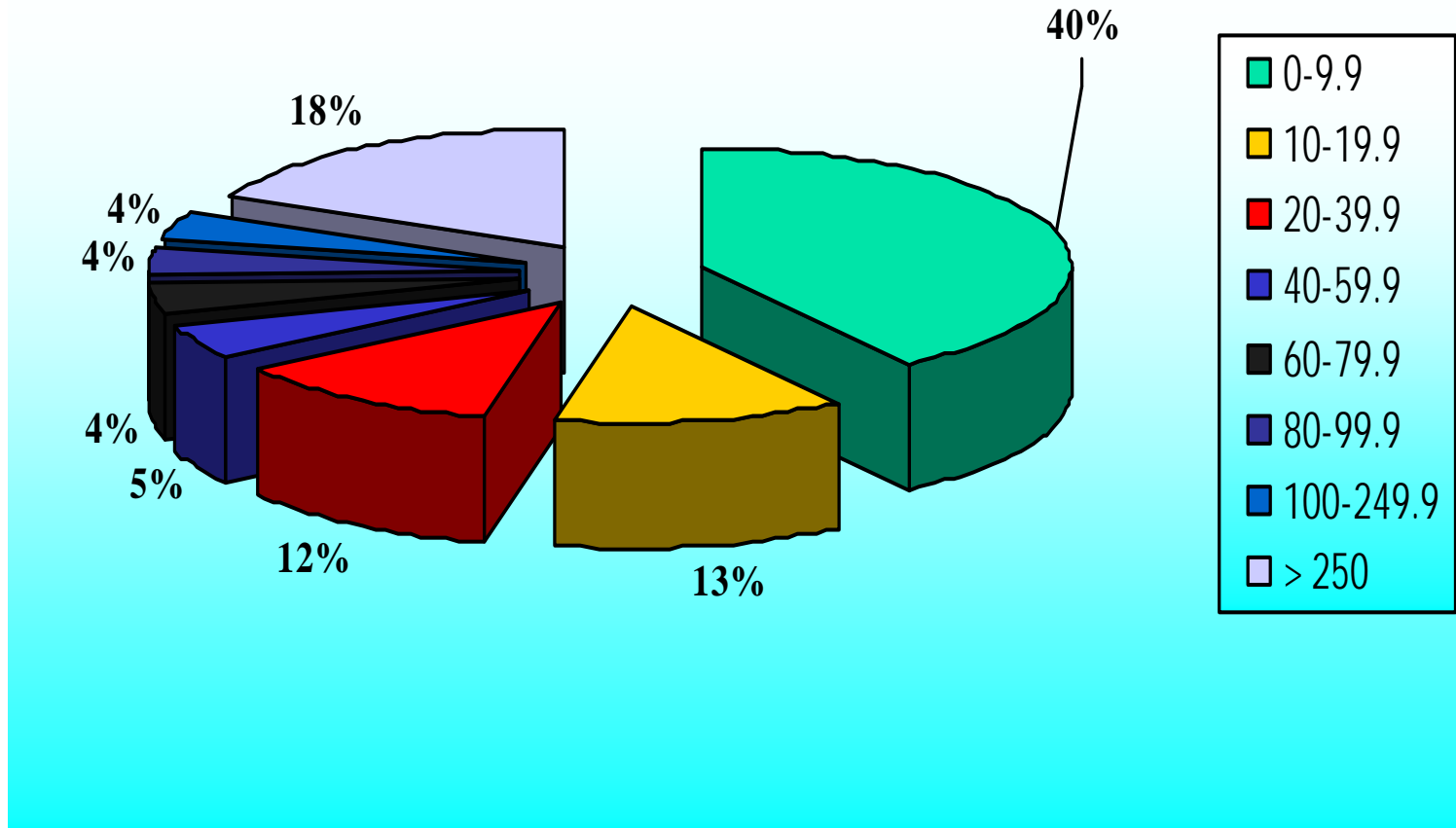
# San Diego County Agriculture:

## *Facts and Figures*

Important for local Economy	Over \$1.46 billion in total value, \$5.12 billion economic impact, 5 <sup>th</sup> largest ind.
Prominent rankings at state and national level	# 1 in \$ value/acre in CA; # 1 in \$ value of nursery & greenhouse crops in US; # 3 in number of farms; # 1 in avocado acreage; # 8 County in CA, # 12 in US
Farms are small but numerous	5255 farms in the county; median size farm is 5 acres; 63 % of farms are 9 acres or less, 53 % gross less than \$ 20k and 82% are small
Farms are diversified	Year round production of more than 200 crops commercially; large number of "high value," specialty crops
Farms use innovative production & mgt systems	Largest number of organic growers in the US (~400); Extensive use of bio-control methods and IPM

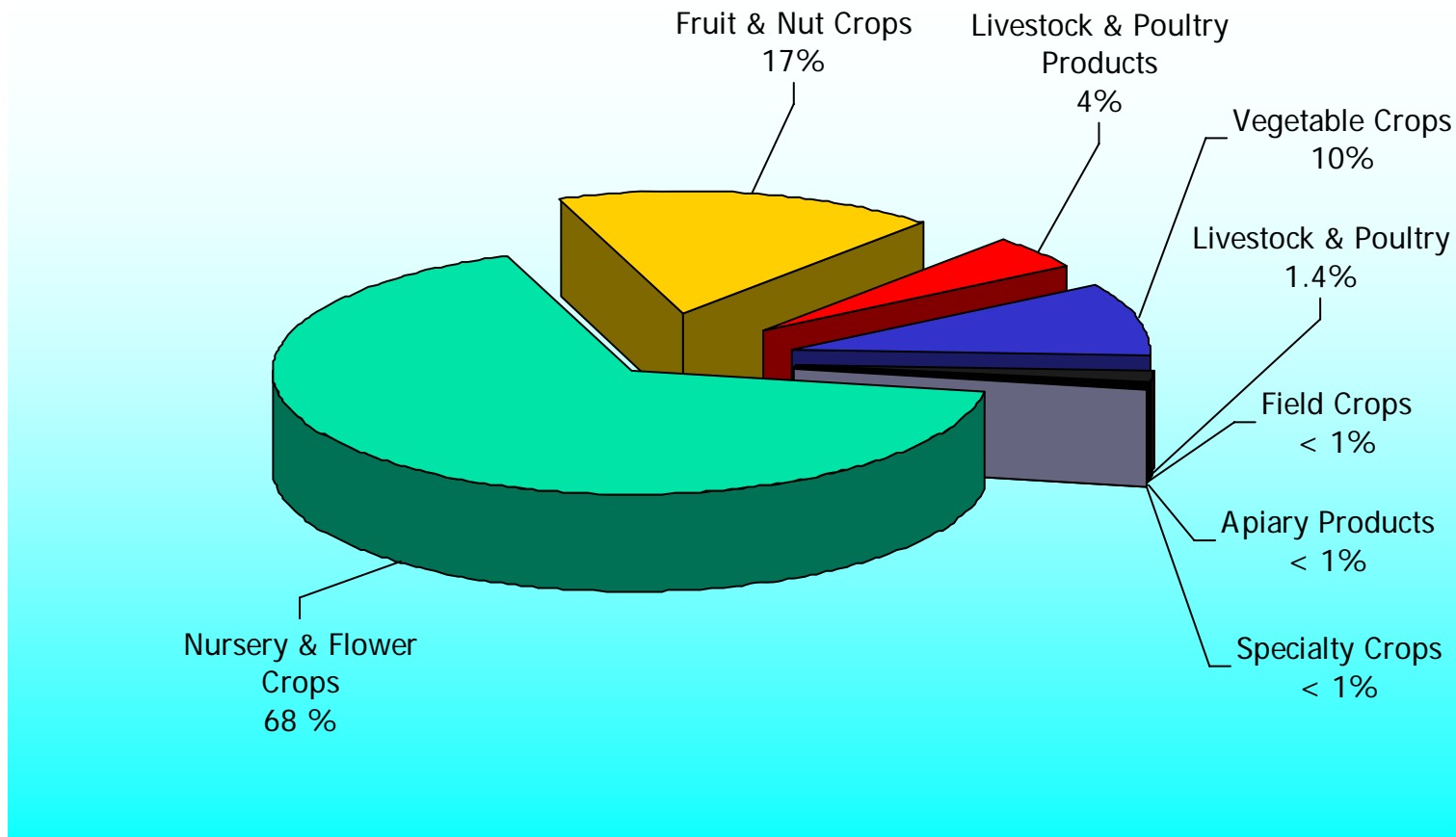
# San Diego County Agriculture

*Gross Sales/Farm Operation (\$1,000)*



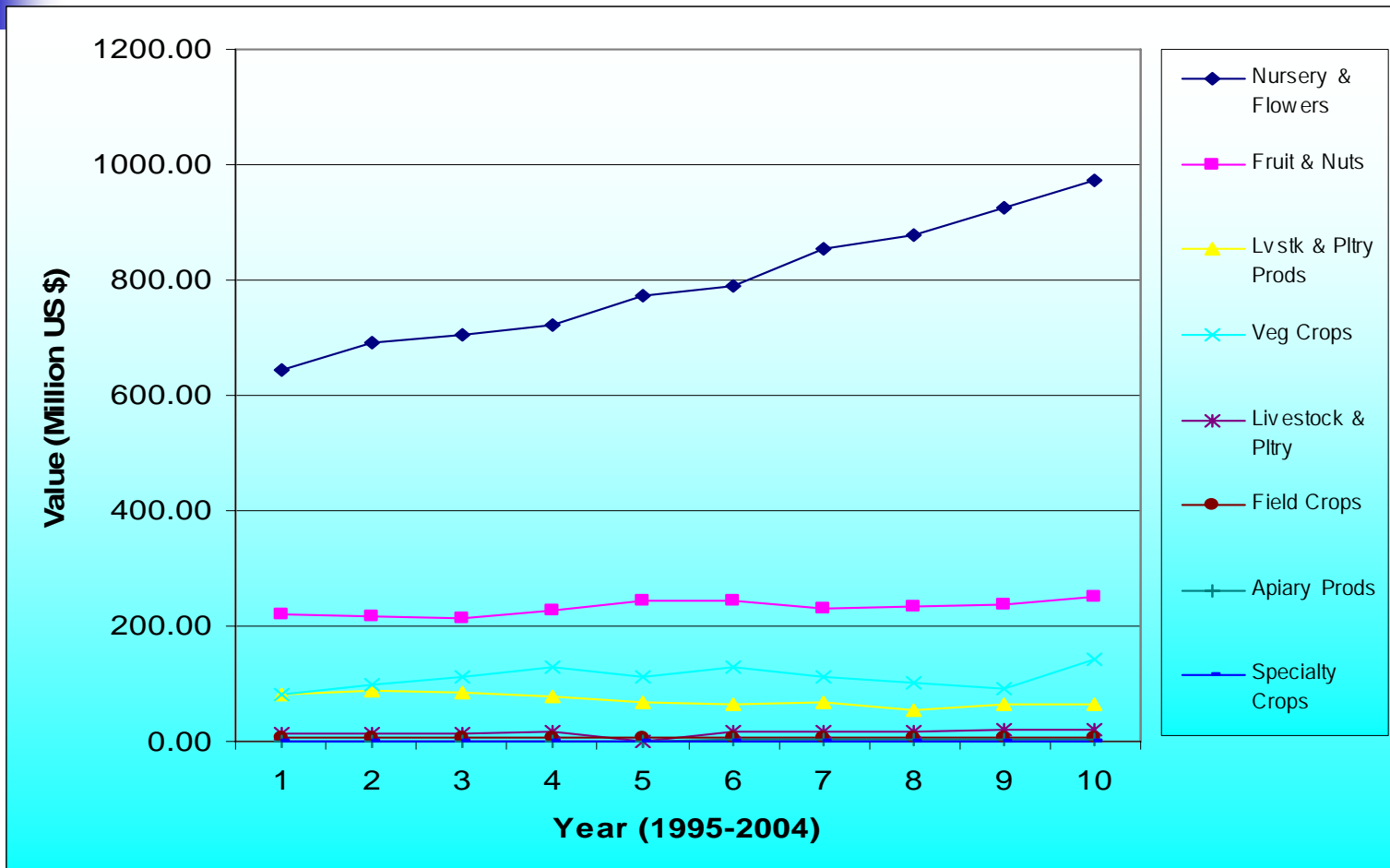
# San Diego County Agriculture:

*Percentage Value of crops sold*



# Value of Mayor Crops Sold

(1995-2004)





# San Diego County Agriculture:

<i>Issues/Challenges</i>	<i>Assets/Opportunities</i>
<ul style="list-style-type: none"><li>■ Imports/foreign competition</li><li>■ Water availability and prices</li><li>■ Growth and urbanization</li><li>■ Laws and regulations</li><li>■ Land quality and prices</li><li>■ Exotic pest problems</li><li>■ Farm labor supply and cost</li></ul>	<ul style="list-style-type: none"><li>■ Climate allows year round prodn</li><li>■ Large local &amp; regional markets</li><li>■ County, state &amp; ntl demographics</li><li>■ Trends in health &amp; food industries</li><li>■ Educated &amp; supporting consumers</li><li>■ Well developed infrastructure</li><li>■ Laws &amp; Regulations</li></ul>

# What is a Small Farm?



- Defined by acreage?
- Defined by gross income or revenue?



# What is a Small Farm?

---

- 65% of farms in San Diego County are 10 acres or less and 90% under 100 acres.
  - Great discrepancy in return/per acre
- Commercial agricultural operation providing a significant portion of the owner's livelihood with gross sales of \$100,000 or less
  - 78 % of farms in county
- National Commission on Small Farms defined small farms as those with gross sales of \$250,000 or less
  - 82 % of farms in county

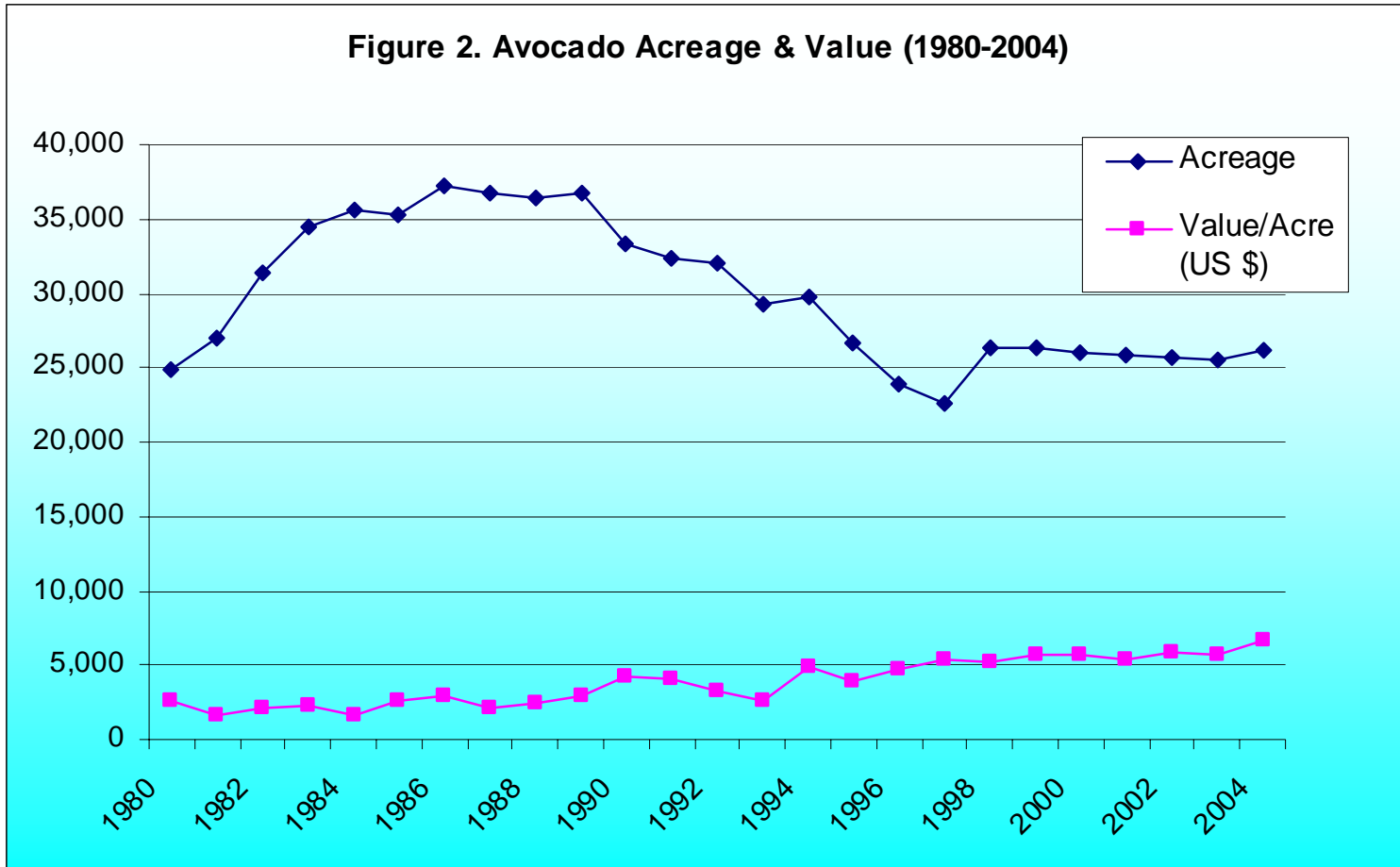


# The Avocado Situation

---

- 25482 acres of avocados in the county
- Average yield about 6000 lbs/acre
- Increased import volume from Mexico and Chile has eroded domestic markets
  - Important market windows filled by foreign fruit
  - Overall downward pressure on prices
- Great uncertainty among growers about real impact of NAFTA
- Growers want to identify alternatives.

# Avocado Acreage & Value (1980-2004)



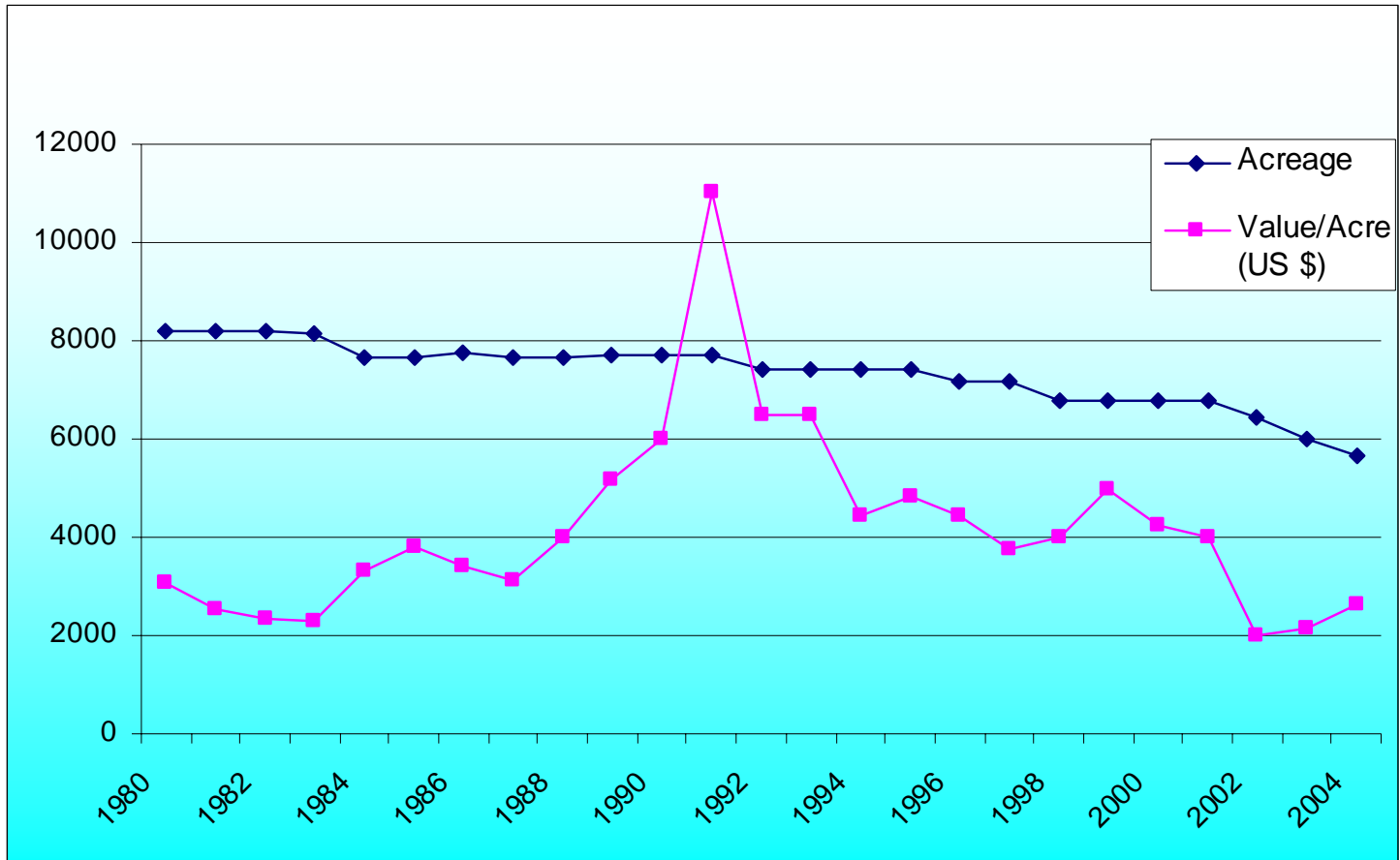


# The Valencia Orange Situation

---

- 5,985 acres of Valencia oranges
- 25,240 lbs/acre in San Diego County
- Year-round availability of Navel Oranges has taken away fresh market
- Growers cannot compete with juice prices
- Acreage & prices will continue to decline

# Valencia Acreage & Value (1980-2004)



# Avocado & Valencia Oranges:

## *The Similarities*

---

- Both crops are expensive to establish & grow
  - They are water and labor intensive
  - Limited opportunities for mechanization
  - High incidence of exotic pests & diseases
  - Both crops heavily impacted by competition
- 
- **The challenge is to identify suitable new or specialty crop alternatives for these and other growers in the region**

# What is a Specialty Crop?



- Definition is vague and varies between USDA and produce Industry.
  - Timber and firewood reported as specialty crops in SD
- Definition depends on the intended use or purpose
- Most crops grown in San Diego considered specialty crops and are grown by small scale farmers



# OMMITTED SLIDES

---

- Several Slides showing a diversity of specialty crops omitted to reduce the file size.



# What is a Specialty Crop?

---

- Several ways to define them, depends on location and intended use.
  - Most crops grown in San Diego County or California considered “specialty crops” by others in the US
  - Most crops in US considered “specialty crops” for some assistance programs
- **A specialty crop is one that is not commonly grown in a region, one that is produced in a different season, or it is produced using different production systems or techniques**



# Challenges with Specialty Crops

---

- Specialty crops are very labor intensive and require high initial costs
- All specialty crops/enterprises are capital, labor and management intensive
- They require a different approach to marketing

# Challenges with Specialty Crops



- Location, site selection and choice of crops are critical for success
- They may take several years to be profitable
- Specialty crops/enterprises are riskier, with few established markets



# The Opportunities...

---

- Higher prices/margins are possible
- Proximity to a large local and regional cosmopolitan market
- Diversification opportunities for farmers and for local communities
- Can be grown in land not suited for most conventional crops

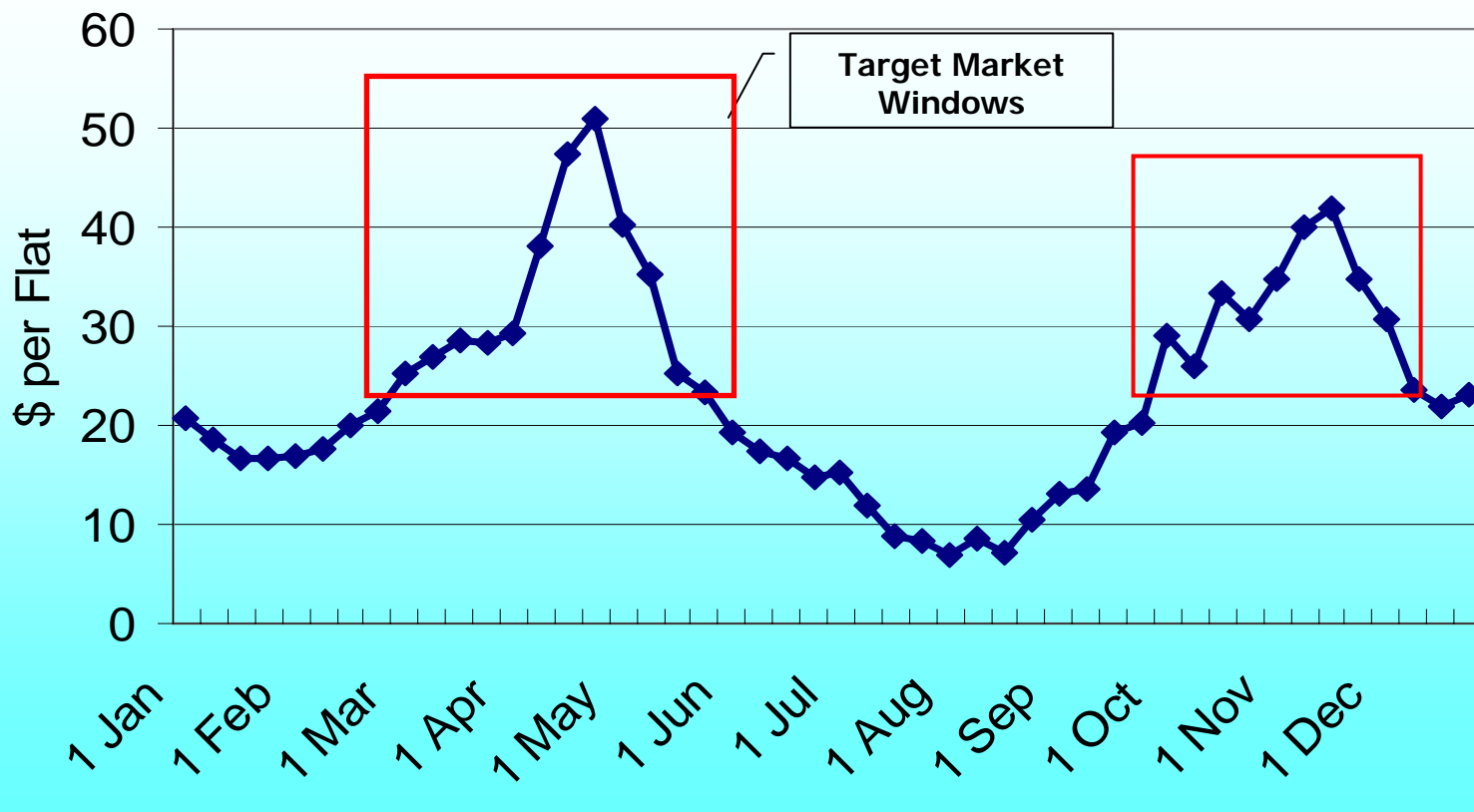


# The Opportunities...

---

- Well suited for small areas (small acreages)
- Well suited for niche markets/marketing opportunities
- Well suited for direct marketing and value added opportunities

# 3 -Year Average Wholesale Prices for Fresh Blueberries at L.A. Terminal Market 1998 - 2000





# What is a Good Specialty Crop?

---

- Adequate size of target market
- Extended production and marketing season
- Complementary to farm operation
- Difficult to grow (steep learning curve)
- Expensive to get into (high initial investment)
- Potential for value added opportunities



# Other Factors to Consider

---

- Market information, research and analysis
- Trends (demographic, economic, health, etc)
- Crop adaptation to a specific location/area
- Pest and disease issues
- Supporting infrastructure & facilities
- Laws and regulations (permits/licenses needed)
- Product/Service life cycle and seasonality are critical



# Evaluating New or Specialty Crops

---

- Is there a market for the crop?
- What is the potential for the new crop?
- Why isn't everyone else growing it?
- Can the crop grow in your area?
- What is the "fit" for your operation?
- Is there supporting infrastructure?
- Is the crop "right" for you?



# Identifying Specialty Crops

---

- No sure way to ID new or specialty crops or to predict success
- Several methods can be used by growers
  - Chance/observation?
  - On farm Research & Development?
  - Looking around – people, neighborhoods, farmers markets?
  - Following trends – health, food, economics?
  - Following market & price data?
  - Following the regulatory process?
  - **Calling the Farm Advisor or Extension Agent?**

# Market Driven Enterprise Screening Tool

---

- Intended to help growers assess potential of new crop/enterprise alternatives
- Organized into three sections:
  - Descriptive Section
  - Comparison worksheet
  - Example comparing three alternatives
- Emphasis on market issues



# The Profit Seeker Example

---

- 20-acre family operated farm growing mixed veggies for wholesalers and CFMs
- Husband works in production & wholesale markets, wife helps with CFM sales
- Main crop is pole tomatoes, but declining profits motivate search for alternatives
- Heirloom tomatoes and blueberries ID'd as potential substitutes



# Descriptive Section

---

## 1) Describe in as great detail as possible the product that you are considering producing.

- *Option 1: Pole tomatoes*
- *Option 2: Heirloom tomatoes grown in hoop houses*
- *Option 3: Hand harvested blueberries*

## 2) For each alternative crop, describe your target, based on (a) Consumer(s) and Market and outlet(s), and (b) Season(s)

- *Pole tomatoes: Sold to wholesalers and at farmers' markets, depending on price and season. Generally will avoid harvesting in summer months when prices are weakest.*
- *Heirloom tomatoes: Sell directly to restaurants and in farmers' markets in the region. Year-round but will focus on harvesting outside of the summer months*
- *Blueberries: Sell directly to restaurants and in farmers' markets in the region. Will focus on being in the market in the early season (March-May) and late season (October-December)*

## 3) What special requirements, problems, barriers, or risks do you anticipate in producing and marketing this product?

- *Pole tomatoes: Summer price drop, frost and diseases may be a problem in the winter.*
- *Heirloom tomatoes: Frost & disease, packing requirements, learning curve including selecting the best varieties, cultural practices, summer glut, market access (breaking in)*
- *Blueberries: Mastering production challenges including soil pH management, possibility of frost in the winter*

## 4) Who are/will be your competitors?

- *Pole tomatoes: Other local growers, imports from Mexico, greenhouse growers*
- *Heirloom tomatoes: Local producers, imports (formatting)*
- *Blueberries: Imports from South America and Mexico during the market windows. The Profitseekers will be unable to compete with growers from other states and regions of California during the traditional blueberry market season. Why? If marketing at farmers markets, and/or with establishing good relationships is this true?*

## 5) What are your competitive advantages, if any, in producing this new crop? Consider your competitors, location, regulations, seasonality, production costs, and others.

- *Pole tomatoes: proximity to markets, higher quality, better flavor, freshness*
- *Heirloom tomatoes: hoop house reduce frost & disease problems; knows tomatoes, access to farmers' markets as a current vendors, also all of the pole tomato advantages listed above.*
- *Blueberries: locally grown, fresh, proximity to affluent market, seasonal availability/market window, high demand as function of /health trends, access to location -specific research.*



# Marketing Ability?

The first two questions assess the growers ability to describe the product and target consumer or market.

MARKETING SECTION (Questions 1-2)	Pole tomato	Heirloom tomato	Blueberry
How precisely can you describe the "marketable" product? <i>(1=difficult, 5=easy)</i>	5	4	4
How precisely can you describe your target consumer, outlet, or market? <i>(1=difficult, 5=easy)</i>	5	3	3



# Marketing Ability?

Questions 3 & 4 explore ties among product, market and final consumers.  
Questions 5 & 6 address market requirements and barriers.

MARKETING SECTION (Questions 1-2)	Pole tomato	Heirloom tomato	Blueberry
To what extent are there established channels to reach that consumer, outlet and/or market? <i>(1=none, minimal; 5=well established)</i>	5	4	3
How familiar are target consumers with the product? <i>(1=no awareness, 5=well known)</i>	5	5	5
How easily can you meet the specific requirements of your targeted outlets/markets? <i>(1=difficult, 5=easy)</i>	5	3	4
How confident are you that you can overcome significant problems or barriers to get the product to market? <i>(1=difficult, 5=easy)</i>	5	4	3



# Marketing Ability?

Questions 7 to 9 involve first the availability of data, then what that data means to you. In question 10, the term “market windows” typically refers to certain time periods when opportunities exist because of supply gaps or demand increases (e.g. holidays)

MARKETING SECTION (Questions 7-11)	Pole tomatoes	Heirloom tomatoes	Blueberry
How available are market and price data? <i>(1=none, minimal; 5= very available)</i>	5	3	5
What are the per unit price trends? <i>(1=down, 3=flat, 5=up)</i>	2	4	3
How variable are the prices? <i>(1=highly variable, 5=stable)</i>	1	3	5
Are there attractive market windows* that you can fill? <i>(1=no, 5=yes)</i>	2	4	5
Is the size of the market adequate for your projected volume of production? <i>(1=no, 5=yes)</i>	3	4	5



# Marketing Ability?

Questions 12 to 18 deal with profitability, pricing, and competitors.

MARKETING SECTION (Questions 12-18)	Pole tomato	Heirloom tomato	Blueberry
How do you rate the profit potential compared to your existing product? <i>(1=lower, 3=same, 5=higher)</i>	<i>na</i>	<i>4</i>	<i>5</i>
To what extent does the profit potential justify the investment needed? <i>(1=not at all, 5=very well)</i>	<i>na</i>	<i>4</i>	<i>4-5</i>
How much control will you have over price per unit? <i>(1=low, 5=high)</i>	<i>2</i>	<i>3-4</i>	<i>3-4</i>
Can you differentiate your product to get a price premium or enhance market access in terms of a local or regional brand, certification or labeling, product attributes/characteristics? <i>(1=no, 5=yes)</i>	<i>2</i>	<i>3</i>	<i>4</i>
How do the marketing costs of the product compare to your current costs in terms of transportation costs, preparation time, packaging, etc.? <i>(1=higher, 3= same, 5=lower)</i>	<i>na</i>	<i>2</i>	<i>1</i>
Assess the competition you will face in selling this product. <i>(1=strong. 5=weak or none)</i>	<i>1</i>	<i>2</i>	<i>3</i>
Can you protect your market from new growers coming in? <i>(1=no, 5=yes)</i>	<i>1</i>	<i>2</i>	<i>2</i>



# Information Access?

INFORMATION QUESTIONS	Pole tomato	Heirloom tomato	Blueberry
Rate your knowledge about production of this crop/product. <i>(1=low, novice; 5=high, expert)</i>	5	4	2
Rate your knowledge about marketing of this crop/product. <i>(1=low, novice; 5=high, expert)</i>	5	4	2
Rate the availability and access of information needed for your area (Extension agent, Internet, library, etc.) <i>(1=low, 5=high)</i>	5	4	3
Are you willing to do what it takes to get all information needed? <i>(1=no, 5=yes)</i>	na	5	5



# Production Ability?

PRODUCTION QUESTIONS	Pole tomato	Heirloom tomato	Blueberry
How well does the crop grow in your area? <i>(1=not at all, 5=very well)</i>	5	5	3
Rate your ability to produce a high quality product. <i>(1=low, 5=high)</i>	5	4	3
How well does the new enterprise fit with your current farm operation? <i>(1=not at all, 5=very well)</i>	5	5	5



# Resources Availability?

RESOURCE QUESTIONS	Pole to ma to	Heirloom toma to	Blueberry
To what extent do you own or control appropriate land resources? <i>(1=inadequate, 3=some, 5=enough)</i>	5	5	5
To what extent do you own or control water resources? <i>(1=inadequate, 3=some, 5=enough)</i>	4	4	4
Do you have timely access to the financial resources required for this product? <i>(1=no, 5=yes)</i>	4	4	3
Do you own or have access to all equipment and facilities needed? <i>(1=no, 5=yes)</i>	5	4	4
Do you have access to sufficient labor with appropriate skills when needed? <i>(1=no, 5=yes)</i>	5	5	4
Do you have access to the necessary supporting infrastructure in your area? <i>(1=no, 5=yes)</i>	5	5	4
To what extent does your family support this new product? <i>(1=low, limited; 5=high, full)</i>	na	4	4
To what extent will you have the ability, time and willingness to manage this	na	4	3



# Risk Management Ability?

RISK MANAGEMENT QUESTIONS	Pole tom ato	Heirloom tom ato	Blueberr y
Given all of the above, how risky is this product? <i>(1=very risky, 5=low risk)</i>	3	3	2
How available are the resources and tools to manage the risks identified? <i>(1=none, 5=very available)</i>	2	2	2
Are you willing to accept the risks you have identified? <i>(1=no, 5=yes)</i>	4	4	4
Are you able to manage the risks you have identified? <i>(1=no, 5=yes)</i>	2	3	2



# Summary & Decision

**What are the three to five most important factors/questions that will drive your decision? Using these factors, rank your alternatives.**

The following summarizes the questions or factors that the Profitseekers thought were most important. The questions that you choose may be different.

MOST IMORTANT QUESTIONS (Grower Selected)	Pole tomato	Heirloom tomato	Blueberry
12. profit potential	<i>na</i>	<i>4</i>	<i>5</i>
13. extent to which profit potential justifies investment needed	<i>na</i>	<i>4</i>	<i>4-5</i>
24. ability to produce high quality product	<i>5</i>	<i>4</i>	<i>3</i>
33. ability, time, and willingness to manage	<i>na</i>	<i>4</i>	<i>3</i>
37. ability to manage risk identified	<i>2</i>	<i>3</i>	<i>2</i>



# Summary & Decision

---

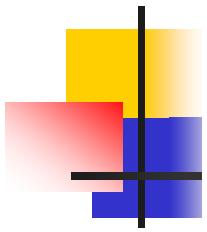
- Both alternatives show advantages over pole tomatoes
- Farmers were comfortable with growing heirloom tomatoes, showed higher profits
- Blueberries showed potential for even higher profits, but had more uncertainties
- Decision?



# Conclusions

---

- Growers must always be alert to pick up market signals
- No one single best way to assess the potential of new/specialty crops
- Evaluating new/specialty crops versus farm resources is critical
- Follow your instincts, only you know whether you can be first, do it differently or do it better than everyone else!!





# Contact Information

---

## **Ramiro E. Lobo**

Small Farms & Ag. Economics Advisor

UC Cooperative Extension

334 Via Vera Cruz, Suite 152

San Marcos, CA 92078

Phone: 760/752-4716

FAX: 760/752-4725

E-mail: [relobo@ucdavis.edu](mailto:relobo@ucdavis.edu)

<http://cesandiego.ucdavis.edu>