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# Direct Marketing and Value Added Products

## Resources

### **Introduction**

Direct marketing and value-added processing are two of the best business management strategies Maryland farmers can employ to improve their net profitability. Value-added products may open new markets, improve farm viability, enhance farm visibility, and extend the marketing season. Value-added agriculture also carries a unique set of risks that entrepreneurs should consider, including: their level of business expertise, processing skill sets, regulatory requirements, their available resources, and their understanding of direct marketing outlets. Here is an overview of the 4 Ps of what is called the marketing mix: the product, price, promotion, and place as they apply to direct marketing value-added products.

### **Product**

Any product can be considered value-added if it is originally grown by the farmer and increased in value by labor and creativity. Value-added is a customer-driven process in which the farmer retains more of the food dollar by processing, enhancing, packaging, and marketing the product him/herself. Value-added may also include production methods such as organic, grass-fed, hormone-free, and others.

It is vital to understand the benefits and characteristics of your product. For example, you're not just selling salsa, you're selling a high quality, healthy and delicious condiment, produced and sold locally. Only when you can clearly identify the traits and benefits of your product can you match them to your target customer. The backbone of value-added marketing is high quality products.

### **Price**

The better you understand your target customer's buying habits and food dollar expenditures, the more accurately you'll be able to price your product. Your market research should help you determine the price ceiling for your product. This price is sometimes determined by the perceived value of the product by the customer.

The most basic element of pricing is to know your costs, including variable and fixed costs. Be sure to calculate all the costs included not only in production, but also in marketing and distribution. Your projected unit costs can be estimated by dividing your total production costs per batch of product by the number of units produced from that batch. Your cost-per-unit helps you establish your break-even point. There is no profit made or loss incurred at the break-even point.

Value-added products usually move in low volumes so using margins rather than mark-ups (production cost plus profit) is a more advantageous pricing format. A margin is the selling price less your profit. Using a margin pricing strategy, the selling price less the profit margin equals the costs.

Gross Profit Margin % =  $\frac{\text{Selling Price} - \text{Costs}}{\text{Selling Price}} \times 100$

General guidelines suggest a gross profits margin in the 40% to 60% range. Any less than 40% indicates you probably won't be able to support the product; over 60% will probably put you through the product's price ceiling.

For example--the per unit production cost of your Jammin' Jelly preserves is \$1.25. You decide to use a 45% gross profit margin.

Selling price:

= per unit cost/ (1.00-margin)  
 = \$1.25/ (1.00- .45)  
 = \$1.25/ (.55)  
 = \$2.27

If you had decided to use a simple 45% markup the calculated costs would be:

Selling price:

= per unit cost x (1 + percent mark up)  
 = (\$1.25 x \$1.45)  
 = \$1.81

### **Promotion**

During the marketing research and development phase of your value-added product ask yourself:

- Who are my target customers and why should they buy my product?
- Who are my competitors and why are my target customers buying their product?
- How will I differentiate my product from my competitor's?

Answers to these questions will help you determine how and where to promote your product. Truly understanding the benefits and characteristics of your product allows you to determine your unique selling proposition (UPS). Your UPS very clearly answers the question, "Why I should do business with you instead of your competition?"

Promotion is often a mix of activities including some form of advertising, signs, brochures, samples, and special events. Word of mouth promotion is still the cheapest and most effective form of advertising. Constantly test and track the effectiveness of your promotional activities to determine what works best for your particular type of product.

### **Place**

Value-added is all about niche markets. The keys to successful niche markets are to find markets that are:

- Significantly different from the mass market in the same class of items to allow for premium pricing.
- Still large enough to provide enough sales to be profitable.
- Is too small to attract mass production and distribution.

Direct Marketing via on-farm retail outlets, farmers' markets, CSAs, e-commerce websites, specialty grocery stores, gift shops, mail order catalogs, and craft shows have proven to be successful outlets for direct marketing your locally grown and processed value-added products.

## *Resources*

### **University of Maryland Extension Resources**

- [Marketing & Promotional Tools for Pasture Raised Beef - What Works?](#) [1]  
Ginger S. Myers, Regional Marketing Specialist  
University of Maryland Extension  
Format: Adobe Web Conference
- Direct Marketing Value Added Products (Slide Presentation)  
[Direct Marketing and Value-added Products.pdf](#) [2]
- [Food Processing in Maryland](#) [3]  
(this web site)
- [Ag Marketing](#)  
[4]The Agriculture Marketing Program's mission is to assist individuals with marketing plans, develop profitable, sustainable marketing opportunities, and work in coordination with other supporting agencies to enhance Maryland's agricultural economy.

### **Agencies, Associations and Government Resources**

- [Adding Value to Farm Products: An Overview](#)  
[5]The National Sustainable Agriculture Information Service - ATTRA [5]

Links updated 8/26/14

**Section:** [Maryland Rural Enterprise Development Center](#) [6]

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#### **Links:**

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 [2] [https://www.extension.umd.edu/sites/default/files/\\_docs/Direct%20Marketing%20and%20Value-added%20Products.pdf](https://www.extension.umd.edu/sites/default/files/_docs/Direct%20Marketing%20and%20Value-added%20Products.pdf)  
 [3] <https://www.extension.umd.edu/node/4913>  
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