The changing face of agriculture

Young, beginning, and small farmers/ranchers expand through direct "retail" markets

The future of agriculture depends on the financial success of young and beginning producers. With this objective in mind, each Farm Credit institution has a mandate to support the credit needs of young, beginning, and small (YBS) farmers and ranchers. As the agricultural producers of the future, the YBS market is best positioned to illustrate the shifting financial, technological and operational needs of agriculture as it transforms and evolves. Where is it going? Why is it going there? And most importantly, what does it mean for the future?

Twenty-five farmers in west central Virginia are supplying Washington and Lee University's dining halls with fruits and vegetables, dairy, meats and honey. After only three years, local sourcing accounts for 35% of the food consumed and a one-percent decline in expenses. Local foods account for 15% of the budget, but the eventual goal is 75%. This is just one story of many: Growers are not only selling through traditional channels, they're marketing and selling locally, and these types of small farms and marketing channels are growing in size and number.

This consumer-focused trend, or Retail Agriculture, requires comparatively low start-up capital needs, has low overhead, and needs a relatively small land base, and is therefore a ripe channel for entry into the agricultural market and for the development of new markets.

Data from the USDA Ag Census reveals this trend as well. There is a noticeable increase of young farmers in urban areas, where community farming plots and organic growing communities have been flourishing. Growth can also be seen in smaller more isolated communities. Additionally, according to Ag Census data geospatially mapped by the Farm Credit Council, beginning and small farmers are moving into urban areas as well: forty percent of beginning farms are in metropolitan counties.

Other data is even more convincing. Two out of five farms with direct sales are operated by beginning farmers, twice the average of farms being operated solely by a beginning farmer. Also, with one in three beginning farmers over the age of 54, many beginning farmers are coming from occupations outside of agriculture. It is clear that a newer generation of YBS farm operators are developing new channels distinct from standard agricultural marketing practices. These newly-defined channels include increased customer interaction, the elimination of second tier distribution networks, and the ability to obtain higher prices by establishing economic value through specialty product attributes, such a organic, locally grown, and other sustainable production practices.

A small number of large farms continue to supply most of the country's food production. It is important to note, however, that the USDA 2007 Ag Census found that 291,329 new farms were created nationwide in the previous five years. These new farms tend to be smaller and more diversified than the norm with younger primary operators, including more women and minorities. At the same time, between 1997 and 2007, sales for direct marketed food products grew from $591.8 million to $1.2 billion.

Why is this market growing?

The proliferation of farmers' markets and Community Supported Agriculture (CSA) is the tip of the proverbial iceberg. Demand for specialty products produced locally—fruits, vegetables, meats, cheeses, processed foods, beverages and cosmetic and other non-food products—is expanding beyond limited direct-market channels to high-volume, wholesale markets. Restaurants and grocery stores as well as institutional food services like universities, schools, and hospitals see a competitive advantage in being able to tell the story of how their product reached consumers from farm to fork.

These new agricultural markets are flourishing as a result of a multitude of factors.

- Farmers and ranchers can capture a higher margin when they grow vegetable or meat products with a

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specific consumer market segment in mind, such as being local, organic or small farm-raised.

- Local markets boost local farm economies. Farmers may increase their returns by selling products as close to the market as possible and in a form that the consumer can most readily use.
- Many people pay more for food products perceived as being fresher, more nutritious, and tastier as well as resulting from environmentally-friendly farming practices. Consumers pay a premium to know the source of their food.

Notably, the critical factors that make entering and remaining in agriculture challenging—high agricultural land prices, increased production from developing countries, escalating input costs, and the nearly prohibitive overall price tag to enter the agricultural market, which often includes buying or leasing equipment, hiring staff, preparing the land, and developing business trade partners—have provided the foundation for the growth of these new market channels.

Demographic changes have contributed as well. The farm population is aging as the baby boomers mature and their children begin to enter into agriculture. Populations are declining in many rural and agricultural communities and the number of young farmers is decreasing, while counties near to urban areas see farmland fragment into smaller sized farms or be removed from agricultural production entirely.

These unique and coinciding circumstances have created a market for producers to pursue highly-differentiated products and consumer-oriented marketing strategies. Thus, the opportunity for small and medium-sized farm operations to diversify their operations to exploit a gap in the marketplace has coincided with a consumer trend of increasingly diversified food preferences.

If the evolution of this trend in consumer demand for farm products stopped at local farmers' markets, it would be easy to dismiss. However, the impact of this trend shows that it is—and will continue to be—economically significant, commonly practiced, and geographically widespread.

Indeed, these new producers and marketing channels are gaining a stronger hand, and are in some ways driving state and federal farm policy and regulatory frameworks.

What does it mean for the future of agriculture?

This amplified consumer-driven trend towards Retail Agriculture has provided a critical, profitable market for many small and mid-sized agricultural producers. However, scaling up production to access higher volume marketing channels often means that producers must be involved in creating and developing the necessary processing and distribution systems. So, while these new markets and distribution channels are emerging as social, political and economic forces to be reckoned with, there is still some distance to go before they are truly viable.

"This is typical of emerging markets," said Gary Matteson, Vice President, Young, Beginning and Small Farmer Program, Farm Credit Council (FCC). "Much like when the transportation industry started out, there is a lack of knowledge about efficiencies, risks, and how to maximize profitability. There will be losses as the market develops and that's part of the natural evolution of any new industry."

Through FCC, Matteson and his team have been working with willing Farm Credit Associations and local Farm Bureaus to engage and inform producers, financers, regulators, lawmakers and others about the emerging changes in the agricultural markets and how to best support and nurture them. At the same time, FCC is also engaging in benchmarking projects with associations such as Farm Credit East (based in Enfield, CT) to better understand retail-based business models, and to identify strategies for success.

Conventional farmers and ranchers, Farm Credit's core-customer base, may have historically dismissed such market trends, however the pragmatic need for collaboration should over time likely outweigh any conflicting cultures among ag producers. Both sides are recognizing that community supported agriculture and the production agriculture industry can and should be allies, providing seamless and complementary elements to the global food supply chain.

A new generation of young, beginning and small farmers is taking the local food movement and developing a viable marketplace. The near future will almost certainly include a thriving nationwide network of local farm economies and involve embracing this new type of producer. Although this Brave New World is certainly not without risks, the benefit to agriculture as a whole will be remarkable.

Who are young, beginning & small farmers?

Producers who meet at least one of the following criteria:

YOUNG—35 years of age or younger

BEGINNING—Less than 10 years agricultural experience

SMALL—Farm production is less than $250,000 annually

50% *...of loans in the Farm Credit System are for less than $50,000*

88% *...of loans in the Farm Credit System are for less than $250,000*

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