



Horticulture Australia

InnoVeg

Horticulture Australia Limited



CASE STUDY

Direct Sales
and Food Safety

A chalkboard sign with a wooden frame is the central focus, displaying the text 'FARMER'S MARKET' and '8-12' in white chalk. The sign is positioned in the foreground, slightly to the right. In the background, a blurred scene shows a market stall with a white canopy. Two men wearing aprons are working at the stall, and a woman in a dark green shirt is standing to the left, holding a yellow fruit. The background is softly out of focus, emphasizing the sign.

FARMER'S
MARKET
8-12



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Case Study

DIRECT SALES AND FOOD SAFETY

Introduction

This case study explores the benefits and considerations for vegetable growers who might be considering direct sale of their produce to the public. The case study is based on a real grower and their business situation to help explain how decisions are made.

A vegetable grower in Western Sydney was discussing their business decisions and mentioned that they would make more money by selling their vegetables directly into the local community and at various farmers markets in the state. This case study describes the issues and calculations the grower has to consider, in order to make good decisions about how to pursue a direct sales business.

Direct sales

Direct sales involves a farmer selling directly to the consumer at farmers' markets, through a roadside stall, pick-your-own, at on-farm stores, via catalogues, the internet / email, to restaurants, or via Community Supported Agriculture (CSA).

Farmers' markets

The interest in farmers' markets has increased in recent years. Further information can be found via:

[Australian Farmers' Markets Association Inc.](http://www.farmersmarkets.org.au)

www.farmersmarkets.org.au

[Victorian Farmers' Markets Association VFMA](http://www.vicfarmersmarkets.org.au)

www.vicfarmersmarkets.org.au

The introduction of the VFMA Accreditation Program, an initiative of the Victorian Farmers' Markets Association supported by the Victorian government, ensures

authenticity of producers, i.e. that the person they are transacting with is the person who grew or made the produce. This policy provides a solid basis of quality, integrity and fairness to all consumers. The program advocates best practice and celebrates the work of genuine farmers, specialty makers and farmers' markets.

Pick your own

Many people love to pick their own fruit and vegetables. For inspiration and further information on this market segment check out <http://www.pickyourown.org/australia.htm>

Pros and cons

Selling at full margin - reducing supply chain costs

Selling via a direct market, will enable you to set prices based on market feedback rather than taking prices from agents and cut out the cost of any middle person.

Value adding potential

Based on feedback from consumers, value adding may have potential. However, as soon as you cut and/or further process your produce, you are likely to have to adhere to a different set of food safety regulations. For example, this may require some training and certification of people and facilities for the necessary food handling accreditation in your state.

Selling ripe product

Direct marketing will allow you to sell ripe product, as it does not have to be harvested early to go through the supply chain. This means you can be supplying superior tasting product. There are also opportunities for 'pre selling' some of the crop so that your requirement to sell stocks of perishable products is reduced.

New business component

Direct marketing as a new business component can spread the risk and may help to sell produce that has small external defects that are not accepted by the larger retailers. For some consumers the superior taste of the product is far more important than the external appearance.

Different financial profile

Direct sales of produce will result in a slightly different cash flow situation and more transactions with smaller customers. More detailed and frequently used financial records and reconciliation will be required than what is usual for large deliveries into the wholesale market.

Dealing with the public

Direct marketing involves getting direct feedback on quality and presentation – if you do not like dealing with people, it may not be for you. Alternatively, you may need to employ someone who likes selling and dealing with people to complete the direct marketing components of the business.

Council planning and permits

If you intend to install permanent or semipermanent structures that may affect traffic safety, there may be some delays and additional costs. Check with your Council early on. If you intend to attend farmers markets that are located in different shires, you may need a separate set of permits for each shire.

Insurance considerations - public liability

If you are selling in a public place, i.e. a roadside stall, you may have to ensure that you are covered for public liability. This may be a substantial cost. If you are near a busy road you may have to ensure that people can leave and enter the road safely and have a place to park. Your local Council will provide the required information.

Time

Direct sales can take far more time than supplying a merchant or market agent. You need to be careful not to take time away from your core business, which is producing vegetables. Dedicated staff or family members may be required to look after the direct business. A significant consideration is that most of this work will occur on weekends potentially impacting on time with family and other commitments. When changing your business structure it is also important to weigh up the costs and benefits. For example, while a direct sales business may bring in more money, the additional time worked and costs incurred may actually result in a lower hourly rate for the hours you are working.

Marketing

You will need to let people know about your direct sales business. You can use your own, or a public website, flyers, emails, word of mouth, combined marketing with other businesses in the same area, or look at agri-tourism.

The story of your farm and your vision can be a good marketing tool. People love recipes and anything that promises good health. It is important to be genuine and honest with your clients.

Why does food safety matter and how do we manage it?

Food safety matters because you do not want somebody to become sick (or worse) and take the risk of being sued.

If you intend to set up a stall at an established farmers market, you will be able to get relevant information on requirements for stallholders from the organisers of the market. For other types of direct outlets, contact your local Council to find out about food safety regulations that affect you.

Below are some general requirements:

Food Act Registration

If you are selling directly to the public, you need to comply with food safety regulations in your State and Council area. All stallholders are required to complete a Food Act Registration Application for submission to the Health Department of the appropriate Council. Each Council has scheduled charges for the Food Act Registration. The Council can provide information about the food business risk class you are in, and whether you are required to have a food safety plan or program. If you are only selling uncut fruit and vegetables you will be in a low risk classification.

The Priority Classification System (www.foodstandards.gov.au/) does not apply to food businesses within the primary industry sector. You need to clarify whether your direct sales business will be considered a 'food businesses within the primary industry sector'. Regulations may vary somewhat from state to state.

Given low food safety risks of selling fresh vegetables, you will most likely not be required to have a food safety program, a food safety supervisor or an annual Council inspection. All food premises must ensure that the food they sell or prepare for sale is safe to eat. The Council may, at its discretion, inspect your premises (undertaking a spot check) under the Food Act.

Stallholders selling plants are not required to complete a Food Act Registration.

Food Safety Management

What can go wrong? The main food safety focus is aimed at hygiene measures to avoid food contamination with pests, chemicals or bacteria. Staff must be supervised to ensure they are not ill and use good personal hygiene practices. Food might be contaminated if premises, equipment, vehicles, containers and cleaning cloths are not cleaned and sanitised properly.

Food waste must be kept away from fresh food. Any prepared food kept at temperatures between 5 and 60°C for extended times (e.g. >2 hrs) will allow food poisoning bacteria to grow. Pests like rodents or insects and also pets must be kept away from food.

Stallholders selling any foods (with the exception of whole, uncut fruit and vegetables and low risk pre-packaged foods) are required to complete a Food Safety Plan or Program. You can look for templates on the web (e.g. http://www.health.vic.gov.au/foodsafety/downloads/events_template.pdf) or ask at your local Department of Health or Council offices. Freshcare or any similar Hazard Audit Critical Control Point (HACCP) based quality assurance system may be a suitable program to cover Food Safety Plan requirements.

Food handlers are required to attend formal food safety training courses and have a food handlers certificate to meet skills and knowledge requirements. A food selling business can adopt many approaches to training, including on-the-job training following a training plan, recognising prior experience, or attending a training course.

The 'Do Food Safely' program, a free online food handling learning program designed to improve basic knowledge of food safety (<http://dofoodsafely.health.vic.gov.au/>) can be used to check whether you have all your bases covered.

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Those who wish to gain accreditation in food safety practices should contact their local Registered Training Organisation (RTO) for accredited courses. Details can be accessed from the National Training Information Service (NTIS) website <http://www.ntis.gov.au/>. A certificate would be advisable if you intend to process food or sell prepared food.

Freshcare

Freshcare is a food safety accreditation program(s) that is user friendly and can be used as a stand alone program or integrated with existing quality, food safety or farm management schemes.

Essentially, the system involves training, creation or documentation of your processes that ensure food safety, management of critical control points of food safety and then annual auditing by an external auditor who checks that you are producing quality and safe product.

See www.freshcare.com.au.

We recommend that all growers use Freshcare or similar food safety and quality assurance programs to ensure that production is safe and can be demonstrated as being safe. It only takes one small mistake or contamination in the industry to create significant damage to markets, products and reputations.

Food Labelling

If you intend to cut, or prepare and prepack some of your product, remember that all packaged food for sale is required to have labelling as prescribed by the Australian Food Standards Code. Information on food product labelling, including a Nutritional Panel Calculator is available from the Food Standards Australia New Zealand (FSANZ) www.foodstandards.gov.au.

Will direct sales make more money?

Figure 1

Additional costs when expanding marketing avenues

CALCULATION	COST	CALCULATION	COSTS
Overhead Costs		Total Additional Annual Costs	\$37,555
Quality Assurance accreditation & auditing	\$650	Additional Revenue required / fortnight (FN)	\$1,444
Depreciation - cool room & storage	\$2,200	Breakeven number of items / FN @ \$.80 premium	1,806
Market Fees	\$180	Breakeven number of items / FN @ \$1.20 premium	1,204
	\$3,030	Breakeven number of items / FN @ \$1.50 premium	963
Variable Costs			
Travel @ \$.75/km	\$6,825		
Labour @ \$35/hr	\$18,200		
Insurance	\$1,500		
Cool Room operating	\$700		
Bookwork/banking	\$1,500		
Internet/web site	\$2,500		
Brochures/materials	\$2,500		
Additional phone/fax	\$800		
	\$34,525		

The above calculation is an example of the additional costs for a vegetable grower who expanded their marketing avenues to include fortnightly farmers markets and some regular local direct sales to restaurants, hotels and private customers. The objective was to sell one fifth of the crop through direct sales and the remainder through the normal wholesale market avenues.

It is all about the marketing! If you are good at it, direct sales can make more money, but it is a different type of business to growing and requires different skills. You also have to choose your market carefully, be in the right place at the right time and have produce that people like.

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This case study has used the following assumptions:

- An additional 350 km per fortnight at a cost of 75c/km for the direct sales business.
- An additional work requirement of 20 hours per fortnight charged at \$35/hour, this includes superannuation and workcover costs.
- Some typical additional costs associated with a small direct sales business.

The calculation shows that the direct sales component of the business requires an additional \$1,444 per fortnight over existing market prices for it to achieve a breakeven position. Further income on top of the \$1,444 is required for it to be profitable.

When the additional money required is divided by the price premium achieved between direct sales markets and wholesale markets, then the number of additional units that need to be sold per fortnight to achieve the same result as the wholesale market is calculated e.g. at an 80 cent premium 1,806 units will need to be sold whilst at a \$1.50 premium only 963 units will be required.

Additional product needs to be sold for additional profit to be generated. If the business cannot generate at least the \$1,444 additional value required to breakeven, then the business is better off selling on the wholesale market.

This calculation can be easily customised to test and see how much additional income is required to break even for a direct sales adjunct to your business.





Disclaimer

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