



Pursuing a “Customer Intimacy” Approach

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The *Discipline of Market Leaders*, a book on business strategy, describes three alternative approaches that a business can follow toward success:¹

- Operational Efficiency—producing at the lowest possible cost (McDonald’s, Wal-Mart)
- Product Leadership—being first with new products (Intel, Nike)
- Customer Intimacy—meeting the specific needs of select customers (Nordstrom, Airborne Express)

In the United States, most agricultural producers follow the path of “operational efficiency” by producing commodities at the lowest possible cost. Aaron and Kelly Silverman, owners of Creative Growers, followed a different course. They chose the less traveled “customer intimacy” route. All of their farm enterprises provide high-quality products to specific customers. Their objective is to build a successful farm by filling certain niches in the local food system.

Creative Growers Farm produces three distinct sets of products and markets them through five different distribution channels. The farm is organized as follows:

1. Vegetable Production (63% of total revenues)

- Direct marketing of high-quality produce and herbs to restaurants (56%)—*the focus of this study*
- Weekly baskets of produce and herbs to a 15-member Community Supported Agriculture (CSA) program (7%)

2. Direct-marketing of pastured poultry (26%)

3. Flower Production (11%)

- Farmers’ market sales of cut flowers (7%)
- Direct marketing of cut flowers to businesses (4%)

¹ Treacy, Michael and Fred Wiersema. *The Discipline of Market Leaders*. Cambridge Massachusetts: Perseus Books. 1995. [Now available from DIANE Publishing Company, Collingdale, PA. Sept. 2001.]

The Silvermans live and farm in the small community of Noti, about 25 miles due west of Eugene, Oregon (population 130,000), their primary market. Aaron manages vegetable and poultry production while Kelly is responsible for flower production. Although the farm is moving towards a full-time, year-round operation, the Silvermans have subsidized it with off-farm income during their first four years. Their gross farm sales recently passed the \$100,000 level.

Creative Growers Farm is small by most standards. Out of 22 owned acres, three are devoted to 30 different vegetable crops. Most of the remaining acres are in pasture and dedicated to the poultry enterprise. Five additional acres are rented from a neighbor and used for crop production. The Silvermans employ three people during the growing season. The business is growing slowly because Aaron wants to be sure his products meet the needs of his customers before he expands production.



Competitive Advantage

Creative Growers sells more than 30 different organically grown vegetables to a small group of restaurants in Eugene. Restaurant supply has always been a highly price-competitive market and this competition may continue to increase. For example, the Internet firm FOODgalaxy.com recruits suppliers and restaurants by promising to make the purchasing process more efficient. FOODgalaxy provides software that allows a restaurant to automatically split orders among suppliers based on the lowest price for individual items (see their website for additional information). Restaurants are promised reductions in costs through less time spent on ordering.

Aaron, in contrast, offers something quite different to his restaurant customers. Since 1996 (when he began farming), he has cultivated individual chefs by providing what the Creative Growers order sheet describes as “products that are of superior quality and require minimal preparation prior to use.” To get started, Aaron targeted likely restaurants and made face-to-face contacts

in order to sell both his products and himself. For each ongoing customer, Silverman carefully harvests the crops himself, takes each order to the restaurant kitchen, puts it away, and rotates stock in the process. In return for this high level of service and guaranteed quality, he charges full retail prices for his products instead of wholesale. Two keys to Creative Growers’ financial viability are that he receives per-unit prices from commercial customers that are equal to or higher than what he could get for the same products at the local farmers’ market and that each order is fairly substantial. As a result, Silverman can earn as much from five quick restaurant deliveries as others earn from devoting most of a day to the farmers’ market.

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How is he able to do this? “The chefs are more willing than even the best farmers’ market customers to pay for the quality that I provide,” Silverman explains. Even though Creative Growers receives top dollar for its vegetables, on a per-plate basis the cost of the vegetables represents a small percentage of what consumers pay.

The table shows a sample of the information Aaron provides to his customers.

| Item | Projected Duration | Target Price |
|--|--|-----------------------------------|
| Arugula | Early April–End November | \$7 per pound |
| Basil: green, purple, cinnamon, Thai, and lemon—loosely packed tips, no stem | Early June–End September | \$9 per pound |
| Eggplant: baby Italian, Japanese | Mid-July–September Mid-July–September | \$3 per pound \$1.85 per pound |

Although Silverman does not have formal contracts with the restaurants, he does have excellent communication with them. Over the winter, he sits down with each chef to plan production according to his or her needs. When introducing a new crop, he produces only a small amount to see how it goes, both in production and for his customers. He is committed to excellent quality *before* he makes the sale and will plow under a crop that does not meet his standards.

Silverman recognizes that he must have a broad selection of products to be of interest to restaurants as a regular supplier. He must also clearly understand the ebb and flow of each restaurant because he will lose sales if he misjudges products and quantities. During the season, he constantly tweaks production to provide what fits best with his clients’ menus. While he prefers to grow crops that provide the best return (he maintains extremely detailed records), he is willing to produce certain crops for his restaurants as loss leaders. Silverman also provides the restaurants with a list of crops he cannot/will not grow so they can get them from other suppliers.

Perceived Threats

- **One or more of his major clients goes out of business.** Because Silverman’s business is based on relationships and because the restaurant business is so volatile, this is a very real threat. It takes years to cultivate a good client, but he may lose that client overnight if the restaurant goes out of business or the chef leaves. To date neither has occurred, but he recognizes it as a major risk and addresses this threat by maintaining a diverse set of clients.
- **Insufficient or poor quality labor.** Although Creative Growers is a small business that does not hire a lot of help, the help that is hired must be of high quality. In one recent season, a Creative Growers employee was not maintaining the required quality standards and business suffered as a result. Aaron fired the worker and has been more careful ever since.
- **Inability to expand due to lack of access to the facilities of a neighboring farm.** Aaron has been able to use the facilities and equipment of a much larger neighboring farm. Losing that access would cause Silverman’s business to suffer. Aaron has been working on increasing the capital stock of his farm through grant writing.
- **Economic downturn.** All of Aaron’s products target wealthier customers and are higher-quality versions of “standard” products. If the economy were to turn sour, would people cut back on restaurant meals, free-range chickens, and flowers?

“My sales are totally based on relationships.”

Interestingly, two threats one might expect Creative Growers to face are not among those Silverman perceives. First, he does not feel someone else can steal his customers. “My sales are totally based on relationships. The chefs like me and they like my products. They will not simply switch to an alternate supplier because of price.” So, Silverman does not feel direct competition from other local growers or distributors. Secondly,

because he produces so many different crops, Silverman does not view weather as a major threat. In any given season, some crops flourish while others do not, but every year he will have successes.

Integrating Different Parts of the Farm into a System

One of the keys to Silverman’s success is that he views his farm as a *system* and has a thorough understanding of how its individual enterprises fit together. So, while he is interested in the sales of each component, he is aware of the impact each has on the others and will reduce or eliminate an enterprise if it adversely affects the whole farm.

- The small CSA program provides additional cash flow and makes use of excess and sometimes lower-quality produce. Silverman does not plan to expand it.
- The two flower enterprises are semi-autonomous parts of the business, overseen by Kelly and with a separate clientele. Though Kelly sells flowers at the local farmers’ market, she does not sell the farm’s produce there. The Silvermans feel that would require hiring an additional salesperson and believe they can earn higher prices for their produce from their other outlets.

- The direct-marketed chickens represent a smaller supplemental enterprise that provides fertilizer for the rest of the farm and has the potential for substantial growth. In the early years, poultry represented as much as 65 percent of total income and in time this enterprise may again become the largest part of the farm. Expansion is limited by the lack of infrastructure (for inputs, slaughter, etc.). Looking ahead, if he can overcome regulatory hurdles, Silverman wants to integrate poultry sales into both the restaurant supply and farmers’ market aspects of his business. He already provides chickens to his chefs to test quality, and he plans to conduct market surveys in a number of farmers’ markets. To make his poultry venture work, he plans to form a cooperative with two farmers who use similar production techniques.

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Market Research

Silverman carefully researches all of his markets and products before entering production. Once in production, he gradually increases his volume as he determines the new enterprise will fit into the overall farm. For example, he will conduct consumer research in farmers’ markets before he markets his poultry products there.

Replicability

Someone with similar skills could copy each of the Creative Growers enterprises. But the individual niches are narrow enough in the Eugene area that Aaron believes entrants do not pose a big threat to his business. So, replication is more likely to take place in a different geographic area.

Key Points and Guiding Principles

- A targeted “customer intimacy” approach can work for a small farmer who wants to escape from the mass production/price competition form of farming.
- Selling to restaurants requires
 - Excellent people skills,
 - The ability to provide consistent, exceptional-quality products, and
 - A sufficient understanding of the individual restaurant businesses to accurately predict the products and quantities each will need over the course of the season.
- Developing a successful small farm often requires the careful melding of diverse enterprises into a coherent and profitable system.

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