

Making Grassroot Agricultural Auctions Work

Large retailers often prefer to buy produce from large farms, leaving the owners of smaller farms in search of alternative markets.

Drs. Stephan Tubene and Jim Hanson of the University of Maryland took a close look at the ways in which Pennsylvania farmers have been using wholesale produce auctions to sustain and increase their local markets.

AT A GLANCE

- Small Farms can reduce risk by diversifying their products and then devising a marketing strategy to transfer their products to the local and regional market in the most efficient manner such as an auction.
- The five most common items sold in the Pennsylvania Wholesale Produce Auctions are cantaloupes, watermelons, tomatoes, pumpkins, and sweet corn.
- Auctions while successful face challenges in the form of limited space, limited produce volume and unavailability, the absence of cooling facilities, price fluctuations, and competition from farmers' direct sales.



PHOTO: EDWIN REMSBERG

Local-level auctions enable an efficient trading of farm products. Small farmers can use auctions such as this one to sell their products to the local and regional markets.

Auctions are often viewed as a popular process for exchanging goods that one would not usually find in a store, such as a valuable painting. However, this portrayal of an auction is limited. Lesser known auctions are used to trade farm products, set farm prices, sign corporate ventures and, in the recent past, to determine which firms would receive federal funds to stay solvent. These auctions usually

take place in skyscrapers with billions of dollars at stake. Dr. Stephan Tubene, Associate Professor in the Department of Agriculture, Food and Resource Sciences, and Co-Project Director, Outreach for Socially Disadvantaged Farmers and Ranchers Project at the University of Maryland Eastern Shore Extension and Dr. James Hanson, Associate Professor in the University of Maryland's Department of Agricultural

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- In the absence of traditional retail outlets and wholesale markets, auctions are a good platform for meeting farmer and consumer needs.

and Resource Economics, have also explored local-level auctions in Pennsylvania that enable an efficient trading of farm products.

Smaller farms in the United States face increased risks due to the evolution of large farms, which in turn better suit the purposes of large retailers. Owners of smaller farms find it economically unviable to opt for costly state-of-the-art innovations that could boost their production but increase operating costs in the process. One avenue for reducing risk is to first diversify their products and then devise a marketing strategy to transfer their products to the local and regional market in the most efficient manner.

Pennsylvania Wholesale Produce Auctions achieve just that by providing a platform for this exchange. Tubene and Hanson studied nine of the ten such auctions that take place across Pennsylvania. They analyzed the ways in which these auctions operate, the strengths and weaknesses of their operations, and the usefulness of the

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auctions as a marketing tool for small farmers. They also conducted personal interviews with nine auction managers and collected information on business profiles, advertisements, sellers, buyers, profitability, employment, etc. Since the responses are numerous and follow a general pattern, they are presented in Table 1.

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Table 1: General Profile of Nine Pennsylvania Wholesale Produce Auctions

Ownership	Private, corporate, or family-based.
Major Goal	Serve local communities; generate profits for the sellers; provide quality produce.
Market Type	Wholesale auction market.
External Financial Support	None.
Community Involvement	Local farmers and buyers who do business with the auctions.
Advertisement	Newspapers, word-of-mouth, direct mail, reputation, meetings, and personal contact.

Table 2 : Strengths	
Board of Directors	Responsible and qualified board members
Commission Rate	8-10%
Produce Quality	Excellent, diverse, fresh, local
Auction Location	Rural farming communities
Clientele	Local customers and sellers
Management	Customer-oriented, honest and friendly



PHOTO: EDWIN REMSBERG

Table 3 : Challenges	
Major	Grading of products
Other	Limited space in facility, produce volume/ unavailability, absence of cooling facilities, droughts, price fluctuations, competition from farmers' direct sales, etc.

The five most common items sold during the auctions are cantaloupes, watermelons, tomatoes, pumpkins, and sweet corn. Roadside market operators, farmers, chain food stores, independent grocery stores, and restaurants make up the buyer profile.

with local chain food stores. Neither do any auctions have contractual arrangements with participants due to low financial incentives.

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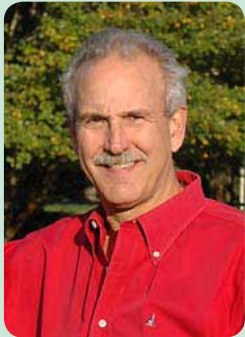
8 to 10 percent, depending on the location of the auction and the degree of the geographical isolation of the community being served. At times, produce from the Carolinas, Florida, and Georgia are sold at the Pennsylvania auctions.

To understand the pros and cons of an auction and how it relates to the farmers' interests, Tubene and Hanson examined the factors influencing the growth of these auctions. The responses are tabulated in Table 2 and Table 3.

In conclusion, these auctions provide an alternative marketing strategy for farmers at the local level and provide a one-stop shop for buyers; in the absence of traditional retail outlets and wholesale markets, auctions are a good platform for meeting farmer and consumer needs. Although there are some stumbling blocks, this kind of wholesale marketing can support small farmers. ■



Dr. Stephan Tubene



Dr. Jim Hanson



PHOTO: EDWIN REMSBERG

Auctions such as the pictured Leola Produce Auction in Lancaster County, Pennsylvania have an average annual turnover of \$3.5 million and charge commissions ranging from 8 to 10%. These auctions seek to serve local communities; generate profits for the farmers; and provide quality produce to local customers.

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