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## Successfully Adapting to Change

*Wendy Umberger and Dawn Thilmany*

**A**s Cindy Shoemaker, co-owner of Honeyacre Produce Company, finishes her weekly delivery to area chefs and drives towards the Wednesday Farmers' Market in Fort Collins, she notes how marketing-oriented her company has become. In a single decade, competitive pressure, production choices and market segmentation have transformed the Shoemakers' business from a traditional, commodity-producing farm, to a capital-intensive (greenhouse hydroponics), labor-intensive, direct-marketing enterprise. Although these changes have strengthened the business, Cindy cannot help but wonder where, to whom, and what products she will be marketing in the future.

Honeyacre Produce Company is an innovative operation that has evolved from a traditional family farm to a 22,000 sq. foot, greenhouse farm located in eastern Colorado. They grow and distribute premium tomatoes for consumers in the Front Range of Colorado. Their mission statement reads: "We believe that customers have the right to demand quality products, and we dedicate our efforts to fulfill that right by producing superior produce that is healthful, chemical-free, and great tasting." Honeyacre Produce is part of a larger parent company (Honeyacre Enterprises Ltd.) that also includes Shoemaker Ranch, Inc., a cow-calf operation specializing in natural, grass-fed beef. Honeyacre currently supplies premium tomatoes, European seedless cucumbers, and tri-colored peppers, all of which are vine-ripened and grown without the use of any chemicals.

### **History of Honeyacre Produce Company**

Honeyacre Produce Company began in 1985 as a partnership between Jack, Viola, Russell, and Cindy Shoemaker. The Shoemakers first produced traditional crops such as sugar beets, wheat, corn, and cucumbers. However, during the 1970s and 1980s, the underground water table fell rapidly and water became too scarce to produce these commodities. The Shoemakers began the search for alternative farming methods and eventually identified a unique, hydroponic vegetable growing system that was available through a licensing agreement. They also signed

a distributor agreement, which allowed them to market their produce within a specific Colorado territory.

This system failed to live up to its promise and the Shoemakers were able to dissolve their contract. Russell, the operating manager, began to seek alternative greenhouse growing techniques. Through trial and error, he developed the system that is presently used. Due to their distinctive growing system, Honeyacre Produce soon became a successful and profitable enterprise. Honeyacre established a reputation for producing high-quality produce, and Russell started to gain his own personal reputation as a leader in small-scale vegetable production.

Thanks to their continued success and regional reputation, Honeyacre Produce was able to double their customer base and to expand their greenhouse operation to its current 4,700-pound capacity plant in 1994. Numerous existing and potential growers visited Honeyacre in search of ideas. Tomato growers and greenhouses soon sprang up all over the country as other entrepreneurs realized the profit potential. As competition increased and profits decreased, the Shoemakers recognized the need to set their product apart from their competition's. Honeyacre decided to change to "pesticide-free" production methods and began differentiating their tomatoes by labeling each tomato to assure end consumers that their produce was "pesticide-free."

### **Market Research and Target Market**

Honeyacre has spent several years studying the market for vine-ripened and pesticide-free produce. Their primary information about changing consumer preferences comes from reading periodicals, visiting with greenhouse suppliers, and talking to other growers. The Shoemakers say they take every opportunity to visit as many retail stores as possible, enabling them to check product prices, and quantity and quality of competing products.

Due to Honeyacre's original distributor agreement, and given the "fresh" nature of their product, the primary geographical marketing area continues to be Colorado's Front Range, a region that is growing in population as well as ethnic diversity. The primary cities included in this area are Fort Collins and Boulder. Initially, Honeyacre targeted customers with a "mid-to-upper" income range who shopped at retail and health food supermarkets. These stores had to be able to move at least 300 pounds of specialized tomatoes weekly in order to cover the fixed costs the Shoemakers incurred to secure this retail space.

After studying market trends, they found two secondary markets to target: the health conscious consumer and consumers seeking taste and versatility. These secondary markets are composed of men and women, ages 25 and above, who are employed, have some higher education, enjoy a healthy lifestyle, and are typically willing to purchase foods that they believe to be healthful and chemical-free regardless of the product price. The consumers who purchase Honeyacre produce for taste describe Honeyacre tomatoes as "comfort food because they taste like old-fashioned, homegrown produce."

### **Product Pricing**

The Shoemakers keep very good records of all production costs; they also weigh and count all of their produce every harvest day. Pounds of production are then compared with production costs in order to calculate a break-even price.



The Shoemakers consider several things when pricing their product. They begin with the previous year's prices and then make adjustments based upon several variables: direct costs of production, market prices, retail markup, seasonal demand fluctuations, and product quality.

In order to price competitively, the Shoemakers inspect other greenhouse producers' tomato prices. They pay more attention to stable greenhouse prices that prevail in typical weeks when local outdoor production is not in season. Excessively low prices during the peak seasons and other atypical weeks are disregarded because they tend to be an indication of "dumping" (perhaps another grower had an abundance of produce, or it represents a one-time special purchase for the retailer). Thus, the price is not an indication of what the market will bear.

The Shoemakers believe that they have strong relationships with the produce managers at their retail stores, with their restaurant clients, and with their farmers' market customers. Retailers are usually willing to share their markup policy with the Shoemakers because of their positive and trusting relationship. Russ and Cindy's attention to quality control has in the past resulted in lower than average markups, resulting in relatively greater profits for Honeyacre. If Honeyacre is developing a new pricing policy for a new market, they usually begin by applying markups that they have obtained from their current customers.

All local produce must bear seasonal price fluctuations, so the Shoemakers try to get the best possible price early in the season before field-grown produce arrives at the farmers' markets. Russ and Cindy have found that at the end of the season (after frost), prices are never as good as those of the early market's. Consumers begin to look toward winter and seem to change their eating habits, turning away from fresh produce.

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Honeyacre moderates their product prices based on quality. The Shoemakers’ commitment to quality comes through in their direct contact with end consumers and consumer education. They take every opportunity to explain their unique growing system and the benefits of chemical-free produce. Product sampling has become very important in grocery stores as well as at the farmers’ markets. Positive feedback from consumers indicates their product is well worth the higher price.

#### **Honeyacre’s Competitive Edge**

Initially, Honeyacre’s competitive edge was their ability to provide a year-round supply of vine-ripened produce. However, in the 1990s, the greenhouse tomato industry experienced tremendous growth due to increasing demand for garden quality, vine-ripened tomatoes. Once consumers tasted a properly grown greenhouse tomato, they no longer demanded the “trucked-in” field varieties or postharvest, matured green tomatoes imported from major U.S. growing regions such as Florida and California. The greenhouse boom eventually brought large commercial greenhouses to Colorado, thereby increasing the supply of fresh tomatoes. Honeyacre believe they have been able to maintain their success and withstand the increased competition because of the tomatoes’ unique flavor and the freshness of their produce.

Honeyacre tomatoes have a distinctive, *garden-fresh flavor* due to the greenhouse production process implemented by Russ. Honeyacre tomatoes have a better flavor because they are harvested at a riper stage, enabling the tomatoes time to develop a fuller flavor. Honeyacre’s competition must harvest their product while it is still green in order to withstand the harsh machinery used to sort and to ship the tomatoes. Furthermore, tomatoes that are harvested green and are ripened while on the shelf tend to have a flatter flavor and a grainy texture.

The *freshness* of Honeyacre produce sets them apart from the competition as Honeyacre employees are able to deliver their tomatoes within a day of harvest. All of Honeyacre’s markets are located within 200 miles of the farm. This enables them to harvest a riper tomato and to get it to the customer sooner. Tomatoes produced by Honeyacre’s competitors are held in warehouses before being shipped, and in many cases, it is days before the produce arrives in stores. Honeyacre’s strict quality control system insures near perfect tomatoes and allows them to guarantee their customers a longer shelf life.

The Shoemakers feel that they have achieved their competitive advantages through their individual expertise and the relatively smaller size of their operation. This smaller size allows them to pay closer attention to the quality of their produce and enables them to correct problems sooner than their competition. The attention to detail results in a superior, fresh, and high-quality product.

#### **Prominent Threats**

The primary threats that Honeyacre faces are increased competition due to increasing foreign trade in the tomato market, the movement of large-scale greenhouses into Colorado, increasing



interstate commerce, and continued consolidation of retail sales and procurement. This increased competition forced Honeyacre to reduce their prices, thus reducing their profitability. To remain profitable in the already saturated and competitive tomato market, Honeyacre has begun to seek new markets and to identify alternative crops that are suitable to produce in their greenhouse environment.

One of Honeyacre's alternative crops has been the colored, sweet bell pepper. These peppers typically have not been produced in the United States and have been available only through expensive import markets. Similar to their tomatoes, Honeyacre feels they are able to compete by providing their consumers with a high-quality product. Their peppers are pesticide and chemical free, superior in color, taste, and freshness, and they do not have to travel thousands of miles to reach the consumer.

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Honeyacre has also seen an increasing demand for the seedless European cucumber and has begun to increase their production of this crop in order to meet the resurging market for this product with U.S. consumers.

While large-scale greenhouses and foreign growers have been and will continue to be Honeyacre’s major competitors, the business faces yet another major obstacle in the distribution of their product. Historically, small, independent, nonchain stores have been the major end-consumer outlet for Honeyacre’s produce. However, increased competition from large supermarket chains has forced many of the independent retail outlets that historically sold their produce out of business in recent years. The remaining large supermarket

chains have centralized buying policies implemented to control costs—namely, purchasing only from sizeable distributors or grower-shippers that have the ability to secure them a consistent, year-round supply of produce.

Honeyacre’s experience with large distributors and warehouses has not been positive. In 1998, they approached a large supermarket warehouse. The warehouse was impressed by their product and purchased Honeyacre’s tomatoes for an entire season. At that point, the warehouse indicated that Honeyacre needed to produce enough vegetables to supply the entire Colorado chain or cease to be a supplier. Honeyacre felt that this was an impossible task because of their business’s objectives of producing a high-quality product, their current size, the cost of increasing their operation, and their desire to closely monitor their product.

Honeyacre has begun to secure other unique markets. In the 2000 season, they investigated farmers’ markets as a potential outlet. They now sell at five farmers’ markets per week in the summer season (when their product tends to be more difficult to move). Additionally, as partners in the Colorado Crop to Cuisine Project, they cooperate with other farmers in the area and market their vegetables directly to restaurants along the Front Range. The Shoemakers see this as being an innovative place to sell their product as they begin to lose their other distributors. They find that chefs recognize the quality of their product, and, more importantly, chefs are able to purchase higher volumes than a typical farmers’ market patron, so they represent an important customer segment. Honeyacre is contributing back to the local food system by providing leadership and administrative support to Colorado Crop to Cuisine as it grows and develops a larger customer base among Front Range chefs.

#### **Guiding Principles Gleaned**

- As a producer, you must stay abreast of the changing market and continually examine what your consumers demand. Lifestyles, changes in demographics, media reports, and research on nutrition and health all affect U.S. consumers’ diets. You must adjust your production methods and the crops you produce to meet these changing consumer demands.
- Develop an understanding and awareness of your major competitors. Realize what your operation’s comparative advantages are and use these to market your products.

- Competitive pricing (selling at the lowest price in the market) may not be the most profitable method of doing business. If you have a high-quality product and are able to insure the quality of the product to your consumer, you may be able to increase your profit margin. Certain consumer groups will pay for quality and may represent the loyal customer segment many companies desire.
- In order to stay in business, you must be innovative. If traditional production methods are not working, be willing to try new methods of production and explore new markets such as direct sales to restaurants and at farmers' markets.
- Maintain control of your operation's marketing strategy within the firm. Customers may request expansion or production changes based on their current market perceptions, but without long-term contracts, the firm must consider what is possible and within their ability given other strategies and objectives the firm has in place.

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