Alternative Food Networks in Piedmont: farmers' direct sales and urban consumers

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Abstract: In this paper we analyse the territorial distribution of farms selling directly to consumers their products, both on- and off-farm, and the determinants of this choice. We use individual farm data on farmers' and farm characteristics and on farm location as explanatory variables. The results suggest that all these variables are significant, but the most important are ones farm location and, for on-farm direct sales, the complementarity with agro-tourism and recreational activities.

Keywords: direct sales, Alternative Food Networks

Introduction

Direct sales are a widespread and important typology of the so-called Alternative Food Networks. This research aims at analysing the direct links between urban consumers and farmers in Piedmont (Italy). These links can take two basic forms: consumers going to buy agricultural products at the farm (on-farm sales), and farmers selling their products in urban areas (off-farm sales: farmers' markets, community supported agriculture and buying groups). These practices are an alternative to traditional organizations of the agro-food chains that typically involve several operators between producers and consumers. Also, since they are typically based on short-distance chains, they emphasize the role of local agrifood systems. The success of such alternative agrifood systems depends, on the demand side, on consumers' interest and willingness to pay for local agricultural products. Nevertheless, it also crucially depends, on the supply side, on farmers being willing to engage in such activities.

The literature dealing with farmers' choice to sell directly their products is rather scarce. On-farm sales are sometimes included among multifunctional activities (Jongeneel et al., 2009); some research investigates the determinants of the weight of direct sales (Timmons and Wang, 2010) or of the number of farms directly selling their produce (Lyson and Gutpill, 2004) using aggregate data. Some related literature concerns the choice of coffee producers to sell at the farmgate or to travel to the market (Fafchamps and Vargas Hill, 2005); the choice of sale mechanism, like forward contracts vs. cash sale (Fletcher and Terza, 1986; Fu et al., 1988; McLeay and Zwart, 1988). Verhaegen and Van Huylenbroeck G. (2001) assess the economic profitability of some case studies of direct sales (off the farm). Corsi et al. (2009) model the determinants of the choice of the marketing chain of organic producers distinguishing between conventional and alternative chains, the latter including direct sales. More specifically, some literature in the USA deals with farmers' markets and direct sales. Brown and Miller (2008) and Uematsu and Mishra (2011) provide reviews of this stream of literature. Within this, Brown et al. (2006) analyse the factors affecting direct marketing strategy sales in West Virginia. Govindasamy et al. (1999) estimate the effect of direct sales, among other non-traditional activities, on farm income (an issue also examined by Uematsu and Mishra, 2011).

In this paper we analyse the reasons pushing farmers to sell their products directly to consumers and the effects of vicinity to urban centres on this decision. We depart from most previous literature in using individual farm data to model the choice of selling directly, and we distinguish between on-farm and off-farm direct sales, since in principle they entail different factors. To this purpose, we first analyse the territorial distribution of direct sales practices (on-farm or elsewhere) in Piedmont, so to have a geographical picture of the distribution of these practices. Second, we analyse econometrically the determinants of the choice to sell directly to consumers.

Theoretical and methodological approach

Farmers' choice to sell directly their products rather than using the conventional marketing choices can be modelled as a comparison between the utility of the alternative vs. the conventional chain. Utility for each choice stems from the income each chain provides, and from non-pecuniary benefits deriving from the same chain. Usually, direct sales give higher revenues, since selling prices are higher. The price premium may depend on product's characteristics, since some lend themselves to direct sales more than others do. It also depends on the place where they are produced, so that, e.g., products from the mountains or from specific area can have a higher appreciation by consumers than the ones from other areas. However, direct sales also imply higher costs, since the distribution costs are borne by the farmer. For instance, on-farm direct sales may imply to have a place for selling, and labour must be devoted to this activity. When practicing off-farm direct sales, farmers bear transportation costs, administrative and other out-of-pocket costs for selling permits and, obviously, the labour cost for time devoted to this activity. Monetary revenues and costs are therefore a function of the type of product (T); of farm characteristics (F); of production and marketing skills of operators, as represented by personal characteristics (O); and of farm location (L), that affects transportation costs for off-farm sales, and demand (and, hence, prices) for on-farm sales.

On the other hand, direct sales may have non-pecuniary benefits, like pleasure in having personal contacts with consumers, the possibility to explain the virtues of one's products, or the like. They can be proxied by operators' personal characteristics (O), like age, education, gender, etc.

Overall, the choice of direct sales can be modelled as:

$S = 1$ if $D = U_s - U_i > 0$

i.e. $S = 1$ if $\{U_{s1}[M(F,T,O,L] + U_{s2}[NM(O)]\} - \{U_{i1}[M(F,T,O,L] + U_{i2}[NM(O)]\} > 0$

where S is a dummy indicator of the choice to sell directly; D is the difference between the utility from the direct sales and the utility of the conventional chain; U_s is the utility stemming from practising direct sales and U_i is the utility from any alternative choice; M and NM are monetary and non-monetary net benefits from the relevant choice. Attaching random components to the variables, and assuming a linear form, the model is:

$$\text{Prob}(S=1) = \text{Prob}[\, D(F,T,O,L)\,] > 0] = \text{Prob}(\, \alpha_0+\alpha_1 O+\alpha_2 F+\alpha_3 L+\alpha_4 T+\varepsilon>0)$$

and, under the assumption that ε is distributed normally, has been estimated as a probit model by maximum likelihood techniques.

Data

The analysis is based on data collected through the 2010 Census of Agriculture. The access to census data using the regional data warehouse "Censimento AGile" allowed the analysis of census individual farm records.

In 2010 the number of agricultural holdings in Piedmont was 67,148. As a first step, individual farms and group holdings (group of natural persons) were selected (66,459 holdings)[203]. This selection was made in order to focus on family farms and to exclude stock companies, public administrations and cooperatives from the analysis. Likewise, to exclude hobby farming and self-consumption farms, farms with a percentage of gross revenues from sales equal to zero were excluded from the survey. In the end, 58,304 farms were selected for the analysis.

For each farm and for all type of farm products (vegetable, animal, processed and forest products), the regional database provides the percentage of sales that are marketed through the different marketing channels, i.e. direct on-farm, direct off-farm, manufacturing firms, commercial companies, other farms and producers' cooperatives. The attention was focused on farm-direct marketing channels and on the relevant group of products: cereals (rice inclusive), vegetables, fruits, grapes, milk, dairy products, wine and other processed agricultural products (vegetable and animal).

For both on-farm and off-farm direct marketing, a dummy variable equal to ***1*** for the farms with a positive share of direct sales for one or more products (0 for farms not involved in direct marketing) was created[204].

The explanatory variables for the choice to sell directly to consumers were mostly drawn from the agricultural census, with particular reference to:

- personal characteristics of the farm operators: gender; age; years of education undergone, secondary-school diploma or university degree in agriculture; attendance of professional courses in the last twelve months;
- farm location with reference to altimetry (plains, hills, mountains);
- structural characteristics of the farms: standard output (SO) and type of farming (TF);
- other characteristics linked to the quality of products: organic farming, protected designation of origin (PDO), protected geographical indication (PGI);
- other farm activities: agro-tourism, supply of on-farm recreational activities
- distance of the farm to the main commercial cities[205].

Table 1 shows the descriptive statistics of the variables included in the probit model.

Results

Table 2 shows the percentage of farms that market directly at least one product among those considered in the analysis. Overall, direct sales appears to be a minor marketing channel. Only 14.0% of all farms sell directly on-farm, and 8.1% off-farm (the two channels can be combined). Percentages calculated by type of farming (TF) show that direct sales are higher for unspecialized farms (mixed cropping, mixed livestock, field crops and grazing livestock combined, various

[203] The selected holdings were recorded in the agricultural census with the following legal status: "Azienda individuale", "Società semplice" or "Altra società di persone (S.n.c., S.a.s., ecc)".

[204] The Census data concern the share of each group of products marketed through the different channels but, unfortunately, it is not possible to calculate the share of total farm sales marketed through the different channels when a farm produces different products. This is the reason why we use a dichotomous variable rather than the overall share of products marketed directly.

[205] The reference is to the 37 cities and towns, which Regione Piemonte identifies as "commercial poles" and to the homologous towns in the neighbouring regions (Liguria, Valle d'Aosta, Lombardy and Emilia-Romagna. This variable was created with the Microsoft MapPoint software.

crops and livestock combined). Unspecialized farms engaged in direct on-farm and off-farm marketing are 24.4% and 14.7% respectively. Among specialized farms, specialist vineyards show the higher rate of direct sales on-farm (24.3%), while specialist horticulture reach 16.1% of direct sales off-farm.

Apart from the nature of the produce, the territorial distribution of farms practising direct sales is arguably important. This aspect is relevant for both on-farm and for off-farm direct sales. However, the reasons are different. With on-farm sales, consumers have to move to the farm to buy. The number of consumers at a close distance from the farm might be relevant, since a small share of them does go to the farms to buy, and a larger population implies more potential consumers. For off-farm sales, it is the ease and the cost for farmers to find urban markets that is more relevant, so that the vicinity to urban centres where to sell one's products is expected to be an important determinant. Moreover, other non-pecuniary factors may be at work. These include, for instance, the relationship that dwellers may have with the surrounding territory, including the cultural heritage, the appreciation of local food, and the network of social relationships between the city and the countryside. The strict relationship between practices of Alternative Food Networks (such as direct sales) and the new rural development patterns at a regional scale brought scholars to talk about *alternative geographies of food* (Murdoch et al., 2000), or *new geographies of food* (Gatrell et al. 2011). It is therefore informative to have a description of the distribution of these practices in Piedmont.

As Graph 1 shows at the municipal scale, the farms that chose direct sales, both on- and off-farm, are mostly concentrated in specific clusters, such as the hilly wine-growing areas of Langhe and Monferrato, the hilly belt surrounding Torino, and some low Alpine valleys (again in the province of Torino). Concerning on-farm sales, some concentrations can be found in the Cuneo province plain and in the Canavese (Ivrea) area.

If we consider the ratio of the farms practising direct sales to the total number of farms in each municipality, the picture partly changes (Graph 2). On-farm sales result much more homogeneously distributed across Piedmont, with a concentration in the mountains (both Alps and Apennines) and in the hilly areas. Off-farm sales, on the other hand, still appears as quite concentrated in the hills and mountains surrounding the metropolitan area of Torino.

From the above it is evident that, despite some elements, there are no very clear patterns in the territorial distribution of farms practising direct sales, and the nature of the influence of metropolitan centres is unclear. Along with it, other factors are apparently at work. Hence, a quantitative analysis of the factors influencing farmers' choice to sell directly was performed, according to the theoretical approach as illustrated above.

Table 3 shows the results of the probit models for both on-farm and off-farm direct sales, as well as the marginal effects, which indicate the change in probability in the outcome due to a unit change of the explanatory variables. As usual, marginal effects are calculated at the mean values of the variables, or at their median, when they are dummies.

Starting with the determinants of *on-farm direct sales*, operator's characteristics significantly affect the probability of practising on-farm direct sales. Males are 0.8% more likely to do it, and every additional schooling year adds 0.2% probability. The operator having attended an agricultural school or university increases the probability by 5%, as well as having attended professional training courses in the last two years. The altimetry is also important. Relative to plains, farms located in the mountains are 12.2% more likely to sell their products on the farm, and farms in hills 7%. By contrast, the effect of the economic size, as measured by the Standard Output (SO), though statistically significant, is almost negligible in economic terms. A rise in SO by 10,000 euro only increases the probability by 0.02%. Much more important is the effect of diversification

activities undertaken by the farm. If the farm has some agro-tourism, or recreational activity, the likelihood of selling directly on the farm is increased by 25% and 11%, respectively. This is an expected result, as receiving guests on the farm gives opportunities to sell one's products. Organic farming too is relevant, as it increases the probability by almost 7%. An interesting finding concerns the type of farming (TF). All specialised TFs have a lower probability to sell directly on the farm relative to the mixed TFs, taken as reference. The difference ranges between -11% for cereals to -0.5% for viticulture, and even vegetables and flowers, a TF that was expected to have a greater share of farms selling directly, is 5% less likely to make direct sales. It is apparent that a mixed type of farming lends itself to on-farm direct sales more than specialised TFs. Finally, the number of "pole" municipalities that can be reached in half hour drive was taken as an indicator of the potential demand for agricultural products purchased on the farm, as the distance affects the relevant cost for consumers. However, though statistically significant, the effect of this variable is weak, as each additional municipality only increases the probability by 0.2%. To sum up, the most important determinants for on-farm direct sales are the farm location in mountain or hilly areas, and the connection with other diversification activities (agro-tourism and recreational activities), but personal characteristics (younger and more skilled and educated operators) also play a role.

The results concerning *off-farm direct sales* are largely similar, but with some significant difference. Personal characteristics bear the same signs as for on-farm direct sales, even with weaker effects. The farm being located in mountain or hilly areas significantly increases the likelihood of off-farm direct sales, though in a lower measure relative to on-farm direct sales. Agro-tourism and recreational activities were not expected to influence off-farm sales, but they are nevertheless significant and positive. These variables in our view can then be interpreted as indicators of the operator's general propensity to explore alternative marketing chains, as there is no evident direct link between these activities and the choice to sell directly to consumers off the farm. In general, specialised TFs have a negative and significant effect on off-farm direct sales, relative to mixed TF. Nevertheless, vegetables and flowers TF is not significantly different from mixed TF. This is probably because vegetables production usually concerns several products, and follows the seasons, so that different products can be sold directly all-year round, as required by consumers. Finally, the variable concerning marketing places that can be reached within short driving distance is in this case an indicator of potential transportation costs that farmers deciding to sell directly have to bear. This variable is significant and positive, meaning that more towns where it is possible to sell do increase the probability that the farmers sell directly. Nevertheless, the effect is rather weak (an additional town increases the probability only by 0.6%). This suggests that transportation costs, though relevant, are not crucial in this field.

Conclusions

This paper investigated the determinants of the choice of farmers to sell their products directly to consumers. Some evidence is presented, showing that mixed types of farming lend themselves to this practice more than specialised ones, and showing that in general terms these farms cluster around urban poles and in some specific areas. Nevertheless, the mere territorial distribution does not provide a clear-cut picture of localised food systems. A probit analysis of the determinants of the choice to sell directly to consumers shows a more articulated view, somewhat differentiated between on- and off-farm direct sales. The most important factors affecting the choice to sell directly on-farm are farm location and the complementarity with agro-tourism and recreational activities. Mountain and hilly areas are the ones where on-farm sales are more widespread. Since in most cases these are also areas where farms are less profitable (possibly with the exception of wine areas), this suggests that on-farm sales are a way for farmers to improve their income. Since these areas are generally quite apart from towns, this finding seems at odds with the positive, though weak, effect of vicinity to commercial poles. Probably this indicates different phenomena,

meaning different groups of consumers going to buy on the farm leaving from town or during their vacations and, above all, when enjoying agro-tourism activities. But apart from these economic factors, farmers' subjective attitudes are undoubtedly relevant, though they are only poorly captured by operators' and farm measurable characteristics, since the estimates suggest that they do affect this choice, but rather weakly.

For off-farm direct sales, closeness to commercial poles is more important while location in mountain and hilly areas is less. An intriguing result is the positive effect of agro-tourism and recreational activities, which reinforces the importance of subjective motivations of farmers, since it can be taken as an indicator of propensity to explore alternative marketing chains.

Overall, though some elements have been discovered, the picture of how direct sales contribute to localised agrifood systems remains still to be analysed in more depth. In particular, further research fields are the extent to which direct sales contribute to create solid links between consumers and producers, and how much they are determined by the desire by farmers to have personal relationships with consumers.

Acknowledgements
This research was funded by the University of Torino, Progetti di Ateneo, Call 3 "Strategic Research Grants", Project "Alternative Food Networks: an Interdisciplinary assessment". We wish to thank Regione Piemonte for allowing the use of Agricultural Census data, and Lorena Cora of CSI-Piemonte for very helpful assistance in using the relevant data warehouse.

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Table 1 - Descriptive statistics of the variables

	Mean	Std.Dev.
On-farm direct sales (0,1)	0.140	0.347
Off-farm direct sales (0,1)	0.081	0.273
Operator's age (years)	56.117	14.565
Operator's gender (1=M)	0.723	0.447
Operator's schooling (years)	8.465	3.501
Op.'s agricultural school (0,1)	0.052	0.222
Op.'s professional training (0,1)	0.067	0.250
Plains (0,1)	0.366	0.482
Hills (0,1)	0.506	0.500
Mountains (0,1)	0.128	0.334
Standard Output (0,000 €)	62.708	22.022
Agro-tourism (0,1)	0.017	0.129
Recreational activities (0,1)	0.003	0.052
Organic farming (0,1)	0.034	0.180
PDG-PGI (0,1)	0.044	0.205
Fieldcrops (0,1)	0.313	0.464
Horticulture (0,1)	0.026	0.161
Vineyards (0,1)	0.205	0.404
Other permanent crops (0,1)	0.151	0.358
Dairying (0,1)	0.038	0.192
Beef (0,1)	0.092	0.289
Sheep and goats (0,1)	0.036	0.186
Granivores (0,1)	0.016	0.125
Other types	0.123	0.329
# commercial poles within 1/2 hr. driving distance	3.456	2.346

Table 2: Percentage of farms that practise direct sales by type of farming

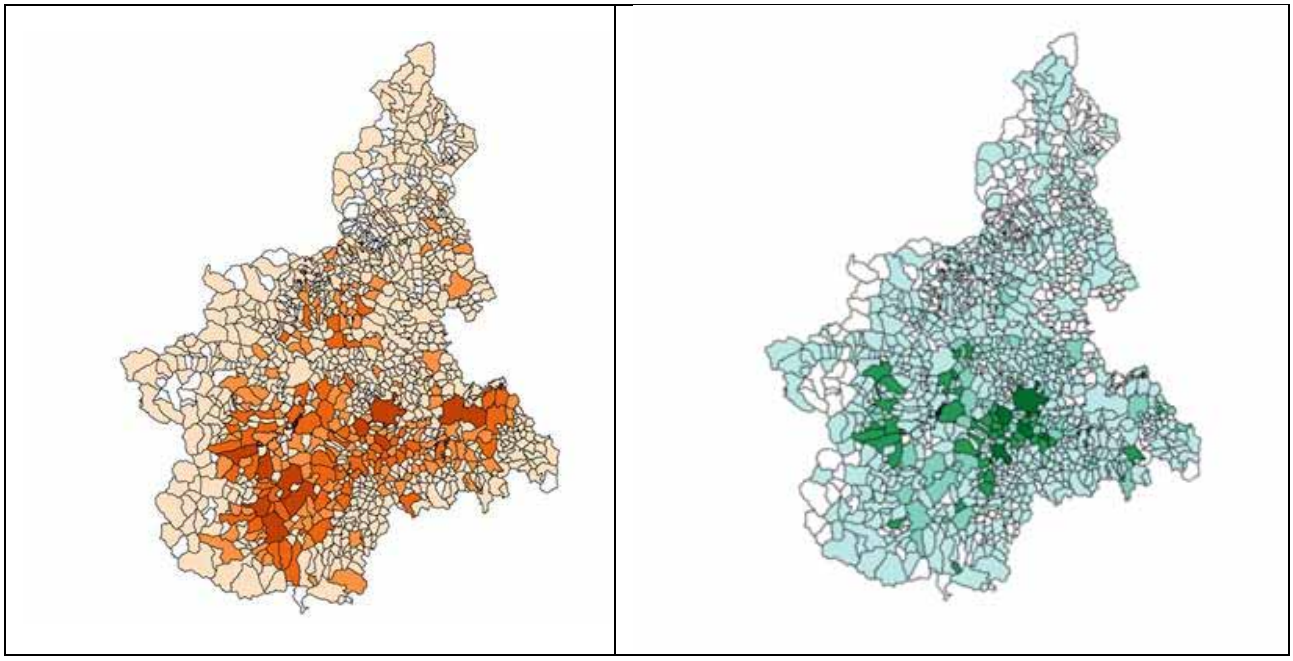
Type of farming (1242/2008 (EC))	Direct market (%)	
	on-farm	off-farm
Fieldcrops (specialist cereals - rice inclusive - and general field cropping)	5.0	3.5
Specialist horticulture	13.2	16.1
Specialist vineyards	24.3	13.6
Other permanent crops (specialist fruit, olives and various permanent crops combined)	15.3	8.6
Specialist dairying	13.5	5.6
Specialist cattle (rearing and fattening and dairying, rearing and fattening combined)	7.5	2.7
Specialist sheep, goats and other grazing livestock	14.1	4.7
Specialist granivores (pigs, poultry and various combined)	8.3	4.4
Other types (mixed cropping, mixed livestock, field crops and grazing livestock combined, various crops and livestock combined)	24.4	14.7
Total	14.0	8.1

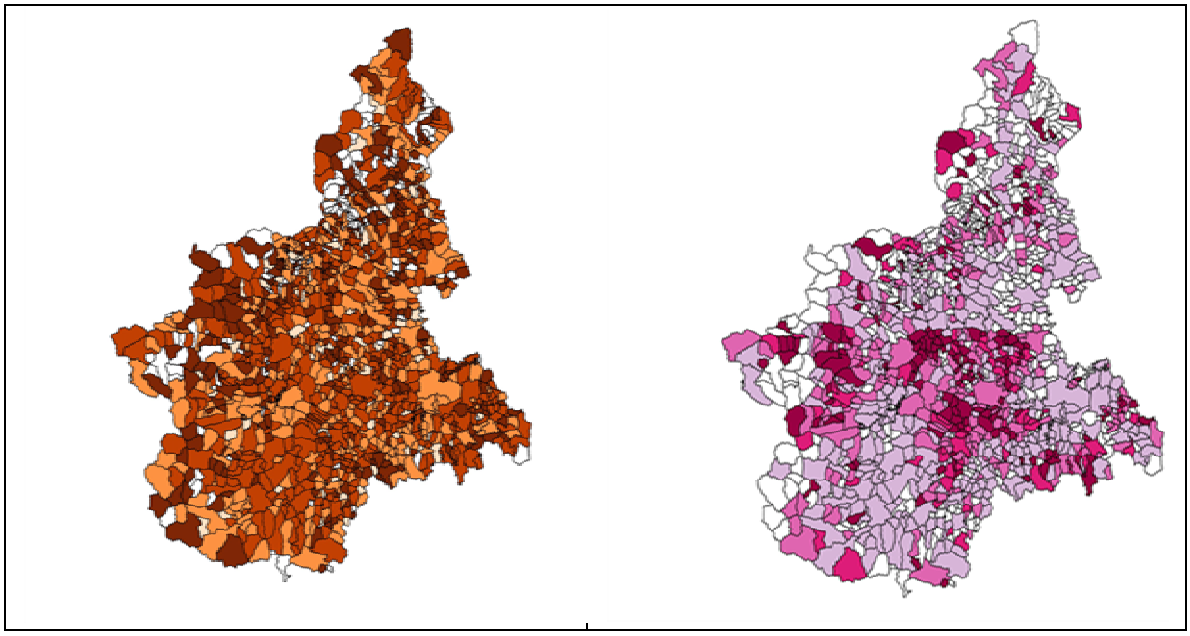
Table 3 - Results of the probit models of the determinants of direct sales

	On-farm			Off-farm		
	Coeff.	Std.Err.	Marginal effect	Coeff.	Std.Err.	Marginal effect
Constant	-1.121***	0.055		-1.293***	0.063	
Operator's age (years)	-0.004***	0.001	-0.0011	-0.007***	0.001	-0.0010
Operator's gender (1=M)	0.049***	0.016	0.0079	0.041**	0.018	0.0045
Operator's schooling (years)	0.018***	0.002	0.0017	0.009***	0.003	0.0003
Op.'s agricultural school (0,1)	0.207***	0.031	0.0487	0.081**	0.034	0.0138
Op.'s professional training (0,1)	0.224***	0.025	0.0512	0.214***	0.028	0.0316
Hills (0,1)	0.445***	0.021	0.0705	0.433***	0.024	0.0444
Mountains (0,1)	0.631***	0.028	0.1221	0.301***	0.034	0.0331
Standard Output (0,000 €)	0.001*	0.000	0.0002	0.000***	0.000	0.0002
Agro-tourism (0,1)	0.883***	0.042	0.2519	0.301***	0.049	0.0488
Recreational activities (0,1)	0.453***	0.110	0.1067	0.226*	0.127	0.0322
Organic farming (0,1)	0.248***	0.033	0.0690	0.344***	0.038	0.0595
PDG-PGI (0,1)	-0.154***	0.037	-0.0168	-0.283***	0.047	-0.0227
Fieldcrops (0,1)	-0.786***	0.024	-0.1099	-0.644***	0.027	-0.0582
Horticulture (0,1)	-0.441***	0.044	-0.0515	-0.013	0.043	0.0041
Vineyards (0,1)	-0.052***	0.022	-0.0054	-0.098***	0.025	-0.0082
Other permanent crops (0,1)	-0.338***	0.024	-0.0470	-0.298***	0.027	-0.0266
Dairying (0,1)	-0.357***	0.040	-0.0491	-0.435***	0.049	-0.0345
Beef (0,1)	-0.714***	0.032	-0.0817	-0.846***	0.041	-0.0542
Sheep and goats (0,1)	-0.558***	0.040	-0.0841	-0.637***	0.052	-0.0516
Granivores (0,1)	-0.576***	0.071	-0.0696	-0.624***	0.086	-0.0429
# commercial poles within 1/2 hr. driving distance	0.008*	0.004	0.0018	0.050***	0.004	0.0058
Log-likelihood	-20957.2			-14962.02		
Chi-squared (d.f.)	5403.479 (21)			2853.966 (21)		
N. Observations	58304			58304		

Graph 1 – Number of farms practicing direct sales by municipality in Piedmont (on the left, on-farm sales; on the right, off-farm sales). Darker colour = higher number of farms

Source: 2010 Agricultural Census



Graph 2 – Ratios of the number of farms practicing direct sales to the total number of farms by municipality. (on the left, on-farm sales; on the right, off-farm sales) Legend: Darker colour = higher number of farms

Source: 2010 Agricultural Census