

Direct Marketing of US Grown Chinese Medicinal Botanicals: Feasibility and Marketing Strategies

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During the 1990s in the herbal products industry, a boom followed by a decline resulted in losses to some US farmers. In response, representatives of several medicinal herb growers associations began a discussion series to share information and find solutions to problems. Their analysis of the market led them to form and test a hypothesis regarding market acceptance of their products. Concentrating their efforts on an emerging market segment, licensed practitioners of Acupuncture and Oriental Medicine in the US, growers conducted a feasibility and planning study in 2004–2005 and now are pursuing a marketing strategy based on the conclusions of the study.

PROBLEMS PERCEIVED BY HERB GROWERS

The United States possesses a rich diversity of lands and natural resources, but economic and social forces can present obstacles to small and medium-scale medicinal herb growers in marketing their products. A number of these growers experienced difficulties during the herbal products industry boom and decline of the 1990s. Typical problems reported by growers association members included: (1) price competition from large-scale and/or foreign growers; (2) an overly narrow range of marketable crops (e.g. *Echinacea*, *Hypericum*, *Valeriana*); (3) lack of consistency in buyer standards; (4) lack of information on crops and markets; and (5) misunderstandings with brokers over contract terms.

Despite these problems, some growers continued to value medicinal herbs as alternative crops. The perceived value includes the desirable agronomic and economic diversification effects of these crops; their potential for utilization of marginal lands; opportunities for wild harvesting of herbs in certain cases; and evidence that a few growers were able to obtain high prices for top quality.

The perceived decline in the herbal products industry was later shown to be a result of market maturation with the development of distinct segments. Mass market sales of herbal products declined while other channels increased in volume, with total sales showing steady growth over the decade 1994–2005. Market development included differentiated demand for herbal product formulation, specifically an increasing preference for products made of combinations of herbs over those based on single herbs (Blumenthal et al. 2006).

THE GROWERS' RESPONSE

In order to find more effective and profitable ways to market their herbs, representatives of four growers groups began a series of teleconference meetings in 2000. Later, members of a fifth association joined the committee, which became known as the Medicinal Herb Consortium (MHC) (Table 1). All the associations share certain characteristics in common, including proximity to major metropolitan centers.

Table 1. The Medicinal Herb Consortium.

Growers Association	Nearby cities
Sonoma County Herb Association	San Francisco, California
Organic Herb Growers Cooperative	Twin Cities, MN and Chicago, Illinois
New York Grown Chinese Medicinal Herbs	New York, NY and Boston, Massachusetts
New Mexico Herb Growers Association	Albuquerque/Santa Fe/Taos, New Mexico
West Virginia Herb Association	Baltimore, MD and Washington, DC

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Information exchange led to the recognition of commonalities both in scale and in cropping systems maintained by member farms. All the growers in these associations share a style of ecological production defined by specific principles: (1) the crop is matched to the ecosystem, mimicking the plant in the wild; (2) compact, highly biodiverse cropping systems are maintained; (3) most of the member farms are certified organic, Biodynamic® or similar distinction; and (4) in certain cases, the production system includes wild harvesting on private lands.

The growers recognized these features as aspects of potential competitive advantage that would help their products stand out in a commodity oriented niche market.

FEASIBILITY STUDY

Hypothesis

Following examination of their own production systems, marketing, and sales efforts, and after consideration of several options, the MHC committee hypothesized that small-scale growers could expand market share by emphasizing the following principles:

- Improved cooperation and coordination among growers.
- Higher production and processing quality relative to other producers.
- Value-added ecological production.
- Use of relationship marketing, a defined process of attracting and retaining customers over the long term (Payne et al. 1995).
- Education of the market regarding comparative product quality and the benefits of buying locally grown products.

To test this hypothesis, in 2004–2005 the MHC conducted a feasibility study and planning project for marketing domestically grown Chinese medicinal botanicals (CMB) directly to an emerging market segment: licensed US practitioners of Acupuncture and Oriental Medicine (AOM). This market segment attracted the attention of the growers due to the following attributes:

- Chinese herbs have been cultivated for this market in the US since 1990 (Craker and Giblette 2002; Foster 2004).
- AOM is organized with national certification and is licensed in most states.
- AOM practitioners are trained on dried whole herbs imported from China and have a distinct sensory impression of the herbs.
- AOM practitioners are trained to combine herbs into traditional formulas.
- A wide range of potential products exists, as the herbs described in the English translation of the Chinese materia medica number about 500 (Bensky et al. 2004).
- The plant species involved belong to familiar botanical families (Duke and Ayensu 1985) and cultivation practices can be deduced from available literature.
- The theoretical basis of AOM assigns a high value to use of whole plant parts in combination (Kaptchuk 1983) and, by inference, product quality.

Methods

The overall objectives of the project were to: (1) combine existing and new market studies to assess the feasibility of direct marketing to AOM practitioners; (2) work with AOM practitioner groups to identify opinion leaders and develop direct marketing relationships; and (3) determine whether the herbs grown in different regions could provide an acceptable product mix to the AOM market.

Three previous marketing studies performed by farmers groups in Minnesota, New York, and Vermont were examined. Lists were compiled of herbs produced by members of each growers association. To gather new data from AOM practitioners, a variety of methods were employed: (1) the distribution of AOM practitioners, state by state, was compiled and analyzed; (2) the AOM profession's organizations and opinion leaders were identified; (3) informal surveys of practitioners were conducted in California and New Mexico; (4) comments from AOM practitioners were solicited via print ads, flyers, articles, and conference presentations; and (5) samples of dried, domestically grown herbs were presented to practitioners and responses noted.

Results

Characteristics of the AOM Market Segment. A clearly defined market segment served by established educational institutions, product sources, and distribution channels was described. Chief characteristics of the market segment are: (1) national accreditation for professional graduate schools under the U.S. Department of Education (www.acaom.org); (2) approximately 50 accredited postgraduate programs organized into one association (www.ccaom.org); (3) national certification of both acupuncturists and herbalists (www.nccaom.org); (4) licensure in most (41) states; (5) 10,000+ nationally certified diplomates accessible by the NCCAOM database (excluding California) and 4,000+ California diplomates accessible through state professional organizations; (6) one national (www.aom.org) and several state professional associations (www.aomalliance.org) which hold regular meetings including trade shows; (7) a small number (fewer than 20) of respected herb importers and product makers currently serve this market; and (8) the market is accessible through one (print and web) publication, *Acupuncture Today* (www.acupuncturetoday.com).

Data show the profession varies in its use of herbs. The scope of practice laws vary by state. Some practitioners, primarily the ones trained during the 1970s, use only acupuncture. Convenience in the herbal product's form (pills, powders, granulars, etc.) is an overriding consideration for many practitioners. The distribution of practitioners varies widely according to region. Use of whole herbs and custom formulations is relatively rare, but volume per practitioner is high.

The presentation of the domestically grown samples provoked the most favorable responses. Practitioners were surprised at the intense color and aroma of the domestically grown products compared to the imported. Stated price resistance tended to dissolve, the samples stimulated individual experimentation and evaluations. A few orders resulted, with customers paying high prices.

Feasibility of Marketing to the AOM Segment. The MHC growers concluded that their products could be sold to a portion of this market segment, even though their prices were higher than the imports, and therefore marketing domestic CMB to the AOM profession is feasible. Growth in market share is likely to be slow.

The well organized AOM profession is cost-effective as a target segment due to the low cost of advertising. While imports can be expected to dominate the market as practitioners become familiar with the quality of domestic herbs, increases in market share for domestic CMB depends on long term relationships established between farmers and AOM practitioners, including students and representatives of AOM organizations and educational institutions.

Determination of Product Mix. Gathering data on preferences for domestic herbs grown in different regions proved to be beyond the scope of this project. At present, AOM practitioners want to compare domestically grown products to imports. Regional variations in the domestic products are, however, an asset that can be used advantageously to stimulate comparisons of herb quality, attract practitioners, and encourage support of local production.

MARKET STRATEGY

Future marketing by the MHC will feature a "pull" strategy designed to use educational activities to build demand for domestically grown CMB within the AOM profession. Evaluation of products by colleges, clinics, and individual practitioners will be stimulated and supported by the sale of a wide variety of herbs in small quantities.

The MHC is now producing an annual "Sample Pack" consisting of small quantities (15–100 grams each) of three dozen different herbs, each in a re-closeable plastic bag with an attractive farm label and bundled into a small carton.

Practitioners are expected to continue their dependence on imported herbs for the foreseeable future, while domestic herbs are grown to order and subjected to evaluation. Relationship marketing will continue and expand; opinion leaders, AOM colleges and clinics are key to the market and will be sought out for special treatment by the MHC. Few growers will specialize in herbs; rather, the crops will add income to diversified operations.

Recent developments include: (1) an AOM practitioner initiative to form a cooperative herb dispensary in Minnesota specifically to handle domestic products; (2) progress toward completion of a descriptive analysis lexicon by the Medicinal Herb Network in Minnesota (Hassel et al. 2002); and (3) a three-year educational initiative for the AOM profession, Botanical Studies in Oriental Medicine, managed by High Falls Gardens and funded in part by the W.K. Kellogg Foundation.

Market development will continue to rely on nonprofit organizations supporting the MHC farmers groups, allowing for more gradual development than if supported by venture capital.

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