

STARTING & RUNNING YOUR OWN

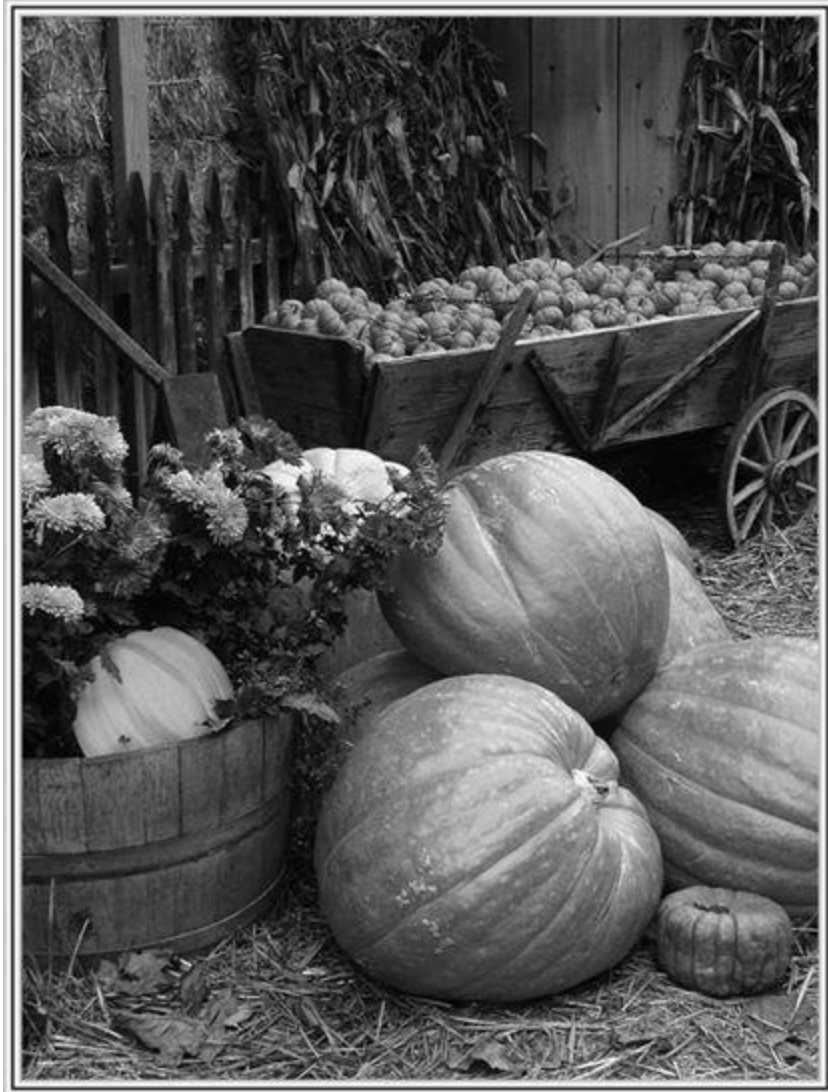


SMALL FARM BUSINESS

- small farm success stories
- financial assistance sources
- marketing & selling ideas
- business plan forms & documents

BY SARAH B. AUBREY





STARTING & RUNNING YOUR OWN SMALL FARM BUSINESS



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Storey Publishing

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PREFACE

At farmers' markets, county fairs, and cattle shows, my fellow farmers often approach me and ask "How did you do it?" or "I have this idea, but I don't know how to approach it." After four years of attempting to answer these questions, I decided to write about what I've learned. Coming from generations of American farmers, I know one thing for certain: Farmers are nothing if not imaginative and resourceful. There does not seem to be a shortage of new business ideas or even creative takes on existing companies. Nor is inspiration lacking. It seems that what small farmers need to pursue their dreams is some guidance in how to get started. This book is designed to help you build your arsenal of business skills and pursue business ownership.

You're probably reading this book for a myriad of reasons; some you can explain and others are inexplicable even to yourself. Don't worry: With time, clarity will come. Right now you have an idea and you're considering starting your own business. I've been through all of the contemplative phases and know them well.

Maybe you're just at the idea point and you haven't considered any concrete plans. Maybe you've put a name to your idea and your thoughts are occupied with how to build, market, and sell your grand plan. Or, perhaps you're at the blissfully frightening jumping-off point where your idea has a name and product and is part of a plan. You're ready to commit to this idea, but you're still unsure of the nuts and bolts of a good business plan, so you're seeking information to help make informed decisions.

Wherever you are, you're not alone. Think of all of the other readers of this book and their unique ideas and plans; they share with you the same excitement and fears, the same early successes and imminent failures that make up the route to small-farm employment. I, too, share this journey with you because I've taken it.

In late 2003, I finally realized that crying every morning when I left the farm to go to my executive "town job" was no way to live a happy, fulfilling life. I knew what I loved; I just didn't know how to make it

support me. I knew, though I cannot say how, that I was a small-farm entrepreneur and that I was not cut out to work off the farm forever.

After returning home from a livestock event in Louisville, Kentucky, I decided that I would get back to my roots, live a genuinely fulfilling life, and pursue my small-farm entrepreneurship. So, I started researching my idea to begin a natural meats business. With the blessing of my ever-supportive husband, I began Aubrey's Natural Meats, LLC. My company produces and sells natural beef and pork.

A year later, I had left the corporate world forever and had truly come home to the farm. The transition wasn't simple. I earned a good living as an executive, and I had to transition to reducing my expenses and living without extra cash. But, looking back, it honestly wasn't that difficult, either, because I saw that I could achieve my dream. Truly, the prize of working for myself was worth so much more than any paycheck.

For generations, farms have been growing ever larger to make them work. Now, we are enjoying a quiet revolution of those of us willing to create a niche from the small plots we live upon. The American dream of working the land you own is not a dream of days gone by! Our experience will differ from our ancestors' experience, for we can no longer pioneer fresh earth, but we can create something from our farms and market it to eager, excited customers.

INTRODUCTION



She had never known before how much the country meant to her. The chirping of the insects down in the long grass had been like the sweetest music. She had felt as if her heart were hiding down there, somewhere, with the quail and the plover and all the little wild things that crooned or buzzed in the sun. Under the long shaggy ridges, she felt the future stirring ...

— Willa Cather, *O Pioneers!*

The types of budding entrepreneurs who should use this book are as varied as the ideas that they long to pursue. Whether you're planning to start a business that will be seasonal or year-round, off the farm or out of a storefront, or you're diversifying an existing small farm venture, the concepts and discussion points contained here have relevance. This volume is meant to be a guide to the basic concepts I've found important when considering, launching, and then running my own small farm venture.

The chapters focus on specific topics and are organized in the order I recommend completing, or at least contemplating, each task. Don't feel pressured to work through each topic before moving onto the next. On the contrary, many people will complete several steps at once, and for some, not every topic in this book will be relevant.

At the end of each chapter is a brief recap of the main points that were covered. Use this summary to gauge your understanding of the topic, or use it as a checklist of items I recommend that you do. I have also included a profile of a successful small farm venture at the end of each chapter. I hope that these success stories provide inspiration and ideas. Be sure to read each farmer's list of tips; these are some of the best tips you'll ever receive about how to have a successful first year in business.

Once you've read the book, you'll find that it serves as a handy reference for later use. The Appendixes house everything from a sample business plan to Web sites where you can search for grant money.

If you gain only one thing from this book, I hope it is a belief that you can do it. You can make your small-farm dream a reality. In the following pages you'll find advice, ideas, plans, sample documents, and even motivation that I hope will help educate you to make sound choices and get you started. There are some key factors to your success that no book or other person can ever supply: your gifts, your talents, and your sheer desire to succeed. Honestly, some of us have these intangible factors and some do not. If you have them, then turn the page and begin reading this reference. I've written it for you.

1

BUILD A PLAN



*The soil now gets a rumpling soft and damp,
And small regard to the future of any weed.
The final flat of the hoe's approval stamp
Is reserved for the bed of a few selected seed.*

— Robert Frost, “*The Strong Are Saying Nothing*”

Long before the first seed is planted and the cool earth turned to create the furrow, a farmer conceives the idea to produce a crop and make something edible from the land. This annual act of turning the soil and planting the seed, so commonplace to those of us who know agriculture, is in fact something of a miracle. Every spring, the earth renews itself, and

those involved in gleaning the goods of Mother Nature's bounty play a role in this eternal cycle.

Very few people now ever get to know the daily joys and trials of building their lives from the land and homes where they live. Today, farmers make up roughly two percent of the population of the United States. The agrarian way of life is being replaced by new technology, industrialization, and sheer economies of scale. Fortunately, small farmers, or those who desire to be small farmers, have many chances at success. There are opportunities in the marketplace to remain viable and thrive, and these opportunities don't require becoming enormous to survive the commodity-market system. But you need to do more than buy a few cows or plant some soybeans and field corn. To be a successful small farmer, you must have a measure of ingenuity, a surplus of determination, the understanding of a targeted niche market, and, frankly, a high tolerance for the trial and error of entrepreneurship. If you're serious about building a company, changing your destiny, and making a living from home, your first step is drafting a business plan.

You may think you don't need a business plan if you're not ready to get started or if you're unsure if your idea will even work. Farmers tend to be doers, however, not planners. We're often the type who rises early and works hard, being task-oriented and not feeling satisfied until the job at hand is done. These are wonderful qualities, but sometimes we might not see the forest for the trees. In my view, an orderly business plan and the discipline to execute it are essential tools for success with a small-farm venture.

The more organized you are from the start, the better. A formal business plan will help you streamline and solidify your ideas; clearly visualize what works and what doesn't; organize your ideas from the start to ensure a solid approach; and gather financing from lenders or private investors.

Components of a Business Plan

A business plan may have many names, including strategic plan, operational plan, and business-direction document. This document can be

extremely detailed with tables, graphs, and projections, or it can be created in a word-processing format using only text. It defines what your business is, who is involved, the goals and objectives, and the direction for the company.

Numerous resources can be found online; at the bookstore or library; from organizations like the US Small Business Administration (SBA) and Cooperative Extension Services; and other places (see Resources, page 170). I encourage you to view several of these resources, as well as those that are specific to your industry. For the purposes of this book, we'll focus on a basic business plan that will provide a sound basis for organizing your thoughts, setting your goals and your budget, and seeking financing. To provide concrete examples, sections of my original business plan have been excerpted in the following text. My entire business plan is in the Appendix (see page 157). Our business plan includes:

Tips for Writing Your Business Plan

If you aren't a good writer, please don't let this dissuade you from developing a written business plan. Hire or beg someone who is qualified to draft this for you. Or, try to fill in the blanks on a business plan template from an organization like the Small Business Administration. When writing your business plan, keep the following in mind:

- Use correct grammar, punctuation, and style. When you're applying for a loan or proposing your ideas to venture capitalists, you will be evaluated on the neatness and professionalism of the document.
- Don't feel you have to use the exact titles and headings noted in plans you may review. I encourage you to be creative with the format, as long as the basic elements are included, the information is structured sensibly, and the narrative is easy to read.
- Modify the plan and add sections that pertain to your company or that are specific to your industry. This customization will help

to organize your thought process and make your business more marketable to potential investors and bankers.

- Review the document when you're done and let someone else take a look. This plan reflects you and your future; be certain it comes across as well as possible.

I. Company Name, Location, Owners, and Business Type

II. Mission Statement

III. Board of Directors/Advisors

IV. Business Vision/Executive Summary

V. Product Description and Pricing

VI. Market Segments and Target Customers

VII. Business Goals

VIII. Start-up Capital Needed

IX. First-Year Budget

X. Company Management and Roles

I. COMPANY NAME, LOCATION, OWNERS, AND BUSINESS TYPE

Comparable to a title page, this section can be as simple as listing on the front page the name and location of your company, including complete physical address, phone, fax, and e-mail, as well as the owners' names. If you haven't thought about how you will title the business and who in your family will be involved, this is the place to think through those important elements. For some, choosing a business name is as simple as using your farm or last name, but others may wish to consider developing a trade name that's unique but still conveys what you sell.

What's in a Name?

Consider selecting a name for your business that somehow describes what you do. This will make it easier for people who use search engines on the Internet to find you. This is especially important if you want people to locate you online for ordering, purchasing, and delivery.

You'll also include here the type of business you have decided to organize, whether it be a sole proprietorship, a corporation, a partnership, or a limited liability company (LLC). See [chapter 4](#) for more information on business structure options.

II. MISSION STATEMENT

The mission statement is a series of sentences akin to the kind of statement at the top of a résumé, commonly referred to as the career objective. Like a career objective, you can shape your mission statement to clearly and briefly state what you're seeking. This statement could be as brief as one sentence or as long as three or four sentences, and is more philosophical than technical in style. It should set the tone for your company, letting the reader know who you are and your reasons and goals for existing.

The hard part about the mission statement is the part that makes it so useful. It's difficult to summarize who you are, what you do, and what your reasons are in a few short words, but it's worth the effort. Later, having drafted this brief statement, it will be easier for you to define your venture when someone asks. If you find this especially difficult, record your initial ideas on paper and come back to this section after you've worked through your entire plan; it may be easier to sum up then.



II. Sample Mission Statement

(Excerpt from original business plan for Aubrey's Natural Meats, LLC)

Aubrey's Natural Meats is a premium all-natural meat protein source. By creating a vertically integrated chain, we can fill the need to provide beef to a growing segment of the population that not only wants to know where their food came from, but also expects meat to be wholesome, unaltered by hormones and growth promotants, and healthy. We developed our company so our family could work together rather than spend our days apart. Even though agriculture is an increasingly small part of the workforce, we refuse to believe that you can't still carve a living out of the land. Aubrey's Natural Meats allows us to be family-oriented and loyal to our rural roots.

Here are some questions to ask yourself as you develop your mission statement:

- Are you an innovator? Are you building a completely new product?
- Are you making an existing idea better? If so, how?
- What will be your niche? For example, will you focus on quality? Service? Customization?
- Why are you in the business? Do you plan to grow and become larger, or will you support only small and local aims?
- Do you want to serve urban customers or other local farmers?
- Are you in this to raise a family and involve children in a small-farm business, or are you a retiree looking to get back to your roots?

III. BOARD OF DIRECTORS/ADVISORS

If you're like many small farmers, the thought of answering to a board of directors (BOD) runs completely contrary to the notion of working for yourself. But hear me out. This type of board of directors isn't necessarily your standard corporate, suit-and-tie meeting stuff. Unless you're offering shares of your company for sale or asking investors to chip in their funds (see page 57 for more information on private investors), a board of directors is not essential, and if you do elect to have one, your business's decisions are not bound by the comments your board makes. You don't need to compensate board members for their time, either. You can also elect to refer to your BOD as a BOA, or board of advisors, if that makes you feel less restricted.

You may ask: "Why would someone want to be on my BOA?" There are a number of reasons why people would want to provide guidance for your new company. For example, some professionals feel an obligation to help new people in the industry, while others are interested in helping you personally. Don't rule out the possibility that some members may want to participate on your board because they want something for their own resume. This isn't necessarily bad — ambitious folks who seek recognition are often full of useful and clever ideas that can benefit you!

How to Select a Board of Directors or Board of Advisors

Select your BOD/BOA using the following criteria:

- Knowledge of the industry you're serving.
- Professionalism and experience.
- Creativity and ideas.
- Ability to provide positive influence and networking assistance.
- Personal knowledge of you and your skills.

Consider asking some of the following people:

- Extension agents and university advisors in your field.

- Your accountant and/or attorney.
- Executives or members of associations relevant to your field.
- Former employers or other mentors who know your skill set and can offer broad advice.
- Community leaders, such as people from your local Chamber of Commerce, members of your farmer's market committee, or leaders of an economic development organization.

The members of your BOA don't necessarily have to be local, either. Consider inviting professionals from associations or other professionals you've met from across the country. If you do invite people from farther away, they can participate on your board through conference calls or by responding to specific questions and discussion points you send in an e-mail. The size of the BOA can be as small as one or two or as large as ten; however, small numbers of people are easier to manage. Don't worry about having to achieve a set number of members; focus more on obtaining the specific people you'd like to participate.

A BOD impresses investors: They will see that you've plugged into the industry niche you plan to serve by seeking counsel from other professionals and peers. It also shows that you're acknowledging that you are new and are willing to actively seek ways to better yourself and your operation.

Small-business ownership can be a lonely road. There will be many days ahead when you'll toil all day by yourself without the benefit of a lunch break and comrades to chat with around the office coffee pot. Sometimes, frankly, a lot of working by yourself can make you stale. By using a BOD or BOA, you can elect to set meetings at regular intervals and conduct mini market research with your new ideas. A BOA can give you motivation, and just being able to talk about your business's ups and downs without having to be in selling mode can be very refreshing.

One caveat about creating a BOD: Keep competition in mind. If you're planning to enter a business that is popular or that has a number of other small farmers involved (say natural meat production), then be certain you are aware of any proposed BOD member's connections with others in the industry. There's a fine line between someone who's involved in the

business and can advise you and someone who's involved in *everyone's* business and might inadvertently sabotage you. Also, be cautious about inviting family to serve on the BOD, unless, of course, they're already directly involved in your business's operations. Sometimes a little family goes a long way when it comes to advice and opinions, so choose carefully from this group!



IV. Sample Business Vision/Executive Summary

(Excerpt from original business plan for Aubrey's Natural Meats, LLC)

In the creation of Aubrey's Natural Meats, LLC, Indiana's premium beef, an innovative approach at providing a high-quality, safe meat product has been developed. We provide a supply of choice beef to the small gourmet retailer and independently managed high-end steakhouse. This natural product allows our customer a dynamic marketing opportunity with both retail and restaurant end-customers. We believe the natural and organic movement in foodstuffs is growing and will continue to gain in mainstream acceptance. Our clients can proudly say the beef they sell is from cattle that are:

- Never given steroids or growth hormones.
- Never given antibiotics.

- Raised in the Midwest, currently all in Indiana. We know exactly where they come from and who the producers are that feed the stock.
- Harvested humanely and processed by one local processor who is federal- and state-inspected, a regular recipient of exceptional ratings for health and sanitation, responsible for completely converting our operation, and devoted to our all-natural philosophy.
- Safe to eat. Because our cattle are never fed animal proteins, the isolated cause of Mad Cow Disease, our customer never has to fear eating beef again.

Besides employing the highest standards in raising our animals, our customers can enjoy the personal touch of quality and service. Our customers are buying:

- Choice beef. Our steaks, sirloins and roasts are Choice, the USDA standard recognized by restaurants, consumers, and retailers as the official mark of tender eating quality.
- Eating quality that is impeccable and much more consistent than mass-produced brands. Because we touch every aspect of production from feeding to trucking, harvesting, cutting, and packaging, we can personally assure the integrity of our product.
- A premium product for a higher margin at retail.
- An innovative future. We are working with producers who are using high-tech DNA testing to uncover tenderness genes in certain cattle that will better allow us to select for quality meat before animals are harvested.
- Relative exclusivity; we select only the best retailers who will share our vision and commitment to quality and food safety for customers who are willing to pay a premium.

- Custom cut and packaged meat without additional cost. Our clients specify how they'd prefer meat cut and packaged for their individual use.
- One contact for delivery and sales.

We seek to attain several goals as we tempt the palates of even the most discriminating customers:

- Distribute to at least 25 restaurants in the first six months.
- Create a reoccurring (e-mail based) customer list.
- Become distributed statewide by the end of the second year in business.

Once you've made your selections for a BOD, list them, their titles or business names, and their phone numbers in your business plan document.

IV. BUSINESS VISION/EXECUTIVE SUMMARY

The business vision is an expanded, more detailed version of your mission statement. Clearly define who's involved and why, what you'll be selling, and who you'll be selling to. You don't need to be detailed about these here — specific areas of the plan will cover these later — but do list them here in this summary.

Consider the business vision/summary to be similar to an opening statement in a speech, a chance to make a first impression with someone you meet. Define your industry and its trends, why you believe your company will have a positive impact on that industry (how your product will be distinguished from others in the industry), and how you'll be successful and continue to grow. Also briefly outline some goals for your business relative to future growth in your industry.



The business vision, one to two pages long, should be positive and optimistic yet still realistic.

The business vision should be one to two pages long and should be positive and optimistic while being realistic, especially if you're using the business plan to seek financing. Like the mission statement, this section can be written last to ensure that it pulls together your thoughts and plans for a successful venture.

V. PRODUCT DESCRIPTION AND PRICING

Now it is time to sit down and flesh out what you want to do and how you'll do it. Clearly and thoroughly define the specific range of products you will sell and how they will look. If your product is unique, new, or not easy to explain, make the effort to describe it clearly here. If you can't describe what you're producing, your customers won't be able to describe it either! If a customer doesn't understand your product, he or she won't buy it repeatedly.

Possible Comparison Chart for Fruits and Vegetables

Mine	Competitors
Heirloom varieties	Standard varieties
On-farm pickup	In-store shop
Delivery on large orders	No delivery
Picked/sold same day	Stored/trucked
Know the farmer	From a chain

Include information on packaging and labeling, if appropriate. If you'll produce a variety of things, describe a few examples and how these products might be used by the buyer. If you're offering a service, clearly point out the features and benefits of the service — its competitive advantages.

Next, list known competitors and define how your products will be different from or superior to theirs (see box at left). If you're unsure whether competitors exist, search for them on the Internet or investigate areas where your type of product may be sold. No matter how small the business, it's always important to know what others in the industry are doing. If you're in a very competitive business, such as organic fruits and vegetables, you may find it useful to make a comparison chart.

Also include in this section how your product will be sold. Again, you may not be entirely sure of this until you conduct more market research, but write down your initial ideas. Will you sell your product on the farm, at a farmers' market, online, through the mail, through a wholesale distributor, directly to retailers, directly to consumers, or from your own store? ([Chapter 8](#) details the pros and cons of each option.) For each one of these you choose, specify why your product should sell through this venue and give examples, if any, of why these are good routes to profits.

Lastly, list your product or service's pricing information ([chapter 7](#) provides more information on how to derive a price). For now, note any information you may have on how you'll build a pricing model. For example, ask yourself: Will you follow commodity markets? Will you

establish your prices based on your competitors' rates? Will you base your prices on past experience with the type of product you're selling, or is there an industry standard to follow? Have you solicited and received feedback from potential customers?

This section may read like a long list. It's okay if it does, as long as the reader understands what the products are, their distinct advantages, and where they can be purchased.



V. Sample Product Description

(Excerpt from original business plan for Aubrey's Natural Meats, LLC)

We will offer our premium steaks, hamburger, roast beef, and gourmet beef snacks through white-tablecloth restaurants that share our vision of providing consumers with a safe and delicious eating experience. Aubrey's Natural Meats will also be offered through key gourmet and natural retail stores so that the entire public will have an opportunity to purchase our meat for their families. Select grade meat and lower will be used to make ground beef, beef for stewing, beef snacks (including one-ounce sticks, salami, sausage, and beef jerky), and pastrami luncheon meat. Our products will also be available for mail order online. Products will be fresh and packaged in clear, vacuum-sealed bags. A state-approved label will be designed especially for Aubrey's Natural Meats. Customized cuts will be offered by order on a weekly basis.

CHOICE CARCASS

High-quality branded primal meats (choice plus strip loins, tenderloins, rib eyes, porterhouses, sirloins)
Choice hamburger
Gourmet deli roast beef and pastrami
Roasts, bottom sirloins, etc.
Briskets
Gift baskets or special orders

SELECT AND NO-ROLL CARCASS

Hamburger, fresh and frozen patties
Snack sticks, 1-ounce
Beef jerky, various flavors
Salami and smoked sausages
Roasts
Stew meats
Briskets
Gift baskets or special orders

RENDERINGS

All-natural pet treats

Pricing is determined by the USDA agricultural markets, as reported twice daily on the Agricultural Marketing Service Web site (see Resources, page 170). Prices will change daily. With the AMS price as the base, we will add a premium over that price for our product. The premium amount (50–100 percent mark-up) is determined on a product-by-product basis.

There are no strong competitors for Aubrey's Natural Meats at the local, regional, or even state level. Using Internet searches, as well as conversations with people from the Cooperative Extension Service and from Purdue University, we could not identify competitors who were doing more than selling frozen beef or serving one or two local farmers' markets in their home area. With ANM's statewide focus on premium quality, we are unique by design.

The Prospect List

Create a prospect list of the specific customers you'd like to have by a certain date. I developed a list of white-tablecloth restaurants in my geographical area, with a goal of securing the business of each one by the end of my first year in business.

When I opened my operations, I called each of these restaurants. This list is of course ever-changing, but it's never too early to have an idea of exactly which persons or businesses you would like to have as customers.

VI. MARKET SEGMENTS AND TARGET CUSTOMERS

If you're offering more than one type of product or service, define your market segments (specific types of customers who will buy what you offer). Segments can be broken down into categories such as retail, wholesale, and direct-to-consumer, with lists of products that will be sold through each route. If you plan to use a distributor that will buy your product and then sell it to a retail outlet, be sure to create a market segment for these customers as well as a market segment for the end purchaser.

Next, define your customer's profile by stating some basic demographic information such as age, gender, geographic location, education, income, buying habits, and social class status.

The main intent is to build a strong target client profile so that, when you're preparing to sell your products, you'll have a clear picture of who you'll need to market toward. Understanding the market you plan to serve will help you pinpoint much of your marketing strategy. By knowing your target customers, you will better be able to design effective customer-directed materials such as a brochure, a letterhead, and a Web site.



VI. Sample Description of Market Segments and Target Customers

(Excerpt from original business plan for Aubrey's Natural Meats, LLC)

Our customer is the white-tablecloth restaurant and the gourmet or health-oriented retailer. The end consumer is also a customer. At retail, the target customer is a 25- to 55-year-old middle-class to affluent female, single or with a family. We expect her to be interested in the product for three reasons: health/diet, food safety, and because natural foods are trendsetting.

At the restaurant, our end customer is more likely an upper-middle-class to upper-class affluent male ages 30 to 65, who pays a premium for an excellent piece of meat and the peace of mind that the food is wholesome.

VII. BUSINESS GOALS

Dividing your goals into short-term and long-term goals is helpful and motivational. Short-term goals may include start-up efforts and initial sales, or they may include goals that are further out (for the first six months to one year in business). For short-term goals, be specific and detailed about how you will accomplish each one and by what date. Also, set goals that are challenging but realistic. Everyone's goals are personal and each business is different, but here are some types of goals that might apply for the first year.

- Acquire X number of customers and X number of dollars in sales
- Create X number of influential relationships

- Move from working off the farm to full time on the farm by a certain date
- Develop expansion goals, such as the size and scope of the business and the number of markets served
- Involve another employee or family member with business growth and increasing profits
- Increase sales X percent by a certain date

For long-term goals, think broadly and forecast out three to five years. This area of the plan is highly changeable, as your plan will be reviewed and updated at least once a year. Still, it is important to set these goals now. They will help you decide where you'll spend your money and how you'll establish priorities. Here are some types of goals that might apply after your first year in business.

- Achieve X annual percentage increases in sales
- Achieve X annual percentage increases in market share
- Achieve X annual percentage increases in number of selling locations, customers, or distributors used
- Pay off debt by X date (if you borrowed money)
- Be featured on a TV news segment or on the cover of a regional trade magazine

It is also helpful to establish daily, weekly, and monthly action plans and assign tasks from the plans to members of the business. Creating these types of plans will help you organize the operations of the business and give members of the company responsibilities and accountability.



VII. Sample Action Plan

(Excerpt from original business plan for Aubrey's Natural Meats, LLC)

DAILY

Manage operations (supply and demand for beef) of the company
Call one or two potential clients each day for new business
Network with community groups
Seek opportunities for publicity and free media coverage locally and nationally

MONTHLY

Manage all customer relationships
Update financial data
Attend industry and community meetings for networking and education

QUARTERLY

Revise goal targets
Visit or network with other successful branded-beef programs

ANNUALLY

Hold directors and shareholders meeting
Update and complete financial data
Review successes and failures

VIII. START-UP CAPITAL NEEDED

Every business, no matter how small, needs some start-up capital, even if that capital includes items that you as the owner will be contributing for use

in your new venture. Estimating the amount of money needed to begin a business is a key element of a sound business plan, no matter how basic. While your estimate is subject to change, try to be as accurate as possible to avoid the pitfalls of overspending or growing too fast without the dollars allocated to meet demand.

Estimating start-up capital is also very personal because many items you need may be unique to your farm. At lower right is a list of items that may be included. Be certain to add industry-specific items and items you already own that will contribute to the total capital (even if it's a truck, for example, that you own, but will now use for deliveries of your new products). If your business-specific items are not easily understood by those unfamiliar with your products, explain what they are, and how and why you'll need to acquire or allocate money for those items.

Even with your best research, industry knowledge, and good figures, your start-up forecast will inevitably be inaccurate. As a small-farm entrepreneur, you must be savvy enough to plan for the worst. To this end, build in a contingency line item. Experts, including those at the Small Business Administration, recommend that you include about 20 percent of your total start-up capital in your contingency dollars. That number may seem high, particularly if you're already maxing potential resources to get started. Whether you can set aside all or only a portion of this amount, it is very important to set aside some contingency money in your start-up plan.

Make sure that your contingency money is available if needed — protect it fiercely. Don't spend it on unneeded items. Save it for such things as an emergency, an unexpected bill, a breakdown, a customer complaint, a key piece of equipment that you didn't know you needed, or essential travel or education. Believe me, you'll be glad you had your contingency money.

How Much to Borrow?

Determining the amount of money you should borrow can be difficult. I cannot overemphasize how important it is to borrow enough money for a strong start, but not so much that your profits can't help you meet your debt payments.

To work through this dilemma, explain how you arrived at the figure you cite for each line item. For example, if you estimate you will need

\$50,000 for equipment, specify each piece of equipment, how it will be used, how much it will cost, and how you arrived at that figure.

Possible Start-up Expense Items

- Equipment
- Product materials
- Marketing and sales materials
- Licensing and regulatory fees
- Professional service and consultative fees
- Insurance
- Transportation
- Lease or property costs
- Labor and employee costs



VIII. Sample Start-up Capital Required

(Excerpted from original business plan for Aubrey's Natural Meats, LLC)

(All figures are in U.S. dollars)

CURRENT ASSETS

Truck and trailer for live cattle	45,000
Test cattle for meat sales (4)	4,490
Processing costs for test	1,070
Transportation and sales costs to date	750
Business cards and marketing materials	500
Professional consultation and entertaining	650
Computer, printer, software, paper	3,250
File Articles of Incorporation for LLC	90

Value of Current Assets \$55,800

ADDITIONAL CAPITAL REQUIRED

I. Equipment	
Refrigerated truck (seeking term loan financing)	12,000 to 17,000
Cryovac machine	1,500 to 2,000
II. Cattle procurement	
Cost per head	1,000
Dollars retained for procurement (via line of credit)	100,000
III. Transportation costs (during start-up)	
Fuel	1,000
Maintenance	500
IV. Marketing materials	3,000
V. Licensing and State/Federal requirements	
Board of Health	150
Merchant's retail license	150
VI. Legal/Accounting/Consultative	
Set up LLC or corporation	500
Review contracts	500
Retail negotiations	1,000
VII. Insurance (first 6 months)	
Liability	1,500
Workers' Compensation	1,500

TOTAL ADDITIONAL CAPITAL REQUIRED\$124,300 to 154,800

(\$150,000 includes \$25,000 of contingency money held in escrow)

IX. FIRST-YEAR BUDGET

Now that you've decided what you will sell, who will buy it, and how much it will cost to get it to the public, you'll need a budget for first-year operating expenses. A word of caution here: budgets have a way of getting blown, especially in the throes of a busy selling or producing season and especially when you're new to running a small business. I've learned from experience that it is often a test of personal will to stick to a budget, and that sometimes significantly important factors should alter a budget with good merit. However, you'll be on sounder financial footing if you build a budget that you can stick with. One way to help stick with a business budget, just like the one for your family's household, is to include extra dollars for unexpected items and additional purchases.

To build a sound budget, use items similar to those found in your start-up expenses section for anything that will be ongoing expenses for your company over the course of the first year, such as processing or manufacturing costs, energy costs, raw materials, and regular subcontracting work you'll employ. If you've borrowed money, used savings you want to pay back, or if you owe investors, include the monthly repayment of debt service and interest in your total budget. If you're going to live off your business, it's best to budget a salary for you and other owners, as well as any paid labor you hire.



Include extra dollars for unexpected items to help stick with a business budget, just like the one for your family's household.

This also is the time to build two useful documents: profit and loss projections and a cash flow sheet. To create your profit and loss projections, begin by outlining your projected first-year expenses. This takes a bit of operational planning because you'll have to forecast just how many of your small-farm products you'll be selling on a per-week or per-month basis. Put the figures in whatever tangible measurements make sense. When I began Aubrey's Natural Meats, LLC, I built projections using pounds of product per week and calculated that amount at each price point. I also divided those figures between retail and wholesale sales and among each selling location, including farmers' markets, distributors, restaurants, and my store. If your business is seasonal, as many small-farm enterprises are, show figures for each season, to indicate the times when cash flow will be low or zero. List these items as gross annual expenses in a column at the end of your sheet.



IX. Sample First-Year Budget

(Excerpted from original business plan for Aubrey's Natural Meats, LLC)

(All figures are in U.S. dollars)

PROJECTED FIRST-YEAR SALES/REVENUES

Based on moving a projected 13,500 pounds of beef through restaurant, wholesale, and Internet, per week, at an average price of \$4 per pound, we

estimate the following:

Total weekly	\$54,000
Total monthly	\$234,000
Total annually	\$2,808,000

PROJECTED FIRST-YEAR EXPENSES

Based on moving 13,500 pounds of beef *per week*, we estimate the following:

Cattle procurement	30,000
Transportation	600
Processing	7,500

Total weekly	\$38,100
Total monthly	\$165,100
Total annually	\$1,981,200

Annual projected pre-tax income minus expenses	826,800
Pre-tax earnings retained at 30 percent	248,040

Annual payout to debt on business, to be done quarterly	150,000
Projected pre-tax salary expenses to owners (before bonus)	125,000
Projected business expenses from owners	20,000
Projected employee expenses (2 at \$10/hour/40 hours/ week/50 weeks/year)	40,000

Annual dollars retained for taxes, to be paid quarterly	\$297,648
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When outlining profits, follow the same format and measurement for expenses as for sales. List profits broken down by category, depending on where sales will occur, and by customer type. If you sell lots of items at various price points, such as I did with meat products, select a low average price for all items (in my case price per pound) and multiply by that to get weekly or monthly sales figures. Later, once you're actually selling, these numbers will be exact; for now, it's still useful to create this estimate.

Make Technology Work for You

As with any part of your business plan, it is fine to use a basic word-processing program. If you're more tech-savvy, however, or have the time to learn, using Excel or, better yet, a bookkeeping software program such as Quick-books or Peachtree will make your tax reporting immeasurably easier and better organized.

Building a cash flow sheet helps to ensure you'll have enough money to conduct business, regardless of conditions that often arise, such as purchases you don't expect, slow-paying vendors or customers, and unexpected bills. Cash flow is different from expenses and sales because it demonstrates *when the money will be received* for the sale. We'll cover cash collection strategies in chapter eight; for now, realize that something is only really sold when you receive a good check and it goes into your bank account. Even if you've "sold" a product and billed the customer for it, you can't use the money or budget with it until you actually have cash in hand. Building a cash flow sheet helps you determine when you're able to make purchases, pay debt service, build inventory, and pay yourself. This exercise is especially helpful if you're a seasonal business, because you'll be forced to plan ahead for the months when you have bills to pay, such as start-up debt or equipment payments, but you don't have sales to balance the accounts.

X. COMPANY MANAGEMENT AND ROLES

This section of your business plan should include more detail about who is a part of your business. This exercise can be especially helpful in families where there is potential for misunderstanding that can lead to discontent. Don't jeopardize your dream of working from the farm by creating hard feelings among family members. One way to avoid this is by giving everyone involved a title and a specific role in the company. Decide who actually owns the company and how much profit they'll take from it. Is it you and your husband and your brother-in-law? Do the kids have some ownership or are they paid laborers? If you're living on your mother-in-law's property, does she get a cut and is she an owner? When you use your brother's flatbed trailer, are you paying him with a favor in return someday or in cash? Does he know and understand your intentions? Answering these

types of questions up front can make your business run much more smoothly.

Advanced Business Plan Strategies

- Develop expansion plans and a 5-year forecast.
- Obtain a verification of equity to use for more financing.
- Create detailed pricing rationales and a breakeven analysis.
- Plan to change direction of the company after year one.
- Add new people and employees to the company.

I also believe that while advice, consultation, and collaboration are extremely important in a family business, one or two people still need to have the final say. We've all been to those annoying committee meetings with our local associations or in our professional lives where everyone talks but nobody decides. Don't bother with that on your small farm. Take as much time as you need to review and discuss options, but in the end, someone must be in charge of making the decision. This can be difficult and touchy for families especially, so it is a good idea to select someone who's focused on the business goals and is thick-skinned. Having a head honcho also provides a natural spokesperson for the company.

When determining roles, look into any financial incentives that banks and some states offer for certain people to be named as sole or majority owners. When I started Aubrey's Natural Meats, my bank was offering a promotional rate to women from small businesses. It pays to look into these offers and, if applicable, use them to make a sound decision about company management, payroll, and ownership.

Altering Your Business Plan

The business plan is finally done — whew! Now that you've built that document, you can use the paper to line the silverware drawer, right? Wrong! To serve its purpose, which is to help you to be as successful as possible, a business plan must be a living document. Living means changing. There are two times when it's necessary to alter your initial plan: during your start-up phase and when you conduct research and shape your product.

Since I've suggested that you craft this plan to help organize your thoughts, your very first draft may not be the one you ultimately use to launch your company. That is perfectly fine. Also, as you conduct research and build a product offering, you may find that some ideas simply won't work, or that new ideas work very well. Either way, alter your plan so that it remains feasible.

Once you've updated your plan, if possible, stick with your plan through at least your first six months to one year in business. Also, pull it out monthly and look it over with family members or company principals, including your advisory board. Taking a few moments to remind yourself of your initial goals will keep you focused and rejuvenate your spirit.

If you do find that you have some reason to change your business route in the first year, put that temptation to the test first. List pros and cons and discuss the change with people you trust and others who'll be personally and financially impacted by your decisions. In the end, there may be an excellent reason to change course; if so, make that decision and proceed with confidence.



To serve its purpose — to help you to be as successful as possible — a business plan must be a living document.

In addition to a monthly review, a thorough annual review of your business plan is always in order. This is the time to consider alterations to the plan you made for your first year in business. Also use this time to decide if you're on the right course for success and personal happiness. Review the plan with your BOA as well as involved family. Good times to do this are at the end of the year, during down time after the holidays, or at tax time, since profit or loss will certainly impact the direction of the company. You may even elect to develop a new business plan annually and build upon your first year's plan with some more advanced strategies, such as the ones listed in the box on page 30.

Build a Plan

SUMMING UP

- ❖ Develop a plan to get organized and seek financing.**

- ❖ Select a company name that easily tells customers what you do or sell.**

- ❖ Establish who is involved in the company and their roles.**

- ❖ Decide on start-up capital needed.**

- ❖ Build a sample budget.**

For later...

- ❖ Consider altering your plan based upon sound choices and first year's experience.**

❖ **Consider more advanced strategies to build on after year one.**

Judy Reinhardt and Jim Schwantes | Cedar, Michigan Sweeter Song Farm CSA



NESTLED IN SCENIC northern Michigan near the summer resort town of Traverse City is an old yellow house with an inviting back porch, from which you view a barnyard full of shady trees, rustic barns, and rural charm. On any given day, visitors are sure to be greeted by a lazy cat, friendly dogs, and the sound of chickens pecking. Outside, acres of flowers grow near a perennial herb garden and vegetables of nearly every desired variety bask in the sun.

This is Sweeter Song Farm, owned by Judy Reinhardt and Jim Schwantes. Now in their early retirement years, the former English teachers from St. Louis, Missouri, operate a fully sustainable business that, while not truly uncommon, is still unique in its approach. Jim and Judy's farm follows the CSA (Community-Supported Agriculture) model and is open to all, almost all of the time. "We encourage people to feed the birds and chickens and sit by the pond. We see the CSA as a community, and it's to bring people together," says Jim of the aim of Sweeter Song Farm.

The Formation of a Community

In a sense, the CSA partners with members, people who purchase a seasonal share in the farm's crops. CSAs are not extremely common (only about 1,200 exist in the United States), but the concept was introduced more than 20 years ago. Jim and Judy began to research the subject of forming a CSA in the mid-1980s.

"There are really no rules. CSA is just a general term that applies to a lot of different models," Jim explains. In general, members pay for their share of the crops in advance, typically in the spring of the year. By collecting money ahead, the farm has the cash needed to purchase all of the necessary supplies and materials for that year's crop. The farmers grow and harvest the crops. Once the growing season begins (in Michigan, it's early June), members come out to the farm weekly to pick up a box containing their allotment of produce.

At Sweeter Song Farm, memberships last 20 weeks each year, and Judy says the crops of one share will feed two to four adults each week. Included in the membership are all of the farm's vegetables and fruits, as well as the members' pick of annual and perennial herbs. As a very popular bonus, members also have the opportunity each week to purchase additional local products from other vendors. The additional vendors can change from year to year, but the products include natural ground beef, fair-trade freshly roasted coffee, shiitake mushrooms, milk, and maple syrup.

Fresh eggs, flowers, and bouquets are also available for weekly purchase at a reasonable price directly from Sweeter Song Farm. Judy says the entire experience emphasizes value. "It's really important that they get what they pay for and more," she says.

Being community-minded, Jim and Judy offer three types of shares: regular shares at a cost of \$400 per year; four "work shares" for those who put in 60 hours of work each season; and five "care shares," which are given free to deserving community members. Those who have work shares must put in 30 hours of work helping to set the plants.

After they have put in the 30 hours, they are entitled to the crops in the same proportion as those who have paid for a share. The work-share owners then provide an additional 30 hours of labor over the course of the season to complete their commitment.

The number of care shares grows each year, as people donate money or even purchase a share and donate it to the care share program. "A care share is for someone who not only can't afford a whole share but may also not

have time to come out and work, such as women with young families,” Judy notes. “This is something we’ve been able to do without even asking for the money. The community-building here is really nice. We’re always surprised by the number of people willing to give care shares,” Jim says.

In 2007, Jim and Judy met a goal of selling 100 shares. This puts them at near capacity for their current size. “There are actually 140 members, as quite a few split their shares,” Judy says. Pickup days are pleasant, with members mingling with one another while they pick herbs or purchase products from other vendors. “It’s hard in the beginning [of the season]. It’s slow because there are very few things ready besides lettuce and crops like scallions, carrots, turnips, and garlic,” Judy explains. Still, the members seem to enjoy socializing with one another as much as they enjoy their produce. “We’ve got bankers, lawyers, secretaries, and people who are really struggling, but they’re all here together,” Jim notes proudly.

Jim and Judy don’t publish who owns what type of share and try each week to cultivate not only delicious food but a feeling of harmony and kinship among members of all backgrounds. This environment has given members a close bond to Sweeter Song Farm. “Anytime of the week, someone can be out to check on their vegetables or show other friends and family around. It’s really their farm. We want people to identify with it as a place that they see as part of their larger space,” Jim says, adding that he’s heard members tell guests aloud about “their crops and their farm.”

Besides enjoying the bounty and the farm lifestyle, CSA members help with decision-making, planning, and budgeting. “We try to be as transparent as possible if you’re a shareholder,” Jim explains. “We have a winter meeting where price is voted on and we discuss the budget with them. We have always looked at a share as an actual share.”

The Crops

As city kids turned farmers, Jim and Judy have had to educate themselves about a lot of things. Jim studied many texts on production, but trial and error often proved to be the best guide.

During the second week of March, Jim, Judy, and at least one work-share helper begin the plants in the farm’s temperature-controlled

greenhouse. The earliest plants include three to four varieties of onions and leeks. In April, tender seedlings of lettuce and kale begin their life inside the balmy little greenhouse, despite the fact that the area can still expect upward of 15 inches of snowfall. Over 1,000 tomato plants, as well as dozens of varieties of peppers and eggplant, grow quickly on a heated germination table. By May, it's time to add more onions and asparagus, as well as more full-time and parttime labor. Annuals such as basil, parsley, dill, and cilantro that members pick themselves are planted as the warm days lengthen.



Fresh vegetables abound at Sweeter Song Farm. Every summer, members reap the wholesome bounty.

The entire farm comprises roughly 80 acres of land, though for cash flow purposes, Jim and Judy sold about 55 acres to the federal government as wetlands restoration rights. Now, roughly six acres are cultivated into the many crops CSA members enjoy.

The food is mostly produced through manual labor. “We have a tractor, but we rarely use it. It would cause too much compaction,” Jim says, adding that most crops are sown with a walk-behind seeder, due to extremely intensive planting. This method fosters maximum acreage utilization. In order to start more crops, the couple also uses a seasonal, inexpensive hoop building of Jim’s own design. The hoop structures cost about \$700 total, including the frame and the plastic to cover it with. “Using these, we’ll add

about a zone. For every layer of fabric that you put over it, you can pick up another zone each time,” Jim says.

Limited Marketing Needed

Once the busy seasons of summer and fall begin, it becomes impossible to find the time to reflect. So, Judy stays in touch with customers through a newsletter that she drafts during the calmer winter months. With a nearly complete template built, she simply updates the document each week with any new developments. The first issue arrives around June 1, and includes tips for new CSA members, reminders about what’s in season, and information about her other vendors.

The Sweeter Song Farm Web site (see page 172) also keeps members in touch, provides a members-only recipe database, and member contact information so that members can arrange car pooling and other activities for their farm visits.

Jim and Judy don’t spend a lot of money on marketing or advertising because it isn’t necessary for their operation’s growth. “The nice thing about a CSA is there is really no marketing during the year; once the shares are sold, we’re done marketing and can focus on the crops,” Judy says. The number of memberships has increased steadily, and the couple has tried hard to keep growth at a pace they can comfortably handle. “The first year we started with ten shares sold. We just started with people we knew would be interested and we gradually added a few more each year,” Jim says.

To keep people interested from year to year, Judy also tries to be flexible and honor members’ preferences whenever she can. “We have what we call the smorgasbord,” she begins. “This is where I set items out on a table in the barnyard each pickup day and people can just help themselves to that extra.” Judy also encourages members to swap products with other members to get what they really like. She even offers a CSA cookbook, at a low cost, to help members learn how to cook vegetables that they may never have tried.

Financial Caution and Frugality

Jim and Judy approach their life and the CSA's expansion by living within their means. Their finances are conservative but comfortable — just the way they enjoy living. In the early days, the couple even worked off the farm to pay off the mortgage before diving into the CSA project. Each year, they've added to the farm with the previous year's profits, retaining just enough to supplement Judy's pension and provide a living.

“The first year we knew we needed the greenhouse. The third, it was irrigation lines. This year's investment may be adding a dedicated well for the irrigation lines,” Jim says. Even with a concentrated effort, it took about five years for the CSA to pay for itself. Jim cautions new people getting into small agriculture ventures not to get over-extended financially: “Young people entering this business need to realize that this is a 10-year, maybe 20-year project.”

Even things like becoming certified organic (which they did in 2007) have been done only as finances allowed. “We're the only certified organic CSA in our area,” Judy states. “Many others are farming that way but just don't certify because it's expensive.”

Neither Jim nor Judy would call business their specialty, though they strive to keep the CSA running in an organized and financially sustainable manner. For them, operating the farm is about fiscal responsibility *and* the farm itself. “Agriculture got lost when it became only an *agri-business*,” Jim comments with conviction. “We're here trying to get people to understand their food production.” Jim also believes that the farm should be enjoyable as well as hard work. “It's more about making a life than a living. As soon as you start over, mortgaging your life, you're sure to lose your home doing this,” he cautions.

The Lifestyle

Perhaps it is their urban upbringing that makes both Jim and Judy so appreciative of the farm life. No matter the reason, they want to share their good fortune; giving back is of vital importance.

Besides the care shares purchased by members and volunteers, Jim and Judy also support a local project called the Fresh Food Partnership. This

program provides food to community operations and food pantries in northwestern Michigan. Building alliances between people is part of the farm's mission. "The idea has always been the community-supported part. We want our members to be active in the community involvement part of their CSA, not just come here to pay their money and get their food," Jim says. "We don't have any kids, so we hope the CSA becomes more than us and carries on after us as a true CSA," Judy says sincerely.

The CSA has been a real joy for Jim and Judy. They can even swap their own crops for the products of other vendors. "It works out great and we just love getting all of the other good stuff!" Judy says with a smile, the smile of someone who, though not a farmer by birth, has truly come home to the farm.

Judy and Jim's Tips for a Successful First Year

- Plan to be in it for the long haul: expect a 10- to 20-year project.
- Don't go for broke; spend wisely and conservatively.
- Finance aggressively, if possible, using a 15-year mortgage instead of a 30-year, for example.
- Be patient and expect to use trial-and-error methods as you learn.
- Work cooperatively with other small farms.



2

TEST THE WATERS



Cultivators of the earth are the most valuable citizens. They are the most vigorous, the most independent, the most virtuous, and they are tied to their country, and wedded to its liberty and interests by the most lasting bonds.

— Thomas Jefferson

Your business idea is taking shape and you've put some serious thought into your products, pricing, marketing, budget, and management. It's time to test your ideas. This chapter focuses on market research that you can conduct on your own. You may also use a market research company to test the market for you, but in most cases you don't have to go to that expense, especially if your product or service will be sold locally or regionally.

Focus on quality, not quantity. If you're starting somewhat small and locally, more than likely you don't need to send out hundreds of quantitative surveys and review reams of results. Your market research should answer the following question: "What kind of information do I need to know to make a specific business decision, and how am I going to use the information when I'm done?" It should focus and target your efforts, making your first days in business positive ones.

Why Do Market research?

Conducting market research is a good idea for many reasons. For example, it will help you answer the following questions.

- Is my business concept a good idea?
- Is there a market for my business?
- Is there space in the market for my product or is the market saturated?
- Who buys my product now? Who is my target customer?
- Is my target customer interested in this business?
- How much do my target customers know about my product or service, and how much do they need to learn about it?
- What price points will target customers accept?
- What are some competitive angles my company can employ?
- How feasible is it that my business will be profitable?
- What is my supply chain? (This is important if you're going to sell wholesale or retail off the farm.)
- How can I access the market and receive a fair price?

Market research helps you gauge the difficulty in selling your product or service to your target client. It also helps you gauge how much education your target client needs in order to become interested in purchasing your product. If you're pursuing a farm product that's already established in your area or is a product you often see at existing selling points, such as local stores and farmers' markets, you may feel as though market research is unnecessary. Don't be fooled by another company's apparent success. If your product or service is well-known, simple market research may save you from entering a market that is already saturated. Or, if you offer a totally new idea, conducting your own investigation will help you determine if your target clientele is ready to buy what you want to sell.

Choosing Your Research Methodology

There are several ways to conduct market research for your new business: You can send out questionnaires, conduct person-to-person interviews (called intercept interviews), or host focus groups (see page 44 for the definition of a focus group). The techniques you use depend largely on the type of information and feedback you need. You want to achieve some sort of result at the end of your research. If you're just starting, that result may be a clearer picture of your business concept. If you're further along, that result could be a detailed set of answers to specific business startup questions. Either way, be sure to design your research for and spend your time working toward achieving the result you want.

There are two types of information you'll want to consider: qualitative and quantitative. Qualitative information is based on qualities or characteristics. For example, qualitative research would involve asking the customer about his or her preferences and why he or she preferred each thing. Quantitative information is measurable in terms of numbers or amounts. A quantitative question would ask someone to state specifically how much money per week he or she spends on a certain item.

The type of information you wish to know will shape your methodology. Aren't sure yet what you want to know? Determining which stage you're at with your business may help you decide what you're looking for. Like many small-farm entrepreneurs, you may still be in the

concept stage: Your idea doesn't quite have legs and you're looking to see if the concept is viable. Some questions you may ask at this stage are, "Is my product or service something that customers will be interested in buying?" and "Do they even use these products now?" This stage calls for qualitative questions and interview techniques such as those described on pages 41 and 42.

If you already have a solid plan and product or have already started a business, then you may be looking simply to prove or validate the information you already have. For example, you may be asking the following questions: "Where, when, and how much of my type of products do people buy each month?" and "What are some competitive advantages I could have over other vendors?"

Hire Market research Professionals?

If you're considering marketing your product through distributors or chains, it may be a good idea to seek the additional resources of market research professionals in the agriculture industry. You can budget these expenses as part of your start-up costs.

You might consider using a professional to help you gain access to large-scale market trends that are often tracked through associations such as the National Agri-Marketing Association (NAMA). A budget for this is difficult to estimate because each organization will have different costs. Visit the NAMA Web site (see Resources on page 170) or call the organization to identify potential market research providers.

Questionnaire Development

It is important to ask participants to respond to your company's market research inquiry, but it is even more important to make sure that they're responding to the questions you most want answered. Take time to build the questionnaire to ensure that you uncover solid, useful information. Look back at your mission statement and business plan. Be sure to ask questions

that, once answered, will fill holes in your business plan and help you achieve the goals you've set. Basically, you'll be covering the five P's: people (who you are selling to), price (price ranges that are acceptable to your market), packaging (style, such as paper, plastic, or vacuum seal; design; and logo), place (where your customer likes to shop), and promotion (the image and perception of your product). Ideally, at the end of your research you'll have information about all of these categories.

As you begin writing your questionnaire, keep your audience in mind. Provide your questionnaire to a variety of people, including those who may not be target clients but can provide valuable feedback and good industry knowledge or experience. Write questions that will elicit pertinent perspectives from a wide range of people, such as "Why do you feel that way?" and "What has been your experience with this before? And was that experience positive or negative?" It's important to note that, oftentimes in small agricultural businesses, our end clients are not our local neighbors or even our peers in agriculture. If your neighbors and peers aren't a target market, don't spend all of your time talking about your new venture at the coffee shop or county fair. Send questionnaires to and interview people who will help you branch out and locate your target clients.

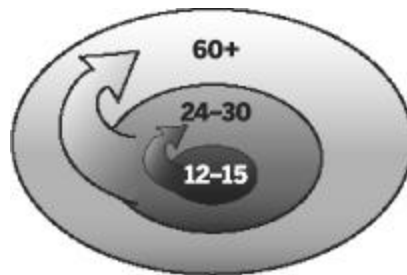
There is more to market research than a questionnaire. You may have casual in-person discussions with people that don't involve a formal document. As long as you're keeping track of the answers to questions that come up in conversation, you're conducting market research. You may not even need a questionnaire, or at least not at first. Remember, if you're still in the concept stage, conversations and qualitative information may provide a broader, more useful picture for your first business decision — the one to decide whether you'll go into this business or not — than a set of specific answers to detailed questions.



Cover the five P's: people, price, packaging, place, and promotion.

Even though there are several ways to gather answers, both formally and informally, make a note of the questions you asked so that you can compare and contrast answers from a variety of sources. Your questionnaire or in-person meeting should take no more than 15 to 20 minutes. Once you've built your questionnaire, it's appropriate to alter the questions as you gather more information and speak with more prospective customers and centers of influence.

There is no correct way to conduct market research, especially for a small business (though for a small agricultural enterprise, it is important to consider time and the budget). There is no magic number of respondents. It's good to start with who you know and branch out from there. Ask each of your first dozen or so respondents to recommend one or two people to contact who would have relevant opinions. Consider the following graphic, adapted from a graphic by Marilyn Holschuh-Leisure, PhD, of Free Range Thinkers:



Start with 12–15 people. Ask each person for 1 to 2 contacts, then ask each of those contacts for 1 to 2 additional contacts, and so on.

Avoid Sensitive Topics

If your market research questions are political, sensitive, or demographic in nature (such as income or education level), don't expect focus-group respondents to be particularly honest. The same group dynamic that

promotes lively discussion can as quickly shut down when respondents feel they're expected to share personal information with peers. Save these types of questions for less public interview methods, such as a one-on-one, in-person interview or an e-mail questionnaire.

TYPES OF QUESTIONS

As you build your questionnaire, include a variety of types of questions. This will allow you to ask the same basic information in several different ways. Here are some common types of questions, adapted from the book *AgriSelling: Principles and Practice* by W. David Downey, Marilyn Holschuh-Leisure, and Michael A. Jackson (Doane Agricultural Services Company, 1983 [first ed.]). See page 163 for a sample questionnaire.

Open-ended. The open-ended question can only be answered by providing detailed information. An open-ended question leads into more open-ended questions as ideas come up. This generates some discussion between you and the interviewee and allows the interviewee to share her opinion and hopefully her values. These types of questions are developed by using key phrases such as “Tell me ...”, “Why do you ...”, and “Explain your decision, preference, choice ...”. Here’s an example: “Tell me, what types of meat do you like to eat and where do you usually shop for them?”

Closed-ended. A closed-ended question doesn’t encourage the respondent to elaborate much. For example, asking “How old are you?” doesn’t elicit a long-winded response. A closed-ended question is designed to give a factual, to-the-point answer.

How Many Questionnaires?

A good place to start is by distributing 20 to 50 questionnaires or contacting 20 to 50 people in your market area for a combination of questionnaire responses and in-person interviews or focus groups.

Multiple Choice. Multiple choice questions, especially those that allow the buyer to rate the items in order of preference, also allow you to learn more about your prospective customer’s values, needs, and desires.

These types of questions are relatively easy for a respondent to answer and help break up and possibly lighten up the questionnaire, keeping your interviewee interested and motivated. A sample question could be: “When buying meat do you typically shop at: A. a local grocery store; B. a discount club; C. a farmers’ market; D. direct from a farmer or relative; E. all of the above.” With multiple choice questions you can also ask the respondent to circle or select all that apply, leaving you with several answers to one question.

Clarifying and Confirming. Clarifying and confirming questions help you to reiterate your point or ask the respondent the same thing as in a previous question, but in a different or more detailed way. This can be easier to do with a person-to-person interview or a focus group.

Here’s an example: “If you purchase meat at your local farmers’ market, how often do you attend and what do you like about that market?” This question confirms that the respondent’s first choice for purchasing meat is from a farmers’ market (important to know if that’s the route you’re considering as a top selling venue) and then it asks for more information about that purchasing decision. The more detail you can glean from your questionnaire, the more useful your market research.

Commitment. Asking a commitment question is almost like asking for your first order. In your questionnaire, you can ask commitment questions to find out if prospective customers in your target market really intend to purchase or use your product or service in the way you envision delivering it. This helps you to understand if your idea, in its current form, will be popular enough with your target market to move ahead, or if you should alter it.

Here’s a couple of sample commitment questions: “Would you buy meat from a local farmers’ market in season instead of at the grocery store if you met the farmer?” and “Would you drive an additional 10 miles to purchase meat straight off the farm rather than at the grocery store if you could see how it was raised and packaged? If so, how often?”

Administering the Questionnaire

A questionnaire can be administered in a variety of appropriate ways. The following are some examples. Some are best used in combination with other techniques.

Mail. Most of us are comfortable with e-mail and are concerned enough with conservation and sustainability that we would rather not receive a paper survey in the mail. However, that doesn't mean it can't be appropriate for some businesses or some types of prospective customers. For example, retirees in rural areas who do not have easy access to a computer or who don't feel comfortable using one might prefer it. Still, with the additional expense of postage and printing costs and an expected slower response, I don't recommend the mail unless you're sending a survey to someone who requested it in this form.



An in-person interview can be one of your best sources of information because you have the benefit of being face-to-face with the person.

E-mail. E-mail is considered the fastest and cheapest way to gather responses. It's very easy to update and change your survey in electronic form and then e-mail the new version. To make certain that your survey is not considered spam and deleted, choose your e-mail respondents carefully and ask to be put on their safe lists.

Phone. With new laws precluding people from phone solicitations and the high cost of pre-qualified telemarketing lists, I do not recommend unsolicited phone interviews. Also, most people don't appreciate being bothered at home about any kind of query from a company they haven't asked to hear from. So, I recommend limiting phone questionnaires to people who have given you permission to call. Also, as a courtesy, be sure

you or someone from your business conducts the interview. If the participant is interested enough to take your survey, he or she may have genuine questions about your new business that only you can and should answer.

In person. An in-person interview can be one of your best sources of information because you have the benefit of being face-to-face with the person. You will be able to read the respondent's body language and go into greater depth with your questioning, based on his or her responses. Though you may not have time to meet with everyone personally, select a number of respondents from a variety of sources and take time to ask them your questions in person.

Possible Interviewees for Your Market Research

- People you know and trust.
- Anyone who fits your target market or already buys the types of items you'll sell.
- Professionals, experts, or executives in the industry.
- Personal friends and peers who know you well or whose opinions you respect.
- Key financial partners such as bankers, accountants, attorneys, and financial planners.
- Peers in your business (as long as you are somewhat guarded about your personal information and plans).
- Representatives from trade associations or other networking groups.

Focus group. A focus group is a small group of key respondents (usually three to six people selected for a specific reason, such as being in your target market or demographic, or being an industry peer from whom

you'd like to receive feedback) assembled to answer your questions in person. You can host a focus group anywhere: You may ask people to your home or meet them at the local library. You may ask the group to respond to each question, creating a brief discussion, or you may ask each question of each member in attendance. It will be difficult to record all the relevant responses in a group setting, so it's a good idea to bring a tape recorder or ask another person to help record the discussion on paper. If you use a tape recorder, let everyone know that up front.

PERSON-TO-PERSON INTERVIEWS

Locating people to interview may be simple for some and more difficult for others. Either way, you have to find willing respondents to conduct your market research. Start by looking in places where you plan to sell. For example, if your product will be sold at farmers' markets or specialty stores, ask contact people there if you can solicit patrons. There are also list services that provide you with names and e-mail addresses, but these can be expensive, so shop wisely and make sure the cost is worth the results.

You can also attempt to include your questionnaire with related products and services at an established business. For example, when I started the natural meats business, I often conducted co-marketing with colleagues who sold other natural products (like produce and dairy) that I didn't supply. Or, attend fairs, events, or festivals where you suspect your target clients will be congregated.

If you will be conducting market research in person, whether handing out surveys personally or hosting a focus group, take a look at the following tips and techniques to ensure enthusiastic, quality responses:

- **It should go without saying: Always dress appropriately for your audience.** If you're selling food, for example, don't come straight from the barn just to prove you're authentic. No one wants to associate his eating experience with what's on the bottom of your work boots!
- **Arrive and leave on time.**
- **Be personable, excited, and very open about your plans and ideas.** Share your enthusiasm about your new company.

- **Don't eat or drink or chew gum.** It's easier to conduct an interview if you don't need to use the restroom or clean up a coffee spill on your blouse.
- **Involve as many of your company's key players as possible.** One specific benefit that small farmers have over their large, commodity counterparts is that the customers often have the chance to meet their producer. Let this shine through!
- **Be extremely considerate of other people's gifts of time.** Do not be late, disorganized, or disheveled. Remember, you're trying to sell your company.
- **Don't talk or lead too much.** Remember, you're conducting this research to learn about your prospective customer. Don't lead interviewees into telling you what you want to hear; let them tell you their desires, needs, values, and preferences.
- **Watch nonverbal behavior carefully.** People usually want to please, so if they see you wrinkling your brow or frowning over an answer they may backpedal or become less honest in the interview. If you think you won't be able to refrain from reacting in this way, it might be best to ask a trusted colleague to conduct focus groups for you.
- **Go the extra mile.** If you're hosting a focus group, offer basic things like water or coffee or a shaded place to sit on a hot afternoon if you're in public. Usually making others comfortable costs little or nothing but helps concentration immensely.
- **Don't be too pushy.** If you're passing out questionnaires, try to attract attention to yourself, but don't be annoying. Again, you want your prospective customer to leave interested in what your farm will soon be selling!
- **Don't share one person's responses with another person.** These are confidential, even if they may seem like benign comments.
- **Don't SUG. That is, don't Sell Under the Guise by promoting your products.** You are there to learn, not sell.

Don't Forget Snowballing

There are two key questions often referred to as “snowballing” to ask at the end of any interview or questionnaire. These questions will often uncover a bit more information than you’d bargained for and yield additional people to speak with. Always ask: “Is there something I haven’t covered or any additional information you’d like to provide?” and “Who else should I speak with about this survey?” Ask the subject to recommend one or two people.

Test the Waters

SUMMING UP

❖ **Consider which type of market research method fits your business. More than one type can be used.**

❖ **In a focus group, a person-to-person interview, or a questionnaire, ask a variety of types and styles of questions.**

❖ **When new ideas come up, alter your questionnaire.**

❖ **Don’t take too long and bore your interviewees; ask 10 to 15 questions or fewer.**

❖ **Take time to summarize, draw conclusions, and apply your research to your business plan.**

Nancy Keilty | Cedar, Michigan Leelanau Natural Beef



FOR GENERATIONS, Nancy Keilty's family has enjoyed cool, picturesque summers on Leelanau Peninsula, along Lake Michigan's northwestern shoreline. As an adult, Nancy turned her summer home into her permanent home, as did several of her family members. Nancy and her husband, Tim Keilty, now raise their two children on part of what was once a cherry farm near the resort community of Traverse City, Michigan.

Nancy's mother's family grew up around livestock and her grandfather raised commercial cows in New Mexico. Nancy's love for animals took her first into the goat business. But when the market, and government funding, began to wane for her Angora goats, she settled on purebred Hereford cattle and formed Cottonwood Springs Farm.

As Nancy's herd grew, she looked for a market for her cattle. She tried marketing her steers to local 4-H kids, but that wasn't as successful as she was hoping it would be, largely due to the fact that the county fair in her area didn't have a strong focus on "club calf" showing. Additionally, U.S. Department of Agriculture market prices in her area and around the country were weak at the time, so selling the steers at the local stockyards did not seem like a good decision in the long run. Undaunted, Nancy pursued another idea, one that would keep her cattle operation viable for years to come: the burgeoning natural meats business.

Market Research and Venues

Nancy knew her idea had legs: Her home area was full of the right kind of consumers, especially during the pleasant summer months. She asked colleagues in the Cooperative Extension system and at Michigan State University for start-up advice. Their recommendation was to conduct market research. In the winter of 2000, Nancy developed a simple survey and a personal letter detailing her plans to offer locally raised natural beef from her purebred cattle.

She surveyed restaurants, thinking that she would enjoy serving that market. “The response was great! We heard back from over 80 percent of restaurants in Leelanau County,” Nancy says of her survey’s success.

Once she started the business, individual consumers responded well to her products. “These folks aren’t the McDonald’s drive-through type,” Nancy says of the people in her area. “They are health-conscious, affluent people.” Nancy finds that many new customers come to her because of the perceived health benefits from her hormone-free, antibiotic-free beef. “I get a few customers with chemical allergies,” she notes. Nancy has even been surprised by some of her converts. “I even get customers who are what I call ‘reformed vegetarians’.” She says many of her customers have proclaimed that they had sworn off meat — until they tried hers.

Nancy barely has enough steer calves to meet the demand each year. Leelanau Natural premium ground beef is served at two restaurants, can be found at one farmers’ market, and is sold locally through a neighbor’s CSA (Community-Supported Agriculture) farm. CSA Sweeter Song Farm, also of Cedar, Michigan, is one of Nancy’s favorite selling locations. “I really enjoy being part of the CSA,” she says fondly. The product sells out every week at the summer farmers’ market, but Nancy finds that her at-home pickup location is her most profitable business outlet.

A remodeled old garage is her office and the pickup location for the meat. Inside, customers can stop by — without appointment and unannounced — to pick up Leelanau ground beef. There are two freezers, and a money box sits on a table nearby. Customers write down what they took and how much it cost and leave their cash or check behind. The product is constantly replenished, but it’s basically first come, first served. “We’ve never had any problems,” says Nancy of her trusting sales style. “I’m never here, it seems like. People just come in, get what they need.”



The on-farm pickup has become more like a family outing for some of her customers who stay around to browse photos of the farm and read about the cow/calf operation in her scrapbook. “I think the best seller is that they [can get product] right here on the farm. We mainly get customers through word of mouth,” Nancy explains.

While she sells beef year-round, especially from the self-serve shop at home, the winter months are much lighter. “Winter can be pretty slow around here, but it’s nice to take time off,” Nancy says. Even in the downtime, visitors to the farm trickle in for Nancy’s farm tours. “We schedule tours. There are two scheduled for fall. People have really enjoyed having a personal visit and the opportunity to learn.”

Simple Production and Marketing Model

The farm supplies just 12 steers per year for the meat business, though Nancy is considering increasing this number if her eldest daughter and son-in-law return to the farm. And while many meat businesses focus on customization and a variety of cuts, Nancy keeps her product extremely simple; offering primarily ground beef makes her business manageable for her. “We may branch into halves and wholes and other cuts,” Nancy begins, but says that for now she is satisfied.

The entire animal is ground except for the tenderloin and the offal, or organs, which are sold separately. The ground beef is marketed under the premium label because Nancy says the quality is excellent, due to grinding all the major muscles into the final product. She uses a standard 85/15 percent ratio of lean to fat. “We can’t get it much leaner or we’re afraid it

wouldn't hold together well enough," she says, adding that some customers have asked for a leaner product. But she wants to maintain her consistency. All the ground beef is sold in 1/3-pound patties that are vacuum-sealed into packs of four or six each.

The product is antibiotic-free and has no added hormones. Nancy's cows are primarily grass-fed, though for a short time at weaning she employs a creep feeder to get them going. Nancy realizes that the grass-fed moniker has become interesting to some consumers, but she hasn't felt a strong enough demand just yet from her marketplace to convert to grass feeding exclusively. "We've considered investing in a grass-fed association or going certified organic, and we're looking into it, but people trust us right now and that's the thing you have to have. We have the confidence of our customers," Nancy states.



Nancy sells her beef at the farm by self-serve and by attending a local farmers' market each summer.

The Internet is an important tool for marketing Leelanau beef and providing information. She has her own Web site (see page 172) and includes her information on many other sites. She also lists on her community's Local Helpers site so she can be included in promotions that people visiting from out of town will receive as welcome information. Nancy also participates in Taste the Local Difference, a site that showcases farms and wineries in northwest Michigan.

Nancy uses a few promotional tools, such as attractive packaging additions to please the eye and tempt the palate. Her brother-in-law is a chef, so Nancy gives out his personally crafted recipes on specially designed 2x2 square recipe cards that are tied onto a customer's bag with twine. The cards include the recipe, farm logo, and a brief description of the operation.

Free newspaper and magazine feature articles round out her marketing efforts. Nancy believes that customers like to read about the business and make their own decisions. "The free articles that a local paper did really drove sales and paid off so much more than advertising that I paid for," Nancy explains. Since she doesn't spend much on advertising, she knows that word of mouth brings in enough customers to sustain the business. She feels her customers buy her product because it's the type of meat they want and need. "We're just taking the practical and promoting it," Nancy says simply.

The Challenges and the Rewards

Converting from raising beef cows to raising beef cows *and* selling beef has been an eye-opening experience for the company's founder. "Every year there is something new that comes out!" Nancy says of keeping up with USDA regulations on processing, packaging, and labeling.

Hiring a processor as a subcontractor has been one of her great challenges from the beginning. When local processors didn't work out, Nancy was forced to drive over an hour-and-a-half one way to find a firm willing to cut and package what she needed. She says that there are many issues that farmers new to the processing end of production have to address, including aging time, locker space and storage, and packaging problems. Early on, she also dealt with customer complaints related to packaging; in one case, a customer found a small piece of bone in the grinds.

There are many rules and regulations for first-time meat producers to learn. In Michigan, specifically, Nancy's company must be licensed as a distributor by the USDA in order to sell ground beef. Her processing plant is also inspected by the USDA. Labeling is a major issue. "We have our labels custom designed by a marketing person, but we have a separate printer at the plant to put them on each package," Nancy says.

She says producers need to choose their labels carefully because some papers won't stick to frozen packages and fall off during storage or transit. She is also required to have sell-by dates on all the packages. Getting sell-by dates that are appropriate for freezer meat was a difficult task. At first, she could only go out about eight days from packaging, which wasn't feasible, so she worked with her processor and the local USDA inspector to change those dates. "Now we have eight months from the date of packaging to sell by," she says.

Storing the product at home also takes some getting used to. Nancy learned a lesson about the costs of spoilage when a freezer went down and caused a large product loss. Now she operates her freezers with a backup generator. She's also learned about customer behavior and plans to make some changes in her storage to (she hopes) eliminate some problems. "People open the freezer doors and just stand there in front of it!" she says with a laugh. She said she hopes switching to a case with a clear glass door can change her customers' habits of letting out the cold air.

Not all of Nancy's cattle go into Leelanau Natural Beef. Along with her herdsman, Nancy is striving to acquire the best genetics the Hereford breed has to offer. She uses artificial insemination extensively in her herd and owns several influential donor cows that she flushes to sell valuable embryos to other breeders. "We own the two-time national champion bull 'Online,'" Nancy says proudly as she shows off the bull's photo and banners from major Hereford shows.

The farm owns about 50 cows, which roam over roughly 245 acres of scenic hills. Nancy was forced to acquire additional acreage before she was ready, due to development pressures from housing additions and vineyards. She's considered expanding again but is waiting for the right time to buy. Her youngest daughter is also interested in showing cattle, so more travel and marketing of their top Hereford genetics are on the horizon.

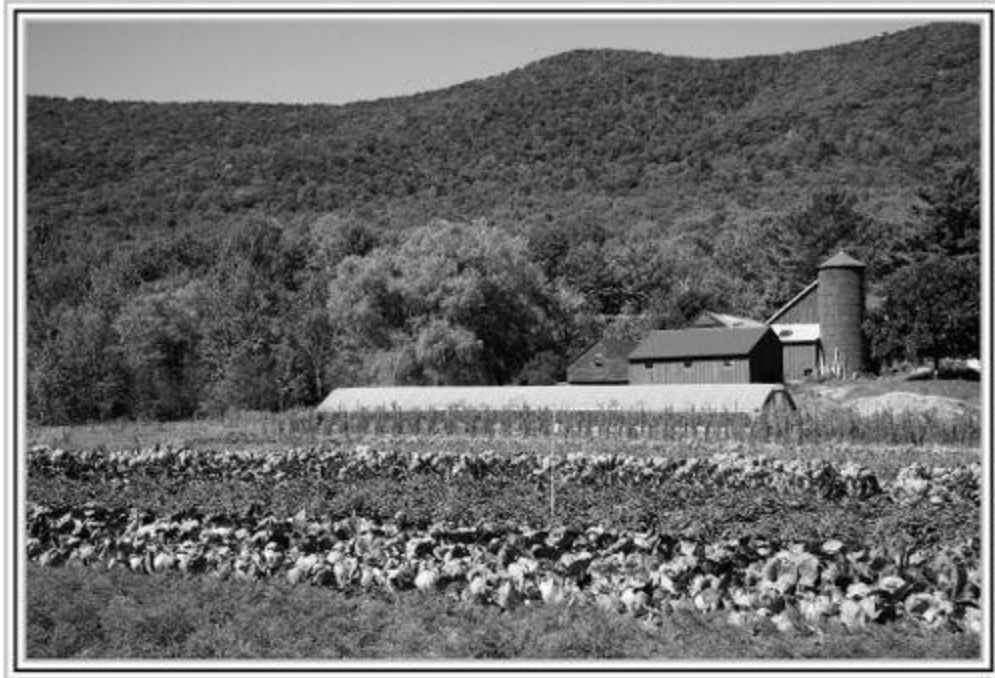
"I'm satisfied with the size we are right now. All the cattle are born and raised here [for the beef business] and we can promote that," she says. Most of all, Nancy seems to be satisfied with the progress of her natural beef venture. "It's the best when people say, 'your beef tastes like it's supposed to' or 'tastes like it used to'. I feel very proud that we're giving them a good product."

Nancy's Tips for a Successful First Year

- Target your customers; really know who you're selling to.
- Give the customers what they want.
- Don't follow the old adage, "They'll eat what we produce."
- Be careful and consider all legal aspects, especially with regulations and processing.
- Show people around your operation; have an open-door policy to build the trust of your customers.

3

GET THE MONEY



Buy land, they're not making it anymore ...

— Mark Twain

Twain was right: Fans of his books would say he was savvy about many commonsense items that people dumbly overlooked. God is not making any more land, so as the current Earth dwellers, we must find the best ways to use and preserve it.

This chapter is the proverbial jumping-off point you've been waiting for. Now that you've developed a formidable business plan and tested your concept to prove the validity of your ideas, it's time to find the money to finance your dreams. Unless you're wealthy or have substantial savings for an occasion such as becoming a small-farm entrepreneur, you're in for what

most people consider the most difficult or painful part of the business start-up process. Please don't let my honesty dissuade you from going into business for yourself. This book will show you how to get the money you need as efficiently and inexpensively as possible. It simply takes work and planning — the basic components of every part of this book and of your life as a small-farm owner. You'll need to be resourceful, as well, and sell your ideas with clarity and creativity.

This chapter has two sections: Financing Options describes the financing options available to you and how they work, and Simple Financial Statements discusses how to seek financing by properly preparing the documents lenders will want to see. I will also pinpoint some common pitfalls of the types of financing I discuss, and any specifics I would want to be aware of if I were again considering financing for the first time.

Financing Options

You may pursue several different options before settling on one or more types of financing. I urge you to carefully consider what's best for your farm operation and use a combination of resources if possible.

BANK LOANS

The most obvious choice for financing your new small business may be borrowing money from the bank. After all, one of the major functions of a bank is to lend money, right? Well, yes, but a bank's first responsibility is to make money to pay interest to the people who deposit their money there. One way it makes money is by offering interest-bearing products such as loans. A vast majority of small businesses will at some point take a loan from a lending institution to start their business or finance growth. Still, this is not your only option, and borrowing from a bank will likely be your most unforgiving option should you start to have financial trouble. That said, borrowing from a bank may also be the most feasible option for many and should strongly be considered unless you have an abundance of personal wealth.

Borrowing from a bank is not the same for your small business as it is for your home mortgage. The terms will be different, as will the assets and information you need to become approved. Repayment options are also not necessarily the same, especially if you obtain a line of credit instead of a loan. (A line of credit is a set amount of money you can access whenever you want without having to borrow all of it at once, as you do with a loan.) Often with a business loan an interest-only payment is required monthly, whereas with a home loan the payment is usually principal and interest each time. With a business loan, you will have to schedule extra payments to reduce the principal balance of the loan. The time period allowed for repayment on a business loan may also be much shorter than with a home mortgage payment.

Advantages of Bank Loans

- Package of features such as credit cards, checking, and savings accounts.
- Opportunity to refinance your debt later, if needed.
- Opportunity to acquire a good credit history.
- Opportunity to access additional funds for future expansion.

Finding the right bank may be as big a challenge as getting a lender to approve your loan. There are banks on every corner, even in small towns, and options online as well, but interest rates and policies may vary widely among them. Look at several places before you settle on one in particular. If you already have a strong relationship with the bank where your personal finances are held, apply there, but don't assume that bank will have the best interest rates and service just because you've been with them for a while. Many banks offer rate specials for new companies, and some banks have a target client that they're looking to attract (such as women or minority small-business owners) and will strive diligently to get their business. Also, if several banks approve your loan or line of credit, you may want to have them compete against each other to get your rate even lower (if possible) or to obtain additional features such as business credit cards, checking and savings accounts, overdraft protection, and better credit card machine rates.

To obtain a bank loan, you'll need to provide a vast array of documentation ensuring the bank that you'll be a good candidate to pay back the money and not default. Items you'll need include the following: a complete business plan (see page 157); a statement of financial position and an income statement; an application supplied by the bank; verification of assets you'll tie to the loan; and verification of equity you'll be providing (such as other cash). Every bank will have its own set of requirements, but most banks require these basic elements.

First Application for a Bank Loan Declined? What to Do

- Apply for a smaller amount.
- Ask a professional to help you improve your business plan or statement of financial position.
- Consider tying different assets to your loan, such as your home or land.
- Opt for assistance from the Small Business Administration (SBA).
- Consider a grant program for some of the funds.

After you've selected a few banks and completed the application process, be prepared to wait two to three weeks. If you are approved, great! Your bank will probably give you a period of time in which the loan offer is good, so don't feel you have to set a closing date immediately (you may want time to do more investigating). If your loan isn't approved, it is not the end of the world and it is not necessarily the end of your loan-application process. Talk with any lenders who decline your loan, and find out specifically why they weren't ready to approve your request. Ask what you could do differently.

SMALL BUSINESS ADMINISTRATION GUARANTY LOANS

Even if you have great credit, a wonderful plan, and a solid asset base to which you may tie your repayment, opting for assistance from the Small

Business Administration (SBA) can be a smart choice. The SBA is an independent federal agency whose mission is to help small businesses start up and prosper. There are SBA offices in many cities across the country (see page 170 for contact information.).

The SBA will give good advice, and it can help you get a loan if your initial bank loan application is refused. After your application is declined, you would ask the lender to consider your request under the SBA loan guaranty program. Under that program, the SBA can guarantee up to 85 percent of a small business loan if a lender agrees to loan the money. The business must meet SBA size requirements; for example, most agricultural ventures must have annual receipts of \$750,000 or less. The lender would send your application and its credit analysis to an SBA district office for SBA approval of the guaranty.

Even before you start your loan application process, you can contact the SBA for additional resources on applying for loans, help with building a business plan, and for an in-person meeting with seasoned executives in the Service Corps of Retired Executives (SCORE) program. SCORE executives volunteer their time, talents, and skills to advise new business owners. The SBA also offers free templates of business plans and other start-up documents online.

PERSONAL SAVINGS

Personal savings, including cash, stocks, and retirement-plan liquidation, are certainly a great, secure way to finance your small-farm venture. Once you've built your business plan, you'll know just how much money you'll need and you can assess how much of this will come from your own savings and how much you will need from outside your current resources. Using personal savings in combination with a bank or SBA loan is an excellent idea, not only because you'll have less to pay back with interest, but also because you're more likely to be approved by a lending institution if you are willing to commit some of your own funds.

Of course, cash in a savings account is the easiest form of savings to offer for use in your business and to show on your statement of financial position. You may also have resources that can be liquidated, such as stocks. Liquidating investment accounts may be a good choice, but it's a

good idea to ask the advice of both your tax professional and your financial advisor. You'll need to consider the gains and/or the losses when you liquidate investments such as stocks, mutual funds, bonds, certificates of deposit, or money market accounts. Also, consider commissions or fees that you may have paid and not yet recouped or any back-door fees that you'll be charged if you exit the investment early. Once you've assessed the pros and cons, you may find that using your investment portfolio now is the best thing to do.



Using personal savings in combination with a bank or SBA loan is an excellent idea.

Liquidating retirement accounts is another matter. My initial advice (as a former financial planner) is to tread *very carefully* here. While retirement accounts (401(k)s, IRAs, and Roths) are always your money, the best advice is to keep that money until retirement if at all possible. The first reason is that you will be charged a penalty for early withdrawal. Second, you may be considering leaving behind a job where someone else is contributing to your retirement for you or where you're making pretax contributions from your salary. Deciding to leave that stability behind for entrepreneurship is hard enough, but liquidating what's in there may leave you with little or no savings as you start your small-business venture. Third, as a new business owner it's often very difficult to save extra money for the first couple of years. If you're unable to contribute to your retirement accounts when your business is new, then it pays to leave current retirement savings intact and growing during this period.

Ways to Use Credit Cards Safely

- For short-term purchases such as inventory and supplies that can be quickly paid off with sales.
- For cash advances during emergency periods that can soon be covered.
- As an overdraft protection feature on a bank account in case of a bad check, which you can never predict.
- As a cheaper, more convenient way to pay for goods than checks.
- As a way to earn perks offered by companies that interest you, such as airlines or hotels.

If you're already retirement age (by federal government standards, age 59½), however, using your retirement dollars to finance your business may be a good decision. Either way, please think through this process carefully before accessing retirement savings to start a business. If possible, I strongly recommend seeking help from a professional, such as a tax preparer or financial planner, before you use retirement dollars to fund your new business.

CREDIT CARDS

Ah, the wonderful world of credit. Many of us may feel strongly that people are afforded too much "free" stuff, as evidenced by the numerous and often downright annoying solicitations for credit cards that are in our mailboxes and on our computers every day. Credit cards, though the nemesis of those who can't seem to help abusing them, can be a useful tool, especially for short-term cash needs.

Most credit cards are unsecured debt. So, I won't advocate in any way using them for long-term financing of your business. While you may be able to access several thousand dollars on credit cards, if you can't pay them off every month or during a low-rate promotional period, chances are you'll be spending a fortune in interest and truly damaging your credit history. However, for short-term use, credit cards can have their benefits in small business. Applying for a credit card is probably the easiest process of

all the lending choices available and approval is nearly guaranteed, at least by *some* company out there. If you do use credit, understand your terms, any promotional offers, and your interest rates, both variable and fixed.

VENTURE CAPITAL DOLLARS

Venture capital sounds rather “big league,” does it not? But really, venture capitalists are simply investors of all kinds. If your grandmother kicks in a loan to start the business, then she’s a venture capitalist, in theory. Funds can come from firms as well as from individual persons. These people can be additional owners in your business, as described in the next section, or simply person-to-person lenders who’ll provide you with start-up money in return for something — usually a repayment with interest.

Why Involve Investors?

Involving investors may make sense for strategic reasons: An interested investor may have great contacts that will make you money and help you grow your business. Also, offering shares may keep you from borrowing money, yet create access to the start-up capital you need.

If your idea is great but your credit isn’t, seeking personal investors to make loans may be a feasible alternative to bank financing. Also, venture capital may be used in addition to bank financing to access extra funds, fund a special project, or buy a particular piece of equipment. Venture capital can be great for those who need it or, like a credit card, it can be a nemesis to those who would abuse it. This is especially a concern if your venture capitalist is a family member. If you borrow money from the bank it is not personal, but if you borrow from your neighbor or a family friend, it can be difficult to face that person when the going gets tough, especially if you can’t make payments on the right schedule.

If you use venture capital, work very hard to ensure that the terms will work for you, not just for the venture capitalist. You’re the one who has to repay the money, so find a feasible interest rate, an acceptable first payment due date, and a solid repayment plan. Also, put your agreement in writing

and file it with an attorney. You don't want a "he said, she said" situation to arise when discussing how you financed your business.

If a firm is offering the venture capital, be certain to understand and research its intentions for your company. Is just a loan being offered? Or does the firm expect dividends or a piece of ownership in your company? Getting the facts straight, in writing and as a legal document, is essential with this source of funding. See page 166 for a sample Venture Capital Agreement.

Tips for Writing a Winning Grant Proposal

- Have a completed business plan.
- Have a definite market for your product and a target client.
- Have any required supplemental capital ready and be able to provide proof.
- Know your niche and its uniqueness or special selling points.
- Know how much money you need.
- Have a timeline for the dollars you need and make sure it fits in with the grant program.
- Clearly understand the granting organization's goals and objectives; make certain you can fit in before bothering to apply.
- Before applying, make a few calls first to contacts with the grant program. Ask for their advice and ask questions you need answered.
- Give yourself as much time as possible for writing, editing, and rewriting your grant proposal.
- Be neat and complete. Submit the application on time.

OUTSIDE OWNERSHIP IN YOUR BUSINESS

Outside investment in your small-farm venture may not be your first idea, but it could work for you. For some people, the idea itself is totally appalling — it was for me when I started Aubrey's Natural Meats, LLC. In my case I viewed starting my own company as the means to get away from

working for other people. However, not everyone may feel that way, and with good reason.

For example, if you're going to set up a CSA (Community-Supported Agriculture) program, you are essentially entering into contracts with a number of people from the start, so offering shares in your small company may not feel foreign. Or, if you're sharing the proceeds of the farm with several families, selling a piece or trading a piece of the business in exchange for property or equipment use may make perfect sense and lessen the need to borrow money. Either way, as with all financing options, consider offering pieces of your business carefully. Weigh the pros and cons; be clear about why this is a necessary financing option and about the possible pitfalls of this type of business decision.

If you offer shares to the public or other members of your family, these investors and owners will expect some kind of return for their investment on a regular basis. You also may have to include these individuals on your board of directors. You'll need to hold at least one publicized board of directors meeting per year. Whatever your decision, weigh the options carefully.

GRANTS

A grant is one of the most overlooked financing options available today. A grant is just that: It's something given to you that does not have to be repaid. The money may need to be accounted for — you may have to show records to the granting organization, and you may have to be part of research — and it's not all free. Many programs require that the grantee provide matching funds and show verification that the matching funds are available during the review process. Still, if receiving a grant can help your business borrow less money and grow more, it's often worth the effort.

There are numerous federal, state, and private organizations that offer grant programs, and with today's explosion of interest in small and sustainable agriculture ventures, I am not afraid to state that there may be a grant out there for just about every business. Check the box at the right for a list of places to look for grants.

Applying for a grant may be a daunting task, but if you've already completed your business plan and market research, you're well on your way

to completing the type of information required in the application.

Places to Look for grants

- Organic or natural certifying groups such as USDA National Organic Program.
- Associations, such as Rural MidAmerica Development Association.
- Your state's agriculture department.
- Cooperative Extension Services.
- Land grant universities.

Simple Financial Statements

There are two types of financial statements you'll likely need when searching for funds, especially when working with a bank: an income statement and a statement of financial position. Expect to prepare both of these when applying for a loan.

INCOME STATEMENT

An income statement is just a brief document that shows the current monthly income for everyone involved in the company. Use this if you're going to continue working and receiving outside compensation in addition to your small-farm venture. Grouping your income into received (year to date) and anticipated (from today's date until the end of the year) is a good way to organize your records and arrive at a year's total gross.



Sample Income Statement

This statement is for a married couple for use with a loan application.
As of (date)

Inflows	Monthly	Annually
Gross Salary 1	3,000	36,000
Gross Salary 2	7,125	85,500
Gross Commissions Expected	14,000	168,000
Total earned and anticipated (salary-based)	24,125	289,500
Livestock sales, to date		24,450
Livestock sales, anticipated		15,500
Other earned income anticipated		1,500
Total annual earned and anticipated (other)		41,450
Total annual income anticipated		\$330,950

STATEMENT OF FINANCIAL POSITION

This document is basically a statement of your current net worth, before you borrow money and start the business. Be as honest as possible: Your bank will base repayment decisions for your loan on the amount of assets you have and the amount of money you make or have saved. If you haven't built a net worth statement in the past, it's truly a good exercise to assess your financial position. Present the cash and stock amounts at today's value, realizing that this changes every day.

Your statement of financial position will include:

- Cash and cash equivalents on hand

- Savings accounts
- Checking accounts
- Money market accounts
- Invested assets
- IRAs
- Employer retirement plans and pensions
- Stocks, mutual funds, and other investments
- CDs and bonds
- Autos (their current value)
- Home (estimated current value)
- Personal property of value (art, jewelry, antiques, etc.)
- Farm and equipment
- Other valuable items such as livestock

Once you've listed your assets and assigned a total for each category, add them up under the heading "total assets." Next, present your liabilities (such as loans, balances on automobiles or other equipment, and mortgage balances) in the same fashion and add them up under "total liabilities."

Subtract your assets from your liabilities. The balance is your net worth. Positive net worth is the goal! Obviously, the higher your net worth, the better your debt-to-asset ratio and the more likely you are to qualify for whatever money you're asking to borrow.



Sample Statement of Financial Position

As of (date)

(All figures are in U.S. dollars)

ASSETS

Cash/Cash Equivalents

Money Market Accounts (2)	6,950
Total Cash/Cash Equivalents	\$6,950

Invested Assets

Rollover IRA	1,100
403(b) Rollover	4,500
403(b) Employer	1,100
401(k) Employer	8,100
Other Retirement Fund	6,700
Total Invested Assets	\$21,500

Use Assets

Truck	33,000
Car	27,000
Residence	205,000
Personal Property	45,000
Livestock	87,500
Farm equipment (tractor, etc.)	31,500
Total Use Assets	\$429,000

Total Assets	\$457,450
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LIABILITIES

Equity Line Balance (at 4.0%)	7,437
Truck Note Balance (at 0.9%)	12,000
Car Note Balance (at 0.0%)	22,000
Mortgage Note Balance (at 5.25%)	115,000
Other Loan Balance (3.25%)	3,000

Total Liabilities	\$159,437
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NET WORTH	\$298,013
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Get the Money

SUMMING UP

❖ Consider a variety of financing options before choosing one or more; each has its own set of positives and negatives.

❖ Use credit cards with caution and for short-term financing only.

❖ Use caution and weigh the pros and cons of using retirement savings. Seek professional advice before withdrawing retirement money.

❖ Use legal assistance if you seek venture capitalists for money.

❖ Don't overlook grants as a financing option.

❖ Prepare a solid statement of financial position and ask an accountant or other professional to review it before you submit it to a potential lender.

Kevan and Jenny Evans | Georgetown, Kentucky Evans Orchard and Cider Mill, LLC



MANY OPTIMISTS will say that when one door closes, another door opens. For the Evans family of Georgetown, Kentucky, the old adage rang true when they accepted the end of their traditional Kentucky farm in 1999 with the tobacco buyout. This program gave Kentucky producers access to funds for other agricultural ventures if they agreed not to plant tobacco on their land in future years.

Unlike many other tobacco farmers, Kevan Evans decided to stay in agriculture when his tobacco days were over. He began planting apple orchards in 1994, when he foresaw a need for change. That foresight would later bring two people together in a working relationship rather unique to agriculture: a father-daughter farm-based business.

Neither Kevan nor his daughter Jenny ever anticipated becoming business partners, and in fact, when Kevan started sending Jenny out to farmers' markets while she was still in high school in the early 1990s, she liked the work but didn't see herself returning to the farm full-time. But when the apples started to come out three years after their planting, both father and daughter realized that there was potential for a business.

Kevan began researching his options and converted the old tobacco barn into a store, complete with a large retail area and walk-in coolers for

storing apples and other produce. He established a strong relationship with the University of Kentucky Department of Agriculture (particularly the horticulture department), where he educated himself about different crops and varieties for the orchards.

He also sought the advice of orchard growers near Bowling Green, Kentucky. He credits them with truly helping his family get started producing and selling apples. At first, the Evanses bought cider from various vendors to sell alongside their fresh apples, but that wasn't the right fit. "We realized that we needed to have our own cider for a marketing draw," Kevan says. "No one in our area had a press, so we bought one," he continues.

Within a few years, the store, with its vegetables, fruit, and cider, was closer to making a solid profit margin. "This business has enabled me to stay on the farm," Kevan says with a true appreciation for the new venture. The operation was growing at a brisk rate and Kevan knew that he could no longer rely on only seasonal help from neighbors, family, and high school students. If he was going to focus on the production side of the farming operation, he needed more labor and someone to handle sales and marketing. Kevan began using migrant labor for daily picking of vegetables and fruit, and in 2001 Jenny joined the business full-time.

Kevan found that their farm was too diversified for them to be successful in everything. So, he eliminated his last remaining tie to the agricultural model he grew up with and sold his beef cows in 2002 and 2003. "Tobacco I just walked away from without looking back, but the cows ..." Kevan says with a slightly forlorn look, "the cows were a real tough trade-off for me."

The Business and Market

Accepting the transition with gusto, both Evanses continue to work hard on the operation. "I grow it and she sells it," Kevan says with a laugh, adding that on any family farm, theirs being no exception, the roles get blurred in the busy summer and fall seasons. Jenny manages all the kitchen staff and the retail end while Kevan works in production and decides the timing of planting and harvesting.

Now about 75 of their 175 acres are used as tourist grounds or planted with crops that are sold through the store. Vegetables take up 15 acres; pumpkins cover 10 acres; apples, peaches, and pear trees take up about 12 acres; and various other crops, as well as buildings and tourist grounds, take up the remaining 38 acres. The other 100 acres is rented to a neighborhood cow/calf producer. Knowing that cows still roam his ground, even if they are not *his* cows, is some consolation to Kevan.

Learning what to produce has been one of Kevan's greatest challenges as a small-farm entrepreneur. "Growing things is easy; I was already crop-oriented," Kevan says of his switch from tobacco and livestock to the different varieties of crops and fruit they now produce. He used a lot of trial and error as he experimented with different crops. "Slowly, we found what things worked and things that we could grow in our system," Kevan adds.

Now the Evanses produce a laundry list of interesting produce, including yellow squash, four varieties of winter squash, zucchini, onions, cucumbers for both pickling and slicing, four types of green beans, peas, a variety of tomatoes, eggplant, potatoes, sweet corn, four varieties of hot and sweet peppers, okra, cantaloupe, and watermelon. Additionally, they open around May 15 each year with strawberries.

Besides selling at the store, the Evanses sell at three farmers' markets in the summer and sell some product wholesale to a local cooperative, though they are slowly phasing out their wholesale ties. "Eventually we'll be out of wholesale," Kevan began. "Wholesale is like a base wage, to me. It's a guaranteed place to sell but you can't get rich on it. So, if we can take the profit for ourselves that they [the wholesale buyer] are keeping, then we are going to do it," he finishes.

Expanding Retail Opportunities

Retail, however, is not without its own challenges and tricks of the trade. "Once you get into retail, you've got to be able to sell other things, too; that's where the value-added came in," Jenny says of their ever-expanding product list. With the benefits of value-added products in mind, Jenny, not initially a cook, began making pies. Now she has hired a full-time baker and

sells some 15,000 handmade pies each year. “They are all fresh and hand-rolled,” she says proudly of her fruit pie specialty.

Kevan finds Jenny’s focus on quality and artisanal style a great marketing tool, though he struggles with the efficiency of it. “I bought her this great pie-making machine, but she won’t use it,” he says. Jenny is a self-described “quality freak,” and though he teases her, Kevan admits their difference of opinion has been good for the business. “This just forces us to have the best,” he says.

Kevan and Jenny also serve food, another value-added product. They have a walk-up food counter where families who visit can purchase meals, and a commercial kitchen for making other treats like fudge, jams, and jellies. “Anything that can truly add value helps,” Jenny says of her role in marketing and sales. “I like the customer end of it. At first, I had to learn what the customer wanted.” Jenny says that listening to the customer pays off at the retail level. “It’s all changing; the customer’s needs always change, too,” she says. So, Evans Orchard has changed and added to accommodate those who keep them in business.



Kevan sold his beef cows in 2002 and 2003. It was a difficult though important step in the transition to developing a diverse orchard and cider business.

The latest push in customer service is on-farm entertainment, which Kevan thinks will be very profitable. “For vegetables, at least in our area,

it's got to be close to Kroger [a common grocery chain] prices, but paying five dollars or something for a hayride and other entertainment — they don't blink at it," Kevan says. In the spring, it's the strawberries and vegetables sold through the store that drive sales; but in the fall the whole farm experience seems to make the biggest financial impact.

The entertainment angle started before the Evanses were aware of a need for it. "Customers would say to us 'Would you mind if we walked through your orchard?' Then, I'd see families just spending time out there in the orchard," Kevan says, still somewhat surprised by the customers' appreciation of his home farm. "It's just special for them to come out here. It's neat for us to see the farm from their point of view."

To capitalize on their customers' desire to spend time on the farm, they added a corn maze, hayrides, you-pick fruit, pumpkins during fall, and the perennial kid-favorites: a hay mountain and a dirt mountain. Each item has a fee. "The corn maze, especially, always draws a huge crowd," comments Kevan, who still can't believe how long customers and their children will stand in line to go through the maze. The business combines agriculture with entertainment, for those who can't find that combination in town. "But we also try to have really good customer service all the time," Jenny says. "We want a place where people can come and relax, especially in the fall, without it being too commercial."

Jenny feels that her customers come out more than once a year for several reasons. First, they come to relate to their producer/grower. "They want to relate to us and have their own experience," Jenny confides. Second, they come to buy produce that is very fresh. "I've got so many people that come in [to the store] and say 'When did you pick this?' Some of them will actually request it still warm from the garden," she says with a laugh, marveling at how people might prefer their produce dirty and warm rather than a few hours old and having been kept cool in the walk-in refrigerator. Third, people come because they are taking a greater interest in how their food is produced. "Our customers want to see where it is grown and meet the people who grew it. I think a lot of it is for food safety reasons," Jenny says.

Cider Is Now "King Cotton"

With 15,000 to 20,000 gallons of their own cider produced each year, the reigning cash crop at Evans Orchard is now cider. The cider business started out when Kevan noticed that too many not-so-perfect but perfectly edible apples were going to waste. In the retail operation, only the most aesthetically pleasing fruit sells to customers, so there were many pieces that didn't make the cut. As a way to use these apples, Kevan purchased a cider press to create his own cider. "The cider sales grow every year. This year we'll even market our first single varietal ciders in glass jars," Kevan says, comparing the upcoming single varietal ciders to single varietal wines. Jenny adds that the new boutique ciders are just another example of how value-added products can help drive sales and maintain customer interest.

Though the machine itself looks intimidating, Kevan comments that it is not particularly difficult to use. "The cider press is not labor-intensive. It takes two people — one to sort and one to supervise and catch problems." About 1,200 gallons of cider can be produced at one time. Once pressed, the juice is hand-bottled.

Even when using apparent rejects that typically go into cider, the Evanses' emphasis on quality remains paramount. "We use a better grade apple than a cider grade apple; this really makes us have a better quality product," Kevan explains. Kevan also believes that the type of equipment he purchases impacts quality and flavor. He uses a flash pasteurizer to kill E. coli bacteria, as required by law, but he doesn't cook the apples during the pasteurizing process, as many cider processors do. The Evanses believe that the result is a fresher, better taste.



The cider press has also been good for marketing. Customers are always allowed to see the production of cider. "People like seeing their product made right here," Jenny says.

Living by the Seasons

Even though the crops they grow are different, the Evanses still very much live their lives by Mother Nature's seasonal rotation. Each season has its own rhythm. Summer begins more quickly every year, it seems, as the days start early and end late. By 4 A.M., the farmers' market sellers are backing trucks up to the loading area on market mornings. Market days for the Evanses aren't just Saturdays, either — they sell Tuesday through Sunday at their home store during the summer. Summer also means constant replanting of the orchards, as trees are invariably lost to weather damage and disease. Some trees are naturally more finicky than others, Kevan says. "For peaches, it's our goal to have a harvest three out of five years," he adds. August also means school tours.

Fall brings even more hustle to the burgeoning storefront as more and more families arrive each year for the entertainment areas. They also flock to Evans to pick their own pumpkins.

When the leaves fade and fall away, winter offers some respite for the Evanses, though not as much as they originally expected. January is a light month (they even take a few days off!), but still there is work to be done. Stored apples are pressed into cider in January, and in February Kevan works to prune plants and organize next season's crop, while Jenny takes time to review marketing plans and update things like their Web site. On the Web site, she features photos from around their store and property, as well as shots of customers enjoying themselves from the season before.

Once spring arrives, the hum of the days begins anew with preparation, planting, and lots of needed maintenance. Jenny also announces the produce schedule on their Web site and gets ready to open May 15.

Making the Most of Financing Options

While many small farms rely on personal finances and often err toward going deeply in debt to start out, the Evanses approached their financing with reason and caution.

"We took classes for business planning and applying for grants," begins Kevan. "We received one of the first Kentucky tobacco buyout

grants for our barn and kitchen remodel,” he says, adding that the grants are usually matching grants, but having half of the funds up front was essential to them. “We recommend anyone use their state’s support and promotion assistance to your advantage,” Kevan says, and adds that having the grant program involved also helps ensure sound financial choices because the grant administrators hold them accountable for all of their business decisions. The cider press has also helped pay the bills, since they use it to make cider for eight other orchards. This extra income quickly helped offset their equipment costs.

Their business is now off and running, but it took several years to make all of the pieces come together. “Even during our first trips to farmers’ markets with vegetables, we started to see immediate potential for income. But the first year that we actually made money and paid everyone was 2006,” Kevan says, offering a meaningful glance that says *he* finally got paid, too. Also in 2006 the Evanses realized that their operation had become more than a vegetable store. “People really started to come here as a destination and that was very encouraging,” says Jenny. “We’ve really been working on giving people a good reason to come out here and stay longer,” she adds.

The Future

While the Evanses’ lifestyle keeps them moving, their hard work is finally paying off, one fact that both father and daughter can agree upon. “We’re already outgrowing our space a little,” says Jenny of the long lines for customers to participate in popular attractions such as the corn maze. She also wants to eliminate checkout lines that can extend outside of the store during the busy seasons.

Besides constantly improving customer service, Jenny is beginning to develop more events and parties to increase utilization of the property. She’s trying to balance spending money and making money and sees advertising as one of those specific balancing acts. Jenny is optimistic, however, and knows that this dilemma will work itself out in the proper time. Jenny says she has to learn about marketing as she goes. “A lot of things have worked and a lot haven’t!” she says.

In the end, the trial and error is just part of the journey, and most days the Evanses are enjoying the ride. “My dad taught me to see what was behind the door, so to speak,” Kevan says of the upbringing that led him into small-farm entrepreneurship. “He gave us the option to try things and to experiment.” Taking those calculated risks is just part of a day’s work for the father-daughter team at Evans Orchard.

Kevan and Jenny’s Tips for a Successful First Year

- Seek help with your business plan, including conducting a feasibility study and some market research.
- Know your product; don’t jump into things you haven’t started to learn about.
- Don’t spend too much money up front.
- Have a contingency plan for income the first couple of years.
- Belong to groups nationwide for ideas and education.
- Give people a number of reasons to shop at your store or buy your products.

4

CHOOSE YOUR BUSINESS TYPE



The inhabitants of cities suppose that the country landscape is pleasant only half the year. I please myself with the graces of the winter scenery, and believe that we are as much touched by it as by the genial influences of summer. To the attentive eye, each moment of the year has its own beauty, and in the same field, it beholds, every hour, a picture which was never seen before, and which shall never be seen again.

— Ralph Waldo Emerson

Emerson mused loftily about nature, self-reliance, and personal independence; because of this he's considered a champion of the rural and natural world, as well as the American ideal of a strong work ethic and personal achievement. I believe that those of us engaged in small-farm business also consider ourselves champions of agriculture and all things

natural, and we can even get a bit preachy. We tend to believe that those who don't know the joy of a newborn calf or the heartbreak of seeing a field after a hailstorm really don't know much about living. As a small-business owner, however, I have to appreciate, and sometimes seek, the guidance of those outside my agricultural cocoon.

Professional counsel is becoming more and more essential, primarily as a means to protect oneself from liabilities such as tax problems and lawsuits. This reality is not pleasant. We may feel immune to such disturbances while working at home on the farm, but sadly we are not. It's important to know the rules, how best to follow them, and what to watch out for in business and when dealing with the public.

When starting a new business, the basic counsel you'll want to seek is that of an accountant and an attorney. If you already work with these professionals, ask them directly if they're comfortable assisting you with starting your small business or if they'd prefer to refer you to a colleague. If you don't already work with an accountant or attorney, consider asking friends, family, and other trusted resources if they have a recommendation. You can also find these professionals in your phone book and interview several of them over the phone. Don't be afraid to ask for an obligation-free, cost-free initial meeting to interview them briefly about their clients and qualifications. They may also provide references from other people in agriculture or small business who you could check with.

This chapter will cover some basic questions to ask these professionals, general service costs, and what to expect when working with them to set up your business. I'll also discuss various types of business entities and provide some guidance to help you choose which type may be most appropriate for your new venture.

Professional Financial and Legal Advisors

My first word of advice on employing professionals to assist with your business planning needs is to select someone you feel is not only competent but also easy to work with. Don't select someone who comes off as haughty or arrogant or is so swamped with other "essential" clients that you'll never receive a timely return call. You're new in this small-business arena, so

you're going to have lots of questions. Many questions will seem complicated to you but will be simple for a professional to answer. Elect to work with someone who will provide good, timely service and will truly help you get off to a great start. Also, don't be shy about asking how much they charge and how those fees are billed.

ACCOUNTANTS

Accountants are professionals licensed by individual states, but they are not necessarily the same as Certified Public Accountants (CPAs). A CPA must have a college degree and has passed a three-day exam covering accounting, law, and taxation. To maintain active CPA status, these accountants must also take 120 hours of continuing education every three years. CPAs provide a number of client services, including tax preparation, company audits, and financial statements, and offer professional business advice on a variety of topics about business operations and the best practices.



Go into your first meeting or phone call prepared. Write out your questions and have available any documents you'd like to review.

CPAs and accountants can assist you with a number of important things, such as:

- Reviewing business entity types and how to choose one
- Preparing taxes and giving advice throughout the year
- Helping with employee concerns and tax and payroll filings

- Annually reviewing your business with you and making any necessary alterations
- Helping you to assess your profit and loss and determine the best direction for your business
- Preparing financial statements for financing applications
- Filing returns and necessary documents for you or assisting you in completing them
- Explaining confusing material from agencies like the Internal Revenue Service (IRS)

Once you've chosen an accountant, you may not know what to ask him or her. See the box at right for general questions. Note that you will also have many industry-specific questions that are not listed. Go into your first meeting or phone call prepared, because with these professionals time is truly money — your money! Write out your questions and have available any documents you'd like to review so that you'll learn everything you need to know in the shortest amount of time possible. This strategy will minimize your costs and maximize your money.

ATTORNEYS

Attorneys possess an undergraduate degree and a Juris Doctor (law degree) and have passed the bar exam. You should make certain that your attorney is licensed by your state's bar association (you can ask to see their credentials on your first meeting). Generally, any corporate attorney should be versed in federal, state, and local laws pertaining to business; many choose specializations and take additional training and acquire other certifications (such as becoming Certified Financial Planners as well).

Using an attorney can help you with:

- Selecting and forming a business entity
- Maintaining legal copies of pertinent business-formation documents and partnership agreements
- Securing venture capital agreements and offering shares
- Filing property and other legal descriptions with your county and aiding with zoning requirements
- Working on title documents and property purchases

- Reviewing potential contracts with vendors and anyone with whom you'll enter into a formal agreement

See the box on page 72 for some basic questions to ask your attorney. Some business questions will overlap between meetings with accountants and attorneys, especially those regarding corporate design, setup, and licensing. An attorney will be most useful when you need to file documents, prepare and review contracts, and deal with potential legal problems.

Ask Your Accountant

- How will this new business change my tax filing status?
- Do I need separate personal and business returns?
- What records do I need to keep, and in what form?
- What receipts and documents should I save and organize?
- What documentation do I need from vendors, customers, etc.?
- What licenses, if any, do I need to acquire? Who do I contact for these? How much will that cost?
- How much money should I save in a contingency fund?
- What type of business entity should I set up?
- Do I need to register my business name with any local, state, and federal agencies?

Ask Your Attorney

- What legal documents does my company need to prepare or file?
- How do I get appropriate zoning and titling for my business, if necessary?
- Can you (and should you) draft or review contracts and assist with negotiations with vendors and other business partners?
- What type of business entity should I set up?
- Do I need to register my business name with any local, state, and federal agencies?

FEES AND COSTS

Expect to pay by the hour, down to one-tenth of an hour increments, with both types of professionals. Costs can range from as low as \$50 per hour to as high as several hundred dollars per hour, so it is important to select an attorney who fits both your needs and your budget.

Accountants bill by the project, with a set fee up front, but they, too, may bill in one-tenth of an hour increments. Often, accountants have standard fees for document preparation filing, such as filing tax forms, but they may be more subjective in pricing consultations and occasional phone calls for help.

Ask all professionals for their rates up front. It's your right to understand what to expect in terms of costs and how fees incurred will be billed. Most will not expect their money in advance, but since you'll likely be receiving a bill that will be due upon receipt or within 30 days, you want to be prepared for it. Once you have an understanding of fees, also ask your professionals to estimate how much of their time you'll need during your business setup. Then, you'll have a general total figure of professional fees that can be factored into your budget and start-up cost calculations.

Business Entity Types

There are five different business types, each with its own set of tax and income limitations and advantages. Select the appropriate type of company based upon a number of factors, including: who's involved; other businesses you already own; the tax structure that is most advantageous to your personal, financial, and business situation; and the size of your company. This section gives an overview, so that you are prepared to ask the important questions of your legal and tax professionals. In the end, they will be best able to assess your personal situation and create the right business structure.

SOLE PROPRIETORSHIP

This structure is the simplest and the easiest to manage, and has the lowest setup cost. It's appropriate for a large majority of small-farm ventures because it works well in situations where only one person owns the business or where spouses own the business. In this structure, the owner both operates the business and assumes the liability (and profits) for all the business's debt, expenses, and income. The business can also be sold or transferred without any major changes, and there is no need to file separate tax returns for the business and your personal taxes.

LIMITED LIABILITY COMPANY (LLC)

LLCs offer a measure of protection in the form of limited transference of liability away from the small-business owners. This means that the company's assets and debts are separate from the owner's personal assets and debts. An LLC provides some tax advantages that corporations have, but it allows the owners more freedom; they don't have to operate exactly like a corporation or follow stricter corporate rules. (See the description of C corporations below for the differences).

The owners of an LLC are called members. LLCs can be managed by either owner-members or by other hired or selected managers. LLCs are not expensive to set up, but they do require more filing and tax reporting than a sole proprietorship.

GENERAL PARTNERSHIP

If you're going into business with someone outside your immediate household such as a friend or colleague, a partnership may be worth considering. A partnership, or joint venture, is simply a formal agreement between two or more people or entities (such as two or more companies) to operate a business together. Business profit, loss, and management are shared among the partners, but the partnership itself does not pay taxes. Taxes are filed on each partner's individual return, even though the partnership will file what's called an informational return with the IRS. Entities engaged in the partnership are all liable for the partnership debts. This type of business structure is also easy to set up and costs comparatively little to create.

Do I Need a Formal Business Entity?

You may be wondering if all of this business-entity stuff really fits your small-farm venture. If you don't select a specific form of business entity, then you are automatically a sole proprietor. Many small farms function just fine under this structure. If you add more than family and want to create a partnership, ask your professionals about an LLC, corporation, or partnership arrangement.

C CORPORATION (INC. OR LTD.)

You'll need to create a C Corporation if your business arrangements require a more complicated design or if you decide to offer shares in your business, or issue stock. This structure is more expensive to create and maintain, and you must observe IRS corporation formalities so that the corporation maintains its tax structure and individual investors are protected. You will definitely need an attorney to form a corporation.

A corporation is a separate entity; the owners own shares of stock. It's important to note that profits are taxed twice: once at the corporation level and again when the money is distributed to shareholders. The advantage to being a corporation is that shareholders are not personally liable for the company's debts and other obligations, assuming the corporation follows all the rules. These rules are set up to prove that the corporation is separate from the shareholders. Rules include: holding an annual meeting and recording the minutes of that meeting; issuing stock; and electing directors of the corporation.

SUBCHAPTER S CORPORATION

A Subchapter S company is like a C Corporation; however, it is not taxed twice. To avoid double taxation, the S Corporation must meet IRS statutes. In an S Corp, the business is not taxed; shareholders report any income and debt on their personal tax returns. A qualified attorney can tell you whether your business can be structured as an S Corp.

Choose Your Business Type

SUMMING UP

❖ **Consider using an accountant and an attorney with business setup know-how to help you manage taxes and changes to your income that come with the new business.**

❖ **Shop around for professionals if you aren't working with any, and interview them first. Consider comparing costs between professionals you interview.**

❖ **At the first meeting, come prepared with a list of questions and all of your business plan and financial documents to date.**

❖ **Select a business structure that fits your personal and tax needs.**

Carl and Debra Chaney | Bowling Green, Kentucky Chaney's Dairy Barn



“I’D LIKE TO SEE car manufacturers produce cars at today’s prices and sell cars at prices from 25 years ago,” announces dairyman and ice cream store owner Carl Chaney. “They wouldn’t stay in business,” he adds emphatically.

Staying in business, specifically the dairy business, is exactly what Carl and his wife, Debra, intend to do. Because farm commodities such as milk have not kept pace with the price increases in the cost of living the way other consumer goods have, it was difficult for the Chaney’s to profit on the farm. But with the help of a little creativity, a willingness to change, and a lot of perseverance and prayers, the Chaney’s have been able to stay where they are.

“Debra and I knew we wanted to stay on the farm, but we were getting afraid we wouldn’t be able to,” Carl said of his family’s realization that their farm needed to diversify. The Chaney’s had been farming near Bowling Green, Kentucky, since 1888, when Carl’s great-grandfather settled the land they reside on. By 1942, Carl’s dad was milking dairy cows on the place, a tradition that continues with Carl and his children.

After extensive research and discussion, Carl and Debra decided to reduce their cow herd and turn three acres of their farm into an ice cream shop. Fortunately, their location was especially suited for this endeavor because the farm sits along a major thoroughfare that runs through the busy

college town of Bowling Green. With the extensive road frontage being a good sign that their endeavors might be successful, they began transforming their 54 acres. While the remaining cows are still milked twice a day, the Chaney's family farm now includes a big red barn that houses a retail shop, café, and ice cream-making facilities.

Early Market Research Pays Off

The switch from production agriculture to production agriculture *and* consumer-centric products was a major undertaking that the Chaney's did not take lightly. Starting in 2001, the family spent more than two years researching and studying the ice cream business. As they studied, a plan began to emerge. "Ice cream seemed feasible," Carl says. "When each obstacle came, we always seemed to be able to get around it."

To learn more about the ice cream business, the Chaney's spent many dollars on travel to various operations in Alabama, North Carolina, Ohio, and Massachusetts. "The site visits were probably the most important thing we did for research," Carl says. Carl also attended an ice cream short course at Pennsylvania State University in State College, Pennsylvania, that he found extremely helpful for education. As their ideas developed into a formal plan, the Chaney's openly sought advice from their peers and others. They shared their business plans and made revisions based upon good feedback they received. Carl says that other producers helped him avoid rookie mistakes. Their accountant also helped out with feasibility and financial matters during start-up. Other sources of assistance were the local SBA (Small Business Administration) and the nearby Western Kentucky University (WKU) marketing department. "You've got to utilize the programs that are out there: marketing classes, for example," says Carl.

To help establish their own price point, the Chaney's checked out both the local and the regional markets for ice cream. To learn more about the marketplace and estimate potential sales, Carl looked into things many producers have never considered. "I got a traffic count on the main road out here to get an idea of the potential stop-by business," Carl explains. This plan paid off and impressed his peers in business.



Because there was no existing building for the ice cream store, the Chaney's worked diligently to research builders and decide on the facility design. They were confident in the building plans developed by a couple from Smith's Grove, Kentucky, and they broke ground for the shop in June 2003; four months later, they opened.

The Chaney's knew that their limited experience in running a store could be a handicap, so they experimented with flavors by serving ice cream during events at WKU's Ag Expo Building before the new store opened. Carl credits that experience as being great preparation and easing opening-day jitters.

Expanding Business

Thousands of customers come to Chaney's Dairy Barn each year, but the business still centers on the family. The Chaney's three children, Jessica, James Neale, and Elizabeth, remain involved in various capacities as their individual lives allow.

Jessica, the eldest, has a career and family of her own, but assists her mother on business issues and marketing when she has time. James Neale is also independent and owns his own company, Wrought Iron Concepts. His talents have provided a bounty of beautiful iron work that is showcased

throughout the Chaney property. Elizabeth, “the entrepreneur” as her dad calls her, is still at home and supports the business every day. “In the morning she milks, then goes to school. After school, she opens the new store and at about 4:30 she comes home to milk again,” says Carl proudly. Carl’s dad, the farm’s original dairy man, stays involved with farm work, and Debra’s mom is active in the store. “There is no better way to raise a family than on the farm,” Carl says with the certainty of his experience and that of generations of his lineage.

The Chaney’s have made their brand successful: Their ice cream was voted Bowling Green’s best for two years running. In their big red barn, they produce more than 10,000 gallons of ice cream each year, which they sell through their store and through various other avenues that have emerged as the business evolved. In 2006, they opened a store in downtown Bowling Green to take advantage of walk-up customers and those who didn’t want to drive out to the country for a treat. After more extensive research, Carl decided on the downtown location because, in addition to having good foot traffic, the building had a drive-up window.



The Chaney’s built this big red barn on the corner of their historic farm to attract ice cream lovers.

Adding value to the customer’s experience is a very important aspect of the Chaney’s’ marketing plan. School tours of the farm and ice cream shop generate \$5 per student, to the tune of about 6,000 children each year. “I love the school tours. Each generation gets farther away from the farm. We are ambassadors for agriculture and want [the students] to have a good

experience and tell their parents about it,” Carl says of the importance of educating young people about food production. They also added an outdoor pavilion to host reunions and birthday parties, and a batting cage is a very popular attraction during warm months.

Like many agri-tourism ventures, Chaney’s Dairy Barn has a corn maze — with a twist. One must correctly answer agricultural questions in order to receive clues about the next turn in the maze. In the fall, families are given flashlights to go through the maze at night. “We had one family who hadn’t come back in for a long time. I was worried that they got in with the bull or something. But I finally heard them, just laughing and having a great time out there together!” Carl says, adding that he’s truly glad Chaney’s Dairy Barn is a source of family fun for his customers. “We also have ice cream and a movie in the summer. We get sponsors who help pay for the rights to the movies,” Carl explains. For those evening events, families gather on a grassy lawn to watch movies projected on the side of the barn.

The Chaney’s’ many marketing efforts really draw a crowd to their farm and create customer loyalty that follows them off the farm. “We now have a concessions trailer that we serve ice cream and drinks out of,” Carl says. “We’ve really gotten in demand with this thing. On a per-hour basis, it’s the best money we make.” The trailer can be seen around the area at festivals and parks and has come in handy for many good causes as well.

“We also give proceeds [from the concession’s sale] to some groups and have benefits here to raise money for people who need it,” Carl says. He’s always amazed at the money people will give during a benefit event. The Chaney’s host several outings per year at the Dairy Barn, including their own birthday bash each October, a Kentucky Proud Festival, and activities for National Dairy Month each June.

The Chaney’s’ work in marketing and their ability to understand their customers’ needs have really paid off. It hasn’t been easy, but their diligence has built the company to over a half million dollars in annual sales. “The first couple of years you really jump to please everybody,” Debra says of her early days in the business. Now she works to hire the right people whenever possible to reduce labor and keep customer service high.

Even with more than 30 part-time hires in the summer, Debra and Carl are particular about who they will hire. “The major thing is to make sure the

hires are right for the business,” Carl says, noting that he’s had to remove employees in the past. Even though finding the right people is a difficult task, it is essential to the company’s success.

The Future

“We’ve had so many angels who came to us with help just when we needed it,” Carl says sincerely of interactions with people who have made a huge difference in their lives. “The good family name in the area has also helped us gain acceptance,” Carl acknowledges.

The Chaney’s operate the Dairy Barn year-round, seven days a week, which makes for some seriously needed time off when they can get it. Each year in January, the company closes its doors for about 10 days to reflect, regroup, and plan. “We expect to hand this off to all three kids; we want their decisions involved now,” Carl says as Debra nods in agreement. During the business plan meeting, sales from the previous year, as well as what worked and what didn’t, are discussed. The entire family contributes something to the discussion and gives input on the direction of the business.

Future plans include adding a kiddie corral (a gated area that houses a variety of kid-oriented activities, from rides to educational displays) and several other forms of what Carl dubs “agri-entertainment.” Someday Carl would like to process his own milk into the ice cream. “We will process our milk from our 52 cows someday, but for now it’s just not feasible yet,” Carl explains, saying that the milk processor is prohibitively priced at around \$300,000, an investment they are not ready to make. “It’s still a goal to cut out the middle man,” Carl says.

Keeping a keen eye on the profits from the store, Carl knows that growth is an option only if things are running in the black. “Remember, it doesn’t make a difference how much you make; it’s how much you keep!” he says wisely.

Debra, too, has her goals. She wants to move more into a managerial role, transitioning out of being a day-to-day laborer. Right now she’s the self-designated “quality controller” because she aids in order-taking and keeps an eye on portion sizes at the lunch counter. For now, though, the Chaney’s are working, side-by-side and day-by-day, toward their dreams.

Speaking as a true farmer, Carl says of their future: “That is a chapter yet to be written.”

Carl and Debra’s Tips for a Successful First Year

- It’s not important how much you gross; it’s more important how much you keep.
- Seek out help from professionals.
- Utilize programs and materials available to you.
- Interview or visit other producers and learn from them.
- Conduct strong market research and spend as much time on it as you need.



5

FOLLOW THE RULES



*Give me the splendid, silent sun with all his beams full-dazzling,
Give me autumnal fruit ripe and red from the orchard,
Give me a field where the unmow'd grass grows,
Give me an arbor, give me the trellis'd grape,
Give me fresh corn and wheat, give me serene-moving animals teaching
content ...*

– Walt Whitman, *Leaves of Grass*

The idea of following the rules may seem contradictory to our ideals of coming home to the farm to work, live, dream, and love. But, alas, there are still rules and regulations to follow, even here in the peaceful haven of the home farm as Whitman described it. In fact, as small-farm entrepreneurs, we're expected to know the rules; if we don't, we must research them

ourselves. The true risks of owning our own ventures are being responsible for following the rules and being liable if the rules are broken.

This chapter is an abbreviated guide to the types of regulations that generally affect typical small-farm businesses. This list is not exhaustive; it can't be because you alone know what your specific venture will be, and regulations are industry-specific. This chapter is designed to get you thinking about rules and regulations, and to give you some ideas for where to seek information and education about them to avoid potential problems.

Because many small farms sell homegrown or homemade food products, this chapter will focus heavily on general food service guidelines. Likewise, since a common avenue for sales includes farmers' markets and retail store setups, this chapter will discuss basic health code requirements. As always, see the appendix (page 171) for a resource on regulations for food handling.

Make the Rules Work for You

Many small farms view the regulations and compliance areas of their business, such as the County Board of Health, as hassles and often even fear regulators. Please don't take this stance. If you start out on the right foot with those in charge of enforcing regulations and plan for compliance setup costs in your initial budget, you should have a good experience.

Realize that most inspectors enforcing rules have no control over the creation of the rules. Food code, for example, is legislated and often directed by the US Food and Drug Administration (FDA). It can take years to overhaul food health regulations. Also, try to view inspections and rules as protection for you and your customers. If you have a good relationship with regulating agencies and a positive record of compliance, you have documentation to back up your side of the story if you ever do receive a complaint from a customer. Liability and accountability may seem scary, but they are a fact of life, especially when you're in charge of your own destiny. Being proactive to protect your business at every level is a good step toward keeping your problems to a minimum.

This said, you don't have to tolerate poor behavior on the part of inspectors and the like. In most cases, local boards of health report to the

state board of health, but each town or county is allowed some interpretation of the rules at their level. That county-level interpretation of the food code may be further interpreted by individual inspectors in each county. It may be unfair, but sometimes inspectors can become absorbed in the power of their position. If you're working with someone who seems unfair, has a bad attitude, or seems out to get small farms and other entrepreneurs, report these problem people to their supervisors immediately. The board of health has the same interests as you do: ensuring a quality, wholesome product. They don't want trouble where none is warranted.

Take charge of demonstrating your compliance with the rules. For example, if you work with an inexperienced inspector, clearly show him or her that you're following the codes properly. All of the rules that you must follow will be published. You should obtain a copy from your county health department, be truly familiar with it, keep it handy in case of argument, and ask the health department about updates annually. Understand your rights and the regulating agency's expectations, and simply follow the rules to the best of your ability.

Who Regulates You and What They Do

No matter what types of products or services you sell, before setting up shop you're responsible for knowing the regulations, the licensing rules, and any fees that are required. When in doubt, search online or ask a local or state agency for information. It's easier to deal with regulations and licensing at the outset than to try and explain your way out of a fine, late fee, or tax later on!

Common Practices and Where to Find Information

Following are some common issues pertaining to small-farm businesses and the organizations that you might want to consider contacting for advice regarding these. Some rules will be obvious, but it's never a bad idea to overinvestigate this area.

ALL ISSUES PERTAINING TO FOOD

Contact the health department about absolutely anything pertaining to food, beverages, setting up a retail shop, and preparing products at home for retail sale. Simply tell a representative what you're planning to do and ask about requirements. Also ask for a copy of the food code and ask questions about how those rules are enforced and what types of inspections to expect.

ANIMALS AND PROCESSING/PACKAGING

If you're working with livestock to produce food products such as meat, poultry, or dairy, your second stop will be your state's board of animal health. (In some states, look for the division of animal health or division of animal industry. When in doubt, contact your state's department of agriculture for direction.) This organization typically regulates processing, state and federal animal slaughter and inspection, as well as packaging, transportation, sanitation, and temperature requirements. Also, consider contacting your state veterinarian about any animal husbandry practices that are regulated in your area and about health and interstate transportation rules for livestock.

LABELING

If you're making a product that will require a label for weight, price, ingredients or the like, again, check with the health and animal health departments for regulations. Most likely you'll be able to purchase and design custom labels from any vendor you choose, but the content and claims on the labels may need to be approved by the state or county. This is especially true if your label makes claims of a specific nature, such as "all natural," "organic," or "minimally processed." Also, keep in mind that scales and other equipment will need to be inspected, so contact your local or state department of agriculture's weights and measures division. When you add or change ingredients on your product label, you'll need to have the new label approved each time, as well.



If you're making a product that will require a label, check with the health department and the animal health department for regulations.

PRODUCTION PRACTICES

For production practices — from growing produce to raising crawfish — start by contacting the local Cooperative Extension Service and your regional United States Department of Agriculture (USDA) office to learn about requirements and certifications. Programs such as certified organic require a detailed application, inspection, and compliance process, so if you're planning on a specialty crop or product, search for organizations that regulate the use of certain terminology and production practices. You may need to contact your soil and water conservation office and local zoning and building officials before you drastically change how your land is used and before you build.

BUILDING AND PERMITTING

If you'll be building new structures to accommodate your new business, first contact your town or county's local zoning commission to learn about requirements and to acquire a permit to build. If you're changing the existing landscape, you will definitely need to contact the state's department of environmental management and the state department of agriculture to learn about specific soil and water quality and conservation requirements.

RETAILING

If you'll be selling directly to the customer, most states will require you to apply for some kind of retail merchant permit. Contact your state's department of revenue for a retail license and to inquire about any other requirements they may have, including registering your business name. Also, double check to make sure your chosen name does not already exist. Your state's department of revenue or secretary of state can usually do that for you and will most likely require a name search before they will issue you a retail merchant's permit. And call the city, town, or county clerk's office to check for local retailing and vending licenses.

Finding Regulation Support

It may seem that owning a small business will tax and regulate you to death, but for those of us who love the entrepreneurial life, these trivial day-to-day business items will become entirely manageable once they've been organized. If you're concerned about compliance with various agencies or really don't know where to look for requirements for your business, try some of the suggestions below.

- **Attend seminars or regional programs related to your business.** Many programs are free, and often the networking pays off in many ways, such as gathering information, gaining new contacts, and generating great ideas. Search for membership and trade associations that represent small farmers like you and the products you create.
- **Call your accountant or attorney.** These professionals can not only help you follow the rules, but they can also often assist you in setting up accounts with the Department of Revenue and other organizations you'll need to work with.
- **Seek out colleagues you know in small-agriculture business.** Ask them how they got started and what rules they comply with on a daily basis.

TAXES

New taxes come with any new venture, so follow up with several organizations to make sure your taxes are in order and to register for a property exemption and any other exemptions you may qualify for. Contact your city, town, or county tax assessor's office if you've built on, purchased, or updated your property. Contact the state department of revenue if you've added employees or will be collecting sales tax on items sold.

Food Safety

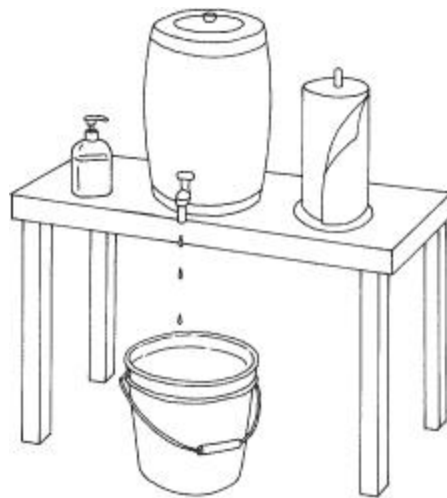
Since so many small-agriculture ventures center around the production of some type of food product, be it lamb or honey, canned salsa or homemade hummus, I especially want to mention food safety. Chapter six will discuss liability coverage in terms of insurance and business practices, but it's worth noting here that one of the biggest liabilities you'll ever face is dealing with a food product that is improperly handled. The old adage, "when in doubt, throw it out" couldn't be better advice when you're selling food and beverage products from the farm.

You'll find that customers absolutely love buying from our small farms. In my experience, once a customer starts purchasing from you, he or she will be a customer for life. One reason market research says that people buy from their local farmers is because they believe the products to be healthier and more wholesome. So, it's easy to understand how that person's first priority will always be his or her family's health and well-being. If that customer buys from you because he or she perceives your product is a healthy alternative, he or she will be particularly upset if you sell them something that causes illness. Properly handled food can prevent these situations and, in all truth, save your business.

Potentially Hazardous Foods

Health departments publish a list of foods considered potentially hazardous. These can include products like:

- Dairy
- Meat and poultry
- Eggs
- Sliced melons and other sliced fruit
- Raw sprouts
- Cut vegetables and tomatoes



This simple, temporary wash station setup is suitable for uses such as catering or offering samples at a farmers' market. The set-up is portable, reusable, practical, and inexpensive. Be sure to have one wash station set up at every location you have. Some locations will require multiple set-ups, depending on size (see your county's specific health codes).

If you'll be selling and producing food items, the food codes in your town or county will be of critical interest to you. There will be specific rules for things such as storage and temperature control, transportation, cutting, cooking, sampling, packaging, and other handling. Sanitation is also critical

and is highly regulated, even if you are selling these products straight from the farm or at a weekly farmers' market. See the drawing to the left for a sample portable hand washing station that can be set up anywhere quickly. Use a portable hand washing station near a you-pick patch or near the grill where you're sampling hamburgers for potential farmers' market customers, for example.

Can I Make It and Sell It at Home?

Each state will have its own views regarding whether items such as canned and baked goods, freezer meat, and other products can be produced, processed, packaged, stored, and sold from the farm. As food code inspectors and health departments become more aware of the growing number of small-farm ventures, they are changing some of the initial standards that prevented certain products from being processed and sold at home to accommodate this trend.

The best way to prevent problems is to become a complete guru of sanitation and proper handling procedures. Besides protecting yourself and your business from complaints and concerns, customers will feel safe buying products from your small farm if you show them that excellent product safety standards are in place.

After obtaining information from many regulatory agencies, you may learn that making and selling products at the farm location is more difficult than you had thought. Production-to-plate farming and retailing requires a different set of preparations than, say, growing a product at home and having it inspected and then sold elsewhere. On-farm production and selling can be very rewarding, however, if it suits your farm operation. You should carefully discuss your plans with regulatory agencies. Realize that doing everything on the farm will open your property not only to appraisal by customers, but also to criticism from inspectors from various organizations. Selling right from the farm may be a good angle for your company, but you must know the rules and regulations involved before you ever serve your first customer.

Follow the Rules

SUMMING UP

- ❖ Don't consider compliance a hassle; consider it another way of protecting your family and business.**
- ❖ Conduct an exhaustive search for potential regulations and licenses that you're required to have.**
- ❖ Consider joining trade associations or attending seminars of interest to learn about regulations in your product area.**
- ❖ Be extremely conscientious about food safety and sanitation requirements and know the rules.**

Debra Bowles | Oxford, Ohio
WaxinkMoon Artisan Goat Cheese



DEBRA BOWLES, of Oxford, Ohio, must state that she considers herself somewhat of a hobbyist. But given the sheer number of hobbies she pursues, you might consider calling her a workaholic, or a hobbyist with a hard-core habit.

From her small farm near the campus of Miami University, Debra raises milk goats and produces cheese. Additionally, she raises chickens and ducks and sells the eggs of both; produces and sells baked goods; makes homemade goat's milk soap and beeswax candles (much of the wax being from her own beehives); and is an accomplished artist, especially in the unique medium of beeswax and ink. She also operates a bed-and-breakfast called Artistry on the farm and tends a robust garden of vegetables and herbs, many of which go into her cooking for the bed-and-breakfast.

Her Background Instilled Lifelong Beliefs

Born on an Indiana farm that was established in 1835, Debra now resides just over the Ohio line, not far from the original family homestead. Debra's ties to those early farm days are still strong. "I still sleep in the bed that came up the Wabash River in 1835," she says. "Sometimes I like to think

about all of the people who have been born, have died, or been sick in that bed — it's just history," she muses.

Growing up, Debra raised goats, but they were pets only. "Dad had grown up a dairyman, and he didn't want anything to do with the twice-a-day commitment of milking!" Debra laughs fondly. It wasn't until she had grown and married that goats would become a part of her life again. "As a young, married woman I worked at a historic farm where people visited and kids got to work with animals, including milk goats," she began. "I fell in love with them and I've had goats ever since!"

Debra got her children into goats as 4-H projects and went on to organize the Union County, Indiana, goat project for the county fair. When her children were young, they consumed most of the milk the does produced, but by the 1970s she was looking for something to do with the milk besides drink it.

She began to read books on cheese making, and began producing it herself, though it would be about thirty years before she was selling cheese to the public. "Once I bought a couple of books on making cheese, it just took off!" she says of her decades-long enjoyment of raising the animals and producing cheese.

During the 1990s, Debra re-grouped after a divorce and purchased an old farmstead in Ohio that didn't even have electricity. Though her goats were still small in number, a special goat named Nada inspired Debra to expand her agricultural ventures. Nada was a Grand Champion at her local county fair; her photo still graces Debra's desk. With Nada, Debra embarked on a journey which became her life's passion: cheesemaking!

The Cheese Business

Years later, having comfortably settled back into the role of small-farm woman, Debra's business thrives on her boundless enthusiasm. Her property is admittedly small, but she intends to stay at the very manageable size of about five adult goats and six babies each year.

"I'll never have more than four to five milkers because I milk every day by hand. I'll always have a small, select herd because I know how people get overwhelmed when they get started," she says. She explains that

people often buy many goats at the beginning because the animals are initially small, relatively easy to care for, and don't require much property. But such people end up dissatisfied with the amount of work that must be done.

The other reason that Debra keeps the size small is because she makes her cheese from fresh milk (no more than two days old). Because she has to keep up with biweekly cheese making, her size suits her just fine.

Though Debra has been making cheese for decades, she did not become licensed to sell it until March 2007. She sells her raw-milk cheese through her business, Waxink-Moon, a rather odd name at first glance to an outsider, but one logically derived from the combination of her interests: her artistic pursuits with wax and ink and the farmer's cooperative she is involved with, Miami Oxford Organic Network, or MOON. Debra's market consists primarily of summer and winter local farmers' markets. In the summer her town offers a weekly market; from November through April, she sells at a monthly outdoor market.

Both summer and winter markets seem to be successful in her area. "One day in June we had over 212 people come by in only two hours," Debra says. While winter presents challenges, her customers still come out to brave the weather. "The market is outside! We farmers stand out there in our coveralls!" she says proudly.

Debra thinks it's important to emphasize seasonal foods, so in the winter she hunkers down to produce organic baked goods using a grain mill she purchased in 1979. She also tries to be original in her products, offering such things as duck eggs. "At the market I try not to compete with anyone, and believe me, I don't!" Debra jokes, noting that while duck eggs are not commonly eaten by the locals, they have ethnic fans. Being in a college town brings a people from diverse backgrounds to the market. "The Chinese people love to buy them," says Debra, noting that she's enjoyed learning many new recipes for duck eggs from her Chinese customers.



Deb's goats hold a very special place in her heart. She milks by hand — every single day.

While Debra does not maintain a shop, or even a pickup location at home, her cheeses may be sold in a new store in the future. “The MOON coop has a catalog and they are working on getting a storefront started,” Debra says. She'll consider selling through the coop store, but she likes the markets best: “One reason I love farmers' market is because people really appreciate the small farmers [who sell there].” Customers are also drawn to her products by visiting her Web site (see Resources, page 172).

Debra produces a semisoft cheese; the name describes a style of cheese that is in accordance with the Code of Federal Regulations (CFR) — the official rules she initially consulted when setting up her cheese business. “I chose semisoft cheese because it was the type that the code gave the most latitude [to],” she says.

The WaxinkMoon goat's milk cheese is unpasteurized, or raw. The two terms mean the same thing, but the connotation of unpasteurized can bother some customers. “I don't call it ‘unpasteurized’ because some people will get worried about it,” Debra explains, and adds that in order to sell a raw cheese, it must be aged before retailing. In her case, the product must age for two months to qualify as a legally saleable raw-milk cheese. While Debra loves the raw cheese she currently produces, she has considered going with a pasteurized product also, as that would allow her to sell the cheese without aging. However, the cost of even the smallest commercial

pasteurizer is prohibitive. “The ones I’ve seen start at about \$16,000 each; it’s just not conducive for me.”

Debra keeps the packaging and the sizes of her products simple. She has a variety of flavors and uses various add-ins at different times to keep the product offering interesting. The cheese is created in a round mold that is roughly 5 inches in diameter and 1–2 inches thick. Each round weighs about a pound. Once created, the cheese is waxed in local beeswax produced by her and her neighbor’s bees. The blocks of cheese are referred to as moons (another tie to the product name) and are taken to market to sell as full moon, half moon, or quarter moon pieces. She sells by piece, not by weight, which eliminates the need for a scale and the consequent inspection of the scale at the markets. Debra also samples her products to interested customers. While each piece is different, including having different flavors, Debra feels that the slight variances make a good artisanal product. “I taste every block of cheese that I make. That is the quality control!” she says.



Debra’s raw milk cheese makes a beautiful, appetizing spread on the kitchen table.

The Rules of the Game

“Even as a hobbyist you still have to satisfy the legal requirements,” Debra says of her cheese operation. For years she attended the farmers’ markets and sold a variety of products and produce, but not her highly sought-after cheese, which people knew she made as a hobby, because she didn’t have an inspected kitchen or an approved storage facility. The demand for her cheese, as well as her own desire to sell the popular product, prompted her to begin the process of setting up a legal operation.

She started by contacting state agencies in Ohio, where she planned to produce and sell the cheese. The people from the Ohio Department of Agriculture were very helpful in making sure she understood the regulations. After getting involved with the Ohio Department of Agriculture’s Dairy Division, she began extensive personal research. Her first stop was the exhaustive CFR that she found online. She attended a dairy training workshop required by her state and then informed the local boards of health about her project. Since the state Board of Health was involved, she had limited contact with the local level during her construction and start-up. Debra says the rules for dairy are probably different in every state, but she found her own state’s department of agriculture extremely helpful.

Once she got going, Debra decided to add on to her 150-year-old home and build a cheese-making room. This project required the approval and inspections of seemingly countless local agencies. Her project was inspected by building, plumbing, and electrical inspectors, to name a few. She also worked with her local zoning office on the site change. The construction itself also took a lot of effort. She needed to re-roof three rooms just to complete the small 8’ × 10’ structure.

As with any farm venture that sells a food product, rules and regulations abound. Some initial requirements Debra had to meet included purchasing separate refrigerators for milk and cheese; not allowing any personal food in the cheese-making area; and making the cheese room a space completely dedicated to the business. She follows rules, most of which come from the CFR document, for labeling her products. The various additives she uses, including herbs, water, and other foods that don’t require further processing to be edible, must be listed on the label. She also must

list contact information, including farm name, farm number (given by state) and address.

Debra also recommends looking into the individual state's cottage industry rules. She advises that if your state has these rules, producers should check to see which of the rules apply to them, since many farm-based operations are so small that not all of the rules apply.

Testing and inspection are also important aspects of Debra's business; her products must be tested, just as are the products of large companies. Before she could begin selling, she contacted a company that tested for bacteria by the milliliter. She still submits samples for testing about every three weeks. "The inspector comes by and takes a sample of that morning's milk," Debra says, and adds that she must also test her aging product — that test is done every four to six weeks. Testing, while required, does have a cost associated with it that the producer absorbs. Each test costs her between \$3 and \$4.

Other regulations to consider include packaging and sanitation standards. Debra tries to eliminate as many required compliance situations as possible by keeping things simple, including limiting the number of ingredients in her products, not having a storefront location, and selling the product by the piece instead of by weight. Getting started with cheese production could bring up a host of other considerations, such as: checking whether the proposed site has city or county water; finding out if the state is a tuberculosis free state; considering the kitchen fixtures (shatterproof glass and self-closing doors may be required); installing several sinks and leaving room for separate washing, rinsing, and sanitizing basins.

As regulations vary from state to state and are often subject to change, Debra believes the best thing to do is get along with local inspectors. "Realize that it's not the government that's the issue; it's people's mindsets," Debra says with conviction. "People sue over anything!" she adds as a way of pointing out that safety standards can seem like a hassle, but following them helps with liability once your business is exposed to the customer.

The Lifestyle

Debra is clearly a woman who knows that the journey is just as important as, if not more important than, the destination. The rural lifestyle — with its joys and trials — is precious to her, and that fact is so evident throughout her many pursuits, including her goat cheese business. She seems to have taken time to notice the many things about rural living that many people working daily in agriculture forget.

“In today’s world, we can live on a farm and get to the city. But, you know, when you live in the city, you still can’t get to live or be on the farm,” she says with an air of profound pride in her heritage and rural roots. “The richness of the farm background is irreplaceable,” says Debra. The way she puts it, you almost hope nobody ever finds out just how good we have it out here.



Goats have been a part of Debra’s life for decades.

*Debra grows art.
Art raises questions.
The moon rises over
artisan goat cheeses.*

— Debra Bowles

Debra’s Tips for a Successful First Year

- Contact both state and local organizations to learn how to get started on the right track.
- Research rules and regulations on your own.

- Attend training classes.
- Consider selling items locally that are unique and that don't compete with other vendors.
- Make an effort to have a positive relationship with health and other inspectors.
- Appreciate the luxury of living on your farm.



6 PROTECT YOUR ASSETS



Land is the only thing in the world that amounts to anything, for 'tis the only thing in this world that lasts, and don't you be forgetting it! 'Tis the only thing worth working for, worth fighting for — worth dying for.

— Margaret Mitchell, *Gone with the Wind*

In the above quote, Gerald O'Hara is emphasizing the value of rural living and farm ownership to his daughter Scarlett. In Gerald's view, giving everything for the farm was the only way to live. I'm not certain everyone who lives on the farm would agree with that. Though we may want to give our farm operations all of our energies, I'll wager that we don't want to give them *all* that we have. Many of us want to protect our assets and know our liabilities.

When we expose ourselves to the public by selling products and services or by opening our farm to visitors, we incur a great measure of

risk. The risk is often directly correlated to the types of products we offer and the venue in which we offer them. We assume risk simply by engaging in the act of selling to the public and promoting a product's features and benefits.

Even when a complaint, an accident, or a lawsuit is not your fault or seems unmerited, you still have to deal with it. Because of this, protecting your assets is a critical component of setting up your small-farm business. This aspect is so important that I do not believe you should conduct one day of business without planning for liability and personal protections. This chapter will discuss liability concerns and coverage costs, as well as options for protecting your family and business assets.

Bundling: A Good Idea

General liability can also be part of your homeowner's insurance policy or your farm insurance policy. This option, often referred to as "bundling" in the industry, can potentially save you money.

Selecting Liability Insurance

There are four basic types of liability insurance: general, professional, product, and employment practices liability insurance. For the purposes of most small agriculture ventures, especially those that employ only family members, purchasing general and professional liability insurance coverage policies will likely be a suitable start. However, always discuss your unique business situation with an insurance agent before committing to a liability insurance program. Coverages are industry-specific, so investigate your specific industry's trends and policy options thoroughly.

General. This insurance covers property damage, bodily injury, and even advertising injury. You select the coverage amount (typically in millions of dollars) and the insurer will pay that amount if it is awarded in a lawsuit or other claim against your company. The policy states a maximum amount per occurrence. For example, if your occurrence cap is less than the amount for which you are sued, you will be liable for the balance. Because

of this, many people often add an additional policy, called an umbrella policy. The umbrella policy covers liability amounts that are above what the general liability insurance covers. Without question, every small-farm business needs to have some sort of general liability coverage.

Professional. If you're considering selling a service, it is worthwhile to take a look at professional liability insurance. This insurance is used to cover your business in the event of claims that involve errors and omissions that you made. For product-oriented businesses, this type of insurance may be unnecessary.

Product. If your business requires manufacturing, such as a cider press or a meat processing facility, you need to discuss product liability coverage with your insurance agent. This insurance is designed to protect your business in the event of a claim against a product manufactured or developed by your company.

Employment Practices. This coverage protects your business against claims made by your employees. If you're a small or family operation, this may not be worth the expense, but larger operations should consider purchasing this insurance, which would cover claims such as wrongful termination, sexual harassment, and discrimination.

Insurance Recommendations and Limits

It may appear difficult to choose the amount of coverage that is right for you, and once an insurance representative starts throwing around numbers in the millions, you may get terrified at first (at least I did), but there are some guidelines to aid you in your decision making. Experts recommend basing your decision on two major factors: perceived risk and the state in which your business is operated.

First, consider the type of risk for your company. Selling sweaters made from your lamb's wool is less risky than setting up a meatpacking plant on your property or even offering hayrides to school children. The amount of coverage — and corresponding price of premium — is correlated to the insurance company's perceived risk of your business or industry. Businesses considered high risk by the insurance company would have higher premiums than low-risk businesses. Your agent will advise you on

these costs. In states exhibiting a strong history of awarding high claim amounts, your insurance provider may advise or require you to select a higher coverage limit.

These guidelines for coverage limits are in no way formal recommendations. Seek the professional counsel of insurance providers for an appropriate recommendation for your own business.

Other Ways You're Covered

Besides taking out a liability policy and perhaps adding umbrella coverage to that, there are other ways your business may be covered in terms of liability or share liability with another party in the event of a claim. One strategy to transfer liability is the corporate structure of the company, as we discussed in [chapter 4](#). Business setups such as a Limited Liability Company (LLC) and a corporation transfer liability away from your personal assets. Also, if you use subcontractors such as processors or other manufacturers, the liability in the event of a product claim will likely be shared between you and your manufacturers, thereby creating a reduction in your own total liability.

Never overlook the use of product labeling, especially if it's required, such as a safe handling label on foodstuffs. If you don't use labeling that's required by law, you're in serious of danger of fines, at minimum, or much worse. It is your responsibility to find out the labeling and regulations that surround the distribution of your products. It is also a good idea to use labeling that goes beyond the requirements of the United States Department of Agriculture (USDA). For example, the USDA does not require meat businesses to list the exact farm that each animal came from. However, you could choose to list that farm on your label by using an assigned identification number.

Signage is another way to reduce your liability. For example, if you sell produce, sauces, or food mixes and seasonings that are either unwashed or not meant to be eaten immediately, don't just tell your customers — use a sign. The sign could be fairly simple, such as “Not ready to eat. Please wash before consuming.” Though not always required, alerting customers to proper handling is a great idea.

Questions to Ask Your Insurers

Below are several general questions to start the discussion with insurance providers. Always look at several providers, with an eye toward the following: competitive quotes, the competence of the local agent, and the accessibility of the agent or representative for questions and assistance.

- Is the dollar amount of coverage enough?
- Is the deductible too large to be affordable in the event of a claim?
- Is the premium affordable?
- Does the policy cover bodily injury?
- Does the policy cover property damage done by owners and employees?
- Does the policy cover advertising injury (injury caused by perceived false advertising)?
- Does the policy cover injury from the company's products?
- Is the insurer financially stable and does it have a history of paying claims on time?
- Are any exclusions in the policy too broad?

These sample questions were adapted from those found on the Allbusiness Web site (see Resources on page 170).

Protect Your Assets

SUMMING UP

❖ **Consider your company's unique potential liabilities specific to industry; list them and contact potential insurers for more information.**

❖ **Put liability protections in place, such as an insurance policy, before opening for business.**

❖ Review the four types of liability insurance to explore specific types of coverage needed for your business.

❖ Consider adding an umbrella policy if more coverage is needed

❖ Consider bundling coverages with other types of insurance, such as property insurance or your homeowner's policy, to save on premiums.

❖ Prepare questions and ask your insurance provider to clarify anything that is a concern about liability issues.

Donald Tuller | West Simsbury, Connecticut Tulmeadow Farm Store, Inc.



WHILE MANY farmers can boast about the longevity of their century farm, it's a rare gift indeed to be able to talk about your farm's ability to operate across *four* centuries. Donald Tuller and his cousin of West Simsbury, Connecticut, are committed to protecting their family's tradition of agriculture that began in 1768.

As a self-described "typical New England farm," the 265-acre operation has always been diversified. Over the years, the farmers produced cider, raised tobacco and broiler chickens, and even operated a sawmill, since the property boasts between 70 and 80 acres of trees and fruit orchards. But dairy was the centerpiece of the farm until about 2003, when milking cows were phased out.

During the 1970s, the dairy operation was at its zenith. By the early 1980s, it became clear to Donald's father and uncle that milking 75 cows was not sustainable with the modern commercial dairy market. "With no control over the price of milk and living basically inside a suburban community, we thought it made sense to start direct marketing," Donald says of the move that would change the face of the Tullers' land forever; "so, we planted a big garden and started with a self-serve produce table out front."

About the time Donald returned home from receiving his dairy science degree, things were changing around the homestead. A greenhouse was

added and the farm began to sell bedding plants. With time, that model, too, needed expansion.

“In the early 1990s, our \$100,000 in annual sales was beginning to level out. We knew we wanted to create a destination. As a dairy science major, I began thinking of dairy products like making yogurt or ice cream,” Donald explains. Like many small farmers, Donald decided to dig in and educate himself on this potential new venture. He attended food shows and visited other farms that were already making ice cream. By 1993, he had purchased a used ice cream maker and the project was under way.

“I never aspired toward processing our own milk, in part because we didn’t have the sewer or septic system we needed. That would have been very capital-intensive to get started,” Donald says.

Knowing that they wanted to set up the ice cream business quickly, Donald and his family chose to make efficient choices. A 20' X 21' space in the back of the barn was converted to make ice cream; an addition was built to expand the ice cream making facilities; and the front of the barn was converted to sell ice cream. Other ventures, such as making cider and growing fruits, were eliminated to narrow the focus.

The Tullers looked at various other marketing ideas once Donald was placed in charge of the direct marketing when his father passed away, but ice cream was the best fit for their operation. “Making and scooping ice cream was relatively easy and inexpensive to do,” says Donald. So, make ice cream he did. “We served our first scoop of ice cream on August 19, 1994, and it evolved from there,” Donald recalls.



The Tullers converted the front of their barn to an ice cream counter where customers can order their favorite homemade ice creams.

Staffing the Company

For a while, Donald made the ice cream himself, but now he hires staff for that task. He and the store manager supervise high school and college students who scoop ice cream during the summer and fall. Donald also has time to get back into the fields and focus on vegetable production, including raising pumpkins, sweet corn, squash, other gourds, and herbs, which he sells at the farm store. “We use upwards of 25 kids for seasonal help and some full-time help. We have about two hiring cycles. When some go off to college, we hire new kids for the fall. I probably complete some 40 W2s,” Donald states. The farm requires so much staff because its operating hours are extensive, as is the range of products it offers.

The farm store is open seven days a week from April until New Year’s Eve. The ice cream retail window opens April 15 and is open seven days a week through October 31. While some operations offer only pumpkins in the fall, Tulmeadow sells mums and perennials, as well as Christmas trees, well into December, and they also take orders for local turkeys.

The farm also raises vegetables and beef. Donald's cousin spends his time on the livestock component of the farm and raises cattle and hay. The beef cuts are sold through the farm store. While selling beef is a good business for the company, its expenses can be high. The USDA-inspected processor they subcontract with is more than two hours away in upstate New York. The drive adds a layer of cost, making the ice cream produced in-house all the more profitable by comparison.

Strategies to Respond to Change

“It seems counterintuitive, but we're actually a fair weather place. About 80 to 85 degrees and low humidity is ideal ice cream weather,” Donald says, explaining that if the weather is too hot, his customers will actually stay home rather than walk up to the window and sit outside to eat the ice cream. Extended hot weather became a major problem for business in 2005 and 2006, when the mercury hit 95 degrees 10 days in a row. “That weather really hit us hard,” Donald laments. “Because we had such losses in 2005, we were actually off about \$30,000 in window sales due to the heat!”

After two years of observing weather-related sales trends, the cousins began exploring expanding their wholesale ice cream business. The family hadn't intended to go that route. “We had resisted [going wholesale] because we really wanted to focus on the destination of the farm,” Donald says. But interest in Tulmeadow's ice cream products off-site had been blooming for years, and they had been selling to a few restaurants for about six years. Profit losses at the window due to the heat had been so dramatic, however, that they decided to completely upgrade their wholesale strategy by adding delivery.

A local Community-Supported Agriculture (CSA) operation has been offering Tulmeadow ice cream on pickup days, as has a candy store in town. And in 2007, Donald started working with Whole Foods Market, Inc. “We're becoming more wholesale-oriented. People have wanted to scoop our ice cream wholesale, so I'm letting the market tell me what to do,” Donald explains, adding that he's had to make changes and purchases, such as buying a freezer box for the back of a pickup truck.

A dramatic increase in local competition also fueled the drive toward wholesale. “In the last five years, five ice cream stores have opened up

within 15 minutes of us. Obviously, this can't have helped. In last June alone, sales were off \$15,000 in one month due to weather and probably competition. It would appear that there has been a dilution of our market," Donald says. Even though the farm is a destination, Donald says customer convenience plays a role in his sales, too. "When gas gets more expensive, even though our farm is unique and people like to come out, if it costs more and they're already at a shopping center, they may just get their ice cream there."

Having worked in direct marketing for 30 years, Donald knows when markets begin to mature. "It's unrealistic [to expect] a 10 to 15 percent growth rate every year of people coming out here," he acknowledges. With a combination of factors adding up, selling both wholesale and retail seems to be the best plan.

Liability Planning

Running an ice cream shop or any food-based farm venture requires good liability and risk management planning. For Donald and the crew at Tulmeadow, good insurance coverage is a must. "We protect for risks with a \$1.3 million liability umbrella over the whole operation," Donald says.

Using proper labeling is a food code regulation, but it is also another essential layer to liability management. "We have complete ingredient labeling. You have to be careful about labeling and you need complete ingredient labels if a customer has access to the product through the display case," Donald says. Each product has its own label, including specific labeling for different versions of product, such as ice cream, ice cream sandwiches, and ice cream on a stick. "Labeling is a 'must do' thing if you are anticipating selling packages. It's important because of food allergies."



A beautiful display of pumpkins and gourds greets visitors outside the farm store. Customers will also find mums, beef, and local turkeys for sale.

Liability protection is also important when it comes to customer complaints, though Tulmeadow's owner says they have been fortunate about the number of complaints they've had to address. Most of their complaints are about odor, not their products. "We live in a suburban town where the average house is now 700 to 800 thousand dollars. We try to deal with it. But the good thing is that our town is a town that values its rural heritage," Donald says gratefully.

He says one way to avoid complaints is to train employees on good customer service, which includes training them to serve the ice cream the way they would like to be served. "We treat them [the customers] well and give them a reason to come back. It's about having value. We're not a cheap product, but it's very high quality," he says proudly.

The Lifestyle

Farming, as they say, "ain't what it used to be" around Tulmeadow, but Tulmeadow's owners are happy that their operation has become a working farm that happens to see the public every day. Nearly 90,000 customers visit the farm store each season. To keep the farm viable, Donald, his cousin, and his employees focus on providing quality products and meeting

the changing needs of customers. He has been satisfied with how his dairy industry experience evolved into the ice cream business and says that the industry as a whole has been friendly to him, especially in times when he needed guidance. “There is a lot of information available out there,” Donald notes.

Changing times and a large family of siblings and cousins have made it necessary to sub-divide the farm. Pieces have been sold to buy out other members and allow for development. There is no doubt, however, that Donald’s main goal is continuing the farm. “Our goal is to have a viable farm that can be taken up by the next generation,” he says. With diligence and an eye toward the customers’ needs, it would come as no surprise to see Tulmeadow’s ancestors around in another four hundred years.



An old, picturesque Tulmeadow truck is one indication of the longevity of this four-centuries–old farm.

Donald’s Tips for a Successful First Year

- Design new construction for the volume you’ll need to be successful.
- Plan or save room for expansion, including areas for increased parking and new structures.
- Research the statistics, such as how many people you need to see each day to make the desired amount of money.
- Think about customer flow in design: Don’t build a retail area that is cute, but creates bottlenecks during checkout.

- Plan for rain or shine sales, especially with on-farm locations.
- Explore necessities like power sources for equipment ahead of time, and budget those costs into your business plan.
- Realize that life as an agricultural entrepreneur is not simple.

7

PRICE YOUR PRODUCTS



They began husking their annual crop. It had been one of the country's best years for corn. The long, even, golden ears they were stripping the husks from and stacking in heaps over the field might profitably have been used for seed by any farmer.

— Gene Stratton-Porter, *A Daughter of the Land*

How many of us think that if we just had successful farming years like the one enjoyed by the protagonist Kate Bates in *A Daughter of the Land*, everything would be okay? Even though we don't endure (or even benefit from!) the vigorous physical labors of rural life the way our ancestors did, it seems harder now than ever to turn a profit from a small farm. The protagonist in *A Daughter of the Land* (set in the early 1900s) did not have

to fight large conglomerates that competed against her small aims or set herself apart from her neighbors, the way that we must. The energy we put into seeking our market, cultivating it, and striving to nurture it far exceeds the energy we put into sowing and harvesting our crops, raising our livestock, or creating our wares. The strategies we employ in selling, creating, and cultivating our product are indispensable: they will not only allow us to survive on a small farm, but to thrive as well.

Before you can go to market, you must establish prices for your products. Your customers will no doubt love the goods you provide them from your small farm, but even the most loyal or affluent customers will decide what to purchase, how much, and how often, partly based on the cost of the goods you're peddling.

Setting Your Prices

The method you use to determine price is called the pricing rationale. When you're new in business, it may seem difficult to determine a basis for your product's price. But with some investigation into the industry and a little trial and error, you'll find a good pricing strategy.

For many small-farm ventures, the first question is: should my prices be consistent or should they change in response to the market or the seasons? If you sell your products direct to customers at a retail outlet such as a farmers' market, then using the same price for each item the entire year may be the easiest and best method when it comes to marketing and establishing customer loyalty. However, if you sell your products from the farm directly to a restaurant or a wholesale company that will distribute your goods, you may have to change prices weekly or seasonally to remain competitive within that industry. Then, once you set a price, you must decide when it is okay to have sales or even clearance on items. When you first enter the market, you may also need to lower or raise prices based on the response of customers. [Chapters 8](#) and [9](#) will further discuss how changing prices can help you reel in more customers

Pricing is essential and it's similar to a first impression: Once you make it, you can't take it back. I cannot stress enough how important a solid understanding of your market and the target customers you wish to serve

really is. For best results, be comfortable with your pricing before you approach selling.

In most cases, you establish any good's or service's value, in some measure, in relation to its price. Don't assume that establishing the lowest cost possible is required or even preferred. Almost all customers are sensitive to price points, even those who are willing to spend a lot of money. Price sensitivity is a complex issue. Some buyers are price-sensitive to a high-cost item because they cannot afford it; others are sensitive to a high-priced item because they feel it is better if it costs more and that they will look better if they spend more. Still others are sensitive only to a *perceived* high-priced item, because they don't understand the value of it or the price of the item in relation to comparable items.



Your job as a product seller is to understand your market — the prices that customers are willing to pay and the buying habits of target customers.

Your job as a product seller is to understand your market — the prices that customers are willing to pay and the buying habits of target customers (discussed in [chapter 2](#)). Once you know the type of customer who will buy your goods, create a pricing structure for the products that fits that customer's profile.

A variety of pricing strategies could fit one selling situation. While the strategies discussed here are meant to be a guide and give you enough up-front information to approach the marketplace with confidence, your own research and investigation will always dominate, especially within your own cottage industry.

Your pricing rationale will be based upon a number of factors, including:

- Wholesale versus retail pricing (or both if you will sell both ways)
- Comparable products in your market
- Target clientele (Are your customers interested in value-priced or premium-level products?)
- Commodity prices or local markets
- Breakeven analysis

Wholesale versus Retail

The first thing to do when determining price is to decide how your product will be sold: wholesale or retail. When selling wholesale, the product you make is sold to an intermediary, such as a distributor, a restaurant, or a store, that will raise the price and make a profit. When selling retail, there is no intermediary: You produce the product and sell it directly to the customer.

It is an oversimplification to say that the decision between wholesaling and retailing is merely a decision of how much money you want to make. The choice between these two is complicated and involves a number of factors. Selling retail may offer you the retail price (easily 30 to 50 percent more than the wholesale price in many industries), but it will cost you something in terms of time, labor, and possibly other features such as packaging, labeling, subcontractor or manufacturer fees, and even increased liability. Still, it may be a better option than wholesale.

Your situation and your product industry will ultimately determine this decision for you. I urge small-farm ventures, however, to consider both when it makes sense. For example, in the meat business, restaurants love the high-end meats — the steaks — but they're often not willing to pay a premium price for ground beef, roasts, and soup bones. Families cooking at

home, however, do not cook steak every night for supper — but they do use ground beef an average of two to three times per week in my area. So, those customers actually put a greater premium on ground beef than my premium steak cuts.

Using two different selling strategies for two different customer segments can be efficient and profitable. When I started Aubrey's Natural Meats, LLC, I sold steaks wholesale to white-tablecloth restaurants and a whole lot of ground beef through farmers' markets and a small retail store. Believe me, when it came down to the bottom line, that retail-priced ground beef made every bit as much money as those wholesale-priced steaks. There are many other types of small-farm ventures that are wonderfully suited to serving several different types of markets at once with different priced products.

Determining the dollar amount difference between your wholesale prices and your retail prices takes some investigative work. Wholesale price is often about half of the final retail price. However, that is at full price; sales and clearances can push wholesale and retail items farther apart. Also, wholesale and retail prices may be closer in some industries and within some geographic markets. It may often seem that selling your goods at wholesale for a lower price makes the most sense, but you have to factor in the cost of your goods sold. For example, the wholesale pricing structure for a raw product such as honey is very different from the product's retail pricing structure. Selling a raw product such as honey that is produced on your farm in large jugs, repackaged, and sold in smaller containers is different from selling the finished, packaged product that the customer can use as is. Because the raw product requires further packaging, processing, labeling, or cooking, a distributor who buys your product wholesale and must do this work himself will pay less for the product, which may make the product's wholesale value less than its retail value.

Do I Have to Fit the Standard?

You may not need to fit the standard pricing model in your industry, and it may even be a great selling point for your company if you don't. For example, pricing a common product below a certain standard (if you can afford to) may do a better job of drawing your target market to you than

using the same price as your competitors. Likewise, if you're intent on delivering a high-end premium product, pricing above the typical point will be a must, assuming your quality and uniqueness merit the difference.

Comparative Prices

The next step is to research existing prices. Again, prices and standards will vary by industry, and there are a variety of resources available for industry-specific information. Here are some general ideas on researching price:

- **Commodity markets.** Look into commodity markets within your industry — especially if you'll be selling wholesale. Commodity markets can be found with the help of the USDA agricultural statistics service and other agencies.
- **Internet.** Search the Internet for other companies that market what you do. What do they charge? Do you think their pricing is effective?
- **Newsletters.** Sign up for daily, weekly, or monthly web feeds for organizations that regulate or associations that represent makers of the products you'll sell. These sites will often have access to other Web sites and pricing information.
- **Shop where you'll sell.** Visit the stores and markets where you plan to sell, as you did during your early market research. Learn about prices, sales, and features and benefits that will help you distinguish your brand.
- **Test.** As you set prices and begin selling, test new prices on your customers and see how the customers respond to these prices. Work with your customers to deliver what they want to buy.

Pricing for Breakeven

In the end, pricing is about ensuring that you make money. At the beginning, you might feel as though it's hard to know for certain that you can make money with the prices you choose. But it isn't. One way to ensure that your business remains viable is to have a breakeven analysis. See my wholesale break-even analysis for Aubrey's Natural Meats, LLC, on the next page. Use this example to easily build and modify your own pricing model in other product categories.

To create a breakeven analysis, you need to have a clear understanding of the amount of money it takes for you to produce each item. You'll have to figure this one out on your own; not only is each industry different, but prices for raw materials and goods vary drastically from region to region. To understand the costs of goods sold, you'll need to know the prices of the raw inputs (if you raise animals, for example, you will need to know the cost of feed and maintenance); the cost of materials needed to develop your raw input into a saleable product (for example, additional hard goods, labor, time, and subcontractor fees); the transportation cost associated with selling the items; and any other costs specific to your business.

Once you've determined the prices for the hard goods and raw materials, you need to establish a true minimum (the breakeven price) that you can sell something for and still cover your expenses. Do this for each product you'll be selling. You'll learn this minimum by looking into the pricing strategies suggested above and by experimenting on your own. Be sure your breakeven price accounts for seasonal fluctuations, negotiations with purchasers, and anything else that will affect price. You're looking to establish a price that really is the true minimum you can stand.



Sample Breakeven Analysis

*Sample breakeven analysis/pricing rationale for a beef animal. In this example, the prices and expenses chosen **do not break even**, meaning the rationale for this price does not work.

COSTS per head for a 741-pound carcass

Procurement: 741 x \$1.30 (choice, less than 64%) = \$963.30

Processing: \$.27/lb. x 741=\$200.07+ \$30 kill fee = \$230.07

Large packaging bags: 33 bags/carcass x \$.30 = \$9.90

Boxes: 13 boxes/carcass x \$.79=\$10.27

Total Costs: \$1,213.54 per head average daily cost

SALES PER HEAD FOR A 741-POUND CARCASS

(Use 20% markup over the weekly average price for USDA)

Weight per side (in lbs.)	Cut (per lb.)	Price Average	Price/Side	Total
9.0	Brisket	2.20	19.80	39.60
21.3	Chuck roll	1.99	42.39	84.78
16.65	Shoulder Clod	1.89	31.47	62.94
2.75	Mock Tender	1.99	5.47	10.94
10.5	Boneless Shank Meat	1.10	11.55	23.10
12.0	Ribeye	7.10	85.20	170.40
9.9	Strip loin	5.20	51.48	102.96
5.75	Tenderloin	10.40	59.80	119.60
11.78	Top Butt	3.55	41.82	83.64
17.2	Top Inside Round	2.50	43.00	86.00
22.5	Bottom Gooseneck	1.99	44.78	89.56
11.45	Peeled Knuckle	2.20	25.19	50.38
5.95	Short Ribs	2.45	14.58	29.16
2.85	Skirt	2.50	7.13	14.26
2.1	Flank	4.55	9.56	19.12
1.0	Hanging Tender	1.10	1.10	2.20
125.0	Trimnings	.56	70.00	140.00
28.0	KPH	.50	14.00	28.00
11.0	Neck/Femur	.50	5.50	11.00
11.1	Offal	.89	9.88	19.76
66.2	Scrap/Bones	0	0	0

Total Weight = 807.96 pounds (403.98 x 2)

Total Income = \$1,187.40

Money Collection Options

Money collection and its timing are essential to the cash flow, expansion, and the overall health of your business. Wait too long to collect and you may not have access to the funds you need to continue to grow. It's your business, so the types of payment options you accept are entirely up to you, though these can be driven by such things as your target market, selling wholesale versus retail, and the location of your selling activity. Everything, even cash, has pros and cons associated with it. Some payment options include:

Do I Need Overdraft Protection?

Sometimes, people write bad checks. No matter how careful you are, it will happen to your small-farm venture at some point. Another cash flow problem can occur when billed accounts take too long to pay.

One way to ensure that your bank account is covered and that you can continue to operate is to select a bank account with an overdraft protection feature. Many checking accounts can access credit cards or a line of credit associated with the bank account that will deposit funds if funds aren't available in the account. This is still a loan and, like most credit cards, the fees may be high, but it's a feature to consider when you set up your business checking.

- **Cash.** Cash always works, but can be difficult to account for, especially with employees.
- **Personal and business checks.** Checks offer a better trail, but there is always the possibility of receiving a bad check.
- **Credit card.** Credit card machines and the associated fees can be pricey, but your funds are guaranteed when the card is

approved.

- **Trade or swap.** Swapping works especially well if your cost of goods sold is low or you have a need for what another company is selling.

Money-collection timing is as important, especially for small businesses, as the act of selling itself. Nothing is more stressful and exhausting than concerns about money arising from bills to pay with no funds to do it with. I encourage you to select your cash-collection timing with some careful consideration to how soon you'll need the funds to operate successfully. Types of cash-collection timing include: payment in full on delivery; prepayment for items at time of order; or down payment with order and balance on delivery; billed accounts for 30 to 90 days or more (often most likely when selling wholesale to other businesses).

Price Your Products

SUMMING UP

❖ **Carefully establish your price; this is important because setting price establishes the value of your businesses products and services.**

❖ **Build a pricing rationale to successfully create prices.**

❖ **Establish a pricing strategy before you go to market; however, when necessary, pricing can be changed over time.**

❖ **Price your products based upon selling either retail or wholesale. Pricing strategies are different for retail and wholesale.**

❖ Consider cash flow needs when deciding what payment methods to accept and what terms to accept for payment timeframes.

❖ Consider talking with your bank about an overdraft protection account. It may save you money in the event of a bad check from a customer or other short-term cash shortage.

Rusty and Teresa Lee | Truxton, Missouri Lee Farms, LLC



SOMETIMES COMING home to the farm doesn't happen the way you initially expected. For South Georgia native Rusty Lee, his road home to the farm began during his years in graduate school at the University of Missouri in Columbia, though he didn't realize it at first.

While studying for a master's degree, the former design engineer for an equipment manufacturer met Teresa, who would become his wife and was studying agricultural economics. The couple pursued their advanced degrees, got married, and moved to Georgia.

Both harbored a strong desire to be more involved in agricultural production, but for very different reasons. For Teresa, her connection to agriculture remained in Missouri on her family's century farm. That operation was a traditional Midwestern diversified farm raising corn, wheat, soybeans, cattle, horses, and sheep, and the place itself was very dear to her. Rusty's connection had been with his grandparents' farm operation in Georgia; they grew vegetables, peanuts, cotton, tobacco, corn, soybeans, cattle and goats. Rusty knew that he wanted to continue his family's legacy of working the land. Rusty's desire to farm combined with Teresa's interest in moving back to her Missouri home left the couple with one logical choice: vegetable production in central Missouri!

With the wheels of change and perhaps the wheels of fate in motion, the couple migrated back to Teresa's homeland near Truxton, Missouri. In 1999, they purchased 33 acres from Teresa's maternal grandparents and started planting vegetables.

Squeezing Money out of a Turnip — Literally

Though the Missouri farm still produced some conventional row-crops, the Lees knew that at their size, a niche or unique business was important. "We knew that we had to generate as much revenue as possible and squeeze the most money we could out of an acre," Rusty says truthfully. Once they began planting tomatoes, Rusty knew that getting the word out about their fledgling company was essential. So, the entrepreneurial-minded Lees started a farmers' market in the Warren County, Missouri, area. "We knew he had to get sales going," Rusty says.

Soon after the farmers' market began, the family decided to work toward growth and increased volume. "We had considered growing commercially, but we were concerned about a couple of things we needed," Rusty says, noting that there were a number of expensive items that the couple needed to make the switch to wholesale, including walk-in coolers, a delivery truck, and a forklift to move produce boxes. They would also need extra help with loading. Rusty sought advice from different organizations, including the Missouri Department of Agriculture. That meeting proved more fruitful than Rusty ever expected, and he continues to have a great relationship with them. With that help, Rusty and Teresa were on their way toward growing their wholesale business.

Wholesale Opportunity

As Rusty explored the wholesale business and educated himself about his options, he found a neighbor who also wanted to sell produce wholesale, so the two partnered in 2001 to form Missouri Vegetable. At that time, Rusty began working on the farm full time.

This is when Rusty's meeting with the Missouri Department of Agriculture proved so helpful; through the staff there, Rusty and his partner learned about a golden opportunity for their first wholesale customer.

“About that time, the Schnucks grocery store chain out of St. Louis told the Department of Ag [Agriculture] that they were looking for a Missouri homegrown tomato. Department of Ag made the introduction for us and then got out of the way,” says Rusty. After negotiating with the Schnucks organization, Missouri Vegetable found their first wholesale buyer. “Tomatoes were our first main crop. That year, we produced 10 acres of wholesale tomatoes,” Rusty says.

The relationship with Schnucks worked well, though the growers really had to boost production to meet the demand of a grocery chain account. Still, the popularity of their homegrown tomatoes began to swell.

“We were really well received because we were growing old garden varieties, but in a commercial setting,” Rusty explains proudly. Soon, the company was in expansion mode once again. The tomato acreage grew each year for several years in a row: in 2002 they planted 15 acres; in 2003 it was 20 acres; in 2004, 30 acres; and in 2005 Missouri Vegetable was up to 45 acres. Things were moving along, but once again, the winds of change blew across the vines at Lee Farms.

Changes and New Options

During the early years of their business, Rusty’s partner sold one farm and purchased another in order to improve his land. In 2005, he told Rusty that he wanted out of the produce business. Faced with a serious new decision, the Lees chose to move forward with their operation, and in late 2005 they bought out their neighbor’s half. “So, in 2006 it was back to just Teresa and me,” Rusty says with assurance. “Lee Farms, LLC, is the name now.”

The Lees decided to rework some aspects of their business once they were on their own. They made two major changes: They added some restaurant trade and they diversified their produce offering. Rusty, always savvy, sensed that their narrow focus was dangerous. “We needed more customers. When all the business is with just one customer, all I have to do is lose just one customer and I’d be in a bad way!” Rusty says.

The Lees worked with a distributor (Ole Tyme Produce, Inc., of St. Louis, Missouri) to market the produce for them. Using a distributor required a new set of changes, but it made sense to Rusty for several reasons: It really saves him time, so he can stay on the farm and focus on production. He also appreciates the cost savings in terms of management

and transportation expenses. And perhaps most importantly, by using a distributor, Rusty greatly reduced his personal liability for foodborne illness and other problems. (Rusty believes that food safety begins at the farm, so he employs the best safe handling practices, like making sure he is using the proper temperature for storage.) Overall, dealing with the distributor was a great choice for Rusty because it allows him to work at home and avoid dealing with direct-to-customer sales.

With an increase in the variety of crops they were growing came a need to reduce their number of tomatoes. Tomatoes were reduced to 12 acres to make room for four varieties of winter squash, cantaloupe, zucchini, roma tomatoes, and two varieties of eggplant. “To increase volume, you really need to increase product diversity,” Rusty reiterates.

In 2007, he added even more options for his customers, including more squash and sweet potatoes. Though tomatoes had been the cornerstone of their business, by 2007 they were growing more squash and zucchini than tomatoes, demonstrating just how much diversity means to Rusty.

The Lees have also expanded into livestock. Where once cattle, sheep, and horses roamed, now Kiko goats forage and meander through fallow vegetable fields and pastures. The Kiko breed is a meat goat that is popular with people in the eastern part of the United States. The Lees have about 120 females and, once again, Rusty has partnered with a neighbor to direct-market the finished meat goats. “The demand is high for these and the prices are very favorable,” explains Rusty. “We sell straight off the farm by the semi[trailer] load.”

Rusty uses another distributor to market the goats. He negotiates prices over the phone with a live-animal buyer in Pennsylvania before the animals ever leave the farm. With this strategy, Rusty can plan for cash flow because he knows what he’s getting before he loads the semi truck. Once again, Rusty feels that efficiency is the right choice for his operation. “The truck comes to us; it weighs empty, loads, and then weighs full. The net is what we’re paid on,” Rusty explains.

Goats are a good choice for Lee Farms because they don’t add a lot of cost in terms of feed, like other livestock can. “The goats use up the vines left over from the fruit in the field. It’s a great way to clean up — what would be wasted is now their feed!” he says enthusiastically. “The goats even eat the tomatoes. They’re a primarily white goat; you should see them — their mouths are bright red!” Rusty says with a laugh, though in terms of

feed costs saved, it's no laughing matter. Rusty saves serious money feeding the goats leftovers from the summer's vegetable crop.



Rusty Lee's Kiko goats, which are sold for meat, also forage on plant matter left behind by his vegetable crops.

The goats are also handy in generating winter cash flow. By Christmas in Missouri, there is no ability to produce vegetable crops, so selling the goats during winter provides some needed cash and allows for early spring purchases of equipment, supplies, and raw materials. Goats have a relatively short gestation period compared to large livestock (only five months), and they are also fed and ready to ship relatively quickly. They are born in April and May and sent to market in January and February. Rusty is usually sold out of market goats by Valentine's Day. "We just have to budget and be prepared for the early summer. We know that [after the goats are shipped] June is the soonest any money is coming back in!" he says.



Lee Farms' signature crop, heirloom tomatoes, makes up a large portion of its vegetable production.

Wholesale When Wholesale Wasn't Cool

With so many small agricultural ventures struggling with wholesale as a viable option, the Lee Farms wholesale business is thriving. Why? Rusty says he saves on production expenses such as harvesting costs, transportation costs, boxes and supplies, and labels and marketing materials. If you ask him, he'll tell you that in his mind he saves on basically everything. "It's very true; from retail to wholesale there is a big difference in the price I get paid," he began. "But as the price goes down, the efficiency and volume increases so much that I can afford it."

While many operations start wholesale but then switch to retail, Rusty has been a fan of wholesale production almost from the start. "It is easier to reduce production costs than to raise prices," he says, noting that he makes buying decisions, such as purchasing used equipment, based on this philosophy. He put in a conveyor belt to assist workers who hand-harvest some crops and added other equipment, such as a mechanical harvester that harvests three rows at a time on other crops. A forklift quickly moves product around his facility.

These all add up to time saved, which Rusty really values. "I never have to leave the farm and I don't have to go out to sell — the trucks just come here," he says of his selling model. He also prefers wholesale because

in his mind the market is more guaranteed. Rusty says he has a steady market, a known demand, and no price gouging from other vendors (such as he's seen among competitors at farmers' markets).

Wholesale works for Rusty because his geographical area is not well suited to direct-to-customer sales. "It's a very rural area out here and it's hard to get a premium at the consumer level," he explains. "At the market, time is the big one — you are gone from the farm, then you've got to be there all morning, then you've got to get the truck ready the night before, you've got to deal with sales tax and possibly employees," he cautions, though he acknowledges that the immediate cash in hand is a benefit of the laborious farmers' market model. Lack of steady cash flow can be a drawback to wholesale, where Rusty may wait two or three weeks to get paid.

Still, Rusty believes that nobody will ever manage his land as well as he and his family. "I like being here. There are give and takes, but we think the efficiencies have outweighed the price loss from not selling retail." Increasing expenses, such as the high cost of fuel, have also meant that he has been saving more money selling wholesale. And Rusty has enjoyed sales stability. "I don't plant it until I have a home for it. I don't even buy a plant until I have a commitment from a buyer," he says.

Pricing and Research That Paid Off

Because Rusty sells wholesale, following some type of pricing protocol is paramount. Rusty began by researching his crop's established prices on the United States Department of Agriculture (USDA) commodity market by going to the Agriculture Marketing Service (AMS) Web site and conducting searches for price quotes from season to season. He also uses the AMS Web site for finding the pricing history in his own area.

Once he knew what tomatoes, for example, were trading at, he had to convince buyers to pay him a premium. "Our tomato is from field to store in 24 to 36 hours, so I figure in a premium for the fact that ours stay on the vine almost until consumed," he says. Rusty knows his quality and uniqueness is worth the premium price to consumers because they are increasingly asking for local products and products that taste better. So, he negotiates each deal with this feather in his cap. "It's just a matter of convincing the grocery retailers to pay a bit more for our quality!" he says,

adding that part of his role is to convince the buyers that he will deliver when he says he will. “In many ways it comes down to your marketing ability and salesmanship.”

The Lifestyle

Crops, livestock, and marketing venues weren't the only things that expanded during the start-up years, as is the case for many families involved in agriculture. “In the process of all this we added children,” Rusty notes. The family now has a daughter and a son. The lifestyle for the Lees is truly one of balance and living within the means that they can carve from the land.

While Rusty works full time on the vegetable farm, Teresa commutes 70 miles each day to the outskirts of St. Louis to help out with extra income and insurance. “A balanced farm is just more stable and a balanced farm, in my mind, involves crops and livestock,” Rusty believes. Full-time farmer, perhaps part-time philosopher, Rusty says you've got to make the best out of what's available to you. “You can go out and change the world, or you can figure out how to make it work for you. We are just so fortunate and lucky!”

Rusty's Tips for a Successful First Year

- Start out with a good supplemental income to manage household expenses while you build the business.
- Buy used machinery and equipment to save on start-up costs and annual expenses.
- Decide for each purchase: Is it really necessary? Will it give the return I need?
- Get out there and preach your message; it's your job to make the buyer believe in your products.



8

SELECT YOUR SELLING VENUES



Moving gently and slowly, he straightens the lamb's head and forelegs, and delivers it, wet as a fish, into the air. He holds it up a moment — a limp, dangling thing — to make sure its nose is clear, and then touches it to the ground. It begins to struggle and breathe. It comes tense and alive in his hand, wobbling its head, reaching down with its legs. It struggles against its weight, and breathes. ...

— Wendell Berry, *A Place on Earth*

Wendell Berry is a farmer himself and lives in Kentucky. If you relate to the experience he describes of delivering an animal, you understand the sense of place that is imparted by those miraculous experiences that come from living on or visiting a small farm. It's that nearly indescribable feeling

— that sense of location, roots, and earnest living — that you want to impress upon your customers. If you share with them who you are and where you come from, and display that uniqueness every time you bring your product to them, you'll have loyal customers. By marketing your product, you are bringing that sense of place to the customer. One way to do this is by carefully choosing the best selling venue to carry your message, and your farm's products, into the community.

Temporary Vendor's Permit

If you're selling at a farmers' market, most communities will require a temporary vendor's permit, especially if you're vending foods. Expect the prices for these to vary from area to area. Prices can range from \$10 to more than \$150 per year.

Before selling, ask your local or state board of health or the farmers' market coordinator if you need a temporary permit. You'll especially need to get a daily permit if you'll be selling food or offering samples.

In this chapter, I'll offer suggestions for locations and styles of selling that can be employed by a variety of small-farm ventures. It will be obvious to you that some selling venues will be good fits, now that you've interviewed target clients, conducted some market research, investigated prices and locations where you'll likely sell your items, and decided whether to sell wholesale or retail. When it comes to the type and number of selling locations you choose, the sky is truly the limit. I will cover some pros and cons and a discussion of several common locations.

Types of Selling Venues

As a new small-business owner, you can and should employ a number of selling strategies and consider using more than one type of location. When deciding how many locations and retail markets to pursue, try enough places to drive initial sales and spread the word about your new company, but don't spread yourself too thin. As is always the case with small business, some trial and error is a necessity. Try to get shorter-term leasing

agreements until you are certain that a store's physical location will be a good place to make money. Assuming it doesn't cost you too much in terms of time, money, and sanity, I encourage you to explore several options as you learn about your market.

SEASONAL FARMERS' MARKETS

The most common sales model for small-farm ventures is the local farmers' market. Though a timeless direct-to-consumer technique, the farmers' market is undergoing a bit of a renaissance. Due largely to the customer's burgeoning interest in natural, organic, and sustainably raised foodstuffs and other goods, farmers' markets are popping up in small and large towns alike, as well as enjoying renewed popularity. I cannot say enough good things about this selling strategy; it's a fit for a vast variety of products — from food to handcrafted items of all kinds.

Finding a Farmers' Market

The USDA's Web site is a good place to visit, as it attempts to list as many farmers' markets in each state as it is aware of. However, markets are becoming so popular that many are not recorded on the site. Check other sources in addition to this one to find the best choice of markets.

Vending at a seasonal farmers' market may be one of the simplest and cheapest selling options available to a small agriculture business. Markets commonly run from May or June through the end of October in areas where weather prevents year-round markets, and are typically held on Saturday mornings, though I have also attended markets on Wednesdays, Thursdays, and Fridays. Costs to sell at a market will run between \$5 and \$30 per day, depending on the market. If you live near several markets and can feasibly send a trusted vendor to more than one, you can expand and diversify your customer base.

Also, if you have the time, you may also want to go to one or two midweek markets, which are typically held in the evenings from 4 to 8 P.M. Search your local chamber of commerce or community visitor's center for contact information for the farmers' markets in your area, or try an online

search under “farmers’ market” in your community. You may also want to consult your state’s extension service, a land grant university, your state’s department of agriculture, or conduct a search of the USDA’s Web site.



As a new small-business owner, you can and should employ a number of selling strategies and use more than one type of location.

Markets typically last three to four hours and you’ll be expected to arrive about a half hour early to be completely set up by the time the market opens. Some markets will expect the entire season’s payment up front and will be strict about absences, while others will allow you to pay each week and attend only when you can. You’ll likely find that customers become very loyal to vendors they see each week, so regular attendance pays off. Responsible markets will require you to carry liability insurance and provide proof of that coverage to the market manager. Also, if you’re selling foods that are either perishable or are sold by weight, be conscious of inspectors and their expectations, such as proper safe handling and registered scales.

Quick Farmers’ Market Checklist

- Table and chair
- Tent or shade of some kind
- Lots of good signage
- Logo items like stickers
- Sign-up sheet for a mailing/e-mail list

- Business cards and flyers
- Extra product
- Forms for custom orders
- Bags or wrapping material for customers' purchases
- Comfortable shoes and sunglasses
- Money bag and plenty of small bills and coins for change
- Drinking water
- Sanitation requirements if selling food
- Cooking and cleaning materials if sampling food
- A big smile for drawing customers in!

YEAR-ROUND FARMERS' MARKETS

Seasonal farmers' markets are very popular, but if you plan to sell products all year long, then once the warm days of summer wane you'll be looking for a new option. Many communities and private businesses that promote sustainable agriculture now host indoor year-round markets. If you're lucky enough to live in a warm place that can host an open-air market and support fresh produce year-round, then you know what I'm talking about, but even if you live in the wintry Midwest or on the East coast, there may be a community-supported indoor market near you. Choose your indoor market with some considerations. For example, if you sell a ready-to-eat product, a downtown market is a great location for customers who are business workers who drive in from the suburbs. However, if you sell something that is perishable or bulky (for example, it won't fit in the office freezer; it's too heavy to carry back to the office; or it will get spoiled in the car), a year-round market located downtown may be a poor use of your time and dollars.

Many year-round markets offer special celebrations for customers, such as fall color events and Christmas parties, that set a very festive mood with music and giveaways that encourage happy shoppers. If you can afford it, join in the festivities by offering specials or donating time and items. For more information about these marketing ideas, see [chapter 9](#).

FARMERS' COOPERATIVES

If the idea of working within a network of producers to aid in sales and marketing appeals to you, then a cooperative may be for you. Often, you can join a farmers' cooperative and still sell through other, independent sources, as well. A farmers' cooperative store is often set up and owned by paid members of the cooperative. It offers a variety of agriculture and small-farm products during normal business hours most days of the week, just like any other retail outlet.

Farmers' cooperatives are set up in a variety of ways. Some allow members to sell their wares directly to the coop, thereby guaranteeing payment, and others pay members on a consignment basis, but only after the items have been sold. Some hire separate staff to work the store; others expect that the farmer-vendors themselves will be in the "office" to open and close the retail business. Still other cooperatives don't have a store, but provide small farmers with a wholesale opportunity. In this case, they take everyone's products and either market them directly to stores or handle distributor selling arrangements and payments to each producer, based on the sales.

Coops run the gamut of business design models, so consider the features of every opportunity and its pros and cons for your operation particularly. You'll need to decide if you're willing to give up some autonomy and independence for the sales opportunities the cooperative will give you. You also need to consider the costs of membership and any risks involved, both financial and legal. You may want to buy shares (a portion of membership), which would give you voting rights and decision-making ability regarding the structure, management, and finances of the cooperative. Before entering into any business contract, understand your exit options and any costs associated with leaving the coop, should you choose to at a later time.

On-Farm Store: Pros and Cons

Pros

- It is very convenient.

- It is possibly cheaper, if you can use an existing building and/or can save on fuel and vehicle maintenance costs.
- Customers trust you and feel loyal because they see your home operation and see you in action at the farm.
- You can market your farm location as a destination trip for customers.

Cons

- People, sometimes undesirable characters, may show up at your place at all hours, uninvited, and possibly soliciting.
- Personal liability is a concern when you have customers, visitors, or tourists at your place.
- Personal property could be at a risk when inviting strangers to your home.
- Your facilities may not be up to necessary codes (such as board of health codes) and you will have setup costs.
- Once your operation is set up, your business may be inspected by certifying organizations, such as boards of health.
- Your farm may not be close enough to your target customers to drive enough sales.
- Strangers won't respect your farm and home as you do.

YOUR OWN STORE, ON OR OFF THE FARM

My mother's dream has always been to have her own shop. I hope she can attain that someday, but for now she still teaches public school in the community where I grew up. For her, the idea of being a shopkeeper and selling wares she either personally selects or makes herself is extremely satisfying. I am sure many of you feel that same way about the idea of a

storefront. If so, creating your own retail outlet may be an excellent opportunity.

As a small-farm entrepreneur, you can set up your store on your farm or lease space elsewhere, in a community close to your target customers. This decision is based on a number of factors and each one is unique to your operation. The easiest way for me to convey my thoughts to you is with a simple pros and cons list for each type of store (see to the right and on page 120). As you work through this decision, add your own pros and cons, too.

LEASING SPACE IN AN EXISTING STORE

If establishing your own storefront isn't for you, lease space in an existing business from someone else. In this model, the drop-in and regular customers of the other business will now see your product and hopefully make a purchase. There are some drawbacks: Your name won't be the only one out front, and depending on your lessor, you may have difficulty getting major signage for your operation. Still, the set-up costs — from computer and phone systems to utilities and monthly rent — will be much cheaper than going it alone and building from scratch, whether at home or in town or somewhere else.

As with any lease agreement, understand your terms — what you can and can't do in someone else's space — and the exit clauses. Also, be sure the venture still provides your business with lots of branding opportunities for your products. You may even want to propose a trial period with your landlord. I actually did this. When Aubrey's Natural Meats, LLC, opened a meat counter in an existing gourmet food and wine shop, the owner and I wanted to be certain that the businesses were compatible before we pinned each other down to an agreement. So we agreed to share space for six months, and if at the end of this time either party wanted to exit the relationship for any reason, they could.

Off-Farm Store: Pros and Cons

Pros

- You can get away from the business by closing up shop and going home.
- You may be close to your urban target client, boosting your name recognition and helping with sales.
- Liability is transferred to the business, and away from your home, if someone is injured.
- You may be able to cross-market with other nearby businesses that complement yours.
- You may have much better walk-in or drive-by business traffic than out at the farm.

Cons

- You'll have to pay a lease or purchase a store location.
- You may be under contract and it can be difficult (and costly) to get out of that if the operation's direction changes or the store is not successful.
- You'll have to be away from the farm to staff the store or hire someone to be there.
- You may be responsible for utilities, damages, and other maintenance even if you're paying a lease.

CONSIGNMENT SELLING

If you would like less commitment and expense than retail selling, consider selling your products on consignment. Selling on consignment means that you deliver the products to a store (or stores) under your brand, someone at that store sells them for you, and that person returns the proceeds to you minus a fee for his service. I've seen consignment fee structures ranging from a flat cost per piece sold to the more common arrangement of 15 to 40 percent of the retail cost of the item. Selling on consignment gives you a lot

of freedom and costs much less than opening your own selling venue, but it has several major drawbacks that you should consider. For example, there is no protection for your items — usually you assume the loss of theft, breakage or spoilage; there is very limited marketing and signage; consignment fees can cut into the sales; and there are no guarantees that items will sell soon, or ever.

SELLING VIA WEB SITE AND DIRECT MAIL

In the e-commerce world, having an Internet site for your business certainly seems like a must. Still, you can decide whether you'd like the site to be used for education, contacts and information, or more broadly for ordering, payment, and shipping. You can set up a simple Web site through nearly any marketing or public relations firm in your area or you can link your information to other sites that interest you and possibly eliminate the need for your own Web site. Building a customized Web site through a marketing person can be expensive — anywhere from \$2,000 to \$10,000 in my experience — so be certain to search providers and by all means seek referrals from the provider's customers. Ask questions about providers' service levels, as well as the quality and timeliness of their work. If you're not tech savvy, ask a friend or business acquaintance who is to come with you.

Drive Additional Profits in Your Store

- Lease out space.
- Buy other related items and mark up to resell.
- Accept consignments, for a fee, that fit with your products.
- Host classes and events and charge a fee.
- Allow others to host their events and charge them a fee.
- Consider adding additional services, such as a light lunch counter or coffee or tea bar.

If your Web site is used for e-mail orders and will facilitate shipping and payments, the costs to establish it will be more. You'll also have to be

certain that someone is around to receive the orders, make the shipments, and possibly authorize payments from credit card or checking accounts. Your Web site could also be used more simply, as a way for customers to receive information about your company and its products and services, and as a way to publicize your phone number and e-mail address, so that customers can contact you with orders or questions. Again, you'll want to have regular access to your e-mail and phone if you want customers ordering this way, so that you don't miss a timely sale. At the very least, your Web site should be used to establish a customer list. Contact the customers on this list again and again about products, services, sales, and specials. This way, you are able to almost automatically drive sales.

If you do accept orders through your Web site, you'll need to decide whether you'll ship products, deliver them, or allow them to be picked up somewhere. For each of these you'll need to select some parameters and make those very clear to customers to avoid problems and complaints. For example, if you'll be shipping products, will the order go out immediately or not until the product is ready? How soon will that be? If you deliver, will it be just to your area (and if so define that area clearly), or will you drive anywhere? Is there a charge for delivery? If your product can be picked up, are there certain hours and days when the product will be ready at that location?

The Internet is extremely convenient, and once your Web site is up and running, it's usually a very low-cost communications tool. However, a friend once told me that e-mail communication is very dangerous, and he's right. It's much easier to leave things out and make assumptions when you don't have a verbal or face-to-face conversation with someone. If the Internet is your major communication tool and means of selling, keep things very clear and simple.

How to Find a Wholesaler

- Ask places that sell your kind of product where they get it and who distributes it.
- Contact industry trade groups and associations for your products.

- Look online or in the Yellow Pages for distributors and wholesalers in your industry.
- Once you contact distributors and wholesalers, meet with them in person and give them a preview of your products, including samples and any testimonials you have.

WHOLESALE, REPRISE

With this type of selling strategy you are removed, by at least one person, from your end customer. For some small-farm operations, wholesale is great and very appropriate; for others, it doesn't work well. Decide for yourself if you need and want to know the end consumer personally and if you'd rather take all the risks of selling the products, thereby keeping all the profits, or if lowering prices to sell wholesale is a better, more efficient fit. The larger challenge may be locating wholesalers that carry your type of product and then convincing those representatives to take your goods at a price you can afford.

Most wholesale arrangements occur through a distributing organization that will buy product directly from you, then sell your product to the store, restaurant, or other business that will in turn offer your product to the public at their own retail price. Or you may choose to act as your own distributor, selling your products directly to a store or restaurant, thereby eliminating the middle party.

Being your own wholesale distributor can certainly produce greater profits because you've removed one party from the farm to retail chain, but consider this decision carefully. Consider the time and delivery needs of both you and your customer. You can either deliver your products, paying for the fuel and maintenance and possibly the purchase of a delivery vehicle, or you can have a wholesaler pick them up at your farm location. However, you may end up using both methods, depending on the stores you want your products to go to (some stores have prearranged agreements with distributors and may not want to deal directly with you). Overall, you may be able to eliminate distributors for some wholesale accounts, but not all.

One last factor to consider when deciding whether to become your own wholesale distributor is the market. Customers who buy from a distributor are used to certain services, such as timeliness, professional

order systems, and credit departments that handle returns and complaints. They're also used to paying on a schedule — not upon receipt of the product. You have to decide if you can accommodate the wishes of each potential customer. Some companies may be willing to work with small farms because they want your unique product, so they'll understand that your style of doing business may be different and perhaps simpler than larger or established outfits. However, some organizations may not want to make that concession, leaving you with the option of selling to their preferred distributor or passing on their business. Deciding how your product reaches the end customer must be done on a case-by-case basis, working out specific arrangements that fit both your style and their needs.

The CSA Model

The CSA (Community-Supported Agriculture) model is a food production, sales, and distribution model that has emerged in the United States largely in the last 20 years. While a variety of models abound, one main theme is that farmers share the risk of their costs and their harvest with customer shareholders who either own part of the CSA or simply own a share in each given year's crop.

Customers interested in CSAs are often health- or environment-conscious and know how to prepare and enjoy foods that are in season. CSAs can be successful in a variety of settings, but it's worth exploring several CSA models before inviting outside ownership in your farm operation.

Select Your Selling Venues

SUMMING UP

❖ Marketing is a full-time job and is the act of promoting your name and your products.

❖ Try a variety of selling venues as you get started to establish what works best.

❖ Consider both seasonal and year-round options for your venture.

❖ Be certain to weigh the pros and cons of commitments, such as starting a store versus selling on consignment.

❖ If you do open a store, consider additional ways to make money and drive customer interest besides just retailing products; renting out space to complementary businesses is one idea.

Spencer Family | Sheridan, Indiana Homestead Growers, Inc.



WHEN A HOBBY of hunting wild mushrooms turns into a viable family business enterprise, you know there must be special — or at least passionate — people involved. On the home farm in central Indiana, near the small community of Sheridan, the Spencer family are living and enjoying their dream every day.

“We’ve always had a passion for mushroom-hunting and raising foods. At home there was always a big garden and we lived by the idea of feeding all the neighbors. There were no strangers — just anyone with a bag or a basket!” says Steve Spencer, who owns the aptly named Homestead Growers, Inc., with his wife Anita and his brother Jeff Spencer.

Birth of the Business

While pursuing the off-farm careers of fireman and sales representative, respectively, Jeff and Steve found that they needed more out of life. An unexpected opportunity gave both brothers the chance to work on the farm and maintain their off-farm income.

A former professional colleague of Steve’s bought a piece of a gourmet shiitake mushroom business in Florida as an investment. Knowing

Steve's enthusiasm for cooking and the garden, she invited him down to take a look at the operation. "I just fell in love with it immediately," Steve says with a whimsical smile. "When I came home, we decided to put everything we had into this — all of our efforts and our energies. We knew absolutely nothing about *growing* mushrooms, but I knew I wanted to do this!"

Most large-scale and commercial mushroom production is located in either Pennsylvania or California — not in the Midwest. Many people thought Steve was striving hard to be different and innovative, but, Steve says, he simply did what he felt called to do. "We didn't come up with this business to be unique," Steve says, acknowledging, however, that growing gourmet mushrooms in Indiana truly is unique. This uniqueness and niche marketing has been working for the Spencers from the start.

By March 2002, Homestead Growers, Inc., was born. Including their children, four generations now work in and around the farm, and the Spencers' children are the seventh generation to work land that was settled in 1836 by their ancestors.

Where less than a generation ago there was only corn, beans, and livestock, there now stands a gourmet mushroom barn, where the shiitakes are produced. Nearby, about 15 acres of other crops, including tomatoes, green peppers, and zucchini, are cultivated on land Steve and Jeff's father allowed them to pull out of traditional row-crop production.

Early Challenges and Roadblocks

When Steve returned home from Florida full of enthusiasm, desire, and ideas, his first major challenge was not only the obvious one of acquiring cash (which they did by securing a mortgage on Jeff's home), but of convincing family, namely brother Jeff, to dive into the gourmet mushroom business. Steve knew it was essential to have his brother as partner because Jeff had a task-oriented personality and an innate ability to fix things that the oft-dreaming and -scheming Steve was unable to repair.

Steve planned that if the company started small enough, everyone could take a piece of the labor and still maintain income from their other jobs during the start-up phase, thereby eliminating the need to hire outside

help. Fortunately for mushroom lovers in Central Indiana, Steve was effective in persuading both Anita and Jeff to start the company.

In Indiana, there was very little information about how to start a mushroom business, so Steve researched production practices extensively and traveled to other mushroom production facilities to educate himself. Finally, a building was constructed at the home farm for a mushroom-growing facility. Once Steve knew that the shiitakes could be grown, he needed to find a local market for the product.

“We started out wholesaling while we worked our other jobs. This allowed us to get our feet on the ground and pick up some volume,” Steve describes, adding that he started calling on large produce distributors with samples long before he was officially ready to sell the product. Fortunately, Steve had an early start on marketing; it took six months to convince Indiana’s primary produce distributor to take on Homestead’s products. “This is really an art — you have to develop your entire market; it’s very finite!”

At first, the distributor took almost everything that the young company could produce. “It was so important that we got this to happen; we couldn’t have made it that first year without a big customer to buy from us,” Steve remembers.

During the first three years in wholesale, the Spencers learned what worked and what didn’t. The labor was taxing and the travel to sell the product cut into everything from family time to outside employment. Steve delivered product to Louisville, Kentucky, a five-hour round trip, every week. “It was just about enough money to cover our expenses,” Steve says of the wholesale days with a wry laugh. “Selling wholesale can be very difficult to compete in when you don’t understand the efficiencies of what it takes to produce a product for that price.” Finally, Steve says, the family realized their initial selling angle was not profitable enough for them to balance the intensive labor of producing the mushrooms with the money they received from selling them.

The Second Leap of Faith (of Many)

By April 2005, Steve had decided to resign his sales job, though he stayed on as a consultant for the company until August of that year. For as long as he could remember, Steve had been nurturing the goal of getting back to the farm full time. “I just had that desire to come back to the land,” Steve says with honest conviction. By becoming a full-time manager of the mushroom business, Steve was able to shift the company from largely wholesale to direct marketing.

One day, a friend of the Spencers’ mentioned a farmers’ market. The Spencers were skeptical of the market route at first but soon realized it could be very profitable. “We were selling wholesale at three dollars and eighty-five cents per pound, and at our first market [in 2004] we tried selling retail at six dollars per pound. We actually had no problem selling out at that price!” Steve and Anita both seemed surprised at first, but soon realized the direct-to-consumer niche was perfect for their business. “Suddenly, we realized [we could sell] a couple of hundred pounds per weekend at a farmers’ market for the same money as a couple of thousand pounds at wholesale,” Steve says.

As a few farmers’ markets began proving successful, Steve again considered wholesaling, but this time on his own terms. “Our wholesale business is now direct to restaurants and direct to a few small stores,” Steve says, adding that the profit from wholesaling direct is 30 to 40 percent higher than the profit from using a distributor in his market. When Homestead’s products started impressing restaurant goers in Indiana, chefs immediately demanded more. “Once we decided to go with direct marketing, having something unique (in the gourmet mushrooms) drew people to us. The chefs started wanting to convert to our produce, too,” Steve says. Always believers in delivering what the customer wants, they decided to add produce to the primarily mushroom-based business plan. By 2005, the Spencers were tilling up more of the home farm and planting vegetables in the cool spring soil.

That first year the family produced and sold tomatoes, green peppers, and zucchini. They added an in-town produce stand that was open all day, though after one season the Spencers’ decided to close it because it wasn’t as profitable as the weekly farmers’ markets.

In 2006, the farm moved 33 acres into vegetable production, but realized that was too much for their market and produce was going to waste. “We went too big too fast,” Steve laments of the production plan in

2006. In 2007, the family backed off to just 15 acres and drafted a unique plan for using everything they produced.



Steve got his start in the mushroom business after years of enjoying mushroom hunting and raising a big garden.

It Just Comes Naturally (Sometimes)

In addition to reducing the number of acres of produce planted in 2007, the Spencers started selling value-added, or further processed, products such as sauces to increase their vegetable-crop utilization and increase selling location options. After experimenting since 2005 with produce that was fresh but not attractive enough to sell, the Spencers developed a new subsidiary of Homestead Growers, Inc.: Local Folks Food, LLC. The company, which Anita runs, offers naturally and locally made pastas, sauces, and even mushroom burgers. Because the company is considered a woman-owned business, it qualifies for tax breaks under Indiana law.

“This is going to be a big area for Homestead Growers. The emphasis is natural, fresh, local ingredients,” says Anita. The Spencers use a commercial kitchen to make and label the products in compliance with health department rules. As a welcome surprise and possible windfall, the

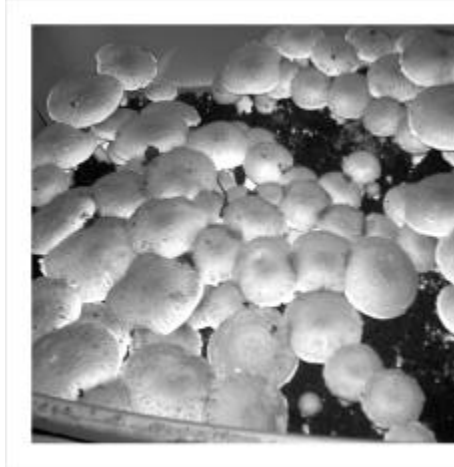
Spencers have discovered that these products are less expensive to produce than they expected. By using produce that wouldn't sell fresh to restaurants or consumers, these specialty value-added foods are already gaining in popularity and translating to extra dollars. "This value-added stuff is what we can do to add income — we're living it all the time," Steve says proudly.

The Future Is Now

The Spencers have come a long way since the early days of wanting to come home to the farm and yearning for a feasible way to do it. Though not every plan has worked, they have moved forward, each time assessing the good and bad ideas and making necessary changes. Homestead Growers, Inc., including the new Local Folks Foods, LLC, sells products through farmers' markets, small food stores, and direct to restaurants. Through careful consideration and the inevitable trial and error, the company continues to grow and evolve.

While Jeff and his family already live on the family homestead, Steve and Anita are selling their house in town and moving out to the land as well, a move that allows them to realize a very important goal: living on the farm, not just driving out to work there everyday. Quality of life is really important to the Spencers, and after five years of business, they know what they really want. "We have decided to ask 'What do we enjoy and what is the most fun and most rewarding?' For us, that is especially the farmers' markets," says Steve.

Steve strives to balance his enthusiasm for new ideas with the practical business knowledge he's gained through experience. "You've just got to find out what you have a passion for. Is it inside you? If not, it's going to be difficult to make it through the hard times." Having combined that passion with commitment and perseverance, the Spencers are not only making their venture work — they're also enjoying being able to return to the farm.



Mushrooms grow in clusters inside the Spencers' customized barn.

The Spencer Family's Tips for a Successful First Year

- Conduct a lot of research up front to learn as much as possible.
- Have the fortitude it takes to become an entrepreneur.
- Have a solid business plan backed by research and feasibility.
- Make sure someone involved has marketing experience and is willing to focus at least part time on marketing the company's wares.
- Be willing to change gears when things don't work out.
- Ask yourself some key questions such as: Are we going anywhere? Why are we doing this? How are the finances? Is it necessary to change the plan to make the business work?

9

SPREAD THE WORD



A basic instinct in both animals and humans is that of territoriality ... We knew the ranch, its hills, its mesas, its canyons, its rocks, its soil, its climate, and the life it sustained. We knew the vastness of the sky and our total dependence on the weather. We knew well our family, the men who worked there, and their families. We belonged to the Lazy B, and it belonged to us.

— **Sandra Day O'Connor and H. Alan Day, *Lazy B***

You may not have ever realized it, but as a farm owner and land lover, you have something in common with the first woman justice of the United States Supreme Court, Sandra Day O'Connor: You know intimately the land you call home. As I discussed in the last chapter, you, too, may feel that you belong to that place and that the product of your work there is

invaluable to you and your family. I hate to burst your momentary reverie, but your customers probably don't care as much as you do — at least, they may not yet. Sound harsh? It's not really, because until someone else — namely a buyer turned lifetime customer — comes to love the items you produce as much as you do, they cannot understand. There is one way to convince your customers to love your products: Use good marketing strategies.

How Much Will It Cost?

If you decide to use any kind of advertising or marketing service, be certain to get a written estimate or even exact price (if possible) up front, get it signed, and take a copy.

Purchasing advertising can come with several levels of fees, including set-up costs, costs per square inch, costs for changes, costs for photos and graphics, and costs for rushing the order, among many others. Ask for the exact price and ask when your bill will be due.

Convincing your customers to love the land you work as much as you do is the only way you will garner longtime customers in the niched agriculture business. But it's not easy. Besides making the products, you have to convince every customer that they are valuable and worth the price. This takes effective, persistent marketing. Successful marketers use a combination of effort and creativity to set themselves apart from their peers, and they market themselves and their farm every day for as long as they remain in business.

You may have noticed that this book builds upon itself. What began as a simple idea became a business plan fortified through market research and introspection about everything from selling venues to image. All of these topics are interconnected and all are important. Some people consider marketing to be a soft business tactic — the easy part of owning a company. I disagree. I believe it is a vital link that allows you to effectively connect your hard work and planning with your public image, ultimately producing sales and yielding lasting success.

In this chapter, we'll address specific marketing ideas and how to use them in your own operation. Still, the best ideas are often those that creep into your mind when you're not focused on marketing. My best advice

about marketing savvy is also my least technical and least quantifiable: Trust your intuition to lead you to what's right for your business. If you have an idea, explore it.

Creating a Marketing Plan

Marketing and advertising can be very expensive, and that's often the reason I hear from my colleagues in small-farm business that they don't do much of it. Hiring a marketing company or an advertising agency can be costly (see the Costs/Budget line in the Sample Marketing Plan to the right), as can buying logo items, but there are a number of ideas that are either low-cost or free. No matter how much money and time you have to spend on your business's marketing, you should spend at least some time on a marketing plan. Building a plan costs nothing and gives you a clear focus about how you'll get your message out to consumers.

A marketing plan is simply a set of ideas and goals delineated by a specified timeline for a specified result. You may want to create your marketing plan during the business plan and mission statement stages of business development and then add to it as more ideas come to you, or as your focus narrows through market research, setting prices, and determining selling venues. It is most important that your message, whether it's announcing a new product or a new business location, reaches your customers as efficiently and frequently as possible. A simple marketing plan could be based around the first day in business. Take a look at the example to the right and use the tips below to construct your own marketing plan.

To begin a marketing plan, do the following:

- **Decide what your message is.** Is it that you are opening for business? That your items are on sale? That your business has opened a new location?
- **Decide what vehicles you'll use.** Flyers; brochures; web, magazine or newspaper ads; and more can be used to disseminate the message.

- **Decide the timeline for your message.** Will your message apply to January through May; this month; or now until business opens?
- **Research expenses.** Find out how much it costs for marketing tools such as setting up a Web site, taking out an ad, and creating a brochure.
- **Keep the marketing going.** Know when you need to start your next message and set a date to get the message out on time.



Sample Marketing Plan

Message: Opening for business with an on-farm store location and U-Pick produce

Timeline:

- A. Begin promotions two months prior to opening with articles in three local papers
- B. Start ads in papers two weeks before opening
- C. Hang up flyers one week before opening
- D. Continue campaign through the first month in business, then reassess

Media Used: Flyers (printed on home computer); articles in local publications; newspaper ads

Other Methods Used: Before opening, wear logo shirts at area events and pass out business cards

Costs/Budget: \$150/week for three-week-long ads in two papers. Total: \$900

Desired Results:

- A. One hundred people at farm on opening day
- B. Purchases of \$20 or more from 30 percent of those people
- C. Start recurring customer list
- D. Build reputation in community

Effective Branding

Branding is everywhere. In fact, we are so inundated with images, logos, and designs that evoke the name of some company or business that for many of us it gets not only excessive but annoying. Think of your favorite brand or a product that you use often. What is its name? What does the packaging look like? What do you feel when you perceive it, hold it, use it, talk about it? I guarantee that there is a product that has left a very strong impression on you. Why do you purchase this product? Is it because it was cheaply priced or a premium line? Do you purchase it because you like the quality or consistency? Do you purchase it because the package was attractive or because a friend recommended it? Or did you just buy it because you liked it?

The developmental process of branding is truly a study in human psychology. To establish a successful brand, you must investigate how and why people do things. Branding and the why and how of people's buying habits can become very fascinating. For the purpose of starting your marketing campaign, we'll cover a few basic concepts that you need to know about branding. If you would like more information, please see Appendix H on page 170 for a list of resources including the National Agri-Marketing Association (NAMA) and the Agricultural Marketing Resource Center.

What Is a Brand?

A brand is simply an item or product that comes from a named organization such as the company that manufactures it. A brand can be symbolized by a recognizable icon or simply by the name of the company or organization. The value of the brand is intangible; it indicates the customer's feelings and perceptions when exposed to the item or product.

DEVELOPING AN IMAGE

Branding is about creating a perception of a product. You want to create a perception that your customer pays attention to, and you want that perception to generate sales. One of the best ways to do this is through developing an image.

Image can refer to how *you* are perceived and it can also refer to how *something* is perceived, such as an icon, photo, or logo. You've been developing an image for this business ever since you started forming it in your mind and formally creating it with a business plan. Customers will also have an image of you and your company, whether or not you develop a specific icon-branded logo. This is because their individual experience with you, whether positive or negative, will conjure an image of you and your company every time they think of you.

Creating a good first impression is very important, especially when it comes to your product's brand. Think about how your customer will perceive you and your business. For example, if you are targeting a high-end client, you don't want to call on them in your worst apparel, toting a product with sloppy, dull packaging. By the same token, if you are calling on environmentally conscious consumers, you don't want your packaging to appear wasteful and excessive, and you'll want to point out the sustainable measures your company takes to stay environmentally responsible. It's difficult to quickly sum up your entire message and then use this effectively with a diverse group of customers, but it can be done. One way to do this is with a logo.

Send the Message You Want to Send

Advertising and marketing are effective ways of communicating a message about your company, but you want to be sure that you are sending the intended message. If you find that you're not sending the intended message through working with a certain professional or partnering with certain people, it pays to rethink and perhaps end your partnership to remain consistent with your goals and your company's objectives.

DEVELOPING A LOGO

A logo encapsulates your company's image in a singular, very recognizable form. The goal is that every time customers see your logo, even if they don't see you or the product physically, they will think positively of your company and buy more from you. Your logo doesn't have to be extremely expensive or time-consuming; simple word processing programs or other graphics programs can help you design your own. Or you can even draw your logo, have a printer typeset it, then scan it so it's available for e-mail and other transferable uses. If you don't feel comfortable designing it yourself, you could hire a professional, such as a graphic designer, to design it for you. No matter which of these methods you choose, your logo should sum up your message to the marketplace.



The rope-like A of my logo reflects my country roots.

In my case, I used a printing company with an in-house graphic designer to help create the logo. I am not visually creative, so I couldn't draw what I wanted it to be; I could only describe it to the designer. I told him I wanted it to be immediately noticeable (what became the big letter A) and feel both slightly rustic so I was true to my country roots (what became the rope-like font for the A) and yet upscale (the elegant colors gold and burgundy). I went through about 30 or 40 designs before settling on the

final one. Because I worked with the printer on many other logo items, they did not charge for the development of the actual logo design.



By developing your own *planned* image, you encourage the customer to maintain business with you by seeing you the way you want to see yourself and your company!

Always own your own logo. If someone else develops your logo, be certain that you alone own that artwork once it's done. You do not want to get into a situation where you need permission or have to pay a fee for the logo every time you want to use it. Pay for unconditional ownership and use of the logo in the up-front price. Also, get the logo on a CD, in several different file formats for e-mail use, and in hard copy. If you store your logo on a computer, be sure to keep a backup on CD.

Once you've decided what it is, use your logo absolutely everywhere. While you may not want to order these items all at one time, here are some common uses for your logo: stationery and envelopes, business cards, stickers, packaging labels, brochures, clothing, and gear such as organic cotton shopping bags.

Other Brand-Building Ideas

Even if you don't want to spend the money to develop and use logo items, you still need to communicate your message and your logo to prospective customers. In this section are a number of marketing ideas that can be done

for free or at a low cost. I recommend using at least a few of these, or your own low-cost methods, to market your small-farm venture.

Newsletters and regular correspondence. Many customers enjoy regular correspondence from their small-farm vendors. Always ask your customers if you may add their name to your mailing list before sending newsletters or other regular messages. Keep your mailing list handy at every selling location and ask every customer to join it. For people already interested in your business, regular correspondence will draw them closer to you and your products, building a sense of loyalty. Use an e-newsletter, for example, every month, to offer specials and thank customers for their good business.

Promotions and coupons. Promotions of all kinds can be great incentives to buy, so use them whenever it is appropriate for your business. You can offer things like coupons or discounts as rewards for referrals, to drive year-end sales, or as gifts to customers who purchase a certain amount of product. Be certain to publish any parameters around your promotions and honor them at all times.

Contests and raffles. These types of customer appreciation events can truly drive sales by involving many customers and possibly giving them a reward for their enthusiasm. First check with your state (a good place to start is with the Department of Revenue or the Gaming Commission, if your state has one) to see if there is a law against raffles and other gambling.

Gifts and prizes. These will especially appeal to children. You may be able to entice the parents to buy by giving things away to children with a parent's purchase. I know someone who gives children a 1-ounce stick of honey with each jar purchased. Kids never let their parents forget his booth! You might also choose a logo gift to give away, such as a cloth shopping bag with your logo on it.

Customer participation. Many customers love to participate in farm work because there are so many "fun chores" that, not living on a farm, they don't get a chance to do. Consider offering days where customers can do simple, pleasurable things like gathering eggs, shearing sheep, or helping to harvest the garden. Or, if you offer food products, consider offering a customer cookbook with recipes demonstrating how customers have used your products. You could offer to include other vendors in the cookbook for a fee, or charge your customers a small amount for the book and give some of the proceeds to support a local group such as an FFA chapter.

Goodwill donations. Giving back to the community not only feels good and is good for those who receive your gifts, but it really conveys a positive message about you. You don't always need to contribute money; your time and some of your products can be just as appreciated.

Hosting events, clinics, and demonstrations. Hosting customers at your home for an educational experience can be a tremendous sales-building opportunity because as people learn more about your products they'll understand more uses for them in their own lives. You can conduct classes or bring in recognized professionals, as well. Be sure to have plenty of your products on hand for sale!

Testimonials and referrals. One of the finest ways to ensure more business is to have happy customers who say positive things about you to their friends. Ask customers for testimonials and referrals and publicize these as often as you can. Use testimonials in places like your Web site, your newsletter, and even a brag board that you hang up at your selling locations.

Press releases. Using the media to generate business for you is free and can translate into thousands of dollars in sales. I recommend that every new business owner draft a press release announcing their opening, and use a press release anytime there is a major change or update in business. For example, when I changed from distributing my own products exclusively to using a distributor, I sent out a press release to customers, potential customers, and even media (see Appendix D on page 165 for a sample). Some papers won't be interested, but many local or specialty press will welcome the news and publish the announcement at no cost to the business owner!

Interviews. Another way to use media at no cost is to be interviewed. I contacted every magazine, newspaper, and specialty publication I could think of about Aubrey's Natural Meats when I started and asked them simply if they wanted to do a story on our new company. I'd say a strong 75 percent came out to interview us, write a story, and take photos of our operation. The swell in sales after these articles were published was always fantastic. Think of something unique about your company, or some way that your company has a positive impact on your community or a certain group of people, and pitch that angle to local and specialty media.

Flyers and posters. A flyer is a simple marketing tool. You can make your own flyers on your home computer and print them off for just a few

cents a sheet. Hang announcements about your business everywhere your target audience might be, but check to see if you need permission first. Use flyers to promote upcoming events, sales, new locations, or anything other important events.

Announce yourself. Toot your own horn, but do it tastefully. If you're a member of a group, announce to your peers that you've started a new company and are open for business. Have brochures, business cards, and flyers with you so that interested persons can speak with you about it at their leisure. Also announce yourself to anyone you think might be interested, such as parents and teachers at your child's school, your neighbors, people at your fitness club, and members of your church group.

Spread the Word

SUMMING UP

❖ **Make marketing a large part of your daily efforts to drive sales and help your business succeed.**

❖ **Develop a marketing plan with parameters for the message, timing, and venues and customers you seek to reach.**

❖ **Understand the concept of image and decide what you want your image to be.**

❖ **Consider developing a logo that represents your company and can become recognizable in the marketplace.**

❖ **Use your logo on everything and consider creating logo products and accessories for customers to see over and over.**

❖ Use a combination of several free and low-cost marketing tactics at all times to drive business without adding major expenses during your start-up phase.

Huber Family | Starlight, Indiana Huber's Orchard and Winery



ANOTHER multigenerational operation in Indiana, Huber's Orchard and Winery is found near the tiny town of Starlight. Perched atop a mighty hill practically overlooking the Ohio River, the farm was founded in 1843 by German immigrants. Cousins Ted and Greg Huber, the sixth generation of Hubers to work the land, purchased the sprawling 600-acre piece in 1991 from their fathers.

With the help of several other involved family members, Ted and Greg have created an agri-tourism mecca that is one of the top tourist attractions in the tri-state area at the junction of Kentucky, Illinois, and Indiana. What's the Hubers' main angle? Marketing — and lots of it! “You can't stop marketing. It's got to be all the time: consistent, steady, always,” says Ted Huber of the company's resounding success over the years. Ted knows from experience that a consistent message over time will translate into sales and ultimately into financial success.

Loyal to Their Rural Roots

The farm began as 80 acres in 1843 when ancestor Simon Huber brought his experience in growing fruit and making wine in Germany to bear on his

farming ventures in the Ohio River Valley. “Wine has always been a part of Huber’s, even back in Germany,” Ted acknowledges proudly.

Ask the Hubers what they do and they’ll tell you that they continue the farming aims of their ancestors. “When we wake up in the morning we are still an ag-based business at our hub. We’re definitely one of the more diversified in the state, but it’s still agriculture,” Ted comments.

Though the farm already grew fruit, wine became a major focus in the late 1970s with the opening of the commercial winery. Huber’s was one of the first to begin producing Indiana wines, and it is now the largest wine-grape producer in Indiana, with eighteen varietals and nearly 400,000 pounds of grapes grown annually. The wines are one of the Huber family’s proudest accomplishments. Ted hopes that a new, more upscale tasting room and bar located in the upstairs part of the winery’s historic barn facility will entice even more savvy wine customers.

The Hubers have expanded on the theme of turning fruit into alcohol and now produce fruit brandies. The Starlight Distillery was started in 2001, largely in response to the need to utilize all of the farm’s fruit. “It was a major effort getting the law changed — we really lobbied,” Ted explains of his involvement in the legislation that allowed him to operate a still in Indiana. “Fruit can be distilled down into brandies such as peach, raspberry, and strawberry, and it can age forever. It really helps use the fruit in big crop years,” Ted explains. Though Huber’s quest resulted in changed state legislation, it is the only winery using the new distiller’s license in Indiana. As such, Huber’s does some distilling for other growers, but that is “not our focus,” says Ted.

The core of the business is still operated by the family. Ted is a highly trained winemaker and the cellar master. He’s a consummate perfectionist about his wine; in the busy season he’ll be in the cellar for days, even sleeping there for a few hours during the night! Ted’s wife Dana manages the burgeoning area of marketing and public relations. Greg runs the agricultural component of the farm, with the exception of the vineyards, which Ted manages. Greg’s wife Jan is the human resources manager — a big job during the busy summer and fall seasons when the farm employs upward of 120 people.

Seasonal employees work the farm for harvest and assist with tourist activities, doing jobs such as driving the tractor that pulls the hayride wagon

and educating urban visitors about the various crops. Caterers work on-site and are also employed by Huber's.

From Working Farm to Tourist Attraction

Following the trend to diversify initiated by their fathers, Ted and Greg began to work concertedly on agri-tourism in the late 1980s. "We began the children's farm park in 1988 for touring for school groups. It was a way to help round out the farm experience," says Ted, who continues to develop and upgrade the children's activities every year. "This is a way to add experiences, keep people here a long time, and make it worth the trip." Ted hopes patrons with children will spend about two to five hours at Huber's per visit. His aim is to have his customers making between two and four visits per year.

In 1991, the cousins opened Huber Country Outings, a venue that offers entertainment for larger groups. Huber Country Outings owns an event and reception facility, where special events and receptions can be held. The staff will coordinate everything from food and drinks to music and live acts. You can even get married at Huber's under an outdoor wedding arbor nestled among the wine grapes. In the full bloom of summer, the quaint wedding site can't be seen from the road, making it romantic and private. Over the years, the Hubers have hosted many dignitaries in the banquet facilities, including politicians running for major offices.

Huber's Web site (See page 172) lists more than seven attractions for the curious visitor to explore, including a children's farm park, the Starlight Café, the Bakery, an ice cream factory and cheese shop, the Loft Tasting Bar and Gift Shoppe, the Plantation Hall for banquets and events, and the Starlight Distillery. The list keeps growing, as Ted and Greg continue to brainstorm new ventures.

The farm grows an absolute plethora of berries and other fruits and vegetables, which are sold through the on-site market. Customers may also pick their own produce, including pumpkins and grapes, and cut their own Christmas trees. Every crop is utilized to its fullest capacity; crops are either sold fresh to customers in season or are used in the café or for catering.

Only one product — wine, which is distributed to a few stores — is sold wholesale.



Beyond the pond is Huber's famous barn, which houses the café, gift shop and winery, cellar, and tasting rooms.



A neat row of stainless steel tanks located in Huber's spotless wine cellar houses the future vintages of their many wine varietals.

Huber's presents the overall image of a business and its customers who are enjoying the good country life. Ted feels that this is especially important for the visitor who drives out from the city for a visit. "We've been doing agri-tourism for a very long time. Now we're adding things like hayrides, animals, and various mazes to give a whole farm experience," he says. A typical afternoon could include kids playing in the children's area while parents sit in the picnic area enjoying a bottle of chilled wine and a nice cheese plate by the stocked pond.

The Hubers' business model has been rather successful; almost 600,000 visitors visit the retail shops each season. Their facility is ranked anywhere from 4th to 6th place (depending on the organization doing the ranking) in the top tourist rankings for the greater Louisville, Kentucky, area. The farm is ranked among the top 20 tourist destinations for the state. The company is tremendously popular with a nearby metropolitan area: "Louisville is our biggest customer," Ted says, "because we are actually 'local' for them and because many of those people are able to come out multiple times per year."

Exceptional product quality and product diversity allow the farm to function year-round, actually adding employees in the fall instead of closing. Conducting business year-round offers better financial stability for the families and the more than 120 seasonal employees involved, which contributes to a more stable and higher-quality labor force.

How Did They Do It?

The Hubers are immersed in marketing themselves, continuously seeking creative and cost-effective ways to spread the word about their farm. Besides employing a focused marketing and advertising effort in the Louisville area and doing major television advertising campaigns around seasonal holidays, the Hubers seek out long-term options and the chance to meet potential customers face-to-face. "Marketing is very complicated. You don't necessarily see your results immediately; it can take as long as 10 years!" says Ted with conviction. For him, successful marketing involves two things: diversity and off-site events.

“The Midwest palate as far as wine goes has changed over the last 10 years, and there are more and more wine festivals in Indiana,” Ted says of the company’s renewed focus on taking some of the product off-site. Wine events are becoming increasingly successful for the farm. “With our license, we can taste, serve, and sell at 30 off-site events per year. We’re also doing wine maker dinners with certain restaurants. We try to use these [off-site tastings] so people can experience the wine, and we want to draw people to the winery,” Ted says.

Doing festivals and offering samples is also a good way to encourage customers to sign up for the mailing list or join the wine club. The festivals are driving sales for Huber’s, while not adding advertising costs to their annual budget. (Other than the cost of travel, the other costs are incurred ordinarily at the winery, including the staff who are already hired, and shipping costs which are incurred whenever someone orders product.)

Huber’s also draws visitors by being a stop along the Uplands Wine Trail — Indiana’s first wine trail, which runs through south-central Indiana. Brochures featuring Huber’s and other wineries on the trail can be found in visitor centers throughout the state. Each year, the trail brings new customers who want to make a day or a weekend out of visiting a group of recommended wineries.

The Hubers know that any positive recognition translates into increased sales, especially from discriminating customers like wine drinkers. So, the Hubers enter contests to place their wines in competition with peers from all over the United States. This tactic has certainly worked: The winery has achieved over 900 gold, silver, and bronze awards from wine competitions nationwide. With this achievement, the operation shows no signs of leveling and will continue to face down the competition at national wine events every year.

Though Ted believes in the importance of advertising and spends money each year to conduct campaigns to bring in customers, the emphasis that he and Dana place on creative, low-cost alternatives pays off.

The Lifestyle

The pace of life at Huber's never appears to be slow, even in the winter. During colder months, local diners use the café, and the banquet facilities are always leased out. While there are no fresh fruits and vegetables, many people still descend upon the property to enjoy the picturesque scenery and purchase wines. February and March are actually two of Ted's favorite months because he conducts the final blending on the previous fall's grape varieties.

No matter the season, the Huber family are always close to the action and the customers. Ted, Dana, and their children actually live in a house on the property not 30 yards from the retail barn and café! With this in mind, Ted knows he's always "on" for the customer — on good days and on bad. "If you don't enjoy getting up in the morning and doing this, your business will fail. Look at your lifestyle. Does your business fit it? If not, back away," he says seriously.

"A lot of people are in and out of the business very quickly because they have a hard time with people. ... The big thing is to be able to deal with the fact that other people don't have the respect that you do for your own farm," Ted says. If a producer isn't sure he or she can handle dealing with the people, he or she should not open a farm-store location, Ted cautions. It is important to live the life you want; the Hubers live their lives with a gusto that Simon Huber would certainly be proud of.

The Huber Family's Tips for a Successful First Year

- Realize that not every customer will respect your farm as much as you do.
- Use free marketing ideas, such as attending off-site festivals to cut down marketing and advertising costs and meet potential customers face-to-face.
- Be a people person, or hire one.
- Enjoy getting up in the morning to work your small-farm venture.
- Don't let customers know about your personal bad days.



10

REFLECT AND REVISE



Pa and Uncle Henry were working very hard, because the air was so heavy and hot and still that they expected rain. The oats were ripe, and if they were not cut and in the shock before rain came, the crop would be lost. Then Uncle Henry's horses would be hungry all winter.

— Laura Ingalls Wilder, *Little House in the Big Woods*

You'll soon begin your first year in business, if you haven't already. It's a wonderful journey, but as you may have already seen, there will be days like the one Uncle Henry and Pa dealt with in the timeless children's classic *Little House in the Big Woods*. As a small-farm entrepreneur, I know you are working to realize a dream for yourself and your family. There will always be days when "the oats are ripe" and you must harvest and glean in

haste, and there will be days when you'll find time for reflection and joy in your newfound freedom.

How do you have a great first year? This will depend largely on your particular industry and circumstances. However, there are a few consistent facts about starting a small-farm business, which I have listed at right. I wish someone had shared these with me when I started, because with that knowledge, I know I would have enjoyed a stronger first year in business and been better positioned for years two and three.

Tips for a Great First Year

- Start with a strong plan.
- Research and verify that your concept is a viable business.
- Consider all options — whether it's financing, marketing, or advertising — for your business before proceeding.
- Know your limitations, be they financial, time-related, or labor-related, and don't over-commit, especially at first.
- Have a backup plan if at first something doesn't work out.
- Believe in yourself and your company; stay confident.
- Realize that money isn't made instantly; have a solid plan to finance the rest of your life while you build your business.
- Plan to allow three to five years to become independently profitable.
- Celebrate every success.
- Learn from every failure.

Years Two through Five

When the first year is over, a major hurdle has been crossed. This is the time to assess the first year's successes and failures. Once you've thoroughly evaluated the first year in business, you may find yourself ready to add, grow, or change. Success starts with a strong first year, but the second through fifth years are considered by many accountants (including mine, let me tell you!) to be the make-it or break-it period. While they

deserve at least another whole volume, I want to address these critical years.

I'll provide some guidelines to help you start thinking about the future of your business and the topics you'll want to address — some in advance, others rather immediately — as you approach year two. I'll cover eleven commonly seen issues that arise as growth begins. Though this chapter will help you get started planning, it is not an exhaustive source for advice about the early growth years of your company.

BUILDING ONTO YOUR BUSINESS PLAN

As you review the first year's business plan and actual activities, look for both positive and negative outcomes, as these will help you decide what to do in the future. The end of the year is also a time (as you'll recall from [chapter 1](#)) to add to your business plan, writing down your goals and agenda for the next year. Make changes and additions to your plan using the same format as you created originally. Also, spend more time now looking ahead to the future and build an ambitious and attainable five-year plan.

Things to Avoid the First Year

- Don't get too big too fast.
- Don't spend too much money.
- Don't stray from your mission, unless you've got a really good reason and can justify it.
- Don't forget to review the first year; plan how to improve.

Tips on Changing Prices

Raising price. Raise prices slowly, not across the board, at first. Also, let your customers know why prices are changing, and the benefits or changes they will see. Invite their feedback and encourage their support of your business. Many customers are supportive of price increases when they

feel their hard-working farm vendor needs to make more money or has incurred more costs.

Lowering prices. Make lowering your price a public relations opportunity for your business. By portraying your company as the good guys, you may see sharply increased sales on the items with newly reduced prices and develop a customer base for that item at the new price point.

One caveat to lowering price: Be certain to stress the product's continued quality through the price shift; you don't want customers to view the lower price as a decline in quality or consistency!

Your five-year plan is similar to your initial business plan but should be more specific and more goal-oriented due to your experience. Items for your five-year plan include:

- Sales goals and a target sales growth percentage for each year.
- Production goals such as product changes and changes to manufacturing, design, or packaging.
- Distribution goals, such as the addition or subtraction of venues.
- The amount of earnings distributed or salaries paid to you and your employees.
- Acquisitions and build-outs (and their costs), such as adding onto existing structures, buying a property, or leasing a storefront.
- Marketing goals, such as being featured in magazines or on local TV.

CHANGING PRICE

The question of how to best price your products is one of the trickiest issues that many small-farm entrepreneurs face. Depending upon how well your initial pricing scheme fared in the marketplace, you may face reevaluating the topic of price relatively soon. The key, of course, is to price for the market — neither too high nor too low.

I've found that pricing all products based on the same profit margin doesn't always work because one product may have developed a higher value than another in the marketplace, enabling it to sell for more money. If a product seems too cheap to you and your customers, it probably is, in which case raising the price seems to be the obvious solution. However,

changing prices across the board can be challenging, so I suggest the following brief guidelines.

CHANGING YOUR PRODUCT LINE

As your business grows, you will quickly find it necessary to change and upgrade your products. This, in theory, is a natural expression of your maturity as an entrepreneur. It's also an example of how you're beginning to learn and understand your market, which is vitally important in years two through five. But before you begin any changes, be cautious. If you change things like packaging, labels, and subcontractors every time you have a new idea or something goes wrong, you will actually hurt your chances of building up your brand in the marketplace.

Here are some questions to ask yourself as you consider changing products:

- Will these new or changed products improve my sales and bottom line?
- Will these new or changed products add to my appeal with current customers?
- Will these new or changed products broaden my appeal to new customers or foster a larger customer base?
- Can I handle the distribution, setup costs, inventory, or added labor?
- What's my major motivation to do this? Is it my own experience, intuition, or customer feedback?
- How will my brand and image change in the marketplace if I add or change products? Do I want that change and can my business handle it effectively?

HANDLING CUSTOMER COMPLAINTS, RETURNS, AND CREDITS

It's inevitable, for as many customers who are pleased, there will always be that small percentage who cannot be satisfied and will complain. However, complaints can certainly be legitimate, too, such as if you've accidentally delivered the wrong product or one with a flaw. These things will happen; there is no company, no matter how careful, that can prevent complaints and minor problems 100 percent of the time.

Here are some tips for dealing with customer complaints:

- Institute a return and credit policy and stick with it whenever possible.
- Issue a credit or handle a return in a timely manner.
- Evaluate each complaint or problem individually.
- If the complaint is valid and the fault is with your company, be exceedingly helpful to ensure that the customer's experience stays positive.
- If the complaint is not valid, handle the situation sensitively but without taking blame for something that is not your problem. Don't accept responsibility for an unfounded complaint.
- If the customer is hostile, do what you can to defuse the problem; often the customer just wants to feel as though you care about his opinion.
- If you can't defuse the situation and the customer continues to be hostile or insulting, don't put up with it; ask the customer to move on. Realize that there are times when you really *don't* want someone's business.

A Little Carrot

When I conduct a customer survey or ask for a testimonial, I always give my customers a little thank-you gift. Ideas include a credit or coupon toward their purchases; a small gift related to your business (of a \$5 to \$10 value, or whatever you can afford); or some kind of recognition, such as being listed in your newsletter or being asked to join your advisory board.

LEARNING HOW TO RETAIN CUSTOMERS

Give the customers what they want and they'll keep coming back. It's as simple as that — at least most of the time! The best way to keep customers *is* to sell them a consistent, high-quality product. But people change. To make sure you can change with your customers, consider conducting some simple market research again to stay current with your customers' preferences, price points, and demographics. There is no rule of thumb about the length of interval one should consider between market research initiatives. It would be useful to conduct market research at least every year or two. One idea is to distribute a customer satisfaction survey at the close of business each year. See [chapter 2](#) for market research methods and tips.

ADDING EMPLOYEES

While many businesses require employees from the start, numerous small-farm ventures begin with just one or two people who are typically family members. One possible side effect of expansion and growth is that the initial labor resources may no longer be enough to meet demand. Entrepreneurs may also find that their time would be better spent making sales calls and working with the public rather than doing menial labor or completing simple tasks that are still daily essentials. The solution to these problems is to add employees. On the next page are several things that rookie employers should do when they add new people.

- Know the minimum wage and employment age and adhere to these rules. Ask your attorney for more information, and for help locating resources on employment law and rules.

- Talk with your accountant or go online to the IRS and your state's Web sites to locate all employee tax forms.
- Complete tax forms and be certain to maintain copies of them, as well as copies of employee identification.
- Realize that you're now responsible for monthly withholding deposits for your employees. Be sure to take time to learn these requirements and follow them. There are pricey penalties for overlooking the details — even if by accident.
- Decide specifically what you want your new employees to do. Create a job description.
- Interview employees thoroughly. This is critical. Don't just hire someone because you've known him or her personally; be certain he or she fits your job description.
- Set goals and targets for employees and review their performance at regular intervals, such as every six months. Review performance at least once a year and keep written records.
- If you have to fire someone, prepare specific reasons for the termination to avoid potential lawsuits. Document problems the employee created and keep those in the employee's file.
- Realize that you may be forced to pay unemployment for former employees or those you lay off seasonally. Be prepared to pay these dollars out of pocket.

LEAVING OFF-FARM EMPLOYMENT

Sometime between your first day and your second year in business two big questions will come up: Can I afford to leave my job? Can my venture afford it if I don't? This is one of the biggest decisions you will make in your career as a small-farm entrepreneur. For some, the decision is easy and

straightforward; for others, it's absolutely agonizing. Either way, this is a critical decision because it will impact the direction of your company and its growth potential forever.

Realize first that you may never have to leave in-town employment to have a successful small-farm venture. You may want a small or seasonal business that revolves around a schedule to which you are already accustomed. For many families, though, it's *part of* the dream to leave off-farm employment and become self-sustaining. If that's where you're headed, take a look at these suggestions:

What If I Hit a Plateau?

Sometimes, around year two or three, businesses can hit a wall or a plateau. Often the cause is simple: too much work and not enough reflection or planning. Or a business could be growing quickly in some areas, but customer service or some other key area has slackened.

Regardless of the problem, if you've noticed an issue such as a decline in sales when you feel that sales should be strong, it's time to take a break and really assess what's going on. Is the problem a short-term slipup on your part or a larger industry or demographic change? Don't let concerns like these linger; address them immediately and seek help to implement changes.

- If you want to leave, do it with class and don't burn the bridge — no matter *how* tempting.
- If you can, consider consulting or working part-time for your employer as you wean off the off-farm income.
- Learn to live smaller. Make a budget for your home life.
- As you prepare to quit your job, reduce unnecessary expenses. Some ideas include limiting clubs and memberships, magazine subscriptions, dry-cleaning, lawn service, and housekeeping services.

- Consider selling something to generate cash, such as a vehicle that you used to commute to town or equipment or supplies formerly needed for your town job.
- Pay off high-cost debt, such as credit cards, before you quit your job.
- Most importantly, take your time when leaving — don't quit too quickly.

PLANNING FOR RETIREMENT

In deference to my background as a financial planner, I urge you not to forget the now-famous adage: pay yourself first. Don't neglect planning for retirement, even as you stretch your financial resources to start your small-farm venture. There are many, many wonderful financial planning strategies out there involving truly inexpensive ways to put tax-deferred money away for later use. The following are some tips for making financial planning feasible during the growth years.

- Educate yourself through reading, conducting research, or consulting with a trained professional.
- Understand and decide whether to accept or avoid the risks and potential rewards of all investing strategies.
- Start a program that uses monthly automatic deposits so you'll never have to rely on yourself to make the investment manually.
- Start with a small amount, such as \$50 per month, and increase the amount gradually at appropriate intervals.

Covering Two Bases

Working with a qualified life insurance agent can help you meet two of your future planning goals by combining retirement planning with cash-

value life insurance. This strategy isn't appropriate for every farm family, but it is worth asking about.

PLANNING FOR INSURANCE

If you've left your job and no one else in your household works off the farm, you're probably already aware of the need for health and life insurance. If you've added employees, this discussion is relevant because offering insurance coverage is one way to retain quality employees. You may also want to offer to pay insurance premiums in lieu of additional cash pay as a way to supplement an employee's wages.

Insurance is complicated, ever-changing, and expensive, so I personally suggest dealing with a reputable agent. Once you find one you can trust, allow him or her to spend the time to research quotes and prospective insurance companies. As you plan for the next few years, consider building in insurance costs, including annual premium increases suggested by your agent.

PLANNING FINANCIAL STRATEGIES FOR EXPANSION

Once you've clearly identified future goals, you may find yourself needing additional cash to meet these exciting challenges. After deciding how much money you'll actually need for operations or expansion, you should revisit your initial funding sources, whether they were a family member or a bank, personal funds, or a grant. Ask yourself if your initial funding sources were successful and how you would change your approach to financing this time.

If you had a negative experience the first time, such as being turned down for a loan or grant, take heart; institutions may now be willing to work with you since you have established a track record, have an active customer base, and have recurring sales. Your situation now, since you've completed your first year in business, is different — you can prove who you are and what you do — so your approach to financing must be different, too. Here are some things you'll need for successful acquisition of funds.

- Profit and loss statement.

- Statement of financial position, including new assets you've acquired for the business.
- Monthly cash flow sheet (this can be as simple as just showing actual sales each month).
- Revised business plan showing goals and targets.
- Description outlining how you'll use the additional funds and your expected return on investment.
- Marketing materials and good press you've received.
- Customer testimonials.

CONTINUING EDUCATION, ESTABLISHING CERTIFICATION, AND GAINING KNOWLEDGE

The last thing you may be thinking about at the start of your second year is adding more things to your plate, but I would challenge you to do this. It's difficult to make time for everything, but continuing to build your knowledge base and expertise is vital to staying fresh and current. Also, it's important to network with peers and gain essential knowledge that is gleaned only from experience. And besides, being around others every now and then to commiserate and share joys is just plain fun.



Stay fresh and current by continuing to build your knowledge base and expertise.

Think about what you need to learn and why that will benefit the company. Are there classes you can take, materials or resources you can borrow or buy, or associations that you might care to join? Also, take a look at certifications, such as USDA Certified Organic, and evaluate whether adding those is an advantage. Adding a certification may improve your marketability or credibility, for example.

Finally, consider a factor we cattle folks call being “barn blind.” That is, if you’re always at home, around your products or animals and your people, you might not be able to accurately judge how your wares compare with those of your peers in the marketplace. Being barn blind is dangerous; it can make you stagnant, ordinary, or worse — it can lead to burnout. Don’t let this happen; seek the outside world. You’ll be glad you did!

Reflect and Revise

SUMMING UP

❖ **Assess your successes and failures after your first year in business.**

❖ **At the end of every year, write down your goals and agendas for the following year and make changes and additions to your business document.**

❖ **Build a more specific, goal-oriented five-year plan.**

❖ **Be cautious about changing the look of your products or raising their prices.**

❖ **Conduct periodic market research to stay current with your customers’ preferences.**

❖ Think carefully before hiring new people and make sure you have the appropriate papers and know the rules and regulations.

❖ If you notice your business has hit a plateau, take time to evaluate what is going on.

❖ Don't neglect planning for retirement.

❖ Continue to build your knowledge base and expertise.

Mike and Sally Gale | Petaluma, California Chileno Valley Ranch



MIKE AND SALLY GALE are the owners and inhabitants, but perhaps more importantly, the caregivers and preservers of the historic Chileno Valley Ranch near Petaluma, California. What began in 1993 as a massive restoration project of the ranch that had been in Sally's family since 1862 has now become the home of several ranch-based businesses operated by the Gales.

Sally was raised in the Sierra Nevada Mountains, where her dad was in the forest service, and the Gales raised their children in Hawaii. Although engaged in careers completely apart from agriculture, they have taken quite naturally to their lifestyle as full-time ranchers of the 600-acre spread that runs along the Chileno Creek.

About 100 head of Angus cows roam the ranch. In 1999, Mike and Sally sold their first load of beef through a traditional beef broker but soon decided that they were more comfortable raising the animals from birth to harvest on the ranch, rather than shipping live cattle off the farm for processing. This way, the Gales believe that they reduce their animals' stress levels by not making them take a long truck ride just before slaughter. They began direct-marketing beef animals and by 2000, Chileno Natural Beef was born. Now about 70 head are sold each year to customers around the state of California.

“We make twice as much money selling direct rather than selling to a feed lot. There is more risk, and we keep the animals longer, but it pays off in the end,” Sally says, noting that customers often come to them by searching the Internet. Most customers are looking for specific things, such as grass-fed, humane treatment, and animals that aren’t stressed during long truck rides from farm to feedlot. To better serve their customers, as well as themselves, the Gales helped to establish grass-fed beef standards for Marin County, where they live.

The ranch is USDA-certified organic; however, the cattle are not, simply because animal health concerns in their area merit parasite treatments not permitted in the National Organic Program. “We do treat for parasites and the customer seems to appreciate that we do that,” Mike says, adding that the cattle are raised without added hormones.

A Unique Approach

While raising natural beef has become common throughout the country, Mike and Sally’s approach is different from the rest. “I don’t know of anyone else doing this the way we do,” Mike says with pride. The animals are pre-sold in January to customers who may purchase a split-quarter, a half, or the whole animal, and then the animals are harvested May through October. All animals are slaughtered on the ranch by a man who does custom harvesting of beef. After slaughter, the beef are trucked to a nearby butcher shop where the meat is aged 14 days, then cut and packaged. The customer picks up his or her meat directly from the butcher shop.

The Gales never touch the finished product and don’t have to worry about marketing all parts of the beef animal; the customer gets everything from high-end filets to soup bones. “We could possibly get more if we sold beef cuts, but we like doing it in this niche,” Sally explains. “People really need to find their own niches and work out the wrinkles. This works for us; we always sell out and we cannot satisfy the market.”

While the butcher shop is a state-inspected facility, the Gales’ ranch is not. They are able to comply with state inspection standards and regulations because on-farm slaughter is allowed for personal use. When the customer (or customers) purchases the live animal in advance of slaughter, that

customer now owns the animal and the Gales act as their agent, simply allowing slaughter to take place on their farm for the (new) owner's personal use.

Restoration Efforts Lead to a Business Opportunity

Sally Gale's great-great-grandfather, Charles Martin, bought the ranch in 1862. In 1883, he built an Italianate addition to the ranch house. A century later, this once-grand house was in ruins (visit the Chileno Valley Ranch Web site to view the dramatic before and after photos). Contractors advised the Gales to tear down the house, but for emotional reasons, they instead decided to restore this piece of Sally's heritage.

The rebuilding effort at the outset wasn't intended to lead to a growing business. "When we started rebuilding the ranch six years ago, we weren't so much interested in growth; we wanted to maintain the ranch," Sally Gale says. A bed and breakfast seemed like a good use of the large house however, and after countless hours of hard work restoring the Italianate Victorian ranch home, the Gales were able to open a bed and breakfast in 1998. "We realized when we started to restore this house that the kids [their three grown children] wouldn't be back to live and this house seemed too big for two people. We realized the B and B had to be a destination idea and also that for many people the opportunity to stay in a restored Victorian was a draw," Mike recalls.

The Gales had no more experience operating a bed and breakfast than they did running a ranch, but that didn't deter them. "We had friends in the B and B business and they agreed to refer their overflow guests to us. It actually started even before the last room was completed," Mike says of their foray into the bed and breakfast business.



Mike Gale looks at ease in the foreground of one of the pastures on his 600-acre spread, where about 100 head of Angus cattle roam.



The refreshing sight of fruit trees at bud break greets visitors and residents alike at Chileno Valley Ranch every spring.

For eight years, the bed and breakfast was a tourist destination for people from Silicon Valley who wanted to escape the city and enjoy the outdoors. At first the B and B was profitable; Mike recalled one month where they made over \$8,000 just on the four rooms and one cottage that

housed guests seasonally each year. “One attraction for us was young, affluent couples with children. They could use the cottage and have privacy while the family didn’t disturb other guests,” Mike explains. Overall, people came to the bed and breakfast for diverse reasons; some people were just passing through and others came to be on the ranch.

By the early years of the twenty-first century, the economic climate began to change, causing Mike and Sally’s occupancy rates to decline and their patience to wane. “When the dot-com bubble burst, this became a much different business. People from the south just didn’t come up for weekends away as much — in fact, many of those people just left California,” Mike remembers.

The Gales slowly realized that their B and B lifestyle was coming to an end, for a variety of reasons. They missed many of the activities they were involved with on weekends before the B and B days, and both Mike and Sally wanted more freedom to visit with aging parents and new grandchildren as they arrived.

As October 2005 approached, Mike and Sally decided to close the bed and breakfast and forgo plans to reopen in the spring. “We were actually relieved when we didn’t have to open in the spring; in a way the B and B had run its course,” Mike said.

Sally’s efforts to restore the ranch continue, however. Sally is working on the restoration of the bed of the Chileno Creek, which runs through their operation. “We’ve fenced off the creek from the cows and planted native trees. We’ve been able to use grant money aimed at improving natural habitat,” Sally notes proudly.

Finding Balance with Experience

During their time as ranchers and bed and breakfast owners, the Gales continued to diversify. Orchards were added to the property by the winter of 2000. The Gales originally planted many types of fruit trees that they liked, but when only apples and pears lived, they learned what worked and what didn’t. Now the ranch boasts more than 300 semi-dwarf apple trees and about 50 pear trees, from which customers can pick their own fruit in the

fall. Their apples are also sold through several farmers' markets and stores in the area.

While the bed and breakfast does not operate daily, it's hardly closed for good. Mike and Sally have found yet another niche that works well for them: weddings and hosting art events. Sally has an interest in art, and is a Plein Air painter herself. The extensive natural landscape of the ranch is a good location for Plein Air workshops, where people come to paint outdoors. "Art workshops are a substitute for the full-time B and B. We've got 16 students and a teacher here right now," Mike says with a laugh, noting that during our conversation the group was gone on an all-day field trip, leaving him with a bit of appreciated peace and quiet.

In 2007, five weddings were held on the ranch. Mike and Sally like weddings because all of the rooms must be booked, as well as the barn (for receptions). They don't even have to do the cooking because people hire their own caterers. And because weddings are booked far in advance, they know what their schedule is for the week and can leave to visit the grandkids if they are free. While the fit is great, hosting weddings wasn't even something the couple planned to do. "It happened as a segue; it wasn't really an epiphany — people just wanted to get married here," Mike notes.

It would seem as though the Gales have more than enough to keep them busy, but they didn't diversify into everything at once. "It's important not to [start out with too many things]. You may have a vision, but you need to know the lay of the land and learn things, like what everybody else has done and failed at," Mike says.

The Gales like hosting events and plan to continue making the business work for them. Next year, weddings and workshops will be limited to an even shorter period of the year — just May and June — due to a desire for more freedom, and because natural limitations can sometimes stretch the ranch. "This is partly due to our climate," Mike explains. "We have water here in the spring. I don't know what we'll have (for water resources) by September and October."

Living a satisfying life is about finding balance, an enigma that doesn't seem to elude the Gales any longer. Besides working on the ranch, they fill their hours with political and social activities in their county. Mike serves as president of the Marin County Farm Bureau while Sally is a director of the Resource Conservation District. "We're about maintaining and expanding the operation, but not exponentially!" Mike says emphatically.

Their particular combination of activities is working for Mike and Sally, and while business ebbs and flows, Mike is comfortable with their commitment to marketing and selling top-quality goods and services to the consumer. “The only way to survive is direct-market. Customer-driven, niche marketing is the way to go” he says. As life changes fast on the ranch, one thing remains certain: because of the Gales’ commitment, Chileno Valley Ranch will endure.

Mike and Sally’s Tips for a Successful First Year

- Don’t become involved in too many enterprises at once; start to diversify into more ventures over time.
- Take time to research other people’s successes and mistakes; learn to identify and avoid the things that may not work in your home area.
- Find your own niche and do what you do well.
- Involve yourself in what you believe in.



EPILOGUE

I'll close this book the same way I opened it by saying that success really depends on you. That isn't a cop-out; it's the truth. When you begin your small-farm venture, you are your own boss. You may be reluctant to seek someone else's counsel about what to do and how to become profitable. Everything I included in this book I have learned from experience. As you read the profiles of our colleagues in small agriculture businesses, you probably noticed that their comments were based on experience as well.

You'll learn through your own experience which ideas in this book work for your operation. Seek your personal path to success. With the help of good planning, strong instincts, and solid ideas that create cash flow, you'll live your dream — I know it.

APPENDIX A

Business Plan

Below is a draft of the original business plan documents for the author's company, Aubrey's Natural Meats, LLC.

BUSINESS VISION AND EXECUTIVE SUMMARY

In the creation of Aubrey's Natural Meats, LLC, Indiana's premium beef, an innovative approach at providing a high-quality, safe meat product has been developed. We provide a supply of choice beef to the small gourmet retailer and independently managed high-end steakhouse. This natural product allows our customer a dynamic marketing opportunity with both retail and restaurant end-customers. We believe the natural and organic movement in foodstuffs is growing and will continue to gain in mainstream acceptance. Our clients can proudly say the beef they sell is from cattle that are:

- Never given steroids or growth hormones.
- Never given antibiotics.
- Raised in the Midwest, currently all in Indiana. We know exactly where they come from and who the producers are that feed the stock.
- Harvested humanely and processed by one local processor who is federal- and state-inspected, a regular recipient of exceptional ratings for health and sanitation, responsible for completely converting our operation, and devoted to our all-natural philosophy.
- Safe to eat. Because our cattle are never fed animal proteins, the isolated cause of Mad Cow Disease, our customer never has to fear eating beef again.

Besides employing the highest standards in raising our animals, our customers can enjoy the personal touch of quality and service. Our customers are buying:

- Choice beef. Our steaks, sirloins and roasts are Choice, the USDA standard recognized by restaurants, consumers, and retailers as the official mark of tender eating quality.
- Eating quality that is impeccable and much more consistent than mass-produced brands. Because we touch every aspect of production from feeding to trucking, harvesting, cutting, and packaging, we can personally assure the integrity of our product.
- A premium product for a higher margin at retail.
- An innovative future. We are working with producers who are using high-tech DNA testing to uncover tenderness genes in certain cattle that will better allow us to select for quality meat before animals are harvested.
- Relative exclusivity; we select only the best retailers who will share our vision and commitment to quality and food safety for customers who are willing to pay a premium.
- Custom cut and packaged meat without additional cost. Our clients specify how they'd prefer meat packaged and cut for their individual use.
- One contact for delivery and sales.

We seek to attain several goals as we tempt the palates of even the most discriminating customers:

- Distribute to at least 25 restaurants in the first six months.
- Create a reoccurring (e-mail based) customer list.
- Become distributed statewide by the end of the second year in business.

RELEVANT BACKGROUND

While the brick and mortar plans for Aubrey's Natural Meats are now being laid, the company has truly been years in the making for its founder, Sarah Aubrey. Mrs. Aubrey has been involved in the livestock business since childhood, and along with her husband, Cary Aubrey, continues today to raise and market live cattle. Mrs. Aubrey judged for three years with the University of Illinois Meats Judging, Livestock Judging, and Meat Animal Evaluation teams. Among other awards, at the National Contest she was named the sixth highest individual overall (out of 242) and was the sixth highest individual in meat grading. Further, along with her degree in agricultural communications, she has a minor in animal sciences from the University of Illinois. Since college, she has focused primarily on business and finance. From 1999 to 2001, Mrs. Aubrey worked in corporate strategic planning with food and agricultural companies and, since 2001, she has been running her own financial planning practice and now manages more than \$40 million in assets.

Mr. Aubrey also possesses much relevant experience. He is the agricultural teacher for Frankton and Lapel High School, where he coaches the livestock judging team. He also judges numerous regional cattle shows each year. Thus, he is highly competent in live fed-cattle procurement intended for high-quality meat. Prior to teaching, Mr. Aubrey spent 10 years being self-employed in the cattle business. Finally, Mr. Aubrey has retailing and sales experience from his employment with a small family business.

PRODUCTS OFFERED

We will offer our premium steaks, hamburger, roast beef, and gourmet beef snacks through white-tablecloth restaurants that share our vision of providing consumers with a safe and delicious eating experience. Aubrey's Natural Meats will also be offered through key gourmet and natural retail stores so that the entire public will have an opportunity to purchase our meat for their families. Select grade meat and lower will be used to make ground beef, beef for stewing, beef snacks (including one-ounce sticks, salami, sausage, and beef jerky), and pastrami luncheon meat. Our products will also be available for mail order online. Products will be fresh and packaged in clear, vacuum-sealed bags. A state-approved label will be

designed especially for Aubrey's Natural Meats. Customized cuts will be offered by order on a weekly basis.

Choice Carcass

High-quality branded primal meats (Choice plus strip loins, tenderloins, rib eyes, porterhouses, sirloins)

Choice hamburger

Gourmet deli roast beef and pastrami Roasts, bottom sirloins, etc.

Briskets

Gift baskets or special orders

Select and No-Roll Carcass

Hamburger, fresh and frozen patties

Snack sticks, 1-ounce

Beef jerky, various flavors

Salami and smoked sausages

Roasts

Stew meats

Briskets

Gift baskets or special orders

Renderings

All-natural pet treats

Pricing is determined by the USDA agricultural markets, as reported twice daily on the Agricultural Marketing Service Web site (see Resource section for Web address). Prices will change daily. With the AMS price as the base, we will add a premium over that price for our product. The premium amount (50–100 percent mark-up) is determined on a product-by-product basis.

There are no strong competitors for Aubrey's Natural Meats at the local, regional, or even state level. Using Internet searches, as well as conversations with people from the Cooperative Extension Service and from Purdue University, we could not identify competitors who were doing more than selling frozen beef or serving one or two local farmer's markets in their home area. With ANM's statewide focus on premium quality, we are unique by design.

TARGET CLIENTELE AND TARGET MARKET NICHE

As mentioned in the Business Vision section of the plan, our customer is the white-tablecloth restaurant and the gourmet or health-oriented retailer. The end consumer is also a customer. At retail, the target customer is a 25- to 55-year-old middle-class to affluent female, single or with a family. We expect her to be interested in the product for three reasons: health/diet, food safety, and because natural foods are trendsetting.

At the restaurant, our end customer is more likely an upper middle-class to upper class affluent male ages 30 to 65, who pays a premium for an excellent piece of meat and the peace of mind that the food is wholesome.

GOALS AND OBJECTIVES

The numbers below indicate the needed customers for start-up if selling approximately 30 head per week:

- Three to five restaurants buying five to ten head worth of primal cuts weekly.
- One gourmet retailer buying the weekly remainder of beef at wholesale as well as an additional 10 to 20 head per week.
- Total pounds of product moved per week, start-up: 13,500.

Short-term Goals for Years One and Two

Develop a Web site by the third quarter of 2004 and do e-commerce shipping everywhere.

- Create exclusive relationships to supply Montage catering and Kahn's deli by the third quarter of 2004.
- Launch aggressive marketing and media awareness by the fourth quarter of 2004, targeting media such as: *The Good Life*, Indiana PBS program; *Indianapolis Monthly* magazine, *Indianapolis Dine* magazine; *Indianapolis Star and Business Journal*; *Anderson Herald, Noblesville Ledger*, and other municipal papers; various regional food publications; and *Life in the Midwest* magazine. Secure article placement for human-interest stories in health, fitness, and lifestyle magazines nationally.
- Grow to five to ten restaurants in the first 12 months.
- Grow retail business to two additional small gourmet chains in first 12 months.
- With Kahn's, add another retail location we run in first 18 months.
- Add all-natural pork and chicken by the holiday season of 2004, if needed, or anytime during years one and two.
- Become profitable so that a truck driver for both live cattle and meat deliveries can be hired by September 2004.
- Increase sales by 20 percent by the end of the second year.

Long-Term Goals and Objectives

Expand sales in retail to our own line of stores in Indiana, similar to old meat-market type or franchise the retail stores nationwide.

- Experience sales growth of at least 20 percent each year through building supply relationships.
- If there is a demand, add at anytime exotic gourmet meats to our retail offerings.
- Expand regionally within two years (by 2006) by contracting with national retail chains.

- Become a supplier for a national or small high-quality restaurant chain within three years (2007).

ACTION PLAN

Daily

- Manage operations (supply and demand for beef) of the company
- Call one or two potential clients each day for new business
- Network with community groups
- Seek opportunities for publicity and free media coverage locally and nationally

Monthly

- Manage all customer relationships
- Update financial data
- Attend industry and community meetings for networking and education

Quarterly

- Revise goal targets
- Visit or network with other successful branded-beef programs

Annually

- Hold directors, and shareholders, meetings
- Update and complete financial data
- Review successes and failures

FINANCIAL DETAILS

Current Assets

Truck and trailer for live cattle	45,000
Test cattle for meat sales (4)	4,490
Processing costs for test	1,070
Transportation and sales costs to date	750
Business cards and marketing materials	500
Professional consultation and entertaining	650
Computer, printer, software, paper	3,250
File Articles of Incorporation for LLC	90
Value of Current Assets	55,800

Additional Capital Required

I. Equipment

Refrigerated truck (seeking term loan financing)	12,000 to 17,000
Cryovac machine	1,500 to 2,000

II. Cattle procurement

Cost per head	1,000/head
Dollars retained for procurement (via line of credit)	100,000

III. Transportation Costs (during start-up)

Fuel	1,000
Maintenance	500

IV. Marketing Materials.....	3,000
V. Licensing and State/Federal requirements	
Board of Health	150
Merchant's Retail license.....	150
VI. Legal/Accounting/Consultative	
Set up LLC or Incorporate.....	500
Review contracts.....	500
Retail negotiations	1,000
VII. Insurance (first 6 months)	
Liability.....	1,500
Worker's Compensation.....	1,500

Total additional capital required: \$125,000 to \$150,000 (150,000 includes 25,000 of contingency money held in escrow)

Projected First-Year Sales/Revenues

Based on moving a projected 13,500 pounds of beef through restaurant, wholesale, and Internet, per week, at an average price of \$4 per pound, we estimate the following:

Total weekly	\$54,000
Total monthly.....	\$234,000
Total annually.....	\$2,808,000
Annual projected pre-tax income minus expenses	\$826,800

Projected First-Year Expenses

(values are based on moving 13,500 pounds of beef *per week*)

Procurement	30,000
Transportation	600
Processing	7,500
Total weekly	38,100
Total monthly	165,100
Total annual	1,981,200

Pre-tax earnings retained at 30 percent	248,040
Payout to debt on business, to be done quarterly	150,000
Projected pre-tax salary expenses to owners (before bonus)	125,000
Projected business expenses from owners	20,000
Projected employee expenses (2 at \$10/hour/40 hours/week/50 weeks/year)	40,000

Annual dollars retained for taxes to be paid quarterly	\$297,648
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COMPANY MANAGEMENT

Cary and Sarah Aubrey will own the company in the following percentages: Sarah Aubrey, 60 percent; Cary Aubrey, 40 percent. At all times the Aubreys will retain majority ownership in the company. They will jointly share daily company management based upon the following duties:

Cary Aubrey will be director of operations and procurement. Mr. Aubrey's responsibilities will include the following: screening and procurement of live cattle; coordination of all trucking of both live cattle and meat products; driving truck route until a driver can be hired; majority of packaging duties; half-time setting prices for retail and wholesale; half of

the new sales responsibility to restaurants and retail locations; half of the customer relationship management duties. After the summer of 2004, an hourly wage truck driver will be hired so that Mr. Aubrey can be a full-time teacher again.

Sarah Aubrey will be a silent, full partner in the company for the duration of her outside employment. She will, however, serve as president of the board of directors through years one and two. Mrs. Aubrey's responsibilities will include the following: marketing and sales coordination; accounting and financial management; half of the new sales to restaurants and retail stores; half of the customer relationship management; half of the price setting; new product development ideas and execution; legal and regulatory management.

If Mrs. Aubrey ceases outside employment at any time, she will take on the full role of Chief Executive Officer.

A small number of investors (two to five) may be solicited as shareholders and, if they desire, may serve on the initial Board of Directors. All shareholders will have voting rights based upon number of shares owned and all are invited to the annual meeting. After year three, company management will select a new Board of Directors with the input of initial investors and outside council. Initial investors will then be referred to as shareholders but may select to continue service on the Board of Directors. The new board will elect officers each year at the annual meeting. Officers of the Board of Directors will serve a one-year term. Cary and/or Sarah Aubrey will always serve on the Board of Directors in some capacity.

Mr. Aubrey will receive an annual salary of \$75,000 in year one. This salary will be adjusted up or down at the end of year one based upon company success. Also, Mr. Aubrey will receive an executive bonus at the end of year one, and on a quarterly basis after year one. The executive bonus amount will be decided upon by company management and will be in line with the profits of the company each year. If earnings cannot be retained, no executive bonus will be issued. The company will pay for Mr. Aubrey's business expenses. Expenses include, but are not limited to: vehicle fuel, maintenance, and insurance; health and key-person life insurance; and technology needs (phone bills, equipment, and supplies). Finally, Mr. Aubrey will be offered a retirement plan that will be funded at the maximum each year that the company declares a profit.

Mrs. Aubrey will not receive full compensation during her outside employment. She will receive a \$50,000 salary in year one for her part-time contribution to the company. Her salary may be adjusted up or down based upon company profitability after year one. She will not receive benefits, an executive bonus, or a retirement plan unless she ceases outside employment and becomes full-time Chief Executive Officer of the company.

Retained earnings each year will be 30 percent. Adjustments will be made based upon operating capital needs during year one. If more operating capital is required, more earnings will be retained. At this time, investors will receive annual reports and there will be one annual meeting per year. The annual meeting will be set at a later date, but will occur on or near the first anniversary of commencement of operations.

PROSPECT LIST

The Company will rely heavily on direct prospecting and new client referrals during the early months and years of business. A secondary new client development plan will come from networking with food and natural products professionals through trade organizations. A detailed prospect list has been devised from local restaurant trade media and includes:

Restaurants
Retail operations
Key locations

APPENDIX B

Sample Market Research Questionnaire

Modify this questionnaire to fit your product mix.

1. Do you purchase natural or organic beef?

2. If you purchase natural or organic beef, what are your reasons?

Check all that apply:

- Health concerns
- Environmental concerns
- Taste/flavor
- Allergies/reactions to other beef
- For your children, specifically
- Brand preference

3. How often do you purchase natural or organic beef?

Check One:

- Weekly
- Monthly
- On occasion

4. Where do you purchase this product? Check all that apply:

- Natural food store
- Direct from the farmer
- At a farmers' market
- Specialty meat shop
- Chain grocery retailer
- Other

5. If you had the option to buy natural beef directly from the producer, would that interest you? Why or why not?

6. Would you pay more for natural beef than conventional beef?

7. If you answered yes to question 6, at what point is the cost too high? Check one:

- 50 cents more than conventional per pound
- 75 cents more than conventional per pound
- \$1 more than conventional per pound
- Over \$1.25 more than conventional per pound

8. Would you value home delivery of natural beef?

9. If you answered yes to question 8, would you pay a nominal delivery charge for natural beef?

APPENDIX C

Sample Advertising and Marketing Budget for New Business

I. Annual Advertising

A. Run ad in two local papers for two weeks before market at 400 each = 800

B. Run ad in two local papers for two weeks before year-end sale at 400 each = 800

C. Print flyers for 100 locations at .15 each = 15

D. Contribute product to Chili Cook-Off Contest = 150 value

E. Purchase 2,000 logo stickers for packages at .35 each = 700

F. Dollars in retainer for opportunities = 300

Total advertising for first year: \$2,765

II. Annual Marketing Costs

A. Set up Web site (one-time cost) = 2,500

B. Web site annual changes and maintenance costs = 250

C. Purchase 2000 business cards at .25 each = 500

D. Purchase two logo shirts for each of the 3 company members at 20 each = 120

E. Farmers' market season fees for three markets at 75 each = 225

F. Dollars in retainer for opportunities = 300

Total marketing for first year: \$3,895

Total advertising and marketing for first year: \$6,660

APPENDIX D

Press Release/Customer Correspondence

Date:

To:

From:

Re: No orders delivered first 3 weeks of January and new distribution arrangement

It has been a fantastic first year in business! As we look forward to next year, there are several exciting changes we plan to implement. But first, a thank you: As I hope you know, we just couldn't have this business without all of you. We appreciate your willingness to try a new product, work with a new purveyor, and offer something your competitors are not offering. Thanks for serving our product.

Due to our distribution change, during the weeks of January 3, 10, and possibly 17, there will be no deliveries of product. We plan to resume deliveries the week of January 24. Starting at that time, we will begin using a distributor to sell, package, and deliver our products. This company will be our authorized distributor. We are delighted to have them on board. I believe they offer several key benefits to you, our customers:

- Improved available quantities of top-selling items

- Improved cut specs and packaging (including smaller boxes and better bulk packaging)

- More efficient order time

- Weekly truck route

- Access to other products from this distributor

The distributor will be calling to meet you in person and will call to get your weekly order. Our local plant will continue to process, though the distributor will do the custom orders.

We'll also offer a new product. Please call if you are interested in a sample.

Thanks again for your business!

Name
Title
Company

APPENDIX E

Sample Venture Capital Agreement

In the first paragraph, describe the business briefly and refer interested investors to your business plan and other marketing materials for more detail on the company. You don't necessarily need to include the expenses list as is shown here, and could simply include the offer for investors and show what their capital will be used for by including a business plan.

THE NEED FOR VENTURE CAPITAL

Venture capital will be used for all aspects of start-up and early operating costs of the company. Owners will have sole discretion of the use of venture capital funds once they are committed. A listing of specific start-up costs is included in the business plan. The total estimated need is included below. Costs will be kept to an absolute minimum.

I. Equipment.....	15,000 to 22,400
II. Cattle procurement and Processing	
A. Cattle procured for testing and sales.....	4,000
B. Dollars retained to procure cattle.....	80,000
C. Processing for testing and sales.....	800
	Total: \$84,800
III. Transportation Costs (one month)	
A. Fuel and Maintenance.....	1,000
IV. Marketing Materials	
A. Printing.....	5,000
V. Licensing and State/Federal requirements	
A. Board of Health.....	150
B. Board of Animal Health.....	200
	Total: \$350
VI. Legal/Accounting/Consultative	
A. Set up LLC.....	500
B. Review contracts.....	500
C. Retail negotiations.....	1,000
	Total: \$2,000
VII. Insurance (first six months)	
A. Liability.....	1,500
B. Worker's Compensation.....	1,500
	Total: \$3,000
VIII. Lease and set up store (first six months)	
A. Lease.....	12,000
B. Equipment/set up/signage.....	10,000
	Total: \$22,000
IX. Additional nonspecified costs.....	5,000
	Total estimated start-up costs: \$138,150 to \$145,550

OFFER FOR INVESTORS

Shares in the company will be offered through private placement only. Shares in the company will be offered at \$15 each. The minimum purchase is 1,000 shares. Thus, the minimum investment will be \$15,000. A complete prospectus and suitability questionnaire will be available for all investors. The owners have the right to deny investment to anyone without

cause. If interested persons wish to invest further, that will be worked out on an individual basis with owners.

Investors understand this is a start-up venture. Profit is intended but not guaranteed. Investors agree that owners cannot be held liable if no profit or interest is received and if the company does not grow as anticipated. No refund will be paid to investors on their initial contribution to the company. Investors will bear the financial risks of investment for an indefinite period of time.

If the company can retain earnings at 30 percent, investors will be paid prime rate plus 1 percent on their investment at the conclusion of year two. Assuming profitability, following year two, investors will be paid out a dividend on profits. The dividend yield will be determined by management after year two.

Owners may offer a repurchase agreement for all outstanding shares at the price of \$20 per share, starting in year three. The investor is not obligated to sell the shares and owners are not required to repurchase the shares or refund initial investment at any time.

If both parties agree, venture capitalists may sell back their shares to owners prior to year three at the \$15 per share price without interest or dividends.

Ownership is not transferable, unless back to owners, at any time.

At time of investment, investors must sign confidentiality agreement, complete suitability questionnaire, and complete non-compete agreement.

One-half of the intended investment must be remitted at agreement signing. Remaining half must be remitted by month two of operations. Signing below signifies our mutual acceptance of the above agreement. A separate document will be signed signifying shares purchased.

Owners

Investor

Date: _____

APPENDIX F

Profit and Loss Statement

Date Range:
 Company Name:
 Address:
 Phone:
 Prepared By:

INCOME		
<i>List wholesale, retail, or individual customer names separately.</i>		
Income	Dollar Amount	Percentage
GROSS INCOME FROM ALL SOURCES <i>(List sum total of all profit items here).</i>		
INCOME LESS ALLOWANCES & RETURNS:		

COSTS			
<i>You may want to be more specific about some of the items below, giving each item its own line.</i>			
Type of Cost	Dollar Amount	Inventory Value at Start	Percentage
Purchases			
Labor			
Materials/Supplies			
Postage			
Advertising			
Debt			
Fees			
Phone/Fax			
Utilities			
Rent/Lease			
Insurance			
Any additional costs			
TOTAL COST OF DOING BUSINESS <i>(dollar amount and percentage)</i> <i>(List sum total of all cost items here)</i>			
OPERATING PROFIT OR LOSS <i>(Calculate income minus expenses here for the bottom line).</i>			

APPENDIX G

Cash Flow Comparison

NOTE: A cash flow statement is simply a document prepared to show inflows and outflows of money during a specified period. Cash flow sheets can be used to compare one period to the next as below. Items included can be absolutely anything; those included here are simply some suggestions. While you may use Microsoft Word to create a cash flow statement, you may prefer to use programs such as Quickbooks or Excel, which can automatically prepare a cash flow sheet and which have more ways of viewing and organizing your information.

Company Name:

Date Range:

Date Report Generated:

Prepared By:

INFLOWS			
Item	First Date	Second Date	Amount Difference
Wholesale Sales			
Retail Sales			
Custom Orders			
Discounted Items			
Other Sales			
TOTAL INFLOWS:			

OUTFLOWS			
Item	First Date	Second Date	Amount Difference
Returns			
Exchanges			
Trades or Barter			
Debt			
Service Fees			
Materials/Supplies			
Operational Expenses			
Fuel/Vehicle Cost			
Purchases			
Insurance			
Packaging			
Rent/Lease Space			
TOTAL OUTFLOWS:			
OVERALL TOTALS			

APPENDIX H

Resources

BUSINESS PLANNING, MARKETING, AND GENERAL BUSINESS INFORMATION

Agricultural Marketing Resource Center (AgMRC)

www.agmrc.org

AgMRC brings together experts from three of the nation's leading agricultural universities — Iowa State University, Kansas State University, and the University of California. The electronically based center creates and presents information about how independent producers can achieve success and profitability in value-added agriculture.

Agricultural Marketing Service

www.ams.usda.gov

The programs' specialists provide standardization, grading, and market news services for cotton, dairy, fruit and vegetable, livestock and seed, poultry, and tobacco commodities.

Allbusiness

www.allbusiness.com

Research industry-specific information, download legal agreements, and get how-to business solutions.

Learn That

www.learnthat.com

Free online courses and tutorials in a variety of computer, certification, business, and lifestyle topics.

National Agri-Marketing Association (NAMA)

www.nama.org

Web site has industry news, meetings and events, and individual NAMA chapter information.

National Association of Women Business Owners (NAWBO)

www.nawbo.org

Web site has links to a variety of resources for women business owners.

SCORE

www.score.org

A nonprofit organization that provides free and confidential small-business advice for entrepreneurs; it is a partner with SBA.

Small Business Administration (SBA)

www.sba.gov

For a directory of district offices, visit: www.sba.gov/localresources

The Small Business Planner section has information about writing a business plan. The Services section has information about financing, special audiences (including women and veterans), and online training programs. The Tools section offers a library and resources and forms.

FINANCING

Farm Service Agency (FSA)

www.fsa.usda.gov

FSA administers and manages farm commodity, credit, conservation, disaster, and loan programs, as laid out by Congress, through a network of federal, state, and county offices. Look for the Farm Loan Programs section.

Small Business Administration

www.sba.gov/services/financialassistance

This link goes directly to the Financial Assistance section of the Web site.

USDA National Organic Program

www.rurdev.usda.gov

This link goes directly to the Agricultural Marketing Services Web site about organic products.

USDA National Organic Program

www.ams.usda.gov/nop

This link goes directly to the Agricultural Marketing Services's Web site about organic products.

USDA Rural Development

www.rurdev.usda.gov

The Available Funds link under Hot Links on the home page lists the availability of many USDA programs.

COOPERATIVE INFORMATION

Cooperative Development Foundation

www.cdf.coop

The Cooperative Development Foundation is a nonprofit organization working to improve lives and communities by supporting economic development based on cooperatives. It offers grants to promote cooperatives.

Cooperative Development Institute (CDI)

www.cdi.coop

CDI provides business education, training, and technical assistance to increase economic opportunities for people in the Northeast by fostering the success of all types of cooperative enterprises.

Cooperative Development Programs/Centers

[www.agmrc.org/agmrc/directories/otherdir/
coopdevprogramdir.htm](http://www.agmrc.org/agmrc/directories/otherdir/coopdevprogramdir.htm)

This page provides links to cooperative programs across the United States.

Cooperative Development Services

www.cdsus.coop

Provides consulting and training to organizations that contribute to cooperative and sustainable development, with expertise in food co-ops, general co-op development, and value-added agriculture.

National Cooperative Business Association

www.ncba.coop

NCBA is a national membership association representing cooperatives of all types and in all industries.

USDA Rural Cooperative Development Program

www.rurdev.usda.gov/rbs

This program promotes understanding and use of the cooperative form of business as a viable organizational option for marketing and distributing agricultural products.

CSA INFORMATION

Community Supported Agriculture/Robyn Van En Center

www.csacenter.org

Based at Wilson College in Pennsylvania, the organization provides a national resource center for Community-Supported Agriculture.

Local Harvest

www.localharvest.org

Search for CSAs, farmers' markets, and family farms in your area. The site also has chat forums, blogs, and a newsletter.

University of Massachusetts/Amherst Vegetable Program

www.umassvegetable.org

Provides a list of CSA resources, including organizations, periodicals, videos, and publications. Also has crop, pest, and soil management information.

REGULATORS

Food and Drug Administration (FDA)

www.fda.gov

The FDA regulates a number of areas, including food labeling; safety of all

food products except meat and poultry; and livestock feeds. Look in the Industry section for the Small Business Guide to the FDA and a directory of the agency's small business representatives, who are assigned by region and state. Also see the FDA Web site for the Code of Federal Regulations pertaining to food safety regulations.

Food Safety and Inspection Service (FSIS)

www.fsis.usda.gov

Part of the U.S. Department of Agriculture, the FSIS is responsible for the safety and labeling of traditional meats and poultry.

National Organic Program

www.ams.usda.gov/nop

Web site contains information about the Certified Organic program from the United States Department of Agriculture, including information on certifying agents, rules and regulations, and costs.

United States Animal Health Association

www.usaha.org

Click on Reference Links to get links to animal-health resources, including industry organizations, state animal health offices, federal government offices, and animal disease information.

OTHER VALUABLE RESOURCES

America's Heartland

www.americasheartland.org

Weekly public television series celebrating agriculture by telling the stories of farms and farmers across the United States.

Eatwild.com

www.eatwild.com

This Web site has three goals: to link consumers with reliable suppliers of all-natural, delicious, grass-fed products; to provide comprehensive, accurate information about the benefits of raising animals on pasture; and to

provide a marketplace for farmers who raise their livestock on pasture from birth to market.

Free Range Thinkers

www.freerangethinkers.com

Offers a range of consulting and management training, with expertise in crop agriculture, animal health, pharmaceutical, biotech, and food industries.

Rural MidAmerica Development Association

www.ruralmidamerica.org

Information about rural mid-America, including its business climate, its workforce's profile, and its quality of life.

United States Department of Agriculture (USDA)

www.usda.gov

USDA serves both consumers and producers. It's responsible for food safety and educating consumers about safe food and nutrition and works to reduce foodborne hazards from farm to table. The Agriculture section of the Web site provides links to areas ranging from crop and weather reports to marketing assistance and certified organic programs.

RECOMMENDED BOOKS

Downey, David W., Marilyn Holschuh-Leisure, and Michael A. Jackson. *AgriSelling Principles and Practice*. St. Louis, MO: Doane, 1999.

Macher, Ron. *Making Your Small Farm Profitable*. North Adams, MA: Storey Publishing, 1999.

Salatin, Joel. *You Can Farm: The Entrepreneur's Guide to Start and Succeed in a Farming Enterprise*. Swoope, VA: Polyface, 1998.

Sustainable Agriculture Network. *Building a Sustainable Business: A Guide To Developing a Business Plan for Farms and Rural Businesses*. St. Paul, MN: Minnesota Institute for Sustainable Agriculture, 2003.

SMALL FARMS PROFILED

Chaney's Dairy Barn

Carl and Debra Chaney
Bowling Green,
Kentucky 270-843-5567

www.chaneysdairybarn.com

Chileno Valley Ranch

Mike and Sally Gale
Petaluma, California
877-280-6664

www.chilenobeef.com and www.chilenobnb.com

Evans Orchard and Cider Mill, LLC

Kevan and Jenny Evans
Georgetown, Kentucky
502-863-2255

www.evansorchard.com

Homestead Growers, Inc.

Spencer Family
Sheridan, Indiana
317-727-2730

www.homestead-growers.com

Huber's Orchard and Winery

Huber Family
Starlight, Indiana
800-345-9463

www.huberwinery.com

Lee Farms, LLC

Rusty and Teresa Lee
Truxton, Missouri
636-597-9921

Leelanau Natural Beef

Cottonwood Springs Farm

Nancy Keilty

Cedar, Michigan

231-228-6578

www.cottonwoodspringsfarm.com

Sweeter Song Farm

Jim Schwantes and Judy Reinhardt

Cedar, Michigan

231-228-7301

www.csafarms.org/sweetersongfarm.asp

Tulmeadow Farm Store, Inc.

Donald Tuller

West Simsbury, Connecticut

860-658-1430

www.tulmeadowfarmstore.com

WaxinkMoon

Debra Bowles

Oxford, Ohio

513-523-3740

www.waxinkmoon.com

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