

KEYS TO SUCCESS

in Value-Added Agriculture

By Holly Born



Abstract: Fourteen farmers in the Southern U.S. were interviewed for a project funded, in part, by the USDA's Southern Region Sustainable Agriculture Research & Education (SARE) Program. This publication presents, largely in the farmers' own words, important lessons they learned in adding value to their farm products and marketing directly to consumers. The keys to their success in value-added agriculture include high quality, good record-keeping, planning and evaluation, perseverance, focus, and building long-term relationships with customers.

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Introduction

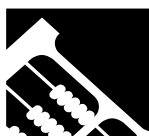
Updating the Keys to Success



In 1995, Southern SAWG conducted on-farm interviews with twenty-four farmers from around the South who were adding value to their raw farm products and marketing more directly to consumers. From those interviews, we produced the booklet, *Making It On the Farm: Increasing Sustainability Through Value-added Processing and Marketing*, which listed ten general business practices that we considered keys to success.

Having completed a round of more intensive phone interviews with another fourteen farmers for a project funded in part by the Southern Region SARE program, it's time to update our keys to success, in the context of sustainable profitability. We believe that profitability is essential to truly sustainable agriculture. As we stressed in the first booklet, there is no simple blueprint for success when you're trying to add value to your farm products. It takes hard work, ingenuity, and a financial investment no matter what you do. However, a few general practices emerged from our interviews that could be considered keys to success. Many of these keys are fundamental for the success of any small business, while some are unique to farm-based, value-added enterprises. All should be shaped to your particular situation rather than taken as absolute rules.

Sustainable Profits



Profits can be earned in many ways. Most business owners tend to concentrate on increasing sales in order to increase profits. However, cutting costs can be an easier way to increase profits. If your current profit margin is 5%, then you can double your profits by either doubling your sales (a 100% increase) or by cutting your costs by 5%. Which option do you think is easier? Here's an example:

However, you can only cut costs so far before the quality of your product and the services you provide begin to deteriorate. Thus, this is not a sustainable strategy in and of itself. This is where adding value comes in. In the Current Case example above, if you can charge 5% more without hurting sales, then your profit is also \$50. (If you can cut costs *and* raise prices by 5%, your profit goes up another 50% to \$75!)

Translating Uniqueness into a Sustainable Advantage



Dr. John Ikerd, formerly at the University of Missouri and long a champion of sustainable agriculture, had this to say about sustainable profits (1):

If you decide to produce exactly the same thing that someone else is producing in the same way they are producing it, and if you succeed, any profits you realize will not be sustainable and neither will theirs. If you expect someone else to provide you with opportunities, you are destined to be disappointed. If you expect someone else to solve your problems, you will be disappointed. You have to do something creative and productive yourself if you expect the market to reward you for having done it. And, if it's easy to do, it won't be worth much.

If someone else provides you with a market, they—not you, ultimately will realize the benefit. You didn't create the market—they did. If someone else provides you with a new pest management or fertility program, they—not you, ultimately will realize the benefit. You didn't increase productivity—they did. You certainly can learn from others and can integrate others' marketing and production services into 'your' production/marketing system.... *[But] your uniqueness is the only source of profitability that cannot be competed away, and thus, is the only source of sustainable profits.*

| Current Case | Double Sales | Cut Costs by 5% |
|-----------------------------------|-----------------------------------|----------------------------------|
| Sales: 100 units @ \$5 = \$500 | Sales: 200 units @ \$5 = \$1000 | Sales: 100 units @ \$5 = \$500 |
| Costs: 100 units @ \$4.75 = \$475 | Costs: 200 units @ \$4.75 = \$950 | Costs: 100 units @ \$4.5 = \$450 |
| Profit = \$25 | Profit = \$50 | Profit = \$50 |

What is a competitive advantage? Basically, it's business jargon for anything that keeps others from successfully competing with you. It may come from being able to sell at the lowest price due to scale economies, having a monopoly, or being among the first to produce or market in a new way. Most farmers are not in the position to find advantage in the first two ways. Most farmers *can* change their production and marketing systems, and increasing numbers of farmers are producing new crops and new products, and experimenting with alternative marketing methods.

A competitive advantage is almost always short-lived. The nature of the market is such that only the innovators, the first ones to take the risks, are going to profit. As others learn how to produce that new crop or enter that new market, competition will drive prices down and profits will disappear.

"Identify a niche and the type of market to fill that niche," advises an interviewee. Niche marketing—selecting a specific group of consumers and targeting them in your marketing effort—is a system that farmers are hearing about more and more. For many farmers, the niche approach has paid off. But, just as we see organics going from niche to mainstream, any profits from a niche will gradually be competed away as others notice it. Unless you are fortunate enough—very unlikely!—to be the only one who can fill that niche, your profits will decline. The process of finding and filling niches is ongoing, not a one-time event.

Success in the short run requires producing a high-quality product or service, working to increase sales and cut costs, diversifying to reduce risk, and finding niche markets where the added value of your product can be realized in higher prices.

Success in the long run requires all of the above, plus the added advantage that comes from whatever it is about your operation that cannot be copied, or can only be copied with great difficulty or expense. For example, focusing on your location will attract buyers who want to "buy local." Tell the story of your farm—no one else will have quite the same story.



Adding Value to Milk

A cheesemaker says, "The hardest part of planning was finding the time to do it! It was difficult to find other representative businesses to serve as a model or template. In deciding how to market, I first had to consider what would generate the quickest cash flow. The specialty cheese niche depends on retailers whose customers would be likely to appreciate the product. I identified a niche, but I could have used a whole lot more education. Certain markets set me back because of the difficulty of entrance.

Putting her ideas into practice proved challenging. "I had to consider how to distribute my products and whom to actually approach," she says. "My local farmers' market is open to producers only, so I have to attend the market myself, which takes a huge amount of time.

"I began making catalog sales three years ago. Shipping is a problem, though. It's really expensive on a perishable product, since you have to ship by two-day air. Information is lacking on better routes or methods. I considered a website with online ordering, but it takes enormous amounts of management knowledge, and you still have the problem of shipping.

"I find that person-to-person sales are the most effective marketing strategy. Wholesaling is the least effective, as buyers are slow to pay. It's really hard to enter retail outlets, such as specialty shops, and months of promotion are usually required. I need to redesign my brochure to address deli and restaurant needs. I've broadened my marketing methods since I began, but I always had a mental plan of markets to develop."

KEYS TO SUCCESS IN THE SHORT RUN

- ◆ Start small and grow naturally
- ◆ Make decisions based on
 - ◆ good records
- ◆ Create a high-quality product
- ◆ Follow demand-driven production
- ◆ Get the whole family or partners
 - ◆ involved
- ◆ Keep informed
- ◆ Plan for the future
- ◆ Continuous evaluation
- ◆ Perseverance
- ◆ Adequate capitalization



Start small and grow naturally

“Grow slowly at an organic rate. Watch what sells. Don’t increase debt load. Farmers’ markets are a safe training ground to begin selling.”

—*a flower grower*

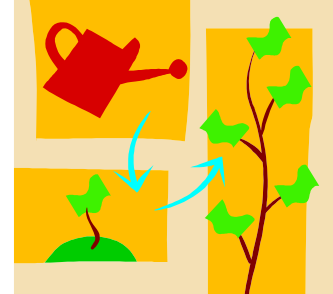
“Start small and don’t grow too fast,” advises a salad mix grower, echoing the opinions of most of our interviewees. “Don’t start too big and invest a lot of money. Be patient and go through your research and development phase. Whatever you start with, try to get ALL the profit—no wholesalers!” You’ll be learning, and naturally making mistakes along the way. Starting small means that your mistakes are likely to be less costly. If you’re new to managing an agricultural enterprise, it is much easier to manage a small operation.

A producer of baked goods and preserves says, “We began value-adding to diversify. Ninety percent of our product ingredients are grown on-farm. We also needed to make



more money. We started a step at a time. First, we looked around to see what the market wasn’t providing and then we attempted to fill that need, adding and dropping products as we went along. We’re not into large, large volume. We only do 100 to 150 cases per year.”

The flower grower’s recommendation to start with farmers’ markets is an excellent one, for many reasons. While selling at farmers’ markets is time-consuming, costs are low. In addition, many producers find that farmers’ markets are a great place to begin building relationships with customers.



Many successful marketers began with a client base established through interactions at the farmers’ market. A cheesemaker started with farmers’ market and other direct sales in order to get contact with customers and to learn the business, relying on some thirty years’ experience in direct sales in a different line of business. She started by selling at the wholesale price. “I looked at cheese prices in specialty and retail stores, and I raised my farmers’ market prices to retail level.”

Our interviewees discussed their most important problems in starting the enterprise. Marketing and lack of familiarity with the product by customers were mentioned by four respondents, followed by financing, lack of technical information and available expertise, and lack of labor (three respondents each). Two respondents mentioned zoning, tax, sanitary, and other legalities.

Only two producers said that complying with regulations presented a hindrance to their business; as one producer said, “regulations were the least of my problems!” Of the two who did have difficulty, the expense and time involved in complying with regulations was mentioned. One producer had problems at first because

the authorities in her area were unfamiliar with the products she produces, so she had to help educate them.

When asked whether taxes had caused any problems in running the business, four of the fourteen said yes. The time involved was cited as the most important problem. One respondent said taxes were “a hidden cost that is complicated and time consuming, especially if you’re expanding.” Workers’ compensation for employees and liability for property tax for grain in storage were also mentioned.

Finally, one grower emphasizes, “Don’t go into it thinking that you’ll make a bundle!”



Make decisions based on good records

“Our biggest challenge was adapting to a new environment. Keeping careful records and maps to determine what to plant, based on what grows well here and what sells, has been crucial.”

—a flower grower

Trying to manage and grow an enterprise without good records is like trying to find an address in a strange city without a map. Without records, you are limited to making educated guesses about the progress of your business, whether or not you are meeting your goals, and the possible reasons why or why not. Only two of the producers said that they were not keeping records, but even these two turned out to be keeping at least some records for tax purposes.

Fifty-seven percent of the producers relied on a computerized system, with QuickBooks software mentioned by three respondents as their system of choice. “QuickBooks is a really great computer bookkeeping system,” says one. Quicken was mentioned by one respondent and the other four did not specify what software they used. Two respondents relied on old-fashioned ledgers, and the others relied on sales and production records and notes and minutes of their corporate meetings.

Half of the producers had previous experience in financial management in non-agricultural businesses. The others were nearly all self-taught. Of those, two mentioned getting assistance from their accountants. Two producers mentioned that they were still learning, and wanted and needed to learn more about financial management.



Create a high-quality product



“Number one is having a good product.”
—a specialty condiments producer

Since these farmers can’t compete in the high-volume commodity markets, they have to concentrate on quality, not quantity. “Offer a very, very, very high-quality product,” says a grower. “Quality” is made up of many dimensions. Fresh, better tasting, clean, reliable, sustainably produced...it may be hard to define, but these producers know it when they grow and process it. And consumers know it when they taste it!

While it may be tempting to use seconds, culls, or damaged fruits, vegetables, and herbs in processed food products, the wise grower will resist that temptation if he or she is serious about developing the enterprise. As one grower says, “For goodness’ sake, do it right! No low-grade, substandard ingredients, since the buyer knows what he’s getting. No blending! This is a downfall for a lot of specialty farmers, who don’t want to throw away half the crop if it is substandard.”

With growing concern today about food safety, it is important that products be safe to eat and to use. This is a vital dimension of quality. “Cleanliness and attending sanitation school are crucial. If I would not eat my

product, I will not sell it,” says one producer.

While it is legally required in some states to be certified as a food handler in order to sell certain products, all producers should be familiar with the basics of food safety. Just one case of illness that could have been caused by the product is often enough to put the small operator out of business entirely.



Follow demand-driven production

“Find your market first and make sure that the market fits what you’re already doing.”
—a salad mix grower

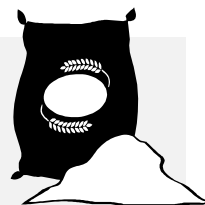
“See what other companies do, but don’t emulate them too closely. Innovate, don’t copy; pick out only what they’re doing right. Find your market first,” adds the salad mix grower. When asked whether marketing considerations affected their choice of value-adding activity, eleven of the fourteen respondents said yes.

In agricultural marketing, there are the “push” and the “pull” approaches. The “push” approach means producing a product, and then “pushing” it onto consumers—the traditional means of marketing many commodity crops. The “pull” strategy, however, is increasingly becoming the norm in today’s environment. With this approach, products are “pulled” out by consumer preference. It appears that most of the producers employed this “pull” approach and looked for an existing market outlet or opportunity, rather than producing a product and then looking for markets.

The presence of farmers’ markets in the producers’ area was an especially strong inducement to begin producing. As we’ve learned, farmers’ markets are a good testing ground. Some of the respondents test-marketed or were actually asked to develop products by buyers. Generally there was an attitude of producing to meet the needs of the consumer.

Of those who did not let the market dictate their choices of activity, most started small and learned about niches they could fill.

A cheesemaker says, “I didn’t know what our market would be. We prepared for mail order and wholesale options, but we never pursued them because the on-farm market developed so quickly. We never had to try any other marketing strategies. Really, we just developed our own marketing style, depending on customer requests, such as adding crackers, wine, and jams to our product line. Now all our milk goes to the on-farm cheese business.”



Value Adding on a Larger Scale

A producer of organic packaged jasmine rice says, “We began our value-added enterprise as a way to diversify and because with low commodity prices, to continue farming, we had to make more money. We researched for six months beforehand, looking at different crops. We decided to grow specialty rice organically—a new variety and new technology. We try new varieties all the time.

“The hardest part of planning was not knowing how much we could sell. Looking back, we should maybe have written a business plan, but we didn’t know what we were getting into! We knew how to grow rice, but didn’t know anything about packaging and marketing. We got help from the agricultural economics department at Texas A&M and the folks at the Rice Research Station came up with the gift bag idea.

“The state agriculture department was very helpful with legal issues. Being certified organic complicates things, but we’ve found it to be a very effective marketing strategy. We find that most sustainable and organic associations are oriented to small producers, which is not helpful for us. Organic rules are not a good fit for large-acreage commodity crops.

“Lack of knowledge in marketing was our biggest problem in getting started. The state agriculture department and the USA Rice

Federation gave us marketing assistance. We participate in the 'Taste of Texas' state-labeling program. Our labels also say that the product was produced on a family farm, is organically certified, and that the rice is a special variety. We find that these labels do help sales. The processing facilities are not on-farm; we contract with a rice miller and packager. We offer 2- and 25-pound packages. We need more information on packaging options; in fact, that is one of our biggest challenges since packaging is so expensive.

"We have a diversified customer base. About 75% of our product is marketed wholesale through brokers and distributors—50% to the health food industry and 25% to mainstream retailers. Food service accounts for about 5% and mail order 20% of our total sales. We added mail order after five years. We were getting a lot of publicity in food magazines, and people were requesting our product, but there was no retail distribution in many areas. We do have some problems with mail order, since the weight of rice really adds to shipping costs. We also had to hire some additional help since we needed someone to take and fill mail orders and handle the extra office work involved.

"Our biggest management problem now is more competition from large companies. My advice to other aspiring value-added producers is to make sure your product is unique. It has been a great experience, but again, it's very difficult to compete now in the grocery industry."



Get the whole family or partners involved

Although no one identified this as a key specifically, during interviews the importance of family and partner involvement became clear. The people we interviewed made the most of the different skills and talents available in the family. Spouses with skills in accounting were essential to many of the enterprises. Nearly everyone we talked to had involved family, friends, co-workers and so on in

spreading the word of mouth about their products.

A maker of jams, jellies, preserves, hot sauces, and baked goods can attest to the importance of getting the whole family involved. Two of her children are attorneys and they helped her write the business plan and get the enterprise incorporated, as well as research the legal requirements for her business. She says, "Planning was a lot of fun. My husband was formerly a chemical engineer, and he did the recipes and kept a notebook of calculations. He also takes care of financial management, including taxes."

When asked about the number and type of people involved in the value-adding enterprise, most had two people, and most of the rest had more than three, or only one—the respondent him- or herself. Most of the people involved were family members or part-time workers. Over half the respondents had made a change in the number of people involved since starting up. Nearly all respondents added labor as sales increased, although two respondents had scaled back production for various reasons, and likewise scaled back the number of people involved. As one respondent said, "Sales volume increased, but my energy decreased! I had to have help." Of those who had not changed the number of people involved, one got more efficient equipment to take the place of labor. Lack of adequate, affordable labor was identified as a constraint by many of the producers.





Adding Value to Beef

A beef producer says, “ I market my beef direct to the consumer and through some local stores. I got into value-adding after going to a sale barn. I never wanted to go there again! I wanted some control over the price and I knew I wouldn’t get fairly compensated at the sale barn. I like doing something different, but if I’m spending time and energy doing something different then I should get extra revenue.

“As a first step in planning, I did some advertising to see if I would get any response. I also did some research on feeds and how to finish the cattle. I got a lot of responses from the classified ads I placed, and started selling half and quarter beeves. Word of mouth helped attract new customers.

“Customers wanted separate cuts of meat, so I started doing that. I give away many pounds of hamburger, which brings in business, either directly or through building a relationship with the community in general. I’ve probably given away more beef than I needed to, but I think I help the community as much as they help me.

“Selling quarters proved too unwieldy—it was more work to get the same amount of revenue, and customers didn’t understand how much meat is in a quarter and thought they were getting ripped off. Now I’m thinking about only selling half and whole beeves, since selling separate cuts requires a lot more paperwork and effort.

“Labeling is part of my marketing strategy. My beef is labeled with our brand name and ‘raised hormone-free and antibiotic-free’, which I think helps in marketing by building recognition and making us a ‘name brand’.

“If I had it to do over, I would have planned more, especially for growth. I would have tried to get all the meat sold before slaughter, since I have difficulties in matching production and sales. It seems like you’re either a bad producer or a bad marketer.”



Keep informed

“Farmers need to become more aware of value-adding. Be mobile—get into townships and share information, look into partnerships and cooperatives.”
—*a beef producer*

“Your local, most experienced, best, friendly grower-processors—and visiting their place and taking pictures and notes—are the absolutely best resources,” says a flower grower.

Hands down, other farmers involved in value-adding were identified as the best information resources. Farm visits, telephone and e-mail conversations, and networking at conferences and other events can give you information and insights that you can’t get any other way. However, be aware that others may see you as competition and not be willing to share their knowledge. A good idea is to do as the salad mix grower did, and solicit information from a grower in another state who will not be threatened by you.

Trade shows are especially recommended for producers of specialty and gourmet products. A producer of specialty vinegars, dry spice mixes, and other condiments says, “In the first year, I loaded up the pickup and headed to [the nearest big city] with a list of shops that I got from a friend. We also relied on word of mouth. We tried to target high-traffic stores. I attended trade shows sponsored by the state agriculture department, which increased our statewide exposure. We now supply specialty and gourmet food shops, do mail order, and have supplied restaurants in the past. We also supply catalog companies. I don’t drive around in the truck anymore, but prefer to concentrate on trade shows for my marketing. For wholesale, trade shows are the most effective marketing strategy. There used to be wine festivals for retail, but that market is now saturated. We offer free garden tours as a draw. We now also have a presence on the Internet, with a retail website. We’re trying to increase sales. The upswing in the economy has helped a lot!”



Plan for the future

“Do your research: ideally you would spend two or three years planning.”—
a cheesemaker

“Fail to plan and you plan to fail” is a cliché for a reason—it’s true. Planning is often neglected since there’s no immediate payoff, but it is essential to success. Cindy Thyfault, president of Westar Trade Resources, a strategic marketing and new business development company in Amarillo, Texas, says, “Don’t fall into the trap of writing a [business] plan just to get a bank loan (3).” For small entrepreneurial companies the failure rate in the first 5 years is 90% (3)! Careful planning is crucial to avoid failure, or at least to minimize your losses as you learn.

You may or may not need a formal business plan, but you do need a strategic plan. This plan will define your business mission, your present situation, and where you want to be in the next few years. You will need to cover assumptions and risks, goals and objectives and how you will report progress. “Be realistic in terms of goals, pricing, and the limits of your time. Factor quality of life in there somewhere,” advises one interviewee. Another says “Start on a shoestring and remain flexible. Realize that the best-laid plans can go wrong and that things change. You need to roll with the punches.”

About half the respondents wrote a business plan to start with and another wrote one later in order to secure an expansion loan. While one respondent had previous experience in business and was able to write her own plan, and another had children who were able to write the plan, the others relied on sources such as Extension, the loan coordinator, the Small Business Development Center, and the local Economic Development Center. One respondent said that she just made it up and that it was as much a projection as a plan, in

which she included a worst-case scenario and operated under worst-case assumptions

If they had it to do over, only four said that they would not plan beforehand. One respondent said, “I don’t think I could have foreseen what I know now”. Of those who would have planned, the need to plan for expansion was mentioned by most. The growth of the business presents challenges to new entrepreneurs. A grain products manufacturer says, “Be careful what you wish for—I was inundated with orders! Prepare for issues related to a sudden increase in demand since the worst thing you can do is not be able to fill orders.” Only three people said that if they had it to do over, they would write a business plan. Two people mentioned that the only need for a plan was to be able to borrow money, since lenders usually require a business plan.



Most of the respondents did not think a business plan was necessary. A cheese maker, for example, says she didn’t plan beforehand but just fell into it: “The cheese business happened gradually. I wanted to maximize my efforts with the idea of only so many hours in the day.” She says she wouldn’t plan if she had it to do over again because

“my enterprise began as a path of spiritual growth.” She says, “I *did* write a business plan, but only to show the lender to borrow start-up money.”

The easiest parts of business planning seemed to be figuring out the production requirements; since the respondents were already producing, they were most familiar with these. Judging from what our interviewees had to say, farmers without previous experience often have real difficulty dealing with financial issues in planning. Asked what was the hardest part of writing a business plan, “putting real numbers in the plan”, in the words of one respondent, emerged as the main difficulty. There were difficulties in knowing which numbers to include and in finding or estimating accurate numbers. Projections of production volume are particularly difficult to

make. Another respondent said that just finding relevant information in general was hard and that you had to persevere and ask a lot of questions.

Once their businesses were past the start-up stage, marketing issues and competition posed the major barriers to success for respondents. One said she is trying to redesign her promotional materials to target the needs of new customers; another said that, "It's a letdown when sales deals fall through because my product does not have a long enough shelf life. I may need contracts in the future." Another producer said, "Competitors are using cheap vinegar in very fancy packages that sell better than my own high-quality vinegars."

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When asked about whether they had a marketing plan, about half the respondents said they did, although only three had prepared a formal plan. Those who had chosen their products based on market opportunity had plans, whether written or not. Some respondents said that they didn't need a plan, since experience and trial and error make marketing needs clear eventually.

Many respondents did not get much help with marketing, but rather developed their own approach with experience and talking to their customers and to other growers. A few of the respondents got help from state agriculture departments and economic development centers. One respondent tried taking samples into her state's small business development center, and never heard from them again. Publications such as *Growing for Market* were also mentioned. Some respondents had

previous experience in marketing outside of agriculture and were able to apply their experience to agricultural enterprises.



Continuous Evaluation

"Stop and evaluate (be objective) periodically, to see if it's really WHAT you want to be doing and HOW you want to be doing it."
—a cheesemaker and manufacturer of gourmet dinners

A plan that is not periodically reviewed is nearly useless. Your business is constantly changing and your plan must be reviewed and modified accordingly. The plan must be kept current for you to effectively measure your performance. "Be ready to change in mid-stream, as there is no way you can predict marketing," says an interviewee. As you gain more experience and knowledge, you should incorporate your new perspectives and insights into your planning. Be sure to keep examining your original goals and make sure that your business is still meeting your goals.

When asked about whether or not their goals had changed since they started, eight respondents said yes and six no. Those whose goals had changed seemed about evenly divided between growing the business and scaling it back in order to have more personal time. When asked what sorts of problems they face in managing their enterprises, it was clear that people are, in the words of one respondent, finding it difficult to "balance attention to the business with quality of life." Nearly thirty percent of the respondents said that this was their biggest problem. For example, one respondent said, "Then, my goal was to find anything that was profitable. Now, my goal is to expand my ongoing profitable business." However, another respondent said, "The point comes when I have to stop pushing the cart uphill. I've made a conscious decision not to grow past a certain point."

Those whose goals have not changed have often learned a different perspective. As one respondent said “My attitude may have changed but my goals haven’t.” Others mention learning new ways to meet their goals: “the means to the end are evolving. Now I laugh at my initial business plan!”

A producer who started out making goat cheese decided to add gourmet dinners and a bed-and-breakfast operation. As she says, “I went from manufacturing a product toward more involvement with the community.” While she admits that she is not fully using her cheesemaking plant facilities, she explains, “I made a conscious decision to become more active with the local community in the direction of agritourism instead of expanding the cheese production.”

She keeps good records and once a year evaluates how well the business is meeting her goals. Her goals have changed since she started the business. “Ultimately my goal moved toward becoming more a part of the community. Being able to influence the community meant maintaining a higher profile in order to effect change.”



Perseverance

“Have a VERY deep well of perseverance. Do the business plan and take as much time as it takes before you invest a whole lot of resources in your enterprise. Financial backers will take you more seriously.”
—a cheesemaker



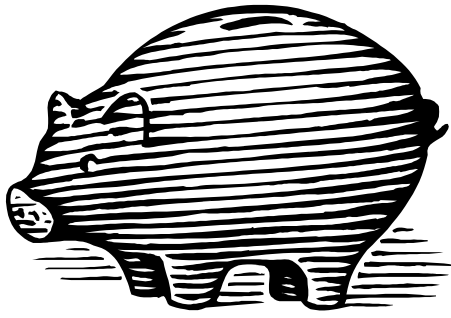
Why is perseverance a key to success? It’s simple: most businesses take a long time to get established. The successful entrepreneurs we interviewed had been involved in adding value for an average of nine years, with five years being the least amount of time reported. In *Making it on the Farm*, the businesses profiled took from a minimum of about five years to over twenty years to become successful.

It can be tough finding out how to get started with adding value to your farm products. You will need a good deal of perseverance just to figure out how to produce the products, much less how to market them.



A cheesemaker says, “We always intended to process, but we did ship milk for a couple of years just to get a cash flow going. We wanted to have a household business and be able to work together. I learned what equipment we needed and how to set it up by visiting other processing plants, reading professional journals, and working with cheesemaking professional organizations. We worked closely with the health department on building plans to obtain their sign-off. Small-scale milk processing equipment was very difficult to find. I worked at an off-farm job to finance the equipment while my husband stayed home to build. There wasn’t much literature available to learn how to make cheese. I had to ‘hunt and peck’ for information. I did take a university course, but I’m mostly self-taught. We started making one kind of cheese then added varieties to meet market demand as I learned how to make them.”

Identifying your niche and building a customer base also takes time. You may have to do a lot of experimentation to find out what sells. Like any other good relationship, developing relationships with customers doesn’t happen overnight. You will need to keep approaching potential buyers despite the inevitable rejections. “Understand that no one wants to be the guinea pig to test your product acceptance. Be prepared to attend trade shows and seminars, advertise, and market to consumers for an extended period of time without profitability,” says Cindy Thyfault (3).



Adequate Capitalization

“Be sure you don’t under-capitalize.”
—*a specialty condiments producer*

A business is likely to operate at a loss for at least the first year of operation. Make sure you have adequate resources. Remember that most businesses fail due to lack of capital (2).

The amount that you’ll need will depend on the type of business. Manufacturing businesses will need more capital than service businesses. After figuring out how much you’ll need for your buildings and equipment, you’ll also need to have enough cash on hand to cover operating expenses for at least a year. Be sure to include some salary for yourself in the operating expenses. You will need to have enough money to live on until your business becomes profitable—which, as we’ve seen, can take years.

Successful marketing takes money. For many products, explains a producer of “gourmet” vinegars, “Upscale packaging is all-important to getting a jump on the marketplace, and you need adequate capital for packaging.”

“Labels can get really expensive for a small operation, especially in a humid, refrigerated environment. I’ve spent a fortune on labels,” adds a manufacturer of goat cheese. “I don’t know whether or not the labels have helped sales.”

Other costs can add up faster than you might think. Shipping and transportation issues present problems for many businesses. The vinegar producer says, “Dealing with UPS is

a problem for me. Their flat-rate charges are stacked against smaller businesses.”

While good planning can minimize unforeseen costs, no one can plan for every contingency. Your budget should include some funds for these costs. While you’ll need capital, make sure that you balance the need to plan for the unexpected with the need to minimize your debts. “Watch your debt load! People often buy the wrong machinery, which can be a very costly mistake,” cautions a producer. This is another reason to plan carefully and to start as small as you can, bearing in mind the production capacity that you may need in the future.

An extremely important form of capital is cash. Managing your cash flow is crucial to success; some say that cash flow is more important than profit. You can go a long time breaking even, especially if you remember to pay yourself rather than plowing every dollar back into the business. But if you fail to have enough cash to pay your suppliers, creditors, or your employees, you’re out of business!

Seasonal businesses, as many agricultural enterprises are, are even more vulnerable to running out of cash in the off season. This aspect of planning must not be neglected.

Wholesaling, while it’s not for everyone, can be a means of getting around seasonal cash-flow problems. For example, a goat cheese maker is now focusing on year-round wholesale cheese sales to retail and specialty stores, while building her agri-entertainment business during the spring and summer months. “Wholesale provides us with income to pay for the upkeep expenses we incur during the off-season (winter).”



KEYS TO SUCCESS IN THE LONG RUN

- ◆ Focus
- ◆ Establish a loyal customer base
- ◆ Choose something you love to do
—*and* something that fits your
Personality and goals

“Make sure your product is unique. It’s very tough to compete with large companies on their turf, so identify a unique niche that you can fill better than the big guys are.”—a rice grower



Focus

***“Don’t overextend yourself. Focus.”
—a producer of herbal bodycare products***

“Educate yourself about your product and differentiating yourself in the marketplace,” advises a salad mix grower. “You need to be aware that the expectations of the public and the conventional business world are that your product is no different from any other product out there,” adds a cheesemaker.

To be able to both add value and capture that value for yourself, you’ll need to think strategically—what is your competitive advantage? A sustainable advantage is some aspect of your business that is unique and would be very hard for others to copy. Focus in on how to best use that advantage.

A cheesemaker says, “All our marketing is done direct to the consumer via on-farm sales. On-farm marketing is the best strategy for us, since our location is one of the last remaining agricultural pockets near a population center. It’s part of the culture of the area to drive out to farms, and our cheese is an exclusive item in the area. Differentiating yourself in the marketplace and educating your customers about your product are keys to success, I think.”

A salad mix grower says that he decided to produce salad mix because “it’s a narrow niche with high demand from gourmet restaurants and stores.” His previous experience in the business world made market development and planning target markets among the easiest parts of planning for him. He did some market research, and having received a favorable response to small test plots of salad mix, he decided to pursue the enterprise.

He started out by wholesaling, but found it unprofitable. “The least effective marketing strategy is wholesaling. If your strategy is to sell large amounts to very large corporate users, such as hotels or chains, and dealing with purchasing agents, you won’t succeed.”

He didn’t have a formal marketing plan: “My plan was only to sell all the product—or as much as we could—to end users and then to boutique grocers. Occasionally we discarded some. The best marketing strategy has been to emphasize our reliability and the freshness and quality of our product. Price is not an issue, although I have reluctantly dropped prices to get large accounts. We’re the only ones in the region growing this product. Our biggest problem now is achieving consistent production. In our climate, it is very difficult to predict actual production volume.”

“Recognize your limits in terms of vertical integration,” says another producer. You don’t have to, and often shouldn’t, attempt to do everything yourself. “Outsource your ingredients: it can be cheaper and it frees you up to do the crucial business of marketing,” advises a grower.





Adding Value to Grains

A fourth-generation family farmer and manufacturer of non-perishable grain products (crackers, granola, cookies, dry soup mixes) says, “I think that if family farms are to remain viable, they have to diversify.” While that was her main reason for starting a value-added enterprise, an important secondary reason was that she wanted to work on the farm and quit commuting.

She got assistance in starting up the business and developing marketing and business plans from the Great Plains Area Vo-Tech Economic Development Center. However, she also did a great deal of research on her own on recipe formulation and adapting recipes to commercial-scale production, equipment, and regulations.

She says the hardest part of planning was “figuring out which hoops to jump through in terms of licenses, taxes, trademarks, and so on.” She thinks planning is crucial since “there are always surprises after the fact” and planning helps to anticipate and prepare for the unexpected. She learned about legalities from her state agriculture department’s marketing division. The only rules and regulations that have been a hindrance were those applying to making dog biscuits! She did have some difficulty getting a no-interest loan through the Economic Development Center: “It took nearly two years! I had given up.”

She sets prices based on production costs plus markup, which she calculated with input from friends in the food manufacturing business and what her competition—“high-end gourmet”—charges.

When asked how she decided how and where to market, she says, “Just having lived around here for a long time—I know the area and the local market. Word of mouth and some radio promos were helpful, but the major market for my baked goods and soups was my son’s restaurant, which went out of business a year ago.”

She started out by selling at a farmers’ market, but found that it was “not cost-effective to tie up two people all day. We did add to our customer base, though. It gave us exposure initially.” She originally made bread, but had too many problems with perishability. She still does an occasional large batch of bread for banquets or other special orders.

She tried marketing to local grocery stores, but found that “stores here aren’t geared to sell gourmet products.” Now she’s in the process of developing an online store. She says, “Yahoo offers website development and online ordering for \$100 a month. Yahoo also offers volume discounts on UPS shipping costs.”

She capitalizes on her family farming history and has developed a line of products that she markets under one brand. She participates in a state logo labeling program, which she feels definitely helps generate “substantial” in-state sales. For gift baskets, in particular, “it’s important that they’re made in-state.” The combination of her own story and customer loyalty to the state represent a great example of sustainable competitive advantage.



Establish a loyal customer base

“My marketing activities evolve from year to year. There is one constant: the value of face-to-face interactions with customers at shows and market.” — *a producer of herbal bodycare products*

One of the most important ways that our interviewees capitalize on their uniqueness is through *relationship marketing*. Since every human being is unique, this makes a lot of sense. No one else can do exactly what you do,

in the way that you do it, when part of what you are marketing is you and your particular operation.

“Our relationships with our clients are the most important and we do everything on a very personal basis,” explains one producer. Another says that her most effective marketing strategy is “having a personal relationship with the buyer—a relationship of trust over time.” A producer of baked goods and jams says, “One of the most effective marketing strategies that we use is to do favors at the end of the season. We give special gifts to all our regular customers, and do special gift packages for people.”



One thing our successful farmers have in common is that they provide more than just food or a product. They also provide pleasant social interactions, a chance to get in touch with the rural way of life, education, and services. Some of the ways our respondents have provided “more” include tours of gardens or farms, bed and breakfast accommodations, gourmet dinners on-farm, and educational workshops on the farm. An herb grower and producer of herbal personal care products says, “Workshops on the farm bring people in to buy my other products.”

A cheesemaker includes a brochure and recipes with her products, but does not include labeling as part of her marketing strategy, since it is too costly. She finds word-of-mouth and direct contact with customers to be the most effective marketing strategies. “Direct contact builds a personal relationship. Our customers feel like they are also our friends. We hold an annual open house to build new relationships and add to our mailing list, as well as to reinforce existing relationships.” She finds “any kind of broadcasted mailings, newsletters, and the like that are not targeted to previous customers” to be the least effective marketing strategy.

Relationships aren’t limited just to customers. Build relationships with regulatory officials, educators, suppliers, and other growers, too.

well. A producer of specialty vinegars, dry spice mixes, and other condiments says, “I developed a good relationship with the local food inspector, which really helped in figuring out the appropriate technology and packaging to use. The state land-grant university’s food science department was also very helpful in solving technical problems.”

One producer says his key to success is “Quality control, fair price, and dependability at markets. You need to be there when you’re expected. In general I try to follow the golden rule [treat others as you wish to be treated].” You never know when you may need help, and if you’ve built solid relationships, these people will go out of their way to help you. It’s a good idea to conduct business treating everyone you meet as a potential customer.



*Choose something you love to do
—and something that fits your
personality and goals*

“Love what you do; live with intention;
always learn; don’t forget to play.”
—a producer of herbal bodycare
products

Not surprisingly, most respondents’ primary motivation for beginning value-adding activities was to make more money. Some mentioned dissatisfaction with wholesaling and other market outlets that were unprofitable and offered the producer no control over pricing. Three respondents did mention non-monetary reasons such as developing their local Farmers’ Market, encouraging environmentally sound living, and encouraging local consumption of local products. Diversification was an important secondary motivation—to minimize risk as well as maximize income—as was being able to stay on the farm and meet lifestyle goals.

When asked about what they consider keys to success today, a common theme that emerged

among this group of farmers was that they love what they're doing. Whether it's making cheese on-farm, producing herbal beauty care products, or growing certified organic rice, all these farmers started with a passion for their product.

Why is this so important?

Producers say they want to make more money—so why not just identify a product or service that is known to be profitable, in high demand, and so on, and go with that?

Well, there are a lot of reasons. First of all, establishing an enterprise takes time and hard work. "The time between start-up and actually making a profit is usually a whole lot longer than you think it will be," says one of our interviewees. Without that passion, it's difficult to find the energy and motivation to stick with it. Will you be able to eat, breathe, and sleep your enterprise for several years? If not, perhaps it isn't the right business for you.



The farmers we interviewed stress the importance of doing what you love, but caution that *how* you go about turning that love into value-adding enterprises must fit your personality and your goals. "Value-adding would probably work best for farmers who are comfortable with doing their own marketing and dealing directly with customers," said one producer.

While there are many ways to add value to farm products without necessarily getting into consumer-direct marketing, the fact is that marketing activities account for the largest



share of the food dollar, and represent the largest potential for farmers to capture more value. Even if the ultimate goal is to sell the product through grocery stores or other retail outlets, the farmer still has to do the "behind the scenes" work that leads to that product being stocked and available.

Your sincere enthusiasm and belief in your product are part of what makes you unique. Produce quality products that you can be proud of, and set your prices to reflect that quality. You may be convincing a reluctant customer at the farmers' market to try a new vegetable, or convincing a reluctant manager at your local grocery store to stock your salsa. Enthusiasm is contagious!



Resources

Producers and producers' associations were mentioned by five respondents as the resources that were most helpful in solving start-up problems. Four respondents mentioned printed materials, such as technical production manuals, trade publications, and, as one respondent put it, "encouraging and enthusiastic articles in magazines about similar types of products."

State agriculture departments and economic development agencies were mentioned by three respondents, as was the local board of health and health inspectors, and university assistance. Two respondents mentioned lenders. Others mentioned that they tried to problem-solve before they started and one respondent said he didn't rely on any resources since "experience is better than books."

Some of the *least* helpful resources for solving start-up problems were (each mentioned by two respondents) Extension, universities, and governmental small business and regulatory agencies. Some of the respondents' comments were: "Extension doesn't have much information in this area, but directed us to professional journals and organizations," and, "The local Extension encouraged us to start, but had no technical information for us." On universities, one respondent said, "University people tended to be unhelpful while thinking they were helpful."

Least helpful management resources were the small business development agencies, with two respondents of the six who answered this question mentioning them. One respondent said, "Small business agencies that purport to help, don't. It seems like the people with answers don't want to share." Extension was also mentioned as not being very helpful—"they need to be strategic thinkers and they aren't."

One respondent had hired someone to manage the enterprise, which turned out to be "a big mistake." Another respondent mentioned that most sustainable and organic agriculture associations were too oriented towards the small-acreage and/or specialty crop growers, which was not helpful for her as a large scale commodity crop producer. Overall, few respondents had an answer for this question, since, as one said, "Everything helps a little, at least."

Other producers and businesspeople—"how the other companies do it"—were the best management and marketing resources found. Four respondents put others involved in their industry at the top of the list. Three respondents mentioned both technology, especially the Internet, and reading.

As one respondent said, "The Internet is a great resource for its knowledge base and communications as well as the marketing possibilities." Others mentioned establishing retail Web sites and using technology to become more efficient.



Some printed materials our interviewees recommended include the periodicals *Acres USA*, *Stockman Grass Farmer*, and *Growing for Market*.

The Texas Department of Agriculture and Texas A&M were said to be extremely helpful with marketing. Organizations that were singled out as being especially useful included the Oklahoma Economic Development Center, Southern SAWG, ATTRA, and the American Society of Cut Flower Growers. Other resources that were mentioned included business consultants, financial experts, trade shows, and experience.

Some other resources, in producers' own words:

"Expeditors for labeling can be replaced by the industrial development authority; RC&Ds [Resource Conservation & Development] and IDAs [Industrial Development Authorities] are good resources since they have connections that can help farmers."

"*Cheesemaking Made Easy*; government agencies, especially new state grants for former tobacco growers; schools for pickles, jam, etc. for smaller-scale producers."

"Reading IRS materials for accounting and talking to other businesspeople."

"The best thing to do is to look at existing operations and seek help from University processing centers, as they are usually very free with information."

"*Stockman Grass Farmer*, *Acres USA*, Rodale Press pubs, authors such as Eliot Coleman, Wendell Berry, Paul Hawken, Jane Goodall; any organic association."

"In Oklahoma, the system of Vo-Tech with attached Economic Development Centers has a worldwide reputation; State Agriculture Department market development people; Internet sites."





About the Farmers

Demographics:

| State | Number |
|--------------|-----------|
| Arkansas | 3 |
| N. Carolina | 3 |
| Virginia | 2 |
| Alabama | 1 |
| Kentucky | 1 |
| Louisiana | 1 |
| Texas | 1 |
| W. Virginia | 1 |
| Total | 14 |

All respondents were caucasian. Of those who gave their age category, five were between ages 41–50, two were between ages 31–40 and one was 51–60.

Respondents' average distance from the nearest town was 10.2 miles. Average population in the nearest town was 42,800 but this ranged widely, from 600 to 275,000. Average distance from the nearest town of 50,000 or

more was 41.9 miles, with ranges from 5 to 110 miles. Four of the fourteen didn't have Internet access.

The average time involved in farming was 14 years, with a range from 5 to 25 years; average years in value-adding was 9 with a range from 5 to 15 years.

| Income From Value-Adding | Number in Income Category |
|--------------------------|---------------------------|
| \$5001–\$10,000 | 3 |
| \$10,001–\$25,000 | 1 |
| \$25,001–\$50,000 | 3 |
| \$50,001–\$100,000 | 3 |
| \$100,001–\$500,000 | 3 |

Value-adding activities were very important to total farm income. Except for one respondent who said the business was a “hobby”, these activities accounted for an average of 75% of all farm income. There was a definite split, however, with 8 of 14 respondents who said the activities accounted for 80% or more offarm income, and the remaining respondents who reported 50% or less.

Types of value-added products included (in order of frequency. Note that some respondents are doing several of these):

Condiments (jam, jelly, hot sauce, vinegars, seasonings) (5)

Baked Goods (pies, biscuits, cookies, etc.) (4)

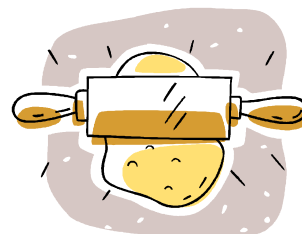
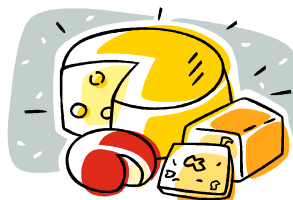
Cheeses (3)

Entrees (jambalaya/bean soup mixes) (2)

Health/Beauty (soap/bath, lip balm, hand cream) (2)

Salad mix (packaged for retail)

Beef (hormone/antibiotic-free)



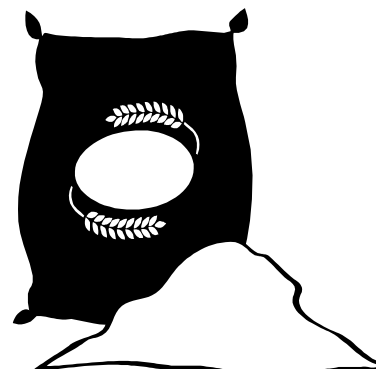
Rice (packaged organic jasmine)
Popcorn (popped, whole-kernel, nuts/syrup)
Crafts using on-farm inputs
Cut flowers
Pickled foods
Agri-entertainment (B&B, tours, workshops)

Most have on-farm processing facilities and these were financed about 50-50 by the producers' own funds and by loans. One person said, "The hard part (of setting up the facility) was finding the money." Respondents learned about what was needed and how to set it up from other producers, and to a lesser extent from printed materials. The cheesemakers said that it was very difficult to find sources of small-scale, affordable equipment, but others did not mention it as a problem.

USDA inspection was only applicable for beef and cheese operations, and all but one cheesemaker provided a USDA-inspected product. It appears that this was to comply with the law and not for marketing purposes.

Almost every producer relied on several marketing outlets except three who only used one outlet. The outlets in order of frequency:

- Farmers' markets (6)
- Mail order (6)
- Direct to stores (specialty shops) (5)
- Direct to restaurants (3)
- On-farm sales (3)
- Festivals/shows/conferences (2)
- Wholesale (2)
- Internet (2)
- Distributors/brokers (2)
- Word of mouth (2)
- Home delivery (2)



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The Electronic version of **Keys to Success in Value-Added Agriculture** is located at:
www.attra.org/attra-pub/keystosuccess.html

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