

Beyond Fresh



A Food Processing Guide for Texas Farmers

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On the cover (All photos by Sue Beckwith):

- Upper left: Steam kettle at the Incubator Kitchen in the Downtown Market, Grand Rapids, Michigan <http://downtownmarketgr.com/incubator-kitchen>.
- Upper right: Alex Bernhardt of Bernhardt's Farm mixing cabbage for sauerkraut Elgin, Texas.
- Lower left: Jonathan Hogan of Wicked Good at his market booth, Mission, Texas.
- Lower right: Texas Farmers' Goods prototype spicy cucumber relish.

To the one and only Larry Butler (1948-2018) of Boggy Creek Farm –
who inspired so many farmers and consumers and showed us that diving into
food processing can be fun, profitable, and delicious.



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- Robert Maggiani of NCAT wrote Chapter 7 (Labels and Packaging) and had a hand in almost every chapter, drawing on a lifetime of experience—as an early pioneer of organic farming in Texas and as a marketing specialist who helped launch countless food businesses during a 26-year career with the Texas Department of Agriculture.
- Erin Flynn wrote an early draft of Chapter 8 (Selling), and much of that chapter is adapted from Erin's notes on branding and marketing. The article *Media Tips for Farmers*, included as Appendix 4, was written by Erin Flynn and Skip Connett of New Farm Media, a program of the New Farm Institute (<http://newfarminstitute.org>).
- Much of Chapter 9 (Market Trends) is adapted from the report *Food Processing Market Opportunities*, written for the Beyond Fresh Project by Dr. Rodney B. Holcomb & Dr. Timothy J. Bowser of FoodMech, LLC. Dr. Holcomb and Dr. Bowser also created four Cost Calculators (discussed in Chapter 5) for commercial kitchens.
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Introduction

If no mistake have you made, yet losing you are, a different game you should play. - Yoda

If demand for local food is going up, how come my farm income keeps going down?

Our story begins in 2014, when we conducted in-depth interviews with dozens of small- to mid-sized Texas fruit and vegetable farms on the topic of economic viability. During those interviews we were surprised to hear so many stories about *declining net incomes*. Not just from one farm, or a few farms, but from a *lot* of them.

Most of these farms relied on some form of *direct marketing*. American farmers nowadays keep less than 8 cents out of every food dollar, while processors get 15 cents. But when farms sell direct to consumers—in farmers markets, community supported agriculture (CSA) subscription programs, and other direct marketing channels—they keep most of the money in their own pockets.

Many growers noted the competition they were facing from new food delivery and “meal-in-a-box” services.



Food dollars: who gets the money. USDA Economic Research Service 2016, Food Dollar Series

Direct marketing has been one of the biggest success stories of American agriculture in recent decades. But over and over again, the Texas farmers we talked to said the direct-market business model was losing its luster. More consumers wanted local and sustainable food, but it was getting harder to make a living. Something was wrong with the picture. 2+2 was not adding up to anywhere near 4. For many farms, it was not even adding up to 3.

Why were so many farms working harder and making less money? Many noted the competition they were facing from numerous food delivery and “meal-in-a-box” services that had sprung up in recent years, giving consumers many convenient options for getting local food. Others felt that farmers markets were proliferating faster than consumer demand, forcing them to

“We’ve been farming for over 20 years and now we have to sell at six markets a week to earn what we used to earn at two markets.” – Gary Rowland, Hairston Creek Farm

We put a high-caliber product development team to work for the small- and mid-sized sustainable farms of Texas.

spend time and money doing more markets and paying employees to stand in their booths. One farm told us they were spending 70 percent of their time on marketing and selling, and only 30 percent of their time farming.

Others felt stuck in a weak bargaining position. How are you supposed to drive a hard bargain with buyers when your products are super-perishable and will be worthless in a matter of days or even hours? We heard many stories about leftover produce that could not be sold, because of a bumper crop, market glut, or bad day at the farmers market. Beautiful fruits and vegetables, raised with skill and care, lost their value in a heartbeat, leaving growers with options ranging from bad to awful. They could sell their produce prices below cost of production, give it to the food bank, feed it to the hogs, or leave it in the field to rot.

Why we created this guide

Can farmers do their own processing, capturing some of the 15 cents in each food dollar that is currently going to processors? A lot of growers that we talked to were already thinking about diversifying their marketing channels: finding alternatives to selling fresh whole fruits and vegetables. Many of them saw processed foods and other value-added products as their best hope for increasing their net incomes. Some had already looked into commercial kitchens. However, they were having a hard time finding answers to even the most basic questions—such as:

- What can I make in my home kitchen and sell legally?
- What can I make in a commercial kitchen and sell legally?
- What price can I expect if I sell my product at the farmers market?
- What price can I expect if I sell my product to someone else who is going to make a product out of it?
- If I make a product, what do I have to put on the label?
- I'm used to selling fresh fruits and vegetables. Are there different rules and regulations for processed foods? Do I have to collect sales tax?

In 2014 the National Center for Appropriate Technology (NCAT) was awarded a grant from USDA's Southern Sustainable Agriculture Research and Education (SARE) program, to research opportunities for value-added processing of sustainably-grown fruits and vegetables in Texas. We wanted to answer some basic questions and create user-friendly tools that producers could use to evaluate potential value-added enterprises.

TOO MUCH OF A GOOD THING

"We frequently have excess product, especially of items that all farms seem to have at the same time. At those times, being able to add value to the vegetables on hand via processing, cooking, canning, or drying would be an economical, attractive choice. The expense of commercial kitchen installation and potentially excessive regulation have together kept us from pursuing that route." — *Katie Kraemer-Pitre, Tecolote Farm*

In our proposal we said that we wanted to “put a high-caliber product development team to work for the small- and mid-sized sustainable and organic farms of Texas.” And that’s exactly what we did over the next three years. We put together a team that included eight farmers, a marketing expert with over 30 years of experience in Texas, two Ph.D. agricultural economists, a lawyer with expertise on food regulations, a commercial kitchen expert, and two of the leading experts on value-added food products in the United States.

We attended conferences around the country, studied successful programs and businesses, and looked closely at the economics of several promising food products that could be made with fruits and vegetables that are easy to grow in Texas.

We brought others into the conversation: economic development specialists, small town elected officials, restaurant owners, investors, food entrepreneurs, food processing experts, and school food service managers. We wanted to stir up greater collaboration and support for value-added enterprise development in Texas. And most of all, we wanted to see farmer net incomes going up, not down.

What we learned is contained in this workbook.

How to use this guide

This book is a **decision-making guide**. It’s not meant to be a comprehensive “how to” manual on processing food. Yes, we are going to tell you a lot about equipment, labels, and regulations, but our real focus is on making good choices that increase your net profits and make your business more successful. There are loads of decisions that you’ll need to make before diving headlong into processing, and those key decisions are where this book is focused. We sincerely hope this book helps Texas farmers make the best decisions for their farms and families.

Also notice that this is a **workbook**: a place where you can work out answers and make plans. There are worksheets and exercises scattered throughout, to make it more fun. We highly recommend doing these with your family and farming or business partners. We put in forms and templates that you can cut out or photocopy. And we left you lots of space where you can write down your thoughts.

Taking a Farmer-First approach

Books and articles about food processing usually start from the question “What does the market want”? Do consumers want kale chips, fruit roll-ups, fermented carrot slices, or freeze-dried strawberries? This approach is primarily demand-driven, and we’ll refer to it as the Market-First Approach.

This is not where we start.

INTEREST WAS EXTRAORDINARILY HIGH

In a survey of 78 small- to mid-sized Texas growers, the Beyond Fresh Project found that 33 were already doing value-added processing and 44 were interested. In other words, 77 out of 78 were either already doing value-added processing or interested in it.

The Farmer-First Approach contradicts the prevailing point of view in the food processing industry.

In this book we take what we will refer to as a Farmer-First approach. This means we start from questions that are foremost in a producer's mind, such as "What can I grow?" and "What do I enjoy growing?" From there, we move to "What products can I make from those crops?" And finally, "Of the products I can make, which ones do consumers want?"

The Farmer-First approach contradicts the prevailing point of view in the food processing industry. In today's global food market, processors can almost always get whatever ingredients they want, year-round, from one of several large national distributors. Questions about ingredient sourcing are largely seen as pointless, because ingredients are so readily available. Product development is essentially a game where everyone starts with the same pieces (i.e. ingredients) and tries to turn them into things that consumers want.

A farmer, on the other hand, first considers what crops they can grow that can be made into value-added products. Once they've decided on crops they are interested in processing, they start evaluating possible products: making small batches, testing feasibility and profitability, and proceeding with product development and business planning activities. This approach leverages the farmer's ability to raise a sufficient quantity of crops as ingredients to make a profitable value-added product.

From our perspective (Farmer-First), questions about ingredient sourcing are not pointless at all. For one thing, consumers are increasingly concerned about provenance and transparency. So sourcing local and sustainably-produced ingredients may very well lead to a distinct advantage in the marketplace. And as we've already mentioned, ingredient-sourcing is of the utmost importance to building robust local food systems. These in turn can be engines of rural economic development.



Sue Beckwith photo

What are value-added food products?

The term "value-added" is used in various ways by government agencies and academics, causing some confusion. But these differences won't matter much to you, practically speaking. We are talking here about food products that are NOT just whole (or raw) fresh fruits or vegetables, and have higher value.

Here's the official USDA definition:

A change in the physical state or form of the product (such as milling wheat into flour or making strawberries into jam). The production of a product in a manner that enhances its value, as demonstrated through a business plan (such as organically produced products).

Some common "changes of state" that count as "value-added" are chopping, grinding, powdering, freezing, freeze-drying, dehydrating, cooking, canning, culturing, pickling, drying, smoking, fermenting, extracting, or mixing ingredients into a sauce or relish. There are many others.

IT FLEW OFF THE TABLES

"Few were interested in buying fresh-cut basil, but the pesto flew off the table and out of the stores. We never had enough." — Suzanne & Tony Piccola

You're already familiar with countless value-added food products. In fact, they fill most of the shelf space in the grocery store. In this guide we often use the ordinary term "food processing," which means pretty much the same thing as "value-added."

Are value-added products the answer?

It's not hard to see why value-added products are so appealing to farmers. A zucchini or cucumber in a fermented relish can be worth much more per pound than it would ever sell for in a fresh, whole state. Blemished fruits and vegetables (*number twos*) can be worth dramatically more.

When all goes well, multiple factors work to the farmer's advantage, increasing profitability and consumer appeal: Value-added products can be marketed as local and made from sustainably-grown ingredients. They typically have a long shelf life and can be made from blemished or imperfect produce. And the new cottage food laws have opened up a range of opportunities, because many prepared foods can now be made legally in a home kitchen.

What's not to like? And why aren't farms everywhere rushing into making value-added food products?

Well, for starters, making these products entails investment in equipment, sometimes a big investment. You need to learn new skills. Branching out into food processing can definitely make your world more complicated. Profitability is not always what it appears to be, depends crucially on scale, and the devil is in the details. Making 100 jars of salsa per year is an entirely different thing from making 10,000.

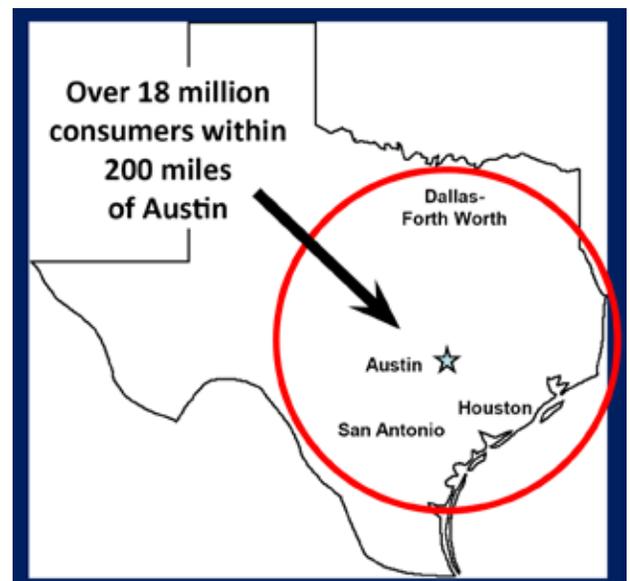
An opportunity as big as Texas

At this point we'll just put our cards on the table and say that we think Texas is primed and ready: a fantastic place to explore food processing enterprise development. For starters, Texas has consumers...almost 30 million of them. If you just look inside the triangle formed by Dallas, San Antonio, and Houston, there are more than 18 million consumers. By all indications, these consumers want local food—as much as people in any other part of the United States.

No one seems to know how much of the food consumed in Texas was produced locally within Texas. (Or at least we were unable to find reliable estimates.) But the number is certainly very low. One expert guessed that it's less than one percent.

Meanwhile, around the big Texas cities there are thousands of formerly-agricultural communities that are becoming bedroom communities, with people spending two hours per day driving into the city to earn modest wages. Communities in rural and peri-urban Texas need local jobs, and small food manufacturing is an excellent job creator, partly because it's labor intensive.

Texas is a fantastic place to explore food processing enterprise development.



Here's where the idea of *economic leakage* comes in. When Texans buy food grown in California or Mexico, dollars are leaking out of our state that could be staying here, in the pockets of our farmers and rural communities. We think Texas is leaking food dollars like a sieve. And this needs to stop.

Even though our research convinced us that Texas is a fantastic place to explore food processing enterprises, we also saw very clearly that the infrastructure to support these businesses is not as developed as what exists in some other states. We hope and believe that this situation is going to change. Meanwhile, being late in the game does have its advantages: Here in Texas we can learn from the experience in other parts of the country.

This workbook is aimed at helping you:

- decide whether processing is right for you and your farm business;
- determine if you have the right personal aptitude;
- decide what product(s) to create;
- figure out the best scale of production;
- conduct the necessary market research;
- choose a commercial kitchen or other processing facility;
- navigate regulations, licensing requirements, and new food safety laws;
- design and create labels and packaging;
- seek funding for your new enterprise;
- market your product; and
- run your business, including dealing with employees, taxes, and insurance.

Whew. All this planning and preparation is going to take a lot of work. But we've broken your job into pieces and included encouragement and advice from others who have been in your shoes. The chapters can be read in any order, but each covers a topic that needs some serious thought on your part.

Please note: We wrote this book with Texas fruit and vegetable farmers in mind. However, most of the principles, exercises, and tools would apply just as well to row crop farms. Or livestock producers. Or people outside of Texas.

You'll notice that in many places—such as the chapters on selling and labeling—we give special attention to *sustainable agriculture*. Sustainable farming is often considered to be a form of “value-adding” in itself, since consumers will pay more for these products. And you may have noticed that the USDA definition specifically includes organic farming as a type of value-adding. But the ideas in this book will apply just as well to farms that use more conventional methods.

Finally, while we created this guide for farmers, we sincerely hope that others in the food world will read it. Entrepreneurs, restaurant owners, retailers, and elected officials would all benefit greatly from understanding the farmer's point of view.

A FAMILIAR STORY?

“The farmers market was canceled a few weeks ago due to too much rain. Last week, we again harvested heavy for our Sunday market, but sales were slow and we did not break even for the day. We have plenty of food but unreliable sales channels. Having the opportunity to create value-added products allows us to 1) anticipate revenue, 2) immediately divert product that does not have a ready market, and 3) increase our sales, regardless of weather.”
– Erin Flynn, Green Gate Farms

Do

- Read all the chapters in this book.
- Work through the exercises.
- Write in the margins.
- Have fun.

Think about

- Crops you like to grow and often have in excess.
- Products you could make out of them.
- What it means to take a Farmer-First Approach.

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ON-FARM KITCHEN BUILDS RESILIENCE

In 2009, Alex and Donna Bernhardt started sustainably farming five acres, and Bernhardt's Fruit & Veggie Farm began selling at farmers markets near Elgin, Texas. "Almost immediately we had excess fresh product that we couldn't sell and started thinking of ways to preserve the excess," explains Alex. They started making jams and jellies using a rented kitchen. They soon realized this wasn't economically viable, however, and began searching for other options.

Realizing the long-term importance of shelf-stable goods to their bottom line, they invested in a commercial kitchen on their farm. This allowed them to begin experimenting with other value-added foods, such as ready-to-eat meals, hummus, and pesto. They also started educating their customers about the benefits of goods made from locally-grown produce, versus those made with conventionally-grown store-bought ingredients.

Using their own produce (and some from other local market sources) has continued to be a major selling point for the Bernhardts, and value-added items were their only business income for awhile after devastating floods (twice) in 2015 wiped out their production. When that happened, they sourced ingredients from other farmers who hadn't flooded, and also added fermented products and kale chips to their repertoire. They recovered from the floods, and currently have six acres in cultivation. As he gets older and can't continue working the fields, Alex plans to focus more value-added products, and either hire help for the outside work, or just source ingredients from other sustainable farms.

Overview of the Decision Process

By three methods we may learn wisdom: First, by reflection, which is noblest; second by imitation, which is easiest; and third by experience, which is the bitterest.

- Confucius

Creating a value-added food enterprise is a matter of trial and error: prototyping. This chapter will give you a general idea of how it's going to go, so you know what to expect and can get down to business.

How it might go

Starting to make and sell value-added products is similar to starting a new business—adding a new “line of business” to your farm. That doesn't need to be scary, but will mean embarking on a new learning curve. (Yes, on top of the new things to learn that your farm is throwing at you every day.)

It might go something like this:

You've got excess organic tomatoes, everyone loves your abuelita's salsa, and you have her recipe. You make a few jars at home, your friends and coworkers love it, and they tell you they'll pay \$10 per jar. That price works for you.

But then you find out that you can't legally sell salsa made at home. You'd need to use a commercial kitchen inspected by your county health inspector. And you'd need to take a training course from Texas A&M. That's more time and money than you have to spare, so you decide to choose another product.

You wonder if your grandmother might share her recipe for jalapeño peach jam. You check the rules and find out that you can make this jam in your home kitchen under the Texas Cottage Food Law.

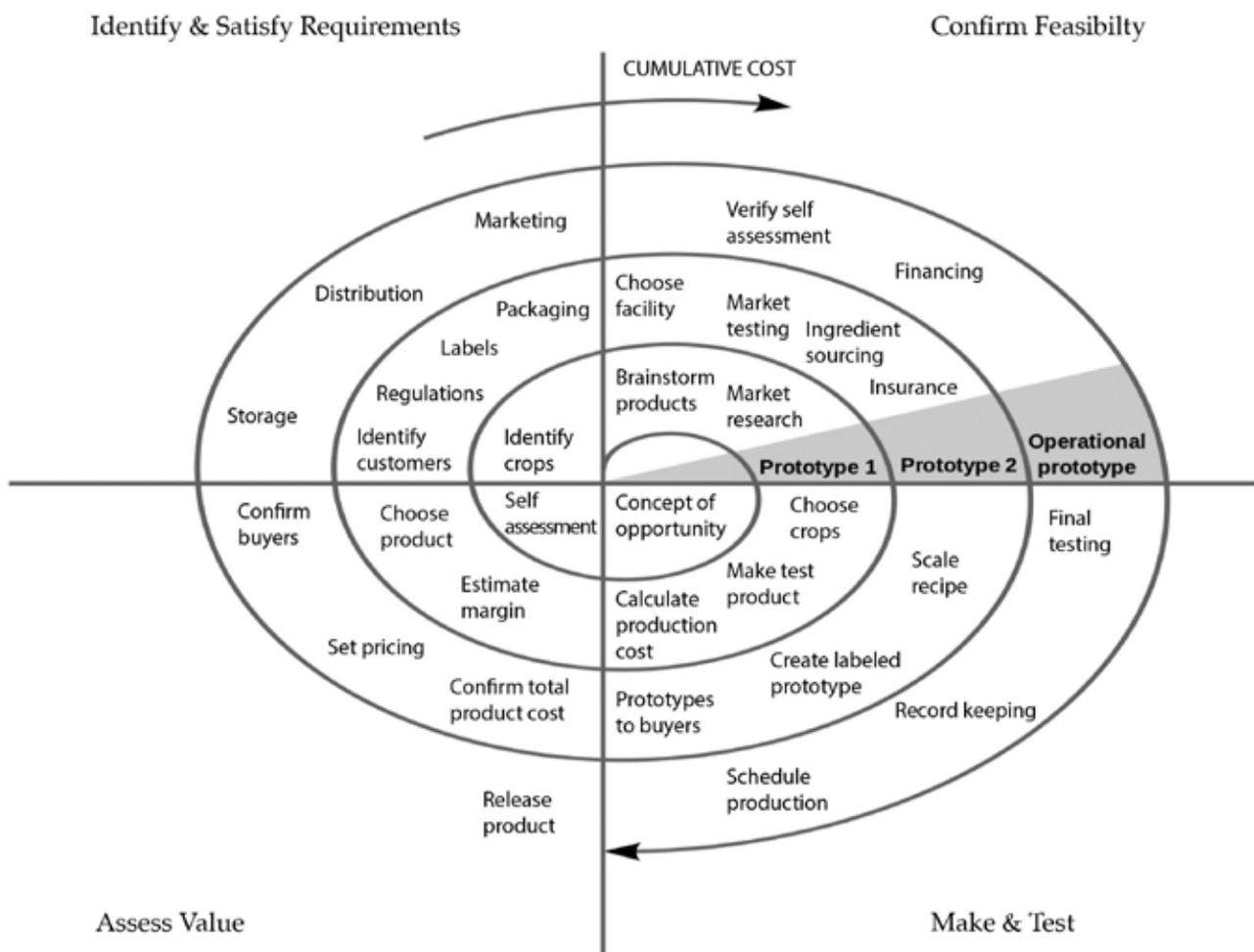
You again try making small batches, run through your decisions, check the money, and verify that your decisions support your values. You see if the jalapeño peach jam works. If it does, you're on your way.

It's an iterative process

Product development is an iterative process—it's involves prototypes, trial and error. You'll try an idea, run some tests, figure out the profit, make a batch, and see if it works. Then you'll make adjustments, check your assumptions, and update them. You might do this several times until you find a product that works. Once you're pretty sure you've chosen your product, you'll create your final prototype and develop your labels, packaging, and marketing.

Don't worry about each decision too much in the beginning. Just do your best and know that before you finally begin selling, you'll have ample time to think it through. It's not a linear process, but more like a spiral. Study the diagram on the next page and you'll see what we mean.

Product development is an iterative process—It's going to involve prototypes, trial, and error.



OK sign me up. Where do I start?

Ask yourself and your farming partners:

- What crops do we consistently have in excess, and when? (If we have excess tomatoes when we are in our busiest time, then maybe we don't have time to make a product from tomatoes. So could we freeze them and make something later?)
- What other crops could we grow for value-adding if the money was right?
- What can we make from these crops? Brainstorm a short list of product options.

Once you've got a list of product options, you'll need to check the regulations (to see if you're legal); figure out exactly how you could make, package, and sell this stuff; cook up some test batches; and keep running the numbers to see if you can make money doing this.

We think you'll find most of these steps fun and interesting. The chapters in this workbook break it down for you. The financial analysis part (running your numbers) is not so much fun. But in Chapter 5 ("Can I Make Money?") we'll tell you about some handy financial analysis tools that we created for you and put up on the internet.

But we are getting ahead of ourselves...

The Core Question: Does the value I get make sense for my farm?

Ultimately you need to answer the Core Question with a YES. So let's start here: What is it that you and your farming partners want from value-added processing? What brought you to this point? Take a crack at writing that down.

Exercise #1: Describe the value you want to get from processing your crops:

Choose only your 4 most important. (There are no wrong answers.)

Examples:

- *Make more money.*
- *Diversify my farmers market product line.*
- *Use my excess crops.*
- *Use my seconds and misshapen or bruised crops.*
- *Add new products to my CSA.*
- *Have shelf-stable products to sell when crop production is low.*
- *Help out family members who need something to do.*
- *Do something less physically demanding than field work.*
- *Sell to schools.*
- *Invent the next big thing and sell out to a national brand for megabucks.*

Do I need a written business plan?

A lot of books and articles will tell you that a written business plan is an absolute must. But we don't think you should get too hung up on this—especially in the early stages of product development. The cool thing about food is that you can try making a product, see if people like it, test prices and labels, and see what works for you and your customers. You can start small, even tiny. When you're rolling along, and have a product that works, you can create a business plan containing the knowledge you've built up to that point.

Don't get us wrong: Putting your ideas and plans into writing is one of the best ways to clarify your thinking. (Which is why this workbook contains so many writing exercises.) In Chapter 11 we'll give you some tips on writing a plan that includes objectives, tactics, milestones, and so on. This is something you'll write mainly for your own benefit—not to share with the outside world.

It's true you that you'll need some kind of written plan if you are going to approach funders and ask for money. But most investors and loan officers are going care mainly about your executive summary and financials, less about the details—no matter how brilliant and beautiful your plan may be. Like your children or your vacation photos, a detailed business plan tends to be something only you will ever fully appreciate and love.

You must be able to answer the Core Question with a YES: "Does the value I get make sense for my farm?"

Key things you must know (before sinking real money into this)

- Am I legally allowed to make and sell it?
- Where will I make it?
- How many can I make (with available produce)?
- How many *should* I make (best scale of production)?
- How much does it cost to make and market it at that scale?
- Who will buy it?
- How much will they pay?
- How many will they buy?
- Where will I sell it (sales outlet)?
- How will I get it to that location?

Choices you'll eventually need to make

When your concept is fully developed, you'll have made all the choices below. We've illustrated each choice with a few options—by no means exhaustive.

Process options

1. Make in my home kitchen.
2. Make in a rented commercial kitchen (myself or hire a crew).
3. Have co-packed by a small batch facility.
4. Have co-packed by a professional co-packer.
5. Build my own plant.

Sales outlets

1. Direct to customer sales at farmers markets, farm stands, CSAs.
2. Sell as ingredients to existing food artisans, entrepreneurs, restaurants, schools, etc.
3. Sell to grocers as a consumer packaged good (CPG).
4. Sell to some other non-farmer for resale.
5. Wholesale to schools and other institutions via distributors.

Branding options

1. My farm, my brand.
2. Multiple farms, one brand.
3. Co-branded with food entrepreneur.
4. No farmer ownership in brand.

Product ownership

1. My farm.
2. Group of farms.
3. Co-packer (non-farmer or farmer owned).
4. Joint farm coop or business.
5. No farmer ownership.

Distribution

1. Self.
2. Via distributor, food hub (non-farmer owned).
3. Via distributor, food hub (farmer owned).
4. Via processor.
5. Other (And there are tons of options within each category above.).

Get comfortable with not knowing (in the early stages)

- Where do you want to sell your product? *Anywhere I can make money.*
- To whom do you want to sell? *Anyone who will buy it at the price I require.*
- What products do you want to sell? *Any product I can make that returns a profit.*

When you add a new vegetable or variety, you ask these same questions. And when you find a variety that you can grow and your customers will buy at the price you ask, you probably keep growing that crop.

Do

- List your crops, estimate excess, and decide which ones you're interested in processing.
- Make a short list of possible products.
- Write down the value you want from processing your crops.

Think about

- Imagine yourself successful.
- What does that look like?
- How does that feel?



Kara Kroeger photo

PRESERVING FARM VIABILITY

"Value-added production is the best answer for full use of sustainably grown and organic fruits and vegetables, especially those not in prime appearance for the farmers market tables. With the serious weather and rainfall challenges to market farming in this area, the income from value-added products would definitely assist the preservation of a farm's viability." – Sharon and Jack Crow, Guinea Hill Farm

TRIAL AND ERROR: ONE FARM'S STORY

Pigs led to lard and vegetables led to pickles. Neither product has led to value-added product riches. Yet.

"We keep plugging away because we know how important it is to have an ongoing revenue source, especially if it comes from excess or ugly products we normally can't sell," says Skip Connett, co-founder of Green Gate Farms, a certified organic farm in Austin. "For the past 10 years, we've worked on adding more value-added products, but each season presents a new challenge."

Challenges include: not enough product, difficulty accessing affordable commercial kitchen space, not having time to make and market the products, and not enough storage space.

"Our most recent fiasco was working with an experienced chef who, despite decades of experience, created a recipe that resulted in more than 300 jars of inedible product."

Fortunately, this community-based farm has a loyal customer base that includes farm stand customers and CSA members. They're eager to buy value-added products from the farm they know and trust.

"Eventually, the stars will align," says farmer and partner Erin Flynn, co-founder of Green Gate Farms. "We're confident that the resources will come together to enable our farm, and others in Central Texas, to do more with what we grow."

Self-Assessment

A little stress and adventure is good for you, if nothing else, just to prove you are alive.

- Lady Bird Johnson

Value-added food enterprises are definitely not for everyone. This chapter helps you determine if you've got the right aptitude.

Is Value-Added Right for Me?

Exercise #2: Score yourself 1 to 5 on the following questions, to assess your readiness for a value-added adventure.

1. I love cooking and I thrive when I'm creating a food product.

Score yourself from 1-5, with 5 being "Totally true, all the time."

Why this is relevant: A love of cooking isn't required, but if you hate cooking you might reconsider.

2. I enjoy selling stuff and I'm good at it.

Score yourself from 1-5, with 5 being "Totally true all the time."

Why this is relevant: If you're a farmer you already sell stuff. So you only have to do what you already do, just with a different product. You'll learn some new lingo pertaining to processed foods.

3. I'm an entrepreneur. My family, farm partners, and I are ready and able to start a new line of business.

Score yourself from 1-5, with 5 being "I'm 100% certain this is true."

Why this is relevant: You may have been farming for a couple years or a couple decades. You might—just maybe—be into a pattern of sameness and consistency in your farming operations. Adding processed products to your lineup is a whole new ballgame. You'd be adding a new line of business to your current activities—expanding your business model.

4. I'm good at recordkeeping and ready and willing to do a lot more.

Score yourself from 1-5, with 5 being "I'm 100% certain this is true."

Why this is relevant: For the farmers we know, this is a tough one. Crop records are a natural, sure, but financial records maybe not so much. Making processed foods requires really good recordkeeping. You'll have to keep track of recipes, batches, dates, and lots of other minutia. The salient point to remember is "traceability." You need to be okay with this to succeed in value-added processing.

5. My family will support this.

Score yourself from 1-5, with 5 being "I'm 100% certain this is true."

Why this is relevant: As with any new farm business, or small business in general, it really increases your likelihood of success if your family is on board. You already know this.



Shelly Kroeger photo

6. *I'm persistent and can work long hours.*

Score yourself from 1-5, with 5 being "Totally true, all the time."

Why this is relevant: Farmers wrote the book on this one. If you're not a farmer, give this serious and honest thought. And talk with your family.

7. *I'm ready for more work.*

Score yourself from 1-5, with 5 being "I'm 100% certain this is true."

Why this is relevant: You have to decide your own comfort level with this. Consider giving yourself a specific period of time to see if processing works for you—maybe two to four seasons. Start small and then expand if it's looking good for you.

As you learn and experiment, look for work tradeoffs: Are there crops you can grow for processing that are worth the work for the money? Are there crops you can stop growing that are a lot of work for the money? Once you've calculated your returns for your processed products, you can compare them to the return for your fresh sold products and adjust your crop plans. Making more money with the same or less work is the point, right?

8. *My farm is at a point in its life cycle where moving into value-added products makes sense.*

Score yourself from 1-5, with 5 being "I'm 100% certain this is true."

Why this is relevant: If you're just starting and you're new to farming, taking on processing will add to your already steep learning curve. That may be a lot to handle intellectually, emotionally, and logistically.

If you've been farming for a few years, and most of your systems are in place, it might be a good time to give processing a go and see if it's a money maker.

Or maybe you're nearing the end of your farm's life cycle because you're "getting too old for this "&*\$!." Or because the money's not working for you. Or for some other good reason. Processing can be a good venture for farmers who want or need a lighter physical work load. It could be that you can scale back on some of the back-breaking work and do more in the kitchen (where some tasks can even be done sitting down).

How did you do?

0-16 points: Nope, sorry. No way. You'll be miserable, unsuccessful, or both.

17-24 points: Probably not, unless something pretty big changes in your personality or situation.

25-32 points: Hmm, maybe. But there's at least one red flag, and possibly several.

33-40 points: Promising. A value-added food enterprise could be right for you.

Do

- An honest self-assessment.
- Share results with your family and farming partners, and talk about them.
- Read more chapters of this workbook—regardless of your quiz score.

Think about

- Places in the quiz where you score 1 or 2. Are these deal breakers? Or how could you overcome challenges in that area?
- Whether you like cooking and food creation.
- Whether you are an entrepreneur.
- Your willingness to do more recordkeeping.
- Your family.
- Your readiness to take on more work.
- Where your farm is in its life cycle.

Resources

There are lots of good articles on goal-setting, clarifying your personal values, and writing a mission statement for your farm. A couple we like and recommend:

- Chapter 1 (“True Sustainability”) of Richard Wiswall’s book, *The Organic Farmer’s Business Handbook: a Complete Guide to Managing Finances, Crops, and Staff—and Making a Profit*. Chelsea Green Publishing, 2009.
- Tammy Howard, *Scaling Up Your Vegetable Farm for Regional Markets*. National Center for Appropriate Technology, 2014. ATTRA publication IP464. <https://attra.ncat.org>



KNOW WHEN TO HOLD `EM AND WHEN TO FOLD `EM

Since it was started 30 years ago, Boggy Creek Farm in Austin has been a pioneer in marketing local, sustainable food products: both fresh produce and value-added items. Larry Butler and Carol Ann Sayle have always been known for taking bad luck events and turning them into profits. When a pecan tree fell on their house, they made cutting boards. And when a hurricane hit their tomato patch one year, they smoke-dried as many tomatoes as they could harvest. These became one of their most popular products.

Carol Ann continues to run the farm since Larry sadly passed away in 2018. Besides providing income when there is no fresh produce to sell, Larry always said that having value-added products available all year gave his customers a reason to come out to the farm. "We have a farm store. We have to get people to come to us. The more you have for them to buy, the more they're gonna buy!"

In recent years, the farm has shifted to more wholesaling of fresh produce and using its number twos for value-added products sold at the farm. They've gone to no-till to nourish the soil and cut down weed pressure. And they've gone back to making smoke-dried tomatoes with a Roma variety that they developed for this product.

As Larry once said, "I'm a farmer. You're in that business where some things are winners and some are losers. That's the nature of the beast. We've done some things that didn't work and we told ourselves, we're not going to do that again. So we learn."

You can listen to a podcast of Larry telling the story of his famous smoke-dried tomatoes at <https://attra.ncat.org/value-added-products-at-boggy-creek-farm-in-austin-texas>.

CHAPTER THREE

Product Development, Recipes, & Production

You've got to smell it, and get your fingers burned, and shed a few tears over it, and everything else to get it right. That's the way I look at it.

- C.B. Stubblefield, famed Texas barbeque master

This chapter gives you some pointers on developing and creating products. As you already know, this is basically a matter of trial and error—prototyping. Start from crops you like growing, try recipes you can make out of those crops, and then figure out the scale, packaging, storage, delivery, and other stuff to make it profitable.

Go shallow, go cheap

Our advice is to experiment with small quantities and find products that work for your farm, your values, and your customers. Test several products and try to narrow your choice to one or two of them. Don't spend a lot of money at this stage. Go easy on yourself if you have to start over with another product.

We've described this as a series of steps, but we deliberately did NOT number them (Step 1, Step 2, etc.) because the process isn't going to be linear. You'll frequently back up, jump ahead a few steps, or start over again. This can happen at any stage.

Something you notice about a recipe or piece of processing equipment, or a random comment from one of your customers, could lead you to try a new method or even grow a new crop. Finding that perfect product could take weeks, months, or years. Enjoy the journey.

Choose crops to process

Key decisions

- What crops do I grow, enjoy growing, or want to grow?
- What do I grow in volume and when?
- What crops do I typically have in excess?

Inventory the crops you have available (or could make available) for processing. The ultimate goal here is to discover crops you could make money on by processing. For example, if you've got lots of #2 tomatoes every June, and your break-even cost to grow them is \$2 per pound, can you make a product from those tomatoes that would earn you more than \$2 per pound?

Note: Your most abundant crop may not be the best candidate for processing.

Exercise #3: Fill out the *My Crops Available to Process* worksheet.

If you don't have farm records, just make your best guess. In your inventory, you may want to include pounds that are not harvested. Why? You might decide you can make money by processing crops that you previously left in the field.

To stir your imagination and remind you of all the possibilities, we've included a table showing seasonal availability of Texas crops.

Finding that perfect product could take weeks, months, or years.



Yahweh Farm photo

Example

FARM SHADES OF GREEN FARM

INSTRUCTIONS: Estimate the pounds of vegetables and herbs available to process.
 Include seconds + uglies + unsold #1s) for each crop.

ESTIMATES FOR YEAR 2016 based on 2014 and 2015

DATE COMPLETED 11/1/2015

Crop	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Notes & comments
<i>Eggplant</i>						1,200	1,200	1,200	1,200	1,200	1,200	600	7,800	<i>Spoil fast; grow to first frost; inconsistent sales volume, hard to predict</i>
<i>Okra</i>						100	100	100	100	100	100	100	700	<i>Often excess; grew more in the past but it didn't sell well at markets, so reduced amt grown.</i>
<i>Pepper</i>					50	50	50	50					200	<i>Mostly hot peppers</i>
<i>Squash, summer</i>					1,800	1,800	1,350			700	700	350	6,700	<i>Summer season 10 weeks; fall 8 weeks. Grew much less in Oct through freeze.</i>
<i>Tomato</i>						3,200	3,200				300	300	7,000	<i>4 weeks mid-June to mid-July. Often have lots of unsold #1s.</i>
<i>Greens</i>						50	50						100	<i>Not many #2s because we don't harvest if not #1.</i>
TOTALS					1,850	6,400	5,950	1,350	1,300	2,000	2,350	1,400	22,600	

Seasonal Availability of Texas Crops

Key: S=South, E=East, C=Central, W=West, N=North

Source: Texas Produce Availability Chart of the GO TEXAN program, Texas Department of Agriculture, www.gotexan.org.

Product	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Asparagus			S	S,E,C	C,E,N	N,W						
Artichokes			S	S,E,C	S,E,C	C,E,N						
Arugula	S,E	S,E	S,E	S,E,C	E,C	E,N,W	E,N,W	E,W	E,W	E,W,N,C	S,E,C,N	S,E,C
Beets	S,C	S,C	S,C	S,E,C	S,E,C	W	W	W	W,C	W,C,E	S,C,E,W	S,C,W
Blackberries				C,E	C,E	C,E,N						
Blueberries					C,E	C,E	C,E,N	N				
Broccoli	S,C	S	S	S,E,N	E,N					E,N	ALL	ALL
Brussel Sprouts	S,E	S,E	S,E	S,E,C	S,E,C	ALL	E,C,N,W	C,W	C,W	ALL	ALL	ALL
Cabbage	S,E	S,E	S,E	S,E,C	S,E,C	ALL	E,C,N,W	C,W	C,W	ALL	ALL	ALL
Cantaloupes					S	ALL	ALL	C,E,W	C,E,W	ALL	S,E	S
Carrots	S	S	S	S,E,C	S,E,C	N,W	N,W	W	W	W	W	S
Cauliflower	S,C	S	S	S,E,N	E,N					E,N	ALL	ALL
Collards	S,E	S,E	S,E	S,E,C	E,C	E,N,W	E,N,W	E,W	E,W	E,W,C,N	S,E,C,N	S,E,C
Cucumber				S	S,E	ALL	E,C,N,W	E,C,N,W	E,C,N,W	ALL	S,E,C,N	S
Fennel	S	S	S	S,C,E	S,C,E	N,W	N,W					S
Figs	S	S	S	S,E,C	E,C	E,C,N	N			C,E,N	C,E,S	S
Grapefruits	S	S	S	S	S					S	S	S
Green Beans			S	S,E,C	S,E,C	E,C,N	N,W	N,W	N,W	C,N,W	S,C	S
Honeydews					S	ALL	ALL	C,E,W	C,E,W	ALL	S,E	S
Kale	S,E	S,E	S,E	S,E,C	E,C	E,N,W	E,N,W	E,W	E,W	E,W,C,N	S,E,C,N	S,E,C
Leaf Lettuces	S,E	S,E	S,E	S,E,C	E,C	E,N,W	E,N,W	E,W	E,W	E,W,C,N	S,E,C,N	S,E,C
Leeks	S	S	S,E	S,E,C,N	ALL	C,E,N,W	W	W	W	S,E,N	S,E,N	S,E,N
Mustard Greens	S,E	S,E	S,E	S,E,C	E,C	E,N,W	E,N,W	E,W	E,W	E,W,C,N	S,E,C,N	S,E,C
Onion (Dry)			S	S	S,C,W	S,C,W	C,W,N,E	C,W,N,E	E,W	W		
Onion (Green)	S	S	S,E	S,E,C,N	ALL	C,E,N,W	W	W	W	S,E,N	S,E,N	S,E,N
Oranges	S	S	S	S	S					S	S	S
Parsnips	S,C	S,C	S,C	S,C,E	C	W	W	W	W	C,E,W	C,E,W	S,C,E,W
Peaches				S	S,E	C,E,N	C,E,N,W	C,E,N,W	E,W			
Pear				S	S,E	C,E,N	C,E,N,W	C,E,N,W	E,W			
Pepper (Bell)	S			S	S,E,C	E,C,N	N,W	W	W	ALL	ALL	S,E
Peppers (Hot)	S			S	S,E,C	E,C,N	N,W	W	W	ALL	ALL	S,E
Plums				S	S,E	C,E,N	C,E,N,W	C,E,N,W	E,W			
Pomegranates									C,E	C,E	C,E	
Potatoes (Red)			S	S,C	S,C,E	S,C,E,W	W	W				
Potatoes (White)						C	C	N	N	N,W	W	W
Potatoes (Yukon)						C	C	N	N	N,W	W	W
Pumpkins									C,E	C,E,W,N	C,E,W,N	N,W
Snap Peas	S	S	S,C,E	C,E	C,E,N	N,W				N,W	C,E,S	C,E,S
Snow Peas	S	S	S,C,E	C,E	C,E,N	N,W				N,W	C,E,S	C,E,S
Squash (Yellow)			S	S,C	ALL	C,E,W,N	C,E,W,N	N,W	N,W	C,E,W,N	S,C,E	S
Tomatoes (Cherry)			S	S,C	S,C,E	ALL	N,E,W	N,E,W	N,E,W	E,W	C,S,E	C,S,E
Tomatoes (Slicing)				S	S,C,E	ALL	N,E,W	N,E,W	N,E,W	E,W	C,S,E	C,S,E
Tomatoes (Roma)				S	S,C,E	ALL	N,E,W	N,E,W	N,E,W	E,W	C,S,E	C,S,E
Tomatoes (Heirloom)				S	S,C,E	ALL	N,E,W	N,E,W	N,E,W	E,W	C,S,E	C,S,E
Spinach	S	S	S	C,E	C,E,N,W	N,W				N,W	ALL	ALL
Sweet Potatoes	E	E	E	E	E			C,E,W	C,E,W	C,E	C,E	C,E
Turnips	S,C	S,C	S,C	S,C,E	S,C,E	W	W	W	W	C,E,W	ALL	ALL
Watermelon (Seed)					S	S,C,E	S,C,E,N	C,E,N,W	C,E,N,W	C,S	S	
Watermelon (Seedless)					S	S,C,E	S,C,E,N	C,E,N,W	C,E,N,W	C,S	S	
Winter Squash	S	S								ALL	ALL	S
Zucchini			S	S,C	ALL	C,E,W,N	C,E,W,N	N,W	N,W	C,E,W,N	S,C,E	S

Choose products to make

Key decisions

- Can I sell for more than cost?
- Can I make this product at home or do I need to use a commercial kitchen?

OK, now that you have a list of crops you have available to process, start building a list of possible products that you could make from those crops. Brainstorm and let your imagination run wild. But you're ultimately looking for products you could:

- make from crops you already grow, or could easily grow;
- make through easy processes (not too messy, dangerous, complicated);
- make in the least amount of time;
- make with the smallest investment in equipment and facilities;
- make with the lowest cost of ingredients; and
- sell for the highest possible price.

Note that this is just a preliminary exercise. As the next chapter will explain, the cost of ingredients may be just a small fraction of your total cost to make a product and get it to your consumers.

Exercise #4: Complete the Grow → Process → Sell worksheet on the next page. Make a separate sheet for each crop you think you'd like to process. (Photocopy or create your own form.) List products you could make from that crop, that you think you could sell.

Example

Crop TOMATOES

Possible Products	Processes
<i>canned (stewed, whole, etc)</i>	<i>dehydrate</i>
<i>chips</i>	<i>cook and can</i>
<i>powder</i>	<i>puree</i>
<i>salsa</i>	<i>cold pack</i>
<i>soup (with zucchini?)</i>	<i>frying</i>
<i>sauces (marinara, etc.)</i>	<i>juice</i>
<i>ketchup</i>	
<i>dressing</i>	
<i>juice</i>	
<i>pasta</i>	
<i>jerky</i>	
<i>Bloody Mary mix</i>	

Shortcut: If you know you'll be using your home kitchen, and not a licensed commercial kitchen, then consider only products you can legally make at home under the Texas Cottage Food law. (For example, most tomato products must be made in a licensed facility and not in a home kitchen.) See Chapter 6 of this workbook and refer to the list at texascottagefoodlaw.com.

Look for products you can make easily—with crops you already grow—and sell at the highest possible price.



Yahweh Farm photo

Grow → Process → Sell Worksheet

Crop _____

Possible Products	Processes

Rules will often dictate your choice of products

Ever wonder why farmers markets feature so many jams and jellies? Typically, health departments have fewer regulations for shelf stable products than those that require heat or cooling. Be sure to keep up with the Texas Cottage Food Law and make friends with your health inspector.

PLANNING AHEAD, NOT JUST REACTING TO WHAT WE HAVE LEFT

Value-added products are very very important to us. We often have excess vegetables either to bring home or that we don't even take to the market, and what I've learned is that the product changes quicker than we can anticipate. For example, we had excess oversized sweet potatoes last year. We've used a local commercial kitchen to make pickled beets, pesto, beet hummus, and pepper chutney, and are wanting to do something with eggplant like baba ghanoush. Instead of reacting to what we have left—which won't ever be a huge run for a packer and better suited to commercial kitchens—if something is selling extremely well and we know the costs, then we could make a decision to grow a crop specifically for this purpose. — *Jill Taylor, Taylor Farm*

Test recipes

Once you've chosen a few candidates, make some test products (prototypes) and narrow your choice to one or two products. Pay attention to appearance, aroma, and texture in addition to (obviously) taste. Be prepared to re-work your recipes many times. And—equally important—keep track of costs including your time and ingredient costs. Use the worksheets and tips in Chapter 5, “Can I Make Money?” Run your numbers early and often.

Suppose you have loads of excess tomatoes and you'd like to make salsa. After you make your test salsa, you run your numbers and find that each jar of salsa costs you \$3.50 to make, plus the cost of two pounds of tomatoes. You usually get \$4.00 per pound for your tomatoes at market, but to use your excess you'd be okay with \$2.00 per pound. That brings your cost per jar of salsa to \$7.50 per jar (\$3.50 + \$4.00). And you know there will be some other costs too. Do you think your customers would pay more than \$8.00 per jar for your salsa? Maybe. Maybe not. How much more would they pay? You decide.

If a product won't work for you, test other products. What about tomato chips? Or a Bloody Mary mix? Try different products and have fun. Use a Batch Costing Worksheet (provided in Chapter 5) to run your numbers. If you don't find a product that works with one crop, try another crop!

Scale recipes

Key decisions

- How will my recipe change for higher volumes?
- How do my costs change for higher volumes?
- How many do I need to make?

Once you've chosen one or two products that look pretty good in your tests, consider how your recipe will scale. If you made 12 jars in your test batch, how would you change your recipe to make 120 jars? Most recipes don't scale linearly. For example, a batch 10 times larger may not need 10 times as much salt. So you'll want to make test batches at the higher volume. Keep track of your costs as you go. If you find that this product doesn't work at higher volumes, try another product or find the volume that works for you.

Be prepared to re-work your recipes many times, paying attention to appearance, aroma, texture, and taste.

WELCOME TO THE CONSUMER PACKAGED GOODS INDUSTRY

In economist jargon, value-added food products are often described as a subset of a larger industry known as “consumer packaged goods” (CPG), a category that includes non-durable goods that are displayed on retailers' shelves and sold fairly quickly. Whether you like it or not, when you start scaling up a small value-added food products you are, to some degree, entering into the CPG industry. This shouldn't necessarily scare you off, but it does call for realism on your part. There's competition out there, and it gets more serious as you scale up.

Professionals spend their entire careers trying to master the nuances necessary for success in the CPG business—skills such as branding, customer acquisition and retention, logistics, retailing, and so on. You aren't just going to put vegetables in a jar, throw on a label, and profitably compete in this world over the long haul. Trying to get products onto the grocery store shelf is not realistic for most farms. And no matter what scale you ultimately decide is best for your business, we strongly recommend that you learn the basic success factors in the CPG world. These are discussed in Chapter 11, “Funding.”

How many do you need to make? Check with your customers. For example, if you're selling to a restaurant, they may want a minimum of 100 jars (or items) in a single order. If you're selling direct at market, you can probably make fewer.

What scale is most profitable? There will often be *economies of scale* that tempt you to scale up to a larger volume. But scaling up means taking on a new world of production, marketing, and financial risk. Take a breath and ask yourself the Core Question: Does the value I get make sense for my farm?

Production

Key decisions:

- Do I have a reliable and affordable source of ingredients?
- What regulations apply, and can I comply with them?
- How is the product is going to be packaged?
- What equipment and facilities do I need to make & package my product?
- Will I need to use a commercial kitchen?

Early on, check the regulations that apply to the product you are making.

Early on, check the regulations that apply to this product. You may need to have your product tested by a food safety lab before you sell it. Depending on the product, you may need to test pH, water activity, shelf life, or shelf stability, among other things. You may need special training and certifications, and you may also need to do nutritional analysis. These topics are covered in Chapter 6 ("Regulations") of this workbook.

If you have customers, ask them how they want the product packaged. For example, if you are selling to a grocer or school, they might want a case box that holds 12 jars per case.

Post-Production

Key decisions:

- Where will you keep your product until it's sold?
- How will you transport your product to your customer?
- How will you keep a refrigerated product cold at the market?
- How will you display it?

Labels & Packaging (See Chapter 7): Are labels consistent, yet different for each product? Do they spell out suggested uses of the product? Are they colorful, distinctive, and recognizable by shoppers several feet away? Do they look too busy or cluttered?

IF YOU FERMENT IT, THEY WILL COME

Back in 2010 some Ohio farmers wanted to see what fermented products could generate the most net income. They tried many crops and packaging options, and found that sour pickles, kimchi, fermented salsas, and sauerkraut sold best at a local farmers market. Also profitable were fermented green beans and Sriracha sauce. Sauerkraut and fermented daikon did not sell as well, and there were technical problems with fermenting beets, mushrooms, and summer squash. The researchers noted that fermentation is an art and specialty, requiring attention to detail. They found that they needed to dedicate a full-time staff person to making these products.

– *Adding Value to Vegetables through Live Fermentation: SARE project FNC10-825*

Are packages sturdy and secure, safe from tampering or mishandling? Do jars stack easily on the shelves in a grocery store or on a table at a farmers market? Are they reasonable in size and weight (generally less than one pound) to fit most people's hands and be easy to handle?

Storage (See Chapter 4): It gets pretty dang hot in Texas. What's the shelf life of your product? If you make a cucumber relish that needs refrigeration, do you have the cooler space to keep it until it's all sold? And how much will that storage cost? How will you keep refrigerated products cold on the way to the market? And how will you display them and keep them cold at the market?

Branding (See Chapter 8): Do graphics create a positive image of a farm in the customer's mind? Do they suggest that the product is artisanal, not mass produced in some factory? Does the logo also reinforce this image of a quality product?

Do

- List the crops you want to process.
- Estimate the quantity of crops you'll have available for processing.

Think about

- Will you have time to process when you have crops available?
- What products could you make from your available crops?
- What resources for processing are available in your area?

References

The chart "Seasonal Availability of Texas Crops" is adapted from the *Texas Produce Availability Chart* of the GO TEXAN program, Texas Department of Agriculture, www.gotexan.org.

Chmiel, Christopher, Adding Value to Vegetables through Live Fermentation: SARE project FNC10-825, https://projects.sare.org/sare_project/fnc10-825.

Tolchin, Tanya, Exploring low-tech food dehydration to increase profits on small farms: SARE project FNE13-789, https://projects.sare.org/sare_project/fne13-789.

Resources

The Beyond Fresh project created a Resource Directory, which is available on the website of the Texas Center for Local Food. This user-friendly directory allows you to search for commercial kitchens, companies providing packaging supplies, and many other essential resources and services for food product development and production in Texas: <https://texaslocalfood.org>.

The USDA Sustainable Agriculture Research & Education Program (SARE) has funded hundreds of research projects, including many related to value-added food products. You'll notice that we included summaries of lots of SARE projects in this workbook, and we recommend searching the SARE project database for product ideas and lessons learned: <https://projects.sare.org>.

An electronic version of the worksheet "My Crops Available to Process" is available from NCAT's ATTRA website, <https://attra.ncat.org/value.html> or the Texas Center for Local Food website, <https://texaslocalfood.org>.



Sue Beckwith photo

The Texas Food Processors Association offers publications, courses, networking with processors and input suppliers, and a yearly conference. Visit their website and consider joining as a member: www.tffpa.org.

The Food Engineering program at Texas A&M offers online courses, webinars, product testing, and a yearly course covering all aspects of food processing: <https://foodengineering.tamu.edu/fengr.html>.

The Robert M. Kerr Food & Agricultural Products Center at Oklahoma State University likewise offers online courses, webinars, newsletters, and other resources: www.fapc.biz.

The Network for Incubator & Commissary Kitchens (NICK) offers policy and procedure documents, a Shared Kitchen Toolkit, and many other resources. It's a private Facebook group, open to "shared kitchen professionals" who verify their industry affiliation: www.facebook.com/groups/NICKitchens.

Dr. Timothy Bowser of Oklahoma State University has designed a small-scale solar dehydrator. Plans are at <http://texaslocalfood.org/value-added-products>.

Katherine Adam, *Food Dehydration Options*. National Center for Appropriate Technology, 2004. ATTRA publication IP147, <https://attra.ncat.org>.

Janet Bachmann and Lance Gegner, *Grain Processing: Adding Value to Farm Products*. National Center for Appropriate Technology, 2002. ATTRA publication IP140, <https://attra.ncat.org>.

Al Kurki, Janet Bachmann, and Holly Hill, *Oilseed Processing for Small-Scale Producers*. National Center for Appropriate Technology, 2008. ATTRA publication IP134, <https://attra.ncat.org>.

Shuman, Michael, *The Small-Mart Revolution: How Local Businesses are Beating the Global Competition*. Berrett-Koehler Publishers, 2007.



Yahweh Farm photo

CAN YOU SELL WHAT YOU MAKE?

Researchers in Maryland built and tested two farm-scale dehydrators. One was a solar dryer and the other used electric heat and fans. Despite costing only a quarter as much as commercially available food dryers, the equipment worked well. However, the researchers ran into regulatory problems and were unable to sell many of the food products they created.

For example, the solar dehydrator could only be used for cut flowers and other non-food products. And food from the electric dehydrator could only be sold if the dehydrator was in an inspected building.

The researchers concluded that even though farm-scale technologies can often be built for much less than commercially available ones, the regulatory process can be a big problem. In the end, the project team determined that commercially available equipment may justify its higher cost and be the best option.

– Exploring low-tech food dehydration to increase profits on small farms: SARE project FNE13-789

CHAPTER FOUR

Storage and Distribution

The underlying thing is to eliminate that barrier between people who create stuff and people who want to have access to it.

- Gabe Newell referring to Steam, a distribution system for video games

Once you've chosen one or two products that you believe you can make and sell, you'll need to figure out how you'll store them and get them to your buyer. This chapter offers a few pointers.

Key decisions

- Where will I store my products until I sell them?
- How many products will I need to store and for how long?
- How long can I store my product and still keep it safe?
- How will I get my products to my customers?
- How much will distribution and storage cost?

Storage basics

Safety comes first. Storage facilities vary widely, but some general principles and common sense apply to all of them.

- Be sure your storage area is kept clean and free of pests.
- Know and follow the regulations governing your storage methods and facilities.
- Keep new boxes and packing materials in a clean space.
- Check your boxes for bugs before you fill them.
- Keep cardboard boxes off the floor.
- If you're certified organic or you want to use organic qualified pest control, check the OMRI list for approved pest control products (www.omri.org).

Shelf life

Naturally you want to sell your product at its peak freshness. Know your products' best shelf life before you start full production and sales.

Shelf life for some products is well known and obvious. For example, a cake lasts a few days. On the other hand, a yummy cucumber relish can get watery after a few weeks in the fridge. It still tastes great but its texture might be, well, kind of gross.



Yahweh Farm photo

TURNING OFF THE COOLER

"Once our season is over, we usually turn off our walk-in cooler in August. One year we had three cases left of relish that needed to be kept cold. It was financially and ecologically ridiculous to leave our entire 10x12 walk-in cooler on for three cases during the heat of the summer. So we sold it a loss and shut off our cooler."

- Katie Kraemer-Pitre, Tecolote Farm

Some products become hazardous after a certain period of time. There are labs where you can have your product shelf life tested. See the list on the Texas Local Food website: <http://texaslocalfood.org/resource-directory>.

Farmers market sales

If you're selling at farmers markets, distribution is mostly a matter of being able to carry the product safely in your vehicle to market. Seems pretty obvious, right? If your product is in glass containers, pack it well for the trip, especially if you drive bumpy country roads.

If your product requires refrigeration en route and at the market, think about how you'll pack it in coolers and how you'll get unsold product back to the farm, keeping it cold the whole time.

Consider soft freezer packs instead of ice for packing jars. You'll need to keep your jars dry so your labels don't curl. If you use cardboard boxes, be sure to keep them dry. Those wet boxes can lose their bottoms.

Distributors and wholesale sales

To get a sense of your storage requirements, ask your customers for an estimate of how often they'll buy your products and how many they expect to buy. You can estimate your storage requirements based on what they say—keeping in mind that these are only estimates so you need to have a plan to store more (or less) product if needed.

If you work with a distributor, check with them on their requirements for storage and logistics. Be sure their truck can get to your storage area and load in all weather.

For refrigerated products, you'll need to maintain what's called a cold chain and document that the product has been kept at the required temperature at all times.

Soft freezer packs, instead of ice, will keep your jars dry, so the labels don't curl.

COPING WITH PRODUCTION GLUTS

A four-year project in Kansas studied the idea of processing fresh tomatoes experiencing a temporary glut into value-added products with a long shelf-life that could be stored and sold slowly.

Specific objectives included testing tomato varieties, selecting equipment, developing labels, forming a grower cooperative, trying different marketing channels, and writing a business plan. Researchers and tomato growers experimented with various tomato-based products and different size jars, noting that it took considerable trial and error to develop attractive, tasty products with good consumer demand and adequate shelf life. Among other things, they learned that making tomatoes into salsa and selling it in pint-sized jars was more profitable than selling whole tomatoes in a quart-sized jar.

— *County Fair Tomato Cooperative: Developing an organic tomato processing cooperative, SARE project LNC98-127*

Do

- Estimate how much storage will cost.
- Know how much distribution will cost.
- Know your distributor's logistics requirements.
- Know the shelf life of your products.
- Decide how you'll pack and transport your products.
- Prepare to document the cold chain for your refrigerated products.

Think about

- Investments you're willing to make in storage.
- How additional storage will impact your utility bill.

References

Nagengast, Dan. *County Fair Tomato Cooperative: Developing an organic tomato processing cooperative*, SARE Project # LNC98-127, https://projects.sare.org/sare_project/lnc98-127.

Resources

The Texas Department of State Health Services (DSHS) website is your primary guide to regulations affecting storage and distribution: www.dshs.texas.gov/foodestablishments/faq-technical.aspx.

How Food gets Contaminated, from the Centers for Disease Control: An easy-to-understand overview of the food handling process: www.cdc.gov/foodsafety/production-chain.html.

What is a Cold Chain? (Wikipedia): https://en.wikipedia.org/wiki/Cold_chain.

A Google image search for "what is a cold chain" yields many diagrams that explain the importance and the "how to" of cold chain management. Choose one that applies to your situation.

The Texas Center for Local Food (TCLF) can hook you up with resources to develop your distribution. TCLF serves Texas farmers by helping develop new markets and coordinating the "value chain." The "value chain" is much like the ordinary supply chain; the difference is that the value chain connects producers, distributors, and buyers who share the values of fairness and equity across the supply chain.



Kara Kroeger photo



Yahweh Farm photo

WHERE THE MONEY IS

"My husband Saul is a fantastic farmer who can grow almost anything. I have a culinary background and like to think up new products to make out of our fruits and vegetables. Saul likes growing vegetables, and we enjoy selling them at the farmers market and through our CSA. But over the years we've learned that fresh vegetables are one of the least profitable things we do, for the amount of work that they take.

To be successful, we need to focus our time and effort on items offering the highest profit. Why sell greens or vegetables by the pound, when we can combine those same ingredients into colorful salads or soups that are worth many times more? Our customers love these prepared products, and my next step is going to be a freeze-drier, which is going to open up possibilities like freeze-dried fruits and ready-to-eat soup mixes."

– Diana Padilla, Yahweh's All-Natural Farm & Garden (Harlingen, Texas)

Can I Make Money?

Rule Number 1: Never lose money. Rule Number 2: Never forget rule No. 1.

- Warren Buffett

Most things that look profitable aren't really. Take a cautious and skeptical approach, research everything, run your numbers, and be sure before risking serious money. This chapter gives you some tools that make it easier.

Taking a Farmer-First approach

The ultimate test that should guide your decisions about food processing is the Core Question: Does the value I get make sense for my farm?

Now if the primary values that drive you are feeling closer to nature, growing your own food, restoring native prairies, testing your personal courage, or freeing your inner child, we salute you and you can skip this chapter.

For most of you, the heart of the matter—something very important to your farm—is making money. So taking a Farmer-First perspective requires that you learn to walk away from enterprises that—however fun or tempting, or whatever kind of beautiful poetic gesture they would make—are not profitable.

Did we make that clear enough? You're going to stop. Refuse. Just say no.

Making money requires net profit

Net profit is the money you have left over after you've paid all costs associated with making and selling a product. You want to find out quickly and early if your product has a net profit. If it doesn't, you're going to change the product, the way you make it, or do something else. To increase net revenue, you must increase gross revenue, decrease costs, or both.

In this chapter we've provided worksheets you can use to calculate net profit for each prototype you make and test. If you're handy with spreadsheets, you can easily re-create these spreadsheets on your computer.

When you make your "operational prototype"—the one you're ready to sell—you'll want your numbers to be firm. When you're on the verge of spending real money, "close" may not be good enough. We've provided some tools that will help you be accurate and make sure you don't leave anything out.

Exercise #5: Fill out worksheets on the following pages with ballpark numbers for a product you'd like to make. Can you make a net profit?

FEAR OF CHANGE

A person in any other line of business would think it ludicrous that many farmers don't keep track of where the money comes from and where it goes...What amazed me was my own internal resistance to actually crunching the numbers...I was scared of change, the change that these numbers might show me. Scared of finding out that farming was indeed unprofitable, that my livelihood and identity might have to drastically change, and that a decade of blood, sweat, and tears would go down the drain.

- Richard Wiswall, *The Organic Farmer's Business Handbook*

Taking a Farmer-First perspective requires learning to walk away from enterprises that are not profitable.

Gross Margin & Net Profit Worksheet

	Prototype 1	Prototype 2	Operational Prototype
Sale Price per Unit			
– Production Cost per Unit (from Production Cost Worksheet)			
= Gross Margin per Unit			
– Non-Production Cost per Unit (from Non-Production Cost worksheet)			
= Net Profit per Unit			

Production Cost Worksheet

	Prototype 1	Prototype 2	Operational Prototype
Cost of Labor per Batch (Include your time.)			
+ Cost of Ingredients per Batch (Include crop production costs if you grew them.)			
+ Cost of Packaging & Labels per Batch (Don't forget to include labor cost to apply labels.)			
+ Cost of Facility per Batch			
+ Other Production Costs per Batch			
= Production Cost per Batch			
÷ Units Made per Batch (e.g. # jars, packages)			
= Production Cost per Unit			

Non-Production Cost Worksheet

<i>May be entered per month, per year, etc. as long as you are consistent.</i>	Prototype 1	Prototype 2	Operational Prototype
Delivery			
+ Storage			
+ Cost of Sales (e.g. booth fees, samples)			
+ Licenses			
+ Discounts to Customers			
+ Returns			
+ Marketing			
+ Taxes			
+ Administrative Staff, Recordkeeping			
+ Overhead (e.g. rent, insurance, utilities)			
+ Other Costs			
= Total Non-Production Cost			
÷ Units (Per month, per year, etc. Same as you used above.)			
= Non-Production Cost per Unit			

BUT I'M NOT SURE OF MY NUMBERS...

You won't know some of these numbers exactly. That's OK. For now just use rough costs, to see if you are even in the ballpark of profitability. You'll have a chance to refine your numbers later, as you make and test prototypes.

We know the lake is cold, but jump in!

Batch Costing Worksheet

Use this tool in the kitchen to collect detailed costs for value-added products. Product Name: _____

An electronic version of this worksheet is available from NCAT's ATTRA website, <https://attra.ncat.org/value.html>.

Date: _____

LABOR

Person's Name	Tasks	Hourly Pay Rate	Total Hours Worked	Pay Amount (Hrs × Rate)

NOTES

- Track how many people work and how long each person works, whether you pay them or not.
- Jot down about when each large task was finished, so you can look for the most arduous tasks and try to streamline.
- Try to understand which tasks are the most labor intensive so you can know where different equipment might help reduce your costs.
- Don't forget to count labor cost for packaging and labeling!

LABOR TOTALS

--	--

INGREDIENTS FOR ONE BATCH

Ingredient	Source (Your own farm? Another farm? Etc.)	Quantity (per batch)	Unit of Measure (lbs, cups, tbsp, etc)	Cost per Unit of Measure	Cost per Batch (Quantity × Cost per Unit)

NOTES

- Be sure to scale your recipe to your batch size.
- Batch size will be determined by your recipe and the sizes of equipment used such as your cooling pot or blender capacity.
- If you use both #1s and #2s of the same fruit or vegetable, include each on its own line, with an appropriate cost per unit.
- Likewise, if you use ingredients from both your own farm and other sources, list each item separately with the price paid.

TOTAL COST PER BATCH

--

Units (jars, packages) per Batch × # Batches Made = Total Units Produced

WASTE

Farm ingredient	Total incoming weight	Usable pounds	Waste	Percent Waste
TOTALS				

NOTE

- Total usable pounds needs to equal total pounds to make your recipe. You'll use this number to be sure you have enough to make your batch.

PACKAGING AND LABEL COST PER UNIT: container, lid, ties, adhesives, etc.

Container Cost Per Unit + Label Cost Per Unit + Other Costs (e.g. labor for applying labels) = Total Packaging & Label Cost Per Unit

Tips on using the batch costing worksheet

We know it can be a real pain to track detailed costs while you're trying to make a product. We can tell you from experience, though, that the rewards are many.

Tracking labor time

Have each worker track their time during processing. You want to know both how long it actually takes to make your product and what it costs. Consider a time sheet that workers mark as they start and stop work for breaks. If someone takes frequent breaks, you may not want to count that as processing time. But if you pay them for breaks then the time will still count as COST. One reason for tracking time is because you might find that buying a new piece of equipment will save you time and money.

Ingredients

How do you assign a cost to ingredients, if you grew them yourself? Basically, think of this as buying these crops from yourself. One approach is to use your farm break-even price, say \$2.00 per pound for tomatoes. Or you might use a lower price if the crop you're processing would otherwise be composted.

How you assign ingredient costs will have a big impact on whether your product looks profitable. If you "charge" a low ingredient cost, then your product will look more profitable. Charge an ingredient cost that's realistic for the return you expect on your farm costs to plant, grow, and harvest that crop. Don't sell yourself short and also don't expect a full market retail price for crops you use as ingredients in a processed product.

Batch size

All products will be made in batches. You'll need a pretty good idea how many containers you'll get from each batch. For example, you might know that for a 35-pound batch of sauerkraut, you'll get 70 12-ounce jars. You decide your batch size based on your recipe, the equipment you have, and how many containers you want to make. Keep your records by batch.

Waste

Tracking waste is essential, even if you'll compost it. Think about all those outer cabbage leaves, soft spots on zucchini, or cucumber ends. They add up. Weigh your ingredients when you start processing and then weigh again when it's ready to be finally processed into your product. Depending on the crop and its condition, you might see waste of 30 percent or more and that can cut into your profits. Know your waste cost.

The best way to figure out your production cost is to make prototype products and track your costs as you go.



Kara Kroeger photo

SHREDDING MACHINE: A LOVE STORY

As part of a USDA-funded project in Elgin, Texas a group of farmers made a prototype sauerkraut. The first prototype was 100 jars and took all day to make—shredding cabbage by hand is labor intensive. For the second prototype, one farmer bought a hand crank machine to shred the cabbage and the group made 400 jars in the same amount of time! The shredding machine cost \$450 and nearly paid for itself in this first use. Plus, the machine will last and be useful for many years.

Sale price

To make any kind of estimate of net profit you need to set a sale price. You'll basically determine this by how much the market is willing to pay. Do your market research. Talk with your customers and see what others are charging for similar products. You can adjust your price later, but get the best estimate you can early.

Production Cost

Production cost includes labor, ingredients, packaging and labels, facility cost, and other costs. The best way to figure out your production cost is to make prototype batches and track your costs as you go. This may seem like tedious work, but is super-important and will pay off. True production costs will often surprise you, and the cost of ingredients may be just a small fraction.

Use the Production Cost Worksheet. We've also provided a handy Batch Costing Worksheet that you can use to collect accurate information during production. Put the form on a clipboard, take it into the kitchen, and track exact costs for labor time, ingredients, and packaging. An electronic version of this worksheet is available from

- NCAT's ATTRA website, <https://attra.ncat.org/value.html>
- The Texas Center for Local Food website, <https://texaslocalfood.org>

A word about scale

As you test your first products in small quantities, probably in your home kitchen, you might find that the packaging and label costs are too high. For example, If you run a test by making 12 jars, your costs will be way higher than if you ordered enough to make 400 jars. Just try to use the numbers that are most realistic for the actual production you are expecting.

Likewise, you might use small kitchen equipment to make your first prototype, but realize you'd need a commercial kitchen with large equipment to go into actual production. It might be worth renting a commercial kitchen to make your *operational prototype*—the product you think you're ready to sell—so you can try out higher-capacity equipment and see how your costs change.

WE HAD TO THROW OUT THE WHOLE BATCH

During one of our prototyping experiments we made 70 pounds of fermented cucumber relish in two batches of 35 pounds each. Each batch was set to ferment in a five-gallon bucket lined with a food safe bag. After a few days of fermenting the relish was ready to be put in 12-ounce glass jars. We filled each jar by hand using a scoop to fill each jar over the 5 gallon bucket.

We're going along filling jars, chatting and smelling the yummy aroma of our fermented relish. Then we realize that one of our jars is broken - there's actually a hole of about an inch diameter missing from bottom of the jar. We had to throw out the entire batch; we didn't know if the jar was broken before or had just broken and there were glass bits in the bucket. We lost money because we lost half of our product, but we were glad to have another batch to jar.

Lessons learned: Check the jars before filling and make batch size reasonable so if you have a food safety issue, you won't lose it all.

When you track them accurately, production costs will often surprise you. The cost of ingredients may be just a small fraction.

Gross margin: your decision crossroads

Gross margin will give you pretty good initial indication of whether you're on to something or need to stop and revisit your product's development.

Your gross margin is the amount of money remaining after subtracting production costs from the sale price.

$$\text{Gross Margin} = \text{Sale Price} - \text{Production Cost}$$

Basically, gross margin is your cost coming out of the kitchen. Your gross margin needs to be high enough to allow you to pay all the other costs related to your food processing business, such as delivery, storage, record keeping, insurance, discounts to customers, and product returns.

Example

Sauerkraut Sale price = \$7.00/jar. Production cost = \$4.00/jar

$$\text{Gross margin} = \$7.00 - \$4.00 = \mathbf{\$3.00/jar}$$

If your gross margin is less than zero, you're going to lose money on every single jar or package you make—no matter how you distribute them. Stop. You won't make money from the product at the sale price you've assumed.

Save money. Fail early.

If your gross margin is low or negative, don't panic. This is normal and it's probably going to happen to you a lot. Chill out. Eat a cookie. Go to your Happy Place.

Failure is the path to success, as long as you fail early.

Try another recipe, increase efficiency, change packaging, or find another product altogether. Look back through your production costs and see if you can find ways to reduce them. If you used the Batch Costing Worksheet, review the detailed data you collected and think about ways to reduce costs.

Could you charge more?

Check your sale price. Could it be higher? Any product could theoretically have a positive gross margin if you set the sale price high enough. But your customers will only pay so much. Your goal is to find products that have a high profit margin at an attractive selling price. Forget trying to compete with large companies on price. Instead, make a product so unique, special, and precious to consumers that it commands a premium price.

WOULD YOU PAY \$20 FOR AN 8-OUNCE TUB OF PESTO?

One of the farmers in the Beyond Fresh project had extra green garlic every year, and she wanted us to see if she could make something profitable from it. We tried a green garlic pesto, and our first prototype production cost was \$10.00 for an 8-ounce tub. "Outrageous!" she said. "People won't pay more than \$8 for the tub and that's zero profit."

Yep. Pesto is deceptively labor intensive: peeling that garlic, picking all those basil leaves - whew! For our second prototype we tried green chard instead of basil. Our costs dropped closer to \$7.00 for an 8-ounce tub—still little or no profit margin. Pesto is one of those products that looks profitable (high price for such a small tub), but may not actually be.

Must-pass test: Your gross margin must be greater than zero. If it's not, there's no way you can make a net profit.

Production costs really add up. But wait, there's more!!

If your gross margin is positive, that's nice. Your sale price seems high enough to cover your production costs. But don't break out the champagne quite yet. Net profit, requires covering **all** of your costs—including the costs after your product leaves the kitchen. We gave you a Non-Production Cost Worksheet so you can estimate those. There are a lot of them. Before talking about them (in the next section), let's introduce one other important number: percentage gross margin.

Percentage gross margin

Percentage gross margin is another indicator of your product's profit potential.

$$\text{Percentage Gross Margin} = (\text{Gross Margin} \div \text{Sale Price}) \times 100$$

Example

Sauerkraut Gross Margin = \$3.00/jar Sale Price = \$7.00/jar

$$\text{Percentage Gross Margin} = (\$3.00 \div \$7.00) \times 100 = \mathbf{42.8\%}$$

So what's my target percentage gross margin?

That 42.8% margin looks pretty good, right? But it might need to be even higher to turn a profit. A common guideline is that you want percentage gross margin to be 50%. That's half of your sale price. But the real answer is "It depends on your sales outlet." That's because your sales outlet will largely determine your non-production costs.

If you're selling direct at a farmers market, your non-production costs might be fairly low. The delivery cost associated with putting another box in the truck is probably negligible. But be sure you allocate a share of your market overhead to this product, such as booth fees, licenses, supplies, and staffing. These costs (labeled Cost of Sales in the Non-Production Cost Worksheet) might be small but they add up.

If you're not already selling at a farmers market, and you'll be setting up a new booth, you'll incur costs that must be allocated to your product, such as a way to keep products chilled and displayed. Plus an extra permit, little plastic cups, and those spoon-like things if you want to do sampling. All these costs need to be captured and counted in your Cost of Sales.

If you're selling to a grocer, you'll likely have a lower cost of sales (no booth fees or staff time). If you're selling to just one store, distribution might be a single delivery. Your sale price is probably going to be lower than at the farmers market. And the grocer might ask for:

- deliveries just once a month, so you'll have to arrange for storage;
- free products that they can test market;
- specialized signage;

SOCIAL MEDIA TAKES LABOR...SOMETIMES A LOT.

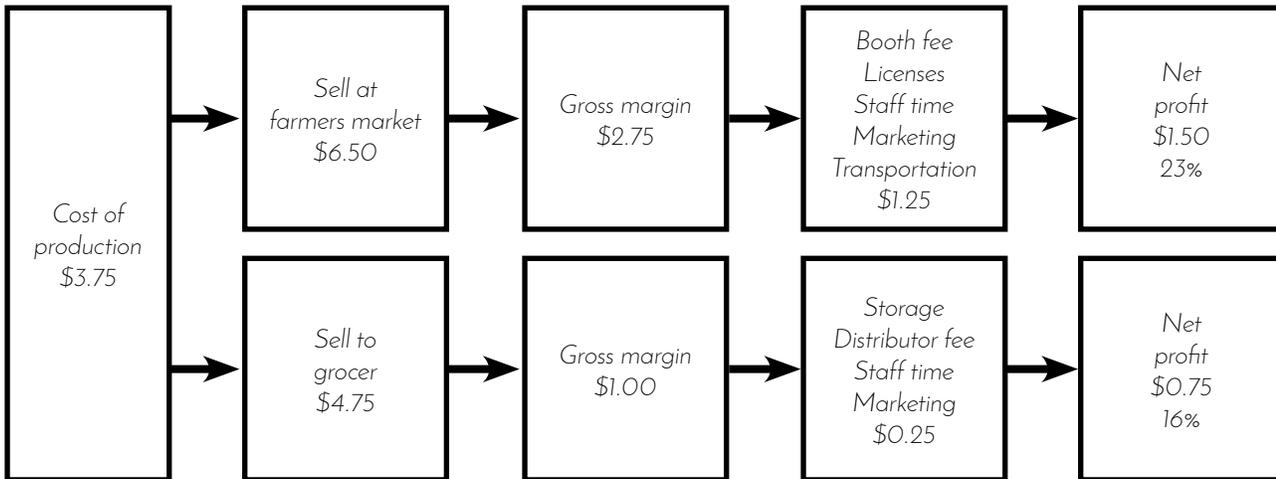
In 2015 Amy's Kitchen—known for its healthy, frozen vegetarian meals—expanded its business and opened its first brick and mortar, a drive through restaurant. At launch they consciously chose to use only Twitter and Instagram, in part because they determined that the cost of staff time to manage a Facebook page was too high.

- Amy's Kitchen, presentation at Natural Products EXPO East, September 15, 2015

You'll often hear that you want your percentage gross margin to be at least 50%. But it really depends on your sales outlet.

- a reduced price to introduce customers to your product; or
- an “in store” event, where you meet customers and tell the story of your farm.

All of these will eat into your profits. The diagram below compares two sales scenarios for the same product: sold at a farmers market and to a grocer. We assume that production costs are the same either way. Profit per unit here comes out higher at the farmers market. Of course, it might still be better for you to sell to the grocery, if that allows you to sell a higher volume.



Those pesky non-production costs

Sorry to tell you this, but non-production costs can be surprisingly high: a school of guppies capable of eating a shark. You need to fear them and count all of them. Let’s look at a few.

Storage and distribution

Will you store product on your farm? Does it need to be kept indoors in air conditioning? Will it need refrigeration? Do you need to rent storage space?

What will distribution cost you? Include the fraction of your delivery vehicle costs that will be allocated to your processed food product. Will you need to rent a delivery truck?. Also add in the cost of any staff you hire to handle distribution and/or storage. If they only work part of the time with your processed food products, then just add in an appropriate percentage of their pay.

Cost of sales

It’s strange but true: It costs to sell. Examples include farmers market booth fees, sampling utensils, permits, and licenses. Any cost of returns or free products gets included here, as does the cost of discounts to customers. If you are putting your new value-added food products into your CSA basket, you would include a portion of your CSA costs here. Also include salaries for sales staff, if you have any.

COST = WAY MORE THAN MATERIALS

Cost isn’t just the cost of the produce. It’s also the jar, the label, the truck to get it delivered, people to put it all together, and maybe a “fronting fee” that the retailer charges to have it on the shelf. Actual “materials” cost may be a minor amount of total “unit” cost.

- Curt Nelson, Austin Foodshed Investors



Non-production costs can gobble up your profits, like a school of guppies eating a shark.

Marketing

Like distribution costs and most fixed costs, marketing costs are very real and must not be ignored, even though they are hard to assign to particular items. The best you can do is to allocate a reasonable fraction of your overall marketing costs. For example, if you spend \$2,000 per year on marketing and about 10% of your marketing effort is for your smoked peppers, you could allocate \$200 per year to marketing your smoked peppers. If you buy special signage or do targeted social media to introduce your new product line, include those cost on top of that 10% allocation.

Overhead and administrative staff

Here include things like insurance, rent, taxes, utilities, and accounting services (your bookkeeper and CPA). As with marketing, just estimate a reasonable portion of these costs that should be allocated to your value-added products.

For example, if food processing activities require you to leave your walk-in cooler on in July and August, when you'd normally turn it off, include at least two months of your cooler electric bill. **And** if you have an administrative staff person on your farm, allocate a reasonable portion of their salary that relates to your food processing enterprise. You've probably included field staff in your crop production cost, so don't count that cost here.

Other costs

We've left you a blank on the Non-Production Cost Worksheet where you can include anything that's not covered anywhere else. It could be hiring a babysitter while you're at market or an overnight stay in a hotel because the market is four hours from your farm and the weather turned ugly.



Sue Beckwith photo
Beautiful and delicious prototype,
but the numbers didn't work.

MARGIN WAS GOOD, BUT NOT GOOD ENOUGH

Tecolote Farm has sold fresh organic vegetables at Austin Farmers markets for over 20 years. As part of a pilot project, they worked with a farmer who had a commercial kitchen to make a prototype of Tecolote Farm Zucchini Relish. The relish needed to be kept chilled so Katie Kraemer of Tecolote had to figure out how to display the relish at her market booth.

As the ice melted in the Texas heat, the relish became too much of a hassle to deal with. They figured the margin was about 25% per jar, and that's pretty good, but in the end they decided it just wasn't worth the schlepping and the ice and the cooler for a couple of dozen jars of cold relish.

Cost Calculators

Dr. Rodney Holcomb and Dr. Timothy Bowser created four Cost Calculators for the Beyond Fresh project: spreadsheet tools for checking the profitability of food products created in four common food-processing scenarios:

- On-Your-Farm: simulates building a small kitchen on your farm
- Hourly Rental: simulates short-term periodic leasing
- Long-Term Lease: simulates long-term continuous leasing
- Build-Operate: simulates building and operating a commercial kitchen of any size or complexity, for dedicated purposes such as drying, canning, or baking.

Because these calculators only work electronically, we couldn't include them in this workbook. However, they are available as free downloads from the Value-Added Food Products page of NCAT's ATTRA website or the Texas Center for Local Food website. (See Resources list at the end of the chapter.)

We strongly recommend using these calculators to estimate the profitability of any value-added product that you are thinking about making in a commercial kitchen. The calculators are sophisticated and go into far greater detail than the worksheets in this chapter. They make it easy to tweak your assumptions (ingredients, packaging, production volume, and so on.), and check profit margins in different scenarios.

Note: *The calculators use information you collect on the Batch Costing Worksheet. You don't have to use the Batch Costing Worksheet but you might find it helpful as a way to ease into tracking your costs.*

To use the calculators, you'll need basic familiarity with Microsoft Excel. And they require detailed input about your ingredients, equipment, processes, labor, and other factors. Your reward for entering all this information will be a sophisticated forecast of the returns you can expect from your food enterprise.

Tips on choosing or building a commercial kitchen

The main thing is to find a commercial kitchen that meets your needs. In many cases, this will be the one closest to you, although for most farms and ranches (outside of cities), there aren't many—or any—choices. Your only realistic option may be to build your own.

Should you build or rent?

We strongly recommend using the Cost Calculators (described above) to estimate your costs, cash flow, and payback periods under various leasing and building scenarios. Starting out by renting might be the way to go, even if the kitchen is a long distance from your farm. If you build a commercial kitchen on your farm, you're going to be investing a pile of money, and you want to be sure that your investment will pay off.

What kind of money are we talking about here? Well, as an example, one Central Texas farm spent \$40,000 on a small 20' x 30' on-farm commercial kitchen, and it paid off for them after about four years.

Use the online Beyond Fresh Cost Calculators to get a realistic forecast of the returns you can expect from your food enterprise.

The Beyond Fresh Cost Calculators will help you decide whether to rent or build, showing you costs, cash flow, and payback periods under various scenarios.

Some things to look for when renting a commercial kitchen:

Begin by listing your needs: What equipment do you need? When do you need to use the kitchen? How frequently?

Do you need storage? What kind (dry, cold, freezer) and how much? It might be helpful to list the stuff you'll need to store: ingredients, packaging, and finished products. You might be fine with schlepping to and from your farm, in which case you might not have to pay for any storage.

What are your logistics needs? What time of day and distance? What's load-in and load-out like at the kitchen? Will you have to deal with traffic congestion getting to and from the kitchen?

Is the kitchen clean? Has it had any problems with its health inspections? A health code violation by any kitchen user can shut down the entire kitchen, so you can be shut out even if it wasn't your mistake. It's up to the kitchen owners to select clients, and you'll want to check health department records to be sure they don't have regular violations.

Do you want business incubation support? Or just need a place to make your products? There are kitchens with on-site staff to help you sort out the licenses and certifications you need.

What price can you afford? Check the prices and contract terms.

What are the requirements in order to use the kitchen? Know the rules you'd need to follow, and make sure you can follow them without major inconvenience.



Sue Beckwith photo

FINDING THE RIGHT COMMERCIAL KITCHEN

"We have had to rent certified kitchens to make our value-added products and either the cost was prohibitive or the travel distance too great. We need to find a solution because we have demand for our products but cannot make them at a price consumers are willing to pay. We need commercial kitchens and/or facilities that are more affordable or closer to our farm."
– Skip Connett, Green Gate Farms

Do

- Complete a Batch Costing Worksheet for one of your planned products.
- Look at the Beyond Fresh Cost Calculators online and don't freak out if they seem too complex.
- Fill in some data on the worksheet for non-production costs.

Think about

- Selecting just one product to run your numbers.
- Costs you don't currently have but might have for value-added products.
- Finding a friend to help you with Excel if you need it.
- How many guppies it would take to eat a shark.

References

Holcomb, Rodney B. & Timothy Bowser (April 2016), "Beyond Fresh" Food Processing Market Opportunities. National Center for Appropriate Technology.

Resources

The Batch Costing Worksheet and Cost Calculators described in this chapter are available as free downloads from the Value-Added Food Products page of the ATTRA website (<https://attra.ncat.org/value.html>) or the Value-Added Products page of the Texas Center for Local Food (<http://texaslocalfood.org/value-added-products>).

ATTRA offers a free self-instruction course, *Scaling Up for Regional Markets*, that includes a lesson on value-added food products: <https://attra.ncat.org/tutorials/scalingup>.

Richard Wiswall, *The Organic Farmer's Business Handbook: a Complete Guide to Managing Finances, Crops, and Staff—and Making a Profit*. Chelsea Green Publishing, 2009. (We love this book.)

The Veggie Compass offers free tools to help growers improve crop planning to maximize profitability: www.veggiecompass.com.

SLIGHT CHANGE OF PLANS

A farmer friend had 1,000 pounds of butternut squash pre-sold to a local grocer. She was super excited to be able to sell her entire crop. The night before harvest, her farm got slammed by a thunderstorm with hail. My phone rang at 4 a.m. and it was my friend in tears, sobbing that the crop was ruined and she had nothing to sell.

I told her bring it to my commercial kitchen and we'd see what value-added products we could make. We met at the kitchen at 7 a.m. and worked into the evening making puree, soup, dicing and freezing - we made every squash recipe we could and we saved 90% of her crop. By moving quickly, we were able to salvage the hail-damaged squash and at least get the farmer a little more than break-even and save her from a total crop loss.

- April Harrington, *Earth Elements Kitchen*

BUZZ KILL: MOST OF OUR EARLY PRODUCT IDEAS WERE NOT PROFITABLE

The Beyond Fresh project team brainstormed 10 products that our growers could make from readily available crops and thought their customers would like. The farmers also came up with prices that they thought would be reasonable and attractive at a farmers market. We asked the Texas Center for Local Food to prototype all 10 products, carefully tracking the time and materials required for processing with a Batch Costing Worksheet. Then we assessed the potential gross margin on each product, using the Beyond Fresh Cost Calculators.

Of the ten products, six had a positive gross margin. But only two had enough margin for a clear financial return to the farmer: fermented sauerkraut and peach jalapeño jam. Admittedly, these were just our first prototypes. We were not very efficient and made some big mistakes. We tried different ingredients and recipes and were able to improve the gross margins on some of these products.

Prototyped Product	Gross Margin
Cucumber Relish	13.8%
Sauerkraut	42.7%
Green Garlic Pesto	- 4.1%
Zucchini Relish	31.6%
Pickled Okra	27.9%
Spicy Cucumber Relish	12.3%
Sweet Potato Puree I	- 62.1%
Sweet Potato Puree II	- 23.5%
Peach Jalapeño Jam	53.6%
Green Garlic Chimmichuri	-115.4%

Regulations

I'm from Texas and one of the reasons I like Texas is because there's no one in control.
- Willie Nelson

Next to profitability, regulations are the biggest factor that will determine what food products you can make and sell. Some rules and restrictions are painless, while regulations and licensing requirements make other activities extremely difficult or impossible. You absolutely must follow all the rules and take them seriously, and things are easier if you stick to foods allowed under the Texas Cottage Food Law. This chapter guides you through some of the issues.

We aren't lawyers. Nothing in this book should be misconstrued as legal advice.

A Farmer-First approach to food safety regulations

It's easy to understand why small food processors come under scrutiny and are sometimes viewed with suspicion by regulators. Public safety and food-borne illnesses are serious matters. And by and large, regulators treat farmers fairly. You must learn and follow all the laws and regulations that apply to you, and it is never OK to put public health at risk. However, you do have the right—like any other good citizen—to be assertive and persistent, insisting that regulators explain the rules in terms you can understand.

You also have the right to participate in democratic processes. At the end of this chapter we've listed some groups that advocate for reasonable food safety laws and work on reducing regulatory burdens on small farmers and food processors. Check out these groups and consider joining them as a member.

Key decisions:

- What products am I allowed to sell?
- Where am I allowed to sell my products?
- To whom am allowed to sell my products?
- How much money am I allowed to make selling my products?
- What licenses, permits, registrations, or training do I need?

Food processing is regulated by local, state, and federal law. Your county health department, the Texas Department of State Health Services (DSHS), and the Federal Food and Drug Administration (FDA) are normally the three

NEED A LAWYER?

If you want legal advice, hire a lawyer. For help, contact the Texas-based Farm and Ranch Freedom Alliance (FARFA), info@farmandranchfreedom.org or (254) 697-2661. FARFA can provide guidance on legal issues, although it cannot provide individual legal counsel.

Two other organizations offering free help with legal issues and questions:

- The Farmers Legal Action Group, www.flaginc.org
- The National Agricultural Law Center, <http://nationalaglawcenter.org>

Next to profitability, regulations are the biggest factor that will determine what food products you can make and sell.

Get to know your county health officials and get comfortable with them being on your farm on a regular basis.

main agencies that get involved. Depending on what you're making, where you're selling, and how much you're selling, you may have to deal with one, two, or all three of them. If meat is involved, and it'll be marketed across state lines, you'll also have to deal with the USDA Food Safety Inspection Service. Regulations are constantly changing. Always check with the responsible agencies for current information.

There are hundreds of laws and regulations related to food processing and sales. Topics include (to mention a few):

- sanitation of processing operations, water supply, and sinks.
- employee hygiene, sanitizing methods, and handwashing.
- the use of poisonous and hazardous substances.
- equipment design (e.g. refrigerators, stoves, sinks, and mixers).
- floors, walls, ceilings, and shelving.
- ventilation and lighting.
- time and temperature control.
- pest exclusion.
- food storage requirements.

It's far beyond the scope of this workbook to cover all these regulations, and they change frequently. Among other things, we have not tried to cover meat processing at all—a regulatory world unto itself. Instead we've tried to give you the big picture, highlighting one exceptional opportunity (Texas Cottage Food Law), and one large area of concern (the Food Safety Modernization Act). We recommend that you seek legal counsel for help understanding laws and regulations that will affect your food processing business.

Texas Cottage Food Law

If you are a small- to mid-sized farmer, and thinking about getting into food processing, cottage food sales are definitely a great place to start. The *Texas Cottage Food Law*, passed in 2013, allows you to make certain food products at your home—considered to be a *cottage food production*

SOME FOODS YOU CAN LEGALLY MAKE IN A COTTAGE FOOD OPERATION

(From the Texas Department of State Health Services website as of December 2018, www.dshs.texas.gov.)

- Breads, rolls, biscuits
- Cakes (birthday, wedding, etc.)
- Cookies
- Coated and uncoated nuts
- Fruit butters (not all fruit)
- Fruit pies
- Popcorn and popcorn snacks
- Dry mixes
- Pickles (cucumbers only)
- Roasted coffee or dry tea
- Sweet breads, muffins
- Pastries
- Candy
- Unroasted nut butters
- Some canned jams or jellies (but not all fruit)
- Dehydrated fruit or vegetables, incl dried beans
- Cereal, including granola
- Vinegar
- Mustard
- Dried herbs and dried herb mixtures

operation—and sell them directly to consumers without getting a license for your facility from the state. The law will serve you well if you stay within the categories of food allowed under the law.

The law has been revised a couple of times, and will no doubt continue to evolve. But at the time of publication (2019), these are some main features:

- You may sell only the foods specifically listed in the law, which are considered to be *non-potentially hazardous*. Generally these are non-perishable foods that don't require refrigeration.
- You may sell these foods only directly to the consumer. This includes selling at your home; at a farmers market or farm stand; or at an event sponsored by a municipality, county, or non-profit organization. You may also deliver products to the consumer at a location designated by the consumer.
- You may not sell these foods at federal or state-sponsored events, such as a state fair.
- You may not sell these foods at privately-sponsored for-profit events, such as craft fairs or flea markets (other than farmers markets).
- You may not sell these foods to a restaurant, over the Internet, or by mail order.
- Foods must be packaged and labeled correctly. The rules on packaging and labeling are quite detailed and strict.
- You and your employees (if you have any) must have food handler certificates.
- You may not sell more than \$50,000 worth of these foods annually.
- You may not sell animal treats.



Kara Kroeger photo

SOME FOODS YOU MAY NOT LEGALLY MAKE IN A COTTAGE FOOD OPERATION

(From the Texas Department of State Health Services website as of December 2018, www.dshs.texas.gov.)

- Fresh or dried meat or meat products including jerky
- Canned fruits, vegetables, vegetable butters, salsas etc.
- Kolaches with meat
- Fish or shellfish products
- Canned pickled products such as corn relish and sauerkraut
- Raw seed sprouts
- Bakery goods which require any type of refrigeration such as cream, custard or meringue pies and cakes or pastries with cream cheese icings or fillings
- Milk and dairy products including hard, soft and cottage cheeses and yogurt
- Fresh fruits dipped or coated in chocolate or similar confections
- Fresh vegetables
- Juices made from fresh fruits or vegetables
- Ice or ice products
- Barbeque sauces and ketchups
- Focaccia-style breads with vegetables or cheeses
- Chocolate covered graham crackers, Rice Krispy treats
- Dried pasta
- Sauerkraut, relishes, salsas, sorghum
- Lemonade, juices, hot chocolate or similar beverages

There are many nuances to the law, and you'll need to research them thoroughly. Good sources of information are FARFA, the Texas Cottage Food Law website, and the Food Establishments website of the Texas Department of State Health Services. (See the Resources list at the end of the chapter.)

A good relationship with your county health inspector creates a positive communication flow. Inspectors are great resources for learning.

Licenses, permits, & certifications required for cottage food production			
Topic or concern	License, permit, or certification required	Where you get it	When it's applicable
Safe food handling by persons involved in production (person -based).	Food Handler Certification.	County Health Department, Texas AgriLife Extension, or numerous other classroom or online sources.	All who work with unpackaged food, food equipment or utensils, or food-contact surfaces.
Safety of kitchens, buildings, and other facilities where food is prepared/produced (facility -based).	No permit required under Texas Cottage Food Law.	N/A	N/A
Safety of locations or events where food is sold. (place -based).	A license may be required.	County Health Department, farmers market manager, non-profit event manager, etc.	Varies

Local regulatory authorities

Where there is a local health department—whether city or county—it has primary authority for regulating within its area. Local health departments have major responsibilities for regulating food businesses, so getting to know local health department officials needs to be near the top of your “to do” list.

Texas is divided into eleven Health Service Regions, each of which includes many Local Health Departments, Public Health Districts, and Local Health Units. These organizations go by various names, but all are listed on the Department of State Health Services (DSHS) website and it's not difficult to find the ones in your area.

In most parts of Texas, the local health department simply operates as the local eyes and ears of DSHS, enforcing state regulations. However, some local governments adopt their own regulations, and local authorities commonly vary

GET TO KNOW YOUR COUNTY HEALTH INSPECTOR

“Your health inspector can shut you down. They usually are very supportive and want to help you succeed. Whether you find your inspector friendly or not, you really must find a way to develop a cooperative relationship with them.

A good relationship with your health inspector creates a positive communication flow. They are great resources for learning, finding solutions and keeping you up to date. Work with them as a team with a common goal, Food Safety!”
 - April Harrington, Earth Elements Kitchen

in their interpretation of DSHS regulations. If you are processing in one county and selling in other counties you may even find that you face multiple and varying requirements.

We strongly recommend getting to know the local health department officials in your area. Check your county government website to learn who these people are and where their offices are located. Visit with them regularly and develop a good relationship. Work with them politely and respectfully, and try to understand their perspective. In the most cases you'll find that local health officials are sincerely trying to be helpful.

Admittedly, some local health officials can be hard to deal with, and there are gray areas in the law calling for judgment. If you think your local health officials are wrong, it's important to handle the situation calmly and politely. A good question to ask is "What is the specific law or regulation that requires X?" Politely press for an answer, and then review whatever they point to carefully. The Farm & Ranch Freedom Alliance provides membership consultations in these situations.

It's sometimes possible to get officials to change their position. If this is not possible, recognize that it's unlikely to be worth the time and cost to mount a legal challenge. There are times when you just have to live with a ruling, even if you disagree with it. It's better to learn about the problem or roadblock early in your planning process, before you invest serious time and money.

In addition to your city and county health officials, don't forget to contact the market manager for your farmers market or event. Markets sometimes have their own rules and regulations that go beyond local health department rules. For example, a producer-only farmers market may not allow you to sell processed food products unless you grew the main ingredients yourself. Some markets require verification that primary ingredients come within the state, and others require that all primary ingredients come from members of their farmers market association.

Certificates, permits, and licenses: What's the difference?

The words "certificate", "permit", and "license" are often used interchangeably, so don't get too hung up on why your on-farm kitchen is "licensed" rather than "permitted". But it's helpful to keep in mind that DSHS and other agencies typically apply "certificate" to *persons*, "permit" to *places*, and "license" to *facilities*.

A **certificate** is generally something a **person** gets (*person-based*). For example, a person may get certified to be a Food Manager, by taking a course from a recognized and licensed training organization. In Texas, this certification lasts five years after you pass the course examination. Likewise,

WHERE DO I GET MY FOOD HANDLER CERTIFICATE?

In Texas, all persons who work with unpackaged food, food equipment or utensils, or food-contact surfaces must successfully complete an accredited food handler training course within 60 days of employment. You can take an accredited Food Handler's Training class online or in-person, and your certification lasts two years. Courses are offered in several languages besides English. An online course will probably only take you an hour or two. The DSHS website maintains a full list of courses.

Some local governments adopt their own regulations, and local authorities commonly vary in their interpretation of DSHS regulations.

commercial kitchens must have someone with with supervisory authority who is certified as a Certified Food Manager (CFM). When the kitchen is in operation, the CFM may have to be on site at all times: it depends on the county where the kitchen is located. This is one of many good reasons why you should get to know your county health department staff and regulations.

A **permit** is generally assigned to a **physical location** or **event**. In general, a permit is required for any place or event where food is legally prepared, stored, or sold. This could be a permanent location, such as a grocery store, or a temporary location, such as a tent at a farmers market.

A **license** is generally issued for a **facility**. If you have a kitchen on your farm, you'll need to license it as a food manufacturing facility—unless you make only products allowed under Texas Cottage Food Law. If you make your products in a commercial kitchen, that kitchen will have to be licensed as a food manufacturing facility.

Passed in 2011, the Food Safety Modernization Act is a complex Federal law governing food production, processing, handling, storage, and distribution.

Texas State regulations

In general, the Texas Department of State Health Services (DSHS) is the primary agency responsible for enforcing food safety laws and rules in Texas, and their website is the best place to start researching Texas state regulations (www.dshs.texas.gov). Besides food manufacturing, DSHS also deals with food wholesaling and warehousing. If you plan to sell your product wholesale—meaning to someone other than the final consumer—you'll probably need a Food Wholesaler license. If you'll be storing products for sale to someone other than the final consumer, you'll need a Warehouse Operator license, and will be subject to inspection.

If you sell fresh produce, the Texas Department of Agriculture (TDA) will certainly be involved with your operation. As this book is going to print (2019), it appears likely that TDA will enforce the Produce Safety Rule of the Food Safety Modernization Act (discussed below). TDA also runs a Weights and Measures program, conducting inspections to ensure that scales and package labels are accurate.

Where to get help with state regulations

Regardless of where you live in Texas, two excellent places to go to get help with State food processing regulations are your AgriLife Extension Office and your County Health Services Office.

MANDATORY TRAINING REQUIRED TO MAKE ACIDIFIED FOODS

Under federal law, commercial producers of acidified food products are required to take and pass a course on "food-handling techniques, food-protection principles, personal hygiene and plant sanitation practices, pH controls, and critical factors in acidification." Here in Texas, this almost always means attending the four-day Better Process Control School offered every fall at Texas A&M University in College Station.

In general, you **MUST** take this course before you can legally produce and sell acidified foods, which include many tomato-based products. If this is more than you can handle, and you don't have the time or money to take this course, consider working with a co-packer who will legally make your recipe to your specifications.

Within your county AgriLife Extension Service office there will be someone designated as the Family & Consumer Health Agent, who will link you to the numerous services, online courses, and publications offered by Texas A&M. Likewise, someone in your County Health Services office will consult with you or refer you to someone in Austin within the DSHS Foods Group who can answer your questions. Your county-level people may not know the answers to all your questions, but they will direct you to others who can help. Persevere and don't give up.

The Food Safety Modernization Act

Passed in 2011, the Food Safety Modernization Act (FSMA, usually pronounced fizz'muh) is a complex Federal law giving the U.S. Food & Drug Administration (FDA) broad powers to prevent food safety problems, including mandatory recall authority for all food products made and sold in the United States. The law covers food production, processing, handling, storage, and distribution, and is aimed mainly at preventing contamination by microbial pathogens such as Salmonella, E. coli O157:H&, and Shigella. The overall purpose of the law is to shift the focus of federal regulators from responding to food safety outbreaks to preventing them in the first place.

FSMA includes two main rules that affect farmers: the Produce Safety Rule and the Preventive Controls Rule. The Produce Safety Rule is being implemented by the Texas Department of Agriculture, while the Preventive Controls Rule is being implemented by DSHS. Both rules are complicated, contain gray areas, and you may need legal help to understand their impact on your farm.

The FSMA rules are still evolving and going through a lengthy process of implementation. There are exemptions, but they are different for each rule. If you are making processed foods, you might be subject to both rules, partly or wholly exempt from both, or subject to one and exempt from the other. Recordkeeping requirements went into effect in January 2016. Even if your farm is exempt, you still must maintain records to prove it.

Anyone making value-added products (even a small amount or percentage) needs to study the FSMA rules and make sure they are following them.

A NOTE ON TRACEABILITY AND RECORDKEEPING

When you sell someone a cabbage and they get sick, it's pretty straightforward to track that cabbage to you and your fields. That traceability helps quickly identify the cause and address it, before more people get sick.

But suppose you make sauerkraut at the local commercial kitchen, sell it at the market, and a customer calls the next day to tell you that they opened the jar and found black mold under the lid. Gross, right? You apologize profusely, refund your customer's money, and thank them for telling you of the problem. Now you want to check all your jars because you're totally freaked out. Here's the catch: Any jar you open can't be sold because you've broken the seal. You have 200 jars ready to sell and you sure don't want to waste them all—that's a lot of money.

Good recordkeeping will save you here. You get the batch number from the jar with the mold and check your records to find all the other jars in that same batch. Checking a few jars in that same batch reveals no other jars with mold. Maybe you spot check other batches made that same day to determine that the bad jar is the only one—maybe the lid got loose and the seal broke in transit.

Because you kept good records you were able to confirm that your other jars are likely perfectly fine. Good recordkeeping is not only required by law for many products but it's also the best practice for saving you money. "Traceability" is the way to go. Sure, it might be a pain and it's more work, but this a definitely a "no pain, no gain" situation.

FSMAs includes exemptions for direct marketers and small producers of fresh produce and value-added products—but the rules and exemptions are different for each.

The Produce Safety Rule

The Produce Safety Rule applies to operations that grow, harvest, pack, or hold fruits and vegetables that are normally consumed raw. The rule includes standards for agricultural water, manure, hygiene, equipment, and buildings.

You are exempt from the Produce Safety Rule if the average value of the produce you sold in the past three years was no more than \$25,000. You are also exempt if you grow only produce that is rarely consumed raw, such as potatoes, turnips, or winter squash. (The FDA maintains lists of crops that it considers to be covered or exempt because they are rarely consumed raw.)

You are a “qualified farm,” and therefore have a “qualified exemption” from the Produce Safety Rule, if you’ve averaged less than \$500,000 in annual gross sales of food (adjusted for inflation and based on your average sales over the past three years) and more than half of your food sales are direct to end users (such as consumers, restaurants, or grocers) who are within your state or within 275 miles of your farm.

Qualified farms are subject to modified requirements that are less extensive and less expensive to implement. They do not need to register with the FDA, but they need to keep records in case the FDA or a state agency investigates. They also need to post a sign at the point of sale, or provide an invoice, with the farm name and address.

The Preventive Controls Rule

The Preventive Controls Rule applies to facilities that make, process, pack, or store food for human consumption. The Rule has two main parts: (1) Hazard Analysis and Risk-Based Preventive Controls (HARPC) and (2) updates to existing Good Manufacturing Practice (GMP) requirements.

Unless they are exempt (for example, because they are making only cottage foods), food processing facilities are required to register with the FDA and maintain and follow a written food safety plan that includes recordkeeping, hazard analysis, monitoring, and preventive controls.

There are various exemptions from the Preventive Controls rule and they are complicated. The first question is whether your operation counts as a “farm,” a “facility,” or a “farm mixed-type facility.” If you are making value-added food products (chopping, canning, cooking, dehydrating, freezing, and so on), you are almost certainly a “facility” as far as the FDA is concerned, and not just a farm. Note that this is true even if you are using only your own produce, grown on your own farm.

You are exempt from the Preventive Controls Rule if you have less than 500 employees or less than \$1 million in annual sales, provided that you conduct only certain low-risk food processing activities. Generally speaking, these are the same kinds of low-risk activities allowed under Texas Cottage Food Law, but note that Texas Cottage Food Law and FSMA may not always be perfectly consistent with each other.

Facilities are considered “qualified facilities,” and therefore have a “qualified exemption” from the Preventive Controls Rule, if (1) they have annual gross

sales of human food less than \$1 million (adjusted for inflation and based on their average sales over the past three years) or (2) they average less than \$500,000 in annual gross sales of all food in the previous three-year period and sell the majority of their food directly to consumers or retailers in the same state or within a 275-mile radius.

If you are a qualified facility, you still need to follow current Good Manufacturing Practice requirements, register with the FDA, and provide documentation showing that you meet exemption requirements and are complying with state and local food safety rules. You also need to label your food or have a sign at the point of sale, with the farm name and address

Planning for FSMA compliance

Complying with FSMA can be complicated and expensive. A little advance planning goes a long way, and may help reduce or avoid compliance costs.

- Confirm your exemption status with respect to BOTH the Produce Safety Rule and the Preventive Controls Rule. This includes checking FDA's list of covered produce, to see if the products you grow are "normally consumed raw" and therefore covered under the Produce Safety Rule.
- If you're not exempt, confirm how long you have to comply with the various parts of FSMA. Some smaller farms are eligible for "extended compliance time."
- Be sure you know your total farm sales and have records to prove your compliance with FSMA, including dollar amounts you sell to each market channel: direct to consumers, restaurants, grocers, distributors, and other businesses, including other farms.
- If you are making foods at a small scale, and want to stay exempt from the Preventive Controls Rule, consider making only foods that the FDA considers to be low-risk. These will be very similar or identical to the foods you are allowed to make under the Texas Cottage Food Law.
- If you want to use processes that are NOT considered low-risk by the FDA, consider making your product in a commercial kitchen owned by someone else. The owner of the kitchen will be responsible for registering their facility with the FDA and ensuring that it complies with state health regulations and the Preventive Controls Rule. Note that you'll still need to follow the rules of the commercial kitchen, maintain good records, and follow all local, state, and federal regulations.

If you are making value-added food products, you are almost certainly working in a "facility," as far as the FDA is concerned.

FROM THE GOVERNMENT AND HERE TO HELP

A research project in California documented efforts by a small farm to develop value-added products from their black walnut orchard. Using a blog, the farmers described their ups and downs and the challenges they had to overcome, highlighting the importance of knowing regulations. They discussed their attempts to develop new products, increase farm income, increase employment of seasonal workers, build an on-site commercial kitchen, and reduce the loss of raw product that could not be marketed on time.

A key recommendation from the farmers was to get to know your county health officials and get comfortable with them being on your farm on a regular basis.

– *Creating and Marketing Value-Added Orchard Products, SARE Project FW08-030*

Consider making your product in a commercial kitchen or hiring a co-packer, who will be responsible for making sure facilities comply with FSMA rules.

- Especially as your business grows, consider the option of working with a co-packer, who will make and package your product to your specifications. The co-packer will have responsibility for complying with state health regulations and the FSMA Preventive Controls Rule.
- If you want to sell your value-added products to restaurants, grocers, or other businesses, be sure you get legal advice about the applicability of FSMA to your operation.
- If you want to join with other farmers to make a value-added product, consider creating a farmer-owned cooperative or other business. It's possible for a cooperative or other business to be subject to the FSMA Preventive Controls Rule even though member farms are not. The rules are complicated, so we recommend that you check with legal counsel.

Selling wholesale

Selling wholesale is a very strict regulatory world. Wholesale buyers will have their own food safety certification requirements. They may require your farm to be GAP (Good Agricultural Practices) certified, and they may require other certifications. If you'd like to sell your value-added products to wholesale buyers, be sure to check with their distributors first—so you can get your ducks in a row early on.

What are GAP and GroupGAP?

Good Agricultural Practices (GAP) and Good Handling Practices (GHP) are voluntary audit programs operated by the USDA Agricultural Marketing Service, verifying that fruits and vegetables are produced, packed, handled, and stored as safely as possible to minimize risks of microbial contamination.

GAP & GHP audits verify that you adhere to recommendations in the FDA's *Guide to Minimize Microbial Food Safety Hazards for Fresh Fruits and Vegetables*, as well as other industry-recognized food safety practices.

GroupGAP allows small and middle-sized farmers, food hubs, and marketing organizations of all sizes to pool resources to implement food safety training programs and share the cost of certification. Members go through the process of GAP certification as a group.

Do

- Develop a good understanding of the regulations that impact your farm and food business.
- Learn which requirements apply to you and how to comply, including record-keeping.
- Gather data on total annual sales of food from your farm.
- Gather data on current or estimated sales of value-added products.
- Evaluate your options for direct sales versus wholesale, because the regulations may differ significantly.

Think about

- What value-added products are you interested in making?
- Do you want to make these products in your home kitchen?
- Do you want to sell your value-added products at farmers markets, your farm stand, or through your CSA?
- Do you have an inspected commercial kitchen on your farm or nearby that you could use?
- Do you want to sell your value-added products to restaurants? Grocers? Schools? Others?
- Do you want to hire people to make the product for you?
- Do you want to just make more money with the fewest regulations?

References

Farm and Ranch Freedom Alliance (FARFA), Food Safety Modernization Act page, sourced December 2018, <http://farmandranchfreedom.org/fsma>.

National Sustainable Agriculture Coalition (NSAC), Food Safety Modernization Act Resource Center, sourced December 2018, <http://sustainableagriculture.net/fsma>.

Salle, Nicholas, Creating and Marketing Value-Added Orchard Products, SARE Project FW08-030, https://projects.sare.org/sare_project/fw08-030.

U.S. Department of Health and Human Services, Food and Drug Administration, Center for Food Safety and Applied Nutrition (CFSAN), *Guide to Minimize Microbial Food Safety Hazards for Fresh Fruits and Vegetables*, October, 1998, available from www.fda.gov.

Federal regulations on training required to produce acidified foods may be found in the *Code of Federal Regulations*, at 21 CFR Sec. 114.10 Personnel.

Resources

The **Farm and Ranch Freedom Alliance** (<http://farmandranchfreedom.org>) is an excellent source of information on FSMA, keeping Texas family farms and food businesses informed about local, state, and federal farm and food regulations. We recommend that you consider joining FARFA as a member, to stay up to date on these complex and somewhat fluid rules. FARFA also has extensive guidance on the Texas Cottage Food Law at farmandranchfreedom.org/cottage-food-laws.

The **National Sustainable Agriculture Coalition** offers many resources on complying with Federal food safety laws, including a useful Food Safety Modernization Act Resource Center: <http://sustainableagriculture.net>.

The **Texas Cottage Food Law** website (<http://texascottagefoodlaw.com>) is an invaluable resource for anyone wondering if they can legally make a food product in their home kitchen.

ATTRA offers a Produce Safety Tutorial (self-instruction course), an introduction to food safety topics for produce growers, with information on FSMA rules, GAP certification, and writing a farm food safety plan: <https://attra.ncat.org/tutorials>.

Texas A&M AgriLife Food Safety page offers articles, tips, and training, including information about the Better Process Control School satisfying the federal training requirement for producers of acidified foods: <https://agrilifefoodsafety.tamu.edu>.

The comprehensive **Texas Department of State Health Services (DSHS)** website (www.dshs.texas.gov) is the best place to start researching Texas state regulations. Below are just a few of the resources you can find on the site:

- Information and updates on the Food Safety Modernization Act (FSMA) <http://dshs.texas.gov/foods/fsma/fsmaoverview.aspx?terms=FSMA>.
- A directory of local health departments: <http://dshs.texas.gov/regions/lhds.shtm>.
- A list of online food handler training courses: www.dshs.texas.gov/food-handlers/training/online.aspx.
- A list of in-person food handler training courses: www.dshs.texas.gov/food-handlers/training/classroom.aspx.
- Frequently-asked questions about Cottage Food Production Operations: www.dshs.texas.gov/foodestablishments/cottagefood/faq.aspx.
- Texas Food Establishment Rules: <http://dshs.texas.gov/foodestablishments>. Sign up for their e-mail list to get updates to the food establishment rules.
- Licensing requirements for food manufacturers: <http://dshs.texas.gov/foods/manufacturers.aspx>.

The **USDA Agricultural Marketing Service** offers information on GAP, GroupGAP, and many related food safety auditing and accreditation programs: www.ams.usda.gov/services/auditing.

The **US Food and Drug Administration (FDA)** FSMA website is the authoritative source on the evolving rules governing food safety. Some resources you'll find at www.fda.gov/food/guidanceregulation/fsma:

- Fact sheets: www.fda.gov/Food/GuidanceRegulation/FSMA/ucm247546.htm.
- A summary of all FDA labeling requirements: www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/LabelingNutrition/ucm2006828.htm.

The **Texas Department of Agriculture (TDA)** has a FSMA website: [www.texasagriculture.gov/RegulatoryPrograms/FoodSafetyModernizationAct\(FSMA\).aspx](http://www.texasagriculture.gov/RegulatoryPrograms/FoodSafetyModernizationAct(FSMA).aspx).

The **Farmers' Legal Action Group (FLAG)** is a nonprofit center dedicated to "providing legal services and support to family farmers and their communities in order to help keep family farmers on the land": www.flaginc.org.

Farm Commons has legal resources for farms and ranches including some related to adding value to farm products: <https://farmcommons.org>.

The **Farm-to-Consumer Legal Defense Fund** "protects the rights of farmers and consumers to engage in direct commerce," and provides individual legal assistance to members: www.farmtoconsumer.org.



Kara Kroeger photo

Labels and Packaging

It's a habit of mine now, noticing labels, logos, shoes.

- Michael Jordan

Deciding on the right packaging and creating a good label are both extremely important and take more time and money than you might think.

Here's the thing about labels: If you're selling direct to consumers at the farmers market, then you're there to tell your story, so your label can be simple, right? Yep. Your market booth tells your story and your brand is clearly identified through your booth design, layout, and signage. On the other hand, if you're selling wholesale or in some other situation where you're not there to tell your story, your label has to do that for you. It has to be clear, engaging, meet all legal requirements, answer the questions of people with special dietary needs, and concisely tell the "story behind the food." This chapter covers some basics.



An example

Let's start with an example: a line of sauerkraut from the Sweet Farm Company in Maryland. If your phone or computer is handy, take a look at these labels in color on the company's website, <https://thesweetfarm.com>.

These are well-designed labels that do a lot of things right:

- They are colorful and distinctive, recognizable by shoppers several feet away.
- They spell out suggested uses of the product.
- Sweet Farm labels feature the rooster logo but use color variations to show that products are different. The Classic Kraut label on the left is yellowish with a green rooster, while the Beet Kraut label on the right is blue-green with a red rooster.
- The jars themselves look sturdy and secure, with the impression of product safety enhanced by the black "tamper-proof" tape on the lid.
- The jars are easy to stack on a shelf, weigh only a pound, and are easy to handle: not too big for people's hands.

As far as basic packaging and labeling criteria, Sweet Farm passes with flying colors. A possible concern might be that the labels are too busy or cluttered, crowding too many images and text into a small space.

Now let's look at a few less obvious things:

Branding

- The rooster logo creates a positive image of a farm in the customer's mind, suggesting that this product is not mass-produced in a factory, but is an artisanal product, worth a premium price.
- The company logo includes a banner suggesting that the product is a "winner" and reinforcing the image of a quality product.
- The small images of vegetables tell consumers that the product comes directly from the earth, again painting the image of a farm-to-table item.

Messaging

Messaging includes all aspects of what you are communicating to customers: images and content, the look of the label and the logo, the pictures you use, stories presented on your website and marketing materials, your choice of sales outlets, and so on. Basically, you are making your case to consumers:

- This is who we are and what we believe.
- This is what we sell and where we sell it.
- This is why you should buy from us and not from someone else.

The Sweet Farm does a good job presenting its case: "We are a farm-led operation that cares about the health of its farmland and its customers." Ingredient lists are short, and all ingredients are familiar, which allows the products to present a "clean" pedigree.

Product line strategy

The Sweet Farm, sells online and at farmers markets, special events, on-site, local specialty food stores and some Whole Foods Markets. This combination of sales outlets is pretty sophisticated, and they are clearly doing many things well.

- The company's product line, shown on the company website, includes three seasonal products. Two of these come out in spring/summer and one comes out in the fall/winter each year. Through this "predictable innovation," the company reinvents itself (somewhat) every season, offering new product ideas to its customers.
- There's always a risk for a company in having too few or too many products. The Sweet Farm has five core products (shown on the company website) that are always available. The recipes include a well-known product in the plain sauerkraut version, which is joined by a local version (Chesapeake kraut) and three different international versions.
- In addition to its food products, the Sweet Farm offers non-food items, such as tools for making sauerkraut at home, tee shirts, and other items displaying the company logo. These items probably don't make much money for the company, but allow customers to show their loyalty while providing advertising.

The small images of vegetables tell consumers that the product comes directly from the earth, again painting the image of a farm-to-table item.

FDA labeling regulations

The U.S. Food and Drug Administration (FDA) has regulations for two areas of a package label: the principal display panel (PDP) and the information panel, which includes the ingredients list and nutritional analysis. At the time of publication (2019), the FDA requires that the caloric content of one serving of the product must be the most prominent item on the information panel.

It ordinarily costs thousands of dollars to generate a nutrition facts label, but the FDA allows certain exemptions. For example, in 2019 the FDA does not require nutritional labeling for “low-volume” products selling less than 100,000 units in a 12-month period—*unless they make nutritional claims*.

Products making nutritional claims are required to provide nutritional labeling regardless of their sales volume. So if you are making a citrus fruit-based product and want to put a claim on the label saying that your product provides a full day’s supply of vitamin C, you’ll have to include a nutrition facts panel on the label.

The other rules are too detailed to explain here, and subject to change, but summarized in the table below.

The FDA does not require nutritional labeling for products selling less than 100,000 units in a 12-month period—*unless they make nutritional claims*.

What’s required on a product label?

Where on the label?		Notes
Product name (statement of identity)	Principal Display Panel (PDP)	<ul style="list-style-type: none"> • Bold type. • Prominent in size relative to other text on the label. • In lines generally parallel to the base of the package. • May require description of forms, e.g. whole vs. diced.
Weight or volume (net quantity)	Principal Display Panel (PDP)	<ul style="list-style-type: none"> • For solids, weight in avoirdupois: pounds & ounces. • For liquids, fluid measure in US gallon, quart, pint, and fluid ounces. • Metric quantity (grams, kilograms, milliliters, liters) must also be shown. • Subtract weight of the package.
Ingredients list	PDP or information panel	<ul style="list-style-type: none"> • In descending order of weight. • Ingredients present at 2% or less can be grouped with the statement “Contains X% or less of y, z.” See 21 CFR 101.4(b). • Ingredient names can sometimes be shortened, such as in the case of dried whole eggs, frozen whole eggs, and liquid whole eggs, which can all be listed simply as “eggs.” See 21 CFR 101.4(b). • May require an allergen statement.
Business name and address	Information panel	<ul style="list-style-type: none"> • Name & address of manufacturer, packer, or distributor. • If listing name other than actual manufacturer, must include “manufactured for” or “distributed by” in front of business name.
Nutrition facts table	Information panel	<ul style="list-style-type: none"> • Exemptions may apply for businesses selling less than \$100,000/year. • Exemptions are nullified if nutrition claims are made in labeling or advertising, e.g. gluten-free.

From the Wisconsin Food Processing Guide (2016)

Sustainability can't be seen or tasted, so it must be communicated to consumers in some other way.



Am I allowed to make nutritional and health claims?

Be careful. You'll need to review the claims allowed by the FDA. There are generally three types of label claims: (1) health claims; (2) nutrient content claims; and (3) structure/function claims.

Health claims (e.g. "reduces the risk of heart disease") must be reviewed and authorized by the FDA before you take your product to market.

Nutrient content claims (e.g. "low sodium") are subject to many rules and must generally square with Daily Values established by the FDA.

Structure/function claims (e.g. "calcium builds strong bones") are likewise subject to many rules and generally must not make claims about disease-prevention.

Allergen statements

You must include an allergen statement in or near the ingredient list if your product contains any of the following major food allergens: milk, eggs, fish, crustacean shellfish, wheat, soybeans, tree nuts, or peanuts.

The rules on allergen statements are changing all the time. Consult your local health inspector for guidance. Your processing facility may need to be inspected by a different agency and you may have to test your ingredients.

What are ecolabels?

Sustainability can't usually be seen or tasted, so it must be communicated to consumers in some other way. At the time of publication, the Ecolabel Index website lists 463 ecolabels from around the world. Besides the familiar USDA organic label, there are hundreds of other labels that use terms like "natural," "Non-GMO Verified," "Fair Trade Certified," "Demeter Certified," and "Certified Naturally Grown."

Gluten-free, non-GMO, and organic

Each of these is complicated and subject to changing rules.

Guidelines on labeling products as "gluten-free" may be found on website of the U.S. Food & Drug Administration, www.fda.gov.

Labeling claims related to genetically modified organism (GMOs) have been an area of intense controversy. As this publication is going to press (2019), the

A GOOD LABEL IS HARD TO FIND, AND KEEP

In 2011, researchers in upstate New York were interested to see if a local grower organization could create an ecolabel for their products based on unusually positive labor practices for workers, such as better pay, paid leave, and medical care.

Ultimately the growers decided to abandon the project, but they did learn two important lessons: (1) They realized that they would have to provide a significant level of staffing to make such a label work and (2) They also noted that they would need to develop inspector training and grower procedures in order to make the certification process valid. — *Creating a Local Fair Trade Label, SARE project CNE11-089*

USDA has released a proposed rule on GMO labeling. Information and a non-GMO label are available from the Non-GMO Project, www.nongmoproject.org.

Use of the term “organic” is strictly regulated by the National Organic Program of the USDA and requires certification (with an annual inspection) by an accredited third-party agency. Among many other restrictions, the USDA organic rules prohibit the use of GMOs. There are very specific rules about labeling of organic products. Current information can be found on the website of the USDA Agricultural Marketing Service, www.ams.usda.gov.

GO TEXAN

GO TEXAN is the label developed by the Texas Department of Agriculture (TDA) to improve the identification of and sale of agricultural products grown or made in Texas. Even people from other countries, whether or not they speak or read English, associate the GO TEXAN label with the state of Texas and have positive images in their mind about Texas.

GO TEXAN has a tiered registration system, meaning that you’ll get different levels of service depending on your membership level. You can take part in promotions with farmers market associations, retail grocers, restaurants, and all kinds of events related to food—such as getting space in the Food and Fiber Pavillion at the State Fair of Texas. This annual event in Dallas draws over a million visitors, and is an affordable way to test your products and do market research. Participating in GO TEXAN can be extremely valuable, especially if you make the effort to reach out to program staff, get to know them, and ask for their help.

Note that any product made in Texas can display the GO TEXAN label. The program does not require that ingredients were grown in Texas, and you’ll need to indicate “Texas-grown” on your label if you want customers to know.



Sue Beckwith photo

SOME MAIN PACKAGING FACTORS TO CONSIDER:

- Food Contact Substances (FCS) in packaging materials must be FDA approved.
- Packaging should provide sufficient seal to preserve your product’s shelf life, considering distribution and storage.
- Packaging should not be so unique that it presents a problem for retailers.
- Packaging should be affordable at your scale.
- Type of food determines options for materials. (Some foods interact with packaging, causing off flavors or contamination.)
- Convenience for consumers.
- Environmental concerns (e.g. recyclable).

Do

- Pencil sketch some labels for your product. Yes, using pencil and paper.
- List the key text you want on your label.
- Work through the branding exercises in Chapter 8 (Selling). Does your label fit with your brand?

Think about

- Are you comfortable avoiding making nutritional claims on your label? (Hint: This may keep you out of legal hot water.)
- What are your packaging options?
- If you can partner with other farmers to buy packaging and save some money.

References

The Sweet Farm Company website, <https://thesweetfarm.com>.

Ecolabel Index: Who's Deciding What's Green? www.ecolabelindex.com.

Lydon, Betsy, Core Values Northeast: An Eco-Label Grows, SARE Project LNE00-133, https://projects.sare.org/sare_project/lne00-133.

The table on page 61 (What's required on the product label?) is adapted from a similar table in the *Wisconsin Food Processing Guide* by Jenifer A. Buckley and Elena M. Byrne (University of Wisconsin–Extension, 2016).

Resources

The New Hope Network offers publications, websites, and other resources on designing, creating, and printing labels, along with conferences where you can keep up with market trends: www.newhope.com.

Legal labeling requirements for food products can be found on the website of the US Food & Drug Administration: www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/LabelingNutrition/ucm2006828.htm.

Use the Resource Directory at the Texas Center for Local Food website to find packaging suppliers: <http://texaslocalfood.org/resource-directory>.

Information on the GO TEXAN program is at www.gotexan.org.

IF YOU'RE NOT ORGANIC, WHAT ARE YOU AND WHY SHOULD CONSUMERS CARE?

A multi-year project in the Northeast had three objectives: to establish market support for local, sustainably grown apples, to create a certification program for apple growers using Integrated Pest Management (IPM), and to educate consumers about the benefits of choosing local sustainably grown products.

One of the project findings from the year 2000 has relevance even now:

"General consumer education does not seem to be enough to create sufficient demand for the regional produce. The problem with general consumer awareness campaigns is that people who become interested in CVN [Core Values Northeast] products may not have access to them at their local markets, and that consumers whose local markets carry CVN apples may never have been exposed to the consumer awareness message. Educating consumers at the point of purchase is crucial in stimulating demand."

It's difficult to establish a label or brand (other than USDA certified organic) that communicates to consumers all that the farmers behind the brand are doing in regards to sustainable production methods.

– Core Values Northeast: An Eco-Label Grows, SARE Project LNE00-133

Selling

I believe that the only agenda that works is the desire to know the truth of whether or not what you're offering is a genuine fit for the potential client.

- Tad Hargrave, *Marketing for Hippies*

This chapter will start you down the path of creating and communicating a brand: a reputation for consistently and reliably creating delicious and high-quality products that consumers will want to buy.

A Farmer-First approach to selling your products

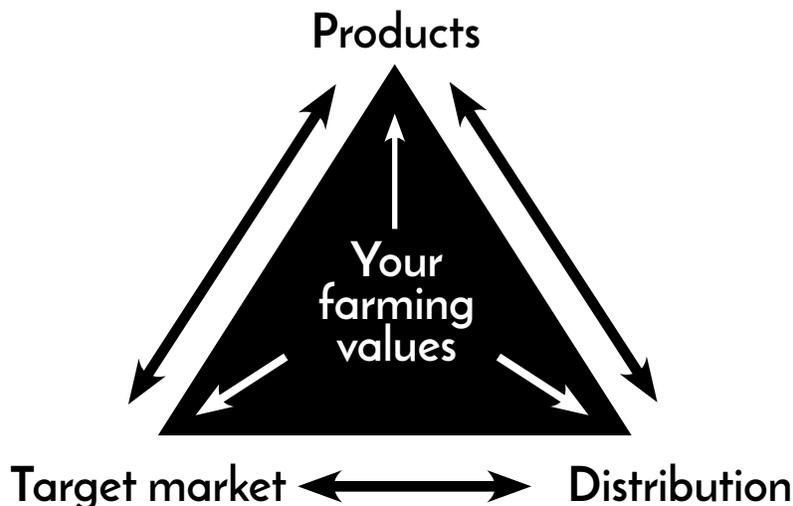
Almost every book or article you will read about marketing is going to tell you that your target market is the all-important factor: You need to figure out what your customers want, and convince them that you can provide it. We might call this the *Market-First* perspective. It basically says your role and purpose is to satisfy customers.

We respectfully disagree.

Taking a Farmer-First approach means you are going to start with what YOU want, the products YOU can make—comfortably, easily, enjoyably, and consistent with your farming values. THEN you are going to ask if any of these products can be sold profitably, and to whom.

The Farmer-First perspective is basically about setting boundaries—as you *have every right to do*. Selling is not just about what the market wants but is more like a three-sided triangle. Your target market is driven by the products you decide to make. Your decision about what product to make is heavily influenced by the distribution channel you choose, as well as your farming values. And your choice of distribution channel depends on your target market. All these factors influence the others. You need to hold them all in your head at the same time and bring them into balance. If they won't balance, you're going to move on and think of something else to do.

A brand is a promise to consistently deliver a product of value that stands out from competitors.



Your brand is more than just designing a logo or writing a catchy slogan. Your brand is not your product or even your farm. Your brand is your reputation.

- Erin Flynn, marketing expert and organic farmer, Green Gate Farms

What is a brand?

If you've been selling at a farmers market, farm stand, or CSA, you already have a lot of experience with selling. And you may *think* you know how to promote and sell your products.

"Check out my Cherokee Purple tomatoes, my best crop ever," you say with pride, when you get yours to the market first.

In selling fresh produce, this may be all the marketing you need to do. But when you step into the realm of food processing and value-added products, you're going to need to think harder about how to *brand* your farm and products.

Hatch peppers, Fredericksburg peaches, Blue Bell ice cream: these products have distinct characteristics that immediately call to mind qualities that set them apart from others. That is the essence of a brand.

A brand is much more than one product or season. It's a promise to consistently deliver a product of value that stands out from competitors. It is your reputation.

Do I really need to think about branding?

In a word, Yes. You do. Before explaining why, let's review three big reasons why farmers tend not to invest much energy into branding.

1. "I don't need to do this..."

- I've been coming to market the longest.
- Mine looks best.
- I work harder than other farmers.
- My customers love me.
- My products will sell themselves.
- The quality of my products will speak for itself.

2. "I can't do this..."

- I don't know the first thing about it.
- I'm not creative, artistic, or good with words.
- It feels strange and uncomfortable.
- I'll make a fool of myself if I try.
- I'm too humble and modest to brag about my products.

3. "It's a betrayal of my values for me to do this..."

- I'm all about substance, not style.
- It's beneath me.
- It's distasteful.
- It makes me feel dirty.
- It seems dishonest.
- It's not what I signed up for when I started farming.

As advocates for the Farmer-First perspective, we sympathize with all of these reactions. Farming is not just about making money. Many producers really are humble, or not good with words. And yes, marketing should be honest and transparent. But here's the problem: Every business has a brand. And if you don't create one for your business, your customers, the media, your competition, and other influencers will create one for you. If you just let your product speak for itself, it may not be saying what you think it's saying.

Creating a brand is more than pointing out positive features of your products. It's more than saying you are proud of your products. And it's more than just designing a logo or writing a catchy slogan. The first and most important step is to get to the heart of your business.

As a first step, work through Exercises 6 and 7, on the following pages.

If you just let your product speak for itself, it may not be saying what you think it's saying.



Kara Kroeger photo

Exercise 6: What's YOUR Brand?

Answer the following three questions. They will help you share your story in a succinct, engaging way, which is the foundation of your brand:

1. What are three factors that set your farm apart?

- Are you the local innovator, always trying a new variety?
 - Has your family been farming in the same place for generations?
 - Do your religious beliefs inform your farming?
 - Is your farm certified organic? A wildlife sanctuary?
 - Were you a chef before you were a farmer?
 - Did health concerns lead you to farming?
-
-
-

2. What words describe your business philosophy?

Examples:

- We value integrity and honesty in our work.
- Our enterprise will be useful to farmers, customers, and community for the long term.
- We value hard work, drive, efficiency, and productivity.
- We want to work with people who are nice, honest, and willing to collaborate openly.

In thinking of words and phrases that describe your own business philosophy, you may find it helpful to check value words in the list on the following pages.

3. Describe your farm using active, tangible descriptors. Write a few sentences.

Example: *We create unique delicious products from more than 100 varieties of fruits, vegetables, and herbs that are grown on our certified organic, community-based farm. All ingredients in our products are grown using sustainable farming methods that improve the health of our soil and environment. We strive to operate our business honorably, with creativity, and with the utmost respect for the Earth and those our products and services touch.*

Checklist of value words

- | | | | | |
|---------------------------------------|--|--|--|---|
| <input type="checkbox"/> Abundant | <input type="checkbox"/> Brilliant | <input type="checkbox"/> Courageous | <input type="checkbox"/> Empathic | <input type="checkbox"/> Fortuitous |
| <input type="checkbox"/> Accepting | <input type="checkbox"/> Buoyant | <input type="checkbox"/> Courteous | <input type="checkbox"/> Enchanting | <input type="checkbox"/> Frank |
| <input type="checkbox"/> Accessible | <input type="checkbox"/> Calm | <input type="checkbox"/> Creative | <input type="checkbox"/> Encouraging | <input type="checkbox"/> Free |
| <input type="checkbox"/> Accomplished | <input type="checkbox"/> Candid | <input type="checkbox"/> Credible | <input type="checkbox"/> Endearing | <input type="checkbox"/> Fresh |
| <input type="checkbox"/> Accurate | <input type="checkbox"/> Capable | <input type="checkbox"/> Cunning | <input type="checkbox"/> Enduring | <input type="checkbox"/> Friendly |
| <input type="checkbox"/> Active | <input type="checkbox"/> Caring | <input type="checkbox"/> Curious | <input type="checkbox"/> Energetic | <input type="checkbox"/> Frugal |
| <input type="checkbox"/> Adaptable | <input type="checkbox"/> Careful | <input type="checkbox"/> Daring | <input type="checkbox"/> Enjoyable | <input type="checkbox"/> Fun |
| <input type="checkbox"/> Adept | <input type="checkbox"/> Centered | <input type="checkbox"/> Decisive | <input type="checkbox"/> Entertaining | <input type="checkbox"/> Generous |
| <input type="checkbox"/> Adorable | <input type="checkbox"/> Challenging | <input type="checkbox"/> Deep | <input type="checkbox"/> Enthusiastic | <input type="checkbox"/> Giving |
| <input type="checkbox"/> Adroit | <input type="checkbox"/> Charitable | <input type="checkbox"/> Deep-rooted | <input type="checkbox"/> Environmental | <input type="checkbox"/> Glorious |
| <input type="checkbox"/> Adventurous | <input type="checkbox"/> Charming | <input type="checkbox"/> Delightful | <input type="checkbox"/> Ethical | <input type="checkbox"/> Good |
| <input type="checkbox"/> Aggressive | <input type="checkbox"/> Cheerful | <input type="checkbox"/> Dependable | <input type="checkbox"/> Excellent | <input type="checkbox"/> Graceful |
| <input type="checkbox"/> Agile | <input type="checkbox"/> Clean | <input type="checkbox"/> Detached | <input type="checkbox"/> Exciting | <input type="checkbox"/> Grateful |
| <input type="checkbox"/> Agreeable | <input type="checkbox"/> Clever | <input type="checkbox"/> Determined | <input type="checkbox"/> Exhilarating | <input type="checkbox"/> Gregarious |
| <input type="checkbox"/> Alert | <input type="checkbox"/> Clear-minded | <input type="checkbox"/> Developing | <input type="checkbox"/> Expedient | <input type="checkbox"/> Grounded |
| <input type="checkbox"/> Altruistic | <input type="checkbox"/> Comforting | <input type="checkbox"/> Devoted | <input type="checkbox"/> Experienced | <input type="checkbox"/> Growing |
| <input type="checkbox"/> Ambitious | <input type="checkbox"/> Committed | <input type="checkbox"/> Devout | <input type="checkbox"/> Experimental | <input type="checkbox"/> Happy |
| <input type="checkbox"/> Amusing | <input type="checkbox"/> Compassionate | <input type="checkbox"/> Dexterous | <input type="checkbox"/> Expert | <input type="checkbox"/> Hard-working |
| <input type="checkbox"/> Appreciative | <input type="checkbox"/> Complete | <input type="checkbox"/> Dignified | <input type="checkbox"/> Exploratory | <input type="checkbox"/> Harmonious |
| <input type="checkbox"/> Approachable | <input type="checkbox"/> Compliant | <input type="checkbox"/> Diligent | <input type="checkbox"/> Expressive | <input type="checkbox"/> Healing |
| <input type="checkbox"/> Appropriate | <input type="checkbox"/> Composed | <input type="checkbox"/> Direct | <input type="checkbox"/> Extravagant | <input type="checkbox"/> Healthy |
| <input type="checkbox"/> Articulate | <input type="checkbox"/> Concentrated | <input type="checkbox"/> Disciplined | <input type="checkbox"/> Exuberant | <input type="checkbox"/> Heartwarming |
| <input type="checkbox"/> Assertive | <input type="checkbox"/> Concerned | <input type="checkbox"/> Discreet | <input type="checkbox"/> Fair | <input type="checkbox"/> Hearty |
| <input type="checkbox"/> Astute | <input type="checkbox"/> Confident | <input type="checkbox"/> Diverse | <input type="checkbox"/> Faithful | <input type="checkbox"/> Helpful |
| <input type="checkbox"/> Assured | <input type="checkbox"/> Congruent | <input type="checkbox"/> Dominant | <input type="checkbox"/> Famous | <input type="checkbox"/> Heroic |
| <input type="checkbox"/> At ease | <input type="checkbox"/> Connected | <input type="checkbox"/> Down to earth | <input type="checkbox"/> Family-oriented | <input type="checkbox"/> High-achieving |
| <input type="checkbox"/> Attentive | <input type="checkbox"/> Conscious | <input type="checkbox"/> Driven | <input type="checkbox"/> Fascinating | <input type="checkbox"/> Holy |
| <input type="checkbox"/> Attractive | <input type="checkbox"/> Consistent | <input type="checkbox"/> Dutiful | <input type="checkbox"/> Fashionable | <input type="checkbox"/> Holistic |
| <input type="checkbox"/> Audacious | <input type="checkbox"/> Constant | <input type="checkbox"/> Dynamic | <input type="checkbox"/> Fast | <input type="checkbox"/> Honest |
| <input type="checkbox"/> Available | <input type="checkbox"/> Constructive | <input type="checkbox"/> Eager | <input type="checkbox"/> Favorite | <input type="checkbox"/> Honored |
| <input type="checkbox"/> Aware | <input type="checkbox"/> Content | <input type="checkbox"/> Ecological | <input type="checkbox"/> Fearless | <input type="checkbox"/> Hopeful |
| <input type="checkbox"/> Balanced | <input type="checkbox"/> Contributing | <input type="checkbox"/> Economical | <input type="checkbox"/> Felicitous | <input type="checkbox"/> Hospitable |
| <input type="checkbox"/> Beautiful | <input type="checkbox"/> Controlled | <input type="checkbox"/> Ecstatic | <input type="checkbox"/> Fierce | <input type="checkbox"/> Human |
| <input type="checkbox"/> Belonging | <input type="checkbox"/> Convivial | <input type="checkbox"/> Educated | <input type="checkbox"/> Firm | <input type="checkbox"/> Humane |
| <input type="checkbox"/> Benevolent | <input type="checkbox"/> Cool | <input type="checkbox"/> Effective | <input type="checkbox"/> Fit | <input type="checkbox"/> Humanistic |
| <input type="checkbox"/> Biodynamic | <input type="checkbox"/> Cooperative | <input type="checkbox"/> Efficient | <input type="checkbox"/> Flexible | <input type="checkbox"/> Humble |
| <input type="checkbox"/> Bold | <input type="checkbox"/> Cordial | <input type="checkbox"/> Elated | <input type="checkbox"/> Flowing | <input type="checkbox"/> Humorous |
| <input type="checkbox"/> Brave | <input type="checkbox"/> Correct | <input type="checkbox"/> Elegant | <input type="checkbox"/> Fluent | <input type="checkbox"/> Imaginative |
| <input type="checkbox"/> Bright | <input type="checkbox"/> Cosmopolitan | <input type="checkbox"/> Emerging | <input type="checkbox"/> Focused | <input type="checkbox"/> Impactful |

- Impartial
- Independent
- Industrious
- Ingenious
- Innovative
- Inquisitive
- Insightful
- Inspirational
- Instructive
- Integrated
- Integrity
- Intelligent
- Intense
- Interested
- Intimate
- Intrepid
- Intuitive
- Inventive
- Invested
- Involved
- Joyful
- Judicious
- Just
- Keen
- Kind
- Knowledgeable
- Leader
- Learning
- Liberating
- Lively
- Logical
- Long-lived
- Long-standing
- Loving
- Loyal
- Lucid
- Lucky
- Luxurious
- Masterful
- Mature
- Mellow
- Meticulous
- Mindful
- Modest
- Moral
- Motivated
- Moxy
- Mysterious
- Natural
- Neat
- Neighborly
- Nervy
- Nimble
- Noble
- Nurturing
- Obedient
- Off the charts
- Open-minded
- Open to all
- Optimistic
- Orderly
- Organic
- Organized
- Original
- Outlandish
- Outrageous
- Passionate
- Peaceful
- Perceptive
- Perfect
- Persevering
- Persistent
- Persuasive
- Philanthropic
- Pioneering
- Playful
- Pleasant
- Poised
- Polished
- Popular
- Potent
- Powerful
- Practical
- Pragmatic
- Precise
- Prepared
- Prescient
- Present
- Private
- Proactive
- Productive
- Professional
- Profitable
- Prosperous
- Prudent
- Punctual
- Pure
- Quick
- Quiet
- Ready
- Realistic
- Reasonable
- Recognized
- Refined
- Regenerative
- Regular
- Rejuvenating
- Relaxed
- Reliable
- Religious
- Remarkable
- Resilient
- Resistant
- Resolute
- Resolved
- Resourceful
- Respectful
- Responsive
- Restrained
- Reverent
- Revolutionary
- Right
- Rigorous
- Rock solid
- Sacred
- Sacrificing
- Satisfying
- Secure
- Self-controlled
- Selfless
- Self-reliant
- Self-sufficient
- Sensitive
- Sensual
- Serene
- Sexy
- Sharing
- Shrewd
- Significant
- Simple
- Sincere
- Skillful
- Smart
- Solid
- Sophisticated
- Sound
- Speedy
- Spirited
- Spiritual
- Spontaneous
- Stable
- Stealthy
- Strong
- Structured
- Stylish
- Subtle
- Successful
- Sufficient
- Suitable
- Superior
- Supportive
- Surprising
- Sustainable
- Sympathetic
- Synergistic
- Thankful
- Thorough
- Thoughtful
- Thrifty
- Timely
- Tolerant
- Touching
- Traditional
- Tranquil
- Transcendent
- Transformative
- Transparent
- Trustworthy
- Truthful
- Understanding
- Uniform
- Unique
- Unstoppable
- Up to date
- Useful
- Varied
- Victorious
- Vigorous
- Virtuous
- Vital
- Vivacious
- Warm
- Watchful
- Wealthy
- Well known
- Well regarded
- Wide-ranging
- Willful
- Willing
- Winning
- Wise
- Witty
- Wonderful
- Youthful
- Zealous

Exercise 7: Brand Development In 9 Easy Steps

1. The specific product, product line, service, farm, or other business I'm branding is:

2. We will offer these products and services:

3. These are the core values embodied by our farm, product, service, co-op, group of farmers, etc.

4. This is our mission, what we are trying to accomplish:

5. This is what we specialize in, what sets us apart:

6. This is our target market: the group our products and services affect:

7. This is our tagline, and the message it sends to customer prospects:

8. If our farm/company/product line were a person, this would be its personality or character. (E.g. innovative, creative, energetic, sophisticated.)

9. Use the personality (step 8) to build a relationship with target market in step 6. How does that target audience react to the personality? What characteristics will stand out? What characteristics and qualities get the attention of your prospects?

Who is your customer?

Defining your target market takes some research, and you need to be specific. You'll probably define primary, secondary, and even tertiary markets.

- What's their demographic (i.e. gender, age, ethnicity, and so on)?
- What's their income range?
- What are their values, interests, and lifestyles?
- What do they want from their food?

What problems are they trying to solve? Could it be that they have:

- Poor health and the doctor recommended a new diet?
- Taste bud fatigue, are craving something different?
- Concerns about animal welfare or the environment?
- A desire to be part of new food trends?
- A large family and trying to save money?
- A passion for gourmet cooking
- A desire to eat healthier and yet need convenience?

Or maybe they

- Want to make their own baby food.
- Want to eat healthy, but don't have much time.
- Want to eat their beliefs.



Sue Beckwith photo

It's worth the effort to hone in on what motivates customers to choose you. By knowing what they need, you can create a brand that solves their problem.

Simple ways to gather market research

- Ask each customer the same questions at market and record their answers. Something as simple as "How did you hear about us?" will help you pinpoint effective marketing channels.
- Collect customer e-mails and distribute a Mail Chimp survey. Write a simple paper survey for your customers, offering a small reward for completion.
- Arrange a focus group. Invite customers to meet with you or a representative of your farm to discuss what works, what doesn't, and hidden opportunities.

If your customer is a school district, restaurant, or grocery store, ask them:

- Are you interested in buying from local farmers?
- What are some products you would be interested in buying?
- What's missing, or hard for you to get?
- What are some emerging trends?

Marketing strategy vs. tactics

Your brand—i.e. your reputation—stays the same but your marketing is going to change with customer desires, market trends, and your product offerings. Launching a new product requires at least a rudimentary marketing plan that includes both marketing strategy (the why) and tactics (the how).

Before you run away screaming from the idea of writing a marketing plan, notice that we said “rudimentary.” We’ve known many successful food enterprises that were launched without a fully detailed plan. We’ve also seen people waste time writing extremely detailed plans for ideas that went nowhere.

It’s OK to start small, taking a trial-and-error approach, seeing how your customers respond, and learning about the markets as you go. Even so, drafting a rudimentary plan will reduce costly mistakes as you consider the steps involved in reaching your intended audience. Putting your ideas into writing forces you to think more clearly.

Consider an example: Let’s say your farm creates the first co-branded vegan pesto sauce in your area, using ingredients sourced from several local, sustainable farms. Your research indicates that customers are clamoring for a local delicious product of this kind. So you’ve defined a target market and answered the “Why” question: You have a pretty good idea why these customers are going to buy your product. In other words, *you have a strategy.*

Now how are you going to get your branded product to this niche market of vegans and the people who influence them? *What are your tactics?* You suspect that the key people who influence this audience probably include culinary professionals, media, and alternative health sources. You jot down a few ideas, including natural food stores, vegetarian restaurants, and businesses offering services like massage, acupuncture, and homeopathic medicine. In the “Maybe” column you put yoga classes, Pilates studios, and stores that sell exercise equipment. Congratulations, you have just written a rudimentary marketing plan—on one side of a sheet of paper.

Know what motivates your customers, so you can create products and a brand that solve their problem.

IT’S ALL ABOUT WHO YOU KNOW

Be friendly.

- Goes without saying, right?
- Remember that there is food everywhere. If you present yourself poorly, there are a ton of options here, and people don’t *need* to buy from you. Make them *want* to buy from you.

Be engaging.

- **Network.** Be helpful whenever you can to others in the same field, or in any field that touches on what you do. Your best opportunities will come from people *sending* them to you.
- Also engage online. Even if you hate computers, your customers do not. People love pictures of food, and remember what they see. Breaking brand loyalty is 2/3 of the battle in winning a customer over.

- Chris Johnson, *The Stellar Gourmet*

Exercise 8: Reaching potential customers

Part 1. How do people hear about similar products now? (Don't guess! Ask potential customers)

- Through the mail
- Through the e-mail
- Through the social networks
- By watching online videos or slide shows
- By using online search engines
- By asking their smart phones a question
- By using their smart phone "find nearby" function
- Through other online ads
- Through telemarketers
- Through print ads they see in newspapers, shoppers or magazines
- In the Yellow Pages (Yes, some people still use them.)
- At trade shows
- Through radio or TV ads
- Listening to talk shows
- Through contacts and networking
- Through their personal social circles and families
- By listening to speakers at conferences and seminars
- By attending trade shows
- Through window signs to attract walk-in trade
- Through in-store displays
- Through a bidding process
- Through online classified advertising

WORKING WITH REPORTERS

Journalists and news reporters often seek out farmers to interview for human interest stories or interviews about current events.

Learning how to work with reporters (it's not difficult), and becoming a trusted media source, can give you invaluable free media coverage. See Appendix 4, Media Tips for Farmers.

Part 2. How will you reach your customers? (Check all methods that seem promising.)

- E-mail
- Social media posting
- Social media advertising
- Posting videos on YouTube
- Ads on search engines
- Banner ads or links on websites
- Guest posting on websites
- Using affiliates to promote your products
- Search engine optimization
- Text messaging
- In-App advertising
- Direct mail
- Print Classified ads
- Paid display advertising in newspapers or magazines
- Radio advertising
- TV advertising
- Unpaid media/PR
- Ads on side of your truck
- Door-to-door canvassing
- Cold-call telephone calls
- An ad in the Yellow Pages
- Word-of-mouth advertising
- Network at business meetings
- Giving speeches and seminars
- Window signs to attract walk-in trade
- In-store displays to sell add-on services
- Exhibiting at trade shows
- Farmers market booth
- Sample in CSA box
- Other (specify)

Part 3. What will it cost you to use each of these marketing methods?

It's totally fine to estimate here. What you want to do is make sure the money you do spend is put to the best use. Remember to pay yourself for your time!

Method	Cost
E-mail campaign (design, distribution fee,...)	
Mailings (postage, mailing lists, paper, toner, staff time, etc.).	
Broadcast (radio, TV) advertising costs.	
In-person sales calls (include gas money).	
Staff time or cost of outsourced help for social media networking.	
Video production costs.	
Photography and artwork cost.	
Publicity costs.	
Phone calls (include staff time).	
Online advertising.	
Print classified ads.	
Print display ads.	
Yellow Pages.	
Network at business meetings (include cost of meetings).	
Window signs to attract walk-in trade.	
In-store displays to sell add-on services.	
Other (specify)	

Exercise 9: A One-Page Marketing Plan

[Product] The product I'm excited about selling is:

[Target Market] My primary and secondary target audiences are:

[Distribution] here's how I will deliver/distribute my product to them:

[Strategy] These people will buy my product because:

[Tactics] And here's how I will reach these people and promote my product to them:

Exercise 10: Write a personal ad for your product

In the box below, write a personal ad for your value-added product. Would you go on a date with this product?

LOCAL VS. LOCAL (WHAT'S SO LOCAL ABOUT YOUR PRODUCT?)

Many products are branded as "local". We hear it all the time. "My product is local." And most consumers, however well-intentioned, don't really know what that means.

"Local" might mean locally made or locally owned or locally grown. Your products are probably all of these. So how do you get the recognition—and extra dollars—for your product? How do you let the customer know that when they buy from you, they are supporting Texas farms?

Buyers want to "buy local" so you'd think Texas farms would have a distinct advantage. But that's not the reality because of the different meanings of the term "local". Each meaning is legitimate in its own way.

1. Products *made in Texas* legitimately can be called "local" because they are made in Texas and they support Texas jobs and economic activity.
2. Products created by *Texan-owned companies* can legitimately be called "local" because we expect that company profits are banked in Texas and maybe they have a headquarters in Texas generating jobs and economic activity in Texas.
3. Products that use *ingredients from Texas farms* can legitimately be considered "local" because the stuff in the package was grown in Texas.

Buying a locally made product from a locally owned company is laudable and supports our Texas economy. But let's not kid ourselves, if it's not locally grown, it does not support Texas agriculture. Period.

The many meanings of "local"

	Locally made	Locally grown	Locally owned
Bernhardt's Farm sauerkraut	✓	✓	✓
Mc Donald's fries	✓		
ATX Jerky	✓	✓	✓
Lone Star Beer	✓		
Sweet Life Soap	✓	✓	✓

ONE RETAILER'S PERSPECTIVE

First of all, we try to carry local brands at our stores, so something that would mainly be carried at Texas locations is fine with us. We actually don't have a required set of products that is the same for every location (though many products are at all of our stores, because they are national brands that sell well for us). So, local Texas food products would be of interest to our stores there.

Organic is important to our customers, and sustainability generally goes along with organic farming methods. So, even if the entire product is not certified USDA organic (all ingredients), I would definitely encourage the farmers to grow fruits and vegetables organically. It is still of value to list organic cabbage in a sauerkraut, or organic sweet potatoes in a frozen vegetable mix. Every bit helps! Having USDA Organic seal on a value-added product would be of high interest because customers look for that. We do carry some frozen vegetables and fruits (Stahlbush brand, from Pacific NW) that are not organic, but they are sustainably grown. That could be an option for farmers who won't consider going organic, but that's a more elusive concept. If you go look at Stahlbush packaging, you'll see that they have to explain what they mean by sustainable, so shoppers can understand the benefits.

Sweet potatoes are always being recommended as a good item to add to a daily diet, so frozen vegetable blends that incorporate sweet potatoes could be of interest. Recipes that are ready to heat up & already seasoned might make it easy to add to meals—sweet potato hash, sweet potato casserole, sweet potato pie, sweet potato/black bean/corn burritos, sweet potato bean chili, for example.

Grain-free products are of major interest—paleo diets, people avoiding grains because they add to inflammation in the body—you should research some paleo diet blogs & websites and you'll see cauliflower crumbles to replace rice, mashed cauliflower to replace potatoes, cabbage slices roasted in the oven; roasted broccoli florets—lots of cruciferous veggies. I've seen mass market grocery brands in Produce already offering the crumbled cauliflower in a bag. I haven't yet seen organic versions of that. We are also seeing flours made from sweet potato, butternut squash, cassava root—they are showing up in recipes that also use coconut flour or nut flours—this is all part of a grain-free lifestyle, and I think that trend will keep growing. It encompasses gluten-free, paleo, inflammation diets—all of which are lasting trends.

In terms of fruits, I would suggest looking at products that use the whole fruit, so you still get the benefit of the fiber. People don't eat enough fruits and veggies, so maybe looking at high pressure processing (HPP) to create ready to eat fruit salads, fresh chunky applesauce mixed with other fresh fruit pieces, or packaging produce like beets already cooked & ready for salad in the cooler. Or the ready to eat sliced veggies, perhaps a jicama, or a root vegetable mix ready to roast.

Fermented vegetables is another big trend, also a crowded category with many local brands all over the country. But I'm not sure there's a Texas brand in the category, so perhaps it's worth exploring that area.

Lastly, as you look at developing products, keep in mind that Natural Grocers would not want to add products containing GMO ingredients, so you would either want to limit or source non-GMO on anything containing corn, soy, canola

- *Debbie Knapp, New Products Specialist for Natural Grocers (2017)*

What is co-branding?

Co-branding is essentially partnering with another business on a product, where both businesses are shown on the label. This can mean partnering with another farm, and can also mean partnering with a non-farmer food entrepreneur who makes your product using your farm's ingredients. Co-branded products range from wheat growers who combine their raw product to create frozen pizza dough to vegetable growers who combine their individual harvests such as corn or peas to create succotash for sale to college cafeterias.

Co-branding is advanced marketing and comes with risks. A simple step you can take when considering a business relationship is to create a pro/con list. What are the positive and negative aspects of entering into this relationship?

Another way to see if collaborating is going to work for you is to buy wholesale products from your prospective farm partner. Or consign your products to another farm to sell through their marketing channels. Get to know your potential business partners and see if they prove themselves trustworthy. If you decide to go forward, you'll need some kind of collaborative agreement.

To be effective, collaborative agreements must be well defined. Questions to ask yourself and your partner are going to vary depending on whether the product is for a retail or institutional customer, but should ordinarily include:

- Are you willing to mix your brand with another farm?
- How much time and money can you invest in developing a new product?
- Are you willing to relinquish some control of the final product?
- Will this new product require marketing to a new audience? If so, do you have the expertise to do so?
- Does this product require special equipment to make, store, or distribute?
- How will this product reach the customer? Will it need to be shipped?
- Do you have a recipe? Has it been tested in larger batches?
- Who will make the product?
- Who ensures quality control?
- Have you allowed enough time for product development and testing?
- What's the ideal package?
- What are the Health Department requirements for making and selling this product?
- Are there licensing and other business regulations?
- What information is required to be on the label?
- Do you have product liability insurance?
- Do you have a business plan?

Co-branding is partnering with another business on a product, where both businesses are shown on the label.

Do

- Write a personal ad for your farm or value-added product. Have fun with it. Do it with your family.
- Survey your customers.

Think about

- What do you want your brand to be?
- How much do you respect your customers' opinions?
- Existing brands and entrepreneurs you might want to partner with...or not.

References

The quote from Tad Hargrave at the beginning of this chapter is from the website *Marketing for Hippies*, <https://marketingforhippies.com>.

Resources

Born, Holly. *Keys to Success in Value-Added Agriculture*. National Center for Appropriate Technology, 2001. ATTRA publication IP172, <https://attra.ncat.org>.

The Marketing, Business & Risk Management section of the ATTRA website offers many other free publications, videos, and self-instruction courses on all aspects of marketing and business planning: <https://attra.ncat.org/marketing.html>.

Growing for Market magazine covers all aspects of growing and selling vegetables, fruits, plants, herbs, and other food products: www.growingformarket.com.

The New Hope Network offers journals, reports, webinars, publications, and conferences: www.newhope.com.

The Specialty Food Association offers marketing news, products, and a learning center: www.specialtyfood.com.

The Texas Center for Local Food (www.TexasLocalFood.org) helps develop markets for Texas-grown food. Members get news on market development and opportunities to sell more product into Texas markets. Memberships for farms is \$50 per year.

REACHING NEW CUSTOMERS

I work in downtown Washington D.C. where nearly everyone has a long commute via the DC Metro trains. There's a guy at the downtown farmers market every week selling frozen locally raised meat. I couldn't figure out why people would buy meat and then take it on the train in the hot summer all the way home. So I asked the guy and he told me "Oh I don't sell much at this market, but I have this sign-up sheet here and I send an e-mail to everyone inviting them to participate in my meat delivery service. Then I deliver to drop points near their homes when it's convenient for them and they can bring their cooler. This farmers market is how I get new customers."
— Jim Barham, USDA employee

Market Trends

Money can buy you a fine dog but only love can make him wag his tail.

- Kinky Friedman

You need to pay attention to market trends—some are working strongly in your favor and others are working against you—but you should follow your heart and the path of sustainability, not spend your brief time on this planet chasing short-term trends.

Food trends change all the time. By the time you read this chapter some of the information may no longer be current.

A Farmer-First Approach to Marketing

We've been urging you to put your own business and personal needs first and refuse to be subservient to market demand. Job One is taking good care of yourself, your family, your land, and your workers. And taking a Farmer-First approach also means remembering the values and personal vision that got you into farming in the first place. You're the boss.

Chasing short-term market trends is a terrible way to approach business. Besides being risky and hard to predict, consumer trends don't align well with sustainability. You can't be oblivious to market trends. But you can be selective about the opportunities you decide to pursue. We sincerely hope you'll follow your heart and the path of sustainability, not spend your brief time on this planet following trends.

Please stick up for what you believe in. OK?

Scale is everything

Another reason to take market trends with a grain of salt is that, in the food world, scale is everything. A product that's profitable in large-volume sales at the grocery store may be a risky logistical nightmare to make in small batches in a commercial kitchen. The good news is that there are plenty of market niches that ONLY small-scale producers can capture. Staying small reduces your financial risk and allows you to be nimble—dropping product lines and switching to new ones when fickle consumers decide they want something new.

What are specialty foods?

Food is generally considered to be a “mature” industry, meaning that it has low profit margins and little growth potential in demand. The large retailers who dominate the industry charge hefty fees for shelf space (“slotting fees”), need food in large volumes, and require high standards for product uniformity and quality. Realistically, most farmers can't compete in this world. The best opportunities are in niche markets and specialty foods, where products are often sold at much higher prices than those charged for standard products.

Finding the right scale of production is at least as important to profitability as finding the right product.

Consumers who prize freshness and are wary about processed foods may need to be reassured with messages about nutrition, local production, shelf life, and convenience.

The Specialty Food Association defines specialty foods as ones that “maintain a high perceived value and often command a premium price because they exemplify quality, innovation, and style in their category, and services such as brokerage, packaging, retail, or distribution services” (SFA, 2018). These foods are differentiated from others by features such as “originality, authenticity, ethnic or cultural origin, specific processing, ingredients, limited supply, distinctive use, extraordinary packaging, or specific channel of distribution or sale” (SFA, 2018).

Since 2012, the U.S. specialty food market has been growing about ten times as fast as all foods and beverages combined. Some specialty food categories showing growth over 15 percent since 2012 include candy and individual snacks, frozen lunch and dinner entrees, frozen desserts, shelf stable fruits and vegetables, seasonings, entrées and entrée mixes, frozen fruits and vegetables, energy bars, and refrigerated salsas and dips (SFA, 2018).

Demand for fresh fruits and vegetables: a double-edged sword?

Over the past decade, consumer demand has increased greatly for fresh and local fruits and vegetables. U.S. vegetable sales grew 20 percent just in the period from 2010 to 2015. Is it safe to assume that consumers will eagerly buy value-added food products made from these same fruits and vegetables?

Well not exactly...

As it turns out, the growth in fresh vegetable sales has come largely at the expense of non-fresh vegetables—for example, those that are canned, dehydrated, freeze-dried, or otherwise processed. Many consumers now think these products are too processed or have inferior taste relative to their fresh counterparts (Holcomb & Bowser, 2016).

The local food movement succeeded partly by convincing consumers of the nutritional and environmental advantages of fresh, raw, whole fruits and vegetables. At the same time, many of these consumers developed negative associations with non-fresh produce. In other words, some of the same factors that increased consumption of fresh produce may now be reducing demand for preserved and processed fruits and vegetables. Consumers also now have access to fresh produce year-round as the result of imports, which has reduced demand for canned and frozen items.

There are especially strong negative perceptions about canned and jarred fruits and vegetables, which have declined considerably in the marketplace. Frozen fruits and vegetables have been less affected. And dried and fermented foods may now have the greatest market potential, as sales have increased in recent years (Holcomb & Bowser, 2016).

Some of the implications for marketing are pretty clear: Consumers who prize freshness and are wary about processed foods need to be reassured with honest marketing messages that highlight positive features such as nutrition, local production, shelf life, and convenience.

Thinking like a Millennial

Millennials (people born between 1977 and 1994) are the largest generation, the fastest-growing segment, and the most ethnically diverse segment of U.S. population. They are also a uniquely important group of customers for foods that are healthy, fresh, and made with transparency. On the basis of their research, Holcomb and Bowser (2016) reached the following conclusions:

Compared to older shoppers, Millennials are more likely to avoid buying processed foods altogether. They tend to prioritize health and freshness, have a foodie mentality, and shop for food across a variety of retail channels. They tend to distrust large food manufacturers, citing a need for greater transparency about how foods are produced. They want brands to communicate with them directly and authentically, and they check ingredient lists. They are highly digitally connected, using many channels and devices when considering purchases. Online marketing is crucial to reach them.

Older Millennials (born 1977 to 1986) are more focused on health than Younger Millennials (born 1987 to 1994), and more open to trying foods centered on specific diets, such as vegan or paleo. A cluster analysis of Millennials surveyed in 2015 found three clusters with different values and motivations: Foodie Skeptics, Health-Conscious Independents, and Brand Loyalty Eaters (Holcomb & Bowser, 2016).

Foodie Skeptics value food that's fun to eat, tasty, energizing, and similar to restaurant foods. They see traditional grocery stores as less appealing than specialty stores. They are likely to buy groceries online, and they are mobile savvy, creating shopping lists on their phone and looking up products and recipes while in store. A marketing message for Foodie Skeptics should emphasize fun, flavorful food. And information about your products should be available via mobile channels.

Health-Conscious Independents want food that's fresh, nutritious and affordable. They take a preventive approach to their health, avoiding health problems before they occur. A marketing message for Health-Conscious Independents should emphasize affordable, nutritious foods, especially if paired with messaging about preventive health precautions.

Brand Loyal Eaters are loyal not only to the food brands they purchase, but also to the retail channels where they shop and the places where they live. Older Millennials are far more likely than Younger Millennials to fall into

Millennial shoppers tend to prioritize health and freshness, distrust large food manufacturers, and want to know how foods were produced.

ATTRACTING AND KEEPING MILLENNIAL SHOPPERS

- Function and convenience are important.
- Frequent shoppers (more trips, smaller purchases) who access many different market channels (supermarkets, farmers markets, online, etc.).
- Closely associated with the "foodies" movement, they value quality, locally-produced, and smaller-scale food products.
- Trust in the company/brand is important.
- Transparency is key to building trust.

this category. Marketing messages aimed at this group should include items that attract their attention and trigger their loyalty—such as the Texas flag. Offering rewards or loyalty programs, or even something as simple as tee shirts or bumper stickers, can turn these folks into repeat customers, giving them new ways to express their loyalty and support your success.

What do Baby Boomers want?

Baby Boomers (people born between 1946 and 1964) control more than half of all dollars spent on food and are among the most likely of any generation to buy vegetables (Holcomb & Bowser, 2016). While fresh, loose vegetables contribute the majority of vegetable sales, Baby Boomers rank high in survey results with their favorable attitudes toward processed fruits and vegetables—especially when it comes to jarred, dried/dehydrated, and pre-cooked or packaged vegetables. So they are an important audience for many value-added food products that you may be considering.

A number of studies have shown a trend for consumers away from organic food and toward local food as a substitute.

Is local the new organic?

At the time of publication, organic food sales are still growing nationally at almost a double-digit pace, as they have been for decades. And many retailers are aggressively expanding their lines of organic products. But there are signs that organic food sales nationally could be hitting a plateau. A 2015 survey of distributors by the Specialty Food Association found that “local had surpassed organic by a wide margin,” in its importance to consumers (SFA, 2015). And Holcomb and Bowser (2016) commented that “Any significant growth for the category will demand organic companies to provide clear and distinct reasons to compel consumers to pay the premium typically associated with organic products.”

A number of studies have shown a trend for consumers away from organic food and toward local food as a substitute. For example, one study (Meas et al, 2015) found that blackberry jam presented as 100 percent organic, or with a ‘made with organic blackberries’ label, was more likely to be selected compared to jam having no organic label. The lone National Organic Program seal used without any reinforcing description, however, had no significant influence on consumers’ choices.”

The same study found that consumer preferences for local food were often connected to a preference for greater fairness for farmers. Consumers were willing to pay more when benefits of their purchase flowed to local farmers, who might be perceived as being less well-off than the consumers themselves. Consumers who would pay \$5.00 for a jar of blackberry jam were willing to

IS THERE A DOUBLE PRICE PREMIUM FOR PRODUCTS THAT ARE **BOTH LOCAL AND MADE FROM SUSTAINABLY-PRODUCED INGREDIENTS?**

Don't count on it. Experts told us that this is a tricky market niche, and it's hard to predict which combinations will work together to create distinct markets or price premiums.

There are price ceilings that operate in most food categories. And many consumers see “local” and “sustainable” as approximately equivalent, so combining these two attributes adds little if any extra market value. Also keep in mind that the term “processed foods” has negative connotations for many consumers.

pay an average of \$5.26 if it was certified organic and \$5.34 if it was made local (made from local ingredients by small family farmers) (Meas et al, 2015).

Strangely enough, the same consumers who were willing to pay \$5.34 for local jam were only willing to pay \$5.25—if the jam was BOTH organic and local. Consumer preferences are hard to predict and not necessarily “rational.”

Free-from claims

A 2015 survey (Mintel, 2015) found that health issues were high-priority among consumers seeking products bearing a “free-from” claim. The list below shows the percentage of consumers who ranked free-from claims in their top five (most important):

- Trans fat-free 78%
- Preservative-free 71%
- Growth-hormone-free 69%
- GMO-free 58%
- Sodium-free 57%
- Nitrate/nitrite-free 47%
- Cage-free/free-range 43%
- Lactose-free 29%
- Allergen-free 29%

Notes on a few specific food categories

Fermented and Pickled/Acidified Foods

Fermented foods, such as pickles, sauerkraut, and kimchi, have seen a resurgence in recent years. While fermented foods have been around for thousands of years, new products are promoting the nutritional value of these foods along with their artisanal uniqueness. Fermented products are rich in beneficial bacteria, often called probiotics, which are alleged to benefit our digestive system.

Non-fermented but pickled (vinegar-added) products have also grown by appealing to “real food” or “whole food” consumers. The demand for pickled products has moved far beyond cucumbers and cabbage, and now includes all sorts of vegetables and greens.

Fermentation is controlled spoilage, a process one author has called “the flavorful space between fresh and rotten” (Katz, 2012). Even though



Sue Beckwith photo

IS FREEZE-DRYING COOL?

Freeze-drying is a process that can be of benefit to farmers interested in adding value to their fresh produce, but it does carry a relatively high cost and can make any consumer product expensive. So as the farmers and researchers in Missouri learned, the key is developing products with your freeze-dried ingredients that the consumer can appreciate but do not contain so much of the ingredients that it makes the ultimate product too costly. The take home point is to do as much research as you can on the products you are planning to make, including observation of products already on the market and learning how the established brands make their products. – *Potential Success of On-Farm Freeze-Dried Products, SARE Project FNC04-503*

fermentation is one of the easiest ways to put in a kill step to avoid contamination, you still have to monitor and control product temperature, pH, and other factors. Ingredients must be fully submerged in order to eliminate air pockets. Salting the product should be done with high quality salt. Sealing the package must be precise, and then monitored.

Salsas and Dips

Salsas and dips have sold well in recent years, experiencing strong market growth (SFA, 2015). Compared to other food categories, health-focused claims tend to be of less importance to consumers when buying salsas and dips. One recent survey found that just half of consumers agreed that taste was more important to them than health when buying these products (Mintel 2015a). Consumers who like salsas and dips are open to trying new flavors, and are especially motivated by innovative flavors.

Freeze-dried fruits and vegetables

Freeze-dried foods are subjected to below-freezing temperatures and reduced atmospheric pressure that removes water while leaving cellular integrity and nutrients intact. Many studies have shown that frozen fruits and vegetables are just as nutritious as fresh produce. (See, for example, Rickman et al, 2007.) Marketers often tout this claim, along with the idea that, since most of the water has been removed, it's only necessary for a person to eat one ounce of freeze-dried food to get the same nutritional value as three daily servings of fresh food. While most freeze-dried products are used in snacks, they are also used in soups, baked goods, cereals, yogurts, camping/backpacking foods, and for emergency preparedness.

Ready-to-eat meals

Evolving from TV dinners (in the 1950s) and frozen pizza, ready-to-eat meals have grown to include meals that are certified organic, ethnic, gluten-free, or aimed at toddlers, seniors, diabetics, and many other groups. A current trend across all segments is to increase the quality of the ingredients while also reducing the number of ingredients, thus providing a "clean label."

Fruits: dried, jams, and jellies

From 2010-2015, fresh fruit sales in the U.S. increased by almost 25 percent while shelf-stable fruit products declined by almost 8 percent (SFA, 2015). Canned and jarred fruit products—especially jams and jellies—have been especially challenged during recent years, as greater emphasis on health and lower sugar consumption has reduced demand contraction.

PRICEY BUT WORTH IT

Ultimately, value-added and co-branded products can require a significant investment if your farm provides the means of processing. For some farmers, that investment may be worthwhile if it can be applied to other enterprises says Alex Bernhardt, of Bernhardt's Fruit & Veggie Farm in Elgin, Texas. A leader in value-added food products in Central Texas, Bernhardt's Farm is an established business selling more than 25 value-added products, ranging from kale chips to smoked hummus.

"Even if we decide to stop making our value-added products, we have created a commercial kitchen - that's space that other farmers and food artisans can rent. In my mind, that makes the expense worth worthwhile."

Nearly six out of 10 consumers agree that the fewer ingredients a product has, the healthier it is.

This doesn't mean you should forget about selling products made from fruit! But it does suggest a certain amount of caution. The nature of your products (e.g. organic fruit) and emphasis on location need to be strong enough to carry the marketing message. Labeling should emphasize a simple list of ingredients, lower sugar, all-natural (or organic), and minimally processed products. Nearly six in 10 consumers agree that the fewer ingredients a product has, the healthier it is (Holcomb & Bowser, 2016).

A 2015 survey of 1,916 adults found that Millennials and parents were more inclined—relative to all respondents—to purchase non-fresh fruit. Two thirds of fruit buyers agreed that when buying fruit, it's important to know where it is grown. Across all demographics, parents were far more likely than non-parents to say that this mattered to them (Holcomb & Bowser, 2016).

Other possibilities

Dehydrated vegetables and dehydrated vegetable soup mixes: This category appeals to consumers seeking convenience and others who want to participate in meal preparation with almost-from-scratch cooking.

Relishes are condiments eaten with plain foods to add flavor or texture. They can be made out of fruits or vegetables, often with pickled ingredients to make them shelf-stable and to take advantage of the probiotics trend.

Vacuum-fried vegetables: This new technique involves putting raw ingredients into a vacuum, thus lowering the evaporation point of the water so the ingredients can be fried at a lower temperature, absorbing less oil. Finished products are crispy, contain just 50-75 percent of the calories of traditionally-fried products, and are said to have less acrylamide, a suspected carcinogen. There are not many vacuum fried products in the American market because they are much more expensive than their conventionally-fried counterparts.

Do

- Identify the audience for your product.
- List characteristics of your product that meet the needs of your audience.
- Go back to the branding exercises and values checklist in Chapter 8 and see if your product aligns with your values.

Think about

- What message you would craft to your audience.
- How would you test your product with your potential audience.
- Where does your audience shop?



*Not all foods need processing.
Sue Beckwith photo*

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Resources

- The Specialty Food Association website offers courses, webinars, conferences, consulting services, and other resources: www.specialtyfood.com.
- The New Hope Network (www.newhope.com) offers journals, reports, webinars, publications, and two major conferences each year (Natural Food Expo East and Natural Food Expo West).
- The Shelby Report-Southwest, (www.theshelbyreport.com/category/southwest) is a monthly newsletter about the retail grocery industry in Southwestern states, including Texas.
- Four websites that track and analyze food industry news and trends are: Food Dive, www.fooddive.com, Supply Chain Dive, www.supplychaindive.com, Retail Dive, www.retaildive.com, and Marketing Dive, www.marketingdive.com.

THE "UGLY FRUIT" CRAZE

It has been estimated that as much as 40% of the food produced in this country gets wasted, and 20-25% of some fruits and vegetables never make it off the farm because they are too big, too small, scarred, off-color, misshapen, or just plain ugly. (See, for example, USDA, 2015.)

Companies such as Imperfect Produce, Hungry Harvest, and Misfits Ugly Produce are selling these unwanted fruits and vegetables at a substantial discount, sometimes through home-delivered boxes of "rescued" produce.

We can all agree that food waste is a bad thing. And as a farmer, getting a low price for your number twos may seem a lot better than getting nothing at all. But you still have to run the numbers and ask yourself if these schemes actually generate profit, meaning they cover more than your full cost of growing, harvesting, and packing.

Also, are you thinking about selling your uglies to the same customers who buy your best stuff? If so, you might wonder if you're "cannibalizing" sales of your best stuff with sales of the cheaper and less profitable product.

Food waste is a real problem, but asking farmers sell their fresh produce below cost is not the answer.

CHAPTER TEN

Running Your Business

Dr. Rumack: Can you fly this plane and land it?

Ted Striker: Surely you can't be serious?

Dr. Rumack: I am serious, and don't call me Shirley.

- Ted Striker played by Robert Hays and Dr. Rumack played by Leslie Nielsen in the 1980 film *Airplane*

This chapter goes over a few nuts and bolts of running a successful food enterprise, and urges you to claim the respect you deserve, as a legitimate business that is making real contributions to your community.

A Farmer-First approach

Many small and mid-sized farms across the U.S. are not getting the respect and attention they deserve, from agencies and organizations that have a responsibility to support them. One reason this happens is that some farms don't act like serious businesses.

How do serious businesses act? Well, they are serious about making money and take advantage of every resource at their disposal. They pay close attention to their bottom line. They spend time understanding the local power structure so they can be effective in influencing it. They learn what agencies have a legal responsibility to help them, and they contact those agencies and meet with them personally. They expect good service and aren't shy about exerting pressure when they aren't getting the help they are entitled to. They spend time with others doing the same work—like other farmers and ranchers.

Employees

Value-added processing work is not considered farm work. So the employment rules you have to follow are different from those governing farm labor. This includes minimum wage, unemployment, and workers' compensation rules.

Check with a human resources expert and the following three agencies to understand and comply with the labor laws that apply to your farm:

U.S. Department of Labor: <http://webapps.dol.gov/elaws/elg/minwage.htm#who>

U.S. Department of Agriculture: <http://usda.gov/oce/labor/laws.htm#minimum>

Texas Workforce Commission: <http://twc.state.tx.us/businesses>

Ask about possible exemptions. You may be exempt because your business is a farm or because of your total number of employees. Be sure to explain that you will assign employees to process food (probably considered non-farm work). It's best if you get answers in writing about how to comply with the law.

YES, YOU ARE A RURAL SMALL BUSINESS

Farms are rural businesses, whether they decide to do food processing or not. Contact your county or regional tourism office. These folks often print promotional directories or hold events where you could sell your products.

Serious businesses take advantage of resources, expect good service, and hold people's feet to the fire.

Taxes

Sales tax

Farmers often don't collect sales tax on the products they sell. Adding processed food as part of your farm business may require you to pay Texas sales tax. Be sure you understand which products are subject to sales tax and check the rules periodically to see if they've changed. For example:

- Single servings of almost any food product are subject to sales tax. This could be a small bag of kale chips, an ice cream bar, or a piece of jerky.
- Bakery items are an interesting category. A piece of cake made at home and sold in a bag at a farmers market is not subject to sales tax. That same piece of cake sold on a plate or with a fork is subject to a sales tax.
- Candy is always subject to sales tax regardless of the serving container.

Sales tax resources

Texas Secretary of State: <https://comptroller.texas.gov/taxes/sales>

Texas Office of the Comptroller: www.comptroller.texas.gov/taxes/permit

This is the state of Texas tax collector. Contact them to set up an account and learn how to pay sales tax on items you sell. Also contact the Comptroller to get a Sales & Use Tax Permit that enables you to purchase inputs and supplies without paying sales tax on some things you buy.

Property tax

Property taxes come into play if you build a commercial kitchen on your farm, since commercial kitchens may not be considered "agricultural use" by your property taxing authority. Check with your County Appraisal District before building a commercial kitchen facility. Of course, if you build a new building or remodel an existing one, you'll need to comply with all local building codes. If you plan to build a commercial kitchen, visit with your county health inspector early in your planning process to be sure your intended use is allowable and that your building will pass health inspection once it's built.

Also pay close attention to appraised value. Adding a commercial kitchen will increase your overall appraised value and likely increase your property tax.

If your property is taxed as "agricultural use" or "open space", be sure a commercial kitchen won't adversely affect that designation. Example: Tom

GOING TO PLAN B

In 2011, Bernhardt's Farm spent \$35,000 to build a commercial kitchen on their family farm to process excess crops. It worked great! They made jams and jellies and increased their income. The next year, the Texas Legislature passed the Texas Baker's Bill, also known as the Texas Cottage Food law. Suddenly the Bernhardts had loads of competition at the markets for their jams and jellies. The family shifted their product set to include products that could only be made in an inspected kitchen. Today they still make jams and jellies, and they also make pickled okra, pesto, and sauerkraut. Business is booming.

As you develop and run your business, things change that may be outside your control. Be as prepared as you can. Pay attention to market trends and the laws that impact your business.

and Juanita have 15 acres in Bastrop County. They actively farm 11 acres, which is the minimum acreage needed for an agricultural tax valuation in Bastrop County. They build a packing shed and commercial kitchen near their fields. The County Appraiser informs them that the packing shed is agricultural use but the commercial kitchen was not. So Tom and Juanita no longer meet the minimum requirements for agricultural tax valuation. Their property taxes increases from \$1,500 per year to \$7,000 per year.

Check with your County Appraisal District before you build. The Texas Comptroller has a useful list for all Texas counties:

<https://comptroller.texas.gov/taxes/property-tax/county-directory>

IRS and Federal taxes

Income and expenses from value-added processing are generally not considered farm income. Check with a CPA or the IRS, and be sure you use the correct form. For sole proprietorships and LLCs, non-farm income and expenses are NOT entered on Schedule F.

Texas Franchise Tax

You may already file a franchise tax return with the Texas Comptroller. These filings are due on May 15 each year **even if you owe no tax**. Most businesses in Texas have to file a franchise tax form, which you can do online and it's pretty simple. Sole proprietorships don't have to file. In general, if your revenue is less than \$1,130,000 (for 2018), you don't have to pay the tax. There are deductions, so if your revenue is more than this amount, get more information from the Texas Comptroller. Remember: if you are required to file, you must file, even if you have no tax due.

Texas Franchise Tax information:

<https://comptroller.texas.gov/taxes/publications/98-806.php>

Form of organization

You already have a form of business for your farm. Creating processed foods can increase your risk of liability, so be sure you are protected. If someone gets sick and claims it's from your food, they could sue you. If you are a sole

If your property is taxed as "agricultural use" or "open space," be sure a commercial kitchen won't adversely affect that designation.

FINDING A CPA THAT YOU LOVE

I've had a farm and I've run multiple businesses and several non-profits. Over 25 years, I've tried maybe seven or eight bookkeepers and CPAs. I found two that were good, one that was excellent, and four that were lousy.

Shopping around sounds great but in the beginning, I hardly knew what to ask, much less how to interpret their answers. I learned that the most important thing for me was that the bookkeeper or CPA understand the industry I was in. Finding a bookkeeper and CPA who understood farming took some effort. Ask your farmer friends if they have a bookkeeper or CPA they're happy with... are they delighted?

Try to find someone who has customers who are farmers and small food processing companies. If they say serve farmers, then check their references and if good, hire them. But avoid long term contracts; keep your freedom to fire them if they get sloppy. Most small family farms can expect to pay about \$60-80 per hour.

– Sue Beckwith, former co-owner of Shades of Green Farm

proprietorship, that could put your personal assets at risk. That's right. Your extra car, that big screen TV. Talk to an attorney about establishing an LLC or other form of business that may provide you with some protection from liability claims. Establishing an LLC won't completely shield you from liability, but it can be helpful. For example, a business failure may bankrupt the LLC instead of you personally. Ask your attorney about the pros and cons. And while you're at it, ask whether your farm business and your food processing business can or should be the same business entity.

Insurance

Your farmers market or wholesale customers may require you to carry product liability insurance with a minimum coverage of \$1 million. Your homeowners policy won't cover product liability, and your farm liability policy (for visitors to your farm) may not include product liability. If you deliver high-value products, check to be sure they are insured during transport. Check the implications for your crop insurance too. Generally speaking, crop insurance only covers the value of your crop (e.g. apples), not value-added products you could have made from that crop (e.g. applesauce). Talk with your insurance agent to determine the best coverage for you, your farm, and your family.

Recordkeeping

Yep, you've got to do it. Don't think of it as drudgery, but as a way to monitor and improve your performance. If you cringe at the notion, hire someone who can help you. Besides helping you with your tax reports, bookkeeping helps you spot inefficiencies and manage your money. Find a bookkeeper who understands farms and food businesses. Don't be shy. Interview candidates, and if you don't think they'll serve you well, find someone else. Best to avoid any long-term contracts with bookkeepers or CPA's.

Civic Engagement

You run a business. We know you're busy, but consider joining your area chamber of commerce. Also join trade associations and member organizations related to what you are doing.

Stay connected to decisions in your county. Find your local or regional economic development authority, often called Economic Development Corporations, and meet with them. They often offer business development classes on topics such as bookkeeping, recordkeeping, taxes, and marketing.

You might say, "Well Joel Salatin says don't waste time going to meetings." We're not saying he's wrong, but we are saying don't ignore the resources available to you. In small towns, it's especially important for the local townspeople to know who you are. How else would they know to invite you to vend at the big street fair? How would the school know that you'd love to come talk to the nutrition class? These are connections that help you reach new customers and sell products. We've seen it happen many times. You have to show up to develop these relationships.

Talk to an attorney about establishing an LLC or other form of business that may provide some protection from liability claims.

Business and Economic Development

Your farm and food processing businesses have real economic development impact. In general, most Texas agencies working on economic development don't know much about agriculture. But there are some that might be helpful to you. Don't let the "Go Big in Texas" moniker scare you off. Look for small business programs at the Governor's office website. Click around and you might find the guidance you need: <https://businessintexas.com/start-business>.

As Appendix 3, at the end of this workbook, we've included a one-page handout, *Economic Benefits of Local Small Scale Food Production*, that you can print, carry with you, and share with community and business leaders, to educate them about the importance of local food to the Texas economy.

Councils of Government

Texas has 24 regional Councils of Government (COGs), whose members include governments, cities, counties, school and appraisal districts, utilities, and chambers of commerce. The COGs work with local officials and partners, including the Texas Department of Agriculture, to provide regional coordination and planning for the long-term health and sustainable growth of rural communities: creating economic development plans and administering grant and loan programs. Every COG has a staff person in charge of economic development. If you're starting a business, we suggest getting to know this person and learning about the services offered by your area COG. Find your COG at <https://txregionalcouncil.org>.

Texas Center for Local Food

Created in 2017, the Texas Center for Local Food (<https://texaslocalfood.org>) aims to be "a catalyst for creation of regional food systems in Texas that support prosperous family farmers, healthy Texans and vibrant rural economies." TCLF offers technical assistance, planning tools, workshops, studies, an event calendar, and more.

It's challenging to find wholesale buyers who will buy packaged foods that use Texas-grown ingredients. TCLF has resources that may help you find wholesale markets.

The new Texas Center for Local Food has many resources to help you start your business and find markets.

LET `EM KNOW YOU'RE THERE

"Most Texas counties, cities, and regions have economic development agencies. These folks don't always recognize agriculture as part of their local economies, so it's up to farmers to let themselves be seen and heard.

In growing areas around Texas cities, economic development directors are looking for the big win: the next big box or the next big factory. They fail to realize the incredible value in supporting local small business, including family farms and ranches.

I encourage farmers to join their local chambers of commerce, meet with your regional economic development agency and your tourism office. If you offer farm tours, they can help you publicize. If you want to work with a local food processors to create new products, they might be able to match you up and even provide business training. Get out and let them know you're there."

– Owen Rock, City of Elgin Economic Development Director

Do

- Check labor regulations to stay compliant.
- Contact the Texas Comptroller to learn about sales tax.
- Check your Texas Franchise Tax filing requirements.
- Make sure you have the right kind of insurance for product liability.
- Reach out to your local chamber of commerce, economic development agency, or tourism office.

Think about

- How you will manage record keeping.
- The effect that selling processed food will have on your Federal taxes.
- Change to your property taxes if you plan to build an on-farm kitchen.
- Getting business support from your local service providers.
- Taking classes in business management or bookkeeping.
- Joining a civic organization in your area.

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Resources

The Texas Organic Farmers & Gardeners Association is a great source of production information and networking with other farmers who are committed to sustainable production methods. Visit <http://tofga.org> and consider joining TOFGA as a member. (No, you do NOT need to be certified organic.)

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Funding

If family farmers are microorganisms in the soil of the restorative economy, then local entrepreneurs are its earthworms. We don't quite know what to make of either of them in purely financial terms...but we know how important they are to the cultural and ecological web. — Woody Tasch, *Slow Money*

You might already have everything you need to run a small food processing business out of your home, as allowed under Texas Cottage Food Law. You may also be perfectly content to grow your business with the tried-and-true **bootstrapping** method: relying on product sales and avoiding external funding and debt entirely. Either way, you might be perfectly happy right where you are, answering the Core Question with a resounding YES.

At some point in the evolution of your food business, though, you may need to borrow money. This chapter introduces you to the many kinds of capital that are available and gives you a series of worksheets that will prepare you to approach funders. **Warning:** These exercises may a little overwhelming or more than you need at your current stage. If you're not planning to look for funding any time soon, it's OK to skim through the exercises for now.

A Farmer-First approach

In today's world there are a lot of powerful forces pushing you to borrow money. Throughout this workbook we've been urging you to stay focused on the Core Question: "Does the value I get make sense for my farm?"

There are basically three main ways to raise capital: You can (1) write a grant; (2) borrow money; or (3) sell partial ownership (equity) in your business. All three approaches have their advantages and disadvantages. Taking on any kind of debt is a serious decision, with both upside and risk. We urge you to approach this decision cautiously and get help from well-qualified professionals.

We're not financial advisors, and nothing in this workbook should be misconstrued as financial advice.

Loans

Commercial banks

Some commercial banks, though not all, have an agricultural lending department. Banks typically have lines of credit or short-term operating loans to finance seeds and other supplies, which generally are meant to be repaid within a year. Medium-term loans are used for equipment and livestock and are structured to be repaid within a few years. Long-term loans are available to finance the purchase of land or major building projects. Many banks participate in Farm Service Agency's Loan Guarantee program (discussed below).

The reality is that loan officers will often not understand what you're doing as a farmer who is committed to sustainability and local food. This is not really their fault. If they are used to lending money for row-crop agriculture, they may find it hard to believe that 15 acres is all you need for your organic

Before taking on any kind of debt, ask yourself the Core Question: "Does the value I get make sense for my farm?"

vegetable operation. And your great idea of selling fermented okra at ten dollars a jar makes about as much sense to them as selling green cheese from the Moon.

If they don't understand you, conventional lenders may judge your business idea unfairly, seeing it as more risky than it really is. For this reason, we recommend that you build a strong relationship with a local bank. They will certainly look at your cashflow and assets, but they also want to get to know you personally. Start early in the planning process, before you need the money. Explain your project. Learn to think like a banker. Build familiarity and trust over time.

If they don't understand you, conventional lenders may judge your business idea unfairly, seeing it as more risky than it really is.

The Farm Credit system

The Farm Credit System is a national network of cooperative, client-owned banks, specifically designed to provide financial services to farmers and rural residents. In addition to offering short, medium, and long-term loans, Farm Credit also provides education and mentoring in financial management to young, beginning, and small farmers. Farm Credit banks pride themselves on being member-owned and controlled, providing profit sharing through a patronage program, and their mission of serving the needs of farms and rural businesses. One of these banks, Capital Farm Credit, is the largest cooperative lender in Texas—with over 21,000 members and 70 offices around the state—and aims to be a “one stop shop” for rural homesites, farms, ranches, construction loans, improvements, livestock, equipment, operating loans, and new agricultural businesses.

Other banks

Community Development Financial Institutions (CDFI) are dedicated to helping low-income and other disadvantaged people by financing community-based organizations such as small businesses, microenterprises, nonprofit organizations, and affordable housing. Their interest rates are typically one percent higher than traditional banks.

Credit unions are member-owned and cooperative not-for-profit organizations that exist to serve their members. They accept deposits, make loans, and offer a wide variety of other financial services.

Economic Development Corporations (EDCs) are organizations whose mission is to promote economic development in a specific geographical area. In Texas they are City-chartered and governed by City-appointed boards of directors. Most EDCs get most of their revenues from sales tax receipts.

THE FIVE C'S

What do lenders look for? The five C's:

- **Cash Flow:** Where will repayment come from?
- **Capacity:** Do you have cash reserves available to address a problem?
- **Credit:** Your history of paying other people.
- **Character:** Experience, relationship, and reputation
- **Collateral:** Is there enough value to get money back?

Borrowers tend to overestimate the importance of collateral and underestimate the other four factors—which are often every bit as important to lenders. — *Tim Traister, Capital Farm Credit*

The Farm Service Agency

The Farm Service Agency (FSA) is part of the U.S. Department of Agriculture (USDA) and exists to provide financial assistance to farmers, including making loans. At one time FSA was known as a “lender of last resort,” but nowadays prefers to be called the “lender of first opportunity.” Whichever slogan you prefer, FSA offers a wide range of loan programs, with special terms for beginning farmers and other groups that have difficulties getting conventional bank loans. FSA loans are sometimes available at a lower interest rate than you could get from a bank, and for borrowers and projects with higher financial risk than banks will tolerate.

Like banks, FSA has a variety of loans for purchasing land, equipment, livestock, and other purposes. FSA offers an important **Microloan Program** that gives loans up to \$50,000 and is meant to serve the needs of small farms, beginning farms, and those involved in direct marketing, niche markets, and non-traditional methods. FSA also offers consultation and advice in financial management and business planning—during the application process and throughout the life of the loan.

Funders will hardly ever give you a grant simply to start or expand a business. You need to provide public benefits.

Grants—worth the hassle?

OK we’ve got good news and bad news...

Good news: Grants are money that does not have to be paid back in cash.

Bad news: Funders are hardly ever going to give you a grant simply to start or expand a business. Grants are almost always tied to very specific purposes, and activities—generally some kind of *public benefit*.

Good news: Since you’re farming sustainably and contributing to your local food system, you are most definitely providing public benefits. And there are grant funders out there who appreciate that you are making the world a better place. You just need to find them and help them understand what you’re doing. As you can see in the following table, it’s partly a matter of how you describe things.

Private benefits (no grants for these)	Public benefits (grant-fundable)
Increase my net income	Revitalize the rural economy
Make something my customers will like	Improve diets and health
Give my lazy kids something to do	Create jobs
Get rid of my excess okra	Reduce food waste
Test innovative farming methods to gain an edge on my competition	Test innovative farming methods to share results with the public
Put up solar panels to reduce my energy costs	Put up solar panels to promote renewable energy

TIPS TO AVOID WASTED TIME ON GRANT PROPOSALS

- Check the odds and funding level first, to be sure this is even worth pursuing.
- Make sure you meet the eligibility requirements.
- Make sure your proposal fits the grant program’s priorities.
- Read the rules carefully to avoid being disqualified on a technicality.
- Read the scoring criteria and make sure you get the highest possible score.

Bad news: Grants are usually competitive, and you can spend a lot of time writing proposals that yield absolutely nothing. There's a certain amount of luck involved.

Good news: Plenty of ordinary people have written successful proposals. You can do it if you're a good writer. And if this is really not your thing you can hire a grant writer.

Bad news: This requires patience and attention to detail, and you may feel like you are "jumping through hoops."

Federal grants

There are dozens of federal grant programs that could support some aspect of a value-added food enterprise. We've listed many at the end of this chapter. These programs change over time, depending on the whims of Congress. So make sure you check the internet for the latest rules.

Perhaps the most important program of all for readers of this workbook is the **Value-Added Producer Grant Program of USDA Rural Development**. At the time of publication (2019), this program provides Planning Grants of up to \$75,000 and Working Capital grants of up to \$250,000.

Winning a federal grant is only the first step. There are lots of federal rules governing grants, so administering a federal grant can be challenging. Unless you have experience in this area, you may need to hire a CPA.

If this seems like more trouble than it's worth, or you are not eligible to apply on your own, consider *collaborating* with a non-profit, university program, or local governmental entity. Let them deal with the cost and complexity of applying for and administering the grant. In this arrangement, you or your farm business will be written into the grant as a subcontractor. You'll invoice the primary grant recipient and be paid by them.

Texas Department of Agriculture

At the state level, the Texas Department of Agriculture (TDA) offers more than a dozen grant and loan programs and also runs the GO TEXAN marketing program to promote Texas products and restaurants. We've already discussed GO TEXAN in Chapter 7, and many other TDA programs are listed at the end of this chapter. One that deserves special mention—and seems under-utilized by producers—is the **Specialty Crop Block Grant** program. The purpose of this program is to enhance the competitiveness of specialty crops (fruits and vegetables, dried fruit, tree nuts, horticulture, and nursery crops) by addressing food safety, marketing, nutrition, plant health, or value-added product and business development.

AN EXAMPLE OF FEDERAL GRANT COLLABORATION: THIS WORKBOOK

This workbook was funded by a grant from USDA's Southern Sustainable Agriculture Research & Education Program (SARE) to a 501(c)(3) non-profit organization, the National Center for Appropriate Technology (NCAT). NCAT wrote the proposal, administered the grant (dealing with the contract, regulations, and reporting), and subcontracted with over a dozen groups and individuals that provided research and educational services.

Consider partnering with a non-profit, university program, or local governmental entity. Let them deal with the cost and complexity of applying and administering the grant.

As with many federal grants, collaboration is the key to accessing this program. Individual producers are not eligible to apply, so you need to partner with a state agency, university, institution, producer organization, or community-based organization. Only these groups are eligible to submit an application.

Other government programs—alphabet soup

The USDA Natural Resources Conservation Service (NRCS) offers dozens of programs that help private landowners with environmental protection or improvement. Most of these are *cost-share* programs, where you'll be required to provide matching funds. Although food processing is outside the NRCS mission, some of these programs could be helpful to value-added product development. For example, the NRCS Environmental Quality Incentives Program (EQIP) offers both a National Organic Initiative and a High Tunnel System Initiative cost share.

Private foundation grants

Private foundation grants are another path to consider, and there are a lot of them in Texas. In general, these require somewhat less paperwork in the application process than a federal grant. Their purpose can be very specific and (as you would expect) defined by the personal wishes of funders and benefactors. Some are geographically limited to certain towns or counties.

While your interactions with a government granting agency are likely to be fairly impersonal, private foundations will often take a keen interest in what you are doing. They'll want regular updates and may want to meet you personally and visit your project site. If they like what you are doing, they may form a long-term relationship, continuing to fund your project or organization for years.

As a food-related business using sustainably-grown ingredients, your obvious angle for private foundation grants is going to be public health. But it could be something completely different, such as reducing teen delinquency, promoting humane treatment of animals, or providing job training to a refugee community in your town. A little internet searching will go a long way. Pay special attention to foundations run by health-related organizations, such as hospitals or health insurance companies.

The thought should at least cross your mind: Maybe the banks and government lenders are right and your project or current financial situation are too risky for you to be borrowing money.

A COMMON MISTAKE: GIVING UP EQUITY EARLY ON

Selling equity in your company is tempting in the early stages of your business, when the prospect of paying interest on a loan is daunting. But if your business grows, you might regret giving up that percentage of ownership. It may be a better choice to seek a loan from a private funder, even if you need to pay higher interest than a bank would charge.

For example: Imagine that your company is worth \$400,000 and you take out a \$100,000 loan at 10% interest. You'd pay \$16,162 in interest over three years. Suppose, instead, you raised that \$100,000 by selling 25% of your business as equity. If the business grew to \$1,000,000 over three years, that equity you sold would be worth \$250,000. It's as if you paid \$150,000 in interest.

– Austin Foodshed Investors, *Funding Our Foodshed Rolling Roadshow*

Crowdfunding raises awareness of your business as well as capital.

Private investors

You ordinarily go to a private investor when (a) banks and government lenders are not an option; (b) you have insufficient collateral; or (c) you want the help, contacts, and advice of someone with experience in the business you're going into. In exchange for their special expertise, or their willingness to take on your risky or complicated project, you should expect private investors to charge somewhat more (in the form of higher interest rate or equity) than you'd pay to a conventional lender. There are many kinds of private investors. For example:

- *Angel investors* provide capital to carry business startups through their difficult early stages, usually in exchange for convertible debt or ownership equity.
- *Impact investors* are interested in environmental or social justice returns, not just financial ones. (Exercise #13 at the end of this chapter will help define your impacts.)
- *Venture capital firms* and funds invest in early-stage companies that they think have high growth potential in exchange for equity (partial ownership).

All private investors are risking their own money, so naturally they behave differently from banks or government programs (which are risking other people's money). You can understand why private investors tend to be cautious and wary. They want to understand you and your business very well before investing. But they'll also expect you to "cut to the chase" and explain your business proposition very concisely, so as not to waste their time. The exercises at the end of this chapter will prepare you to speak their language.

Private investors have funded many wonderful food businesses that would otherwise never get off the ground. In the best-case scenario, they understand what you are doing and believe in the value of it. The flipside is that they are only human, and sometimes invest in businesses impulsively, despite shaky financials and a questionable future. If you've reached the point of approaching private investors, the thought should at least cross your mind that the banks and government lenders may be right: Your project or current financial situation may be too risky—for you to be borrowing this money.

Friends & family: What's a little debt between friends?

The good news is that you know these people. Friends, family, or your CSA customers may be delighted to support your new value-added food business, giving you attractive loan terms or even interest-free.

The bad news is that you know these people. Many perfectly good friendships and families have been torn apart by loans that could not be paid back.

CASH IS KING

Cash flow should be the number one priority for any small business. Not hyper-growth. Not number of retail outlets. And not even the number of likes on Facebook

Break-even allows you to never raise another dollar, ever, if you don't want to. If you are cash negative (burning), growth puts you further behind. If you are cash positive, growth can be financed through cash flow.

Some lenders look more at cash flow, not assets—FSA for one.

"I know we lose \$1.50 for every widget we make and sell, but don't worry, I'll make it up in volume." - Old Aggie Proverb
– *Austin Foodshed Investors, Funding Our Foodshed Rolling Roadshow*

Note too that there are Securities and Exchange Commission SEC rules strictly limiting who can invest in private companies—typically only “Accredited Investors.” Having non-accredited individuals invest in your company may severely limit the potential for future rounds from professional investors.

Crowdfunding

Food and farming are mainstays of the crowdfunding sites. While there has been a proliferation of these sites, and crowdfunding has lost some of its original novelty factor, this can still be an approach worth considering. A big advantage of crowdfunding is that it raises awareness of your business as well as capital. There are three main kinds:

“**Rewards-based**” programs like Kickstarter and Indigogo investors make usually-small investments in exchange for some kind of reward—such as a case of that new value-added food product you are developing.

In “**debt or equity-based**” programs like Nextseed and Wefunder, investors are loaning money that you will need to pay back with interest, or owning a percentage of your company.

As the name implies, “**Donation**” programs like GoFundMe and Barnraiser provide gifts. Barnraiser is focused exclusively on “innovators of sustainable food and farming.”

Contests

Even if you don’t win a **food and farming contest**, you’ll probably raise awareness of your business merely by entering.

Some contests are based on popular vote: For example, in 2018 PPC Farms of Mission, Texas won a \$10,000 prize from the Cultivating Change popular vote contest, for their proposal to try floating row covers in their organic brassica and cucurbit production, controlling pests while protecting native pollinators.

Other contests are offered by food-related companies. For example, every year the supermarket chain H-E-B conducts a contests called Primo Picks Quest for Texas Best. The top products (as chosen by a panel of experts) win pickup trucks, cash prizes, and a chance to negotiate a product sale to H-E-B.

Even if you don’t win a food and farming contest, you’ll probably raise awareness of your business by entering.

BE CREATIVE, BUT NOT TOO CREATIVE

A project in Kansas was based on the idea of creating multiple value-added products out of a farm’s main profit center: an agro-tourism pumpkin patch.

The farm developed many creative ways of using pumpkins, but learned that coming up with product ideas was the easy part. They had to experiment with many recipes, jar sizes, and types of lids for each product, to create something that was functional, appealing to consumers, and met their quality standards. They eventually decided that developing so many products at the same time was just too much trouble.

This study called attention to the amount of trial and error that typically goes into developing a successful value-added food product. In this case, it made more sense to concentrate on making one or two great products, instead of making four or five mediocre ones. — *Pumpkin Patch Salsa, SARE project FNCO4-525*

Putting together a fundraising plan

Very likely, you're going to need more than one source of capital as your business evolves, and you should plan for this. Example: In the early planning stages of your project you pursue USDA and private foundation grants to hire professional help with business planning and promotion. As your business grows, you go to FSA for a low-interest microloan for more cold storage. Later on, you decide to expand to a new market and need a delivery van. You raise half of the cost through reward crowdfunding, offering cases of your tasty food product to contributors.

We've given you some nuts and bolts. How you put them together into a fundraising plan is really up to you and depends on where your food processing business is in its development, your timeline, and what you are trying to accomplish next.

Work through the exercises below and you'll be on your way.

Exercise #11: Your Elevator Pitch

Try giving the following sales pitch. When you can give this brief persuasive speech with confidence, you're ready to approach investors.

Hi, I'm [first & last name], [role] of [company name]. *[breathe & smile]*

We're a [age] year old [industry & segment] company located in [location] owned by [top owners]. We sell [your products] to [check writers].

Last year we sold [number of units] at [price per unit] for [last year's total sales] in total sales, on which we made [\$ profit] profit. We currently employ [FTE] people.

Customers choose us over [name 1-3 top competitors] because [top competitive advantages]. *[Keep this very brief.]*

We think of ourselves as a sustainable, triple-bottom-line company because of [impact areas].

Our overall strategy is *[choose one of the following strategies]*

- grow fast & exit, running cash negative and raising money *[or]*
- use investment to get to [describe milestone] and then be cash positive *[or]*
- bootstrap off current cashflow & raise money in [say when you expect to seek capital] *[or]*
- [some other strategy having to do with growth, cashflow, and exit or not]

We're seeking [\$] in investment, which we'll use for [top 3 projects]. Those initiatives should enable us to grow revenue next year to [\$ forecasted revenue], which represents a [x%] increase, with [y%] profitability, and allows us to expand our sustainable impact by [list metrics].

We prefer [name investment vehicle] because [why?], and target providing [x%] total return to investors over the next [x] years.

Thank you, I'll be happy to take questions! *[Smile, listen to question, repeat it in concise form so the whole room can hear the question, then answer in no more than three sentences.]*

Exercise #12: Gap Analysis

What's your plan to become "investor-ready" or bankable? Where are your gaps?

While every type and source of capital requires different preparedness and documentation, there's a lot of overlap. The comprehensive list of questions below covers the information potential capital sources and investors want to see.

Key:

- I Don't Know: *I don't understand what this question is about.*
- Doesn't Exist: *I understand the question, but don't have any evidence or data in this area.*
- No Documents: *I have something, but it isn't written.*
- Work in Progress: *I've started documenting this area.*
- Ready for Review: *I have something sufficiently drafted for someone else to look at.*
- In Review: *Some 3rd party is looking at it and will provide me comments.*
- Investor Ready: *I'm comfortable with this going to potential investors.*
- Need Help: *I'd like help on this topic.*

Is the existing business solid?

What level of process maturity exists and how well-poised are you are to make the most use of new incoming capital?

1. Do you have proof of **traction**, i.e. some sort of market validation, customer acceptance, or proof that there's an appetite for your product or service?.

I don't know	Doesn't exist	No documents	Work in progress	Ready for review	In Review	Investor Ready	Need Help
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2. Do you know and have documented the **key success factors** for your industry sector– those few things that typically determine the success or failure of a firm?

I don't know	Doesn't exist	No documents	Work in progress	Ready for review	In Review	Investor Ready	Need Help
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Are your decision drivers in sync?

Are the other owners and executives in sync about the future of the firm?

3. Name the people who drive or significantly influence decisions about the company's plans and long term play.

For example John Doe ("JD"), 51% Owner, Mary Kitchen ("MK"), CEO, etc.

4. Using first and last initials, summarize each decision driver's Personal Goals related to this company.

For example: JD: "Fund my lifestyle with dividends forever", JP: "Sell this thing and cash out."

Is there a single plan to execute?

Investors typically want a single, well thought-out plan to be executed. Milestone-based funding assumes new inflows of capital will be used to accomplish very specific things.

5. How well are your milestones defined and documented?

I don't know	Doesn't exist	No documents	Work in progress	Ready for review	In Review	Investor Ready	Need Help
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Do you understand the fundraising process?

6. How experienced do you consider yourself in the steps in a typical fundraising process, cycle times, and contingencies?

I don't know	Beginner	Intermediate	Expert	Need Help
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How far along are you in business planing?

7. Have you prepared an Executive Summary?

N/A	I don't know	Doesn't exist	Work in progress	In Review	Investor Ready	Need Help
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How far along are you in your financial planing?

8. Do you have a Profit & Loss (P&L) Statement?

N/A	I don't know	Actuals Need Work	Actuals Ready	Plan Needs Work	Plan- Ready	Need Help
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How prepared are you to interact with potential funders?

9. Are you (or your CEO) comfortable explaining the business concisely to a room of potential funders under a time constraint, including explaining the business concisely, pitching, and handling sometimes obnoxious Q&A?

No	I don't know	Work in progress	Investor Ready	Need Help
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Are your investment materials ready?

How close are you to having official legal documents ready to allow you to actually close a transaction and take funder money?

10. Do you have an online "data room" set up to store, categorize, and show versioning of business plan and due diligence documents?

I don't know	Yes	No
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11. How far along are you in defining which, or which set, of vehicles are appropriate for your raise?

"Investment vehicles" are types of funding, e.g. equipment loan, construction loan, production run loan, a/r factoring, revenue-based financing, convertible note, SEED or Series A equity, grant, contest, owners' contributed capital, etc.

Are there other obstacles you're facing?

12. What do you consider to be the top obstacles to your fundraising efforts right now?

For example: Absolutely no free time to do anything.

Exercise #13: Use Px8 to assess the impact of your value-added food enterprise.

Px8 (“pix-ate”) describes your impact in eight impact categories that all happen to start with the letter ‘P’. This exercise will help you identify sustainability attributes to highlight with “impact investors” and also areas where you have room for improvement. Px8 was originally based on the idea of a FICO score, where 800 is a perfect score. Score yourself on both your current impact and where you’d like to be once you reach the milestone for which you are seeking funding.

	0	25	50	75	100
Planet	No apparent concern	Nod toward, some but little action or plan	Respectable action & plan	Evidence of concerted action; solid plan	Metrics defined & tracked; long-term history of impact
People	No apparent concern	Nod toward, some but little action or plan	Proof of living wages for all team members	Transparent & supportive management systems; full benefits	Diverse workforce & governance; wide skill range; job security; safe & friendly work environment
Products	Just another SKU on the shelf	“Healthier,” but still conventional ingredients, packaging	Sustainable ingredients, recyclable packaging	Innovative, reasonably priced, biodegradable packaging	Certified organic, non-GMO, fair labor, animal welfare, low or no packaging
Procurement	Cheapest ingredients on the shelf	Informal supplier impact vetting	Attempt at locally sourcing when convenient & market priced	>75% locally sourced from reliably sustainable vendors	Management systems with remediation for vendor quality & impact
Production	Cottage style, no concern for negative externalities	Ad hoc input (energy, water, etc.) reduction, recycling	“Lean” production methods in place	Active input & waste reduction programs & processes in place	Documented & tracked quality, safety, efficiency metrics
Place	No apparent concern	Ownership & distribution in Central TX but no production	Central TX production with plan to increase jobs	“Localism” strong element in brand, culture	Significant community involvement beyond “regular business”
Pace	Grow as fast as possible without regard to implications or negative externalities	Nod toward, investigating possibility “pace” may impact business, personal	Pace a core feature of business planning process	Comprehensive & conscious decisions where to go fast, where to go slow	Slow Food principles of good, clean, fair; slow money principles of patient capital
Plan	No intention to define or track impact metrics	Impact managed by anecdotes & intentions	Key impact metrics defined by no history	Impact metric system in place	Iterative cycle of plan-do-check-act in place for impact; history of improvement; reporting

Tally your total score here:

	Planet	People	Procurement	Production	Place	Pace	Plan	TOTAL
Score (Current)								
Goal (Future)								

Exercise #14: Preparing to write an executive summary

An executive summary is essentially a very concise version of all the things you want or need to tell a potential funder.

Complete the questions below to get an idea of the topic areas you'll need to include.

About

1. What is the legal designation of your company?

Sole Proprietor

LLC

S Corp

C Corp

Other

2. What are the 6-8 words that describe the high concept of your firm?

For example: We are the Uber for dogs.

Team

3. Name the company leaders, each one's role, and the background or experience (succinctly) that is directly related to the key success factors of this business.

For example: Greg Austin, VP of Marketing. Formerly a product manager for Food, Farm, and Family LLC and apprentice farmer at Radical Radish Farm. BA from Texas State University.

Market

4. What kinds of customers do you target?

For example: Families looking for nutritious and affordable options for produce and meat.

Impact

5. How are you having a positive impact on your workforce, customers, vendors, or working towards social justice?

For example: Our vendors are small family-owned farms.

Financials

6. Please describe the sources and circumstances (briefly) of your previous funding.

For example: Personally financed initial costs and family/friends currently supporting growth with \$25,000 loan.

Funding Round

7. What is the driving reason behind the date you'd like to close the investment?

For example: Opportunity to buy adjacent farmland at decent cost.

8. What are the key risks to your business? And how do you intend to mitigate those risks?

For example: Software is our biggest risk right now. We are using a third party but currently developing our own platform. A successful rollout is key to our business and providing great customer service.

Exercise #15: Preparing to write a financial plan

Basic questions and documents required by any funder

Questions to ask yourself & partners

- How much money do you need?
- What are you planning to do with that money?
- How are you going to pay that money back?
- How much of your company do you want to own?
- What makes you a good candidate for this money?

Suggested documents:

- Personal and business tax returns (at least 2 years).
- Profit & loss statement.
- Projected financials.
- Other business debt (include creditor information).
- Partners & team (if relevant).
- Bank statements.
- Personal background.

Exercise #16: Preparing to write an operational plan (ops plan)

An ops plan is a detailed plan—based on very specific milestones or objectives—that gives a clear picture of how you and your team will achieve the organization’s overall strategic goals. Do you need a key hire, piece of equipment, increase in sales to an existing channel, a way to break into a new channel, etc.? Who will be in charge of executing each step, how much will it cost, and how long will it take? Does it depend on something else being done first?

Here’s an example from a real food company, followed by a blank version you can use to create a first draft.

Radical Radish Operational Plan: New Location & Expand Growth 2017-2018

Milestones or Objectives	Specific Activities	Key Success Factors	Current Team Capacity	Timeframe	Budget
New location: transfer all existing operations to new location	Procuring new space and obtaining necessary permits for occupancy and construction	Lease signed and permits obtained	Me	November 2016- March 2017	\$10,000
Expand wholesale to more customer types	Take on former wholesale customers that we had to lose last year because we didn't have capacity	All (or most) former wholesale customers return	Me & Partner	March 2017- July 2017	Offer discount to returning customers
Expand and enhance experience in retail shop	Develop new offerings	At least two new offerings available	Need to hire	June 2017 - July 2017	\$500
Continue to improve product & business model in terms of quality, affordability, & sustainability	Look for ingredients that are local, organic, sustainable when possible, and work with other businesses to get bulk pricing.	A least three major ingredients replaced with superior alternatives if possible.	Whole team	June 2017 - December 2017	N/A

My Company's Operational Plan

Milestones or Objectives	Specific Activities	Factors	Capacity	Timeframe	Budget

Technical Assistance

Selected business planning and fundraising support organizations

Name	Contact info	Focus Area
ScaleFactor	www.scalefactor.com	Finance and CFO
City of Austin - Office of Sustainability	https://austintexas.gov/department/local-sustainable-food	Food Sytsem Education
Sustainable Food Center	www.sustainablefoodcenter.org	Food Systems Education
Austin Foodshed Investors	www.austinfoodshedinvestors.com	General Business
BCL of Texas	www.bclortexas.org	General Business
Business Success Center	www.ownersview.com	General Business
Capital Area Council of Governments	www.capcog.org	General Business
Capital Factory	www.capitalfactory.com	General Business
CEN-TEX Certified Development	www.centraltexasdc.com	General Business
Central Austin CDC	www.centralaustincdc.org	General Business
City of Austin - Small Business Program	austintexas.gov/department/small-business-program	General Business
FarmerMac	www.farmermac.com	General Business
Impact Haven	www.impacthaven.com	General Business
PeopleFund	www.peoplefund.org	General Business
Texas Councils of Governments	https://txregionalcouncil.org	General Business
Texas Rural Cooperative Center	https://acba.coop/texas-rural-cooperative-center	General Business
SCORE Austin	www.austinscore.org	General Business
Small Business Administration	www.sba.gov	General Business
Texas State Small Business Development Ctr	https://sbdc.mccoy.txstate.edu	General Business
USDA Rural Development (Texas)	www.rd.usda.gov/tx	General Business
ATTRA Program of the National Center for Appropriate Technology (NCAT)	www.attra.ncat.org	General Business/Agriculture
Farm Aid	www.farmaid.org	General Business/Agriculture
Rural Advancement Foundation International	https://rafusa.org	General Business/Agriculture
Texas A&M AgriLife Extension	https://agriflifeextension.tamu.edu	General Business/Agriculture
Texas Department of Agriculture	www.texasagriculture.gov/GrantsServices.aspx	General Business/Agriculture
USDA Farm Service Agency (Texas)	www.fsa.usda.gov/state-offices/Texas/index	General Business/Agriculture
Blue Dot Advocates	www.bluedotlaw.com	Legal
Farmers Legal Action Group	www.flaginc.org	Legal
Farm & Ranch Freedom Alliance (FARFA)	www.farmandranchfreedom.org	Policy & Legal
GO TEXAN	www.gotexan.org	Sales & Promotion
Austin Community College	https://continue.austincc.edu/agriculture	Sustainable Ag Education
Farmshare Austin	www.farmshareaustin.org	Sustainable Ag Education
National Sustainable Agriculture Coalition	https://sustainableagriculture.net	Sustainable Ag Education
Texas Center for Local Food	www.texaslocalfood.org	Sustainable Ag Education
Texas Organic Farmers & Gardeners Association (TOFGA)	www.tofga.org	Sustainable Ag Educatio
SKU	www.facebook.com/SKUcpg	Value-Add and CPG

Financial Assistance

Selected sources of capital by type

Name	Contact Info	Type
AgFunder	www.agfunder.com	Crowdfunding
Barnraiser	www.barnraiser.us	Crowdfunding
Indiegogo	www.indiegogo.com	Crowdfunding
GoFundMe	www.gofundme.com	Crowdfunding
Kickstarter	www.kickstarter.com	Crowdfunding
Nextseed	www.nextseed.com	Crowdfunding
Wefunder	www.wefunder.com	Crowdfunding
Austin Foodshed Investors	www.austinfoodshedinvestors.com	Loans & Equity (Private investors)
Central Texas Angel Network (CTAN)	www.centralextexasangelnetwork.com	Equity (Private investors)
Diversity Fund	www.texasdiversityfund.com	Equity (Private investors)
Enable Impact	www.enableimpact.com/raise	Equity (Private investors)
SWAN	www.swanimpact.org	Equity (Private investors)
Capital Area Council of Governments	www.capcog.org	Grants
Insperity Bank	www.insperity.com	Human Resources
BCL of Texas	www.bcloftexas.org	Loans (CDFI)
Lifffund (San Antonio, TX)	www.lifffund.com	Loans (CDFI)
PeopleFund	www.peoplefund.org	Loans (CDFI)
Capital Farm Credit	www.capitalfarmcredit.com	Loans (Cooperative)
Lone Star Ag Credit	www.lonestaragcredit.com	Loans (Cooperative)
Texas Farm Credit	www.texasfcs.com	Loans (Cooperative)
Aplify Credit Union	www.goamplify.com	Loans (Credit union)
USDA Farm Service Agency	www.fsa.usda.gov/state-offices/Texas	Loans (Federal agency)
Farmer Mac	www.farmermac.com	Loans
Farm Plus Financial	www.farmloans.com	Loans
Heritage Land Bank	https://heritagelandbank.com	Loans
Horizon Bank	www.horizonbanktexas.com	Loans
Regions Bank	www.regions.com	Loans
City of Austin - Small Business Program	https://austintexas.gov/department/small-business-program	Loans & Grants

Selected Federal & State grant, loan, and cost-share programs

Name	Contact Info	Agency
Value-Added Producer Grant	www.rd.usda.gov/tx	USDA Rural Development
Rural Cooperative Development Grant	www.rd.usda.gov/tx	USDA Rural Development
Community Facilities Loan & Grant	www.rd.usda.gov/tx	USDA Rural Development
Rural Energy Assistance Program	www.rd.usda.gov/tx	USDA Rural Development
Business & Industry Loan Guarantees	www.rd.usda.gov/tx	USDA Rural Development
Intermediary Relending Program	www.rd.usda.gov/tx	USDA Rural Development
Rural Business Development Grants	www.rd.usda.gov/tx	USDA Rural Development
Rural Business Investment Program	www.rd.usda.gov/tx	USDA Rural Development
Rural Economic Development Loan & Grant	www.rd.usda.gov/tx	USDA Rural Development
Rural Microentrepreneur Assistance	www.rd.usda.gov/tx	USDA Rural Development
Farmers Market Promotion Program	www.ams.usda.gov	USDA Agricultural Marketing Service
Local Food Promotion Program	www.ams.usda.gov	USDA Agricultural Marketing Service
Farm Operating Loan	www.fsa.usda.gov	USDA Farm Service Agency
Microloan Program	www.fsa.usda.gov	USDA Farm Service Agency
Youth Loan	www.fsa.usda.gov	USDA Farm Service Agency
Minority & Woman Farmers & Ranchers Loan	www.fsa.usda.gov	USDA Farm Service Agency
Beginning Farmers and Ranchers Loan	www.fsa.usda.gov	USDA Farm Service Agency
Southern SARE Producer Grant	www.southernsare.org	USDA National Institute of Food & Agriculture
Southern SARE On-Farm Research Grant	www.southernsare.org	USDA National Institute of Food & Agriculture
Community Food Projects grant program	https://nifa.usda.gov/programs	USDA National Institute of Food & Agriculture
Many other research & education grants	https://nifa.usda.gov/programs	USDA National Institute of Food & Agriculture
Small Business Innovation Research Program	www.sbir.gov	Multiple—including USDA NIFA
Conservation Stewardship Program	www.nrcs.usda.gov	USDA Natural Resources Conservation Service
Environmental Quality Incentives Program	www.nrcs.usda.gov	USDA Natural Resources Conservation Service
Regional Conservation Partnership Program	www.nrcs.usda.gov	USDA Natural Resources Conservation Service
Agricultural Loan Guarantee Program	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Capital for Texas (C4T)	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Interest Rate Reduction Program	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Rural Community Development Block Grant	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Organic Cost-Share Program	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Specialty Crop Block Grant Program	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Young Farmer Grant	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
3E's Grant Programs	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Texans Feeding Texans	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Surplus Agricultural Products Grant	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture
Urban Schools Agricultural Grant	www.texasagriculture.gov/GrantsServices	Texas Department of Agriculture

Do

- Does the value you get make sense for your farm? (The Core Question.) Write down your answer.
- Write your elevator pitch.

Think about

- Are you interested or able to take on debt?
- How big do you want your value-added product business to be? What are your sales goals?
- Is getting money from others worth the effort and do you have the time?

References

The quote at the beginning of this chapter comes from Woody Tasch, *Slow Money*, Chelsea Green Publishing, 2008, p. 60.

Many ideas in this chapter are adapted from the workbook *Funding Our Foodshed: an Intro to Small Batch Capital* (Spring 2017), by the Austin Foodshed Investors (www.austinfoodshedinvestors.com). The resource lists at the end of the chapter (Technical Assistance, Financial Assistance) are adapted from similar lists in AFI's workbook. Exercises 11-16 are reprinted directly from the *Funding Our Foodshed* workbook, and are copyrighted material belonging to Local Impact Investors, LLC. All rights reserved.

Resources

We've listed dozens of other resources in the tables on the preceding pages. Here are a few others:

The free *Weekly Harvest* newsletter from ATTRA keeps you up to date on grants and other funding opportunities, as well as news and resources from the world of sustainable agriculture and local food. ATTRA also offers a monthly *Cosecha Mensual* version in Spanish. Sign up at www.attra.ncat.org.

Building Sustainable Farms, Ranches and Communities. USDA Sustainable Agriculture Research & Education (SARE) program, 6th edition, 2014. Lists funding opportunities from federal programs. "Indispensable for anyone seeking government help to foster their innovative enterprise in forestry and agriculture." Order or free download from www.sare.org/Learning-Center/Books.

The Austin Foodshed Investors (www.austinfoodshedinvestors.com) are a group of "impact investors" specializing in local food manufacturing and distribution. They offer training materials and seminars on investor-readiness.

Rural Advancement Foundation International, *Farmer's Guide to Agricultural Credit* (2015). <https://rafiusa.org>.

Lewis, Hannah, *Financing Your Farm: Guidance for Beginners*. National Center for Appropriate Technology, 2011. ATTRA publication IP420. <https://attra.ncat.org>.

Appendix 1: Ready to Launch?

- I've got the right personal aptitude for this.
- I know what crops I will process.
- I know what products I will make.
- I've made test batches that look, smell, and taste great. People love them.
- I know the quantity I need to make.
- I know I'll have enough crops available to make this quantity.
- I have adjusted my recipes for the size of the batches going to make.
- I know where I will make my products, or who will make them to my specifications.
- I have the equipment and facilities that I need to make this product at the scale I've chosen.
- I've made an operational prototype, simulating actual processing equipment and volume.
- I'm certain that I can make these products safely, without causing food-borne illnesses.
- I know I can conform to all local, state, and federal regulations, including FSMA rules.
- I know the local health authorities who will regulate me, and have a cordial relationship with them.
- I have a reliable source for ingredients and packaging.
- I know how to package my products.
- I know how to label my products, so they are attractive to customers and follow all applicable rules.
- I have enough storage for my products.
- I know how I'm going to transport my products to the point of sale.
- I know who will buy my products.
- I know the price I'm going to charge, and I'm confident it will be acceptable and attractive.
- I have a marketing plan for reaching likely customers.
- I can get the employees that I need and I'm ready to follow employment rules that will apply.
- I understand and am OK with the tax implications of this enterprise.
- I know all my production and non-production costs. I'm not overlooking anything.
- I've run the numbers and I'm certain this enterprise is profitable.
- I have the funding or financing that I need to make all this happen.
- I know I'll have sufficient cash flow to repay loans (if any).
- I have sufficient cash reserves to address production problems that may occur.
- There's no question whatsoever that these products align with my values.
- CORE QUESTION: Does the value I get from this enterprise definitely make sense for my farm?**

Appendix 2: Economic Impact through Value Chains

Rebekka Dudensing, Ph.D.

Assistant Professor and Extension Economist, Department of Agricultural Economics
Texas A&M AgriLife Extension Service

According to the 2012 Census of Agriculture, 2,232 farms harvested more than 100,000 acres of vegetables to supply the fresh food market. Only 127 farms supplied vegetables for further processing, harvesting less than 30,000 acres.

Value-added processing converts commodities or raw products into products that meet the time and form characteristics desired by consumers. For example, tomatoes, including seconds that may not be preferred by consumers in raw form, can be stewed and combined with other ingredients to create sauces and salsas with a longer shelf life.

Value-added processing extends farmers' value chain in local economies. Instead of selling just fresh vegetables, farmers can now sell processed products that may be worth more than the raw, unprocessed product (e.g., diced bell peppers or baby carrots may command a price premium that exceeds the additional costs of processing) or that gives value to unsold produce (e.g., blemished tomatoes can be used in pasta sauce).

In addition to commanding additional sales, the processing step often requires additional labor and other inputs, at least some of which is procured locally. Economic activity one industry ripples through the regional economy as firms purchase and pay employees who also make regional purchases, creating a multiplier effect. A longer value chain increases potential economic impacts. Impacts represent backward-linked supply chains, which are enhanced through local purchases. Value-added processing may also extend opportunities to maintain a workforce using nonlocal produce in the off-season.



Direct sales by any industry result in two types of effects. Indirect effects or business spending effects result when businesses purchase inputs from local suppliers. Induced effects or household spending effects result when households employed by directly or indirectly affected firms spend their earnings at local businesses. For example, farmers and employees of the shop that prints jar labels spend part of their wages and profits eating at local restaurants and buying groceries.

Four types of multipliers are commonly reported in economic impact studies. Output multipliers measure overall economic activity in the region. Output multipliers provide the largest number but say nothing about the effect on local residents. Value-added multipliers measure the contribution to regional gross domestic product (GDP) or the return to local resources used in the production and are a more appropriate measure of regional welfare. Labor income multipliers measure the benefit to the incomes of households in the region. Labor income is a component of value-added, which is a component of output, so these outcomes cannot be summed within a year. Employment multipliers the number of workers needed across all industries to support an increase in direct sales. Input-output impact analysis assumes that existing employees are fully occupied and does not distinguish between full-time and part-time workers. It is important to remember that while impacts may occur over multiple years, a job created in year 1 is expected to endure across the horizon, and jobs cannot be summed across years.

For example, selling \$1,000 in vegetables creates an output impact of about \$1,280 in Bastrop County, TX. This includes \$970 in GDP contribution and \$440 in labor income. However, if that same box of vegetables is used to create a canned sauce or salsa, the output impact of selling \$6,900 in salsa is \$9,120, including \$2,540 in value-added and \$1,400 in labor income. Jobs are not calculated for this simple example of just \$1,000. Furthermore, a number of nonagricultural industries are affected by the food processing sales, including management companies, real estate entities, banks, and utility companies.

Economic impacts of selling \$1,000 in vegetables.

Impact Type	Labor Income	Value-Added	Output
Direct Effect	\$360	\$820	\$1,000
Indirect Effect	\$40	\$50	\$100
Induced Effect	\$40	\$100	\$180
Total Effect	\$440	\$970	\$1,280

Economic impacts of selling salsa processed from using \$1,000 in local vegetables.

Impact Type	Labor Income	Value-Added	Output
Direct Effect	\$800	\$1,160	\$6,900
Indirect Effect	\$550	\$1,240	\$1,980
Induced Effect	\$60	\$140	\$250
Total Effect	\$1,400	\$2,540	\$9,120

Top 10 industries affected by processing \$1,000 in vegetables into salsa.

Description	Labor Income	Value-Added	Output
Vegetable and melon farming	\$361	\$817	\$1,000
Management of companies and enterprises	\$2	\$39	\$195
Wholesale trade	\$41	\$116	\$188
Owner-occupied dwellings	\$0	\$40	\$56
Electric power transmission and distribution	\$4	\$11	\$52
Nonresidential maintenance and repair construction	\$12	\$16	\$48
Support activities for agriculture and forestry	\$29	\$31	\$46
Petroleum refineries	\$0	\$9	\$43
Real estate	\$1	\$30	\$42
Monetary authorities and depository credit intermediation	\$10	\$20	\$36

Appendix 3: Economic Benefits of Local Small-Scale Food Production

Prepared by the Farm and Ranch Freedom Alliance in collaboration with the Texas Center for Local Food

Keep Money in Texas

- Texans spent \$123 billion on food in 2014,¹ yet Texas farm sales are a small fraction of that.²
- By promoting local food production and local food consumption, we can keep more money in our state.
- The number of Texas farmers markets increased by 200% from 2008 to 2015.³
- Vegetable sales from Texas vegetable farms account for only 1.9% of total Texas agricultural receipts, or just \$18.23 per Texan per year.⁴
- If each Texan spent just ten dollars more per year on Texas-grown food, that would add at least \$275 million to our Texas economy.

Grow the Texas Economy

- A Minnesota study found that for every million dollars in sales, small scale farming returned \$1,608,000 to the local economy, while conventional farming returned only \$1,375,450.⁵
- When making salsa with 100% local produce (instead of the typical 20%), local sales are projected to increase by 10%, contribution to state GDP increases by 23.5%, and local labor income increases by 20%.⁶
- A 2012 USDA-funded study by Texas AgriLife Extension found that vegetable production on small plots of land could be profitable. A family could earn a \$45,000 annual salary on a three-acre plot.⁷

Protect the Texas Economy

Local Food Production has been shown to:

- Provide incentives for entrepreneurship and innovation.
- Expand consumer choice and fresh food access.
- Improve negotiating power to local producers.
- Support rural economic revitalization.
- Protect the food system against severe shocks through decentralization of production.⁸

Create Jobs

- The Minnesota study also found that for every million dollars in sales, small scale farming created 100 local jobs, while conventional farming created only nine jobs.⁵
- An estimated 1,000 new businesses were created in the first three years after adoption of the Texas Cottage Food Law.⁹

References

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- ³ "New Data Reflects the Continued Demand for Farmers Markets." Press Release No. 0167.14. USDA Office of Communications, August 4, 2015, www.usda.gov/media/press-releases/2014/08/04/new-data-reflects-continued-demand-farmers-markets.
- ⁴ *USDA Agricultural 2012 Census*, Table 2, Texas.
- ⁵ Pesch, Ryan and Brigid Tuck. *2015 Financial Benchmarks and Economic Impact of Local Food Operations*. University of Minnesota Extension Center for Community Vitality, December 2015, <https://conservancy.umn.edu/handle/11299/197831>.
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- ⁸ Dawn Thilmany McFadden et al, *The Economics of Local Food Systems: a Toolkit to Guide Community Discussions, Assessments, and Choices*. USDA Agricultural Marketing Service, March 2016, www.farmlandinfo.org/economics-local-food-systems-toolkit.
- ⁹ "Texans Created Over a Thousand Local Businesses After Texas Eased Restrictions on Selling Food Made at Home," *Forbes*, Sep. 22, 2014, www.forbes.com/sites/instituteforjustice/2014/09/22/texans-created-over-a-thousand-local-businesses-after-texas-eased-restrictions-on-selling-food-made-at-home/#1be8c4e06406.

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Appendix 4: Media Tips for Farmers

Prepared by New Farm Media, New Farm Institute
512-484-2746, www.newfarminstitute.org

Making the Most of Your Interview

Learning how to work with reporters is one of the best investments you can make in your farm. When you become a trusted media source, the reward is often free media coverage, something that costs thousands if you had to buy similar attention. As your expertise increases, you will become an ambassador, not only for your farm, but for sustainable farming in your region. Making an effort to strengthen your media skills supports good, clean, fair food and makes farming easier for all.

Fortunately, developing media relations skills is relatively easy. This guide takes you through the essential steps.

Understanding Media

The first step is to think like a reporter. Reporters, regardless of whether they work for an online publication, radio program or weekly newspaper, seek the same things, which include:

- News.
- Honesty.
- A good story with a beginning, middle, and end.
- A local angle, e.g., "Eat Local Week."
- Sound bites.
- Compelling images.
- Column items - more than a one day article, called a "story with legs."

As a farmer, it's likely that your business has all of these elements. You should be confident that:

- YOU are the expert, not the reporters.
- YOU can drive the interview.
- YOU can be as prepared as you choose to be.
- YOU are in control.
- YOU will have many other media opportunities.
- YOU can generate income from positive media coverage!

Prepare Your Key Messages

Why are you doing the interview? What do you want your audience to know about your farm or product? Setting a goal will help you shape your key messages or sound bites. To arrive at your key messages - typically three short phrases - begin by crafting an "elevator speech." Imagine you are on an elevator with a stranger who has asked about your farm. What do you want them to know before the doors open?

Writing a rough draft of a conversational paragraph will get you started:

Our farm makes more value-added products in the area than any other farm. We've been doing this for 20 years and are always thinking about making new ones. We also like teaching classes and showing people around the farm. Thinking about putting in a commercial kitchen, too.

Now, take that raw material and sculpt it into a finer form. Use specific, action words to paint a picture:

At Smith Farm, we love to grow fruit and make award-winning jams and jellies. At smithfarm.com you can buy more than 25 of our products, including our best selling peach preserves, and sign up for our holiday cooking classes, too.

Remember: the average quote in print media is 16 words; and in broadcast media, it's just nine words. Keep it short and sweet to ensure it's memorable.

Basic Rules of an Interview

Before answering questions, try to understand the reporter's expertise and goals. A reporter on deadline who needs a quick quote to wrap up a story is very different from someone doing an in-depth investigative piece. Therefore, begin by asking:

- What is the reporter's usual beat?
- What is the reporter's knowledge of farming?
- When will the story appear?
- Who else is being interviewed?
- How long is the piece, how much will feature you?

Likewise, there are questions you should *not* ask and assumptions you should *not* make:

- Do not ask to preview or edit the story before it appears.
- Do not offer product in exchange for favorable coverage.
- Do not confuse advertising (paid space) with editorial/reporting.
- Do not confuse an interview for a conversation.

To prepare yourself

- Brainstorm all possible questions—especially the negative ones. Consider national news as reporters often need local sources to comment on these issues.
- Allow enough uninterrupted time to prepare
- Wear clothes appropriate to your role (no stripes, logo t-shirts)
- Do whatever makes you feel relaxed, confident

Interview Techniques

A good reporter makes you feel like you're talking with a friend. As you become more at ease, you tend to reveal more. But is that conversation strategic? Are you getting your point across? While interviews can be conversational, they are not a conversation. A reporter is a conduit to the audience you want to reach. You want to be certain that your message gets through.

Directing a reporter to the information you feel is most important can be accomplished using these techniques:

- Bridging—Redirect the interview to your talking points
- Flagging—The most important thing is..."
- Rephrasing—Turn a negative into a positive (but do not to repeat a negative)

Bridging must be done skillfully after answering a question directly. You do not want to stonewall, but you do want a smooth transition that allows you to stay in control of an interview and stick to your message.

Imagine you want to increase sales for a value-added product, and a local reporter calls seeking comment on a national story: "What steps are you taking to ensure that your salsa doesn't poison people like it did in California?" Rather than repeat a negative or begin discussing the nitty gritty of HACCP regulations, you want to bring the interview back to what you know. Do so by meeting this question with a bridging response: "For the past ten years, our certified organic farm has had regular in-depth inspections to ensure we deliver the highest quality food possible. I think that's why our customers love our salsas. They trust us."

Flagging is a technique that lets the reporter know you are about to provide crucial information. You draw attention to those points simply by saying, "Let me tell you the most important aspect of this issue..." or "Your question gets right to the heart of the matter ..." or "There are three facts your readers need to know..." Your goal is to gently take control of an interview, steering a reporter to the meat of your story.

Universal Fundamentals

All interviews require preparation. At the very least, you should do a background search on the reporter to better understand their media outlet and reporting style. Below are factors to keep in mind for a variety of different media.

The Three Nevers

- Never lie.
- Never say “no comment.”
- Never argue with a reporter—You’ll lose.

Ten Golden Rules

1. Prepare, prepare, prepare—Talking points are key.
2. Begin with your most important message.
3. Don’t answer hypothetical questions. Insist on talking about what you know, not “what ifs.”
4. Use “first”, “best”, “only” descriptions.
5. Say “at (name your farm)” often.
6. If you don’t know the answer, say so, don’t guess.
7. Keep it Simple. Do not use acronyms or assume reporters understand basic farming concepts.
8. Don’t be defensive or angry, they’ll use it.
9. An interview is not a conversation.
10. Nothing is off the record. Ever.

Different Formats, Different Preparation

Live Radio Interviews

- Prepare—OUT LOUD.
- Disable call waiting.
- Use a landline whenever possible to ensure good reception.
- It’s live—good news, bad news.
- Smile with your voice—Speak in front of a mirror.
- Speak lower and slower.
- Repeat key messages.
- Stay energized—Sit up, stand, or walk.
- Remember the reporter/DJ is an entertainer.

Telephone Interviews with Print Reporters

- Prepare—OUT LOUD.
- Use landline whenever possible.
- Disable call waiting.
- Use a cheat sheet of key messages to drive the interview.
- Smile with your voice.
- Take your time, repeat important information.

On-Farm Interviews

- Good news—more time.
- Bad news—no direct audience connection.
- You're "on" for longer, even as reporter leaves.
- Be sure to display your products, stand in front of your signage.
- Print reporters love word play, catchy phrases.
- Broadcast reporters will take b-roll footage of farm; be sure entrance/setting is tidy and restrict access to dangerous/unattractive areas as needed.

TV In-Studio Interviews

- Prepare—OUT LOUD.
- Arrive 30 minutes early.
- It's live—good news, bad news.
- Ask reporter where you should look when answering questions.
- Sit up straight, lean forward, use your hands, beware of body image.
- Smile, be passionate.
- If it is a taped program, stop tape if you need to redo your answer. This is not possible with a live program.

Post-Interview Evaluation

- What could you do differently next time?
- Did you get to every talking point?
- How nervous were you?
- Any unexpected questions?

Next Steps

- Mark your calendar for when the story breaks so you get a copy.
- Post media coverage to social media/website, distribute at farmers markets, mail to customers, etc.
- Write simple thank you to reporter.
- Add reporter contact to your telephone/mailling list.
- Within 6 months, pitch the reporter another story.

Be Yourself

Your expertise is valuable and you should not hesitate to share it. As you grow more comfortable speaking with the media, look for opportunities to promote your farm. Reporters are always on the hunt for a good story. You've got one. Help them find it and your farm will reap the reward.

