



# TRANSITION TO ORGANIC COURSE

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CHAPTER 5

# MARKETING

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Photo Credit: Jack Sherman

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## CHAPTER 5

# MARKETING

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## INTRODUCTION

So far in this course, we've looked at how to produce crops and livestock organically to give you a certifiably different product. To capture the value of your investments in going organic—and the environmental benefits that will result—you need to be able to maintain that difference when you take your products to market. To do that, you'll want to have a business plan that includes a marketing plan and a thorough understanding of costs and pricing.

This chapter will introduce you to overall organic market trends and the opportunities they provide for you, given your capacity to produce, your location and your desired level of “adding value” to what you grow. Whether you produce field-run soybeans or farm-processed yogurt in a private-label container, a good plan will help you become a successful enterprise by connecting to a solid market for your products.

We will suggest strategies and tactics to help you manage and market your business



in your part of the country. The emphasis is on providing value by optimizing the marketing mix (product, place, price, and promotion).

By the end of this chapter, you will be better able to understand general organic marketing trends and opportunities; identify regional marketing options for what you wish to market; use the [Crop Conversion Calculator](#) (this course's crop enterprise budgeting tool); and determine why business and marketing plans are important for your business, and how they can help you decide if organic farming is right for you at this time.

## LESSON 1: BUSINESS BASICS

### OVERVIEW

In the first few chapters of this course, we presented information about managing soils, crops, and livestock. Now it's time to look at managing and marketing your organic farm business. If you already run a successful business, stay tuned for some new ideas from successful owners and reports from the field on improving your business.

This lesson is about selling value by developing your marketing mix including product, place, price, and promotion. We'll give you details about what goes into a basic marketing plan, and then how to create an overall business plan.

To do this, we'll introduce farm planning, describe the organic marketplace, talk about why consumers want organic products, and explain how you can provide value to your customers through positive relationships and effective branding.

### WHAT IS MARKETING?

Marketing is more than the process of promoting, selling, and distributing a product or service. It's about giving value. It's about identifying what customers want and selling it to them at the right price when they want it.

The word marketing is used in a variety of ways in agriculture and business: to some, it means just finding a buyer; others think of it mostly in terms of advertising. In this course, marketing means something much broader and, we think, more exciting.

Marketing is the process of:

1. Identifying what makes your products, services and farm unique;
2. Determining who your customers are and understanding their motivations and needs;
3. Finding the best way to connect your products and your customers; and then
4. Creatively communicating all of this in as many ways as you can.

You can be effective at marketing no matter what you produce or how big your farm. It all comes down to how well you know what makes your product valuable and how well you communicate that value to others through your actions, information, image, relationships, and products themselves.

A good business plan is built on a solid understanding of your product and what it takes to produce it (your Organic System Plan); the market, which includes the market environment, competition, customers and communication (your marketing plan); and your cost to produce and market successfully (your financial plan).

By combining these, you have the basic ingredients of a solid business plan. You will also have a strong grasp of what you are doing in your business that you can adapt and revise as you go.



### FARMER-TO-FARMER

"Marketing is everything you do to promote your business, from the moment you conceive of it to the point at which customers buy your product or service and begin to patronize your business on a regular basis."

—Jay Levinson

*Guerrilla Marketing (2007)*

### THE VALUE OF PLANNING

This may sound like a lot of "thinking and planning" just to do something you already know: farming. Think of it this way: No one knows your farm as well as you do, and this is just getting what you know and what you'd like to do with it down in writing.

Developing these plans will help you

organize your farm activities, add important new information, and have something to refer to as you face various decisions about your farm. It will also allow you to present your farm operation to those who don't know it as well as you do, such as bankers or potential customers.

Think about these questions:

- What makes your products unique and attractive to customers?
- How can crop storage and processing add value?
- Who are your competitors?
- Do you already have a business plan or a marketing plan?
- How will you get your products to market?
- How will you identify and communicate with potential customers?
- Do you have an updated Plan B to respond to changing market conditions?

Think of these plans as maps to guide you in managing your business. Refer back to the plans often as you fine-tune your business and marketing strategies.

## FARMER-TO-FARMER

"In my experience, the difference between a successful and a failing farm operation usually comes down to the farmer's marketing skills."

—Rosie Koenig  
Gainesville, FL

## A GROWTH SECTOR

Organic farming is one of the fastest growing segments of U.S. agriculture. As consumer interest continues to gather momentum, many U.S. producers, manufacturers, distributors, and retailers are specializing in growing, processing, and marketing an ever-widening array of organic agricultural and food products.

There are many reasons to convert to organic farming. All farmers, organic or otherwise, share one goal: remaining profitable in order to stay in business. This means you have to make enough

money from the sale of your products to cover your costs, pay yourself, and support your business plans for growth and innovation. Going organic gives you new ways to pursue production and marketing that can create new areas of profit.

## THE ORGANIC MARKETPLACE

Organic producers are penetrating virtually every market sector where health, environmental and food-quality attributes are valued. These range from neighborhood farmer's markets selling fresh produce to contracts for railcars of organic small grains for pasta and bread; from semi-trailers of #2 yellow corn for livestock feed to pricey ounces of dried mushrooms.



Photo Credit: Rodale Institute

From farmers markets to grocery store shelves, organic products are a hot commodity.

## ORGANIC PREMIUMS VARY BY REGION, PRODUCT

With organic products, you are usually able to command a premium—a price higher than that of the same product of the same grade raised non-organically. While the percentage may vary from crop to crop or region to region, organic products virtually always have extra value in the marketplace.

Some industry professionals say price

premiums need to come down if we are to see the organic sector gain a bigger share of the marketplace. However, the reality is that these premiums are holding strong in some areas, fluctuating in others and dropping in still other areas. These mixed results combine the economic impacts of consumer preferences that relate to perceived organic benefits, shifting global supply, and changes in the conventional commodity markets.

## GRAINS

Demand has been strong for organic grains. Prices and the size of organic premiums (relative to non-organic prices) vary by the type of grain, geographic region and time of year. Choosing varieties with distinct marketable traits—including superior quality—is one key to success in the organic marketplace.

## PRODUCE

Produce is marketed on a wide range of scales, from a handful of red beets at an on-farm stand to a pallet of boxes going into wholesale trade. Produce prices at the wholesale level can be speculative and more volatile than in organic grains or livestock, and vegetable prices depend significantly on quality.

Vegetable production and fruit production are the entry points for many beginning organic farmers. These enterprises provide a way for a commodity-based farm to try the new

management needed for higher-value crops, and also give farmers with access to only a few acres in metro areas the chance to try management-intensive cropping and marketing. Growing organic food by the basket for the people who eat it gives you very different marketing opportunities compared with selling non-organic commodities by the ton to a regional elevator.

## DAIRY

While one organic label might pay the farmer a little less than another, this may be offset by other aspects of doing business with the buyer. Variations include the stability and duration of contracts, financial counseling, animal health training in your area, a solid reputation within the marketplace, a say in the business (if you are part of a co-op), quick payments, other intangibles and even veterinary services.

Many organic dairy farmers are finding success in alternative markets by developing on-farm- or custom-processed products that add value to bulk milk, including butter, yogurt and cheese. Selling raw milk—in states where it is legal and when done with careful safeguards—is another option for producers with excellent milk quality that may attract a loyal customer following.

## MEAT

Beef lagged behind the produce and grain sectors of the organic industry in being labeled organic until a federal organic beef definition was accepted in 1999. In the years since, other production and quality claims—including “grass-fed,” “natural” and “antibiotic- and hormone-free”—have gained market share.

With poultry, the descriptive but legally undefined terms “free-range” and “cage-free” with regard to poultry are used with some success to indicate a production value that consumers may find important in their purchases.

The “USDA Organic” meat label guarantees that animals were raised hormone- and antibiotic-free on an organic diet. However, the label does not guarantee that diet was grass-based (the natural habit of ruminant animals). As consumers become more knowledgeable about how livestock

### FARMER-TO-FARMER

“My business plan is modeled after a three-legged stool to afford me stability in the rough, uneven world that is farming. Today my farm has three distinct streams of income: subscription sales to our CSA members, a restaurant delivery route and one farmers market stall.

“The CSA is by far the most important part of my business, because these folks are my underwriters. They’re essentially fronting me the money we need to farm.”

—Andy Griffing  
Watsonville, CA



may be raised, they may want to consider more than one aspect. The “stacked values” of “organic,” “grass-fed” and even “local” become their personal standard.



Rod Weider sells grass-fed American buffalo to customers in Pennsylvania.

Photo Credit: Rodale Institute

work with by producing the best possible product you can, and by distinguishing yourself in other positive ways. Organic innovators who plan carefully, execute well and welcome others to join can be a tremendous influence for good. Farmers market managers seek out vendors with complementary products. This can mean adding cheese to a produce-only market, or bringing new types of cheese to a market where cheeses are already popular.

## WHAT CONSUMERS VALUE

Now that you have an overview of the opportunities in the organic market, and you are beginning to look at specific crops and regions, let’s take a look at who is behind this market demand: consumers.

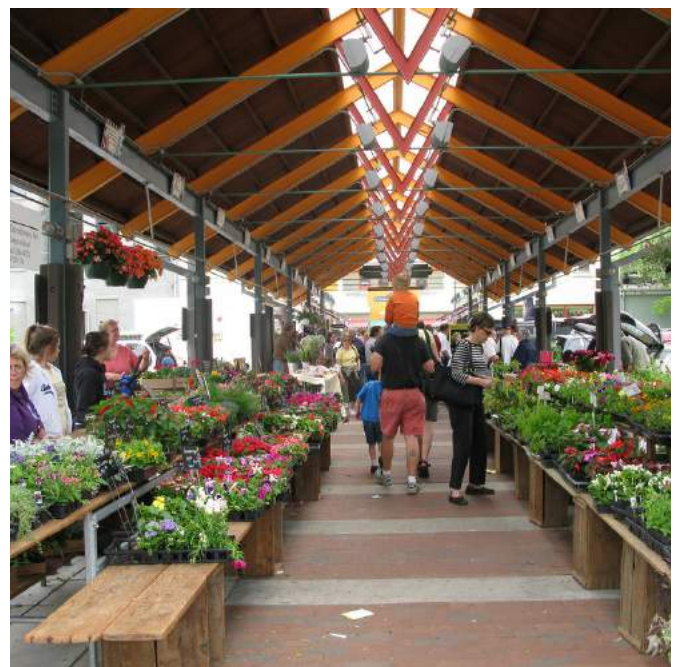
“The largest quantity for the cheapest price” is a common advertising message conveyed in grocery store circulars. Committed consumers of organic food, however, tend to be motivated by factors in addition to price. They give greater consideration to the environmental and health costs of non-organic farming, the insecurity of a food system dependent on foreign oil, and the loss of farming communities across the country where farms are trying to produce for the “cheap food” market.

## FARMERS HELPING FARMERS

Here’s one of the more pleasant aspects of organic farming: it’s not business as usual if you become involved with the network of farmers building organics in your geographical area. The strongest organic farmer groups are regional and state-based, concentrating on the people and places they know best.

Organic farmers typically realize there’s room for everyone in the expanding universe of health and sustainability, and you’ll generally find they’ll help you in any way they can. Especially where organics is still a new idea, those who have been pioneers want to pass on their hard-earned insights to those who will strengthen the area’s organic community. Organic infrastructure for distribution and logistics is relatively undeveloped in many regions, so sharing freight costs and buying in greater volume are practical reasons to work together.

You’ll help yourself and the farmers you



Customers in a farmers' market

Photo Credit: Wholtone

A 2003 study by the Hartman Group identified health as the number one reason consumers choose organic. For occasional organic buyers, price was the main barrier to making the organic choice.

Many consumers are happy to make their organic purchases in a health-food store or a conventional grocery store. A growing number of organic shoppers are becoming even more discerning. Where their food is grown has become important to them, leading to the rise of locally and regionally sourced organic foods.

These shoppers demand the “local connection” of fresh food from farms in a specific area that keeps their food dollars circulating more times in their own communities. This segment of consumers is largely responsible for the continued growth in farmers markets and CSA (Community Supported Agriculture) farms. A CSA is a model whereby customers pay up front for a box or “subscription” of fresh vegetables received each week of the growing season.

## CROPP'S SUCCESS

A cornerstone of CROPP/Organic Valley's success is its relationship with customers. According to Steve Brandl, the company's national food service sales manager, the primary interests of customers buying Organic Valley products are:

- supporting sustainable agriculture
- supporting small family farmers
- voting with their dollars for a food system they want to be part of

## WHY PEOPLE CHOOSE ORGANIC

Consumers are looking for food they can trust. The more effectively you can educate them about how your products are different, the better you will succeed in the marketplace. Even if you don't sell direct, you can capitalize on this trend by finding companies that cater to this growing market of “conscious eaters.” Almost 24% of Americans find USDA organic labeling helpful in providing an additional assurance of quality and peace of mind when making choices to purchase “good foods” to serve their families, according to a survey commissioned by a ConAgra brand.

Consumers of organic products are willing to pay a premium for many reasons, including better health, flavor, nutrition, environmental considerations and the good of the community. One way to study changes within overall consumer demand for organics is to identify subgroups and how each views their purchases as part of their life. The Hartman Group uses three segments:

- Periphery buyers, who are just beginning to use organic foods, buying single items for specific reasons until they develop greater interest
- Midlevel buyers, who are adding organic products to their life in a gradual evolution
- Core buyers, who try to buy organic whenever they can and who look for additional ways to support what they believe “organic” means.

Get to know your customers well. It's important to identify the interest profile of each person you market to. Their interests may be quite different from those you are used to, or what you are interested in when it comes to food and farming. Getting a handle on these issues will be critical to your business's success and your overall profitability.

Your customers and potential customers are key ingredients in your marketing plan. Once you know where you're going—who your customers are—it's much easier to draw a solid marketing map to get you there.

To succeed in business, you need to attract and retain satisfied customers. This takes careful planning and marketing efforts that convince people to try or continue to use your products or services.



## INPUT FROM RODALE

You don't have to sell direct to get to know your customers. If you're going wholesale, it still pays to understand what the end customer is looking for as well as what your buyer wants to see.

—Jeff Moyer



## UNDERSTANDING BRANDING

“Value-added” means doing something extra with your basic crop or livestock product through preserving, processing or packaging that improves the utility, interest or information to garner a higher price. Sun-dried tomatoes, cleaned grain, delivered hay, garlic vinegar and strawberry jam are all examples. To explore this approach:

- Become familiar with your state’s health and business codes and how they are being enforced
- Become familiar with the NOP Standards regarding the labeling and protocol for handling of processed foods
- Talk to other organic farmers working in similar areas
- Talk with your certifier

Connecting the farm story adds value, and organic itself is a marketable attribute. Research tells us “local” has become a powerful way to add a deeper dimension of value to your organic premium. The experience of visiting your farm’s stand or field day offers an additional layer of interest as do the recipes and information pamphlets you pass along to your customers.

The question of “values” (worth based on how a product was produced or what it

represents) and “value” (the benefit a consumer experiences relative to the cost) is central to organic production. Many interested consumers remain price-sensitive in their food purchases for a variety of reasons, including having to live on low incomes.

Chart a course for your operation that factors in which market segment you wish to target. High premiums usually come with stiff competition, shifting tastes and the need to reach a small percentage of the market. It’s easier to sell lower-cost products, but you’ll need volume to reach a profitable level. Larger-scale operations may be able to underprice you unless your product has unique features valued highly by specific customers. Good presentation, attractive labels, and attaching the “farmer’s story” can add value at any level.

## BRANDING BUILDS RELATIONSHIPS

The concept of “branding” crystallizes what makes your farm and products distinctive in the marketplace. Successful brands all start with identifying a core idea: what do you stand for, what do you do that is unique, what do you want people to think of when they hear your name or see your logo?

These elements all go into making up your brand identity. Your logo, packaging, promotions, community events, and the way you treat your customers are all ways of building and communicating your brand. Everything you do, no matter who your target customer is, can enhance or detract from your brand.

The Quaker Oats guy, the Land O’ Lakes Indian maiden and the Jolly Green Giant all represent successful brands. Organic farmers and companies are building their brand reputations, as well. Martin and Atina Diffley have been farming organically outside the Twin Cities in Minnesota since 1973. They’ve been running a farm stand on the same acre of land since 1977, selling produce from 100 certified-organic acres.

Their close relationship with food co-ops—and with customers of those co-ops—is unprecedented. It’s built on their “Gardens of Eagan” brand, with a label that shows the farmers out working their fields. Customers connect this



Photo Credit: Rodale Institute

Artisan bread made with local grain is one value-added trend gaining popularity.

label not only to superior quality and taste, but also to a commitment to a valuable way of life. When the Diffeleys were forced to fight an oil pipeline proposed to run through their farm, their customers rallied to help.

The Diffeleys built this loyalty by nurturing human relationships and promoting brand recognition, two sides of the same coin. Each year, Martin and Atina visit each of the eight stores they do business with. Their faces and their brand are recognizable on store displays and on product labels. All of this is underscored by the Diffeleys' commitment to educating customers about their farm and about the importance of the food choices we each make every day. One longtime co-op they serve has agreed to purchase the farm to ensure its agriculturally productive future.

## SUMMARY

Too many farm businesses fail because their effort and hard work aren't matched by careful planning. Take the information in this lesson and build a strong business plan that allows you to take advantage of the opportunities in the organic market today.

The organic difference—in quality and price—can become the competitive edge for your organic business. Your job is to decide how you can best build value and values into your farm enterprises.

Be sure to visit the Resources section at the end of this chapter for information on learning more about the various parts of your operation that will shape your marketing strategy.

Even if it's not part of your Organic System Plan, understanding the organic marketplace and the opportunities it offers is essential to your success with organics.

## LESSON 2: MARKETING PLAN

### OVERVIEW

The essence of marketing is identifying what makes your product unique and valuable, positioning your products to take advantage of those unique benefits, and communicating all of that to your prospective customers. In this lesson, you'll learn how you can use this information to

assist you in defining your competitive advantage. We'll explain the classic four P's of marketing: product, place, price, and promotion—as well as what could be called the fifth P, people.

Price overlaps so much with financial planning that it is talked about in depth in Lesson 3, even though it's a key element in your marketing strategy. First, we'll focus on product, place, promotion, and people.

## PRODUCT, PLACE, PRICE, AND PROMOTION

A useful way to think about marketing focuses on the four P's: product, place, price, and promotion. The key is to use these four P's to create value.

1. **Product:** remember, your product needs to satisfy the wants and needs of your potential and current customers. Think about what makes your product distinctive or better than other products, and your customers' perceptions of your service, image, brand and quality. Product can also include processing and packaging.
2. **Place** is where and how the product meets the customer: a roadside stand, farmer's markets, online or telephone sales, on-farm sales, and so forth. Place can mean selling directly to the consumer or to a chef, retailer, wholesaler, or broker. Your decision about the best place to market your product will have a big impact on your other strategies, including price and promotion, so it's important to consider early in the development of your



### FARMER-TO-FARMER

"Based on my experience, marketing had better be an important part of your business plan, because it will take around 30 percent of your time each week. This is different from how most farmers perceive themselves. This means more than just working in the fields. It means putting orders together, talking with customers, packaging, invoicing and delivery."

—Brian Moyer  
Fleetwood, PA

marketing plan. A mix of different places or market channels can often be a good strategy.

3. Price is the cost to the customer, the amount of money exchanged for the benefits of the product or service. Before you set a price, consider costs, margins or markups, and competition. Your goal should be to deliver value to your customers while earning enough for yourself to stay in business.
4. Promotion: there are many creative ways to reach potential customers and promote your products. Promotion may include referrals, free samples, incentives, radio advertisements, or an Internet presence. Try to find ways to track the impact of your various promotional strategies. The key is to develop the necessary contacts, maintain relationships with your customers, and budget for these expenses. Too often, people think of marketing and promotion as the same thing. In fact, promotion is the final piece of the marketing puzzle, best tackled only after you have a good handle on the other three aspects.

## IDENTIFY YOUR MARKET STRATEGY

Consumers used to be confused by numerous agencies and a wide range of standards certifying organic products. It wasn't easy or quick, but by 2002 the organic community had worked to create a set of rules that are administered by the USDA. This means consumers—your customers—now know there is a defined and documented process used when they buy items bearing the “USDA Certified Organic” label.

This is especially important in instances where there is a middleman, such as a grocer or a produce wholesaler, between you and the customer. To be sold as “organic,” your product must carry the USDA organic label. An exemption exists for farmers doing less than \$5,000 in sales a year, but these farmers must still adhere to the National Organic Program Standards.

For some farmer's market and CSA customers, buying directly from the farmer is more important than whether or not the farmer

is certified organic. It's up to you to decide who your customers are, what their expectations are, and how to fulfill those expectations. Generally speaking, though, unless you are selling 100% direct to customer, you will want to seriously consider certification. With the expansion of interest in organics, more and more new shoppers will be getting their first exposure to organic food far from the farm. Here, the combination of certified organic strengthened by a local or regional label could make your product stand out.

As you consider each element of your marketing strategy, you'll probably go back and forth and revise to reflect new ideas and information—the marketing plan is not a step-by-step process so much as a process of each element influencing the whole. For example, if, after researching your options, you decide your best placement strategy is to market to retail stores rather than direct to consumers, you may have to go back and look at your product again to consider packaging and pricing suitable to that market. When you figure out the price point you need to reach to be competitive, that may send you back to reconsider the product, process or packaging again; and so forth, until you come up with the mix that is right for your farm.

### FARMER-TO-FARMER

Tim Stark moves up to two tons of heirloom tomatoes a day in high season from his farm in southeastern Pennsylvania. When his 10,000 plants are at peak production, he has to get creative.

“I could never sell medium-size heirloom tomatoes,” says Stark. So he started offering quart-size “variety packs” of different sizes and types. The result? “We sell tons of them right off the table.” Stark also wholesales the mixed packs to Whole Foods and to restaurants.

—Brian Moyer  
Fleetwood, PA



## PLACE AND TARGET MARKETS

Place is where the product or service will be available to the customer. The place may be a food co-op, CSA, storefront, farmer's market or farm website with online ordering. Or it may be a mill, cannery or processing plant that is manufacturing a product for which you provide raw material.

Placement of your product, and your place of business, should efficiently serve your customers and consider each of the steps involved in the distribution of the product. Place considerations depend on whether you are selling to a wholesaler, the public or a retailer. In addition, place includes logistical considerations such as shipping products that customers order by phone, by mail or via the Internet.

Your marketing strategy may include any or several of these markets:

Direct to consumer:

- Farmer's markets
- CSAs
- Farm stand
- Internet sales
- Pick-your-own

Retail or wholesale:

- Retail outlets
- Restaurants
- Cooperatives
- Contracted sales
- Sales to a food distributor
- Farmer-to-farmer sales
- Broker sales
- Institutions such as schools and hospitals

## STORAGE AND HANDLING TO ADD VALUE

The special storage and handling needed for organic crops adds both expense to your operation and value to your product. In organic production, quality must be first and foremost, as this is why you receive a premium price. You need to take care that the high-value crops you harvest from the field have maintained their quality and integrity

when delivered to the customer. This means careful storage and handling and strictly avoiding commingling with non-organic products.

Because you don't want to compromise the integrity of your organic grains, you'll probably be storing them on-farm until delivery, unless you live in an area where there's a certified-organic elevator or mill. Thus, part of your transition process may be increasing your farm's grain-storage capacity.

If fruits and vegetables are part of your mix, your focus is field-to-plate quality. You may find yourself having to create a few on-farm storage areas to meet the varying ideal conditions of your products. This may well be the cost of doing business in the organic marketplace; it's also the reason you collect the premiums on your products.

## IDENTIFY YOUR MARKET BEFORE YOU PLANT

Whether you're raising #2 yellow corn, alfalfa hay or tomatoes, the last thing you want to be doing come harvest time is sitting on a surplus of organic produce destined for the conventional market—or even the compost pile. With demand for organics far outpacing supply, there's no reason for this to happen. But you need to be proactive in lining up your markets.

If you're marketing through a CSA, you should have a pretty good idea of how much you need to produce to fulfill that segment of your customer base. Start by multiplying the number of members you have by what you intend to include in each weekly share. If you grow grains, consider growing a portion of your crop on contracts rather than depending on the spot market to handle your entire crop.

### LOCAL=VALUE

Eat 'n Park Hospitality Group provides food to colleges, universities, retirement communities and two chains of family-style restaurants in Pennsylvania and beyond. Jamie Moore, head of the company's Farm Source program, champions local produce whenever he can. He says his institutional customers clamor for local fare even more vigorously than they do for organic.

Farmer's markets and drive-up farm stand sales can be trickier to project, but experience will soon inform you. Retail and restaurant customer sales are similar to farmer's market and farm stand sales, but perhaps a little more predictable. Gauging the volume of retail and restaurant customer sales will depend on the relationships you can build and maintain.

The amount of produce, grain or livestock you raise to fulfill a contract with a wholesaler or retailer may fluctuate from year to year. You should have a good idea of your obligations within any one season. As you move into organic production, try to balance your new investments in time, land and capital as much as you can. In other words, grow your markets by taking risks you are comfortable with.

It is so important to know the market you're growing for, so you can position yourself to best meet the needs of that market ahead of time. Farmers have so many other factors they can't control—weather, pests, market conditions—that you need to give yourself the strongest possible starting point.

## GROWING ON CONTRACT

Some farmers are interested in selling to brokers or food service operators but feel it's too risky to increase production to the quantity required. That's where contracts can help minimize both the producer's and the food service operator's risk—especially when both are new to the direct farm-to-institution relationship.

But some food service operators don't like contracts, preferring the flexibility of calling to order what they want, when they want it. One general exception is large food-service organizations that trade in high volumes, including universities and large hospital systems. In some cases, a certain percentage of an institution's food will come from a certain major full-service supplier, but the institution may reserve the right to purchase the remainder from other vendors. From a regional produce broker's standpoint, a contract may be the necessary tool to prove you're a reliable supplier.

On the production side, growers sometimes are reluctant to consider contracts, perhaps

because they are uncomfortable with setting or negotiating a price. We'll talk more about pricing in the following lesson. Others—more comfortable with operating on a handshake—may feel their pride is at stake. But if you plan to grow, pick, and pack crops worth thousands of dollars, you need the assurance from your buyers that the money will be there.

Look for buyers who will work with you to create mutually beneficial agreements. For example, producers can offer an advance notification clause pledging that they must notify the buyer a certain number of days in advance if they won't be able to deliver the specified quantity and quality of produce. Also, a clause can specify that the buyer needs to notify the producer a certain number of days before the next delivery if the buyer won't be needing the set volume.

## CONTRACTS AND ORGANIC GRAINS

In the organic world, farmers can't just produce and sell, says Lynn Clarkson, of [Clarkson Grain Company](#) in Cerro Gordo, Illinois—you need to find a buyer for your crop.

Identity preserved (IP) markets mean that the buyer not only knows what country or state a product is coming from, they know what farm and farmer.



Picture of organic grain

Photo Credit: USDA

“Within the IP grain world, if buyers did not contract in advance of production, the market would not produce what the buyer wanted,” Clarkson explains. “In the same IP world, the value of a particular crop might be lower outside a particular market. So, buyers and sellers normally enter [into] acre contracts under which the farmer agrees to produce a stipulated number of acres, and the seller agrees to buy everything produced on those acres for a stipulated price.”

If a buyer is running a national, regional or even local program of a certain scale, Clarkson says, he or she will need to know that the product will come through. “For security, he would like to buy in advance perhaps 120% of his needs. For even greater peace of mind, such a buyer might like to contract for supplies for up to three years into the future,” says Clarkson. If the price is reasonable, such agreements protect both buyer and seller. They rarely specify production weights, he says, generally specifying only the production acres. “The buyer takes the risks of weather and crop vagaries,” Clarkson says, “while the farmer is protected against having to meet a contract with a short crop.”

## SELLING WHOLESALE TO FOOD DISTRIBUTORS

Selling wholesale means entering an existing market channel as a supplier to someone else. Your first customer has to believe that your product and your business will benefit him or her and the customers he or she serves. Adding steps between you and the end user demands packaging that protects the product, labeling that retains as much farm identity as possible, product quality that will survive the trip, and pricing that allows everyone involved to make a reasonable profit.

Carefully research your wholesale options before you make a pitch. Make sure to ask enough questions on quality and delivery requirements, pricing, payment conditions, the business practices of potential buyers, and the prospect of a further relationship with them. Read their contract carefully—with a lawyer, if you can—to understand all the provisions. Make sure the benefits of someone else taking your products to the final organic consumer outweigh the costs.

Once you decide to attempt to sell to a specific broker, distributor or wholesale buyer, do your homework. Make sure you are presenting a product they want, with packaging that works, with the documentation they need—all at a price that works for you both.

## BUSINESS DYNAMICS

As part of the Leopold Center’s Value Chain Partnerships for a Sustainable Agriculture (VCPSA) program, Cooperative Development Services (CDS) collaborated with VCPSA and the Leopold Center’s Regional Food Systems Working Group to study business dynamics between SYSCO, a national distributor of products to the food service industry, and three Iowa-based, small to midsize food enterprises. Through a series of interviews, CDS collected and analyzed data in order to identify both the challenges and the essential elements for these smaller food enterprises to successfully work with a large food-service distributor.

## PRICE SETTING 101

Once you’ve established the product, its place in the market and your scale of production, you are in a position to begin working on a price that will make the arrangements sustainable for your business.

1. Your costs. In general, prices must cover all production costs, both fixed and variable. I’ll cover costs later in this chapter.
2. Your profit plans. If you plan to grow your business or provide an income for yourself and your family, you need to build those plans into your pricing formula.
3. Competitors’ prices. Use other sellers’ prices on similar products as a gauge for setting prices.
4. Product differentiation. It may be appropriate to charge a higher or lower price for your product, relative to the competition, depending on how your product relates to theirs. If yours is of better quality or is simply unique, then a premium may be warranted. If it is of



lower quality, then you may need to price below your competition to sell it. You can also differentiate your product by its timing. For example, the farmer with the earliest tomatoes enjoys a period in which prices can be set higher than when other producers bring in their tomatoes. A rapidly growing demand for locally produced food means price premiums for you if you can cultivate local markets.

5. Environmental factors. Matching prices and products to economic and ethnic groups is a good way of maximizing value. Other factors, such as prevalence of certain ethnic groups, may affect your ability to modify your prices on certain products that may be more attractive to those groups than to the general population.

## PROMOTION AND ADVERTISING

An effective promotional strategy requires an understanding of how promotion fits with other pieces of the marketing puzzle. Think about how promotion affects other areas of the organization. The objective of promotion is for customers to buy the products and remain loyal customers. Effective promotion should include:

- Building brand awareness
- Creating interest
- Providing information
- Stimulating demand
- Reinforcing the brand

Types of promotions include advertising, sales promotions, public relations, and personal selling. Be sure to evaluate the costs and returns from the promotional campaign. Learn to recognize when you need to make changes.

Promotion can take many forms:

- Product promotion
- Advertising your farm image
- Public service (tours, field days or educational events)
- Health, nutrition and environmental advocacy intended to influence a target audience

Begin by developing quality marketing tools, including business cards and brochures. Think about products you can advertise and promote together. Next, think about the media. This could include sending press releases or advertising in local guides or in the classified section of the newspaper. Don't forget about using the Internet, radio, and television.

## THE INTERNET

The Internet is one of the world's least expensive and most efficient marketing tools. Here are a few excellent reasons to be online:

- Enjoy low entry costs
- Be accessible 24 hours a day, 7 days a week
- Reach a worldwide audience
- Recruit customers
- Research business collaboration
- Provide background and contact information to media
- Communicate in many ways with customers, from sending seasonal updates to responding to their questions
- Through online surveys, learn customer preferences
- Make your farm and products easy for potential customers to discover and find

The Internet can help you improve your bottom line in a number of ways. It can help build relationships and disseminate product, sales and marketing information to all parts of the world. Use the Internet to find information and broadcast your specialty products, such as organic beans, corn or spelt or other specialty grains. You never know who's out there looking.

## THE FIFTH P

The four P's have been part of marketing theory for many years. More recently, there has been a lot of discussion about the need to add a fifth P that addresses an intangible but essential element of successful marketing. Some call it people, some process, others participation or passion. It boils down to the importance of

customers and relationships in your marketing strategy.

“You are not your own customer, so we don’t care what you want,” says Ohio farmer Jackie LeBerth. “You need to put on your customers’ shoes. What makes them let go of their hard-earned cash to buy what you have to sell?”

Figure out the benefit you are trying to sell and the customer to whom you will sell it, and then work to communicate that benefit to the customer, LeBerth says. You can market that benefit by doing research on a product and becoming an expert.

## THE FARM-CUSTOMER CONNECTION

If your customers are interested in organics, they want something more than the non-organic market offers. Market segments may include:

### Consumers:

- Food-culture types who thrive on local crops with great taste
- Wholesale buyers who are just filling an order
- Social activists looking to build healthier communities
- Health enthusiasts who will ask more questions as time goes on
- New parents who want the very best for their children

### Processors and others:

- Entrepreneurs seeking quality ingredients for their products
- Other certified organic farmers who need your products for their own operations

### Retailers:

- Health-food stores where customers value a regional farm identity
- Restaurants moving into organic and place-identified foods
- Regional chains of grocery stores

As you get to know your customers and what motivates them, you can highlight the attributes of your products that most appeal to them. Learn

what new areas they are interested in that you can develop together. Show them your farm, your people, and your products to achieve the kind of relationship that public-relations dollars can never buy.

Organic certification may give you a label, but it’s up to you to back it up by being the kind of farmer your customer wants to do business with. The more you can wear the marketing hat as well as the farming hat, the better you will succeed. The better we can document and communicate the quality of our farm’s soil, water, crops, meat, fiber or products, the more confident we can be in saying that we have something distinctly different to bring to the marketplace.



Photo Credit: Emery's Farm

When the Marcheses purchased Emery’s blueberry farm and converted it to organic, they kept the name in honor of the original owner, who “had a reputation for being the first person to hook a wagon on a tractor and bring people out to his fields.”

## RELATIONSHIP MARKETING

Your customers want good food with a story and a face—your face—at a fair price. Savvy grocers and restaurateurs know this. That’s why we see pictures of farmers and stories about their farms on product packages and restaurant menus. But when it comes to relationship marketing, nothing means as much as face-to-face contact.

Establishing and maintaining that personal

connection takes time, but it should also help you capture more of the 92 cents out of every U.S. food dollar that typically goes to processors, brokers and retailers. More than dollars, doing business with people who know you changes the process. Many direct-marketing farmers say that interacting with customers is one of the most rewarding aspects of what they do.

## FARMER-TO-FARMER

“People are looking for an experience. I don’t want to just hand them their items, take their money and say, ‘Thanks, see you next month.’ I want them to have a vested interest in my farm so they see it as a vital part of the community.”

—Brian Moyer  
Fleetwood, PA

This relationship building carries over to your local grocers, chefs, food-service managers and other farmers—anyone you choose to do business with. The more you can cultivate and maintain these business relationships based on trust and mutual respect, the more of that consumer food dollar goes into your pocket.

You may feel that dealing directly with customers is not your gift. If that’s the case, you can do more wholesaling or marketing through a co-op that brings in professional marketing skills, choosing to share profit so you can focus your time and attention on production. You may find the trade-off of lowering your profile—and the upside potential that your extroverted neighbors may experience—more to your liking.

### SUMMARY

In this lesson, we talked about writing a marketing plan while considering product, place, price, and promotion. The heart of marketing is knowing your product, understanding your customers and finding creative ways to bring them together. In order to successfully execute a marketing program, you need a plan. Your marketing plan is a detailed road map for where you are going, how you will get there and what you’ll learn along the way.

Using this information in combination with the [Crop Conversion Calculator](#) can help you better understand how your production and marketing decisions affect your farm’s profitability. Take a deep breath—or even a walk around the farm to think of the possibilities—then plunge ahead. We hope this leaves you excited about the ways that marketing your farm’s organic value can open the door to new kinds of farming opportunities.

## LESSON 3: ORGANIC DOLLARS

### OVERVIEW

The last lesson gave you tips for creating your marketing plan and marketing strategy. This lesson shares some ideas about pricing—one of the four P’s of marketing and a central factor in your bottom line. How you set prices can influence your revenue and profits, either negatively or positively.

If you don’t think you have the time to take a close look at your costs or don’t think you can control the prices you get for your products, this lesson is for you. Pick up tips and strategies on recording and tracking costs, learn how to set prices at profitable levels and get information on budgeting and accounting.

By the end of this lesson, you should be able to use your pricing and cost information to formulate budgets, calculate profit and loss, and use the course’s [Crop Conversion Calculator](#) to estimate prices.

### PRACTICAL ECONOMICS

The steps in this tutorial give you a good handle on the practical economics of your organic enterprise. These are critical tools to help you test what you are doing with the best markets you can find. If you don’t find a match, you have to change markets, prices or products to get there. For instance, if your local farmers market doesn’t value your hot pepper collection at a price point that is profitable, you may want to consider traveling farther to a larger market where demand is stronger.

To calculate your organic financial advantage, you need to incorporate the additional savings (or costs) of organic production into an



enterprise budget for your whole farm. Consider production, harvest, post-harvest handling, and packaging, compared with what you would be doing if you weren't organic—for the same crop, or for a different crop on the same land base. Also figure in your cost of organic certification, specialized transportation, and any additional marketing work required.

The net result of these figures may change dramatically through your conversion years. Figure your annual steps conservatively, so you can reach your five-year projection even if things prove more challenging than you expect. Once you arrive at these figures for the monetary difference, weigh them with your other reasons for wanting to go organic to make your final decisions.

Remember, no matter how well you plan, you'll probably need to make adjustments along the way. Work with your family and other partners to decide what you want most from your organic farming operation. Work together to track progress and goals from year to year to find out if you are sustaining the land, people, and community in the ways you care about the most.



Photo Credit: Rodale Institute

You may be able to fetch more per pound for microgreens than for the full-size product, but if your packaging costs or losses to waste are too high, it could be a wash.

## RECORDING AND TRACKING YOUR COSTS

Let's face it: many people, including many farmers, don't keep very good financial records. But tracking financial data is just as important as tracking cropping data. The silver lining in all the paperwork required of certified organic farmers is that it will not only make you a better farmer, it will make you a better businessperson, too.

If you've been in business for a while, some of this information will be familiar. If you're not the most meticulous recordkeeper, now is the perfect time to make improvements. And even if you are, I'm sure you'll find some nuggets of wisdom in this tutorial to make you a better one (and improve your bottom line).

You may already be saving and organizing a lot of the information you need to keep good records and develop useful cost information. Do you:

- Have a bank account for your farm?
- Keep farm accounts separate from family accounts?
- Keep receipts from purchases and store them in one place?
- Write sales invoices and keep them in one place?
- Enter sales and purchases into a ledger (on paper or on the computer)?
- Inventory supplies and equipment at least once every two years?
- Inventory your products and/or livestock at least once a year?

If you answered "yes" to one or more of these questions, you have the beginnings of a good recordkeeping system. Our goal here is to help you tap into your existing records—even if they're very simple—to determine product costs. Along

### COMPUTER OR PAPER?

This is a personal choice and depends on what works best for you. If you're taking this course, chances are good you either own a computer or have some familiarity with them. The key is to make the most of whichever recordkeeping medium you choose.

the way, you may pick up some tips for further improvement. A few minor adjustments can help make your cost calculations and business planning more manageable and effective.

## TIPS FOR IMPROVING YOUR RECORD SYSTEM

Run your farm business through a bank. Deposits and check registers can track money flowing into and out of your business. Keep your farm bank account separate from your family account; a clear definition between can clarify financial decisions on both fronts. It can also provide financial protection (depending on how you incorporate your farm business) and offer a clear mechanism for paying yourself for your work.

Record detailed information on every sale. Every time you sell anything (crops, value-added products, equipment), record the following:

- Name of buyer
- Date
- Lot numbers for inventory management
- Quantities or weights
- Unit prices
- Total price

Record all this information in the same place on every receipt, and also include it as you transfer each transaction into your accounting records.

Pay by check or charge, rather than cash, when possible. Checks and charges are much easier to record and track than cash payments. Set up charge accounts with the businesses you buy from the most and pay your accounts regularly. This practice provides another way to itemize and record your expenses, and it can also bolster your credit rating.

If you pay cash, get a receipt. Without a receipt, it's easy to forget how much cash you spent, where it went, or why. Have a designated place where to put receipts as they come in.

Use a pencil (not a pen) to keep your paper records. Pens are appropriate for receipts, but use pencils to balance your check book or to log entries in your account book. This allows you to easily and neatly correct mistakes.

## USE IT OR LOSE IT

The key to success with this or any recordkeeping system is simple: use it regularly! If you enter your receipts into your accounting system routinely (either daily, weekly or monthly), you'll head off the problem of "paper pile-up," the downfall of any recordkeeping system.

If you already have an overwhelming pile of paper on your desk, just gather it up, put it in a box or file labeled "Before (today's date)," and set it in a corner of your office for now. Today is a clean slate, and it's time to move forward. Start using your new recordkeeping system with this week's receipts, and be vigilant about keeping up with your current receipts until your new system is a normal, natural part of your daily or weekly routine.

Once your system becomes second nature, you may want to tackle that box of old papers and add them to your system. Just make sure you keep rolling forward with the current data while you integrate the older stuff. However, don't worry if you find you never look back; those older papers are safe in their file, and you know right where to find them when you really need them, like at tax time.

## REDCORKEEPINGANDNOP

With regard to organic certification, your recordkeeping requirements are pretty cut and dried. You'll need records of input purchases and crop sales, which will be balanced against acreage to determine appropriate quantities of production. If, for example, you planted 100 acres of corn and sold 50,000 bushels of shelled corn, something is awry (since nobody averages 500 bushels per acre). But, certification aside, it just plain makes sense.

## PRODUCTION COSTS

In order to develop a successful pricing strategy, you need to know your production costs, calculated by defining the individual components of your operation and plugging those numbers into a simple recordkeeping system. These figures will give you confidence in the current state of your business and help you find ways to make it more efficient and profitable.

Let's begin by defining four basic—and often misunderstood—terms that affect cash flow in every business:

- **Cost:** Money you pay, directly or indirectly, to produce a product or service. Costs include labor (your own labor and any hired help), rent, taxes, utilities, production inputs, equipment depreciation, etc. The [Crop Conversion Calculator](#) can assist you in analyzing and documenting your costs.
- **Price:** Money you receive from a customer for one unit of a product or service. Your price should cover all your unit costs, plus your profit.
- **Revenue:** Money you receive from all sales of your products and/or services (also known as gross income). Government payments also qualify as revenue. Revenue should cover all your business costs and give you some realized profit.
- **Profit:** Money you get to keep from all sales of your products or services, after all your costs are paid. Profits (also known as net income) allow you to buy your daily necessities, invest back into the business, save for retirement or take that family vacation you've been planning.

These definitions may seem unnecessary because we all use these terms every day. But do we use them correctly? Many farmers get into trouble by thinking of revenues and profits as the same thing. In reality, profits are only a part of revenues, the part that's left after production costs are subtracted. If you confuse the two, you may end up having to choose between covering your costs and paying yourself.

## ESSENTIAL COST DEFINITIONS

Cost accounting is the process of tracking, recording and analyzing costs associated with the products or activities of an organization.

### Labor costs

Labor costs include all money spent to pay yourself and your employees (if any), and

to provide benefits. Even if only you and your family work on the farm, it's important that you calculate your labor costs! To do so, multiply the number of hours required to complete a work task by the hourly wage you pay (or would like to pay) yourself and your family members or employees.

Calculating task-hours may sound nitpicky and time consuming, but chances are you already have good estimates in your head. Start with these and fine-tune them by keeping an occasional start/stop time log for your different tasks. After just a couple of entries, you'll have a very clear record of task-hours, and you may even begin to see a few places where you can improve your efficiency. Later, for more precise labor cost calculation, you can also include in the hourly wage figure the cost of any benefits you provide to yourself, your family or your employees.

### Operating (or input) costs

These costs include all money spent on supplies and materials needed to produce your product or service, such as seeds, fuel, inputs and amendments, livestock and feed, purchased ingredients to create value-added products, packaging materials, and similar items. To calculate input costs for a service, you must add up the number and cost of supplies and materials that will be used as part of the service.

### Overhead costs

Overhead or capital costs include all money spent on work-related costs other than materials and labor. Overhead costs can be broken into two categories: indirect overhead costs and direct overhead costs.

- Indirect overhead costs are costs not tied to the production of a specific product or service. They typically include items such as utilities, mortgages and interest, rent, insurance premiums, taxes, depreciation, office supplies, any employee benefits, certification fees, dues and subscriptions, advertising, accounting, and attorney fees.
- Direct overhead costs are project-specific, such as equipment costs, travel costs, and similar expenses.

You'll find these primary cost category headings on most enterprise budgets. Each type of cost can be further defined as either fixed or variable.

- **Fixed:** Expenses that remain the same regardless of how much you produce or sell. Fixed costs include mortgages, taxes, insurance, and (in some cases) utilities and advertising. For example, your tractor payments remain the same whether you sell 200 or 2,000 bushels of beans.
- **Variable:** Expenses that change according to the amount you produce or sell. Fuel and seed costs are two typical examples.

When figuring production costs, remember that your time is worth money. Too often, farm owner and family labor go unpaid. When you spend time producing or marketing, you forfeit the opportunity to gain income from other employment. Be sure to include your management time in your accounting decisions.

## USING RECEIPTS AND BANK RECORDS TO GATHER COST INFORMATION

### Step 1:

Make a list of everything your farm produces, for sale or on-farm use. Try not to leave anything out.

- Do you sell a few dozen eggs from your flock or a few bunches of cut flowers from your home garden each week?
- Do you sell tomatoes, pumpkins, sweet corn, feed corn, wheat, or other grains?
- Do you produce hay, silage, or compost for on-farm use?
- Do you trade your livestock manure with your neighbor for hay?
- Do you process and sell jams and pickles?

Include it all, listing each product individually. The length of your list may surprise you. Be sure to write this list on paper; physical writing is an important part of the exercise.

### Step 2:

Group your products into categories. Here are a few suggestions:

- **Field crops category:** Include your field corn, wheat, and possibly the hay and silage.
- **Production vegetables category:** Group your tomatoes, pumpkins, sweet corn, or other vegetables.
- **Value-added category:** Such as jams and pickles.
- **Farm use category:** Include compost and possibly the hay and silage.
- **Miscellaneous stuff category:** In this example, the eggs and flowers.

These category titles are just suggestions; choose groupings that make sense for your business, and make sure each of your products ends up in a category.

### Step 3:

Create "General Operating" and "Overhead" expense listings. Some expenses will obviously correspond to one of your product categories, such as corn seed and canning jar purchase receipts, or wheat and tomato sales slips.

However, receipts for tractor repairs, mortgage and tax payments, or the sale of your old combine usually do not fit in any one product category. Therefore, you'll need to create categories such as "Equipment/Depreciable Assets," "Office Supplies" and "Building/Property Maintenance" in order to capture these more general expenses and income.

Again, choose categories that work best for you, and keep them as simple and straightforward as possible.

### Step 4:

Create folders (paper or electronic) for each category. Into each folder, put an accounting spreadsheet for each product that falls in that category. This organizational plan works equally well on paper or with your computer's accounting program. Some of your category headings will probably change once you start using and



improving your system. Stay flexible and, if you're working on paper, consider writing your category names in pencil on your file folders for now.

**Step 5:**

Also create paper folders labeled "Recorded Expense Receipts" and "Recorded Sales Receipts" (even if you're working on a computer). You will need these files to store your paper receipts once you've recorded their information in your accounting system. These two folders will be used, along with your bank account book, to clarify your whole-farm financial picture.

Now that you've set up this simple system, it's time to start plugging in the numbers.

**Step 6:**

Enter data from your new receipts (both sales and expenses) into your banking account book (on paper or computer) regularly. Make this a basic part of your routine; once a day is ideal (if you have that many receipts), but once a week is fine and more realistic for most farmers. The goal is to keep the pile of incoming receipts small, because—as we all know—big piles of paper can put a halt to progress.

**Step 7:**

Once you've completed the bank entry, enter the information again on the product spreadsheets in the appropriate category folder. Enter the same information you included in your banking account book.

If you're working on paper and have access to a photocopier, you might also make a photocopy of each receipt to include in the relevant category folder. (If you do this, be sure to write "copy" on the copy and note the location of the original.)

If you enter receipt information on more than one product sheet or category folder, be sure to make a note next to the entry to cross-reference it so as to avoid double counting.

**Step 8:**

After recording, collect the original receipts in your "Recorded Expense Receipts" and "Recorded Sales Receipts" folders. Congratulations! You've just collected a lot of your

important cost information in one place!

**Step 9:**

After you set up your initial folders and account sheets—one to four hours of initial work—the cost information collection process should take only 10 to 30 minutes a week.

To calculate a product price using this system, you can easily plug the data from that product's spreadsheet into an enterprise budget. This system may not capture every penny of your costs, but it will take you a long way toward a good calculation.

## DEVELOPING A PRICING PLAN

A pricing plan allows you to recapture your production costs and calculate profit or loss. It can help you determine accurate production costs for each of your products, set selling prices that cover your costs and make you a profit, convince your customers to pay that price, expand your customer base, and increase your peace of mind. Collecting the information you need to formulate a fair product price can be a little time consuming. But the records you create the first time around can be used over and over again with a little updating along the way.



Picture of pricing on an organic product on shelf

Photo Credit: Jack Sherman

In order to develop your pricing plan, you will need to:

- Identify and calculate the major components of your production costs
- Develop systems to record cost information as a regular part of your daily operations
- Use basic math to turn cost information into prices that give you a reasonable return
- Find ways to add value to your products to capture a larger share of the food dollar
- Determine the premiums you can charge for your value-added products
- Assess the relative profitability of organic products
- Identify resources for further ideas and assistance

Farmers who have taken the time to figure out their own pricing plans will tell you that the benefits are well worth the effort.

Identify the different channels through which you intend to market products; each has different costs and most likely different price points. The right mix of channels and prices can help you be profitable.

## THE ORGANIC PRICE REPORT FOR PRICE DISCOVERY

The Organic Price Report (OPR) carries weekly terminal and other prices from organic wholesale markets across the United States.

Just how much of a premium should you be charging for your organic grains and produce? Find out with the [Organic Price Report](#). The OPR is an online tool that helps you price competitively. The tool tracks selected prices from the fruit, vegetable, herbs and grain sectors, comparing organic and non-organic prices in markets across the country.

## CREATING A BUDGET THAT WORKS

Once you know your different types of costs and have created a system to capture them, you need to decide how you want to use your cost

numbers. There are four distinct kinds of budget you can plug your cost and income data into: an enterprise budget, a whole farm budget, a partial budget analysis, or a cash flow budget.

## FARMER-TO-FARMER

Eric Finch, of State Center, Iowa, added a profitable meat goat enterprise to his hog operation through innovation and careful planning. While Finch continues to work in his family's conventional corn and swine operation, he's learned that direct-marketing specialty products can pay off. But it requires a different mind-set.

"You have to think outside the traditional agricultural box. You have to learn to work with customers directly, and you have to respond to what they want to buy." He advises: Before you do anything, run the numbers to determine your cost of production.

## Enterprise Budget

This budget records the costs and income from the production of one type of farm product during one cycle of production. For example, if your farm produces poultry, beef, hay, corn and soybeans, you could create an individual enterprise budget for each of these five products, covering a single crop growing season, or one animal life cycle. These budgets are usually developed on a per-acre or per-head basis. Crop Conversion Calculator, a companion enterprise budget calculator for this course, provides a great place to pull together this data and see what could result financially.

Enterprise budgets are the foundation on which all the other types of budgets are built. They also provide hard-nosed economic information you can use right away. Accurate enterprise budgets tell you what's making money and what's not. From there, you can decide whether other factors make a marginal or break-even enterprise worth keeping.

An enterprise budget can help you to:

- Set reasonable production goals for each of your farm products
- Accurately calculate your costs of production for each product

- Estimate the break-even price and net return you need from each product in order to cover all your costs and make a profit
- Choose management strategies that help you achieve your production and price goals
- Identify problems that can cause you to miss your production and price goals
- Compare returns across enterprises as a factor in overall profitability
- Quickly gather important information for business planning and loan applications

#### Whole Farm Budget

This budget adds the costs and income from each enterprise budget, along with other miscellaneous income and expenses, to determine total expenses and income for the farm as a whole. This budget includes off-farm income and other small-scale miscellaneous work, expenses and income.

#### Partial Budget Analysis

This budget measures the effects of small changes in a farm operation, leaving out unaffected parts of the overall farm budget. This approach provides quick information to help guide smaller-scale decisions, such as changes in a production practice, or choosing between hired custom harvesting and an equipment purchase.

The Crop Conversion Calculator makes it easy to change one or two variables to check their influence on the outcome. For example, it can help you prepare partial budgets to compare the use of purchased compost versus growing a legume cover crop to achieve the soil nitrogen contribution you need for specific crops.

#### Cash Flow Budget

This budget tallies the cash receipts and expenses of the farm over a fixed time period (usually a year). It shows whether expected total cash income will be adequate to cover cash expenses, which is useful in assessing major purchases and in planning for loan requirements.

Of course, the value and usefulness of any budget depends on the type and quality of

numbers you plug into it. A good recordkeeping system can help ensure that your budget numbers are as accurate as possible and identify which numbers are spot on and which are less than perfect.

## ACCOUNTING STYLES

The numbers you use in your budget will depend on the budget accounting style you choose. Any budget can be presented in one of two different accounting styles:

- Economic accounting includes dollar values for all inputs and outputs, including operations and transactions that aren't cash-based, such as use of farm-raised feeds for livestock, or use of livestock manure as an ingredient in compost. Economic accounting works best for enterprise and whole farm budgets and is often useful for partial budgets.
- Financial accounting lists only inputs and outputs that require actual cash transactions. Financial accounting works best for cash flow budgets and sometimes for partial budgets.

In most cases, economic accounting creates a better, more complete budget, especially if you're developing an enterprise budget. Also, if you start with economic accounting, it's very easy to pull out the basic financial accounting numbers when you need them.

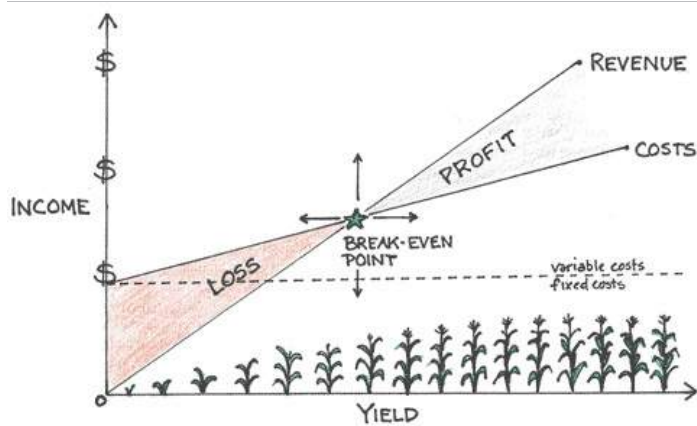
Don't get discouraged if you're not able to fill in all the blanks in an economic accounting budget. To reiterate the most important point of budgeting and cost calculations, a few numbers are better than no numbers at all! It's good enough to plug in the numbers you have, to get started. Just be sure to make an effort to fill in the blanks as time goes on.

## PULLING IT ALL TOGETHER

Your profit is determined by three factors: yield, market price, and production costs.

The graph shows how yield, costs and revenue work together to generate a profit or loss, depending on where your numbers land.

$$\text{Profit} = (\text{Yield} \times \text{Market Price}) - \text{Production Costs}$$



You probably already know that you can calculate your profit or loss per unit by subtracting your production costs from your price:

$$(\text{Profit [or Loss]} = \text{Price} - \text{Cost})$$

But look at this equation again. The key idea is that your costs and your prices have equal power to influence your revenue and profits, either negatively or positively. Notice that the “break-even point” on the graph above is not a single fixed location. It can move left and right or up and down, depending on adjustments you make to your prices (revenue) and/or costs.

## SUMMARY

This lesson discussed the tools that you need to track and monitor costs, understand pricing, formulate budgets and, finally, calculate profit or loss. Armed with these basic tools, you should be prepared to make the most of your conversion to a successful organic operation.

## LESSON 4: BUSINESS PLANNING

### OVERVIEW

A formal business plan is a critical road map to your success in organic farming. It isn't so bad, once you get started.

A summary of the Organic System Plan you've already worked on is part of what will go into your business plan; a summary of your marketing plan is another. The budget and financial plans are a third component.

Even if you don't have a business plan, you've surely thought about many of these things as you started or grew your business. The business plan

will serve you much like your Organic System Plan, keeping you focused, organized and thinking about the logical sequence of your strategies. It's a good tool and exercise for you, but it also serves to inform others—such as potential lenders or partners—who may not know a whole lot about the organic marketplace.

If you need some more personal assistance to kick this thing off, don't be afraid to reach out for business-planning help in your locality, economic development region or state. Learning how to put a business plan together, if you've never done one, is an important skill that will serve you well.

This lesson describes the elements within a business plan, strategic ways to use the plan, and how to incorporate your marketing plan into your overall business.

## BUSINESS PLAN COMPONENTS

- The executive summary is a one- to two-page overview of your plan (put it first, but write it last). Use this section to grab the reader's interest and say why your business idea will be successful.
- The organic sector analysis provides details about opportunities and growth, who's involved in organics and how they've made their mark.
- The market analysis tells what's happening where you plan to do business, who the competition is and how the future looks in terms of who will buy your product.

## INNOVATORS

When you run your own farm, you're an entrepreneur as much as a producer. That means you need to understand Business Planning 101, says Penny Brown Huber, program administrator for Iowa's Growing Your Small Market Farm Business Planning Program.

“Entrepreneurs are innovators,” Huber says. “They have a strong desire to create something new. They also have a vision of how their business will grow and a plan to make it happen.”



- The business description tells how long you've been in business, describes the business' legal structure and ownership, and summarizes your short- and long-term goals.
- The product-line section describes your products or service and emphasizes their benefits to current and potential customers.
- The marketing plan describes your customer base, outlines your pricing strategy and tells how you will distribute your products and promote your business.
- An organizational chart outlines who runs your business and how all the work gets done, from field manager to farmer's market help.
- Funding needs explains total money needed, how it will be used, and why the investment makes sense.
- The financial statement summarizes the past three years' balance sheets and income statements, along with five-year projections for income and cash flow.
- An appendix might include items such as field maps, marketing literature or a summary of a recent contract.
- Even if you aren't borrowing money or seeking investors or partners, the business plan exercise helps you put and keep your plans in perspective.

If the sections in your business plan are long, summarize them at the beginning of each section to help busy loan officers or investors get the gist of your overall plan

## FARMER-TO-FARMER

"I neglected to consider the cost of trucking in my initial business plan. All organic grain was trucked in at up to \$100/ton from mills at least 150 miles away. Moral of the story: Match your location to your business model, match your business model to where you are, or do something else."

—Marc Lichtenstein  
Wayne County, PA

## MARKET ANALYSIS

The market analysis section of your business plan summarizes the market you are in and what is happening in that market. In this section, identify your market, its overall size and its growth potential. Think back to the work you did in lessons 1 and 2, looking at your products and customers. Consider these questions:

- What do you know about your target market?
- What are your customer demographics in terms of age, income, geographic location, and education?
- What motivates these people to buy organic products even if they cost more than conventionally grown products?

Another way to think about your farm enterprise is by doing a SWOT (strengths, weaknesses, opportunities, and threats) analysis, in which you consider:

- What are your strengths?
- What are your weaknesses?
- What are the opportunities?
- Are there any threats?

## BUSINESS PLAN TIPS

Here are a few more reasons to prepare a business plan:

- Preparing a business plan triggers creative thinking about your business opportunities, risks, research options, and expectations.
- You can use the business plan to track, monitor, and evaluate your business's progress against milestones and timelines.
- A business plan helps you identify your competition and take your share of the market by providing different or better value to customers.
- A business plan will help you identify roadblocks so you can avoid them or establish alternatives.

Think about maximizing your strengths, minimizing your weaknesses, seizing the opportunities, and protecting against threats. What are your competitors' strengths and weaknesses? What will you do if your target market is adversely affected by economic events? How will you remain competitive?

## IDENTIFY YOUR MARKETS

Once you have provided a picture of the market environment for your products, the rest of the marketing section of your business plan will be a summary of the five P's you worked on in lessons 1 and 2.

Give a compelling description of:

1. Your brand identity and position
2. Your product and what makes it unique
3. Your product placement strategy and rationale
4. Your pricing strategy
5. Your people strategy (how you will build customer loyalty)

The costs associated with each of these strategies, such as packaging, product sampling, signs, etc., will show up in your budget projections. Your placement and pricing strategies will also be reflected in your financial projections. The more background thinking that goes into your preparation of those numbers and the assumptions behind them, the clearer and more convincing you can be in making the case that your business plan is sound and worthy of support.

## CONCLUSION

Business and marketing plans are the basis of a well-run organic enterprise. The information in this chapter will help you build your business through developing sustainable relationships with customers who value what you offer them, in products and in service. The steps outlined here will guide you in harnessing the economic opportunities that spring from the distinctive aspects of your enterprises.

Value and values go hand in hand when it comes to marketing. Organic farming values the

land, the environment and the people. Your role is to extend the value to your past, current, and future customers while sustaining the viability of your business.

Following the planning steps outlined in this chapter should be helpful to you even if you never actually write down a plan. Each time you re-evaluate the details of your farm in a systematic way, you should gain insights and deeper understanding. This information helps you improve production and is the foundation for capturing the maximum benefit in the marketplace.

Combine what you learn internally with the best marketing matches on the outside—and expect things to change frequently. Get to know your customers and stay attuned to their changing interests. Along the way, keep an eye out for the competition. Learn from them and your business records to home in on your areas of advantage. Do the best planning and marketing you can, but be ready to ask for help when you need it.

The next chapter is about certification through an accredited certifying agency. Yes, it's the paperwork of organics, but there's a real payoff for the effort if it fits your situation. Even if you don't plan to pursue certification, read through the chapter to see what's involved.



Photo Credit: Jack Sherman

Rodale Institute's garden store

# RESOURCES

Resources are free online unless otherwise noted.

## BUSINESS MANAGEMENT

### [Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses](#)

Sustainable Agriculture Network, 2003  
A hands-on guide featuring worksheets to help you develop your farm business plan.  
\$17, 280 pp.

## MARKETING

### [Agricultural Marketing Resource Center](#)

(USDA Rural Development/Iowa State University, 2007)

### [Marketing Strategies for Farmers and Ranchers](#)

(Sustainable Agriculture Network, 2006) 20 pp.

### [The New Farmers' Market: Farm-Fresh Ideas for Producers, Managers and Communities](#)

(Sustainable Agriculture Network, 2001)  
\$24.95, 272 pp.

### [Selling to Restaurants](#)

Janet Bachman  
(ATTRA, 2004) 16 pp.

## ACCOUNTING AND RECORDKEEPING

### [University of Missouri Farm Accounting Resources](#)

(University of Missouri Extension)  
Includes the Missouri Farm Business & Tax Record Books and Quicken, Quick Books and PC Mars Farm Accounting Software.

### [Farm Files](#)

(2005, Level Five Solutions)  
An agricultural software package "designed by a farmer, for the farmer," that can help you manage crops, livestock, and accounting for your farm.