

Introduction



Getting Started with Direct Farm Marketing and Agri-Tourism

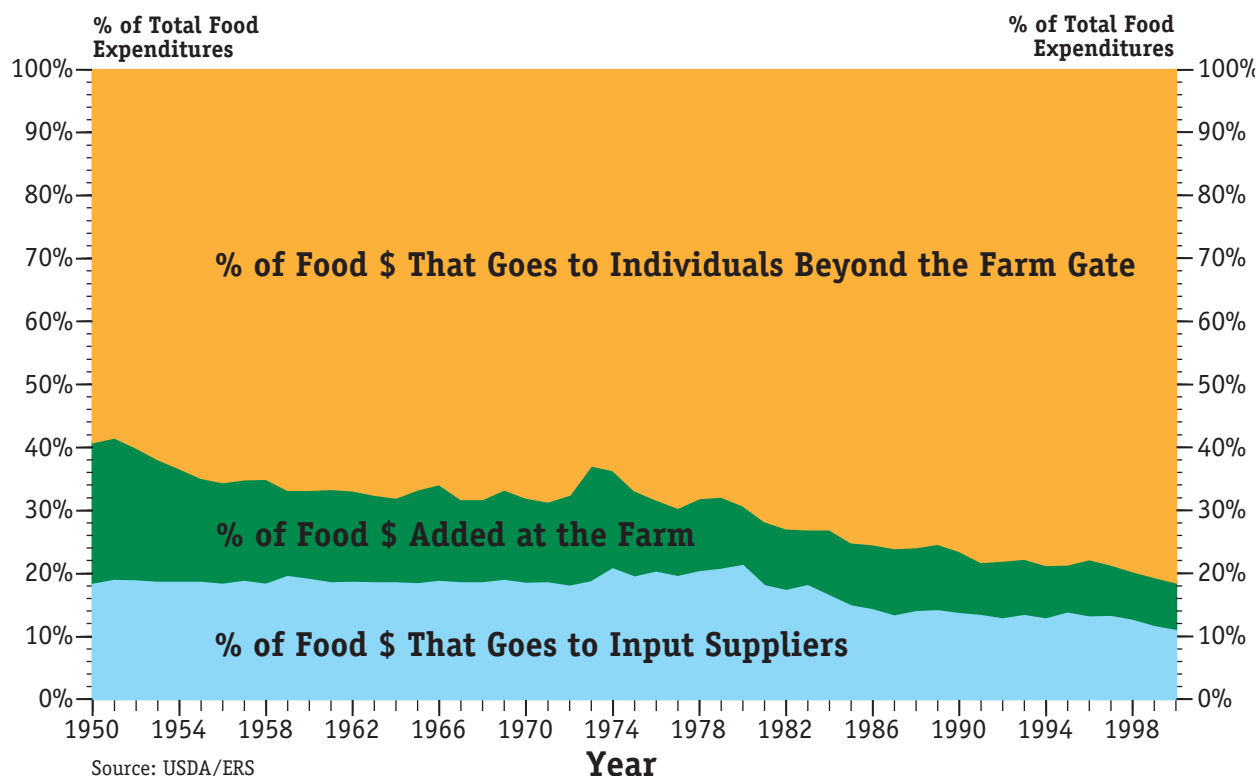
Rod Sharp and William Riggs

Direct farm marketing is the process of selling a product or service directly to the consumer. It allows the producer to capture a larger share of the consumer's dollar, reach new markets, and/or establish a unique identity. As described in the figure on page 2, the overall value added by farmers and ranchers of consumer food expenditures has fallen from 22.8 percent in 1950 to only 7.9 percent in 2000. The figure that follows on page 3 shows that total food expenditures in 2000 dollars have more than doubled from 1950 to 2000, increasing at about 1.4 percent annually. However, total farm value and value added by farmers has declined slightly over this period. This decline has occurred even though the quantity of raw commodities produced, such as corn, soybeans, and wheat, has increased by 259 percent, 822 percent, and 119 percent. Clearly, producing more output does not equate with higher profit margins or even higher gross sales. This publication is intended to help producers identify avenues for providing more value to consumers at the farm or ranch level.

But in order to use direct marketing or agri-tourism as a vehicle to increase profitability, a clear understanding is needed of production costs and of consumers' tastes and desires. This requires a different set of management and personality skills from what traditional commodity-focused operations have used and not all individuals are suited to make this transition. Direct farm marketing and agri-tourism enterprises require more people skills, management, investment, and time than traditional commodity-focused farms. Before starting a direct-marketing or agri-tourism venture, proper business research and planning must be made or else the venture will most likely fail. In addition to examining the economic viability of the business, an assessment must be made of management skills, personal qualities, family needs, and lifestyle preferences.

To be successful, the venture must have a targeted product mix and quality that is attractive to consumers, must show growth potential, and must generate a cash flow that is solvent for the short term and profitable to grow over time. The venture should also fit with any business and community goals established since local consumers are often the strongest supporters of direct-marketing and agri-tourism operations.

Percentage Composition of Food Expenditures, 1950–2000



Getting Started

Planning is an essential ingredient for any successful business. A detailed business plan should be written that demonstrates the products and services proposed can be sold at a profit over the long run and also meet short-term cash flow requirements.

The three primary reasons for writing business plans are to (1) aid in determining the feasibility of a business idea, (2) attract capital for start-up and operation, and (3) provide direction for future potential growth after it is in operation. A good plan gives the reader information on “the what, when, where, why, and how” the business will accomplish its objectives and who will be involved.

A plan’s contents will vary from business to business; however, its structure is fairly standardized. Your plan should contain as many of the following sections as appropriate for your type of venture.

1. Cover Page

Include names, titles, and contact information associated with the business.

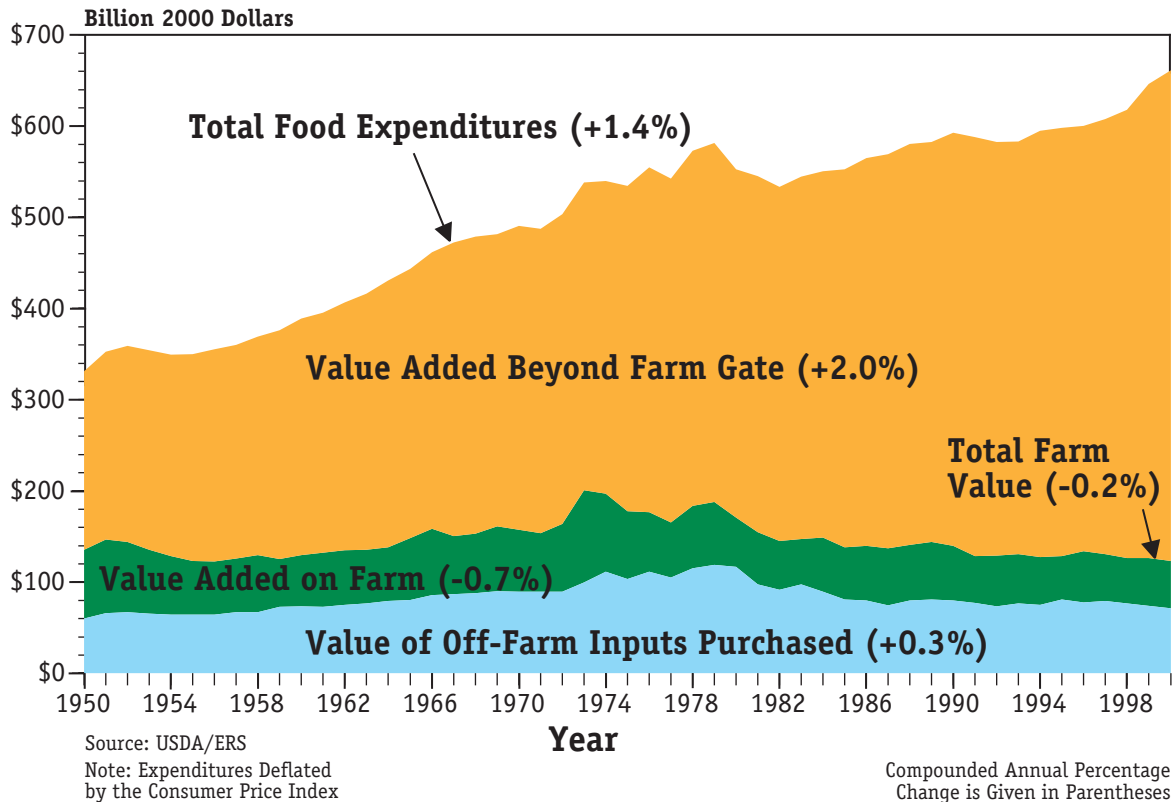
2. Table of Contents

An orderly table of contents will allow the reader to turn directly to the section desired.

3. Executive Summary

A one- to two-page overview of your business plan is likely the most important section since most financial lenders and potential business partners will not need to read beyond this summary if it is well written.

Components of Food Expenditures, 1950–2000



4. Company and Industry Background Information

Describe your company background, legal needs, personal skills, previous experience, financial resources, environment, and industry trends.

5. Description of Products or Services

Go into detail describing your products or services. Describe your competitive advantage and what sets your products or services apart as better than the competition's.

6. Marketing Plan

The marketing plan shows how you expect to reach your sales forecast. Include an overall market strategy, market objectives, pricing policy, promotion policy, and place and service policies.

7. Operations Plan

The operations plan will stress elements related to your business production. Include facilities, location, capital equipment, labor force, inventory, and purchasing.

8. Management Team

Describe the legal form of ownership and the people with their qualifications that will make the business run smoothly and successfully.

9. Timeline

Outline the interrelationship and timing of the major events planned for your venture.

10. Critical Risks and Assumptions

All business plans contain implicit assumptions. This section gives you a place to establish alternative plans in case the unexpected happens (unreliable sales forecasts, erratic supply of products or raw materials, etc.).

11. Community Impacts

Describe the potential benefits, networks, and alliances with the community.

12. Financial Plan

Your financial plan is where you demonstrate that all the information from previous sections can come together to form a viable, profitable business. Projections should be your best estimate of future operations. Your financial plan should include the following statements:

- Sources and uses of capital,
- Cash flow projections for three years,
- Balance sheets for three years,
- Income statements for three years, and
- Financial analysis (liquidity, solvency, financial efficiency, profitability, repayment capacity, and break-even analysis).

Where to Get Help

The business plan should be tailored to fit the direct-marketing project. Write the plan yourself, even if you seek assistance from professionals and other community members. Professional assistance (attorneys, accountants, financial consultants, etc.) should be used as needed.

There are several resources available to assist in writing a business plan. Listed below are just a few to get you started:

- Small Business Administration
1-800-827-5722
www.sba.gov
- Small Business Development Centers
www.sba.gov/sbdc/
- Chambers of Commerce
www.acce.org
- Colleges and Universities
- State Economic Development Agencies
- Libraries
- Business Information Centers (BICs)
www.sba.gov/BI/bics/index.html
- National Sustainable Agriculture Education Service
attra.ncat.org/

- *The Legal Guide for Direct Farm Marketing* by Neil Hamilton
www.statefoodpolicy.org/legal_guide.htm
- *Direct Farm Marketing and Tourism Handbook* (available for download)
ag.arizona.edu/arec/pubs/dmkt/dmkt.html

Keys to Success

The Southern Sustainable Agriculture Working Group and The National Center for Appropriate Technology interviewed successful farmers to determine what they learned in marketing directly to consumers. A few general practices emerged that could be considered as “Keys to Success.”¹

- ***Choose something you like (love) to do.***
Most people start value-added activities to make more money. Your sincere enthusiasm and belief in your product are part of what make you unique. Without doing something you love to do, it is difficult to find the energy and motivation to stick with it.
- ***Provide quality.***
Offer a high-quality product or service. High quality with some unique trait is an avenue that many direct marketers pursue to differentiate their product. Quality is made up of many dimensions (fresher, better tasting, healthier, more consistent, or cleaner product; thoughtful presentation or packaging/labeling, etc.). It may be tempting to use substandard inputs or service, but most direct marketers today find that a great experience or quality product is more important for attracting consumers than a low price. The consumer knows value and if you’re shooting for low quality and price, direct marketers can seldom compete with large wholesale and retail outlets.
- ***Start small and grow naturally.***
Starting small usually means investing less money and borrowing less. Starting small also means mistakes are less costly; remember, it is easier to manage a small operation.
- ***Keep good records (production, financial, regulatory).***
Trying to manage without good information is like trying to find an address without a map. Good information and records are necessary for knowing whether or not you are meeting your goals and for understanding reasons why your goals are or are not being met.
- ***Provide what the consumer/customer wants.***
There are two approaches to agricultural marketing: “push” and “pull.” The push approach implies producing a product and then pushing it onto consumers for the going market price—the traditional way of marketing many commodity crops. The pull strategy, however, is increasingly becoming the norm in today’s environment. Under this approach, specific products and desired product attributes are targeted using consumer preferences so that the seller is not entirely a price taker at the market place.
- ***Maintain a loyal (preferably local) customer base.***
An important way to capitalize on your uniqueness is through relationship marketing. You are unique and no one can do exactly what you can do. These personal relationships and the trust

¹ Born, Holly. *Keys to Success in Value-Added Agriculture*. Southern Sustainable Agriculture Working Group and the National Center for Appropriate Technology’s ATTRA Project. 2001.

they engender over time are effective marketing strategies. Local customers are generally the easiest to develop into a solid, loyal customer base.

- ***Provide more than just a product.***

Most successful value-added businesses provide more than just a product or service. They provide an experience that can be in the form of pleasant social interactions, a chance to experience the rural way of life, education, services, tours, etc.

- ***Involve others.***

Get the whole family, partners, and/or community involved. Take advantage of different skills and talents.

- ***Keep informed.***

You must keep informed on every aspect concerning your business, consumer wants, competition, finances, etc.

- ***Plan for the future.***

Fail to plan and you plan to fail. It's true. Planning is essential to success. In planning be realistic in terms of goals, pricing, costs, time commitments, etc. Be flexible and realize that the best-laid plans can go wrong and that things change.

- ***Evaluate continually.***

Things are always changing. You need to constantly monitor and evaluate what is going on in your business. It is impossible to know if you are reaching your goals without taking the time to evaluate.

- ***Persevere.***

You need a good deal of perseverance just to figure out how to produce the products, much less how to market them. Identifying your niche and building a customer base takes time.

- ***Secure adequate capitalization.***

A direct-marketing or agri-tourism business is likely to operate at a loss for at least the first year or more of operation. Make sure you have adequate liquid financial reserves to meet set-up costs and cash flow requirements. Many businesses fail because they did not secure enough capital to see their venture through to a positive cash flow.

Planning is important and the key to success for all types of business ventures, including direct marketing and agri-tourism. Before starting, be prepared. While much of the market risk of adverse price swings is removed with a direct-marketing enterprise, risks associated with production (quality and yield), events being rained out, greater labor skill requirements, and liability risks require that careful risk assessments are made before disaster strikes. Dr. Neil Hamilton's book of *The Legal Guide for Direct Farm Marketing* (Drake University Agricultural Law Center and USDA Sustainable Agriculture Research and Education [SARE]. 235 pp. June 1999) is a good resource for assessing the legal risks of a direct farm marketing or agri-tourism enterprise (www.statefoodpolicy.org/legal_guide.htm). Most ventures will fail without proper research and planning. Assess your management skills and personal qualities as well as your family needs and lifestyle preferences. With proper planning, you will position yourself to be successful.