

February 2007

In This Issue

- 5 A's of a Successful Start-up
- Organic vs. Sustainable
- Understanding Insurance



Value-Added & Alternative Agriculture Newsletter

Annette Dunlap, Editor

5 A's of a Successful Start-up

UPCOMING CONFERENCES

When: February 14, 2007

Where: Winston-Salem, NC

What: "Profitable Produce"

Topics: Safe Food-Handling; Buying Insurance; Liability Protection

Who should attend: Agents and growers with pick-your-own operations, berries, farmers' market stands

When: February 28, 2007

Where: Fayetteville, NC

What: "Bridging the Gap – Selling to Food Service and Retail"

Topics: How to Sell to Food Service and Retail, Farm-to-Schools Program, Conservation Programs, Legal and Insurance Issues, Safe Food-Handling, Experienced Growers who Market to Retailers

Who should attend: Growers and agents interested in year-round vegetable production to supply restaurants and food services

Here are the sobering statistics: 80% of all new business start-ups fail within five years. The two most typical reasons for failure are under-capitalization and poor management decisions. When it comes to farming, there's more than just a business involved. A person's property and home are also at risk. That's why it's all vital that farmers be a part of the 20% survival rate.

THE 5 A'S

Business success can be summed up as follows:

- Aptitude
- Attitude
- Access to resources
- Available capital
- Achievable goals

Aptitude

Farm employment is self-employment, and it takes a special set of characteristics to be successful. These skills and abilities include:

- Strong motivation
- High drive or energy
- Willingness to take appropriate risks
- Understanding of the business climate
- Comfortable with decision-making

The most helpful thing an agent can do is encourage clients to be honest in assessing how well their experiences indicate the presence of these characteristics.

Attitude

Entrepreneurs need a "can do" attitude, and that positivism frequently translates into a high energy level that leads to success. Entrepreneurship is not for the faint-hearted.

Access to Resources

Studies show that entrepreneurs who have ready access to needed management and labor resources, available water and land, and supplies and equipment have a much higher probability of success than do those who must struggle to find and organize their needed inputs. A resource inventory to assess what is needed for your clients is available. Contact annette_dunlap@ncsu.edu for a copy.

Available Capital

As mentioned earlier, lack of sufficient capital is one of the major reasons why small businesses fail. Encourage your clients to develop a budget and a cash flow statement so that they can visualize their capital requirements. Also, assist your clients in identifying sources of capital to finance their start-up costs and early-years expenses.

Achievable Goals

Realistic and achievable goals help entrepreneurs stay focused on their business plan. Goals should be clearly defined, with a specific timetable for accomplishment. Benchmarks need to be set to track progress and to identify potential trouble-spots before they become major problems.

Understanding Insurance

Insurance is a fact of business life, and its costs should be considered as a part of a farm's annual operating expenses. More importantly, producers need to understand the type of coverage they have, and make sure that all of their operations are appropriately insured.

A good starting point is to look at the type of operations from an insurer's standpoint. A farmer may consider his or her roadside stand as a part of regular farm business, but the insurer may view that stand as a separate commercial enterprise.

Another example is an agritourism activity, such as a hay ride or a corn maze. Again, farmers may consider that visitors to the farm are covered under a general farm liability policy, but an insurer would consider the activities as either special events or a separate business.

Encourage clients to conduct an annual policy review with their insurance agents. Stress the value to producers of identifying every activity, where it is conducted and how much money is earned. A roadside stand at the front of the farm may be covered under a farm liability policy if total sales at the stand fall below a threshold amount. On the other hand, roadside stands that earn a significant share of income for the farm may be classified as a separate business enterprise for insurance purposes.

One national farm insurance expert urges producers to read their policies carefully, starting with the section headed "Exclusions." This section clearly details what a policy will not cover. It is an excellent starting point from which to identify what a farmer's true insurance needs are, and what it will cost to be protected from loss.

Sustainable vs. Organic

An increasing number of growers are expressing an interest in organic production. Data on costs and profitability are still incomplete, although some general trends indicate that organic production is more expensive than traditional production. Additionally, in NC, surveys show that while growers may be able to obtain up to a 25% price premium on sales, this gain is often offset by higher labor costs and lower yields.

Locally-raised, "sustainable" crops appear to be a suitable substitute for certified organic among certain customer groups. This is particularly true in the light of the E. coli outbreak in organically-grown spinach that occurred last summer. Sustainable practices can offer a lower-cost alternative to organic, while still commanding a price premium.

However, if you still have a grower who is committed to organic production, here are some things to consider:

Understand certification

Organic is now a legal designation, with standards set by the federal government. (See <http://www.ams.usda.gov/NOP/NOP/NOPhome.html>)

The three-year certification process includes establishment of buffer areas to prevent organic crops from being contaminated by non-organic materials or conventional crops.

In order to become a certified organic operation, the USDA web site reports, "a producer must submit an Organic System Plan to a USDA-accredited certifying agent for approval." Each state maintains a list of certifying agents.

Certification can be expensive, depending on the size of the operation. Fees vary by the certifier. A survey of three certifiers in NC found that one

firm charged a \$75 first-time application fee, \$175 for 0-100 acres and an assessment based on gross sales, due twice a year. (See <http://www.ces.ncsu.edu/chatham/ag/SustAg/orgcertcomparison.html>)

Expect reduced income

As farms transition from traditional to organic production, it is typical for them to experience a reduction in revenue during the three year change-over period.

Input costs generally decline during the transition, particularly with regard to pesticides, but most farmers experience an increase in labor costs that often offsets the savings in inputs.

The Center for Environmental Farming Systems has been taking the lead nationwide in looking at ways to help farmers maintain farm income as they transition from traditional to organic methods. (See <http://www.cefs.ncsu.edu>)

Know how to market

To date, direct-to-consumer markets, such as farmers' markets, have proven to be the most effective marketing method for organic growers to sell their produce. Other options are to contract with restaurants or to establish growers' alliances that share marketing strategies and expenses.

Manage time

The extensive record-keeping required of certified organic operations places greater time demands on producers. Producers must keep accurate post-certification records on the production, harvesting and handling of agricultural products sold as organic.

For a good summary of the challenges facing organic growers, see <http://www.sare.org/publications/organic/organic09.htm>.