

discretionary spending to some extent, the destination farm also offers a relatively local, relatively inexpensive daytrip. The key is letting people know where you are and what you have to offer as a fun-filled getaway.

## Market Development

Located in Bunn, North Carolina, Vollmer Farms is situated along Highway 98 between Rocky Mount and Raleigh. Prior to the completion of the US 64 Bypass, Highway 98 was the main thoroughfare used to bypass Raleigh. Though traffic has decreased, many area residents are familiar with Highway 98 and the general location of the farm.

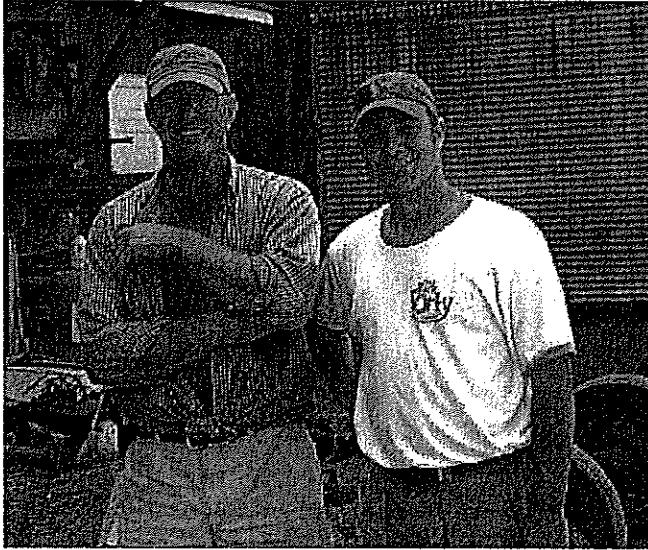
Generally speaking, Russ believes, "Location is important, but we've discovered you don't have to be close to a city. If you have a business that is attractive, people will find you." While Raleigh's growth and subsequent sprawl is helping business, a one-hour drive is not considered unreasonable by most of their customers. It simply takes time to build a name.

Though they are able to draw customers from a larger area now, their first customers were primarily locals who were interested in fresh produce. Signage and an appealing roadside display of fall products including colorful chrysanthemums and pumpkins of all sizes provided the curb appeal that made folks want to stop.

They have utilized radio and newspaper advertisements in the past but have redirected their advertising dollars to the development of a website, [www.vollmerfarm.com](http://www.vollmerfarm.com). The radio and print ads were expensive, and it was difficult to gauge their effectiveness. In an effort to extend business beyond the local population, the Internet provides an outlet that has the potential to attract folks from all over with disposable income. These people have been identified as web surfers. The website offers more opportunity to immediately engage perspective customers with photos and descriptions of on-farm activities. It also provides a more efficient means of scheduling since the school tours can be booked on-line with a phone follow-up.

The Vollmers have developed a mailing list that now includes 5,000 to 7,000 names. For years they sent a four-color, three-page newsletter in the spring and fall highlighting the upcoming farm attractions, opening dates, strawberry stand locations, and even a bit of family news to add a certain friendly touch. The printing and postage cost were getting out of hand considering the size of the mailing list so they sent postcards for the first time in Fall 2006. Another measure that allows contact with customers, but requires minimum cost, is the development of an e-mail list. Mary sends e-mail notices when the farm opens for the different seasons and when various crops are ready. E-mail is essentially free, but customers changing e-mail addresses causes some hassle and lost communication.

They have collected some market data over the years as they generated the mailing list. Not only do they learn where visitors are coming from, they inquire as to how they heard about the farm.



They utilize the satellite strawberry stands in the spring to promote the fall farm activities with a flyer advertising the Bunn farm location and its destination features.

## Capitalization

The Vollmers had a business plan including planned growth of the venture when they went to the bank for a loan. They used land as collateral against a five-year capital loan primarily that they used to purchase the hayride wagons, the concession stand, and the

playground equipment.

The Vollmers were comfortable going to their local bank where the lending officer knew them and their financial situation. At the time Vollmer Farm was developing the agritourism business, they had no alternative funding sources. Though he hasn't personally looked into it, Russ believes there may be more opportunity now for grants or non-traditional loans.

Education and experience were not specific factors of interest to the financiers. Russ says, "Their main concern was our ability to pay back the loan." He explains, "Farmer's often take out operating loans that are paid back within a year, so the business plan was particularly helpful in educating the bank about this new venture and the type of return we would expect over time."

Since the agritourism concept is still new as a business venture, bankers need to be educated. Though the Vollmer's were dealing with lifelong associates, Russ advises, "Farmer's should be prepared to be turned down." As the industry grows, allied industries such as lenders, insurers, and regulatory agencies will more fully understand the concept and how their institutions must adapt to some unique qualities of agritourism.

While the Vollmer's would like to add a new concession facility, they do not want to over-extend their loan and will look to grow the business in other ways to cover the cost of future expansion.

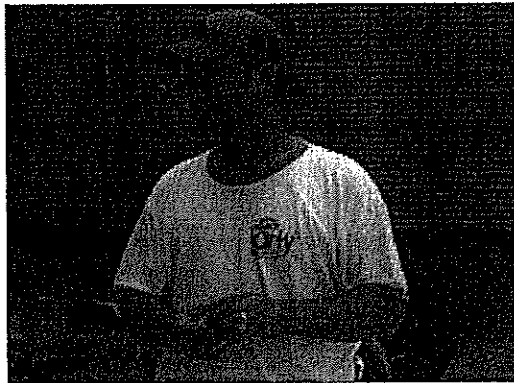
Betty was the first bookkeeper preferring to manage the receipts and disbursements by-hand in ledgers. They have since hired a seasonal bookkeeper who uses Quickbooks on the computer. Russ say, "You should do whatever it is that you do well, and if bookkeeping isn't one of those things, invest in someone else to do it."

## Regulations

One of the first regulations to consider in exploring the idea of developing a destination farm is local zoning. If the location needs to be rezoned for a retail market, the approval of rezoning should be one of the first steps prior to making further investment.

Russ notes that only in the last five years have farmers involved in agritourism become a subject of interest to state regulatory agencies. Their initial experience with the Department of Labor was not a pleasant one. An inspector visited the farm, unannounced, to inspect the playground and underground slide. In hindsight, Russ advises people to look into the regulations prior to building or setting up an activity. They did not and as a result had to redesign or remove some activities to come into compliance with the Department of Labor regulations.

Almost all the activities on Vollmer Farm were inspired by activities they saw on other farms including the 40-foot underground slide. The underground slide was constructed from two, twenty-foot lengths of large pipe, buried just beneath the slope of a naturally occurring hill on the farm. Kids and adults can slide down the tube sitting on a burlap sack. The Department of Labor



deemed the underground slide an “amusement ride,” which must adhere to stricter regulations. Given the popularity of the slide, the Vollmers were not willing to close the slide without appealing the regulations. They hired a licensed engineer to verify the safety of the slide and agreed to station an adult (over age 18) at the top of the slide.

Liability is a growing issue for agritourism and finding affordable liability insurance is a challenge. Complying with governmental regulations is one way to demonstrate your attention to safety to insurers who are not familiar with the concept of inviting thousands of children and adults to a working farm. The Vollmer family decided to limit their personal liability by changing the farms business structure to a Limited Liability Corporation (LLC).

By offering concessions, the Health Department was also interested in inspecting the food preparation and service area. As the Vollmers work on plans for a new concession stand, the regulations of the Health Department will be considered before hand.

Though they had no individuals to consult when they started the business, the Agritourism Office at the NCDA&CS is now an umbrella agency that can assist farmers and work with other regulatory agencies to meet the special needs of agritourism operations. All the regulations are available online through the various departments, so it is the farmer’s responsibility to be aware

of the regulations. Russ warns, "If you choose not to follow the guidelines, you should be prepared to spend the money to make changes later when an inspector expects you to be compliant."

## **Future Plans**

The Vollmer family is continually looking for ways to be different and add new features even though they are an established business. They feel the need to offer their returning customers a fresh look or a new opportunity. Russ believes that the agritourism market will eventually move toward saturation and differentiating factors will set one farm apart from another.

The latest addition to their agritourism business is offering the farm as a site for company picnics or corporate events. They will keep looking for growth opportunities that will allow them to share their farm and the farm-life experience with a burgeoning urban and suburban population.



# Case Study 6.

## Waterpenny Farm

### Sperryville, Virginia



The name Waterpenny Farm was inspired by small beetle larvae, known as water pennies, which were found in the stream on the farm. Eric Plaskin and Rachel Bynum were thrilled to find water pennies. Water pennies are sensitive to water pollution and only found in high-quality freshwater streams. The name of the farm and the environmental purity it represents accurately portrays Eric and Rachel's commitment to organic farming as a part of their broader belief in environmental activism.

Located 70 miles outside Washington, DC, in Sperryville, Virginia, Waterpenny Farm provides fresh produce to the local, rural population as well as the metropolitan DC area. They grow 10 acres of vegetables and flowers on a 30-acre farm. The farm includes a 1,800 square-foot greenhouse and an unheated hoophouse which are used to grow field transplants and potted plants that are sold at the farmer's markets.

Tomatoes and summer squash are their biggest crops, but they also grow lettuce, broccoli, beans, melons, potatoes, eggplant, peppers, cucumbers, garlic, onions, and herbs. They spend a significant amount of time selecting specific varieties, favoring home-garden, open-pollinated varieties for the best flavor. They grow nearly 200 different vegetable varieties and 50 different flowers and herbs.

There are five employees on Waterpenny Farm who assist the production, harvest, and distribution. All their produce is sold through direct market channels including three farmer's markets, a Community Supported Agriculture (CSA) program, and some on-farm sales.

Eric and Rachel are glad to share their experiences establishing a farm and how the farm is intimately tied to their commitment to a lifestyle where they can spend their days doing work they enjoy, producing tangible results, and making a difference in America's food production—both in how it's produced and consumed and in how people think about where their food comes from and what it means to be a consumer.

## The Idea

Eric and Rachel's venture into an agrarian lifestyle began in college where they met. Rachel was pursuing a degree in environmental sciences and Eric was studying Eastern religions. They were both involved in various student-run environmental organizations and helped start a one-acre organic vegetable garden on the campus of Carleton College in Minnesota.

Not only did they enjoy the work involved in producing food crops, they saw their organic methods, in a larger environmental context, as a solution to many of the problems with conventional food production. After graduating, they found work on Wheatland Vegetable Farm in Purcellville, Virginia. Under the guidance of Chip and Susan Planck at Wheatland, Eric and Rachel gained a deeper understanding of daily production farm work. In addition, they were excited about being part of the farm's greater business model. After four years under the Plancks' tutelage, Eric and Rachel decided they wanted to start their own farm and support themselves by harvesting and selling the fruits of their labor.



Plancks' familiarity with the DC market reassured Eric and Rachel that the metropolitan area would have sufficient demand for organic produce to support another farm; however finding affordable land in proximity to that market proved to be a challenge. Through the Plancks they met Cliff Miller, who would eventually become their landlord. Eric and Rachel entered into a 40-year lease on 30 acres of his 800-acre property. Through this slightly unconventional compromise, they were able to start farming on their own in late 1999.

The Plancks were Eric and Rachel's primary resource in terms of growing practices, marketing methods, and labor sources. While they have developed some differences over the past few years, they still largely emulate Wheatland, albeit on a smaller scale. They also visit other farmers and attended sustainable farming conferences in the winter to learn more about how others are farming.

## Market Development

Waterpenny Farm markets their produce through three farmers' markets and CSA memberships. The Takoma Park Farmers' Market in Maryland is a good market with limited space. Considering that the market has steadily been the source of 40 percent of their income, Eric and Rachel feel fortunate to have secured a spot there. They also attend markets in Charlottesville and Warrenton, Virginia. The market season lasts from mid-April through November.



The young farmers initially thought that they would start with a small CSA and gradually make it bigger to eliminate going to the farmer's markets; however, the combination of the two seems to work well. With busy markets on Saturday and Sunday, the CSA provides a reliable outlet for produce during the week.

To start marketing the availability of CSA shares, Eric listed the farm on a website as a CSA supplier. By coincidence, the USDA held a meeting about CSA for their

employees that same year. Rachel attended the meeting with brochures and lettuce seedlings. With two groups of 15 interested in joining the CSA and an additional 20-share commitments to the Capital Area Food Bank to supply fresh produce to low-income families, Waterpenny's CSA program got off to a great start.

Considering the few number of farms in the DC area relative to the area population, they have found that they rarely have to look for customers—their customers generally find them. The *Washington Post* has done several small articles about CSAs that sometimes includes a listing of local farms. Interest will peak after mention in a widely read publication.

All new inquiries are sent a brochure, which includes a registration form that can be returned if they are interested in participating. The CSA sign-up opens on March 1 and usually fills within six weeks. About 75 percent of the CSA participants return year after year, so available shares are limited and easy to fill, and some potential participants are turned away. The CSA customers also receive a biweekly newsletter with recipes, farm notes, shareholder contributions, and pictures from the farm. Eric and Rachel also host two shareholder events at the farm each year.

More than 100 boxes are delivered to two sites on Wednesdays and 60 boxes are picked up at the farm on Thursdays. The CSA runs for 21 weeks from early June to late October. They charge a \$50 delivery fee that covers the cost of the van and Rachel's time spent delivering.

Until recently, they were able to unload boxes at the loading dock of an office building in Arlington where 10 shareholders worked. It was convenient to 70 additional shareholders who lived or worked in that area. Since the business relocated, they are trying to settle on a new spot that is 1. sheltered or air-conditioned,





2. has good parking, 3. is open late into the evening for after-work pick-up, and 4. has space for 80 boxes of produce. Suggested locations have included an individual's home, a church, or another business.

## Capitalization

Given their farm experience and research into the start-up costs, Eric and Rachel estimated they would need \$45,000 for supplies, equipment, and labor to get started. They exceeded their first year cost estimate by \$15,000. They used their savings of \$45,000 and borrowed \$5,000 from three different family members rather than approaching a bank for a loan.

They were skeptical of a bank's willingness to lend them money for starting a farm, especially given their exhausted savings, but they knew that their family believed in their dream and their ability to build a successful business. The family members wanted to help Eric and Rachel realize their dreams and lent them the money with few questions and no interest. Within three years, the loans were fully repaid.

One of the benefits of the CSA is collecting payment for the season's produce before the season begins. This method provides operating capital early in the season, supplemented by their savings as necessary. They have found that it is usually around July 1 when they breakeven.

## Regulations

Eric and Rachel have encountered few regulations. They recall meeting early on with the Virginia Department of Environmental Quality and a Soil and Water Conservation technician to discuss their irrigation plans. They learned about general business regulations such as employment taxes and sales tax from Susan Planck. Additionally, while most farmers' markets have a list of regulations, they are generally straightforward and easy to comply with. The only time they have employed legal council was for assistance with the long-term lease.



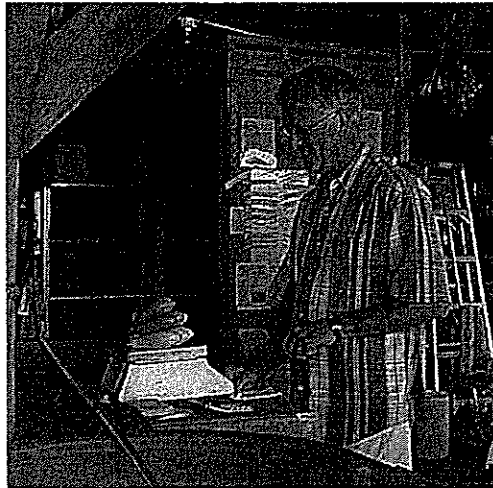
## Future Plans

Eric and Rachel's goal is to be big enough to support their family without off-farm income, but no bigger than is necessary to meet their needs. As they continue to gain experience and fine-tune their production and market potential, they are becoming more efficient—producing more food on the same land in less time and selling more at higher prices.

Quality of life, rather than profit potential drives their business philosophy. By achieving their target income (the median income for married couples, currently \$65,000), they can focus on further enhancing efficiencies. They hope to maintain their income level, while working fewer

hours, making more per hour and ultimately having more time to invest in family life and other personal interests.

Education is another key element in their business philosophy. Rachel is an environmental educator by training, and they enjoy teaching their community and budding farmers (through an internship program) about organic production. They are committed to encouraging folks to eat local food, support local farms, grow their own food, or even become farmers. In all that they teach, they strive to impart a respect for the environment and the sustainable practices that guide their farm-life.





# Case Study 7

## The Angels Nest Farm and Bakery

### Oxford, North Carolina



At the age of 55, most folks are starting to slow down and consider how they will pass their days in retirement. Not so for Doreathy Booth. At 55, she seized the opportunity to make a long held dream come true. She moved from California to North Carolina (where land was more affordable) and in short time, she had found a farm in Granville County that suited her liking. Though she continues to develop the farm aspect of Angels Nest Farm and Bakery, primarily with fruit crops, her business venture of interest to this case study is the bakery.

Her signature product is the empanada, a baked good similar to a turnover. Empanadas are commonly found in Argentina and Brazil and can be stuffed with a sweet or savory filling. She makes 15 different kinds of empanadas including savory choices such as artichoke and spinach, 5-cheese pizza, and sweet potato and black bean. A sampling of the sweet empanadas include Bavarian cream, peach pecan, and chocolate.

She offers personal size pies that are suitable for one or two people. Customers have seven pies to choose from including fruit, nut, and cream concoctions. Another sweet treat might be the Norwegian breakfast scones or cookies. Doreathy doesn't just bake bread; she offers breakfast breads, everyday specialty breads, and cream cheese braids.

All her products are fresh baked for the Saturday Farmers' Market. She starts at 2:00 a.m. Friday morning baking cookies and starting the empanadas. She goes to bed at 8:00 p.m. and rises again at 2:00 Saturday morning to bake the empanadas, scones, and pies. She leaves for the market, which is located 50 miles away, by 6:00 a.m. to be set-up by 7:30.

### The Idea

Doreathy was born and raised on a dairy farm in Minnesota. She and her mother would go door-to-door selling eggs and chickens. She fondly recalls earning \$0.10 per dozen eggs and purchasing a winter coat with her accumulated egg money. Her mother and grandmother taught her how to bake cakes and Norwegian cookies. They used real butter and cream cheese—ingredients she remains committed to even today.

The biggest factor that initially drove the business idea was a need for income that would allow her to continue working on the farm. She remodeled the detached 2-car garage into a commercial kitchen with two ovens, five freezers, a sheeter, a proofer and a mixer suitable for baking large quantities. In addition to the financial burden of such an investment, she faced other social obstacles in starting a small business—she was a woman who was not afraid to speak her mind; she was a foreigner in the area; and she was older than the average entrepreneur.

In addition to professional equipment, Doreathy invested in additional education. She attended two one-week sessions at the King Arthur Baking Education Center in Norwich, Vermont. By educating herself, Doreathy feels that she can better educate her customers. It's allowed her to become more familiar with less popular, perhaps under-appreciated, baked goods that she can introduce at the market to further set her apart from the competition.

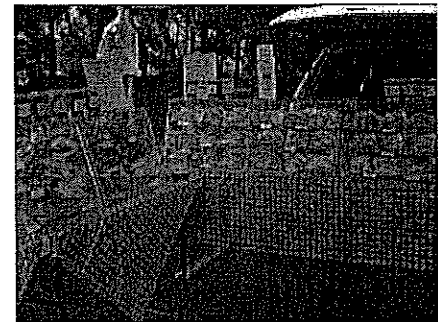
Doreathy recalls spending several years, off and on, considering the business idea. Carl Cantaluppi, Granville County Extension Agent, is one individual she credits with helping her develop the business idea. She also did research on the Internet and read a book on small businesses given to her by a friend who works for the U.S. Justice Department. Despite her research, she reflects that it was an inward desire and commitment that moved the business idea from concept to reality. She believed that she had a product that was different and better than what was available on the market and people would be willing to pay a premium price for what she had to offer.

## Market Development

She first set out to sell her baked goods at the local farmer's market in Oxford. In such a small community, she was an outsider with unfamiliar treats. Locals did not appreciate the value of from-scratch baked goods made with premium ingredients—at least they weren't willing to pay for it. Her baked goods were different from the traditional Southern fare, and the rural community simply didn't embrace what she had to offer. Ironically, Doreathy considers her departure from "the norm" a key to her success in the more culturally diverse Durham market.

A friend suggested that she might have more luck with her gourmet breads and sweets at the Duke Hospital Farmers' Market. In addition to drawing customers with a more diverse palate, the Market didn't have a baker so there was more potential for success. She has been participating in the Duke Hospital Farmers' Market for four years, and she has also participated in the Durham Farmers' Market for the past two years. Next year, however, she plans to only sell at the Durham Farmers' Market.

The Durham Farmers' Market typically runs from April 1 to the Saturday before Thanksgiving. Unlike farmers who have little to offer through the winter, Doreathy saw no reason to stop baking (and selling) through the winter. The Market declined sponsorship of an "off-season" Market, but Doreathy was confident that it could work . . . and be profitable. She secured a location at a school near the Market and coordinated other vendors who had goods to sell. They decided to scale back some with the market open for 4 weekends in December, and



only the first and third weekends of January, February, and March. Following last years successful “off-season,” the Durham Farmers’ Market agreed to sponsor the limited winter schedule this coming year. In addition to the Durham Farmers’ Market, Doreathy’s baked goods are also available at The Broad Street Café and A Southern Season located in Chapel Hill. Both businesses had heard about the quality of her baked goods, tried them, and then approached Doreathy specifically to resell her products to their customers.

Doreathy sends a weekly e-mail to 150 customers alerting them to what she plans on making each week. Customers can then place pre-orders through her website ([www.bakery1.com](http://www.bakery1.com)) designed by friend and personal IT advisor, Steven Natelborg. While the website is designed for to allow for shipping, accepting credit card, and other electronic payments (e.g., PayPal), Doreathy does not yet want these features enabled. As a result, orders can now only be picked up at the Market.

She firmly believes that personal contact is the most important aspect of marketing. She makes an effort to learn her customers’ names and greet them with enthusiasm each week. “I treat them all like it’s their first time,” she says. She enjoys educating her customers as well, and they appreciate the level of knowledge she has to offer. Doreathy realizes that baking today is an art often relegated to bread machines and cake mixes. In the future she hopes to invite loyal customers to the farm for a hands-on lesson or at least an opportunity to observe the process of baking . . . from scratch.

When she wants to try a new recipe, she will introduce it at two markets. If it sells out, she’ll make more. If it doesn’t sell, she understands that folks aren’t interested and there’s no need to make it unless she personally enjoys eating it. Doreathy has been known to employ the marketing strategy of creating demand through only offering a limited supply. For example, as Halloween approached, she made pumpkin empanadas, but she only made 12. She sold out quickly, and folks who missed getting one were encouraged to be there earlier next week, or place a pre-order.



Doreathy also recognizes the importance of booth presentation. She visits stand-alone retail establishments for her inspiration. She reasons, “If folks are familiar and comfortable buying baked goods out of a display case, why should I have to convince them to buy off a table.” She invested in multi-shelf display cases that sit on tables that adjust to various heights. She has found that displaying her products at eye level has made a tremendous difference. She makes sure her booth is neat and clean with plenty of quality, colored signs. She decorates for the holidays and completely changes the booth around at least three times a year. This retail trick often leads to customers finding, and often buying, something they never noticed before.

## Capitalization

Outfitting the kitchen was a major investment, but worthwhile for efficiency and consistent quality. For example, the labor-saving sheeter produces 300 crusts in two hours. The proofer ensures that temperature and moisture levels are maintained as called for by the various recipes. Doreathy used her personal credit cards to purchase the equipment. She never considered going to a bank, believing that age and gender would be prohibitive factors for obtaining a traditional loan.

A friend assisted her in writing a business plan. However, she likes to remember that it's a flexible plan. She says, "If you don't have a lot of guts, you shouldn't sell at the Farmers' Market." Just like farming, bad weather affects profit potential—people don't come out when it's rainy or cold. One unplanned turn of events generated a positive financial situation. When she purchased the farm 15 years ago, she bought 26 acres. In 2005, she sold nine acres of the property and was able to pay off the farm.

Carl Cantaluppi and Theresa Nartea, marketing specialist at N.C. A&T, helped Doreathy find grant funding. Carl had secured a grant to test 26 varieties of table grapes. Doreathy was interested in the project but didn't have the money for fence posts and trellising. Theresa was able to assist her with the grant to fund the trellises, and Doreathy planted the 662 vines.

Though Doreathy began keeping her records on the computer, she failed to make a back-up and lost her records when the computer crashed. Though she now knows how to back-up files, she prefers to keep records on paper.

## Regulations

Doreathy anticipated the need to comply with food preparation regulations including regular inspections. The North Carolina Department of Agriculture and Consumer Services inspects the kitchen. They prefer a facility separate from the home's kitchen, so the remodeled garage suits well. In addition, her water is tested annually by the Health Department.

Her baked goods are wrapped in food grade cellophane and an ingredient label is adhered to each product. She posts a sign at her booth stating that nuts are used in the kitchen, to inform customers with nut allergies. Though most of her products do not contain nuts, the risk of residue or cross contamination is possible. Though she has attempted to cover any liability for allergy issues, there are other risks associated with selling food products. As a result, for financial protection, she carries a \$1 million insurance policy on her products. The annual premium of \$371 may seem like a lot, but she looks at it as if that \$371 were divided among every loaf, cookie, and empanada she sells.

Her advice to those intimidated by regulations is to get informed. All the regulations are posted online and she's found that her Cooperative Extension Agents are great resources for areas that need clarification.

## Future Plans

Doreathy is now 70 years old and she figures that she only has 15 years left to work. In those 15 years, she has lots of plans. Her latest product innovation is the "Cup O Cookies™." She fills a 16-ounce clear cup with her gourmet cookies and puts a lid on the cup. She envisions her product and its ingenious packaging available in coffee shops where patrons could buy a Cup O Cookies™ to go with their cup o' coffee. She currently sells the Cup O Cookies™ at the Farmers' Market.

With help from the Extension office, she is applying for another grant. She hopes to purchase a dehydrator (which costs about \$12,000) to dry the table grapes and make raisins. Given that she has 26 different grape varieties, she sees the potential for a new product—Rainbow Raisins. The concept will be marketed toward kids as a fun, healthy snack. The grapes are different sizes colors and, obviously, have different tastes, so one might expect the raisins to be equally diverse. She's so confident in the product's success that she's already created a logo.

She also sees an opportunity to give back to the community by sharing the dehydrator with area farmers who always have excess produce that goes to waste. The farmers could dehydrate tomatoes, peppers, berries, apples, etc.

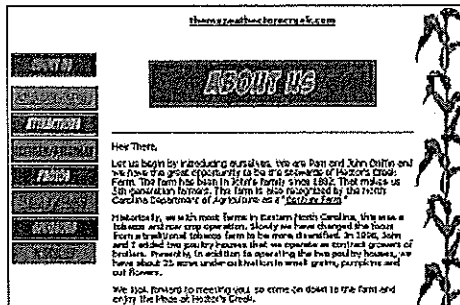
Even if the dehydrator never becomes a reality, she has plans to expand the table grape business by offering grape pies, jams, and jellies.

Doreathy recognizes the website holds a lot of potential for launching her bakery beyond the Farmers' Market. She's currently weighing the advantages and disadvantages (primarily in terms of labor and logistics) of staying small versus going "world wide." Whichever she decides, it seems a sure bet that her business will keep growing.





# Feasibility Case Study 1. Hector's Creek Farm Fuquay-Varina, North Carolina



## Executive summary

Pam and John Griffin wanted to generate additional revenue on their family farm, Hector's Creek Farm, to allow Pam to stay at home with their daughter Campbell. The elimination of the tobacco program prompted the Griffin's to explore ways to expand their farming operation to generate additional revenue and decided on agritourism. In addition, the Griffin's realized that no other corn maze was in their part of southern Wake County. After all their research, they thought a maze in the area could be profitable.

The Griffins developed a number of strategic alliances that strengthened their business. In addition to the North Carolina Cooperative Extension, Precision Mazes, and a professional business consultant, the Griffins developed relationships with CAT Tractor Company, MBV Motorsports, NASCAR, and Cape Fear Farm Credit.

The Griffins realized that they needed to explore how government regulation would impact their business, from start-up to operation. The Griffins understand that identifying and adhering to pertinent regulations eliminates misunderstandings and business interruptions due to unexpected regulatory requirements. After exploring these regulations, they determined that they were in compliance and ready for business.

The Griffins were starting a business where they had little experience. They had experience running a poultry farm but neither had any experience in the entertainment industry. They realized that they needed help and sought professional assistance. The first problems they encountered was their lack of experience in growing corn. Seeking out professionals allowed the Griffins to start their business and reduce their risk of failing.

Griffins developed a product to meet the specific needs of a newly targeted market: elementary school children. Griffins understand that to be eligible to participate in elementary school tours, they must develop a curriculum to meet specific state educational objectives. The market area, a

50-mile radius around Hector's Creek Farm, has an estimated population of 2.18 million people. The population is anticipated to grow 9% from 2005 to 2010. Their market area has an estimated 496,926 children under 18 years of age.

The Griffins could charge separate prices for each of the individual attractions or charge a general admission price for all guests. They calculated these prices by considering all possible costs attributed to the attractions and the entire farm tourism operations. Each attraction is charged a share of the total general expenses. They derive the share of each attraction by first combining the costs of all attractions and determining the percent share of each attraction's costs to the combined attraction costs. Based on the total cost, start-up and general costs, they are able to determine the break-even number of visitors and prices. If Hector's Creek Farm attracted 500 visitors, Griffins would have to charge each visitor \$70.05 for the operation to break-even. If Hector's Creek Farm's attracts 5,000 visitors, the charge would be \$7.00 to break-even.

## Farm and enterprise history

In 1882, William Griffin purchased 46 acres of land in northwest Harnett County, North Carolina, which is still farmed today, five generations later. The farm originally produced tobacco, corn, and a few hogs. In 1998, the farm was purchased by John and Pam Griffin who named the farm Hector's Creek Farm after the nearby township and proceeded to add two poultry houses. In addition, they farm 25 acres of wheat, oats, and tobacco. Since its inception, the farm has tripled in size and now totals 150 acres.

In 1992, Pam and John were contemplating two very important decisions. The first was to adopt a daughter, Campbell Griffin, named after the college where they met. The second was to be able to raise Campbell on the farm. Once the tobacco program ended, they decided they needed to expand their operation to survive. Pam came across an agritourism operation and began to investigate the possibility of starting a similar operation.

## Business idea development

### *Taking the plunge*

The owners of Hector's Creek Farm realized no corn maze was in their part of southern Wake County. After all their research, they thought a maze in the area could be profitable. However, they learned that a farmer in Fuquay was also interested in building a corn maze. They also found out that someone already in the agritourism business thought Fuquay would be a good place for a corn maze. The Griffins knew that if they were going to be successful, they had to be the first to get the business in their



area. After three years of planning and research, the Hector's Creek Farm corn maze was opened in 2005. *Importantly*, prior to opening their doors, the Griffins had a plan.

### *Strategic alliances*

Griffins have developed a number of strategic alliances that have strengthened the business. In addition to North Carolina Cooperative Extension, Precision Mazes, and a professional business consultant, the Griffins developed relationships with CAT Tractor Company, MBV Motorsports, NASCAR, and Cape Fear Farm Credit.

CAT provided the Griffins with a range of equipment needed to prepare, maintain and run their operation. CAT provided lights so that the maze could be open at night. They provided tractors that were used for the hay rides. The only caveat was that the Griffins park the tractors near the entrance to their farm when they were not being used.

Pam developed a relationship with MBV Motorsports and obtained permission to use the Number 10 Vavoline car in the maze as well as their NASCAR logo.

NASCAR did not provide any monetary support but allowed Hector's Creek Farm to use the NASCAR logo and images.

Cape Fear Farm Credit was very interested in the Hector's Creek Farm business plan and was supportive from the inception. The Griffins had developed a business relationship with Cape Fear Farm Credit from previous farm business activity.

### *Situational analysis*

The situational analysis can be thought of as a comprehensive investigation into the business environment in which a company will be operating. The situational analysis can be separated into two different elements.

*Industry Overview*—This element primarily focuses on industry trends and should provide a general review of the industry. Stagnant or declining commodity prices have forced many farmers to look for alternative means of generating on-farm revenue to maintain their farming lifestyle. This need combined with people taking more and shorter trips, traveling more frequently by car, looking for new, diverse, and relaxing experiences, traveling as a family, and looking to “get back to their roots” has led to growth in the agritourism industry.

A significant factor is families looking for ways to spend quality time together and share an experience as a family. Other forms of entertainment may not provide an positive environment for family interaction. If a family goes to the movies, they sit in the dark, watching a movie, and do not have any interaction or communication. Silence is not the case when a family spends time together at an agritourism operation. In addition, most people are now three-generations removed from the farm and are looking for ways to regain that experience. They remember going to their

grandparent's or uncle's farm and good times they had. They would like to impart this experience to their children.

These factors have increased the popularity of agritourism over the past decade and resulted in an average 3% growth rate. This growth is significant as the total tourism industry has grown only 2% during the same time period.

Griffins took three years to investigate this market. They attended national association meetings to collect information. They decided that agritourism is a growth market, especially given the continual inflow of people from other areas. This increased population base will provide continued opportunity for the Griffins.

*Regulatory and social implications*—This element of the situational analysis focuses on government regulations and social trends that would directly or indirectly impact consumer demand for or consumer perception of the product. Regulations and social trends might have positive or negative product ramifications. For example, the new organic regulations stipulate that before a product can be labeled organic, it has to be certified. The social impact on product consumption could be the current public anti-tobacco sentiment.

Griffins did not experience any regulatory impositions. Harnett County still perceived agritourism as a farm activity. They did contact the Health Department and followed their rules on food preparation. The farm did not require any other permitting.

They did however, reach out to their neighbors to create good will. They try to include their neighbors in the activities, giving them free passes to the maze and even employ their services. Griffins bought insurance from one neighbor and have hired their son to do small grading work as well as other jobs.

## **Regulatory process**

The old adage "Poor planning on your part does not necessarily constitute an emergency on my part" is a reality in business. Failure to investigate local and state regulations is not an excuse and may delay or halt the opening of an agritourism operation. Failure to investigate the implications of incorporating an agritourism operation into the family farm may alter its land use classification from agricultural to commercial, leading to devastating tax implications. The Griffins spent nearly three years investigating and planning their agritourism operation. As a result, their operation got off the ground without a hitch. The Griffins joined North American Farmers' Direct Marketing Association (NAFDMA) and started visiting agritourism operations in their area to obtain a better understanding of the industry and to see what others were doing.

The Griffins realized that they needed to explore how government regulation would impact their business, from start-up to operation. The Griffins understood that identifying and adhering to pertinent regulations would eliminate misunderstandings and business interruptions due to unexpected regulatory requirements. The Griffins were familiar with the Planning Department and Revenue Office from their previous farming operations. They relied on the Harnett County

Cooperative Extension to help guide them in the right direction. Extension provided them with a brochure listing the various departments and contact information they needed to contact.

### ***Regulations***

1. They checked on local zoning regulations to determine if their agritourism operation was in compliance.
2. They contacted the local health department to determine the regulations that would impact their business since they planned to sell food products.
3. They contacted the local health department to investigate restroom facility requirements.
4. They contacted their insurance carrier to see if their planned operation was included in their current policy, and if not, what type of insurance would they need to purchase to ensure they were covered.

### ***Finances***

1. They conducted an in-depth cost analysis and tried to assign a cost to each aspect of their operation. This enabled them to estimate their start-up and operating expenses. This is key in determining the amount of money they would need to start and operate the business. Failure to borrow too little can result in financial constraints and additional resources can often prove difficult to obtain.
2. They contacted Cape Fear Farm Credit to explore potential financing.
3. They contacted their local tax commissioner to determine if tax implications would arise as they were including a commercial (agritourism) operation on their farm.

As it turns out, they did not have any zoning or special tax issues: the addition of an agritourism operation is considered an agricultural enterprise. They did have to contact the local health department and adhere to regulations pertaining to serving food.

Griffins were fortunate in that they did not face significant regulatory concerns. However, their situation is most likely an exception rather than a rule. A number of issues need to be investigated to avoid problems in the future. Potential agritourism operators need to investigate the following issues to determine if they will impact the agritourism operation.

#### **Business issues**

- Business Licenses
- Business Organization or Structure

#### **Taxes**

- Sales and Use Tax Number
- Federal Employer Identification Number

- North Carolina State Tax Information
- Federal Self-Employment Tax

### **Regulations and permits**

- Certificate of Occupancy
- Zoning
- Health Department Inspection
- Fire Department Inspection
- Environmental permits

### **Insurance**

- Insurance

### **Labor issues**

- Labor laws
- Workers Compensation
- Immigration Worker Policy

### **Health and safety**

- OSHA
- Workers Compensation

## **Management and labor**

The Griffins were starting a business where they had little experience. They did have experience running a poultry farm, but neither had any experience in the entertainment industry. They realized that they needed help and sought professional assistance. The first problems they encountered was their lack of experience in growing corn. They have grown other row crops but not corn. To make matters worse, growing corn for a maze is different from growing corn for food. They relied on the North Carolina Cooperative Extension agents and state specialists for information on how to successfully grow corn for the maze. They also provided a corn budget to facilitate financial planning for the maze.

The second issue Griffins faced was developing the maze. It was one thing to plant and grow the corn, it is something else to layout the design and cut the actual maze. The Griffins relied on Precision Mazes, a contact made at an earlier conference. They struck up a conversation and the relationship was formed.

The third issue was a lack of experience in running an agritourism business. The Griffins sought a professional business consult to help them develop a detailed financial analysis and marketing plan.

Labor is a concern for agritourism operations. They need for a number of polite, courteous, and safety conscious people for a short time while they're opened. You need to address this major obstacle facing prior to starting a business. Unemployment levels are very low, and many people are not interested in very seasonal work. Two good sources of seasonal agritourism labor are area high school students and retired farmers. These groups may be interested in working a few hours a week for a short period of time. The key is to identify these people well in advance of the opening.

Depending on the activities being offered at the operation, it may take up to 20 people to effectively service the patrons. Even if labor can be identified, finding people with the skills your are seeking may be difficult. As a result, generally some training is involved to ensure that the people you hire are able to correctly perform their jobs. Not every high school student or retired person can operate a tractor, make cotton candy, or paint faces. Training people so they can perform a task can be time consuming and should not be over looked.

Finding and retaining people who are presentable and have the social skills to interact with visitors is also key. Customer service is critical to developing a successful agritourism operation. A majority of agritourism visitors are children or families with children. Hiring people that are comfortable with and respectful while interacting with visitors is essential. If a customer has a bad experience with an employee with a bad attitude or is disrespectful, the customer will most likely not return and will definitely pass this information on to many more people.

Labor management may be the hardest part of an agritourism operation. The operator has to contend with new issues. These may include but are not limited to

- ⌘ Developing an organizational structure,
- ⌘ Developing a training program,
- ⌘ Scheduling employees.
- ⌘ Developing an effective communication system,
- ⌘ Developing a compensation plan,
- ⌘ Participating in workman's compensation,
- ⌘ Conflict resolution, and
- ⌘ Liability.

## **Market development/analysis**

### ***Market analysis***

Market analysis is a critical component of evaluating the feasibility of an operation. Researching the market before starting a new business or expanding into a new market is important. A market analysis will provide information on a variety of aspects impacting a market. The following outlines the components of a comprehensive market analysis in relation to Hector's Creek Farm.



## *Target market*

Defining a target market involves generating a detailed description or creating a stereotype of the people most likely to utilize a product or service. The target market can then be further broken down into segments. Griffins are targeting its corn maze to families. This target market can be further segmented into smaller groups. The first segment is the family with children: mom, dad, and children. This group also includes grandparents and grandchildren, as well. The other focus was school and day-care groups. Griffins did not get all the school groups that they wanted—an area where they need to improve. This market needs additional targeting to increase the customer base. Specific youth groups include neighborhood children, year-round schools, and YMCA programs. Once the target and market segments have been clearly defined, to design and market a product to this population is possible.

Griffins have developed a product to meet the specific needs of a newly targeted market: elementary school children. They understand that to be eligible to participate in elementary school tours, they must develop a curriculum to meet specific state educational objectives. In North Carolina, school field trips have to have an approved curriculum addressing specific educational goals. By clearly defining this market and understanding its requirements, Griffins were able to create a product to meet the specific needs of the elementary school field trip market. Further segmentation of the elementary school markets revealed that younger children (kindergarten through third grade) are subject to one set of curriculum requirements while older children (fourth and fifth grade) are subject to a different set of curriculum requirements. As a result of clearly defining and understanding this target market, Griffins were able to effectively market Hector's Creek Farm. The concept of target market refers to identifying a sub-segment of the total population that is most likely to use a particular product or service.

The more detailed information on the target market, the easier it is to design and implement an effective marketing strategy. As you obtain target market information and develop a target market profile, where to focus marketing efforts becomes apparent. By targeting those consumers that are most likely to purchase a particular product, maximizing marketing resources is easier.

## *Market area*

The market area can be thought of as the geographic area where the business intends to operate, that is, a city block, between two rivers, or the globe. Defining the market area is important because it defines the geographic area where potential consumers live and/or work. The people in the market area are considered potential customers. If the population in the market area is not sufficient, you will have expanded the area or risk insufficient sales revenue. Defining the market area is important in determining the most effective marketing channels for reaching potential customers. For example, if the marketing area is Harnett County, it does not make sense to advertise in a publication that focuses on the residents of Onslow County.

Hector's Creek Farm determined (after opening) that the Holly Springs/Cary area would be one of their largest pools for visitors. The area has many transplants looking for outside family fun in the fall. They are generally from areas that have a longer history of this type of farm activity. Hector's Creek Farm is located in Fuquay-Varina, North Carolina, a location that places the farm

**Table 1. Population estimates for 50 mile radius around Hector's Creek Farm**

Population	Number
Population (1/1/2005)	2,174,904
Population (1/1/2010)	2,371,121
% growth (2010/2005)	9.0
<b>Households</b>	
Households (1/1/2005)	860,849
Households (1/1/2010)	962,816
% growth(2010/2005)	11.8
<b>Age (years)</b>	
Median Age	33.1
0 to 5	170,164
6 to 11	169,332
12 to 17	157,430
18 to 24	223,291
25 to 34	334,090
35 to 44	329,905
45 to 54	254,506
55 to 64	152,266
65 to 74	105,202
75 to 84	64,147
85 and older	19,479

Source: Easidemographics

in the middle of the Raleigh, Cary, Fayetteville, and Clayton city areas. The market area, assuming a 50-mile radius around Hector's Creek Farm, has a significant population estimated to be 2.18 million people (Table 1). The population is anticipated to grow 9% from 2005 to 2010. Significantly, the market area has an estimated 496,926 people under 18 years of age .

This estimate of the market area does not take into account tourists and people who are traveling through the area—numbers difficult to obtain. The Hector's Creek Farm market area has a significant population base from which to draw customers.

### *Product/service analysis*

The product/service analysis should focus on the agritourism operation and its products, resources, strategies, and experiences. According to Pam Griffin, the activities offered at Hector's Creek Farm are in line with the groups that attended but they need more activities. Griffins have a rule of thumb that for every hour a visitor drives to get to the business, two hours of activities are needed. The experience must be worth the customers' travel time. As a result, Griffins are adding pedal carts, scarecrow making, and corn a box for this season. They are also planning on updating their pumpkin "chunkin'."

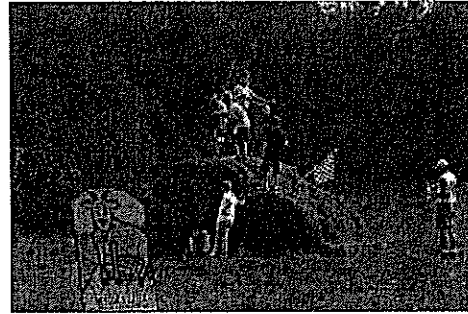
It is important to identify a product's strengths and weaknesses as well as how these relate to the competition. Griffins investigated the competing agritourism operations in the area. The three direct competitors are established, successful operations that have grown their businesses to include a large variety of products and activities. One common characteristic shared by the competition is that they provide their visitors with a high quality experience.

Griffins realized that the competing operations provided a quality experience; and to compete, they would have to provide a quality experience. Griffins decided to focus on a few activities and do them well rather than attempting a large number of activities and doing them poorly. As the business grows, Griffins will add new activities accordingly.



Hector's Creek Farm's focus is on its corn maze. Griffins chose a race car design because of North Carolina's long tradition of NASCAR. Pam indicated that "racing has deep North Carolina roots and in addition, Scott Riggs is from the Triangle area." In 2005, they featured a 9-acre corn maze cut in the shape of the #10 Vavoline race car. In addition to the maze, they offer a hay ride with the admission price. In addition to the maze and hayride, Griffins have created a number of activities to enhance the overall experience. They are targeting children as a key market, which is reflected in the following activities:

1. Pumpkin shooter - For \$1.00, visitors can shoot 3 mini-pumpkins at a target.
2. Flower patch - A wild flower patch provides visitors an opportunity to pick their own flowers. Visitors can pick all they wanted for \$5.00 which includes a 32 ounce Hector's Creek Farm cup.
3. Hay mountain - Rolled hay is stacked to provide a "hay mountain" for kids to climb and play on.
4. Culvert/pipe roll - Kids are able to get inside these ½ pipes and roll down a hill
5. Inner tubes - Kids are able to jump on the tubes and roll down the hill.
6. Hay tractor - Kids are able to play on the tractor made of round hay bales.



Griffins have also created a number of one-time special events revolving around sponsors:

1. October 1 Farm Bureau Day
2. October 3 Lafayette Elementary School Relay for Life Walk
3. October 22 Cape Fear Farm Credit Day
4. October 22 Pig Picking; \$6.00/plate - starting at lunchtime
5. October 29 Midway Baptist Church Kids Fest

Hector's Creek Farm is able to differentiate its agritourism operation by subtly incorporating religion into the experience. The operators are devout Christians and want to provide a safe, family experience to their visitors. They also would like to expose their visitors to their religion in a subtle way.

The line in the movie, *Field of Dreams* ("build it and they will come"), does not necessarily apply in the real world. Determining a product's strengths and weaknesses and comparing them to consumer's preferences is essential. Griffins found that when developing an activity, it must be entertaining as well as convenient for customers to participate. Hector's Creek Farm included a flower-cutting garden as one of the activities. However, the flower-cutting activity was not conveniently located, forcing customers to leave the main activity area, resulting in low customer participation. Griffins realized that they needed to make all of their activities conveniently accessible so customers will be more likely to participate. They will include the flower garden in the same area as the other activities.

## Pricing

Griffins used information they obtained from visiting similar operations to determine their product pricing. They are charging less than the three other corn mazes in the area in part because they feel they do not have as many activities to provide as the other operations. As they grow the business, Griffins will continue to add new activities, allowing them to raise their prices if they desire. Hector's Creek Farm has nine revenue generating centers on the farm:

1. Pumpkin "chunkin' " (3 for \$1.00)
2. Bottled water at the concession stand (\$1.00 per bottle)
3. Hotdogs (\$1.00 each)
4. Roasted corn (\$1.00 each)
5. Pumpkins (priced by size, average \$8.00 per pumpkin)
6. Corn maze and hayride ( adults \$8.00)
7. Cut flowers \$5 for a 32 ounce cup of cut flowers
8. Shirts -\$15.00 each
9. Caps - \$7.00 each

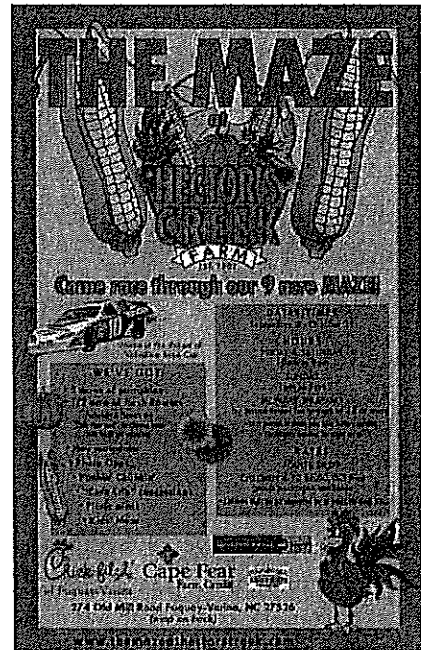
## Marketing

**Marketing and promoting the operation** is one of the most difficult, time-consuming, and expensive components of developing a successful agritourism operation. However, if it is not done effectively, the success of the operation is doubtful. Griffins realized the importance of marketing and launched a multi-faceted marketing campaign. They utilized radio advertising, newspaper advertising, website, billboards, and banners. Griffins realized that if people were unaware of their maze, they would have no customers.

Radio advertising—Griffin's advertised on a local radio station that reached their target market. They advertised the corn maze for three months. The radio station was based in Fayetteville, but its broadcasts reached into southern Wake County. They were able to advertise for three months on this station whereas for the same money they would have only been able to advertise for one week on Raleigh station.

Newspaper advertising—Griffins purchased newspaper advertising in local newspapers. They also sought publicity and were blessed with numerous articles in area newspapers, even being written up in *The Wall Street Journal* and *Time Magazine*. The articles in the local newspapers were very effective and will be pursued.

Television publicity—Hector's Creek Farm was aired on three different television stations in the area. In addition, Griffins story was aired on the Speed Channel in an episode of "NASCAR Nation." Television publicity opportunities will be pursued again.



Billboard—In lieu of radio advertising in southern Wake County, the Griffins purchased billboard space at a busy intersection. They were not convinced that it was an effective marketing tool or cost effective. One reason was that the billboard was practically covered by tree limbs partially blocking its view. They did not use the billboard in 2006.

Vinyl banners—Griffins used banners in three locations. One was placed in southern Wake County near a major crossroad intersection. The other two were used in Harnett County closer to the farm. The banners appeared to be effective, and the Griffins plan on using more banners.

Website coupon—The website generated over 7,000 hits during the summer and fall of 2005. It featured a \$1.00 off coupon. They considered the website effective and will use it again.

T-shirts and embroidered hats—Griffins had t-shirts printed with the Hector's Creek Farm mascot and embroidered hats. They provided these items to the staff and made them available to customers. Sales of these items were good and will be offered. Additional keepsake items will be available.

Bottled water—Griffins purchased bottled water with their label and a \$1.00 off coupon on the back of the label. It was effective as evidenced by the number of coupons redeemed.

Direct mail to churches—Hector's Creek Farm offered a program called "Cultivating Readers" targeting children 4 to 12 years of age. They could read 15 books and get a free admission with a paying adult. This program was discontinued in 2006.

Hector's Creek Farm was placed on the 'splice line' for home schoolers and had several groups attend. This year, only one day will be offered at a discount.

To know an operation's target market and advertise in the most appropriate venue is critical. Griffins were aware of their target markets and advertised in the appropriate media. They advertised on a local Christian music station because they knew the station targeted families with children, a group they were also targeting. However, Griffins would most likely avoid marketing on hip-hop or alternative rock stations as these listeners most likely different from their targeted market. Griffins also focused on local newspapers for advertising as they realized that the majority of their business would be from local people, not folks traveling through the area. If you are going to advertise to hunters, you advertise in outdoor magazines and closely related trade publications since they are targeting the same group of people as you are.

**Publicity is free and it works.** Hector's Creek Farm was very fortunate in that it received significant publicity. Griffins indicated that the publicity the farm received was very effective in generating business, and they could not have purchased that type of exposure. Hector's Creek Farm was featured in a local newspaper. Fortunately, the local newspaper owned a number of smaller papers in the region and ran the article in those papers as well. This publicity exposed Hector's Creek Farm to a large number of people in the area, and it was free. Developing a list of media contact people is very important. Information regarding the business can be sent to these contacts as activities come into season or new activities are added. You send any news releases and story ideas that may be of interest to them. You want to invite them to participate in current

activities to get them excited about the operation. It is a good idea to follow up mailings or e-mail with phone calls because media contacts are busy may need reminding.

**Signage is critical.** Signs are very important to agritourism operations because they advertise 24 hours a day, 7 days a week, 365 days a year. However, the right sign is important as it creates a customer's first impression of the operation as well as provides information to new or potential customers about the operation. Choosing an effective location is extremely important. Hector's Creek Farm purchased billboard space at a busy 4-way stop intersection. However, two trees blocked the majority of the sign making it less than optimally effective. Griffins were able to convince the sign company to remove one of the trees, but the billboard was still partially blocked. They did not feel that the billboard advertising was effective.

Griffins had more success with placing banners at a local a local gas station. They placed these banners in highly visible area. Research shows that impulse stops can account for 20 to 45% of all business visits. As a result, an easily seen and readable sign has the potential to pay for itself many times over. In addition, Griffins use a series of smaller signs to direct customers to their operation.

**Develop a mailing and e-mail list.** Develop an accurate mailing list. Place a registry at the operation's check-in station and encourage visitors to register. In addition, potential visitor contact information can be purchased from direct mail companies, outdoor magazines, associations, and other sources of outdoor activities. An extensive and accurate mailing list can be an important asset to communicate to existing and potential customers any upcoming activities as well as keep the business in front of people

**Satisfied customers are the most important key to success.** Griffins have discovered the value of word-of-mouth advertising. They said that word-of-mouth was critical in attracting visitors and cited the old adage that one satisfied customer will tell a friend, while one dissatisfied customer will tell 20 people. Griffins emphasized the need to provide a quality product and satisfied customers and related a story about a rowdy group. The group was cursing and causing problems in the corn maze. Their activity was having a negative impact on the other visitors.

Griffins located the group and called the police to have them removed. They took necessary actions to ensure that their visitors would have a pleasant experience. Failure to address this problem and resolve it could have led other visitors to leave with a negative perception of Hector's Creek Farm and jeopardize future visits.



**The Devil is in the details.** Take care of small details to ensure that customers perceive the operation as professional. Make sure that your telephone is answered professionally ("Hector's Creek Farm" rather than "hello"). The answering machine should have a professional message as well. Return calls promptly. Griffins use personal and professional relationships to promote their business. They talked to their neighbors and gave them free passes. They joined the

Chamber of Commerce and talked with church groups and area retailers, to name a few. They started close to home at first and moved out gradually.

*Note*—Produce quality brochures and public relations materials. On brochures, less is more. Don't clutter it with lots of words. Use photos. Hire a graphic artist or get lots of feedback from other business people before the brochures are printed. Don't use a photocopier. Color is costlier than a black and white brochure, but it shows a commitment to quality and attracts a lot more attention.

### *Competitor analysis*

**Spy on the competition.** See what other agritourism operations are doing. It is easy to stop by competing agritourism operations and grab a brochure, visit their web page or even take a tour or visit the facilities. Griffins admitted that their research could be considered primitive in the approach. It may be rudimentary, but participating in competing agritourism operation tours will provide insight into the running of the tour as well as the popularity of various activities. Observing how other operators direct the traffic flow around their operation can provide valuable information that can be incorporated into an agritourism business to make it flow smoothly. Traveling around the region and collecting information on other agritourism operations will allow you to monitor trends and create an exciting tourism experiences. Agritourism operators are continually adding new activities and developing additional revenue centers to entice customers to return.

Hector's Creek Farm does not have direct nearby competition but competes with agritourism operations within specific driving distances. Griffins believe that people will visit the farm which is closest to them. However, Pam has overheard people from the Holly Springs/Cary area remark that Hector's Creek Farm's nearest competitor, Ken's Corn Maze in Garner, was too far to drive.

Even though they did not have direct competitors in the area, they visited other area mazes and took note of what was offered and what was charged for the visit. Amazingly, the other operators in the area were very forthcoming about their operations and willing to share their experience and knowledge with Hector's Creek Farm.

### **Direct competitors**

#### *Hill Ridge Farms (www.hillridgefarms.com)*

**Strengths:** Hill Ridge Farms has a number of activities covered under their general admission price. A \$10.00 per person admission price entitles visitors to a hayride and pumpkin. In addition, the general admission fee provides access to the farm animal corral, the fish feeding dock, a kiddie park, picnic grounds, live music, and scheduled events. In addition, Hill Ridge Farms has numerous revenue generating centers in addition to the activities covered by the general admission: corn maze, train rides, gem stone panning, giant slide, pony rides, general store, and concession area.

**Weaknesses:** Hill Ridge Farms has designed their operation to charge for additional activities. Not all activities have an extra cost in addition to the admission fee. The admission fee of \$10.00 is very high, especially when other activities on the farm have an additional cost. This pricing strategy may eventually arouse animosity with customers.

#### **Ken's Produce and Garden Center ([www.kensproduce.com](http://www.kensproduce.com))**

**Strengths:** Ken's Produce and Garden Center has a number of activities to offer visitors. A general admission is the only fee. Ken's Produce and Garden Center is really focused on children, which is apparent when looking at the list of activities. The farm has a children's straw maze. It offers volleyball, miniature golf, horseshoes, frisbee golf, croquet, gourd checkers, and pumpkin bowling. A variety of creatures entertain the children and provide adults with photo opportunities. These creatures include a giant spider, caterpillar, and bumblebee.

**Weaknesses:** Ken's Produce and Garden Center is a very successful operation. However, they do not appear to be theme-oriented. While not necessarily a weakness, it might a point of vulnerability. By incorporating a theme to the corn maze, it may be possible to attract some of Ken's Produce and Garden Center traditional customers who are interested in the theme. The NASCAR theme would definitely be appealing to NASCAR fans who may choose to visit Hector's Creek Farm in lieu of Ken's Produce and Garden Center just because of the theme.

### **Indirect Competition**

In addition to visiting agritourism operations in central North Carolina, Griffins have participated in the North American Farmers' Direct Marketing Association (NADFMA) annual conference in Boston. Part of this conference was a bus tour that visited farm market destinations highlighting the culture and environment of the region. At the conference, the Griffins met many people and took note of what they were doing and what they said they were going to change or add. More importantly, participants visited the most outstanding farm markets in North America. The markets they visit may not always be the largest, the newest, or the richest; but they are innovative, successful, and the most willing to share their secrets, their shortfalls, and their dreams for the future.

### **Conclusion**

In addition, investigating the competition provides insight into how others are marketing their products and who their customers are. Competitors may not freely provide information on the success of their marketing campaign. However, you are able to gain valuable marketing information by attending functions involved with agritourism and even calling owners/managers outside your marketing area. More than likely, they will offer good advice to avoid potential pitfalls.



## Financial

(Note: The numbers used are not actual numbers from Hector's Creek Farm)

## Revenue

Calculating revenue is straightforward. Griffins estimated they had 5,000 visitors during their

**Table 2. Revenue center units and sales**

Revenue Center	No. of units	\$ per unit	Total (\$)
Pumpkins	2,500	8.00	20,000
Hayride and corn maze (people)	5,000	7.20	36,000
Pumpkin "Chunkin'" (3 gourds per person)	2,000	1.00	2,000
Cut flowers (32 oz cups)	20	5.00	100
Bottled water	1,000	1.00	1,000
Roasted corn	1,000	1.00	1,000
Hotdogs	1,000	1.00	1,000
T-shirts	200	15.00	300
Caps	200	7.00	140
<b>Total</b>			<b>\$61,540</b>

first year. They generated over \$61,000 in revenue its first year of operation (Table 2).

It is not easy to develop reliable estimates to evaluate the financial feasibility of an agritourism business. For one thing, start-up costs should be able to account for all expenses related to the renovation of the farm, parking, long-term signs, and labor costs during the start-up phase. These costs, however, are subject to changes as owners modify building plans and scope of business operation. When the business actually starts operating, revenue projections are also difficult to set-up due to the uncertainty in generating customer counts and the tendency of management to implement variable pricing schemes (where prices are likely to be adjusted downwards during periods of low numbers of farm visits). However, you need to develop the best estimates of financial performance to serve as a guide to developing and implementing business plans. Table 3 summarizes estimates of a start-up cost for Hector's Creek Farm featuring a corn maze, hay rides, a pumpkin launcher and concession stands:

**Table 3. Start-up cost estimates**

Expense	Cost Estimate (\$)
Grading Land Parking	1,500
Kids' Corral (play area)	1,500
Improving farm's appearance (cleaning up and painting)	2,500
Fencing restricted area	1,000
Employee training—8 workers, 8 hours training	512
Wagons	7,000
Safety chains, steps, side boards	500
<b>Total</b>	<b>\$ 14,512</b>

The financial plan is a helpful framework for the business owners to determine the most reasonable prices to charge for the individual attractions or for the entire farm visit. To be able to do this, the financial plan must take into consideration all possible costs involved in the start-up and operation phases of the business.

In the operation phase, aside from the costs associated with the individual attractions, you cannot easily assign general expenses to individual attractions. These expenses are for setting up facilities available to all visitors, the beautification of the farm premises, and marketing expenses to advertise the entire farm tourism business. Since these are general expenses, you need to assign a share of these costs to each individual farm attractions. That amount is then included in the calculations for determining the fee you charge customers who use each of the farm activities.

In this example, these general expenses include the beautification of 5 acres of the premises with landscaping and flowers, setting up portable toilets, tent (fair style), and marketing and advertising expenses. Also, the start-up costs need to be amortized or paid back by the business over the years. In this example, assume that the start-up costs of \$14,512 will be amortized over a period of 10 years, which translate to an annual amortization of \$1,451.20 (Table 4).

**Table 4. Itemized general expenses**

Item	Unit	Quantity	Cost/unit (\$)	Per acre cost (\$)
<b>A. Flowers and plants</b>				
Seed	Thou.	28	0.90	25.20
Fertilizer				
Nitrogen	Lbs.	120	0.29	34.80
Phosphate	Lbs.	70	0.25	17.50
Potash	Lbs.	70	0.15	10.50
Lime (Pro-rated)	Ton	0.3	31.50	10.40
Herbicides	Acre	1	62.64	62.64
Tractor/Machinery	Acre	1	18.07	18.07
Labor	Hrs.	2.1	8.00	16.96
Total for 5 acres				980.35
<b>B. Marketing and advertising</b>				
Radio	30 sec slot	270	10.00	2,700.00
Newspaper Advertising	2 x 5 space	10	50.00	500.00
TV advertising	15 sec space			2,500.00
Billboard		1	1,500.00	1,500.00
Shirts	Dozen	240	12.00	2,880.00
Caps	Dozen	240	5.00	1,200.00
Information signs on farm	Per sign	10	250.00	2,500.00
Directional signs	Per sign	4	25.00	100.00
Website	site	1	1,000.00	1,000.00
Total				14,880.00
<b>C. Miscellaneous</b>				
Portable Toilets		4	100.00	400.00
Tent (fair style)		1	2,000.00	2,000.00
Materials/Supplies		5	100.00	500.00
Total				2,900.00
D. Amortization of start-up costs	10 years			1,451.20
<b>Total general expenses</b>				<b>20,211.55</b>

You come back to this estimated total amount of general expenses when you are ready to calculate prices.

#### A. Corn Maze Operations

This attraction will have two sets of expenses: planting and operating expenses (Table 5).

**Table 5. Itemized Corn Maze Expenses**

Item	Unit	Quantity	Cost/Unit (\$)	Per Acre
<b>A. Planting (9 acres)</b>				
Seed	Thou.	28	0.90	25.20
Fertilizer				
Nitrogen	Lbs.	120	0.29	34.80
Phosphate	Lbs.	70	0.25	17.50
Potash	Lbs.	70	0.15	10.50
Lime (Pro-rated)	Ton	0.3	31.50	10.40
Herbicides	Acre	1	62.64	62.64
Tractor/Machinery	Acre	1	18.07	18.07
Labor	Hrs.	2.1	8.00	16.96
Interest on Operating Capital	Dollar	89.56	0.09	8.06
Total for 9 acres				1,837.17
<b>B. Operations (8 weeks)</b>				
Design	Job	1	1,500.00	1,500.00
Maintenance	Hours	40	8.00	320.00
Labor (3 workers, 25 hour/week, 8 weeks)	Hours	600	8.00	4,800.00
Flashlights	Flashlight	100	1.00	100.00
Batteries	Batteries	300	1.00	300.00
Total				7,020.00
<b>Total Corn Maze Expenses</b>				<b>8,857.17</b>

#### B. Hay Rides

The expenses expected to be incurred for the hay rides are

- 1 Labor: Two workers needed (one will be driving and the other monitoring the customers). These two will work for 25 hours per week and paid \$8 per hour. For 8 weeks, the total labor expenses will be \$3,200.00
- 2 Fuel: The estimated fuel expense is \$2.75 per gallon and the estimated average daily consumption is 1 gallon. The total fuel expense for the 8-week period is \$154.00.

Given these, the hay rides will incur a total cost of \$3,354.00.

#### C. Pumpkin Launcher

The expenses associated with the pumpkin launcher attraction are shown in Table 6.

Given these estimated expenses, you are ready to determine prices either for the individual attractions or for general admission. In the summary, you can choose to charge separate prices for the individual attractions or charge a general admission price for all guests. You calculate the prices by considering all possible costs attributed to the attractions and the entire agritourism operation.

**Table 6. Itemized pumpkin launcher expenses**

Item	Unit	Quantity	Cost/Unit (\$)	Total (\$)
Gourd	Gourd	3,000	0.10	300.00
Miscellaneous supplies				200.00
Machine		1	500.00	500.00
Labor (1 person, 25 hours/week, 8 weeks)	Hours	200	8.00	1,600.00
<b>Total Pumpkin Launcher Expenses</b>				<b>2,600.00</b>

Each attraction is charged a share of the total general expenses. The share of each attraction is derived by first calculating the costs for all the attractions and then dividing the cost of each attraction into the total costs for all attraction..

A break-even analysis is used to determine the minimum price that you might want to charge to at least be able to cover all expenses incurred. The break-even selling prices are calculated for each expected number of visitors.

The option to charge a general admission fee is derived by adding the total general expenses and the combined expenses of all attractions. This grand total is then divided by the expected number of visitors to the farm. The grand total of expenses is calculated as

Total general expenses	20,211.55
Combined attraction expenses	<u>14,811.17</u>
Grand total	35,022.72

All the information needed for the price calculations are summarized in Table 7

**Table 7. Calculation of individual attraction and general admission prices**

	Corn maze	Hay ride	Pumpkin launcher	General admission pricing option (\$)
A. Individual Attraction Expenses (\$)	8,857.17	3,354.00	2,600.00	
B. Attraction's Share of General Expenses (percent)	59.8	22.6	17.6	
C. Attraction's Share of General Expenses (\$)	12,086.63	4,576.92	3,548.00	
D. Total Attraction Expenses (A plus C \$)	20,943.80	7,930.92	6,148.00	
<b>Break-even price for the following estimates of number of farm visitors (\$ per visitor)</b>				
500	41.89	15.86	12.30	70.05
1,000	20.94	7.93	6.15	35.02
1,500	13.96	5.29	4.10	23.35
2,000	10.47	3.97	3.07	17.51
2,500	8.38	3.17	2.46	14.01
3,000	6.98	2.64	2.05	11.67
3,500	5.98	2.27	1.76	10.01
4,000	5.24	1.98	1.54	8.76
4,500	4.65	1.76	1.37	7.78
5,000	4.19	1.59	1.23	7.00

## Conclusion

Hector's Creek Farm will have to attract 4,490 visitors to break even. Given the significant population base in their market area, being able to attract this number of visitors is not unrealistic.

## APPENDIX A: Worksheet for Hector's Creek Farm

Now, Griffins can determine if the potential market and estimated share of the market are sufficient to allow them to break-even.

**Table A1. Hector's Creek Farm's area target audience**

	Elementary school	Home schooled	Church groups	Families, small children
Number	169,000	2,500	50	860,500

**Table A2. Hector's Creek Farm's market area**

Segment	Location or distance (city, county, or 45 miles)
Elementary school children	50 mile radius
Home schooled	25 mile radius
Church groups	Cary
Families with small children	50 mile radius
Other	

**Table A3. Estimated number of target customers within Hectors Creek Farm's Market Area**

Segment	Number of People
Elementary school children	169,000
Home schooled	2,500
Church groups(average of 20 children each)	50
Families with children < 18	860,000
Other	-
<b>Total (sum 1 through 5 above)</b>	<b>1,032,500</b>

**Table A4. Number of potential customers visiting Hector's Creek Farm by percent**

	1%	5%	10%	15%
Number	10,325	51,625	103,250	154,875

**Table A5. Costs associated with starting and running Hector's Creek Farm.**

Item	\$
Start-up costs	14,512.00
Corn maze	
<i>Planting (corn budget)</i>	1,883.17
<i>Operations</i>	7,020.00
<i>Total</i>	8,903.17
Hay ride	
<i>Labor</i>	3,200.00
<i>Fuel</i>	154.00
<i>Total</i>	3,354.00
Gourd laucher (labor, laucher, gourds)	2,600.00
General expenses	
Cut-flowers (5 acres @ \$980.35)	4,905.71
Marketing	14,880.00
Miscellaneous	2,900.00
Amortization of start-up costs (over 10 years)	1,451.20
Total	35,022.72

**6. Hector's Creek Farm admission price**

Griffins decided to charge an average admission price of \$8.00 per person

**7. Break-even number of customers**

Grand total costs ÷ Admission price

$$\$35,022.72 \div \$8.00 = 4,490$$

## Appendix B: Regulations and business issues

The first thing that you should examine are the regulations and business issues that may impact an agritourism operation. These issues may be prohibitive or make the operation unfeasible. The following basic issues and other issues that may apply need to be investigated.

**Business Licenses**—Generally, any person or entity involved in commerce will need a business license.

**Phone:** 919 715-2864 or

**Toll-free ( in NC )** 1 800-228-8443 or

**Website:** [www.nccommerce.com/servicenter/blio/redbook](http://www.nccommerce.com/servicenter/blio/redbook).

**Sales and Use Tax Number**—Businesses that generate sales are required to obtain a Sales and Use Tax number (AS/RP1 form) because North Carolina charges a basic sales and usage tax.

**Website:** <http://www.dornc.com/downloads/sales.html><http://www.dornc.com/taxes/sales/salesanduse.html>

**Federal Employer Identification Number**—Businesses with employees are required to obtain a Federal Employer Identification number (SS-4 form) along with a N.C. withholding tax number.

**Website:** [www.irs.gov/businesses/small/article/0,,id=98350,00.html](http://www.irs.gov/businesses/small/article/0,,id=98350,00.html)

**North Carolina State Tax Information**—Operating a business in N.C. will require paying N. C. state taxes in addition to Federal and local taxes. To find out more about the state taxes go to

**Website:** [www.dor.state.nc.us/business/](http://www.dor.state.nc.us/business/)

**Telephone:** 1-877-252-3052

**Federal Self-Employment Tax**—Self-employed people are required to make payments of the self-employment tax. You are considered self-employed if you are in business for yourself, carry on a trade or business as a sole proprietor, or are an independent contractor.

**Website:** [www.irs.gov/localcontacts/article/0,,id=98320,00.html](http://www.irs.gov/localcontacts/article/0,,id=98320,00.html)[www.irs.gov/businesses/small/article/0,,id=115045,00.html](http://www.irs.gov/businesses/small/article/0,,id=115045,00.html)

**Telephone:** 1-877-777-4778

**Zoning**—A business operating out of any building will need to be zoned for business use in that geographic area.

**County website:** <http://ncinfo.iog.unc.edu/library/counties.html>

**City or Town website:** <http://ncinfo.iog.unc.edu/library/cities.html>

**Health Department Inspection**—Businesses that involve the sale of food or lodging will generally have health inspection requirements.

**Website:** <http://www.ncpublichealth.com/>

**Telephone:** 919-707-5000

**Environmental permits**—Your business may require an environmental permit. Environmental permit information can be found under the Department of Environment and Natural Resources.

**Website:** [www.enr.state.nc.us](http://www.enr.state.nc.us)

**Telephone:** 919-733-4984

**Insurance**—Businesses need insurance for protection against fire, theft, and other losses. Businesses may require specialized insurance, some of which are required by law. Having an insurance specialist thoroughly analyze your business to determine your insurance needs is essential.

**Sources:** North Carolina Commission on Insurance

**Website:** [http://www.ncdoi.com/Consumer/consumer\\_home.asp](http://www.ncdoi.com/Consumer/consumer_home.asp)

**Telephone:** 800-546-5664

**Unemployment Insurance**—Businesses are required by the state to pay unemployment insurance tax if the company has one or more employees for 20 weeks in a calendar year, or it has paid gross wages of \$1,500 or more in a calendar year.

**Website:** <http://www.ncesc.com/business/default.asp?init=true>

**Telephone:** 919-733-7395

**Workers Compensation**—In general, if you employ more than 3 people in addition to the sole proprietor, partners, formulators of the LLC, executor of the estate, and bearer of the trust, you are required to have workers compensation insurance. It does not matter if these employees are full time, part time, regular seasonal, or family members.

**Website:** [www.comp.state.nc.us/ncic/pages/bus&ind.htm](http://www.comp.state.nc.us/ncic/pages/bus&ind.htm)

**Telephone:** (919) 807-2500

**OSHA**—The Federal Occupational Safety and Health Administration (OSHA) outlines specific health and safety standards employers must provide for the protection of employees. Some exemptions are found on the North Carolina website.

**Website:** <http://www.osha.gov/http://www.osha.gov/SLTC/agriculturaloperations/index.html>

**Telephone:** 1-800-321-6742





# Feasibility Case Study 2. Mount Vernon Farm Sperryville, Virginia

Mount Vernon Farm

100% Grass-fed Beef and Lamb - Pastured Pork  
Raised without growth hormones, vaccines or antibiotics

Order Here

Welcome

At Mount Vernon Farm we are proud to share our high quality, health-benefiting food with you. We raise our animals and provide our meats with customized care, enthusiasm, passion, and respect. We believe that it is a great act of economic independence and good health to choose to purchase healthy, nutrient-dense, high quality, whole foods grown locally and in a sustainable manner, with the knowledge of how the animals are raised and nurtured.

Supply yourself and those you love with grass-fed meats, the healthiest meats available.

Mount Vernon Farm © 2014 Mount Vernon Farm & Sperryville, VA © 2014  
540-957-9549 • mtvernonfarm.com

## Executive summary

Mt. Vernon Farm is an 830 acre farm located in Sperryville, Virginia. Like many farms in Virginia, particularly Northern Virginia, Mt. Vernon faces the pressures of rapidly expanding suburban communities that put cost, political and cultural pressure on traditional farm enterprises. Mt. Vernon's owner, Cliff Miller, found a way to accommodate the pressures of suburban expansion and preserve his farm by adopting a pasture-based livestock production system in combination with direct marketing to consumers. The focus of this case study is Mt. Vernon Farm's pastured livestock operation.

Cliff Miller hired Becky Brown, an experienced pasture-based livestock producer, to manage his livestock operations during a two and a half-year trial period. Becky and Cliff had a good base of potential customers and strong professional networks which they used to develop the operation; at the same time Becky recognized that she lacked experience in direct marketing and made a particular effort to develop this area. Currently, they market through farmers' markets, on-farm sales, and buying clubs. Their promotional strategy is heavily reliant on word-of-mouth, a website, and personal contact with customers. Underlying the success of these media is their commitment to a premium quality product. Mt. Vernon sells more than 50 different pasture-fed beef, lamb, and pork products, and prices to be competitive with its direct competitors. They send their livestock to a USDA-inspected custom processing plant, Fauquier's Finest, and find their biggest inventory management problem to be a lack of product given limited production resources and strong consumer demand.

In establishing the business, Becky and Cliff developed a flexible business plan at the start of their work together; however, they did not establish a specific financial plan. They meet regularly to review problems and progress and to revise their plans as needed. The capitalization process for the enterprise was minimal as it was an existing operation and did not need many

additional investments in land or machinery. Becky is the primary operator and is assisted by part-time and hourly wage labor as well as interns.

## **Farm enterprise history**

Mt. Vernon Farm is an 830 acre farm located in Sperryville, Virginia that has been in the Miller family since 1827. The farm is currently owned by Cliff Miller, who inherited it from his father in 2000. Prior to that, the land had been leased to crop farmers since the family ceased their long-standing dairy operations in the 1960s. When Cliff inherited the farm from his father, he contemplated how the ongoing uses of the farm aligned with his own personal social and environmental values. Along with economic viability, Cliff cared about the environmental, social, and aesthetic contributions that his farm could generate, and began to shift his mix of business operations to reflect these values.

The focus of this case study is Mt. Vernon Farm's pastured livestock operation, which is operated as a subsidiary of the overall farm operation. Cliff established the pastured livestock operation in 2003, raising a small herd of 3 to 4 beef cattle while he searched for a manager who had the technical expertise and commitment to the economic, environmental and other values that he sought to promote with the farm. Currently Mount Vernon produces pasture-fed beef, lamb, pork and chickens.

## **Business idea development**

### *Situation analysis*

Like many farms in Virginia, particularly Northern Virginia, Mt. Vernon faces the pressures of rapidly expanding suburban communities that put cost, political and cultural pressure on traditional farm enterprises. At the same time, many farm owners, such as Cliff Miller, seek a way to promote a dynamic agricultural sector and healthy open space.

Cliff found a way to accommodate the pressures of suburban expansion and preserve his farm by adopting a pasture-based livestock production system in combination with direct marketing to consumers. Pasture-based is a term used to refer to meat that has been raised on forage either exclusively or with some supplemental feeding. Other terms that are commonly used include "pasture-finished" and "grass-fed." Numerous aspects of pasture-based livestock systems have catalyzed their growing popularity. Pasture-based livestock systems satisfy consumers' demand for producing a high quality, high protein, healthy product with a pleasurable eating experience. They enhance environmental quality and the natural resource base, and make good use of resources both on and off-farm. On farm, they make the most of cattle's ability to convert grass to meat in a low input system, making efficient use of solar energy, improving soil nutrient cycling, conserving soil and water, and limiting reliance on non-renewable resources. Off-farm, pasture-based systems have a lower environmental impact than confined systems.

Pasture-based livestock production also offers economic returns that can enhance producers' economic well-being. The meat is a high-value product, and consumers are willing to pay a premium for specific quality attributes, allowing producers to pursue quality premiums rather

than compete to be the low-cost producer. Because pasture-based meat is often direct marketed at the local level, growers are in a position to reap more of the value along the marketing chain. In contrast, many cattle farmers in Virginia today operate cow-calf operations, and claim a small portion of the final value of the meat produced.

### *Market experience of the owners and operators*

Cliff found the farm manager he sought in Becky Brown through mutual contacts working in the pastured beef market. Becky grew up on a mixed-livestock farm in Massachusetts, undertook a program in Environmental Studies which integrated many courses in agricultural production. While in college, she had the unique experience of a year-long internship program in New Zealand that exposed to her pasture-fed operations on numerous, diverse farms. Cliff and Becky decided to undergo a two and a half-year trial period during which Becky would operate Cliff's pastured livestock operation as his employee, at the conclusion of which time she could opt to buy-out the operation. Both shared largely similar views of what would constitute a successful experiment—one in which economic viability was sustained while the environmental and aesthetic aspects of the farm were also enhanced. In the context of these compatible objectives, Becky and Cliff did have some different perspectives on what would constitute an economically viable operation. For Cliff, who draws his income primarily from other sources, viability requires that the enterprise have the potential to be self-supporting over the long term. For Becky, who has the opportunity to derive her entire income from the operation, the concept of economic viability includes not only covering costs, but also providing adequate profit to compensate her time and expertise and provide a standard of living that would be comfortable over the long term. Thus, one of the key objectives to be achieved during the two year trial period was to explore the financial parameters of the pasture-fed livestock operation to determine its economic potential and the compatibility of Becky and Cliff's different viewpoints.

### *Market challenges*

Mt. Vernon's market development process has evolved considerably over the few years that they have been in operation. Becky estimates that it has taken 2 to 3 years for the operation to really build up to a level that is economically viable, and that marketing costs consume about 30 percent of the value of their product sales. One of the most important lessons that they have learned is that effective marketing can require very large investments and that the payoffs are not always quickly forthcoming. Discussion with Becky highlighted several examples of this lesson. For example, they came to understand that marketing through the farmers' market exacted a significant cost of time, labor, human energy, and transportation. They quickly came to realize that unless they could clear a minimum level of sales, approximately \$1,500 per day at farmers' markets, their expenses would not be adequately covered. Likewise, they came to realize that effective marketing of pasture-fed beef requires large investments in the education of potential customers and again payoffs were not always guaranteed.

They learned three strategies to deal with these challenges. First, they developed a website ([www.mountvernonfarm.net](http://www.mountvernonfarm.net)) that provides extensive information on the farm and its products, as well as the benefits of pastured meat and other issues that they typically found themselves

educating their clientele on. The website has been very effective in reducing the amount of servicing or “hand-holding” that their customers need. Second, they came to differentiate the potential of different customers. For example, they find that their customers who come out to the farm are “die-hard” customers—they are customers who are already convinced of the value and benefits of pastured livestock, so they require little marketing investment beyond good service and a high quality product. Likewise, they have developed an “eye” for the same sorts of customers at the farmers’ markets. Third, they came to realize that as they have developed their production system, the quality of their meat has improved. Producing high quality, consistent meat reduces the effort they need to make to market it because the meat “sells itself” by word of mouth. While some of these improvements to quality have only been made possible by their learning the nuances of the land and animals and adapting their production system to these, they have also learned that some of the pragmatic decisions they made early on had clear effects on quality. they learned to consider the value of these tradeoffs. For example, they used to slaughter their herd in batches on the basis of the age of the animal; now they inspect each individual animal to decide if it is, indeed, at an optimal stage for slaughter, and hold it over for the next slaughter date if it is not. This change has significantly improved the consistency and quality of their product, stabilizing their customer base.

Finally, they have found resources such as Eatwild.com, which provides producer directories and product information to consumers, to be a huge help with their marketing. Likewise, the current attention that the media is giving pasture-fed beef, such as recent articles in major outlets like *The New York Times* and *Time Magazine*, generally increases consumer interest in pasture-fed meat.

### *Summary of strategic development process*

Becky and Cliff initiated their pastured-livestock activities with a confidence based on their knowledge of the unique benefits and quality of pastured-livestock, as well as a number of personal contacts in the community who made them aware of the latent demand that existed for their product. In this sense, Cliff’s long-established place in the community served as a valuable input to their initial efforts at developing their market.

They drew both inspiration and information from numerous sources of information. Apart from their own personal experience in pastured systems, they also adapted a mission statement and goals from Alan Savary’s book on pasture-based livestock systems.

Becky and Cliff worked together on developing business plans. Because the operation was essentially a trial, they undertook numerous pilot projects before deciding to make more significant investments in any projects. These projects allowed them to explore new ideas without making large capital expenditures until they had some reason to be confident that the ideas might pan out.

Becky’s background was a key input into the development of the enterprise. Her college thesis examined pasture-fed and continuous grazing systems. She also spent time learning about pasture-based livestock in Australia and New Zealand during her undergraduate program. Despite her background in pastured grazing systems, Becky continually sought out new sources of information that might help her to improve the productivity and efficiency of her operation.

One of the key areas Becky focused on when she first began work at Mt. Vernon was marketing, an area where she had little previous experience. She asked questions of other local producers, went to at least a half dozen conferences offered by Stockman's Grass Farmer, went to AI school, traveled to Colorado to tour pastured-beef ranches there, and likewise participated in seminars on business management, enhancing ranching profitability, etc. She took advantage of published material on pastured-livestock systems (such as books by Allan Nations, Joe Salatin, Alan Savary). She also sought out and developed a network of contacts and colleagues, as well as several mentors who she traveled with or visited to further her learning (key people playing this role include Cliff Miller, Gerald Frie, Alan Nations, Ridgeway Shen, Joe Salatin, Rob Ferfusen, and July Simpson). She also draws on the expertise of Virginia Cooperative Extension personnel in key areas such as pasture-management, fertility management, body condition analysis, and holistic veterinary care.

## **Market development process**

### *Description of products*

Mt. Vernon sells more than 50 different pasture-fed beef, lamb, and pork products, including some processed products such as bologna and sausage. (A full product listing is provided in Appendix A.)

Their labels show basic information about the product, as well as their name and contact information. Previously, they put their own labels on the meat and were able to include information about the pastured production processes and meat attributes. Their new processing facility offers a labeling service, however, that does not permit the inclusion of product attributes. In their view, the greatly reduced cost of the labeling (\$0.05/label compared to \$0.25/label) compensates for this constraint.

### *Pricing strategies*

Mt. Vernon prices to be competitive with its direct competitors, while also keeping an eye on supermarket prices. In the beginning they sought to promote an ideal of making the meat affordable to nearly all who wanted it. However, they were not covering their costs in this way, and they had to adjust their prices to permit the economic sustainability of the operation.

### *Market distribution/logistics*

#### **Market composition**

Mt. Vernon began marketing off the farm in October 2004. Currently, they market to about 30% of their product to five regular customers from the farm's business office, about 60% through farmers' market (one market with sales to about 20 to 40 buyers each market day), and another 10% through three buying clubs in the winter.

## **Processing and distribution**

Mt. Vernon sends their livestock to a USDA-inspected custom processing plant, Fauquier's Finest, a relatively new plant. They have been having excellent results with it due to its reasonable costs, willingness to work with small customers, and ability to provide additional services such as aging, packaging, and labeling. Following processing, they bring the packaged and labeled meat back to the farm where it is stored in a freezer until it is marketed.

## **Inventory management**

The primary problem that Mt. Vernon has had with inventory management has been a shortage of meat when customers want it. At times they do not have adequate inventory to justify trips to the farmers' market where they sell, and they sometimes go weeks without having meat available for sale on the farm. All they can do in these cases is to explain to customers that they simply don't have meat available.

In the beginning of their sales at the farmers' market, they undertook extensive inventory controls on farmers' market days, recording what product left the farm and what returned unsold. In time, they began to see that there was little payoff relative to the burden of this, particularly because there was no consistent pattern of what people would buy from one farmers' market to another. They currently focus on counting the cash box to determine their level of sales rather than focusing on inventory.

## ***Promotional activities***

In addition to direct social contacts, Becky and Cliff developed a brochure that they handed out to potential customers, released information on a local community listserv, and also had a field day on their farm. Though this field day was actually centered around the farm's fly fishing resources, it brought about 500 area residents to the farm, exposing them to the pastured livestock operation, and converted a number of them into customers! Other activities such as land stewardship that reflect their larger guiding philosophies without being tied directly to the livestock operation have also exposed people to the farm and its products.

## ***Competitors analysis***

Mt. Vernon's product is so highly differentiated that they have few competitors, and those that exist—like several other pasture-fed livestock operations in the area—are in some respects as much colleagues as competitors. They do not consider supermarkets, which market conventionally produced meat, to be a significant source of competition. In their view, consumers who purchase Mt. Vernon's meat have already rejected supermarkets as a source of meat.

## **Business start-up**

### ***Budgeting and financial management***

Becky and Cliff developed a flexible business plan at the start of their work together; however, they did not establish a specific financial plan at that point. They also did not seek any legal council as they began to work together. They understood the first few years to be an experiment, at the end of which they would evaluate the financial condition of the operation, and so they did not start off with specific expectations. They have, however, maintained strict records using Excel® spreadsheets (since graduating from a system of notes maintained in file cabinets). They are currently in a position to monitor the financial flows, allowing them to maintain a realistic view of the financial status of the enterprise. In addition to helping them keep a close eye on their financial performance, the excel® spreadsheet that they have developed allows them to explore ideas such as different stocking rates or feeding regimes and get an idea of what parameters would have to change (such as productivity or age to harvest) to make new alternatives viable. Another part-time employee maintains the financial accounts and takes care of taxes using Quickbooks®.

Becky and Cliff have weekly planning meetings and meet four times a year to take a more in-depth look at their performance.

### ***Capitalization process***

Establishing the pastured livestock operation required minimal capital investment. The land was already available for pasture, although some fencing did have to be established. Machinery, barns, and a freezer for meat storage were already available. All financing was provided from the farm, and equipment was leased from the farm. Becky's salary and an intern's stipend were paid from farm resources. They also purchased a bush-hog to cut hay.

### ***Labor***

The operation was established with one primary person providing labor (Becky), and since then they have generally had a full-time intern working on the farm year-round with Becky, plus an additional intern or two during the summer. They also hired one worker on an hourly basis to run and maintain the machinery and equipment. Finally, a bookkeeper who does other work for the farm also maintains the financial records of the enterprise on a part-time basis.

## **6. Regulatory processes**

Mt. Vernon found that the regulatory process was more easily navigated than they expected. At initiation, Becky assumed that the freezer would have to be inspected; however, after numerous tries she was never able to verify that and finally realized it was unnecessary. They have had someone from USDA stop by to inspect their scales, and also found that there were specific rules regarding where USDA labels were kept and how they were transported. In general, they have



found that county, state, and federal regulatory agencies and their agents have not been overly restrictive to their operation and that these agencies' representatives generally take an educational rather than punitive approach; that is they tend to educate them on issues that they have to deal with and give them a chance to adjust, rather than simply slapping on fines. Many of the regulatory processes are concerned with meat processing, packaging and labeling, for which the processor is responsible. Having a responsible processor has helped to ease any potential regulatory burden.

## **Production system**

Since 2004 when Becky arrived on the farm, they have increased the scope of their operation, although they have decreased their herd size to ensure adequate pastureland for the animals. In 2004, they slaughtered 25 beef cattle; in 2005, 90; and in 2006, 100. They have also developed chicken, lamb, and pork operations parallel with the beef operation.

They slaughter beef twice a year, when their finishing herd is gaining approximately 1.7 pounds a day. They graze their beef cattle on fescue over-seeded with clover. They also have some orchard grass. They finish their beef on fields that also have some alfalfa. They stockpile fescue for winter feeding. They work with fescue largely because that is what was already established when they began grazing. They do not feel that it is ideal for pastured cattle since it is not good for finishing cattle on. As they proceed, they are working to minimize the fescue and maximize the diversity of grasses that they have; nevertheless, fescue is not easy to supplant.

Despite the importance of the beef operation, it has not been the most profitable of their enterprises. They find, in fact, that the hog and lamb operation carries the beef financially. At the time of the interview, Becky and Cliff were discussing changes to the beef operation because they found that raising calves through to finish was not financially sustainable because they did not have the land needed to operate on a large enough scale to be profitable while making adequate use of their labor.

## **Risk management**

Production and market risk are two of the most important risks they face. They have a number of techniques to deal with production risk. For drought management, they have a plan culling the herd. Although in the recent drought, they chose to feed hay instead. They try to minimize the risk of infectious diseases by keeping the herd closed as well as promoting herd health through holistic measures.

## **Financial analysis**

Mt. Vernon Farm gets its revenue from beef, lamb, pork, and culled cows (Table 1). The expenses reflect these enterprises.

**Table 1. Breakdown of operating expenses and revenue, 2005**

Revenue	\$
Beef	21,844
Lamb	19,442
Pork	5,097
Culled cows	33,446
Other	1,394
Total	81,223
Direct Costs	
Grain	2,995
Hay	1,550
Minerals	6,360
Health	780
Processing	26,170
Labels	11,005
Transport	1,750
Ads/marketing	1,200
Buy livestock	14,440
Seed	200
Fertilizer	5,200
Misc.	2,210
Total	73,860
Net revenue	7,363

**Table A1. 100% Grass-Fed Beef prices by cut**

Cut	Price per pound \$
Fillet	21.00
New York Strip	15.00
Porterhouse	15.00
T-Bone	15.00
Rib Steak	13.00
Boneless Sirloin Steak	11.50
Flank Steak	10.00
Mock Tender Steak	7.00
Shank Steak	6.00
Kabobs	7.00
Stir Fry	6.50
London Broil	7.50
Brisket	7.00
Eye of Round Roast	7.00
Loin Tip Roast	7.00
Round Roast	6.70
Boneless Chuck Roast	6.00
Rump Roast	6.00
Ground Beef	4.25
Hamburger Patties	6.00
Stew Beef	5.00
Short Ribs	4.00
Organs	3.00
Ox Tail	7.00
Soup Bones	2.00

**Table A2. Hot dogs and beef bologna logs**

Hot dogs, nitrate free, 100% grass-fed beef and pastured pork		Per package of four (\$)
All-Beef Hot Dogs		7.50
Beef & Pork Hot Dogs		7.50
100% Grass-fed beef bologna logs	Price per pound (\$)	
Sweet Bologna		7.50
Beer Bologna		7.50
Cheese Bologna		7.50

**Table A3. 100% Grass-fed Bulk Beef**

Item	Price per pound (\$)
Whole (about 650 lb)	\$3.00 hanging weight
Half (about 325 lb)	\$3.20 hanging weight
Mixed quarter (about 160 lb)	\$3.45 hanging weight
40 lb. Variety pack	\$6.00 per packaged pound
Raw pet food pack customer specified	15% discount

**Table A4. 100% Grass-fed Lamb**

Cut	Price Per Pound, \$
Loin chops	15.00
Rib chops	15.00
Shoulder chops	12.00
Loin roast	13.00
Rack of lamb	12.00
Shoulder roast	9.00
Leg - boneless	10.00
Leg - bone-in	9.00
Kebabs	9.00
Sausage	8.00
Sliced shank	7.50
Whole shank	7.00
Neck slices	7.00
Ground	5.50
Organs	4.00

**Table A5. 100% Grass-Fed Bulk Lamb**

Item	\$ per pound hanging weight
Whole (50-60 lbs.)	6.00
Half (25-30 lbs.)	7.00

**Table A6. Nitrate free no-spray, apple-finished, pastured pork**

Cut	Price per pound (\$)
Tenderloin	10.00
Bacon	8.50
Thin Sliced Ham	8.00
Loin Chops	7.00
Sweet Italian Sausage	6.00
Hot Italian Sausage	6.00
Regular Sausage	5.00
Shoulder Roast	4.00
Spare Ribs	4.00
Hock	4.00

**Table A7. Bulk pork**

Whole	Contact us about pork in bulk pricing
Half	



# Starting a New Enterprise<sup>1</sup>

This tool is divided into two parts. The first part is designed for the interviewer himself/herself. Often by watching the clients behavior and listening carefully to his/her words, an interviewer can tell a great deal about the person being interviewed. Part one provides some guidance in helping the person being interviewed be more comfortable and focused. Part two is directed to clients. The questions and worksheet are to get them thinking about all aspects of their proposed plan. The take-home section is to help the client decide if he/she is willing and able to continue planning for this enterprise.

## Part 1. How To Begin the Interview

When a person considering starting a new enterprise comes to you for help, you may find it difficult to know where to start asking questions. At this initial meeting the most important thing you can do is to build your client's trust in you. Everyone tends to judge others based on their dress, mannerisms, and ability to communicate. While sometimes it is difficult not to judge, you will find you can build trust faster and more easily if you simply listen and assess what they are trying to tell you as well as what they aren't saying. An important rule of thumb is to ask a lot of questions. Even the same question asked differently may help stimulate clients in their conversational brainstorming. Writing down a list of possible questions to ask will help you focus the conversation. (A checklist of questions is provided in Part 2.) Writing down your client's responses will help both of you as you work through the facets of creating a new enterprise.

Many factors can influence your meeting: time of day because some people are more alert in the mornings, while others are better in the afternoon; the mood they are in on that day; the mood you are in on the day of the initial meeting; their appearance and mannerisms. Being aware of these factors helps reduce any personality conflicts and helps to keep you from being judgmental.

Several things greatly enhance the chance of success for a new business venture and should be listened for during the initial conversation with the client. Not having all of these attributes does not mean the proposed idea will fail. They include, but are not necessarily limited to,

- ✎ a unique combination of resources such as a microclimate that allows for earlier production or people with special talents in selling and graphics,
- ✎ labor management skills,
- ✎ an ability to adapt to new situations,

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<sup>1</sup> Karen Mundy, Department of Agricultural and Applied Economics, Virginia Tech, Blacksburg, Virginia and Gary Bullen, Department of Agricultural and Resource Economics, North Carolina State University, Raleigh, NC.

Adapted from material by Charles Hall, Department of Agricultural Economics, University of Tennessee, Knoxville, Tennessee

- ✎ strong organizational skills,
- ✎ a strong financial position,
- ✎ a commitment to the long term,
- ✎ people skills,
- ✎ marketing savvy,
- ✎ a quality control mindset,
- ✎ a well-articulated idea,
- ✎ strong family support,
- ✎ passion for the idea
- ✎ creativity
- ✎ diverse managerial abilities, and
- ✎ good financial and production records.

Not all of these are necessary or sufficient conditions for success, but they increase the likelihood of success.

Various signals indicate over-zealousness and a lack of proper perspective and forethought. If one or more of these ideas are expressed during the course of your conversations, you should treat them as caution signals. Keep in mind, however, that people will use words and phrases because the words and phrases sound good or they've been heard before. Hearing them does not mean the operation is doomed to failure. Ask questions to find out what is behind their words.

- ✎ "We already know it will work."
- ✎ "If we build it, they will come."
- ✎ "We've got a good name for it already."
- ✎ "Now all we need is a feasibility study."
- ✎ "Let's stop talking and just do something."
- ✎ "We don't have any competition."
- ✎ "We don't need to advertise, it will sell itself."
- ✎ "If someone else gets this idea first, they will take the market from us."
- ✎ "We just need to get it into a restaurant or major chain store."

Often the line between creativity (thinking around the corner) and stupidity (not seeing the corner) is a fine one. Weigh all information before you make up own mind and even then you must recognize that the client's decision is ultimately the one that counts. Sometimes what seems to you an absurd idea will somehow turn into a successful venture. Who would have thought it possible 20 years ago that it would ever be feasible to sell a bottle of water?

## **Part 2. Questions to Ask about the New Enterprise**

What are the right questions to ask someone who comes in for help in evaluating the potential of a new farm enterprise? While diversifying products offers potential benefit, the extent to which farmers will increase net returns depends on their individual attributes, goals,

geographic region, technological feasibility, and competition. Be sure that your client writes down the answers as you work through the following questions. If he/she has previously written down his/her thoughts on any of these areas, having him/her bring that information to your first meeting will help facilitate discussion and make your time together more efficient for both of you.

The following list of suggested questions is long and may overwhelm your client. You may want to ask about broad areas rather than overwhelming your client with such a long list. Some of these questions he/she will not have answer to, but he/she will need to research the answers. The responses will give you some idea of the client's commitment to the new enterprise. Even after going through these questions, your client is still responsible for developing detailed budgets, financial statements, contingency plans, and a strategic business plan so that he/she can make a final decision as to whether the enterprise is feasible for his/her situation. A listing of other resources that can be used for more detailed analyses is at the end. When you have finished asking questions, have your client take the worksheet that is before "Resources" home to complete and bring back to your next meeting.

### ***Personal and Family Considerations for Your Clients***

- What are your goals and objectives for your business and personal life?
- Are your family members in agreement on this proposed venture?
- Do you have the resources (time, capital, knowledge, labor, land, equipment) you need to accomplish these goals and objectives?
- Are you willing and able to make any required sacrifices so that this enterprise will be profitable (time, life-style, privacy, personality changes, etc.)?
- What do you wish your business to look like five years from now?

### ***Enterprise Feasibility***

- Is this enterprise technically feasible for your location? Technically feasible means you have the soil, climate, and knowledge to produce your proposed product.
- How have you verified its technical feasibility, that is will it actually grow in your geographic location or can you obtain the necessary inputs for a value-added product?
- Is the proposed enterprise complementary or supplementary with existing enterprises or does it compete with them for resources (land, labor, equipment) and managerial time?
- What are your building, machinery, equipment, management, and labor requirements for producing the product?
- Is additional labor available in your area? Can you afford local labor?
- Do you have the necessary resources to produce the product?



## ***Market Factors***

- Have you clearly defined what your product or service is? Your description should include features such as size, quality specifications, varieties, and benefits to buyer.
- What market are you targeting? The target market includes alternative market outlets, the geographic location, and demographic and life-style characteristics of potential customers.
- Have you considered the number potential buyers, their annual per capita consumption, and average size of purchase?
- If a current market doesn't exist, can you create it?
- If a current market does exist, can you take some of that market from those already in it?
- Who are the competitors in your geographic region?
- What do you have to offer that makes you than better your competition? Is it possible to work with a competitor to offer a wider variety or selection of product?
- What is your expected sales volume? What is the minimum and maximum volume of product you believe you will likely sell in one season?

## ***Profitability Considerations***

- What start-up investment is required?
- Do you have or are you able to obtain the necessary start-up capital to establish the enterprise?
- How will you finance the annual operating funds necessary to continue the enterprise?
- How will varying yield and acreage affect profitability?
- How will the additional costs and returns of the new enterprise affect the cash flows for the business?
- How will the new enterprise impact the profitability of existing enterprises?

## ***Risk Considerations***

- What is the production, marketing, financial, human resource, environmental, and regulation risk associated with the new enterprise?
- How will investment of additional resources and the diversion of existing resources from present uses affect the financial risk position of the overall business?
- What are your contingency plans?

## ***Legal, Regulatory, Permits, and Insurance***

- What permits do you need?
- What employment regulations and taxes do you need to comply with?
- Have you selected a name for your business?

- What is your business structure?
- Have you filed for a tax identification number?
- Do you have to collect sales tax?
- Do you need any health department inspections or permits?
- What zoning regulations must you follow?
- Do you have adequate liability insurance?
- Do you need product liability insurance?

### *Miscellaneous Considerations*

- Do you or someone in your family have the management skills required for the new enterprise?
- If you don't, what will it cost (in dollars and time) to acquire them or to hire someone to provide them?
- Does the enterprise require any special record keeping for managerial decision-making or regulatory compliance?
- Do you need a continuous supply of special production inputs?
- How many of those input suppliers are available and where are they located?

## **Checklist to complete before next meeting**

Write out your goals for your new enterprise

Describe your products—features, benefits.

What market are you targeting? Where is this market?

What resources, machinery, equipment, labor, etc., will it require? Which of these resources do you currently have?

What are the start-up costs? Be as specific as possible. For example, trellis posts, trellis wires, labor to build, tractor and auger, number of bramble required, etc.

Do you have the necessary money to get the enterprise started? Where will you get the money?

What are your labor requirements? Where and at what cost will you find additional labor?

What production and financial risks might you face with this new enterprise?

List the insurance required for the new enterprise

General home and farm liability

Product liability

Special event insurance

What are the permits, inspections, zoning requirements for the new enterprise?

Do you need Good Agricultural Practices training (to reduce microbial risks in fresh fruits and vegetables) for you and your employees? Where do you get it?

If you require special inputs, can you get them? Where? For example, if you are organic, can you get the approved inputs?

List your contingency plans