

## Chapter 2

# Business Fundamentals and Marketing

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When you consider creating or joining a producer marketing association, you need to have a firm handle on what the business is about and in particular how you will market the product. In any type of organization, the only way to influence the direction of the business or evaluate the viability of the business is to understand some business fundamentals. This chapter introduces you to some basic business fundamentals by examining two essential business planning documents: the feasibility study and the business plan. The chapter then focuses on a particularly important part of the business plan, the marketing strategy.

### **BUSINESS FUNDAMENTALS**

No matter what approach your group takes in marketing products, it will need to consider some business fundamentals. Just because a business targets a nontraditional market does not mean it is exempt from some basic rules of economics. In fact, thinking through business fundamentals is even more important for novel business approaches than conventional ones. This is because new approaches to raising and selling food may include a greater amount of risk because more unknowns exist. If someone wants to grow standard winter wheat to sell into the commodity market, those concerned with the business (usually the farmer and the creditor) will have a relatively easy time determining how the business will operate because the market already has an infrastructure to supply the business and a market in which to sell commodity wheat. If a group wants to grow organic wheat to supply a particular brewers' market, it will need to prove to the creditor the ability to obtain the needed inputs and that a market exists for the product. In general, the more unfamiliar an outside party is with a type of business, the more you will have to prove to them it is workable. This is where the feasibility study and business plan come in.

Some of the most fundamental decisions you will make in bringing your products to market are determining the shape your business takes, understanding how it is financed, and knowing how you plan to market and move your products. Generally, other players in the market, most importantly financiers, will not enter into significant business relationships with you unless they have confidence your business has a

### Look for people who understand your business

Farmers have long understood it is easier to conduct business with people who understand farming. For example, bankers who do not really understand the financial risks and rewards involved with farming may be very hesitant to get involved in what seems a very risky business. This same idea applies to niche marketing. If your business model is truly original, it may be difficult to find a lender or other business partners who understand what you are doing, but it will still be worth attempting to seek out those who have some parallel experience.

reasonable chance of success. This is usually done with feasibility studies and business plans.

What your group's feasibility study and business plan look like will depend on the nature of your business. Some of the simplest endeavors may not even require formal versions of these documents. But no matter the business, the group will need to think through whether the idea will work. The feasibility study and business plan can help you do this.

*What is the difference between a business plan and a feasibility study?*

People who are forming a new business venture generally need to create a feasibility study as one of their first steps. If people find the idea feasible, much of the

information will then be used to create a business plan. The best way to understand these two types of documents is by comparison.

	<b>Feasibility study</b>	<b>Business plan</b>
<b>When is it created?</b>	Conducted during deliberation phase of project.	Created once it is decided to start the business. Revised throughout life of business.
<b>What are the contents?</b>	Looks at a range of business approaches to determine which would work best.	Focuses on one business plan; usually the one that was most attractive in the feasibility study.
<b>Who writes the document?</b>	Usually an independent third party.	Usually the participants in the business.

Source: *Cooperative Feasibility Study Guide*, USDA-RBCS RBS Service Report 58, Appendix A. [www.rurdev.usda.gov/rbs/pub/sr58.pdf](http://www.rurdev.usda.gov/rbs/pub/sr58.pdf).

If you intend to seek outside funding in the form of loans, grants, or investments, you need to prepare a formalized feasibility study to serve as a basis for a business plan. The business plan will function as a selling tool, part of your application package for funding, and as an indication of your business's ability to make money.

*Who needs to do a feasibility study?*

Anybody who is considering starting a business should consider creating a feasibility

study. The degree of novelty and complexity of the business and the need to persuade others of its viability will determine how detailed the study needs to be. For example, if you plan to plant some pumpkins in your back yard this year with hopes of selling them before Halloween to raise a little income for your family, you may not need to create a formal feasibility study because you will not have to go to possible lenders, stockholders, members, or partners for financial or managerial assistance. Nevertheless, even in this simple situation you may want to consider how much time and money the pumpkin patch will take and whether there is competition in the area. You will also want to consider which types of pumpkins to plant and when to plant them. Essentially, you will want to determine whether the pumpkin patch idea is workable and which approach makes the most sense.

On the other end of the spectrum, if you are starting a cranberry processing plant requiring large amounts of capital with dozens of other producers, you will need a detailed study you can show to possible lenders and outside investors. To increase outsiders' confidence in the study, you may need to employ independent third party consultants. In any event, the feasibility study will also be the basis of your original business plan.

*What is usually included in a feasibility study?*

A feasibility study can include many different things. The University of Wisconsin Center for Cooperatives created a manual in 1998 entitled *Cooperatives: A Tool for Community Economic Development*, [www.wisc.edu/uwcc/manual/cover.html](http://www.wisc.edu/uwcc/manual/cover.html), which states a feasibility study usually includes three areas:

1. Market issues. This area deals with the projected demand for your product, where your market is located, and what competition exists or will exist.
2. Organizational and technical issues. This organizational question considers what type of structure the business will take, who will serve on the board of directors, and what types of qualifications are required to run the business. The technical issues include the type of technology and equipment required to run the business, where the equipment will be acquired, and when it is possible to obtain the equipment.
3. Financial issues. Although it may be too early to obtain precise estimates of many of the financials related to the business, the feasibility study will require your business to begin the process of looking at where the money will come from and where it will go. Questions include estimating the start-up costs, operating costs, revenue projections, sources of financing, and possible profits.

*If we have a feasibility study, do we need a business plan?*

Yes. The feasibility study is designed to determine which idea will work. The business plan is designed to determine how that idea will work best. The business plan usually

delves much deeper in analyzing of the market and the operations of the business. Especially with a start up business, the business plan is critical for showing people the business has a reasonable chance of success.

The complexity of a business plan should mirror the complexity of the business. The list below includes elements of a plan for a value-added business so it may be more complicated than necessary for some other, less complex types of businesses

### **The business plan as your group's resume**

The Small Business Administration describes the importance of a business plan in the following way:

“A business plan precisely defines your business, identifies your goals, and serves as your firm's resume. ... It helps you allocate resources properly, handle unforeseen complications, and make good business decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan application. Additionally, it informs sales personnel, suppliers, and others about your operations and goals.”

United States Small Business Administration, *Business Plan Basics*. [www.sba.gov/starting-business/planning/basic.html](http://www.sba.gov/starting-business/planning/basic.html).

1. Introduction – Provides a summary of the business and how it will work.
2. Project/business – Includes more detail about the how the project will work, the mission, and the business and legal structure.
3. Management – Describes who will lead and manage the business.
4. External environment – Analyzes both the broader economic and social environment that the business will be part of as well as the industry competition.
5. Markets – Discusses who will buy your products, how you plan to reach these buyers and forecasts your sales.
6. Operations – Details how your business will use technology and labor to bring the product to market and how you will obtain these inputs.
7. Finances – Focuses on money matters, such as a budget, where the capital will come from, projected financial performance, economic variability, risk management, and contingency plans.
8. Implementation – Outlines how you will carry out the plan with milestones and timelines.

Source: Agricultural Marketing Resource Center, *Creating Your Own Value-added Business Plan*, [www.agmrc.org/agmrc/business/startingbusiness/businessplan.htm](http://www.agmrc.org/agmrc/business/startingbusiness/businessplan.htm)

Even with a sound business plan, not all businesses succeed. The sober fact is most businesses do not survive the first years. In an article on newfarm.org called *Romance vs. Reality*, [www.newfarm.org/features/0802/tall\\_grasses/index.shtml](http://www.newfarm.org/features/0802/tall_grasses/index.shtml), a key figure in one promising venture described what she thought were the keys to success and outlined some lessons. Tallgrass Prairie Producers Coop was a group of ten ranchers in Kansas who raised grass-fed beef. They did business from 1995 until 2000 when they decided they could not find a way to make the business viable. Annie Wilson, an active

member of the coop, stated the three keys to success were professional management, adequate volume to efficiently do business, and cost-effective operations. To obtain these three keys, a business must have an adequate supply and markets, and access to adequate capital should the business need to expand. The following list is adapted from Annie Wilson's observations:

1. The emperor may have no clothes. Many of the claims about market opportunities for sustainably raised foods may not be backed by fact. Sometimes overly enthusiastic farmers or advocates may whitewash some of the harsh realities of what can be a very tough business.
2. Utilize professional help when it is needed. Farmers cannot be expected to be experts in the world of food marketing and processing. You should invest in people who are.
3. Honest accounting. Be honest with yourself about how much time the business will demand. If you have to sacrifice other priorities for the business, is it worth it?
4. Do not rely on grants too much. Grants are wonderful, but they tend to be one-time infusions of money that can take a lot of energy to obtain.
5. Follow the rules every time. Be vigilant in maintaining the value of your brand to maintain credibility.
6. Price and convenience do matter. Although many consumers who support sustainably raised food may say otherwise, the real world suggests that price and convenience do matter to almost all consumers. If the product you produce is overly expensive or too difficult to obtain or prepare, consumers may shy away.
7. Seasonality can be a significant handicap. Most foods, whether plant-based or livestock, have some type of seasonality. Some customers, such as big food institutions, may not easily accommodate this seasonality.
8. Only be as different as you can afford to be. Some differentiation in the market might help you capture niches, but going to extremes to make your product different when no one is willing to pay for the difference is self-defeating.

This veteran advice includes a number of points on how important it is to have a good grasp of your market. The rest of this chapter deals with marketing issues because for all businesses, and especially for those farmers considering going into nontraditional markets, marketing is the most important part of the business plan. Without a viable marketing plan, it is pointless to think about issues such as capital formation or personnel.

## **MARKETING YOUR PRODUCT**

### *Why bother with marketing?*

All farmers need to determine how they plan to sell their products. In the traditional commodity agricultural model, farmers have a good idea of their market because of standardized rules and institutions. For instance, a farmer who grows number two corn

is practically assured to will have a market available at any time to sell the commodity. The farmer may not know the price, but knows that the grain-handling system and the world commodity market will accept the product. In terms of market information, the farmer can easily learn the estimated supply (or stocks) of corn as well as the anticipated demand from both public and private market news services. These market services even provide information on the price of the product in different parts of the country. All of this information greatly reduces the farmer's need to spend time on marketing the product. In the production contracting example, the farmer does not even own the crop or animal and does not have to worry about selling it.

A farmer looking for a different way of doing business other than the commodity model, might not find well-developed market institutions in new markets. Participating directly in this new type of food system means the seller can no longer rely on standardized marketing procedures and easily available market information. If farmers adopt entrepreneurial models intending to take over some or all of the marketing functions, they should be prepared to study the market for the products they want to produce.

The job of marketing is time-consuming, complex, and requires a completely different set of skills than those used to raise crops and livestock. This is especially true if you want to access higher volume markets such as grocery stores or institutions. Before you know it, marketing can become a full-time job. This is one of the main reasons farmers may decide to join with others to market their products. The numbers not only provide the volume needed, but joining with others makes it possible to seek outside help or spread the work involved with marketing.

"Marketing is not just about selling. It requires a clear and astute understanding of what consumers want and the ability to deliver it to them through the most appropriate channels for a profit."

Katherine Adam et al., *Direct Marketing*, ATTRA Business Management Series (1995), [attra.ncat.org/attra-pub/directmkt.html](http://attra.ncat.org/attra-pub/directmkt.html)

### Evaluating your market

Market research for farmers does not necessarily have to be a formal discipline or require the services of expensive consultants, particularly when a market already exists. In those cases market research may consist only of evaluating the relevant market and surveying the price structure. This research allows you to get a better focus on the profit potential of a business. On the other hand, developing market research for a product or service

that does not yet exist is significantly more difficult and speculative. Many times it requires the services of consultants, which can be a major expense, or the ability to educate yourself to a new set of disciplines.

An article published in the Alberta Agricultural, Food and Rural Development Division (2003), [www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex1132?opendocument](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex1132?opendocument), explains that market research can involve either primary or secondary information. Primary information consists of data you have collected

yourself from surveys or your own observations. Secondary information can come from existing data you can get from government or private resources. This not only includes how much of certain types of products are sold in your market, but can also include what type of people (age, wealth, ethnicity, etc.) live in your target market. You may also need to study your possible competition because their ability to produce products that can substitute for yours can have an impact on whether your business will be viable. Finally, you will need to be familiar with consumer trends. Some things will likely continue to be true for your market, but consumers may also change some of their buying habits. You need to consider how consumers' values related to health, taste, local communities, and the environment will change in the future to affect your business.

A relatively inexpensive way to test ideas for products, concepts, or advertising is by using a focus group. A focus group is a research tool that brings together a group of people who are representative of your market. An entry in Wikipedia, the free internet encyclopedia, [en.wikipedia.org/wiki/Focus\\_group](http://en.wikipedia.org/wiki/Focus_group), describes traditional focus groups:

“A pre-screened (pre-qualified) group of respondents gathers in the same room. They are pre-screened to ensure that group members are part of the relevant target market and that the group is a representative subgroup of this market segment. There are usually eight to 12 members in the group, and the session usually lasts for one to two hours. A moderator guides the group through a discussion that probes attitudes about a client's proposed products or services. The discussion is unstructured (or loosely structured), and the moderator encourages the free flow of ideas. Although the moderator is seldom given specific questions to ask, he/she is often given a list of objectives or an anticipated outline.”

### **Market differentiation**

One important way to market your product is by informing consumers of its unique qualities. This can be done through certification, appellation of origin, relationship marketing, or utilizing some attribute for which buyers will pay a premium. Often efforts at product differentiation are framed for consumers by presenting a human face behind the product; this is a way for consumers to have some identity with the food that graces their tables. The consumer is no longer buying a generic product with no idea where it came from, now they are buying pork loins that came from the Biensen family farm or sweet corn from a friendly face sitting in a lawn chair next to a pickup truck .

If you cannot say anything about how your product is better because of what it is or what it stands for, then economic theory indicates that buyers will ordinarily select purchases based on price. On the other hand, if your product possesses a desirable quality, then it may be possible for an alternative marketing organization to find customers.

Identifying positive differences in your products creates opportunities to tell consumers why the products are better and can influence consumer buying decisions.

### *What are some ways to differentiate a product?*

There are a variety of ways to differentiate your product. Some of the most common are by differentiating:

- The way you produce the product;
- The way you package the product or make it available to the public;
- The way you brand and advertise the product.

If you are going to the trouble and expense of actually producing a differentiated product, you should follow through on the packaging, branding, and advertising of the product to highlight its unique nature. To do so, you will need to continue with your differentiation effort all the way to the consumer to capture the value associated with the special product.

#### **Fair trade coffee and the ethical consumer**

More than a few consumers have been asking themselves how their choices affect the greater world beyond their doors and whether their consuming choices can effect social change. One answer to this question is the fair trade movement.

Fair trade coffee, for example, starts with the idea farmers should earn enough from their work to build sustainable communities while preserving ecological values and practicing sustainable farming methods, something that ordinary distribution systems may not pay for. This is done by developing a price structure guaranteeing farmers a floor price set far enough above world coffee prices that the true cost of production is met. In a typical fair trade program, producers' cooperatives and buyers negotiate a floor price, what Michael Rozyne of Red Tomato calls a "dignity price". The products are eligible for fair trade certification through a number of independent third party certification groups. The products are marketed as premium products that are responsibly produced.

Fair trade programs first arose in coffee production, where market prices have marginalized small farmers in the developing world, but the concept has been extended to other crops such as cotton and cocoa.

### *How is a product differentiated or set apart from similar items?*

Some of the approaches that have worked for farmers include:

- Using a particular production technique, such as organic production or meeting animal welfare standards that may be certified by a third party;
- Growing a unique variety or breed that has special characteristics;
- Differentiating the product in terms of freshness, flavor, and purity; and
- Producing the product according to certain social values - for instance, fair trade products.

**Identity preservation**

A popular technique used in differentiation is called identity preservation. Identity preservation occurs when the food or processing system preserves the identity of certain attributes of the product, such as what type of seed was used, where an animal was raised, or what production technique was employed. Such identity preservation may require segregated handling facilities and more recordkeeping. Many times this is the only way to command a better price from the market because consumers need to have some confidence the product is what you say it is. Examples of product markets that have used identity preservation include organically produced grain, high oil content corn, or a variety that has utility apart from the commodity system such as canola grown for industrial uses.

**Sustainable agriculture and joint producer efforts**

Joint producer initiatives can serve as a link between two different dynamics occurring in rural communities. The first dynamic involves rural citizens' searching for economic opportunities to sustain rural communities. Many rural people find the best way to cultivate a number of local entrepreneurs is to tap into a second trend occurring in the food industry: the desire for food with special qualities or raised in a particular way, such as organic food, food raised locally, or animals raised with particular husbandry practices.

Rural entrepreneurs may find they have the ability and desire to participate in some of the different ways of raising food but have trouble securing markets or managing the processing, marketing, and supply management required to be successful. By joining with other producers, farmers might be able to clear these hurdles.

**Relationship marketing**

Relationship marketing emphasizes the retention of customers, as opposed to attracting new customers. It is typically used with higher value goods where the seller has more than one product in which the buyer might be interested. Many times these two qualities are inherent in marketing niche products to consumers. The goal of relationship marketing is to retain repeat customers by getting closer to them. The process is done by creating channels for communication, interaction, information, service, and delivery. Many times smaller, direct market enterprises have an advantage in this area. This can be as simple as striking up a conversation with your customer at the farmers' market. Community Supported Agriculture operations where farmers have seasonal relationships with their customers may be the epitome of relationship based marketing. As with all brands and businesses, it is very important that you maintain the integrity of the business for relationship marketing to work. If your business has a story that includes certain standards and you do not meet those standards, your customer support will soon vanish.

### Think about the future

Although it may seem premature to be concerned about growing your business too fast, the feasibility study and business planning stage is a good time to think about some of the long-range possibilities for the business. Tom Lacina, the Executive Vice-President of PMO Wildwood in Grinnell, Iowa, started a small tofu plant on his farm that soon mushroomed into being part of the largest organic soyfood company in the world. Tom offers this advice to people considering starting their own food business:

- Know your limitations. Be familiar with your capabilities and what you are willing to do and pay attention to these factors as you plan the business.
- Keep the business on a scale you can manage and understand. You and the business need to grow together. If the business turns into something you cannot handle, chances are it will go in directions you will not want it to.
- Look at the strings attached to the money. Occasionally certain loans or grants might be available to you, but because of the timing or because of how you will need to change your business plan to meet certain requirements, you might be better off not taking the money.
- You need to be your own best expert, but you don't need to be the only expert. Seek out people with solid business experience to help with the business and do not be afraid to pay for them. That said, you cannot hand over the major decisions to others - you need to be willing to know enough about the business to question expert advice and make sound decisions. If you are not willing to dig in to these details, then maybe the business is not right for you.
- Do not rely on others to do the heavy lifting for you. State agencies, university extension, and other government advisors can help review your business plan or organize your effort, but you cannot rely on these groups to do the heavy lifting of actually working through the issues and creating the business.
- Maintain your own personal safety net. Much of the financial assistance available to you might come with important conditions – that guaranteed loan might guarantee the lender will get paid, but it does not guarantee the government will not come back to you to eventually recover the money. Consider whether you want to risk your personal financial security for the new marketing opportunity. [www.wildwoodnaturalfoods.com](http://www.wildwoodnaturalfoods.com)

**CONCLUSION**

The critical first step in starting a producer marketing association is to consider business fundamentals. Your group can do this by creating a feasibility study and a business plan. These disciplined exercises force producers to look at the crucial factors that will determine the success of the group. The most important aspect of the business plan, the marketing approach, may very well dictate what type of marketing organization your group decides to adopt. The next chapter surveys these different types of marketing organizations.

## **Additional Internet Resources for Business Fundamentals and Marketing**

### **Feasibility Studies**

- [Business Feasibility](#) (Iowa Business Network)
- [Cooperative Feasibility Study Guide](#) (USDA – RBS)
- [Evaluating Your Chance for Success](#) (CCH Business Owner's Toolkit)
- [Feasibility Analysis](#) (Ag Marketing Resource Center)
- [Feasibility Assessments for New Ag-Ventures – A Framework](#) (Agriculture, Food and Rural Development, Alberta, Canada)

### **Business Plans**

- [Business Plans](#) (Ag Marketing Resource Center)
- [Guide to Business Plans](#) (Findlaw.com)
- [How to Build a Business Plan](#) (Entrepreneur Magazine)
- [Planning Your Business](#) (CCH Business Owner's Toolkit)
- [Writing a Business Plan](#) (www.business.gov)
- [Writing a Value-Added Business Plan](#) (Ag Decision Maker)

### **Marketing Your Product**

- Overview
- [Advertising and Marketing](#) (Findlaw.com)
- [Ag Decision Maker Marketing Guide](#) (Ag Decision Maker)
- [Agricultural Marketing](#) (Penn State University)
- [Marketing](#) (Ag Marketing Resource Center)
- [Marketing Your Product](#) (CCH Business Owner's Toolkit)

#### Marketing Research

- [Analyzing the Market Environment](#) (CCH Business Owner's Toolkit)
- [Market Research](#) (Ag Marketing Resource Center)
- [Marketing: Will it Sell?](#) (Agriculture, Food and Rur. Dev., Alberta, Canada)
- [What is Marketing Research?](#) (www.business.gov)

#### Marketing Plans

- [Building a Successful Marketing Plan](#) (CCH Business Owner's Toolkit)
- [How To Create a Marketing Plan](#) (Entrepreneur Magazine)
- [Marketing Plans](#) (Ag Marketing Resource Center)
- [Sample Marketing Plan](#) ([www.mplans.com](http://www.mplans.com))

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