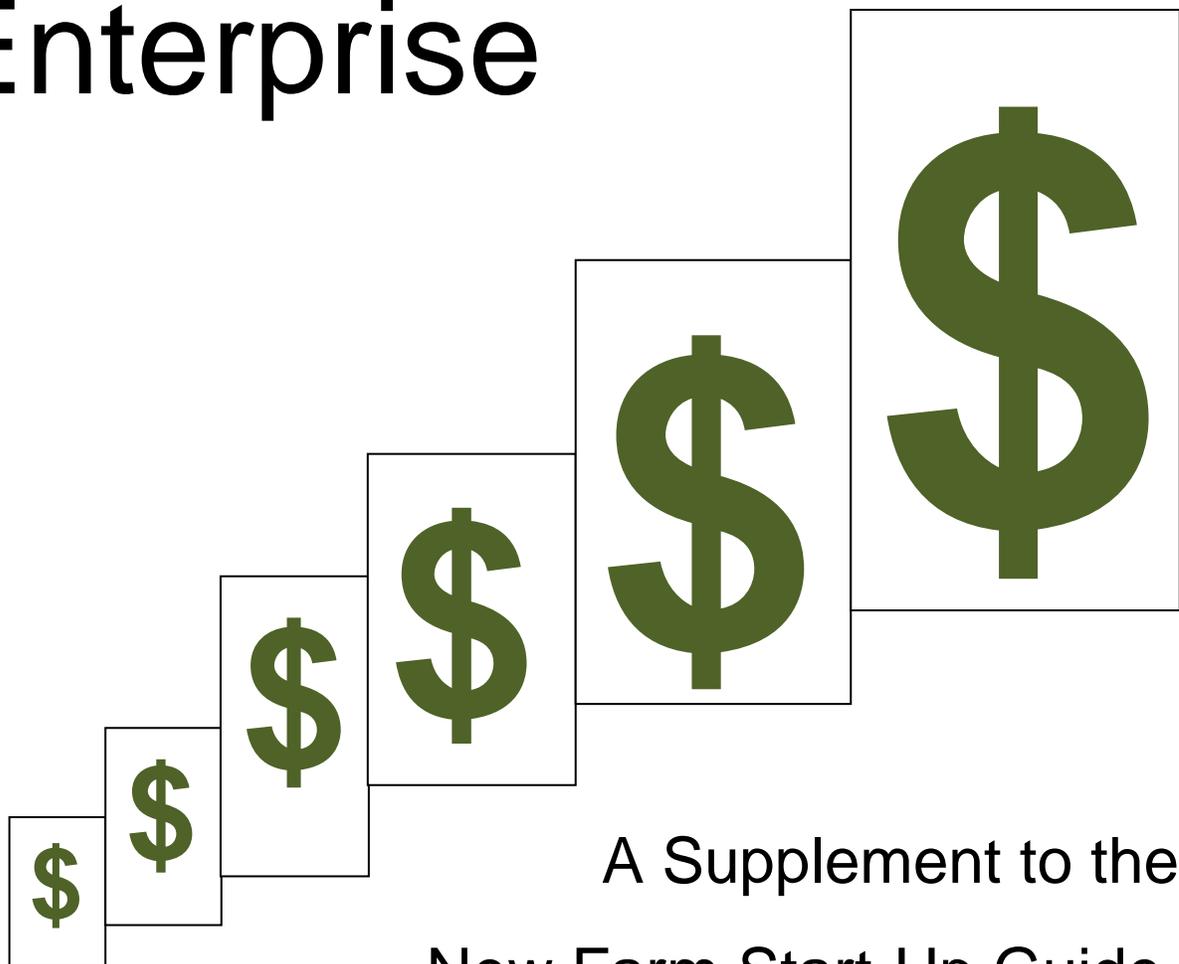




Growing Forward 2

A federal-provincial-territorial initiative

Growing Your Farm Enterprise



A Supplement to the
New Farm Start-Up Guide

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1 Introduction

Congratulations on starting your farm enterprise¹. You have done what many only dream of.

Now what to do? Where will you be in five years? 70% of small farm businesses have closed or dramatically changed after five years. Only 30% are still operating successfully. This guide is to help you be part of the 30%, to have your farm be successful and become a major contributor to your household income.

Almost half the farms in the province have annual sales less than \$10,000. Three quarters have annual sales less than \$50,000. Farms with sales less than \$10,000 make a minimal contribution to the household income. Once over \$10,000 in annual sales the contribution to household income increases and once past \$50,000/yr the farm business can provide a similar contribution to household income as an off-farm job.

So why don't a higher proportion of small farms grow their farms to where they sell over \$50,000 in annual farm gate sales? It has been suggested that the risk return ratio changes once a business is established. At start-up the potential return is high and the downside risk (it's only money) is not that high. Once a business is started, major changes to the business may increase returns but the risk of losing both money and the business is higher.

This guide is not focused on numbers. It is about looking forward, about moving your farm business from a start-up to an established, vibrant business. It is about your intuition, insight, passion and finding the right level of risk for you and your family. The passion and determination that helped you start your business are the attributes that will help you grow your business.

The guide first talks about why growth is important and the types of growth that are typically associated with farm enterprises. It then offers strategies to help minimize the risk inherent in change. We hope that one day you may trust your intuition and passion and take that leap of faith to grow your farm enterprise!

¹ New Farm Startup Guide was published in 2011 to help individuals wanting to start a small or medium sized farm business in B.C. http://www.agf.gov.bc.ca/resmgmt/publist/800Series/810202-1_New_Farm_Start-Up_Guide.pdf

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3 A Look at Growth

3.1 Why Growth?

You may be comfortable and successful in your farm business and see no need to grow. However, in business, as in life, if you aren't moving, changing and improving you eventually stall or decline.

“Even if you're on the right track, you'll get run over if you just sit there.”

Will Rogers

There are a variety of reasons why successful farm businesses need to grow:

- a. Keeping up with the industry: Production systems and management practices evolve over time. Farms that do not keep up with these trends find themselves facing higher costs and sometimes shrinking margins.
 - I. The average size of a dairy herd in BC has doubled from approximately 60 cows in 1980 to over 120 cows in 2010. Farms that did not continue to grow with the changing dynamics now find it very difficult to catch up.
 - II. The first berry picking machines covered 5 – 10 acres. Newer models can service 20 acres, and pick more efficiently. Farms machine harvesting 20 acres with a new machine will have the lowest harvesting cost per pound of berries produced.
- b. Responding to a change in the market: Agriculture is a dynamic business. Some sectors can go through significant changes. Two examples are new varieties in the tree fruit industry and BSE in the beef cattle industry. Positive response to these market changes can be to grow or change the farm enterprise.
- c. Responding to other pressures: This may be prompted by a change in the market as noted, pressure to include children in the farm business or simply the desire to make a big leap forward.

Growth may mean changing how you do business, investing in new technology, adding employees, delegating responsibility and often accessing more capital.

3.2 Types of Growth

Each farm businesses will have a unique approach to growth. Approaches to growth can be grouped into three general types depending on the characteristics of the farm business and the comfort level for risk: doing more of the same, doing things differently or doing different things.

3.2.1 Doing more of the same (staying in the comfort zone)

This is the common approach to growth – getting bigger doing the same thing. The farm keeps operating within its area of expertise and attempts to gain economies of scale by increasing

output. Examples are a dairy farmer milking more cows, a grain farmer planting more acres or a sheep farmer expanding the herd.

Because there is low risk in doing more of the same thing many of your competitors will be following a similar approach so it is more difficult for your farm to get out in front of the industry.

3.2.2 Doing things differently (stepping out)

For farms on a limited land base or producing a commodity with poor returns, doing more of the same thing may not be an option. To expand output the business needs to do things differently. Doing things differently can be through diversification and/or intensification:

- a. Diversification. Diversification involves producing different products or expanding (value adding) the product line you currently have. For example, a berry farm producing for the direct market may consider producing jams or other further processed products from the berries. A market garden vegetable farm may wish to add cut flowers. A small sheep operation selling lambs to the auction market may consider arranging processing and selling direct to customers.
- b. Intensification. Intensification is producing more from the same land base by changing the production system. For example the small sheep farm may adopt rotational grazing strategy that will sustain more ewes on the same land base; the market garden vegetable farm may add a hoop house for propagation enabling more crops per year on the same land base.

3.2.3 Doing different things (taking a leap)

Doing different things is about combining imagination, intuition, passion and some business sense into making a major shift in a farm business operation. While good management accounting is a key part of a successful business, inspiration for taking a leap forward does not come from the numbers.

“Looking for inspiration in the numbers is like driving while looking in the rear view mirror.”

Anonymous

Imagination and inspiration drive many positive changes in our lives. Imagination can be defined as creating new ideas from mental imagery. Inspiration is a motivating action or influence that results in creative works and productivity.

Successful leaps of faith often start with imagination that is driven by inspiration. Doubters will counter with logic. Beware the doubters!! After checking out their arguments, think of the quote from Albert Einstein:

“Logic will take you from A to B,
imagination will take you everywhere!”

Albert Einstein

Taking a leap of faith often takes the business to a place that exposes opportunities that were not previously considered. It creates opportunities that did not seem within scope of the existing operation.

The general level of risk and return of the different approaches to growth can be summarized as:

Approach to Growth	Level of Risk	Potential Return
Doing more of the same	Low	Low
Doing things differently	Medium	Medium
Doing different things	High	High

4 More on Taking A Leap of Faith

When Ang Lee accepted the Oscar for best director (2012) of the movie *The Life of Pi*, he thanked Twentieth Century Fox for taking a leap (of faith) with him. The book titled *The Life of Pi* had complex images that many in the movie business thought could not be effectively reproduced on screen. Ang Lee and 20th Century Fox took a leap of faith that they could.

There is likely an example in your area of a farm (or other business) that has taken a leap of faith to make a major change in their business. Not all are successful, but the ones that are successful end up far ahead of the competition.

Taking a leap can be scary and risky yet, if successful, can be incredibly rewarding both emotionally and financially.

The thought process around taking a leap is similar to taking a small step forward. So while the balance of the guide focuses on taking a leap – the same principle of planning and risk management apply for all levels of incremental growth in your farm operation.

The following brief stories of farms that took successful leaps of faith provide some context for the discussion on risk managing your leap.

4.1 The Story of Two Berry Farms!

Once upon a time, a long time ago (well 25 years ago) there were two berry farms, farmer A and farmer B. They lived across the road from one another; both farmed 40 acres, both grew raspberries and strawberries primarily for the processing market and both did some pick your own and direct sales from the farm.

Farmer A decided to try and sell more direct market and less to processing. He took a small leap – he built a permanent structure for direct marketing. He wanted to broaden the time he had fresh product available for his customers so he planted more varieties of berries. To sell more of his berries direct he started to make jams and then he took a major leap - he built a bakery to make pies and scones with his berries. The farm business grew so farmer A acquired more land. He expand the size of the farm market store, added a deck where people could eat his pies and scones and provided some animals for the children to pet. Recently farmer A took a second giant leap of faith – he added a fruit winery to the farm.

Currently farmer A farms 200 acres and sells 80% of the product through the farm market either as fresh product or further processed products. Farmer B farms the same land and produces raspberries, strawberries and blueberries primarily for the processing market.

4.2 Growing a Farm in a Remote Location!

It is often said that the three keys to success in small business are location, location, and location. Farms can't always pick the best location for direct sales to consumers. Consider the family with 65 acres, 15 kilometers from an Interior town of 10,000 people. How do you develop a farm business? They had skills in agro-forestry so started with Christmas trees and Christmas wreaths selling direct from the farm (by appointment) and at farmers' markets. With a small market their approach to growth was to provide a broader range of products available throughout the year. At the same time the farmer became engaged in the community and helped develop a farm direct marketing network.

They identified opportunities in the market and tried to meet them. Some failed and some worked. They now have a farm store, produce birch syrup, have a B & B and continue to explore diversification opportunities.

4.3 Taking a Giant Leap of Faith!

The family of a large dairy farmer wanted to transfer the farm operation from dairy cows to horticulture crops. First step was growing blueberries and raspberries. Then, based on a promise from a processor to take all production, a giant leap – 80 acres of blackberries. The processor price for the yields achieved at their farm location did not work. The farm had to find a higher value use for the berries. Another leap – a fruit winery. While the farm produces a variety of fruit wines, the blackberry wines are the largest sellers and are sold from the farm, in local outlets and to export markets.

4.4 Changing with the Generations!

Four generations, four changes to the farm operation. Many years ago the children of a dairy farmer (that moved west from a prairie grain farm) said to their parents – we would like to keep

farming but we really don't like milking cows. We would like to grow chickens. And so they did. They raised a family and when their children were ready to start their own lives they said – we would like to keep farming but we really don't like chickens. We would like to grow plants. And so they did.

They developed a nursery business and raised a family. In searching for opportunities to grow the business they identified adding a bistro to the nursery as a growth opportunity. At the same time one of the daughters had chosen to become a chef. She is now operating a bistro on the family farm.

When asked how they considered the risk of changing the farm operation with each generation the response was – *“we just asked ourselves, what is the worst that could happen?”*

All these operations took a big risk and were successful. Not all farms survive major changes. Are there strategies to reduce the risk of taking a leap and increase the potential benefits? Can we shift the risk-return balance more in favour of the farm business? The balance of the guide presents strategies for preparing for growth on your farm and for minimizing the associated risk.

5 Preparing for Growth in Your Farm Enterprise –Risk Managing Your Leap

This section assumes you have developed a farm business plan for growth which includes a detailed marketing plan and a detailed financial plan. In addition:

5.1 Do Your Research!

While inspiration, passion and intensity are critical for a successful leap, even they cannot overcome structural barriers to success.

- When Kiwi fruit became popular some new farmers rushed to plant stock before checking the climate data in their area and the micro climate on their property. Based on average climate in the Lower Mainland, kiwi will be destroyed by frost one out of three years.
- Many farmers leapt at one of the 'new' livestock endeavours; ostrich eggs, emus, llamas, fallow deer and others before checking on the market for the final product after the price of breeding stock softened. The market for ostrich meat, fallow deer, emu oil and others can probably be supplied by just a few farms. You have to be the most efficient producer and best marketer in these businesses to be successful.
- Many producers leapt at the opportunity to grow ginseng based on the high market price. They did not check the source of the market demand. Much of the ginseng was not being sold through formal marketing channels. When the informal channels were closed the price plummeted.

In the examples of successful farmers, they leapt into a place that had an established market. The berry farm built a bakery – there is a large market for good bakery products. There is an

established market for fruit wine. There is much more risk associated with leaping into the **unknown** than leaping into the **known**.

Knowledge reduces risk – do your research!

5.2 Deliver Your Marketing Strategy!

No matter how good your marketing strategy – you need to deliver it to be successful. A framework for delivery can be based around the five things you need to ‘be’ to successfully market in a local area. They are:

1. Be found
It is difficult to sell to people that do not know you exist. To be found you need to be **where your customers are looking**. Signage, local direct market publications and most importantly be on the Internet and social media. More on this in Section 5.7 ‘*Learn to Love Technology*’.
2. Be relevant
Within the product line you sell, tastes and preferences change. If you are selling apples you need to be selling the new varieties of apples. If you are selling garden greens you need to grow what is currently in fashion!! Visit farmers’ markets. Look at the offerings in the local supermarket – what is new?
3. Be aware
Know who your completion is in your market. A community with a small population can only consume so much fresh garlic. If you are competing head to head with an established producer(s), consider a different crop mix, marketing channel or method to differentiate your garlic from the others.
4. Be engaged
For farm operations in small communities it is important to be engaged in the community. The farmer in the remote location example became involved in the farmers market, created a local farm marketing association and got involved in local politics. By being engaged in the community, at whatever level you are comfortable with, the community will become engaged in your farm business.
5. Be accountable:
 - To yourself –
There is little value in growing your business if you don’t also grow your profitability and grow yourself as an individual. It is very difficult to move a business forward unless you are prepared to delegate some of your current work to other partners in the business or to employees. How do you decide what to delegate? **Do the things that get you out of bed in the morning** – delegate the rest. More on being accountable to yourself in Section 5.5 ‘*Take Time Off*’ Section’.
 - To your Staff –
Your employees are the face of your business. When your customers meet your employees they are really meeting you. Teach them to be knowledgeable about your products and the philosophy behind your farm business. Human resources is discussed in more detail in Section 5.6.

- To your Customer –
This is the other side of telling your story. You must be accountable to make certain that you deliver your story. If you cut corners your customers will know and it will harm the trust they had in you. They will not complain– they will just quietly stop coming.

5.3 Listen Differently!

Part of being engaged is listening to your customers at the farm and to general comments you hear during activities off the farm. But great opportunities come, not from the spoken words, but from recognizing the underlying interests in the words you hear and actions you see.

The story of a vegetable farmer in St. Louis, Ohio, helps demonstrate how understanding your customer's underlying interests can uncover opportunities.

In the early 1980's (long before direct marketing became popular) the farm produced vegetables and sold them wholesale in the St. Louis area. One fall, when his children were home from college, the farmer mentioned that he had extra pumpkins that year. His son suggested they put some in a wheelbarrow at the end of the driveway with a for sale sign – they lived on a fairly busy road. The next day the pumpkins were gone. They filled it up again with a similar result. The next year they filled a hay wagon with pumpkins with the same result again – all gone.

The farmer could have concluded that this was a great way to sell extra pumpkins. But instead he recognized that there was an underlying interest in the people that were buying pumpkins at the end of his driveway. They preferred to buy direct from the farm.

The farmer began to change the farm marketing strategy away from wholesale markets to farm direct sales. The farm now has a large on-farm market, hosts school tours and a large Halloween celebration.

The farmer also recognized early that customers valued more than the products he sold. They valued the farm 'experience'. The farm began to charge more for pumpkins in the field (that came with an added farm experience) than the ones already picked. It is unlikely that any one customer said 'I value the farm experience'. However collective comments reveal this underlying interest – an interest people are willing to pay for.

Two of the children now live and work on the farm.

5.4 Prepare to Learn from Failure!

"It is impossible to live without failing at something," Rowling said, "unless you live so cautiously that you might as well not have lived at all, in which case, you fail by default." ²

The intrinsic value of failure is a lesson that should not be lost. Failure can teach not only what one is doing wrong, but also how to do it right the next time. It can be a useful, even

² J.K. Rowling, author of the *Harry Potter* series, in her 2008 commencement address at Harvard

transformational, force for better business practices. And it is best not to shove it under the rug, because it is, at some point, inevitable. ³

Growth cannot happen without some failures along the way. Effective people learn from their mistakes. This is equally true for businesses. So if you haven't experienced a failure in your farm business you are likely not pushing hard enough and probably not growing to your potential. Be ready to learn from your next failure.

If you want to succeed, double your failure rate.

Thomas J. Watson, President, IBM

5.5 Take Time Off!

For your health and the health of the business – take time off. Running a successful business takes commitment, intensity and tenacity. It also requires reflection, innovation and consideration of other perspectives. Without some downtime for your self, time away from the business and time to have fun, it is more difficult to be reflective, appreciate different perspectives and incorporate innovation.

I don't know if it is your state of mind, the law of attraction, or some other inexplicable phenomenon, but great stuff happens when you let go! ⁴

5.6 Plan your Human Resources!

Growth based on you doing more of the same thing is self limiting. When you find and develop a productive employee you will wonder what took you so long!! Employees are liberating – but also require some work. They force you to plan your farm work well in advance, but with the appropriate training and guidance an employee can free you up to do the things you are most skilled at.

Design a job on your farm to meet your need. If you just need someone 1 day a week – there is someone out there that would value that job. If you want someone Monday, Wednesday and Friday morning – there is someone that would value that.

Some shy away from hiring based on fear of payroll accounting and the hiring and termination parts of managing human resources.

Accounting for payroll has been simplified with access to on-line payroll companies. This is inexpensive and all you need to provide is the employee information and the hours worked. They do the rest.

Some very simple rules for hiring and terminating:

³ Tim Ogilvie. CEO of Peer Insight.

⁴ Start-upnation: Measure and Analyze Your Current Status

Hiring employees. There are a variety of places to post jobs – most electronic. There are three simple rules when hiring:

- Check references.
- Check references.
- Check references.

Do not provide your contact information before you check references. If a potential employee cannot provide references – even personal references for first time workers – be very cautious. Call every reference. Ask questions related to the person’s suitability for the work you are offering.

Terminating employees. Terminating an employee is difficult. It is less difficult if you:

- Clearly explain the job requirements in advance (and document it)
- Talk to the employee when the requirements are not met (and document it)
- If poor work persists advise the employee that if it continues they will be terminated (and document it)
- If no change occurs, terminate with proper documentation.

Will Rodgers once said – *“It is not how much you pay a person, it is what he costs you that matters”*. Train your employees well. The time spent training will pay off many times over.

There is much more information on hiring and managing employees in the Guide to Developing a BC Agriculture Employee Handbook. http://www.agf.gov.bc.ca/busmgmt/labour_mgmt.htm

5.7 Learn to Love Technology!

Don’t let technology scare you into not using it to its full potential. Accept that your 10 year old child, grandchild, boy next door is more comfortable with the current technology than you. All the more important to understand how it can be used effectively in your farm enterprise. Some of the reasons you need to love technology are:

- Marketing. Your customers are looking for you on the Internet and social media. If you are not there, they won’t find you, but they will find your competitor who is there. If you don’t know how to be seen on the Internet, ask someone to help you – or pay a service provider. This is no longer an option if you want to move your farm business forward!
- Direct Selling. While a web page, tweets and Facebook page are great for getting information out, e-mail is great for taking orders. If you are thinking of a community box program or taking orders for direct pick-up at the farm, e-mail is a must.
- Problem Solving. The internet is a powerful problem solving tool. . If you are having a challenge on your farm it is likely others have had a similar challenge and one of them has produced a video or blog on how they solved it. **Put your local area filter on all information on the Internet** but it can be an amazing tool to help solve issues that inevitably come up on the farm.

5.8 Use Trial Balloons/Test Market!

With some planned changes you can 'test' your change to see if your customers respond favourably. In the berry example farmer A could use a rentable commercial kitchen to make some pies and try selling them in his farm market before he made the leap to build a full bakery. In the changing generations' example, the nursery started slowly while the chicken operation continued. They developed a niche within the nursery industry before making a major commitment and closing the chicken operation.

5.9 Embrace Good Debt!

Few people could buy a home without taking out a mortgage (debt). Some could not buy a vehicle without a bank loan (debt). The use of debt to purchase assets that provide a benefit is intertwined in our lives. The same principle applies to a farm business. If your farm business is to grow and develop, it is likely at some point you will have to borrow money to obtain an asset. As long as the asset provides a financial benefit that can be used in part to service the debt and to add to profitability of the farm operation, it is a good thing.

Incurring debt to get a fancier tractor or truck than is needed for the farm operation is not good debt. Avoid this temptation.

5.10 Maintain Good Management Accounting!

If you are not a numbers person, and have delegated the accounting function to one who is, there are some key numbers related to your business that you need to know intimately!! These are often called benchmarks. You should know what they are, what they should be and what the trends have been. They are the key profit drivers in your business.

Some examples for the berry farm would be:

- Kg of production/ ha for each berry type
- Revenue/ ha for each berry type
- Gross Margin/ ha for every berry type
- Average revenue/ customer visit
- Labour cost/ ha in production
- Labour cost/ \$ sales in the farm store

5.11 Have a Fallback Position!

Another Will Rodgers saying – *“It is easy to start a business, anyone can do that. It is knowing when to close a business that is important”.*

Not all change will work. If you have done your research, minimized the risks and applied your passion and tenacity to the business you have a good chance of success. Strange as it may seem it is important to plan for failure before you start. What happens if things don't go as planned? What will I do then? It is often easier to move forward when you have considered what will happen if it does not work out.

5.12 Further Thoughts on Managing Risk!

While every farm situation has some unique characteristics the four farms interviewed for the examples in Section 4 had some common characteristics:

- Market Research. All farms did extensive market research. They knew their market well before they made a leap forward. If there is an established market for your product, then the only issue is whether you can deliver a quality product at a competitive price to earn a share of that existing market.
- Use Expertise within the Farm Family. In the two berry farms story the wife of Farmer A had experience in baking. In the nursery story the daughter of the farmer had taken chef training. In the remote location story the farmers had forestry training.
- Protect your Core Business. In the two berry farms all the moves by Farmer A enhanced his core business which was selling berries direct. He added value to the berries and enhanced the farm experience but the core business stayed the same. In the remote farm all the diversification components complimented the farm experience. In the changing generations the nursery sales increased with the addition of the Bistro.
 - ‘Grow Wisely’ is often used to capture this idea. Don’t let one aspect of your farm grow too fast for the other parts of your farm enterprise to keep up.

When asked how they dealt with risk, all four farmers had to search for a response. Once they had done their market research and had put the appropriate expertise in place, all that was left was applying their tenacity. And what is the risk in that?

What is the worst that can happen? When you are comfortable with the answer to that question, you are ready to do!

It seems appropriate to end with a Will Rogers quote:

“You've got to go out on a limb sometimes because that's where the fruit is.”

Will Rogers

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