Pivoting your Farm Production and Marketing Plan During COVID-19

Chris Bodnar
23 April 2020
This webinar is delivered by the BC Ministry of Agriculture
Understanding Risk

- Every business activity has inherent risk
- The current crisis amplifies some risks, but may also cause us to ignore others
- Businesses that were in a weak position going in may not survive
- Being able to anticipate risk and plan for it is a very strong asset.
  Don’t say “That’ll never happen” . . . Because it will
  Instead ask, “If this happens, how can we respond?”
- Ignoring risk is irresponsible.
- Embracing risk and planning helps reduce stress and puts you in a stronger position.
What risks are we accounting for?

Immediate risks:
- Loss or disruption of marketing channels (restaurants, markets, etc.)
- Difficult to plan for the rest of the season
- Disruptions to cash flow
- Potential for higher operating costs and/or lower revenue per market outlet

Longer-term risks:
- High likelihood of an economic depression
- Longer periods of instability and subsequent waves of infections
- Less disposable income and lower consumer confidence
- Lack of storage capacity for storage crops
Review Risks Regularly

Has anything new emerged?

How could this impact our business?

What changes can we make to adapt?
Know Your Numbers, Evaluate Your Crops

Planning to reduce risk
What do you know about your crops?

If you already do Cost of Production Analysis, you should have a good understanding of your crops’ margins:

- Which crops provide you with the best profit potential?

If not, take time to determine your most profitable crops:

- These are not necessarily your highest-revenue crops
- Some crops are popular, but also have high production costs (labour, fertility, packaging)

Use Enterprise Budgets to support your crop evaluation:

- E.g. KPU’s Institute for Sustainable Food Systems has a set of Enterprise Budgets based on actual farms in the Lower Mainland.
Popularity vs Profitability

• Popular does not equal profitable
• Each crop is going to have its own cost of production
• How much does it cost me to grow this crop?

When you can answer this question, you can make strategic decisions about what to sell, and at what price.
Production Costs vs. Marketing Costs

• What does it cost to produce a crop?
• What does it cost to market a crop?

Differentiating between production costs and marketing costs allows you to see them as separate enterprises, and from there you can make strategic decisions about where and under what circumstances you market your products.
Big Picture Analysis

Step 1: Add up costs (including your labour and a profit goal) for the entire operation.

Step 2: Divide by acreage, beds or bed feet.

Step 3: Divide by yield of a particular crop for that same unit of growing space.
Big Picture Analysis:
Steps 1 and 2

Step 1: $250,000
Step 2: 39,568 bed feet

$250,000/39568=$6.31

Costs per bed foot across entire operation: $6.31
Big-Picture Analysis, Step 3: Carrots

Step 3:

• In 2019, 7810 pounds of carrots harvested.
• Grown over 2100 bed feet.
• Yield per bed foot was 3.72 pounds.
We expect each bed foot to generate $6.31

On average the price received was $2.50/lb.

At 3.72lbs per bed foot, Carrots generated $9.30/bed foot.

If we divide $6.31 by our yield of 3.72lbs/bed foot, we learn that $1.69 is our minimum price for this product.
Setting prices

• Use your Cost of Production as a “Basement Price”
• Basement Price might be your wholesale price
• Add a 50% mark-up for Direct-to-Consumer sales
Use Your Numbers to Make Decisions

If you have crops that clearly lose money, either cut them now or determine what price you need to charge.

Which crops pose a higher risk?

Are there crops that consistently underperform?
Do you depend on one or two key customers to buy crops...and those customers aren't operating?

Are there areas where you can reduce costs?

Fertilizer vs compost
Mechanical harvest vs manual harvest
Cost of marketing yourself vs reduced price for wholesaling
Where is your time best spent?

Consider your marketing costs and options

PRODUCT PRICING STRUCTURE & INDUSTRY MARGINS

MARGINS & MARK UPS

PRODUCT COSTS
The total cost for you to manufacturer one unit of product. Generally includes raw materials, packaging, and labeling.

DISTRIBUTOR PRICE
The price you sell your product to the distributor for. Generally manufacturers retain a 30%-50% margin.

WHOLESALE PRICE
The price the distributors sell your product to retailers or restaurants. Generally distributor profit margins are 20%-33%.

RETAIL PRICE
The price on the shelf. Generally retail profit margins are 33%-55%.
Understand how your pricing fits your marketing options
Which crops are “luxury” items or highly perishable?

Crops with high price points or that have a short shelf life might be more challenging

- **Flowers** – short shelf life, subject to event cancellations, less disposable income
- **High-end salad greens** – often a lucrative crop for farms, but challenging if sales are to restaurants or demand a high price point

Consider whether there will be the same market for these items this year

Can you mitigate these risks by pre-arranging sales or adjusting crop plans?

Veggies added to the flower crop plan? Working to move product through partnerships with other farms?
Key investments?

• Consider whether there are tools or equipment you can invest in that will reduce operating costs and/or increase your efficiency
• Tools in the field that decrease harvest time
• Capacity that extends the shelf life of a product
What Storage Capacity Do You Have?

You might mitigate risk by being able to store product

• Can you grow items that can be stored into the winter and achieve higher prices?
• Do other farms have excess storage capacity they would like to rent out?
• If you have perishable items like berries, do you have freezer capacity?
• Are there any sensitive crops that aren’t worth the risk?
• A shipping container and coolbot might be a basic investment that supports your ability to extend sales periods.
Labour requirements

Can some of your crops be managed more easily with key investments in equipment to reduce reliance on labour?

Identify your key labour requirements – which crops are entirely dependent on labour availability? Think about transplanting, weeding, irrigation, harvest, sales.
Pivoting your marketing

Consider your market outlets
EVERYONE IS TRYING TO ASSESS WHAT WILL WORK – AND PEOPLE NEED TO EAT, SO FARMS ARE IN A STRONGER POSITION

IF YOU SOLD TO RESTAURANTS, REMEMBER THAT THEY ARE HAVING TO REINVENT THEIR SERVICES: MANY OFFERING PANTRY PACKAGES, ESSENTIAL INGREDIENTS, TAKE-OUT OPTIONS. CAN YOU WORK WITH THEM ON THIS?

PEOPLE ARE EATING AT HOME MORE AND WILL BE AWAY LESS OVER THE SUMMER – THEY ARE LOOKING FOR FOOD TO USE
Restaurant markets

Pros
• Many are offering take-out and grocery options
• Maintain contact with clients during the crisis

Cons
• Some restaurants won’t reopen
• Regardless of current efforts, sales to restaurants will be lower
Community Shared Agriculture

Pros
• Pre-paid, guaranteed sale
• More people staying at home this summer
• Supportive customer base
• Ability for multiple farms to work together
• Organizations like FarmFolkCityFolk promoting the model

Cons
• Requires organizational skills and logistics to do well
• People signing up for a service they don’t fully understand (panic buying or misaligned expectations)
• Requires experience and skill to produce enough product each week
Farmers Markets

Pros
• Established markets will draw a steady customer base
• Take the product you have – no minimum amounts required
• Online pre-order options through LocalLine.ca

Cons
• Difficult to anticipate sales
• Potentially fewer customers able to go through (or who decide not to come back/wait in line)
Online Sales

Pros
• Allow for planned harvests and distribution
• Physical distancing while still allowing customized orders

Cons
• Requires a network to publicize your offerings
• Online sales are not a magic solution – require logistics planning – treat it like any other market
Selling to Grocery Stores

Pros
• Ability to form relationships with local merchants
• Larger orders to retailers who can make significant sales
• Green grocers looking for unique products (e.g. from a local grower)

Cons
• Larger retailers may require GAP certification
• Orders may fluctuate
• Orders may depend on price
• Consistent supply necessary
Marketing Best Practices

- Be clear about your market channels when communicating with customers – don’t make continuous exceptions that end of eating up your time and energy.

- Do a dry run of any new marketing option: ask friends and family to try ordering, practice printing out order sheets, ensure payment options are properly integrated.

- Determine what works best for you and that appeals to your customers. Remember to price for what you are offering: customer orders and delivery take time and resources.

- Don’t use box programs as a way of dumping product.

- Ask for help – share ideas with colleagues, get feedback from friends and family.
Think through your transaction process

- Do you need new supplies? Bags, sanitation supplies, etc.
- Are you prepared for non-cash transactions?
- How many orders can you realistically pre-pack?
Hybridize your offerings

Online orders of pre-determined boxes

• CSA element: pre-determined box contents
• Could be listed for pick-up at farmers markets
• Adjust numbers of boxes available based on what you have available

Collaborate with other farms

• You don’t have to do this alone
• Can another farm use its CSA waitlist to support moving product for other farms?
• Can you collaborate with others . . . A sprout grower, a veggie grower, a mushroom grower, a fruit grower and a flower grower can put together a weekly box.
Use this as an opportunity to build your business – consider whether your efforts now will help you beyond this crisis.

Building an ecommerce presence will benefit you over the long term. Consider the LocalLine.ca option via your Farmers Market.
Accessing support
Using Financing Wisely During a Crisis

General advice is to use debt to acquire revenue-generating assets, not to cover operating costs.

Emergency financing options should be considered carefully: don’t take on emergency debt unless:

- Your business was previously profitable
- You have reasonable prospects to be profitable on the other end of this crisis
- You would otherwise have to lay people off (or avoid hiring) or delay capital investments that will be detrimental to your ability to operate
Emergency lending

Canadian Emergency Business Account is available to help cover operating costs.

You must have reported payroll costs in 2019 of between $20,000 and $1.5-million.

Loans up to $40,000 available through your business’ primary financial institution.

25% of the loan (up to $10,000) will be forgiven if remaining 75% is repaid by 31 December 2022.
Other lending

Farm Credit Canada has conventional lending options for lines of credit and equipment financing.

FCC lending is subject to the usual due diligence requirements.

If you have existing FCC financing, you are able to request payment deferrals during this time.
Resources

• List your CSA with FarmFolkCityFolk
• Growing for Market magazine is publishing regular COVID-19 coping and strategizing articles: https://www.growingformarket.com/
• Young Agrarians has a comprehensive resource page with business resources, including a new overview of setting up ecommerce options https://youngagrarians.org/tools/business/