



Evaluate Your Current Situation

for:

- S** = Strengths
- W** = Weaknesses
- O** = Opportunities
- T** = Threats

TASK

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Assess Your Current Situation

The current circumstances surrounding your life and business can create unique opportunities as well as obstacles. This section guides you through a description of your current situation for each of four business management functions: **marketing, operations, human resources and finances**. This is a chance to inventory your resources and assess how well you are using them.

In each management area, you'll collect facts and figures that will help you evaluate your operation in terms of *Strengths, Weaknesses, Opportunities and Threats (SWOT)*. The *SWOT* analysis is a planning tool used by businesses and organizations of all sizes and types. Strengths and weaknesses refer to factors that are internal to your business. Opportunities and threats refer to your business' external environment. Ultimately, your plans for the future should help you build on your strengths and overcome your weaknesses. Your plan should help you take advantage of opportunities or ward off threats offered by your environment. Keep a running list of strengths, weaknesses, opportunities and threats in each management area as you work through the text and Worksheets in this section. Finally, you'll summarize that information and make an overall *SWOT* analysis for your business that you can include in your final business plan.

Involve members of your planning team and other business stakeholders in this process. Assessing your current situation from several points of view can help you gain perspective on the issues and alternatives that your business plan will address.



The Four Key Management Areas:

Marketing

- Operations
- Human Resources
- Finance

Marketing Situation

When you ask another farmer to describe his or her operation, the response will usually begin with information on the number of acres farmed, the type of crops grown, and livestock raised. This made sense for the "old agriculture" when focus was on selling undifferentiated commodities to anonymous buyers. More and more, we are moving toward a "new agriculture" where farmers sell differentiated products and are in direct contact with their customers.

You can begin with any of the four management areas as you develop a description of your operation, but we encourage you to consider starting with an assessment of the markets you serve and your strategies for serving them. These are the key questions you'll need to answer:

- **Product:** What is our product?
- **Customers:** What markets do we serve?
- **Unique Features:** What are the unique features that distinguish our products?
- **Distribution:** How do we distribute our products?

Worksheet 2.2 Current Market Assessment

Complete this worksheet for each of your major products or services. Be as specific as you can and, where relevant, include numeric facts and figures. These will be the basis for projections you'll make later on for the strategies that you consider.

Product/Service: Meat products

Markets Served: Geographic/Customer Segments

Answer the following questions for each major market segment (geographic and/or customer type) you serve. Use additional sheets if this product has more than three major market segments.

Segment	1. <u>On-farm sales</u>	2. <u>New Prague farmers market</u>	3. _____
Potential Number of Customers	a. ?	a. ?	a. _____
Current Number of Customers	b. <u>400</u>	b. <u>25</u>	b. _____
Current Sales Volume	c. <u>\$43,600</u>	c. <u>\$1500</u>	c. _____
Current Sales per Customer (c / b)	d. <u>\$109</u>	d. <u>\$60 /year</u>	d. _____
Potential Sales Volume (a x d)	e. ?	e. ?	e. _____

Unique Characteristics

What are the unique features that distinguish this product or service? For which customer segments are they important? How easily can they be imitated by competitors?

Characteristic 1: Grass fed

Appeals to which segments? Both segments

Easy for competitors to imitate? Yes No

Characteristic 2: Locally produced

Appeals to which segments? Both segments

Easy for competitors to imitate? Yes No

Distribution

Describe the current distribution channels for this product.

Logistics: Customers come to farm; we deliver to farmers market once each week.

Market Locations: On-farm and in New Prague – all local

Market Intermediaries: None

Marketing Costs (transportation, labor, spoilage, price discounts for intermediaries):

Farmers market stall space fee = \$25/year

Labor for market-related travel and staffing = 8 hours/week

Labor for on-farm sales = 2 hours/week

CONTINUED

Figure 6.
Example from
Cedar Summit
Farm—Worksheet
2.2: Current Market
Assessment (side 1)

- **Pricing:** How do we price our products?
- **Promotion:** How do we promote our products?
- **Market and Industry:** How is our market changing?

Use **Worksheet 2.2: Current Market Assessment** to record your answers as you work through this section. The Minars' Current Market Assessment Worksheet for their meat products (beef, pork, chickens and turkeys) is reproduced as Figure 6.



FALL APPLES

CHESTNUT: A small apple perfect for your child's lunch box! Firm, crisp, fine-grained and juicy. Often considered the best-tasting apple grown in our area. Fruit hangs well and ripens over a long period. Annual bearer. Productive. Z-3, H-3, DR-1 (L, XL)

CORTLAND: This apple has proven itself over a wide area of the country and has become a standard of excellence. Large, red, crisp, tart, tangy flavor. Excellent for eating, cooking, cider, and salads as the pure white flesh does not brown readily when cut. Annually productive, long lived. Z-3b, H-3 (S,M)

DAKOTA: Very productive. Wealthy x Whitney from N. Dakota. Med. size red over yellow fruit good for fresh eating and cooking and keeps two months. Z-3 (M, XL)

HONEYCRISP®: (PP-7197) Exciting new apple from the U. of Mn. that is explosively crisp and juicy. Promising variety for commercial & home orchards. Exceptional flavor and texture. We have kept this apple until July forth in our root cellar. Add \$1 to reg. price for royalty. Z-3b, H-3 (XS,S,M)

LAKELAND: Open-pollinated seedling of Malinda. Mild, pleasant flavor, medium red apple. Good all-purpose apple for home orchards. Z-3, H-2 (M, L,XL)

MANDAN: Red with firm, juicy flesh. Good eating and extremely hardy. Z-3, H-2, DR-2 (M,XL)

RED BARON: Attractive red fruit is crisp, juicy and tasty. Good for pie, sauce, cider and fresh eating. Moderately resistant to fireblight and cedar-apple rust. One of our favorite all-purpose fall apples. Z-3b, H-3, DR-2 (All sizes)

SWEET SIXTEEN: Open-pollinated Malinda x Northern Spy. U of MN 1978. Excellent all-purpose apple. Red, med. size, aromatic, spicy flavor, crisp & juicy. Annually productive, disease-resistant & very hardy. Great keeper. Z-3b, H-3, DR-3 (ALL)

WHITE MCMAHON: Originated about 1860 in Richland Co., Wisconsin and thought to be a seedling of Alexander. We are re-introducing this variety due to its adaptability to our harsh, northern climate. It bears large, round apples of high quality for a home or specialty orchard. Z-3b (M,L,XL)

WODARZ: Sweet apple of good quality from N. Dakota. Z-3 (M,L,XL)

WOLF RIVER: Old cooking variety from Wisconsin. Very large red over yellow fruit. Good for drying apple butter. Z-3, H-3 (M)

Northwind Notes - Apple Growing

Apples, due to their long ripening season and incredible storage ability under common homesteading conditions, can provide most of your family's fresh fruit needs. They can tolerate some shade but 6 to 8 hours of full sun in soil that is well drained is best. Avoid frost pockets or low lying areas. Eliminate grass and weed competition for the first few years until fully established. Spread compost, worm castings, well rotted manure, or organic fertilizer around the drip line in the spring but never in the fall.

Every serious homestead should have at least three apple trees, five to ten or more for larger families or if you want to sell, barter, or share a few with the neighbors. Choose some early, mid season and late bearing varieties to spread out your harvest season. Your varieties should include some that keep well such as Honeycrisp, Keepsake, Haralson, Haralson, Northwest Greening, etc. Disease resistance is important with apples, especially if you plan on marketing them.

Cultural practices are also important to minimize insect and disease damage. Diversify your orchard and homestead to encourage a balanced eco-system and provide important habitat for beneficial predators. Poultry can be used to great advantage for insect and even weed control if managed properly. Good pruning practices to allow air and sun penetration throughout the tree can go a long way in preventing fungal diseases. For more information on organic cultural practices, see our book section.

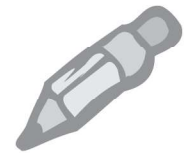
DEER APPLE SPECIAL

CRAB APPLE: (*Malus ranetka*, *antonovka*, etc.) Used for wildlife plantings to attract deer, birds, etc. or to lure them away from your other valuable crops. Z-3

PRICES: Med. - 2 to 5' \$5.00, Large - 5 to 6' \$6.00, Ex. Large - 6' up \$8.00
(Large and Ex. Large sizes cannot be shipped)

Product: What is our product?

This is usually an easy question—but it's sometimes useful to step back and think about what it is that you produce. What is a product? For example, Frank Foltz of Northwind Nursery and Orchard produces edible landscaping plants that are well-adapted to northern winters. Yet, he also provides knowledge and information in the form of "Northwind Notes" (Figure 7) and annual workshops to help educate his customers about fruit production and other homesteading skills. Is this service component of his business something that's simply "bundled" with the plants he sells, or does it have the potential to be a separate product? For each product you produce, fill out a copy of **Worksheet 2.2: Current Market Assessment**. As you ponder the question "What is our product?" you may identify products that have great potential. For practical purposes, *products* are defined as *commodities, final consumer goods, and services*.



Customers: What markets do we serve?

We often think of a market as a place, but it's more useful to think of your markets in terms of the potential buyers for your products. Some examples will help illustrate this concept of a market:

- Greg Reynolds of Riverbend Farm sells fresh, organically produced vegetables to restaurants, food cooperatives, and Community Supported Agriculture (CSA) customers in the Twin Cities metropolitan area.
- Mary Doerr of Dancing Winds Farm sells goat cheese made on her farm to shoppers at the St. Paul Farmers' Market. She also offers visitors to southeast Minnesota an opportunity to enjoy her farm and to learn about cheese making by staying in her bed and breakfast.
- Dave and Florence Minar sold milk to their local cooperative and pasture-raised poultry, beef and pork to customers from the greater Twin Cities metropolitan area who visit Cedar Summit Farm.

Each of these short market descriptions indicates not only *where* products are sold—the geographic scope of the market—but also *to whom* they are sold. [Note that it is common to serve more than one market and that the customers in a market can often be segmented into several distinct groups.]

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Figure 7.
"Northwind Notes—Apple Growing" from Northwind Nursery Catalogue

Once you have a basic description of the market or markets you currently serve, you'll need to gather more detailed information on the segmentation, size and scope of your market, as well as who is already serving the market. Are there distinct segments in your customer base—for example, households and businesses? How many potential customers are there in each segment in the area you serve? How many customers do you have in each segment and how much do they buy? Use the **“Markets Served” section of Worksheet 2.2** to answer these basic questions for each of the markets you serve. This will help you identify the most attractive market opportunities.

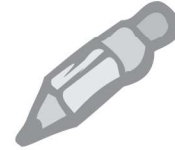
Dave and Florence Minar identified two distinct market segments in their current market assessment for their meat products (Figure 6). The first segment is on-farm sales. They had about 400 customers in this segment, and in 2000 they had total sales of approximately \$43,600. This implies annual sales per customer of \$109. The second market segment was the New Prague Farmers' Market. Dave and Florence estimated that they have approximately 25 customers in this segment. Their sales volume for this segment was \$1,500, or \$60 per customer.

It's not unusual to have some question marks in this segment of the Worksheet, as the Minars do. These point to areas where it may be important to gather information as you begin to look ahead to expanding sales within a particular segment or to entering a new market segment.

Unique Features: What are the unique features that distinguish our products?


Unique characteristics differentiate your product and make it more attractive to your customers. For example, Riverbend Farm owner Greg Reynolds' vegetables are known by restaurant owners and food cooperative produce buyers for freshness and high quality. As a result, these customers prefer to buy from Riverbend Farm whenever possible. Similarly, the milk Dave and Florence Minar produce is unique because their cows are pasture-fed. Many consumers who have tried graziers' milk prefer the taste, and there is some evidence that it may have health benefits that are not present in conventional milk. Some consumers also prefer graziers' milk because they want to support and encourage this production method. When Dave and Florence Minar began the business planning process in 1998, they recognized these distinctive features of the milk they produced, but were unable to capitalize on these differences since they sold it to a cooperative where it was blended with milk from other farms.

Dave and Florence identified two distinguishing features of their meat products—the animals are grass-fed and locally produced. These characteristics appeal to their retail customers in both market segments. The grass-fed



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Products are defined as commodities, final consumer goods, and services.



characteristic is difficult for competitors to imitate, but other producers in their area can offer locally produced meat products.

As you complete the **“Unique Characteristics” section of Worksheet 2.2**, ask whether the unique characteristics of your products appeal equally to all the market segments you serve. A product attribute that is important to one group of customers may be irrelevant to others. This is a good time to think about product features that appeal most to each customer segment. Even if your product or service is not strong in delivering those features, your business plan may focus on ways you can improve your operation to make your product more appealing to market segments with good growth potential.

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Distribution: How do we distribute our products?

Distribution is the work of getting products from your farm to your customers. A distribution system is described in terms of the logistics—processes used to store and transport the product, the places where the product is sold, and the market intermediaries that help facilitate the flow of your product. In broad terms, most farm product distribution systems can be grouped into three categories:

- Sale of a commodity product to a first handler or processor—for example, sale of grain to a local elevator, milk to a creamery, or hogs to a slaughter plant.
- Sale through a grocery wholesaler or retailer—for example, sale of processed, packaged chickens through a local retailer, sale of a branded pancake mix through a natural foods distributor, or sale of fresh vegetables through a natural foods cooperative.
- Direct marketing—for example, sale of fresh produce at a roadside stand, sale of farm-produced cheese at a farmers’ market, or catalog sales of bare-root nursery stock.

Of course, within each of these categories there is an endless range of variation for specific products.

Dave and Florence use direct marketing for their meat products, with simple logistics and no intermediaries. Their direct costs for market access and travel to the farmers’ market are modest, but it’s important to note that they also use about 10 hours of valuable labor time each week. It’s also interesting to note that most of their distribution costs are linked to sales at the farmers’ market, while most of their sales appear to be on-farm. Of course, their presence at the farmers’ market may be their best way to make first contact with potential customers for on-farm sales.



As you describe the distribution systems you currently use for your operations, think about how well they help you preserve the unique characteristics of your product. The Minars preserve the unique qualities of their grass-fed meat by direct marketing their meat products. However, by selling their milk to the local cooperative, the Minars were losing the opportunity to reach customers who were willing to pay a premium for graziers' milk. It's also important to think about the costs and cost savings associated with your current system. The Minars' distribution system for their milk was less costly than a system that involves on-farm processing and sale through local retailers or home delivery.

In general, commodity distribution systems are the least expensive, but they also offer the fewest opportunities for establishing close contacts with consumers and for adding value through unique characteristics. Direct marketing systems offer the greatest opportunity for customer contact and product differentiation, but they are often the most expensive when costs for time and transportation are added. Selling through a wholesaler or retailer—that is, connecting with your ultimate customer through market intermediaries—is sometimes an attractive alternative to the other two distribution systems. You can often keep a strong link with your customers by using distinct packaging or by doing regular in-store product demonstrations. Also, there are clear cost savings in sharing storage, transportation, and product display costs. Most of those cost savings, however, will go to the wholesaler or retailer. In other words, when you work through an intermediary, you will need to share the proceeds of the sale to the final consumer with the retailer or wholesaler.

As you complete the **“Distribution” section of Worksheet 2.2** for each of your major products, think about the advantages and disadvantages of current systems. Are there significant opportunities for reducing costs or increasing revenues by improving your current distribution system or shifting to something new? If there are, this is an area to revisit later in the planning process when you begin developing strategies for more effectively meeting the goals you set for your operation.



Pricing: How do we price our products?

The prices you charge for your products are influenced by production costs (yours and your competitors') and by your customers' willingness to pay. From a farmer's perspective, it would be great to set product prices at levels that cover all costs and include a “fair” profit. However, your ability to do this will depend on the actions of your competitors and on the strength of your customers' demand for the characteristics that make your product or service unique. You've almost certainly seen these market forces at work on any visit to a farmers'



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market. When there are several producers selling the same product, with no significant differences among them in quality, the price will quickly converge to a single level. Originally, this may be at a level that covers all costs and yields a profit, at least for the most efficient producers. By the end of the market day, though, the price for a perishable product may drop well below production costs if several producers still have a large supply of product that will be wasted if not sold. In this same situation, if customers perceive one producer's product as higher quality, that producer will be able to charge a higher price. As the price of the higher quality product increases, though, the least loyal customers will opt for lower price over higher quality. Competition sets a ceiling on the price the market will bear for any product. The more intense the competition, the more difficult it will be to charge a premium price. In this example we have focused on competition at the same farmers' market. It's important to recognize that the relevant competition may be the local supermarket or some other product altogether.

Dave and Florence Minar used their 2000 financial analysis (created with FINPACK software²) to calculate average prices they receive for each of the four meat categories they market. The prices for beef and pork reflect retail sales per pound of live weight. They are, of course, much lower than prices for retail cuts of meat, but they are well above prices farmers receive for "commodity" steers and hogs. Similarly, the prices for chickens and turkeys are on a per bird basis, and they are well above retail prices for "commodity" chickens and turkey. The Minars note that they have a high level of power in setting prices for these products, but they also face some demand sensitivity to price changes.



As you complete the **"Pricing" section of Worksheet 2.2** for each of your products, record the typical price level (or range of price levels if there is significant variation) and the size of the premium, if any, that your product receives over a typical competitor's price. Also, comment on your ability to set the price and the sensitivity of demand to price increases. For example, if you are the only seller of a truly unique product, you have a high degree of power in setting the price. You may have no power if you are selling into a highly competitive market with many other sellers. Regardless of your ability to establish a price, the quantity you sell may or may not be sensitive to price increases. Demand for a unique, high-quality cheese may hardly be affected by a significant price increase, while buyers of free-range chickens may switch to grass-fed beef if the price of chickens rises dramatically relative to that of beef.

² FINPACK software, Center for Farm Financial Management, University of Minnesota, updated annually.

Promotion: How do we promote our products?

Effective product promotion is critical for successful marketing. We often think of advertising when we hear the term product promotion. This may take the form of brochures, posters or a Web site. Of course, there are many other ways you can inform potential customers about your products. For example, many producers offer taste tests for their products in retail stores and at farmers' markets. Other producers rely on promotional efforts by a commodity group or collaborative marketing group. A good example of this kind of promotional strategy is "eco-labelling." Several organizations throughout the country have certification programs to recognize food that is produced according to specified ecological or sustainability standards.

Dave and Florence Minar use a combination of brochures, advertisements and word-of-mouth to promote their meat products. They estimate their annual costs for promotions, excluding labor, to be \$1,125—approximately 2.5 percent of their annual sales of these products.

In completing the **"Promotions" section of Worksheet 2.2** for each of your products, list all the promotional strategies you use. Then assess how effective they are in reaching potential customers (or in retaining current customers) and how much they cost. In other words, are your current strategies "paying their way"?

Worksheet
2.2
Current Market Assessment

CONTINUED

Pricing
What price do you receive for this product or service, and how does it compare to the price of a typical competitor? How much power do you have to set the price for this product or service? How sensitive is demand to price changes?

Typical Price and Price Range:
Varies by product- \$0.95/lb for steers, \$1.07/lb for hogs \$9.50/chicken, \$41.00/turkey

Price Relative to Competitor:

Our Power to Set Prices: ___ Low ___ Some High

Demand Sensitivity to Price Changes: ___ Low Some ___ High

Promotions
Describe the strategies you use to promote consumer awareness of this product or service. How effective are they in reaching your most important potential customers? How costly are they?

We promote our meat products through brochures, advertisements in the local newspaper, and word-of-mouth. We think that these have all been very effective. All advertising (not including labor) costs us \$1,125/year – this includes the cost of printing and mailing brochures as well as fees charged for newspaper advertisement space.

Changing Market Conditions
Describe important trends of the supply and demand side of the market for this product or service. Are there important new competitors or competing products? Is demand expanding?

As food scares occur and as people become more concerned with food safety, we think that demand will increase for our products— for products that consumers purchase directly from the farmer that they know and trust. Also, as conservation becomes more important to society as a whole, we feel that more and more consumers will turn to environmentally-friendly products from animals that have been grass-fed. Our current and future competition will likely be other farmers who supply locally-produced meat products. Even now, however, these competitors do not necessarily produce products from grass-fed animals and do not supply convenient meat cuts – they typically sell meat in halves or quarter [carcasses].

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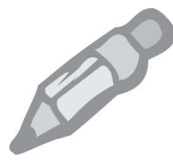


Figure 6.
Example from Cedar Summit Farm—Worksheet 2.2: Current Market Assessment (side 2)

Market and Industry: How is our market changing?

Markets rarely stand still. On the supply side, new competitors might enter, while old rivals go out of business. On the demand side, the introduction of new substitute products might reduce demand for your product or new research might make it possible for you to make a health claim that helps you expand demand for your product. In the longer term, broad trends in customer and competitor demographics, technology and government policy can transform the size and structure of your market. The last step in assessing your current marketing strategies and activities is to look ahead to evaluate their potential for change.

Dave and Florence Minar observed that growing concerns over food safety and interest in more environmentally friendly farming practices should have positive impacts on the market for their meat products. They also noted that price premiums for locally produced meat products are attracting competitors. Still, Dave and Florence believed their grass-based production system and their attention to supplying convenient products would help them sustain their competitive advantage.



Be sure to consider a wide range of potential changes to your market as you complete the **“Changing Market Conditions” section of Worksheet 2.2** for each of your products. Often when we look back after experiencing a sudden, unexpected change, we realize that we could have seen it coming. Questioning even the most long-held assumptions about your markets can help you identify issues that need to be addressed as you develop a business plan for the future.

Operations Situation

Before planning for the future, it's important to step back and assess the resources available to your farm operation and the enterprises in which you use those resources. In this section the focus is on physical resources. Later, you'll assess the human and financial resources of your business.

The assessment of physical resources and farm operations should answer the following questions:

- Resources: What physical resources are available for our business?
- Production: What production systems are we using?
- Management: What management systems do we have in place to support our business?

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The Four Key Management Areas:

- Marketing

Operations

- Human Resources
- Finance