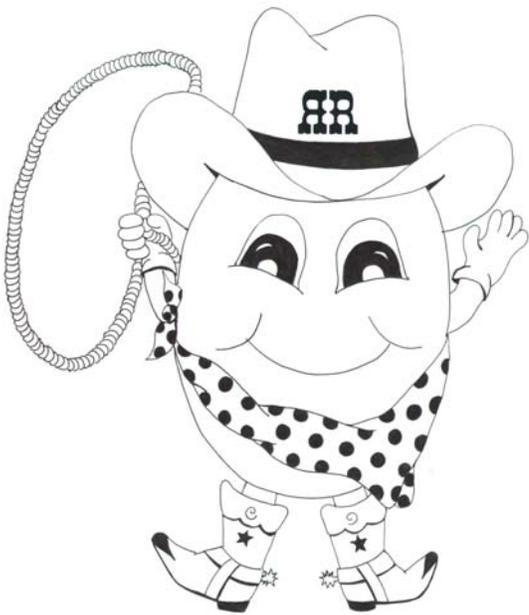


On-Farm Retailing

Happy Trails

On-Farm Retailing 101



*Valley Farm
Market*

Critical Factors of Success for On-Farm Retailing

With others at your table, please develop a short list of critical success factors. Then prioritize your list to the top three. Be prepared to share your ideas with the large group.

On-Farm Retailing

Decide what you want!

Individually or as a table group complete the following assignment.

1. Identify your main competitors.
2. How are you different from your competitors?
What products & services do you offer that are unique?

Competitors:

List the unique products and services offered at your farm market.

- 1.
- 2.
- 3.
- 4.
- 5.

Gross Margin vs. Mark-up

Notes:

% Gross Margin

$$\frac{\text{Selling Price} - \text{Cost}}{\text{Selling Price}}$$

% Mark-up

$$\frac{\text{Selling Price} - \text{Cost}}{\text{Cost}}$$

Calculation of Selling Price:

$$\frac{\text{Cost}}{(1 - \text{Desired GM\%})}$$

Creating the WOW Customer Experience

Please discuss how you can create a WOW experience at your farm market. Think of things that are not easily replicatable by the competition. (products and services)

Valley Farm Market – Build New or Not

Background:

The market has continued to grow each year with sales in 2000 at \$519,000 at a gross margin at 22%. We checked out various farm markets to gather ideas and knowledge from other farm market owners. Many owners recommended building a farm market as large as we could afford to build. Their rationale was based on the growth they experienced. In most cases they outgrew their markets very quickly. We were also aware of a market, which had recently declared bankruptcy because he had expanded too quickly (10,000 sq. feet). Another local farm market had overbuilt right off the start. Part of their strategy was to have higher prices. Almost immediately they had the reputation of a high price market. This reputation hurt their volume. They have experienced poor financial performance ever since they opened.

Problems with the current market location:

Our farm market is only 62' from our neighbours property line and therefore expansion in present location is not possible. The existing market is attached to our egg grading station, which is attached to our poultry barn. You can imagine what it must smell like in our parking lot on certain days when the wind is blowing in the direction market. City folks want the country feel without the country air. With the poultry nearby there are higher than normal fly populations. The market is not visible from the road. New customers regularly comment "I've driven past your sign for ages but today I decided to stop in – I had no idea that you had all these products – I'll be back."

Competition:

A local community 5km to the West of our farm recently announced they are seeking approval from the county to build a new Garden City IGA.

Other information:

We own the land on the highway for the proposed new market. We need to complete the plans and get the required permits. Assume 100% of the financing is approved. There is a rental house on the property renting for \$9,000/ year. The cost estimates to build a 3,000 sq. ft. market with 3,000 sq. ft. warehouse, cooler, freezer and storage area is \$500,000. The new location provides better visibility and therefore is expected to attract between 30-50% more business.

Financial Analysis:

See the following page

Your Assignment is to make a recommendation to build or not to build and be prepared to share your rationale for your recommendations.

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Valley Farm Market Projected Net Income with New Store

Net Income Statement	Actual 2000	New Store Projected 2002	New Store Projected 2002	New Store Projected 2002	
Income		30%Growth		50%Growth	
Retail Sales	\$ 519,681.00	\$ 675,585.30		\$ 779,521.50	
Wholesales Sales	\$ 19,457.00	\$ 19,457.00		\$ 19,457.00	
Building Rent		\$ 9,000.00		\$ 9,000.00	
Total Income	\$ 539,138.00	\$ 704,042.30		\$ 807,978.50	
Cost of Sales					
Cost of Goods Sold	\$ 310,375.00	\$ 403,487.50		\$ 465,562.50	
Spent Hens - live	\$ 521.00				
Spent Hens - processed	\$ 647.00	\$ 841.10		\$ 970.50	
Eggs - Graded	\$ 76,437.00	\$ 93,531.00		\$ 104,927.00	
Strawberries	\$ 12,681.00	\$ 16,485.30		\$ 19,021.50	
Raspberries	\$ 3,918.00	\$ 5,093.40		\$ 5,877.00	
Rhubarb	\$ 400.00	\$ 520.00		\$ 600.00	
Sweet Corn	\$ 6,227.00	\$ 8,095.10		\$ 9,340.50	
Total Cost of Sales	\$ 411,206.00	\$ 528,053.40		\$ 606,299.00	
Gross Margin	\$ 127,932.00	23.7% \$ 175,988.90		25.0% \$ 201,679.50	25.0%
Gross Return on Investment	151%	26%		30%	
Expenses					
Retail Supplies	\$ 4,119.00	\$ 5,766.60		\$ 6,178.50	
Equipment Repairs	\$ 292.00	\$ 1,000.00		\$ 1,000.00	
Building Repairs		\$ 200.00		\$ 200.00	
Propane	\$ 263.00	\$ 500.00		\$ 588.59	
Diesel	\$ 457.00	\$ 639.80		\$ 639.80	
Gasoline	\$ 1,262.00	\$ 1,766.80		\$ 1,766.80	
Vehicle Expense	\$ 364.00	\$ 473.20		\$ 473.20	
Farm Insurance	\$ 2,000.00	\$ 3,000.00		\$ 3,000.00	
Wages	\$ 29,650.00	\$ 38,545.00		\$ 44,475.00	
Employer Expenses	\$ 9,289.00	\$ 12,075.70		\$ 13,933.50	
Custom work	\$ 1,796.00	\$ 2,334.80		\$ 2,694.00	
Advertising	\$ 3,715.00	\$ 4,000.00		\$ 8,000.00	
Telephone	\$ 1,128.00	\$ 2,500.00		\$ 2,500.00	
Hydro	\$ 5,087.00	\$ 7,500.00		\$ 7,800.00	
Office	\$ 281.00	\$ 1,000.00		\$ 1,000.00	
Dues & Subscriptions	\$ 1,187.00	\$ 1,200.00		\$ 1,200.00	
Postage & Shipping	\$ 273.00	\$ 315.00		\$ 315.00	
Bank Charges	\$ 1,623.00	\$ 2,109.90		\$ 2,434.50	
Legal & Accounting		\$ 300.00		\$ 300.00	
Property Taxes	\$ 799.00	\$ 4,000.00		\$ 4,000.00	
Miscellaneous Expenses	\$ 3,505.00	\$ 4,556.50		\$ 5,257.50	
Total Expenses	\$ 67,090.00	\$ 93,783.30		\$ 107,756.39	
Net Profit before Interest	\$ 60,842.00	\$ 82,205.60		\$ 93,923.11	
Other Expenses					
FCC Payments - Interest portion	\$ 2,975.00	\$ 46,026.48		\$ 46,026.48	
TD Interest Expense		\$ 8,196.00		\$ 8,196.00	
Depreciation on Equip. & Bdlgs	\$ 6,400.00	\$ 24,000.00		\$ 24,000.00	
Total Other Expenses	\$ 9,375.00	\$ 78,222.48		\$ 78,222.48	
Net Income (Loss)	\$ 51,467.00	\$ 3,983.12		\$ 15,700.63	
Asset Base (Land + Buildings)	\$ 85,000.00	\$ 668,000.00		\$ 668,000.00	
Net Return on Investment	60.5%	0.6%		2.4%	
Assumptions to Build New Retail Market					
Cost to build new market is		\$ 500,000.00			
Cost of borrowing \$ is		7.00%			
Amount to Borrow		\$ 500,000.00			

Critical Factors of Success —
Highlights from Valley Farm Market

- **Unique Products and Services** – unmatched customer service, marketing, WOM
- **Continual renewal** – keep it fresh, changing displays, adding new products, removing old ones etc.
- **High Quality** – Products, Service, People
- **Patience** – Grow as you go! Start low and then gradually increase prices and GM,
Continuous research and planning
- **Measure, Measure, Measure** – costs, customer feedback, what sells (sales/sq. foot),
Can't manage it if you can't measure it.
- **Know your Competition** – what are their growth goals, and how will they react to you?
- **Form Alliances/partners** with suppliers and competitors

On-Farm Retailing

List your own Critical Success Factors

Identify your own critical factors and respective strategies that are crucial for your business success!

Critical Factors for Success

Strategies

- 1.
- 2.
- 3.
- 4.
- 5.