

**Increasing Direct Marketing Potential  
for Socially Disadvantaged Producers  
through Business Planning  
FY 2011**

Growth in direct marketing of fresh agricultural products is outpacing growth of conventional markets. Consumers are demanding higher quality, fresher, and locally grown products. Many producers, especially from underrepresented groups, would like to take advantage of these opportunities but do not have the financial means or knowledge to do so.

This project focused on expanding products marketed through farmers' markets from socially disadvantaged groups through business planning and marketing workshops. Two grower groups were identified in the south Texas Rio Grande Valley area to participate in these workshops. Business plans will assist these producers in obtaining the necessary funding and management skills necessary to expand production.

This project was designed to assist socially disadvantaged agricultural producers by preparing them for long-term success. Through a series of workshops that taught producers the importance of business planning and proper management, finance, and marketing techniques, these socially disadvantaged producers better understand their operations, can take better advantage of marketing outlets, and have improved access to financial resources such as FSA loans.

Sam Houston State University (SHSU), with the assistance of Texas AgriLife Extension, developed and presented workshops to train producers. FSMIP funding helped educate producers and facilitate the distribution of products from the farm to retail outlets and farmers markets, as well as helping them understand the use and benefits of Community Supported Agriculture (CSA) marketing and sales programs.

**FINAL REPORT**

**Contact:**

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## **Final Report**

Federal State Marketing Improvement Grant  
Sam Houston State University  
Huntsville, TX 77341  
December 2014

**Agreement Number 12-25-G-1267**

**Increasing Direct Marketing Potential  
for Socially Disadvantaged Producers  
through Business Planning**

Report submitted by:  
L. A. Wolfskill  
Assistant Professor of Agribusiness  
Sam Houston State University

# **Increasing Direct Marketing Potential for Socially Disadvantaged Producers through Business Planning**

## **Final Report**

### **Project Summary**

The grant under Agreement number 12-25-G-1267 was approved by FSMIP for the amount of \$35,000 with a non-federal matching funds requirement of \$35,284 to be provided by SHSU. The initial grant period covered from September 1, 2011 through August 31, 2013. A subsequent no-cost extension was approved for a final date of September 30, 2014.

Growth in direct marketing of fresh agricultural products is outpacing growth of conventional markets. Consumers are demanding higher quality, fresher, and locally grown products. Many producers, especially from underrepresented groups, would like to take advantage of these opportunities but do not have the financial means or knowledge to do so. In Texas, and particularly in the south Texas Rio Grande Valley area, there are many agricultural producers who make their living from small landholdings, much of them working less than three acres.

This project focused on expanding products marketed through farmers' markets from socially disadvantaged groups through business planning and marketing workshops. Two grower groups were identified in the south Texas Rio Grande Valley area to participate in these workshops. Business plans will assist these producers in obtaining the necessary funding and management skills necessary to expand production.

This project was designed to assist socially disadvantaged agricultural producers by preparing them for long-term success. Through a series of workshops that taught producers the importance of business planning and proper management, finance, and marketing techniques, these socially disadvantaged producers better understand their operations, can take better advantage of marketing outlets, and have improved access to financial resources such as FSA loans.

Sam Houston State University (SHSU), with the assistance of Texas AgriLife Extension, developed and presented workshops to train producers. FSMIP funding

helped educate producers and facilitate the distribution of products from the farm to retail outlets and farmers markets, as well as helping them understand the use and benefits of Community Supported Agriculture (CSA) marketing and sales programs.

The overall goal was to assist small producers in managing their business, and especially business finances, in such a manner as to allow them to better access funding sources and marketing outlets, through education and introduction to key people in these areas. To achieve this goal the following objectives were established:

- **Objective 1** – Identify candidate small-farm producers and generate interest in the workshop series, as well as survey the prospective attendees to determine their current practices.
- **Objective 2** – Develop a workshop series to introduce marketing strategies and business planning tools.
- **Objective 3** – Assist socially disadvantaged producers in developing relationships with key people in local farmers markets and agricultural lending institutions
- **Objective 4** – Measure effectiveness of business planning through survey and analysis of each growers' developed business plan.

## Project Approach

### Participant Identification

The PIs worked with two local Texas AgriLife extension agents to identify participants through two local grower organizations that had been developed by AgriLife: *Grow'n Growers*, a community of growers that have a local weekly farmers market; and *Tip of Texas Agricultural Producers Society (ToTap)*, a group that emphasizes organic and naturally grown foods. The Extension agents contacted members of these local organizations to find those willing to participate and they helped identify appropriate workshop dates that fit their schedules.



## Workshop Training

The project coordinators coordinated the workshops and conduct a series of workshops which included teaching sessions as well as moderated breakout groups where participants discussed the material presented, and related it to their own operations.

Workshop 1 topics:

- *Viability of small production acreage.* This session, presented by Luis Ribera, (co-author of a report included below) demonstrated that producing a reasonable return on parcels of approximately three acres was possible, and showed how managing crops and, particularly, understanding finances was key to making a living from such a small plot;

- *Financing opportunities and requirements.* This session was presented by a local FSA representative, and showed the producers what financial help was available, and the records and requirements needed to access it;

- *Balance Sheet requirements.* A look at the importance of understanding the business' Balance Sheet and how to calculate basic measures that will show a farm's liquidity and solvency, and what these mean to the owner.

- *Income Statement requirements.* Understanding the business' Income Statement (P&L) and how to calculate basic measures that will show a farm's profitability.

A further session was developed to discuss farm cash flow principles, but it was preempted as participants wanted and needed additional time for understanding Balance Sheets and Income Statements.

Workshop 2 topics (all presented by a contractor, Dr. Lindsey Higgins):

- *Marketing and market planning;*
- *Market situation analysis;*
- *Marketing niche identification;*
- *Place and Product strategies;*
- *Price and Promotion strategies;*
- *Implementation strategies.*

Workshop 3 topics (note that some are repeated from the first workshop, at the request of participants):

- *Viability of small production acreage;*
- *Financing opportunities and requirements;*
- *Balance Sheet requirements;*
- *Income Statement requirements;*

- *Financing opportunities and requirements.* Presented by Mr. Arnulfo Lerma, Farm Loan Specialist with the FSA;
- *Navigating the loan application process.* Presented by Mr. Vidal Saenz, of AgriLife Extension.

Workshop 4 topics:

- *Review of participants' business plans and planning process;*
- *Business organization and liability.* Ricardo Ramos, a local attorney, presented this session. The business legal organization part was received perfunctorily by the attendees, although there were some good questions posed. When Mr. Ramos discussed liability, how it can occur in a business, and what can be done to protect against losses, the attendees were much more interested. Good discussion came out of it, and attendees were actively taking notes;
- *Insurance options for small producers.* Mr. Paul Townsend, a local agent with the Texas Farm Bureau. He has numerous agricultural clients, and his presentation was well-received. He did not focus on his firm's specific offerings, but discussed the basics of farmowner's policies;
- *Texas Cottage Food Law and farmers market regulations;* The final presentation of the day was by Ms. Judith McGearry, an attorney and Executive Director of the Farm and Ranch Freedom Alliance. She discussed Texas law with respect to the Cottage Foods industry and Farmers Markets. She included a brief history of the legal aspects of marketing home-prepared food, selling and doing demonstrations/sampling at Farmers Markets, and dealing with the Texas Department of State Health Services (DSHS). Her lively talk generated the most interest, and directly affected the knowledge and understanding of how the attendees could and would market their products.

### Business Plans

Each project participant was expected to produce a business plan for their operation, based on training, materials, and an outline provided during the workshops. PIs would then evaluate and coach the participants to help them get the most out of the knowledge gained.

### **Results**

An initial survey was distributed to both socially disadvantaged producer groups identified: the Grow 'n Growers group and the ToTap growers group, both located in the South Texas Valley. The survey was developed as part of the first

grant objective. The initial response to the survey was limited and after talking with a local area extension agent working in cooperation with the grant, it was determined that producers in both groups were interested but were unfamiliar with the researchers conducting the program and had been contacted about the program during an inconvenient time in their growing season. Another concern of the producers was the initial timeline the workshops were planned for. These were unanticipated set-backs in the project as prior to the grant submission we had secured letters of support from the targeted producer organizations. After extensive discussion with the most successful small producer in the area (and a key influencer with other socially disadvantaged producers in the area), the survey was redistributed to the targeted producer groups with a modified workshop timeline adjusted for area producer convenience.

In addition to making contact with the local area producers the workshops are trying to assist, contact was made with organizers of the area's local farmers markets and successful community support agriculture (CSA). One unexpected outcome of the meetings in South Texas was finding out that many area farmers markets were not firmly established in the community. In fact, one of the area's three "farmers markets" had folded during the last growing season as a result of the business that was allowing local producers to sell in their parking lot, going out of business. The second of the area's "farmers markets" was actually hosted by the local hospital, but after talking with organizers it was discovered there were many misperceptions about the types of products that could be produced in the area by local growers and sold at the market during the time-period the organizers planned to hold the market. The third area farmers market has started restricting area producers in that any producers currently using a CSA as an alternative marketing method would not be allowed to use that existing farmers market as a CSA distribution point. The mismatch of producer and organizer expectations was an unanticipated challenge to the process.

From the responses received by producers in the second round of surveys (resurveyed due to low response rate on the initial attempt), it was determined the areas that producers most needed assistance with were the tangible aspects of business planning, predominately the financial and market planning aspects.

It was determined to split the workshop into two parts over a short time-period to better accommodate the producers' schedules and to motivate them to implement the concepts and techniques from the workshops into their own businesses. The first workshop was held in October 2012 and focused on the financial aspects of business planning for Farmers Markets and CSAs. While the event was publicized for over six weeks by extension agents in the Valley with direct ties to the

targeted producer groups, less than ten producers attended the event. This was a huge set-back as at least 25 were anticipated to attend, and many more than ten had indicated their attendance. The second workshop was held in November 2012 and focused on marketing activities for business planning. It was publicized for four weeks and had better attendance than the first workshop with more than 16 participants, but still much less than the number we had anticipated based off of similar workshops the area's Texas A&M AgriLife Extension agency had regularly held in the area the previous year. While the low attendance was disconcerting, the producers that attended each workshop seem pleased with the quality of each and the hands-on time they received to put ideas on paper during the workshops.

As a result of the low attendance at each workshop, and based on comments from the producers that attended, we decided to offer several of the key topics again in a third workshop, with greater publicity and more direct communication with the targeted producers.

One of the objectives of our grant proposal was to assist the socially disadvantaged producers by creating relationships with managers of farmers markets. After discussions with the producers attending our workshops, we determined that all have a previous relationship with the manager of the Grow N' Growers market as a result of an Extension class on small-acreage production that each had taken, and most would be starting to sell or were already trying to sell at the other area farmers markets. Some producers already sold in markets as far away as Corpus Christi although most indicated they were not interested in traveling that far to sell. Because the majority of producers were not interested in taking a day-long field trip to visit farmers markets they are already familiar with, we focused more on CSA marketing tools. For the third workshop we tried to schedule a marketing manager of the most notable CSAs in Austin and Houston areas so that producers can talk directly with other producers that have successfully leveraged a backyard CSA into a viable business. Unfortunately, we were not able to contract such a manager to come and speak.

The third workshop in the series was held on March 28, 2013. Attendance was much better, with 22 attendees by 9:00. After the welcome and brief comments by Dr. Wolfskill, Dr. Luis Ribera discussed the viability of small production acreage, and what it would take to support a small business on as few as three acres. Dr. Santiago discussed marketing through CSAs and Farmers Markets. A breakout session was held to allow producers to discuss in small groups how they might use those marketing outlets for their specific operations.

Dr. Wolfskill then led a series of presentation/guided discussions on various financial management aspects of small agribusinesses, with the focus on helping attendees understand the importance of good financial recordkeeping, treating their operations as a true business rather than a garden they sell from, and helping them understand how risk is reduced and understanding good financial statements can help them in loan applications. Specific discussions, followed by breakout sessions, were held on Balance Sheets and understanding assets and liabilities, and Income statements with the focus on understanding how to account for what comes in and goes out of the business.

Following those sessions, Mr. Arnulfo Lerma, a Farm Loan Manager with the FSA, discussed FSA loans, and how to best prepare for the application process. He was followed by Mr. Vidal Saenz, of AgriLife Extension, who discussed the ins and outs of the actual loan application process.

The fourth workshop was held on August 8, 2013. This was the final workshop, and producers had committed to bring their fully or partially completed business plans for formative evaluation. Although producers attending the workshops signed “Intent to Complete” forms that agreed they would attend the entire set of workshops (financial, marketing and summary) and work on a viable business plan for delivery by the summary workshop, few actually brought anything for us to review with them. It seems that while they all agreed that the information was very helpful and worthwhile for understanding their business operations and finances, most apparently did not feel comfortable showing actual numbers to an outsider. While disappointing, we made efforts to build bridges that would allow us to continue working with them, helping and critiquing after the series was over. It is believed that several will take advantage of that opportunity. We provided each participant with our contact information for feedback on their plans, but to date have received almost no communication from them outside of the workshop dates.

At this final producer workshop producers were to bring actual components of business plans with them. Although producers attending the workshops signed “Intent to Complete” forms where they agreed that they would attend the entire set of workshops (financial, marketing and summary) and work on a viable business plan for delivery by the summary workshop, it is apparent that most are not spending time on the business plan outside of the time provided in each workshop. We have provided each participant with our contact information for feedback on their plans, but have received almost no communication from them outside of the workshop dates.

## **Beneficiaries**

Over the course of the four workshops, 79 individuals attended and received instruction and handouts. Of these, however, 55 different individuals were in attendance. Only one grower attended all four workshops, and three attended three of the four events. The first event had the lowest attendance, with only seven growers participating. However, the third workshop had 42 attendees.

Generally, the attendees represented the target market for the grant, although several of those in attendance were not considered socially disadvantaged. These producers were retirees who wanted to supplement their retirement income through small-scale farming, coupling it with the healthy lifestyle of living and working on the farm.

## **Future**

Participant feedback indicated that even though the workshops were successful, the producers still want to learn more about the topics and are in need of further training. With the importance of the GAP and food safety programs, workshops and webinars like this one offer producers new opportunities to learn about packaging their products in a way that will increase the quality and safety of their products.

Not all objectives and goals of this project were met. Due to several factors, some goals are either still in progress, or are not expected to be completed. Due to the low response rate of producers actually finishing the business plans that they had committed to, analysis of the planned 40 business plans will not occur. Additionally, due to a series of personnel changes, the research portion of the grant is still in progress. The original PI (Dr. Lau) left the university and moved to California to manage the family farming operations, so the Co-PI (Dr. Santiago) was moved to PI and another faculty member who was not on the original grant team (Dr. Wolfskill) was added as Co-PI. Then, the new PI left the university, leaving just Dr. Wolfskill on the grant. This has been a major setback, to say the least.

## **Lessons Learned**

Offering the information through organized workshops was beneficial and reached a variety of producers, although not near as many as we had hoped. We depended on local extension agents to reach the growers in the groups that they led, and we believe that they did a very good job in reaching out to them. In hindsight, we perhaps would have been able to reach additional producers by providing handouts or some type of giveaway item that would remind the growers of the meetings. Many commented that they had planned to come to the workshops, but when the time came they just forgot. As expected, some commented that the free lunch was an initial driver of participation, but they reported that once they saw the material being proffered, they planned to continue attending.

One challenge we had was helping producers identify realistic goals and objectives for the business plans and then identifying the realistic work plan to meet those goals. For example, not many of the producers participating in the first two workshops were interested in traveling more than one hour to sell at a farmers market. Another expectation some seem to have had is that if they sell through a farmers market, the market will do the majority of the promotion for them and a group of buyers will come to the market to make purchases, just because the market is a farmers market. The producers seemed to have a realistic grasp of the production techniques they need to supply their stalls but little grasp on fundamental business and marketing concepts to actually market and sell their products. It seemed like many came to the workshops expecting us to almost provide a “how-to” recipe that would guarantee them a profitable business within a short time period.

Another challenge was gaining interest in actual marketing outlet visits. Growers commented that trips to visit other farmers markets and farms doing CSAs were probably not worth the time that would have to be spent. Many had “day jobs” that they had to work around, and time was at a premium. As a result, we reconfigured some of the workshop material to bring as much of these experiences in to the site, rather than traveling to them.

## **Contact Information**

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# FREE Business Planning Workshop Series

Hosted by Agribusiness Faculty from Sam Houston State University

## WHAT:

Business Planning Workshop Series



## WHO FOR:

South Texas Area Producers  
(Interested in Direct Marketing through  
Farmers Markets or CSA)

## COST:

FREE for Area Growers

## WHERE:

The Citrus Center  
(Across from TAMU AgriLife Extension  
Center)  
Weslaco, TX

## WHEN:

Friday, October 12, 2012 (Business Planning  
Workshop), 8:00-1:00pm; and  
Friday, November 9, 2012 (Market Planning  
Workshop), 8:00-1:00pm



## For More Information Contact:

Dr. Art Wolfskill at [Wolfskill@shsu.edu](mailto:Wolfskill@shsu.edu) or 936-294-1226  
Dr. Michelle Santiago at [mmsantiago@shsu.edu](mailto:mmsantiago@shsu.edu)



**Sam Houston State University**

*A Member of The Texas State University System*



# **Sam Houston State University**

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## **Business Planning Workshop Series for South Texas Producers** Program Description and Requirements

A set of **FREE** workshops on Business Planning and Marketing will be offered to individuals and producers from minority and socially disadvantaged groups in the South Texas Valley that are interested in direct marketing of products through farmers markets. These workshops are part of a USDA grant awarded to faculty at Sam Houston State University. The information requested on this form will be used to identify interested producers. Drs. Michelle Santiago and Art Wolfskill are the principle investigators for the grant. If you would like more information, you may contact Dr. Santiago at 936-294-1193 or at [mmsantiago@shsu.edu](mailto:mmsantiago@shsu.edu).

Those chosen to participate in and complete the program are expected to **receive** the following:

- Free registration and materials for a two-part, hands-on workshop on Business Planning and Marketing
- Understanding of direct marketing and management strategies to take advantage of current opportunities
- Development of a unique business plan for the producer's operation with feedback and review from university Agribusiness faculty
- Establishment of relationships with managers of area farmers markets

Those chosen to participate in the program will be expected to **commit**\* to the following:

- Complete a survey on the operation's current production, business and marketing practices
- Participate in a two-part workshop series in Fall 2012
  - Anticipated: one on Business planning in early or mid-October, one on Marketing in early November
- Develop and implement a business plan for your operation with the assistance of the workshop faculty
  - Actual business and marketing plan deliverables will be required throughout the process by participants
- Participate in a follow-up workshop after the primary growing season
  - Anticipated for late June 2013

\*While most of the program will take place through in-person workshops held in the South Texas Valley, participants will be expected to have access to the internet and email, and to communicate with the program's faculty on a regular basis.

If you are interested in participating in the program, please fill out and return the attached form. You may return the form through email (signed and scanned copy), mail or in-person to:

**Dr. Michelle Santiago**  
**Department of Agricultural and Industrial Sciences**  
**Sam Houston State University**  
**Box 2088**  
**Huntsville, TX 77341**  
**Email: [mmsantiago@shsu.edu](mailto:mmsantiago@shsu.edu)**

Thank you for your interest. Participants selected for the program will be individually notified.



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## Business Planning Workshop Series for South Texas Producers Interest Form

1. Name: \_\_\_\_\_ Business /Farm Name: \_\_\_\_\_

2. Address: \_\_\_\_\_ City: \_\_\_\_\_ Zip: \_\_\_\_\_

3. Phone Number: \_\_\_\_\_ Email address: \_\_\_\_\_

4. Gender:  Male  Female

5. Ethnicity: Are you Hispanic or Latino?  Yes  No

6. Race: Check the race or races that describe you best.

American Indian or Alaska Native  Asian  Black or African American  
 Native Hawaiian or Other Pacific Islander  White  Other (Please specify): \_\_\_\_\_

7. Is your Business family owned?  Yes  No

8. Please indicate the type of producer category that best describes your business (select all that apply):

Row Crop Products  Vegetable/Fruit/Nut Products  Poultry/Eggs  
 Beef Products  Swine Products  Sheep/Goats  
 Dairy Products  Greenhouse/Floriculture/Sod  Other: \_\_\_\_\_

9. How long have you been an agricultural producer in the area?

Less than 1 year  1 to 3 years  3 to 5 years  
 5 to 10 years  10 to 20 years  More than 20 years  N/A

10. Which of the following methods do you use to produce your current products? (Select all that apply).

Own land  Lease land  Share land

11. Please identify the size of your operation by selecting the category that best describes your total production acreage.

Less than 1 acre  1-3 acres  3-5 acres  
 5-10 acres  10-20 acres  > 20 acres

12. Please identify the size of your operation by selecting the category that best describes your **annual gross sales**.

Less than \$5,000  \$5,000 - \$9,999  \$10,000- \$19,999  
 \$20,000 - 29,999  \$30,000 - \$39,999  \$40,000 - \$49,999  > \$50,000

13. How do you see your production operation **CHANGING** in the next three years? (Select all that apply.)

Becoming More Diversified  Expanding Size  Decreasing Size  
 Closing  No Changes Expected

14. How do you currently distribute your products? (Select all that apply).

Road-side stand(s)  Community Supported Agriculture  Internet  
 McAllen Farmers Market  Harlingen Farmers Market  Weslaco Farmers Market  
 Brownsville Farmers Market  Wholesale  Other: \_\_\_\_\_

15. If chosen, I agree to participate in the program's requirements in a timely manner:  Yes  No

Signature of Individual: \_\_\_\_\_



# Sam Houston State University

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## **Business Planning Workshop Series for South Texas Producers** Program Description and Requirements

Congratulations on your selection to participate in the Business Planning Workshop Series for South Texas Producers, hosted by faculty from Sam Houston State University as part of a USDA Federal State Marketing Improvement Program grant. You were chosen to for the program based off of the information you provided on the Business Planning Workshop Series Interest Form. Drs. Michelle Santiago and Art Wolfskill are the principle investigators for the grant. If you have questions, you may contact Dr. Santiago at 936-294-1193 or at [mmsantiago@shsu.edu](mailto:mmsantiago@shsu.edu).

As a participant completing the program you have agreed to commit to the following:

- Complete and return the attached survey on your operation's current production, business and marketing practices.
- Participate in a two-part workshop series on Business and Marketing planning in Fall 2012
  - Business Planning Workshop is scheduled from 8:00am to 1:00pm on Friday, October 12, 2012 at the AgriLife Extension Citrus Center in Weslaco, TX.
  - Market Planning Workshop is scheduled from 8:00am to 1:00pm on Friday, November 9, 2012 at the AgriLife Extension Center auditorium in Weslaco, TX.
- Develop and implement a business plan for your operation with the assistance of the workshop faculty
  - Actual business and marketing plan deliverables will be required throughout the process by participants. These deliverables will be discussed more at each workshop.
- Participate in a follow-up workshop after the primary growing season
  - Anticipated for late June 2013

As a participant completing the program you are expected to receive the following:

- Free registration and materials for a two-part, hands-on workshop on Business Planning and Marketing
- Understanding of direct marketing and management strategies to take advantage of current opportunities
- Development of a unique business plan for the producer's operation with feedback and review from university Agribusiness faculty
- Establishment of relationships with managers of area farmers markets

While most of the program will take place through in-person workshops held in the South Texas Valley, participants are expected to have access to the internet and email, and to communicate with the program's faculty on a regular basis.

The following pages are questions related to your businesses' current operations and marketing practices. They also ask about your experiences with farmers markets and community supported agriculture (CSA's) in the area. Your individual responses will be kept confidential and only accessible to the program researchers. Responses from all selected participants will be aggregated to help workshop organizers best target the workshop presentations on business and marketing plans to fit participants needs.



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5. Whether your operation has established a business plan or not, please indicate your current level of knowledge or comfort with the following business plan components.

Business Plan Component	I've never heard of this; I'm not comfortable with it	I've heard of this before but I'm not comfortable with it	I've never heard of this but I feel somewhat comfortable with it	I've heard of this before and I am somewhat comfortable with it	I've heard of this and am comfortable with it
Goals and Objectives Statement					
Ownership and Management Information					
Location Information					
Operating Schedule					
Operating Procedures					
Tools and Equipment					
Raw Materials/Product Inventory Needs and Suppliers					
Purchased and Contracted Services					
Family, Community and Professional Supports					
Inventory Control					
Target Market and Demand					
Assessment of the Competition					
Identification of Market Niche Business will occupy					
Product/Service Pricing					
Advertising Strategies					
Distribution/Delivery Methods					
Legal					
Cost Projections for the Business's Establishment					
Projected Revenues, Expenses and Net Income Statements for two years of operation					
Monitoring Plan for Goals and Objectives					

6. Please indicate how you would classify the following as barriers to entry into farmers' markets or community supported agriculture (CSA) outlets in your area.

	Not a barrier	Somewhat of a barrier	Severe barrier
Finding reliable buyers for my products			
Finding reliable or already organized markets for my products			
Finding appropriate pricing information			
Distance to available markets			
Requirements/Procedures for selling in the markets			
Competition with other products			
Lack of business knowledge			
Lack of marketing knowledge			
Lack of funds			
Lack of continuous production			
Lack of available land for production			
Other (please specify)			



# Sam Houston State University

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## Business Planning Workshop Series for South Texas Producers Follow-up on Producer's Current Operations and Marketing Practices

Name: \_\_\_\_\_ Business /Farm Name: \_\_\_\_\_

Address: \_\_\_\_\_ City: \_\_\_\_\_ Zip: \_\_\_\_\_

Phone Number: \_\_\_\_\_ Email address: \_\_\_\_\_

Please answer the following questions about your businesses current operations and marketing practices. Your responses will help workshop organizers best target the presentations on business and marketing plans to fit participants needs.

1. Does your operation currently have any type of formal or written business plan?  Yes  No

2. How would you rate your current level of business planning knowledge on a scale of 1 to 5, with 5 being very knowledgeable? \_\_\_\_\_

3. How would you rate your current level of market planning knowledge on a scale of 1 to 5, with 5 being very knowledgeable? \_\_\_\_\_

4. If your operation does have a business plan, please indicate which of the following components your business plan currently includes:

Business Plan Component	Yes	No	Not Sure
Goals and Objectives Statement			
Ownership and Management Information			
Location Information			
Operating Schedule			
Operating Procedures			
Tools and Equipment			
Raw Materials/Product Inventory Needs and Suppliers			
Purchased and Contracted Services			
Family, Community and Professional Supports			
Inventory Control			
Target Market and Demand			
Assessment of the Competition			
Identification of Market Niche Business will Occupy			
Product/Service Pricing			
Advertising Strategies			
Distribution/Delivery Methods			
Legal			
Cost Projections for the Business's Establishment			
Projected Revenues, Expenses and Net Income Statements for two years of operation			
Monitoring Plan for Goals and Objectives			

# FREE Business Planning Workshop Series

Hosted by Agribusiness Faculty from  
Sam Houston State University

**Friday, October 12, 2012**

**Citrus Center  
Weslaco, TX**

## Workshop Agenda

- |                |  |
|----------------|--|
| 8:00-8:15am:   | Registration and Check-in  |
| 8:15-8:30am:   | Welcome and Purpose  |
| 8:30-9:00am:   | Viability of Small Production Acreage,<br>Dr. Luis Ribera, TAMU AgriLife Extension |
| 9:00-9:20am:   | Breakout Session   |
| 9:20-9:50am:   | Financing Opportunities and Requirements,<br>Arnulfo Lerma, Farm Loan Manager, FSA |
| 9:50-10:10am:  | Question and Answer / Break  |
| 10:10-10:30am: | Balance Sheet Requirements, Dr. Art Wolfskill, SHSU                                |
| 10:30-10:40am: | Breakout Session   |
| 10:40-11:00am: | Income Statement Requirements, Dr. Art Wolfskill, SHSU                             |
| 11:00-11:10am: | Breakout Session   |
| 11:10-11:30am: | Cash Flows Requirements, Dr. Art Wolfskill, SHSU                                   |
| 11:30-11:40am: | Breakout Session   |
| 11:40-12:10pm: | Lunch  |
| 12:10-12:40pm: | Expectations of Farmers Markets  |
| 12:40-1:00pm:  | Question and Answer Session, Wrapup  |

**For More Information Contact:**

Dr. Art Wolfskill at [Wolfskill@shsu.edu](mailto:Wolfskill@shsu.edu) or 936-294-1226

Dr. Michelle Santiago at [mmsantiago@shsu.edu](mailto:mmsantiago@shsu.edu)



**Sam Houston State University**

*A Member of The Texas State University System*

**BUSINESS PLAN  
FOR**

**Business Name**

**Name  
Sole Proprietor  
Address  
Town, State Zip Code**

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## **VII. LEGAL ISSUES**

**VIII. COST PROJECTIONS**

**A. For Establishment of the Business Enterprise**

**Total Equipment and Inventory for Start-up**

**Total Start-up Costs** \_\_\_\_\_ **\$**

**Contribution by** \_\_\_\_\_ **to Start-up**

**Total Contribution by** \_\_\_\_\_ **to Start-up** \_\_\_\_\_ **\$**

**Itemized List of Needed Services from Vocational Rehabilitation**

**Total List of Needed Services from Vocational Rehabilitation**\$

**B. Projected Revenues, Expense, and Net Income Statements for the First Two Years of Continuing Business Operations**

See attached financial spreadsheets in Appendix ??

The breakeven costs for ???????? are:

Projected revenue	\$
- Variable expenses	\$
-----	
Gross Profit Margin	\$
- Fixed Expenses	\$
-----	
Net Profit Margin	\$

**IX. MONITORING PLAN**

**X. APPENDICES: SUPPORTING DOCUMENTATION**

Agricultural and Food Policy Center  
Texas A&M University

April 2012

## **ECONOMIC FEASIBILITY OF A SMALL ACREAGE ORGANIC VEGETABLE FARM IN SOUTH TEXAS**



# **AFPC**

Department of Agricultural Economics  
Texas AgriLife Research  
Texas AgriLife Extension Service  
Texas A&M University

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Research Report 12-2

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# **ECONOMIC FEASIBILITY OF A SMALL ACREAGE ORGANIC VEGETABLE FARM IN SOUTH TEXAS**

Luis A. Ribera  
Marc Raulston  
Raul T. Villanueva  
Juan Enciso-Siller  
Barbara Storz  
Juan Anciso



**Agricultural and Food Policy Center  
The Texas A&M University System**

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# ECONOMIC FEASIBILITY OF A SMALL ACREAGE ORGANIC VEGETABLE FARM IN SOUTH TEXAS

The model farm, hereinafter referred to as the farm, was developed using a panel of three local small acreage organic vegetable producers in the Lower Rio Grande Valley (LRGV). The study examines the 2011 revenue stream on a three-acre produce operation that relies on three income streams: a Community Supported Agriculture (CSA) Program, farmers markets, and sales to local restaurant establishments. The farm produces about 30 to 50 different vegetable crops on an 11-month growing season, August to June. Under normal growing conditions, each acre of vegetables can supply about 40 to 50 CSA members. The majority of production (80 percent) is used to supply the CSA, with farmers market and restaurant sales each requiring 10 percent of production. The farm is not certified organic, but follows strict organic production practices.

The farm's CSA fee is \$15/week for 24 weeks. Members pay a \$50 membership fee at the beginning of the season for the opportunity to share in the CSA's bounty for the duration of the season. The membership fee is waived for individuals wishing to pay in full for the entire season. CSA members are entitled to weekly delivery of 6-8 items delivered to a pre-determined drop location throughout the growing season. Items are standardized for various forms of produce and examples may include one pound of carrots, one head of lettuce or cabbage, or a pound of greens. The variety of produce included is one of the most positive attributes of the CSA; typically two-thirds of the items are staple foods commonly used in meal preparation, and the other third is more exotic in nature, allowing the member to expand the horizons of their diet. The farm's current production is assumed to support an average of 100 CSA members, and an estimated 10 percent of members pay in full at the beginning of the season. Based on average income levels, the farm's gross receipts from the CSA are estimated at \$40,500.

On average, the CSA generates 63.6 percent of the farm's total cash receipts. In addition to produce distributed



Rey Anzaldua, owner of Anzaldua Farm and Ranch, selling at a Lower Rio Grande Valley Farmer's Market.



Example of CSA strawberry cultivation.



Example of CSA-grown produce.

**Table 1. Costs of Production for the LRGV Model Farm, 2011.**

	Unit	Units	\$/Unit	Fraction	Total Cost
<b>Production Costs</b>					
Labor	Hours	1,560	\$8	1.00	\$12,480
Seed	\$/Acre	3	\$150	1.00	\$450
Fertilizer	Cubic Yard	84	\$30	0.40	\$1,008
Fish Oil	Gallons	5	\$7	1.00	\$37
Neem Oil	Gallons	1	\$80	0.50	\$40
Emulsifier	Gallons	1	\$60	0.50	\$30
Diatomaceous Earth	50 lb Bags	3	\$20	1.00	\$60
Paper	Rolls	5	\$190	0.50	\$475
Irr Water	\$/Acre	3	\$50	1.00	\$150
City Water	\$/Month	3	\$45	1.00	\$135
Tractor Fuel	\$/Year	1	\$200	1.00	\$200
<b>Overhead Costs</b>					
Delivery Containers	\$/Each	200	\$5	0.50	\$500
Harvest Containers	\$/Each	90	\$5	0.33	\$150
Wash Water	\$/Month	12	\$10	1.00	\$120
Summer Electricity	\$/Month	4	\$200	1.00	\$800
R.O.Y. Electricity	\$/Month	8	\$50	1.00	\$400
Bags, Bands, Etc.	\$/Year	1	\$110	1.00	\$110
Delivery Fuel	\$/Month	12	\$50	1.00	\$600
Maintenance	\$/Year	1	\$500	1.00	\$500
Internet Service	\$/Month	12	\$69	1.00	\$828
Marketing	\$/Year	1	\$490	1.00	\$490
Irrigation Equipment	\$/Year	1	\$500	1.00	\$500
<b>Total Costs</b>					<b>\$20,063</b>

through the CSA arrangement, sufficient quantities are available to supply farmers markets and restaurants. Based on 2011 levels, sales to farmers markets in Harlingen and McAllen, Texas accounted for sales of \$18,021 (28.3 percent of total cash receipts). Income is higher from January to June because leafy greens are a favorite among farmers market patrons; no leafy greens are produced from August to December due to unfavorable growing conditions, thus farmers market sales are lower in those months. Restaurant sales to local establishments account for \$5,185 per year in receipts for the farm.

Production and overhead costs for the entire operation were collected during a thorough interview with the farm's producer panel. These values were developed into a budget, reflecting the farm's total costs of production shown in Table 1. Actual costs of production were utilized in 2011 and were estimated at \$20,063. Labor cost accounts for about 62.2 percent of the total cost of production as two part-time workers are needed to help mainly on the production side of the farm. Not included in the cost of production is the labor provided by the owner which is assumed to work full time.

Costs reflected in the financial statements include principal and interest payments for land and machinery. It is assumed that the farm was purchased in 2005 and took out a 10-year loan for \$43,636 at a fixed interest rate of 8.0 percent. An amortization schedule was developed and principal and interest payments are charged to the farm until the loan is paid off in 2014. Similarly, a 5-year machinery loan for \$28,000 was obtained in 2008 for a 74 HP John Deere tractor and included implements. The tractor is depreciated using a straight-line method over an expected 10-year economic life and assumes a \$5,000 salvage value.

**Table 2. Sensitivity Analysis of the Contribution of CSA Members vs. Farmers Markets and Restaurant Sales on Farm’s Net Income. Shaded Areas Represent Returns Above Cash Expenses (Green) and Below Cash Expenses (Red).**

Net Cash Income											
Reduction in CSA Members	Reduction in FM and Restaurant Sales										
	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
0%	\$ 41,318	\$ 38,998	\$ 36,677	\$ 34,356	\$ 32,036	\$ 29,715	\$ 27,395	\$ 25,074	\$ 22,754	\$ 20,433	\$ 18,113
10%	\$ 37,268	\$ 34,948	\$ 32,627	\$ 30,306	\$ 27,986	\$ 25,665	\$ 23,345	\$ 21,024	\$ 18,704	\$ 16,383	\$ 14,063
20%	\$ 33,218	\$ 30,898	\$ 28,577	\$ 26,256	\$ 23,936	\$ 21,615	\$ 19,295	\$ 16,974	\$ 14,654	\$ 12,333	\$ 10,013
30%	\$ 29,168	\$ 26,848	\$ 24,527	\$ 22,206	\$ 19,886	\$ 17,565	\$ 15,245	\$ 12,924	\$ 10,604	\$ 8,283	\$ 5,963
40%	\$ 25,118	\$ 22,798	\$ 20,477	\$ 18,156	\$ 15,836	\$ 13,515	\$ 11,195	\$ 8,874	\$ 6,554	\$ 4,233	\$ 1,913
50%	\$ 21,068	\$ 18,748	\$ 16,427	\$ 14,106	\$ 11,786	\$ 9,465	\$ 7,145	\$ 4,824	\$ 2,504	\$ 183	\$ (2,137)
60%	\$ 17,018	\$ 14,698	\$ 12,377	\$ 10,056	\$ 7,736	\$ 5,415	\$ 3,095	\$ 774	\$ (1,546)	\$ (3,867)	\$ (6,187)
70%	\$ 12,968	\$ 10,648	\$ 8,327	\$ 6,006	\$ 3,686	\$ 1,365	\$ (955)	\$ (3,276)	\$ (5,596)	\$ (7,917)	\$ (10,237)
80%	\$ 8,918	\$ 6,598	\$ 4,277	\$ 1,956	\$ (364)	\$ (2,685)	\$ (5,005)	\$ (7,326)	\$ (9,646)	\$ (11,967)	\$ (14,287)
90%	\$ 4,868	\$ 2,548	\$ 227	\$ (2,094)	\$ (4,414)	\$ (6,735)	\$ (9,055)	\$ (11,376)	\$ (13,696)	\$ (16,017)	\$ (18,337)
100%	\$ 818	\$ (1,502)	\$ (3,823)	\$ (6,144)	\$ (8,464)	\$ (10,785)	\$ (13,105)	\$ (15,426)	\$ (17,746)	\$ (20,067)	\$ (22,387)



Saul and Diana Padilla, owners of Yahweh’s All Natural Farm and Garden, selling at a Lower Rio Grande Valley Farmer’s Market.



Example of CSA-grown produce.

The farm experiences positive net cash income in 2011 of \$41,318. Net cash income is defined as total cash receipts minus total cash expenses. This figure does not reflect profit, as principal payments on loans, and employment and income taxes must be paid from this value. The farm experiences a positive annual cash position of \$20,252 in 2011, which includes all the expenses not included in the net cash income such as principal payments on machinery and land loans, and self-employment and income taxes. This analysis does not account for the owner's salary or family living expenses.

Results of a sensitivity analysis examining the contribution of the CSA vs. farmers markets and restaurant sales to the farm's net cash income are reported in Table 2. This sensitivity analysis assumes a constant cash expense. On the vertical axis, reductions on CSA members are shown in increments of 10 percent, while on the horizontal axis reductions on farmers markets/restaurant sales are shown with the same incremental reductions. To illustrate, when both CSA members and farmers markets/restaurant sales present no reduction, the net cash income is \$41,318 as shown previously. However, if there are no CSA members, meaning the only source of revenue is the farmers markets and restaurant sales, the net cash income is only \$820. Conversely, if the only source of revenue were the CSA, then the net cash income would be \$18,113, thus demonstrating the importance of the CSA to the farm's profitability. Moreover, if the number of CSA members is reduced by 40 percent, i.e. 60 members, and the farmers markets/restaurant sales are reduced by 50 percent, then the net cash income would be \$13,515. In order for the farm to remain profitable, it needs to stay within the options highlighted in green.

*The authors would like to express special thanks to Yahweh's All Natural Farm and Garden, Anzaldia Farm and Ranch, and Jaber's Estate Winery for the information to generate this report.*

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BALANCE SHEET FOR (I. M. FARMER) DECEMBER 31, 20XX

Assets		
Current Assets:	Cost	Market
Cash/checking acct.	\$ 5,000	\$ 5,000
Marketable securities	1,000	2,200
Inventories		
Crops	40,000	40,000
Livestock	52,000	52,000
Supplies	4,000	4,000
Accounts receivable	1,200	1,200
Prepaid expenses	500	500
Investment in growing crops	7,600	7,600
Other current assets	0	0
<b>Total Current Assets</b>	<b>\$ 111,300</b>	<b>\$ 112,500</b>
Noncurrent Assets:		
Machines and equipment	67,500	95,000
Breeding livestock (purchased)	48,000	60,000
Breeding livestock (raised)	12,000	24,000
Building & improvements	27,000	50,000
Land	288,000	400,000
Other noncurrent assets	0	0
<b>Total Noncurrent Assets</b>	<b>\$ 442,500</b>	<b>\$ 629,000</b>
<b>Total Assets</b>	<b>\$ 553,800</b>	<b>\$ 741,500</b>
Liabilities		
Current Liabilities:	Cost	Market
Accounts payable	6,000	6,000
Notes payable within 1 year	15,000	15,000
Current portion of term debt	28,000	28,000
Accrued interest	15,700	15,700
Income taxes payable	8,000	8,000
Current portion—deferred taxes	15,020	15,260
Other accrued expenses	900	900
<b>Total Current Liabilities</b>	<b>\$ 88,620</b>	<b>\$ 88,860</b>
Noncurrent Liabilities:		
Notes payable		
Machinery	20,000	20,000
Breeding livestock	40,000	40,000
Real estate debt	175,000	175,000
Noncurrent portion—deferred taxes	—	45,000
<b>Total Noncurrent Liabilities</b>	<b>\$ 235,000</b>	<b>\$ 280,000</b>
<b>Total Liabilities</b>	<b>\$ 323,620</b>	<b>\$ 368,860</b>
Owner Equity:		
Contributed capital	50,000	50,000
Retained earnings	180,180	180,180
Valuation adjustment	—	142,460
<b>Total Equity</b>	<b>\$ 230,180</b>	<b>\$ 372,640</b>
<b>Total liabilities and owner equity</b>	<b>\$ 553,800</b>	<b>\$ 741,500</b>

Company Name: FREDDY FARMER

Date Range: Jan 1 to Dec 31 2011

### Income Statement

Revenue:		+
Potatoes	\$ 48,000.00	
Strawberries	\$ 65,500.00	+
Feeder Calves (25)	\$ 9,750.00	+
Total Revenue	\$ 123,250.00	=
Cost of goods sold	\$5,600.00	-
Gross Profit	\$ 117,650.00	=
Operating Expenses:		-
Fertilizer	\$2,200.00	-
Feed	\$1,200.00	-
Seed	\$1,500.00	-
Fuel	\$18,000.00	-
Labor (paid contract)	\$22,000.00	-
		-
		-
		-
Depreciation (non-cash expense)	\$15,000.00	-
Operating Income (EBIT)	\$ 57,750.00	=
Non-operating Income (+ / -)	\$0.00	
Interest Expense	\$12,000.00	-
Earnings before taxes	\$ 45,750.00	=
Taxes	\$4,575.00	-
Net Income	\$ 41,175.00	=

Company Name \_\_\_\_\_

Date Range \_\_\_\_\_

### Income Statement

Revenue:		+
		+
		+
Total Revenue		=
Cost of goods sold		-
Gross Profit		=
Operating Expenses		-
		-
		-
		-
		-
		-
		-
		-
		-
		-
Depreciation (non-cash expense)		-
Operating Income (EBIT)		=
Non-operating Income (+ / -)		
Interest Expense		-
Earnings before taxes		=
Taxes		-
Net Income		=

# RATE OF RETURN ON ASSETS

- Use the sample statements you have to calculate the ROA

**Numerator**

EBIT (Income from Operations)	\$
- Opportunity Cost of Labor	- \$
- <u>Opportunity Cost of Management</u>	- \$
Return to Assets	\$

# RATE OF RETURN ON ASSETS

Return to Assets	\$
Farm Total Asset Value (Balance Sheet)	\$
=	\$ _____

# OPERATING PROFIT MARGIN RATIO

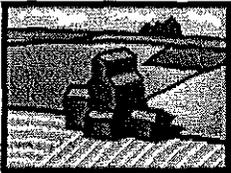
- Higher value means more profit per dollar of revenue

$$\text{Operating Profit Margin Ratio} = \frac{\text{EBIT}}{\text{Total Revenue}} \times 100$$

Am I just trading money? How much of this revenue do I get to keep?



# OPERATING PROFIT MARGIN RATIO



**Numerator**  
**EBIT (Income from Operations)**

**Denominator**  
**Total Revenue**

**OPMR =**  
 On average, every dollar of revenue generates XXX cents of real profit after paying the operating expenses

## **10 Steps for Building a Cash Flow Budget**

1. Start with your whole-farm plan
2. Take inventory of crops and livestock
3. Estimate crop production and livestock feed requirements
4. Estimate cash receipts from livestock sales (including livestock products)
5. Estimate cash crop sales - keep in mind how much you will save back for animal feed

## **10 Steps for Building a Cash Flow Budget**

6. Estimate other cash income (Gov't programs, custom work, etc.)
7. Estimate cash operating expenses
8. Estimate non-business cash expenses, or planned withdrawal of cash for living expenses, etc.
9. Estimate purchases and sales of capital assets
10. Record principal and interest payments on existing debt

For each of these, you will need the amount and the expected time (month) when it will be paid

	Month 1	Month 2
1 Beginning cash balance	\$1,000	\$500
Cash inflow:		
2 Farm product sales	2,000	12,000
3 Capital sales	0	5,000
4 Miscellaneous cash income	0	500
5 Total cash inflow (incl. line1)	3,000	18,000
Cash outflow:		
6 Farm operating expenses	3,500	1,800
7 Capital purchases	10,000	0
8 Miscellaneous expenses	500	200
9 Total cash outflow	14,000	2,000
10 Cash balance (line 5 - line 9)	-11,000	16,000
11 Borrowed funds needed	11,500	0
12 Loan repayments (principal and interest)	0	11,700
13 Ending cash balance (line 10 + line 11 - line 12)	500	4,300
14 Debt outstanding	\$11,500	\$0

## Form for a Cash Flow Budget

Name: I. M. Farmer		Total	Jan	Feb	March
1	Beginning cash balance				
	Operating receipts:				
2	Grain and feed				
3	Feeder livestock				
4	Livestock products				
5	Other				
6					
	Capital receipts:				
7	Breeding livestock				
8	Machinery and equipment				
9					
	Nonfarm income:				
10	Wages and salary				
11	Investments				
12					
13	Total cash inflow (add lines 1-12)				

	<b>Operating expenses</b>				
<b>14</b>	<b>Seed</b>				
<b>15</b>	<b>Fertilizer and lime</b>				
<b>16</b>	<b>Chemicals</b>				
<b>17</b>	<b>Other crop expenses</b>				
<b>18</b>	<b>Gas, oil, and lubricants</b>				
<b>19</b>	<b>Hired labor</b>				
<b>20</b>	<b>Machine hire</b>				
<b>21</b>	<b>Feed and grain</b>				
<b>22</b>	<b>Feeder livestock</b>				
<b>23</b>	<b>Livestock expenses</b>				
<b>24</b>	<b>Repairs - machinery</b>				
<b>25</b>	<b>Repairs - buildings</b>				
<b>26</b>	<b>Cash rent</b>				
<b>27</b>	<b>Supplies</b>				
<b>28</b>	<b>Property taxes</b>				
<b>29</b>	<b>Insurance</b>				
<b>30</b>	<b>Utilities</b>				
<b>31</b>	<b>Auto and pickup (farm share)</b>				
<b>32</b>	<b>Other farm expenses</b>				
<b>33</b>					
<b>34</b>					
<b>35</b>	<b>Total cash operating expenses</b>				

## More Cash Flow Budget

	Capital Expenditures				
36	Machinery and equipment				
37	Breeding livestock				
38					
	Other expenditures:				
39	Family living expenses				
40	Income tax and social security				
41	Other nonfarm expenses				
42					
43					
	Scheduled debt payments				
44	Current debt - principal				
45	Current debt - interest				
46	Noncurrent debt - principal				
47	Noncurrent debt - interest				
48	Total cash outflow				
	(add lines 35-47)				
49	Cash available (line 13 - line 48)				

## More Cash Flow Budget

48	Total cash outflow				
	(add lines 35-47)				
49	Cash available (line 13 - line 48)				
	New borrowing:				
50	Current				
51	Noncurrent				
52	Total new borrowing				
	Payments on new current debt				
53	Principal				
54	Interest				
55	Total debt payment				
	(line 53 + line 54)				
56	Ending cash balance				
	(lines 49 + 52 - 55)				
	Summary of debt outstanding				
57	Current				
58	Noncurrent				
59	Total debt Outstanding				



	Total	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
35 Total cash operating expenses	108,500	1,650	3,000	21,150	14,050	4,500	2,950	650	1,800	2,850	6,050	46,400	3,450
Capital expenditures:													
36 Machinery and equipment	60,000			60,000									
37 Breeding livestock	1,000						1,000						
38													
Other expenditures:													
39 Family living expenses	36,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
40 Income tax and social security	8,000			8,000									
41 Other nonfam expenses													
42													
43													
Scheduled debt payments:													
44 Current debt - principal	0												
45 Current debt - interest	0												
46 Noncurrent debt - principal	32,000		6,000				20,000		6,000				
47 Noncurrent debt - interest	27,200		12,000				3,200		12,000				
Total cash outflow													
48 (add lines 35-47)	272,700	4,650	24,000	92,150	17,050	7,500	30,150	3,650	22,800	5,850	9,050	49,400	6,450
49 Cash available (line 13-line48)	(5600)	18,650	15,250	(76,300)	(15,950)	(6,450)	(29,100)	(2,550)	70,050	663	52,213	37,376	31,526
New borrowing:													
50 Current	92,700			36,800	16,400	6,900	29,600	3,000					
51 Noncurrent	40,000			40,000									
52 Total new borrowing	132,700			76,800	16,400	6,900	29,600	3,000					
Payments on new current debt													
53 Principal	92,700								67,400		25,300		
54 Interest	2,874								2,137		737		
Total debt payments													
55 (line 53 + line 54)	95,574								69,537		26,037		
Ending cash balance													
(lines 49 + 52 - 55)	31,526	18,650	15,250	500	450	450	500	450	513	663	26,176	37,376	31,526
Summary of debt outstanding													
Current (beginning of \$0)	0	0	0	36,800	53,200	60,100	89,700	92,700	25,300	25,300	0	0	0
Noncurrent (beg. of \$340,000)	340,000	340,000	334,000	374,000	374,000	374,000	354,000	354,000	348,000	348,000	348,000	348,000	348,000
Total debt outstanding	340,000	340,000	334,000	410,800	427,200	434,100	443,700	446,700	373,300	373,300	348,000	348,000	348,000

# FREE Business Planning Workshop Series

Hosted by Sam Houston State University

**Friday, November 9, 2012**

**Citrus Center  
Weslaco, TX**

## **Tentative Market Planning Workshop Agenda**

8:00-8:15am:	Registration and Check-in
8:15-8:30am:	Welcome and Purpose, Dr. Art Wolfskill, SHSU
8:30-9:00am:	Marketing and Market Planning, Dr. Lindsey Higgins, Cal Poly - SLO
9:00-9:10am:	Breakout Session
9:10-9:30am:	Market Situation Analysis, Dr. Lindsey Higgins, Cal Poly - SLO
9:30-9:45am:	Breakout Session
9:45-10:00am:	Break
10:00-10:20am:	Marketing Niche Identification, Dr. Lindsey Higgins, Cal Poly - SLO
10:20-10:35am:	Breakout Session
10:35-11:00am:	Place and Product Strategies, Dr. Lindsey Higgins, Cal Poly - SLO
11:00-11:15am:	Breakout Session
11:15-11:35am:	Price and Promotion Strategies, Dr. Lindsey Higgins, Cal Poly - SLO
11:35-11:50am:	Breakout Session
11:50-12:20pm:	Lunch
12:20-12:40pm:	Implementation Strategies
12:40-1:00pm:	Question and Answer Session, Wrap-up

**For More Information Contact:**

Dr. Art Wolfskill at [Wolfskill@shsu.edu](mailto:Wolfskill@shsu.edu) or 936-294-1226

Dr. Michelle Santiago at [mmsantiago@shsu.edu](mailto:mmsantiago@shsu.edu)



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## **Session 1: What is Marketing and Market Planning?**

Marketing is the practice of communicating a message about a good or service that empowers the seller and results in an action by the buyer.

Market first and then produce the product.

Steps to market planning:

Research

Assess

Determine Niche

Set Objectives

Determine Strategy (product, price, place, promotion)

Implement Strategy and Measure Progress

### **Breakout**

Discuss your favorite retail food experiences. What made them positive?

What marketing practices have you employed? How successful were they? How did you measure that success?

List five things that you would like to learn more about marketing through this workshop.

## Session 2: Background Research

Information = knowledge = success

Situation Analysis: internal, external, and customer

Internal: company limits, budget, timeline, goals, land constraints, etc.

External: competitors, trends, regulations, outside resources

Customer: Who am I selling to, demographics, behavior, price sensitivity

The average farmers' market consumer

### Breakout

What are the biggest limiters of your business. How can you overcome it?

Which competitor is closest to your business and how do they differ?

List five factors that your current customer is likely considering when purchasing.

### Session 3: Developing Your Niche

#### SWOT Analysis

	Internal	External
Positive	STRENGTHS	WEAKNESSES
Negative	OPPORTUNITIES	THREATS

What are your possible sources for a competitive advantage?

#### Goal Setting

Goal:

Objectives:

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

## **Session 4: Place and Product Strategies**

### **Place Strategy:**

Multiple methods to directly sell to consumers

Examples: Farm stands, CSA, Farmers' markets, U-Pick, Flea Markets

### **Product strategy:**

Product mix, uniformity, sensory, inform, presentation

### **Breakout**

Review your product mix. Does it match consumers' wants? Is it different from others?

Develop a value proposition. Ask yourself, what exactly are you products / services providing your customers?

List some ideas for changing your product strategy. What might work for your farm business?

## **Session 5: Price and Promotion Strategies**

Price is key for revenue. Easiest to change.

How do I set my price? Cost of production and competitors' prices.

Pricing strategies:

Price for profit, price for value, price against competition

Promotion strategies:

Point of purchase: People shop with their eyes!

Active marketing: engage for repeat business.

### Breakout

Review the price on your top three items. How that price was developed? What aspects of the pricing strategy discussed might be appropriate for your products?

What promotional strategies are you using? What two promotional activities / improvements might attract more customers.

Pretend a new customer is approaching

Determine the overall message you are trying to tell your customers.

Create a script for recommending 2 products they may enjoy.

## **Session 6: Implementation**

Metrics, forecasts, budgets, schedules.

Steps for scheduling:

1. Identify the activities to be performed
2. Determine the time required to complete each activity
3. Determine which activities must precede others
4. Arrange the proper sequence and timing of all activities
5. Assign responsibility

# FREE Business Planning Workshop Series

Hosted by Agribusiness Faculty from Sam Houston State University;  
Supported by Faculty from Texas A&M University AgriLife Extension

**Thursday, August 8, 2013**

**Hoblitzelle Auditorium  
Texas A&M Research and Extension Center  
2401 E. U.S. Highway 83  
Weslaco, TX**

## **Workshop Agenda**

- 8:00-8:30am: Registration and Check-in
- 8:30-8:40am: Welcome and Purpose
- 8:40-9:20am: Review of Participants Business Plans and Planning Process,  
Drs. Michelle Santiago and Art Wolfskill, SHSU
- 9:20-10:00am: Business Organization and Liability, Ricardo Ramos, Attorney
- 10:00-10:30am: Insurance Options for Small Producers, Paul Townsend, Texas Farm  
Bureau Insurance
- 10:30-10:40am: Break
- 10:40-12:10pm: Texas Cottage Food Law and Farmers Market Regulations, Judith  
McGeary, Executive Director, Farm and Ranch Freedom Alliance
- 12:10-12:40pm: Lunch – Provided to Participants
- 12:40-1:00pm: Question and Answer Session, Wrap-up

### **For More Information Contact:**

Ms. Barbara Storz at [b-storz@tamu.edu](mailto:b-storz@tamu.edu)  
Dr. Luis Ribera at [LARibera@ag.tamu.edu](mailto:LARibera@ag.tamu.edu)  
Dr. Michelle Santiago at [mmsantiago@shsu.edu](mailto:mmsantiago@shsu.edu)  
Dr. Art Wolfskill at [Wolfskill@shsu.edu](mailto:Wolfskill@shsu.edu) or 936-294-1226



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a national information resource for value-added agriculture

## Starting a Business

### Market/Business Assessment

- [Business Development Process](#)
- [Project Committees and Meetings](#)
- [Consultants](#)
- [Idea Assessment](#)
- [Feasibility Analysis](#)
- [Market Research](#)
- [Marketing Plans](#)



### Creating a Business

- [Starting a Business](#)
- [Buying a Business](#)
- [Mission and Goals](#)
- [Product Development](#)
- [Business Plans](#)
- [Legal Organizational Structure](#)
- [Business Organizational Structure](#)
- [Business Name](#)
- [Site Selection](#)

### Raising Money

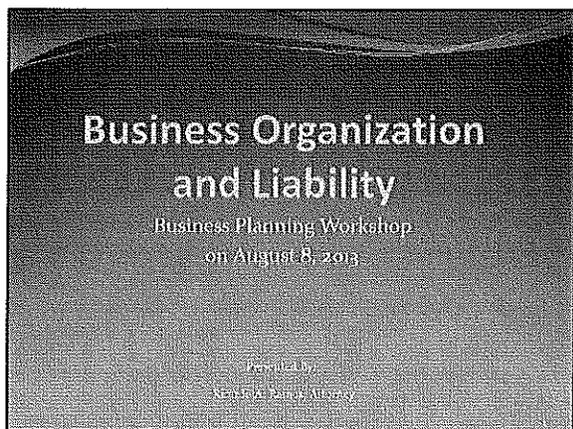
- [Financing Your Business](#)
- [Grants](#)
- [Equity Financing](#)
- [Equity Offerings](#)
- [Venture Capital](#)
- [Borrowing Money](#)
- [Security and Collateral Issues](#)

### Special Types of Businesses

- [Home-Based Businesses](#)
- [Hometown Businesses](#)
- [Bed and Breakfast](#)
- [Agritourism/Agritainment](#)
- [Specialty Food Businesses](#)
- [Consumer Food Cooperatives](#)
- [Catering Businesses](#)
- [Farmer Alliances](#)

### Ending a Business

- [Closing a Business](#)
- [Selling a Business](#)



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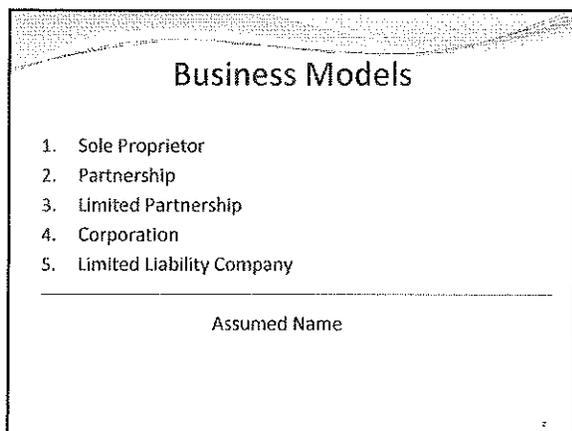
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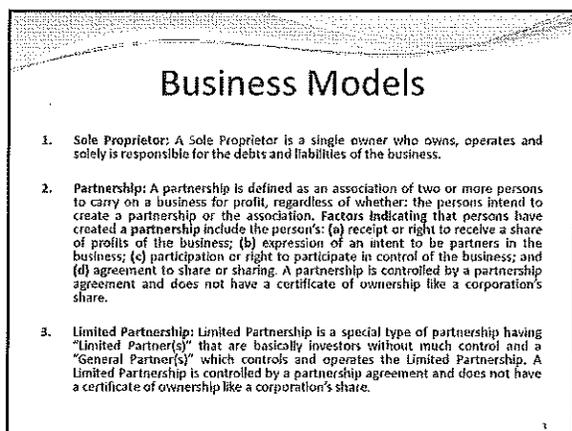
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## Business Models

4. **Corporation.** A Corporation is a fictitious person, normally a certificated entity, created by law that exists continuously until terminated, voluntary or involuntary, wherein its owners are called shareholders and is governed by a board of directors (normally) and operated by officers. Its internal working are governed by "By-Laws" which refer to its structure, notices, quorums, meetings, voting, resolutions, etc. The shareholders/directors/officers normally do not bear any personal responsibility for the contractual or tortious liabilities of the Corporation. This is called the "corporate veil."
5. **Limited Liability Company:** A Limited Liability Company is a mixture of a partnership and a corporation but normally is not certificated. It is comprised of members, it can have or not have a board of managers or have officers. It can choose to act as either a corporation with formality or informality of a partnership.

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## Items of Consideration

1. **Liability (Generally to all entities)**
  - a. Contractual
  - b. Tort
    - i. Direct
    - ii. Indirect-Vicarious
2. **Formality**
  - a. Expenses
  - b. Income
  - c. Internal Workings (Capital Account).
3. Taxes
4. Costs
5. Take Away

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## Liability

1. **Contractual Obligations:** Contractual Obligations such as purchasing orders, bank loans, rental agreements, utility bills, and anything associated with the business, which is undertaken by agreement.
2. **Tort:** A tort is a civil wrong based on negligence, recklessness, and/or intentional conduct. There are different areas which one must be careful to avoid liability such as location (premises), interaction with customers, product, and employees conduct.
  - i) **Premises:** there are three different duties owed to the public/employees in reference to your premises:
    - ii) **Invitees:** Invitees are people that you invite to come to your store/office, for example, customers, friends, and family. To these people the proprietor/operator is required to inspect the location and either repair or warn against any dangerous conditions.
    - iii) **Licensees:** Licensees are those people who you did not invite to come upon your location, but you allow upon your premises for his/her own interest such as the postman, the yard man, cleaning crew, who have their own business. To these people the proprietor/operator is not required to inspect, but if he knows of any dangerous condition on the location, then he/she must either repair or warn against any dangerous conditions.
    - iv) **Trespasser:** is someone who you did not invite and give permission in your premises.

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## Liability

2) **Customers:**

- a) **Negligence** is the failure to take proper care in doing something or to use reasonable care, resulting in damage or injury to another; for example, you are selling vegetables that should have been refrigerated and were left out in the sun and gave samples that someone ate and got sick. The proprietor failed to maintain the standard of care in caring for the product.
- a) **Recklessness and intention** conduct are higher standards of lack of care.
- b) The employer is responsible for the actions of his/her employees to the extent they are operating within the scope of the employer's business; for example, the employer sends the employee for an errand and the employee has a wreck for which the employee is responsible. The employee should have insurance to cover the accident, but the employer is also responsible, vicariously.

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## Liability

3) **Taxes:** All the business models except for the Sole Proprietor are subject to the Texas margin's- franchise tax meaning the margins of income made. The margin's tax is measured by either the gross amount of product sold or services rendered at a rate between 0.5 to 1%. For most businesses it is not a problem because at least for 2013 there is/was a \$1,000,000.00 exemption. It appears that for 2013, the exemption may be only \$600,000.00. In the last legislature there was a bill proposed that would have eliminated the exemption but did not come out of committee.

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## Sole Proprietor

1. **Liabilities of a Sole Proprietor** are all the foregoing as he/she does not have any covering or protection from contractual or tort liabilities. He should not undertake contractual liabilities which are beyond his means. His spouse is not automatically liable for his contracts.
2. **Formality:** A Sole Proprietor does not have much formality. He does not have to account to another. He must, however, provide accurate accounting for taxing purposes and to "his spouse."
3. **Taxes:** Tax "flow through" means the money earned is the attributable directly to the owner. Any income made by the business is charged directly to the Sole Proprietor. At year's end any money in your business account is charged against you for which you must report for tax purposes regardless if you have taken the money out of your business account or not. The business expense are also deductible against your income. You only need the business set of books and your report for your income tax is just a schedule to your income tax return.

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## Sole Proprietor

4. **Capital Account:** None. Capital Account apply only to partnerships.

5. **Take away:** This is a topic incidental to this discussion in that if a judgment were taken against you apart from the business, it can affect your business because it is an asset that is not protected under the law. As you will see under partnership and entities it changes but not necessarily for corporations.

6. **Dissolution:** A Sole Proprietor shuts his doors pays off his creditors and keeps everything that remains.

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## Partnership

**Note:** The code defines a Partnership as a separate entity but not for a "corporate veil" protection, Texas law does not provide any protection to the individual partners, however, a partner must be sued individually together with the partnership, to be held liable.

2. **Liability**

A. **Contractual obligations:** All the partners are jointly and severally liable for all obligations of the Partnership.

B. **Tort:** the liability of each partner is the same as the sole proprietor by vicariously. Each partner is liable for the actions and/or omissions of each of the other partners.

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## Partnership

3. **Formality:** A Partnership requires the managing partners to formally account to the other partner and allow other partners to inspect of the Partnership's books. Internally a partnership is controlled by a contract (Partnership Agreement) and the percentage of ownership is usually based on the contributions of each partner to the business.

4. **Taxes:** The Partnership as an entity must file an informational tax return and provide a IRS K-1 form to each partner which is an equivalent to an employee's IRS W-2 form. That form indicates the percentage of a partner's income, expenses, and deductibles. Tax flow through is directly to the partners in their percentages of ownership.

5. **Capital Account:** A capital account is a method of keeping track of money which the partners contribute to or withdraw from the partnership, over and above such as partner's percentage; for example, a partner owns 25% interest of the partnership and each partnership all of a sudden needs input of \$10,000.00, at that moment only the 25% partner has any money and he puts in the \$10,000.00, how is that traced? The capital account for the contributing partner is increased by \$7,500.00 at dissolution after all creditors are paid and before distributing assets, the capital accounts must be equalized, in other words he would get back his \$7,500.00.

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## Partnership

- Take Away:** If a judgment is to be executed against a partner for non-partnership business related items, then a judgment creditor cannot take away the partner's right to run the business but can have court issue a "charging order," which requires the partnership to pay to the judgment creditor any monies that would be distributed (not salary) to the judgment debtor.
- Dissolution:** A dissolution of a partnership can or does occur by the withdrawal of a partner or by agreement by all the partners. At dissolution, the partnership creditors are paid first, then the capital accounts are equalized and remaining property is distributed to the partners according to the percentages of ownership.

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## Limited Partnership

- A Limited Partnership** is comprised of one or more general partners and limited partners; however, I do not want to spend too much time on this because it is not really used except for estate planning. The limited partnership was used to avoid franchise tax. Before the Limited Partnership was not subject to the franchise tax but now it is.

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## Corporation

- A Corporation** is a traditional method to avoid personal liability in the operation of a business.
- A Corporation** is an entity which is considered a person. It has a birth certificate called a Certificate of Formation. A person forming a Corporation is called an organizer and he/she can do so by filing out a Certificate of Formation and filing with the Texas Secretary of State.
- The Corporation** will have owners, known as shareholders and the Corporation can have a board of directors. The board of directors then elects officers (president, secretary, and treasurer.) In Texas a Corporation can have one shareholder, one director, and one officer and all be the same person, which sounds like a Sole Proprietor.

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## Corporation

5. A Corporation can have double taxation if it classified as a "C" corporation. It pays taxes on the money it makes; however, the dividends it pays as shareholders are not deductible and it is considered income to the shareholders. However, the Corporation can elect chapter "S" designation which means the income is charged to the shareholder just like a partner in a Partnership. This is known as flow through taxes.

6. Back in the 1950's President Eisenhower changed the tax law to allow the tax flow through with conditions; could not be more than 35 shareholders who had to be U.S. Citizens and could not be entities, had to be individual persons. This gave birth to the Limited Liability Company.

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## Corporation

7. **Liability:**

A. **Contractual Obligation:** The officers of the Corporation operate the business under the authority and control of the board of directors. The officers/directors/shareholders do not have personal liability for the normal operation of the corporation because they are its employees and owners but are not the corporation. If however, the person they are contracting with, such as a bank obtaining a loan, requires a "personal guarantee," then the person is a guarantor personally responsible for the Corporation's debts.

B. **Tort:** Under the normal circumstances of a mistake or accident under a standard of simple negligence, the officers/directors/shareholders are not personally liable. They are circumstances where certain laws may apply under standards of gross negligence, recklessness, and/or intentional conduct which will expose officers, directors, and/or shareholders to liability.

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## Corporation

8. **Formality corporations** are a formal structure of notice, meetings, quorums, voting, resolutions, etc. However, the legislature has passed statutes allowing greater informality. There is a concept of "piercing the corporate veil," which means that an officer/director/shareholder could be personally liable for not following the formalities; however, that require fraud and the actor to personally benefit from it.

9. **Taxes Under a Corporate Structure:** A Corporation begins with a classification of being a "C" corporation which means normal Corporation. This is opposite of an "S" Corporation. A "C" Corporation undergoes double taxation. The money a Corporation earns is taxed before dividends are paid to shareholders. Dividends are not deductible but are income to the shareholders, which have to pay tax on those dividends, therefore double taxation. An "S" Corporation election allows the shareholder(s) to bypass the corporation and have the income of the corporation attributable directly to the shareholders (taxed once only).

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## Corporation

10. **Costs:** A Corporation requires bookkeeping for it apart from bookkeeping of the shareholders individually.
11. **Take Away:** If there is judgment against the shareholder, the judgment creditor can reach and take away the shares of the shareholder and literally take over the business if the judgment creditor captures significant number of shares. The reason for this is that a share carries with it the right to receive money (dividends) and right to control (manage) the Corporation. As you will see later this is different for a Limited Liability Company.

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## Limited Liability Companies

1. **Liability:** The LLC protects its members/managers/officers from contractual and tortious liability except where (a) contractually, an individual signed individually guaranteeing the LLC performance and (b) was an individual actor in committing the tort.
2. **Formality:** Usually the member from an LLC chooses a partnership format with less formality even though under some circumstances, for proof purposes, third parties will require resolutions and evidence of a company agreement. The company agreement is the equivalent of a Corporation's By-Laws, which dictates notices, meetings, quorums, voting, etc.
3. **Taxes:** An LLC under an election is to be treated as a partnership, which will have a flow through taxation where the members report the income directly bypassing the LLC. Each member receives a K-1, just as in a Partnership.
4. **Costs:** The costs are similar to that of a Corporation.
5. **Take Away:** If a judgment is to be executed against a member for non-LLC business, then a judgment creditor cannot take away the member's right to run the business but can have court issue a "charging order" which requires the LLC to pay to the judgment creditor any monies that would be distributed (not salary) to the judgment debtor.

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## Assumed Name

Any person including partnership, limited partnerships, corporations, and LLCs may have to file to operate a business under an assumed or fictitious name.

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## Texas Farmers' Market Bill & DSHS Better Communications Bill

In the 2013 Texas legislative session, the Farm and Ranch Freedom Alliance worked to pass several bills to help small farmers and local food producers. The cottage foods law is covered in a separate handout. This handout covers the Farmers' Market Bill (HB 1382) and the DSHS Better Communications Bill (HB 1392). Both go into effect on September 1, 2013.

### Farmers' Market Bill (HB 1382)

The Farmers' Market Bill has two sections: (1) sampling at farmers' markets and farm stands, and (2) cooking demonstrations at farmers' markets.

#### Sampling

The provisions on sampling cover both farm stands and farmers' markets. A farmers' market is defined as "a designated location used primarily for the distribution and sale directly to consumers of food by farmers or other producers."

If you are providing samples of food at a location **other than** a farm or a farmers' market, then you will have to comply with the regulations from the Department of State Health Services or your local health department.

To provide samples of food at a farm or farmers' market, you must:

1. Distribute the samples in a sanitary manner (for example, by providing toothpicks for individual servings);
2. Have potable water available (for example, by having a jug of drinking water);
3. Wash any produce intended for sampling with potable water to remove any visible dirt or contamination;
4. When preparing the samples, **either** wear clean, disposable plastic gloves **or** observe proper hand washing techniques immediately before preparation;
5. Use smooth, nonabsorbent, and easily cleaned (i.e. metal or plastic) utensils and cutting surfaces for cutting samples, or use disposable utensils and cutting surfaces;
6. Keep samples of cut produce or other potentially hazardous foods at a temperature of 41 degrees or colder, **or** dispose of the samples within two hours after cutting or preparation.

Meat or poultry products must come from animals processed in compliance with the regulations for livestock processing (Texas Health & Safety Code Chapter 433).

You do not need to obtain a permit to provide samples at a farm or farmers' market. As long as you meet the standards set out above, you may provide samples.

This law does not affect whatever permits you would normally be required to obtain to sell a food item. For example, if your local health department requires you to have a mobile food

vending permit to sell cheese, you will still need to obtain that permit. But you will **not** need to obtain a separate permit to provide samples of your cheese.

### **Cooking Demonstrations at Farmers' Markets**

For a farmers' market to hold a cooking demonstration, it must:

- 1) Have someone with a food manager's license supervising the demonstration; and
- 2) Comply with the requirements for a temporary food establishment (TFE) permit.

If the market wishes to distribute samples as part of the cooking demonstration:

- 1) They can provide samples only, not full servings (i.e. you can't serve a meal and call it a cooking demonstration);
- 2) The samples must be disposed of within 2 hours of the beginning of the demonstration.

If the cooking demonstration is conducted by a farmers' market for a "bona fide educational purpose," it is exempted from the usual fees for a TFE permit.

### **DSHS Better Communications Bill (HB 1392)**

*#1 complaint from producers:  
"we don't know what is required"*

The Department of State Health Services (DSHS) has primary jurisdiction in areas where there is no local health department. In addition, many local health departments enforce the DSHS regulations, rather than adopting specific local regulations.

The DSHS Better Communications Bill, in essence, requires that DSHS tell farmers and food producers what they are legally required to do, in a timely manner. In order to qualify for this requirement, you must submit a **written** request to DSHS asking for the information.

Your request can be for general information (such as "where can I find the requirements for on-farm poultry processing?") or for how the legal requirements apply to your specific circumstances (such as "Will it meet the regulatory requirements if I use gravel for the flooring in the slaughter area?").

DSHS is required to respond to your written request within 30 days.

If you comply with DSHS's response, an inspector **cannot** issue or citation or fine you for violating that regulation.

*even if you have a local health dept, take advantage of this*

### **Thank You's**

Thank you to Representative David Simpson and Senator Bob Deuell for sponsoring HB 1382, and to Representative Susan King and Senator Jane Nelson for sponsoring HB 1392. Thank you also to the hundreds of people who attended the committee hearings and FARFA's lobbying days, or who wrote or called their legislators to help pass these important bills.

**For more information, visit [www.FarmAndRanchFreedom.org](http://www.FarmAndRanchFreedom.org) or  
call 254-697-2661**



## Texas Cottage Foods Law: Selling Home-Made Foods

Prior to 2011, it was illegal to sell any food that a person prepared in his or her home. In 2011, the Farm and Ranch Freedom Alliance (FARFA) worked to pass the first Texas Cottage Foods Law, which allows people to sell specific low-risk foods directly to consumers from their homes, up to \$50,000 per year. In 2013, FARFA worked to expand the law to include more foods and allow sales at more locations. The new law (HB 970) takes effect on September 1, 2013.

must be in  
your own  
home

→ only courts for cottage foods

Read the bill: [www.capitol.state.tx.us/BillLookup/history.aspx?LegSess=83R&Bill=HB970](http://www.capitol.state.tx.us/BillLookup/history.aspx?LegSess=83R&Bill=HB970)

### What is required to sell under the cottage foods law?

- Sell only the specified, nonpotentially hazardous foods (*see pages 1-3*)
- Sell directly to consumers
- Foods must be prepared in your home kitchen (i.e. not in a separate building or facility), using appliances meant for residential use
- Sell no more than \$50,000 of such foods annually
- Sell at an allowed location (*see page 3*)
- Have a current food handler's card (*see page 4*)
- Package the food so as to prevent contamination, unless the item is too large or bulky to fit conventional packaging, such as a wedding cake
- Label the food (*see pages 3 and 4*)

These requirements, along with other issues such as zoning, business considerations, and sampling, are explained in more detail in this fact sheet.

*The information contained in this fact sheet is not intended as legal advice. Consult an attorney if you have questions about how this law applies to your situation.*

### Types of Foods Allowed

The law lists specific foods that can be prepared at home and sold directly to consumers. **All of the items listed below are limited by the requirement that they be "nonpotentially hazardous."** The cottage food law covers **only** nonpotentially hazardous foods. These are foods with a low water activity and low pH level that inhibit the growth of dangerous micro-organisms. Basically, it means non-perishable foods: foods that you would not normally keep in the refrigerator. However, not all shelf-stable foods are nonpotentially hazardous, as shown in the next section (*see page 2*).

#### Allowed foods:

- Baked goods that do not require refrigeration, such as cakes, cookies, breads, and pastries
- Candy (including chocolate, chocolate-dipped pretzels, etc.)
- Coated and uncoated nuts
- Unroasted nut butters

if you have to keep it refrigerated, it is not cottage food  
but: not all non-refrigerated foods are cottage foods

- Fruit butters (*see further explanation below*)
- Canned jams and jellies
- Fruit pies
- Dehydrated fruits and vegetables including dried beans
- Popcorn and popcorn snacks
- Cereal, including granola
- Dry mixes
- Vinegar
- Pickles (*see further explanation below*)
- Mustard
- Roasted coffee or dry tea
- Dried herbs or herb mixes

**Fruit butters:** Only **nonpotentially hazardous** fruit butters may be made and sold by cottage food producers. These include: apple, apricot, grape, peach, plum, quince, and prune butters. If you would like to make another fruit butter, you should contact Food Safety Net Services and have a sample of your fruit butter tested for pH and water activity to confirm that it is nonpotentially hazardous. Food Safety Net Services is located in San Antonio and can be contacted through its website, [www.food-safetynet.com](http://www.food-safetynet.com), or by calling 888-525-9788.

Fruit butters that are potentially hazardous are **not** allowed under the cottage food law. The following butters are usually considered **potentially hazardous**: pumpkin, banana, and pear. These butters require special steps be taken to ensure that they are not contaminated with botulism, and cannot be sold as part of a cottage food operation.

**Pickles:** First, only pickled cucumbers are allowed; not all pickled vegetables. Second, there are federal requirements for making acidified foods such as pickles. If you sell across state lines, the federal requirements would definitely apply. Under the FDA's interpretation of "interstate commerce," the federal requirements **might** also apply to cottage food producers who purchase supplies from out-of-state. As a precautionary measure, you may wish to take the federal course if you intend to sell pickles under the cottage foods law. The course is offered once a year at Texas A&M; contact the course instructor, Dr. Al Wagner, at 979-845-7023 for more information.

### **Types of Foods That Can NOT Be Sold Under the Cottage Foods Law**

Foods that are potentially hazardous and **not allowed** under the cottage foods law include:

- Meat, poultry, or seafood products, including beef jerky
- Dairy products
- Raw seed sprouts
- Salsas or other canned tomato products
- Canned vegetables, such as canned corn or green beans
- Chocolate-covered fruits
- Baked goods that require refrigeration, such as cheesecake, tres leches cake, pumpkin pie, and meringue pies
- Snow cones

- Ice products (*super cooler, etc.*)

In addition, although pet food is usually nonpotentially hazardous, it is **not** included in the cottage food law. Animal food is regulated by the Office of the Texas State Chemists, Texas Feed and Fertilizer Control Service. You can contact them at (979) 845-1121 or visit their website at <http://otscweb.tamu.edu> for more information.

### Locations Where Cottage Food Operations Can and Cannot Sell

All sales must be direct-to-consumer. Cottage food operations can sell at the following locations:

- The producer's home
- A farmers' market
- A farm stand, defined as a "premises owned and operated by a producer of agricultural food products at which the producer or other persons may offer for sale produce or foods described by" the cottage foods law *privately owned - not roadside*
- A municipal fair, festival, or event
- A county fair, festival, or event
- A nonprofit fair, festival, or event *do a quarterly "Cottage Food Festival"*

Note that many CSA's (community supported agriculture farms) meet the definition of "farm stand." Cottage food producers are encouraged to partner with local CSAs for their mutual benefit. You can find farmers' markets and CSA's in your area at [www.LocalHarvest.com](http://www.LocalHarvest.com).

A cottage food operator may also deliver products to its customers.

#### **Types of sales that are NOT allowed:**

A cottage food producer may **not** sell to a retail outlet (such as a store or restaurant), over the internet, or by mail order. A cottage food producer also may **not** sell at events such as craft fairs and flea markets, unless sponsored by a nonprofit organization.

While internet sales are forbidden, there is **no** restriction on a cottage food operator's ability to advertise, including having a website. Similarly, a cottage food operation can take deposits over the internet, so long as the final sale occurs face-to-face at the producer's home, a farmers' market, or other allowed location.

### Labeling Requirements

All cottage food products must have a label with the following information:

- Name and physical address of the cottage food production operation;
- The common or usual name of the product;
- If a food is made with a major food allergen – such as eggs, nuts, soy, peanuts, milk or wheat – that ingredient must be listed on the label; **and**



- The following statement: "This food is made in a home kitchen and is not inspected by the Department of State Health Services or a local health department."

The label must be legible.

The label must be attached to the package. For large or bulky items that are not packaged, you must provide an invoice or receipt that has the same information.

### **Food Handler's Card and Employees**

A cottage food producer must take and complete an approved food handler's course. This course is offered by many local agencies and online. The course typically costs \$10 to \$20 online version; in-person courses usually cost more. A food handler's card is good for two years, and it must be kept current.

A cottage food producer needs only take and pass the course. You do **not** need to register your food handler's license with the local health department in order to sell under the cottage foods law.

A private company, Texas Food Safety Training, offers the online food handler's course for only \$5. They have developed, and are continuing to add to, a second course that focuses on issues specific to cottage food producers for an additional \$5. The cottage food safety course does **not** fulfill the statutory requirements – you **must** have a food handler's card. But the additional course can be helpful for people to learn safety measures that are relevant to producing foods in a home kitchen. For more information, visit [www.texasfoodsafetytraining.com](http://www.texasfoodsafetytraining.com).



A cottage food production operation may have **employees**. Anyone who is handling or preparing the food must either have a food handler's card of his or her own, or be under the producer's direct supervision. Members of the producer's household are exempt from the requirement for direct supervision.

### **Health Department Jurisdiction**

A cottage food operation does **not** need to get a license from the state or local health department, or register with the state or local health department.

The state and local health departments are directed to keep a record of any complaints that are made about cottage food operations. They do not have authority to investigate such complaints or conduct inspections. The only exception is that the state and local health departments retain jurisdiction to close any business – including a cottage food operation – that poses a serious and immediate threat to human life and health.

A cottage food operator is **not** required to allow the health department to come into your home and do an inspection **unless they have a warrant**.

*Health & Safety Code Chapter 437*

If the state or local health department claims that you cannot sell home-produced goods, the first step is to print the law and show it to the person you have been communicating with. If that does not resolve the issue, the next step is to contact the City Council or County Commissioners. Be sure to get documentation of all conversations in writing. In extreme cases, you may need to obtain legal representation. FARFA may be able to help in the process.

### **Zoning and Homeowners Associations**

The 2013 cottage foods law specifically prohibits a county or municipality from regulating a cottage food operation, or banning a cottage food operation on the basis of zoning. A cottage food operation does not need to get a zoning permit or business license from the city.

Neighboring property owners still have the right to take action for nuisances or other legal claims against the cottage food operation.

The law does not address restrictions by private homeowners associations (HOAs). Usually, HOAs are concerned about the outside appearance of the home, and they are not concerned with activities within the home. For example, there are many people who sell Mary Kay or other items from their homes. If your HOA has restrictions on home-based businesses, you may be able to avoid a confrontation by keeping the exterior of your home and yard free of any advertising or other obvious signs of your cottage food operation.

### **Business Considerations**

The following items are not addressed in the state law, but are often asked about by cottage food producers.

**Insurance:** While you do not have to have liability insurance, it is important to protect your assets. Some farmers markets, events, and wedding venues require proof of liability insurance from all food vendors. There are many companies that offer insurance, and we encourage you to compare options. One company, American National, has an insurance policy specifically designed for cottage food producers. Contact Eileen Coleman, Coleman Agency, at [eileen@coleman-agency.com](mailto:eileen@coleman-agency.com) or (512) 250-2168 for more information.

**Advertising:** There is no restriction on your ability to advertise. You can advertise through a website or Facebook, putting business cards or flyers out at local retail outlets (with the retailer's permission), or any other legal means.

**Sales tax:** In Texas, most food items are not subject to sales tax. However, some food items, such as candy, are taxable. If you are unsure if your items are taxable, contact the State Comptroller for more information. You can visit the Comptroller's site at [www.window.state.tx.us/taxinfo/sales](http://www.window.state.tx.us/taxinfo/sales) or call 1-800-531-5441

**Income tax:** The cottage food law has no effect on federal income tax law. Normal IRS rules apply; consult a tax professional.

*From the Consumer Legal Defense Fund → helps with problems with  
govt agencies, but not with private issues*

**Rendition tax:** Counties can require a rendition tax on your business assets and equipment; application and enforcement varies county to county.

**Private entities:** If you wish to sell at a farmers' market, farm stand, or nonprofit event, you must get permission from the event organizers. The cottage foods law governs your rights with respect to the government, but not with respect to private entities. The market, farmer, or nonprofit may impose whatever rules or fees they wish.

### **Sampling**

Sampling is allowed at farm stands and farmers markets under a new state law passed in 2013, HB 1382. Ask the farmers' market organizer for details, or visit [www.farmandranchfreedom.org/category/local-foods/texas-local-foods](http://www.farmandranchfreedom.org/category/local-foods/texas-local-foods) for our fact sheet on HB 1382.

*Does not cover "road-side" stands → permit after samples!  
6 requirements ...*

Sampling at other events would be subject to the requirements of a temporary food establishment (TFE) permit. Some jurisdictions interpret the TFE requirements to require only food made in commercial kitchens, so it may or may not be allowed. Consult with your local health department if you want to provide samples of your items at a public event other than a farm stand or farmers' markets.

### **Looking Beyond the Cottage Foods Law**

The cottage foods law is intended to allow small businesses making low-risk foods to start up without facing the burdens of extensive health department regulation.

If you wish to make foods that are not allowed under the cottage foods law, sell over the internet, or are ready to grow beyond the \$50,000 cap, then you need to talk with the health department about the requirements for a commercial kitchen and food processing license.

### **Thank You's**

Special thanks go to Representative Eddie Rodriguez and Senator Bob Deuell, the sponsors of HB 970 (the 2013 cottage foods bill), and Representative Lois Kolkhorst and Senator Jane Nelson, the sponsors of SB 81 (the 2011 cottage foods bill). Thanks also go to Kelley Masters of Texas Bakers' Bill for her tireless work for cottage food producers, as well as to the hundreds of people who attended the committee hearings and FARFA's lobbying days, or who wrote or called their legislators to help pass these important bills.

**For more information, visit [www.FarmAndRanchFreedom.org](http://www.FarmAndRanchFreedom.org) or  
call 254-697-2661**