

THE FARM BUSINESS

Human Resources

Laura and Adam generally each work 55-70 hours per week during the height of the season (from June through September) and 30-40 hours per week in the off-season. Off-season time is spent on marketing, recordkeeping, taxes, equipment repair, planning for the next season, and other management details. While Adam worked off-farm, their first winter on the new farm required consistent 40-hour work weeks for Laura as they prepared for increased production.

Laura handles most of the administrative office work as well as communications, marketing, and greenhouse production. Adam handles all equipment and machine repair and most of the equipment operation. They divide responsibilities for field management, employee management, harvesting, and post-harvest handling. The division of labor allows Laura and Adam to concentrate on what they do best, gives them each autonomy within the partnership, and helps mitigate potential disagreements. They further minimize disagreements by trying to hold regular meetings throughout the year.



Figure 52: Adam and Laura have used workshare volunteers since 2006 and started hiring employees in 2009.

Laura and Adam did not have employees during their first four years of farming. Since 2006, they have had 4-5 “workshare” volunteers who help with harvesting two mornings per week in exchange for a box of produce (Figure 52). Starting in 2009, they hired three employees, two of whom lived in the refurbished granary on the farm while the third lived in Hutchinson. Laura and Adam found the employees through their Web site and word of mouth. The responsibility of managing full-time employees and having them live on the farm added a new challenge to the 2009 season. Although hired labor is a substantial expense and the training and management time can be intensive, Laura and Adam felt the benefits far outweighed the negatives. A larger, full-time workforce allowed them to increase production to a level that was financially sustainable and brought more social interaction to a profession that has sometimes felt too solitary for them.

Adam and Laura’s annual labor hours have varied through time, as shown in Table 6. The variation resulted in part from one or both of them working off-farm. Labor hours increased as they increased production and CSA membership. Adam and Laura don’t keep time sheets for themselves or employees, so labor hours are estimates. In general, however, employees work weekdays from 8:00 am to 5:00 pm with an hour lunch. Workshares, as described above, work about 4-5 hours per week during the CSA season.

Table 6. Estimated labor hours, 2005-2009

Estimated Labor Hours	2005	2006	2007	2008	2009
Adam and Laura	1,280	2,082	2,490	2,825	5,000
Workshares and Employees ¹	0	576	576	576	2,200

¹Employees only in 2009.

Looking to the future, Adam and Laura feel one of their biggest challenges will be balancing family life with farming if they decide to have children. The main concerns are health care and child care. They expect they will either need to scale up, so that they have enough income to hire a farm manager to replace one of them during the children’s early years, or that they will scale down their operations, so that the farm duties are manageable for one person.

Finances

Loon Organics took advantage of a Minnesota Department of Agriculture [cost-share opportunity](#) to take a one-on-one [Farm Business Management](#) (FBM) course offered through the Minnesota State Colleges and Universities system. The state offered the cost-share to certified organic farmers because it wanted more information on the economics of organic farming. FBM showed Adam and Laura how to evaluate their farm financially and which benchmarks are important. It also helped them improve their recordkeeping skills and set up a system for tracking income and expenses separately for each enterprise.

Although Laura and Adam use Microsoft Excel and Quickbooks for bookkeeping on a regular basis, they used [FINPACK](#) as the financial analysis tool in FBM. Laura and Adam's use of the software provided an unexpected benefit from participation in FBM. Because most local agricultural lenders in the Midwest are familiar with FINPACK, it helped Laura and Adam's financing process when they purchased their farm. Completion of FBM courses can also be a requirement for FSA loans and commercial agricultural lenders.

Start-up Capital and Loans

Adam and Laura financed the start-up of Loon Organics in 2005 with personal savings. They were able to pay themselves back within the first few years. Their sources of capital are summarized in Table 7. Start-up funds were used for capital purchases, seeds, and other supplies in 2005-2006. The capital in 2009 was used for start-up expenses for the first season at the new farm, before CSA payments started coming in.

Table 7. Sources of capital, 2005-2009

Year	Amount	Source	Payback Period
2005	\$5,750	Personal savings	2005
2006	\$6,000	Personal savings	2006-2007
2007	\$0	n/a	n/a
2008	\$250,000	FSA loan	Ongoing (40-year mortgage)
2009	\$6,000	Personal savings	2009 (half), 2010 (half)

Educator's Perspective: Resource Tip

Managing Farm Finances

The [Center for Farm Financial Management](#) (CFFM) at the University of Minnesota provides educational programs and software tools, such as [Interpreting Financial Statements and Measures](#), an online video workshop that helps producers understand and use the 4 major financial statements and the 21 financial measures recommended by the Farm Financial Standards Council.

In 2008 the CFFM published a report entitled [Organic Farm Performance in Minnesota](#). It summarizes individual farm financial results for participants in the Minnesota Organic Farm Business Management Project for 2008 and provides comparisons to previous years.

CFFM works with other groups to manage [FINBIN](#), a farm financial database that provides benchmark financial information to farm producers, educators, lenders, and other agricultural professionals.

Use the USDA [Service Center Locator](#) to find a local office with information on FSA loans.

Laura and Adam purchased their farm for \$265,000 in 2008. They financed the purchase through a USDA FSA [loan program targeted to beginning farmers and ranchers](#) who have difficulty obtaining a loan from traditional agricultural lenders. Applicants need to have at least 3 years of demonstrated farm experience. Although Laura and Adam found the application process lengthy and time-intensive, they felt the effort was extremely worthwhile because it was one of the major factors that made the farm affordable to them. They used tax returns and a projected 3-year cash flow that their FBM instructor helped them to create, along with a current balance sheet, in order to document their production history. The FSA loan had a low fixed interest rate, long amortization, and no closing costs. Once Laura and Adam are in a more secure financial position, the loan will be refinanced with a shorter amortization through a commercial agricultural lender.

Farm Income Overview

Adam and Laura's gross farm income has increased each year since they began, as shown in Table 8. There was a large jump from the first to second year of farming, when they switched to an emphasis on direct sales. They also increased production a bit in their second year, but more importantly they became much more efficient. There was another substantial increase in 2009, when their direct-market sales nearly doubled. This was almost entirely due to an increase in CSA shares with the move to the new farm. Their expenses increased as well from 2005 to 2009, but overall their net farm income has grown annually. The exception was from 2007 to 2008, when net farm income dropped slightly. This drop was due to their purchase of the farm in 2008. Adam and Laura decided to buy everything they knew they would need on the new farm (such as seeds and two additional tractors) using their 2008 income, because Adam still had off-farm employment at that time. Adam and Laura's sales per acre are difficult to interpret because they have been in such a growth state, but it is worth noting that their high gross sales per acre is what allows them to earn a living at their small scale.

Farmer's Perspective: Lessons Learned

Expect the Unexpected

From the earliest days when the number of zeroes behind certain expenditures left them dazed, Adam and Laura have learned to prepare for both large and unexpected expenses. They budget at least \$5,000 to \$10,000 more for expenses than they think they will need to account for contingencies.

Proceed with Caution

Adam and Laura have learned to budget carefully in order to make income from CSA payments last all year. They distinguish between urgent needs and those expenses that can wait until year's end. Sales from the farmers market and wholesale accounts also help provide cash flow during a larger window of time than when CSA payments are collected.

Table 8. Farm income overview, 2005-2009

Financial Indicator	2005	2006	2007	2008	2009 (Actual)	2009 (Projected)
Gross Farm Income	\$10,690	\$37,749	\$46,615	\$53,273	\$93,533	\$85,000
Wholesale Sales	\$10,690	\$4,117	\$4,401	\$2,725	\$1,688	\$5,000
Direct-Market Sales	n/a	\$33,632	\$42,214	\$50,548	\$91,845	\$80,000
<i>CSA</i>	n/a	\$20,830	\$20,773	\$27,530	\$68,600	\$55,000
<i>Farmers Market</i>	n/a	\$12,802	\$21,441	\$23,014	\$23,245	\$25,000
Total Expenses	\$9,894	\$28,065	\$35,681	\$44,152	\$71,834	\$54,147
Capital Purchases	\$666	\$15,625	\$5,719	\$33,059	\$10,497	\$14,600
Start-up Capital/Loans	\$5,750	\$6,000	\$0	\$250,000	\$6,000	\$6,000
Net Farm Income	\$796	\$9,684	\$10,934	\$9,121	\$21,699	\$30,853
Acres Farmed	1.5	2	2.2	2.5	6	8
Gross Sales/Acre	\$7,127	\$18,875	\$21,189	\$21,309	\$15,589	\$10,625
Net Sales/Acre	\$531	\$4,842	\$4,970	\$3,649	\$3,617	\$3,857
Owners' Hourly Wage	\$0.62	\$4.65	\$4.39	\$3.23	\$5.00	\$6.17
Operating Profit Margin¹	7.45%	25.65%	23.46%	17.12%	23.20%	36.30%
Net Non-Farm Income	\$16,909	\$18,227	\$40,766	\$43,000	\$5,934	\$9,000

¹Does not include capital purchases.

Laura and Adam analyze their financial picture each winter. In addition to assessing the standard items such as income and expenses, they look at how their projections from the past winter (as shown in gray for 2009 in Table 8) compare to their actual numbers for the year. In 2009, Laura and Adam had a higher gross income than expected (mainly due to the sale of “preserving shares” in the fall, as discussed under Marketing Models), but they netted less. Their net income was lower than expected in part due to some unforeseen expenses such as a new van. They also spent several more thousand dollars than anticipated on the electric upgrade for the farm outbuildings, and they were still accumulating a lot of basic supplies and materials to run their own farm. Overall, Laura and Adam have been surprised at how well the actual data have tracked their projections, given the number of uncertainties and their recent transition. They expect their gross income to increase gradually as sales increase each year and for expenses to level off by 2011. They anticipate their 2010 net income will increase to \$25,000-\$30,000, and they are approaching a profit margin in their target range of 30 to 50 percent.

Off-Farm Income

As described under Equipment, Adam and Laura's strategy has been to use off-farm income to support themselves while using farming profits to make capital purchases. One or both of them worked off the farm between 2005, when they started Loon Organics, and 2009, when they bought their own farm. Laura's off-farm hours during their first season in business made the harvest especially challenging, as described in [one of their articles](#) in the New Farm.

Between 2006 and 2008, Laura worked full-time on the farm during growing seasons and worked full-time during the off-season in the produce department of a local food co-op. She also filled in at the co-op in 2009. Adam started a full-time job as an environmental chemist in early 2006 and worked there until March 2009. Adam's job helped them to fast-track the purchase of a farm. It allowed them to save for a down payment, have health insurance, put the farm profits back into the business, and have a steady income to show to loan officers.

Expenses

The nature of a farming operation means that many expenses are capital purchases, as described under Infrastructure and Equipment. Other expenses that Adam and Laura have incurred since start-up include seeds and fertilizer; equipment fuel, repair, and maintenance; land rental or mortgage payments, interest, and property taxes; advertising, marketing, and continuing education costs; employee wages; insurance; utilities; and a wide range of supplies. A summary of their annual expenses is provided in Table 9, modified from Schedule F of their income tax return.

Table 9. Farm expenses, 2005-2009

Expense	2005	2006	2007	2008	2009
Advertising		\$40	\$23	\$25	\$244
Car and truck	\$1,173	\$4,608	\$2,215	\$3,402	\$5,500
Continuing education		\$150	\$603	\$1,221	\$846
Depreciation	\$205	\$5,010	\$8,859	\$8,859	\$13,397
Employee wages					\$9,565
Fees (marketing, certification, etc.)	\$933	\$1,442	\$1,897	\$1,899	\$2,067
Fertilizers, lime, and chemicals		\$53	\$466	\$701	\$2,754
Gas, fuel, oil (tractors, etc.)		\$119	\$152	\$212	\$814
Greenhouse ¹			\$379	\$1,518	\$4,170
Insurance (other than health) ²	\$282	\$493	\$558	\$77	\$1,721
Internet/telephone					\$1,012
Mortgage interest				\$1,860	\$12,747
Product purchase for re-sale		\$5,866	\$10,131	\$11,826	
Rental, equipment	\$46	\$100	\$92	\$321	
Rental, land	\$800	\$1,025	\$400	\$950	
Repairs and maintenance		\$1,167	\$3,627	\$2,465	\$2,056
Seeds and plants	\$2,853	\$2,525	\$1,904	\$3,350	\$5,442
Supplies (building materials) ³					\$1,343
Supplies (farmers market) ³					\$382
Supplies (misc. farm supplies)	\$3,440	\$3,659	\$2,436	\$2,034	\$841
Supplies (office)	\$18	\$156	\$233	\$551	\$419
Supplies (row covers)				\$223	\$955
Supplies (T-tape, plastic mulch)			\$403	\$565	\$295
Supplies (tools, boxes, signs)		\$35		\$703	\$1,406
Taxes ⁴		\$120	\$125	\$130	\$1,673
Utilities	\$41	\$1,497	\$1,178	\$1,260	\$1,915
Total⁵	\$9,791	\$28,065	\$35,681	\$44,152	\$71,565

¹Greenhouse expenses increased significantly in 2009 when Laura and Adam went from renting greenhouse space from Gardens of Eagan to equipping and running their own.

²Cost of insurance was low in 2008 because much of the premium was paid in 2007. Cost increased in 2009 because of farm ownership.

³New categories in 2009.

⁴Included accountant fees from 2006-2008. Included taxes on paid labor in 2009.

⁵Totals may not equal amounts presented in Table 8; some minor or occasional expenses were not included here.

One of Laura and Adam’s most noteworthy expenses in the first few years was the purchase of product for re-sale. Produce was purchased from Gardens of Eagan and other farms at wholesale prices between 2006 and 2008, as shown in Table 9. They purchased land-intensive crops (such as sweet corn, watermelons, kale, broccoli, cauliflower, and cabbage) that they didn’t have room to grow on their rented land (Figure 53). The items were used to supplement their CSA and farmers market offerings as they switched to an emphasis on direct marketing. Although the purchased items were an additional expense in their first years, they saw it as an investment in the Loon Organics brand. They also considered it a substitute for hiring labor, which they would have had to do if they were growing all the crops and farming more land. They feel that having offered CSA boxes that were consistently full of high-quality



Figure 53: Laura and Adam purchased certain land-intensive crops, such as watermelons, for re-sale in order to provide complete CSA boxes in their early years.

product was crucial to their early success. They also didn’t have to learn how to grow dozens of crops all at once. They could focus their own growing efforts on shorter day-length crops (such as salad mix, beets, greens, carrots, roots, heirloom tomatoes and peppers, herbs, cucumbers, and summer squash) that have high yields on small amounts of land. They were very up-front with customers about where all the products came from and got only positive feedback about the quality and variety of the produce they sold.

Farmer’s Perspective: Lessons Learned

Establishing a Reputation

Adam and Laura feel strongly that supplementing CSA boxes with produce grown by other farmers is crucial to beginning CSA farmers. Beginners do not have to rent land and have “built-in” mentors as Loon Organics did, but they can network with nearby farmers and negotiate arrangements for supplemental product. Even experienced CSA farmers make these arrangements when time or land availability is limited.

Educator’s Perspective: Resource Tip

Produce Handler’s Licensing

Minnesota law allows farmers to sell the produce of their own operation, from land "occupied and cultivated" by themselves, without any licensing. However, if product is purchased from another farmer or entity for re-sale, farmers are required to have a produce handler's license.

MISA has a fact sheet entitled [Providing Safe Locally-Grown Produce to Commercial Food Establishments and the General Public](#) that provides further information.

Business Structure

Laura and Adam started out structuring Loon Organics as a partnership. They didn't marry until fall of 2008 but wanted their business to be a 50:50 venture from the outset, so a sole proprietorship wasn't appropriate. Because they weren't sure at first how long they would be farming, they didn't want to spend money on incorporating.

Once Adam and Laura were ready to purchase their farm, they restructured to a domestic family farm corporation. It gives them [several benefits](#), including greater liability protection than they had as a partnership. The main driving force behind incorporating was the regulations surrounding the type of loan they obtained for purchasing the farm. The corporation now owns the property and the farm assets.

Educator's Perspective: Resource Tip

Business Structures

The decision about whether to incorporate a farm or use another business structure tends to be very specific to each farmer's set of circumstances. Professional advice is highly recommended, but the resources below provide a starting point for understanding the different options.

MSU's Beginning Farmers Web site has a useful post about [Farm Incorporation](#).

The University of Wisconsin Center for Cooperatives has a [comprehensive comparison chart](#) of business structure types that is tailored to farming.

Risk Management

Certain risk management strategies are embodied in Laura and Adam's approach to farming. Farming as a CSA helps them manage financial risk by getting payments up front for the crops to be produced. The diversity of Laura and Adam's crops and the nature of succession planting help to reduce the risk of crop failure. The existing hoop house, and the additional ones they hope to acquire, provide protection from hail and wind. The first season of growing crops in the hoop house also suggests that it offers some measure of disease protection.

Adam and Laura do not currently carry crop insurance. Typical programs provide insurance specific to each crop and only reimburse farmers for seeds and possibly a percentage of production, thus making standard crop insurance too complicated for their number of crops and not sufficiently cost-effective. A new program, however, may soon become an option for them. [AGR-Lite](#), which is administered by the USDA Risk

Management Agency and offered through private insurers, is a program that compensates farmers for reduced revenue due to covered losses. AGR-Lite allows organic farmers to take into account the anticipated premiums for their crops, which other Federal Crop Insurance programs have not. AGR-Lite first became available in Minnesota in 2007, but Adam and Laura were not eligible until they had five years of documented farm revenue. Now that they are more established, they plan to look into this option [as their Gardens of Eagan mentors have done](#). Laura and Adam do carry insurance policies for general liability, product liability, and workers' compensation.

Educator's Perspective: Resource Tip

Farm Transition Planning

The [Farm Transfer and Estate Planning](#) online workshop addresses the transfer of farm businesses to the next generation. The program is targeted at farm family members and involves three focus areas:

1. introduction of farm transition and estate planning information, laws, regulations, concepts and techniques;
2. outline of potential strategies farm families can consider as they develop and implement their farm transfer and associated estate plan; and
3. outline of methods whereby farm family members can develop individual, family, and farm business goals and use those goals to develop a transfer plan outline including their personal transfer team.

[AgTransitions](#) helps farmers develop a plan to transition their business to the next generation and includes interaction with reviewers for feedback and assistance.

Professional Development

Adam and Laura's current professional memberships include the [Land Stewardship Project](#) (LSP), the [Sustainable Farming Association of Minnesota](#) (SFA-MN), the [Minnesota Farmers Union](#), and [Slow Food USA](#). They use conferences associated with these and other organizations to supplement the training they received by working on other farms and to network with other farmers. They are devoted attendees of annual conferences including the MOSES Organic Farming Conference, the Minnesota Organic Conference (sponsored by the [Minnesota Department of Agriculture](#)), and the SFA-MN conference. They have also attended many other one-day educational seminars and field days offered through farming organizations, universities, and individual farmers.

Laura and Adam also stay up to date by reading a variety of farming-related periodicals. [Growing for Market](#) is a monthly publication covering news, advice, and resources for market farmers. [The Organic Broadcaster](#), published bimonthly by MOSES, is geared toward organic farmers, processors, and certifiers. [The Land Stewardship Letter](#) is LSP's bimonthly newsletter, and [The Corner Post](#) is published quarterly by SFA-MN. Adam reads [Farm Show](#), a bimonthly newspaper dedicated to farm equipment and unique, do-it-yourself projects. Laura frequents Rodale Institute's [New Farm](#) Web site for its farmer-to-farmer resources.

Educator's Perspective: Resource Tip

Continuing Education

In addition to the conferences that Laura and Adam attend regularly, the annual [Midwest Value Added Agricultural Conference](#) is a major regional event.

MISA maintains a list of [educational opportunities](#) that includes lectures, seminars, conferences, college courses, and workshops.

Laura experienced a special opportunity in 2008 when she was selected as a [Minnesota delegate](#) to Terra Madre, Slow Food's gathering of world food communities in Italy. Laura was among 7,000 farmers, students, activists and educators from 130 countries that convened around the theme of promoting "good, clean, and fair food" and involving youth in the future of global sustainable agriculture. It was an inspiring and educational experience that gave hope and new meaning to the work they do on their farm. After the Terra Madre experience, Laura feels a sense of solidarity with the thousands of other sustainable farmers across the globe.

CONCLUSION

Next Steps

Laura and Adam have made great strides in the seven years since they caught the farming bug (Figure 54). They have gone from on-farm training to starting a farming business and buying their own land. They learned an enormous amount, established a quality brand of farm product, and are on the road to a financially sustainable farming enterprise. Ideas for the future include increasing the number of acres in production and the number of CSA shares, adding hoop houses, establishing perennial crops, and installing a certified kitchen for value-added products to be sold year-round. In recognition of how valuable their own early farming experiences and mentoring relationships were, Laura and Adam are now bringing the process full circle by sharing information and providing employment opportunities for other beginning farmers.



Figure 54: Adam, Laura, and Toblerone in their greenhouse on April 11, 2009.

Final Note

Remember the three-legged stool of farming? As you start planning your own enterprise, be sure your learning process incorporates all three components of a successful farm: production, marketing, and financial management. Go ahead and get some dirt under your fingernails with a hands-on learning opportunity. But be prepared to spend time tapping away at the keyboard too, as you explore the numerous planning and management resources provided in this case study!