

North Country Regional Foods Initiative

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Research Report on the Impacts of Local and Regional Foods in the Adirondack-North Country Region

III Impact Analysis Research Brief B: Farm/Food Business Economics

A. Overview

This brief, one of six in the Research Report on the Impacts of Local and Regional Foods in the Adirondack-North Country Region, presents results from a study of **local/regional foods operations** in Northern New York and is focused specifically on *start-up costs, sources of investment funds, profitability, and cash flow*.^{1,2} There are many New York farmers who are interested in direct marketing and local/regional foods. Furthermore, there are many consumers who are interested in knowing where and how their food is produced. The overall goal of this research is to better understand and document the impacts this type of production and marketing has on individual farms and food businesses, and the roles these businesses and markets play in North Country community and economic development. Community leaders are also exploring ways to support these local/regional food businesses, wanting to capitalize on ways they can benefit communities. With the goal of helping this region better support farm and food businesses utilizing local and regional markets and enhance the positive ways these businesses contribute to the region, the results of this analysis are intended as a resource for other farmers, food business owners/operators, consumers, policymakers and community & economic developers working to enhance and sustain agriculture in Northern New York.

¹ The North Country Regional Food Initiative is a one year project dedicated to understanding economic and social impacts of local and regional food initiatives in the Adirondack-North Country and enhancing the ways these initiatives positively contribute to the region. The project is a collaborative effort of the seven Cornell Cooperative Extension Associations of Northern New York (Clinton, Essex, Franklin, Hamilton, Jefferson, Lewis and St. Lawrence counties) and the Community and Rural Development Institute (CaRDI) at Cornell University.

² Although we recognize that “local” and “regional” food systems are not necessarily the same thing and in many, if not most, cases are very different, we couple the words “local” and “regional” herein and throughout the *Research Report on the Impacts of Local and Regional Foods in the Adirondack-North Country Region* for the following reasons: (1) Given the relative size of the Adirondack-North Country region, even a regional food system is relatively local, particularly in comparison to regional foodsheds that encompass multiple states (e.g. the Northeast Region); (2) Many communities in Northern NY border another state or another country, for people living in these communities, depending on whether or not “local” and “regional” are defined by distance or political boundaries, a distance that is local is literally local and regional at the same time (e.g.: When a NY consumer purchases apples from a Canadian orchard 12 miles away, it is a local purchase in terms of distance, though a regional purchase in terms of political boundaries.); and (3) An overarching goal of the NCRFI is to cultivate a regional approach to economic and community development - this goal is based on the understanding that communities conserve resources and gain assets by working together regionally. However, shifting from a “local” to a “regional” approach is not necessarily intuitive; by coupling “local” and “regional” we hope to cultivate a paradigm shift, one in which one’s locality is seen in regional terms.

B. Farm/Food Business Economics

A summary of responses from qualitative interviews with 15 direct market farmers and food businesses are presented below. Recurring themes from individuals' responses are highlighted. We use direct quotes (in italics) to place the challenges, opportunities, and strategies faced and employed by these businesses in the context of Northern NY. To respect the confidentiality of the interviewees, individuals' or farms' names are not used in association with their quotes.

Interviewers inquired of the farmers and food business owners/operators:

- What was the level of investment to begin your operation?
- How did you obtain this funding?
- What are your feelings in regards to profitability?
- Have you experienced problems with cash flow and if so when during the production cycle?

Level of investment at beginning The farms and food businesses interviewed for this study represent a wide range of enterprises from businesses with roadside stands as their only market outlet to multi-million dollar operations, with multiple market outlets. Eight operate as sole proprietorships, two as corporations, three as cooperatives, and two as partnerships. This diversity in scale is also reflected in the required investment for start up, as outlined in the table below and further explained by the funding sources for the investment, which indicate that these operations can be initiated through a range of financial resources. At the higher end of the range for investments are animal operations, reflecting purchases of cattle and horses.

Level of Investment	Farms/Businesses
< \$5,000	3
\$5,000 - \$10,000	1
\$11,000 – \$20,000	3
\$21,000 - \$50,000	0
\$51,000 - \$100,000	2
>\$100,000	5
No dollar figure	2

Funding for the investment The majority of respondents identified **self savings** or **other** as sources of funds to initiate the farm or food business. Some cashed in on previous enterprises (e.g., past business ventures and real estate) to fund the start-ups. Others relied on personal savings or member investments, as in cooperatives. At least two of those interviewed highlighted the desire to stay debt free in putting together their initial investment.

We were debt free, had some savings, and cash flowed it [made it work]. Using credit card (paid off in full each month) helps cash flow start-up ... in the spring. We chose [to grow] things that would have low capital costs and quick return.

The second most common response was use of **loans from family and friends**. These resources are used to supplement other sources of investment for particular components of the operation. Two interviewees

reported relying on **loans through commercial lenders**; one specifically cited source of these funds is First Pioneer Farm Credit. One response was unique in that initial investment came primarily from community support, donations, and volunteer labor. This operation still relies primarily on community support, but has recognized the need to take steps to move toward a more sustainable business model.

Profitability Views on the profitability of the local/regional food market enterprises included in the study ranged widely. However, the majority of farms/food businesses feel that **profitability is improving**. Some have seen profits from the start of their businesses:

[The] potential for profitability is huge and amazing. [We] made a profit in the first year and it always gets better if you stay on top of changes and pay attention to shifts in marketplace and customer demand.

For others, it took longer to see profitable returns:

[It] took 10 years to be independent of [my] outside job. Profitability has been improving each year.

Strategies such as diversification in products and outlets were reported as key to enhancing profitability. Some owners/operators also reported that although profits are improving, they still need to maintain an outside source of revenue to help pay mortgage payments and support the enterprise in unprofitable years.

A distinction made by some interviewees in response to profitability is that their operation **provides a living and more, beyond economics**, suggesting that profitability is relative to personal goals.

My personal goals were to establish an example business that would allow one spouse to work at home, and to help get the market used to prices that can economically support small farms... We need to get customers used to what good produce costs, to value it.

I think [local/regional markets] are viable plus I think [consumers] should know where [their] food comes from.

Compared to nine farmers/food business owners that feel profitability was improving, four reported that their operation was not profitable, but only because they are still reinvesting enterprise income into their businesses. For some this reinvestment involves paying off an initial investment, for others it involves making ongoing improvements (buying equipment), and for still others it involves not paying oneself for one's labor in support of the business. At least one business cited the overall market and a need to establish their product as unique from national brands, to avoid competition based on economies of scale, as a means to building profitability.

Cash flow for the operation Those with **no cash flow problems** reported managing seasonal income differences primarily by setting aside money for slow seasons, building reserves, or diversifying into year-round products.

My cash flow is fairly stable – U-pick strawberries pick up when [the] last of [my] commodity crop leaves storage[and] provides year round income.

C. Challenges³

When asked about cash flow for the operation, the majority of interviewees reported some **cash flow problems particularly in spring**. Seasonal start-up costs precede later revenues so that time lag required some interviewees to use credit or other means to cover costs. Other means include operating as a community supported agriculture farm (wherein consumers pay for the products a farmer will grow for them in advance of the growing season), or paying workers based on commission for sales rather than monthly salaries.

At least one business reported **always having cash flow problems** which reflects issues with initial financing of the operation. For this business, short term money typically used for day-to-day operations is regularly used to fund capital projects, making cash flow constantly short.

Another economic issue is liability insurance; specifically interviewees were asked whether **liability insurance** is an important issue. Ten respondents have it and felt it is important for their operation, four reported having it, but that it is not currently required of them. Five cited liability insurance as difficult to get and/or a major expense. In discussing insurance at least one interviewee also cited the importance of adequate **health insurance** to her and described wanting to be able to purchase health insurance through the farm.

D. Opportunities

While every challenge can also be seen as an opportunity, opportunities specifically identified by study participants include the new and expanding interest in local/regional foods, in New York, and nationally, and room for growth of this market in the North Country. Citing the nationwide trend towards increased awareness regarding food sources, many owners/operators see the opportunity for more farms to become involved in local/regional food markets and the need for more farmers to meet this demand. They also see an opportunity for collaboration; in particular, shared purchasing of supplies, equipment, and marketing materials were all suggested. Interviewees also see the development of more support groups as an opportunity, viewing these groups as important to their success.

E. Strategies

What should communities do through local officials and community & economic developers in collaboration with agricultural organizations to better support farm and food businesses utilizing local and regional markets to sell their farm and food products?

Based on these interviews, two types of strategies are needed to encourage further growth of a vibrant local/regional food economy in the North Country: **education** and **infrastructure development**. Interviewees seek **consumer education** that: (1) addresses the importance of healthy diets (not just low fat) and the relationships between healthy diets and local/regional foods; (2) identifies sources of local/

³ Although we did not specifically ask study participants to identify challenges, opportunities, and strategies potentially impacting the future of their local/regional food market enterprises, all three were clearly articulated in their responses to the questions posed. In general, the challenges shared are of a specific nature in the sense that they relate to the individual topic addressed in each Research Brief on the farm and food business operations (not the one on organizational support for these operations): *Market Outlets*, *Training and Educational Resources*, *Farm/Food Business Economics*, *Collaborations*, and *the Roles of Local/Regional Food Businesses in Northern NY* in this report. Conversely, the opportunities and strategies that were identified are of a general nature and, as such, are equally relevant to all five research briefs included in the report. Thus, while the “Challenge” sections of these five research briefs are different, the “Opportunities” and “Strategies” sections, are verbatim.

regional foods, and recognizes these foods as valuable, quality products and a community resource. Interviewees also seek educational materials that offer assistance with enterprise and market analysis, particularly regarding pricing strategies and expected profit margins for specific market outlets. They also seek educational opportunities, ranging from fact sheets to demonstrations, that share successful farm models and help them better understand production, equipment, and insurance concerns.

In terms of **infrastructure development**, producers seek support for working together to strengthen production/storage/transport/handling linkages. From their perspective, collaboration in the development of these types of infrastructure would benefit local and regional food producers and the communities they reside in through increased enterprises, market outlets, and export opportunities.

F. Conclusions

The farms and food businesses explored herein represent a small subsection of agriculture in the Adirondack-North Country region. However, local and regional farm and food businesses are filling a growing niche in the region's agriculture and business sectors through the products they supply and the lifestyles they offer farmers and business owners⁴. Specific to farm and food business economics, these owners/operators are using personal resources and those of family and friends to start businesses that can and are contributing to their communities in multiple ways. At the same time, while economic success is paramount, this research suggests that what defines economic success varies in accordance with other goals, like supporting a particular lifestyle, developing market support for small farms, educating consumers, and strengthening local food systems. Communities across the country can and are working together to strengthen these businesses. This research suggests Northern New York should consider exploring ways to address cash flow and insurance costs as a means to further strengthening local/regional farms and food businesses and, in turn, communities in the region. In the *Conclusions and Recommendations* section of the *Research Report on the Impacts of Local and Regional Foods in the Adirondack-North Country Region* we share several recommendations designed to help Adirondack-North Country communities work together as a region to support these enterprises and capitalize on the ways they contribute to life in Northern New York.

⁴ To learn more about these businesses refer to the other Research Briefs in Section III of this report at: www.nnyregionalllocalfoods.org.

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