

Selling fruits and vegetables

by Eldon Everhart and Barbara Lovitt

Growing and selling fresh produce can be a profitable and satisfying family business; however, risks are involved. Before investing money, time, and energy into any new business venture, it is advisable to first evaluate personal skills, market conditions, financial resources, and overall project feasibility.

Assistance for evaluating risk from both technical and management aspects is available from a variety of sources, including Iowa State University Extension, local and regional organizations that focus on economic development issues, small business development centers, state departments of agriculture, economic development agencies, banks, tourism agencies, universities, and community colleges.

What are some of the risks?

- Fruits and vegetables are highly perishable. Careful and continual care is needed during production and marketing. The loss of even one crop to poor culture, insects, or disease can be devastating.
- Labor is the major expense. Growing fruit and vegetable crops requires hard work and long hours. Dependable help must be available when needed.
- Undesirable weather can upset the best plans. Providing quality produce that consistently meets market demands and returns a profit requires accurate planning and scheduling that allows for potential weather variations.

What is needed to be successful?

People who have successful fruit and vegetable businesses provide quality products in a clean and customer-friendly environment that encourages repeat sales. They know their markets and what their customers want. They also manage money, people, and natural resources effectively. Growing and selling fruits and vegetables can be a satisfying family business.

Beginning fruit and vegetable growers need to

- evaluate their level of experience in production, marketing, and management;
- learn about regulations for business operations and pesticide use; and
- develop a business plan.

Success requires expertise in all phases of crop production and marketing plus financial and people management skills. The more experience you have, the greater your chances for obtaining financing to start your own business.

Working for a business that is similar to the one you would like to start is a good way to gain practical experience and to observe management skills. While you are growing for someone else, you can learn many things to do and many things to avoid when you start your own business.

Most well-established, reputable growers need full-time, part-time, and seasonal employees. Spending at least two years producing and marketing the specific crops you hope to sell will give you the opportunity to learn how others handle problems caused by the weather or other variables.

Production experiences are essential but not sufficient to achieve success. All business ventures require some capital investment to cover costs for land, equipment, buildings, supplies, and labor. To make your business successful you also will need to be able to manage finances, employees, marketing, and sales.

Deciding to start a business is the first of many decisions that are best made after collecting unbiased information. An organized business plan is a road map to business success. Developing a specific set of guidelines for operating your business will improve your chances for successfully arranging financing from banks, private money-lending institutions, private investors, or government programs.

What are the financial considerations?

Every dollar less that you need to invest personally means that any profits will yield a much larger return on your investment. The cost of establishing your business will be the amount of equity (your capital) that will be required.

Start by dividing your estimated start-up costs into three categories:

1. land and building(s);
2. machinery, equipment, fixtures, and furniture; and
3. working capital.



Working capital is the money that keeps the business operating and the bills paid until sufficient business income is generated to do so. The recommended amount is usually equivalent to 3 to 6 months' worth of business operating expenses. It is often difficult for new businesses to obtain financing for working capital because there are few, if any, debt-free assets upon which financing can be based. At the very least, you will be expected to provide 15 to 20 percent of the business start-up costs yourself as equity. Your expected contribution is likely to be closer to 50 percent or more.

The specific parts of overall start-up costs that can be financed will vary from loan to loan and will depend on the lender's perception of your chances for success, based on an assessment of your potential market, personal experience, character, and other criteria. Lenders are more likely to respond positively to a well-developed and realistic business plan.

Commercial/private financing sources—Local banks and savings institutions are one of the most common sources for business start-up loans. Generally, banks will be most inclined to issue business start-up loans if

- your equity equals at least 20 percent of the estimated start-up costs;
- collateral is posted equal to the value of the loan;
- market studies and/or industry analyses indicate a high probability of success; and
- the owner or owners demonstrate a proven ability to run and manage this type of business.

Venture capital—Another possible source of start-up funding is through private firms or individuals who earn their money by obtaining a healthy return on investment from loans they make to finance new businesses and business expansion. Most look for favorable growth prospects, a carefully formulated business plan, and proven managerial talent.

Venture capital firms usually look for some guarantee of a profitable payback. Investors might include “silent partners” who are willing to invest money with the promise of good returns, but who do not get involved in making the day-by-day decisions of business operation.

Relatives also might be a source of financial support. It is advisable to have a lawyer prepare a formal, legal agreement between the lender and the borrower so that all parties understand the terms of the loan.

Business Checklist

Moneylenders think in terms of the six C's of credit: **Capital, Collateral, Capabilities, Character, Coverage, and Circumstances.** Remember that lenders are loaning funds in order to make money on their investment. They are far more likely to make money and, therefore, lend money if borrowers can be counted on to repay the money loaned to them including interest. Use the following checklist to start preparing an organized, comprehensive business plan.

- ★ Size of operation
- ★ Location
- ★ Type of operation (products to be offered)
- ★ Assets
- ★ Cost of equipment and employees (number and type)
- ★ Market (source and dependability)
- ★ Estimated returns
- ★ References (from business and community leaders)

What sources of professional help are available?

A successful business operation is flexible enough to change as the situation demands. Several sources of professional help are available to help you learn about and evaluate your options.

■ *Organizing the Farm Business* (PM 878)

Information on the type of business organization—sole proprietorship, partnership, corporation—that best fits your circumstances is included in this publication. To order, contact your local Iowa State University Extension county office or the Extension Distribution Center by telephone at 515-294-5247 or e-mail at pubdist@iastate.edu.

■ Iowa Resource Conservation and Development (RC&D)

Offices around the state are assigned to specific geographic areas. This agency also has a revolving loan program for financing new or expanding small businesses. To find the office closest to you, contact the Iowa Natural Resources Conservation Service (NRCS), 210 Walnut St., Federal Building, Des Moines, IA 50309; telephone, 515-284-4260; fax, 515-284-4394; e-mail, leroy.brown@ia.usda.gov.

■ Linked Investments for Horticulture and Alternative Crops

This state program is designed specifically to help diversify and strengthen Iowa's economy. Funds are made available from the state treasury to local lending institutions for loans with interest rates that are below market rate to qualifying borrowers. Individuals, corporations, or cooperatives may apply for up to \$500,000. Contact local lenders or call the state office (515-281-3287). Also, the state treasurer's office maintains lists of lenders who have made Linked Investment loans for horticulture businesses as well as lists of borrowers who have received these types of loans in specific geographic areas. You may request this public information to help you determine which lenders have experience with these types of loans and which businesses in your area have received them.

■ AG Connect

This nonprofit corporation has its main office and executive director in Lenox, Iowa. Regional coordinators provide statewide services. Their goals include matching established farmers nearing retirement with young or middle-aged people who want their own enterprise but lack financial resources, negotiating and/or mediation, developing business plans, and cash flow/enterprise analysis. AG Connect services are provided at no cost to participants. For more information, call 515-333-4656 or send e-mail to agconnect@lenox.heartland.net.

■ U.S. Small Business Administration (SBA)

The SBA is an independent federal agency established to assist, counsel, support, and protect the interest of small business concerns and to assist them in their start-up and growth. The Targeted Small Business program offers technical assistance and special services to woman- and minority-owned businesses throughout Iowa. SBA provides free and low-cost counseling and training at 16 regional offices. To find a regional office, contact either of the two district offices.

Cedar Rapids District
215 4th Ave. SE, Suite 200
Cedar Rapids, IA 52401-1806
Telephone: 319-362-6405

Des Moines District
210 Walnut St., Room 749
Des Moines, IA 50309-2186
Telephone: 515-284-4422

■ *Farming Alternatives: A Guide to Evaluating the Feasibility of New Farm-based Enterprises* (NRAES-32) This publication provides a step-by-step approach through the business planning process and offers guidance in making important financial and lifestyle decisions for a new enterprise. To order, contact the Publications Distribution Center, The Pennsylvania State University, 112 Agricultural Administration Building, University Park, PA 16802, telephone 814-865-6713.

■ **Local organizations**

ISU Extension county offices, chambers of commerce, and other economic development groups are knowledgeable about local business requirements and opportunities. Check local phone books or ask local contacts for ideas and information.

ISU Extension staff in your local office can keep you informed about educational opportunities such as technical meetings and tours related to fruit and vegetable crop production and marketing, and also put you in touch with specialists on horticultural and business topics.

■ **Professional consultants**

Lawyers can help you set up the legal structure of your business. Accountants can help you set up your business records. Other business consultants can work with you in creating and evaluating business plans and activities.

■ **Trade associations**

Trade associations provide many chances to communicate with others who have faced similar problems in starting a business and are a great source of continuing education and support. Local and state associations will emphasize different areas of concern than will national associations. Membership in a local business association is desirable for the community contacts it will provide. Another group to consider joining is the Iowa Fruit and Vegetable Growers Association. (See box on page 6 for contact information.)



What other rules and regulations might apply?

Growers also need to become familiar with business regulations and rules governing the use of pesticides.

Business regulations

In Iowa, the State Bureau of Revenue should be contacted to receive complete information on sales tax collection procedures and policies, as well as to register a business name. Local taxing bodies, chambers of commerce, and the state departments of labor and/or commerce also should be contacted. They can provide necessary information related to business licensing, as well as right-to-know and employee regulations.

Pesticide use

A private pesticide applicator's license and certification is required. Study materials, plus information on training and testing times and locations, are available from ISU Extension county offices. The pesticide division of the Iowa Department of Agriculture and Land Stewardship schedules and administers the tests.

Where is the best place to sell fruits and vegetables?

A good way to start is by establishing a reputation with loyal, local clients. Marketing locally has several advantages.

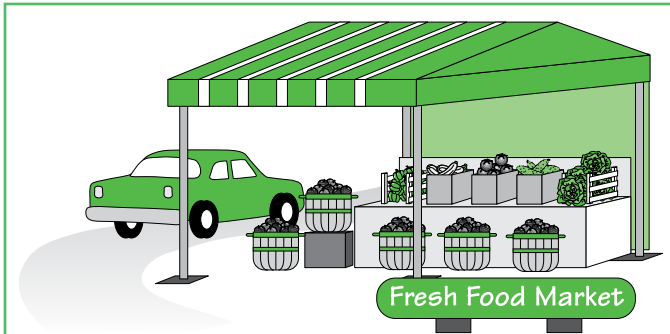
- A smaller quantity of produce can be grown.
- A larger portion of the buyer's dollar is received.
- It's easier to learn what customers want.
- Even small profits can be slowly invested back into the operation to reduce risks from loss.

Fresh produce is sold through a broad range of retail and wholesale outlets—including roadside stands, farmers' markets, Community-Supported Agriculture (CSA) organizations, pick-your-own businesses, restaurants, institutions, grocery stores, and wholesale cooperatives.

No license is needed to sell fresh, Iowa-grown fruits and vegetables directly to individuals. Fresh produce is a nontaxable item so no sales tax is collected or remitted, and a retail sales tax permit is not needed.

Roadside stands are a simple way to sell directly to consumers. Produce may be sold from the back of a vehicle or on display tables, preferably in the shade of trees or a canopy. Safe and adequate parking should be available.

Roadside stands must comply with local and state rules and regulations. The seller is responsible for advertising the location, times, and types of products. Prices may be individually set and sales provide immediate cash flow.



Marketing tips

- Emphasize quality—fresh produce, clean sales-people, and an attractive display.
- Use distinctive signs, packaging, and clothing to help build customer recognition of your product.
- Keep your ears open for new ideas about what customers want to buy.
- Protect product freshness; sell as quickly as possible after harvest.
- Set prices in round figures to speed up sales and reduce problems with making change.
- Take enough product; try to have something left for customers who arrive late.
- Arrange product containers so all items are visible.
- Clearly label items and prices.
- Smile; be friendly; give a special greeting to repeat customers.

Farmers' markets are a low-cost way to sell fresh produce to a large number of consumers within a short time. Growers who can offer a variety of produce that is wanted by customers are usually most successful. However, even small-scale producers can interact directly with consumers, develop marketing skills, build immediate cash flow, introduce new products, and try new market areas. Markets also help growers test product acceptance and popularity, network with other growers, and establish a wider customer base.

Farmers' markets have specific times, locations, and days of operation just like a regular business, but at much lower overhead cost to the seller. The combination of vendors can attract a large consumer base while sharing costs for advertising and promotion. Other advantages include site rental, market management, liability insurance, and other amenities determined by the market.

Farmers' markets in Iowa are not regulated by the state. However, all markets must abide by the rules and regulations established by the Iowa Department of Inspections and Appeals, the Iowa Department of Revenue and Finance, and the Bureau of Weights and Measures.

All markets in Iowa develop their own rules governing the market's operation—including vending fees, guidelines about what can or cannot be sold, and other details. To learn about a particular market and its rules/regulations, vendors must contact that market's manager directly. Vendors who offer value-added products, non-produce items, or prepared foods for sale at markets are required by Iowa law to have special licenses and tax permits to do business.



Most farmers' markets have some rules in regards to pricing. In general, most produce at farmers' markets is priced somewhat higher than the same type of produce sold in local grocery stores. Markets and vendors justify the higher prices based on the freshness and quality of locally grown produce. Most farmers' markets try to dictate quality and most usually try to prohibit selling at reduced prices. Supply and demand also influence the price.

Markets and vendors may participate in three government food programs that offer benefits to both producers and low-income nutritionally-at-risk individuals.

■ **Women, Infants, and Children/Iowa Farmers' Market Nutrition Program (WIC/IFMNP)**—Participants are low-income, nutritionally-at-risk pregnant, postpartum, and breastfeeding women, infants, and children up to 5 years of age. WIC/IFMNP vouchers allow them to purchase fresh, Iowa-grown fruits and vegetables from certified vendors at participating markets.

■ **Iowa Seniors Farmers' Market Nutrition Program (ISFMNP)**—This food-benefit program targets low-income, nutritionally-at-risk seniors (individuals 60 years of age or older) and provides vouchers to them for the purchase of fresh Iowa-grown fruits and vegetables from certified vendors. A single senior can have yearly income of no more than \$15,448, while couples must have income of \$20,813 or less.

■ **Food Stamps**—Vendors must apply and be authorized through the U.S. Department of Agriculture's Food and Nutrition Service (USDA-FNS).

Farmers' markets have many advantages, but they also pose a few challenges. Growers lose some flexibility as they must abide by the market's business rules for specific hours, location, days, products, space, and other conditions. Other factors, such as poor weather, competing events, traffic problems, travel time, and vehicle breakdown, can cut into earned revenues. In spite of these limitations, farmers' markets can be reliably profitable direct marketing outlets.

Questions? Contact these sources.

■ **Horticulture and Farmers' Market Bureau**

The Iowa Department of Agriculture and Land Stewardship produces several grower directories. Click "Directories" on their Web site (<http://www.agriculture.state.ia.us>) or call 515-281-8232.

■ **Iowa Fruit and Vegetable Growers Association**

Deb Smith, 1701 Willis Ave., Perry, IA 50220 (515-465-5992)

■ **State sales tax information and business name registration**

Iowa Department of Revenue and Finance (800-367-3388)

■ **Making and selling processed or value-added food products**

Iowa Department of Inspections and Appeals (515-281-6538)

■ **Regulations regarding scales used at farmers' markets**

Bureau of Weights and Measures, Iowa Department of Agriculture and Land Stewardship (515-281-5716)

■ **Vendor applications for Food Stamp programs**

USDA-FNS Retailer Application Center (877-823-4369; toll free)

■ **Vendor certification for WIC/IFMNP and ISFMNP**

IFMNP Program Administrator at the Iowa Department of Agriculture and Land Stewardship (515-242-6239)





Community-Supported Agriculture (CSA) is a partnership between a grower and the CSA members who purchase shares of the season's harvest. CSA members assume the costs, risks, and bounty of growing food along with the grower. Members help pay for seeds, fertilizer, water, equipment maintenance, and labor. In return, the grower provides CSA members with a supply of fresh produce throughout the growing season.

The grower, often with the assistance of a core group, draws up a budget reflecting the production costs for the year. This includes all salaries and labor costs, distribution costs, investments for seeds and tools, land payments, machinery maintenance, and other expenses.

A typical way to determine the cost of each share is to divide the budget by the number of CSA members. One share is usually designed to provide the weekly vegetable needs for a family of four. Flowers, fruit, meat, honey, eggs, and dairy products also are available through some CSAs.

Community members sign up and purchase their shares, either in one lump sum before the seeds are sown in early spring, or in several installments throughout the growing season. The grower starts receiving income as soon as work begins.

In return for their investments, CSA members receive a bag of fresh, locally grown, typically organic produce once a week from late spring through early fall, and occasionally throughout the winter in northern climates and year-round in milder zones. Members often prefer a variety of many different vegetables and herbs rather than too much of one thing. Crops often are planted in succession in order to provide a continuous weekly supply of mixed vegetables. As crops rotate throughout the season, weekly shares vary by size and types of produce, reflecting local growing conditions.

If provided, an extra fee typically is charged for home delivery. Most CSAs invite members to visit the growing fields and welcome volunteer assistance. Some CSAs offer working shares, whereby a member commits to

three or four hours a week in exchange for a discount on membership cost. Some CSAs provide produce for local restaurants, roadside stands, or farmers' markets.

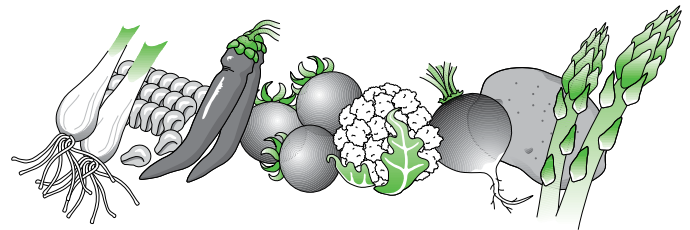
Publications and other material for Iowans interested in forming a CSA are available at local ISU Extension offices or by calling the ISU Sustainable Agriculture program at 515-294-1923.

Grocery store, restaurant, and institution sales are possible in some areas. The produce manager of some grocery store chains and the owners of independent grocery stores often have the authority to purchase locally grown fruits and vegetables. Restaurants, hospitals, schools, nursing homes, and other institutions also may purchase local products.

Agreements between the buyer and the grower often are based on a "handshake" rather than a written contract. Consequently, growers may find that an agreement with a local buyer may not be honored if the central warehouse of a chain store purchases large quantities of produce at low prices.

Local growers must meet the expectations and standards of the buyer for cleanliness, quality, volume, and consistency. Grocery stores usually have a relatively low markup (margin of profit) and seldom offer "top dollar" for produce that is purchased locally. Grocery stores and institutions are accustomed to purchasing relatively large quantities of produce on a weekly basis. Local restaurants often purchase fruits and vegetables in relatively smaller quantities. Produce must meet the grades and standards of the fruit and vegetable industry and the purchaser.

Local buyers often want to see samples of the produce before they make a verbal commitment to purchase fruits and vegetables from a local grower.



If you want to learn more about horticulture through training and volunteer work, ask your ISU Extension office for information about the ISU Extension Master Gardener program.

Visit the ISU Horticulture Web site at <http://www.hort.iastate.edu>.

This publication and many others are available at <https://store.extension.iastate.edu/>.

Prepared by Eldon Everhart, ISU Extension, and Barbara Lovitt, Marketing Specialist, Bureau of Horticulture and Farmers' Markets, Iowa Department of Agriculture and Land Stewardship; Diane Nelson, extension communication specialist; and Creative Services, Instructional Technology Center, Iowa State University.

This institution is an equal opportunity provider. For the full non-discrimination statement or accommodation inquiries, go to www.extension.iastate.edu/diversity/ext.

File: Hort and LA 2-9