Southwest Iowa Entrepreneurial Center: An achievable product-to-market business model for niche ag producers

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Southwest Iowa Entrepreneurial Center: An achievable product-to-market business model for niche ag producers

Abstract
The project takes the first steps to determine if a home-meal replacement enterprise would be a successful venture for small-scale producers in southwest Iowa.

Keywords
Business management, distribution and marketing, Market research and feasibility studies

Disciplines
Agribusiness | Business Administration, Management, and Operations | Marketing

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Question & Answer

Q: Would your ag business/farm operation benefit from the creation of a business whose end-product would source locally grown/produced/processed, in-season ag products, and would you and others you know be willing to participate?

A: The project proposed that a business be structured and developed that would supply customers with home-meal replacements that were delivered or made available at pick-up locations using menus that were created from locally grown/processed/produced products.

Background

Using locally produced food is considered to be an admirable goal, but obstacles exist. Because plant-based agriculture is a seasonal business, there is a significant time lag between reaching an agreement with a major food service business and the producer’s ability to deliver the product. The producer assumes a financial risk to plant or grow in anticipation of a potential, unproven market.

A cooperative, home-meal replacement business that uses locally produced items could access a market without facing that lag time, and could tap into an existing need for prepared meals without facing the challenge of building a sustainable market for local products. This sort of enterprise allows for a gradual public education process on the values of buying local and in season while providing a practical, easily accessed, need-based product. Ultimately, this could increase the consumption of local foods through caterers, nursing homes, and congregate food sites.

The project focused on The Kitchen, a home-meal replacement business that creates meals for families to eat together at home. The niche that distinguishes this business is that menus are centered on locally-produced, seasonally available food with the variety that would be on dinner tables if there were time and energy to prepare meals at home.

The project was developed in response to needs expressed by a growing number of small-scale producers engaged in local food production and marketing in Iowa. Using this grant from the Leopold Center, the Southwest Iowa Entrepreneurial Center worked to develop a product-to-market business model for small/niche agricultural producers. The intent was to look at the long-term goals of small ag producers that would encourage local consumers (especially food service businesses) to use local produce and meats.

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Co-investigator:
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ISU Extension
Corning

Budget:
$21,742 for year one
Approach and methods

A series of regional “food forums” was conducted throughout a 22-county area in southwest Iowa. Events were held in Red Oak, Walnut, Creston, Winterset, Guthrie Center, Logan, Bedford, Leon and Denison. The first forums were to introduce and explain the idea behind The Kitchen project, give an overview of a working business plan, and hear from agricultural producers about their interest in sourcing the product or owning the business.

After the first group of forums, another round was scheduled with interested producers in Red Oak, Denison, and Winterset. Producers in the second forum received a business plan with worksheets to prepare for discussion at these meetings. Following the second set of forums, it was decided that smaller working groups could be established. This would be the place to identify and resolve barriers and challenges for sourcing and delivery of product, research financing options for a “test kitchen,” and move the project forward to the business stage.

Results and discussion

The regional forums were attended by 55 producers, growers, retailers and processors. However, it should be noted that most of the attendees were representing others (i.e., partners, organizations and groups), so slightly more than 100 people actually were reached with the information from the forums. It also should be noted that active communication is still taking place with some of the attendees who have initiated communication regarding any additional news on progress for the project. A follow-up mail survey was sent seeking input on how attendees wanted to be involved in the next steps, but response was limited. Conversations with producers were halted during the busy production season.

At the second set of forums, organizers conducted a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis with the attendees regarding the business and its operation. Concerns were raised regarding process, and there was some hesitation regarding the ultimate voice that producers would have in the business models because of limited financial investment in the enterprise. At the forums, it was discovered that many of the small producers were not ready to sell to institutions and food service businesses. Also, several issues needed to be addressed by producers: limitations created by food safety regulations, profitability in pricing of product, delivery of product to users, direct sales vs. sales to a distributor, and communications between producers and potential business users.

Further discussion showed that it was likely few business plans existed, and therefore actual costs for individual farm products might not be accurately assigned. The business and producers must both be successful for the project to be viable. Careful thought is needed to create a pre-designed
business structure prior to the start of the business, and the proper tools are necessary for assessing the cost of the products prior to sourcing.

Using the results from the forums and from a survey performed by a team of students in ISU Colleges of Business and Agriculture, it was determined that a test market of the home-replacement meal business should be conducted to address issues that cannot be resolved by research. Finding dollars for the test market is a challenge because they cannot be pursued as typical investment dollars.

Conclusions
A basic business plan has been written for The Kitchen using input from producers in the region and survey data. Participants in the forums have been provided with an opportunity to continue to attend working sessions for business development. Financing of $25-30,000 is required to complete the next phase of the project, The Test Kitchen, which will prove the interest and acceptability of the product and its pricing in two test markets, rural and metropolitan. This will provide a more controlled environment to develop acceptable and efficient sourcing and pricing methodology from area producers.

Impact of results
The ultimate objective of developing a business model is still in place. However, work needs to be done by the producers on perfecting the delivery process and acquiring the tools to price their products correctly. Additionally, more consideration needs to be given to determining what form the product needs to take for delivery to the consumer, whether it is via "The Kitchen" business model, or an institution or food service business. This includes whether the product needs to be washed and boxed and whether it needs further processing such as cutting, chopping, shredding, etc. It also will be necessary to work through the food safety requirements related to processing of produce and processing of meats, fowl, eggs, and the costs involved to meet the regulations.

Publications produced for the project included:

- Costing Guide for Small Ag Producers
- Insurance Considerations for Small Producers and Value-Added Operations
- Cash Flow Templates for Small Producers and Value-Added Operations

These packages are available digitally by contacting the Southwest Iowa Coalition via e-mail or downloaded from www.swico.org. In addition, they will be distributed to county Extension offices within the region. Each attendee was notified of the availability of the documents, and they are being offered to participants of a Business Training Workshop (funded in part by the Community Vitality Center) from Adams, Montgomery and Pottawattamie Counties.

Education and outreach
- Twelve Food Forums
- Project described in final newsletter to participants
- Press releases to regional newspapers and radio stations prior to seminars
- Information on web sites and listserves
- Flyers distributed by ISU Extension offices in the region, at the Des Moines Farmers Market winter meeting, at the annual meeting of Iowa Network for Community Agriculture
- Information transmitted via the Southwest Iowa Coalition newsletter and web site

Leveraged funds
An application was submitted and funded from the Rural Community Development Initiative in which activities from this project and Leopold collaborative support were cited. In addition, funding from year two of the Institutional Food Survey was used as a match for the $300,000 award. Both of the Leopold funding awards were also used in a recent proposal for a Farmers’ Market Promotions Program grant which is pending. Both of these grants are through the USDA – Rural Development.

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