



Starting a Horticultural Business: Primary Considerations

Holly Gatzke, Extension Educator
775-726-3109, gatzkeh@unce.unr.edu

Kynda Curtis, Marketing Area Specialist
775-784-1682, kcurtis@cabnr.unr.edu

Running your own business can be a very rewarding experience, but ensuring that your business satisfies the target market and achieves profitability requires serious thought and substantial advance planning. There are four major points to consider as you start your business planning:

- What does the market or consumer want?
- Can my business produce what the market wants and produce it well?
- Is there an opportunity for profit?
- How do I deliver the product?



met by the mainstream market. These niche marketing farms design their business around servicing that specific customer group. Researchers have found several common strengths of successful

small-scale farms across the U.S. These strengths include clearly defined markets, a keen understanding of the cost of production, and an awareness to produce a product that satisfies the customers' desires (personal correspondence with producers and professionals working with producers).

Identifying Your Target Market and Its Needs

Small producers typically grow their plants first and then try to find a market. Due to the tight margins involved in small-scale farming, it is difficult for these producers to survive without having a specific targeted market identified for the product in advance. Today, many small farms are finding success in identifying unique (niche) markets whose needs are not being

Research the Specific Market

Valuable information about your target market can be gained by addressing the following questions:

- *Who* are the consumers? This may be described by demographics of age, income, education, habits, lifestyle, etc.
- *What* level of quality does the target market expect from your product? What unique attributes will they want from your product?

- *How* do you reach these customers so they know about your product?
- *Where* can you reach the best potential customers and put the product in their hands?

For example, consider a producer who targets 20- to 40-year-old chefs as the market for their product. In this case, the target market is chefs fitting a certain demographic, who prefer food grown with flavor, desire unique products, and often work long hours. This market will consider high quality to be essential, and will place value on locally grown products and uniqueness. Price is less of a concern than finding a product that meets their specifications for these potential buyers. Food distributors (both national and local), specialty farms and farmers' markets are the suppliers this market currently uses for fresh product purchases. They acquire their information from other chefs, the Internet, and product samples sent by potential suppliers.

Research into the habits of consumers in certain markets can be found by searches on the Internet, through marketing firms, surveys by universities, and/or by personally questioning representatives of the target market.

Market Outlets

Once you have identified your target customers, you must determine how you will market and deliver your product. Knowing where your customers shop and how you can deliver the product will help determine where your products are sold. Consider your local



Photograph courtesy of Robert Morris, UNCE

markets closely because the lower costs of transportation and logistics often provide an advantage over exporting the product. Pricing for the same product will vary greatly in the same city with differing consumer demographics. Finding the locations where the consumer is willing to pay a decent price is essential.

The most common outlets for plant producers are direct marketing, retail, and agritourism. Direct marketing, also called "direct-to-consumer," includes such marketing outlets as farmers' markets, Internet and mail order, roadside and farm stands, community supported agriculture (CSAs), and pick-your-own operations. Retail outlets include supermarkets, small groceries, and natural or health food stores. Agritourism refers to recreational tourism and farm entertainment activities such as hay rides, petting zoos, and educational programs.

Many producers will regularly market through two or three outlets in an effort to reduce risk and increase the chances of selling their entire supply across all quality ranges produced.

Premium Pricing Opportunities

Studies have shown customers are willing to pay higher prices ("price premiums") for products with certain characteristics. These characteristics cannot always be immediately seen through visual inspection of the product. They then must be identified through labeling, promotion brochures or advertisements and third-party certification (Cowee and Curtis, 2005). Consumers may be willing to pay price premiums for food safety assurances (such as USDA safety inspections), specific nations or areas of origin (i.e.



“Nevada Grown”), natural/organic/reduced chemical inputs, humane animal treatment, and nutritional related factors (e.g. high antioxidant, low fat). Before you decide to produce products with “premium” characteristics, clearly evaluate the relationship between potential higher revenue and the extra costs required to achieve and maintain the desired characteristics.

Recognize those niche markets that can only be entered by producers whose products have certain special characteristics. Make sure your production system and experience level with the crop supports the production of those characteristics profitably.

Can You Provide the Desired Product?

It is essential to determine whether your business can produce the products desired by the market. Consider your ability to address your markets’ needs and your operation’s ability/willingness to make potential changes to meet the needs of your market. Below are a series of questions to help evaluate the match between the potential market and your business.

Products must meet or exceed the consumers’ requirements in terms of:

Quality

- Can you consistently produce your product to meet the requirements of your target market?
- Do you have or can you obtain the knowledge, equipment, labor, product certification, technology, quality control systems, etc. required?



Photograph courtesy of Robert Morris, UNCE

Convenience

- Can you deliver the product when and where the customers want it, while maintaining the desired quality?
- Does your production location allow you to profitably service the market? Can you get exposure to customer or access shipping?

Usability

- Can you process, package and/or market the product in a special and desired form?
- Do you have access to processing technology, equipment, labor, inspections, etc.?
- Do you have or can you acquire the skills for customer relations and marketing?

The challenge of producing a new or different product or trying to attract a new market will require change and/or flexibility in your business. The following questions may help determine if your business is both willing and able to jump into this venture:

- Are you passionate about this product?
- Does all of your company (this could be your family) support the initiative?
- Can you acquire the necessary financing?
- Are you prepared to cover all aspects of the business administration, production, processing and marketing?
- Does the business have the appropriate staff, or the ability to hire the expertise and labor required, to run a successful business?

Is the Market Profitable?

Before you change any part of your operation, you should fully explore the market to determine if it truly has profit potential. First, estimate the size of the market you think you can acquire and determine whether it is appropriately sized

(neither too small nor too large), stable (in terms of pricing, demand), and durable enough to warrant starting the venture. Second, estimate the price your product can earn in your target market. The price must cover the extra costs of production and marketing for a specified market. It is essential to calculate accurate costs of production, as high-value crops may also have higher production costs.



Photograph courtesy of Robert Morris, UNCE

Third, calculate the break-even point using your estimates for market size and price. Add into the calculation the risks found with nature (storms, pests, etc.), and product losses from spoilage (too much product for labor or market at one time), harvesting, and delivery. It is a common to underestimate total production costs. Often costs increase with time faster than anticipated and activities requiring labor and materials are missed in the business plan. Family labor costs money or opportunity and may have to be replaced with hired labor. Once you have assessed your break-even point, then the feasibility of the business venture can be recalculated quickly when changes occur in price, product volume and/or cost.

This information should help you to determine whether the business venture will be profitable. A farm is a business and as such, it should provide a profit above the costs. A common practice in farming is to live below

the means. Farming should provide a return in investment like any other business and a good living for those involved.

Common Beliefs to Avoid

You must enter into your new business venture with a realistic view of the business and your potential market. Common myths and unfounded beliefs greatly reduce the chances of success for a small agricultural producer. These include:

“If you build it, then they will come”
Believing this myth often results in failure unless the producer restates it as, “If you build it, the way the specific consumer group wants it, make them aware of it and deliver it, to them, and then they will come.”

“My product is amazing. My friends and family love it, so it will sell,” or *“If I make and sell my product the way that I would desire it, then that will work for the consumers.”*

The opinion of your specific market segment is what counts. Urban tastes and values are often very different than in rural areas. Your logic, desires, and needs will not necessarily resemble those of the specific consumer group you would like to target. The only relevant opinions, desires, and needs are those of the buyer. Find out what your buyer wants and provide that product.

“Everyone will trust our farm’s product because we are honest.”
In the market, trust is gained



with proof. Every step must be taken for quality control and certification (when certification is required). Building personal relationships with customers is a huge asset in direct niche marketing. Once the customer personally knows your business, trust will be established and can be used to help sustain the reputation and longevity of your business. Trust however is lost much easier than gained.

Summary

When examining a potential business venture, it will be helpful to go through the steps outlined in this document. You need to determine how your product will serve the needs or requirements of a specific group of consumers, and how you will produce, deliver and/or market this product better than others. You should then create a plan for a stable business, both financially and emotionally. If a product does not “pencil out” through this process, then you must assess other alternatives until you find a product that fits a market you can service well.

References

- Bratsch, Anthony. 2006. “Considerations for Growing and Marketing Specialty Crops.” Virginia Cooperative Extension Publication 438-106.
- Cowee, Margaret and Kynda Curtis. 2005. “Niche Marketing Opportunities for Nevada Agriculture.” University of Nevada Cooperative Extension Fact Sheet-05-32.
- Dunn, James, Jayson Harper, and Greg Greaser. 2000. “Agricultural Alternatives: Fruit and Vegetable Marketing for Small-Scale and Part-Time Growers.” Publication of the Pennsylvania State University Cooperative Extension.

Copyright © 2008, University of Nevada Cooperative Extension.

All rights reserved. No part of this publication may be reproduced, modified, published, transmitted, used, displayed, stored in a retrieval system, or transmitted in any form or by any means electronic, mechanical, photocopy, recording or otherwise without the prior written permission of the publisher and authoring agency.

The University of Nevada, Reno is an equal opportunity, affirmative action employer and does not discriminate on the basis of race, color, religion, sex, age, creed, national origin, veteran status, physical or mental disability or sexual orientation in any program or activity it operates. The University of Nevada employs only United States citizens and aliens lawfully authorized to work in the United States.