Exploring Value-Added, Direct Marketing and Agritourism Opportunities for Your Farm

Megan Bruch Leffew
Marketing Specialist
931-486-2777
mleffew@utk.edu
cpa.Tennessee.edu
facebook.com/ValueAddedAg

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• This information is intended for educational purposes only.
• The presenters do not endorse any products or services discussed.
• The information presented does not constitute legal or medical advice.

Itinerary

• Guided Tour of Value-Added, Direct Marketing and Agritourism in Tennessee
• Packing for Success
• Regulatory Roadmap
• Additional Resources

What and Why
What is value-added?

- Allow producers to earn a greater portion of consumer expenditures by processing, packaging or marketing crops, livestock or farm resources.

What is direct marketing?

- Any marketing method whereby farmers sell their products directly to consumers
- Examples of direct marketing channels include
  - Roadside Stands
  - On-farm Stands
  - U-Pick/Pick-Your-Own Operations
  - Community Supported Agriculture (CSA)
  - Farmers Markets

Agritourism is...

Agritourism is everything from farm product purchases...
Why?

- Opportunities to increase financial returns
  - Remove middlemen from supply chain
  - Take advantage of demand for fresh/local products and experiences
  - Market small quantities
Guided Tour of Value-Added, Direct Marketing and Agritourism Examples

Flowers Creamery

Grinder’s Switch Winery

Grandaddy’s Farm
Donnell Century Farm

Guided Tour of Value-Added, Direct Marketing and Agritourism

Industry Data and Trends

Direct Sales of Edible Food Products
(Including Value-Added)

Census of Agriculture Data

Agritourism is Growing

Census of Agriculture Data

<table>
<thead>
<tr>
<th></th>
<th>Tennessee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of farms</td>
<td>3,773</td>
</tr>
<tr>
<td>Value of products sold</td>
<td>$34.8 million</td>
</tr>
<tr>
<td>Average sales per farm</td>
<td>$9,235</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in Agritourism 2012 to 2017</th>
<th>Tennessee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of farms</td>
<td>4.5%</td>
</tr>
<tr>
<td></td>
<td>616 to 644 farms</td>
</tr>
<tr>
<td>Agritourism and recreational sales</td>
<td>21.9%</td>
</tr>
<tr>
<td></td>
<td>$11.9m to $14.5m</td>
</tr>
<tr>
<td>Average sales per farm</td>
<td>16.6%</td>
</tr>
<tr>
<td></td>
<td>$19,342 to $22,545</td>
</tr>
</tbody>
</table>
Value-Added Products

- New item for 2017
- Products that originated from crop or livestock commodities produced on the operation and transformed by further manufacture or processing.
- 757 farms
- Value of $16 million
- Average sales per farm of $21,168

Food Sold Directly to Retail Markets, Institutions and Food Hubs

- New in 2017
- Sales to restaurants, grocery stores, schools, hospitals, etc.
- Includes value-added products
- 458 farms
- Value of $30.2 million
- Average per farm of $65,858

Number of Farmers Markets in Tennessee

(Source: Unofficial Count of PickTNProducts.org Listings)

- Farms offering on-farm sales
  - 808 in November 2019
  - 872 in November 2020
  - +8% change

Pick TN Products Data
### Pick TN Products Category

<table>
<thead>
<tr>
<th>Category</th>
<th># of Farms (11/7/2019)</th>
<th># of Farms (11/30/2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agritourism (Fun &amp; Ed)</td>
<td>522</td>
<td>562</td>
</tr>
<tr>
<td>Pick Your Own</td>
<td>225</td>
<td>233</td>
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<tr>
<td>Farmers Markets</td>
<td>159</td>
<td>162</td>
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<tr>
<td>Equine Trails</td>
<td>113</td>
<td>112</td>
</tr>
<tr>
<td>Equine Overnight Stabling</td>
<td>98</td>
<td>98</td>
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<tr>
<td>Wineries</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Equine Entertainment &amp; Education</td>
<td>59</td>
<td>58</td>
</tr>
<tr>
<td>Christmas Trees</td>
<td>59</td>
<td>51</td>
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<tr>
<td>Breweries</td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td>Distilleries</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Fee Fishing</td>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>

### Opportunities

Locally sourced food...

1. Provides social benefits to consumers
2. Is good for local economies
3. Is healthier and safer
4. Is more resilient to supply chain disruptions
5. Is better for the environment

### Consumers’ Perception of Local Food/Producers

- Trustworthy
- Transparent
- Unique
- Authentic
- Tastes Good
- Nutritious
- Supports Small Farms
- Supports Community
- Environmentally Friendly

### Packing for Success

Consumers’ Perception of Local Food/Producers

- Consumers believe local producers are more trustworthy and transparent.
- Consumers perceive local food to be unique and authentic.
- Consumers appreciate the quality and taste of local food.
- Consumers support local producers who are environmentally friendly.

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**COVID-19 Has Given Consumers Five New Reasons To Eat Local**

1. Provides social benefits to consumers
2. Is good for local economies
3. Is healthier and safer
4. Is more resilient to supply chain disruptions
5. Is better for the environment

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If we build (grow, produce, offer) it, they will come (and buy). And we will be profitable.

Direct marketing is in but it’s not easy.

Maybe not!

Challenges of Direct Marketing

- Production
  - Input Selection and Purchase
  - Soil Fertility
  - Disease Control
  - Weed/Insect/Wildlife Control
  - Fertilization
  - Irrigation
  - Planting
  - Cultivating
  - Harvesting
  - Field Sanitation
  - Labor
  - Records Keeping
  - Farm Inspection/Certification
  - Marketing

- Direct marketing enterprises add another dimension to management and operations

  Direct Marketing/Value-Added
  - All Production Issues
  - Processing
  - Packaging
  - Storage
  - Regulations
  - Marketing
  - Distribution
  - Customer Service
  - Additional labor

New Food Product Stats

- Number of new food products launched each year: 15,000
- The success rate for new food and beverage products: 10%
Why Businesses Fail (The 3 Ms)

Money
Capital & Cash Flow

Management
Skills & Experience

Marketing
Knowing & Accessing Customer

How achieve profitability?
Profit/Loss = Income – Expenses

Manage Costs
Price for Profit
Achieve Sales Volume
Manage Risk

Manage Production
Quality & Efficiency
Build Repeat Customers

5 Major Steps to Creating Value Added Products

Factors of SUCCESS

Management Skills
Labor Costs
Organizational

Strong Financial Position
Long-term Commitment

People & Customer Service Skills
Marketing Savvy – Connect with Customers
Regulatory Acumen

Produce Quality Products Consistently
1. Assess your resources, mission and goals.

Do you have what it takes?

- Self-starter
- Responsible
- Leader
- Hard worker
- Effective communicator
- Adapt well to change
- Accepts risk
- Decision-maker
- Family support
- Healthy
- Ambitious
- Competitive
- Lifetime learner
- Goal-oriented
- Creative
- Patient
- Proactive

Factors of SUCCESS

Answer These Questions

- **Specific**: What will you specifically accomplish?
- **Measurable**: How will you know when you have reached this goal?
- **Attainable**: Is this goal attainable with available resources?
- **Relevant**: Does this goal positively impact your mission and align with your values?
- **Time-Based**: When will you achieve this goal?

Goal Setting Worksheet

2. Research the market.

Take a Market Driven Approach

- What and how much is needed or desired?
- What is valued?
- What competition exists?

Is there a need/want your business can fulfill?

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Whole Foods Top 10 Food Trends

1. **Well-Being is Served**
2. **Epic Breakfast Every Day**
3. **Basics on Fire**
4. **Coffee Beyond the Mug**
5. **Baby Food, All Grown Up**
6. **Upcycled Foods**
7. **Oil Change**
8. **Boozed Up Booch**
9. **The Mighty Chickpea**
10. **Fruit and Veggie Jerky**

https://www.wholefoodsmarket.com/trends/top-food-trends-2021

Take a Market Driven Approach

- Demographics & Psychographics
- Customer Values (Customer Benefit, Cost, Convenience, Communication)

Who is the target market?

Identify Target Audience

- Need/want that your business can fulfill
- Willingness to purchase
- Ability to purchase

Your first and best customer
Take a Market Driven Approach

Does a profitable market exist?
• Is there adequate market size and potential share?
• Able to produce at a cost low enough and sell at a price high enough to generate a profit?

Additional Resource
• Food Product Cost and Pricing Tools Webinar Recording
  – Instructor: Hal Pepper
  – tiny.utk.edu/FoodCost

3. Investigate the regulations.
• Product manufacturing/marketing
  – Food manufacturing, pet foods and pet treats, soaps and cosmetics, agricultural inputs, etc.
• Business license and taxes
• Sales taxes
• Employment regulations
• County planning and zoning

Regulations - Examples
• https://fcs-hes.ca.uky.edu/homebased_processing_microprocessing
4. Develop a business plan.

- Farm businesses that developed a business plan were 2x more profitable!
- Producers who communicate were 21% more profitable!

Dr. David Kohl
Business Planning Lite

Business planning helps determine:

- Where you are
- Where you want to go
- How you plan to get there
- What resources are needed
- Is it possible
- Expected results

The business planning process helps:

- Identify values important to you and your team
- Organize and prioritize
- Identify management tasks and people responsible, gaps, challenges and opportunities
- Communicate your vision, objectives, resources and financial considerations
- Develop a proactive mentality
- Defines when goals are reached
5. Assess and manage risk.

### Types of Risk

- **Legal**
  - Laws/regulations
  - Injury to customer or employee

- **Human Resources**
  - Death, divorce, disability, disagreement
  - Employee turnover

- **Business Interruption**
  - Weather, natural disaster, road construction, other

- **Production**
  - Weather, disease, pests, errors

- **Financial**
  - Cash flow, cost or availability of credit
  - Damage or loss of personal property

- **Marketing**
  - Ability to attract customers
  - Competition

### Risk Management Methods

- **Reduce**
  - Obtain food safety training
  - Follow GMPs
  - Develop recall plan

- **Accept**
  - Save an emergency fund

- **Transfer**
  - Purchase insurance

- **Avoid**
  - Choose not to produce or market a certain way

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**Business Planning Resources**

- Building a Sustainable Business
  [https://www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business](https://www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business)

- AgPlan: On-Line Plan Writing
  [https://agplan.umn.edu/](https://agplan.umn.edu/)

- Small Business Development Centers
Choose a Business Structure


Tennessee Agritourism Liability Law

- Language that limits the liability of agritourism professionals for injuries to participants caused by inherent risks
  - Those dangers, conditions or hazards that are an integral part of an agritourism activity
  - Beyond the control of the agritourism professional

Safety & Emergency Preparedness Resources

- Check sheets, walkthroughs, signs
  - Safeagritourism.com
- Emergency Preparedness Plan Workbook
  - u.osu.edu/directmarketing

This material is based upon work supported by USDA/NIFA under Award Number 2018-70027-28585.
Regulatory Roadmap

Many Types of Laws/Regulations/Rules
(Including but not limited to…)

- Planning and Zoning
- Agritourism Liability Law
- Business License/Tax
- Personal Property Tax
- Sales Tax
- Employment Regulations
- American’s with Disabilities Act
- Building and Fire Codes
- Signage

- Food Service
- Food Manufacturing
- Amusement Devices
- Animal Exhibitor License
- Equine/Bovine Liability Laws
- Day Camps
- Fee Fishing License
- Nursery/Greenhouse
- Winery/Brewery/Distillery

Food Product Regulation

- Multiple agencies involved
- Agency with regulatory authority “depends”
  - The product
  - How it moves through commerce

Regulations can be confusing, and direction can vary depending upon…
Food Products Regulated for Customer Safety

Potentially Hazardous Foods Requiring Time/Temperature Control for Safety
• All foods requiring refrigeration, frozen products, Time/Temperature Controlled for Safety (TCS) foods, and other potentially hazardous foods. Foods sold wholesale or across state lines.
• Must be manufactured in permitted commercial facility (TDA)
• Register with FDA

Cottage Food Law for Non-potentially Hazardous Foods
• Non-potentially hazardous foods do not support the growth of bacteria, and the processing steps do not require stringent time and/or temperature controls to assure a safe product
• Selling products directly to end consumers (retail sales) within the state of Tennessee. No full-time employees.
• May be manufactured in a home or other non-inspected facility or kitchen
• Must use Current Good Manufacturing Practices

Formulated Acid Foods
• Regulations require formulated acid foods to have a final equilibrium pH below 4.6. The foods should not contain greater than 10 percent by weight of low-acid ingredients. Also, the low-acid ingredients cannot significantly raise the equilibrium the pH of the acid ingredient(s).
• Many shelf-stable sauces and dressings (BBQ sauce, hot sauces, marinades)
• Must be manufactured in permitted commercial facility (TDA)
• Register with FDA
Acidified Foods

- Acidified foods are low-acid foods that have food grade organic acids or other acidic foods added to produce a final equilibrium pH below 4.6. Acidified foods also have a water activity greater than 0.85.
- Examples: shelf-stable salsas, pickles, some hot sauces and BBQ sauces with lot of peppers
- All other requirements plus
  - Better Process Control School
  - FDA Scheduled Process

SAFE HANDLING INSTRUCTIONS:

To prevent illness from bacteria:
- keep eggs refrigerated, cook eggs until yolks are firm, and cook foods containing eggs thoroughly.

- Required
- Appear prominently and conspicuously

Honey

- No permit/inspection required
  - <150 gallons per year
  - Only sell product they produced
- Must be labeled
  - Name, address, & net weight
  - “100% Pure Honey”
  - “Not Pure Honey” - Include ingredient listing

Eggs

- TN no longer has state-specific regulations
- Abide by federal regulations
- Producers with less than 3,000 laying hens who own the hens, raise the hens and pack the eggs themselves are exempt from many of the federal rules and regulations
**Live Animal Sales for Custom-Exempt Processing**

- Harvest and process for owner of the animal
- Meat is packaged and labeled “not for sale”
- Meat is to be consumed by the owner of the animal and their nonpaying family, guests and employees
- Clearly communicate and document the sale of the live animal

**Retail Meat Sales**

- Proper slaughter, packaging and labeling under USDA-inspection
- TDA Retail Meat Sales Permit - $50 annual fee and inspection
- TDA Weights and Measures – meat must be sold by weight

**Special Meat Label Claims**

- Some claims deemed factual by FSIS without need for additional verification
  - Examples include geographic claims, state endorsement programs with no geographic emblematic design, “Aged” or “Dry-Aged” – if used according to FSIS definitions
- Other claims require sketch approval
  - Examples include animal raising claims, natural claims, nutrition claims

**Non-retail Meat Sales**

- Register as a wholesaler with USDA
  1. Contact USDA FSIS to request an on-site consultation
     - Mickey Mancini located in Hamilton County
       - mickey.mancini@usda.gov
     - David Ford located in Shelby County
       - david.ford@usda.gov
  2. Submit FSIS Form 5020-1 provided during site visit “Registration of Meat and Poultry Handlers”
### Poultry Processing

- Permitted through the Tennessee Department of Health
- Contact your local county office
- [https://www.tn.gov/health/health-program-areas/eh/eh-programs/eh-foodservice.html](https://www.tn.gov/health/health-program-areas/eh/eh-programs/eh-foodservice.html)

### Food Service

- Permitted through the Tennessee Department of Health
- Contact your local county office
- [https://www.tn.gov/health/health-program-areas/eh/eh-programs/eh-foodservice.html](https://www.tn.gov/health/health-program-areas/eh/eh-programs/eh-foodservice.html)

### Building Codes

- Typically not required for agricultural buildings
- What is considered an agricultural building?

### State Fire Codes

- State Fire Marshal or local government (if exemption) administer
- Follow codes for the highest/riskiest use
- Agritourism not exempt for “assembly use” and possibly other categories
- Assembly Occupancies defined as a building or structure used for a gathering of 50 or more persons for civic, social, or religious functions, or for recreation and food or drink consumption.
State Fire Codes

• Applies to new buildings, expansions or renovations
• Registered engineer or architect must prepare plans
• Some plans must be submitted to SFMO for review

State Fire Codes

• General Website
  – https://www.tn.gov/commerce/fire/codes-enforcement.html
• Newsletter with Article on “Wedding Barns”+
• Contact: Philip Cameron
  – p. 615-741-7190 or philip.cameron@tn.gov

Business Licenses

• Legal document provided by government that allows a business to operate in a specific geographic location
• Required in all 95 counties and many cities
• Separate licenses required for county/city of each location where sales are made

Who needs a Business License?

• Any person in business for profit or gain who has gross annual sales of more than $3,000 in a city/county needs a business license.
**Business License Exemptions**

- A farmer selling only the farm products raised on his/her farm
- Value-added products with only products raised on the farm and salt, water, sugar, pectin and preservatives
- Admission for tours or activities that are purely educational in nature

**Two Levels of Licenses**

- **Minimal Activity License**
  - Gross annual sales of non-raised products of $3,000 to $9,999 in a city/county
  - Cost = $15 per year
  - Not subject to business tax

- **Business License**
  - Gross annual sales of $10,000 or more in a city/county
  - Initial fee = $15
  - Subject to business tax
  - Renewed annually at no charge when business tax return(s) filed

**How to Get a Business License**

- Visit County Clerk/City Tax Collector for forms required for that jurisdiction
- Pay the license fee ($15)
- Exhibit license in place of business

**Business Tax**

- A privilege tax that permits you to engage in the business of:
  - Selling tangible personal property at wholesale or retail
  - Rendering certain services
Business Tax Rates

- Five classifications of businesses, each subject to a different rate
- Minimum tax of $22
- Rates within some classifications vary according to whether the sales are made at wholesale or retail
- Dominant business activity determines classification

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Paying Business Tax

• When taxable product sales are $\geq 10,000$

• File business tax return for each county/city where sales occur

• Due on the 15th day of the 4th month following the business’ fiscal year

• File and pay electronically with the Tennessee Department of Revenue

Sales Tax

• Privilege tax that permits you to
  – Sell tangible personal property at retail
  – Render certain services at retail
  – Charge admission to events

Sales Tax Exemptions for Farmers

• Farm products sold by the farmer who raised them

• Certain sales of farm products that were purchased from the farmer who raised them

Sales Tax Exemptions for Farmers

• The “farmer who raises the product” may be an individual or business entity

• The same “farmer” must both raise and sell the farm product for the sale to be exempt
Sales of Purchased Farm Products by a Farmer

- Resale of these purchased farm products is exempt from sales tax when...

  1. The products are purchased from the farmer who raised them AND
  2. The total amount of farm products raised and sold in a calendar year must be at least 50 percent of total sales.

Sales Tax for Value-Added Products

- When a farmer adds value to farm-raised products by processing or packaging them, the sales of the value-added products are exempt from sales tax as long as the only non-raised ingredients added are salt, water, sugar, pectin or preservatives.

Threshold for Sales Tax

- You may have total sales up to $4,800 per year of non-raised products and you do not have to charge sales tax as long as you have paid sales tax to suppliers.

- For example, you could sell up to $4,800 of your baked bread at the farmers market and you do not have to charge sales tax as long as you have paid sales tax on the ingredients.

Admission Fees and Sales Tax

- Admission fees subject to sales tax
- If a tax exempt product is bundled with a taxable product, the bundle is taxable
- Exception for farm activity that is solely educational and void of amusement, recreation and entertainment.
Sales Tax for Non-Profit Customers

- Exempt from sales tax when
  - Exemption Certificate provided to business
  - Payment made by the non-profit (check or credit card recommended)

Sales Tax on Venue Rentals

<table>
<thead>
<tr>
<th>Examples</th>
<th>Taxable?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land rental for event</td>
<td>No</td>
</tr>
<tr>
<td>Barn/building rental only (no overnight accommodations)</td>
<td>No</td>
</tr>
<tr>
<td>Rental of chairs, tables, decorations</td>
<td>Yes</td>
</tr>
<tr>
<td>Package rental (barn, chairs, tables, decorations)</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Register to Pay Sales Tax

- Register with the Tennessee Department of Revenue
- Business will receive
  - Certificate of Registration
  - Blanket Certificate of Resale
    - If qualified to make purchases for resale

Remitting Sales Tax

- File State and Local Sales and Use Tax Return on TNTAP
- Due monthly on the 20th day of the month following the end of the reporting period
Sales Tax Rates

- State tax rate for most items (including prepared foods) = 7%
- State tax rate of food and food ingredients = 4%
- Local tax rates vary from 1% to 2.75%

Additional Resources

Marketing Publications

https://cpa.tennessee.edu/program-areas/
Food Manufacturing Regulations

Mike Brown
TN Department of Agriculture
Food Business Consultant
mike.f.brown@tn.gov

Business Licenses, Sales Tax, Product Liability, Dairy, Poultry Processing

Hal Pepper
Center for Profitable Agriculture
Financial Analyst
Hal.pepper@utk.edu

Online Resources

• facebook.com/ValueAddedAg
• E-news Lists
  – Agritourism e-News List
  – Farmers Market e-News List
  – Value-Added Beef Google Group
• To join, email cpa@utk.edu and request to be added to the list or group(s) you are interested in.

Upcoming Workshops via Webinar

• Exploring Agritourism for Your Farm
  – Tuesdays in August at 12-2pm Eastern
• Starting a Food Manufacturing Business in Tennessee
  – Thursdays in August at 12-2pm Eastern

Details and registration at https://cpa.tennessee.edu/educational-events-2/
Upcoming Educational Programs

• Pick TN Conference
  – Franklin, TN
  – February 17-19, 2022
  – PickTNConference.com

Anyone willing to share goals?

Evaluation and Q&A

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