



Front Porch Series – Fast Facts

Developing a Business Plan Part 3 - Profitability

Held on Thursday, May 11, 2023

Slides and Fast Facts Summary can be found [here](#).

Facilitators: Barbara Cesiro & Mary Pilotte

Tech Lead: Jenny Connors

Featured Presenter: Christine Teeple, [Red Rock Ranch and Farms](#), LLC in Concho, Arizona.

Christine is a Founding Member and former Board Member of the USLGA.

Event Stated Goal: This session builds on Developing a Business Plan Part 2 (March 2023), by elaborating on the financial determination of profitability for your business.

Terms used during the event:

- Revenue – Income dollars generated from the sale of goods/services/experiences.
- Direct Costs-An expense (i.e., cost) associated with the DIRECT manufacture/transformation of a good or service. Examples include items such as bottles and labels for body spray products, etc.
- Indirect Costs- An expense (i.e., cost) NOT associated with product transformation/manufacture, but required to support the business operations, hence called INDIRECT. Examples include items such as insurance, rent/mortgage, payroll for staffing events, etc.
 - **Pro tip:** a good **rule of thumb for estimating direct & indirect costs is 22% of retail price.**
- Profit – The amount of money remaining after business income is received (summed) and all business expenses (direct and indirect) are deducted, for a given time period of operation. Profits can be estimated at the product level but are often determined at the complete product line or farm level, using actual receipts of sales (income), and actual invoices of expenses required to generate and complete those sales.

Key Points Summary:

- A core component of your business success is **understanding who your audience is** (aka: target market). In the case of Red Rock Ranch & Farm, that happens to be women, age 45-64 years. This info helps support key decisions around product and event offerings that generate revenue. Info was generated from Facebook traffic.
- Once the target market is better understood, then consider **revenue opportunities**;
 - Onsite – Ex. Farm tours, concerts, seasonal buying events...etc.
 - Offsite – Ex. Fairs, farmers markets, crafting classes... etc.
- Benefits/**Considerations of revenue** opportunities:
 - Onsite – History of Red Rock Ranch & Farm shows that **visitor experiences sell. A visual of event cycle model was shared.**
 - Offsite – Out of truck sales/farmers market, etc. **can work too – if you have the right product, visitors, time and energy** to do the work – which is too taxing for one person. You will also have to compete for attention, so consider the size and cost of the event carefully. Food sells well in these markets; can your product compete?
- **Other distribution models exist**, including wholesale (need lots of volume), or lower cost online retail (Etsy, social media, word of mouth, etc.)
- **Examples for Red Rock Ranch & Farm were shared:**
 - *On-site Profitability* including festival sales to a fall sale, and regular farm store sales. (Range 33%-47% profitability)
 - *Volume discount/incentive sales profitability* impacts
 - **Pro tip:** Keep close track of the various approaches tried, then do a “side by side” comparison of their profitability. Did you make more money with one approach over another? Did you spend more effort for one approach over another, but make the same level of profit? Could you “tweak” one approach slightly (i.e., reduce supply chain costs, eliminate an “extra” that no one but you care about (or will pay for), reduce effort, etc.)
- **Pricing matters- Pro Tip: Review your products/event expenses periodically at least annually;** Can a change in packaging reduce cost without impacting your branding? Consider making your own labels until you can afford a more professional supplier. Do you need to raise the price to cover other increases in direct materials used? Did I hit the profit target I had set for my goods/events? Take a hard look at keeping a spirit of continuous improvement year over year.
- **Overall considerations/Pro Tips**
 - Start small and learn – taking good notes and taking a close look at everything after year 1. Don’t over-invest in equipment and other overhead items while you are learning.
 - Do what you enjoy doing – then see how you can make that profitable – can you?

Other Session Notes:

~25 Attendees participated in this event.