Measuring Profitability and Success

A Northeast SARE Funded Project

Two Farmers Farm

Scarborough, ME
Kelsey Herrington
& Dominic Pascarelli
twofarmersfarm.com

Quick Overview

Key Points

- Successfully planned and executed a $50,000 startup, using $20,000 in owner capital and $30,000 in financing from two different sources
- Increased sales from $0.00 to $130,000+ in 48 months
- Leased land to lower startup costs
- Obtained a $20,000 line of credit established for operating expenses
- Used farm mentors and other advisory services

Kelsey and Dominic Pascarelli spent 2011 and 2012 searching for land, carefully planning a four-season farm, researching markets, and growing a limited amount of greens on a smaller parcel of family-owned land. Their effort paid off, and in 2013, the couple moved their operation to the farm now under lease in Scarborough, ME. Startup plans and projections proved sufficiently conservative and attainable. In their first year of operation on the leased land, Two Farmers Farm exceeded income estimates by over $15,000 while expenses exceeded projections by less than $2,000. "We have done all the planning ourselves, with help from SCORE and some valuable farmer mentors."

Business Results

- Made key investments with capital financing
- Profitable year round crops were correctly identified
- Financed new equipment that "helped us speed up fieldwork."
- Exceeded financial goals

In collaboration with
Coastal Enterprises Inc.
University of Vermont Cooperative Extension
Maine Organic Farmers & Gardeners Association

Measuring Profitability and Success

Farm Financial Highlights

2013 - 2014

- **GROSS SALES** grew from $50,000 to $132,000
- **PROFIT MARGIN** before owner draw, averaged 26%
- **NET INCOME:** grew 400%+ from $11,000 to $59,000.
- **OWNER INCOM**E: $15,000 in 2014
- **EXPENSES:** $78,000 increase in expenses
- **CASH:** Maintained sufficient cash reserves and utilized $20,000 line of credit as needed through the MOFGA Organic Loan Fund
- **LABOR:** Two managing owners worked 2,880 hours in 2012, with much of that time spent seeking land. They had no hired help. Their hours increased to 5,800 hours in 2014 and they took an owners draw of $15,000. Payroll expenses also increased to $11,000, representing 2,100 hours of hired labor.
- **GROSS SALES:** Gross sales per full time employee was approximately $34,000 in each year, representing that Two Farmers did an excellent job budgeting accurately for labor needs through changes and increases in production each year.
- **INVESTMENTS:** $24,000 USDA-FSA loan and a $6,000 loan from No Small Potatoes, a Slow Money investment club for equipment and infrastructure.

Farm Snapshot

Two Farmers Farm is a certified organic, four-season vegetable farm founded in Scarborough, ME in 2013. It specializes in winter-harvested leafy greens and other fresh winter produce, offering flavor, health, and beautifully fresh food for every season.

Key Numbers	2013	2014	CHANGE
Return on Equity (ROE)	29%	121%	322%
Cash Flow Operations	$9,876	$57,130	478%
Profit Margin	22%	45%	103%
Gross Sales	$50,594	$131,587	240%

Defining Success

Kelsey and Dominic desire to earn a living with both of them working full-time on the farm and maintaining a high quality of life.

Farm Philosophy

"We are young farmers excited about growing a healthy, robust, and ecologically sustainable local food system."

Details

Two Farmers Farm started on family land in the fall of 2011. The young couple began with a vision of a four-season farm with organic products produced year round. They planned

Measuring Profitability and Success

to include winter salad greens in the mix with the intention of achieving a balance between summer and winter work. During the winter of 2012-13, the farmers obtained a lease on a property south of Portland and close to expanding farmers' markets, allowing them to increase their land from 1/10th acre to 1.5 from acres. The farmers spent 2012 growing greens January to March on family land, which they sold wholesale and through farmers' markets. "We basically took over all the gardens," commented Kelsey. A deliberate planning process for this leased land led to investments in equipment and infrastructure. Improvements included putting up two small hoop houses, temporary shelters for seedlings, and a washing and cooling station for produce. Additionally, a tractor, tractor tools, and a delivery vehicle were purchased.

2013 was the first full production year for Two Farmers Farm and net income exceeded projections by $5,000. For startup financing, Two Farmers Farm paired $20,000 in owner capital with $30,000 in loans — a $24,000 USDA-FSA loan and a $6,000 loan from No Small Potatoes, a Slow Money investment club. Anticipating cash shortfalls, a $20,000 line of credit was also secured from the Maine Organic Farmers and Gardeners' Association (MOFGA) Organic Loan Fund, which they ultimately discontinued. One major goal was to have no off-farm income, and they achieved that from May 2013 onward.

Since they chose to farm on leased land, the couple does not currently have a mortgage, which has helped them maintain profit margins and pay themselves during the startup years. Self-identifying as risk averse, the farmers constantly evaluated actuals against their original plan and kept a list of a wide ranging list of 20 obstacles that stood, or could stand, in their way of success, such as access to qualified help or drought-resistant water sources. "Knowing what could go wrong helps us build contingency plans and think critically about which investments are most important for risk management."

Guiding Principles:

- Regular and careful planning & record-keeping
- Leased farmland
- Four-season farm
- Financial sustainability

Critical Skills

- Continual market and product assessment/analysis
- Business planning
- Sought advice and resources
- Identified niche of local, organic winter greens

Farm Mission

To provide a fulfilling lifestyle and livelihood for our family, by producing nourishing foods and engaging in face-to-face marketing within our community.

We strive to exemplify the potential for farm families to maintain a high quality of life while achieving excellent land stewardship, adequately supporting their employees, preserving rural heritage, and furthering the movement for a more sustainable food system.

Measuring Profitability and Success

Business and Management Education

Upon leaving college, the farmers apprenticed for 1.5 years, including 1 full year on a farm similar to what they envisioned their startup farm would be. Becoming more serious in their intent, Kelsey and Domenic joined the MOFGA Journeyperson program, a mentorship program, in 2011. This experience grounded their business planning process. "We worked full time all winter making plans, budgets, procuring equipment, etc. (while also growing and selling winter produce) – this preparation set us up well for the first season." Two Farmers Farm opened fully for operation in 2013. Outside advisors provided a sounding board for decision making as the startup farm put plans to action. From 2013-2014, their management confidence grew. "Yes overall my skills have improved. I have learned by doing, with insight from farmer mentors. We have done all the planning ourselves, with help from SCORE and farmer mentors.

Looking Ahead: Upcoming Changes

Two Farmers Farm is considering when to build out additional farm infrastructure and how to access the necessary capital. Some additional equipment purchases, such as a plastic mulch layer, are listed in their Capital Plan as the next investments. The focus will continue to be on determining what scale makes economic sense for the farm. They are not planning on increasing in acreage under management in the coming season. They will increase their labor budget and adjust their crop mix, including the addition of strawberries and garlic.