

Grow Your Small Market Farm Business Newsletter

October 2004

Solutions for Managing Your Small Business Risk Conference

After four years of working with small farm businesses, it is apparent that risk management is a difficult and greatly overlooked topic by most business owners. That is why the Grow Your Small Market Farm program is hosting a conference on this topic in December.

The Saturday, December 4th, conference will kick off with an overview of risk management outlined by Dennis Forsythe, a risk management expert from the Farm Bureau Insurance Company. Following him, we will hear from Ted Williams, an employee and human resource expert who will give you some help-

ful tips for working with employees. Next, Samuel Kreamer an expert in corporate and business law, will talk about business exit strategies. The afternoon session will give you some real business examples as we hear from local small business owners on how they market their products. And finally, the conference will close with an inspirational message from Michael Wagner, a motivational speaker from the White Rabbit Group. I think you will find this conference informative, interesting and worth your time.

In addition, we will be sourcing food for an all Iowa



Foods lunch on Saturday, so if you have product to sell in December, please email or give me a call. And finally, there will be an opportunity to bring your products and put them on display.

This conference is available to you for no charge, but we will be advertising it around the state in hopes of attracting other small business owners who are. *continued on page 3...*

Special points of interest:

- Solutions for Managing Your Small Business Risk Conference
- How Networking Will Help Your Small Business
- What is Your Business Worth
- Sales Tips
- Books to Read
- Upcoming Events

There's Strength in Numbers: How Networking Will Help Your Business

Check out the listings for current movies. A typical plot for movies involves a hero who saves the day by solving the crime or rescuing the world from disaster. One moral of these movies is that the way to solve problems and achieve success is through the efforts of a strong, independent individual. But when it comes to small enterprises, rugged individualism is less effective at problem solving and achieving success than the combined energy and skills of a dedicated group of like-minded people working together. In fact, "going it alone" may contribute to the low survival rate of small businesses (half fail by their fourth year).

For small enterprises like alternative agricultural producers, coming together in a network means that the techniques, knowledge, and skills possessed by one member are shared among the group and all benefit as a result. By coming together, network members gain a "trusted" source of information about strategies, markets, and suppliers. Some members may go further by cooperating together on a project that is too big for either of them alone. Networking allows members to pool resources in order to buy insurance or purchase equipment at reasonable rates. Thus through networking, small enterprises can act big, but stay small.

In spite of the advantages, only about half of small enterprises are involved in a business network. Networking has been slow to catch on because of misunderstandings or misinformation about the costs vs. the benefits and the potential risks involved in belonging to a network. Also, some business people prefer to be the strong independent type. They believe that problems are more effectively solved by a lone hero rather than a group. The truth is, however, for big and small enterprises alike, there is more strength in numbers than there is in going it alone.

Contributor Terry L. Besser Ph.D., Associate Professor, Department of Sociology

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Business Valuation—What is Your Business Worth?



Every business owner at some point has a need to know what their business is worth. While determining the value of a business may seem to be a simple task, a good business valuation requires a great deal of inquiry, analysis and review. This article will review some of the major items involved in the business valuation process both for you and the valuator.

The first decision that needs to be made and clearly communicated among all parties is the purpose of the

“A good business valuation requires a great deal of inquiry, analysis and review.”

valuation. If the purpose is not clearly understood, then an improper value may be determined. Some of the more common reasons include selling all or a portion of the business, an annual determination for a buy/sell agreement, estate or retirement planning for the owner (s), a legal action, such as divorce or a lawsuit. As part of defining the purpose, what is being valued will also be determined. For example, valuing a minority interest will require different procedures than valuing an entity as a whole.

Next the proper “value” will be selected that best fits the purpose of the valuation. Some of the more common value terms are fair market value, fair value, investment

value and liquidation value. Fair market value is most frequently used of these. In certain valuations, such as divorce cases, state law and statutes may prescribe what value is used.

An approach is then chosen to calculate the value. The three most common approaches are income, market and asset-based. The income approach refers to the future cash benefits of the business available to the owner. The market approach uses recent sales of comparable assets. Finally, the asset-based concept looks at the replacement cost of the assets factoring in a deterioration rate. The income approach is the most frequently used of these and requires two components, projected future cash flows and a cost of capital. Future cash flow is based on expected cash flow, not necessarily most likely.

There maybe a need to estimate cash flow under different scenarios and give each a probability of occurring. The cost of capital is often referred to as the rate of return and is perhaps better understood as the rate a purchaser would reasonably expect given the business, its operating environment and the fact the purchaser has several options on where to invest money. The cash flow is then discounted by the cost of capital to arrive at the value. The task is almost complete.

This value can be presented to you in a variety of ways depending on your needs, ranging from an oral

presentation to a detailed valuation report. A couple of additional items to keep in mind. Value depends on each person’s assessment of the benefits and risks relating to a company. Given the same set of facts, two independent valuers will most likely arrive at two different values. Also, values are determined at a specific point in time - as your business changes, so will its value.

As you can see, there is a great deal of work involved in a proper business valuation. Much like financial statements, the valuation is only as good as the information going into it. A good business valuation should be an integral part of any assessment you do of your business and its future.

McGowen, Hurst, Clark, & Smith, P.C. has helped numerous clients with their business valuation needs and are available to discuss yours. Please contact Dan Schwarz at 515-288-3279.

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Risk Management Conference continued...

This conference is available to you for no charge, but we will be advertising it around the state in hopes of attracting other small business owners who are interested in working on some of their risk management issues. Conference for those folks will be \$40 and includes materials and lunch.

Look for a letter and brochure around early November. I hope to see you there!

Friday, December 3rd Day includes:

1. Quick Books Pro
2. Lunch

3. 2004 Class presents their business plans

Saturday, December 4th Day includes:

1. Registration and Coffee/Rolls
2. Opening/Welcome
3. Risk Management: Why pay attention to it? *Joel Jacobsen, Iowa Farm Bureau Insurance.*
4. Looking at Your Employee and Human Resource Issues. *T. Hensley "Ted" Williams, Co-Principal of The Williams Group in Des Moines*
5. Passing the Torch: Developing Business Exit Strategies. *Samuel I. Kremer, J.D., C.P.A., Partner at Dreher, Simpson & Jensen, P.C. law firm.*
6. All Iowa Meal and Sales Presentation by *Sue Futrell, Owner, One Backyard and former Marketing Director for Blooming Prairie Coop.*
7. Exhibits: displays and networking opportunity.
8. Reducing Fears and Improving Negotiation Skills.

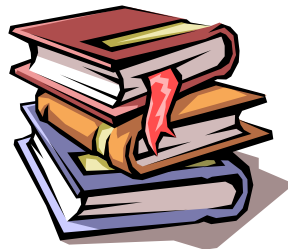
9. Go Forth and Do Business. *Michael Wagner, Co-owner of the White Rabbit Group.*



Books to Read

"The E Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It," by Michael E. Gerber, published by Harper Business, a division of Harper Collins Publishers. A good little book.

Suggested by Sherry Shafer, Drake SBDC



"The Meat You Eat," by Ken Midkiff, published St. Martin's Press. In this eye-opening book, Ken Midkiff exposes the dangers posed by corporate control of agriculture (agribusiness)—to our Health, and to the health of the nation's economy, security, and the environment.

Suggested by Tim Daley

Upcoming Events

4th Annual Iowa Organic Conference:

—Ames, IA, November 1, 2004, visit us on the web @ www.ucs.iastate.edu/online.htm

PACK Expo 2004, McCormick Place:

—Chicago, IL, November 7-11, 2004, visit us on the web @ www.packexpo.com

12th Annual Urban-Rural Regional Food Systems Conference:

—East Troy, MI, November 12-14, 2004, visit us on the web @ www.MichaelFieldsAgInst.org

Food as Medicine, Farm as Healer: USA Conference

—Minneapolis, MN, December 9-11, 2004

2004 Acres U.S.A. Conference:

—Minneapolis, MN, December 6-8, 2004, "Eco-Farming University" Pre-Conference Study; December 9-11, 2004, Main Conference, visit us on the web @ <http://www.acresusa.com/events/04conf/agenda.htm>





October 2004

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"When it comes to executing a strategy, the end target may be clearly visible -" I want to climb that mountain over there" - but much of the route may be invisible from the starting point. The only way you're going to see the path ahead is to start moving. Thus strategy is as much about experimentation as it is about foresight and passion."—Gary Hamel.

For more information regarding Grow Your Small Market Farm Business Network contact Penny Brown Huber or the Small Business Development Center at Drake.

WE'RE ON THE WEB @
www.iabusnet.org

Sales Tips

SALES TIPS:

- 1) People buy benefits and not features.
- 2) Everybody likes to buy, but nobody likes to be sold
- 3) Nobody ever willingly buys anything from someone they don't like
- 4) Enthusiasm will often overcome poor product knowledge.



*"A successful business is 90% planning and 10% doing." —
Sherry Shafer, Drake,
SBDC—Program Host*

Contributor Kim Robinson, Smmart Solutions

Check It Out!

Check out State Fact Sheets from USDA/ERS @ <http://www.ers.usda.gov/StateFacts/>
(Click on the state of Iowa)

"Grow Your Small Market Farm Business" Newsletter is edited by Brandon Hofstedt, Research Assistant, Department of Sociology at Iowa State University. Please email submissions, classifieds, photos, and ideas to—hofstedt@iastate.edu—We welcome your comments and suggestions.
