

# Feasibility of Alternative Rural Enterprises



Section One:

Agriculture and Rural Enterprises

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Agriculture and Rural Enterprises

- Definitions of Agricultural Enterprises
- Common Traits
- Alternative Enterprises
- Factors for Success



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In this section, we will be reviewing the definition and traits of an agricultural enterprise and begin exploring alternative enterprises in agriculture.

## Enterprise Definition

- Enterprise
  - An activity that generates one or more saleable products



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An enterprise is an activity that generates one or more saleable products. Agricultural enterprises, such as cow/calf, wheat and hay produce marketable products, such as pounds of beef, bushels of wheat, and tons of hay.

## Common Traits of an Agricultural Enterprise

- Combines limited resources to generate dollars of return
- Can be separated from other enterprises by accounting procedures to its receipts and expenses
- Has some element of risk and uncertainty



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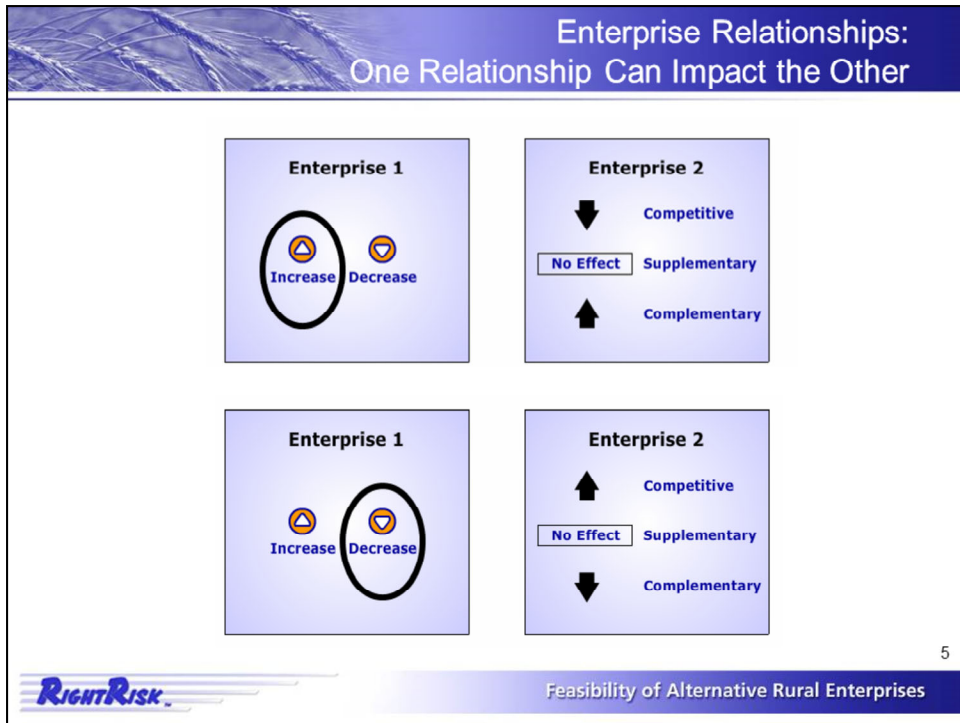
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A common goal of many agricultural businesses is to use limited resources such as land, labor, and capital to produce one or more enterprises to generate profits.

To single out a segment of the farm business for analysis as a separate enterprise, it is necessary to isolate the revenues and expenses. For accounting purposes, each enterprise is considered a separate profit center within the farm. Enterprise accounting includes receipts and expenses that are directly related to the specific enterprise. These enterprise accounts are an important source of information for determining which enterprises are profitable and those enterprises that should receive further analysis or be reduced or eliminated.

Each enterprise has its own risks to consider.



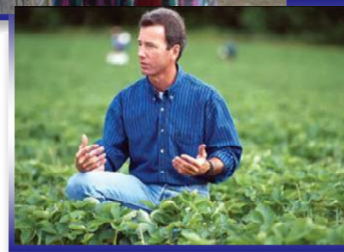
It is important to remember the relationships enterprises can have with each other. They may be competitive, supplementary, or complementary. Two enterprises are competitive when an increase in one enterprise results in a decrease in the other. They are competing for the same resources and inputs at the same time.

Enterprises are supplementary if an increase in one does not affect the other. And finally, complementary enterprises occur when an increase in one enterprise causes an increase in the production of the other. For example, a legume that fixes nitrogen in the soil might increase the yield of next year's crop in the rotation.

These graphics show the effect on Enterprise Two for each of the relationships.

## Enterprises: A Means to Reaching Your Goals

- Maximize Profits
- Generate Minimum Income Levels (Satisfying Behavior)
- Increase Net Worth
- Control a Larger Business
- Avoid or Reduce Losses
- Reduce Borrowing Needs
- Increase Family Living



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Many producers list the production of an enterprise (beef production, wheat production, etc.) as a goal. But maximizing profits and increasing net worth are examples of goals and the selection of enterprises are the means of reaching those goals.

Individual farmers and ranchers have different goals. The following guidelines are useful for setting goals:

- The goals should be your own
- All family members should contribute if the business is a family operation
- The goals should be written
- Goals should be realistic and attainable
- Goals should have target dates
- Goals should be compatible with your lifestyle

## Addressing Financial Problems

- Increase Production
- Reduce Costs
- Restructure Debts



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Typically, 3 possible solutions are used to address financial problems with traditional enterprises: lets go through each one.

## Increase Production

- Are there efficiencies to be explored?
- Is there any way to increase production without increasing costs or increase the value of production more than the costs?
- Production technology is an important factor in this area.



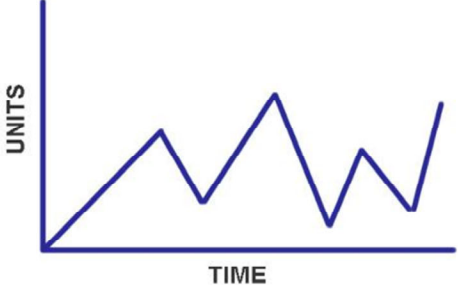
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## Reduce Costs

- Most common solution
- Where can you cut your costs?
- Reducing capital expenditures and family living withdrawals
- Cutting costs



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Go through the bullets on the screen:

- This is probably the most common recommended solution to remedy financial problems.
- Where can you cut your costs? Typically you would look at specific line items and try to determine where costs looked too high or higher than normal compared to similar operations.
- Reducing capital expenditures and family living withdrawals are always easy targets, but not always well received.
- Cutting costs is an easy way to increase profits. Low cost positioning of products/services is a strong advantage.

## Restructure Debts

- You can refinance at lower interest rates
- Extend the term of the loan to better match cash inflows
- Consolidate loans
- Adjust payment dates
- Suggest the selling of nonproductive assets to reduce debt



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Go through the bullets on the screen.

- Look at the debt of the operation
- You can refinance at lower interest rates, extend the term of the loan to better match cash inflows, consolidate loans, adjust payment dates and suggest the selling of nonproductive assets to reduce debt

## Conventional Raw Commodities

- Pounds of weaned calves
- Bushels of wheat
- Tons of hay

Efficiency and low cost of production are critical to being competitive and profitable in a commodity world.



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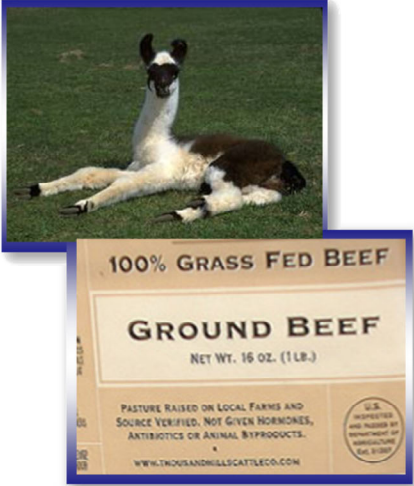
Conventional raw commodity products are the result of the traditional enterprises.

A large percentage of agricultural production will always be raised and sold through commodity markets.

Efficiency and low cost of production are critical to being competitive and profitable in a commodity world.

**Differentiation**  
– the Key to Alternative Enterprises

- Think beyond raw commodities
- Farmers will be paid for product characteristics not commodities
- Explore processing, packaging, and alternative markets



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There is an ever increasing demand for new and/or alternative crop, livestock and forestry products. To be successful you need a shift in focus beyond traditional products and traditional markets and consider cost-effective crops for niche “high value” markets.

Consumers will increasingly segment into distinct market niches seeking selected product characteristics.

Farmers will be paid for product characteristics not commodities.

As you begin to explore alternative enterprises you need to explore processing, packaging, and alternative markets for the purpose of differentiating the products to increase profitability.

## Alternative Enterprises

- Alternative Livestock Enterprises
- Alternative Crop Enterprises
- Agritourism/Recreation
- Alternative Production Systems
- Alternative Marketing Strategies



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Alternative enterprises include nontraditional crop and livestock enterprises, agri-tourism/recreation, alternative production systems, and alternative marketing strategies. When evaluating an alternative enterprise it is important to consider whether the enterprise contributes toward you goals. Initial investment costs, production yields, risks, operating costs, estimated returns, as well as market potential are all important factors to consider.

## Alternative Livestock Enterprises

Listed are the alternative livestock enterprises you might be interested in – jot down any potential enterprises you might have interest in.

- Meat Goats
- Elk/Deer
- Sheep/Lambs
- Pastured Poultry
- Free Range Livestock
- Exotics
- Petting Farm
- Specialty Meats
- Bison/Buffalo
- Organic/Natural



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Alternative agriculture can mean raising or producing different or alternative livestock. These lists are a sample of possible alternative enterprises.

Jot down any of the alternative livestock enterprises you might be interested in – the list will help with a later exercise in the lesson.

## Alternative Crop Enterprises

Listed are the alternative crop enterprises. Take a minute and jot down any potential enterprises you might have interest in:

- Fiber
- Forestry Products
- Oilseeds
- Forage
- Specialty Legumes
- Fruit/Vegetable
- Seed



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Alternative agriculture can mean raising or producing different or alternative crops. These listed are a sample of possible alternative crop enterprises.

Jot down any of the alternative crop enterprises you might be interested in – the list will help with a later exercise in the lesson.

## Agritourism/Recreation Enterprises

Listed are the agritourism/recreation enterprises. Take a minute to list the ones in which you might be interested:

- Hunting/Fishing
- Guiding
- Farm/Ranch Vacations
- Hiking/Biking/  
Snow Shoeing
- Bird Watching
- Pony Rides
- Camping/Picnics/Parties
- Wildlife Viewing
- Rock Climbing
- Native Photography
- Bed and Breakfast

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Agritourism is a growing industry in the United States. These agritourism enterprises are highly consumer-focused and may offer additional options for diversification and adding stability to farm incomes. In general, agritourism is the practice of attracting travelers or visitors to an area or areas used primarily for agricultural purposes. Opportunities for uniqueness and customization are limitless.

Jot down any of the agritourism/recreation enterprises you might be interested in – the list will help with a later exercise in the lesson.



## Alternative Production Systems

- Organic
- Natural
- No/Reduced Tillage
- Grass Fed
- Low/No Input
- Value Added Processing



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Alternative production systems include non-conventional cropping systems including organic, natural, and low-input. Alternative production systems also focus on alternative crops, new uses for traditional crops, value added processing and crops grown for industrial purposes.

The alternative production system must demonstrate that it can be more profitable than conventional production systems. These alternative systems typically are developed to fill a niche market and have several impediments for widespread adoption.

## Alternative Marketing Strategies

- Alliances/Partnerships/Cooperatives CSA's (community supported agriculture)
  - Direct Sales
  - E-Commerce
  - Farmers Markets
  - U-Pick



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To be considered, alternative marketing strategies should be more profitable than traditional marketing outlets. These marketing strategies can turn price-takers into price-makers, but the added time, labor and resources needed to perform these added functions should not be underestimated.

Community Supported Agriculture (CSA) is a partnership between consumers and farmers in which consumers pay for farm products in advance and farmers commit to supplying sufficient quantity, quality and variety of products.

Direct Sales is any marketing method whereby farmers sell their products directly to consumers.

E-commerce refers to selling products or services over the Internet. It allows people to exchange goods and services immediately and with no barriers of time or distance.

In a farmers' market, local producers can sell their own products, direct to the public.

U-pick or pick-your-own is where customers pay higher than broker prices to harvest fruits or products themselves.

Alliances/Partnerships/Cooperatives are business organizations owned by farmers to collectively sell their products, giving farmers more power in the marketplace.

## Reasons for Alternative Enterprises

- Increase Profits
- Reduce Risk
- Better Utilization of Resources



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Agricultural producers throughout the country are considering alternative enterprises for several reasons. Three of the most common reasons are to increase profits; reduce risk, and to better utilize scarce resources.

The next few slides will show more about each one.

## Increased Profits

- Reduce input use
- More profitable enterprises
- Improve efficiency
- Collect more of the consumers dollar
- Higher prices to the farmer
- Additional income sources



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Go through the bullets on the screen.

## Reduce Risk

- Diversification
- Spread Price Risk
- Reduce weather/other environmental risks
- Less Volatility in the Markets
- Alternative Income Sources
- Reduce Legal Risk
- Increase or improve cash flow



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Go through the bullets on the screen.

## Better Utilization of Resources

- Land
- Labor
- Capital
- Family Members
- Water



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Go through the bullets on the screen.

## Non-Farm Alternative Enterprises

- Storage Units
- Animal Boarding
- Insect Production
- Outdoor Classrooms
- Entertainment
- Crafts/Decorations/Furniture
- Horse/Dog Training
- Historic/Heritage

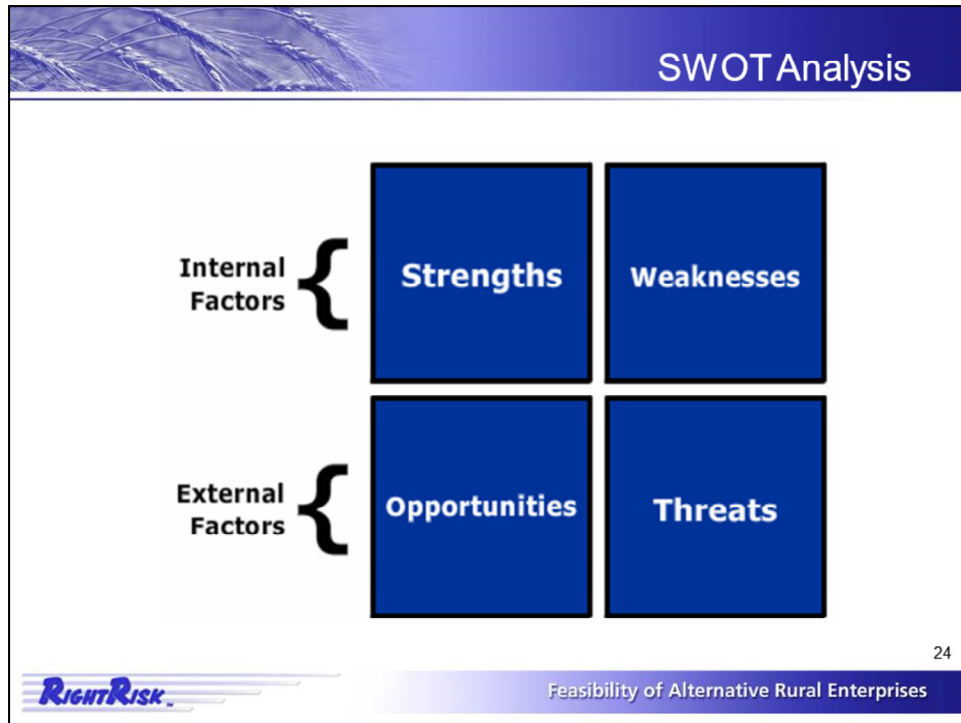


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Here is a list of alternative non-farm enterprises.



A SWOT Analysis examines a potential enterprise or idea for its strengths, weaknesses, opportunities and threats.

Strengths and weaknesses evaluate the internal factors which affect the success of an enterprise.

Opportunities and threats evaluate the external factors which affect the success of an enterprise.

The next few slide will discuss each quadrant.



**Strengths**

**STRENGTHS**

A strength could be:

- your special marketing expertise.
- a new, innovative product or service
- location of your business
- quality processes and procedures
- any other aspect of your business that adds value to your product or service.

<b>Internal Factors</b> {	<b>Strengths</b>	<b>Weaknesses</b>
<b>External Factors</b> {	<b>Opportunities</b>	<b>Threats</b>

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Discuss bullets on the screen.

# Weaknesses

**WEAKNESSES**

A weakness could be:

- lack of marketing expertise
- undifferentiated products or services (i.e. in relation to your competitors)
- location of your business
- poor quality goods or services
- damaged reputation

<b>Internal Factors</b>	<b>Strengths</b>	<b>Weaknesses</b>
<b>External Factors</b>	<b>Opportunities</b>	<b>Threats</b>

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Discuss bullets on the screen.

**Opportunities**

**OPPORTUNITIES**

An opportunity could be:

- a developing market such as the Internet.
- mergers, joint ventures or strategic alliances
- moving into new market segments that offer improved profits
- a new international market
- a market vacated by an ineffective competitor

<b>Internal Factors</b>	{	<b>Strengths</b>	<b>Weaknesses</b>
<b>External Factors</b>	{	<b>Opportunities</b>	<b>Threats</b>

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Discuss bullets on the screen.

## Threats

**THREATS**

A threat could be:

- a new competitor in your home market
- price wars with competitors
- a competitor has a new, innovative product or service
- competitors have superior access to channels of distribution
- taxation is introduced on your product or service

<b>Internal Factors</b>	{	<b>Strengths</b>	<b>Weaknesses</b>
<b>External Factors</b>	{	<b>Opportunities</b>	<b>Threats</b>

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Discuss bullets on the screen.

PDF:

[ftp://ftp.adayana.net/CLIENTS/UofWyo\\_Enterprise/08\\_Scripts\\_and\\_Media/b\)\\_Final/Ag%20Enterprises%20Course!/Final%20Course/lessons/SWOT.pdf](ftp://ftp.adayana.net/CLIENTS/UofWyo_Enterprise/08_Scripts_and_Media/b)_Final/Ag%20Enterprises%20Course!/Final%20Course/lessons/SWOT.pdf)

Have participants fill out their SWOT Analysis form, entering their strengths, weaknesses, opportunities and threats in the space provided.

## Section 1: Summary

- Definitions of Agricultural Enterprises
- Common Traits
- Alternative Enterprises
- Factors for Success



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### Summary

- An enterprise is an activity that generates one or more saleable products
- Each enterprise has its own risks to consider
- Individual farmers and ranchers have different goals. The selection of enterprises are the means of reaching those goals
- With alternative enterprises, you need a shift in focus beyond traditional products and traditional markets and consider cost-effective crops for niche “high value” markets
- Farmers will increasingly be paid for unique product characteristics
- Three of the most common reasons for considering alternative enterprises are to increase profits; reduce risk, and to better utilize scarce resources