

Alternative Enterprises: Marketing, Enthusiasm, Risk



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Continue the discussion for Alternative enterprises by finishing the topics in the PRIMER acronym

Marketing

- Questions one should ask:
 - Where will I sell my product?
 - What kind of price will I receive and how much influence can I have on that?
 - Can I enter into any contractual agreements as an outlet for my product?
 - How can I differentiate my product?
 - What is the structure of the market - # and size of competitors, geographic factors and any barriers to entry?



The importance of marketing in the dynamic of developing a business or enterprise is often minimized too much. Often times the passion and enthusiasm is in the growing or development of an item. And we translate our passion to “well everyone will want this or everyone will see the same value that I see.” Another issue that comes up is that many times, traditional production agriculture is commodity product that is marketed in the form of just being a price taker. Meaning we don’t really ‘market’ our product, we simply collect payment for it.

Two issues to think about when marketing. First, lets look at the facts of the marketplace. We will do this in the next couple of slides. The second is are we really interested in being a sales person or establishing a service model. Think about where you do business where you live. For me personally, there is a specific chain of gas stations that I will choose even if their gas is a dime higher than another place across the street. More times than not, everything in the store is well kept and functioning and the people provide great fast service. Another example is the feed store I frequent. Every time I pull up, the guys out-front ask what I need and by the time I pay inside, its usually loaded. Its not in the town where I live, but the folks that own the place have spent time to get to know me and know about the livestock that I run and what I do for a living.

Despite your business aspirations, are we willing to go to these lengths to provide a marketing (not selling) experience for your customer whether it’s a food broker or a storefront?

Market Structure

- Determine the number of competitors you face
- Determine the size that will keep you competitive. Is this a profitable size for you?
- Determine the geographic effect on business
- Are there any barriers to entry, determine how you can overcome these or use them



Here are some specifics that are a good start to analyze. Obviously competitors are important. That's not to say that you should not have any. Competitors can signify that there is a stable base of customers. However, how would we be different? What about our production system would allow us to be in a better cost position or what would make our product better than theirs?

Scale economies certainly exist and are a big component of size and profitability. Many times these are tied to fixed asset purchases. Many times these machinery or equipment purchases are tied to efficiency improvements. Generally in production ag, we have more investment in these items than are economically justifiable. In many cases they are convenience motivated and provide a minimal efficiency gains. Understanding what cash AND noncash costs are involved are important, as well as what time/labor etc will be saved by the purchase and items like are we running enough product to really capture the efficiency of the equipment.

In many food production related areas, regulations exist, for a good reason-consumer safety, on how we can market different food products. This can create barriers in markets and limit entry because of cost or facility needs. Make sure your marketing plan has these accounted for.

Niche Markets

- A lot of new markets are available, but these markets may be easily flooded
- Determine whether this market is a thin market and how thin is it



Niche markets typically generate some excitement.

For instance, in my part of the world, everyone typically follows the same growing seasons for vegetables. When one person's sweet corn is ready, typically so is a bunch of other producers. This results in an oversupply, and can push prices pretty drastically.

A thin market generally has an oversupply issue, then there is a resulting downward price movement, margins are then damaged.

Product Differentiation

- Determine how you can produce something different than competitors and if you can get into any contractual agreements
- You may be able to provide services that competitors do not
- Potential by-products



Services surrounding the product

Branding

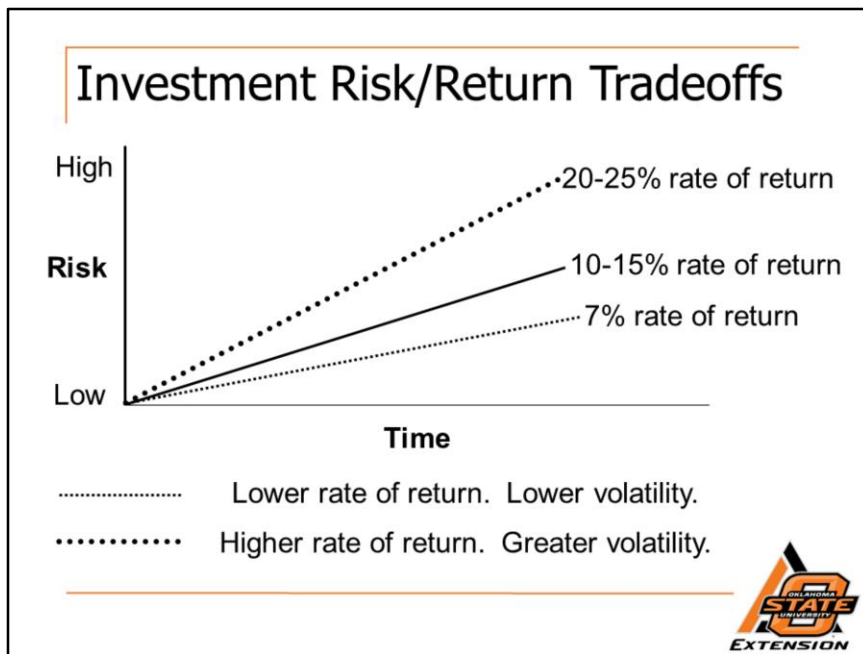
Alterations in the features of the product or quality of the product are important to provide something others do not.

Enthusiasm

- Questions one should ask:
 - Why should I get into this enterprise?
 - What are my goals for this endeavor?
 - Why would I get out of this project?
 - Am I letting enthusiasm play a larger role than it should in my decision-making?
 - Will this be something that will provide a good experience for a family?



Here are some good questions to ask about your Enthusiasm for this venture. All are important and need answers. Another that we may add to the list is how good of a grasp do I have on what I will actually be doing or should be doing? For instance, I may need to spend more time marketing and selling than in production to be successful, am I passionate about that too?



Risk is another factor that we need to explore. This graph shows the relationship between risk and reward. Risk preference exists amongst everyone.

For example, let's think about sales jobs. Individuals with a high risk tolerance may prefer a job with no base salary and a high commission possibility. Others, that are risk averse may tend to settle at a lower pay level to ensure the stability of a more dependable paycheck.

This same concept applies, in that many of our investments in a business can be classified as high or low risk and the same for reward level. How much risk are we willing to take on?

Risk

- Questions one should ask:
 - What are my production, market, financial, legal, and safety risks associated with this enterprise?
 - How can I offset some of these risks?
 - Am I a risk taker... or avoider?



Risk in this setting could be looked at as any influence or occasion that could harm the ability for the enterprise to succeed. The question above highlights many of the types of risk. We think of production risk in agriculture in the form of weather and pests, etc. The other more popular one is financial risk. Keeping track of cash flow, answering questions frequently like what is our liquidity, are we solvent?

Lastly, what is our comfort level with risk? Entrepreneurs are generally more willing to accept risk. While folks like myself are more risk averse and the level of risk needed to develop a new business would not fit my risk preference.

Risk Responses

- Financial responses among most important
 - Managing leverage and liquidity
- Production responses most common
 - Diversification very popular
 - Insurance
- Market responses can be technical
 - Contracting
 - Pricing strategies
 - Advertising strategies



10 Steps to Investment Failure

1. Procrastination
 2. No specific goals
 3. No plan
 4. Lack of commitment
 5. Lack of interest, knowledge
 6. Do not track investments
 7. Follow ill-advised tips
 8. Unfamiliar about tax laws
 9. Lacks diversification
 10. Expect to get rich quick
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Personal Considerations

- Your investment goals
- Time available
- Knowledge and interest
- Available funds
- Ability to handle a loss
- Present financial situation
- Risk tolerance



The Solution

- PRIMER method for selecting new enterprises for your farm:
 - Profitability
 - Resources
 - Information
 - Marketing
 - Enthusiasm
 - Risk



Business Planning Resources

- AgPlan
 - <https://www.cffm.umn.edu/products/AgPlan.aspx>
- Small Business Administration
 - <https://www.sba.gov/>
- Ag Risk & Farm Management Library
 - <http://agrisk.umn.edu/Budgets/>



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