

## Alternative Enterprises: Profitability, Resources, Information



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Hi, I'm Damona Doye...

In this segment, we want to highlight some things to think about if you are considering investing in a new or different enterprise. Perhaps you are an “out of the box” thinker or have been looking for something that you can't find in the market and are sure that there's a golden opportunity just waiting to be snatched up...It can be exciting to imagine doing something unique. I sometimes dream of having acres of flowers, then I think about our hot, dry climate and weeding in the summer... You probably have a much better idea... In this segment, we want to provide a framework for thinking about your alternative from a business perspective, while also recognizing that personal interests and motivations are important.



Here's an alternative enterprise for agricultural land.... A motocross park. Maybe not agricultural in use but perhaps it is agritourism?



<u>2014 rental survey</u>	<u>%</u>
Deer hunting	5.1
Quail hunting	2.3
Turkey hunting	2.9
Feral hog hunting	2.4
Dove hunting	0.5
Waterfowl hunting	0.2
Fishing	0.1
Camping	0.1
Hiking	0.0
Bird watching	0.0

A more common alternative enterprise on agricultural land would be leasing land for wildlife purposes. Still, you can see that a minority of the respondents to a recent rental rate survey were generating income from recreational leases...

## Alternative Ag Products

- Tree fruits and pecans
- Small fruits, vegetables
- Greenhouse and nursery stock, turf
- Christmas trees
- Aquaculture, goats, other small animals
- Mungbeans, sunflowers, popcorn
- Native or improved grasses grown for seed production



Maybe you are thinking of something other than cattle, broilers, hogs, wheat, canola, grain sorghum, or other major livestock and crop enterprises in Oklahoma. Here's a list of some things that were considered alternative enterprises at one time by the OK Department of Agriculture Food and Forestry in their grants and loan program to encourage market diversification.... Perhaps this list triggers some ideas for you...

## Alternatives (continued)

- Niche markets
  - Unique products with specific attributes
- Value-added
- Enterprises that are different to you
- New ways of doing “old” things
  - Free range chickens
  - Corn mazes



The interest in “local foods” and unique food experiences has provided opportunities for everything from heritage tomatoes to high fat bacon.

There are also opportunities to “add value” to traditional commodities, for instance, through the Oklahoma Quality Beef Network for weaned calves or perhaps further processing a fruit or vegetable by making jam or pickles.

An alternative enterprise may be something that others have done in the state successfully, but is new to you.

Finally, maybe you’ve grown poultry, but not pastured or “free range” poultry or you’ve grown corn, but not turned it into a maze which you charge people to wander through...

## 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/>



Anything that is new to you deserves some study. There are a variety of online business planning resources that may be helpful. One is the AgPlan tool developed at the University of Minnesota. It includes tips and resources for business planning, sample business plans, plus allows you to share your plan with business partners or reviewers.

The SBA site has a variety of resources related to business planning, structure, licenses and permits, laws, financing, taxes and employee management

The Ag Risk and Farm Management Library provides a variety of ag-focuses publications and presentations from educational institutions and Extension experts around the country.

You'll also want to review the segment in this series on business planning.

## PRIMER for Evaluating Enterprises

- Profitability
- Resources
- Information
- Marketing
- Enthusiasm
- Risk

University of Kentucky Ag Econ Ext Pub 00-13, Aug 2000, text and tables available: [www.uky.edu/Ag/AgEcon/](http://www.uky.edu/Ag/AgEcon/)



Regardless of the source of inspiration or your level of expertise with respect to an alternative enterprise, it's useful to think about the prospect from different angles before making a long term investment. A publication developed at the University of Kentucky provides a helpful construct, encouraging thought about the prospective profitability, resources needed, sources of information, market outlets, the depth of you (and perhaps your family's enthusiasm) and potential risks associated with production. I encourage you to download it for further study.

## Profitability and Feasibility

- What will be my total cost and returns in an average year?
- At what price will this enterprise become unprofitable?
- What will be the return on my assets?
- How long will it take for this project to pay for itself?



Let's start with an overview of profitability. First, let's be clear that profitability and feasibility are two different things. Profitability means the enterprise generates positive returns to the investment in the long run. But it doesn't guarantee that there won't be challenges in financing and keeping the business afloat in the short run. Alternatively, something might cash flow in the short run but not be profitable in the long run, for instance, if exceptionally good weather yields a bountiful harvest initially. Some important questions to be asked and answered before making an investment include:



## Profitability and Feasibility

- Tools for analyzing profitability and feasibility
  - Whole farm budgeting
  - Enterprise budgeting
  - Partial budgeting
  - Cash-flow budgeting
  - Sensitivity analysis
  - Investment analysis



Some of the tools for analyzing profitability and cash flow are described in more detail in other segments of this course so here I'll simply remind you of them and their different purposes. The common thread is that the budget format permits the decision-maker to focus on economic logic to answer questions of what, how much, and when resources should be used to achieve goals and objectives efficiently. The whole-farm budget is a detailed summary of the major physical and financial features of the entire farm business. Whole-farm budgets identify the component parts of the total farm business and determine the relationships among the different parts, both individually and as a whole. An enterprise budget is a statement of what generally is expected from a set of particular production practices, typically a statement of revenues and the expenses associated with the production of a particular thing. It documents both variable and fixed costs and is useful in calculating profitability and break-even values. The partial budget is useful in analyzing the effects of a change from an existing plan. This budget only considers revenue and expense items that will change with a specified change in the plan. Cash flow budgeting focuses on cash income and expenses, excluding things such as depreciation. It can be very helpful in analyzing financial feasibility. Sensitivity analysis will provide insights into outcomes under different price and yield

scenarios.

Investment analysis will identify payback periods and rates of return on investments, for instance.

## Resources

- Resources needed?
  - Land
  - Machinery, equipment, other capital assets
  - Labor
  - Management
  - Entrepreneurial skill
- Where can I attain these resources?
- Can I use any resources for which I presently have access?
- If I purchase a new asset, will it be useful in another enterprise?
- What is the seasonality of labor required?



Your resources are the things that you own, have or control. The alternative enterprise likely will require land, other capital assets such as machinery or equipment or breeding livestock, labor, management and entrepreneurial skill. You may already own or have some of them; others may be leased, hired, purchased or in the case of management and entrepreneurial skill, developed. As you formulate your plan, it's important to think about how to do it effectively and efficiently, keeping costs in mind as well.

Perhaps you can barter with a neighbor for occasional use of equipment. If you decide to buy something, will it have multiple uses or is the value only for a single-purpose? You may be able to conscript children to help with seasonal labor needs. But think about potential bottlenecks and roadblocks and try to anticipate a wide-range of things that might limit success. Better to make an investment with your eyes wide open than face a bad surprise....

## Information

- Who can provide me with information on the enterprise?
  - What will be the costs associated with obtaining this information?
  - Will the information be reliable?
  - Are there any trade organizations already established in this area?



Google, or your preferred search engine, is often everyone's first go-to place for information. The internet is a great source of both information and what I'll call dis-information. What you get may be free but its value may be limited as well. Be careful of your sources. Consider not only the cost but weigh whether the information will be research-based and unbiased. University and extension websites are great sources for references that fit these criteria. Government agencies may also have helpful links.

## Sources and Costs of Information

- University/Extension Specialists
- Oklahoma Food and Ag Products Center
- Oklahoma Department of Agriculture, Food and Forestry
- Oklahoma Department of Commerce
- Oklahoma Department of Health
- Career Tech
- Noble Foundation
- Kerr Center for Sustainable Agriculture
- Small Business Administration
- Small Business Development Centers
- SCORE
- Trade/Industry Associations
- Private sector, other similar businesses



My suggestion would be to first look for information from your local extension office and the related websites, including the affiliated university. Depending on the type of alternative enterprise you are considering, any number of other agencies may have useful information. In Oklahoma, the Food and Agricultural Products Center on OSU's campus provides regular workshops for producers considering all sorts of value-added enterprises, from BBQ sauces to pasta. The Oklahoma Department of Agriculture, Food and Forestry has links on their website for items ranging from Agriculture Laws to Water Quality and Pesticides. Other state agencies such as Commerce and Health may be equally important, depending on the direction you are headed. More than a dozen Career Techs have Agribusiness Specialists who offer classes and provide one-on-one support. Both the Noble Foundation and Kerr Center for Sustainable Agriculture also offer educational programs and online resources on agricultural topics. The Small Business Administration and Rural Development Centers also have experts to assist in business establishment and innovation. SCORE provides free confidential business education and mentoring. If the alternative enterprise isn't something entirely new, there may be a trade association with information, even if it isn't based in your home state. Certainly, if you have an opportunity to connect with other individuals in the same field, learning from another producer can be invaluable in identifying mistakes to avoid and getting helpful hints.

## Other Alternative Enterprise Resources

- Alternative Farming Systems Information Center
  - <https://www.nal.usda.gov/afsic>
- ATTRA National Center for Appropriate Technology
  - <https://attra.ncat.org/>
- Ag Alternatives, Penn State
  - <http://agalternatives.aers.psu.edu/>
- Ag Risk Library Budgets
  - <https://agrisk.umn.edu/Budgets>



A couple of national websites that can be helpful in analyzing alternative farming systems and ag alternatives include:

## Oklahoma References

- [agecon.okstate.edu/budgets](http://agecon.okstate.edu/budgets)
- At [osufacts.okstate.edu](http://osufacts.okstate.edu):
  - Budgets: Their Use in Farm Management, AGEC-139
  - Funding for Small-Scale Farms: Tips for Grant and Loan Proposals
- Oklahoma Department of Agriculture, Food and Forestry
  - <http://oklahomaagritourism.com/>
  - <http://www.ag.ok.gov/mktdev/loans.htm>
- Oklahoma Cooperative Extension Service
  - <http://www.oces.okstate.edu/>



I want to point out a couple of references that may be helpful to Oklahoma producers in particular. The OSU budget website provides Excel spreadsheets that can be helpful in developing projections for costs and returns as well as looking at “what if” scenarios. You may want to visit the OSU fact sheet to find and read publications on budgeting or tips for grant and loan proposals. ODAFF’s Ag Enhancement and Diversification Program provides funds in the form of no interest loans and grants for farm diversification, marketing and utilization, cooperative marketing, and agricultural events. Be sure to visit their website for details. And of course contact your local Extension office for additional information or if you’d like to have a local program on this topic.