
Choosing Among Alternative Agricultural Enterprises

Ag Decision Maker

File C5-152

The agricultural industry in Iowa is dominated by commodity production, which is a high volume, low profit margin industry. Narrow profit margins force farm businesses to grow in assets, output, and labor for income to remain profitable. Farmers unable or unwilling to grow must look to higher margin alternatives. The question becomes which alternative?

Choosing among the large number of alternatives can be a daunting task. It involves a decision making process, as well as an understanding of financial statements and analysis. It usually involves either creating a totally new business or related enterprise. Lastly, choosing among alternatives is hard work and will require some entrepreneurialism.

This publication is intended as an overview outlining the major steps in the decision making process of choosing among alternative agricultural businesses or enterprises. It is not intended to be a one-stop resource. Numerous resources and references are available to the agricultural entrepreneur looking at starting a new business. Some of those references are listed in this publication.

Entrepreneurialism

An entrepreneur is often described as an innovator. They have a strong desire to create something new, a vision of how the business will grow, and the drive to make it happen. Entrepreneurs evolve as they develop new skills. People aren't born entrepreneurs they develop into them. Entrepreneurs are concerned with risks and risk management and do whatever they can to minimize their risk.

Although entrepreneurs work hard at minimizing risk, the businesses they are creating are often non-commodity types of business. These businesses are by their very nature more risky. The first question then that needs to be answered by a potential new

business developer is: am I a risk taker? The American Women's Economic Development Corporation and Women in New Development created an entrepreneurial quiz, which is presented in Table 1. For each question, pick the answer that best describes you. You must answer all questions for the test to be accurate.

After all the questions have been answered, assign 3 points for each "yes", 2 points for each "maybe", and 0 points for each "no". Total up all the points. According to the test developers if the score is between 60 and 75, a business plan can be started; score between 48 and 59, additional skills need to be developed in weak areas or personnel need to be hired that have those skills; score between 37 and 47, potential partners should be looked for to compliment weak areas; and a score below 37, success at self-employment is unlikely. Keep in mind that quizzes like this one are simple tools intended to see if an individual has personal attributes similar to already successful entrepreneurs/business people. They are not intended to be a final answer. The decision to start a business can only be made by the individual.

Decision Making Process

Once the decision has been made to look at creating a new business or enterprise, a planning process should be determined. Numerous resources with a variety of lists exist on how people go through the decision making process. Most processes start with goals designed to begin defining the business idea. This is often followed by a current assessment. The purpose for these first two steps is to begin to determine the feasibility of the new venture. It is important that there is a broad focus on products, markets and ideas. From the broad focus, a concise concept will be developed. If the process is started with only one idea in the beginning, the number of opportunities is often limited and risk increases. Therefore, it is better to keep an open and flexible mind in the early steps.

From the assessment or feasibility analysis, a concise business plan should be developed. The business plan, however, still needs to have a flexible focus on the product market and ideas. Flexibility is important because conditions and the business environment change. The last step is to fund or finance your business idea. Keep in mind that many new entrepreneurs want to start with financing the busi-

ness, focusing on sources of funds first. Without a concise plan, often new businesses exist only as long as the stream of financing is in place.

Start with goals.

The decision making process should always start with goals and abilities. Ask questions such as: what do I love to do, what do I know how to do,

Table 1. Entrepreneurial quiz.

Yes = 3 points, Maybe = 2 points, No = 0 points

I'm persistent.	Yes	Maybe	No
When I am interested in a project, I need less sleep.	Yes	Maybe	No
When there's something I want, I keep my goal clearly in mind.	Yes	Maybe	No
I examine my mistakes and learn from them.	Yes	Maybe	No
I keep New Year's resolutions.	Yes	Maybe	No
I have a strong personal need to succeed.	Yes	Maybe	No
I have new and different ideas.	Yes	Maybe	No
I am adaptable.	Yes	Maybe	No
I am curious.	Yes	Maybe	No
I am intuitive.	Yes	Maybe	No
If something can't be done, I find a way.	Yes	Maybe	No
I see problems as challenges.	Yes	Maybe	No
I take chances.	Yes	Maybe	No
I'll gamble on a good idea even if it isn't a sure thing.	Yes	Maybe	No
To learn something new, I explore unfamiliar subjects.	Yes	Maybe	No
I can recover from emotional setbacks.	Yes	Maybe	No
I feel sure of myself.	Yes	Maybe	No
I'm a positive person.	Yes	Maybe	No
I experiment with new ways to do things.	Yes	Maybe	No
I'm willing to undergo sacrifices to gain possible long term rewards.	Yes	Maybe	No
I usually do things my own way.	Yes	Maybe	No
I tend to rebel against authority.	Yes	Maybe	No
I often enjoy being alone.	Yes	Maybe	No
I like to be in control.	Yes	Maybe	No
I have a reputation for being stubborn.	Yes	Maybe	No

Source: This quiz was originally part of the Womens' Business Center located at the Small Business Administration website. An online version of the quiz can be found at: http://www.careerccc.org/products/cp_99_section4/quiz.html

and what do I do well (Bubl and Stephenson, 2001). Maybe a better question is what is motivating me to plan? Start with the last question first because it will determine the overall goal. The other questions will help narrow and refine the decision making process. Goals vary and are either non-financial (e.g., partnership with the local community or provide healthy products) or financial (e.g., provide a fair return to my labor and management). Goals that are financial should be compared to existing businesses or industry averages to determine if they are realistic.

Current assessment.

Current assessment involves a better understanding of the resources available and the strengths of the business. The potential for the new products need to be understood. Who are the customers and what do they want? Secondly, an assessment of the current resources needs to be made. Does the current business have the land, labor, management, and capital to meet the potential market? Are there financial resources available to get the proposed product to market? These questions as well as others (see Sullivan and Greer, 2002; Born, 2001) are designed to evaluate any new business or enterprise.

What alternatives to look at – feasibility and planning.

Once a current assessment is completed, alternatives that match up with the assessment can be evaluated. According to Joel Salatin (referenced in Sullivan and Greer, 2002) there are several factors that will help make the initial choices. Alternatives should have low initial start-up cost and high gross profit margin. They should have relatively low maintenance requirements and high cash flow relative to expenses. Alternatives should have a history of high success rates among new enterprises and high demand/low supply in the current marketplace. Lastly, alternatives should have high product distinctiveness and be relatively size-neutral regarding profit potential.

Each of the potential alternatives should be evaluated through a feasibility process. A feasibility study

is intended to look at the multiple alternatives and narrow them down to one. The narrowing process should take the following into consideration. First, the alternative should match the goals and objectives of the business. Second, the alternative should match the current assessment of the strengths of the business. Third, market opportunities need to exist for the products. Lastly, the product should be able to be made efficiently and effectively.

In essence the narrowing of the alternatives to one and the refining of the initial business concept leads to the development of a detailed business plan. Numerous sources and guidebooks are available to help evaluate alternatives and range from very simple to more complex. Simple evaluation worksheets can be obtained from Wood and Isaacs (2000) or Grudens-Schuck and Green (1991). A much more detailed step-by-step process is outlined in “Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses” (2003) available from the Minnesota Institute for Sustainable Agriculture.

Summary

Developing a new agricultural business or enterprise is hard work and requires a decision making process involving goals, current assessments, and business planning. Non-commodity business development also requires innovation and the aptitude to take risks (entrepreneurialism). However, there are numerous resources available that can help agricultural entrepreneurs through the process. Some of the resources are listed in the reference section at the end of this bulletin. Other business startup and planning resources can be obtained from the Small Business Administration (www.sba.gov/starting_business/index.html), Agricultural Marketing Resource Center (www.agmrc.org/agmrc/business/), and the Iowa Small Business Development Center (www.iowasbdc.org/). Last, but not least, perhaps one of the best sources of information related to a new business or enterprise is someone who has already gone through the process.

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