

FAQ-20

What Are the First Steps to Starting an Alternative Agricultural Enterprise?

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Entrepreneurs undertaking new enterprises in fields in which they lack experience need to give careful thought to their new ventures. It's important that they know themselves, know which customers they are targeting, and know who the competitors are and how they will respond to the entrepreneur's entry into the market. If you are given the opportunity to serve as a facilitator in the business-planning process, you should, at the minimum, help entrepreneurs cover these three points.

Three Points to Cover with Entrepreneurs

1. Know Yourself

First, this is about goals. Whether clients want a part-time job to provide extra income or start a venture that will grow into a major enterprise will guide the type of venture they select. If the individuals have not developed a set of written goals, encourage them to complete this before they continue. In developing goals, clients should consider the goals, needs, and wants of *all* parties, including family members, before committing to the venture. Goals can sometimes be in direct conflict. For instance, people who want to retire and slow down may indicate that they wish to start new enterprises that would turn out to take as much or more of their time as their current jobs.

Second, this is about resources and capabilities. Entrepreneurs must have the physical and financial resources and the managerial skills and abilities to carry out the venture. For instance, if the venture involves direct sales, do the entrepreneurs have outgoing personalities? If it involves production, do they have technical know-how? If not, then how can they overcome these weaknesses? Additionally, the new enterprise may compete for resources/capabilities already allocated for other purposes. Entrepreneurs need to recognize such potential conflicts.

2. Know Your Customer

What is the market need, and who has this need? Defining the customer will help clients target their business's products and marketing. Before asking "How big is the market?" clients should be able to answer "Who are the customers who make up the market?" and "Where do they make their purchases?" Other questions are "How will a client's product be different enough in quality, quantity, or service to make customers replace their current product?" and "What customer need will it address?"

Effective marketing is impossible without a thorough understanding of who will buy the products and why. The better entrepreneurs understand their customers, the better they will be able to fulfill market needs. Market research is an ongoing process; the needs of even the most loyal of customers will change over time. The client must prepare for changing needs.

The market must be large enough that product sales will produce the income the entrepreneur desires. That may be one customer with a very high demand or many customers each with a small demand. Each scenario has its own perils and opportunities, and the entrepreneur must understand that.

3. Know Your Competition

Identifying competing businesses and gathering information about them will help in developing market tactics. All businesses have competitors. If the entrepreneur hasn't identified them, then he or she is thinking too narrowly. The goal is to understand the competitive advantages (and disadvantages) faced by the business. Once these are known, then the entrepreneur can plan specific actions, and potential responses to actions can be estimated.

Final Comments

As an educator, all you can reasonably do is listen attentively, provide honest feedback (not just what they want to hear), and offer access to resources and references to help them make their decisions. Remember that clients' decisions, for good or bad, are their decisions. It is not for us to judge the potential for success of unconventional ideas.

You will find a list of "Reminders for Entrepreneurs" after the resources section. You can use this while working with clients or copy it as a handout.

Resources for Starting an Alternative Agricultural Enterprise

Business Planner Web Site: This Web site helps users build a business plan by asking key questions. Users responses are collected and can be exported to MS Word in the form of a business plan:

www.agecon.purdue.edu/planner

Purdue New Ventures Team: This is a team of Extension educators and specialists with capabilities in business management. They will work one-on-one with clients. Contact Jerry Nelson (812-886-9582, jnelson@purdue.edu). Numerous Internet links are available on the team's Web site. The question sheet you should use with clients to begin work with the group is included after "Reminders for Entrepreneurs" and is also available at:

www.agecon.purdue.edu/newventures

Publications

Resources	Sources
<p><i>Defining Your Business Through Goals and Objectives: First Steps for New Entrepreneurs</i> (EC-727) Purdue Extension. Helps new entrepreneurs determine how a new venture will fit with their personal and business goals. Uses the example of a new bakery start-up.</p>	<p>www.ces.purdue.edu/extmedia/EC/EC-727.pdf</p>
<p><i>Selecting and Managing Consultants</i> (EC-719) Purdue Extension. Explains how to establish expectations for an effective working relationship with a consultant.</p>	<p>www.ces.purdue.edu/extmedia/EC/EC-719.pdf</p>
<p><i>Industry Analysis: The Five Forces</i> (EC-722) Purdue Extension. Explains five forces that influence an industry's profitability. Includes assessment tools and a "Perspective" feature illustrating the effects of the five forces on an Indiana winery.</p>	<p>www.ces.purdue.edu/extmedia/EC/EC-722.pdf</p>
<p><i>Principles for Structuring Small Businesses and Farms</i> (EC-729) Purdue Extension. Introduces five principles used for guiding the organizational structure of a small business and provides three common organizational structure examples.</p>	<p>www.ces.purdue.edu/extmedia/EC/EC-729.pdf</p>
<p><i>Intellectual Property: Obtaining Patents, Trademarks, and Copyrights</i> (EC-723) Purdue Extension. Describes the four general types of intellectual property rights and explains how to obtain protection.</p>	<p>www.ces.purdue.edu/extmedia/EC/EC-723.pdf</p>
<p><i>New Generation Cooperatives: What, Why, Where, and How</i> (ID-315) Purdue Extension. Provides a brief explanation of the what, why, where, and how of new generation cooperatives and lists references to online publications and other information.</p>	<p>www.ces.purdue.edu/extmedia/ID/ID-315.pdf</p>
<p><i>Value-Added Business Ventures Through Producer Alliances</i> (ID-318) Purdue Extension. Explains the factors that producers should evaluate when considering investment in producer alliances.</p>	<p>www.ces.purdue.edu/extmedia/ID/ID-318.pdf</p>

Publications (Continued)

Resources	Sources
<p><i>Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses.</i> Minnesota Institute for Sustainable Agriculture. Order form for publication that helps alternative and traditional business owners create holistic business plans consistent with their personal, community, economic and environmental values.</p>	<p>www.misa.umn.edu/publications/bizplan.html</p>
<p><i>A PRIMER for Selecting New Enterprises for Your Farm.</i> University of Kentucky. Helps producers evaluate new enterprises for their farms or family businesses. Includes worksheets.</p>	<p>www.uky.edu/Ag/AgEcon/pubs/ext_aec/ext2000-13.pdf</p>
<p><i>Farming Alternatives: A Guide to Evaluating the Feasibility of New Farm-Based Enterprises.</i> Natural Resources, Agriculture, and Engineering Service. Ordering information for book that assists rural and farm residents considering alternative enterprises. Follows case study and workbook format.</p>	<p>www.nraes.org/publications/nraes32.html</p>
<p><i>Agriculture Diversification Compass.</i> Minnesota Department of Agriculture. Assessment tool for choosing new farm ventures, Web links.</p>	<p>www.mda.state.mn.us/mgo/compass.htm</p>

Web Sites

Resources	Sources
Minnesota Department of Agriculture-Value Added. Links to resources on value-added.	www.mda.state.mn.us/mgo/farming/Value-Added.htm
Agricultural Marketing Resource Center. Resources for managing a value-added venture.	www.agmrc.org
Starting a Value Added Farm Food Business. Planning tools.	www.uwex.edu/ces/agmarkets/starting.html
New Crop & Plant Products Home Page (Purdue University). Profiles new and specialty crops.	www.hort.purdue.edu/newcrop/
Alternative Field Crops Manual. Information on alternative field crops.	corn.agronomy.wisc.edu/AlternativeCrops/Manual.htm
Association for Enterprise Opportunity. An association of organizations interested in microenterprise development.	www.microenterpriseworks.org/
ATTRA - National Sustainable Agriculture Information Service. Resources and news.	attra.ncat.org
Missouri Alternatives Center-MAC. Information on starting/managing an alternative ag venture.	agebb.missouri.edu/mac
Small Farm Today Magazine. Links.	www.smallfarmtoday.com/links.asp
Ag Decision Maker. Information and decision aids.	www.extension.iastate.edu/agdm/
Ohio State Value Added Resources. Resources.	http://directmarketing.osu.edu/

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Reminders for Entrepreneurs

1. Recognize that ventures in which you have experience in the industry are far more likely to succeed than those involving an unfamiliar industry.
2. Recognize that an enterprise will almost never succeed unless you have passion (enthusiasm) for what it is you are doing. But you should understand that the passion alone will not make it successful.
3. Partner with people possessing the skills and expertise that you need, be it financial, technical, etc. These can be family members, but use great caution in mixing decisions that cross the line between business and family. Consider partners' and advisors' advice even if it is not what you may want to hear. When you consult family and friends, consider that they may be reflecting what it is they think you may want to hear.
4. Communicate early and often with your partners—never stop. Never assume that your partners understand what is happening. Understand that their goals may change over time despite a solid mission statement.
5. Revisit goals and objectives periodically. If you don't know what your goals are, then how will you know when you have succeeded?
6. Plan on more time, effort, and expense than you expect. Understand that the time between startup and a positive net income will be longer than you expect.
7. Start “small,” but make long-range growth plans from the beginning.
8. Recognize that markets that are not growing quickly tend to be difficult for new ventures to compete in.
9. Do some in-depth market research to help you identify and fill customer needs, but understand that customer needs and expectations can change rather quickly and without warning.
10. Use your good relationships with customers to identify products/ services that appeal to the target market. It's all about relationships—never doubt that.
11. Think about your reasons for starting this enterprise. Will the risks and costs (not just financial) exceed the potential returns?
12. Use a well-thought-out business plan to start and run your venture—plan your work and work your plan.

Reminders for Entrepreneurs (cont.)

13. Research your competitors, and do so on an ongoing basis. Competitors will respond to your entry into the market. Do you have an idea of how your competitors will respond to new competition? Also, a current knowledge of products, services, prices will be useful in keeping your product offerings relevant.
14. Protect products with trademarks and patents. These can provide some protections of intellectual property, but there will be costs to the business for enforcing these protections. It is also important to understand that you will need to continually differentiate your product over time—good ideas have a way of being copied.
15. *Know when to hold ‘em; know when to fold ‘em; know when to walk away and when to run.* Part of the reality of a venture, even one that has been successful, may be knowing when to give it up and move on to something else. Successful entrepreneurs do this with the least effect on their pride and personal life. It’s business; get over it.
16. Celebrate small successes, and plan for days that don’t meet expectations. Determine up front how you will know when you are successful. How will you measure success?

7. How do you plan to market/advertise your product or service to your customers?

 8. How are you going to fund this new venture?

 9. What other resources do you bring to this new venture? (e.g., experience, labor, equipment, land, time)

 10. What other information sources have you contacted? (e.g., SBDC, Chamber of Commerce, Economic Development Corp., USDA, Lt. Governor's office, other agencies)

 11. What is the anticipated timeline for your new venture? (Do you have a business plan?)
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For Purdue Extension Use Only *Input from local educators is essential. Please help us help the client.*

Educator's Name _____ County _____

- What action have you taken? (e.g., referral to other agency, further work with client)

- What potential obstacles/opportunities do you feel the client may face with regard to the local economy, infrastructure, competition, etc.?

- Please describe what other information/resources you feel the client may need in order to proceed.

Please fax this form to Jerry Nelson at (812) 886-6693

For more information contact Jerry Nelson, New Ventures Team Co-Chair: jnelson@purdue.edu or (812) 886-9582

After the New Ventures Team receives this information and determines an appropriate response, a team member will contact the client. If warranted, an interview will be scheduled to further assess needs and outline what assistance is available and what steps need to be taken. The New Ventures Team will track the client's progress, follow up as necessary, and keep you posted.

Thank you for your help!