

# AG Alternatives

## Agriculture Business Alternatives

Revised April 2003

Agdex 811-5

### **Decision Making**

#### Will You Start a New Enterprise?

*Ag-Alternatives is a series of factsheets designed to help you evaluate the feasibility of a new agricultural or rural based business. Worksheets in each factsheet help you personalize the information.*

**Y**ou have an idea for a new enterprise and you've discussed the idea with your family, assessed your resources, researched the market, defined production requirements, and analysed profitability and cash flow. The enterprise looks feasible, but how do you decide whether to proceed? This factsheet, the last of seven factsheets in the Ag-Alternatives series, outlines a decision-making framework to help you focus on your decision. It also includes information on business plans. We end the series with 10 keys to success gathered from farmers who have started successful agricultural ventures.

#### **Making the Decision**

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Many business people follow their intuition. They have a gut feeling that they should go ahead. It just feels right.

In all likelihood, this gut feeling is because the new enterprise is a good fit with three critical business factors: values, goals and resources.

Values are what a person considers to be important in life. Examples of business values are to develop superior products, to grow pure medicinal food, to care for the environment or to develop long-term customer relationships. What are your values? Does your business idea mesh with them?

Goals are what you want to achieve with your new business. Goals should be stated in specific, measurable and achievable terms. For example: We want to earn an extra \$10,000 a year from our bed and breakfast within three years of start up.

Resources include both your personal resources (skills and abilities), your financial resources and other resources such as land, machinery and equipment.

#### **A Decision-making Framework**

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Maybe you don't have that gut feeling. You're still indecisive. Here's a seven step process to help you focus your thinking. If you've worked through the six factsheets in the Ag-Alternative series, you've gone through all these steps in detail. This decision-making process is a review.

#### **Define Your Problem**

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Why do you want to start a new enterprise? Is it to increase income, to bring in another family member, to utilize resources, to spread risk, to gain more control over prices, to use skills or to challenge yourself? Is there a problem with your current business? Will the new enterprise help to alleviate it?

## Look at Alternatives

Think about all the different ways your business could change. Is the alternative you're considering the best one to solve the problem you've identified?

### Assess Alternatives

Review your options. How will each option impact your existing operation? Consider how well the option solves your problem or achieves long-term business goals. Is there another way to look at business goals?

### Select the Best Alternative

A decision-making checklist is a tool that can be especially useful when you're trying to decide between alternatives. The checklist helps you to rate alternatives based on what is important to you, your family and the business.

For example, Joe and Anita want their new venture to do four things:

- increase family living income
- utilize personal skills
- provide a good return for the time involved
- utilize resources

They are trying to decide between starting a bed and breakfast on the farm, or Anita taking an off-farm job at the hotel in town.

They've put their criteria into a chart and rated each alternative on a scale of 1 to 10. They decided each criteria was of equal weighting to their decision.

	Bed and Breakfast	Manage Local Hotel
Increase family living income	5	6
Utilize personal skills	8	6
Good return for time involvement	5	8
Utilize resources	8	3
Increase time together	8	3
Reduce risk	3	8
Total	37	34

This decision-making framework helped Joe and Anita look at their decision from a new perspective.

As a business team it's important to decide how to make a choice. Your decision can be made by a single person or the entire family. You could search for consensus among the group or require a majority vote. Each person must think that they have been heard so that they are comfortable in expressing concerns and opinions in the future. You want buy-in from everyone involved.

## Take Action

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There comes a time when you have to move ahead and make the decision. Do you go ahead, or not? If your research, ratings and analysis have helped you clearly see how the business might look and run after your decision is implemented, the image of your new business can energize your entire team. If you've done the market research and financial analysis, you are able to proceed with confidence.

To put your decision to proceed into action there are several activities you need to do. Develop an implementation plan, including a development timetable, production schedules, marketing plan, management structure and a financial plan.

## Evaluate

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You need a process to monitor the effectiveness of your decision. For example, Anita and Joe need to identify the impact the bed and breakfast has on their family living income, their time together and themselves due to the risk they've taken on.

## Accept Responsibility

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You and your business team must be prepared to accept the consequences of your decision. If the business works out, celebrate your success. If the business doesn't work out, analyse why and learn from your mistakes.

If you decide not to proceed with your business idea, don't be discouraged. It's better to find out that your business idea has some weaknesses before you invest a lot of time, energy and money. The skills you've learned through the Ag-Alternatives factsheets will be useful in other business endeavors.

## Prepare a Business Development Time Line

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Once you've verified that your business opportunity is right for you and made the decision to proceed, there are steps that you need to take to make your business a reality. The gathering of business information continues. Even after you've started your business there will be lots of unanswered questions. Write them down. Set out a time line to get answers to the questions.

## Business Plans

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A long, detailed written business plan isn't an essential component to business start-up, but it's essential that you consider the components of the plan prior to your start-up. A business plan that you develop and revise on an ongoing basis is a valuable tool. It's the process of planning that pays dividends. Most businesses fail not because of lack of motivation, but because of lack of planning.

A business plan helps you formalize the thinking and planning process. Writing a plan helps you systematically think through the steps involved in your business development. By completing a business plan you better understand the markets, costs and competitive factors that influence the future of your new business. A well thought out plan gives you increased confidence and better prepares you to obtain necessary financing and resources. Think of a business plan as a working document, one that changes, expands and shifts with the times. If you've completed the worksheets in the Ag-Alternatives series, you've already done a lot of the initial planning.

There are times when a formal business plan is a requirement. If you need a loan from a financial institution, you'll likely be asked for a business plan. The following is an outline of a business plan that Agriculture Financial Services Corporation (AFSC) recommends. Depending on your situation and your business idea, you may not need to include all the information, but the questions are all worth considering.

### Executive Summary

Include a few sentences on each:

- the company's goals
- factors critical to the success of the company
- products and services
- markets and industry
- management
- financial position and performance (both current and projected)

### The Business

- What business are you in?
- What are the company's goals?
- What are your past achievements and strengths?
- What are your past problems and current weaknesses?

## Products/Services

- What is the planned output and sales mix for your products or services?
- For each product or service, what is the cost and profit?
- Who buys each product or service?
- Are there any patents or proprietary services?
- How up to date are your products or services?
- What plans are there for expanding or redesigning product or service lines?
- For each product or service, what changes in sales mix, cost and profit do you project? Why?

## Industry Analysis

- What is the size, maturity and competitive nature of the industry?
- What are the barriers to entry and growth?
- How does economic development affect the industry?
- What is the industry's financial position and performance?
- What is the role of innovation and technological change?
- How is the industry affected by government regulations?

## Market Analysis

- What is the target market and to whom are you trying to sell?
- How can you segment your target market?
- What are the trends in your target market?
- Who are your competitors and what is their market size, market share, competitive strengths and weaknesses, and prospects?
- Who are your customers and what are their product/service preferences and reasons for purchasing?
- What are your sales and profits by market segment?
- What is your current and projected market share?

## Marketing Strategy

- What customer groups will your business target?
- To generate sales, what product or service attributes will you emphasize?
- What location advantage and disadvantages do you have?
- What distribution channels will your business use?
- What about sales personnel?
- What service and warranty policies will be observed?

- How will the product be priced?
- Will credit be extended and under what circumstances?
- How will the company advertise and otherwise promote its products or services?

## Management and Organization

- List the officers, shareholders and their shareholdings
- What is the current and anticipated organizational structure of the business?
- How do decisions actually get made?
- What is the company's decision-making and management philosophy?

## Implementation Plan

- What actions or activities are necessary for the business to achieve its goals?
- When do you need to perform each action or activity?

## Potential Risk and Pitfalls

- What, if any, critical risks does your business face and how can you minimize them?
- What problems may hinder or prevent implementation of your business plan?
- How can the business avoid or offset each of these potential problems?

## Financial

- Financial statements and projections:
  - How will the company perform financially?  
Project yearly income statements for two to five years.
  - What will be the company's cash position?  
A monthly cash flow projection for the next year is required.
  - What will be the company's financial position?  
Project year-end balance sheets for the next two to five years.
  - What are the significant assumptions used in preparing the financial statement projections?  
These would include items that are sensitive to variations, deviations from historic trends or items that are especially uncertain.
- Personal net worth statements of principals.

## Sensitivity Analysis

- How will the financial statements look if the company does as well as it possibly could?
- What would the worst case financial statements look like?
- What are the most likely financial projections?

## Keys to Success

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There are no easy answers to business success. Farmers who have started successful agricultural ventures recommend the following:

1. Choose something that you love to do.
2. Create a high quality product.
3. Start small and grow naturally.
4. Make decisions based on good records.
5. Produce what your customers want.
6. Establish a loyal customer base.
7. Provide more than just a food, product or service. Provide an experience.
8. Get the whole family or partners involved.
9. Keep informed.
10. Plan for the future. Set goals for your business and establish a plan of action to achieve them.

## Summary

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If you decide to go with a new agricultural venture, begin with confidence. You've analysed and researched the opportunity and know that it fits your family and farm. If you decide to look at other opportunities, start the research and analysis process again. You've developed skills that will be useful in your ongoing search for a suitable business venture. Use them.

## Reference

The Ag-Alternatives factsheets have been adapted with permission from: *Farming Alternatives – A Guide to Evaluating the Feasibility of new Farm-Based Enterprises* (NRAES-32, October 1988, ISBN 0-935817-14-X). This publication was a project of the Farming Alternatives Program, Cornell University, Warren Hall, Ithaca, NY 14853 (607) 255-9832; and Natural Resource, Agriculture and Engineering Service (NRAES), Cornell University, 152 Riley-Robb Hall, Ithaca, New York (607) 255-7654.

## For More Information

### Ag-Alternatives Series:

*Personal and Family Considerations: Where do You Want to Be?* (Agdex 1834-10)

*Identifying Alternatives: What are the Possibilities?* (Agdex 811-2)

*Marketing: Will it Sell?* (Agdex 848-5)

*Production Requirements: Do You Have the Resources?* (Agdex 811-4)

*Financial Feasibility: Can You Afford to Do It?* (Agdex 811-3)

*Profitability: Will it Make Money?* (Agdex 811-6)

*Decision Making: Will You Start a New Enterprise?* (Agdex 811-5)

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