

Feasibility of Alternative Rural Enterprises

RIGHT RISK

Section Two: Selecting and Planning for Alternative Enterprises

Section 2: Selecting and Planning for Alternative Enterprises

- Assessing Feasibility
- Competitive Analysis
- Business Planning



2

RightRisk

Feasibility of Alternative Rural Enterprises

The focus of Section Two is selecting and planning for alternative enterprises. We will be discussing how to assess the personal, production, market, and economic feasibility of an alternative enterprise.

Assessing the Feasibility of Alternative Enterprises

- Personal Assessment
- Production Assessment
- Market Assessment
- Economic Assessment



3

RightRisk

Feasibility of Alternative Rural Enterprises

Successful alternative enterprises can benefit individual farmers and ranchers and the local economy. However, the success rate of new business ventures is typically low. As an entrepreneur, you can greatly enhance your chances of success by assessing the feasibility of your idea. You should do a personal assessment, production assessment, market assessment, and economic assessment for each potential alternative enterprise before you begin.

Personal Assessment

- Personal and Family Goals
- Important Personal Characteristics
- General Business Skills and Knowledge



4

RightRisk

Feasibility of Alternative Rural Enterprises

The personal assessment is designed to determine if the proposed alternative enterprise is consistent with your personal and family goals and values. The assessment also determines if you have the personal traits necessary to be successful. These are often referred to as entrepreneurial traits. And finally, the personal assessment must assess your general business skills and knowledge. These skills have to do with record keeping, financial analysis, marketing, and other business management concepts.

Family Goals

- Motivation
 - What do you really want in life?
- Productivity
 - What can you do to be the most productive and worthwhile?



5

RightRisk

Feasibility of Alternative Rural Enterprises

Family goals are important to consider before venturing into new enterprises. Quality of life, standard of living, environmental and societal issues should all be considered. Here is a list of questions designed to help you and your family assess the impact of a new enterprise. As you answer these questions, please keep your family in mind. Many issues or conflicts can be avoided if members of the family are involved early in the planning process.

Motivation

What do you really want in life?

What things are important to you and your family?

Is your family enthusiastic about pursuing an entrepreneurial venture?

What are you trying to achieve as you use our time, effort, money, and management skills?

When should you be able to achieve these things?

Productivity

What can you do to be the most productive and worthwhile?

What should you do to take advantage of interests and abilities of family members

Activity:
Assessing Personal Traits

- Take a minute and rate yourself based on these traits – give yourself a Strong, Average, or Below Average rating:
 - Commitment
 - Energy and Health
 - Persistence and Reliability
 - Self Confidence
 - Creative and Innovative
 - Strong Work Ethic
 - Independent



6

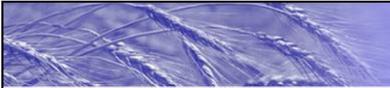
RightRisk.

Feasibility of Alternative Rural Enterprises

To prepare for alternative agricultural enterprises it is important to determine if you have the traits to be a successful entrepreneur.

Exploring alternative enterprises is not for everyone. Alternative enterprises usually require more management, more work, more investment, and more risk.

The list of traits has been identified in successful entrepreneurs. Lets take a minute and rate yourself based on these traits. Give yourself a Strong, Average, or Below Average rating.



Results

- Ratings about average indicate you possess more of the characteristics necessary to be successful
- Ratings below average should prompt you to consider whether you are a good match for the enterprise

Read and discuss with the group these results.

Activity: Assessing Business Skills

- Take a minute and rate yourself based on these skills – give yourself a Strong, Average, or Below Average rating:
 - Accounting and Budgeting
 - Financial Planning and Analysis
 - Market Planning and Awareness
 - Risk Management
 - Labor/Personnel Planning
 - Tax Management and Legal Issues
 - Business Organizational Structures

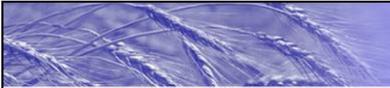


8

RightRisk.

Feasibility of Alternative Rural Enterprises

Basic business skills are helpful to ensure success in a new business activity. Based on your past experiences, you might have more skills than you think. This is a list of the type of skills required by you and your management team. Work on areas that need attention – and take action to address any weaknesses. Think about training. You can also learn informally, for instance by reading or attending business management seminars. Lets take a minute and rate yourself based on these traits. Give yourself a Strong, Average, or Below Average rating.



Results

- Ratings about average indicate you possess more of the characteristics necessary to be successful
- Ratings below average should prompt you to consider whether you are a good match for the enterprise

9

RightRisk.

Feasibility of Alternative Rural Enterprises

Read and discuss with the group these results.

Production Assessment

- Physical Resources
 - Land
 - Water
 - Equipment
 - Buildings
 - Skills
- Production Requirements
 - Climate and Growing Season
- Production Risks
 - Disease
 - Pests
 - Weeds



10

RightRisk

Feasibility of Alternative Rural Enterprises

You have an alternative enterprise idea that you would like to explore on your farm or ranch. With more information, you may find that there are resource or production requirements that present major challenges to produce the enterprise or the production risks could prevent you from reaching your financial goals.

Review this list of considerations to help identify the physical resources, production requirements, and potential production risks associated with your selected enterprise.

Market Assessment

- Who are your customers?
- Market Potential
- Marketing Strategies



11

RightRisk

Feasibility of Alternative Rural Enterprises

A market assessment helps you review your potential market to determine if enough products or services can be sold to meet your financial goals. The next few slides will explain each further.

Who are Your Customers?

- Identify your customer
- Defined by:
 - Age
 - Gender
 - Occupation
 - Education
 - Address
 - Lifestyles
 - Other



12

RightRisk

Feasibility of Alternative Rural Enterprises

- The first objective of a market assessment is to identify your customers
- Your targeted customers are often defined by age, gender, occupation, education, address, lifestyles, and other demographic and customer profiles
- Once you have identified your targeted customers, then you need to do some research to get to know your customers
- The more you know about your customers preferences and needs, the better you will be able to meet those needs
- It does not hurt to maintain a list of your customer preferences to review from time to time

Market Potential

- Size – who and how many
- Importance of product characteristics
- Number and strength of competitors



13

RightRisk

Feasibility of Alternative Rural Enterprises

The general market potential is the size (who and how many) of your targeted market. From here you can determine what product characteristics are important and the number and strength of your competitors.

Marketing Strategies

- Short-term and long-term marketing strategies
- Attract customers to your products or services



14

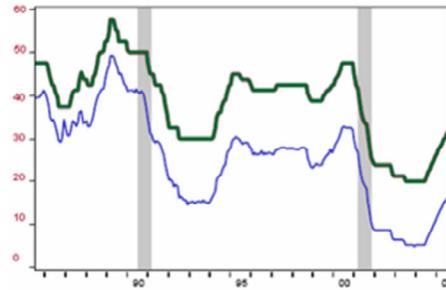
RightRisk

Feasibility of Alternative Rural Enterprises

At this point you can begin to developing short-term and long-term marketing strategies to attract customers to your products or services.

Economic Assessment

- Start-up Costs
- Financial Resources
- Investments Analysis
- Cash Flow Projections
 - Sales projections
 - Estimated operating costs
 - Debt repayment
- Financial Analysis
 - Budgets
 - Financial statements
 - Financial ratios



15

RightRisk

Feasibility of Alternative Rural Enterprises

The purpose of an economic assessment is to determine if the proposed alternative enterprise will be profitable and generate enough cash flow to pay expenses in a timely manner and pay principal and interest payments on borrowed funds.

To determine your startup costs, you must identify all the expenses that your business will incur during its startup phase.

Inadequate cash flow is the most serious problem facing most new business ventures. The most common reasons for a cash flow crunch are higher expenses or lower sales than expected.

Financial analysis using budgets and statements can be used to help you understand how your business is doing financially, and you want to be able to predict and plan for the future.

Competitive Advantage

- Better Able to Meet Your Customers Wants and Needs
 - Valued Product Characteristics
 - Preferred Market Outlets or Product Distribution
 - Pricing Advantage (lower cost of production)



16

RightRisk

Feasibility of Alternative Rural Enterprises

A key to developing a successful alternative enterprise is establishing a unique market niche. Creative Growers Farm (vegetable farmers from Noti, Oregon) offers something quite unique to their restaurant customers. They carefully harvest the crops themselves, take the order to the restaurant kitchen, put the order away for the chefs, and rotate stock in the process.

To be successful, your business venture must have some advantage over your competitors.

Competitive advantage usually comes in one of three types:

- 1) Product characteristics
- 2) Product distribution, and/or
- 3) Price

If you think you have no competitors, you need to reevaluate your enterprise. A business that generates profits will attract competitors.

Competitive Analysis

- Competitors
- Product Characteristics
- Vulnerability
- Price
- Potential



17

RightRisk

Feasibility of Alternative Rural Enterprises

The purpose of the competitive analysis is to identify areas where you might have a competitive advantage. Even if you have a good idea and the product looks like a natural fit in the existing market place, getting into the market is not always easy.

Penetrating into a new market is somewhat like exploring new territory, you never know for sure how the consumer or community is going to respond. Key items or questions that should always be evaluated or addressed are listed here.

Competitors – Who are your competitors?

Product Characteristics – How does your product differ?

Vulnerability – Are there areas where you are most vulnerable and/or areas where you can improve?

Price – How do you competition's prices compare to yours?

Potential – What is the growth potential for new customers and related products?

Activity: List your Competitors

Take a minute to jot down your three main competitors:

1) Product/Service _____

2) Target Audience _____

3) Primary Competitors:

Competitor # 1 _____

Competitor # 2 _____

Competitor # 3 _____



18

RightRisk

Feasibility of Alternative Rural Enterprises

This section of the competitive analysis worksheet is used to list the product or products you plan to sell and who you plan to sell to. Look at your product(s) from the customer's point of view.

An evaluation of your competitors reveals important information about your enterprise and the marketplace.

Jot down the names of 2 or 3 competitors.

**Activity: Competitor Worksheet
Products and Services**

Customer Needs & Preferences	Customer Importance (1-5)	Your Farm	Competitor 1	Competitor 2	Competitor 3
Product Quality					
Product Availability					
Selection/Variety					
Product Characteristics					
Product Appearance					

19

RightRisk Feasibility of Alternative Rural Enterprises

In the Customer Importance column, rank 1-5 (1-not important and 5-very important), how important each of the Products and Services factor is to your targeted customers.

Next rank yourself and each competitor (1-poor to 5-good) on each Products and Services factor.

Competitive Analysis Price

- Cost Based Pricing
- Discount Pricing
- Luxury Pricing
- Competitive Pricing



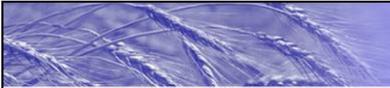
20

RightRisk

Feasibility of Alternative Rural Enterprises

Competitive advantage can also be achieved by offering the same benefits to your customers at a lower price. To offer a lower price, you will typically have a lower cost of production.

No matter which pricing strategy you select, competitive advantage can be established by offering a variety of payment options that meet your customers' needs. These options can include credit cards, phone orders, automatic electronic withdrawals, online billing and payment, and checks or money orders. The next few slides will discuss each.



Cost Based Pricing

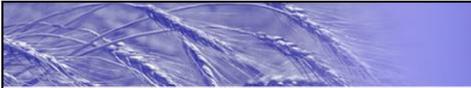
- Cost based pricing takes into account your costs, your desired profit, and then totals these into a price

21

RightRisk

Feasibility of Alternative Rural Enterprises

Discuss the slide.

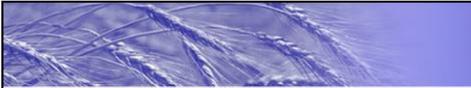


Discount Pricing

- Discount and luxury pricing uses the information found in competitive pricing to position yourself in the market
- If you want to position your product or service as discount or more workmanlike, sacrificing additional features and the finer touches, you can use discount pricing and choose a price that is in the lower third of the market

22

Discuss the slide.



Luxury Pricing

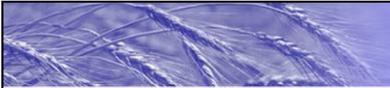
- Discount and luxury pricing uses the information found in competitive pricing to position yourself in the market
- If you want your product or service to be positioned as higher-end, you will choose a price that is in the most expensive third of the market

23

RightRisk

Feasibility of Alternative Rural Enterprises

Discuss the slide.



Competitive Pricing

- Competitive pricing is determined after you have established a cost based price
- You then compare this base price against market prices
- These are prices your competitors are already getting, and are a key determinant of your own pricing

24



RightRisk

Feasibility of Alternative Rural Enterprises

Discuss the slide.

Activity: Competitor Worksheet Pricing					
Customer Needs & Preferences	Customer Importance (1-5)	Your Farm	Competitor 1	Competitor 2	Competitor 3
Competitive Pricing					
Discount Pricing					
Luxury/Premium Pricing					
Cost Oriented Pricing					
Different Payment Options					

25

RightRisk Feasibility of Alternative Rural Enterprises

This section of the competitive analysis worksheet lists the many ways to price a product or service. For a new product, you must understand your positioning before you set a price. Make sure it is not too low, or the product will not be taken seriously. If it is too high, the potential customers will not take the risk.

In the Customer Importance column, rank 1-5 (1-not important and 5-very important), how important each of the Customer Needs/Preferences is to your targeted customers.

Next rank yourself and each competitor (1-poor to 5-good) on each Pricing factor.

Competitive Analysis Promotion

- Packaging and Labeling
- Brand Recognition
- Guarantees and Return Policies
- Coupons
- Advertising



26

RightRisk

Feasibility of Alternative Rural Enterprises

Advertising and promotion are important to build awareness of your products and services and to attract potential buyers. Listed on the slide are some considerations for promotion.

Firms that are successful in the competitive markets may use brand identification to create an emotional appeal for their customers and gain their trust and confidence. The quality of your marketing materials and advertising programs has a huge impact on the success of your business. When done properly, they help contribute to buy, and build strong brand value. When done poorly, they do more harm than good.

**Activity: Competitor Worksheet
Promotion**

Customer Needs & Preferences	Customer Importance (1-5)	Your Farm	Competitor 1	Competitor 2	Competitor 3
Packaging and Labeling					
Brand Recognition					
Guarantees and Return Policies					
Coupons					
Advertising					

27

Risk Feasibility of Alternative Rural Enterprises

This section of the competitive analysis worksheet focuses on market promotion.

In the Customer Importance column, rank 1-5 (1-not important and 5-very important), how important each of the Customer Needs/Preferences is to your targeted customers.

Next rank yourself and each competitor (1-poor to 5-good) on each Promotion factor.

- Product Distribution
 - Easier Access
 - More Convenient Location
 - Available Parking
 - Mail Order
 - E-Commerce
 - Etc.



28

An advantage in product distribution would occur when your customers select your product over another because your market outlets are preferred. This could include easier access, convenience, location, parking availability, Internet purchasing, and other distribution advantages.

**Activity: Competitive Analysis Worksheet
Market Outlets**

Customer Needs & Preferences	Customer Importance (1-5)	Your Farm	Competitor 1	Competitor 2	Competitor 3
Location					
Convenience					
Accessibility					
Business Facilities					
Internet Sales					

29

RightRisk Feasibility of Alternative Rural Enterprises

This section of the competitive analysis worksheet focuses on market outlets. How well does your location, convenience, accessibility, and facilities meet your customers needs? How important is it for your customers to be able to purchase online or over the Internet?

In the Customer Importance column, rank 1-5 (1-not important and 5-very important), how important each of the Customer Needs/Preferences is to your targeted customers.

Next rank yourself and each competitor (1-poor to 5-good) on each Market Outlets factor.

Activity: Competitive Analysis Worksheet
Management and Personnel

Customer Needs & Preferences	Customer Importance (1-5)	Your Farm	Competitor 1	Competitor 2	Competitor 3
Management Skills					
Reputation/Image					
Luxury/Premium Pricing					
Business Stability					
Customer Service					

30



Feasibility of Alternative Rural Enterprises

This section of the competitive analysis worksheet focuses on your management and personnel. This is an important and very difficult area to evaluate, especially for new managers. Being un-biased and realistic when evaluating yourself and employees that are often family members is not easy. When it comes to your business plan, readers don't want to know just what you're doing, but who will be doing it.

In the Customer Importance column, rank 1-5 (1-not important and 5-very important), how important each of the Customer Needs/Preferences is to your targeted customers.

Next rank yourself and each competitor (1-poor to 5-good) on each Management and Personnel factor.

Marketing Plan

- Current Situation
 - Your business description
 - Description of target market
- Competitive Analysis
- Market Objectives
- Market Strategies
- Action Plans
- Marketing Budget

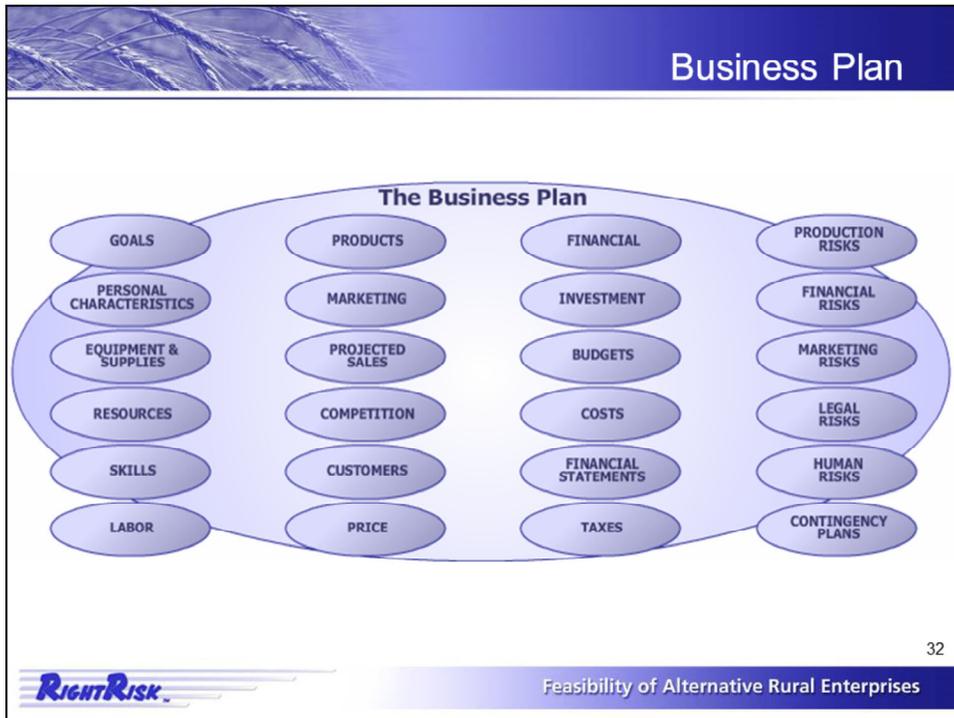


31

RightRisk Feasibility of Alternative Rural Enterprises

Competitive Analysis is an important part of a marketing plan.

Good marketing is becoming a must for agricultural producers looking at alternative marketing outlets. These new outlets offer new opportunities to connect directly with consumers. As we move from a commodity based non-negotiated market, maintaining an updated marketing plan is essential. The marketing plan helps you describe your business, identify what products you plan to produce and sell, and how you can position yourself in the market.



The business plan ties everything together. Planning is an essential ingredient for any successful business.

A detailed business plan should be developed for all selected enterprises. The business plan is a written document that demonstrates that enough products or services can be sold at a profit to become a successful business venture.

Business Plan Components

- Business Description
- Mission or Vision
- Statements
- Business Goals
- Marketing Plan
- Management and Key
- Personnel
- Financial Plan



33

RightRisk

Feasibility of Alternative Rural Enterprises

A business plan precisely defines your business, identifies your goals, and serves as your firm's resume. This slide lists the major components of a business plan. This plan will provide details of how you plan to develop your alternative enterprise, when you are going to do it, who is going to be a part of it, and how you will manage the money.

Section 2: Summary

- Assessing Feasibility
- Competitive Analysis
- Business Planning



34

RightRisk

Feasibility of Alternative Rural Enterprises

Summary

- The personal assessment is designed to determine if the proposed alternative enterprise is consistent with your personal and family goals and values. The assessment also determines if you have the personal traits necessary to be successful
- Quality of life, standard of living, environmental and societal issues should all be considered
- Basic business skills are helpful to ensure success in a new business activity. Work on areas that need attention – and take action to address any weaknesses
- A market assessment helps you review your potential market to determine if enough products or services can be sold to meet your financial goals.
- To be successful, your business venture must have some advantage over your competitors. An evaluation of your competitors reveals important information about your enterprise and the marketplace
- The business plan ties everything together. A detailed business plan should be developed for all enterprises