

## Alternative Enterprises—What You Should Know

### What Are Alternative Enterprises?

Alternative enterprises are growing crops or raising livestock that are currently not produced or raised on the farm. They could be the addition of vegetable crops to a tobacco farm or the addition of swine to a grain farm. Alternative enterprises may include growing fresh market vegetables, fruit, Christmas trees, and flowers.

However, alternative enterprises are not get-rich-quick schemes. As the saying goes, "If it sounds too good to be true, it probably is." Many alternative crops require additional capital, labor, and production management, and, most importantly, a knowledge of how and where to market the products.

### Are Alternative Enterprises for You?

If you are thinking about trying alternative enterprises, you must ask yourself several questions.

#### Is There a Market for the Product?

Many alternative agricultural ventures fail only because farmers did not research and understand the potential markets for their products ahead of time. Before undertaking a new enterprise, ask yourself the following questions:

- Is there a demand for the alternative enterprise I wish to produce?
- Is there competition with other producers or growers?
- How far is my farm from the market?
- Are there grade and quality requirements?
- Does the product need to be packaged?
- Do prices increase and decrease over the season?
- Are there trends that may affect future supply and demand for the product?

Do not start an enterprise if you do not have a contract or market commitment. Keep in mind that while there are well-established markets for tobacco, grain, and hogs, the same is not true for catfish, flowers, vegetables, and others. Once you know the market outlet and have an idea of the range of prices that will prevail over the production season, only then can you develop a budget analysis that will help you determine if an alternative enterprise will be feasible and profitable.

#### Will Returns Cover Capital Costs Over Time?

Consider how much you can afford to spend for an alternative enterprise. Many farmers look only at the variable costs in the planning stages. Variable costs include fertilizer, pesticides, labor, and selling expenses. However, capital costs for new buildings, equipment, and machinery also

must be figured from the beginning. For example, vegetable and specialty crops require irrigation for consistent yields and a high-quality product. Specialized equipment for weed, disease, and insect control may be needed depending on the crop. Ask yourself if the returns from the enterprise will pay for these capital costs over time.

## How Much Time and Labor Are Involved?

Time is another important factor in the decision to produce an alternative enterprise. Be sure that the time it will take you to begin another enterprise will not conflict with the time you need for your existing operation. In addition, the new enterprise may take time from your family and recreational activities.

Also, consider the number of people you must hire (if any) for your new enterprise. You may find that you do not need to make any adjustments in your labor force.

## Should I Choose an Enterprise I Like?

Although it is important to select a crop or livestock enterprise according to available resources, personal preference should also be a prime consideration. If you dislike working with a specific crop or livestock, do not consider it as an alternative enterprise.

## Developing Your Budget

It is essential that you develop a budget and marketing strategies for your alternative enterprise before you begin production. If you need help with the planning, contact your county Extension agents or the University of Maryland regional farm management specialist.

Developing a budget will provide profit or loss information for each of your farm enterprises. It will help you identify the strengths and weaknesses of your entire current operation as well.

There are two types of budgets you can use: *whole-farm budgets* and *partial budgets*. A whole farm budget ought to be prepared every year and is essential when you are considering making major changes. It is the

basis for evaluating current enterprises and determining areas where profit potential may be increased without making radical changes in the existing operation.

When developing a whole-farm budget, calculate receipts, costs, and the total farm profit of your entire operation. Then recalculate the budget taking alternative plans into consideration. You may find that you need to change your present operation so that profits made in the new venture will not be reduced by losses in current enterprises.

A partial budget will tell you if the proposed change will be more or less profitable than your current operation. Partial budgeting is a less complex procedure and more widely practiced than whole-farm budgeting. Only those costs and returns that will change as a result of the proposed adjustments are considered.

The partial budget compares items that will increase income (added receipts and reduced costs) to those that decrease income (added costs and reduced receipts). It does not indicate if the change will be the most profitable use of the resources considered. This can be determined by comparing a series of partial budgets using the same resources in several different ways. (An example of a partial budget form appears on page 4.)

Whatever budget you use, treat each alternative enterprise and each current operation of the farm separately. Budgets will give you a realistic picture of the potential cost-benefit tradeoffs between each alternative and which alternative(s) could result in the greatest profit. In addition, comprehensive records can be used to judge actual performance and can help you determine areas that need improvement.

Once a budget is completed, review it, and ask yourself the following questions:

- Are the costs of livestock and crop additions reasonable?
- Can you reach your production and yield goals?
- Will the crop or livestock prices prevail for the years required to pay back the investment?

It may be helpful to prepare several budgets using different yields and production figures, prices, and costs. Consult your past

records for useful information, as well as your Extension agent for data on crops new to the area.

Since alternative agriculture can be a risky business and may require several years before steady profits can be earned, obtaining the necessary financing can be a problem. If you walk into a banker's office with a comprehensive budget to support your request for a loan, you will be placed in a much stronger position than if you had just scratched a few ideas on the back of an envelope. You must be aware of your current debt/asset ratio, break-even points, projected returns on investment, and the risk of the new venture.

## Devising Marketing Strategies

Several marketing options are available to you other than selling to a retailer or wholesaler. For some alternative enterprises, such as growing strawberries and blackberries, "pick-your-own" markets seem to be the most popular method of reaching consumers. Pick-your-own is a cheaper method of marketing products, because there are no transportation charges and harvesting labor is minimal. However, you must maintain the fields and supervise the customers. Farmers' markets and roadside markets provide the major outlet for direct sale to consumers. Both of these marketing options require additional labor and retail marketing skills. In order to remain successful, you need regular customers.

Deciding what to charge for the product is difficult. Refer to your budgets. Also, know the prices of your competitors. However, do

not change your prices every time your competitors do. Steady customers appreciate steady prices. Consumers want to buy a high-quality product and are often willing to pay more to have it. Before reducing your prices, try improving displays, advertising, and service. Lower prices attract bargain shoppers who may not necessarily become long-term, loyal customers.

## Developing Business Management Skills

Whenever you consider alternative enterprises, use sound business management principles. Because it may take several years to juggle the competing demands of traditional crops and alternative enterprises, make long-range plans. Successful managers will incorporate comprehensive goals, accounting, budgeting, and control factors into their plans. Good management skills can make a difference between high- and low-profit farms. Good management will prevent you from making a costly wrong decision. In addition, it may improve the overall profitability of your operation.

Alternative enterprises provide supplemental income for some farmers, but each farmer must be careful when starting a new enterprise and remain thoughtful during the entire operation. In some cases you will be required to make only minor changes to your present operation; in other cases major changes will be necessary. Be sure that you and your family are prepared for the commitment required to make these changes successful.

