



The Feasibility of Alternative Enterprises

On a cold January evening Raymond and his son Larry were sitting around the kitchen table to begin their monthly management meeting. The primary purpose of this month's meeting was to further discuss the possibility of adding alternative enterprises to their operation to help diversify income streams on the ranch.

Raymond and Larry operate a cow/calf ranch and typically sell weaned calves in the fall at the local auction. They also raise hay for their cow herd, but, typically, they still have to purchase additional hay each year to meet the needs of their herd.

Over the past several months, Larry has voiced concerns to his dad about having the sale of weaned calves as their only source of income. Higher feed costs,

ongoing drought, and a variety of other risks could quickly threaten the sustainability of their operation.

Fortunately, feeder cattle market prices have been strong enough in recent years to help negate the impacts of feed costs and the drought. Both Larry and his dad know that a variety of market factors outside their control can negatively impact prices overnight.

Raymond understands Larry's concerns about having all their "eggs in one basket" and has had some of the same concerns. He also has concerns about the additional risks associated with adding additional enterprises.

He agreed to consider alternative enterprises if they thoroughly analyze the feasibility of each enterprise. Their goals

would be to diversify their income stream, generate additional income, and better utilize the resources of the ranch, while not significantly increasing their borrowing needs or exposure to risk.

Feasibility of Alternative Rural Enterprises Course



Since their last meeting back in December, Larry found an on-line course developed by RightRisk. The course, *Feasibility of Alternative Rural Enterprises*, presents a step-by-step approach to defining an agricultural enterprise, setting goals, planning for success, and evaluating and managing the risks.

The course points out the importance of evaluating the feasibility of adding a new or different enterprise before actions are taken. It also points out that most new business ventures that fail do so due to the lack of proper planning.

Raymond liked what he saw in the course. After a brief discussion with Larry, they agreed to use the course to help them identify any potential alternative enterprises and then follow the process of analyzing the feasibility of any selected enterprises.

Over the next few days, Raymond and Larry began working their way through the course. The course helped them identify four new or

different enterprises each of them had interest in evaluating further.

They identified:

- 1) Retained ownership of their calves;
- 2) Hunting and fishing on their property;
- 3) Boarding horses in their facilities; and
- 4) Utilizing their skills to train horses for others.

Following the outline of the course, they each performed a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis for each of these four new potential enterprises.

After completing the SWOT analysis, they decided to further investigate the horse boarding and training enterprises. The internal strengths and external opportunities showed enough potential to overcome their list of weaknesses and threats.

Enterprise Assessments

The next step in the process was for Raymond and Larry to complete a personal assessment. This assessment helped them determine if these two enterprises were consistent with their personal, family, and business goals. In addition, it helped them evaluate if they have the personal traits and business skills to be successful entrepreneurs.

Following the personal assessment, they completed production, market, and economic assessments. The production assessment helped them identify the physical resources, production requirements, and the production risks associated with the horse boarding and training enterprises.



Raymond and Larry decided to add one new enterprise this year and if things went well to add the second enterprise next year.

Once they felt comfortable with the production assessment they started the market assessment. This helped them identify their potential customers, estimate market potential, and begin developing short and long-term marketing strategies.

Measuring Competitive Advantage

The course materials led them through exercises to help them measure their competitive advantage to determine if they would be better able to meet their customers' wants and needs than their competitors.

financial resources, profit potential, and cash flow projections (sales, expenses, debt payments, etc.).

Risk analysis and management was the final lesson in the course. Raymond and Larry learned about the sources of risk, their risk preferences, and risk management strategies.

Raymond especially liked completing the risk management worksheet. On the worksheet, both he and Larry identified what they perceived as the greatest sources of risk associated with the horse boarding and training enterprises. Once these risks were identified, contingency plans were developed to address each risk.

Making a Selection

Upon completing the *Feasibility of Alternative Rural Enterprises* course, Raymond and Larry decided to add one new enterprise this year and, if things went well, to add the second enterprise next year.

They decided to start with boarding horses. Based on the feasibility analysis, this enterprise offered the most profit potential and fewer major risks to overcome.

Next Raymond and Larry finalized an economic assessment of the two new enterprises. This forced them to look at start-up costs, their





Summary

Their goals of adding an alternative enterprise were to diversify their income stream, generate additional income, and better utilize the resources of the ranch.

If things go as planned, this complementary enterprise will accomplish these goals and result in increased net worth, reduced borrowing needs, and additional funds for each families living expenses.

Larry and his dad were happy they spent the time to analyze and plan for each enterprise

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before they jumped into it. They now feel pretty comfortable they will be successful.

The course materials made them think about and investigate the enterprises in much more depth than they would have otherwise and helped ensure they are moving forward in way they both believe in and support.

Additional Information:

See RightRisk.org for the online *Feasibility of Alternative Rural Enterprises* course materials.



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