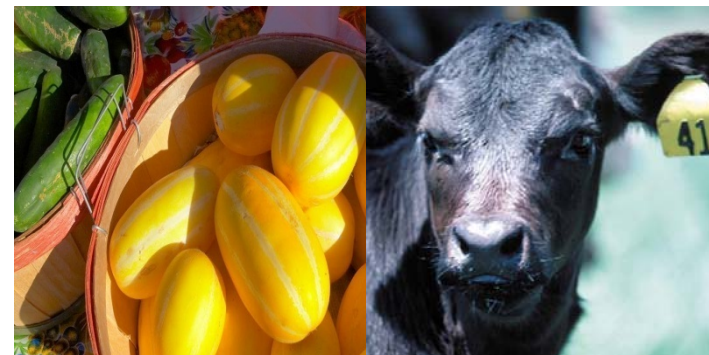


A Guide to Screening Market-Driven Enterprises



Ramiro Lobo, M.S.
Small Farms and
Agricultural Economics
Advisor
San Diego County
University of California

Larry Lev, Ph.D.
Professor and Extension
Economist
Department of Agricultural
and Resource Economics
Oregon State University

Stuart T. Nakamoto, Ph.D.
Extension Economist
Department of Human
Nutrition, Food, and Animal
Sciences
University of Hawaii

Overview

- Current state of agriculture in U.S.
- Enterprise diversification
- Characteristics of profitable new & specialty crops
- Factors to consider
- Market-driven enterprise screening guide
- Example



Trends in U.S. Agriculture

- Industrialization & globalization of agriculture
 - Increased competition
 - Declining profit margins
- Escalating production costs
 - Increase in cost of land, water, energy, labor
 - Urban sprawl
 - Increased regulations
- Success & profitability for small and medium scale operations is dependant upon external factors



New & Diverse Risks for Producers

- Potential risks include:
 - Production
 - Marketing
 - Financial
 - Legal
 - Human resources
- Producers must increase ability to deal with these risks
 - Also must consider any new, potentially profitable opportunities these risks may identify



Strategies to Manage Risk

- Strategies & tools producers may consider to manage risk include:
 - Enterprise diversification
 - Production contracts
 - Marketing contracts
 - Crop insurance
 - Financial reserves
- Strategies/tools selected to manage risk must depend upon the producer's goals, values, and risk attitude



Enterprise Diversification

- Enterprise diversification is a commonly-used risk management tool in Western U.S. agriculture
 - Adding production alternatives to the mix to keep operations economically viable
- Identifying & evaluating new/specialty crops can be difficult and intimidating
 - May have limited access to resources, information
 - Information on new/alternative crops may be limited, or not available at all
 - Increases uncertainty for producers



Characteristics of Promising Production Alternatives

- Some characteristics of new or specialty crops with good long-term profit potential:
 - Adequate size of target market
 - Extended production & marketing season
 - Complementary to the farm operation
 - Difficult to grow (steep learning curve)
 - Expensive to start producing (high initial capital investment)
 - Potential for value-adding activities



Information Analysis

- Before undertaking a new/specialty enterprise, must consider the quality & availability of information relating to:
 - Market data, research, and analysis
 - On-farm research & development
 - Trends (demographic, economic, health, etc.)
 - Crop adaptation to your specific location
 - Pest and disease problems
 - Supporting infrastructure and facilities
 - Laws & regulations (i.e. permits and license requirements)
- Note that these items are not equally important for every product!



Market-Driven Enterprise Screening Guide

- The enterprise screening guide is designed to help producers assess the potential of new & specialty enterprises
 - Special emphasis on marketing, market factors
 - Typically the most critical factors in determining the enterprise’s “attractiveness”
- The guide:
 - Frame the general descriptive situation
 - “Screens” the crop/enterprise by using a worksheet to have the producer rate various aspects of the enterprise
 - Suggests an approach for making comparisons across enterprises



Market-Driven Enterprise Screening Guide, cont.

- This guide is NOT “**The Answer**”
- Similar to a comparison sheet for cars
 - Makes it easier to compare many factors at once...

...but it is up to you to decide what is best for your operation



Descriptive Section

- The “Descriptive Section” of the guide helps to define alternatives and focus your thoughts for the remainder of the exercise
 - Describe the product
 - Describe target consumers, outlets, seasons
 - Describe anticipated barriers, problems, risks associated with production and marketing
 - Describe competitors
 - Describe your competitive advantage



Crop/Enterprise Screening Worksheet

- The crop/enterprise screening worksheet poses a series of questions relating to each crop/enterprise, and has the producer rate each one on a scale of 1-5
 - Marketing questions
 - Information questions
 - Production questions
 - Risk questions



Suggestions for Comparison

- The final section of the guide provides assistance in comparing the results of the screening worksheet
 - List 3-5 most important factors you think will drive your decision
 - Consider both your strengths & weaknesses
 - Rank your alternatives
 - Reminder to conduct further analysis before taking any steps



Market-Driven Enterprise Screening Guide Example: Background

- Consider the Profitseeker family, a farming couple in Southern California
- 20-ac farm growing mixed vegetables for sale to farmers' markets and wholesalers
- Mr. Profitseeker works on the farm full-time
- Mrs. Profitseeker works off the farm full-time, but helps with the farmers' market
- Have a permanent crew and hire casual labor when needed



Background, cont.

- Largest percentage of the farm, in terms of acreage and profits, is pole tomatoes
 - Pole tomatoes currently experiencing declining profits
 - Increase in year-round imports, greenhouse production
- Profitseekers are considering diversifying by replacing some pole tomato production with heirloom tomatoes or blueberries
 - Have seen numerous magazine and newspaper articles on both products
 - Have noticed presence of both at farmers' market
 - Some customers have asked them about other tomato varieties



Descriptive Section

1. Describe the product (or closely linked group of products) you are considering producing, in as much detail as possible.
 - *Option 1: Pole tomatoes*
 - *Option 2: Heirloom tomatoes grown in hoop houses*
 - *Option 3: Hand-harvested blueberries*



Descriptive Section, cont.

2. For the product in #1, describe your target
 - Consumer(s) and Market Outlet(s), and
 - Season(s)
- ***Pole tomatoes:*** Sold to wholesalers and at farmers' markets, depending on price and season. Generally avoid harvesting in summer months when prices are weakest
- ***Heirloom tomatoes:*** Sell directly to restaurants and in farmers' markets in the region. Year-round production, but will focus on harvesting outside of the summer months
- ***Blueberries:*** Sell directly to restaurants and in farmers' markets in the region. Will focus on being in the market in the early season (March-May) and late season (October-December)



Descriptive Section, cont.

3. What special requirements, problems, barriers, or risks do you anticipate in producing and marketing this product?
 - **Pole tomatoes:** *Summer price drop, frost and diseases may be a problem in the winter*
 - **Heirloom tomatoes:** *Frost and disease, packing requirements, learning curve including selecting the best varieties, cultural practices, summer glut, market access (breaking in)*
 - **Blueberries:** *Mastering production challenges including soil pH management, possibility of frost in the winter*



Descriptive Section, cont.

4. Who are/will be your competitors?
 - ***Pole tomatoes:*** Other local growers, imports from Mexico, greenhouse growers
 - ***Heirloom tomatoes:*** Local producers, imports
 - ***Blueberries:*** Imports from South America and Mexico are the primary competition during the targeted market windows; during the traditional blueberry market season, there will be greater competition from growers in other states and regions of California



Descriptive Section, cont.

5. What are your competitive advantages, if any, in producing this new crop? Consider your competitors, location, regulations, seasonality, production costs, and others.

(The Profitseekers consider the following as competitive advantages--something that gives them an “edge” over other competitors)

- **Pole tomatoes:** *proximity to markets, higher quality, better flavor, freshness*
- **Heirloom tomatoes:** *hoop house reduce frost and disease problems; know tomatoes, access to farmers’ markets as a current vendor, also all of the pole tomato advantages listed above*
- **Blueberries:** *locally grown, fresh, proximity to affluent market, seasonal availability/market window, high demand as function of health trends, access to location -specific research*



Marketing Section

- The first two questions assess your ability to describe the product and target consumer or market

Marketing (Questions 1-2)	Pole tomato	Heirloom tomato	Blueberry
1. How precisely can you describe the "marketable" product? (1=difficult, 5=easy)	5	4	4
2. How precisely can you describe your target consumer, outlet, or market? (1=difficult, 5=easy)	5	3	3

- Q1.** Mr. Profitseeker knows **pole tomatoes** better than the other two crops. For **heirloom tomatoes**, he doesn't know the specific varieties to grow, nor is he certain of the units that he will be packing and selling (i.e. single or double layer lugs, the use of padding). Since he is familiar with tomatoes in general, he rates the product a "4". He rates **blueberries** a "4" since they are a well-known product with fairly standardized packaging for farmers' markets and restaurants.
- Q2.** He knows **pole tomatoes'** consumers and markets well and rates the product a "5". Although farmers' markets are familiar, selling to restaurants will be brand new so he rates himself a "3" for the two new crops.



Marketing Section, cont.

- Questions 3 and 4 explore the linkages among the product, markets, and final consumers.

Marketing (Questions 3-4)	Pole tomato	Heirloom tomato	Blueberry
3. To what extent are there established channels to reach that consumer, outlet, and/or market? (1=none, minimal; 5=well-established)	5	4	3
4. How familiar are target consumers with the product? (1=no awareness, 5=well-known)	5	5	5

- **Q3.** Profitseeker needs to learn more about the distribution system for both of the new crops so they are both rated below **pole tomatoes**. In addition, for **blueberries**, he will need to establish the marketing channels in the conventional off-season since it is a totally new product at that time.
- **Q4.** Consumers are very familiar with all three products.



Marketing Section, cont.

- Questions 5 and 6 address market requirement and barriers.

Marketing (Questions 5-6)	Pole tomato	Heirloom tomato	Blueberry
5. How easily can you meet the specific requirements of your targeted outlets/markets? (1=difficult, 5=easy)	5	3	4
6. How confident are you that you can overcome significant problems or barriers to get the product to market? (1=difficult, 5=easy)	5	4	3

- **Q5.** *He expects to have to learn restaurant product specifications and has some concerns about being able to meet them since things can be very specific to the particular **heirloom tomato** varieties. This seems to be less of a problem with **blueberries**, although the variety selection can also be important. Controlling quality via hand harvesting will be important. The Profitseekers don't anticipate any new problems with either crop when sold via farmers' markets.*
- **Q6.** *A big plus for the Profitseekers is that they are experienced producers. Thus they are almost as confident in producing **heirloom tomatoes** as with their current crop. In comparison, **blueberries** rate a "3" because there is greater production uncertainty, especially their ability to hit the market windows.*



Marketing Section, cont.

- Questions 7 to 9 involve first the availability of data, then what that data means to you.

Marketing (Questions 7-9)	Pole tomato	Heirloom tomato	Blueberry
7. How available are market and price data? (1=none, minimal; 5=very available)	5	3	5
8. What are the per-unit price trends? (1=down, 3=flat, 5=up)	2	4	3
9. How variable are the prices? (1=highly variable, 5=stable)	1	3	3

- **Q7.** Good market data exists for **conventional tomatoes** and **blueberries** so both are rated as “5”. Profitseeker rates **heirloom tomatoes** a “3” because he has not dealt with chefs and is not certain about the prices he will be offered.
- **Q8.** Prices for **pole tomatoes** have been decreasing because of increasing competition and year-round availability. In contrast, Profitseeker believes that price trends for **heirloom tomatoes** are more positive because there is substantial interest in the product and he will also direct market (to farmers’ markets and restaurants) 100% of the crop. Profitseeker can not identify an overall price trend for **blueberries** and therefore rates it a “3”
- **Q9.** Historically, seasonality and excess production during the summer causes substantial variations in **pole tomato** prices. As a result they are rated a “1”. **Heirloom tomatoes** are direct marketed and therefore have more stable prices. Blueberries rate a “3” because the markets used provide some stability.



Marketing Section, cont.

- In question 10, the term “market windows” refers to specific time periods when opportunities exist because of supply gaps or demand increases (such as holidays).

Marketing (Questions 10-11)	Pole tomato	Heirloom tomato	Blueberry
10. Are there attractive market windows that you can fill? (1=no, 5=yes)	2	4	5
11. Is the size of the market adequate for your projected volume of production? (1=no, 5=yes)	3	4	5

- Q10.** Competition from domestic and foreign producers has almost eliminated market windows for **pole tomatoes** so this crop is rated a “2”. Since his **heirloom tomatoes** will compete primarily with local producers, Profitseeker believes that he will have the opportunity to market this product during significant market windows that his smaller, less-experienced competitors will be unable to fill. **Blueberries** rate a “5” as there are both early and late windows when the competition is reduced but the demand is still strong. Since the farmers’ markets do not allow shipped-in (non-local) berries to be sold, he has a year-round opportunity to sell his crop there.
- Q11.** The size of the **pole tomato** market is rated as average (“3”). Profitseeker assesses the **heirloom tomato** market as relatively large (“4”) and the market for **blueberries** as definitely sufficient (“5”) for his anticipated production.



Marketing Section, cont.

- Questions 12 to 18 deal with profitability, pricing, and competitors.

Marketing (Questions 12-13)	Pole tomato	Heirloom tomato	Blueberry
12. How do you rate the profit potential compared to your existing product? (1=lower, 3=same, 5=higher)	na	4	5
13. To what extent does the profit potential justify the investment needed? (1=not at all, 5=very well)	na	4	4-5

- **Q12.** Profitseeker's research indicates that both **heirloom tomatoes** and **blueberries** have greater profit potential than **pole tomatoes**. Of the two, he rates **blueberries** as having a higher potential.
- **Q13.** **Heirloom tomato** production requires an investment in hoop houses and **blueberries** require a substantial investment both to establish the fields and to maintain them over the extended time period until the fields start producing. Overall, the Profitseekers feel the profit potential is high for both crops and feel that **blueberries** are just a bit more promising (although not quite a "5").



Marketing Section, cont.

Marketing (Question 14)	Pole tomato	Heirloom tomato	Blueberry
14. How much control will you have over price per unit? (1=low, 5=high)	2	3-4	3-4

- Q14. The “2” rating for **pole tomatoes** is a blend between a “1” for the crop in the wholesale market and a “3” in farmers’ markets. Competition in the farmers’ markets from other vendors limits having more price control. The “3-4” ranking for both **heirloom tomatoes** and **blueberries** reflects the view that he will have at least some control over pricing with these two crops in both farmers’ markets and restaurants.*



Marketing Section, cont.

Marketing (Question 15)	Pole tomato	Heirloom tomato	Blueberry
15. Can you differentiate your product to get a price premium or enhance market access in terms of a local or regional brand, certification, or labeling, product attributes/characteristics? (1=no, 5=yes)	2	3	4

- Q15.** As was true for the previous question, the “2” for **pole tomatoes** is a mix of “1” in the undifferentiated wholesale market and the “3” from the loyal farmers’ market customers who nonetheless will switch vendors if Profitseeker raises prices too much. Profitseeker believes he can gain some customer loyalty for **heirloom tomatoes** and thus give it a “3”. If the Profitseekers are able to hit the market window and provide fresh, local **blueberries**, Profitseeker anticipates gaining a substantial advantage over imports and gives the product a “4”.



Marketing Section, cont.

Marketing (Question 16)	Pole tomato	Heirloom tomato	Blueberry
16. How do the marketing costs of the product compare to your current costs in terms of transportation costs, preparation time, packaging, etc? (1=higher, 3=same, 5=lower)	na	2	1

- Q16.** The **heirloom tomatoes** would have higher marketing costs than **pole tomatoes** because of the packaging and handling required by restaurants. The **heirlooms tomatoes** sold through farmers' markets would not have higher marketing costs. Hand-harvesting **blueberries** will be quite expensive. In addition, Profitseeker is uncertain about the package sizes for both farmers' markets and restaurants. As a result he rates **blueberries** a "1".*



Marketing Section, cont.

Marketing (Question 17)	Pole tomato	Heirloom tomato	Blueberry
17. Assess the competition you will face in selling this product. (1=strong, 5=weak or none)	1	2	3

- Q17. Pole tomatoes** face very strong competition. The “1” ranking on this factor is the main reason the Profitseekers decided to consider alternatives. They anticipate **heirloom tomatoes** will face fairly keen competition from other local producers. For **blueberries**, imports as well as other local or regional producers could be a factor even if they produce only during the preferred market windows. Nonetheless, **blueberries** have the best competitive position because of the growing demand for this crop.*



Marketing Section, cont.

Marketing (Question 18)	Pole tomato	Heirloom tomato	Blueberry
18. Can you protect your market from new growers coming in? (1=no, 5=yes)	1	2	2

- Q18.** While the Profitseekers can benefit from some loyalty in farmers' markets, this is not the case for the wholesale market, which makes up the bulk of their **pole tomato** sales. As a new supplier of either **heirloom tomatoes** or **blueberries**, the Profitseekers recognize that they would initially face competition in selling to restaurants. If they manage to break in to the market and gain some customers, they believe that they would gain loyalty. They give a conservative ranking of "2" to both.*



Information Section

Information (Questions 19-21)	Pole tomato	Heirloom tomato	Blueberry
19. Rate your knowledge about production of this crop/product. (1=low, novice; 5=high, expert)	5	4	2
20. Rate your knowledge about marketing this crop/product. (1=low, novice; 5=high, expert)	5	4	2
21. Rate the availability and access of information needed for your area (Extension agents, other growers, Internet, library, etc.) (1=low, 5=high)	5	4	3

- Q19-20.** Although Profitseeker is an experienced tomato grower (ranking of “5” for **pole tomatoes**), he has not grown **heirlooms**, nor has he had to meet restaurant standards. He ranks himself a “4” based on his overall familiarity with the crop. **Blueberries** are a totally new crop and require more orchard versus field-type production practices. In addition to **blueberries** being a new crop, Profitseeker has been told that training workers to pick **blueberries** can be difficult since pickers need to learn how to identify ripe berries. Overall, he ranks himself much lower on this crop.
- Q21.** Published information from other regions is available for **heirloom tomatoes** and **blueberries**. But the latter is a new crop so there is less expertise in the region.



Information Section, cont.

Information (Questions 22-23)	Pole tomato	Heirloom tomato	Blueberry
22. Rate your knowledge of the laws and regulations associated with the crop/enterprise. (1=low, novice; 5=high, expert)	5	3	3
23. Are you willing to do what it takes to get all information needed? (1=no, 5=yes)	na	5	5

- Q22.** *As an experienced tomato producer, Profitseeker is confident that he knows the laws and regulations related to his traditional market channel. He needs to become better aware of the regulations associated with sales to restaurants and rates both heirloom tomatoes and blueberries as “3”.*
- Q23.** *On this attitude question, Profitseeker indicates that he is ready to go for both of the new crops. Note that if he had been considering adding something such as a processing enterprise, the information burden would have been quite a bit higher.*



Production Section

Production (Questions 24-26)	Pole tomato	Heirloom tomato	Blueberry
24. How well does the crop grow in your area? (1=not at all, 5=very well)	5	5	3
25. Rate your ability to produce high-quality product. (1=low, 5=high)	5	4	3
26. How well does the new enterprise fit with your current farm operation? (1=not at all, 5=very well)	5	5	5

- **Q24. Tomatoes (both pole and heirloom)** generally do well in his area, and Profitseeker has grown and sold tomatoes for many years. It seems that **blueberries** will grow, but since he is not certain that the timing of the harvest will coincide with the market window, he gives the crop a “3”.
- **Q25.** Profitseeker can produce quality **pole tomatoes**, but makes some allowance for the problems that typically come up with new varieties such as the **heirlooms**. For **blueberries**, this is compounded by anticipated problems with training pickers.
- **Q26.** The Profitseekers believe that both **heirlooms** and **blueberries** will fit well with their farm as well as their direct marketing operations.



Resource Section

Resources (Questions 27-29)	Pole tomato	Heirloom tomato	Blueberry
27. To what extent do you own or control appropriate land resources? (1=inadequate, 3=some, 5=enough)	5	5	5
28. To what extent do you own or control appropriate water resources? (1=inadequate, 3=some, 5=enough)	4	4	4
29. Do you have timely access to the financial resources required for this project? (1=no, 5=yes)	4	4	3

- **Q27-28.** *Profitseeker believes that the three crops will all have the same implications for his land and water resources. He believes he has enough land and is only slightly less confident when it comes to the adequacy of his water.*
- **Q29.** *Profitseeker views the two tomato enterprises as similar in terms of financial requirements (the hoop houses needed for **heirloom** production are not a major expenditure). The **blueberries** will require a considerable, but not insurmountable investment to establish fields, including netting to protect the crop from birds.*



Resource Section, cont.

Resources (Questions 30-32)	Pole tomato	Heirloom tomato	Blueberry
30. Do you own or have access to all equipment and facilities needed? (1=no, 5=yes)	5	4	4
31. Do you have access to sufficient labor with appropriate skills when needed? (1=no, 5=yes)	5	5	4
32. Do you have access to the necessary supporting infrastructure in your area? (1=no, 5=yes)	5	5	4

- Q30-32. Heirloom tomatoes** are a bit more demanding than pole tomatoes in terms of facilities needed. **Blueberries** differ in terms of the need for trained pickers and additional infrastructure in the area. Depending on the area planted and the calendar of operations, the current labor force may be used to pick most of the blueberries because peak blueberry harvest will most likely occur when tomato labor demands are low. Additional packing supplies and facilities may be needed for blueberries.*



Resource Section, cont.

Resources (Questions 33-34)	Pole tomato	Heirloom tomato	Blueberry
33. To what extent does your family support this new product? (1=low, limited; 5=high, full)	na	4	4
34. To what extent will you have the ability, time, and willingness to manage this new product? (1=low, limited; 5=high, full)	na	4	3

- **Q33.** *The Profitseekers both agree that they need to look at alternatives for pole tomatoes. Profitseeker's wife will include **heirloom tomatoes** with her other farmers' market sales. They have not decided who would handle restaurant sales for either heirloom tomatoes or blueberries.*
- **Q34.** *For **heirloom tomatoes**, the time commitment to develop and service new markets is unknown. Ability and time are an even larger issue with **blueberries**, since unlike tomatoes, they are a totally new crop.*



Risk Management Section

Risk Management (Question 35)	Pole tomato	Heirloom tomato	Blueberry
35. Given all of the above, how risky is this product? (1=very risky, 5=low risk)	3	3	2

- Q35.** All three crops are risky but in different ways. There is substantial price risk with **pole tomatoes** as competition continues to enter the market. The risks for **heirloom tomatoes** center around market access (being able to break into the restaurant trade) and production uncertainty. In the long run, this would be upgraded to a “4” if the Profitseekers are successful. **Blueberries** have question marks on both the production and marketing sides and therefore rate as the riskiest of the three enterprises with a “2”.*



Risk Management Section, cont.

Risk Management (Questions 36-38)	Pole tomato	Heirloom tomato	Blueberry
36. How available are the resources and tools to manage the risks identified? (1=none, 5=very available)	2	2	2
37. Are you willing to accept the risks you have identified? (1=no, 5=yes)	4	4	4
38. Are you able to manage the risks you have identified? (1=no, 5=yes)	2	3	2

- **Q36-37.** *No variations for these two questions.*
- **Q38.** *For **pole tomatoes**, Profitseeker recognizes that competition will remain fierce in the wholesale market. There is more control in the farmers markets, so taking both markets together he rates **pole tomatoes** as a “2”. **Heirloom tomatoes** earn a “3” because restaurants will replace the wholesale market and therefore allow him to better manage the risks. The uncertainties associated with **blueberries** earn the product a “2”.*



Identify Most Important Factors

- **Now that you have completed the worksheet, what are the three to five most important factors (questions) that will drive your decision? Use these 3-5 factors to rank your alternatives.**



Identify Most Important Factors, cont.

- The following summarizes the questions that the Profitseekers thought were most important. The questions that you choose may be different.*

Most Important Questions (Grower Selected)	Pole tomato	Heirloom tomato	Blueberry
12. Profit potential	na	4	5
13. Extent to which profit potential justifies investment needed	na	4	4-5
25. Ability to produce high-quality product	5	4	3
34. Ability, time, and willingness to manage	na	4	3
38. Ability to manage risk identified	2	3	2



Identify Most Important Factors, cont.

- Using these key factors, the Profitseekers concluded that both alternatives had potential advantages over **pole tomatoes**.
 - **Heirloom tomatoes** were something they were comfortable growing and offered higher expected profits
 - **Blueberries** provided the possibility of even higher profits but came with more unknowns
- With the help of their Extension agent, the Profitseekers carried out a more in-depth examination of the two new alternatives, including the preparation of a business plan, consisting of detailed financial and marketing plans, feasibility studies, and projected financial statements.



Decision

- **DECISION:** After completing the analysis, they decided to try both new enterprises on a small scale as a trial and then rethink their next steps. This strategy offered three key advantages.
 1. They would be able to learn more about the production of the two crops
 2. They would be able to break into the restaurant market at a pace that they could control with two crops rather than just one
 3. **Blueberries** take several years to mature and this strategy allowed the Profitseekers to use **heirloom tomatoes** to help meet short-term cash flow needs



Conclusion

- Agriculture in the U.S. experiencing increased competition, declining profit margins, and escalating production costs
- Enterprise diversification is one of the most commonly-used risk management tools in Western U.S. agriculture
- Identifying & evaluating new/specialty crops can be difficult and intimidating
- The enterprise screening guide is designed to help producers assess the potential of new & specialty enterprises



Thank you!

