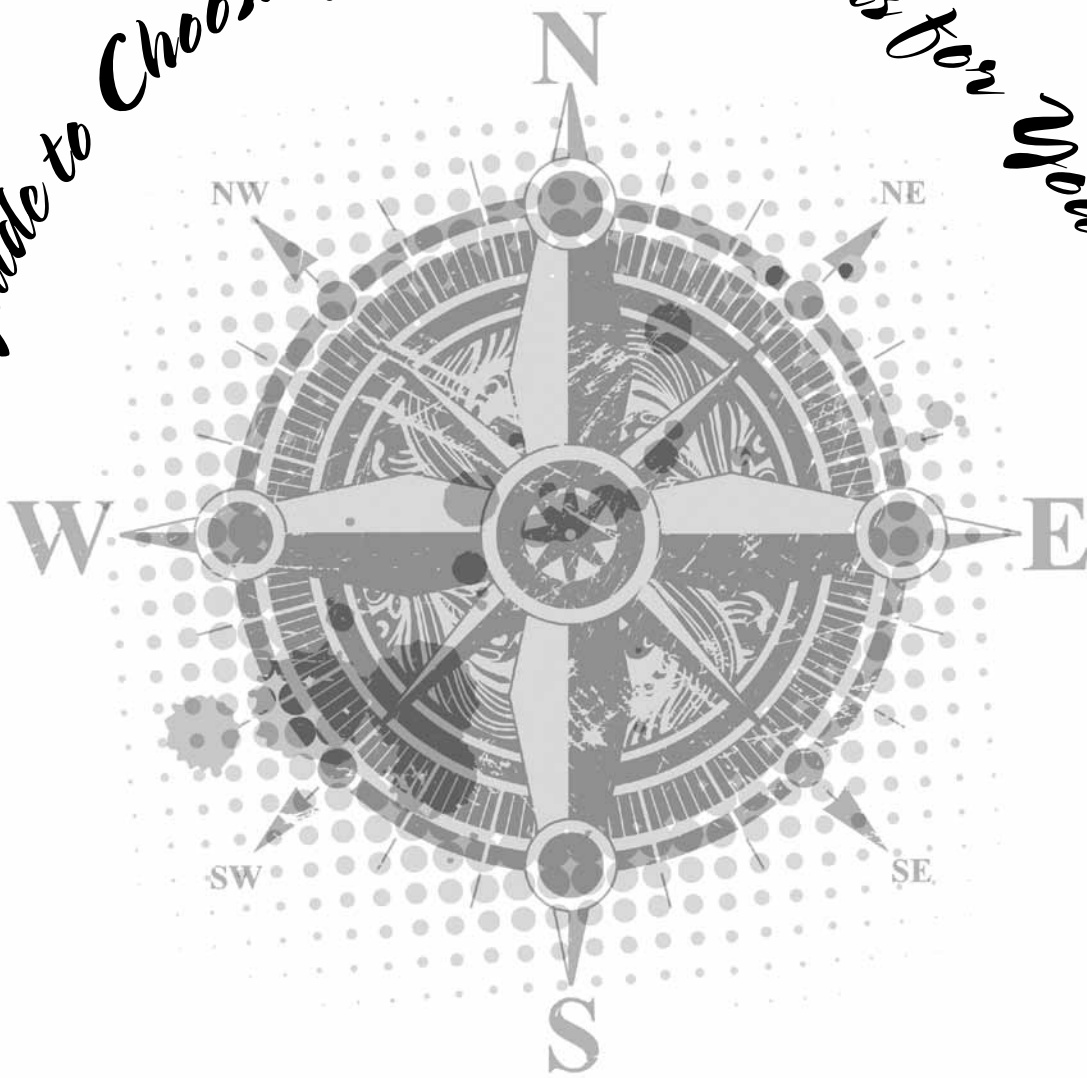


Agriculture Diversification Compass

A Guide to Choosing New Directions for Your Farm



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A Guide to Choosing New Directions for Your Farm

Contemplating changes or additions to your farm operation can be exciting and a little daunting. There are many things to consider in determining whether a change is right for your family and your farm. This guide is intended to help you think about some of the key issues involved as you consider diversification options that may fit your farm.

These issues include:

1. your family's personal interests and goals;
2. business management skills;
3. labor;
4. physical and natural resources;
5. expected profitability; and
6. impact the proposed enterprise would have on your local community.

Some of these issues may be higher priorities for you than others. This guide uses a point system that allows you to compare different options. After you answer all of the questions, you will decide which issues are most important to you and your family, and give special consideration to your responses on these issues.

This workbook will be most helpful if you do some ongoing research and careful thinking on each issue before you begin and as you're filling it out. It is intended as a starting point that will help you hone in on a few promising options to explore in more depth. For it to be most effective, you'll need to know some of the basic requirements of the crop, livestock, or enterprise you're considering – things like growing degree day, soil fertility, rainfall, labor, and/or equipment requirements. The guide is not a substitute for a detailed feasibility study or business plan. You'll find it helpful to revisit your answers down the road, after you've done some more investigating.

What you will need:

- ▶ a pen or pencil;
- ▶ a separate copy of the tool, or a separate piece of paper, for each option; and,
- ▶ a calculator.

Step 1: Choose an option to test

If you already have one or more diversification options you are interested in, you are ready to begin. If you are looking for ideas, a list of many possible options can be found on the USDA National Agriculture Library website at: www.nal.usda.gov/afsic. For other ideas, consult the Minnesota Farm Opportunities website at: www.mda.state.mn.us/mfo

The workbook is designed to allow you to compare as many options as you wish. To compare two or more options, run each one through the guide separately and compare the respective scores. Once you have identified the options that you would like to look into further, choose one and proceed to Step 2.

Step 2: Answer each question for the six issues on the following pages

Issue #1: Interests and Goals

The questions in this section will help you identify your interests and those of your family to determine how compatible the proposed diversification option is with those interests. Your enthusiasm for a proposed option is important in determining the likelihood of its success.

Before you begin:

- ▶ Sit down with family members to discuss their interests in the proposed option. Identify existing conflicts as well as commonalities in the family’s goals and interests. How is the enterprise likely to affect these conflicts and commonalities?
- ▶ **Familiarize yourself with the ins and outs of (or, better yet, visit) the proposed enterprise by talking with someone who has experience with it.** Talk to more than one grower if possible. If not, do some preliminary reading to get a sense of what’s involved. In answering this section, it is important to have a reasonably good idea of the tasks involved with this option.
- ▶ Talk to potential customers to get a sense of what people want. They might influence the way you think about the potential product.

1) How *excited* are you and your family about this option?

Not at All	Slightly	Somewhat Excited	Very Excited
0	1	2	3

2) How much do some or all of you enjoy the *kind of work* it will require?

Not at All	A Little	Somewhat	Very Much
0	1	2	3

3) How much would the proposed option *take you away from* an activity or activities that you currently enjoy and value?

A Lot	Somewhat	A Little	None
0	1	2	3

4) How much time would the proposed option involve you or your family in activities that you are *not* interested in spending time on?

A Lot	Somewhat	A Little	None
0	1	2	3

5) Overall, how compatible would the proposed enterprise be with your family’s *personal goals* for the farm?

Not Compatible	A Little	Somewhat	Very Compatible
0	1	2	3

Add the total score for all of the questions for Issue #1: _____
 Divide by 5 (the number of questions for this issue) _____
Issue #1 TOTAL (Round to the nearest hundredth) = _____
 This is your Issue #1 Score. **Record this score on page 8.**

If any of the questions in Issue #1 received a rating of 0, this is probably not the best option to pursue at this time.

Issue #2: Business Management Skills

You don't have to be an expert before you begin a new enterprise. However, regardless of what diversification option you are considering, business management skills will be critical to your chances of success. This section is intended to evaluate these skills with regard to the option under consideration.

Before you begin:

- ▶ As you fill out this section, consider your own business management skills (things like accounting, record keeping, time management, sales, marketing, etc.) as well as those of other people involved with the farm.
- ▶ Consider the ways that new management tasks could be incorporated into current operations. For example, you might take on additional tasks, replace some current tasks with new tasks, or hire additional staff for the new enterprise.

1) How much *experience* do you have working with this or a similar enterprise?

None at All	A Little	Some	A Lot
0	1	2	3

2) To what extent do you have the *planning and organizing skills* to accomplish any new tasks required to effectively manage the new enterprise?

Not at All	A Little	Somewhat	A Lot
0	1	2	3

3) To what extent do you have *time* to incorporate any additional tasks required for the new enterprise?

Not at All	A Little	Somewhat	A Lot
0	1	2	3

4) To what extent are you willing to put in extra effort to learn *new business management skills* required for this enterprise?

Not at All	A Little	Somewhat	A Lot
0	1	2	3

Add the total score for all of the questions for Issue #2: _____

Divide by 4 (the number of questions for this issue) _____

Issue #2 TOTAL (Round to the nearest hundredth) = _____

This is your Issue #2 Score.

Record this score on page 8.

If any of the questions in Issue #2 received a rating of 0, this is probably not the best option to pursue at this time.

Issue #3: Labor

Labor resources and skills are as important as business management skills in a successful enterprise.

Before you begin:

- ▶ Take into account the seasonality of new labor requirements.
- ▶ Be aware that existing employees may have underutilized skills related to the proposed enterprise. Be sure to check whether any of your existing employees have relevant experience.
- ▶ Consider whether you are willing and able to hire outside help if it is needed, and whether the needed help is available.
- ▶ Find out whether there are special regulatory requirements connected to this enterprise. Will you need licenses, permits, or inspections?

1) To what extent does your current workforce have the *time and skills* to accomplish the tasks required for the proposed enterprise?

Not at All	A Little	Somewhat	A Lot
0	1	2	3

2) If you will need *additional labor*, how easy will it be to find and retain?

Impossible	Difficult	Fairly Easy	Very Easy
0	1	2	3

3) If *extra workers* will be needed, how easy will it be to train them?

Impossible	Difficult	Fairly Easy	Very Easy
0	1	2	3

4) How thoroughly have you explored *regulatory requirements* that might impact you?

Not at All	A Little	Somewhat	A Lot
0	1	2	3

Add the total score for all of the questions for Issue #3: _____

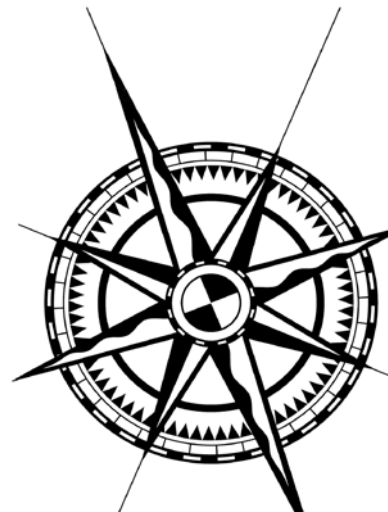
Divide by 4 (the number of questions for this issue) _____

Issue #3 TOTAL (Round to the nearest hundredth) = _____

This is your Issue #3 Score.

Record this score on page 8.

If any of the questions in Issue #3 received a rating of 0, this is probably not the best option to pursue at this time.



Issue #4: Physical and Natural Resources

This section will help you figure out whether you currently have the physical and natural resources you need for this new venture. In some cases, you may find that there are insurmountable obstacles. In other cases, you may be able to acquire the necessary resources or adapt existing resources to the needs of the proposed enterprise.

Before you begin:

- ▶ Talk with someone knowledgeable about the farm conditions and resources that would be required for the proposed enterprise.
- ▶ Determine whether there are any obvious environmental resources that your farm does not possess and cannot acquire.
- ▶ Find out what kind of machinery will be required and when.

1) **Would the proposed enterprise fit (or can it be adapted to fit) the *physical and natural resources* of your farm (i.e., soil qualities, climate, land base, water quality, well capacity, etc.)?**

Not at All	A Little	Somewhat	A Lot
0	1	2	3

2) **Will the proposed enterprise make use of existing *on-farm physical resources* (i.e. land, buildings, machinery, and by-products)?**

Not at All	A Little	Somewhat	A Lot
0	1	2	3

3) **How easily could the proposed enterprise be incorporated into *existing operations*?**

Impossible	Difficult	Fairly Easily	Very Easily
0	1	2	3

4) **How comfortable are you with any *short- or long-term changes* to your farm that are likely to occur as a result of this operation?**

Not at All	A Little	Somewhat	Very Comfortable
0	1	2	3

Add the total score for all of the questions for Issue #4: _____

Divide by 4 (the number of questions for this issue) _____

Issue #4 TOTAL (Round to the nearest hundredth) = _____

This is your Issue #4 Score.

Record this score on page 8.

If any of the questions in Issue #4 received a rating of 0, this is probably not the best option to pursue at this time.

Issue #5: Profitability

When considering any new enterprise, profitability is a central concern. **An accurate assessment of the potential profitability of any option requires careful financial analysis that is beyond the scope of this guide.** This section relies on you to make conservative and informed estimates of the perceived investment costs as well as the potential sales of the option you are considering.

Before you begin:

- ▶ Remember: the initial financial projections you make for the purposes of this guide are only preliminary. This section is only intended to help you decide whether it is worth your time to take a more detailed and accurate look at the financial considerations involved.
- ▶ Consider costs over at least the first few years of operation. Some investments and costs may occur during the start-up phase. Others will come down the road. Consider all of the financial investments required (including labor, equipment purchase and depreciation, loan payments, fuel and electricity, storage/conditioning, packaging, and other costs related to production and marketing) to pursue this option.
- ▶ Carefully consider how much income will be required and when during the season it will be required (to balance income against labor and investment needs).
- ▶ Consider possible sources of investment capital as well as operating capital.
- ▶ Consider whether there are any custom services (i.e., processing) available to offset initial capital requirements.
- ▶ Bear in mind current and future competition for your enterprise.

1) How confident are you in your ability to raise the initial capital required and to sustain the added financial burden over time?

Not at All Confident	A Little	Somewhat	Very Confident
0	1	2	3

2) How comfortable are you with the possibility that you could lose a substantial portion of this investment should the enterprise fail?

Not at All Comfortable	A Little	Somewhat	Very Comfortable
0	1	2	3

3) How thoroughly have you researched the potential total revenue (i.e., total yield x expected price) and expected expenses this option would generate?

No Research	A Little	Somewhat Thorough	Very Thorough
0	1	2	3

4) How thoroughly have you researched the expected expenses (i.e., labor, equipment, processing, marketing, and other costs) required for this option?

No Research	A Little	Somewhat Thorough	Very Thorough
0	1	2	3

5) How confident are you that the total revenue minus all expected expenses will result in a profit that you consider worth the effort?

Not at All Confident	A Little	Somewhat	Very Confident
0	1	2	3

6) How comfortable are you with the expected amount of time before the enterprise becomes profitable?

Not at All Comfortable	A Little	Somewhat	Very Comfortable
0	1	2	3

7) How strong is the *demand* for the proposed product?

No Demand	A Little Demand	Some Demand	High Demand
0	1	2	3

8) How much *effort* are you willing to invest in marketing the proposed product?

No Effort	A Little	A Fair Amount	A Lot of Effort
0	1	2	3

9) What is the *potential* for market demand in the foreseeable future?

No Demand	A Little Demand	Some Demand	High Demand
0	1	2	3

Add the total score for all of the questions for Issue #5: _____

Divide by 9 (the number of questions for this issue) _____

Issue #5 TOTAL (Round to the nearest hundredth) = _____

This is your Issue #5 Score.

Record this score on page 8.

If any of the questions in Issue #5 received a rating of 0, this is probably not the best option to pursue at this time.

Issue #6: Potential Community Impact

Many proposed enterprises may be invisible to neighbors and the surrounding community. Others may have impacts – on traffic patterns, natural resources, or the local economy, for example – in ways that neighbors consider as positive or negative.

Before you begin:

- Talk with someone who has experience with the proposed enterprise and find out whether the enterprise had any effect—positive or negative—on relationships with neighbors. Consider whether these effects are likely to be similar in your own venture.
- Consider how important community impact is to you, and whether it should be a determining factor in whether or not to pursue a diversification option.

1) To what degree do you expect the proposed enterprise to *benefit* the local community?

No Benefit	Little Benefit	Some Benefit	Much Benefit
0	1	2	3

2) To what degree do you foresee a *negative* reaction to the proposed enterprise from the community?

Very Negative	Somewhat Negative	A Little Negative	Not Negative at All
0	1	2	3

Add the total score for all of the questions for Issue #6: _____

Divide by 2 (the number of questions for this issue) _____

Issue #6 TOTAL (Round to the nearest hundredth) = _____

This is your Issue #6 Score.

Record this score on page 8.

If any of the questions in Issue #6 received a rating of 0, this is probably not the best option to pursue at this time.

Step 3: Consider your priorities

While each of the issues above is important when looking at the feasibility of a new enterprise, this guide does not pretend to know what is most important to you and your unique farm! To get a better idea of how this option fits into your own goals and priorities, mark the **three** issues that are **most important** to you. Look over your answers to the questions in these three sections and give them special weight.

Step 4: Calculate total score

Now that you have completed all of the questions, you are ready to calculate the total score for this option. To do this, add together the Issue Scores. Record this score to compare with other options.

Name of Option: _____

SCORES ►

1: Interests and Goals (from page 2)	_____
2: Business Management Skills (from page 3)	_____
3: Production-related Skills/Resources (from page 4)	_____
4: Physical and Natural Resources (from page 5)	_____
5: Profitability (from page 7)	_____
6: Potential Community Impact (from page 7)	_____
TOTAL score for this proposed option	_____

Step 5: Compare with other options

You can use the *Diversification Compass* to compare as many options as you would like. Remember: the score for each option should serve only as a **guide** in making your decisions. The process of filling out these worksheets may ultimately be more valuable to you as you consider your next steps.

Next Steps

Whatever option or options you decide to look into further, you'll have to do a good deal more research and legwork before you decide whether or not to make the financial and time commitments necessary to make your ideas happen.

Ideas for further research and considerations:

- Make contacts with **other people** who are already involved in the kind of enterprise you are considering. Their practical experience can be invaluable.
- Can you **test this option on a small scale** to get a feel for what is involved, and to see whether the enterprise can be grown at a pace you are comfortable with?
- Contact your nearest Extension, Small Business Administration, or Farm Business Management office for more information about how to get **business planning help**.
- Contact your state department of agriculture for more information on **resources** available for a particular diversification option, and for resources related to business planning help.
- Attend **conferences and workshops** in your own and neighboring states to learn about new ideas and to meet entrepreneurial growers.
- **Scan** newspapers and magazines (both agricultural and non-agricultural) to learn about new consumer trends.

Additional Resources

Websites, organizations, and publications available to help you plan. All of these are available by typing part of the title into a search engine like Google or Yahoo.

PUBLICATIONS AND GUIDEBOOKS

AgPlan free, guided online business plan writing web site from the University of Minnesota.
www.agplan.umn.edu

Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses by the Minnesota Institute for Sustainable Agriculture and the Sustainable Agriculture Network.
www.misa.umn.edu/Publications

Evaluating a Rural Enterprise by Preston Sullivan and Lane Greer, Appropriate Technology Transfer for Rural Areas (ATTRA).
<https://attra.ncat.org/attra-pub/evalrural.html>

Starting a Value-Added Agribusiness: The Legal Perspective by Mark J. Hanson, Illinois Institute for Rural Affairs.
www.iira.org/pubs/pubs.asp

Your Plan: A Step-by-Step, Start to Finish Business Plan Guidebook by the Small Business Advancement Center at the University of Central Arkansas.
http://sbaer.uca.edu/business_plan/businessPlan.pdf

ORGANIZATIONS AND AGENCIES

Agricultural Marketing Resource Center – www.agmrc.org

Agricultural Utilization Research Institute (Minnesota) – www.auri.org

Emerging Agricultural Markets Team (University of Wisconsin Extension) – www.uwex.edu/ces/agmarkets

Minnesota Farm Opportunities (Minnesota Department of Agriculture) – www.mda.state.mn.us/mfo

Missouri Alternatives Center – <http://agebb.missouri.edu/mac/>

National Sustainable Agriculture Information Service – www.attra.ncat.org

New Crop Resource Online Program (Purdue University) – www.hort.purdue.edu/newcrop

Small Business Advancement National Center – www.sbaer.uca.edu



Community Outreach and Assistance
Partnership Program



Agricultural Utilization Research Institute

