

Direct Answers for Direct Marketing

Business Tools—2

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Evaluating a New Business Idea

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Evaluating a New Business Idea is the first step in the series. The purpose is to provide an overview of factors extension agents should consider when meeting with clients to evaluate the feasibility of a new farm business. After the clients do the homework in this tool, it may also be the last tool in the process.

This tool is divided into two parts. The first part is designed for the interviewer himself/herself. Often by watching clients' behavior and listening carefully to their words, you can tell a great deal about the person being interviewed. Part one provides some guidance in helping the people being interviewed become comfortable and more focused. Part two is directed to clients. The questions and worksheet are to get them thinking about all aspects of their proposed plan. The take-home section is to help clients decide if they are willing and able to continue planning for this enterprise.

Part 1. How To Begin the Interview

When clients considering starting new enterprises come to you for help, you may find it difficult to know where to start asking questions. At this initial meeting the most important thing you can do is to build your clients' trust in you.

Everyone tends to judge others based on their dress, mannerisms, and ability to communicate. While sometimes it is difficult not to judge, you will find you can build trust faster and more easily if you simply listen and assess what they are trying to tell you as well as what they aren't saying. Asking a lot of questions, even the same question asked differently, may help stimulate the conversation. Writing down a list of possible questions to ask will help you focus the conversation. (A checklist of questions is provided in Part 2.) Writing down your clients' responses will help everyone as you work through the facets of creating new enterprises.

Several things greatly enhance the chance of success for a new business venture and should be listened for during the initial conversation with the client. Not having all of these attributes does not mean the proposed idea will fail. They include, but are not necessarily limited to,

- ✘ a unique combination of resources such as a microclimate that allows for earlier production or people with special talents in selling and graphics,
- ✘ labor management skills,
- ✘ an ability to adapt to new situations,
- ✘ strong organizational skills,
- ✘ a strong financial position,
- ✘ a commitment to the long term,
- ✘ people skills,
- ✘ marketing savvy,
- ✘ a quality control mindset,
- ✘ a well-articulated idea,
- ✘ strong family support,
- ✘ passion for the idea,
- ✘ creativity,
- ✘ diverse managerial abilities, and
- ✘ good financial and production records for past and on-going enterprises.

Not all of these are necessary or sufficient conditions for success, but they increase the likelihood of success.

Various signals indicate over-zealousness and a lack of proper perspective and forethought. If one or more of these ideas are expressed during the course of your conversations, you should treat them as caution signals. Hearing them does not mean the operation is doomed to failure. Ask questions to find out what is behind their words. .

- ✘ “We already know it will work.”
- ✘ “We’ve got a good name for it already.”
- ✘ “Now all we need is a feasibility study.”
- ✘ “We don’t have any competition.”
- ✘ “We don’t need to advertise, it will sell itself.”
- ✘ “We just need to get it into a restaurant or major chain store.”

Often the line between creativity (thinking around the corner) and stupidity (not seeing the corner) is a fine one. Weigh all information before you make up own mind and even then you must recognize that the client’s decision is ultimately the one that counts. Sometimes what seems to you an absurd idea will somehow turn into a successful venture. Who would have thought it possible 20 years ago that it would ever be feasible to sell a bottle of water?

Part 2. Questions to Ask about the New Enterprise

What are the right questions to ask someone who comes in for help in evaluating the potential of a new farm enterprise? While diversifying products offers potential benefit, the extent to which farmers will increase net returns depends on their individual attributes, goals, geographic region, technological feasibility, and competition.

Be sure that your clients write down the answers as you work through the following questions. If they have previously written down their thoughts on any of these areas, having them bring that information to your first meeting will help facilitate discussion and make the time together more efficient for both of you.

The following list of suggested questions is long and may overwhelm your clients. You may want to ask about broad areas rather than overwhelming your client with such a long list. Some of these questions they will not have answers to, but they will need to research the answers. The responses will give you some idea of the clients' commitment to the new enterprise. Even after going through these questions, your clients are still responsible for developing detailed budgets, financial statements, contingency plans, and a strategic business plan so that they can make a final decision as to whether the enterprise is feasible for their situation. When you have finished asking questions, have your clients take the worksheet home to complete and bring back to your next meeting.

Ask Your Clients to Consider

Personal and Family

- What are your goals and objectives for your business and personal life?
- Are your family members in agreement on this proposed venture?
- Do you have the resources (time, capital, knowledge, labor, land, equipment) you need to accomplish these goals and objectives?
- Are you willing and able to make any required sacrifices so that this enterprise will be profitable (time, life-style, privacy, etc.)?
- What do you wish your business to look like five years from now?

Enterprise Feasibility

- Is this enterprise technically feasible for your location? Technically feasible means you have the soil, climate, and knowledge to produce your proposed product.
- How have you verified its technical feasibility? That is, will it actually grow in your geographic location or can you obtain the necessary inputs for a value-added product?
- Is the proposed enterprise complementary with or supplementary to existing enterprises, or does it compete with them for resources (land, labor, equipment) and managerial time?
- What are your building, machinery, equipment, management, and labor requirements for producing the product?
- Is additional labor available in your area?
- If no local labor is available, will you have to hire migrant workers?
- Do you have the necessary resources to produce the product?
- What are the building, machinery, equipment, management, and labor requirements for producing the product?

Market Factors

- Have you clearly defined what your product or service is? Your description should include features such as size, quality specifications, varieties, packaging, and benefits to the buyers.
- What market are you targeting? The target market includes alternative market outlets, the geographic location, and demographic and life-style characteristics of potential customers.
- Have you considered the number of potential buyers, their annual per capita consumption, and average size of purchase?
- If a current market doesn't exist, can you create one?
- If a current market does exist, can you take some of that market from those already in it?
- Who are the competitors in your geographic region?
- What do you have to offer that makes you than better your competition? Is it possible to work with a competitor to offer a wider variety or selection of product?
- What is your expected sales volume? What are the minimum and maximum volumes of product you believe you will likely sell in one season?

Profitability Considerations

- How long will it take to get this enterprise to market?
- What start-up investment is required?
- Do you have or are you able to obtain the necessary start-up capital to establish the enterprise?
- How will you finance the annual operating funds necessary to continue the enterprise?
- How will varying output, for example, yield, acreage, number of head of livestock, amount of processed output, affect profitability?
- How will the additional costs and returns of the new enterprise affect the cash flow for the business?
- What percentage do you want to make over variable and fixed costs? Consider both per unit and total.
- How many units will you produce?
- How will the new enterprise impact the profitability of existing enterprises?

Risk Considerations

- What is the production, marketing, financial, human resource, environmental, and regulation risk associated with the new enterprise?
- How will investment of additional resources and the diversion of existing resources from present uses affect the financial risk position of the overall business?
- What are your contingency plans, including an exit strategy?

Legal, Regulatory, Permits, and Insurance

- Which government agencies and regulations apply to your operation?
- What permits do you need?
- What employment regulations and taxes do you need to comply with?
- Have you selected a name for your business?
- What is your business structure?
- Have you filed for a tax identification number?
- Do you have to collect sales tax?
- Do you need any health department inspections or permits?
- What zoning regulations must you follow?
- Do you have adequate liability insurance?
- Do you need product liability insurance?

Miscellaneous Considerations

- Do you or does someone in your family have the management skills required for the new enterprise?
- If you don't, what will it cost (in dollars and time) to acquire them or to hire someone to provide them?
- Does the enterprise require any special record keeping for managerial decision-making or regulatory compliance?
- Do you need a regular supply of special production inputs?
- How many of those input suppliers are available and where are they located?

Worksheet to complete before next meeting

Write out your goals for your new enterprise

Describe your products—features, benefits.

What market are you targeting? Where is this market?

What resources, machinery, equipment, labor, etc., will it require? Which of these resources do you currently have?

What are the start-up costs? Be as specific as possible. For example, trellis posts, trellis wires, labor to build, tractor and auger, number of bramble required, etc.

Do you have the necessary money to get the enterprise started? Where will you get the money?

What are your labor requirements? Where and at what cost will you find additional labor?

What production and financial risks might you face with this new enterprise?

List the insurance required for the new enterprise

General home and farm liability

Product liability

Special event insurance

What are the permits, inspections, zoning requirements for the new enterprise?

Do you need Good Agricultural Practices training (to reduce microbial risks in fresh fruits and vegetables) for you and your employees? Where do you get it?

If you require special inputs, can you get them? Where? For example, if you are organic, can you get the approved inputs?

List your contingency plans

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