

Managing Initial Contact with Clientele: Evaluating New Farm Business Enterprises

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Interest in alternative enterprises has dramatically increased in recent years. Many farmers (and non-farmers) are looking for new ventures to generate additional income. While diversifying into alternative crops does offer some potential benefit, the extent to which net returns are generated or improved depends on individual attributes, goals, geographic region, technological feasibility, and competition. Given the turnover in Extension FTE's in recent years, there may be a number of new Extension agents or specialists who have had little formal training in assisting clientele in making informed decisions regarding alternative farm business enterprises. With this in mind, the purpose of this paper is to provide an overview of the considerations agents and specialists must bear in mind when meeting with clientele to evaluate the feasibility of any new farm business enterprise. Considerations regarding the initial contact with clientele are presented, followed by a framework that can be used to assist clientele in the initial phases of alternative enterprise exploration.

Introductory thoughts on the initial meeting phase

It may seem an odd starting place, but let's first recall the national mission statement for Extension – “to enable people to improve their lives and communities through learning partnerships that put knowledge to work.” Our vision for doing this includes “being innovative, flexible, and adaptable, and willing to take risks to create new ways of thinking, learning and addressing issues.” Most would agree that actually pulling this off requires a different *modus operandi* than we embraced in years past. As such, we must weigh the prospect of whether we are *service providers* or *learning facilitators*. Why? Because it potentially makes a difference in how we interact with clientele and the nature of that interaction. The latter role (learning facilitator) makes much more sense in our current environment of constantly-reducing the number of FTE's in Extension; however, the advent of fee-based programming has the potential of altering traditional expectations that clientele have of Extension, which may unintentionally place pressure on agents and specialists to play the role of modestly paid consultants. We are in a transition period of testing various models of fee-based operations and this in itself creates a certain amount of uncertainty, if not an interesting juggling act. In the midst of all this, most of us in Extension just want the rules of the game to be defined so we can get on with “making a difference” in the lives of our “neighbors.”

Regardless of the model employed, building adequate rapport is a critical predecessor to being able to “speak into” the lives of clients. There is an old adage that states “People don't care how much you know until they know how much you care.” Trust is probably the single most vital and necessary ingredient in being able to make a difference in people's lives. So in the first few minutes of the initial meeting, take time to assess (but not judge) the client based on existing folklore; dress and mannerisms; and their ability to articulate their proposed product/service succinctly (the elevator pitch). This assessment may point to considerations to have clarified

later in the meeting. Keep in mind that we do no client any favors by sugar-coating their prospects of success. If you have enough lead time, then try developing an agenda with a “roadmap” or at least talking points to guide the discussion. Otherwise, a reasonably scheduled time for an initial meeting can turn in to a marathon if it is left to a “random conversation.” The checklists that follow this section can serve as this roadmap.

An important rule of thumb that almost guarantees a “successful” initial meeting is to ask many questions – getting the client to talk is more important than impressing them with your knowledge [There will be a time for that later]. Even the same question asked from different angles may help stimulate the client in their conversational brainstorming. Also, be sure to listen for what the client *isn't* saying. Another minor, but important point is that we should recognize that the mood we are in on the day of the initial meeting can influence how we deal with clientele. The time of the day can have an influence as well in that some folks seem to be more sharp and alert in the mornings, while others are better in the afternoon. Setting up appointments with these factors in mind can help reduce any “personality” conflicts.

There are several things that greatly enhance the chance of success for a new business venture. These should be looked for during the initial conversation with the client. Not all of these are necessary and/or sufficient conditions for success, but they sure increase its likelihood. They include, but are not necessarily limited to, the following: a unique combination of resources; 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 spouse/family support ; diverse managerial abilities; and good financial and production records

On the other hand, there are various “yellow flags” that signal over-zealousness and perhaps a lack of proper perspective and forethought. If one or more of these are expressed by the client during the course of the conversation, it should treated as a caution signal.

“We already know it will work.”

“If we build it, they will come.”

“We’ve got a good name for it already.”

“Can you help us with a grant?”

“Now all we need is a feasibility study.”

“Let’s stop talking and just do something.”

“We don’t have any competition.”

“We don’t need to advertise, it will sell itself.”

“If someone else gets this idea first, they will take the market from us.”

“We just need to get it into a restaurant or major chain store.”

There is often a fine line between creativity (thinking outside the box) and stupidity (ignoring the box). It is important to weigh all information before making your own mind up and even then we must recognize that it is ultimately the decision of the client that counts. Remember the comment about “not judging” made earlier – sometimes what seems to *us* 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? Recall the famous quote that Charles H. Duell, Commissioner of the U.S. Office of Patents, made in 1899: "Everything that can be invented has been invented." It just goes to show that absolutes are seldom absolute.

Checklists to facilitate initial discussions

Because of the wide range of possibilities available, it is impossible to develop a tool that could be used in evaluating all potential enterprises. Therefore, the points included on the checklists below are only intended to assist one in organizing an **initial screening analysis** of various enterprises. The producer/entrepreneur will still need to develop more detailed budgets, financial statements, and other documents (e.g. a strategic business plan) in order to make a final decision of whether or not the venture is feasible for their particular situation. A listing of other resources that may be used for more detailed analyses is included at the end of this paper.

Personal and Family Considerations

- # Have you identified goals and objectives for your business and personal life? Is there total agreement by all members of the family on this proposed venture?
- # Have you conducted a full inventory of your resources (managerial, human, physical, and financial) which can contribute to accomplish these goals and objectives?
- # Are you willing and able to make any required sacrifices to make this enterprise profitable (time, changes in lifestyle, privacy, personality changes, etc.)?
- # What do you wish your business to look like five years from now and what are some intermediate steps or objectives required to get there?

Enterprise Feasibility

- # Is this enterprise technically feasible for your location in terms of available resources and/or production capabilities? Has this been verified?

Market Factors

- # Have you clearly defined what your product or service is? (Features such as size, quality specifications, varieties, and benefits to buyer or end user.)
- # Are there markets for the product and if so, what is your target niche market(s); market outlet alternatives; geographic location of market(s); and demographic characteristics of buyers (lifestyle, etc.)?
- # How large is the existing market demand; number of potential buyers; annual per capita consumption; and average size of purchase?
- # Can the market be created or expanded to absorb an increased supply of the commodity? (advertising and promotion efforts)
- # What are the favorable market windows for the product? (comparison of historical prices against projected costs per unit by time period)
- # Does the market demand specific grade/quality/size standards?
- # What is the cost of transportation to the targeted markets?
- # Are there any middlemen services involved? (e.g. brokers, wholesale distributors, etc.) If so, what are their costs and specific requirements? (delivery, volume, etc.)
- # How many competitors are located in your geographic region? What do you have to offer to better your competition? Is it possible to work with a competitor to offer a wider variety or selection of product?
- # What price does the market offer and how volatile are those prices? What is the highest price and the lowest price you are likely to receive and what conditions create these price situations?
- # What is your expected sales volume? What is the minimum and maximum volume of product you believe you will likely sell in one year?

If the clients' investigation thus far shows that supply already exceeds demand for the product/service being evaluated or that the trend is one of declining consumption and/or prices, then obviously they should not pursue the enterprise any further. If their investigation is favorable, however, then continue with the following considerations:

Production Considerations

- # Given that the enterprise was technically feasible, what are building, machinery, equipment, management, and labor requirements for producing the product? Do you have the necessary resources to produce the product? What level of start-up investment is required?
- # Once you are in full production, what are the expected costs and returns? (enterprise budgets)
- # What will be the impact of varying yield/production levels on profitability?
- # What are the costs of production given varying climate and pest problems?
- # Are you able to acquire the necessary start-up capital necessary to establish the enterprise? What about the annual operating funds necessary to continue the enterprise?

Profitability Considerations

- # What is the impact of the new enterprise on the profitability of any existing enterprises?
- # Is the proposed enterprise complementary or supplementary with existing enterprises; or does it compete with them for resources and/or managerial time?
- # Will the new enterprise compete with existing enterprises for land, money, or machinery? If so, what is the impact on profitability of the other enterprises?
- # How will the additional costs and returns of the new enterprise affect the cash flows for the business?

Risk Considerations

- # What is the impact of producing the new enterprise on the farm=s risk (including production, marketing, financial, human resource and environmental/regulatory risks)?
- # How will investment of additional resources and the diversion of existing resources from present uses affect the financial risk position of the overall business?

Miscellaneous Considerations

- # Do you have the management skills and the required for the new enterprise? If not, what is the cost (in dollars and time) of acquiring necessary management skills?

- # Are there any legal restrictions, regulations, or liability factors associated with the new enterprise?
- # Does the enterprise require any special record keeping for managerial decision-making or regulatory compliance?
- # Does the enterprise require an abundant or continuous supply of special production inputs? What is the structure and market power of those input suppliers?
- # Will the proposed enterprise limit off-farm employment opportunities?

If the client has adequately answered all of the questions from this checklist, they probably have enough information to make a decision about the new venture. If they decide to go ahead with the enterprise, they should now go through the process of developing a full business plan including a timetable, production schedules, marketing plan, management structure, and financial plan. Resources for doing this are included in the references section. On the other hand, if they have concluded that they should not diversify into the new enterprise, then they [and you as their facilitator] are still to be congratulated for the time and effort they put into their research efforts.

Other resources

The **UT Center for Profitable Agriculture** was established to provide technical and educational assistance to agribusinesses, farmers and entrepreneurs in Tennessee who may be considering business expansion or an initial market entry. The ADC website provides a multitude of links explaining the different facets of adding value to Tennessee's agricultural products. The *Educational Resources* section includes extension publications, fact sheets, presentations and slide shows, and other published documents. Website address: cpa.utk.edu

A PRIMER for Selecting New Enterprises for Your Farm is a publication authored by Tim Woods and Steve Isaacs of the Department of Agricultural Economics at the University of Kentucky. PRIMER is an acronym for Profitability, Resources, Information, Marketing, Enthusiasm, and Risk. This paper is an excellent resource for detailed analyses in evaluating alternatives for new enterprises. It includes detailed descriptions along with questions and worksheets to aid in determining the feasibility of the proposed enterprise under consideration. Website address: www.uky.edu/Agriculture/AgriculturalEconomics/pubs/ext_aec/ext2000-13.pdf