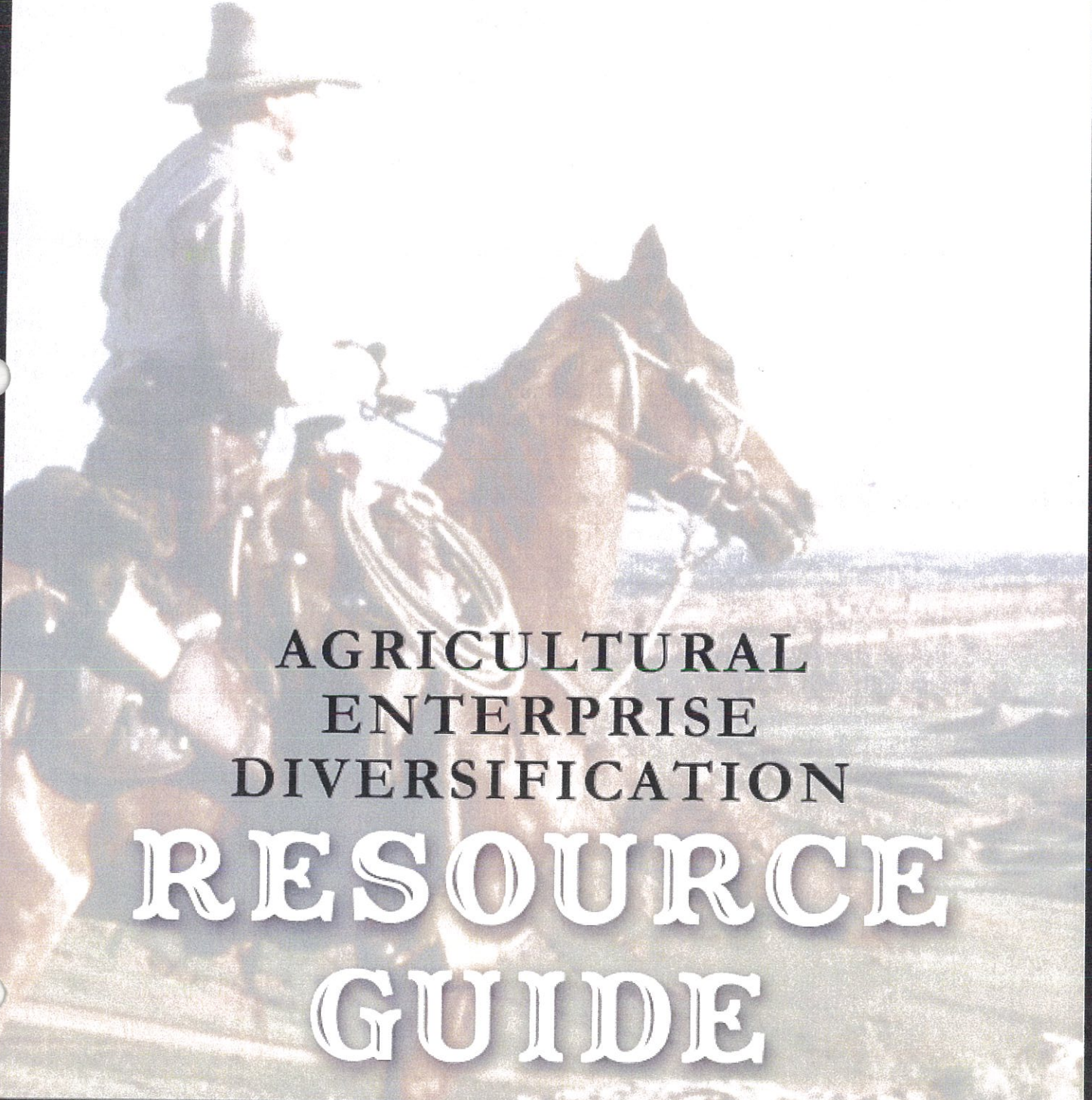




Sustaining Western Rural Landscapes, Lifestyles & Livelihoods



AGRICULTURAL
ENTERPRISE
DIVERSIFICATION
**RESOURCE
GUIDE**

To Whom It May Concern:

The *Sustaining Western Rural Landscapes, Lifestyles and Livelihoods* partnership completed the comprehensive agricultural diversification resource guide as a valuable tool in assisting professionals in delivering technical assistance to agricultural producers as they evaluate their current operations and research the feasibility of diversifying.

The information, at first glance, may look overwhelming, but is divided into the following sections:

- Foreword
- Introduction to Agricultural Enterprise Diversification
- Enterprise Assessment
- Enterprise Feasibility
- Enterprise Implementation (Business Planning, Legal, Finance, Marketing, Human Resources, Natural Resources and Community)

If you would like further information on how to best use this guide please don't hesitate to contact me at the following address. In addition we have access to professionals who can assist agricultural producers develop an agricultural diversification strategy, so please don't hesitate to contact me.

Sincerely,

Cindy Garretson-Weibel

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A. General overview of marketing

Many people confuse the term marketing with advertising, but the process of marketing involves much more than simply placing an advertisement in the local newspaper.

“Marketing is everything you do to promote your business, from the moment you conceive of it to the point at which customers buy your product/service and begin to patronize your business on a regular basis.”

Jay Conrad Levinson; Guerrilla Marketing

The view that marketing and selling are the same is also a common misconception. Selling is a crucial part of marketing, but marketing is far more expansive. As a professional who is assisting an agricultural producer, it is important to understand this misnomer because traditional agricultural marketing generally is the act of selling an agricultural commodity. The challenge to you, the professional advisor, will be to make this distinction in a diversified agricultural enterprise.

For example, a traditional marketing strategy for a grain producer would primarily include: cash flow needs, storage capacity, and possible tax consequences. The decision would be whether to sell the commodity directly from the field; store the grain at harvest and price it when it is delivered; or store the grain and forward contract it for delivery next year, and so on.

Marketing, as described in this sub-section of the guide, consists of many different activities – sales, advertising, customer service, the product, pricing, and the business reputation. It includes the name of the business; the type of product or service being sold; the colors, size and shape of the product; the packaging; the business location; advertising; public relations; and the sale. The purpose of marketing is to reach customers and compel them to purchase, use and repurchase a product.





1. What is marketing

Marketing is the human activity directed at satisfying human needs and wants through exchange processes. A distinction between the difference of *needs* and *wants* is essential to the basic understanding of marketing. *Needs* can be defined as a requirement that is absolute. *Wants* are desires for specific satisfiers of these absolute needs. Peoples' needs are relatively few, but their wants are staggering. Marketers do not create *needs*, but they can influence *wants*.

A simple definition of a *product* or *service* is something that is viewed as capable of satisfying a need or want. A *market* is the set of all actual and potential buyers of a product or service.

The marketing concept is a key management task that determines the needs and wants of target markets and manages the enterprise to deliver products/services to satisfy those wants and needs in a process that is more efficient and effective than its competitors. Management must make sure that its overall goals are consistent with and support the role of the product or service in satisfying the needs and wants of its target markets.

2. Why is marketing so important

All businesses and organizations face the complexity of how to increase the value for target markets that are undergoing continuously changing needs and wants. Organizations must thoroughly define their products, services, prices, and distribution in a way that meets buyer needs in a competitively viable way (Kotler 1980). Although selling products and services is very old, marketing is a relatively new complex concept that involves, among many things, promoting and advertising, selling, developing new products/services, market research, customer knowledge, and physical distribution.





Developing an effective marketing strategy can help stimulate the turnover of products/services. The key to effective marketing is understanding customer's needs. Knowing what customers are looking for helps the enterprise owner identify strengths and weaknesses in appealing to a target audience and develop an appropriate promotional message. In today's busy world, people are continually bombarded with marketing messages about products and services. A challenge of the business owner is to create the right message so that his or her product/service will be recognized above all others.



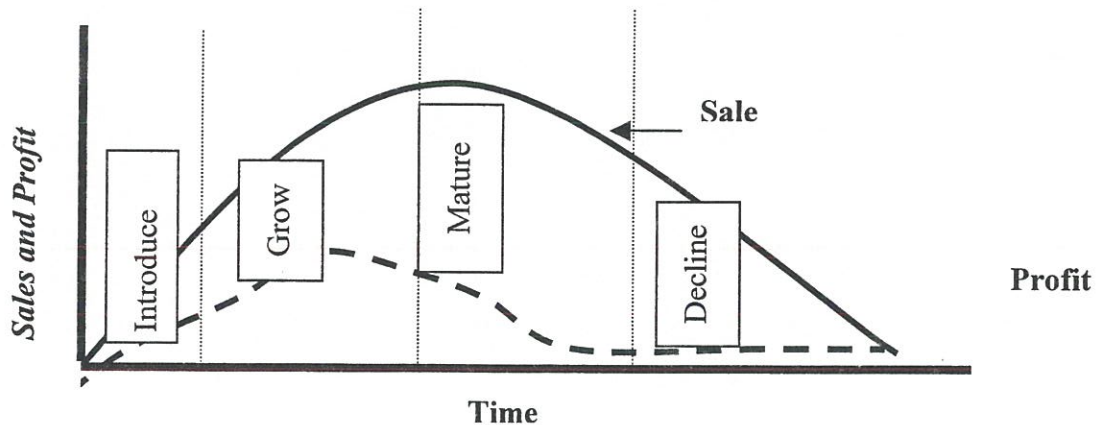


B. The product/service –life cycle

As a professional, you have an important role as an educator to teach business people about the concept of the product/service life cycle. This concept is useful as a framework for developing effective marketing strategies in different stages of the life cycle.

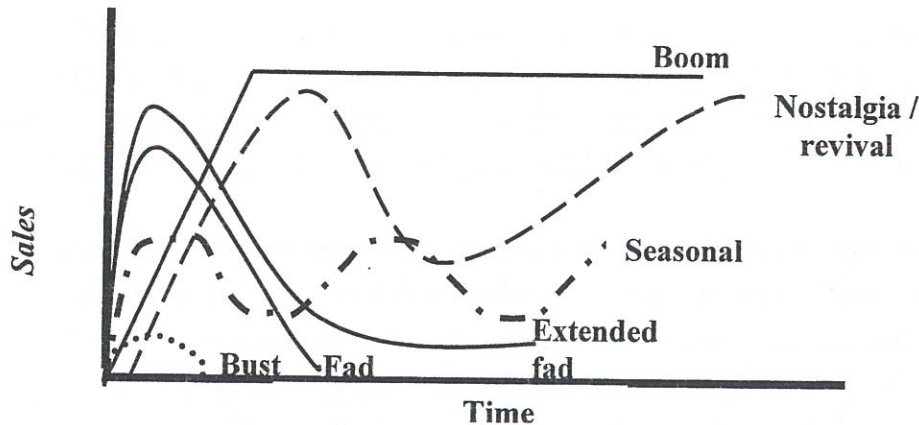
All products and services have a life cycle in which the product/service reaches maturity and then declines. Depending on the external and internal climate of each business, some products or services will have shorter life cycles than others.

1. Product/service life cycle of sales and profit





2. Special product/service sales life cycles



A key factor in the marketing strategy of an enterprise is the role played by the product/service life cycle. The product/service stage in the life cycle of introduction, growth, maturity, and decline changes over time. Each stage provides specific opportunities and threats to the enterprise's profit potential. Products and services pass through four stages, as follows:

- *Introduction* – A period of slow growth during which the product or service is introduced to the marketplace. Profit is non-existent at the beginning and increases very slowly.
- *Growth* – A period of growth due to acceptance by the market and increase in profits for the enterprise.
- *Maturity* – At this stage, the profit margin and sales slow down due to market saturation, decline in acceptance by new customers, and costs to the enterprise to maintain the product/service's position in a marketplace due to increased competitors.





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- *Decline* – Sales continue to decline, which eats away at profits until profits eventually erode to zero.

An enterprise should already have a strategy in effect much earlier than the stage of decline for deciding on the course of action. Does the enterprise introduce a new product or service, modify the existing one, or exit from the marketplace once it enters the decline stage?

Special product/service life cycles should be carefully strategized because their length of cycles may be hard to predict or may require special marketing tools and information because they may depend on the extent to which the product/service genuinely meets the needs of the customer, and is consistent with other societal trends, norms, and values.

3. **General marketing communications decisions for the stages of the product/service life cycle**

While there are entire courses on marketing strategies, there are some “rule-of-thumb” tactics recommended by marketing experts for people who are developing market strategies to complement the stages of the product/service life cycle. The common feeling among marketers is that “salesmen put products on the shelves and advertising takes them off.” (Kotler 1980.) However, there is much more in communicating to the marketplace than relying only on selling tactics and advertisements.

Creating and building buyer awareness - Advertising, sales promotion, and publicity are usually the most cost-effective tools.

Producing product/service comprehension – Advertising and personal selling are effective tools for informing the customer group and educating the marketplace.





Influencing buyer conviction - Personal selling followed by advertising and publicity are usually the most effective marketing tools for convincing the buyers.

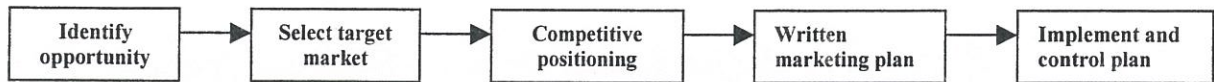
Placing an order for actual purchase – Sales calls, personal selling, and sales promotion are most effective at this point in the communication process (Kotler 1980).

- Advertising: Any paid form of non-personal presentation and promotion of ideas, goods, or service by an identified sponsor.
- Personal selling: An oral presentation in conversation with one or more prospective purchasers for the purpose of making sales.
- Sales promotion: Short-term incentives (samples, coupons, money-refund offers, contests, premiums, etc.) to encourage purchase or sale of a product or service.
- Publicity: Nonpersonal stimulation of demand for a product/service by planting commercially significant news about it in a published medium or obtaining favorable presentation of it upon radio, television, or stage that is not paid for by the sponsors (Kotler 1980).





C. The strategic marketing process



The strategic marketing process is a managerial process of the following steps:

Market opportunity analysis – The process begins with identifying, evaluating, and developing a set of marketing opportunities for the enterprise. This step is complex and time-consuming because it involves research (gathering information about industry, customers, competitors, and market potential) and analysis (reviewing and comparing research gathered on various opportunities, and evaluating the potential of each opportunity). The selected opportunity/opportunities must show three things:

- a. Consistency with the enterprise's goals.
- b. Potential of providing the enterprise with a competitive advantage (something that it will do better than other competitors).
- c. Fits with the enterprise's current distinctive competences (the things that the enterprise does exceedingly well).

Target market selection – This is the task of breaking down a total market into logical target markets (also called market segments or sub-markets) that differ in their requirements, purchasing habits, or other important characteristics.

Competitive positioning – This step requires the enterprise to develop a general plan of what it will offer to the target market in relation to the competitors' offers. This could involve making positioning decisions based on the product-feature differentiation, price/quality differentiation, or other factors.

Marketing plan development – Once the enterprise has selected a target market and defined its competitive positioning, it is ready to develop long-





D. The marketing plan: marketing mix and the “Four Ps”

The general approach to a marketing plan is to develop a marketing-mix of the amount and type of marketing tools used at a particular time to accomplish a specific marketing goal or set of marketing goals over a certain time period. In 1960, a marketer by the name of E. Jerome McCarthy popularized a four-factor classification call the *four Ps: product, price, promotion, and place*. This is accepted as the traditional approach used to select the variables for a marketing mix in the marketing plan.

1. The basic marketing variables (tools) – the “Four Ps”

PRODUCT/ SERVICE	PRICE	PROMOTION	PLACE
Quality	List price	Personal selling	Channels
Features	Discounts	Sales promotion	Coverage
Benefits	Allowances	Public relations	Locations
Options	Payment period	Word-of-mouth	Inventory
Style	Credit terms	Advertising	Transport
Brand name			
Packaging			
Sizes			
Services			
Warranties			
Returns			

The marketing-mix is the set of controllable variables or tools and their levels that the enterprise uses to influence the target market.

The product/service is the most important element of the marketing-mix. It will be examined first and then the other three elements of the mix will be examined.





a. **The product or service**

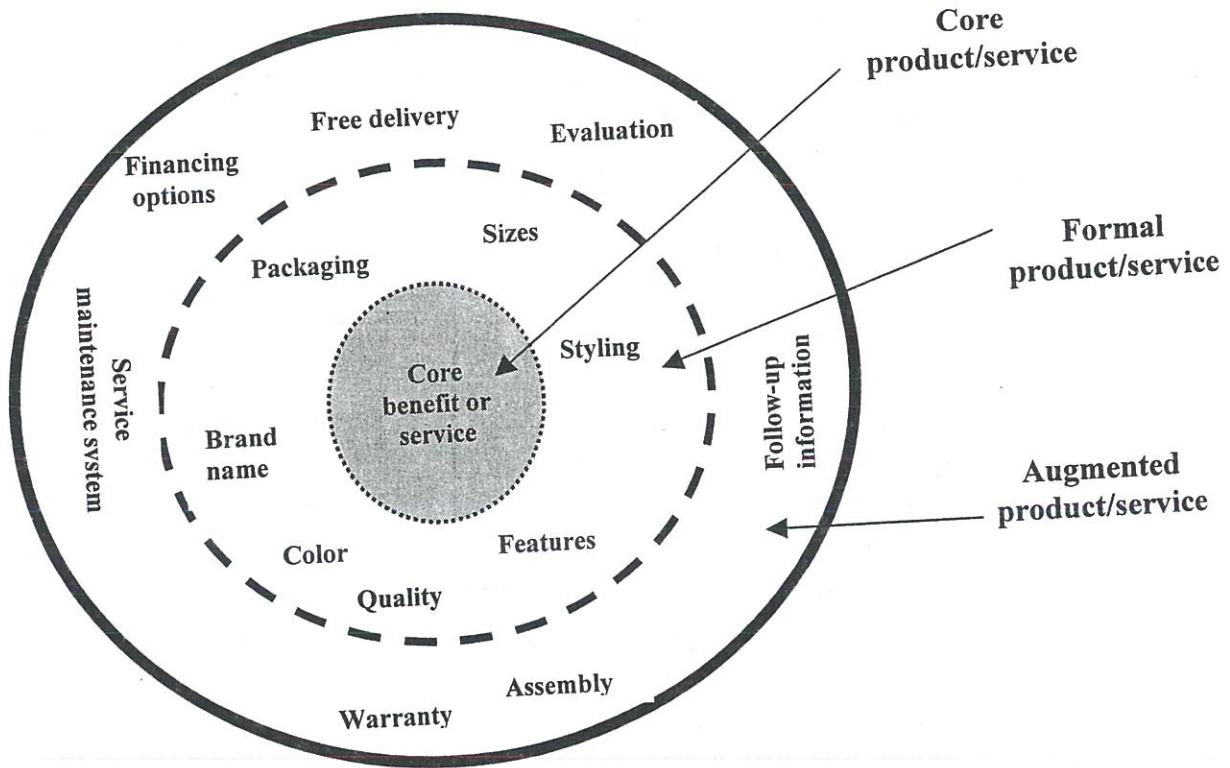
What is the product or service? To fully understand one's product or service, a marketer should understand the product/service could be perceived by the buyer at three levels – core, formal, and augmented.

The core product or service - This is the most fundamental level that answers the question, "What is the customer really buying?" The core benefit or service is the essential item or service that is being offered to the buyer to solve a problem, want, or need; the actual product or service is the packaging of the "problem-solver" required by the buyer. The challenge to the enterprise is to sell the core benefits of the service or product, not the features of the service or product. If an enterprise is marketing a bed and breakfast on a cattle ranch in the Rocky Mountains, the *feature* is a bedroom, two hot meals, and a shared-bathroom will two other bedrooms. The *benefit* is the opportunity to get away from the stress of city-life for a quiet, peaceful stay at a large cattle ranch that has been in the same family for four generations, has an exquisite view of the mountains, and the best home-cooked food in the entire county. The customer is buying rest and relaxation, nostalgia, and comfort.





Three Levels of the Product or Service



The formal product or service – Is the larger “packaging” of the core product. It is the tangible offerings of the product or service that include the packaging, quality, name, styling, and features that surround the essential core product/service.

The augmented product or service – Is the intangible part of the offering that enhances the formal product or service. The combination of the formal and augmented product or service is the area where a person can add value to its core product or service to increase its competitive edge over encroaching competition during the maturity stage in the product/service life cycle.





b. **The price**

Developing a pricing strategy can be one of the hardest things an entrepreneur does because if it is too low, one is working for very little financial return; if it is too high, one runs the risk of losing markets.

Pricing is influenced by costs including raw materials, labor, time, overhead, and taxes. Demand also influences pricing and requires an evaluation of what the market is willing to pay. Perceived value of product/service by the buyer is an important consideration in determining a pricing strategy.

There are several pricing strategies from which a person can choose. Theoretically, a pricing strategy should be developed around a combination of three important factors: demand, cost, and competition. However, several pricing strategies place more focus to one of these factors.

Cost-oriented pricing: The enterprise sets its prices on the basis of its costs. All costs are taken into account, including arbitrary allocation of overhead based on expected operating levels. This strategy usually includes mark-up pricing and cost-plus pricing, both of which determine price by adding a fixed percentage to the unit cost of the product or service.

Demand-oriented pricing: This strategy relies on the customer's perceived-value of the product or service rather than on the seller's level of cost. The key is to make an accurate determination of the market's perception of the value through good market research.

Demand-differential pricing: Another form of demand-oriented pricing is demand-differential pricing. Different prices are set for the same product or service, as follows:





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- *Customer basis*: Different customers pay different amounts, such as one customer pays full list price, another pays a bargained price. Another form of this is client price adjustment basis, in which different prices are charged to different groups such as small businesses/large businesses, students/general public, members/non-members, government/private business, and old clients/new clients.
 - *Product-form basis*: Different versions of the product/service are priced differently but not proportionally to their respective marginal cost. One customer pays \$30 for an all-day wagon-ride if he or she brings his/her own lunch. Another customer is charged \$50 for the same all-day wagon ride that includes a box lunch, with sandwich, apple, and pop.
 - *Place basis*: Different locations are priced differently although there is no difference in the marginal cost of the location. A hand-knitted wool cap is sold at a ski resort for a much higher price than at a local store in a nearby town.
 - *Time basis*: Prices vary seasonally, by the day, or even by the hour.

Competition-oriented pricing: This strategy prices the product or service based on what the competition is charging. The price is not necessarily set at the same price as the competition, although this is often the strategy. The risk of setting price at the same price as the competition is how to provide additional service or added value to the product/service to position the enterprise at an advantage over the competition. This strategy can also mean that the enterprise decides to set prices above or





below that of the competition, but the point of this type of pricing strategy is that it is based on what the competition charges and not on the demand for the product/service or the enterprise's costs.

Industry pricing strategy – Occasionally, a product or service is in an industry that has an established pricing norm. If an enterprise has a product or service that fits into this category, it is difficult to price outside the accepted price scheme.

Common pricing mistakes include the following:

- Failing to allow for waste, inventory shrinkage, and damaged goods
- Not adjusting prices annually
- Ignoring the cost of replacing equipment
- Under-estimating the cost of getting and keeping customers
- Under-estimating the cost of special services or added value to a product or service.

c. **Promotion**

A well thought-out promotional strategy is important to the success of any business. One goal of promotion is to let people know about the availability of a product or service and to offer it at the appropriate prices and at the right time and place. Promotion defines the position of a product/service, brings in new customers, and maintains regular customers.

Promotion covers all the communication tools that deliver a message to a target audience (Kotler 1999).. The tools fall into five classes:

- Advertising
- Sales promotion
- Public relations





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- Sales force
 - Direct marketing

Advertising – Advertising is a powerful tool to build awareness of a company, product, service or idea. Because advertising can be very expensive, effective use of the advertising dollar is extremely important to a business enterprise.

Advertising involves five M's:

1. Mission – what is the purpose of the advertisement? Is it designed to create awareness, interest, desire or action?
2. Message – the message is shaped by the intended target market and perceived value to the customer.
3. Media – how will the message be delivered – by television, billboards, telephone, direct mail, or internet?
4. Money – the company must determine how many people it wants to reach in the target market, with what frequency, and with what impact.
5. Measurement – the best measurement is the sales impact of the advertising.

Paid advertising channels include: television, magazines, newspapers, yellow pages, direct mail, billboards, radio, brochures, vehicle signs, purchased promotional give-away items, such as tee-shirts, pens, and pencils.

Sales promotion – Advertising works mostly on the mind, and the sales promotion works on behavior. Sales promotion includes incentives, discounts, and free gifts. A word of caution should be extended to the entrepreneur: most sales promotions lose money for the company.

Public relations – This publicity includes:

1. Publications – company brochures, annual report
2. Events – trade shows, sponsoring athletic teams





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3. News – articles written about the business, its employees, and its product or service
 4. Community involvement activities – volunteering or giving donations
 5. Identity media – stationery, business cards, logo
 6. Lobbying activity
 7. Social responsibility activities – good reputation

Sales force – Putting a salesman on the road is an expensive marketing tool, and for diversified operations, the sales force will be relatively small, and often will have several responsibilities besides sales. Outsourcing sales, via telemarketers or through distributors, is an option to reduce the sales force and associated expenses.

Direct marketing – Direct marketing and a good potential customer database allow target markets to be efficiently reached, at a relatively low cost.

d. **Place (or distribution)**

Every seller must decide how to make its products and services available to the target market. The two choices are to sell the goods or services directly to the customer or sell them through a middleman. Agricultural operators who deal in a commodity-based environment are accustomed to making this decision, but in a diversified operation, the decision may become more difficult. The distribution channel for a value-added product or a service may be different than the distribution of a raw commodity.

Being able to deliver the product or service in a timely manner is an important part of the marketing mix. Promoting a product, for example, and being unable to fill the orders will do great harm to a business. Similarly, offering a guided hunt, then not





having a place to take a hunter will lead to a dissatisfied customer.

The method chosen to distribute goods and services will play a key role in developing the overall marketing strategy. Timeliness and dependability are key factors to customers, and are often more important to the customer than cost.





E. Researching the industry

Research is an important component in marketing. Not only is it important to research if there is a need for a potential product, it is important to research the industry in which a client is interested in becoming a part. For instance, if an individual decides to add a bed and breakfast component to his agricultural operation, it is important that he understands the bed and breakfast industry.

Market research

1. Identify the customer
Before a person starts research markets for a good or service, it is important to identify the market or audience the product or service would serve. A market is made up of those people, businesses, agencies, organizations, and other groups that have a need or a desire for a product or service. Once this customer base is identified, further research needs done to identify who, from the list, is willing and able to pay for the product or service. This subgroup of customers is considered a target market.
2. Niche markets
Finding a niche market (one that is a smaller set of customers who have more narrowly defined needs) can also be advantageous. Focusing on serving the customers in a niche allows for opportunity to know each customer more personally, and to have fewer competitors. Generally, these customers are willing to pay more for a good or service because it is so specialized. On the other hand, the niche marketer faces greater risk because the customer base is so narrowly defined. As customers' needs and interests changes, the niche may not be as viable.





F. Competition

1. Knowing one's competitor

Is competition bad? Competition can be a healthy aspect of being in business. There is a wealth of information one can gain by being keenly aware of one's competition. As a professional, you are in a good position to help the person who is starting or running an enterprise to appreciate what competition brings to the marketplace. A savvy businessperson can analyze valuable information about how to run his or her enterprise, including the following:

- What customers want or need
- What to avoid
- Where one fits into the market
- What he or she is doing that works or doesn't work
- Marketing ideas such as product/service mix, merchandising, and promotional activities
- Niche markets that aren't being served, are underserved, or over-served

2. Importance of a competitive advantage

To be successful, an enterprise should have one or several enterprise features that place the business in an advantageous position over the competition. By analyzing one's competition, a person can determine his or her competitive advantage that will give him or her an edge over the competitors. One reason that a competitive advantage is important is that the enterprise has a unique feature to promote or advertise. Encourage your client to study his or her competition and then to identify one or two features of the enterprise that are in some way better or unique than those of the competitors.

The following list includes many key competition features:

- Product/service offered
- Product/service selection





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- Product/service availability
 - Customer service
 - Price
 - Credit policy
 - Advertising/promotion
 - Business stability
 - Business reliability
 - Management
 - Expertise
 - Image/reputation
 - Location
 - Store appearance
 - Store layout
 - Sales methods
 - Sales follow-up
 - Training or use of product/service

3. Determining one's competitive analysis

Determining “competitive advantage” can be used to help a person to analyze internal and external essential characteristics of key competitors and to compare them with one's own key features. By summarizing key features with corresponding strengths/weakness and opportunities/threats, an astute businessperson is in a better position to determine his or her competitive advantage.

a. Determining sales potential

The process of determining sales potential has several steps as follows:

Positioning the product/service in a market area – The first decision that one needs to make is a geographical one. Where will the product or service be “positioned” or made available

