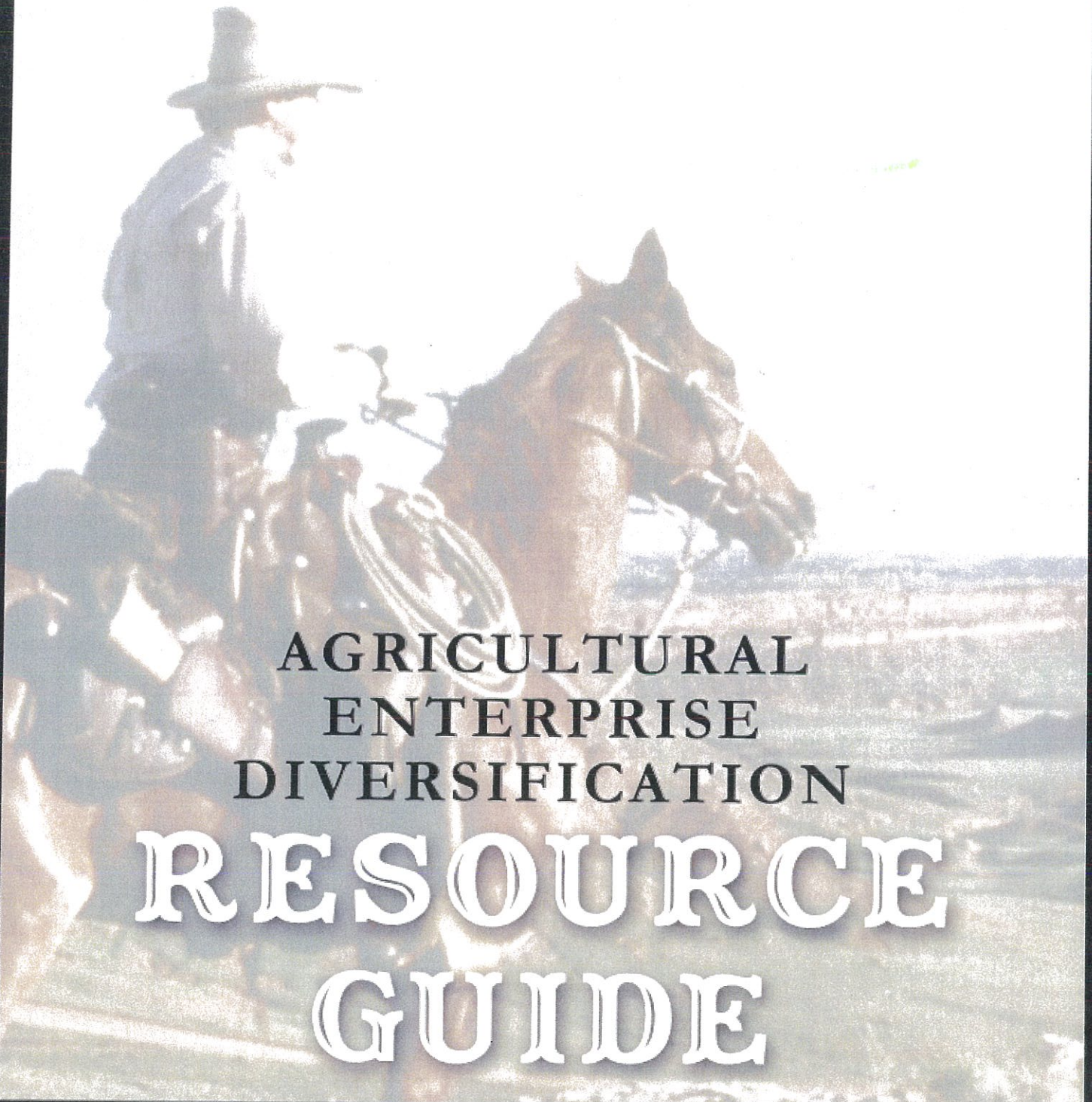




Sustaining Western Rural Landscapes, Lifestyles & Livelihoods



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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II. Introduction to Agricultural Enterprise Diversification

A. Overview of Section II

Agricultural professionals, like Natural Resources Conservation Service (NRCS) conservationists and university Cooperative Extension Service (CES) educators, have been providing agricultural and natural resource technical assistance to farmers and ranchers for decades. This assistance has been concentrated on operational and resource needs related to the more traditional forms of agriculture. Balancing nutritional requirements for dairy operations, recommending cropping rotations that reduce soil erosion, and designing grazing systems for meat production are representative of that assistance.

Today, the needs of agricultural producers are changing, driven by new and increasing pressures on the landscape and in their pocketbooks. While many producers continue to depend on technical assistance for traditional operations, some are beginning to consider other, less traditional agricultural-based businesses. These entrepreneurs often have difficulty finding appropriate technical assistance, so counsel from a professional like you using tools such as this resource guide is important (Figure 1).



Figure 1. Agricultural professionals discuss diversification options with producers

In this section of the resource guide (Section II), agricultural enterprise diversification is defined as business diversification based on currently available resources and agricultural products. This involves change – change in thinking, perceptions, and direction of business operation. It's also about viewing existing operations and opportunities from different perspectives than before. The forces driving the increased interest in





diversification are described. The benefits to agricultural operations and family quality of life that can be achieved through diversification are discussed, and contrasted with why some producers choose not to diversify.

Providing technical assistance for diversification may be a new role for you, the professional. Agricultural business diversification can be complex for producers, requiring assistance from several technical disciplines. Strategies for helping you assist these customers are recommended.

Section II concludes with a detailed description of a planning process to facilitate ease of use of this guide. This holistic process begins with an examination of existing enterprises for enhancement opportunities before proceeding with the investigation into new alternatives. It includes a flow chart and a checklist of components important in the decision-making process for diversification.

In this section of the guide, you will first meet the Remingtons, a fictional western ranch family that is considering diversification. They are used throughout the guide to illustrate the steps of the diversification planning process, from initial goal setting to feasibility evaluations for alternative enterprises. Through them, you will encounter some of the challenges that face families who are seeking business alternatives. Their example will also help your clients understand the use of the forms for assessments, data collection, and data evaluation that are included in the guide (Section VIII).



You may find it useful to copy all of the forms in Section VIII prior to initiating technical assistance with your client. Throughout this guide, forms can be recognized by the heading displayed at the left of this column.

Pages in this resource guide that refer to the Remingtons are found on the gray pages, and denoted with the symbol at the right.





B. What is agricultural enterprise diversification

Agricultural enterprise diversification is literally about business diversification. In agriculture, this means targeting established and developing markets for the multitude of products and services that can be developed from existing farm and ranch resources. In the context of *Sustaining Western Rural Landscapes, Lifestyles, and Livelihoods*, agricultural enterprise diversification is defined by the project partnership as:

“Building upon existing natural, family, community, and cultural resources, and agricultural products, to sustain and grow ranch and farm businesses.”

This definition infers a business foundation based on a multitude of existing resources, that streamlining current operations could achieve desired objectives, and that opportunities for financial profit and preferred quality of life exist by tapping into new markets.

It combines six essential elements that should be considered when examining existing farm/ranch operations and new income-producing agricultural business opportunities:

1. Natural resources - The soil, water, air, plant, and animal resources associated with the target land unit. For example, your client may find their soils are conducive for organic crop production; old stock ponds could provide recreational fishing opportunities; and wildlife may be available for viewing or hunting. Or, these resources may collectively make up an attractive landscape that complements an existing or new enterprise.
2. Family – Refers to anyone in the immediate or extended family who will be affected by consequences of decision making for the agricultural operation. It also includes any future family members. A family member need not be physically located on the land unit to be affected by decisions, as they may still have a legal business interest in the operation or the desire to return to the land unit in the future.





3. Community – The community refers to the local village or town that is nearest to the target land unit. There may be opportunities for a symbiotic relationship between your client’s agricultural operation, and other operations and community businesses.
4. Cultural resources – These include family heritage, unique family traditions, and other historical features of the land unit. These could be specific locations of past features or events, such as mountain man rendezvous sites, Native American encampments, military engagements, or historic trails that cross the land unit. Land units that have been in the same family for several generations often have their own historical incidents that are of interest to potential guests.
5. Agricultural products – This refers to traditional agricultural products or commodities, such as livestock (cattle, sheep, etc.) or crops (corn, wheat, beets, etc.). They are part of the animal and plant resources of the land unit. Opportunities may exist to add value to these products and capture a larger share of the retail markets.
6. Farm and ranch business – According to the Wyoming Agricultural Statistics Service, in Wyoming, a farm and ranch business is defined as, “*any establishment from which \$1,000 or more of agricultural products were sold or would normally be sold during the year.*” For practical purposes, a farm or ranch business is one that generates income from the resources associated with that land unit.

Of these elements, the natural resources will often provide the basis for the greatest array of opportunities for enhancing existing enterprises and for potential new enterprises. Whether the enterprise is based on specialty crops, livestock, hunting, or recreation, its potential for continued profit will depend on the quality of the natural resources of that land unit. It becomes evident that ecological stewardship will be fundamental to the economic sustainability of the farm or ranch.

The opposite is also true. Without sufficient capital, reinvestment into the natural resources can be difficult. However, while putting off good





stewardship can seem like the best business sense in tough financial times, it's generally not. The natural resources of a farm or ranch are like a bank. If you want to keep drawing on them, you have to make deposits into them. It's clear that conservation sells – from high quality fisheries, to good tasting meat fed on healthy grass, to high value viewscapes. Environmental quality increases the ability to charge more. And, sustainable land use can increase yields and reduce costs over time. So, in tough times, shifting priorities in order to continue to make natural resource investments can pay off in the long run.

Sometimes, a change in resource management may make existing operations more efficient, precluding the need to diversify. In one situation, a change in grazing (plant resource) management may increase livestock weaning weights and net profit per acre. In another, changing the calving season (livestock resource) from late winter to early summer may reduce annual hay demand, and thereby hay production requirements. Labor and equipment expenditures could be reduced.

If diversification is the preferred option, your client should recognize the various relationships that can exist between enterprises. Each farm or ranch enterprise will be supplemental, complementary, or competitive in relation to other enterprises. In a supplemental enterprise, a single resource not utilized in other enterprises may be the basis for a new business. For example, your client may choose to utilize a cultural resource by investigating the possibility of refurbishing the old homestead cabin for a bed and breakfast enterprise. Or, they may be interested in manufacturing rough log furniture using their timber resources.

And, in another scenario, when the choice is to diversify, the resources may be used in more than one enterprise to produce several products and/or services. In addition to providing forage for livestock, the rangeland resource may provide the basis for a fee hunting operation by also providing valuable food and cover for a marketable wildlife resource. Or, the soil resource may be the basis for a sweet corn enterprise that complements a corn maze enterprise.





The owner's or manager's ability to add new enterprises also depends upon how flexible existing enterprises are and the operation's ability to meet changing conditions (e.g. markets, regulations, and weather). Competing enterprises may have additional opportunity costs, such as when the labor resource must be redistributed due to the demands of a new enterprise. An example would be a guest ranch that hosts clients in the summer months during haying operations. Some of the hay enterprise labor may need to be dedicated to the guest ranch enterprise, which creates labor shortage for the hay enterprise.

There may be opportunities to add value to farm and ranch resources to capitalize on existing and emerging niche markets. In many instances, the producer becomes the processor and retailer, thus capturing a larger share of the value of their product. Examples include organic or naturally grown products, direct marketing of beef to the consumer, and wool processing and spinning.





C. Making the choice to diversify

Change is the essence of business diversification. In agriculture, you will encounter a wide spectrum of producer perspectives. Tradition is strong in agriculture and change is not easy for many. There is a tendency to keep doing things a certain way because that is the way granddad and dad did it. In other instances, inexperience or unfamiliarity may make the prospect of a new alternative uncomfortable, and lead to no action in spite of its potential profitability. Collectively, it means that change is not easy to embrace and agricultural business decisions are often made based on emotion and tradition, rather than economics.

Contrast this with the essence of entrepreneurship – innovation, taking risks, exploring new and developing markets, and looking for products or services to provide in today's and tomorrow's marketplace. In spite of how some consider themselves, farmers and ranchers are businessmen. Who will survive in the future? Who will re-create farming and ranching in the future? Who will become a price-maker rather than continuing to be a price-taker? It's the entrepreneurs who can find ways to develop and market their resources that are sustainable and profitable. It's the entrepreneurs who can improve the efficiency of existing businesses and/or diversify their businesses to take advantage of new markets.

Examples of this diversity are evident in Wyoming, where a farm and ranch supplemental income survey, completed in 2000, indicated 47 percent of Wyoming's farmers and ranchers were engaged in 150 different forms of supplemental income activity (Appendix A – Section VII). The earning potential of some of these alternative enterprises is substantial (Appendix B – Section VII). The initiative of these producers demonstrates a demand for enterprise diversification information and technical assistance. They may need your help, as do those who haven't yet diversified, but are considering it.

Both external and internal forces may drive the choice to diversify. Rarely is it one factor. Usually, it is several, either acting independently or in combination with other pressures. Knowledge of these forces will help you understand and appreciate some of your customer's challenges. This information will also help you in your outreach and marketing efforts to





inform producers about some of the reasons that are influencing an interest in diversification.

First, it is important to understand some of the fundamental reasons agricultural producers desire to stay on the farm or ranch. Why do they care? What is at their innermost core? For many, it is the desire to preserve for another generation that in which the producer and their family, and often their forefathers and their families, have invested so much. It is difficult to quantify, but some of it is derived from sweat equity required for day-to-day operation of the farm or ranch. There may be investments in conservation improvements, like trees planted and water developed; or perhaps in capital improvements, such as a new shop, irrigation and stock watering systems, and cross fences. Some have endured hardships and family sacrifices, like vacation opportunities foregone, hand-me-down clothes, and winter storms somehow survived.

The perceived personal benefits of farm and ranch life, like the investments and difficulties, may also be unlimited in kind and number, and are often value-driven. For some, it is the pleasure of family reunions, sunsets, hunting and fishing on your own lands, and the smell of freshly tilled soil. For others, it's a sense of place, of family traditions and heritage. It's a sense of space, with room to roam and room to grow. It's the strong drive to protect the land unit that is viewed as the foundation for their way of life, their solitude, and independence.

Farm and ranchlands also have less direct, but equally important, values for the non-agricultural producer segment of society. They provide open space, scenic vistas, crucial wildlife habitat and migration corridors, cultural heritage, and often serve as a buffer between public lands and more urban areas. In addition to supplying agricultural products, farms and ranches provide employment opportunities and tax revenues for local economies.





1. Threats to farming and ranching

There are a number of forces threatening the future of farming and ranching in the West that are motivating producers to consider diversification. Some of the significant ones include:

- a. *Profitability* – the current enterprise, however managed, is not profitable. The overall economic perspective shows that farm income has not kept pace with the rest of the economy for at least the last 30 years (Figure 2). In fact, inflation-adjusted figures show that while non-farm income has steadily climbed, farm income has basically “flat-lined” on the charts. This makes it difficult to compete for scarce resources such as labor and land. And, this is confounded by producers capturing smaller proportions of the consumers’ food dollar. Their share from each dollar in product sales shrunk from 40 cents in 1907 to seven cents in 1997 (Halweil 2000.)

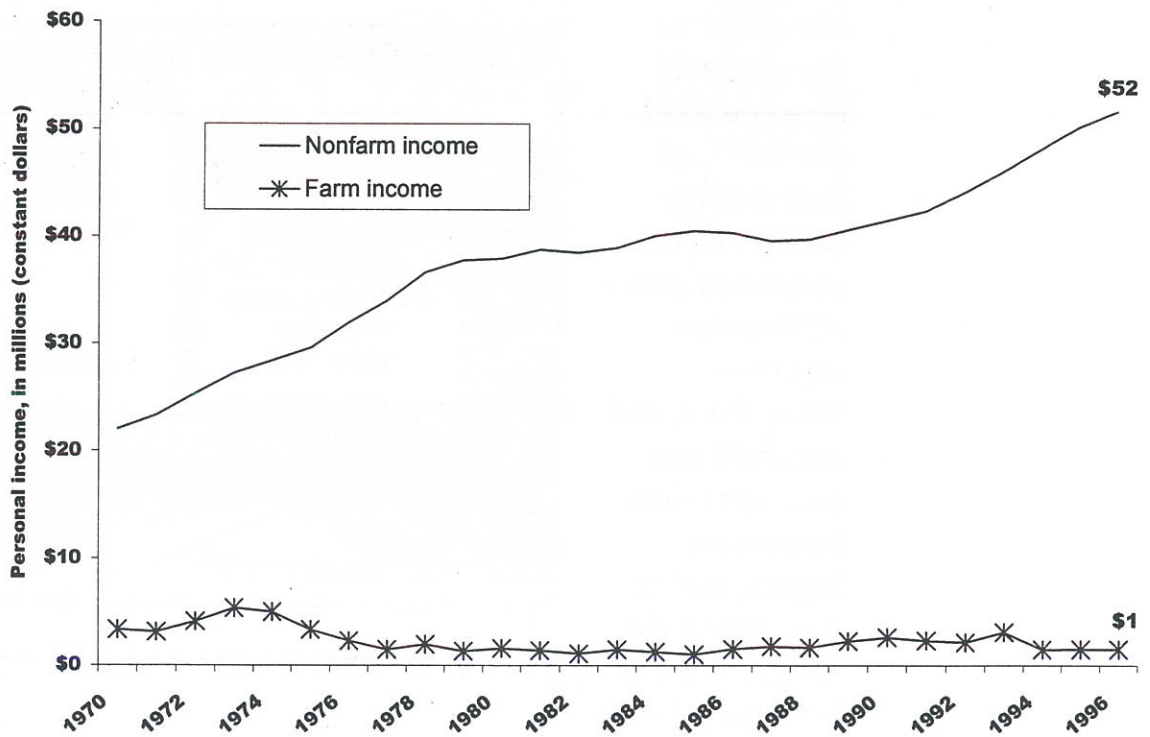


Figure 2. Nonfarm vs. farm income. U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System 1998.





The beef industry is a good example for closer review, as on many western farms and ranches beef producers are struggling to generate profit. A number of factors have contributed to this. The trend in consumption of beef has been declining for the last 25 years, and the relative proportion of beef to other meats consumed has declined even more (Purcell, et. al. 1999). And, prices received by beef producers have been low for at least 20 years, while production costs have continued to rise (USDA Census of Agriculture 1977-1997). Add in the complications from natural elements, like drought, and it becomes easy to understand why farmers and ranchers are looking for ways to supplement income. Other traditional western commodities, such as lamb, wool, and small grains, are also faced with economic instability.

- b. *Land conversion* – pressure to convert farm and ranch lands into subdivisions, commercial developments, or some other form of non-agricultural use. Nationwide, more than 11 million acres of rural land was converted to development between 1992 and 1997, an area roughly the size of the combined states of Vermont and New Hampshire, and occurred at a rate more than 80 percent higher than of conversion for the previous decade of 1982 - 1992 (USDA National Resources Inventory 1997).

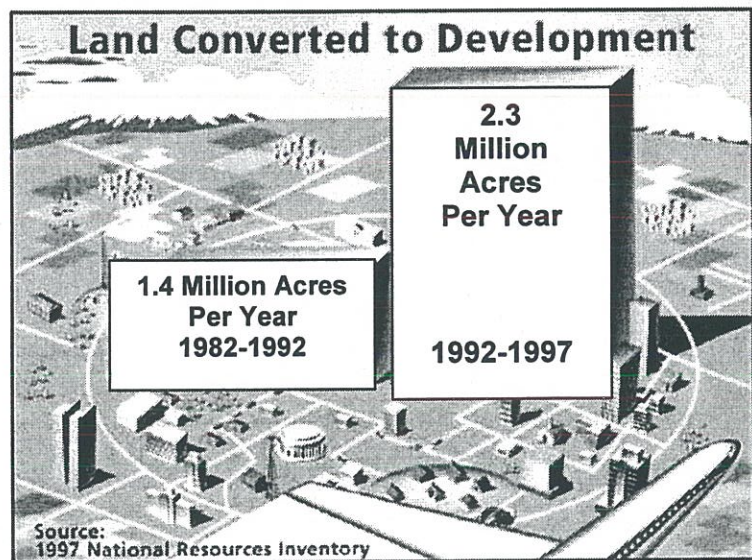


Figure 3. Land Converted to Development 1982-1997.





A recent study (2002) by the American Farmland Trust estimates that 11 percent of all prime rangeland in the Rocky Mountain West is threatened by conversion to low-density residential development by the year 2020. Prime rangelands were defined as high quality agricultural lands with desirable wildlife characteristics. The criteria used to designate these prime rangelands included proximity to public lands, year-round water availability, mixed grass and tree cover, overall variety of vegetation classes, and rural development densities. Much of the rangeland at risk is concentrated in high mountain valleys and the mixed grassland areas surrounding major mountain ranges in the region.

Regionally, this land conversion is driven by robust population expansion in the West. It is the fastest growing region in the nation, with an overall 20 percent growth rate since 1990. Altogether, the West gained 10.4 million new residents (U.S. Census 2000). Much of this increase has been from immigration, as baby-boomers move to the more rural West in search of a perceived higher quality of life. While growth is inevitable, farm and rangelands are among the most attractive landscapes to these newcomers. In fact, the West is the only region in the United States where growth in non-metropolitan areas exceeded that of metropolitan areas between 1990 and 2000 (U.S. Census 2000).

This demand for land for residential expansion is driving up the prices of rural real estate. This is a financial jackpot for those producers who want to cash out. However, for those who want to expand their businesses or pass on the ranch to the next generation, the land is too expensive and the estate taxes may be prohibitive. Consequently, the lands are often carved into five to 35-acre residential tracts that not only fragment agricultural districts, but also demand more in public services than they contribute in tax revenue.

Fragmented agricultural districts create a number of problems. For those who stay in production agriculture, it means potential conflicts related to odors, farm equipment transportation on public





roads, and nuisances like open gates. Perhaps the adjacent ranch, now subdivided for residential development, was previously leased for grazing. That option is subsequently no longer available, creating a bottleneck in their management that may ultimately affect profitability.

Often, these new residential areas mean new landowners who have no connection to the local community. Sometimes it is a second home used for recreational purposes only. The number of second homes in Wyoming increased by 30 percent, nearly twice the national average, for the census period of 1990 – 2000 (U. S Census 2000.). This also leads to little or no integration into the local community. Both scenarios can create local infrastructure problems for producers and community members alike.

One example is a recent Cost of Community Services (COCS) study in Custer County, Colorado (Haggerty 2000). This study indicated that for each dollar in income generated by these new residential areas, it cost the county \$1.16 to provide and maintain services to them. Conversely, for each dollar in revenue generated by agriculture, it only cost the county 54 cents to provide services. This is not an isolated occurrence, as COCS studies in Montana, Utah, Idaho and Wyoming have found similar results.

Subdivisions can create challenges for weed and pest districts as well. In many instances across the West, five to 35 acre ranchettes are home for one to several horses. Concentrated grazing usually follows, often resulting in a shift in plant community composition from desirable grasses and forbs to undesirable weeds. Treatment options may then be limited due to the density of homes.

Subdivisions add demand on local water supplies, which is generally a limiting resource across the West. They displace wildlife populations, fragment or replace habitat, and interrupt migration corridors. While human population growth is inevitable, it quickly becomes obvious that there are many consequences when rural lands are converted to development.





- c. *Recruitment* – younger people from agricultural backgrounds are choosing other career options, and many people from the non-agricultural sector find it difficult to purchase farms or ranches. Consequently, the number of producers continues to decrease, the agriculture population is aging, and the next generation of agricultural producers is looking for other viable opportunities and/or working second jobs.

While the average size of farms and ranches has grown in recent years, the number of producers continues to decline nationwide (USDA Agricultural Statistics 1997). At the same time, the average age of those remaining in agriculture has been increasing and now exceeds 54 years. More alarming statistics are that agricultural demographics are shifting as the number of producers exceeding 65 years in age increased by 24 percent in the last 15 years, while the number of producers less than 35 years of age decreased by 58 percent during the same time frame (USDA Agricultural Statistics 1997).

What's going on? The next generation in many cases does not see a future in agriculture, does not want to be in agriculture, can't afford to buy out siblings or parents, can't compete with other interests, or can't pay the estate taxes. The real tragedy is the loss of land stewardship skills and agricultural experience, not to mention the quality of life that is sacrificed for more viable economic opportunities.





2. Sustaining farms and ranches

Despite this grim outlook, there is hope for sustaining farms and ranches across the West. Agricultural enterprise diversification can help combat these forces in a number of ways, including:

- a. *Reduction of financial risk* – distribution of resources into several enterprises reduces the risk of losing the resources. In other words, “Don’t put all your eggs in one basket.” If markets are poor for the product of one enterprise, they may be strong for the product or service provided through another enterprise. This can help maintain the economic viability of the overall farm or ranch operation.
- b. *Increase farm/ranch income* – the current enterprises may be economically viable, but more income is desired and possible from existing resources. The producer recognizes a consumer need or desire that could be produced or provided on the land unit, i.e.: a land unit close to a city could supply the demand from people who want a quick trip out into the country to enjoy the open space. This could lead to a recreational enterprise such as horseback riding or a tourism enterprise such as a bed and breakfast inn. Or, the producer may identify and access a niche market demanding natural or predator-friendly beef. It’s about realizing and capitalizing on new opportunities for business growth and development.
- c. *Increase or obtain a better distribution of cash flow* – bring cash returns to the land unit’s operation at various times throughout the year. Often a livestock operation has only one time during the year when cash is received, such as when calves are sold in the fall of the year in a cow/calf operation. If one looks back to the times preceding World War II, producers had more even distribution of cash flow. From the time of European settlement, American agriculturalists were diversified. Most had milk cows, hogs, chickens, sheep, and raised vegetables. While a primary purpose was self-sufficiency, it was equally important to have marketable





items throughout the year that could be bartered for other necessary items that they could not produce themselves. This was common until the post-World War II era, when agriculture shifted toward single commodity production schemes.

d. *Utilize available resources:*

Labor – often, labor is needed at peak periods and not needed at other times of the year. This creates a problem for the owner/manager in maintaining a reliable labor force. When labor can be utilized all year, the owner can afford to keep labor employed and employees are more assured of job security.

Facilities and equipment – as with labor, facilities and equipment are often only needed during a specific time of year and are not returning anything to the operation during the rest of the year. A bunkhouse traditionally used only during the spring calving season may have the potential to double as accommodations for guests during the summer or for sportsmen in the fall.

Natural resources – some natural resources are easily recognized and used in a private land enterprise while others are not used but could be. For instance, plants preferred by livestock are easily recognized as livestock forage in a grazing enterprise, while some may be aesthetically preferred by recreationists or wildflower enthusiasts in a recreational enterprise.

- e. *Keep family members on the farm/ranch* – when the next generation is interested in remaining on the farm/ranch, there is often not enough income from existing enterprises to support more than one family. Diversification into other enterprises can sometimes enable additional family members to remain on the land unit or return to the family farm or ranch. It may also present opportunities for those in the non-agricultural sector to get started in farming or ranching.





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- f. *Change operations due to regulations* – a new law or regulation can force a change in the operation of the existing enterprises or cause the elimination of the current enterprise. There may be potential for an alternative enterprise to fill that void.
 - g. *Personal preference* – a landowner may simply choose to operate a different or additional enterprise than that currently or previously operated. They may choose to pursue a hobby or enjoy the challenge of starting a new business.

