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To Diversify or Not? A Lesson from a Harvard Research Study

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

To Diversify or Not? A Lesson from a Harvard Research Study

Market Report	Yr Ago	4 Wks Ago	8/4/00
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	\$64.96	\$67.06	\$63.98
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	*	*	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	88.74	*	101.04
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	100.68	107.20	100.39
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	37.25	49.75	44.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	*	*	34.50
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	116.60	134.50	123.25
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	86.17	82.87	87.00
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	183.50	190.00	185.00
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu.	2.88	2.97	2.72
Corn, No. 2, Yellow Omaha, bu.	1.85	1.54	1.39
Soybeans, No. 1, Yellow Omaha, bu.	4.48	4.60	4.18
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	3.51	2.66	2.75
Oats, No. 2, Heavy Sioux City, IA, bu.	1.18	1.20	1.18
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	82.50	105.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	*	52.50	77.50
Prairie, Sm. Square, Good Northeast Nebraska, ton.	*	*	75.00
* No market.			

Not long ago in 1998, Doug Jose and I conducted 16 focus group interviews with a diverse set of beginning farmers across the state, to learn about the main constraints and opportunities for beginning farmers. Despite the diversity, a common thread seems to run across the fabric of these farmers: a strong goal to have the country lifestyle and independence. Almost all the farmers expressed a severe resource crunch. Two thirds of the producers that were interviewed expressed that they were struggling to make a decent living on the farm, netting at least \$ 35,000 per year. As an economist, I began to think of a possible universal solution for all these resource strapped producers who just loved to farm. The solution I arrived at was fuzzy and unconfirmed until I read the book "The Origin of the Entrepreneurial Species," by Dr. Amar V. Bhide (Oxford University Press).

The book was the result of a ten-year research study by Dr. Bhide at the Harvard Business School. The research had a clear focus in identifying beginning/start-up entrepreneurs as being different from established entrepreneurs. The distinction is important since it clearly delineates the strategies for success and risk bearing. The essence of the research is that a successful start-up does not need to have a proprietary idea, or exceptional human capital. Despite the resource crunch, building a comfortable base can happen as a result of diversification, a search for niche markets and creative marketing of products and services with fuzzy attributes. Fuzzy attribute refers to a service or product where the consumer does not know exactly what he wants out of the service or product, which gives way for the entrepreneur to be



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extremely creative. Also, it is interesting to note that the entrepreneur does not bear a great deal of risk, except for the opportunity cost of his labor and other minimal start-up resources. Dr. Bhide coins a new term called “Tolerance for Ambiguity,” that is defined as the willingness to jump into things when it is hard to even imagine what the possible set of outcomes will be. However, once the stable base is built, the entrepreneur becomes a risk taker by continuing to expand the business because he has his self-built empire at stake. The strategy of venturing as many enterprises as possible is obsolete, and specialization with strategy focus becomes prominent, once a stable base is built. One possible reason might be that niche and fuzzy marketing approaches have intrinsic qualities built into the product/service, such as location and personal-touch, hence scale economies do not work

What does all of this have to do with agriculture? Well, the context and setting is little different with the beginning farmers, and they are not directly comparable with the start-ups that Bhide was talking about for the following reasons. Out of the 16 farmers we interviewed, only 4 of them can be viewed as entrepreneurs who started up on their own. The rest of them had some support from relatives and friends that ranged from inheritance of land to equipment sharing. Also, the average farm equity was about \$ 250,000, unlike the start-ups that Bhide mentions. What this all boils down to is that an average beginning farmer is exposed to more significant risk compared to the start-ups outside agriculture (at least in the start-ups that begin from scratch). Now, if such an average beginning farmer is not able to meet his/her family living

expenses year after year, we can say for sure that he has not built the base to specialize and grow into the future. Considering the low expected returns to equity in start-up farming operations, we have to digest the fact that agricultural business models are strikingly different from the regular business model. However, we should not forget the fact that the beginning farmer chose the farming enterprise not just to make money, but to have a lifestyle. So this endeavor should also be considered as a hobby (may be expensive), until a stable base is built when it is time to focus on a few production activities and specialize. Until then, the guiding solution would be to get his hands on as many sources of income as possible, while nurturing the farming enterprise. In fact, this concept is not new and has been emphasized a lot in the off-farm employment literature. Some of the beginning farmers we talked to have in fact been using the 'fuzzy attribute' marketing style to garner additional income. For example, local selling of organic chicken, farm tours and apple picking are some. This creative marketing appears to be ingenious the first time you hear it, but if you look closely, this may not be a novel idea but just the mere combination of attributes and marketing methods. In fact, a majority of these farmers might already have enterprising ideas, but bail out because of the lack of tolerance for ambiguity. In essence, the lesson of the day is to seek out non-traditional sources of income with minimal equity, and tolerance for ambiguity until a stable base is built. Finally, as Bhide says, "it takes an unusual person to start a promising business but it takes an extraordinary individual to build on that business."

