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CORNHUSKER ECONOMICS

Agri-tourism: Family Style

Market Report	Yr Ago	4 Wks Ago	1/20/06
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$88.06	\$ *	\$94.56
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	126.14	*	141.54
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	107.60	*	114.96
Choice Boxed Beef, 600-750 lb. Carcass	154.88	*	156.81
Western Corn Belt Base Hog Price Carcass, Negotiated	73.16	*	54.10
Feeder Pigs, National Direct 45 lbs, FOB	67.20	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	75.13	*	60.55
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	107.00	*	78.50
National Carcass Lamb Cutout, FOB	244.17	*	226.10
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.31	*	*
Corn, No. 2, Yellow Omaha, bu	1.75	*	1.80
Soybeans, No. 1, Yellow Omaha, bu	5.23	*	5.35
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.46	*	2.77
Oats, No. 2, Heavy Minneapolis, MN , bu	1.93	*	2.14
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	*	130.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	*	65.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	*	52.50
* No market.			

Many farm and ranch families are considering adding agri-tourism as a way to supplement income or to provide increased profits needed to bring a younger family member back into the business. Agri-tourism however, is NOT for everyone. Dealing with the public, being available “on demand” and providing a service requires a completely different skill set than traditional farming and ranching.

Before you begin a new venture, invest some time working through a planning process. Set a specific date and time for a family planning meeting. Work through the discussion points that follow in this article. Involve everyone in the family that is considering becoming a “business partner.” Try to be as open and honest as possible without being too judgmental regarding the ideas of others and minority opinions.

Planning Process

•Why do you want to do an agri-tourism business?

The planning process starts by identifying your motivation for the business venture. Why do you want to do an agri-tourism business? There will be times of discouragement and days when things don’t go exactly as planned. It is important to have the reason for doing the business clearly laid out for the family. It may be that you wish to bring a family member back, and need both additional income and challenging responsibilities for that returning person to the new business. It may be that you simply need additional income to bolster farm or ranch income. Adding an agri-tourism enterprise may actually sound like a lot of fun or be something that you have always dreamed of doing. It may turn out



to be more of a hobby than a business, or it may be a way to meet people and socialize. Whatever your family's reason, it is important to know what the reasons are and to remember why you are undertaking this new venture. Success usually depends on getting all the family team members on board and working toward the same goal.

•What type of agri-tourism business are you exploring?

Another important step is to determine the type of agri-tourism business you would like to explore. Many are considering a hunting/fishing business. Ranch tours, trail rides and cookouts are also getting more popular. Some are considering a bed and breakfast, while others are thinking of offering such events as the round-up or harvest. Part of the information gathering phase of the planning process should involve visits to other farms and ranches that are doing the type of agri-tourism you are considering. Many are very willing to share their story of how they got started and discuss the problems and pitfalls they overcame to be successful. The Internet is also a good source of information. Don't be afraid to ask questions. As you meet as a group, your team may generate other ideas that can complement the original plan and supplement income. Do you need to gather more information or do additional research? If so, who will be responsible for acquiring the information and when will they report back to the group?

•Who is your target audience?

Identifying your target audience is a crucial step. Will you cater to mostly "high end" customers? Remember, they will expect the BEST and demand first class service. Will you target the "average Joe," or will you consider groups such as organizations or church groups? Is there a specific age group that would be more interested in what you have to offer?

•How will you reach your target audience with your story?

What strategy will you use? Will you advertise? If so, by what medium; newspaper, magazine, radio, TV, word of mouth, the Internet or other? What are the associated costs for advertising? What kind of response could you expect as a result of advertising? Who will be responsible to investigate the associated costs and potential expected responses of reaching your target audience and when will they report back to the group?

•Current physical resource and human skills and abilities resource inventory:

Take an inventory of your existing resources. Include physical resources such as land, machinery, livestock, location, lakes, barns, houses, vehicles, etc. Also consider human resources such as labor, management, skills, talents, salesmanship and abilities. For example, Mom is the greatest cook in the county, Dad plays a little guitar and sister sings like a pro. What farm and ranch resources do you have available that could be utilized in the new business? What time of the year are these resources available to be utilized in the agri-tourism business? Remember there may be a competition between the new business and the farm for the same tractor or horse.

• Additional physical and/or human resources needed:

What resources will the new business need? Can you utilize some of your existing resources from the farm or ranch? Will you need additional resources not currently in your possession? You may need to add a van to transport people, or to remodel the barn or update the kitchen. You may find that you are short of a human skill such as labor during certain times of the season. Remember, if your motivation is to increase income, borrowing resources from the farm or ranch may cost much more that you gain through your new venture. Identify the various tasks that need to be preformed. Don't forget things such as accounting, answering the phone, cleaning, decision making, management, etc. Each team member should write down what they think an individual job description would look like for the various jobs that need to be performed. Address responsibilities, duties, length of workday, time of arrival and departure, pay scale, expectations and benefits. Compare and discuss each other's individual description of the various jobs. Agree upon and compile a final job description for each required area. Make sure you write down and keep a record of your results.

Risk

Starting a new venture brings with it a certain element of risk. Attitudes toward risk vary widely. The risk takers in the group may wish to jump right in with both feet. Those of a more cautious nature may want to consider a phase approach to business planning. The phase approach considers first a start up or **testing phase**. During the testing phase you will test the market, trying out your ideas to see if your assumptions

are correct and your expectations regarding costs and expenses are feasible. If results during the testing phase meet your goals, you then move into the **commitment phase**. If results prove disappointing, you may decide to abandon the project and minimize the damage. During the commitment phase, lessons will be learned and information gathered that will provide confidence regarding capital investments or the return of family members to the new business. The **establishment phase** follows with the focus on fine tuning and future planning to meet the desired family goals.

Budget

If your answer to the first question, “Why do you want to do an agri-tourism business?” involved making a profit, then creating a working budget of the new business is essential. How can you manage a business that you can’t measure? It is very difficult to make a management decision if you are unable to measure its financial impact. A budget is a tool that will allow you to compare your income and expense expectations to your actual financial results. It can also act as a predictor of your financial borrowing needs that may occur and, when monitored routinely, can be an early warning device to indicate the need for adjustments. You will not be exact on your first budget estimates. You will likely never be exact. However, with time and experience, you will become increasingly more comfortable estimating your expenses and predicting your income.

Estimating your expenses requires research and information. There are many different sources and prices for the items you need to purchase for your new business. Make a list of all expenditures on a monthly basis. Include debt service, if you are borrowing money, in the months when payments are due. Remember, if there is a conflict with using farm resources during certain months you will need to account for that. Who will be responsible for preparing the monthly expense budget, and when will it be available for the team to review and discuss? After the expected budgeted expenses are completed, determine how many “units” will need to be sold to provide a break even and pay all expenses. If you are doing tours or fishing trips or overnight stays, how many need to be provided to cover the expenses each month? Income for the new business depends both on the price/unit and the number of units sold.

Financing

Financing may become an important element of

your agri-tourism business. The need for financing varies widely dependent on your approach to start-up, your resource base and upon the type of business you are creating. Many options are available for financing a new business including: cash flow financing from operations, using personal savings to start-up and operate the new business, obtaining a micro enterprise loan or securing a bank loan using farm or ranch assets as collateral.

Business Structure

It is obvious that start-up costs of both time and money will be lower if the business structure of choice is a simple sole proprietorship. Start-up costs are not, however, the only potential costs to consider. When dealing with the public there is always the exposure of liability to think about. When someone falls and gets injured, the cost of a lawsuit can quickly become a large concern. Business structures such as a Limited Liability Company (LLC) or a corporation can create a veil of liability protection that will not expose your other assets to lawsuits, etc. from the agri-tourism business. There are some tax benefits to choosing an LLC or corporation as well. Passing the new business to the next generation may also be simpler with an LLC or corporation.

Conclusion

Communication is the key to a successful family operation. Regular meetings with a specific agenda can be very helpful. Make sure to keep meetings relatively brief, not more than an hour, and constructive. Someone needs to be in charge and follow the agenda. This should not be a gripe session. Address the day-to-day operations, periodically review the budget and financial situation and, at least annually, think and plan for the future. Agri-tourism can be a rewarding and profitable enterprise for a farm or ranch business. With planning and open communication, it can also be a way to promote family unity and success.

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