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Roger D. Uhlinger

Laurie Hodges

University of Nebraska--Lincoln, lhodges1@unl.edu

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Income Generation Using Alternative Crops

Roger D. Uhlinger, late Professor, Department of Horticulture
Laurie Hodges, Extension Horticulture Specialist

There are many ways for Nebraskans to generate income. Profits will depend on markets, the skill and commitment of the individual in both production and marketing, and various other tangible and intangible factors. About one in 10 new non-commodity crop ventures become viable, profitable enterprises after 10 years of consistent effort. Experience in and understanding commodity markets is of little use in other markets, which have their own unique characteristics. Many of these markets require building trust, reliability and financial accountability between buyers and sellers. Perseverance is rewarded in the marketplace.

To be successful, the operator should:

- have adequate capital to get through the developmental stages;
- have a thorough knowledge of the crop/process/product and its marketing;
- be deeply committed to the new venture;
- be able and willing to work the long, hard hours necessary for success;
- and either have or be willing to hire top quality management skills.

Failures are frequently related to:

- financing that doesn't cover real start-up costs or permit surviving contingencies such as bad weather, lack of demand, mechanical breakdowns, etc.;
- failing to recognize that each crop/process/product requires different knowledge and skills for success;
- not giving a new venture top priority when conflicting time or money demands occur;
- not realizing the tremendous physical effort required to develop "alternatives" on a commercial scale;
- and lack of having (learning or hiring) needed management skills.

A list of things to consider before starting a new venture and some ideas for "alternatives" are given

below.

New Venture Considerations

If the goal of a new venture is to generate income, you should evaluate a number of items **before** investing time and money. This can be formal and physical or simply an informal mental review. It is best to write down your thoughts for future reference when you wonder why you ever started this new enterprise and in developing a strategic plan. Major topics include

- **Knowledge** — of the crop, of activity or product. Do you already know how to grow/harvest/handle it? On a scale larger than home garden? Do it? Make it? If not, how can you learn what is necessary?
- **Capital (Money)** — for start-up and for continuation.
- **Real estate** — Do you need to buy or lease land? Is it available? Are there land development needs such as leveling, draining, well drilling? Are there restrictions on crops that can be grown on the land due to government programs or herbicide residues?
- **Buildings or other structures** — What is required? Are they standard types or specialized? Are they available? Are you able to make necessary modifications?
- **Equipment** (including irrigation) — What is required? Is it standard or specialized? Is it available or do you have the skills to make necessary modifications?
- **Supplies for production**, post-harvest handling, marketing, promotion, etc.
- **Operating expenses**
 - Pre-production — prepare land (fit, fertilize, drain, plane, bed, ridge, pre-emergent weed control, install irrigation) or prepare facility (install power, equipment, lighting, heating, cooling, safety items, conveyors, washing or cleaning equipment, etc.) and acquire supplies (seeds or plants, pesticides, fertilizer, plastic, raw product, containers, etc.)
 - Production — plant, cultivate, irrigate, control pests, protect from frost, harvest, replace supplies or raw product
 - Post-production — handle, pack, store, advertise, market, clean-up, repair
- **Insurance** — against crop loss; for health, liability, and life; on structures and equipment
- **Legal Counsel and Accountants** — needed for
 - Organizing the venture, (partnership? corporation? joint with current operation or separate?)
 - Contracts and agreements (with buyers, laborers, shippers, suppliers, other producers) to avoid litigation or help resolve it
 - Liability insurance — personal and product
 - Taxes, social security, payroll, cash flow — Do you have good assistance with these issues?
 - License and inspection permits
- **Labor** — Is *quality* labor available when you need it for
 - Pre-plant or pre-production activities?
 - Crop, shop or facility maintenance?
 - Harvesting, grading, quality control, packing?

- Marketing, shipping, or delivery?
- **Commitment** — Can you give this new activity the attention it needs to be successful? For example:
 - Controlled environment facilities (greenhouses and polyhouses) need to be serviced daily, or several times each day.
 - To observe the functioning of a similar venture may require out-of-state or out-of-country travel.
 - Most fruit, vegetable and floral crops require daily attention during certain stages of growth and all will require daily attention during harvest and marketing.
 - Marketable and profitable crops of organically grown fruit, vegetables or grains require *significant management skill* as well as dedication and hours of work.
 - Can you and *are you willing* to keep detailed financial records? That is, all relevant expenses — wages (including yours) taxes, supplies, services, repairs, etc. — and all income from the activity. It also is crucial to know your actual direct and indirect production costs to determine your minimum acceptable price.
 - Can you determine the financial health of your venture? Can you and are you willing to calculate net profit or loss and compare with return on investment from other possibilities? Review production costs? Review pricing practices? Scale up? Scale down? Change crops? Regroup and try again?

Types of Marketing

In sparsely populated areas there may be a very limited market for a particular product or commodity. If so, only one or a few families per community are likely to succeed selling those items locally at a profit. In developing any plans to sell locally, it may be helpful to learn the number of households in your marketing area and future projections for population growth in the area. This may be obtained from the local chamber of commerce or census data.

- **Hobbyist** — generally casual (friends, weekend farmers' market)
- **Commercial direct marketing** — requires an interest and some skill in dealing with people as well as the product or commodity. Kinds of direct markets include: door to door; roadside stand; farmers' market; you-pick operation; on-farm sales. Mail order and Internet sales are growing rapidly as direct marketing methods. These require timely shipping and quality control procedures.
- **Commercial retailer marketing** — sell to produce managers of local retail outlets, buyers for chain stores or to institutions, restaurants, etc. *Requires a quality product with some uniqueness and continuing availability.*
- **Commercial wholesale marketing** — sell to distributors or through brokers to non-resident buyers. *Requires consistency in grading, standard packaging, continuing availability of the product.*
- **Commercial processing market** — generally under contract with the processor. *Requires a track record of consistency in grade and/or quality, appropriate quantities, timely delivery, and whatever else the processor demands.*
- **Commercial consignment marketing** — generally a "market entry" technique to get a potential buyer to try your commodity or product. *Requires a willingness to sacrifice the amount of product involved and/or to remove the unsold portion.*

Marketing "Things to Think About"

- Is there a need or demand for the product(s)?
- Do you have the competitive edge needed to break into a market?
- Consider use of brokers vs. personal marketing activities.
- Consider making pre-production contacts or contracts.
- Have a marketing strategy. Is there a marketing "window"? Do you have a pre-production plan? What is the "perceived value" of your product and are you pricing accordingly?
- Quality control is a must! Do you know what comprises "quality" in your proposed product?
- Packaging must fit the demands of your market.
- Pricing must be fair — to the buyer and to you.
- Advertise — a unique product; to a special audience.
- Transportation must be dependable.
- Control of product inventory is critical. Is storage available? Can you deliver?

More about Money

- How much will you need?
- How often will you need it and for how long a time?
- Will it be your own risk capital or someone else's?
- What sources are available to you?
- Will your venture "cash flow"? (Will you be able to repay a loan?)
- You will need to be accountable to investors — funds must be used for the purposes intended.
- What are your options for profit?

Other Topics

Other topics to consider include: travel to professional meetings or training facilities (highly recommended *before* starting a new venture); legal aspects of your new venture (zoning ordinances, licensing requirements, permits); developmental assistance (feasibility studies through Business Development or Small Business Assistance Centers. For processed food products, contact the marketing office of the University of Nebraska-Lincoln Food Processing Center).

Some Alternatives

Presented below are some ideas for alternatives. The list is not given to recommend these particular ideas but only to demonstrate that there are indeed numerous alternatives — and to stimulate your thinking. Many other possibilities probably will occur to you.

- **Art** — floral arrangements, specialty cut flowers, dried floral materials
- **Baked goods** — breads, cakes, cookies (general or specialty markets)
- **Confections** — candies for general, seasonal or specialty markets
- **Crafts** — carved native wood (canes, figures, walking sticks, etc.), crafted items made of dried flowers, glass, minerals, nuts, rocks, seeds, vines, etc.; driftwood and/or weathered wood and products
- **Firewood** — You-cut, you-load, delivered

- **Floral crops** — field grown or greenhouse produced
- **Fruit crops** — delivered, on-farm sales, U-pick (small fruit, tree fruit, vine crops)
- **Grain crops** — as ornamentals (Indian corn, miniature corn), specialty cuts for the floral market or for specialty markets (malting types, organically grown, pop corn, broom corn, specialty wheat)
- **Herbs and Medicinals** — plants, extracts, fresh, dried, blended products
- **Native plants** — annuals, grasses, perennials (seed heads, seeds, plants)
- **Nut crops** — for nuts, products, plants, wood
- **Perennials and ground covers** — flowers plants, seeds
- **Preserves** — jams, jellies, honey products
- **Recreational development** — camping, collecting, "farm experience", fishing, hiking, hunting, etc.
- **Seed** — collection, production, specialty markets
- **Teaching** — formal, informal, trades skills, crafts
- **Vegetable crops** — direct marketing (door to door, farmers' markets, roadside, you-pick, Internet sales and service), greenhouse production, specialty markets (ethnic, processing, "organic", wholesale)
- **Woody ornamentals** — dried, native, unusual

Reference Material

Generating income through the use of "alternatives" is so broad a topic that citing specific references is difficult. Readers can contact their county's Cooperative Extension Office, local Small Business Assistance Centers, local libraries, Nebraska Department of Agriculture or the Nebraska Department of Economic Development for more information on specific topics of interest. There are numerous Web sites on the Internet that provide background material for specialty crops and markets. If you experience difficulty in performing Internet searches, libraries and county extension offices may be of assistance in identifying key words and concepts to focus the search. Two sites that provide links to many other sites: <http://www.attra.org> and <http://128.227.242.197>.

A New Ventures "Checklist"

To provide a realistic idea of what a "new venture" will require in terms of time and money, it is suggested that the checklist presented below be used — before investing.

Name

Venture

1. My knowledge/understanding of the venture is ____fair ____good ____excellent

2. Capital needed for the 1st year

A. Land

B. Structures

C. Equipment

D. First Year Operating

Operating (Pre-Production)

Operating (Production)

Operating (Post-Production)

Total for First year

3. Second Year Capital Needed

4. Third Year Capital Needed

5. Fourth Year Capital Needed

6. Fifth Year Capital Needed

7. Insured

against loss of crop/ structures/equipment ____yes ____no

for personal liability ____yes ____no

for product liability ____yes ____no

8. Attorney's name is _____

9. Accountant's name is _____

10. Quality labor is available

Pre-Production _____yes _____no

During Production _____yes _____no

Post-Production _____yes _____no

11. Commitment — Hours per day required by "new venture" are _____

Hours per day available that I am willing to invest are _____

"New venture" will get first priority when there is competition for my time and money.
_____yes _____no

A system of accounting for "new venture" money is ready. _____yes _____no

12. Market — The products from "new venture" will be sold to (or by) _____

Packaging will be _____

Special storage/transportation is available when needed. _____yes _____no

I have identified those characteristics that reflect quality and affect market acceptance of the product _____yes _____no

13. Money — Capital needed to start "new venture" is available. _____yes _____no

14. Have I considered how this enterprise will complement or conflict with my other agricultural enterprises? _____yes _____no

15. Decision — Should I start "new venture" or can I do better by improving what I do now?

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