Welcome to Florida Small Farms and Alternative Enterprises Conference

Agricultural Hobby to Profitable Enterprise
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For more information on Small Farms, visit our website at: http://smallfarms.ifas.ufl.edu/ or contact your local County Extension Agent.

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Suggested Citation: Author Full Name. Title of Presentation or Handout. 2014 University of Florida-IFAS and Florida Agricultural and Mechanical University-CAFS Florida Small Farms and Alternative Enterprises Conference. August 1-2, Kissimmee, FL.
Agricultural Hobby to Profitable Enterprise

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Topics to be covered today:

• Enterprise planning
  • Business plan
  • Economic
    • Budget
    • Cash flow
  • Meat goat example

• Marketing
  • Types of marketing
  • Key considerations

• Production management
  • Key health issues
  • Mating systems
  • Feeding and nutrition
  • Production efficiency
What are they?

• Hobby – Has a long history in use of word and concept.
  • Purpose and use.
    • “Hobby horse” terminology.
  • Regular activity for pleasure during leisure time. It has recreational value.
  • Continued practice and action creates substantial skill and knowledge.
  • For joy, fulfillment, and therapy.
How are they different?

• Differences go to:
  • Frame of mind when applying activities.
  • Attitude in approach
  • Matter of expectations
  • Some commonalities.
    • Profitable work can bring joy, be therapeutic, and create additional household income.

  • Hobbies can bring in additional household income as well, but usually not the focus.
Reasons for a transition from hobby to enterprise.

• Apply skills and experience in ways to increase household income.

• Utilize local resources to increase or modify household income.
  • Strategy to diversify income.
  • Often provides discretionary income.

• Recover at least some of the costs associated with a hobby. Allows one to expand the hobby or transition into a profitable enterprise.
Planning: Involves and inventory of all resources

- Human

- Physical

- Social
  - Organizations
  - Agencies

- See: NCAT/ATTRA Planning Profitable Small-scale Enterprises Reference
Structure of Framework for Profitable Enterprise: Goal(s), vision, mission statement

• What are they? What are the differences?

• Each will force one to think-through and set direction for the near-term and future.
Establish a business plan

• Suggest review of AgPlan from University of Minnesota.
  • Cover page
  • Executive summary (Written last)
    • Mission statement
      • Written. Guides actions
      • What entity wants to do now
      • Core purpose and focus
      • Unchanged over time. Like a goal.
        • Serves as filter to separate the important from unimportant
        • Clearly states the markets to be served and how.
        • Communicates a sense of intended direction.
    • Vision statement
    • Goals and objectives are summarized in Mission and Vision statements
      • They are What’s rather than How’s but to smaller than Mission.
      • There may be several, rather than one as in Mission or Vision.
Business plan, continued

- Content of enterprise plan, continued
  - Description of enterprise
    - Overview
    - Location and facilities
    - Business history and ownership
  - Enterprise operations
    - Products and(or) services
    - Production system
  - Marketing
    - Trends and strategy (marketing tools)
  - Management and organizational structure
    - Team, advisory board, professional services used
  - Financial plan
    - Budget
    - Benchmarks
Components of profitability

- Technical issues and production. How to grow, how to produce.
  - Agronomic practices, animal husbandry, soil, and water.

- Marketing.

- Business management.
Budgeting

• Income/Revenue/Receipts

• Expenses
  • Operating/Variable Costs
  • Capital / Fixed Costs

• Cash flow
Profitable enterprises – Economic components

• Focus on profitability
  • Short term
    • Revenues compared to operational costs
  • Longer term
    • Revenues compared to both operational costs as well as fixed or capital costs.

• Will the enterprise make money in the long-term (profitability)?

• Will the enterprise cash flow (liquidity)?
Profitability versus Cash flow

(As per Dr. Curt Lacy – UGA/Tifton)

• Profitability ≠ Cash flow
• Profitability is an indicator of the long-term sustainability of an enterprise.
• Indicates if an enterprise can cover all costs including variable, fixed, capital, and management.
• Important to examine profitability before proceeding to a cash-flow analysis.
Compared to Cash Flow...

• Cash-flow is a short-term measure which provides a general indication if income is greater than outflow.

• Does not necessarily indicate profitability.
  • A business can have a positive cash flow by selling assets and depleting the savings account.
  • A business can be profitable and not cash-flow. However it cannot have a negative cash-flow (in the long run) and be profitable.

• A financially successful agricultural enterprise must be profitable and be liquid, i.e. have a positive cash-flow.
Characteristics of a profitable enterprise

• Expenses do not often exceed revenue.
  • Cash flow issues.
  • Net profit

• Creation and use of a business plan.

• Regular exercises in budgeting.
Key steps in evaluating a new or beginning enterprise.

• Determine the potential profitability using Enterprise Budgets. Will it make any money?

• IF the enterprise looks profitable on paper, then determine if it will cash-flow.
Analyzing profitability

• Develop an enterprise budget for the enterprise to determine if it is profitable.
  • Several templates available on the Internet that allow one to create a budget using local numbers, conditions, and values.

• Do this analysis for an Average Year once full production is reached.

• Include both variable (operating) costs and fixed costs.

• Why begin with costs?
Why start with costs?

• Starting with a consideration to costs is the 1st step in any good marketing program.

• Helps one to know what returns must be in order to be a profitable enterprise. Essential in situations where producer sets a price, e.g. direct marketing/on-farm sales.

• If break-even price is too high compared to the market it helps one to know what the target should be.

• Price should be calculated on a marketing unit basis, such as value per pound, per head, and the like.
Budgeting helps determine - What price do you need?

• Break-even Price = Variable or Total Costs / Expected Production

• Expected Production Calculation
  • Total breeding-age does
  • Kid crop percent at weaning
  • Kid crops per year
  • Kids/crop/year

• Production unit efficiency
  • Weight of kid (or lamb) per doe (or ewe) per year.
  • Weight of kid per unit of land area (acre) per year.
Costs concepts

• Variable costs –
  • Also called direct or operational costs.
  • Changing these costs impacts level of production.
    • Feed costs
    • Health costs
    • Pasture improvement costs
    • Marketing costs
    • .......

• Fixed costs –
  • Also called indirect or capital costs.
  • Changing these has no impact on production
    • Taxes
    • Interest
    • Depreciation on structures/equipment
    • Insurance
Example: (See handout)

• Meat goat herd of 30 production does. Not expanding.
  • Expect 180% kid crop born per year. Fewer will be marketed per year
  • Selling a few bucks as herd sires rather than for meat.
  • Gross receipts of $5,598.
  • Variable costs of $4,807.
  • Fixed costs of $2,016.

• Based on Auburn University enterprise budget
  • Expected profits
    • $791.16 per year over variable costs
    • -$40.83 return over total costs

• Influence of herd size on fixed costs per production unit (doe) and profitability.

• Now, will it cash flow??
<table>
<thead>
<tr>
<th>Input Sheet</th>
<th>Estimated Costs and Returns for Alabama Meat Goat Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Column 1</td>
<td>Column 2</td>
</tr>
<tr>
<td>Cull Rates</td>
<td>Health Costs / Procedures</td>
</tr>
<tr>
<td>Buck Cull Rate</td>
<td>33%</td>
</tr>
</tbody>
</table>
| Doe Cull Rate | 14%                                                            | Number of Times Dewormed | / buck & does /
|              |                                                                | Ent ser toxemia C&D/T |
| Number of Does | 30                                                            | Vaccination | $ 0.65 / dose |
| Doe Size (lbs) - Average | 125                                                          | Number of Times Vac. | 1 / doe / year |
| Number of Bucks | 1                                                           | Kids Vaccination - Cost | $ 0.65 / dose |
| Buck Size (lbs) - Average | 225                                                          |                                      |
| Kid Size When Sold (lbs) - Average | 70                                                          |                                      |
| Market Kids $ 105.00 /Head |                              |                                      |
| $/ CWT Conversion $150.00/CWT |                              |                                      |
| Cull Bucks $ 135.00 /Head |                              |                                      |
| $/ CWT Conversion $60.00 |                              |                                      |
| Cull Does $ 40.00 /Head |                              |                                      |
| $/ CWT Conversion $32.00 |                              |                                      |
| Breeding Bucks $ 250.00 / buck |                              |                                      |
| Breeding Does $ 125.00 / doe |                              |                                      |
| $/ CWT Conversion $29.00 |                              |                                      |
| $/ CWT Conversion $33.00 |                              |                                      |
| % buck kids sold for Breeding 15% |                              |                                      |
| % doe kids sold for Breeding 0% |                              |                                      |
| Housing 3.5721 |                              |                                      |
| 0 |                              |                                      |
| Number of Trips to Market 4 trips |                              |                                      |
| Miles to Market (Round Trip) 50 miles |                              |                                      |
| Mileage Costs ($ / Mile) $ 1.50 / mile |                              |                                      |
| Sales Commision (%) 7.00% /Hd Sold |                              |                                      |
| Square Feet / Adult Animal 8.00 |                              |                                      |
| Cost / Sq. Foot $ 5.00 |                              |                                      |
| Usef ul Life Housing- Years 10.00 |                              |                                      |
| Salvage Value-Housing 5.00% |                              |                                      |
| Repair & Maintenance 4.00% |                              |                                      |
| % of Building Cost |                              |                                      |
| Financial |                              |                                      |
| Annual Interest |                              |                                      |
### Alabama Meat Goat Enterprise Budget

#### Estimated Costs and Returns

#### Following Recommended Management Practices

1. **Herd Information:**
   - **Number of Does:** 30.00
   - **Average Weight - Lbs.:** 125
   - **Number of Bucks:** 1.00
   - **Average Weight - Lbs.:** 225
   - **Kids Marketed:** 42.79
   - **Average Weight - Lbs. (Sold):** 70

2. **GROSS RECEIPTS**

<table>
<thead>
<tr>
<th></th>
<th>Unit</th>
<th>Quantity</th>
<th>Unit Price</th>
<th>Total</th>
<th>$/Doe</th>
<th>Your Farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Kids Sold For Meat</td>
<td>Head</td>
<td>42.8</td>
<td>105.00</td>
<td>4492.74</td>
<td>149.76</td>
<td></td>
</tr>
<tr>
<td>Buck Kids Sold For Breed. Stock</td>
<td>Head</td>
<td>3.6</td>
<td>250.00</td>
<td>893.03</td>
<td>29.77</td>
<td></td>
</tr>
<tr>
<td>Doe Kids Sold For Breed. Stock</td>
<td>Head</td>
<td>0.0</td>
<td>125.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Cull Bucks Sold</td>
<td>Head</td>
<td>0.33</td>
<td>135.00</td>
<td>44.55</td>
<td>1.49</td>
<td></td>
</tr>
<tr>
<td>Cull Does Sold</td>
<td>Head</td>
<td>4.2</td>
<td>40.00</td>
<td>168.00</td>
<td>5.60</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$5,598.32</strong></td>
<td><strong>$186.61</strong></td>
<td></td>
</tr>
</tbody>
</table>

3. **Variable Costs**

<table>
<thead>
<tr>
<th></th>
<th>Unit</th>
<th>Quantity</th>
<th>Unit Price</th>
<th>Total</th>
<th>$/Doe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hay</td>
<td>Pounds</td>
<td>8,100</td>
<td>0.05</td>
<td>364.50</td>
<td>12.15</td>
</tr>
<tr>
<td>Concentrate</td>
<td>Pounds</td>
<td>5,625</td>
<td>0.13</td>
<td>731.25</td>
<td>24.38</td>
</tr>
<tr>
<td>Pasture</td>
<td>Acres</td>
<td>12.00</td>
<td>200.00</td>
<td>2,400.00</td>
<td>80.00</td>
</tr>
<tr>
<td>Salt &amp; Minerals</td>
<td>Pounds</td>
<td>1,369</td>
<td>0.25</td>
<td>342.19</td>
<td>11.41</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Unit</th>
<th>Quantity</th>
<th>Unit Price</th>
<th>Total</th>
<th>$/Doe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dewormer</td>
<td>Dose</td>
<td>93.00</td>
<td>0.85</td>
<td>79.05</td>
<td>2.64</td>
</tr>
<tr>
<td>Enterotoxemia C&amp;D/T Vaccination</td>
<td>Dose</td>
<td>31.00</td>
<td>0.65</td>
<td>20.15</td>
<td>0.67</td>
</tr>
<tr>
<td>Kids Vaccination</td>
<td>Dose</td>
<td>95.26</td>
<td>0.65</td>
<td>61.92</td>
<td>2.06</td>
</tr>
<tr>
<td>Misc. Antibiotics / Medications</td>
<td>Year</td>
<td>1.00</td>
<td>25.00</td>
<td>25.00</td>
<td>0.83</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Unit</th>
<th>Quantity</th>
<th>Unit Price</th>
<th>Total</th>
<th>$/Doe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hired Labor</td>
<td>Hours</td>
<td>0.00</td>
<td>8.25</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Sales Commission</td>
<td>Head</td>
<td>47.33</td>
<td>0.07</td>
<td>3.31</td>
<td>0.11</td>
</tr>
</tbody>
</table>

*Note: All prices and quantities are approximate and subject to market fluctuations.*
Cash-flow considerations

• Cash-flow is a measure of liquidity for a business.

• A business can be profitable and not cash-flow.

• Includes the cash coming and going in a business or enterprise.

• Very, very, unusual to find ventures that generate positive cash-flow in the first year, or two.
### Example cash-flow from budget

<table>
<thead>
<tr>
<th>Capital Investments</th>
<th>Unit</th>
<th>Quantity</th>
<th>Unit Cost</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Item</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breeding Does</td>
<td>Head</td>
<td>30</td>
<td>$500.00</td>
<td>$15,000.00</td>
</tr>
<tr>
<td>Breeding Bucks</td>
<td>Head</td>
<td>1</td>
<td>$750.00</td>
<td>$750.00</td>
</tr>
<tr>
<td><strong>Buildings and Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>Sq. Ft.</td>
<td>248</td>
<td>$5.00</td>
<td>$1,240.00</td>
</tr>
<tr>
<td>Fencing</td>
<td>Ln Ft.</td>
<td>3,492</td>
<td>$2.00</td>
<td>$6,984.78</td>
</tr>
<tr>
<td>Working Facilities</td>
<td>Each</td>
<td>1</td>
<td>$7,500.00</td>
<td>$7,500.00</td>
</tr>
<tr>
<td><strong>Total Livestock Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td>$15,750.00</td>
</tr>
<tr>
<td><strong>Total Buildings &amp; Equipment Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td>$15,724.78</td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td>$31,474.78</td>
</tr>
</tbody>
</table>
Example cash-flow from budget

• Components to consider from the budget
  • Breeding does investment
  • Housing, fencing, working facilities.

• Assume there is $10,000 cash to begin with

• Assume breeding stock and equipment and facilities are purchased in the current year with no livestock sales until next year.

• Assume 50% of the breeding stock is financed over 5 years, and 80% of the other is financed over 10 years. Both are barrowed at 7% interest.
### Example Cash Flow

<table>
<thead>
<tr>
<th>Item</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning cash balance</td>
<td>$10,000.00</td>
<td>($5,293.91)</td>
<td>($5,588.57)</td>
<td>($5,026.23)</td>
<td>($4,463.89)</td>
<td>($3,901.55)</td>
<td>($3,339.21)</td>
</tr>
<tr>
<td>Meat Goat Sales</td>
<td>$2,512.88</td>
<td>$2,512.88</td>
<td>$2,512.88</td>
<td>$2,512.88</td>
<td>$2,512.88</td>
<td>$2,512.88</td>
<td>$2,512.88</td>
</tr>
<tr>
<td>Cull Sales</td>
<td>$857.00</td>
<td>$857.00</td>
<td>$857.00</td>
<td>$857.00</td>
<td>$857.00</td>
<td>$857.00</td>
<td>$857.00</td>
</tr>
<tr>
<td>Total Cash Income</td>
<td>$10,000.00</td>
<td>$7,948.09</td>
<td>$8,510.43</td>
<td>$9,072.77</td>
<td>$9,635.11</td>
<td>$10,197.45</td>
<td>$10,759.79</td>
</tr>
<tr>
<td>Operating Expense</td>
<td>$4,273.96</td>
<td>$8,547.92</td>
<td>$8,547.92</td>
<td>$8,547.92</td>
<td>$8,547.92</td>
<td>$8,547.92</td>
<td>$8,547.92</td>
</tr>
<tr>
<td>Livestock purchases</td>
<td>$15,750.00</td>
<td>$2,850.00</td>
<td>$2,850.00</td>
<td>$2,850.00</td>
<td>$2,850.00</td>
<td>$2,850.00</td>
<td>$2,850.00</td>
</tr>
<tr>
<td>Build &amp; Equip. Purch</td>
<td>$15,724.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capital Expenses</td>
<td>$31,474.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Borrowings</td>
<td>$20,454.83</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Livestock loan payment</td>
<td>$1,920.64</td>
<td>$1,920.64</td>
<td>$1,920.64</td>
<td>$1,920.64</td>
<td>$1,920.64</td>
<td>$1,920.64</td>
<td>$1,920.64</td>
</tr>
<tr>
<td>Build &amp; Equip. Pmt</td>
<td>$3,068.10</td>
<td>$3,068.10</td>
<td>$3,068.10</td>
<td>$3,068.10</td>
<td>$3,068.10</td>
<td>$3,068.10</td>
<td>$3,068.10</td>
</tr>
<tr>
<td>Total Loan Payments</td>
<td>$4,988.74</td>
<td>$4,988.74</td>
<td>$4,988.74</td>
<td>$4,988.74</td>
<td>$4,988.74</td>
<td>$4,988.74</td>
<td>$3,068.10</td>
</tr>
<tr>
<td>Net Cash Flow</td>
<td>($5,293.91)</td>
<td>($5,588.57)</td>
<td>($5,026.23)</td>
<td>($4,463.89)</td>
<td>($3,901.55)</td>
<td>($3,339.21)</td>
<td>($856.23)</td>
</tr>
</tbody>
</table>
Reality check....

• Things probably won’t go this well.

• Major risks
  • Kid or lamb crop percentage
  • Number of animals sold as breeding stock versus meat.
  • Feed prices or fertilizer costs.
  • Health expenses.

• Possible remedies
  • Grow into the business
  • Raise own replacements
  • Lower operating costs
    • Multispecies grazing spread fixed costs over more than one enterprise
Summary of planning and economics

• Think and plan.....and again.....and again
• Examine assumptions, including involvement of family members.
• Set direction and benchmarks for measuring progress
• Keep it fun, while working. Keep eye on goal.
• Seek outside views and input....but not from negative sources.
• Principles for successful business are the same regardless of the commodity
Marketing options

• Home utilization. Hard to sell if no experience with the product.

• Direct at the farm (Live animals for meat or breeding)
  • Lowest cost
  • Need to be sorted and held together in advance
  • Have a set price, even in circumstances of “bargaining”
  • Not always convenient timing
    • Set days and time in advance.
  • Have some idea of type and size of animal to sell.
Marketing options:

• Local auction market (Seek out goat-only or goat and sheep-only)
  • Potential for a more competitive situation if multiple buyers.
  • Predictable time and place
  • Has some social context
  • Commission, transportation, and fees reduce net proceeds.
  • (Selling not Buying)

• Carcass to individuals, wholesale, or retail (State or USDA inspection required)
  • Individual producers or Marketing alliance / cooperative
  • Value added plus raised locally
  • Consistency, regular supply, work with chefs. Relationships a key!
Marketing considerations:

• If selling for sacrificial purposes, know religious calendars.
  • Islam; Judaism, Christian

• Learn of feast days of ethnic populations in your area.
  • Weddings, birthdays, national holidays.

• Advertising:
  • Word of mouth
  • Web site and Facebook and the like
  • Provide samples, including cooking advice
  • Emphasize fresh and local when you honestly can.
    • Major amounts of goat and lessor amounts of lamb imported in frozen form.
Marketing alliance / cooperative

• Can add to volume and regularity of supply. Adds value.
• Involves a critical level of trust and commitment.
  • Can not abandon the group when opportunity to sell for higher price comes.
• Internal agreement must include commitment to provide a given level of production each year or season. Shares = animals.
• Need paid marketing staff to build relationships and to attend to daily tasks.
• May require modifications on management and season of production of individual operations.
• Know the characteristics of the market.
Marketing Summary:

Demand for the goat and sheep product exists.

Marketing identifies more clearly and precisely where the demand exists and what characteristics are desired.

Work individually and in groups as needed.
American Goat Federation

• Mission – To promote the production and use of goat products of all kinds and to represent all segments of the goat industry on issues at the national level.
  • Regulatory and policy
  • Education and research
  • Markets and marketing

• Become a member!
  • Organizational
  • Individual

• www.americangoatfederation.org
Current Contact Information

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• getzwillr@yahoo.com
• 478-8252551