

Keys to Successfully Choosing Enterprises That Suit Your Small Farm¹

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Introduction

It is important to spend time identifying the goals of the family and farmer when considering an alternative agricultural enterprise. Small farmers should choose alternative enterprises based on their farms' natural, physical, financial, and human resources. Increasing profitability is a common goal, but many other factors often play a role in this process on small farms. Other goals may include decreasing financial risk, reducing investment, bringing in another family member or partner, providing opportunities to keep labor busy year round, using other natural resources on the farm, and increasing involvement of the community in the farm. This document has been developed to help farmers begin the decision-making process of evaluating alternative enterprises.

Key Points to Consider

The "considerations" chart (Figure 1) shows the expenses associated with establishing and running various enterprises along with the risks and the potential returns from each different enterprise. The information should help farmers identify the key points to consider when making the initial evaluations of an alternative enterprise.

Listed on the top of the table are several popular enterprises a farmer may consider as an alternative. Each enterprise is

tied to the Florida Small Farms website (<http://smallfarms.ifas.ufl.edu>) where additional information about that specific enterprise can be easily found. Listed on the left of the table are the key points to consider when choosing an alternative enterprise. Each key point topic is addressed in this document.

For more information on the points addressed in this table, please consult the links below (from the small farms website <http://smallfarms.ifas.ufl.edu/>).

[Large animals](#), [Small animals](#), [Vegetables](#), [Tree Fruits](#), [Small Fruits](#), [Sod/Turf](#), [Aquaculture](#), [Citrus](#), [Pine Straw](#), [Forestry Products](#), [Agritourism](#), [Nursery](#), [Hydroponics](#), [Wildflower Seeds](#), [Forages/Hay](#)

A final assessment of low, medium, high, or very high is given, but farmers should realize there is usually a range, even within each enterprise. For instance, hydroponic tomatoes generally have more pests than hydroponic lettuce, but an overall relative rating of high (H) is given. Farmers should use this information as a first step in making comparisons, but should seek additional information on each enterprise as they proceed in further evaluations.

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	Large Animals	Small Animals	Vegetables	Tree Fruits	Small Fruits	Sod/Turf	Aquaculture	Citrus	Pine Straw	Forestry Products	Agritourism	Nursery	Hydroponics	Wildflower Seeds	Forages/Hay
Considerations															
Land Considerations															
Startup Capital															
Building Needs															
Equipment															
Experience or Knowledge															
Management															
Labor															
Operating Costs															
Marketing															
Packing/Shipping															
Regulations															
Management of Pests															
Maintenance and Repair															
Insurance															
Risk of Investment															
Potential Returns															

= low, = medium, = high, = very high

Figure 1. Key points to consider when selecting an alternative enterprise.
Credits: UF/IFAS

Considerations

Land costs are dependent on a number of factors that vary greatly for each situation. Questions that should be considered for each unique business plan include:

Land Quality: Not all land is suitable for every type of farming operation. Soil type and drainage are two factors that should be considered before assuming that the land is suitable for crop production. The US Department of Agriculture classifies soil types and the ability of these different soil types to sustain crop production. Land poorly suited for watermelon production may be suited for hay production and grazing. Conversely, land not capable of supporting any crop production may be perfectly suited for supporting greenhouse construction. Contact your local UF/IFAS Extension office to find information on land quality and suitability (<http://sfyl.ifas.ufl.edu/map/index.shtml>).

Land Site: The old business adage that “location is everything” is true for your farming operation. One needs to consider the type of business and the importance of locating that business close to clientele. Land costs closer to urban areas may increase dramatically. A u-pick blueberry operation needs to be located in an area where traffic flow is relatively high and where farming operations will not bother the neighbors. On the other hand, an organic egg facility may be located in a more remote location where the business and its attendant odors will not disrupt the lives of others. Other considerations may include access to water, electricity, sewage treatment, telephone, and internet (consider access speed). Frontage access, potential development pressure, and taxes are other essential considerations. Make a list of important considerations for your operation and use it as a guideline for selecting the ideal location.

Land Ownership: Should one buy or rent land for the agricultural operation? Again, the answer depends on the business. If land is already owned, does it meet all

the considerations listed above? Owning the land may be good if the business requires infrastructure development. However, ownership ties a business to a particular site and one may incur debt to purchase the land. Renting land may reduce the upfront cost to get the business started. It is important to work out the terms of the land lease and have them in a signed lease agreement before starting the business.

Startup Capital

Agricultural enterprises vary significantly in the need for capital. It is important to know which enterprises will require high capital investments. Many small farms are not interested in enterprises that require high investment. If this is the case on your farm, many enterprises can be eliminated from consideration. Often enterprises that have the highest potential returns will also require a very high initial investment. Enterprises such as greenhouse hydroponics, nurseries, or vegetable farms will likely require more capital than other enterprises.

The other consideration regarding capital is the sources available for credit. Not all lending institutions make agricultural loans. Agricultural loan policies vary among banks. The Farm Credit System specializes in agricultural loans. Other sources may include Small Business Administration, local agriculture businesses that carry credit, insurance companies, or individuals. Other possible sources of capital are grants from various entities such as the USDA, Florida Department of Agriculture, private foundations, etc.

Building Needs

The expenses tied to construction needs vary with the type of business. Generally, the more buildings required, the more upfront costs will be incurred. Livestock operations need different types of structures compared to a greenhouse orchid business. For vegetable production, a pole barn with a cement slab for equipment storage and product grading may be all that is necessary.

For both new and used facilities, make a detailed list of building needs before visiting with contractors or reviewing sites in the area. If you need to build new structures, obtain multiple estimates from licensed contractors as a precaution. If you are thinking of purchasing a used facility, consider how closely it matches your needs. Does it have the proper electrical service, water access, and storage (cold and dry)? Is it expandable if the business grows? If not, how much money will it cost to upgrade the facility? The more critical and honest you are in estimating needs and costs

before the business opens, the fewer unpleasant surprises will occur.

Equipment

Equipment can be one of the largest expenditures in a new farming operation. However, there are ways to reduce the upfront costs of new equipment. The first step in estimating your equipment costs is to chart all production steps in the new business. You can't estimate your equipment needs accurately until you develop a thorough business plan. The second step is to chart each piece of equipment necessary for every step in the production process. For instance, the list for a roadside produce stand might include everything from the equipment necessary to grow the crops to the cash register at the roadside stand.

Other options than buying new equipment are available for the new business. Used equipment is available at auctions. If you are not experienced at evaluating the value of used equipment, take an experienced friend along to help. Remember, when starting a new business, keep unnecessary equipment purchases to a minimum by following your equipment needs list. Some equipment can also be leased or rented. Check out all equipment for dents and dings and make sure it operates properly before the lease or rental agreement is signed. Another option is to contract out the work to be done. For instance, it may be possible to contract the land preparation out with a local grower. This will reduce upfront costs and allow time to fine-tune future equipment needs.

Experience or Knowledge

Agricultural enterprises require considerable technical knowledge. In fact, the most successful farmers, whatever the size of their operations, are the ones who gain and use new technology or knowledge before their competitors do. The greater an enterprise's requirement for technical knowledge or experience, the more difficult it may be for a beginner to succeed in that enterprise. Farmers should consider how they will obtain the knowledge they lack. Are there other farmers, suppliers, consultants, and extension agents in the local area who will be able to help? Evaluate your own skills and knowledge and develop a strategy to meet the requirements of any new enterprise before you adopt it.

Management

Farm management responsibilities on small farms often reside with a single individual. This is a serious challenge to many modern-day small farmers because the tasks are

diverse (for instance, record keeping, keeping up with certifications and permits, and maintaining quality assurance and food security). These tasks all take significant time away from normal production and marketing decisions. Many small farmers admit that farm management was an under-emphasized area in their planning process. Carefully evaluate the new management demands that an alternative enterprise will present to determine if the manager or the management “team” can reasonably expect to manage the new enterprise.

Labor

Agricultural labor availability and quality have become critical issues for all farms. Alternative enterprises needing a large or skilled labor force will require plans to identify, recruit, and retain workers. In many areas, farmers say it is difficult to find workers, especially if the demands are sporadic and seasonal. Some enterprises will have requirements for a large labor pool for specific tasks during a short period, such as planting and harvesting. These fluctuations in labor demands can be very difficult. Small farms may have an extra challenge of providing consistent working hours to retain employees. This may be especially true for enterprises such as vegetable production where labor demands may be large but only during short periods of time. In other enterprises, smaller labor pools will be required, but special skills will be needed. These enterprises may include hydroponics, nursery, agritourism, or tree fruits.

Operating Costs

Operating costs, also called variable or direct costs, are associated with producing a commodity for a specific production cycle, which is usually one year. These costs will occur only if the commodity is produced and includes such things as seed, transplants, heating/cooling costs, feed, labor, veterinary and breeding services, fertilizer, pest control, machinery operating costs (such as labor, fuel, and repairs), harvesting, hauling, and marketing.

Marketing

As with all new businesses, you should develop a thorough business plan before you produce the first “widget.” A business plan should include precise information on who will buy your product. Develop a marketing strategy that will reach your targeted audience. For instance, is the target audience everyone who drives past your nursery business on the local highway? Or is it everyone in the United States who likes dried gourmet mushrooms and has access to the internet? Is the business seasonal or is your product

available year round? Will marketing be limited to a sign in front of the business and an ad in the local paper, or will you purchase ad space on www.foodnetwork.com to bring customers to your website? Budget and prepare carefully so as to stretch your marketing dollars and maximize product sales, and make sure to figure in your marketing costs when determining your overall monetary needs. For more information on marketing strategies for small farms, visit <https://smallfarm.ifas.ufl.edu/direct-marketing-value-added/>.

Packing & Shipping

In some cases, most or all of a farm’s products may be sold at the farm; however, many farms require packaging and transportation of products to the market. The main considerations are the specific types of packaging required and the type and size of equipment needed. Is the farm small enough that a small pickup truck can do the job, or will you need a truck and trailer, or more? Will your products require refrigeration or other environmental control during shipping? Even small farmers find it important to consider the need to handle palletization of product being shipped or delivered to the farm. A small forklift and loading area may be a valuable investment or even a necessity at some point. Finally, if you’ll be transporting mixed loads of various products, you’ll likely need additional equipment, since optimal shipping temperature varies greatly among different products, and since ethylene-producing products must be stored separately from ethylene-sensitive ones.

Regulations

Agricultural regulations, once a minor issue, have become a major consideration to a modern farm. Basic county zoning requirements may limit certain types of agricultural activities. County government personnel handle building permits and therefore would be a logical place to start learning regulations. Enterprises involved in processing of foods require licensing and inspection by the state (Handbook of Florida Agricultural Laws, <http://edis.ifas.ufl.edu/fe113>). Farmers applying restricted-use pesticides require certification and license renewal through the Florida Department of Agriculture and Consumer Services (<http://www.florida-agriculture.com/>).

Certain markets require a food safety certification or a third party audit for the farm (<http://www.fda.gov/Food/GuidanceRegulation/FSMA/default.htm>). Selling at a community farmers’ market will usually require memberships and farmer certification through that market. Farm laborers must follow certain requirements. Proper worker requirements may include: determination of lawful age for certain tasks, certification of legal alien status, wage

and compensation requirements, and social security requirements.

The local Water Management District will be a necessary visit for most enterprises. The Water Management Districts handle irrigation permitting and storm water runoff. Animal operations will require permitting and may need approved waste management plans. Most agricultural enterprises have recently become involved in agreements for voluntary best management practices, especially regarding nutrient management. This process provides the farmer a presumption of compliance in cases of water quality issues.

Needless to say, regulatory aspects of a modern-day farm are very important and must be identified and dealt with early.

Management of Pests

Many small farmers going into agriculture indicate they prefer not to use pesticides. This preference will likely eliminate some enterprise choices. Perhaps the first step in this decision is to fully understand the options available and the associated risks and benefits of this decision. It's important to define clearly what one means by "pesticide". Any material used to manage or control a pest (insect, weed, disease, or nematode) is considered a pesticide. So relatively harmless products such as soap or oil sprays are considered pesticides. Even certified organic production will allow the use of certain formulations of these products. If a farmer plans to be a certified organic grower, the lists of approved materials can be found at the Organic Materials Review Institute website (OMRI; <http://www.omri.org/>). You may find useful information in the UF/IFAS publication, "Organic Vegetable Production," <http://edis.ifas.ufl.edu/CV118>, as well. Many pesticides can be purchased and applied without a pesticide applicator's license. However, if the pesticides to be used are regulated or, in many cases, if they are used commercially, the purchase and application will require becoming a certified pesticide applicator through the Florida Department of Agriculture and Consumer Services. The main point here is that a farmer needs to determine whether pesticides will be part of the farm plan, especially if the plans are to become a certified organic grower.

The National Organic Program home page is <http://www.ams.usda.gov/AMSv1.0/nop>.

Maintenance and Repair

What could go wrong in your operation? What do you do if the potato harvester breaks down at the peak of the season and you have customers waiting? Does your meat

packing facility need to be washed and sanitized after each work day? Who will do this? What happens if the computer responsible for watering and fertilizing your greenhouse crops gets a virus?

The more your business depends on equipment, the more money you should budget for maintenance and repair. It may be critical to purchase some duplicate equipment to reduce down time when something goes wrong. Some maintenance and repair operations can be contracted out with other companies until the business is large enough to hire personnel to do the work in-house. Be sure to research this option thoroughly. Are you satisfied with the terms of the contract? How soon is help guaranteed to arrive? How will this delay hurt your business? The goal is to create a well-thought-out plan for how maintenance and repairs will be conducted before the business is in operation.

Insurance

Insurance is the best way to protect your business investment against unforeseen circumstances. For a small business owner, insurance products may include crop, liability, health, and auto insurance among others. To obtain personalized costs, contact an insurance representative qualified to write policies for small business owners. For more information: <http://agalternatives.aers.psu.edu/Publications/AgBusinessInsurPM7.pdf>

Risk of Investment

Don't produce it unless you can sell it. The best way to reduce your investment risk is to develop a comprehensive business plan. The business plan should be reviewed by qualified individuals who can offer constructive criticism. It is better to seek out all the potential pitfalls in your plan before you open for business than to experience problems when it is critical to make a profit. Ask yourself at the outset: "How much money am I willing to lose?"

Generally, it can be assumed that the more volatile the market, the higher your potential for both profit and loss. The USDA has market pages for crops and livestock that list the market price of many commodities. If the data are available, plot the market price for your product over the last decade. What are the trends? What were the high and low prices and when did they occur?

For other types of businesses, what is the state of the economy? For instance, if you are growing specialty sod for new homes, what is the trend in the housing market? In this case, the more volatile the housing market, the more risk there may be in your business investment.

For further information: <http://www.ams.usda.gov/>

Potential Returns

Alternative enterprises vary in their potential to return high profits back to the farm. Although profit may not always be a major factor in choosing an enterprise, it usually is the main motivation. Generally those enterprises with the greatest potential returns are also the ones with the greatest risk or the greatest capital investment required. In addition, a farmer must determine the desired time frame for the returns to be realized. Some enterprises, many vegetable crops, for instance, result in income in just a few months. Other enterprises, like fruit trees, certain nursery crops, large livestock, or forestry products, may not result in any returns for a few years.

Study carefully the cost and return information for the enterprises of interest. Consider the budgets with various expected yields and prices to help determine the likelihood of a profit.

Take Stock Before You Get Started

A current, realistic, complete and accurate list of available resources is useful in strategic planning for a new farm venture. Whether you're an existing farmer making a change in a traditional operation, or a novice beginning a new farm, you should inventory what you have to work with, and what you stand to lose if the venture is unsuccessful. A formal inventory may alert you to some missing but necessary resources. It may also assure that you are not practicing self-deception in planning a venture that will take a commitment of your time, and your family's time, for a long period with little chance of success. An inventory of resources is the sound basis on which you'll build your production, financial, and marketing plans.

Classic economics indicates that agriculture requires a mix of 1) *land*, 2) *labor* and 3) *capital* resources. But that overlooks some critical resources necessary for successful farming: management or *human capital*. That's know-how, experience, management ability, resourcefulness, and specialized skills such as carpentry, welding, bookkeeping, and knowledge of the law. Here, we'll group the resources as: *the place*, *the people*, and *the money* critical for success.

Your resource inventory may show that you don't have sufficient resources on hand to "make a go" of your farm plan. If that's the case, revise the plan or start smaller and grow as you gain experience and cash-flow. If you need to borrow *money* to fill gaps in your *place* or *people* resources, lenders will want most of this information before they'll

let go of their own resources to help you finance your plan. Bankers likely will want to see documentation to back up inventory you claim.

This inventory will define, "*What you've got.*" As you consider alternative resources, you'll discover "*what you need*" to produce and market the farm products. That, in turn, will help you determine "*the gap between the two,*" so that you can devise a plan or strategy to overcome or narrow the gap. The inventory may take many forms, but it should be written, and it should be revised from time to time as you develop and carry out your farm plan. Many formats exist for recording your inventory. The following are a few excellent documents on alternative enterprise planning, start-up and decision making. Most have worksheets and structured forms for inventorying your resources. Use the forms, charts, tables and checklists that organize information that you feel most comfortable with. Or just write down responses to the questions in the Farm Inventory below.

Identifying Alternatives – What are the Possibilities?

(Agriculture, Food and Rural Development of Alberta, Canada) [http://www1.agric.gov.ab.ca/\\$department/dept-docs.nsf/all/agdex1366?opendocument](http://www1.agric.gov.ab.ca/$department/dept-docs.nsf/all/agdex1366?opendocument)

Taking the First Step: Farm and Ranch Alternative Enterprise and Agritourism Resource Evaluation Guide (Southern Maryland RC&D and USDA NRCS) <ftp://ftp-fc.sc.egov.usda.gov/Economics/AltEnterprise/FirstSteps.pdf>
Primer for Selecting New Enterprises for Your Farm (University of Kentucky Extension) <https://www.uky.edu/Ag/AgEcon/pubs/ext2000-13.pdf>

Building a Sustainable Business: A guide to developing a business plan for farms and rural businesses (Minnesota Institute for Sustainable Agriculture, University of Minnesota) <http://www.misa.umn.edu/Publications/BuildingaSustainableBusiness/>

Checking Your Farm Business Management Skills (Purdue Extension) <https://www.extension.purdue.edu/extmedia/ID/ID-237.pdf>

These may also be helpful in planning for a new or different farm operation.

Whole Farm Planning: Combining Family, Profit, and Environment (Minnesota Institute for Sustainable Agriculture, University of Minnesota Extension) <http://www.misa.umn.edu/Publications/WholeFarmPlanning/>
Farmer Tax Guide (Internal Revenue Service Publication 225) <http://www.irs.gov/publications/p225/index.html>
Setting the Guideposts (Iowa State University) <http://www.extension.iastate.edu/Publicaitons/pm1887.pdf>

Inventory of Farm Resources

You'll have most of what you need if you answer the following questions, and of course, some won't apply to your individual case. Expand the list if you have other significant resources.

- Do you currently farm?
- Briefly describe what you raise now, and how much.
- How many acres? Where?
- Or are you a novice who wants to get into farming?
- Where, and what is your production goal?

The Place

What are your *natural and physical resources* (land/soil, water, and facilities)?

LAND (OWNED OR LEASED)

How many acres in the place? (crop land, pasture, wooded, homestead)

What is the current land use? (crops planted, pasture, forests)

How much land is cleared or previously cropped; could more be cleared?

Do you have a map showing boundaries, previous cropping patterns, soil type (from an NRCS Soil Survey) and topography (slope)? Do you have results of soil tests? If not, get them with help from your local UF/IFAS Extension agent, USDA-NRCS, USDA-FSA, or your County Property Appraisers Office.

Proximity: how close is the land to your residence; is there access by paved or all-weather-graded roads; how close are you to markets, roadside stands or u-pick populations?

What is the NRCS Suitability? Are there environmentally sensitive areas such as wetlands, endangered species habitat, karst (sinkhole) features, etc.?

Are there resource limitations, regulatory constraints, or zoning or Water Management District restrictions?

Is there a possibility of selling development rights, or establishing a conservation easement?

Do you have a Home*A*Syst or Farm*A*Syst assessment on the place?

Is there nearby land available for purchase, lease, or rent?
Could you lease out or rent some of your land?

Which Water Management District is the place in?

FACILITIES

Do you have wells? (depth, diameter, capacity)

Do you have the ability to irrigate? (type and capacity of system)

Are pastures fenced? (type, condition)

Do you have equipment sheds, livestock barns/stalls, packing and processing facilities? (size or capacity, state of repair or condition)

Are there resource limitations, regulatory constraints, or zoning or Water Management District restrictions?

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Is there nearby land available for purchase, lease, or rent?
Could you lease out or rent some of your land?

Which Water Management District is the place in?

Do you have tractors and other farm equipment? (type, capacity, state of repair, serviceability and reliability)

LIVESTOCK

Do you currently have livestock? (breed, type, how many, age, condition).

The People

What *human resources* are available (who'll do the work; and who'll do the thinking and directing)?

MANAGEMENT

Do you have farm experience? (what tasks, what crop or livestock, when)

Are you a novice who wants to get into farming?

Do you have management skills and experience, especially with farm operations?

How handy are you with equipment, livestock, etc.?

Do you have physical needs/limitations?

Do you have specialized skills or abilities? (list them)

Do you have pesticide licenses, permits, etc.?

LABOR

How much of your own time can you commit to the farm, and when?

What family members can you realistically expect to work, and when? (Will they be paid or unpaid?)

- Weekly
- During the start-up period while you're beginning the operation
- During seasonal peaks, such as harvest time

Hired labor

- When is labor required?
- Is labor available? (Labor contractors, neighbors willing to work for a wage)
- What is the going local wage?
- Can you get workers compensation insurance? (And what are the rates?)
- Will transport, medical, housing, and other fringe benefits be offered?

Specialized skills and other personnel

- Do you or does someone in the operation have specialized skills (carpentry, welding, bookkeeping, law, etc.)
- What outside sources of experience information or knowledge can you call on? (list your counselors and

advisors such as Extension agents, neighbors, farm supply dealers, commodity or producer associations)

- Are there custom operators available you can hire?
- What specialized services can you retain or hire? (veterinarians, marketers or brokers, lawyers, bookkeepers, accountants)
- Can you barter or swap your skills for the skills you lack?

The Money

What financial or capital resources do you have? (either what you own or what you must borrow, and how you plan to protect both)

Do you have money on hand? (If you don't, get to know your banker, now.)

Do you have sufficient startup and operating capital on hand plus contingency funds to cover unexpected costs?

Do you have a line of credit; where will you get investment and operating loans or grants? (USDA FSA, NRCS cost-share, Farm Credit, commercial banks)

Do you have a *separate* farm bank account? (if not, set one up and keep it separate from the family account)

Do you have a financial statement listing the value of assets and liabilities? (if not, put one together: your banker will require it.)

Do you keep depreciation, income, expense and other records? (you'll need to keep those records and report them annually to the IRS on Schedule F with your 1040)

Do you qualify for Agricultural Assessment (Greenbelt)? (check with your county property appraiser, and file between January 1 and March 1 if necessary)

Do you have a plan to protect the farm from risk?

Do you have a will? (if not, get one)

Do you have adequate insurance?

- Property insurance?
- Life and health insurance?
- Crop insurance? (If you don't carry crop insurance, how will you handle a catastrophic crop loss or a drop in market price?)
- Liability insurance?

- Workers Compensation insurance?

Do you have access to markets?

Where will you acquire your “inputs” (farm supplies, repair and maintenance, well/irrigation, etc.)?

Are there local brokers or buyers for your product?

If you plan to market products as “organic” is your farm certified?

Do you have a plan for curb-side marketing, community marketing, U-Pick sales or some other direct-to-consumer method? What are the local regulations for direct marketing?

Do have permits for processing if you plan for “value-added” products?

Constraints, Limitations, and Restrictions

Are there limitations beyond your control that may prevent you from carrying out a farm plan?

Are there legal, regulatory, moral or ethical limits that may limit the farm? (List them)

- What are you absolutely not willing to do? (ethically, morally, based on religious convictions or cultural norms)
- What are you absolutely not willing to give up or lose?
- Timber, fruit trees, and some livestock enterprises take years in development before they return positive revenues. How long can you wait?
- Are there physical, environmental, regulatory or financial constraints that cannot be overcome?
- Does infrastructure limit the farm?

Summary

Beginning a new small farm business or simply switching enterprises demands a lot of energy and enthusiasm, but the single most important requirement is careful advance planning. The successful small-farm entrepreneur will take into consideration the key points outlined in this document to make strong, informed decisions, avoid pitfalls and ensure the success of the new business. Protect yourself, your family, and your new farm by taking the time to consider all the factors completely before you make a decision. Planning is essential to the success of your budding operation.