
Business Feasibility: A First Cut Analysis

*A Guide for
Agricultural
Entrepreneurs*

William Pinkovitz and
Catherine Stover

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Table of Contents

Introduction	v
Case Studies Provide the Context	vi
Success	vi
Chapter 1: Are the Potential Benefits Greater Than the Potential Costs?	1
Objective Self-Analysis is a Critical First Step	1
Family Farms are Different	3
Looking in the Mirror	5
Costs and Benefits Worksheet	7
Gina's Greenhouse: Looking in the Mirror	9
Questions for Gina	10
Topics for Classroom Discussion	17
Now It's Your Turn	17
Al's Meat Market: Looking in the Mirror	18
Questions for Al	20
Topics for Classroom Discussion	23
Now It's Your Turn	23
Chapter 2: Preliminary Market Research	25
Who Needs to Do Market Analysis?	26
The Three Calculations	27
The Internet is Your Friend	29
This is WORK	30
How Should You Do It?	31
Part One: Industry Analysis	31
Gina's Industry Analysis	32
Questions for Gina	39

Al's Industry Analysis	40
Now It's Your Turn	42
Part Two: Customer Analysis	44
Gina's Customer Analysis	47
Al's Customer Analysis	49
Now It's Your Turn	52
Part 3: Niche Analysis	55
Gina's Niche Analysis	56
Al's Niche Analysis	58
Now It's Your Turn	61
Chapter 3: Associations, Similar Businesses, and Suppliers	63
Associations	64
Similar Businesses	68
Suppliers	73
Putting it all together	78
What's Next?	82
Appendix	83

Introduction

Did you see the survey that reported that about half of all people in Wisconsin seriously considered starting a business? We were surprised that it was only half: To us, it seems as if nearly everyone thinks about starting a business.

This workshop is designed primarily for agricultural entrepreneurs, and we will focus on “value-added agriculture” ventures. We define “agricultural entrepreneurs” as those who start, operate and assume the risk of an agricultural enterprise.

What do we mean when we say “value-added agriculture”? While traditional producers sell to a commodity market, in value-added agriculture, the producer:

- Adds a process or an attribute, or
- Reduces the number of transactions between the farm and the consumer.

In value-added agriculture, the goals are: To increase the number of activities with profit margins, and to decrease the dependency on commodity pricing.

This workshop is open to commodity producers and non-farm businesses also because most of the principles taught here apply to any small business. However, our examples and much of our discussion will focus on value-added agricultural enterprises.

We will address the first question that people who are in the earliest stages of business development must ask, namely “Are the potential benefits greater than the potential costs?” Our aim is to help you identify and examine the potential costs and the potential benefits for you and your family by increasing your understanding of your market. By the end of the course, you will be ready to complete a first-cut analysis of your idea.

The next workshop in this series, *Tilling the Soil of Opportunity*, is designed to help you write a business plan. It includes a wider range of topics – from budgets to legal issues to marketing strategies – for those who have already completed a preliminary analysis and are ready for a more comprehensive approach.

So, while we won't get into financial statements in this workshop, we will look at some of the questions that you need to answer before you make your financial projections, such as:

- What are the trends in my industry and market?
- Who are my potential customers?
- What is the size of my market?
- What are the strengths and weaknesses of my competitors?
- What are the opportunities and threats?
- Who are my potential suppliers?
- Is this a good time for me to start a new business?
- How will this business affect my family – in the short and long term?
- Do the potential advantages outweigh the potential disadvantages for everyone in the family who will be directly affected by this decision?

Case Studies Provide the Context

Our first case study is about a farm family who has raised steers for 27 years. As a sideline, they also sell flowers and vegetables at the farmers' market and provide floral arrangements for a few local weddings and funerals. Their floral operation currently breaks even. Now, however, they are considering building a greenhouse with the hope that their flower business can provide a secondary income.

Our second case study is about a family who has been farming for generations. They've been in Wisconsin since 1870, which is when the family came over from Germany. Their operation was consistently profitable until 1998, when pork prices hit all-time lows. At that point, the family made a decision to seek supplemental off-farm employment. Now they are deciding if the farm is viable for the next generation.

Success

We'd like to begin by talking about entrepreneurship—specifically what it takes to succeed as an entrepreneur.

If there is such a thing as a “secret formula” for success that all entrepreneurs should know, it is: to identify real business opportunities, anticipate changes and recognize threats.

We've talked about this secret formula for decades, and nobody ever writes it down. You will never see a late night infomercial selling this formula for three easy payments of \$29.99. It is simple. But it isn't easy.

"Identifying, anticipating and recognizing" is only half the equation. Small business owners must be good enough managers to take advantage of opportunities, adapt to the changes and minimize the threats.

Often, lack of capital (a.k.a., we ran out of money or the bank won't extend our line of credit), is cited as the reason for business failure. However, running out of money is usually symptomatic of the real reasons. If you look at why businesses fail, it is usually because managers fail to identify real business opportunities and take advantage of them, or they don't anticipate and adapt to critical changes, or they don't recognize or minimize the real threats to their business.

So, where should we begin? We suggest that we start with the following critical question: Are the potential benefits greater than the potential costs?

Are the Potential Benefits Greater Than the Potential Costs?

Objective Self-Analysis is a Critical First Step

Every book on starting a business that we have ever reviewed has included a section designed to help readers evaluate their readiness to operate a business.

Unfortunately, it is usually glossed over or skipped in the rush to complete the financial projections needed for the loan package. Most people make the mistake of focusing their attention on financing the project—instead of taking a careful look in the mirror.

Few people start a conversation with: “I need to critically examine my motivation for wanting to start a business, my expectations, and my strengths and weaknesses.”

Even fewer people go on to say: “I need to think about how this will affect my family—financially and personally—in the short term and the long term.”

Many entrepreneurs—like most people—would rather not do this sort of soul searching. And yet, that is exactly what should take place at this point. Why?

Because all too often, people invest everything they have—their money, their time, their reputation—before they fully understand how starting a business will affect their families, their personal lives, or their futures.

Few people look in the mirror long enough to realize that that they may be operating on assumptions such as these:

- My wife will change her mind.
- I'm doing this for my kids. I'm sure they'll appreciate it someday.
- I'm sure that prices and profits will go up.

Optional Class Activity

This could be a good place to talk with about assumptions.

The class may wish to brainstorm and develop a list of assumptions that prospective entrepreneurs may have.

While some participants may wish to identify their own assumptions, others may not feel comfortable doing so.

Every effort should be made to respect the privacy of those who do not wish to talk about their personal situations.

Few people who start businesses can honestly say that they are motivated to take advantage of opportunities, adapt to changes, or minimize threats. It is much more common to have motivations like these:

- "I hate working for someone else."
- "I am bored and tired of what I'm doing now."
- "There has to be an easier way to make money."

Here is a story that may have a familiar ring: The farm that is adjacent to John's came up for sale unexpectedly after the owner experienced a near-fatal heart attack. John had always dreamed of expanding his operation so that his sons could farm with him someday. Farm land in his area rarely comes on the market, and adjoining land had never been available before in his lifetime. John was ready to talk with his banker when his wife, Mary, suggested that they spend an evening looking in the mirror.

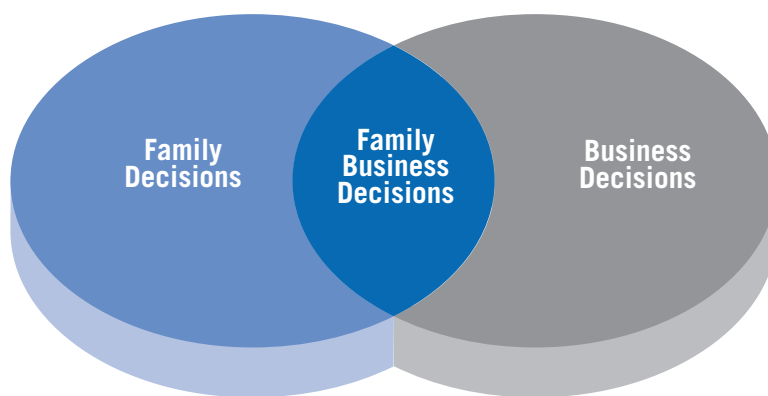
She pointed out that doubling the size of his farm would probably double the time and energy they would need to spend working on it, unless they decided to hire help, which is something they've been reluctant to do in the past. The new commitment would most likely mean that they would have less time for their kids. Their youngest son had just been diagnosed with a learning disability, and his teacher suggested that they consider letting him repeat the sixth grade. He seemed to get along better when both parents spent a lot of time with him in the evenings, helping him with his homework and teaching him how to get organized and stay focused. Their oldest son, who was a junior in high school, had a pattern of drifting into a rougher crowd of kids from time to time. He, too, seemed to make better choices when his parents provided more structure and attention.

So, what should they do? John and Mary realized that this was a decision that they could not make lightly or easily. It was not just a business decision. It was also a family decision. In addition, it was a family business decision that was shaped by the legacy of the family farm—with its history and its expectations for the future.

Family Farms are Different

Let's pause to consider this idea for a moment: Farm families—perhaps more than most—know that business decisions are also family decisions.

You may have seen family business guru Leon Danco's drawing that shows how family decisions and business decisions overlap in family businesses:

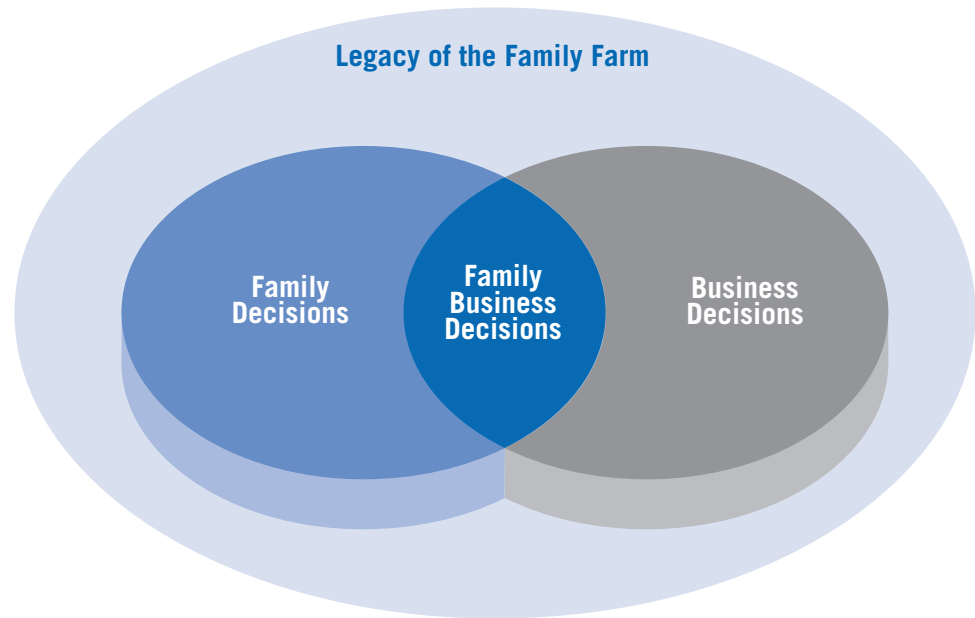


This drawing is very accurate for most types of family businesses. We would like to point out, however, that family farm businesses have traits that make them different from other family businesses.

To begin with, unlike families who own, for example, a hardware store, or a manufacturing company, or a veterinary office, farm families actually live in the business. And, farm families often live in the business for generations. It's a mistake to ignore the obvious fact that living in the business influences business decisions. Further, living in the business for multiple generations creates a legacy.

What do we mean by legacy? In this context, we are referring to the benefits—such as a proud history of achieving the American Dream by having a successful farm—as well as the drawbacks—such as the huge financial investment required for farming operations. Family farm legacies often shape the expectations of the younger generations. In addition, they

can shape a family's values, which in many cases means that the family honors independence, hard work, and being productive.



Optional Class Activity

This would be a good place to stop and check in. Does this ring true for you? Does the "family farm legacy" play a role in your decisions?"

If there are participants who are not from family farms, it would be good to acknowledge that their situations are different, and they might be invited to talk about their own circumstances.

Ideally, everyone should have an opportunity to participate, and no one person should dominate the discussion to the point of shutting others out. Participants should feel welcomed – but not pressured – to talk.

Clearly, family farm businesses are a very unique kind of family business. To repeat, in family farm businesses, nearly always the family lives in the business, and has perhaps done so for generations. The family has an extra layer of involvement with the business.

For a moment, let's think about the phrase "a farm family." Then, consider "a police officer family" or "a state worker family" or "a physician family." It's an under-statement to say that these types of families do not participate in the parent's line of work the way farm families typically do—in fact, typically must do—in order to succeed.

Professor John Ward of Northwestern University conducted a study that concluded that less than one third of family businesses survive into the second generation, and only 13 percent make it into the third generation. (See *Keeping the Family Business Healthy* by John L. Ward, Jossey-Bass Publishers, 1987.)

Family farm businesses that are in their fourth or fifth generations, then, must have some very unique characteristics, such as:

- They are proud of their history.
- They value their independence.
- They want to preserve their way of life for the next generation.

In addition, they acknowledge the following truth: If the family fails (due to divorce or dysfunction), then the family farm will often fail (when half of a farm or less-than-a-total effort cannot generate enough revenue).

A lot depends on the family and if they are happy with the family business. This is true for all family businesses, even for those who are not a part of a multi-generation family business. The situation is rarely simple. We have a healthy respect for the complexity and importance of decisions about starting or changing family businesses.

Looking in the Mirror

Taking a careful look in the mirror is universally recognized as an important step in the process of starting a new business. For example, the self-assessment worksheet in *Tilling the Soil of Opportunity: The NXLevel Guide for Agricultural Entrepreneurs* has a list of 32 questions about personal, family and future considerations. Going through these sorts of questions can raise important issues. (We've included a copy of this at the end of our guide.)

At this point, we believe that the single most important question to ask yourself is: "Are the potential benefits greater than the potential costs?" Making a list of both the benefits and the costs can clarify your analysis.

Other guides ask you to begin by examining your motives, skills and resources and then setting your goals and objectives. We agree that these are critical tasks; however, we ask you to begin with the central question, "Are the potential benefits greater than the potential costs?" and return to this question at critical points throughout your analysis. As you acquire more information about the strengths, weaknesses, opportunities and threats that may affect your business idea, it makes sense to update your list and continue to ask yourself, "Given this new information, are the potential benefits greater than the potential costs?"

Before You Begin...

Before you start the following cost-benefit analysis, note:

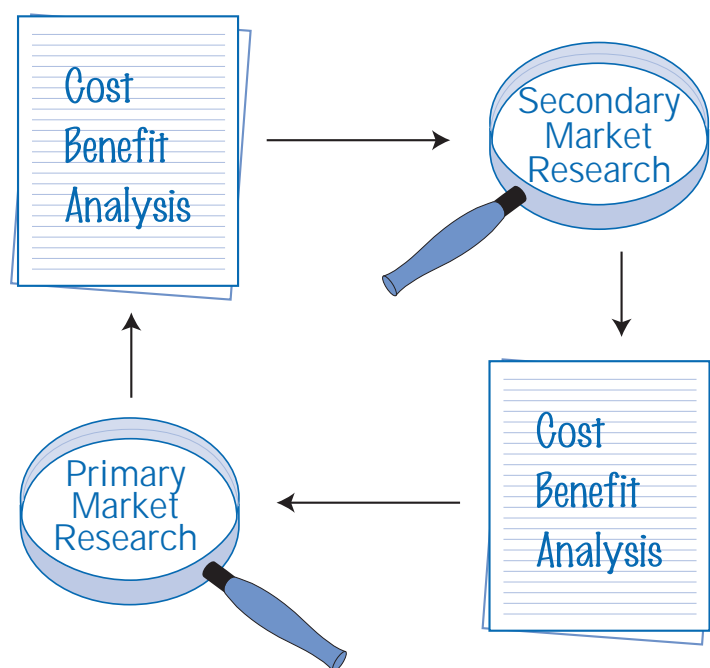
1. *There are no wrong answers. The idea is to be honest about what you know and what you don't know.*
2. *This is a working document that will change each time additional research results in new significant information and insights.*
3. *You will not be able to answer the cost-benefit question at this point. Instead, you will begin to accumulate the information you need to answer it*
4. *Our two case studies will provide sample answers to these questions.*

The process we recommend looks like this:

Why Use Case Studies...

The value in this discussion is not in getting everyone to agree on any particular answer. Rather:

- Discussing hypothetical situations may make it easier for you to assess your own situations.
- If you can recognize your own issues in these case studies, you'll understand that you are not alone in addressing these problems. There are resources available to you.
- The case studies may raise questions you have not previously considered. After thinking about the hypothetical situations, you may decide to give some careful attention to new issues.
- Remember, this is the best time to look at the “big picture.” This is where you ask if it makes sense—it is not where you look to see what the current price trends are for corn, for example. If there are any major flaws with the idea, this is the time they should be raised and addressed.



New information and insights will change your cost-benefit analysis. That's why it is important to continue to use this tool throughout the process. It's not just an exercise—it's a dynamic process that increases in value every time you acquire critical data. In addition, it will help you focus your efforts.

We would like to turn to our first questionnaire at this point, and spend a few minutes thinking out loud about it together. We recommend that you complete the first draft of it at home.

How long does it take to do the first draft? Take a look at our two case study samples. Gina worked on hers for an hour or two at a time, over a period of a few days. Al spent quite a bit less time answering the questions. Remember, this cost-benefit analysis will provide the basis for all of the rest of your work. Now, let's take a look at how Gina's and Al's analysis.

Are the Potential Benefits Greater Than the Potential Costs?

What is your motivation for starting this new enterprise? *Why are you doing this? You may have many reasons – but what are the primary reasons to start this venture at this time*

What are your objectives?

What are your specific goals for the first year, the fifth year and the tenth year?

How will this new enterprise affect your family – financially and personally? *For example, will a loan for this business limit your ability to access loans for other equipment, home repairs or purchases? Or, will attention to this enterprise require reducing the time spent on current activities?*

In the short term?

In the long term?

What are the potential benefits?

- *Financial:*
- *Personal:*
- *Professional:*
- *Expertise:*
- *Skills:*
- *Strengths of your product or service:*
- *Opportunities in the market:*
- *Benefits to the family:*

Are the Potential Benefits Greater Than the Potential Costs?

What is the best case scenario?

What are the potential benefits?

- *Financial:*
 - *Personal:*
 - *Professional:*
 - *Expertise:*
 - *Skills:*
 - *Weaknesses of your product or service:*
 - *Threats in the market:*
 - *Costs to the family:*
-

What is the worst case scenario?

Are the potential benefits greater than the potential costs?

What other information do you need?

Gina's Greenhouse Case Study: A Floral Business

Gina's Greenhouse: Looking in the Mirror

Gina loves working in her gardens. Thirty years ago, when she and Glen purchased the family farm from his parents, she started with two small strips. Now, there are flowers in every direction: no matter which way you turn, you can see flowering bushes or berry bushes or wildflowers or orderly rows of vegetables. She has a stall at the local farmer's market, and she provides flowers for a few weddings and funerals every summer. Her dream is to have a greenhouse so that she can start growing flowers earlier.

When she talks about working in her gardens, she uses the word "passion." When Glen describes it, he uses the word "hobby."

Gina would be the first to admit that she makes "about a nickel an hour" on her produce and flowers. She has never taken it seriously as a business, mainly because she hasn't had time. She works full-time as a clerk at the local hardware store (primarily for the insurance), helps Glen with the steer operation, and has raised three kids. Their youngest is in college on a scholarship.

Gina would like to quit her job at the store, set up a greenhouse, and go into business for herself. Now that she's an empty-nester, she would like to do what she enjoys doing.

When she took the job at the store seven or eight years ago after hail destroyed their corn one summer, she never dreamed she'd still be there today. It's not that she doesn't like it; she does enjoy talking with the customers. However, she would much rather work in her gardens.

Gina is familiar with the accounting and production records that are required for the steer operation, and she knows that operating a greenhouse will require spending hours with spreadsheets. She also knows that she might have to hire help and learn how to price her bouquets so that they can be more profitable. She is willing to learn new skills. She says, "I really can't keep going through life pretending to enjoy my job. I want to be able to say that at least I tried to do something I really loved."

Gina's Case Study: A Floral Business

Glen winces when he hears her talk like this with her sisters. Work is work, he thinks. The fastest way to stop enjoying something is to do it for a living. When he tells Gina that he thinks she should work for a florist before investing money they don't have in a greenhouse, she gets mad at him. "I can't go into town and work for Bev or Terry in order to learn their secrets, and then turn around and take their customers away from them when I set up my own business! What kind of person do you think I am?"

Questions for Gina

As you read Gina's answers, think about the following:

1. What do you think of Gina's answers? Is she being honest with herself – truly looking in the mirror?
2. How might Glen respond to Gina's answers?
3. What other benefits/costs do you think Gina should consider?
4. Is she ready for the next step?

Let's see how Gina tackles the process of looking in the mirror.

Are the Potential Benefits Greater Than the Potential Costs?

What is your motivation for starting this new enterprise? *Why are you doing this? You may have many reasons – but what are the primary reasons to start this venture at this time*

My gardens are my passion. I love growing plants, and over the years I've discovered that I also love selling them. Actually seeing the smiles on the faces of the people who buy my flowers at the farmers' market makes it all worthwhile. And, seeing my flowers in weddings is really something extra special.

I'm 50 years old, and I want to do what I want to do for a change. The kids are gone, and I'm ready to give my flowers my full attention. The hardware store has been good to me. The job at the hardware store helped us get through some tough times, but I can't imagine spending the rest of my life behind the counter selling hammers and paint. It's time for a change, but it is not just about escaping the hardware store. The kids are gone and I want to take my business to the next level. I'm ready, and the time is right.

What are your objectives? What are your specific goals for the first year, the fifth year and the tenth year?

I don't expect to get rich. I also don't want to lose money. I expect to work hard — harder than I worked at the hardware store, and I know that initially, my income will be substantially less than I earned at the hardware store.

I plan to purchase a used greenhouse, expand my season to May through October, quit my job, spend 12-hour days with my plants, and develop and expand my business. My goal is to make as much (or maybe a little more) than I do at the store (including insurance) within two years (three years at the most).

I know that I will have to spend more time (and some money) marketing in order to expand my wedding and funeral business. That will be new for me, but I am ready for the challenge. This is what I want to do!

If within three years, I am not making at least as much as I am making at the store, I will give up and find a job that offers wages and benefits at least equal to my current job. In 10 years, I'd like to start cutting back. I'll be 60 and ready to start slowing down.

How will this new enterprise affect your family – financially and personally? For example, will a loan for this business limit your ability to access loans for other equipment, home repairs or purchases? Or, will attention to this enterprise require reducing the time spent on current activities?

In the short term? (first 18 months)

Glen hates the idea right now.

Glen doesn't understand why I want to do it. He says it's risky and expensive, and we already have enough risk and expense with the farm.

He doesn't like the idea of people coming to the farm to buy flowers and vegetables. He wishes I would just "get over it."

He'd rather spend the money on things he thinks we need more — such as a more dependable car, some farm equipment, or even new appliances.

I remind him that when I first suggested I get a job in town, he was against that, too. But it turned out to be a good idea.

I will be home all the time. That will be an opportunity, and an adjustment, especially during the slow winter season.

In the long term? (3–5 years?)

I think he'll change his mind, once he sees how happy I am and that it works.

I know it's a risk, but I can learn! I'm confident that I can make enough money within 3 years to replace the income I earned at the store.

If the business supports it, I may expand further and add either a year-round flower shop and/or add bedding plants or houseplants to the business.

What are the potential benefits?

- **Financial:** It's possible that I can make as much as I do at the store or more — perhaps a lot more money.
- **Personal:** I know I'll be a lot happier doing what I have always wanted to do! Plus, I will be at home on the farm most of the time. I won't have to be away from home working at the store evenings and weekends. Winter will be a slow time for both of us. Maybe we can visit the kids and spend some more time together.

- **Professional:** I wouldn't really describe my job at the hardware store as a profession. This provides me an opportunity to develop my hobby into a real business.
- **Expertise:** I can grow anything. I know a lot about flowers and vegetables. People rave about the unique flower arrangements I make for Weddings.
- **Skills:** I have good "people" skills, too. People like coming to my stand at the Farmers Market. I know how to work hard. I enjoy it. I get bored if I have nothing to do. I am good in stressful situations. Weddings are a stressful time for brides. There is also the pressure to get the flower arrangements done on time and done right. I do fine under pressure.
- **Strengths of your product or service:** Organic, local family farm, beautiful!
People tell me that my flower arrangements are unique, but not too different. The brides love them and their grandmothers approve of them.

My customers complain that the flowers in every wedding in the area look the same. They all come out of the same book. Mine do not come out of a book. I have some pictures as samples, but every wedding arrangement is different. Each one uses the moment's most perfect flowers.
- **Opportunities in the market:** Everybody in the area knows everyone else. You see many of the same people at every wedding. Many of the brides want something a little different. I offer them that, at an affordable price, without alienating Grandma.
- **Benefits to the family:** I will be happier. I will be home, instead of at the hardware store. If the steers get out, I'll be available to help Glen. When necessary, he will be able to help me. We will have more time together in the off-season.

What is the best case scenario?

I will be able to grow more, sell more, and earn more — doing what I love! I will make enough money so that Glen can slow down a bit. He is not as young as he used to be either. Glen will see the light and be happy for me too.

What are the potential costs?

- **Financial:** I know a good used greenhouse will cost \$5 - \$10 thousand. We'll have to double what I spend on seeds and plantings — which is currently \$2 - 3 thousand per year.

There won't be much money left to advertise or promote the business

I'll be giving up my steady job at the hardware store. I will earn any money except what I earn in my business.

We will have to figure out how to afford insurance.

This will stretch our budget even tighter. If things don't go right, or something goes wrong, either in my business or the farm, there is very little money left.

- **Personal:** What if I grow beautiful flowers, but my sales don't go up much, remain the same, or even fall? In addition to the financial problems that would cause, I'll be embarrassed and frustrated.

Glen will be watching me like a hawk. If things don't go well, he will be constantly reminding me that he was against this from the start.

Sometimes it was kind of nice to go to work in town just to escape the farm. That will be gone.

I will have to work until the job gets done, not simply until my shift is over.

I never had to worry whether the hardware store was doing well or do any of the thousand things the managers had to deal with. Now, I will.

- **Professional:** I will be spending all my time on this venture, which means that I could miss some other opportunities, but at this point, that is not a major concern. Also, I am not a professional floral designer.
- **Expertise:** What do I know about greenhouses? Nothing! I don't really have much experience running a business.
- **Skills:** I don't have bookkeeping skills yet — I will have to learn. I have no formal training in floral arrangements.

What are the potential costs? *(continued)*

- **Weaknesses of your product or service:** I can grow a wide variety of flowers, but a bridal customer may want something I don't have. Also, flowers do bloom at different times. It might happen that the bride wants flowers that are not in bloom or, I might not have enough of specific flower.

What happens if the flow of business doesn't match the flow of blooming flowers? I fear that I'll either get only a few sales and be stuck with a bunch of blooming flowers, or I'll get several sales at once and won't have the flowers to fill the orders, or BOTH.

I have no formal training in floral design. Customers may want something I can't do. I am not established in the wedding industry. It appears many businesses cooperate (i.e. formal wear stores refer to florists and visa versa).

I have not participated in any of the local or regional wedding shows. They are expensive. Not sure I can afford it initially.

- **Threats in the market:** There are other people selling flowers at the farmers' market. It is easy and inexpensive to start doing a few weddings. I got my start by offering beautiful flowers, cheaply. Others may enter the market.

If I start taking business away from established local florists, they may respond by offering similar products and services

- **Costs to the family:** Insurance, wages, price of greenhouse. Glen is not a happy camper.

Saturday is a big day for weddings. That will mess up our weekends and limit the time we can visit the kids.

Worst Case Scenario? I don't know which is worse, I fail and end up with a big debt and no customers, or if Glen is proven right.

Do the potential benefits outweigh the potential costs?

At this point, I think so, but I'm really not sure. I know the biggest real risk is losing the income and benefits I get at the hardware store. The financial investment is not that big.

I can always get another job if this doesn't work, and with the kids gone, I can work full time to make up for any money I lose in this venture.

I do know that if I don't pursue this, I will always regret it.

What other information do you need to evaluate the potential benefits and costs of this enterprise?

I need to know more about the number of weddings in the area, how much people spend on flowers for weddings, and how many weddings I might realistically get.

What about the competition?

What are the best ways to promote my products? I don't have much money to spend advertising. How will I find and get customers?

What do I do when I have more sales than flowers, or visa versa?

Should I be considering other occasions or holidays in addition, or instead of weddings?

Gina's Greenhouse Case Study: A Floral Business

Topics for Classroom Discussion

What are some “red flags” that appear on Gina’s questionnaire?

1. Does she have Glen's support? He has valid concerns, which should be addressed.
2. While she has strong production skills, her marketing and business skills need to be developed. Would she be better off working in a greenhouse than running one? Or, should she participate in more farmers markets?
3. All of her initial expenses would have to be financed by a business loan. She would be in a much stronger position financially if she could cover at least a portion of her expenses herself.
4. Many things are competing for the family’s resources at this time: farm equipment, appliances, a car—as well as her business. She and Glen have different priorities at this point. The "opportunity cost" for this business is high because the family cannot afford to finance multiple priorities simultaneously.

What are some “green flags” that appear on Gina’s questionnaire ?

1. She loves flowers and has knowledge and experience with them.
2. This business opportunity would fulfill a personal need.
3. Her children no longer live at home, so the business will not have to compete with their needs.
4. She already has some experience in selling at her local farmers' market and to people who want to buy local, fresh flowers for weddings and funerals.

Now It's Your Turn

1. What do you think of Gina’s answers? Is she being honest with herself – truly looking in the mirror?
2. How might Glen respond to Gina’s answers?
3. What other benefits/costs do you think Gina should consider?
4. Is she ready for the next step?

Al's Case Study: A Meat Market

Al's Meat Market: Looking in the Mirror

Al and his family live on a farm that was purchased by his great-grandfather, who came to Wisconsin from Germany in 1870 as a penniless young man. Al, his wife Janet, and their two boys live in the large house that the family built in 1879, which was—and still is—an example of "the American Dream" to a hard-working immigrant family. It was the first house in the area to have a piano. It was home to generations of school board members and 4-H leaders.

Now that both of his sons are at UW-Platteville, the future of the family farm has become an important topic. The question is: Will the farm be viable for another generation?

Even with very efficient practices and low debt, the farm has not been able to fully support the family for years. In 1998, when hog prices hit an all-time low, Al started working full-time at the local implement dealership. He was not forced to sell any land; however, he did have to convert from a farrow-to-feeder operation to a finishing operation. His wife, Janet, has always worked part-time at the local hospital as a respiratory therapist, primarily for the insurance benefits.

Al considers himself to be a farmer who works an additional job. Janet, however, would describe him as a successful implement salesman who has farming in his blood. With Janet's prodding, Al has come to the painful realization that the next generation should not continue farming unless something changes. He does not want his sons—who he raised to see honor in honest physical work—to be tied to the investment and uncertainties that come with farming in addition to having full-time jobs off the farm. Al does not want them to farm out of loyalty to him.

And yet, ending the legacy is almost unimaginable.

There is one idea that Al has been considering for some time: What if he sold his meat—which is clearly so much better than the tasteless, too-lean pork he sees at the local grocery store—at a meat market, where people would pay more for top quality? He believes that if people had a choice between plastic pork and superior marbled meat, many would choose the better product.

Al's Case Study: A Meat Market

One summer night during supper, when the boys were both home, the subject came up. "You know, Dad, you don't have to be a food science major to see how much better our pork is than the plastic crap they sell at the store. Whatever happened to your idea of opening a meat market and selling the real thing?" Paul, the older son, asked.

"Yeah, Dad, whatever happened to 'Al & Sons Better Meats' anyway?" Tim asked.

Al finished chewing and carefully considered his words. "An idea like that would require a lot of research."

"No problem," said Tim. "You should see the research I can crank out at Platteville at 2:00 in the morning. There is nothing that I can't find on the Internet."

"There's a difference between fishing for obscure pieces of trivia and finding the answers to real-life questions, Tim. If we want to do some market research on opening a meat market, it will take some real time. Like a week," Paul said.

"Well, I don't know how you boys would even know what questions to ask, to start with," Al said.

Janet looked at Al and frowned. He was doing it again—getting the boys interested in farming—after she had spent the last two hours talking with Paul about bio-chemistry! Her vision of Paul's future included a graduate degree, a lab coat, and a good salary—not a meat market!

Paul went over to the kitchen desk and found some paper and a pen.

"Well, first we have to see how many people would go to a meat market."

"No go, Bro. First we'd have to see how much people spend at meat markets, and how many people it would take to support one."

Al stood up. "Well, I'm not going to tell you not to do it," he said, as he took his plate to the sink.

AI's Case Study: A Meat Market

Questions for AI

As you read AI's answers, think about the following.

1. Is AI ready to go to the next step?
2. What questions or additions might Janet have?
3. Should the boys complete the questionnaire? How might their answers differ?

Are the Potential Benefits Greater Than the Potential Costs?

What is your motivation for starting this new enterprise?

We could get better money for our pork if we sold directly to customers who were willing to pay more for local high-quality pork from a family farm. Our farm will be more viable in the future if the profit margin would be larger.

What are your objectives?

The only reason to pursue this would be to increase profits. We don't need to run another business unless it would support and supplement the one we already have.

What are your specific goals for the first year, the fifth year and the tenth year?

An additional reason to do it would be if the boys wanted to continue farming. If they're not interested in it, I'm not going to push it.

How will this new enterprise affect your family—financially and personally?

Janet is not enthusiastic about it because she thinks the boys could do better off the farm. However, the jury is still out. We need to run the numbers before we can determine the financial implications of opening a meat market.

In the long term?

In the long term, the farm will not support the next generation unless something changes

What are the potential benefits?

- **Financial:** *We don't have that information yet.*
- **Personal:** *Perhaps the boys would be able to continue farming.*
- **Professional:** *I don't know.*
- **Expertise:** *We know pork. For generations we've been respected leaders in this field.*
- **Skills:** *I know how to run a business. I've learned how to be a pretty good salesman at the implement dealership.*

What are the potential benefits? (continued)

- **Strengths of your product or service:** *Our pork is superior.*
 - **Opportunities in the market:** *We don't know.*
 - **Family benefits:** *Keeping the farm in the family.*
-

What is the best case scenario? *The meat market would be highly profitable and supplement our farming operations. The boys would be enthusiastic about it.*

What is the worst case scenario? *We could lose money or the boys could lose interest*

Do the potential benefits outweigh the potential costs? *We don't know yet*

What other information do you need?

We need a lot of information about meat markets: What are profitable ones like? How many customers does it take to support one? Are they increasing or decreasing in profitability? What does it take to run a good one?

Is this the best option for us? Are the boys interested? How long would it take to become profitable? Is there a better way to support our hog operation?

We are just beginning here. We need to do a substantial amount of research

Al's Case Study: A Meat Market

Topics for Classroom Discussion

What are some “red flags” that appear on Al's questionnaire?

1. Janet's opposition is a huge red flag. Why does she oppose it? Is he really willing to go ahead, despite her objections? This family consideration is critical. The case study indicates that Janet and Al have much different visions of the future for the sons. This is something that should not be ignored.
2. Al has no experience or knowledge of meat markets. He has a lot of research to do before he can determine if his business idea will lead to a profitable enterprise.
3. A lot depends on how enthusiastic the boys are about owning and operating a meat market. What if he makes a major investment in this business, only to discover that his sons have other interests? Should they have a conversation about this now?

What are some “green flags” that appear on Al's questionnaire?

1. He has a track record of running a high-quality operation. He is a good businessman.
2. He is not desperate. He will base his decision on information.
3. Locally, his family name is well known and highly respected, which could be a big asset if he sells his product to the local market.

Now It's Your Turn

Al is not interested in examining his motivation for starting a meat market. He has thought long and hard about their situation and what he might do about it. He already knows why the family should consider this venture -- The farm is no longer generating enough income to support Al and his wife, much less the next generation. If the farm is to survive, they need to find ways to generate more income from the farm.

Al did spend a little time thinking about whether the benefits are greater than the costs. He answered every question and is ready to roll up his sleeves and go to the next step. What do you think?

Al's Case Study: A Meat Market

1. Is Al ready to go to the next step?

2. What questions or additions might Janet have?

3. Should the boys complete the questionnaire? How might their answers differ?

Now that you have seen two samples of cost-benefit analysis, it is time to write your own first draft. It will probably be harder and require more time than you anticipate. A thorough, honest analysis will provide a good base for the rest of your work. Once you complete your analysis, share it with someone you trust and who will be affected by this venture. It is important to get honest feedback before you proceed. A copy of the form used by Gina and Al is included at the end of this guide, in Appendix 1.

Preliminary Market Research

After you have completed your first draft of the cost-benefit analysis in Chapter One, it is time to take the next step and begin conducting preliminary market research.

There are two types of business research: primary, which means collecting data and information (as in surveys or interviews) and secondary, which means using information that has already been collected by someone else.

This chapter focuses on secondary research because we recommend starting with information that already exists and has been published on the Internet. There is an enormous amount of useful, important, reliable data that is available to anyone who has access to the Internet. In this chapter, we will show you how to find and use information that can help you answer questions about your market.

But first, we would like to discuss why doing market research is important. Typically, the focus of market research is to develop sales projections. It is certainly true that the more you know about the market for the products and services you will be selling, the better you will be able to make realistic and reliable sales forecasts.

“The tendency to spend too little time doing market research is one of the most common mistakes that people make when developing new value-added businesses.”

–Johnson and Holcomb

Why is this so often the case?

However, the real value of market analysis is even more fundamental than serving as the basis for your sales projections: simply, the better you understand the market for the products and services you plan to offer, the more likely your business will succeed.

Before you begin developing your sales projections, we recommend that you conduct a preliminary market analysis to learn more about your industry, your customers, and your niche market. This information will provide an important context for your sales analysis.

Who Needs to Do Market Analysis?

Everyone! Often, people who are in the process of creating a new business make the mistake of spending too little time on market research.

One reason is the very nature of market analysis. It provides few definitive answers, which be frustrating. Also, doing market research takes time and prospective entrepreneurs have many other demands on their time. Obtaining financing, identifying potential locations, meeting with potential suppliers and shopping for equipment all take time, and seem much more pressing than conducting market research. Finally, there is simply too much information available. It's easy to become overwhelmed and frustrated by the sheer volume of information.

In the pages that follow, you will see how the people in our case studies used the Internet to find important, useful information. Even if you have never used a search engine before, you will soon see how it works – and more importantly, how to make it work for you.

The Three Calculations

There are three common formulas that are sometimes used to calculate sales potential. However, market research is not just about forecasting sales – it's also about learning more the opportunities and threats in your market. It's also about learning more about your potential customers and potential competitors.

These three calculations can give you important information that you should have. However, we do not recommend that you use them to forecast sales -- something they cannot and were not intended to do.

The Three Calculations are: business capacity, industry averages and break-even analysis. Let's take a look at them:

1. Business capacity: Calculates the maximum amount you can produce in a given facility. Company A can produce 25 widgets per day. Widgets sell for an average of \$100 each.

$$25 \text{ widgets} \times \$100 \text{ per widget} = \$2,500 \text{ per day}$$

$$250 \text{ days per year} \times \$2,500 \text{ per day} = \$650,000 \text{ per year}$$

Conservatively, Company A management presumes that it will take three years until they will be able to sell all the widgets they can produce. They estimate that in year one, they will be operating at 50 percent of capacity (\$312,500). In year two, you'll be at 75 percent capacity (\$486,750). In year three, 100 percent (\$625,000)

What is wrong with this scenario? This calculation doesn't tell you when, how or if it's possible for Company A to find customers for that many widgets. Making them available for sale is not the same as selling them.

2. Industry averages: Provide good benchmarks to measure a business's performance against other similar businesses. According to industry data, the typical shoe store averages \$159 in sales annually per square foot. So, does that mean that if Company B plans to build a 3000 square foot store, they should conclude that their projected annual sales will be \$477,000?

$$\$159 \text{ per square foot per year} \times 3,000 \text{ square feet} = \$477,000$$

Industry averages are simply that – averages. They do not account for differences in size of the store, age of the business, product selection, store location, size of the community, traffic



The Three Calculations *(continued)*

patters, customer base, distance from nearest competitor, or management. They provide a useful benchmark, but should not be used as the basis for estimating sales for your business.

3. Break-Even Analysis: Calculates how much you need to sell in order to cover your expenses. Simple Break-Even Analysis can calculate how much Business C must sell in order to cover all expenses.

For example, based on break-even analysis, Company C needs to generate \$266,000 in sales to break even.

However, this calculation does not predict whether Company C is likely to generate \$266,000 in sales. It establishes an important benchmark, but reveals nothing about the potential market for Company C's products.

All three of these calculations provide useful information. You should know the maximum amount you can produce in a given facility. Industry averages such as sales per square foot, occupancy rates, or average inventory turnover do provide good benchmarks to measure a business' performance against others in the industry. It is important to know how much you need to sell to at least break even. These calculations tell you important statistics that are related to your sales. However, they should not be used to forecast sales.

So, why spend so much time on these if you shouldn't use them to forecast sales? Because they are often misused for this purpose and it is important to know the uses and limitations of these methods.

The Internet is Your Friend

Prior to the advent of the Internet, this type of research was much more difficult, often expensive, and in many cases simply impossible for most people trying to research their business idea. The good news is that the Internet opens the door to thousands of resources. The bad news is that it can be a bit daunting at first.

One of the best sources for advice on search techniques that we have found is Rhonda Abrams' new book *Successful Business Research*. She devotes 300 pages to show how to use search engines and how to find useful websites and databases.

A brief version of her advice along with our own observations follows:

1. Keyword Search:

Your first decision is what word or term to enter when using a search engine (such as Google, Yahoo, MSN, or AOL). Expect to try several different words or phrases.

For example, as you will see in our case study, Gina first tried "flowers," but the results turned out to be too broad. She then tried "flower industry," but she found sites that only wholesalers and firms that sold industry data. Next, she tried "floral industry," and found many good prospects. In general, we have found that you usually need a term (instead of a single word) that contains specific keywords to describe your topic.

2. Quotation marks:

If you place quotation marks around a term, the search engine will look for only those sites that contain all the words in the quotation marks, rather than any site that contained any of the words. So, if you put quotation marks around "floral industry," you would eliminate sites about other types of industry.

All major search engines provide useful hints for improving your searches.

Google provides Advanced Search Hints and provides a cheat sheet to help search more effectively and efficiently. At the Google.com web site, click on "Advanced Search", then on "Advanced Search Tips"

Ask.com, Yahoo, MSN, AOL and others provide similar tips

Taking advantage of these tools will greatly your searches and help you better focus your searches, spend less time searching, and get better results.



You can also put quotation marks around two pairs of words in a search. For example, if you entered: flower shop profit margins, you would find 586,000 results, not many of which are interesting. You would get zero results if you put all four words in quotation marks. If, however, you entered “flower shop” “profit margins” you would find 1,330 results, many of which looked interesting.

3. Searching by NAICS code:

Every type of business in North America has been assigned a NAICS (pronounced nakes) code, which stands for North American Industry Classification System. It replaced the SIC system in 1997, and knowing your NAICS code can help you search for information that is specific to your industry.

To find your NAICS code, go to the Census Bureau’s website: www.census.gov/epcd/naics02/naicod02.htm. You can do a keyword search there to find the NAICS code for your industry.

When we entered the word florist in the keyword search, we found that Gina’s NAICS code is 453110. When we used 453110 to do a Google search, we found many industry-specific resources, including several that offered industry overviews and financial benchmark information.

4. “AND” and then some

Try using AND or a comma to expand and clarify your search. For example: Flower shop AND profit results in 5,630,000 hits; Flower shop, profit results in 5,630,000 hits as well.

This is WORK

Researching and analyzing markets is a lot of work. It requires extensive Internet searches to find and refine relevant information. And that is only the beginning. You will invest many hours, and you will likely need some help before you can assemble all of the information you’ll need to complete your analysis. Help is available. Many County Extension offices and Small Business Development Centers are equipped to help you with your market analysis. If they cannot help you directly, they can probably point you in the right direction.

How Should You Do It?

We propose that you begin with the following:

- 1. Industry Analysis:** What are the trends and issues in my industry?
- 2. Customer Analysis:** What are the demographics of my customers?
- 3. Niche Analysis:** How big is the market for my specific business?

Now we will look at each of these three types of analysis. We'll also check in with Gina and AI each step of the way.

Part One: Industry Analysis

The first step in the market analysis process is learning about the industry your business is part of – where it has been, where it is at, and where it appears to be going. Learning about the history, current status, and trends in your industry will help you identify:

1. Important industry trends that will affect your business,
2. Potential opportunities, and
3. Possible threats that may endanger the success of your business.

As you will see in the case studies, careful industry analysis provides both Gina and AI with valuable insights about their business and the potential market, which helps them fine-tune their business ideas. Let's return now to our case studies as Gina and AI use the Internet to search for information.

Gina's Greenhouse Case Study: Industry Analysis

Gina wanted to find some information about the flower market, but she had never done market research before and had no idea where to begin. Unlike her kids, her first instinct was not to go straight to the computer. She had always intended to take an evening class at the tech college on using computers, but had not found the time to do so yet. Instead, Gina went to the library because her friend Liz was on the staff there. Gina knew that Liz would steer her in the right direction.

Liz knew about Gina's gardens because Liz had recently been to a wedding that had used Gina's floral arrangements. When Gina asked for advice on how to start her research, Liz told her that sometimes it made sense to start with trade associations. "Of course, all that is online now," she said. "We used to use a book called *The Encyclopedia of Associations*, but now we fire up the computer and go to "Associations Unlimited."

They found several "floral" associations, including The Society of American Florists.

Gina thought that contacting the SAF would be a good place to start. She jotted down contact information and stood up to leave.

Liz said, "This is just the tip of the iceberg. Have you tried an Internet search yet?"

"You know, my kids have been talking about Google for years. I know I should know about it, but I don't."

Liz said, "Well, things are pretty quiet here tonight. If you have a few minutes, we can try it. The hardest part is deciding what words you want to search under."

They started with "flowers," which was too broad and yielded too many unrelated results. Gina said she really wanted to know more about people who bought flowers, than about flowers.

"What do you want to know?" Liz asked.

"Well, it would be good to know what is happening in the floral industry, what is hot and what is not."

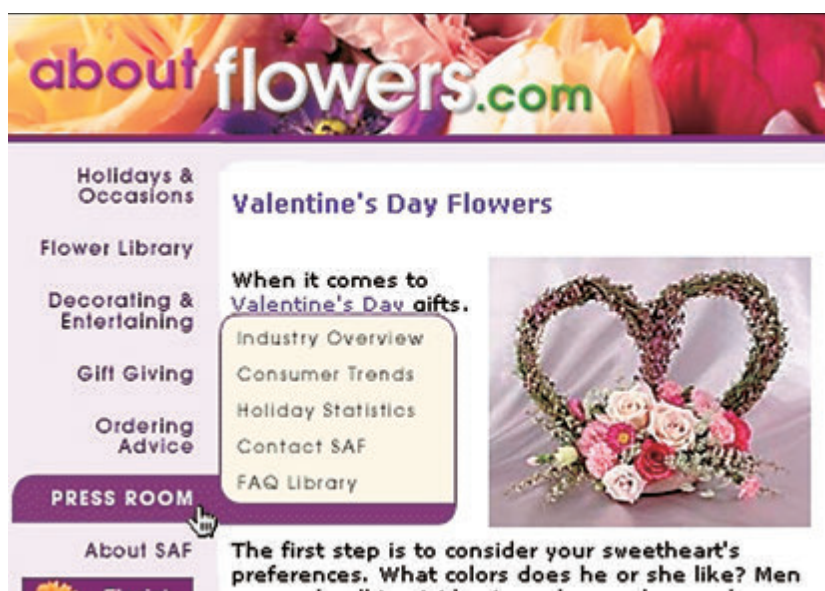
So they tried flower industry next, but found only sites that either sold products wholesale or industry data.

Gina's Greenhouse Case Study: Industry Analysis

Gina was starting to feel discouraged. "How will I ever be able to figure out what words to search?"

"It's like a game," Liz said. "You have to keep playing around with different things until something works. That's what most people do. How about if we try floral industry next?"

This time, they found a good prospect—a summary of the floral industry conducted by the Society of American Florists on their web site at www.aboutflowers.com.



From the Industry Overview page on the Society of American Florists website (aboutflowers.com), Gina learned that in 2005 in the U.S:

- There were 22,753 retail floral shops in the U.S.
- Average sales were \$290,000 per shop.
- There were 23,000 supermarkets selling flowers.
- 70 percent of the fresh flowers sold in the U.S. are imported.
- 42 percent of all the flowers sold in the U.S. are imported from Columbia.
- California produces 72 percent of domestically grown fresh flowers.
- Floriculture sales (fresh flowers, flowering house plants, green plants and bedding plants) in the U.S. totaled \$19.5 billion

Gina's Greenhouse Case Study: Industry Analysis

"See?" Liz asked. Gina smiled. This information was interesting, but hardly the kind of information that would help her make the tough decisions she faced. Liz saw the look on Gina's face and said, "That is just a start. Don't get frustrated. It takes some time. Now let's do a little surfing and see what we can find. Why don't you click on 'Consumer Trends' and 'Holiday Statistics'? If you find a page you like, you can print it or just take notes, if you want."

Gina went to "Consumer Trends" on the SAF site and found some good demographic data. She printed a copy for the next section of her market analysis. She also found the following information on the floral industry



- 33 percent of all floriculture sales were fresh flowers (\$6.4 billion)
- 36 percent of all fresh flowers are purchased as a gift. The remaining 64 percent are purchased by people for themselves
- Calendar occasions (i.e. Christmas, Valentine's Day) account for only 16 percent of floricultural purchases. Thus, 84 percent of all sales are not related to a calendar holiday.
- 43 percent of non-calendar sales (36 percent of all floricultural sales) are for no special occasion.

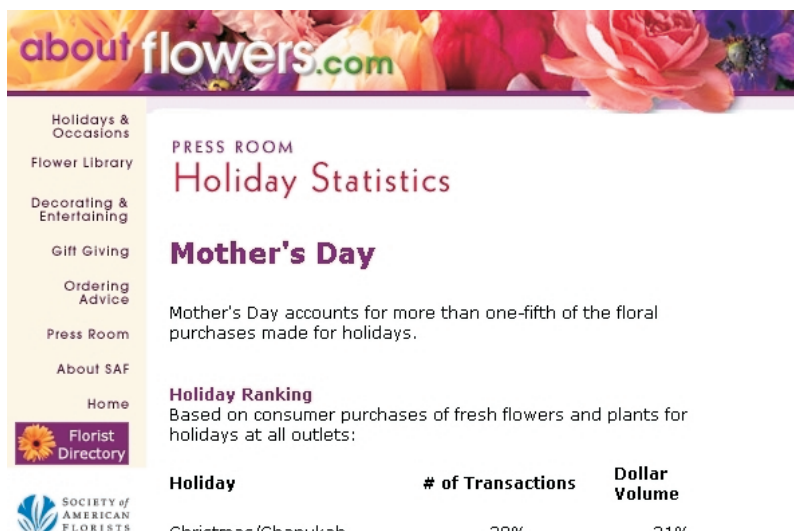
Gina clicked on the tab for "Holidays and Occasions" and from the list selected "Weddings," but this section provided only information about how to pick a wedding florist and recent trends in flower arrangements. Even though this was interesting to her, it wasn't the kind of data she was looking for.

So, she went back to the tab marked "Holiday Statistics" and tried "Mother's Day." She was surprised by the amount of detailed information:



- 23 percent of all calendar day related sales (dollar volume) of fresh flowers and plants are for Mother's Day.
- 45 percent of Mother's Day sales are fresh flowers.
- 37 percent of Mother's Day sales are outdoor bedding and garden plants
- 18 percent flowering or green plants
- 33 percent of fresh flowers purchased for Mother's Day are roses.
- 64 percent of Mother's Day purchases are made by women.
- 94 percent of Mother's Day purchases are for gifts.

Gina's Greenhouse Case Study: Industry Analysis



The screenshot shows the 'aboutflowers.com' website. The main content area is titled 'PRESS ROOM Holiday Statistics' and features a section for 'Mother's Day'. Below this, there is a 'Holiday Ranking' table based on consumer purchases of fresh flowers and plants for holidays at all outlets. The table lists holidays and their respective percentages for transactions and dollar volume. The Society of American Florists logo is visible in the bottom left corner of the screenshot.

Holiday	# of Transactions	Dollar Volume
Christmas/Chanukah	30%	31%
Mother's Day	22%	25%
Valentine's Day	18%	21%
Easter/Passover	15%	11%
Thanksgiving	6%	6%

- 56 percent for mother
- 23 percent for spouse
- 17 percent other relative

Gina reminded herself that a greenhouse would enable her to have flowers ready for Mother's Day. Perhaps this is another opportunity, but for now she needed to focus on the wedding market. She wondered, "Why doesn't the SAF site have information like this on weddings?"

Liz smiled and nodded. Then, she excused herself to go help out at the check-out desk. When Gina tried to print something, the printer made a funny noise. Rather than asking for help, Gina decided to keep looking.

Gina looked at the computer screen, feeling pretty amazed and pleased with what she had found. Of course, little of the information relates directly to the wedding market, but Gina had learned a lot about the flower industry and felt more confident that with a little more searching, she would find information on wedding flowers.

She decided to do one last search that night. She had read about a study conducted by an organization called the Ipsos/American Floral Endowment, and decided to see if she could track it down. She Googled it,

This data is typical of the general information that initial searches often uncover. Interesting, but not the information Gina was looking for. But, don't be impatient. This is only the beginning. So, what can Gina learn from general information like this?

Gina's Greenhouse Case Study: Industry Analysis

and found a fifty-four page summary of the 2003 study at:
http://www.ipsosinsight.com/pdf/ipsos_freshideas.pdf

As she began to look through it, she saw that the study has been conducted annually since 1992, and includes 12,000 households that report monthly on their purchases of flowers and plants. Like the SAF information, this report includes a lot of good information on the demographics of floral customers, in addition to where people purchase flowers, and industry trends. Gina saved the demographic information for later and noted some industry trends:

- In 1994, 70 percent of the total spent on cut flowers was spent at floral shops and 17 percent was in supermarkets. By 2004, floral shops share of cut flower sales had declined to 47 percent while the supermarket share increased to 29 percent.

Example Calculations with Gina's Research Data

Almost one-quarter (23%) of all holiday related floricultural sales (fresh flowers, flowering house plants, green plants, and bedding plants) are for Mother's Day.

However, only 16 percent of all floricultural sales are for any holiday (Valentine's Day, Mother's Day, Easter, Christmas, etc).

$$.23 \times .16 = .04$$

or, 4% of total floricultural sales

Should Gina consider Mother's Day if it only accounts for 4% of all floricultural sales?

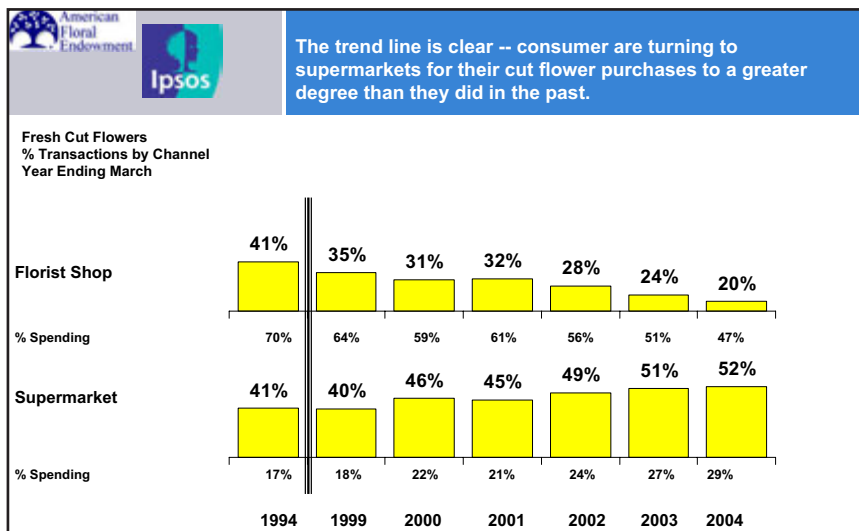
HINT:

- 4 percent of \$19.5 billion = \$780 million.
- Dividing \$780 million by the 293,000,000 (2004 U.S. population) \approx \$2.66 per capita.
- For Sauk County (population 57,000), that equals an estimated \$151,000 ($\$2.66 \times 57,000$) in floricultural sales for Mother's Day.
- 45 percent of Mother's Day sales are fresh flowers. $\$151,000 \times .45 \approx \$68,000$

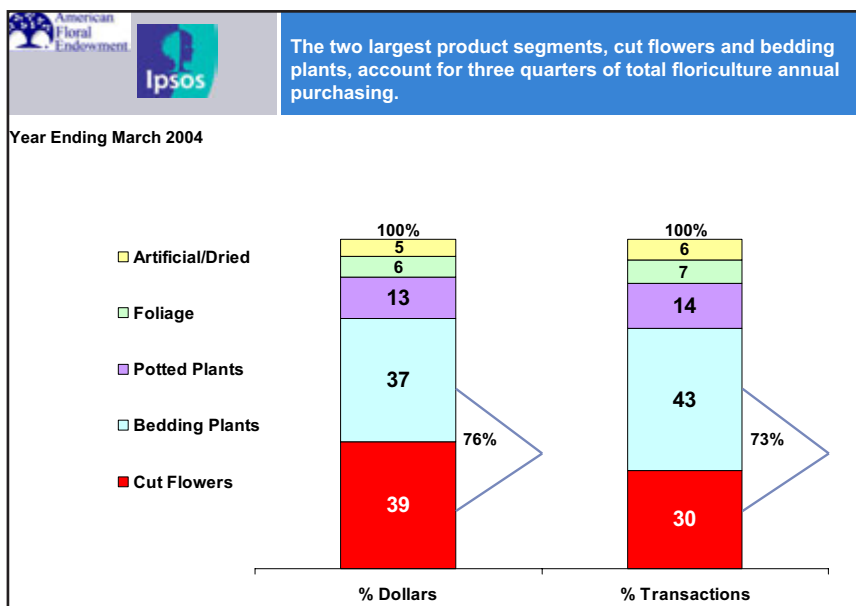
What do you think of Gina's math?

What other questions should Gina be asking about the Mother's Day market for flowers?

Gina's Greenhouse Case Study: Industry Analysis



- In 2004, 72 percent of the transactions in florist shops were cut flowers.
- Cut flowers accounted for 30 percent of the transactions and 39 percent of the dollars spent on floral purchases.



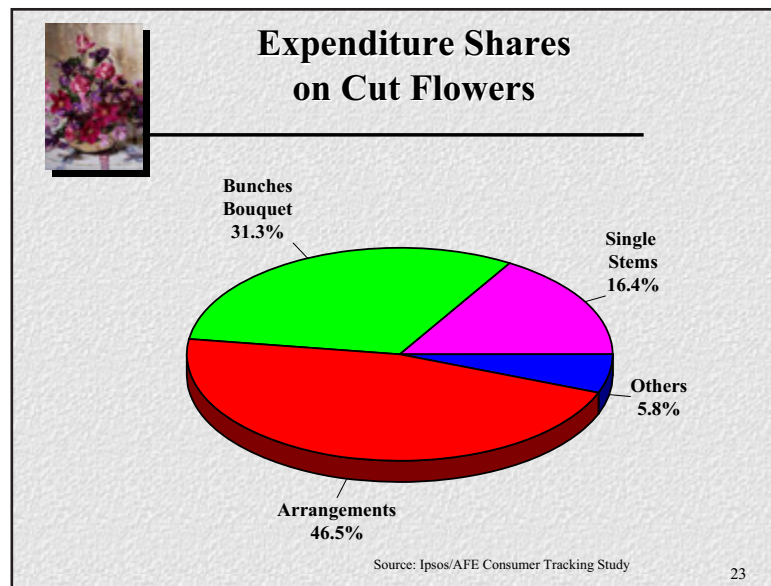
- 36 million households (approx one-third) purchased fresh cut flowers during the year ending March 2004.
 - 15 million purchased floral arrangements.
 - 28 million bought unarranged cut flowers
- 43 percent of all purchases of arrangements were made via telephone or online

Gina's Greenhouse Case Study: Industry Analysis

- In 2004, the top ten occasions for purchasing fresh cut flowers in a florist shop were:
 - Birthday
 - No special occasion
 - Sympathy/funeral
 - Anniversary
 - Valentine's Day
 - Get Well
 - Cemetery/Memorial
 - Other
 - Mother's Day
 - Christmas/Chanukah

Again, Gina found this interesting and somewhat useful, but still nothing on weddings. She was ready to quit for the evening when she saw a reference to U.S. Flowers Buyers: What we know about them, a Powerpoint™ presentation on the Ipsos/AFE Consumer Tracking Study by Stan Pohmer. She thought, "This is addicting," and went to <http://www.endowment.org/pdf/usflowerbuyer.pdf>.

She decided to take a look before she called it a day. Her determination was rewarded. The presentation included some interesting industry information and more good demographic data on floral consumers that was not included in the summary report. Again, she filed the demographic information away for later and noted that Pohmer estimated that the U.S. market for cut flowers totaled \$7.32 billion in 2003.



Gina's Greenhouse Case Study: Industry Analysis

Expenditures on cut flowers were reported in four categories:

- Arrangements (46.5 percent)
- Bunches/bouquets (31.3 percent)
- Single stems (16.4 percent)
- Other (5.8 percent).

Gina was pleased and exhausted. She never imagined that she could find so much detailed information. However, it was also a bit overwhelming, so she decided that she needed some time to digest this data and to decide what is relevant, what questions she can now answer, what questions remain, and what to do next. In addition to the information she had found, she had a long list of other websites and resources to examine.

However, Gina lamented that she had found little useful information about the market for wedding flowers. She vowed to return to the library and focus her search a bit more by conducting an Internet search on the market for wedding flowers.

Questions for Gina

1. What has Gina learned that she should consider in her analysis?

2. What questions does this information answer?

3. What questions or concerns does this information raise?

4. What trends might affect her business?

5. Did her research reveal any potential opportunities or threats?

Al's Meat Market Case Study: Industry Analysis

Paul and Tim went upstairs, turned their laptops on, and continued to argue about what the first question should be.

"Look," Paul said. "I don't care what you do. I'm going to find out how much pork people eat."

"I already Googled pork, and all I got was just got a few ads," Tim said.

"Too broad. Let's try pork consumption."

Both clicked on Factors Affecting U.S. Pork Consumption. They were happy to see the entire report is available free online. While Tim skimmed through the report on line, Paul printed a copy of the study so that he could read the whole report carefully.



In the introduction the report stated that in 2003, pork consumption was 51.7 pounds per capita. "Wow! That was easy," Tim said. "What's the next question?"

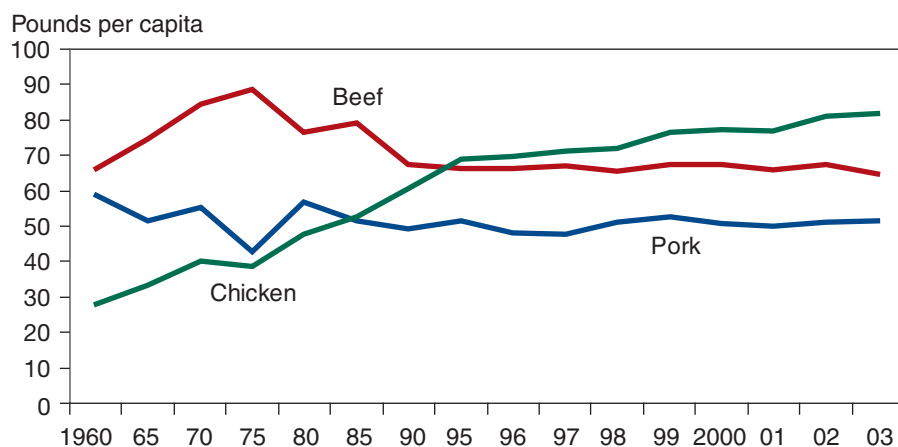
"We should get another source," Paul said.

"How could anyone argue with the USDA?"

"It's always a good idea to look for other sources," Paul said, "I assume we'll find another one as we go on. But let's see what else this report says about the pork industry. Hey, there's a lot of interesting information here."

Al's Meat Market Case Study: Industry Analysis

U.S. per capita consumption of pork, beef, and chicken, selected years



Source: U.S. Department of Agriculture, Economic Research Service, 2004.

"Pork consumption is going down," Tim said.

"Hmmm. That's not good news. Before we go any further, we're going to have to decide how we are going to keep track of our information," Paul said.

"I make notes on Post-It™ notes and stick them to my computer so that..."

"That might work for smaller, short-term projects, but this could turn out to be important. I think we should organize the information in a chart. We can divide it into three sections: information about the meat industry, data on the consumers, and information about our specific niche. Let's make sure we cite the websites we use and summarize the key information. It doesn't have to be fancy. I like to do it while I'm at the site so that I can copy and paste," Paul said.

"Okay," Tim said, sighing. "I can see this is going to be my job. But I'd rather summarize than copy and paste."

The brothers started looking through the report and selecting information to record.

AI's Meat Market Case Study: Industry Analysis

Now It's Your Turn

The boys found the following excerpt from the 2005 USDA report, *Factors Affecting U.S. Pork Consumption*. Take a few minutes to see what you can learn about the U.S. pork market.

Seeing Trends

Since 1960, pork consumption in the U.S. has been slowly but steadily declining and the decline is expected to continue for the next twenty years.

- 78 percent of all pork is consumed at home, but food-away-from-home accounts for 47 percent of all food spending and the portion of the food budget spent for food-away-from-home is increasing.
- 62 percent of all pork (pounds) purchased is processed pork.

Q: How might these trends impact AI's meat market business?

Q: What are the positives and negatives of the fact that 78 percent of pork is consumed at home?

Factors Affecting U.S. Pork Consumption

United States Department of Agriculture, 2005

Pork ranks third in annual U.S. meat consumption, behind beef and chicken, averaging 51 pounds per person. The Continuing Survey of Food Intakes by Individuals (CSFII) indicates that most pork is consumed at home. Pork consumption is highest in the Midwest (58 pounds), followed by the South (52 pounds), the Northeast (51 pounds), and the West (42 pounds). Rural consumers eat more pork (60 pounds) than urban/suburban consumers (49/48 pounds). Pork consumption varies by race and ethnicity. Blacks consume 63 pounds of pork per person per year, Whites 49 pounds, and Hispanics 45 pounds. Higher income consumers tend to consume less pork. Everything else remaining constant, demographic data in the CSFII suggest future declines in per capita pork consumption, as increases of Hispanics and the elderly—who eat less pork than the national average—enlarge their shares of the population. However, total U.S. pork consumption will grow because of an expansion of the U.S. population. Although pork is not consumed by certain populations or in certain regions, it is one of the preferred meats in the world and the United States, ranking first in per capita meat consumption in the world and third in the United States (fig. 1). It accounts for approximately 50 percent of daily meat protein intake worldwide (*U.S. Pork Manual, Today's Pork Industry*). In 2003, pork accounted for almost 42 percent of red meats (beef, pork, lamb, and veal) consumed in the United States. Hispanics, the fastest growing ethnic group, eat less pork than Blacks or Whites, and as people age they reduce their food consumption.

1. What can AI conclude from this information?
2. Does it raise new questions or concerns?

The following tables were also copied from the USDA report *Factors Affecting U.S. Pork Consumption*. What insights do they provide? What can AI learn from this information?

Table 1—U.S. per capita consumption, pork and all meats, selected years

Year	Fresh and processed pork	Fresh and processed beef	Fresh and processed chicken
<i>Pounds, retail weight equivalent</i>			
1960	58.7	64.7	28.0
1965	51.5	74.7	33.4
1970	55.4	84.4	40.1
1975	42.9	88.2	38.7
1980	56.8	76.4	47.4
1985	51.5	79.0	52.5
1990	49.4	67.5	60.6
1995	51.5	66.4	68.9
1996	48.1	67.0	69.7
1997	47.6	65.5	71.4
1998	51.3	66.5	71.9
1999	52.5	67.3	76.4
2000	50.8	67.5	77.4
2001	50.0	66.0	77.0
2002	51.3	67.5	81.0
2003	51.7	64.9	82.0

Source: U.S. Department of Agriculture, Economic Research Service.

Figure 2

U.S. pork consumption: fresh and processed pork

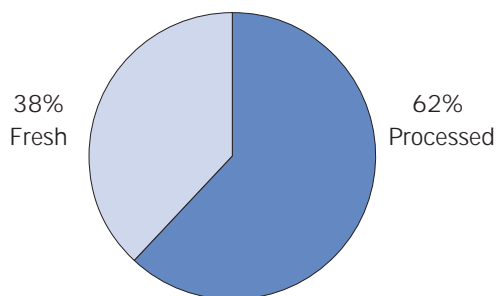


Table 5—U.S. consumption of fresh and processed pork at home and away from home

Item	All pork		Fresh-market		Processed	
	Percent	Pounds per capita	Percent	Pounds per capita	Percent	Pounds per capita
Food sources:						
At home	77.8	39.8	81.8	15.7	75.8	24.1
Away from home	22.2	11.2	18.2	3.5	24.2	7.7
Restaurant	17.2	8.7	15.4	3.0	18.1	5.8
Others	5.0	2.5	2.8	0.5	6.1	1.9

Source: <http://www.ers.usda.gov>

Part Two: Customer Analysis

The next step is learning more about your potential customers – who they are and what they want. Knowing more about your future customers will not only help you estimate sales, but will also enable you to fine-tune your business idea to better target your best prospective customers.

Customer analysis begins with defining your primary market. What do we mean by your primary market? The primary market for your business is that group of consumers (or businesses) that represent the largest segment of your market. Certainly, not all of your customers will fit within this definition, but the success or failure of most businesses is dependent upon their primary market. Your primary market can be defined three ways: *geographically, demographically, and by lifestyle.*

This analysis, and the examples, focuses on the primary market for consumer products and services, not because it is more important but because it provides us with easy examples that are familiar to everyone. If you are considering starting a business that serves other businesses or is an Internet-based business, the same process should be used. However, your markets will be defined differently. Instead of defining your customers demographically by age, income, and gender you will need to consider factors such as the type of business, size of the business, and their competitive positions. Rather than lifestyle factors, you will need to focus on existing supply chains, marketing channels, and the structure of the industry. However, the process of gathering and evaluating information is very similar.

We also concentrate on analyzing and defining the demographic market, not because it is the most important, but because this *first cut* analysis will enable you to learn enough about the potential market to assess whether a viable market for your business idea likely exists. If the answer is *yes*, then it is time to invest the time and effort needed to conduct a full market analysis – including geographic and lifestyle analysis. If the answer is *no*, you may decide to revisit and perhaps modify your business idea to better fit the market realities you have learned as part of this analysis. Or, you may decide not to pursue the business and therefore saved the expense of conducting a comprehensive market analysis and preparing a business plan for a business with limited potential for success. With that in mind, let's summarize geographic, demographic and lifestyle market analysis.

For more good information and resources to help with market analysis, go to Business District Market Analysis (BDMA) at: <http://www.uwex.edu/ces/cced/dma/>. This online toolbox includes almost everything you will need to conduct a comprehensive market analysis. Although designed for downtowns, the tools and resources included in BDMA will work for most any business.

For those ready to tackle, or just interested in learning more about geographic and lifestyle analysis, BDMA provides a good discussion of both subjects.

Section 4 of the BDMA toolkit, Analyzing Your Trade Area includes a discussion of Trade Area Analyst®, a free proprietary software Geographic Information Systems (GIS) software package that makes it easy to display customers geographically.

Geographic Market

For most applications, defining the geographic market (trade area) means identifying where most of your potential customers are located. Accurately defining the trade area is critical as it provides the physical boundaries for any further market analysis. Trade area analysis should consider not only a potential customer's location and the distance from your business, but travel time, traffic patterns, and other physical, social, and technological factors that define your trade area.

Different types of business will have different geographic trade areas. For example, people will generally travel greater distances to shop for appliances, furniture, automobiles, or specialized medical care (shopping goods/services) than to purchase gasoline, groceries or rent as video (convenience goods/services).

Where people work must also be considered. For example, Al's lives in Lafayette County, Wisconsin where only about half of the 8,400 employed residents of the county work in the county. Almost 4,000 Lafayette County residents have jobs outside the county. Not only will it be difficult, or impossible, for them to shop at Al's business while out of the county at work, but they will also be exposed to other similar businesses competing for their patronage. Conversely, approximately 1,000 people work in Lafayette County but live outside the county and represent a potential market. Al must consider this when estimating the effective geographic market for his business.

Tourists can also represent a significant market. Knowing how many people visit your area and where they come from may be important considerations when defining your business' trade area.

Demographic Market

For most consumer businesses, defining the demographic market means identifying the primary customers by age, income, education, gender, employment, type of residence. Developing a good demographic customer profile is useful in identifying potential opportunities in the geographic trade area. It is also an important element for estimating potential demand.

Once you have developed a demographic profile of your primary customers, it is time to compare it to the demographics of your primary

Does it feel like we are starting in the middle? Collecting and analyzing information about the specific industry, the demographic market and your specific business niche will help you decide whether there appears to be a viable market for your business idea and whether you should continue to the next step of the analysis.

We concentrate the preliminary market analysis on defining the demographic market not because it is the more important than defining the geographic or lifestyle markets, but because this **first cut** analysis will enable you to learn enough about the potential market to assess whether a viable market for your business idea likely exists.

If the answer is **yes**, then it is time to invest the time and effort into a full market analysis. If the answer is **no**, you may decide to revisit and perhaps modify your business idea to better fit the market realities you have learned as part of this analysis, or you may decide not to pursue the venture.

If you live in Wisconsin, try Community Indicators at: <http://www.uwex.edu/ces/cced/indicate.html> That is where AI found the Worker Flow data for Lafayette County.

Community Indicators were designed to provide people with easy access to a variety of data in a format that is descriptive instead of simply providing a bunch of data. Each includes and Excel™ spreadsheet so users can localize the data and a narrative that explains the source of the data and how it might be used.

trade area. The U.S. Census has made this step relatively easy. Detailed local census data is readily available free through *American FactFinder* on the U.S. Bureau of Census website at: <http://factfinder.census.gov/home/saff/>. Data can be retrieved at several geographic levels (county, city/village, town, census tract, zip code, etc.). You will find data on a wide variety of demographic categories. *American FactFinder* also allows you to develop and print reports and download the data in a variety of formats.

For example, Gina downloaded the following from the U.S. Census *American FactFinder* website.

	Wisconsin	Sauk County, WI
Total Population	5,363,675	55,225
20 to 29 years	693,285	6,049
30 to 39 years	808,816	8,310
40 to 49 years	842,202	8,663
50 to 59 years	660,227	6,914
60 to 69 years	388,106	4,315
70+ years	520,952	5,916
Marital Status (females 15+ years)		
Married	1,134,201	13,289
Never married	526,427	4,147
Divorced	209,478	2,293
Widowed	220,044	2,436
Living in different county in 1995	17.7%	17.9%
Worked outside the county	22.3%	20.4%
Total household income		
Less than \$25,000	25.7%	25.9%
\$25,000 to \$49,999	31.3%	34.8%
\$50,000 to \$99,000	33.6%	32.3%
\$100,000+	9.4%	7.0%

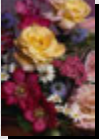
SOURCE: American FactFinder

Lifestyle Market

People's lifestyle—their interests, attitudes, opinions, and the activities they participate in—influence what they purchase, how often they buy it, and the benefits they seek from the product/service. Lifestyle analysis recognizes that lifestyle influences purchases, as much as where consumers live (geography) or their age, income, or occupation (demography). Combined with demographic analysis, lifestyle helps explain the differences in buying behavior of demographically similar consumers and thus, helps you better understand and quantify the market.

Gina's Greenhouse Case Study: Customer Analysis

The next morning, Gina decided to tackle the stack of demographic information she had collected while doing her industry research. She started with the consumer information she had collected on the Society of American Florists website.



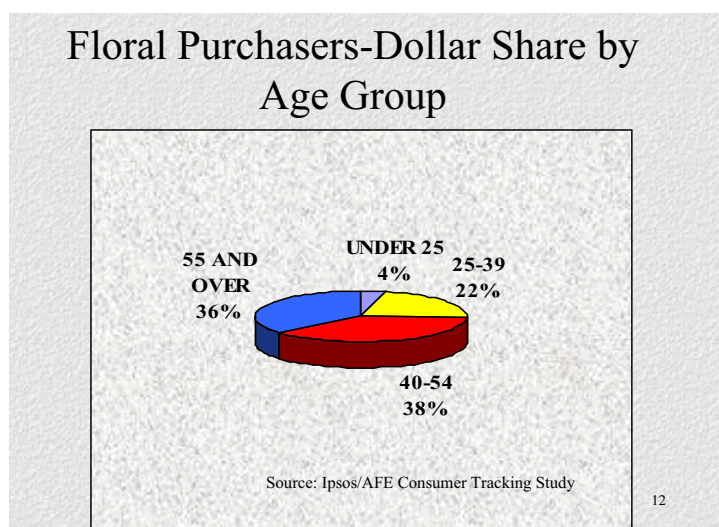
Floral Purchasers-Gender

	<u>All Floral</u>	<u>Cut Flowers</u>	<u>Potted Flowering</u>	<u>Foliage</u>	<u>Bedding</u>	<u>Artificial & Dried</u>
Share of Dollars Spent						
Male	28.2	39.0	21.8	22.8	22.8	7.7
Female	71.8	61.0	78.2	77.2	77.2	92.3
Share of Transactions						
Male	20.7	33.9	17.5	16.5	15.4	5.6
Female	79.3	66.1	82.5	83.5	84.6	94.4

Source: Ipsos/AFE Consumer Tracking Study

- Women accounted for 78 percent of floricultural sales
- Women accounted for 66 percent of all fresh flower sales

Gina was surprised that women comprised such a large portion of the market. The Ipsos/AFE study reported slightly lower percentages for women, but they still represent the largest segment of the market.



Gina's Greenhouse Case Study: Customer Analysis

- Women accounted for 71.8 percent of all dollars spent on floral products
- Women accounted for 61.0 percent of all dollars spent on cut flowers

The Ipsos/AFE study also found:

- Consumers over the age of 40 represent 74 percent of all spending on flowers.
- Consumers under the age of 25 spent only 4 percent of total expenditures on flowers.
- The typical floral customer (flowers and plants):
 - Shops five times a year for flowers and plants
 - Spends \$15.59 each time they shop purchases 1.5 different products each time they shop
 - Spends \$77 on flowers and plants annually

Questions for Gina

1. Does it surprise you that women purchase two-thirds of all fresh flowers?
2. What does the fact that consumers under 25 years old account for only 4 percent of all spending on flowers tell you?
3. What questions does Gina still have to answer?

Al's Meat Market Case Study: Customer Analysis

"I think we should find out how much people spend on pork," Tim said.

"Come on. Maybe we can get this done in an hour. I'm checking the Consumer Expenditure Survey."

"What's the address? I haven't used it before."

Tim wrote <http://www.bls.gov/cex/2003/Standard/income.pdf> on a piece of paper and handed it to his brother, and explained that the Consumer Expenditure Survey (CES) is on the Bureau of Labor Statistics web site. The CES is conducted annually by the Bureau. It details the expenditure patterns of 7,700 U.S. consumer units. Participants record all expenditures in a daily diary. The BLS maintains demographic profiles of each consumer unit, enabling them to report spending by demographic category (i.e. age, income, household size).

"What we want to do here," Tim continued, "is to download the 2003 data reported by household income."

The brothers saw that according to the CES, the average consumer unit spent \$181 on pork to consume at home in 2003.

The USDA report stated that in 2003, pork consumption was 51.7 pounds per capita, regardless of where it was purchased or consumed. Conversely, the CES reports consumption in dollars per consumer unit and, the \$181 reported by the CES included only pork consumed at home.

"Wait a minute," Paul said. "We have a problem here."

"What? What's the problem?"

"The USDA report talked about 51.7 pounds consumed per person. That could mean at restaurants and at home. This is specifically about pork that is consumed at home. It does not include pork eaten at restaurants, and what exactly is a consumer unit?"

"Okay. Well, as Dad would say, 'Make it work, Boys.' Let's go to American FactFinder on the U.S. Census website. Maybe they'll have a common denominator."

After a few minutes, Tim said, "This is so frustrating. The Census reports data by household and family, and does not even mention consumer units."

How can you, or even should you, combine numbers from different data sources?

The brother's research suffers from a common problem – different data sources, methodologies, purposes, and audiences. For example, the temptation here is to divide \$72.40 spent on pork to consume at home per person (CES) by the reported 39.8 pounds of pork consumed per person at home (USDA) to obtain an estimated \$1.82 per pound and conclude that this is a reasonable average price paid per pound for pork to consume at home.

The short answer is, you shouldn't, but people will do it. And, the simple fact is we are not attempting to design a rocket to fly to the moon. We are trying to learn more about the markets and market potential – an inexact science at best.

So, be very careful. *Simply because the answer agrees with what you think it should be, or need it to be, does not mean it is correct. Don't push the data to hard.* Although this analysis will not likely be used to design interstellar rockets, it will likely be used to obtain financing (using the rest of the equity in the farm as collateral). **Consider yourself WARNED.**

Al's Meat Market Case Study: Customer Analysis

"I'm going back to the CES website." Paul noticed that the survey included 97,391 consumer units and the average number in each consumer unit included 2.5 people.

"Good work," Tim said. He divided \$181 per consumer unit by 2.5 people per consumer unit for an estimated \$72.40 per person.

$$\$181 \text{ per C.U.} \div 2.5 \text{ people per C.U.} = \$72.40 \text{ per person on pork at home}$$

Now, the brothers had two reliable sources that report on a per capita basis. However, they were still comparing pounds to dollars and pork consumed at home with all pork consumed regardless of where it was eaten.

Paul went to his printed copy of his USDA report and took a closer look. "Hey, this report has a lot of other information about pork consumption, including some interesting demographics on who eats pork, what kind they eat, and how much. For example, Table 5 displays pork consumption at home and away from home. Table 5 reveals that 39.8 pounds of the 51.7 pounds of the pork consumed (77.8 percent) was consumed at home."

Paul and Tim looked at each other.

"Wow, I never imagined we would find this kind of detailed information, but do these numbers contradict each other? Or are they pretty close?" Tim asked.

"This is going to take a lot longer than I thought. Let's see what else we can learn about pork consumers from this report."

Tim's Notes: USDA Factors Affecting U.S. Pork Consumption

- **As household income rises, pork consumption declines**
- **Non-Hispanic African Americans consumed the most pork annually (63 pounds per capita)**
- **Non-Hispanic whites averaged 49 pounds of pork per capita annually**
- **Consumers in the Midwest ate the most pork (58 pound per capita per year). Residents of the West eat the least (42 pounds)**
- **People living in rural America consumed ten pounds more pork than their urban counterparts (59 pounds). Most of the difference was the approximately 10 pounds more processed pork per capita consumed by rural Americans.**
- **Men ate 74 percent more pork than women (65 pounds versus 37 pounds)**

Al's Meat Market Case Study: Customer Analysis

- Men aged 40-59 ate more than 76 pounds of pork (30 pounds of fresh and 46 pounds of processed). Women of the same age group consumed 42 pounds (17 pounds fresh and 25 pounds processed) Source: <http://www.ers.usda.gov>

Next, the brothers took a closer look at the *Consumer Expenditure Survey*. Some of the CES data seemed to contradict the USDA report. The USDA concluded that pork consumption declines as income increases. However, according to the CES, the amount spent on pork to eat at home increases with household income. Similarly, the USDA found that African Americans eat more pork, but the CES reports that Hispanic households spend more on pork.

Tim's Notes: Consumer Expenditure Survey

- Higher income households spent more on pork to consume at home (\$241 per household with household incomes greater than \$150,000 per year)
- Households headed by a 45 to 54 year old spent the most of any age group (\$222 per year)
- Hispanic households spent more per year on pork at home (\$236) than African American households (\$207) or white households (\$169) Source: <http://www.bls.gov/cex/>

The next evening, the brothers decided that their next question would be: "What is the local market for pork?"

They decided that their primary market will not likely include their entire county (Lafayette), but they could use Lafayette County to gain a better understanding of the relative size of the local market for pork.

They went back to American FactFinder on the U.S. Census and obtained the most recent estimates for Lafayette County's population at 16,304 (2003). They did the following calculations:

$$\begin{aligned} &16,304 \text{ people} \times \$72.40 \text{ per person} \\ &= \$1,180,409 \text{ on pork to consume at home} \end{aligned}$$

$$\begin{aligned} &16,304 \text{ people} \times 39.8 \text{ pounds} \\ &= 648,899 \text{ pounds of pork consumed at home} \end{aligned}$$

"That's a lot of pork," Tim said.

Al's Meat Market Case Study: Customer Analysis

"But, we can do better." Paul said. "Let's use the demographic data we collected to adjust these estimates. Remember, the CES reports pork consumption by several demographic categories (age, income, household size, occupation, and region). *Factors Affecting U.S. Pork Consumption* provides data on pork consumption on a variety of demographic parameters (age, gender, ethnicity, rural/urban, region)."

"According to this," Tim said, "rural Americans consume ten more pounds of pork per capita than their urban counterparts. It looks like most of the difference is due the almost ten additional pounds of processed pork consumed by rural Americans."

The brothers also remembered that the USDA study found that men eat more pork than women. Middle-aged men consume the most pork (76.5 pounds per year). They decided to use the CES and USDA demographic data to adjust their estimates.

Paul said, "Let's start by adjusting to reflect the rural character of Lafayette County." He accomplished this by simply multiplying his previously estimated 648,899 pounds of pork consumed at home by 59.5/51.9 or 1.15. The result is an increase to approximately 750,000 pounds.

$$648,899 \text{ pounds} \times 1.15 = 746,234 \text{ pounds of pork consumed at home}$$

Now It's Your Turn

The boys were flinging a lot of numbers around—enough to confuse anyone. Al said, "Show me the data." Show Al where the boys found the following data:

1. The average consumer unit spends \$181 per year on pork to eat at home.
2. An average consumer unit consists of 2.5 people.
3. Rural consumers eat approximately ten pounds more pork per year than urban consumers.
4. How might you explain the apparent contradiction – As income increases, the amount of pork consumed declines, but the amount spent increases?

Table 8—Per capita pork consumption by region

Item	Population	All pork		Fresh-market		Processed	
	<i>Percent</i>	<i>Percent</i>	<i>Pounds per capita</i>	<i>Percent</i>	<i>Pounds per capita</i>	<i>Percent</i>	<i>Pounds per capita</i>
Northeast	19.6	19.4	50.8	18.9	18.3	19.9	32.5
Midwest	23.5	26.6	57.7	26.0	21.1	26.9	36.6
South	34.9	35.4	52.3	32.2	17.5	37.9	34.8
West	22.0	18.5	42.0	22.8	19.7	15.3	22.3

Processed consists of canned and dehydrated. See text [Calculating Per Capita Shares](#) for an explanation of methodology.

Table 9—Rural/urban per capita pork consumption

Item	Population	All pork		Fresh-market		Processed	
	<i>Percent</i>	<i>Percent</i>	<i>Pounds per capita</i>	<i>Percent</i>	<i>Pounds per capita</i>	<i>Percent</i>	<i>Pounds per capita</i>
Urban	31.8	30.6	49.2	34.1	20.4	28.6	28.8
Suburban	47.0	44.5	48.4	42.1	17.0	46.1	31.4
Rural	21.2	24.9	59.5	23.8	21.3	25.3	38.2

Processed consists of canned and dehydrated. See text [Calculating Per Capita Shares](#) for an explanation of methodology.

Table 10—Market distribution and per capita pork consumption

Gender and age	Population	All pork		Fresh-market		Processed	
	<i>Percent</i>	<i>Percent</i>	<i>Pounds</i>	<i>Percent</i>	<i>Pounds</i>	<i>Percent</i>	<i>Pounds</i>
Male, years:	49.0	62.4	65.2	62.7	24.3	62.6	40.9
2-11	9.0	6.1	35.2	5.4	11.4	6.7	23.8
12-19	5.9	7.5	65.6	6.9	22.2	8.0	43.4
20-39	16.0	22.8	72.2	22.4	26.6	22.8	45.6
40-59	11.6	17.3	76.5	18.4	30.1	16.8	46.3
60 and over	6.7	8.7	66.9	9.6	27.2	8.3	39.6
Female, years:	51.0	37.6	37.4	37.3	13.9	37.4	23.5
2-11	8.5	4.8	28.9	3.5	7.8	5.6	21.1
12-19	5.7	4.0	34.9	3.4	11.3	4.2	23.6
20-39	15.9	12.1	38.4	12.8	15.3	11.5	23.1
40-59	12.1	10.0	42.0	10.6	16.6	9.6	25.4
60 and over	8.6	6.8	39.8	6.9	15.2	6.6	24.6

Table 4—U.S. consumption of fresh and processed pork by race/ethnicity

Item	Population	All pork		Fresh-market		Processed	
	<i>Percent</i>	<i>Percent</i>	<i>Pounds per capita</i>	<i>Percent</i>	<i>Pounds per capita</i>	<i>Percent</i>	<i>Pounds per capita</i>
Race/ethnic origin:							
White, non-Hispanic	72.5	69.8	49.0	61.1	16.0	74.8	33.0
Black, non-Hispanic	12.6	15.3	63.4	16.8	25.3	15.0	38.1
Hispanic	10.6	9.9	44.9	11.9	21.3	7.8	23.5
Other races	4.4	5.1	61.9	10.3	44.5	2.4	17.5

Table 2. Income before taxes: Average annual expenditures and characteristics, Consumer Expenditure Survey, 2004

Item	All consumer units	Less than \$5,000	\$5,000 to \$9,999	\$10,000 to \$14,999	\$15,000 to \$19,999	\$20,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999	\$50,000 to \$69,999	\$70,000 and more
Number of consumer units (in thousands)	116,282	4,553	7,218	8,950	8,177	14,172	13,125	11,374	18,069	30,644
Consumer unit characteristics:										
Income before taxes	\$54,453	\$1,097	\$7,812	\$12,499	\$17,417	\$24,767	\$34,739	\$44,645	\$59,259	\$118,482
Income after taxes	52,287	1,177	7,800	12,619	17,480	24,298	34,199	43,689	57,122	112,266
Age of reference person	48.5	38.9	51.6	56.2	53.9	50.5	47.5	47.3	45.8	47.0
Average number in consumer unit:										
Persons	2.5	1.6	1.6	1.8	2.0	2.2	2.4	2.6	2.8	3.1
Children under 186	.3	.3	.4	.5	.5	.6	.7	.7	.8
Persons 65 and over3	.2	.4	.5	.5	.4	.3	.3	.2	.2
Earners	1.3	.6	.4	.5	.7	1.0	1.3	1.4	1.7	2.0
Vehicles	1.9	.8	.8	1.1	1.3	1.5	1.8	2.1	2.4	2.8
Percent distribution:										
Sex of reference person:										
Male	48	39	34	32	43	44	49	50	54	56
Female	52	61	66	68	57	56	51	50	46	44
Housing tenure:										
Homeowner	68	26	36	51	54	57	63	70	78	90
With mortgage	42	10	9	14	16	23	36	45	57	72
Without mortgage	25	15	27	37	38	35	27	25	20	18
Renter	32	74	64	49	46	43	37	30	22	10
Race of reference person:										
Black or African-American	12	17	20	17	16	15	12	11	9	7
White, Asian, and All Other Races	88	83	80	83	84	85	88	89	91	93
Hispanic or Latino origin of reference person:										
Hispanic or Latino (new UCC Q20032)	11	11	12	11	14	14	14	12	9	7
Not Hispanic or Latino (new UCC Q20032)	89	89	88	89	86	86	86	88	91	93
Education of reference person:										
Elementary (1-8)	5	7	17	12	11	7	5	4	2	1
High school (9-12)	35	38	41	51	51	46	43	39	31	18
College	59	55	41	36	38	47	52	57	66	81
Never attended and other	(¹)	(¹)	1	1	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)
At least one vehicle owned or leased	88	55	58	73	81	88	93	95	97	98
Average annual expenditures	\$43,395	\$17,029	\$14,596	\$19,444	\$23,023	\$27,741	\$33,273	\$38,204	\$47,750	\$76,954
Food	5,781	3,173	2,409	2,981	3,567	4,076	4,986	5,452	6,312	9,042
Food at home	3,347	2,030	1,695	2,105	2,435	2,591	3,056	3,263	3,640	4,734
Cereals and bakery products	461	300	259	294	351	359	430	456	506	628
Cereals and cereal products	154	118	95	113	123	117	145	152	166	203
Bakery products	307	182	164	182	228	242	285	305	340	426
Meats, poultry, fish, and eggs	880	558	476	562	640	698	827	900	936	1,209
Beef	265	162	142	152	198	205	266	265	278	369
Pork	181	118	110	135	130	161	172	195	194	229
Other meats	108	71	52	62	83	81	92	111	117	155
Poultry	156	109	78	107	112	117	146	149	170	217
Fish and seafood	128	63	65	71	84	95	106	141	135	189
Eggs	42	34	28	35	34	39	45	41	43	49
Dairy products	371	229	177	230	268	289	349	361	403	521
Fresh milk and cream	144	102	83	105	118	121	145	143	154	185
Other dairy products	226	126	94	125	150	169	204	218	250	336
Fruits and vegetables	561	346	272	385	419	425	519	549	592	794
Fresh fruits	187	109	87	126	131	147	168	193	184	271
Fresh vegetables	183	116	88	131	138	132	165	168	202	262
Processed fruits	110	63	54	75	80	84	108	106	117	153
Processed vegetables	82	58	43	54	70	62	78	82	88	109

Part Three: Niche Analysis

Understanding the market is especially important for value-added agricultural enterprises that are focusing on smaller niche markets. Knowing more about a niche market will help you determine if the market is large enough to support a viable business.

Understanding the industry and the general market will help you recognize many of the strengths and weaknesses of your business idea and identify potential opportunities and threats that may either enhance or limit your chances for success. Now it is time to concentrate on the specific market niche your business will focus upon—your target market.

Much of the analysis is the same. You will need to learn about the current situation and major trends affecting your specific niche market. You will also need demographics of your target market and data on spending patterns.

Gina's Greenhouse Case Study: Niche Analysis

Gina returned to the library to focus her search on her identified niche — wedding flowers — and decided to narrow her search. So, she conducted an Internet search for information on how much people spend on flowers for weddings. She found a wealth of wedding statistics at the www.theweddingreport.com. The site provides cost estimates for many wedding items, including flowers. Gina decided to order the *Wedding Report* for Sauk County, Wisconsin. She was surprised when she discovered that the Wedding Report projects:

2006 Sauk County, Wisconsin Average Wedding Cost

Wedding Cost / Expense Breakdown	
Attire	
Bride Accessories	\$254.00
Groom Accessories	\$108.00
Groom Tux/Suit	\$157.00
Hair & Makeup	\$108.00
Headpiece/Veil	\$254.00
Wedding Dress	\$884.00
Ceremony	
Ceremony Accessories	\$157.00
Ceremony Location	\$254.00
Ceremony Site Decorations	\$362.00
Marriage License	\$44.00
Officiate	\$244.00
Rehearsal Dinner	\$1,177.00
Favors & Gifts	
Attendant Gifts	\$540.00
Parent Gifts	\$129.00
Wedding Favors	\$393.00
Flowers	
Boutonnieres/Corsages	\$188.00
Bride Bouquet	\$157.00
Bridesmaid Bouquets	\$254.00
Flower Girl Flowers	\$49.00
Flowers (Ceremony & Reception)	\$442.00
Jewelry	
His & Her Rings	\$1,668.00
Music	
Reception band/disc jockey	\$884.00
Photography & Video	
Photographer	\$1,668.00
Videographer	\$884.00
Reception	
Bride/Groom Hotel	\$134.00
Reception Beverages / Bartender	\$2,010.00
Reception Decorations/ Centerpieces	\$1,079.00
Reception Food Service	\$7,209.00
Reception Venue/Rentals	\$2,061.00
Wedding Cake	\$637.00
Stationery	
Invitations & Reply Cards	\$648.00
Other Stationery	\$129.00
Transportation	
Limo/Car Rental	\$540.00
Total Cost	\$25,700.00

(Table N)

Source: theweddingreport.com

- Twelve percent of all couples typically spend little or nothing on their weddings
- Twenty-two percent of all weddings are basic weddings. In Sauk County, a basic wedding cost an estimated \$6,615 in 2006
- Sixty-six percent are classified as an average wedding. In 2006, an average wedding in Sauk County cost \$25,700.
- The average Sauk County wedding included \$1,090 for flowers
- A basic wedding in Sauk County spent \$157 on flowers).

The *Wedding Report* also includes estimates of the number of weddings expected per month in Wisconsin and projects the number of weddings that will occur in every county of the state.

- 350 weddings are projected for Sauk County, Wisconsin in 2006.
- Almost half (49 percent) of the weddings in Wisconsin occur between May and September.

Gina presumed that about half of the weddings in her county (175) will happen between May and September.

If two-thirds are "average" weddings and spend \$1,090 on flowers for the wedding that means that the total market for flowers for average weddings is an estimated \$125,000 in Sauk County.

$$175 \text{ weddings} \times .66 \times \$1,090 \approx \$125,895$$

Gina knows that her market likely doesn't include the entire county. If things go well, she hopes to attract customers from outside the county. Also, there are several established flower shops that already serve the market. However, this does provide her some valuable perspective about the potential market. It also raises more questions.

Gina's Greenhouse Case Study: Niche Analysis

Remember, one of the goals of this first-cut market analysis is to help you determine the potential costs and potential benefits of your business enterprise. Let's return now to Gina's cost-benefit analysis.

Are the Potential Benefits Greater Than the Potential Costs?

1. Are the potential benefits greater than the potential costs?

I know that the market for Mother's Day flowers in my county is about \$68,000 — and of that, about 45 percent is spent on fresh flowers.

I know that Sauk County will have about 350 weddings in 2006, and almost half (49 percent) occur between May and September. Two-thirds of these weddings will spend an average of \$1,090 on flowers.

2. What additional information do you need?

The people at the farmers market who ask me to provide wild flowers for their weddings never have purchased \$1,090 on flowers — or even close to it. The most I've ever charged for wedding flowers is \$500. Am I charging too little? Or, do people who want wild flowers also have smaller, simpler weddings?

I would like to know more about marketing and sales. If I grow more/better flowers, how do I increase my sales? I'll have to double or triple my sales to be profitable. How would I do that? Word-of-mouth will help, but it probably can't be the only thing.

Al's Meat Market Case Study: Niche Analysis

The brothers talked about the fact that the 750,000 pounds of pork that the Lafayette County residents consume at home is purchased in variety of places. Some will purchase it at the local supermarket; some local residents who work outside the county will buy groceries in Dodgeville, Platteville, or Monroe. Many shop at the Wal-Mart Supercenter in Platteville. There is no local meat market. Currently, some local residents travel all the way to Cuba City to buy meat at Weber's Meat Market. They also noted that only a small percentage of people regularly shop at meat markets.

"Okay," Tim said, "So how do we find out how many people are likely to buy pork at a meat market?"

They spent about twenty minutes looking for good web sites, but came up empty. Paul said, "It's supposed to rain tomorrow. Instead of working on the fences, let's see what Dad says about the idea of taking a trip to the Steenbock Agriculture Library at UW-Madison."

"Good idea," Tim said, closing his computer. "With any luck at all, it will clear up in time for us spend part of the afternoon on the Terrace at the Union." Then he glanced at his brother. "You're not still thinking of transferring to UW-Madison, are you?"

"I don't know what I'm going to do, and I don't want to talk about it," Paul said.

The next day, the brothers drove to the agriculture library. The librarian directed them to a computer to search for information on pork consumers. There were no reports on pork, but they did find a 2004 report on red meat consumption by Mintel, a private market research firm.

The librarian explained that Mintel provides access to this information to introduce students and others to the company and enable them to learn how to access and use this valuable information.

"Wouldn't Dad be amazed?" Paul said. He paged through the onscreen report and on Table 26 discovered that, according to Mintel, 8 percent of adults usually purchase red meat at a butcher shop.

Al's Meat Market Case Study: Niche Analysis

The Mintel report stated that 11 percent of the consumers in the North Central region usually purchase red meat in a butcher shop. It also reported that the people with higher incomes are more likely to shop at a butcher shop.

- 8 percent of adults usually purchase red meat at a butcher shop
- 11 percent of consumers in the North Central U.S. are likely to purchase red meat in a butcher shop
- People with higher incomes are more likely to shop at a meat market

Source: www.mintel.com Mintel International Group

As Paul and Tim ate their lunch at a picnic table by the Memorial Union, Paul started to make a list of what they should tell their dad.

"You can start by saying that 11 percent of the red meat sales in Lafayette County is purchased in butcher shops," Tim said.

"Didn't you have Professor Smith yet? If you would say something like that in his class, he would set you straight pretty fast. All we can conclude from the Mintel report is that 11 percent of the consumers in the North Central region usually purchase red meat in a butcher shop. For us, that means that the market potential for pork sales in a meat market in Lafayette County is likely to be only a small percentage of our estimated \$1.18 million that we calculated earlier this week."

Tim stood up. "You know what? We still have another important question to ask, namely, "What portion of a typical meat market's total sales is comprised of pork?"

That evening, the brothers went back to the CES website. They found that according to CES, pork accounts for 25.4 percent of spending on meat to consume at home.

"Does that mean that pork represents one-quarter of the typical meat market's sales?" Paul asked.

After searching for the next thirty minutes, the boys were unable to find a specific breakdown of sales for the typical meat market. However, they did find two articles that provided some insights.

Item	All consumer units
Food	5,781
Food at home	3,347
Cereals and bakery products	461
Cereals and cereal products	154
Bakery products	307
Meats, poultry, fish, and eggs	880
Beef	265
Pork	181
Other meats	108
Poultry	156
Fish and seafood	128
Eggs	42

Source: <http://www.bls.gov/cex/>
Consumer Expenditures in 2003

Al's Meat Market Case Study: Niche Analysis

Progressive Grocer's 2006 Meat Seafood Operations Review reported that, in 2005, pork accounted for 15 percent of fresh meat sales in supermarket meat departments. Ham contributed 4.8 percent of sales and sausage 2.1 percent of total meat sales.

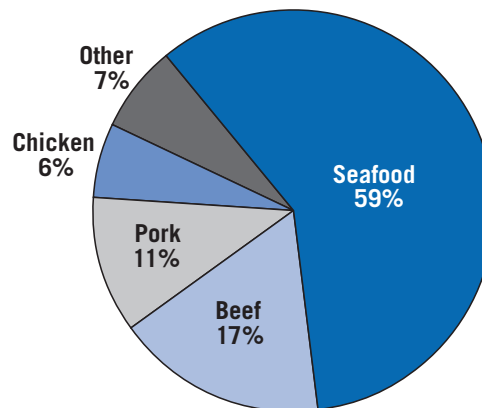
- In 2005, pork accounted for 15 percent of fresh meat sales in supermarket meat departments
- Ham contributed 4.8 percent of sales; sausage was 2.1 percent of total meat sales.

Source: www.progressivegrocer.com/progressivegrocer/index.jsp

Tim said, "Total versus fresh meat sales? This is confusing."

"Well, *Today's Retail Meat Case* reports that pork accounted for 22 percent of the space in self service retail meat cases. However, in full service meat cases, pork comprises only 11 percent of the space," Paul said.

Species Share of Full Service Linear Feet



"I'm going to see if I can turn this pork project into some independent study credits," Tim said. "Let's get back to that list that we started making that summarizes what we have found."

"We can tell Dad that we have a rough idea of the size of the pork market in Lafayette County. We also know that pork will be only about a fourth of the meat in Al & Sons Better Meats."

"We should probably find out more about meat markets next. What kind of profit margins do they have?"

AI's Meat Market Case Study: Niche Analysis

"I don't know. I think we should ask ourselves if we really want to run a meat market, if three-fourths of the time you aren't dealing with pork. We'd have to learn a lot about all kinds of meat."

"Our mother isn't enthusiastic about opening a meat market," Paul said, knowing he was understating the facts.

"She hardly spoke to Dad this morning at breakfast."

"Well, here is an idea. What if we could find a meat market that would be willing to buy our pork directly? Wouldn't that be a better idea than trying to learn how to run our own market?"

The brothers looked at each other. Tim had a lot of crazy ideas, but maybe this time he struck gold.

Now it's Your Turn

1. Are the potential benefits greater than the potential costs? At this point, what do you think?

2. What additional information does AI need?



Associations, Similar Businesses, and Suppliers

After you have completed your personal cost-benefit analysis in Chapter One, and have also completed your preliminary market research in Chapter Two, it is time to conduct your informal primary market research. We recommend that you begin your research by contacting your industry's associations, talking with people who operate businesses that are similar to the type that you have in mind, and meeting suppliers and wholesalers.

In our experience, these are the three most productive sources for information when you are in the preliminary stages of exploring your business idea. The information you can obtain at this stage will help you make an informed decision about how to proceed.

You may be wondering why we recommend you focus on these areas instead of doing customer surveys. We have two reasons. First, we believe that this information should be a higher priority earlier in the process because it can help you make your first-cut decisions. Second, we recognize that survey research is a science. Survey design determines their accuracy and value. Trained professions can create reliable assessment tools; amateurs might not. Paying for expertise is an important step to take

after you have completed this preliminary analysis and have determined that you are ready to proceed with a full-scale business plan.

Associations

While doing the preliminary market research in Chapter Two, you probably discovered several of the associations that serve your industry. If not, this would be a good time to begin taking a good look at this important resource.

One way to find your associations is to simply enter the name of your industry in your search engine (such as Google or Ask.com). If you are doing your research at a library, it is likely that you will have access to “Associations Unlimited,” which is a resource that many libraries maintain.

We recommend that you begin by listing the association’s services. You will find that some specialize in educational conferences, while others focus on lobbying, and still others provide insurance options for their members. It’s unlikely that you will find a one-stop-shop that offers everything.

To track your findings, you may wish to use a chart such as the one we have created. We have also included a copy of Gina’s completed worksheet as an example.

Association Resources

Name and Address:

Phone:

Website:

Email:

Primary areas of interest:

Summary of Contact with Association:

List of services:

Educational Resources:

Publications and/or books:

Conferences and/or networking opportunities:

Do they offer insurance to members?

Do they lobby policy makers?

Other benefits to members:

Price for membership:

Gina's Case Study: Association Resources

Name and Address: Society of American Florists

Phone: (800) 336-4743

Website: <http://www.safnow.org>

Email: Executive Director is Peter Moran: pmoran@safnow.org

Primary areas of interest: They have:

Grower Update — monthly newsletter

Washington Week in Review

Floral Trend Tracker —quarterly industry research

Wednesday E-Brief — weekly email newsletter

Dateline newsletter — 18 times /year

Floral Management — monthly magazine

Summary of Contact with Association:

I didn't see anything on their website about materials for people who are considering starting a new floral business — so I called them. David Bowman sent me a great package in the mail!

List of services: See above

Educational Resources: See above

I would like to note that there is another association that has good educational resources, too. It's OFA — Association of Floriculture Professionals. It's geared more for people with greenhouses than SAF is, which is mainly for florists. They have an annual conference in July that is called "college of Knowledge" and is put on by Michigan State University.

Publications and/or books: See above

Conferences and/or networking opportunities: SAF has a huge conference in September in Florida. The OFA conference is in July.

Gina's Case Study: Association Resources

Do they offer insurance to members? No — but the American Floral Industry Association does. See <http://www.afia.net/join.htm>

Do they lobby policy makers? Yes, the SAF does

Other benefits to members: They seem like very nice people to talk with.

Price for membership: For a grower that does under \$1 million in sales, it's \$441 for SAF. For up to 25,000 square feet of greenhouse space, it costs \$90 to join OFA

The AFIA membership is \$250.

Similar Businesses

One of the best ways to learn about the type of business that you are interested in starting is to talk with someone who operates such a business. You may be pleasantly surprised at how much you can learn by spending an hour with someone who is already “in the trenches.” Yet, many prospective entrepreneurs are reluctant to take this step because they can’t imagine that business owners would be willing to reveal information that may be both personal and proprietary.

While in some cases that is true, we have found that in many more cases, people are willing to share their stories — especially with people who are located outside their geographic territory. For example, in our case study about Gina’s Greenhouse, she traveled one county east and another county north to talk with two people who were very comfortable talking about their businesses because they were not worried about potential competition.

How do you find people in similar businesses? Gina knew people who knew people; she felt most comfortable using her broad network of friends, family and acquaintances. Other people may decide to make cold calls to businesses found in the yellow pages. A third method is to ask your association to provide recommendations of members to contact.

So, after contacting a person who operates a similar business, how would you begin your conversation? There are a wide range of approaches that work well. Some, for example, might prefer to come to the meeting with only two questions: “How did you start your business?” and “Do you have any advice for someone in my position?” Others may wish to write a more detailed set of questions. For those who prefer to use this method, we have prepared a list that may be helpful. Keep in mind, however, that there will be times when follow-up questions (such as: “What do you mean?” or “Can you give me an example?” or “About what year did that happen?”) are more important than asking the next question on the list. We recommend that you think of it as an outline of suggestions, rather than as an inflexible list that must be used verbatim.



Sample Questions to Ask a Current Business Owner/Operator

Contact Information:

Information from business website:

Time/date of interview:

1. Thank you for agreeing to meet with me. I am considering starting a business that is similar to yours in _____ County, and I am wondering if you would talk to me about how you started your business.
2. Did you have a clear objective when you started?
3. What type of preparation did you have?
4. How did it go? About as well as you thought it would?
5. What sort of marketing did you do?
6. Did you have to hire staff?
7. Was it difficult to obtain financing?
8. What was the biggest surprise?
9. How has your business changed since then?
10. If you could do it all over again, is there anything that you would do differently?
11. What advice would you have for someone who is considering starting out?
12. Who else would you recommend that I speak to?

Gina's notes on Conversations with Business Owners

MEETING WITH TAMMY — SEPT 21, 2006

Tammy is my chiropractor's wife's sister. I met her once at church, and we had a fun time talking about our gardens. She has three greenhouses and a studio on a small farm in Dodge County. Last year she did \$60,000 in business and netted \$30,000. She did about 35 weddings, most of which were in the \$500 range; she also had three weddings that were over \$1,000. In addition, she sells flowers at her local farmer's market during the first five weeks of the spring and summer. Her advice:

- Greenhouses? They aren't expensive. You can get a small hoop house with double plastic in a kit for \$300-\$400 for 24 square feet. What is expensive is a walk-in cooler. There is no way you could do more than one wedding at a time if you don't have a cooler. Hers cost about \$6,000 for an 8 X12 size.
- A Farmers' Market is a great place to advertise your wedding business. A lot of her customers came from her farmers' market contacts. People will come up and say, "I love your flowers! I would like to have wildflowers like these at my wedding!" The kicker is that when the day comes that they select their flowers, a lot of times they decide to add roses and other flowers that are not wildflowers.
- Her wedding business did not really "take off" until she participated in bridal shows. She had pictures of her floral arrangements in a continuously-running slide show. She said, "Don't participate until you have been to several shows. You don't want to be the least prepared, the lowest priced, or the one with the fewest ideas to offer." Participating in a bridal show can cost \$3,000 for the larger shows.
- She highly recommended that I develop a network of people who do other types of wedding services as well as other people who sell flowers. She said that if she wants a wider selection of flowers than she can grow herself, she contacts lots of different people in her network. Sometimes it's cheaper to buy flowers from other people at the farmers' market than from a wholesaler.

-
- You have to keep learning! You have to keep trying new things. It takes time to keep up with new ideas and trends.
 - She said I should consider selling to florists. Ask them if they would buy from me — how much, how often, when.
 - She emphasized how many details there are to keep track of for weddings. She said that you have to have a system for keeping track of thousands of details. Brides demand perfection! One unhappy bride will tell hundreds of people.
 - She also cleaned people's houses for the first few years because it takes awhile to get established. She said she didn't know anyone who made much money their first couple of years.

MEETING WITH KAREN, SEPTEMBER 25, 2006

Karen is my sister-in-law's best friend. She had a greenhouse business for 6 years in Wood County. She sold potted perennials for \$5/pot.

- Her plants were inexpensive, very good quality, but her location was pretty inconvenient for many people because she was 12 miles from town. Local people loved her plants because they knew that she grew them in local soil. People knew that her plants were well suited to the area.
- Local people had limited income, so most of her business went to people who saw her sign on the freeway and were willing to drive 12 miles. A lot of these were people who were on their way up north to their summer place.
- When she started, the big discount places sold annuals only — no perennials. Once they started, it was very hard to compete with people who had a more convenient location for a similar price.
- She would get up at 5:00 am and work on her business until 8:00-9:00 at night during the spring and summer. People would drive in to her business — which was part of the farm she and her husband owned — at all hours, seven days a week. She had business hours posted, but people would say, "I just drove 12

miles to get here!” Sometimes when she was gone, people would leave some money and a note on the front steps to tell her what they had taken.

- She loved the business, but it was almost impossible to make any money after the big discounters started selling perennials.
- Keep in mind that you can have bad weather that damages a lot of plants. When this happens, you take a hit in your profits. One year, one small strip of hail did \$3,000 in damages in about 15 minutes.
- She had a friend who had six greenhouses and beautiful flowers. However, his family hated the business, hated when people drove in, hated having to work in it seven days a week. They became bitter. People didn’t like going there. He ended up going bankrupt.
- Didn’t want to be discouraging, but . . . emphasized the risk, the work, and how difficult it was to make any money. For five or six years, she loved doing it, but eventually decided to get out of the business two years ago because she wasn’t making any money at it. She said, “One day I just said, ‘I gave it my best shot, but now I’m done. It’s not fun enough anymore to be worth spending almost all of my time on.’”

Suppliers

Local suppliers can be a wonderful source of information about the local market, the availability of products, and industry trends. Their success depends on the success of their customers, so many offer workshops or training opportunities. It is in their best interest to steer you in the right direction.

It is likely that your local and/or regional suppliers have different services, prices, expectations, and methods of doing businesses. In addition, it would seem unlikely that one supplier would be the best source for the full range of products that you would like to carry. That's why we recommend that you contact more than one at this point.

Again, while it's natural to feel reluctant to ask someone to spend time with you before you are in business, it's an important step to take. Wholesalers understand that meeting with prospective business owners is an important part of their business. That's one way they sell their products. They know that savvy business owners do "due diligence" because it is an important part of the process.

How do you begin? The people who own similar businesses may have mentioned the names of their suppliers; if so, that would be a good place to start. In addition, you may wish to look in your phone book. Consider going to your local library to use the phonebooks of larger cities in your area. And finally, consider using the internet. When you use a search engine, enter the name of your industry, the word wholesale, a comma, and the name of your state (or large city). For example, when Gina entered: Floral wholesale, Wisconsin she found several large wholesalers in the state plus some that were available online.

Again, keeping track of your research is important. One method would be to use the following worksheet.

Contacting Suppliers

Name and Address:

Contact information:

Date of Contact:

1. How I found out about this supplier:

2. What I learned from their website:

3. What products do they offer?

4. What do they specialize in?

5. What are the minimum orders?

6. What services do they offer?

7. Do they offer information about trends?

8. Overall impression:

Gina's Cast Study: Contacting Suppliers

Name and Address: Shop for your Flower Shop

Contact information: Spoke with Doreen

Date of Contact: September 26, 2006

1. How I found out about this supplier: Recommended by Tammy — she said this was the easiest/nicest wholesaler around

2. What I learned from their website: I found out it isn't a local company — as I thought it was. It's actually part of a bigger company that has centers in ten states. They get all of their "cuts" (which is what they call cut flowers) from South America.

3. What products do they offer? She gave me a list according to seasons. Doreen was very clear that "Just because Martha Stewart shows it in a magazine doesn't mean that it is available every month."

4. What do they specialize in? Cuts — they don't do flowering plants, vegetables, etc.

5. What are the minimum orders? I was surprised at how big they are! It's clear that I will be using this wholesaler only for bigger weddings. If I need small or moderate amounts of a particular flower, I will go to my other friends at the farmers market or to a florist.

6. What services do they offer? I was surprised to learn that every person on staff has been a retail florist at some point. They're all very knowledgeable and seem ready to give advice. I saw them helping other customers with color and product choices. They seem to know a lot of "tips and tricks" for getting the job done.

Gina's Case Study: Contacting Suppliers

7. Do they offer information about trends? They offer workshops four times a year about the new trends for the season.

8. Overall impression: Doreen was kind enough to sit down with me and talk to me about doing weddings. Here are my notes about what she said:

“My best advice to a prospective florist is to make sure you know what you are biting off. It’s not just working with pretty flowers. Brides demand “perfect” flowers. You have to put in many long and hard hours, and it’s often a thankless job. Product is perishable and all subject to weather conditions around the world. The other unattractive part of being a business owner is the constant taxes that have to be paid for everything from sales tax to payroll taxes to FICA payments. To succeed in business, you have to treat it like a business, not like a hobby. There is so much competition out there – between other retailers, the Internet, Miami, California vendors selling direct – that you really have to have a game plan – a FLEXIBLE game plan that allows you to react to the market changes.”

Now It Is Your Turn

Gina’s case study has shown us how to do basic primary research. Now, let’s use Al’s case study to practice basic primary research.

1. Unfortunately, if you begin with an online search at the local library for associations, you will discover that, unlike Gina’s successful search, there are no associations that focus on retail meat markets. Now what?
2. When you find an appropriate association, what questions should you ask them?

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3. How might you find similar businesses to contact? What kind of questions should you ask?
 4. How about suppliers? How would you proceed to find suppliers? What questions would you have for them?

Practicing Primary Market Research

You can use AI's case study or a business idea from a student in the class in order to practice researching associations, similar businesses, and suppliers. Whether you use the internet or other resources, focus your research to your local area.

A note about Associations research: It is rare that a search of the Associations Unlimited database comes up empty, but a search for "meat market" provides eight associations with no direct apparent connection to independent meat markets (i.e. the Danish Livestock Board, the National Renderers Association and the U.S. Hide, Skin and Leather Association).

Now What? If you try meat retailer you'll get no results either.

What if you broaden your search by using "meat" as the only search criteria? As expected, you'll get too many results (127). Most are unrelated to meat markets. Nevertheless, if you review them, you will find two to pursue: the National Meat Association and the Wisconsin Association of Meat Processors.

The National Meat Market Association publishes a 2005 Food Industry Review that includes regional data on a variety of relevant topic such as weekly sales per store, average sales per customer, when consumers shop, and sales by department. That sounds like the type of information you are looking for, but, the reports sells for \$467 to nonmembers. (NOTE: In our experience, a call to the association often results in a free or deeply discounted copy of the report.)

If you try "grocer" you'll find several associations, including the National Grocer's Association. A review of the NGA website and a call to the NGA office provides several useful leads and resources.

Putting it all together

After you have finished all three parts of your primary research, it is time to put it all together. Remember, the purpose of doing this work is to help you determine if the potential benefits of starting this business are greater than the potential costs.

So, it is now time to ask yourself the hard questions:

1. How would this venture affect your family? Does everyone have the potential to benefit from it? Is there anyone who would experience more costs than benefits?
2. What did you learn from your secondary market research about your industry, customers and markets? Does it appear that the benefits outweigh the costs?
3. After talking with associations, similar businesses and suppliers, did you discover any new benefits or costs that could influence your decision?
4. Finally, considering everything, does it make sense to proceed?

If your idea looks promising, we recommend that you proceed with a full-length business analysis. If, on the other hand, your research has uncovered some challenges, we recommend that you take time to address them before proceeding.

We'll take one last look at Gina's Cost-Benefit Analysis, and we'll check in with Al's family.

Gina's Cost Benefit Analysis

1. Are the potential benefits greater than the potential costs?

The wedding business looks like it would be a very hard business to break into. I know that Tammy is right — I would have to buy a cooler for about \$6k if I was serious about it. The probability of being able to do even half of the 35 weddings/year that she does is slim.

However, I really like her idea of talking with the owners of my two local floral shops about ordering wildflowers from me. I could talk to other florists in the area, too. I know most of them at least by name. If I could end up with a few orders, I could justify buying a hoop greenhouse.

Plus, I have decided to add two more farmers markets to my schedule.

I spoke with Dan about going part-time at the store during the summer, and he said it would work out just fine for him because one of his kids is turning 16 and is ready to work some summer hours. He even said he'd be willing to keep paying his share of my insurance during the summer.

He surprised me by saying that I could bring in some flowers to sell in the store on a trial basis. He said it might help "draw" customers in.

So, if all of this works out, it looks like I will ease into business this spring. Glen feels relieved that I'm not giving up the store and our insurance altogether. He like the idea of building an alliance with the local florists instead of trying to compete with them. He also likes the idea of spending a few hundred on a hoop greenhouse instead of several thousand on a walk-in cooler.

2. What additional information do you need?

I need to meet with the florists and meet with the people who organize the other two farmers markets that I'm interested in. I need to nail down the specifics on the hoop greenhouses. Then, the fun part: ordering my seeds for spring!

Sometimes, all the research in the world doesn't identify the most important benefits, costs, and realities of starting and operating a business venture. Al's meat market provides a good example. Let's take a last look at Al and his family.

Al's Case Study: Pulling it All Together

Al, Janet, Paul and Tim weren't able to sit down together for supper until nearly 7:30. By the time Janet had arrived home from her respiratory therapy job at the hospital, Tim and Paul had put together a simple meal while Al worked on his spreadsheets on the computer in the family room.

Janet could tell that something had happened. "Well?" she said. "What's the news?"

Al said, "We received some very interesting mail today."

"I got accepted into UW-Madison's bio-chemistry program," Paul said, "and I decided I'm going to transfer there this fall."

"I got accepted into the Ag Engineering Technology program at Platteville," Tim said. "That means that I have a very good chance at getting into the John Deere Co-op program."

"Wonderful!" Janet said, looking at Al.

"I'm proud of both of you," Al said. "Tim, I think you'll be very happy working for John Deere. You already know more about their machinery than I do. And Paul, you'll have a lot of paths to choose from."

Many things have happened since Tim had the idea of selling directly to a meat market instead of owning and operating a meat market. Al had discovered that there is a developing network of processors and distributors for natural and organic pork. His research was beginning to indicate that while getting certified as organic is a long process, he could become a "natural" pork producer relatively easily. Though he had a lot of research yet to do, it appeared that this had the potential to increase his profit margin substantially.

"The question is: will it increase enough to support the next generation?" Al said one evening to his computer.

Both of his sons were also in the family room, reading the paper and watching TV.

"But Dad," Tim said. "No offense, but we don't want to farm."

No one said anything for a moment. Paul said, "It's true. I'm glad I grew up on a farm. I couldn't imagine a better way to grow up. But bio and chem are . . . well, more interesting to me. No offense."

Al's Case Study: Pulling it All Together

"No offense taken. But why didn't you tell me this before? Later that evening, after Paul and Tim had gone up stairs, Al and Janet rehashed the conversation.

"All these years, I was trying to keep the farm going for the boys, and it turns out that neither of them wants it."

"But it was good to keep it going! They learned a lot from you! They'll be better men for having worked side-by-side with you all these years."

Al said nothing.

"Look at all you have taught them – not just about machinery and animals, but about solving problems and working hard and taking the long view. None of that has been lost on either of them."

"Well, we always said we wanted what was best for them."

"What's best for them is to grow up learning how to work and be strong and honorable people."

Now, as the news of the college programs began to settle into the evening meal's conversation, Al said, "I wish we had a bottle of champagne."

Janet smiled. "What do you have in mind, Al?"

"I'd like to propose a toast to Paul and Tim's bright futures."

"To new fields," Tim said, raising his glass of water. Paul kicked him under the table.

"Puns aside," Janet said, "I believe that this generation will continue a long tradition of agricultural professionalism – but in new ways."

They all raised their glasses then, into a moment that would become one that they would remember.

What's Next?

Obviously, there are no easy answers, but you knew that before we even started. Typically, this type of analysis raises as many questions as it answers. However, both Gina and Al have learned a lot. They can use their new knowledge to refine their business ideas to better fit their personal situations and the market. Armed with more information and a better understanding of themselves and the market, they are more likely to make better business decisions. If they decide pursue these business ideas, they have a leg up on preparing a business plan. Finally, if they chose not to pursue these ideas, the skills they have learned will help them in any business venture they chose to undertake.

Appendix

Worksheet: Are the Potential Benefits Greater Than the Potential Costs?

Worksheet: Association Resources

Worksheet: Questions for a Current Business Owner

Worksheet: Contacting Suppliers

Bibliography

Are the Potential Benefits Greater Than the Potential Costs?

What is your motivation for starting this new enterprise? *Why are you doing this? You may have many reasons – but what are the primary reasons to start this venture at this time*

What are your objectives?

What are your specific goals for the first year?

What are your specific goals for the fifth year?

What are your specific goals for the tenth year?

How will this new enterprise affect your family – financially and personally? *For example, will a loan for this business limit your ability to access loans for other equipment, home repairs or purchases? Or, will attention to this enterprise require reducing the time spent on current activities?*

In the short term?

In the long term?

What are the potential benefits?

- *Financial:*

- *Personal:*

- *Professional:*

- *Expertise:*

- *Skills:*

What are the potential benefits? *(continued)*

- *Strengths of your product or service:*

- *Opportunities in the market:*

- *Benefits to the family:*

What is the best case scenario?

What are the potential costs?

- *Financial:*

- *Personal:*

What are the potential costs? (*continued*)

- *Professional:*

- *Expertise:*

- *Skills:*

- *Weaknesses of your product or service:*

- *Threats in the market:*

- *Costs to the family:*

What is the worst case scenario?

Are the potential benefits greater than the potential costs?

What other information do you need?

Association Resources

Name and Address:

Phone:

Website:

Email:

Primary areas of interest:

Summary of Contact with Association:

List of services:

Educational Resources:

Publications and/or books:

Conferences and/or networking opportunities:

Do they offer insurance to members?

Do they lobby policy makers?

Other benefits to members:

Price for membership:

Sample Questions to Ask a Current Business Owner/Operator

Contact Information:

Information from business website:

Time/date of interview:

1. Thank you for agreeing to meet with me. I am considering starting a business that is similar to yours in _____ County, and I am wondering if you would talk to me about how you started your business.
2. Did you have a clear objective when you started?
3. What type of preparation did you have?
4. How did it go? About as well as you thought it would?
5. What sort of marketing did you do?
6. Did you have to hire staff?
7. Was it difficult to obtain financing?

8. What was the biggest surprise?

9. How has your business changed since then?

10. If you could do it all over again, is there anything that you would do differently?

11. What advice would you have for someone who is considering starting out?

12. Who else would you recommend that I speak to?

Contacting Suppliers

Name and Address:

Contact information:

Date of Contact:

1. How I found out about this supplier:

2. What I learned from their website:

3. What products do they offer?

4. What do they specialize in?

5. What are the minimum orders?

6. What services do they offer?

7. Do they offer information about trends?

8. Overall impression:

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