

# Evaluating alternatives to citrus

By Sean McCoy and Robert Hochmuth

Many Florida citrus growers are taking a closer look into alternative enterprises as a way to reduce risk and increase farm income of deteriorating groves. However, there exist many differences between citrus and the potential alternatives, and it is important to evaluate these factors when considering an alternative enterprise.

One of the most significant challenges for citrus growers thinking about alternative enterprises is related to the large land areas being taken out of production, resulting in the need for viable alternatives on those large land areas. Many other commodities where alternatives have been needed have not dealt with so much acreage.

Increasing profitability is a common goal, but many other elements often play a role in the process of evaluating alternatives. Other goals may include decreasing financial risk, reducing investment, utilizing natural resources or reducing exposure to the cost of labor. This article, along with the attached table, has been developed to help growers evaluate the inputs related to various alternative enterprises.

## TAKE STOCK OF WHAT YOU HAVE

Prior to assessing which alternative enterprise suits the business goals of the farm, it is important to take inventory of what resources are already available to the farm. A formal inventory may assure that you are not overlooking missing but necessary resources. It may also assure you that you are not practicing self-deception in planning a venture that will take commitment of your time and capital with little chance of success.

Classic economics suggests that agriculture requires a mix of land, labor and capital resources, but that overlooks a critical resource necessary for profitable farming: management or human capital. That's know-how, experience, management ability, resourcefulness and any specialized skills. Taking inventory of each of these resources is vital to proper planning and will define "what you've got." As you consider alternative enterprises, you'll discover "what you

## Considerations chart

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

= Low     
 = Medium     
 = High     
 = Very High

need" to produce and market the farm products. This will, in turn, help you determine the best course of action for establishing the alternative that best suits your farm, abilities and goals.

## CONSIDERATIONS

A thorough evaluation of what is required and what potential exists for each alternative will assist in helping weigh the choices between them. A number of factors will ultimately affect the decision to enter one alternative or another. Following is a detailed list of which considerations will affect the decision.

**Land considerations.** This includes land quality, location and ownership. Not all citrus land is suitable for other farming operations so factoring soil type and drainage as well as the cost of amending the existing land should be considered. Location, while not vital to citrus operations, would be very important in the decision to transfer property to a u-pick operation or agritourism, as these types of businesses need to be located close to clientele. Location of the farm in respect to markets is a key factor in

the decision-making process. Ownership requirements and the amount of land necessary may vary immensely between citrus and alternatives.

**Startup capital.** Agricultural enterprises vary significantly in the need for capital. It is important to know which enterprises will require high capital investments. Other considerations regarding startup capital include access to credit; even traditional agricultural lenders will avoid some alternative enterprises due to risk or lack of information. This strengthens the need for sound business planning and inventory of resources.

**Building needs.** Citrus groves are not known for their huge investments in buildings. However, in some alternatives such as greenhouse vegetable production, structures can be one of the largest expenditures. This means large establishment costs and increased investment in building maintenance and repairs.

**Equipment.** Existing equipment may be suitable for all the needs of an alternative enterprise with similar cultural needs; however, if you are

approaching an enterprise with very different cultural practices, equipment can make up a large amount of switching cost. Equipment needs cannot be accurately estimated unless a thorough business plan is developed. It is important to remember to keep unnecessary equipment purchases to a minimum.

**Experience or knowledge.** All agricultural enterprises require considerable technical knowledge. In fact, most successful farmers regardless of size are those with the ability to gain and utilize new technology or knowledge before their competitors. The greater the requirement for technical knowledge or experience, the more difficult it may be for a beginner to succeed in that enterprise. Farmers should consider how they will obtain the knowledge they lack. Are there other farmers, suppliers, consultants and Extension agents in the local area who will be able to help? Evaluate your own skills and knowledge and develop a strategy to meet the requirements of any new enterprise prior to adoption.

**Management.** Farm management responsibilities on small farms often reside with a single individual. This is a serious challenge to many modern-day small farmers due to the diverse requirements of record keeping, various certifications, permits, quality assurance and food safety. These all take significant time away from normal production and marketing decisions. Many small farmers indicate this is an under-emphasized area in their planning process. Carefully evaluate the new management demands that an alternative enterprise will present to determine if the manager or the management "team" can reasonably expect to handle the new enterprise.

**Labor.** Agricultural labor availability and quality have become critical issues across all of agriculture. Alternative enterprises needing a large or skilled labor force will require plans to identify, recruit and retain workers.

**Operating costs.** Operating costs, also known as variable or direct costs, are associated with producing a commodity for a specific production cycle. These costs include such things as seed, transplants, heating/cooling costs, feed, labor, veterinary services, fertilizer, pest control, harvesting and marketing.

**Marketing.** Alternatives may have very different supply chains and market environments compared to citrus. As with any new business, entering an alternative enterprise should only be done once a thorough marketing plan has been developed. Things to consider when developing a marketing plan are customer demand, buyer

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requirements, packing and packaging needs and marketability of seconds or culled products. The size of the market for any alternative must also be considered. Many alternatives will have much smaller markets than that of citrus, and conversion from large acreage of citrus to another alternative may flood the markets of those smaller

market alternatives.

**Packing and shipping.** The main consideration is the specific type of packing required and the size of the equipment needed. Additionally, optimal shipping environments will vary greatly for many products and the knowledge of these is critical prior to establishment.

**Regulations.** Regulations for various alternative enterprises will span government agencies and can include everything from animal waste management to zoning, water and food safety. The list of potential regulations is a long and ever-expanding one. Needless to say, regulatory aspects can weigh heavily on the decision and ability to compete in an alternative enterprise.

**Management of pests.** Pest management concerns are at the forefront of many citrus growers considering alternative enterprises, but the grass may not always be greener on the other side. Prior to deciding on investing in an alternative enterprise, evaluate the level of pest control and disease management needed for the product.

**Maintenance and repair.** The more the business depends on equipment and structures, the more money should be budgeted for maintenance and repair. It may be critical to purchase some duplicate equipment so that the down time is reduced if something goes wrong.

**Insurance.** Insurance is the best way to protect your business investment against unforeseen circumstances. Citrus is able to be covered by crop insurance in much of the growing region; however, crop insurance may

not be available for alternatives.

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

For other products, other sectors of the economy may influence the risk; this is the case for many ornamental- and sod-based businesses related to the housing market. Other factors such as a surge in new interest in an alternative (such as Florida-grown blueberries or peaches) may reduce profit, because of the increase in firms and quantity of the product. In these cases, forecasting of future market conditions should be taken very seriously.

**Potential returns.** Alternative enterprises vary in their potential to return high profits back to the farm. Although profit may not always be a major factor in choosing an enterprise, it is usually the main motivation. Generally those enterprises with the greatest potential returns are also the ones with the greatest risk and/or the greatest capital investment required. In addition, a farmer must determine the desired timeframe for the returns to be realized. Some enterprises result in income in just a few months while others may not result in returns for a few years.

## SUMMARY

Successfully venturing into a new agricultural enterprise requires careful planning and decision-making. The planning process must take into consideration several key points as outlined in this document and the table on page 6. Taking time to properly consider each factor before making a decision is the best possible use of your time in making the operation a success.

The annual Small Farms and Alternative Enterprises Conference will take place August 1–2 in Kissimmee. This is an excellent opportunity to attend informative sessions and a trade show focused on opportunities for alternative enterprises for Florida producers.

Visit <http://www.conferences.ifas.ufl.edu/smallfarms/> for further information.

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