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Don Senechal

North Dakota State University

Nancy Hodur

North Dakota State University

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Value-added business success factors -- the role of local infrastructure and support

by Don Senechal, Founding Principal, The Windmill Group, F. Larry Leistriz, Professor, Department of Agribusiness and Applied Economics, North Dakota State University, Nancy Hodur, Research Scientist, Department of Agribusiness and Applied Economics, North Dakota State University

(last in a series of six)

There has been a surge of interest in farmer-owned business ventures that seek to capture additional value from commodities past the farm gate. Some of these ventures have been very successful, some marginally successful, and some have failed. Supported by funding from the Ag Marketing Resource Center at Iowa State University, we conducted in-depth interviews with farmer-owned businesses to determine the key factors that influenced the relative success or failure of these ventures. A better understanding of why some ventures succeeded while others failed provides valuable insight for the success of future farmer-owned businesses. This article focuses on the role of local infrastructure and support for business success.

Research method

To identify factors having the greatest impact on the success or failure of farmer-owned business ventures, a cross-section of seven farmer-owned commodity processing businesses formed since 1990 in North Dakota, South Dakota, and Minnesota were selected. Extensive interviews were conducted with individuals who played, or continue to play, an important role in the formation and operation of the business. This included leaders in the formation of the business, key members of the management team, selected board members, lenders, local leaders and others.

Research results

Local and state support is generally available and relatively easy for farmer-owned commodity processing businesses to obtain. All of the businesses we interviewed took advantage of state and local support to varying degrees. State funds were often used to support feasibility analysis and business plan development. Local economic development organizations often provided the plant site and supporting infrastructure such as utilities or transportation access. Organizations with a vested interest in local economic development such as rural electric cooperatives or local economic development organizations frequently provided assistance ranging from low interest loans to office space.

Role of public support -- Up-front support from various sources can be critical during the initial phases of business development. Not only can state and local programs support a venture until appropriate working capital is secured, they are often the only source of funding for feasibility studies and business plan development.

While state and local assistance is an important part of the capitalization process, it was always much less than the funds contributed by investors. For example, one successful project received local site and infrastructure improvements valued in excess of \$1 million and several hundred thousand dollars in state assistance for organizational costs. However, investors contributed \$12 million in the initial equity drive. After the project experienced initial success, investors contributed another \$26 million in a second equity drive to finance expansion. While state and local support is part of the capitalization process, investor support was the key to project success.

Site selection -- Although state and local support is a small portion of overall capitalization, competition among communities offering location incentive packages should be encouraged. Some communities may be willing to make substantial infrastructure investments that could be significant to the success of the venture. For example, one successful venture formally solicited site proposals and received 28.

However, when considering state and local support for siting decisions, it is important that the potential economic development benefits don't cloud the decision making process of siting a new venture. Site selection needs to be viewed from a "business success" perspective rather than an "economic development" one. Site characteristics must be examined carefully and the benefits of various sites considered carefully. Selecting the proper site for business success can pay long-term benefits. So, first and foremost, the potential site must make sense from a business perspective. Economic development goals are secondary. Selecting a site for

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economic development purposes is of no value if the site cannot lead to business success.

Site selection can also become an emotionally charged issue. Business leaders and economic development professionals often appeared to be more interested in local development benefits of the business than its profit potential. Grower-members may insist that the facility is sited in their home community even though an alternate site is shown to be economically advantageous. This can make the site selection process very difficult. Regardless, site selection must be based on sound business judgment.

Once a location has been selected, on-going communications with project supporters and state and local oversight agencies is important. Regular communication can help to avoid unforeseen issues that may delay or slow construction. It may also help facilitate permitting and other procedural considerations.

Major funding for this research provided by the Agricultural Marketing Resource Center. Additional funding provided by Farmers Union Marketing and Processing Association Foundation, Co-Bank and Ag Ventures Alliance.

Updates, continued from page 1

Internet Updates

The following updates have been added to www.extension.iastate.edu/agdm.

Organic Crop Production Enterprise Budgets – A1-18

Using Financial and Production Records to Make Decisions – C1-41

Pricing for Profit – C1-55

Current Profitability

The following profitability tools have been updated on www.extension.iastate.edu/agdm to reflect current price data.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Ethanol Profitability – D1-10

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