Income diversification – key steps in decision making

This guide aims to assist farmers make decisions about diversifying their income outside of traditional farming revenue. Income diversification has been adopted widely by farmers as a strategy to spread financial risk and ensure the sustainability of a farm business. Factors to consider in making this decision include technical, physical, information technology, human, financial and marketing requirements.

Step 1 – Viability

At this early stage it is worthwhile speaking to a professional to review your existing business. The Enterprise Centres Tasmania program provides up to five hours of free business advice per client per year, to assist with this process. For more information see – https://www.enterprisecentres.tas.gov.au/.

Prior to meeting with a professional it is important to consider:

- Whether your existing business is stable and profitable.
- Whether you should diversify or consolidate.
- Whether your existing farming business is compatible with your new business idea.
- Whether you have the skills and experience required to develop the product or deliver the service.
- Relevant market research to see if there is a need for the product or service.
- Talking to others already in the type of business activity you intend to start.
- Relevant industry publications.
- The opinion of potential customers and suppliers.
- Whether you have sufficient capital to fund the business idea.
- Your competitors and whether you have a better product or service, a more competitive price and/or a location advantage.
Step 2 – Proof of concept

The idea behind the proof of concept is to test the suitability of your product or service prior to developing your full business plan and investing fully into the activity. This minimises risk. Examples of proof of concept trials include:

- **New product**: a berry grower who currently sells fresh berries decides to invest in a fruit dryer and test the dried fruit product at the local farmers market.

- **New service**: a deer farming family who currently sells deer to local butchers thinks about diversifying into tourism, offering a farm stay experience and potentially building some cabins on the property. Before investing in cabins and a website, they list an existing spare room on AirBnB to test demand and learn more about customer needs.

Step 3 – Assess the business concept and model

There are tools available that are ideal for helping shape up your proposed business model and value proposition on one page, before commencing more detailed business planning. The tools were developed by Strategyzer, and are available at [https://www.strategyzer.com](https://www.strategyzer.com). A Google search for “Business Model Canvas” or “Value Proposition Canvas” will provide further information, and an Enterprise Centres Tasmania (ECT) business advisor will be able to help you if required.

An Enterprise Centre business advisor will also be able to assist you with a breakeven analysis, cost benefit analysis or other high level financial analysis at this stage, to help you determine whether or not to proceed and to refine your plans accordingly.

Step 4 – Business plan

A business plan is a document that describes your business, the market it operates in, its objectives and the strategies you have in place to achieve these objectives.


Step 5 – Are you ready?

This is the final stage in the process. It means financial projections and systems are in place prior to your entry into the market. It would be wise to seek professional business advice and feedback from an Enterprise Centre business advisor - [https://www.enterprisecentres.tas.gov.au/home/advisor_profiles](https://www.enterprisecentres.tas.gov.au/home/advisor_profiles).

- Are financial projections for three years completed?
- Is funding in place to support set up costs and working capital?
- Is your business model finalised, and based on market research and financial assessment?
- Is your business structure registered, and ready for trading activity and tax purposes?
- Have management and staff resource planning been completely developed?
- Have you completed your marketing strategy?
- Are your information technology, financial, accounting and reporting systems ready?
Resources


https://www.strategyzer.com/canvas

Contact

Business Tasmania

Phone: 1800 440 026

Email: ask@business.tas.gov.au

Web: www.business.tas.gov.au

Disclaimer

Information in this publication is intended for general information only and does not constitute professional advice and should not be relied upon as such. No representation or warranty is made as to the accuracy, reliability or completeness of any information in this publication. Readers should make their own enquiries and seek independent professional advice before acting or relying on any of the information provided. The Crown, its officers, employees and agents do not accept liability however arising, including liability for negligence, for any loss resulting from the use of or reliance upon information in this publication.
<table>
<thead>
<tr>
<th>Key partners</th>
<th>Key activities</th>
<th>Value proposition</th>
<th>Customer relationships</th>
<th>Customer segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who are your key partners?</td>
<td>What key activities will you complete?</td>
<td>What value do you deliver to the customer?</td>
<td>What type of relationship does each of your customers expect you to establish and maintain with them?</td>
<td>For whom are you creating value?</td>
</tr>
<tr>
<td>Who are your key suppliers?</td>
<td>What will be the distribution channels?</td>
<td>What customer needs are you satisfying?</td>
<td>How are they integrated with the rest of your business?</td>
<td>Who are your most important customers?</td>
</tr>
<tr>
<td>What resources can you acquire from your partners?</td>
<td>How will you build customer relationships?</td>
<td>What is your competitive advantage?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What key activities will your partners perform?</td>
<td>What will be your revenue streams?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key resources</th>
<th>Value proposition</th>
<th>Customer relationships</th>
<th>Customer segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>What key resources do you require?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical? Intellectual? Technical? Financial? Human? Information Technology?</td>
<td>What value do you deliver to the customer?</td>
<td>What type of relationship does each of your customers expect you to establish and maintain with them?</td>
<td>For whom are you creating value?</td>
</tr>
<tr>
<td>Are you prepared to learn how to operate new systems? Do you have the human resources? Are there new insurances you require? Do you need to build new infrastructure?</td>
<td>What customer needs are you satisfying?</td>
<td>How are they integrated with the rest of your business?</td>
<td>Who are your most important customers?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost structure</th>
<th>Revenue streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the most important costs for your business?</td>
<td>What are your customers really willing to pay?</td>
</tr>
<tr>
<td>Which resources are most expensive!</td>
<td>What do they currently pay?</td>
</tr>
<tr>
<td>Which activities are most expensive?</td>
<td>How are they currently paying?</td>
</tr>
<tr>
<td></td>
<td>How would they prefer to pay?</td>
</tr>
<tr>
<td></td>
<td>How much does each revenue stream contribute to overall revenues?</td>
</tr>
</tbody>
</table>

**Disclaimer**

Information in this publication is intended for general information only and does not constitute professional advice and should not be relied upon as such. No representation or warranty is made as to the accuracy, reliability or completeness of any information in this publication. Readers should make their own enquiries and seek independent professional advice before acting or relying on any of the information provided. The Crown, its officers, employees and agents do not accept liability however arising, including liability for negligence, for any loss resulting from the use of or reliance upon information in this publication.