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The Role of Nontraditional Agriculture in Rural  
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by

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## The Role of Nontraditional Agriculture in Rural Development

by David L. Barkley and Paul N. Wilson <sup>1/</sup>

### Introduction

A currently popular strategy rural economic development is the initiation and nurturing of new agribusiness activities. These "nontraditional" activities include the introduction of a new crop or product to the area, expansion of industrial uses of agricultural products, and new value-added activities using agricultural products. It is argued below that nontraditional agriculture is an idea with merit for only a few fortunate entrepreneurs and their host communities. However, as a general rule, the overall employment and income generation potential is too small to provide a significant economic development impact for rural areas.

### Evaluating the Feasibility of Nontraditional Agriculture

To be a stable, dependable source of nonmetro employment, nontraditional agricultural enterprises must be profitable over a reasonably long planning horizon. The product life cycle of these businesses cannot be a mere four to six years and expect to contribute to the development of the rural economy. Above average returns to initial investments are necessary to induce entry into these new agricultural activities. Yet over the long run, firms must be willing to accept an average rate of return on their investment as the industry reaches an equilibrium (Wilson, 1993).

To incubate and develop successful rural businesses, development agencies and communities must realize that these firms have to compete in a dynamic marketplace in order to survive. Porter (1985) identified three strategies for gaining and maintaining an advantage in a dynamic industry. First, firms can become the *low-cost producer* by adopting a new technology that lowers their per unit costs of production. This innovation can be in the area of production, marketing, finance, or management. *Product differentiation* and *market focus* are two additional strategies that assist the firm in gaining a strategic advantage. Buyers must be able to differentiate the new product from the traditional one. The nontraditional agricultural product or service will be evaluated by the customer on its price, quality, distribution, and promotion characteristics. With a market focus, the firm or industry concentrates or targets a specific market segment that is distinguished by its location, income class, age, race, or buying habits. A focused firm finds a market niche and exploits it.

The potential producer of a nontraditional product should analyze how his or her entrance as a competitor affects the industry. Generally the firm producing a nontraditional product will find the competitive environment less than cordial. Rivalry between competitors to gain or maintain market share can be intense, barriers to entry may also be erected by existing firms, and the new firm must be aware of substitute products since speciality markets are thin.

**Entry Barriers.** Potential new producers of nontraditional products and services must evaluate the entry requirements for an industry. One entry barrier of importance is economies of size. Can the new entrant plant the number of acres or build a facility of sufficient size to enable the new enterprise to compete with existing firms? Sufficient capital for a strategic investment is also critical for ensuring adequate size and operating success. Many nontraditional agricultural businesses have failed due to the inadequate levels of debt or equity financing. Additional entry barriers are product differentiation, access to marketing channels, and the extensive time required to learn a technology or production practice. Also, existing businesses can have proprietary power in the form of exclusive rights to a technology, better access to raw materials, or more favorable

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market locations. Efforts to overcome these barriers will raise costs.

**Retaliation.** An entry deterring price by competitors is an effective means of restricting access to existing markets. Other more subtle but effective means of retaliation include long-term contracts with buyers; a negative sales or advertising campaign against the new entrant; and discounts, bonuses, and sales promotions for existing customers. Sensitivity projections of cash flow and capital budgeting should take into consideration the possibility of retaliation.

**Substitute Products.** Buyers of agricultural products are sensitive to relative price shifts among substitute inputs or outputs, and this threat of substitutes places a ceiling on the price that a firm can charge. In addition, specialty markets are notoriously thin, implying that relatively small increases in output can have a devastating impact on market prices.

**Customers.** Whether the buyer or customer is a household, wholesaler, or processor; the customers of nontraditional agricultural products and services are a powerful group. Their level of bargaining power is founded on two key characteristics of agricultural industries. There are few switching costs associated with changing brand or product loyalty, and the buyer has nearly perfect information. Low switching costs and excellent information create a demanding marketing environment for the producer of a nontraditional agricultural product.

### **Potential for Community Development**

Profitable opportunities for nontraditional and value-added agricultural activities do exist in rural areas. Examples include aquaculture in Mississippi, ostriches in Oklahoma, wine grapes in Arizona, speciality cheese in Wisconsin, and kiwi fruit in South Carolina. These opportunities do not, however, offer a general solution to trends of declining employment and income in nonmetropolitan areas. Most new agribusiness activities simply do not generate sufficient economic activity to greatly stimulate a region's economy. For example, in a study of commercial vegetable production for market windows, Clemson University economists estimated that the maximum additional acres that could be harvested in the nation from June through September without driving the price below variable costs are: broccoli, 421 acres; cabbage, 4400 acres; cantaloupe, 1242 acres; cucumbers, 5711 acres; sweet corn, 812 acres; peppers 2041 acres; tomatoes, 8707 acres; and green beans, 3190 acres. In addition, Barkley and Wilson estimate that a move to soybean-based ink by all newspapers in the U.S. would result in, on average, only four new farming units per county for the Farm Belt states. Thus, in general, the employment and income effects of nontraditional agricultural activities are too small and diffused to produce an economic boom for rural areas.

In summary, the search for new markets and value-added opportunities is a good business management strategy that should be encouraged if the alternatives offer the likelihood of greater or more stable income flows. And these new activities may have significant positive impacts on specific rural communities by expanding the employment base and diversifying the local economy. Communities positioned to gain the most from new activities have four principal characteristics: a competitive advantage, entrepreneurial and managerial resources, access to capital, and supportive public and business sectors. Yet, while alternative agriculture may be a good farm or business management strategy, we do not believe it contributes much as a general rural economic development strategy. The overall employment and income gains resulting from nontraditional agriculture likely will be small, diffused, and volatile due to thin markets, intense competition, and changing consumer tastes.

### **Additional Reading**

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