

# Key Points to Consider for Various Alternative Enterprises

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## **Introduction**

It is important to spend time identifying the goals of the family and farmer when considering an alternative enterprise. Increasing profitability is a common goal but many other factors often play a role in this process on small farms. Other goals may include decreasing financial risk, reducing investment, bringing in another family member or partner, providing opportunities to keep labor busy year round, utilizing other natural resources on the farm, and increasing involvement of the community in the farm. This document has been developed to help farmers begin the decision-making process of evaluating alternative enterprises.

## **Key Points to Consider**

The “considerations” chart (**Table 1**) is intended to be used to determine the relative comparison between enterprises for a wide range of considerations. The information should help farmers identify the key points to consider when making the initial evaluations of an alternative enterprise.

Listed on the top of the table are several popular enterprises a farmer may consider as an alternative. Each enterprise is tied to the Florida Small Farms website (<http://smallfarms.ifas.ufl.edu>) where additional information about that specific enterprise can be easily found. Listed on the left of the table are the key points to consider when choosing an alternative enterprise. Each key point topic is addressed in this document.

**Table 1.** 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															
Startup Capital															
Building Needs															
Equipment															
Experience or Knowledge															
Management															
Labor															
Operating Costs															
Marketing															
Packing/Shipping															
Regulations															
Management of Pests															
Maintenance and Repair															
Insurance															
Risk of Investment															
Potential Returns															

= low, = medium, = high, = very high

A final assessment of low, medium, high, or very high is given, but farmers should realize there is usually a range, even within each enterprise. For instance, hydroponic tomatoes generally have more pests than hydroponic lettuce but an overall relative rating of high (H) is given. Farmers should use this information as a first step in making comparisons, but should seek additional information on each enterprise as they proceed in further evaluations.

## **Considerations**

### **Land Considerations**

Land costs are dependent on a number of factors which vary greatly for each situation. Questions that should be considered for each unique business plan include:

**Land Quality:** Not all land is suitable for every type of farming operation. Soil type and drainage are two factors that should be considered before assuming that the land is suitable for crop production. The US Department of Agriculture classifies soil types and the ability of these different soil types to sustain crop production. Land poorly suited for watermelon production may be suited for hay production and grazing. Conversely, land not capable of supporting any crop production may be perfectly suited for supporting greenhouse construction. Contact the county extension office to find information on land quality and suitability (<http://extension.ifas.ufl.edu>).

**Land Site:** The old business adage that “location is everything” is true for your farming operation. One needs to consider the type of business and the importance of locating that business close to clientele. Land costs closer to urban areas may increase dramatically. A u-pick blueberry operation needs to be located in an area that has relatively high traffic flow but not where farming operations will bother the neighbors. On the other hand, an organic egg facility may be located in a more remote location where the business (and odors) will not disrupt the lives of others. Other considerations may include access to water, electric, sewage treatment, telephone, and internet (access speed); frontage access; potential development pressure, and taxes. Make a list of important considerations for one’s operation and use it as a guideline for selecting the ideal location.

**Land Ownership:** Should one buy or rent land for the agricultural operation? Again, the answer depends on the business. If land is already owned, does it meet all the considerations listed above? Owning the land may be good if the business requires infrastructure development. However, ownership ties a business to a particular site and debt may need to be incurred to purchase the land. Renting land may allow for less upfront cost to get the business started. It is important to work out the terms of the land lease and have them in a signed lease agreement prior to starting the business.

For further information: <http://agviability.cornell.edu/pdf/Pre-businessPlanWorkbook.pdf>

### **Startup Capital**

Agricultural enterprises vary significantly in the need for capital. It is important to know which enterprises will require high capital investments. Many small farms are not interested in enterprises that require high investment. If this is the case on your farm, many enterprises can be eliminated from consideration. Often enterprises that have the highest potential returns will also require a very high initial investment. Enterprises such as greenhouse hydroponics, nursery, or vegetables will likely require more capital than other enterprises.

The other consideration regarding capital is the sources available for credit. Not all lending institutions make agricultural loans. Agricultural loan policies vary among banks. The Farm Credit System specializes in agricultural loans. Other sources may include Small Business Administration, local agriculture businesses that carry credit, insurance companies, or individuals. Other possible sources of capital are grants from various entities such as the USDA, Florida Department of Agriculture, private foundations, etc.

## **Building Needs**

The expenses tied to construction needs vary with the type of business. Generally, the more buildings required, the more upfront costs will be incurred. Livestock operations need different types of structures compared to a greenhouse orchid business. For vegetable production, a pole barn with a cement slab for equipment storage and product grading may be all that is necessary.

For both new and used facilities, make a detailed list of building needs before visiting with contractors or reviewing sites in the area. If new structures need to be built, obtain multiple estimates from licensed contractors as a precaution. If a used facility is considered, consider how closely it matches need? Does it have the proper electrical service, water access, and storage (cold and dry)? Is it expandable if the business grows? If not, how much money will it cost to upgrade the facility? The more critical and honest you are in estimating needs and costs before the business opens, the fewer inopportune surprises that will occur.

## **Equipment**

Equipment can be one of the largest expenditures in a new farming operation. However, there are options that can reduce the upfront costs of new equipment. The first step in developing your equipment costs is to chart all production steps in the new business. Equipment needs cannot be accurately estimated unless a thorough business plan is developed. The second step is to chart each piece of equipment necessary for every step in the production process. For instance, with a roadside produce stand, a list may include everything from the equipment necessary to grow the crops to the cash register at the roadside stand.

Other options than buying new equipment are available for the new business. Used equipment is available at auctions. If you are not experienced at evaluating the value of used equipment, take an experienced friend along to help. Remember, when starting a new business, keep unnecessary equipment purchases to a minimum by following your equipment needs list. Some equipment can also be leased or rented. Check out all equipment for dents and dings and make sure it operates properly before the lease or rental agreement is signed. Another option is to contract out the work to be done. For instance, it may be possible to contract the land preparation out with a local grower. This may have multiple benefits as it will reduce upfront costs and allow time to fine-tune future equipment needs.

## **Experience or Knowledge**

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 security. 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 manage the new enterprise.

## **Labor**

Agricultural labor availability and quality have become critical issues for all farms. Alternative enterprises needing a large or skilled labor force will require plans to identify, recruit, and retain workers. In many areas, farmers say it is difficult to find workers, especially if the demands are sporadic and seasonal. Some enterprises will have requirements for a large labor pool for specific tasks during a short period, such as planting and harvesting. These fluctuations in labor demands can be very difficult. Small farms may have an extra challenge of providing consistent working hours to retain employees. This may be especially true for enterprises such as vegetable production where

labor demands may be large but only during short periods of time. In other enterprises, smaller labor pools will be required, but special skills will be needed. These enterprises may include hydroponics, nursery, agritourism, or tree fruits.

### **Operating Costs**

Operating costs, also called variable or direct costs, are associated with producing a commodity for a specific production cycle which is usually one year. These costs will occur only if the commodity is produced and includes such things as seed, transplants, heating/cooling costs, feed, labor, veterinary and breeding services, fertilizer, pest control, machinery operating costs (such as labor, fuel, and repairs), harvesting, hauling, and marketing.

### **Marketing**

As with all new businesses, a thorough business plan should be developed prior to producing the first “widget”. A business plan should include precise information on who will buy for your product. Develop a marketing strategy which will reach your targeted audience. For instance, is the target audience everyone who drives past your nursery business on the local highway? Or is it everyone who likes dried gourmet mushrooms that has access to the internet in the United States? Is the business seasonal or is product available year round? Will marketing be limited to a sign in front of the business and an ad in the local paper? Do you need to purchase ad space on [www.foodnetwork.com](http://www.foodnetwork.com) to bring customers to your website? If funds are spent on marketing, they should be spent in a way that maximizes product sales. How much you spend on marketing is dictated by the methods used, but should be “figured in” when determining your overall monetary needs. For more information on marketing strategies for small farms, visit <http://smallfarms.ifas.ufl.edu/SFDevelopment/SFMarketing.htm>.

### **Packing & Shipping**

In some cases, most or all of a farm’s products may be sold at the farm; however, many farms require packaging and transportation of products to the market. The main consideration is the specific types of packaging required and the type and size of equipment needed. Is the farm small enough to only need a small pickup truck, a truck and trailer, or more? Will your products require refrigeration or other environmental control during shipping? Even small farmers find it important to consider the need to handle palletization of product being shipped or delivered to the farm. A small forklift and loading area may be a valuable investment or even a necessity at some point. Mixing various products in the same load also requires some considerations. Optimal shipping temperature will vary greatly for many products and the knowledge of the presence of ethylene-producing products will also be critical.

### **Regulations**

The increasing regulatory aspect of farming makes what was once a minor issue, now a major consideration to a modern farm. Basic county zoning requirements may limit certain types of agricultural activities. County government personnel handle building permits and therefore would be a logical place to start learning regulations. The local Water Management District will be a necessary visit for most enterprises. The Water Management Districts handle irrigation permitting and storm water runoff, for instance, animal operations will require permitting and may need approved waste management plans. Enterprises involved in processing of foods require licensing and inspection by the state (Handbook of Florida Agricultural Laws, <http://edis.ifas.ufl.edu/FE113>). Farmers applying restricted use pesticides require certification and license renewal through the Florida Department of Agriculture and Consumer Services (<http://www.fl-ag.com/>).

Certain markets require a food safety certification for the farm. Selling at a community farmers market will usually require memberships and farmer certification through that market. Farm laborers must follow certain requirements. Proper worker requirements may include: determination of lawful age for certain tasks, legal alien status, wage and compensation, and social security.

Most agricultural enterprises have recently become involved in agreements for voluntary best management practices, especially regarding nutrient management. This process provides the farmer a presumption of compliance in cases of water quality issues.

Needless to say, regulatory aspects of a modern-day farm are very important and must be identified and dealt with early.

### **Management of Pests**

Many small farmers going into agriculture indicate they prefer not to use pesticides. This preference may be very important in determining enterprise choices. Perhaps the first step in this decision is to fully understand the options available and the associated risks and benefits of this decision. Even Certified Organic production will allow the use of certain “pesticides”. Any material used to manage or control a pest (insect, weed, disease, or nematode) is considered a pesticide. Products such as soap or oil sprays are even considered pesticides. If a farmer plans to be a certified organic grower, the lists of approved materials can be found at the Organic Materials Review Institute website (OMRI; <http://www.omri.org/>). Many pesticides can be purchased and applied without a pesticide applicators license. However, if the pesticides to be used are of a regulated nature or in many cases used commercially, the purchase and application will require becoming a certified pesticide applicator through the Florida Department of Agriculture and Consumer Services. The main point here is that a farmer needs to determine if this will be part of the farm plan, especially if the plans are to become a certified organic grower.

The National Organic Program home page is <http://www.ams.usda.gov/nop/indexIE.htm>

### **Maintenance and Repair**

What could go wrong in your operation? What do you do if the potato harvester breaks down at the peak of the season and you have customers waiting? Does your meat packing facility need to be washed and sanitized after each work day? Who will do this? What happens if the computer responsible for watering and fertilizing your greenhouse crops gets a virus?

The more the business is dependent on equipment, more money should be budgeted for maintenance and repair. It may be critical to purchase some duplicate equipment so that down time is reduced if something goes wrong. Some maintenance and repair operations can be contracted out with other companies until the business is large enough to hire personnel to do the work in-house. If this is done, what are the terms of the contract? How soon is help guaranteed to arrive? How will this delay hurt your business? The goal is to create a well thought out plan on how maintenance and repairs will be conducted before the business is in operation.

### **Insurance**

Insurance is the best way to protect your business investment against unforeseen circumstances. For a small business owner, insurance products may include crop, liability, health, and auto insurance among others. It is best to contact an insurance representative qualified in writing policies for small business owners to obtain personalized costs. For more information: <http://agalternatives.aers.psu.edu/farmmanagement/startbusiness/AgBusinessInsurPM7.pdf>

### **Risk of Investment**

Don't produce it unless you can sell it. The best way to reduce one's investment risk is to develop a comprehensive business plan. The business plan should be reviewed by qualified individuals can offer constructive criticism. It is better to seek out all potential pitfalls in the plan before the business opens than to experience problems when it is critical to make a profit. Perhaps one of the appropriate questions you should ask yourself is “how much money are you willing to lose?”

Generally, it can be assumed that the more volatile the market, the higher potential for both profit and loss. The USDA has market pages for crops and livestock that list the market price of 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 types of businesses, what is the state of the economy? For instance, if you are growing specialty sod for new homes, what is the trend in the housing market? In this case, the more volatile the housing market, the more risk there may be in your business investment.

For further information: <http://www.ams.usda.gov/>

### **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 usually is the main motivation. Generally those enterprises with the greatest potential returns are also the ones with the greatest risk 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 as is the case with many vegetable crops. Other enterprises may not result in any returns for a few years as is the case with fruit trees, certain nursery crops, large livestock, or forestry products.

Study carefully the cost and return information for the enterprises of interest. Consider the budgets with various expected yields and prices to help determine the likelihood of a profit.

### **Take Stock Before You Get Started**

A current, realistic, complete and accurate list of available resources is useful in strategic planning for a new farm venture. Whether you're an existing farmer making a change in a traditional operation, or a novice beginning a new farm, you should inventory what you have to work with, and what you stand to lose if the venture is unsuccessful. A formal inventory may assure that you are not overlooking missing but necessary resources. It may also assure that you are not practicing self-deception in planning a venture that will take a commitment of your time, and your family's time, for a long period with little chance of success. An inventory of resources is the sound basis on which you'll build your production, financial, and marketing plans.

Classic economics indicates that agriculture requires a mix of 1) *land*, 2) *labor* and 3) *capital* resources. But that overlooks some critical resources necessary for successful farming: management or *human capital*. That's know-how, experience, management ability, resourcefulness, and specialized skills such as carpentry, welding, bookkeeping, or knowledge of the law. Here, we'll group the resources as: **the Place, the People, and the Money** critical for success.

Your resource inventory may show that you don't have sufficient resources on hand to "make a go" of your farm plan. If that's the case, revise the plan or start smaller and grow as you gain experience and cash-flow. If you need to borrow **money** to fill gaps in your **place** or **people** resources, lenders will want most of this information before they'll let go of their own resources for your plan. Bankers likely will want to see documentation to back up inventory you claim.

This inventory will define, "**What you've got.**" As you consider alternative resources, you'll discover "**what you need**" to produce and market the farm products. That, in turn, will help you determine "**the gap between the two,**" so you can devise a plan or strategy to overcome or narrow the gap. The inventory may take many forms, but it should be written, and it should be revised from time-to-time as you develop and carry out your farm plan. Many formats exist for recording your inventory. Here are a few excellent documents on alternative enterprise planning, start-up and decision making. Most have worksheets and structured forms for inventorying your resources. Use the forms, charts, tables and checklists that organize information that you feel most comfortable with. Or just write down responses to the questions in the Farm Inventory below.

- **Identifying Alternatives – What are the Possibilities?** (Agriculture, Food and Rural Development of Alberta, Canada)  
[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agdex1366?opendocument](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agdex1366?opendocument)
- **Taking the First Step: Farm and Ranch Alternative Enterprise and Agritourism Resource Evaluation Guide** (Southern Maryland RC&D and USDA NRCS)  
<http://www.nrcs.usda.gov/technical/RESS/altenterprise/FirstSteps.pdf>



- **Primer for Selecting New Enterprises for Your Farm** (University of Kentucky Extension)  
[http://www.uky.edu/Ag/AgEcon/pubs/ext\\_aec/ext2000-13.pdf](http://www.uky.edu/Ag/AgEcon/pubs/ext_aec/ext2000-13.pdf)
- **Building a Sustainable Business: A guide to developing a business plan for farms and rural businesses**, Minnesota Institute for Sustainable Agriculture, University of Minnesota)  
<http://www.misa.umn.edu/vd/bizplan.html>
- **Checking Your Farm Business Management Skills** (Purdue Extension)  
<http://www.ces.purdue.edu/extmedia/ID/ID-237.pdf>

These may also be helpful in planning for a new or different farm operation.

- **Whole Farm Planning: Combining Family, Profit, and Environment** (Minnesota Institute for Sustainable Agriculture, University of Minnesota Extension)  
<http://www.extension.umn.edu/distribution/businessmanagement/DF6985.html>
- **Strategic Planning: Drafting a Blueprint for Your Farm Business** (Small Farm Success Project, Mid-Atlantic States and USDA)  
[http://www.smallfarmsuccess.info/management/print\\_670.cfm](http://www.smallfarmsuccess.info/management/print_670.cfm)
- **Farmer Tax Guide** (Internal Revenue Service Publication 225 )  
<http://www.irs.gov/publications/p225/index.html>
- **Setting the Guideposts** (Iowa State University – a PowerPoint )  
<http://www.extension.iastate.edu/bfc/pubs/guideposts.ppt>

### **Inventory of Farm Resources**

You'll have most of what you need if you answer the following questions, and of course, some won't apply to your individual case. Expand the list if you have other significant resources.

Do you currently farm?

Briefly describe what you raise now, and how much. How many acres? Where?

Or, are you a novice who wants to get into farming?

Where, and what is your production goal?

**The Place:** What are your *Natural and Physical Resources* (Land/Soil, Water, Facilities)?

Land (owned or lease)

- How many acres in the place? (crop land, pasture, wooded, homestead)
- What is the current land use? (crops planted, pasture, forests)
- How much land is cleared or previously cropped; could more be cleared?
- Do you have a map showing boundaries, previous cropping patterns, soil type (from an NRCS Soil Survey) and topography (slope)? Do you have results of soil tests. If not, get them with help from your County Extension Agent, USDA-NRCS, USDA-FSA, or your County Property Appraiser's Office.
- Proximity: how close is the land to your residence; is there access by paved or all-weather graded roads; how close are you to markets, to roadside stand or u-pick populations?
- What is the NRCS Suitability? Are there environmentally sensitive areas such as wetlands, endangered species habitat, karst (sinkhole) features, etc.?
- Are there resource limitations, regulatory constraints, zoning, Water Management District restrictions?
- Is there a possibility of selling Development Rights, or establishing a Conservation Easement?
- Do you have a Home\*A\*Syst or Farm\*A\*Syst assessment on the place?
- Is there near-by land available for purchase, lease, or rent? Could you lease out or rent some of your land?
- Which Water Management District is the place in?

#### Facilities

- Do you have wells? (depth, diameter, capacity)
- Do you have the ability to irrigate? (type and capacity of system)
- Are pastures fenced? (type, condition)
- Do you have equipment sheds, livestock barns/stalls, packing and processing facilities? (size or capacity, state of repair or condition)

#### Equipment

- Do you have tractors and other farm equipment? (type, capacity, state of repair, serviceability and reliability)

#### Livestock

- Do you currently have livestock? (breed, type, how many, age, condition)

**The People:** What *Human Resources* are available (Who'll do the work; and who'll do the thinking and directing)?

#### Management

- Do you have farm experience? (what tasks, what crop or livestock, when)
- Are you a novice who wants to get into farming?
- Do you have management skills and experience, especially with farm operations?
- How much of a quick study are you?
- How handy are you with equipment, livestock, etc.?
- Do you have physical needs/limitations?
- Do you have specialized skills or abilities? (list them)
- Do you have pesticide licenses, permits, etc.?

#### Labor

- How much of your own time can you commit to the farm, and when?
- What family members can you realistically expect to work, and when? (paid or unpaid)
  - Weekly
  - During the start-up period while you're beginning the operation
  - During seasonal peaks, such as harvest time
- Hired labor
  - When is labor required?
  - Is labor available? (labor contractors, neighbors willing to work for a wage)?
  - What is the going local wage?
  - Can you get workers' compensation insurance? (and rates)
  - Will transport, medical, housing, and other fringe benefits be offered?

#### Specialized skills and other personnel

- Have you or someone in the operation got specialized skills (carpentry, welding, bookkeeping, law, etc.)
- What outside sources of experience information or knowledge can you call on? (list your counselors and advisors such as extension agents, neighbors, farm supply dealers, commodity or producer associations)
- Are there custom operators available you can hire?
- What specialized services can you retain or hire? (veterinarians, marketers or brokers, lawyers, bookkeepers, accountants)
- Can you barter or swap your skills for the skills you lack?

**The Money:** What Financial or Capital Resources do you have (either what you own or what you must borrow, and how you plan to protect both)

Do you have money on hand? (if you don't, get to know your banker, now)

- Do you have sufficient startup and operating capital on hand plus contingency funds to cover unexpected costs?
- Do you have a line of credit; where will you get investment and operating loans or grants? (USDA FSA, NRCS Cost-Share, Farm Credit, Commercial Banks)

- Do you have a separate farm bank account? (if not, set one up and keep it separate from the family account)
- Do you have a financial statement that lists the value of assets and liabilities? (if not, put one together...your banker will require it)
- Do you keep depreciation, income, expense and other records? (you'll need to, and report those annually to the IRS on Schedule F with your 1040)
- Do you qualify for Agricultural Assessment (Greenbelt)? (check with your county property appraiser, and file between January 1 and March 1 if necessary)

Do you have a plan to protect the farm from risk?

- Do you have a Will? (if not, get one)
- Do you have adequate insurance?
- Life and Health
- Crop (How will you handle a catastrophic crop loss or a drop in market price?)
- Liability
- Workers' Compensation

Do you have access to markets?

- Inputs (farm supplies, repair and maintenance, well/irrigation, etc.)
- Are there local brokers or buyers for your product?
- If you plan to market products as "Organic" is your farm certified?
- Do you have a plan for curb-side marketing, community marketing, U-Pick sales or some other direct-to-consumer method? What are the local regulations for direct marketing?
- Do have permits for processing if you plan for "Value-Added" products?

**Constraints, Limitations and Restrictions:** Are there limitations beyond your control that may prevent you from carrying out a farm plan?

Are there legal, regulatory moral or ethical limits that may limit the farm? (List them)

- What are you absolutely not willing to do? (ethically, morally, based on religious convictions or cultural norms)
- What are you absolutely not willing to give up or lose?
- Timber, fruit trees, some livestock enterprises take years in development before returning positive revenues. How long can you wait?
- Are there physical, environmental, regulatory or financial constraints that cannot be overcome?
- Does infrastructure limit the farm?

### Summary

Successfully starting a new small farm business or simply switching enterprises requires careful planning. The planning process must take into consideration several key points as outlined in this document. 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.