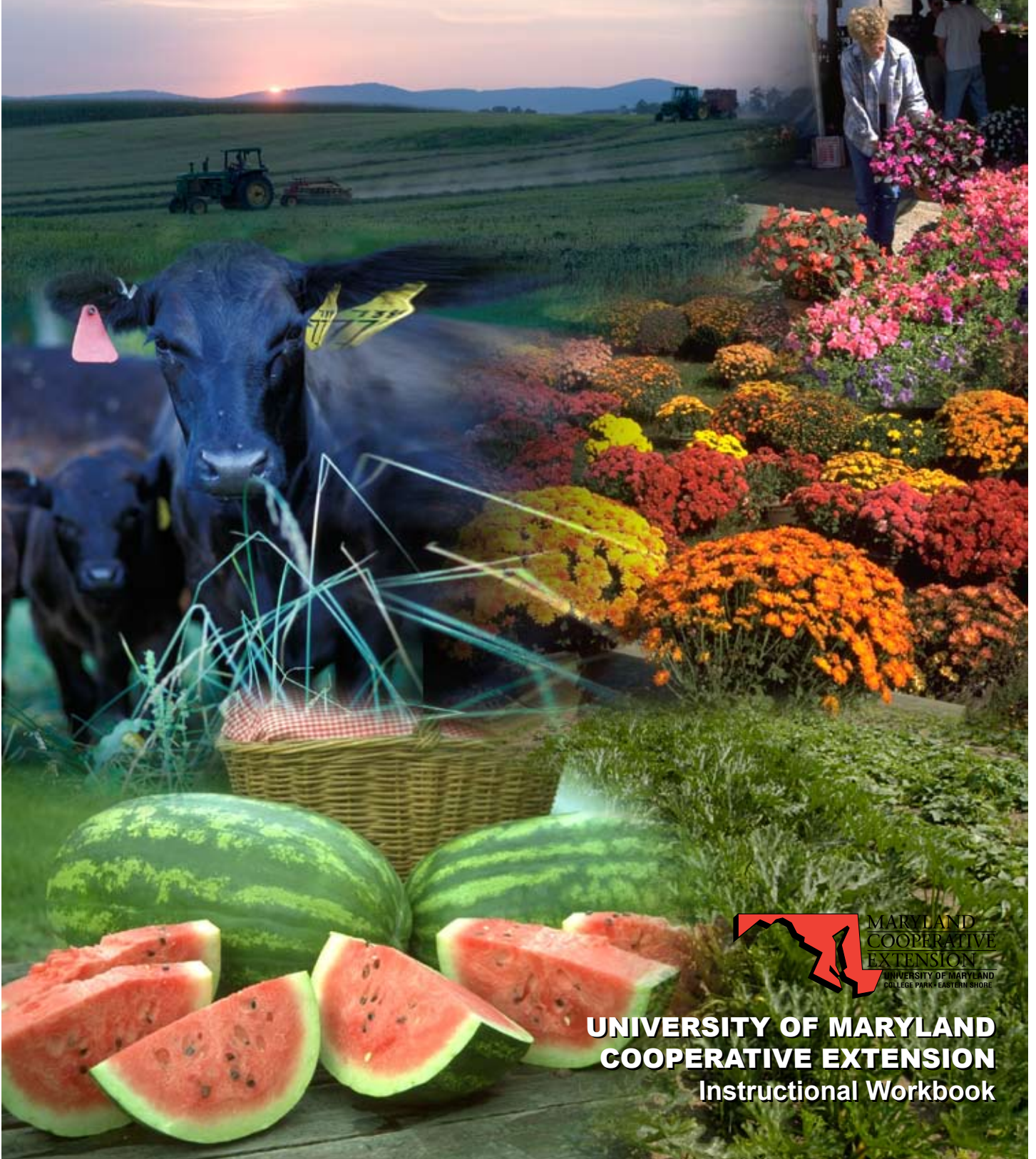


Farm Business Planning



MARYLAND
COOPERATIVE
EXTENSION
UNIVERSITY OF MARYLAND
COLLEGE PARK • EASTERN SHORE

**UNIVERSITY OF MARYLAND
COOPERATIVE EXTENSION**
Instructional Workbook

University of Maryland Cooperative Extension

Farm Business Planning

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Table of Contents

	PAGE
Foreword	4
Executive Summary	5
Mission and Goals	6
Background Information	8
Farm Strategy	14
S.W.O.T. Analysis	18
Marketing Strategy and Plan	28
Enterprise Analysis and Plan	34
Financial Plan	37
Implementation Strategy	45
Human Resource Plan	48
Resource Inventory	52
Appendix	56

Foreward

Planning is essential to any business, no matter how large or small your inventory, payroll, and bank account. To be successful a farm operation must know its current status and future plans. Having these plans in your mind is not enough! Taking time to formulate thoughts, evaluate your business, devise a strategy, and anticipate possible problems will help your business be successful.

This workbook was designed so that thoughts and objectives for your business can be organized and thoroughly documented. In the long run your business plan will serve many purposes, such as:

- Supporting a loan application
- Defining a new business, goals and steps to achieve those goals
- Evaluating the effectiveness of business and marketing strategies
- Set a direction for the business in the next five years
- Growth and development for established businesses

A good business plan should be realistic, simple, specific, and complete.

- ✓ Is your plan realistic? Are your goals, dates, and objectives realistic for your farm operation?
- ✓ Is your plan simple? Can you and others read and understand the farm business plan?
- ✓ Is your plan specific? Are goals, objectives, and finances measurable?
- ✓ Is your plan complete? Does your plan include all aspects of your farm business?

You want a plan that can be implemented and that is easy to read and understand. The business plan may be used by others, such as lenders and financial institutions, that may not understand agricultural production. Make the plan easy for other audiences to understand.

The planning process is never complete. Continue to use, review, and analyze the plan as your operation grows and changes. The end of the calendar year is always a great time to pull it out and review.

Mission and Goals

Mission

Think about who you are, why you are here, what you do and where you are headed.

A mission statement for a farm should be created to reflect the business's purpose to the public, customers, employees, lenders, and owners.

A good mission statement should clearly answer:

- ✓ Why does your business exist?
- ✓ What purpose does your business serve?
- ✓ Where is your business headed?

Mission statements must reveal more than a motive of profit. A mission should contain the values, activities, and identity of the farm. Write your statement in a short paragraph with enough detail to provide clear direction while still being flexible.

A mission statement is like a book cover. It provides the reader with a glimpse of what story lies ahead.

Goals

Goals are specific and measurable statements of what the business expects to achieve in future years.

SMART Goals are:

Specific
Measurable
Attainable
Rewarding
Timeline

Short-term goals are 1 year or less
Long-term goals are 1 year or longer

A business's goals can include:

- Production (yields, quality, efficiency)
- Marketing (sales, distribution, percent market share, advertising)
- Legal (estate, land preservation)
- Personnel (employee retainment, hiring, skills)
- Financial (return on investment, cost per unit of output)

Background Information

Business Name & Address:

Email Address:

Website Address:

Telephone:

Business: _____ Fax: _____

Home: _____ Fax: _____

Type of Ownership:

- Sole Proprietorship Limited Liability Corp.
 Partnership Cooperation Other _____

Business Advisors:

Accountant

Attorney

Name: _____ Name: _____

Address: _____ Address: _____

City, St, Zip: _____ City, St, Zip: _____

Phone: _____ Phone: _____

Bank

Other (Insurance Agent, etc.)

Name: _____ Name: _____

Address: _____ Address: _____

City, St, Zip: _____ City, St, Zip: _____

Phone: _____ Phone: _____

Who is Involved in the Operation?

Name: _____ Position: _____

Name: _____ Position: _____

Name: _____ Position: _____

Name: _____ Position: _____

Name: _____ Position: _____

Background Information

Background and Overview of the Operation

This is approximately one page on the history of the operation and a summary of current activities. It is helpful in the business plan so that the reviewer understands the farm operation in the past and present.

Some questions that should be addressed:

- Where is the operation located?
- How and when did the operation begin?
- How is the farm currently operating?
- What is the general productivity, management, and situation of the farm?
- What are general practices of the operation? (i.e., conservation, environmental, tillage, marketing, risk)

Operation Layout

Provide a brief summary of the operation layout. Aerial photos or maps can be included in the appendix to show location and fields.

Legal and Contractual Situation

This part of the business plan outlines the farm and owners' legal and contractual obligations (verbal and/or written). Discuss areas where the farm has a good position and where improvement can be made. Be as detailed as you like.

Assets/Contracts

Contracts include mortgages, marketing agreements, land leases, and federal entitlement programs (equipment, land, etc. will be listed with resources).

Insurance

Include any insurance policies on farm, crop, health, liability, and auto.

Estate Plan/Will

Provide a brief summary of your farm transition plans and how property and assets will be divided. This summary is not intended to take the place of an estate plan. Farms should have a separate and detailed transition and estate plan.

Retirement

What are your retirement options and plans? Take into consideration savings, Medicare, social security, IRA, and others.

Conservation/Environmental

Best Management Practices on the farm for conservation, water quality, and the environment are essential on today's farm. Include conservation plans, nutrient management, and tillage practices.

Other

Any other legal or contractual situations.

Formulate a Farm Strategy

Developing an overall farm strategy is an important component of business development. This strategy includes a number of steps focused on market segments, attributes of those segments, and forming a strategy around the needs of each segment. Formulating a strategy is an ongoing process of discovery and creativity. Strategy formulation is not easy, but it doesn't have to be hard either.

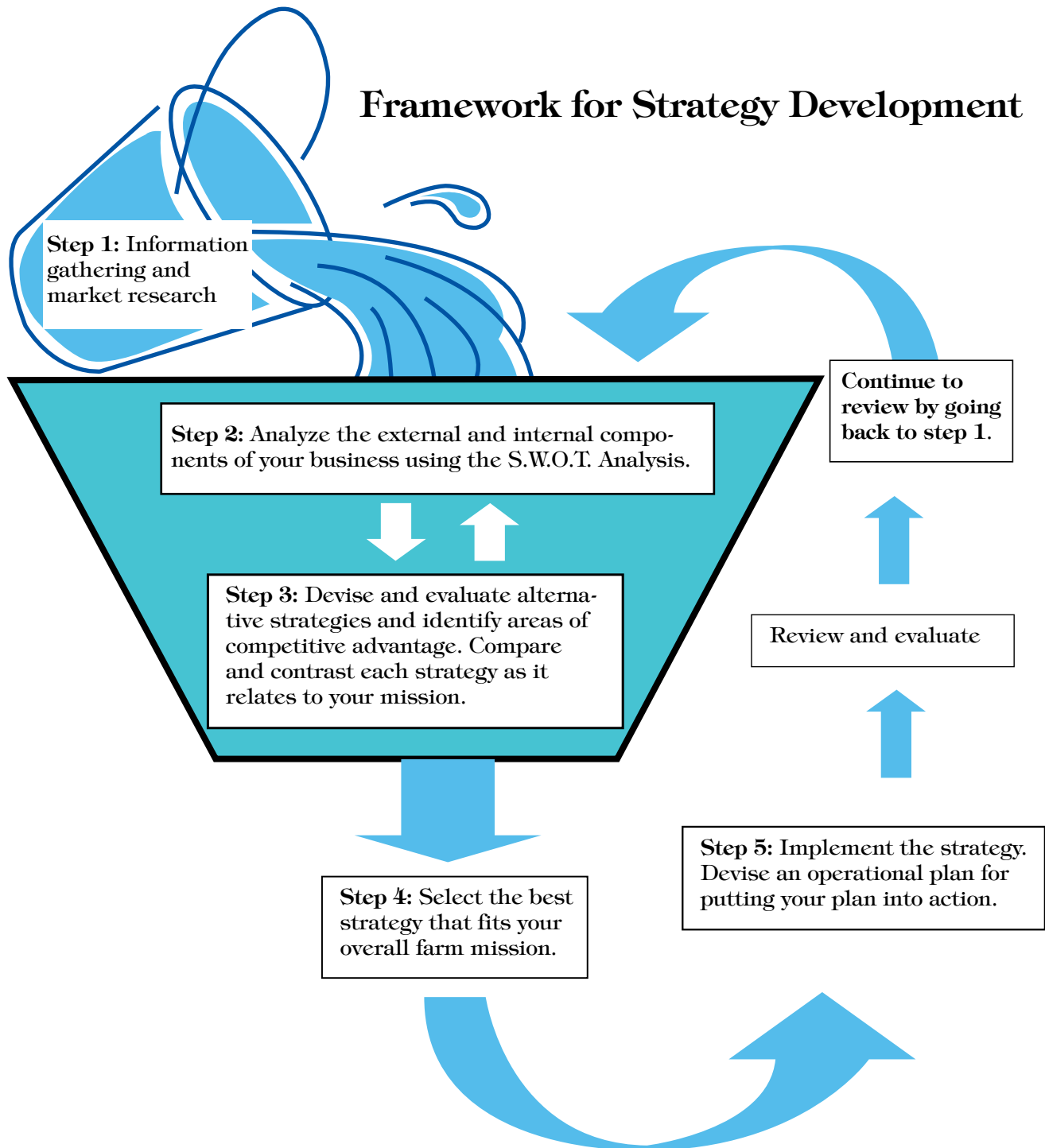
Developing a strategy is a series of steps:

- Step 1: Gathering information and market research.
- Step 2: Analyzing the external and internal components of your business using the S.W.O.T. analysis. See page 15.
- Step 3: Creating alternative plans of action and identifying areas of competitive advantage.
- Step 4: Selecting the best plan that fits your overall farm mission.
- Step 5: Implementing and evaluating the strategy.

This process is illustrated in the flow chart on the next page.

More detailed information on each step follows.

Framework for Strategy Development



Step 1: Information gathering and market research

Some small farmers already know exactly what it is they want to do, how they are going to do it, and why they want to do it. However, many farmers never take the time to consider what it is the *customer* wants, why the *customer* wants it, or how the *customer* wants it done. Many of these same farms never consider why their product or service offerings would be sought after more than their competitors. The notion of creating and maintaining a “competitive advantage” is a key component of the strategy formulation. It is no surprise then that the first component of strategy building is information gathering and market research.

Market Research—Research your current and potential markets to identify trends, competitors, needs, and buyers. Be sure to take time to collect data. Obtaining good data serves as the foundation for the formulation of an effective strategy. The better the information, the better your strategic plan will be.

Never rely only on your opinion of what the market wants. There are a number of tools that you should consider using for your research:

- *Focus Groups:* A small group of potential consumers who are asked specific questions about the product/service.
- *Demographics:* Information about the consumer in your area can be very helpful in marketing to them. The U.S. Census is a great place to find this information.
- *Surveys:* Surveys can be written or oral. A written survey can be distributed to a wide range of the population. Consider using an incentive to increase survey response rate, such as free products or coupons.
- *Observation:* Simply taking time to observe can be a powerful tool. What are people buying? What are competitors offering?
- *Interviews:* A one-on-one interview can also be helpful for generating ideas. Do not forget to interview other business owners or operators who may be able to provide good information on what has or has not worked for them. Attending tradeshow, conferences, and business functions may provide an opportunity to meet, talk, and network about market trends. Sales representatives are also good sources of information.

List what type of market research tools you plan to use:

List results of market research. Because markets change, include the source and date of information.

Industry Trends and Analysis: In the space below identify the major trends in the industry. Start with a broad overview, then get more specific to identify trends that are significant to your product or service.

HINT: Trade journals, census information, government studies, traffic surveys, and professional data sources can be helpful.

List key industry trends here:

Step 2: S.W.O.T. analysis

The S.W.O.T. analysis is an analytical tool used to collect information and guide the decision making process in order to obtain strategic advantages.

S.W.O.T. is an acronym for:

- **S**trengths
- **W**eaknesses
- **O**pportunities
- **T**hreats

Strengths and Weaknesses—Evaluation of the Internal Environment

The internal analysis identifies the strengths and weaknesses that your business possesses. The strengths and weaknesses section is internal to the organization and provides insight into what components are available to provide for competitive advantages. When developing a strategic plan, the competitive advantages will be a key determinant of profitability.

Identifying weaknesses also allows the organization to develop methods for improvement, and set priorities based upon future organizational direction. Examples of weaknesses include internal operating problems, inexperience, lack of infrastructure, low worker productivity, old or obsolete technology, poor equipment and facilities, poor financial state, poor community reputation, or poor leadership capacity.

The factors above may also be sources of strengths to the organization, for example, excellent operating efficiency, high worker productivity, leading edge technology, excellent financial standing, high industry reputation, excellent brand image, and excellent leadership capacity.

The internal strengths and weaknesses allow the organization to acknowledge the factors it may need to build upon or exploit to gain a competitive edge in the external environment. Be open and honest with yourself about your operation. Areas for exploration include:

- Financial Resources
- Management Capability
- Human Resources Capability
- Infrastructure (including age of equipment, available facilities, production processes)
- Land Capability
- Location

List internal strengths of the farm business.

List internal weaknesses of the farm business.

HINT: Ask for Advice: Have you ever looked at a neighbor and wondered why they ever bought that piece of equipment or made a particularly poor decision. Why didn't someone advise them? It can be beneficial to have a third party view of your operation to assess your strengths and weaknesses. Sometimes the most obvious strengths or weaknesses are not recognized by farmers due to denial, modesty, or some other reason. Finding someone you can trust to give you an honest evaluation can be critical to an accurate assessment.

Threats and Opportunities—Evaluation of the External Environment

This part of the S.W.O.T. analysis focuses upon the external opportunities and threats that exist. This section of the S.W.O.T. analysis allows the organization to identify strategies that take advantage of opportunities for growth while avoiding potential threats.

Threats and opportunities are external to the organization and thus cannot be changed by the organization. Rather the organization must change with and react to the changing external market.

Examples of opportunities and threats include new markets, expanding markets, government regulations or incentives, new technology, increasing competition, lower or higher barriers to entry, or economic conditions.

A major focus of the external analysis is an evaluation of the competition. Chronicle all businesses competing in an area (product area and geographic area) similar to yours. List who their main customers are, market share, product offerings, pricing objectives, and their perceived marketing strategy.

Competitor #1
Name:
Product Offerings:
Promotional Activities:
Location of Company:
Competitive Advantages:
% Market Share:

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Competitor #2

Name:

Product Offerings:

Promotional Activities:

Location of Company:

Competitive Advantages:

% Market Share:

Competitor #3

Name:

Product Offerings:

Promotional Activities:

Location of Company:

Competitive Advantages:

% Market Share:

Competitor #4

Name:

Product Offerings:

Promotional Activities:

Location of Company:

Competitive Advantages:

% Market Share:

Competitor #5

Name:

Product Offerings:

Promotional Activities:

Location of Company:

Competitive Advantages:

% Market Share:

List other external threats to the farm business:

List external opportunities for the farm business:

S.W.O.T. Analysis

Use this chart to summarize your S.W.O.T. analysis.

Internal Strengths 1. _____ 2. _____ 3. _____ 4. _____ 5. _____ 6. _____ 7. _____ 8. _____ 9. _____ 10. _____	Internal Weaknesses 1. _____ 2. _____ 3. _____ 4. _____ 5. _____ 6. _____ 7. _____ 8. _____ 9. _____ 10. _____
External Opportunities 1. _____ 2. _____ 3. _____ 4. _____ 5. _____ 6. _____ 7. _____ 8. _____ 9. _____ 10. _____	External Threats 1. _____ 2. _____ 3. _____ 4. _____ 5. _____ 6. _____ 7. _____ 8. _____ 9. _____ 10. _____

2) The product/service attribute should be unique enough that other competitors cannot easily copy the attribute to their product or service.

List why your product or service will not be easily copied:

3) The price differential between your product and the standard product should not be so great as to outweigh the value of the difference. This is a common pitfall for small farmers and should be carefully tested with focus groups and sampling offerings as part of the marketing plan.

Based on your research, how much do your consumers value your product over your competitors? Provide dollar value and increased sales value.

HINT: Think about consumer benefits, market research, and competition. What do your consumers want in the product and what are they willing to pay?

Marketing Strategy and Plan

Marketing products and services is essential to farm profitability and viability, yet many farms lack a specific, organized plan. A producer should have a detailed plan describing how he/she will market commodities, services, and/or attractions.

Now that you have formulated an overall farm strategy, much of your marketing homework is complete. You understand what customers value and why they would buy your product. The marketing plan will describe in detail how you will create and convey value to the customer. The four areas where consumers derive value are the product, the price, the placement, and the promotion. These are considered the 4 P's of marketing and should be components of your marketing plan.

It is important to recognize that the marketing plan is much more than just the advertisement of your product, it is the entire plan of how you will convey value, both real and perceived, to the customer. The advertisement piece of the plan fits in the promotion section.

When developing a marketing strategy think about ALL possible alternatives. Be creative.

Target Market—It is important to understand who is purchasing your products so that your marketing efforts will reach that segment. You cannot be everything to everyone. In order to effectively market, you need to cater your product and services to the set of customers who will see value in the product you are offering. Who are you marketing to?

A target market can be developed by:

- Demographics—age, gender, family size, education, occupation
- Geographic—location, city, urban, rural
- Psychographic—behavioral patterns, lifestyle similarities, common interests, beliefs, and hobbies

Your target market identifies who is mostly likely to purchase your product, allowing you to appropriately market that product to them. By understanding your target consumer your marketing efforts will be more effective.

Components of a Marketing Plan

Product—What are you really selling? This includes anything that has to do with the product or service including production, packaging, and quality. Sizing, slogan, and logos are other considerations for your product. *What sets your product apart from others? What are the product's main attributes?*

Price—The price of a product is an important factor in your marketing plan. Find a price that will satisfy both buyer and seller. The price points should be in relation to other comparable products or service offerings. If you are selling in a niche market, your price will most likely not be the lowest. And it does not have to be. A starting point is to determine your cost of production and break-even price. Use market surveys, competitor analysis, research, trial and error, or your own marketing experience to set, evaluate, and change pricing. *How much value does your product offer? How are you going to make pricing decisions?*

Place—This focuses on where your product is being sold and how it is distributed. Small farmers selling directly to the customer capitalize on this marketing point. Also remember that consumers value convenience, which means time can be an important component of the distribution theme. Logistical issues should be addressed such as transportation, warehousing, direct selling, wholesaling, storage, and inventory management. The distribution avenues have changed incredibly in the last decade due to the local food movement and Internet sales. Selling via the Internet and delivering to the customer's door in another state, region, or country is much easier than ever before. *Where will you sell your product? Where does your target market shop?*

Promotion—This connects your product to the consumer. Advertising, market position, sales, and media are included. Ideas for promotion include brochures, websites, print ads, and signage. Promotional materials should focus on attributes, features, and benefits that are valued by consumers. Think creatively about how you communicate your product to the consumer. Promotion of a product should be designed for the target market. *Where is the best value for your promotional money and efforts and how will you determine if they are working?*

Marketing Plan

In the marketing plan think of each enterprise, product, or service that you produce and consider the product itself, placement in the market, pricing, and promotion. Use the following charts to develop marketing ideas and ultimately a plan to sell your product.

Product	
Price	
Place	
Promotion	

Product	
Price	
Place	
Promotion	

Product	
Price	
Place	
Promotion	

Product	
Price	
Place	
Promotion	

Farm Business Planning



Marketing Budget Plan

Category	Quantity	Cost	Total	Notes
Research				
Research hired				
Web research				
Research publications purchased				
Research Costs Total				
Communications				
Promotional brochures				
Radio/Television				
Web design/maintenance				
Communications Costs Total				
Networking				
Memberships/Affiliations				
Events				
Subscriptions				
Networking Costs Total				
Promotions				
Product giveaways				
Product discounts				
Special offers				
Promotions Costs Total				
Advertising				
Brochures (development/production)				
Logos/Labels				
Packaging				
Signage				
Mailings/Postcards				
Radio/Television				
Newspapers				
Advertising Costs Total				
Public Relations				
Charity events				
Advertising				
Employee promotions				
Sponsorships				
Public Relations Costs Total				
Distribution				
Shipping				
Transportation				
Distribution Costs Total				
Marketing Total				

Enterprise Analysis and Plan

Small farms will often consist of many different enterprises that contribute to the whole farm operation. For instance, farms may have a retail produce market, horse hay sales, and/or a fall petting zoo. It is important to understand the various costs, returns, and ultimately the profitability of each enterprise versus another. The “Enterprise Analysis” enables you to do that.

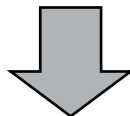
The enterprise analysis separates and allocates the various farm expenses and receipts to a particular enterprise. As a result, you can understand break-even cost and pricing points for that enterprise. It is also helpful to understand the input structure such as labor inputs, shelf space pricing structure, raw material inputs, and fixed equipment cost per dollar returned. The enterprise budget also forces you to analyze the profitability of each enterprise so the proper enterprise mix for the farm can be achieved.

In order for enterprise budgets to be effective, you must have accurate information on each enterprise being planned. This requires careful recordkeeping of existing enterprises and detailed projection of activities of planned enterprises.

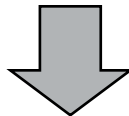
The budget or enterprise analysis is calculated based on a one-year time frame for a certain unit of production such as acre or per head of livestock. An example and blank enterprise budget is provided for you in the Appendix. Enterprise budget components are illustrated in the following graphic.

Components of an Enterprise Budget

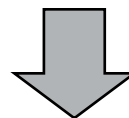
Gross Revenue: The total sales of product or services from the enterprise. Revenue can be calculated with the following formula:
$$\text{Price} \times \text{units Sold} = \text{Gross Revenue}$$



Variable Cost: Cost items that vary with production volume. Examples of such items include fertilizer, seed, fuel, electricity, piece-work labor charges, pesticides, packaging cost, and custom charges.



Fixed Cost: Those costs that you will incur regardless of whether you produce any output. These costs are determined using the DIRT 5 method which includes Depreciation, Interest, Repairs, Taxes, and Insurance. Often a piece of equipment or building will be used for more than one enterprise. In these cases it is important to estimate the percentage of use for each enterprise and allocate the cost accordingly.



Net Income: Net income is the money left after subtracting variable and fixed cost. This is the bottom line.
$$\text{NET INCOME} = \text{Gross Revenue} - (\text{Variable} + \text{Fixed Costs})$$

Methods of Analyzing the Enterprise Budget

The enterprise budget can provide a producer with much more information than just net income. The budget can help determine sales needed to cover variable cost, fixed cost, and total costs per unit. This information can be utilized to determine pricing points, to identify efficiencies within the enterprise, and for the continuation of an enterprise. The chart below describes various analysis methods.

Break-Even Analysis		
Enterprise Analysis Methods	Formula	Comments
Variable Costs per Unit Sold	Total Variable Cost/Output in Units	You must make at least the variable cost per unit sold, or the enterprise should be discontinued.
Overhead (Fixed) Costs per Unit Sold	Fixed Cost/Output in Units	In order to be profitable over the long run, you must be able to cover the fixed cost as well as variable cost. Knowing the fixed cost per unit enables you to better understand cost structure.
Total Cost per Unit (Break-even Price)	Fixed Cost + Variable Cost/ Output in Units	This is your break-even price. A pricing point above the break-even point will be needed to generate profit.
Break-Even Output Goal	Fixed Cost + Variable Cost/ Price per Unit	This is the output needed at a given price to reach break-even point. At the given price, output will need to be increased to generate income.
Profit per Unit Sold	Net Revenue/Output in Units	Profit factor. This is the profit per unit produced.

Financial Plan

Financial statements are a very important and necessary component of a Farm Business Plan. Whether your business is established or in the early stages, creating these statements can help you assess your overall success and profitability.

The financial position and performance of a farm can be arranged into three important financial statements. These statements are generated by organizing and analyzing your business's accounting activities. While financial statements take some research and homework, they are very beneficial to your farm business.

Financial Statements help you:

- Determine your farm's net worth, liquidity, and overall profitability
- Make important production, financing, and investment decisions
- Help with credit and lending applications
- Develop budgets for farm enterprises

The three financial statements show different financial measures for a business.

Balance Sheet (Net Worth)—is a detailed listing of assets, liabilities, and net worth at a given point in time. It answers the basic question, “How much is your farm business worth?”

Importance—Net worth is the best measure of a farm business's financial position. It organizes what the business owns (assets) and what it owes (liabilities), which ultimately determines farm solvency. *What is your farm business's financial position?*

Cash Flow (Liquidity)—records time and size of cash inflows and outflows that occur over a calendar year. Liquidity differs from profitability because the cash flow statement only includes cash income or expenses, whereas the income statement also includes non-cash items such as depreciation and inventory adjustments.

Importance—Liquidity is the ability of your farm to generate enough cash to meet financial obligations as they come due without disrupting the normal operation of the farm business. The cash flow statement is a critical component of the business plan and will be reviewed by lenders. *Where was the cash used?*

Income Statement (Profitability)—is a listing of income, expense, and profit for a farm operation in a calendar year.

Importance—Profitability is the summary of all resources that have come into the farm (revenue) and all resources that have left the farm (expense). This equals the net income or net loss. *How did the farm business do last year?*

Balance Sheet

The balance sheet is formatted with assets on the left hand side and liabilities and net worth on the right hand side of a ledger.

Assets—are items owned by the farm business, such as land, buildings, machinery, livestock, crops in storage, and supplies.

Liabilities—are the debts owed by the farm business.

Farm assets and liabilities are divided into three categories according to their length of life, their cash liquidity, and their effect on production in the farm business. The categories are current, intermediate, and long term. A fourth category lists non-farm assets.

When estimating asset value there are two possible methods: Market Value or Cost Approach.

Market Value—values assets at the estimated current market value.

Cost Approach—values assets at their original cost plus cost of improvements minus depreciation.

Current Assets/Liabilities—are those incurred within the year. Assets include cash, accounts receivable, and other assets easily converted to cash. These can include prepaid expenses, supplies, crops, and livestock on hand. Liabilities consist of accounts payable and accrued expenses such as rent, interest, and taxes. Short-term notes and the current principal due on longer-term liabilities are also listed.

Intermediate Assets/Liabilities—are those incurred in more than a year but less than 10 years. Assets include breeding livestock, tools, vehicles, machinery, and equipment. Liabilities consist of loans for breeding livestock, machinery, and equipment.

Long-term Assets/Liabilities—are those with a useful life of more than 10 years. Assets include farmland, buildings, and improvements. Liabilities consist of mortgages and contracts owed on farmland and loans for buildings and improvements.

Non-farm Assets/Liabilities—these are personal items not considered part of the farm operation. Assets include the home, furnishings, and vehicles.

Net Worth is sometimes referred to as owner's equity. It is the difference between the value of farm assets and the liabilities against those assets.

$$\text{ASSETS} - \text{LIABILITIES} = \text{NET WORTH}$$

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BALANCE SHEET

Name

Date

ASSETS		LIABILITIES AND NET WORTH
Current Farm Assets		Current Farm Liabilities
	Value	Value
Cash, checking, savings		Accounts payable and accrued expenses
Prepaid expenses & supplies		Fuel
Accounts receivable		Accrued interest—operating
Crops held for sale or feed	Quantity	Accrued interest—machinery
		Accrued interest—mortgage
		Current farm notes payable
		Operating loan
Livestock held for sale		Intermediate and long-term principal due within 12 months
Other current farm assets		Other current farm liabilities
		Contingency income tax
Total current farm assets		Total current farm liabilities
Intermediate Farm Assets		Intermediate Farm Liabilities (amount due beyond 12 months)
Breeding livestock		
Machinery and Equipment		
Other intermediate assets		
Total intermediate assets		Total intermediate farm liabilities
Long-term Farm Assets		Long-term Farm Liabilities (amount due beyond 12 months)
Total long-term farm assets		Total long-term farm liabilities
Total farm assets		Total farm liabilities
Non-farm assets		Non-farm liabilities
Total non-farm assets		Total non-farm liabilities
Total assets		Total liabilities
		Net Worth

Cash Flow Statement

Cash transactions occur frequently on the farm and are often seasonal. An important management task is to control this flow of cash in and out of the farm business. The cash flow statement records the timing and size of cash inflows and outflows that occur over a given accounting period, normally one year. The accounting period is broken down into smaller time periods, usually months. Think of the cash flow statement as a checkbook for the farm with an accounting of expenses and deposits.

There are two types of cash flow: projected and actual. Projected cash flow is completed at the beginning of the accounting period and projects expected cash inflows and outflows for the period to estimate the liquidity reserve or ending cash balance for each month. As the accounting period progresses, keep an actual cash flow statement to record cash transactions as they take place. Then compare the actual cash flow statement with the projected cash flow statement to see if things are going as planned, to devise remedies for solving previously unforeseen problems, or to take advantage of opportunities not anticipated. At the end of the accounting period, use the actual cash flow statement to estimate the projected cash flow for the next year. This is especially important for agricultural businesses because of production cycles and the seasonality of the business.

Cash inflows

- *Crops and livestock sales*—these are the primary source of cash for your farm business and are critical to maintain the liquidity reserve of the farm business.
- *Other farm receipts*—are a substantial cash inflow to your farm business. This includes payments from government programs, custom work, ag-tourism, and co-op dividends.
- *Non-farm receipts*—include items such as income from an off-farm job, savings, investments, interest earned, and capital.
- *Sale of capital assets*—includes the sporadic cash inflows from the sale of land, buildings, machinery, breeding livestock, and tools.
- *Borrowed money*—is considered a residual source of cash used to maintain your liquidity reserve when cash outflows exceed the sometimes sporadic inflow of the four sources mentioned above.

Cash outflows

- *Production expenses*—are a large draw on your liquidity reserve. They include seed, fertilizer, chemicals, feed, hired labor, and repairs.
- *Capital expenditures*—include cash outlays for replacing and adding machinery, breeding livestock, land, and buildings. These are important to your farm but should be planned with care.
- *Loan payments*—are payments on borrowed money. Consider this when formulating your loan payment schedules and the seasonality of your farm business.
- *Family living expenditures*—are sometimes overlooked as being secondary to the other cash outflows.

Farm Business Planning



Cash Flow Budget

Name

	Last year	Year 1 or 1st quarter	Year 2 or 2nd quarter	Year 3 or 3rd quarter	Year 4 or 4th quarter	Total
Cash inflow						
1. Beginning cash balance						
2. Crop sales						
3. Livestock sales						
4. Other farm income						
5. Capital sales						
6. Non-farm receipts						
7. Total cash inflow (total 1 to 6)						
Cash outflow						
8. Chemicals						
9. Custom hire						
10. Feed purchased						
11. Fertilizer and lime						
12. Freight and trucking						
13. Gasoline, fuel, and oil						
14. Insurance						
15. Labor hired						
16. Rent or lease						
17. Repairs and maintenance						
18. Seeds and plants purchased						
19. Supplies purchased						
20. Taxes						
21. Utilities						
22. Vet., breeding, medicine						
23. Other farm expenses						
24. Capital purchases						
25. Family living or withdrawals						
26. Term loan payments						
27 Total cash outflow (total 8 to 26)						
Cash flow summary						
28. Inflow minus outflow (lines 7-27)						
29. New borrowing:term						
30. New borrowing:credit line						
31. Credit line payments						
32. Ending cash balance (28+29+30-31)						

Comments:

Income Statement

An income statement, sometimes called the profit and loss statement, is developed to calculate farm profits and assess farm profitability. It summarizes income, expenses, and profit for a farm operation.

The income statement should cover a given accounting period using the calendar year. Two different accounting methods, cash and accrual, are used in preparing income statements. Most farmers use cash income statements to calculate income for tax purposes. With this method, you determine profit by using cash receipts, expenses, and depreciation recorded during the accounting period. However, this may not give an accurate picture of business profit or loss during the period.

The accrual accounting method adjusts the cash income statement to solve this problem. By including inventory changes and capital adjustments in your income statement, you get a more accurate measure of profit. An income statement prepared by the accrual method can help focus the true picture of farm profit.

Parts of the Income Statement

Cash Farm Income—List sources and values of your cash farm income. Include receipts from sales of crops, livestock, livestock products, and government payments from commodity programs. Also include income received for custom work, co-op dividends, and other such items.

Cash Operating Expenses—Includes those expenses associated with the operation of the farm business. In addition to variable production expenses such as feed, seed, fertilizer, short-term interest on operation capital and supplies, include fixed cash expenses such as taxes, insurance, and interest on intermediate and long-term loans.

Inventory Changes—This makes an accrual adjustment to the cash income and expenses if your inventories are higher or lower at the end of the accounting period than the beginning. This can cause an overstatement or understatement of your net cash farm income.

Depreciation and other Capital Adjustments—The income statement should include depreciation and other capital adjustments. These adjustments are calculated by subtracting beginning inventories and capital purchases for each asset category from the ending inventories and capital sales.

Profitability—The accrual income statement should give a picture of business profit for the account period.

Farm Business Planning



Inventory Adjusted Income Statement Period covered

Cash Farm Income		Cash Farm Expenses				
Crop sales						
Livestock & LS product						
Government payments						
Other farm income						
Total cash farm income			Total cash operating expense			
			Net cash farm income			
Inventory change						
	Crops & Feed	Market Livestock	Receivables	Supplies	Payables (beg.-end)	
Ending inventory						
Beginning inventory						
Inventory change						
Net operating profit						
Depreciation and Other Capital Adjustments						
	Breeding Livestock	Machinery Equipment	Buildings Improvements	Other	Land	
Ending inventory						
Capital sales						
Ending inv. & sales						
Beginning inventory						
Capital purchases						
Beg inv. & purchases						
Deprec. & cap. adjust.						
Profit or Loss						

Projecting Financial Statements

It may be important or necessary for your farm business to project financial statements for the next 3-5 years depending on a loan application, long-term goals, or a new enterprise decision. Projected financial statements are also referred to as *pro forma* budgets. By projecting your business's financial statements you discover whether your business will anticipate a profit over the long term.

Most often the income and/or cash flow statements are used to make projections. Projections are your best estimate of income and expenses over a period of time. Being conservative and realistic with your projections will help your business in the end.

The best way to start making any projections is to review your enterprise budgets and financial statements. From there you will be able to predict average costs and expenses over time. Your implementation strategy and sales projections should be reflected in the *pro forma* financial statement.

Along with projections your farm may also want to conduct financial ratio analysis. This will look, long term, at projections and costs and answer questions regarding liquidity, profitability, and debt.

Implementation Strategy

You have done your homework, conducted market research, and developed areas of competitive advantage. All that's left is collecting the paycheck, right? Not so fast. The formation of an absolutely optimal strategic business plan is useless, unless the plan is implemented. In other words, a correctly devised business plan is often said to be "The right thing to do," while the implementation of the plan is considered "Doing things right." An organization must be able to accomplish both if it is to remain successful.

The implementation plan will contain a timeline for steps that need to be taken in order to meet objectives. Consider the implementation plan your ultimate "To-Do List." The timeline will cover both the production and marketing goals that are set forth in the business plan. These sales goals and production figures will match the pro forma (projected) financial statements. As you develop the implementation plan you may begin to notice areas where the best made plans have no practical way to be implemented. Taking time to go through this process will help you identify bottlenecks and avoid these pitfalls. The implementation plan should contain the following information:

Production:

- Timeline of equipment and facility purchases or upgrade
- Timeline of production changes, new enterprise development
- Projected production

Management:

- Decision making
- Division of duties and responsibilities (This one is critical.)
- Defined structure and the hierarchy for making decisions

Marketing:

- Sales projections
- Expected price
- Market entry—promotion

Human Resources:

- Labor sources
- Labor management plan—training, skills development
- Plan for payroll, taxes, and benefits

Finance/Accounting:

- Identify funding mechanisms
- Timeline of when capital will be needed
- Method of accounting and recordkeeping
- Method of paying taxes and meeting

Implementation Strategy

Production:

Management:

Marketing:

Human Resources:

Finance/Accounting:

Human Resource Plan

Farms need people just as they need land, equipment, and materials. Writing a human resource plan identifies jobs needed on the farm and whose responsibility they will be. Having this clearly communicated within any business is an important consideration.

A human resource plan should try to capture the “people element” of what a farm is hoping to achieve. It addresses the questions:

- Are the right people in place?
- Does the farm business have the right mix of skills?
- Do employees display the right attitudes and behaviors?
- Are employees developing in the right way?

A human resource plan also identifies legal and liability issues of hiring and managing employees. Depending on the type of farm business and employee structure it is important to research Maryland’s employee laws and what may apply to your business before hiring.

Parts of the Human Resource Plan

- Position and Duties
- Organizational Chart
- Skills and Training

Farm Business Planning

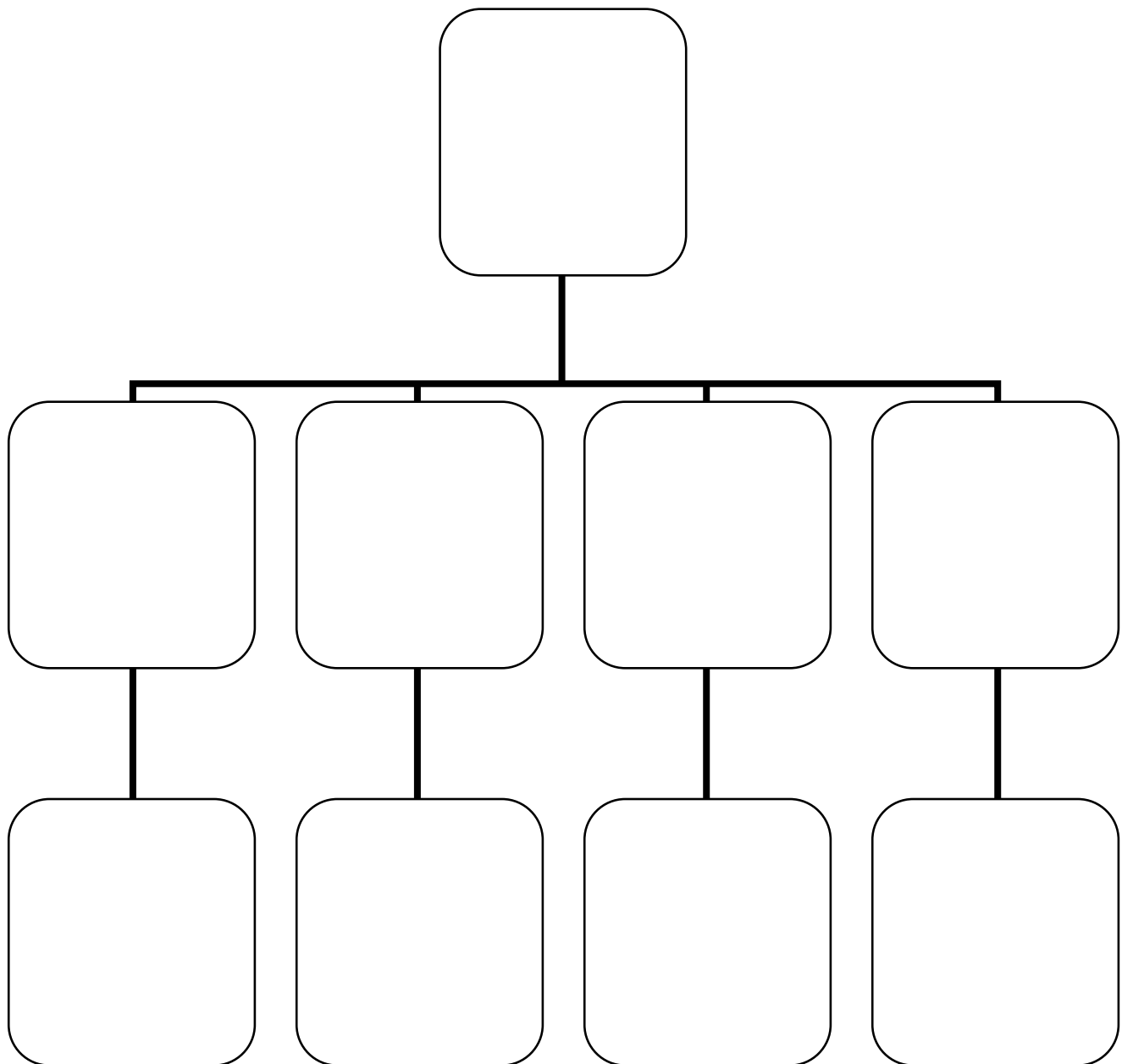


Use this chart to layout positions within your farm business, the duties of each position, and who is responsible.

Farm Business Positions and Duties				
Position/Name	Duties/ Responsibilities	Skills/Talents	Salaries/Wages	Work Schedule
1.				
2.				
3.				
4.				
5.				
6.				
7.				

Farm Business Organizational Chart

An organizational chart arranges the structure of a business by rank. This chart is helpful to know who is responsible for parts of the business.



Resource Inventory

Gathering and analyzing resources is an efficient and prudent exercise for any farm business. Many small businesses and small farms purchase brand new and sometimes unnecessary equipment, buildings, and machinery. These expensive capital purchases can overextend a business if planning and analysis has not been done.

A resource inventory can help:

- Complete a balance sheet
- Summarize collateral for a loan
- List the conditions of assets and identify problems
- Evaluate options and needs for growth and/or diversification

The first step in creating a resource inventory is to step back and look at your operation as a whole. Evaluate what resources are available to you and include all those that are needed to carry out goals of the operation. As the inventory is completed multiple uses or complementary use may stand out.

This section includes:

- Building and facility requirements
- Building and structure inventory
- Equipment inventory

Building and Facility Requirements

Physical Resources	Description of Resource and Use
Land:	
Livestock:	
Equipment:(more detailed worksheet follows)	
Facilities:(more detailed worksheet follows)	
Transportation:	
Expertise: Computers, marketing, record keeping, etc.	
Other:	

Building and Structure Inventory

Building	Purpose	Square Feet	Required Features	Location
1.				
2.				
3.				
4.				
5.				
6.				

Equipment Inventory

Equipment Name	Model	Size	Year Purchased	Age	Condition			Ownership			Book Value	Market Value
					G	F	P	O	L	B		

Condition—G=Good, F=Fair, P=Poor
 Ownership—O=Owned, L=Leased, B=Bought

Business Web Resources:

extension—Entrepreneurship

<http://www.extension.org/entrepreneurship>

FormNet—Free Business Forms

www.entrepreneur.com/formnet

Maryland Agriculture

www.marylandagriculture.info

Maryland Department of Agriculture

www.mda.state.md.us

National Sustainable Agriculture Information Service

www.attra.ncat.org

Purdue Extension's Ag Innovations Center (AICC)

<https://www.agecon.purdue.edu/planner/>

Small Farm Success

www.smallfarmsuccess.info

United States Small Business Administration

www.sba.gov

Small Business Readiness Assessment Tool

<http://www.sba.gov/assessmenttool/index.html>

SBA Delivering Success Videos

<http://www.sba.gov/tools/audiovideo/deliverysuccess/index.html>

University of Maryland Cooperative Extension

www.extension.umd.edu

United States Department of Agriculture

www.usda.gov

United States Census Reports

<http://www.census.gov/>

Value-added planning and business development

<http://www.agmrc.org/agmrc>

Blank Enterprise Budget Form

CROP:

PER ACRE FOR YEAR

ITEM	UNIT	QUANTITY	PRICE	TOTAL
INCOME				
VARIABLE/OPERATING COSTS				
TRANSPLANTS				
COVER CROP				
FERTILIZER				
INSECTICIDE				
HERBICIDE				
FUNGICIDE				
SOIL TEST				
LIME				
LABOR—WEEDING, HARVESTING & PACKING				
BUSHEL BOXES				
INTEREST ON OPERATING CAPITAL				
TOTAL VARIABLE COSTS LISTED ABOVE				
FIXED/OVERHEAD COSTS (CUSTOM RATES CAN BE USED)				
PLOWING				
DISKING				
PLANTING				
FERTILIZER APPLICATION				
IRRIGATION				
LAND CHARGE				
TOTAL FIXED COST LISTED ABOVE				
TOTAL VARIABLE AND FIXED COST LISTED ABOVE				
NET INCOME OVER VARIABLE & FIXED COSTS LISTED ABOVE				
NET INCOME ABOVE VARIABLE AND FIXED COSTS LISTED ABOVE FOR VARIOUS YIELDS AND PRICES	YIELDS	PRICES		

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