Putting Together a Business Plan for Your Farm

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Business Plan

- Identify your problems and outline your options
- Convince others to fund your business
- Serve as an operating guide

Business Plan Outline

- Coversheet
- Executive Summary
- Table of Contents
- Business Description
- Production
- Marketing
- Finance
- Management and Personnel
- Supporting Information

Calculating Your Cost of Production

- Your cost of production is your minimum selling price

Identifying Costs

- Variable costs
  - Costs that change as the level of output changes, ie water cost pr acre goes up as number of acres planted goes up
- Overhead / fixed costs
  - Costs that do not change as the level of output changes, ie total long term lease rent stays the same even if no acres are planted

Variable Costs

- Form 1 Pricing the Production Process I
  - Describes each step of the process
    - Example-Land preparation-labor, equipment, supplies needed multiplied by the cost of each
- Form 2 Pricing the Production Process II
  - The cost of each step is totaled to obtain total variable cost

Overhead / Fixed Costs

- Form 3 Overhead Cost
  - List each overhead cost for one year
- Form 4 Schedule for an Average Week
  - Figure how much you are working in the business-production labor is already counted
- Form 5 Cost of Your “Unpaid” Labor
- Form 6 Cost of Others “Unpaid” Labor
  - Calculating what you will need to pay yourself and others, so you can include this in your price

Cost of Production

- Form 7 Total Cost of Production
  - Adds up variable cost per unit and fixed costs per unit to get an minimum selling price

Putting Together a Marketing Strategy

- Customer
- Competition
- Strategy

Your Customer

- Describe them (quantitative)
- Learn why they buy your product (qualitative)

Your Competition

- Strengths
- Weaknesses

Your Strategy

- Price
- Place
- Promotion
- Product

Managing Your Finances

- Financial Statements
- Goal setting and Analysis

Financial Statements

- Balance Sheet
  - Picture of the business' productive resources and how they were paid for
- Income Statement
  - Revenues or income that flowed through the business
- Cash Flow Budget
  - All cash received and all cash spent, usually monthly

Balance Sheet

- Assets = Liabilities + Owner's Equity
- Pro forma (projected) information comes from the cash flow budget (ie, what assets did you buy or sell; what loans did you get or pay off; what did you put into or take out of the business

Assets

- Current
  - Are cash or will generate cash in the next year
- Intermediate
  - Have an expected life of 2-10 or 15 years
- Long-term (Fixed)
  - Have an expected life of more than 10 to 15 years

Liabilities

- Current
  - Must be paid in the next year
- Intermediate
  - Must be paid in the next 2-10 or 15 years
- Long-term (Fixed)
  - Must be paid in more than 10 to 15 years

Owner’s Equity

- Total Assets minus Total Liabilities
  - The owner gets what is left over.
  - This does not mean that the business has cash (an asset) somewhere equal to this amount. The cash is likely to be invest in assets.
  - When the owner takes money out of the business, they are decreasing owner’s equity.
  - Owners should expect to earn more on their investment than they pay in interest on their debt.

Income Statement

- Revenues and expenses that flow through the business are summarized
  - Revenues or income minus expenses give net income.
  - Pro forma (projected) information for this comes (except depreciation) from the cash flow budget

Cash Flow Budget

Cash In

Minus

Cash Out

Financial Analysis

- Break-even
  – Identifies how much you have to sell at a given price to pay all your costs
- Ratios
  – Four basic goals that have targets that you select and are evaluated with information on your financial statements

Break-even

- Cost of production figure calculated here is break-even cost per unit
  - If you have included the cost of all labor that you use, even though the workers may not receive a pay check, and a return on what you have invested in your business, you have an economic breakeven.
  - Accounting breakeven means you pay all your out-of-pocket expenses.

Ratios

- Liquidity
  - Do you have cash to pay your bills this month?
- Solvency
  - Will you have the cash to pay your bills in the future?
- Profitability
  - How much money are you making?
- Financial Efficiency
  - How much in sales are your expenses generating?