
Business Plan Workbook

For New Farmers



CALIFORNIA
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Business Plan Workbook for New Farmers

Second Edition

A farm business plan can be a key factor in the success of your farm, and it is a great way to introduce yourself to potential investors and landowners. Even if you have already secured land for the season, creating a business plan will help you be prepared by setting expectations and goals, understanding your financial situation, managing risk, and developing a marketing strategy.

This workbook is intended to introduce you to the basics of farm business planning, help you organize your thoughts, and provide some tools. The work you complete in this book can lay the groundwork for a comprehensive plan. There are many excellent books and resources, as well as computer programs and templates, that can assist you further in developing your business plan.

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Worksheet A

Self-Assessment

This worksheet is intended to help you clarify for yourself why you want to farm and to identify what knowledge, experience, and attitudes you bring to the table. Your responses will assist you in creating a sustainable and successful business strategy that will keep you on track as well as identify where to turn when you encounter obstacles.

1. What are your top 5 reasons for wanting to farm?

- ① _____
- ② _____
- ③ _____
- ④ _____
- ⑤ _____

2. If there are additional significant reasons, list them here:

3. Is there a particular situation in your life that starting a farm will help you to change?

4. Describe a perfect day on the farm.

Worksheet A

5. List all the activities that you engage in throughout the day on the farm. Include the amount of time spent on each activity.

<u>Activity</u>	<u>Time Spent</u>

6. Looking at your responses to questions 4 and 5, describe an *average* day on the farm.

7. List all the activities that you think you will not enjoy. Include the amount of time you think you will have to spend on each activity.

<u>Activity</u>	<u>Time Spent</u>

8. What is the goal or mission of your farm?

9. Rate your current knowledge and experience of farm life.

☐ No knowledge or experience

☐ Good working knowledge

☐ Some knowledge

☐ A lot of knowledge and experience

Explain your answer more fully:

One key to success is using your talents to leverage your strategy. If you are clear about what your talents are, you can use them more effectively.

ASK YOURSELF:

- Are your reasons to farm clear and powerful?
- Are you choosing to farm because you are already doing it, because you really like farming or ranching, or because you don't like what you are doing now?
- When things get tough and are not turning out as you had hoped, what will pull you through?
- What is your unique talent or skill?
- What do you like to do most?
- What training and experience do you have?
- What can you do better than the competition?
- What do you think you will have to learn, and how urgently must you learn it?

It is hard to start a farm or ranch by yourself. Do you know who you will be working with? Because this person will affect the success of the operation in very significant ways, and because launching a new enterprise can strain even the best partnership, it is important to clearly spell out your expectations from the beginning.

10. Do you plan to work alone, with a partner, or as part of a community?

11. Who is starting the farm with you? What are their qualifications?

Worksheet A

12. If you have financial backers, how involved will they be?

13. If applicable, what does your family think of your plan to farm?

Your answers to the next set of will help you to understand the kind of operation you most likely will run. For example, an introverted person should probably avoid building direct marketing into the plan, while an extrovert may be able to sell to many different people rather than to a few distributors. Similarly, if details are not your strength, focusing on fewer crops and a simpler marketing plan may be the way to go. Farming is stressful. If you are prone to stress now, you will experience it as a farmer, too. But you can minimize that stress by developing a strategy that focuses on your strengths and engages your passions.

14. What are your personal resources—your strengths, your skills, your talents?

15. Are you introverted or extroverted?

☐ Introverted ☐ Extroverted

16. How have you dealt with stress in other jobs?

17. Will it be the same in farming? Describe: _____

18. How well do you manage a lot of detail? Describe:

19. Do you work well by yourself?

☐ Yes

☐ No

Describe: _____

20. Are you open to new ways of thinking and doing?

☐ Yes

☐ No

Describe: _____

Success, for most people, is the result of a combination of things. What defines success for you? How will you know when you have achieved your goal or fulfilled your mission? Remember: Economics is only one measure. Describe your success as broadly as possible.

21. How do you define success?

- Economic

- Social

- Quality of life

- Other

Worksheet B

Basic Strategy

Having a basic strategy is critical in creating a sound business plan. Include in your basic strategy what you will raise or grow, where you will do it, how and where you will market and sell your produce, and what resources you will need to make it all happen. When you complete this section you will have a good idea of what your business charter or mission is.

Think through the questions in this section and make notes. Have you considered everything? While you don't yet have to have an answer for every question, the idea is to answer enough questions to allow you to create the basic strategy as to how you will do business. Perhaps most importantly, remember also that an important function of business planning is to make your mistakes in your *imagination*, not in the real world.

THERE ARE FOUR BASIC STRATEGIES AVAILABLE. MIX AND MATCH AS APPROPRIATE FOR YOUR UNIQUE SITUATION.

- **High volume production with low margins.** Low-margin products sell for close to the price it costs to grow and maintain them. In order to realize a profit on low-margin items, prices are competitive to ensure that you will sell a large volume. Because low-margin products are also typically cheaper to grow and easier to sell, low-margin businesses typically can produce a high volume of goods quickly and at a low cost.
- **Low volume production with a high margin per unit.** High-margin products sell for much more than the cost associated with growing and maintaining them. The low sales volumes are usually sufficient to cover all related expenses. However, the production of high profit margin items typically involves greater expense and requires a longer period of time to bring to market.
- **Value added products.** *Value added* means enhancing your product or the distribution of your product in some way that increases its value. Some of the ways to add value are: marketing a unique product, filling a market niche, simplifying the supply chain, or providing a particular service. The more value you provide, the more return you can extract from the marketplace. Examples of value added products include jams and jellies, bagged salad mixes, herbal soaps, flower bouquets, and organic products.
- **Complementary farm enterprises.** A fundamental part of a farmer's strategy is what is known as complementary farm enterprises. This means that you choose different businesses within your farm that share many of the same assets and contribute to the profitability of the whole farm. For example, a farmer may raise corn, wheat, and soybeans as agronomic enterprises and hogs as a livestock enterprise. The tractor and the barns required in raising the corn, for example, are also used in raising hogs. In addition, part of the corn is used as feed for the hogs. Therefore, the farm profits through the efficient and shared use of resources across both enterprises. Remember, however, that from an accounting standpoint, each enterprise is tracked separately in order to evaluate its contribution to farm income.

It is important that you get to know the community of farmers where you will live. These are the people with whom you will cooperate and/or compete. As such, they will be your best resource for information and ideas. You should start cultivating those relationships *now*.

The Market

Some of the following questions may be irrelevant to your particular situation. For example, if you just took over a turkey ranch, it is clear that you will be raising turkeys. Nevertheless, it is recommended that you answer all the questions regardless of your situation; a new perspective may emerge that you otherwise might have missed. The wider your vision and the deeper your understanding, the more options you will perceive and the better your chances will be for success.

1. What options to sell your product can you identify in the marketplace?

2. What is your unique idea? What opportunities do you see that others do not?

3. What niche are you able to fill that is not already fully taken?

4. Who are your customers? Where are they? What do they want? How do they want it presented, prepared, or delivered?

5. Put yourself in your customers' place. Why does your customer need your product? How much will they buy from you?

Worksheet B

6. If there is more than one customer group that you are trying to reach, it may be helpful in the beginning to narrow your focus. Which group would you target first?

7. What other products will your customers buy that are similar to yours? For example, if you grow peaches, your customers might also be interested in nectarines.

8. Who is your competition? Where are they? How do their business practices differ from yours? How are they the same? Who and where are their customers?

Marketing

The idea in this section is to think through your marketing plan sufficiently in order to create a basic strategy or charter that will guide the business plan. You will work on a more organized marketing plan on Worksheet C, Part 5.

1. How will you sell your product?

- | | | |
|--|--|---|
| <input type="checkbox"/> CSA | <input type="checkbox"/> Direct to retailer or restaurant | <input type="checkbox"/> Cooperative |
| <input type="checkbox"/> Farmers market | <input type="checkbox"/> U-pick | <input type="checkbox"/> Contract with buyer |
| <input type="checkbox"/> Roadside stand | <input type="checkbox"/> Mail order | <input type="checkbox"/> Shipper packer or slaughterhouse |
| <input type="checkbox"/> Terminal market | <input type="checkbox"/> Package wholesaler for value added products | <input type="checkbox"/> Other _____ |

2. If you plan to sell directly to the consumer or retail outlet and also through a distributor, how will the ratio change over time?

3. How will you get your product to market?

4. Who will do the marketing?

☐ You

☐ An employee

☐ Word of mouth (in other words, your customers)

☐ Your family

☐ A hired consultant

Resources

The classic definition of business management is the manipulation of land, labor, capital, technology, and management expertise in a way that maximizes the return on investment. It is up to you to understand the resources you can affect and to devise and implement a strategy to manipulate them correctly to get what you want. In some situations, you can affect the mix; in others you cannot.

Land

1. How much will you need? _____

2. What is it suited for? _____

3. Is it in one piece or scattered? _____

4. Do you own or lease? _____

5. How much is productive? _____

6. Is it level, leveled or hilly? _____

7. What is the soil type and quality? _____

8. How close is it to your marketing channels? _____

Water

1. Where will it come from at different times in the year? _____

2. How much will it cost? _____

3. What is its quality? _____

4. How reliable and secure is the supply? _____

Worksheet B

5. How much will you need? _____

6. Do you need a back-up plan? Do you have one? _____

Buildings

1. Will you live on the farm? If not, what will it cost to rent or buy elsewhere?

2. What will you have to build? Will you need storage facilities for seed? Livestock? Produce?
Cold storage? Dry storage? Silos?

3. How much will it cost over time? _____

Equipment

1. What do you already have? _____

2. What do you think you will need? _____

3. What can you borrow? _____

4. How soon will you need it? _____

5. How much will it cost?

☐ To rent or lease: _____ ☐ To buy: _____

Capital

1. How much do you have?

☐ In savings: _____ ☐ In equity: _____
(land, home, car, tractor, etc.)

2. How much cash will you need at start-up? _____

3. How much will you need for your first year? _____

4. How much will you need over time while you grow? _____

5. Where will it come from (proceeds from the business, personal savings, loans, family, friends)?

6. Who can you borrow from? _____

7. How much can you borrow? _____

Labor

You have already thought about this when you completed Worksheet A, Self-Assessment. Here are additional things to think about.

1. Where will your labor come from when you start? Is it just you or will you need to hire other people? How many? Where will you find labor?

2. How will you pay your labor? _____

3. Where will your labor come from as you grow? _____

4. How will your labor costs compare to that of your competition? _____

5. Will your workers need specialized training or a lot of supervision?

Worksheet B

6. If yes, what will the additional costs be? _____

7. Will you need consultants to help with specialized needs like pest control, irrigation, equipment repairs, etc.? _____

Technology

Farming is a technical endeavor. In fact, there is no other profession that requires expertise in more areas than does farming.

1. What specific technical expertise does your plan call for?

- | | | |
|--|--|---|
| <input type="checkbox"/> Organic farming | <input type="checkbox"/> Machine repair | <input type="checkbox"/> Knowledge of market trends |
| <input type="checkbox"/> Irrigation | <input type="checkbox"/> Fence building | <input type="checkbox"/> Customer relations |
| <input type="checkbox"/> Soil building | <input type="checkbox"/> Specialty marketing | <input type="checkbox"/> Mail order |
| <input type="checkbox"/> Conservation techniques | <input type="checkbox"/> Food processing and packaging | <input type="checkbox"/> Newsletters |
| <input type="checkbox"/> Animal husbandry | | <input type="checkbox"/> Other _____ |

2. How computer literate are you? _____

3. What would you use a computer for on the farm? _____

4. How can you use it to your competitive advantage? _____

Management Expertise

1. What do you already know about managing others?

2. What do you need to learn, and where will you go for your education?

3. Have you supervised people before? Do you enjoy it?

4. What technology will you need to assist you in managing others efficiently and effectively?

Community

1. Where are your communities? _____

☐ Family

☐ Neighbors

☐ Other _____

☐ Collective

☐ Town

Your Farm Enterprise and Crop Choices

If you have come this far, you may already know your enterprise and crop choices. Some decisions, in fact, may have been made for you. If you are taking over an existing farm, for example, the crop may be part of the package. If you already farm, you will need to keep in place the parts that work well now. You may have developed a unique idea for a product/enterprise mix that has driven the whole process. In either case, remember that your choices should be made based on:

- What you already know and love
- Who you are going to sell to
- What your resources are
- What you will need

There are good resources available to help you make crop and enterprise choices. Most important by far are the farmers around you. Analyze what is and is not working for them. What services could you provide to them to supplement your income? How would cooperative agreements for marketing or equipment benefit your farm (and theirs)? How do your answers to these questions affect your business plan?

This business plan outline is intended to get you started as you face the demands of a new farming venture. FarmLink provides additional resources at www.cafarmlink.org/resource-library/starting-to-farm. The University of California Cooperative Extension has a Small Farm Program (www.sfp.ucdavis.edu/) that provides publications and advice for new farmers, including several publications that will assist you in making crop choices. Another resource, the National Sustainable Agriculture Information Service (www.attra.ncat.org) provides extensive information and other technical assistance to farmers and ranchers involved in sustainable agriculture in the United States.

Worksheet C

Working Business Plan

Part 1

Business Charter:

Your Fundamental Strategy

Imagine that you have to explain your farm business idea to your brother-in-law the lawyer at a family reunion. You must be succinct, since his attention span is short; complete, since he knows nothing about farming; and persuasive, since you may want to ask him for a loan. This “elevator speech” is your fundamental strategy or business charter. Write it down and examine it closely. Does it work? Does it cover everything? Is it both concise and comprehensive?

Work with this statement of purpose until you are completely satisfied and you will be amazed at how effectively it will serve as your guidepost and linchpin. After you begin farming, you will be faced with many choices that you did not anticipate. Your simple, concise charter will help you to sort out the options and keep you on a direct path to your goals.

Expect to modify this charter several times as you work through your plan. You will uncover assumptions that you did not know you had, ideas that cost too much, markets that you assumed to be out there waiting for you but that don’t really exist, and enterprises that will take too much time to be worthwhile. Keep working with this and by the time your farm is under way, you will have a charter that will reflect the best and most reasoned vision and mission of your future farm.

In no more than one page, your charter should explain the who, what, where, and why of your farm. (Remember that you already thought through most of this as you completed **Worksheet B, Basic Strategy**.)

Example

We are Frank and Joan Farmer. Our farm will be a mixed specialty vegetable truck farm in the _____ Valley, within 30 miles of _____ City. We will immediately begin the certification process with _____ for all 40 acres of our productive land.

We will grow a range of specialty vegetables year-round, anchored by tomatoes in the summer, specialty mixed baby lettuce (mesclun) in the spring and fall, and specialty potatoes and brassicas in the winter. All crops will be selected based on their ability to be sold as either specialty, conventional, or organic. We will avoid “way-out” products, such as _____, and will limit the number of crops we grow to conserve our management attention.

We will eventually sell in order of priority; to independent retailers, such as grocery stores that employ a produce manager or buyer; to restaurants; to food service jobbers (such as businesses that take orders from food services, buy the product directly from farmers and terminal brokers, then deliver the order); and last, to terminal market brokers (businesses housed in a common “market” in the city, who sell farmers’ products on consignment to retailers). For the first two years, however, as the farm ramps up, we will sell weekly at the _____, _____, and _____ farmers’ markets.

We will capitalize the start-up of the farm with the profits from the sale of our house, family loans, and USDA Farm Service Agency (FSA)-supported loans. Ms. Farmer will keep her off-farm job for two years to subsidize the farm. After three years, the farm will be self-supporting and will provide the Farmers with a net salary of \$40K.

Our mission is to provide high quality, organic, fully ripe, interesting, and tasty varieties of produce to buyers who appreciate our difference from conventional product. Moreover, we will grow enough product to reliably supply our customers, even if that means fewer customers and fewer varieties.

Part 2

Management Structure

Areas of Responsibility	Person(s) Responsible
Production	
Marketing	
Administration and finance	
Equipment	
Customer relations	
Other	

The Job Chart

The Job Chart is a very helpful management tool, presenting together in one place the following information about each area of responsibility: job title, name of the person responsible, percentage of that person's time required for the job, and a brief description of the job itself.

Sample Job Chart

Job Title	Person Responsible	Percent Time	Job Description
Growing	Mary	80%	All planting, cultivating, spraying, irrigating, and harvesting
Marketing	Frank	50%	Sales contacts, packing, shipping
Financial Admin.	Mary	30%	Billing, bookkeeping, payroll, taxes

Most likely, each person will be responsible for more than one job. Add up the percentages for each individual to determine whether anyone has more than 100% of his or her time committed. If so, adjust your plan accordingly.

[illegible]

Management Philosophy

What is your management philosophy? Take the time now to describe it. This will help you to understand what it actually is and will give you a foundation to refer and return to when making critical decisions. Remember that there are no right or wrong answers. This is *your* management philosophy.

HERE ARE SOME POINTS TO FOLLOW:

- Write down what you believe to be fundamental to a manager to function properly and effectively.
- Describe the ideal relationship between a manager and an employee.
- Define your role as a manager.

[illegible]

Part 3 Product

If you plan to grow a complex mix of crops, you may want to complete Part 4, Management Plan, before completing this section, as you will need to think through many factors before listing specific crops. However, if you are already fairly clear about what your product or products will be, go ahead and complete this form now.

What are your product classes?

☐ Produce

☐ Annuals

☐ Perennials

☐ Orchard

☐ Vineyard

☐ Field crops

Livestock

☐ Dairy

☐ Meat

☐ Eggs

What are your other farm enterprises?

- | | |
|--|--------------------------------------|
| <input type="checkbox"/> Contract harvesting | <input type="checkbox"/> Farm stays |
| <input type="checkbox"/> Processing | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Entertainment | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Farm stand | |

How do you add value to your products?

- ☐ Novel product _____
- ☐ Processing (canning, drying, packaging) _____
- ☐ Variety _____
- ☐ Organic _____
- ☐ Freshness _____
- ☐ Place _____
- ☐ Direct market _____
- ☐ Personal delivery _____
- ☐ UPS _____
- ☐ You take it where it is not available otherwise _____

Position

Your product has other perceived value because it:

- | | |
|---|--|
| <input type="checkbox"/> Comes from a family farm | <input type="checkbox"/> Makes a political statement |
| <input type="checkbox"/> Is locally grown | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Is healthier | |

Product/Enterprise Planning

List your specific products and enterprises along with the percentage of total net income they will bring in and the periods during which they will provide cash flow.

Note: You need not list every variety of tomato; just the general class is sufficient to determine where the income will come from.

Product or Enterprise	Net Income	Starting	Ending
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Part 4

Information System or Management Plan

This is the heart of your business plan. Keep in mind that each individual farm operation may require a different format; therefore, you may adjust this worksheet accordingly. As a new farmer and a small operator, your most expensive, limited, and valuable asset is your management time and your expertise. A well-designed system to gather and process information and to support your decision-making will maximize these assets, providing a tool, for example, to plan what crops to plant, when and where to plant them, how much it will cost to grow them, to whom you will sell them, and for how much. This management information system will integrate with the marketing and financial parts of your plan.

HERE ARE THE BASIC REQUIREMENTS:

- A separate information system for each enterprise that feeds into the whole farm system
- Equipment and building logs and projected expenses
- A soil and water fertility and management program
- A whole farm plan and map
- Cropping and succession timelines for each plot or unit
- An estimate of yield, income and expense by crop in each plot
- An income tracking system
- Harvest projections matched with market plans over time

We recommend that you use a computer to construct your management plan. You will need a spreadsheet program, such as Microsoft Excel, a word processing program, such as Microsoft Word, and an accounting program, such as QuickBooks.

Part 5

Marketing Plan

Your marketing plan results from everything else in your business plan and has four components.

THE FOUR P'S:

- Product
- Pricing
- Promotion/position
- Place/distribution

Although these categories make good headings for your written marketing plan, you may find it difficult to separate out each item. For instance, your product may be tomatoes that you sell in baskets at your roadside stand. But is this promotion, position or product? To answer this question, think through the issues in the worksheet, take plenty of notes, and then write the plan with the four headings.

THE BENEFITS OF A MARKETING PLAN:

- Makes you marketing-oriented rather than production-oriented
- Helps you focus on your customers' needs
- Maximizes your resources
- Focuses your energies on your customers
- Defines what makes you unique
- Prevents distractions

Targeting Your Market

In order to target your market, you will narrow down and define your market niche. This will help you to adapt your product and your position to meet your customers' needs better than your competition. If your product is perceived by your target niche as having more value, you are a price maker. Price *makers*, as opposed to price *takers*, may charge more without losing customers because there is no better alternative that meets customers' needs.

Your objective here is to find and capitalize on what makes your product different in the eyes of your target market. This is known as your *differential advantage*. Note that a commodity such as wheat has no differential advantage. One farmer's wheat is essentially indistinguishable from another's. Therefore, the farmer cannot influence the price and, as a result, he is a price taker. In contrast, the sole supplier of vine ripe heirloom tomatoes at a farmers' market can, for the most part, set his or her own price. This is because the product is unique, it is identified with the farmer, it has no close substitutes, and it is highly valued by the farmer's customers.

1. Who is *your* target market? _____

2. Where are they located? _____

3. What do they want? _____

4. If you are not sure, how can you find out? _____

5. What is their average age and income, their ethnicity, their interests, etc.? _____

6. What specific niche are you going to serve? ***This is your market!*** _____

7. What issues are there, if any, regarding ownership, decision makers, discretion, gate keepers? _____

8. How many customers are there and how much will they buy? _____

9. How much of the market can you command? _____

10. Who is your competition? _____

11. What do you need to know about them? _____

12. What are the alternatives to your product(s)? _____

13. What is your differential advantage? *Remember, This is the thing you do better than anyone else. It is why the customer buys from you instead of from the competition.*

Part 6

Financial Plan

Your financial plan predicts where your money will come from and where it will go, including when, how much, and on what you will spend it. The plan has three basic components: your *pro forma* (predicted ahead of the fact) income statement, your cash flow projection, and your balance sheet. These are described below. Note that there are typically several supporting budgets that feed information to the big three.

THREE BASIC COMPONENTS OF THE FINANCIAL PLAN:

- **Income statement.** A financial statement that measures the profitability of the farm over a period of time. All expenses are subtracted from sales to arrive at the **net income**.
- **Cash flow projection.** A series of monthly or quarterly budgets estimating cash receipts, cash payments, and the borrowing requirements necessary to meet financial needs. The cash flow projection is constructed from the pro forma income statement and other supporting schedules.
- **Balance sheet.** A financial statement indicating what the farm owns and how these assets are financed in the form of owner liability or ownership interest.

Your computer and a well-designed business planning software program, a set of templates, or an accounting program such as QuickBooks are all helpful tools.

What a Lender Will Want to See

Many new farmers get started with savings, family help, credit cards, and grit. However, if you must get financial backing in the form of a loan, gift, partnership, or sale of shares, you will need to support your request with a business plan and other documents to assure the backer that you are credit-worthy and that the business will succeed.

**HERE IS A LIST OF DOCUMENTS A LENDER MAY REQUIRE
IN ADDITION TO A BUSINESS PLAN:**

- Résumés for you and any other principal(s).
- Your financial records for the past five years, including a profit and loss statement, balance sheet, income statement and cash flow projection.
- Your net worth, outstanding debt and receivables.
- Information about your property and equipment, including insurance policies, serial numbers, and the amount you owe on it, if any.
- Information that supports the decisions you have made about your business strategy and plan. For example, you may want to get standard enterprise budgets from the local Cooperative Extension office for the crops you plan to grow to support your predictions about cost, yield, and income. You may also use your own research to support these figures. In addition, you might provide a survey of what farmers in the area have grown successfully.

The lender will ask many questions. So must you, in order to uncover any and all fees and conditions by which lenders may qualify their support. Remember that it is a two-way street. They are selling their financial support to you as much as you are selling your plan to them.

BE PREPARED TO RESPOND TO ALL OF THE FOLLOWING QUESTIONS:

- Are you liable for any impending lawsuits?
- Are you a guarantor of any loans?
- Do you have any other contractual obligations that may affect your ability to repay a loan?
- What is your long-range goal for the farm? (Do not assume that they have read and studied your entire business plan.)
- Be able to recite your charter.
- Are there any environmental hazards on the farm that will require removal or mitigation?
- Provide your credit history and credit report.

California FarmLink provides lending resources, loans, and assistance to farmers. Visit www.cafarmlink.org/farm-financing for more information.

Resources

- **Business Plan Outline**
- **Cash Flow Fact Sheet**
- **Cash Flow Tips**
- **Cash Flow Spreadsheet Template**
- **Farm Financing Sources**
- **Financial Literacy**
- **Farm Business Management Resources**
- **Bookkeeping and Accounting Resources**



Business Plan Outline

Name:

Contact Information:

Date:

Production Year:

Summary

You will write this part last, to summarize the overall plan. Introduce yourself, your farm, what you plan to do, how much money you need, and how much money you expect to make. This is one of the most important pieces of your business plan and it, together with the financials, may be the only parts of your plan a potential investor will read; it's critical that this is written carefully.

Farm Business Overview (Who's On Your Team and Why They're There)

- Farm history
- Your experience and education
- Current workforce, including projected needs or changes
- Operating plan (the day-to-day): Will you be farming full-time? What off-farm jobs might you or your partner(s) have? What will your farm work week generally look like?
- Goals – short- and long-term (5 to 10 years).

Values and Mission Statement

Concisely state why your farm business exists. Try writing from your customer's point of view, and keep it to as few words as possible. If you're not sure what to write here, try this exercise:

- Fill in the following blanks: "Within the next ____ years, grow _____ (farm name) into a \$_____ (annual sales) farm business providing _____ (description of products and/or services) to _____ (describe your customers)"
- Rewrite this vision statement three times: (1) using your own words, (2) with crazy, optimistic, and then (3) to capture exactly what you want to say.

Farm Plan

- Type of Business Entity (sole proprietorship, general partnership, LLC, LP, etc.)
- Land Base – list each parcel, total acres, location, owned or leased (attach lease agreements & describe lease terms)
 - Cropland:
 - Number of acres cropped (irrigated and dry-land)

- Crops to be grown on each parcel, number of acres for each crop, past yield and expected yield, estimated price per unit, total income per parcel
- Livestock:
 - List total number by classification (cows, bulls, heifers, etc.), whether they're owned or leased, number of head to be produced, pounds per head for sale, estimated price per pound.
- Conservation practices
- Equipment needed and source (own, lease, family, custom hire, etc.)
- Future land needs, if applicable (include any plans to purchase or lease additional land)

Products and Services

What you're growing and selling (specific crops, value-added products, agritourism, etc.)

Marketing Plan

- Market analysis and competitive overview (explain who and what you're competing against and how you fit into your particular niche)
- Sales plan (where will you sell and how – be specific!)
- Long-range marketing plan
- Planned changes in marketing practices

Insurance

- Liability – amount and kind (general, product, etc.)
- Life – amount, kind, who is covered
- Health – type, name of plan, coverage
- Crop – what kind (hail, multi-peril, etc.) amount of coverage, cost, agent, and company

Expansion Plans (if any)

- Plans to purchase or lease additional real estate
- Proposed source of capital and all repayment plans
- Equipment purchases – date, item, cost and type of financing

Critical Risks

Describe the risks your business faces, as well as your plan for overcoming those risks.

Financial Information and Needs

- Complete set of income and expense records (“Profit or Loss Statement”) for current year and past three years. Don't forget to include non-farm income streams!
- Balance sheet/statement of net worth (where your business is right now; includes all assets, liabilities, and owner's equity)
- Cash flow budget for next 1 to 3 years. Assemble into monthly spreadsheets.
- Credit requirements
- Projected financial needs, including personal living expenses
- Note: It can be useful to forecast three different financial scenarios: optimistic, realistic, and worst-case. If the numbers don't work out for the worst-case scenario (i.e., if you don't have a plan for how to deal with it), an investor may not be interested.



Cash Flow for Small Farmers

What is the Statement of Cash Flow?

The Statement of Cash Flows helps you understand the flow of cash in and out of your farm business. A Statement of Cash Flows can be measured on an annual, quarterly, or monthly basis. A “pro forma cash flow,” often called an annual budget or cash-flow projection, predicts inflows and outflows of cash in the future. This can be helpful to farmers looking to better understand the finances of their farm businesses. In order for a farm business to be sustainable and achieve profitability, it needs positive cash flow in the short- and long run.

What does Cash Flow measure?

- Cash flowing in
- Cash flowing out
- Cash to be invested back in the farm

What does Cash Flow tell you?

Cash Flow tells you when:

- You will have money
- You will have shortages
- You will need to save or borrow

Why figure out your Cash Flow?

- To better understand your business
- Removes stress and uncertainty
- A decision-making tool
- A planning tool
- If there is enough cash in case of an unexpected event or emergency

What’s included in a Cash Flow Statement?

- Beginning Cash on Hand
- Non-Farm Income
- Family living costs
- Planned capital investments
- Planned borrowing
- Payments on existing debt
- Farm Income
- Operating Expenses

When do you use a Cash Flow Statement?

- Before you start farming-
 - “Should I start farming?”
- Each year and update during the year
 - “What will it take to get through the year?”
- To manage for profitability
- When considering:
 - Buying equipment
 - Hiring new labor
 - Adding new crops, a new lease, or a new enterprise
 - Financing



Cash Flow Tips & Techniques

Design Your Cash-Flow Spreadsheet

1. The column labeled "Schd F" corresponds with specific lines on the Schedule F tax form. This makes tax time much simpler, saving you time and money.
2. Cash flow is based on the cash spent during that period. If a bill wasn't paid or if a customer has not paid a bill, don't include those figures.
3. If applicable, include off-farm income & subtract family living expenses. Make sure not to underestimate those expenses.
4. If there is a clear separation from the farm and personal life of the farm family (no on-farm house, off-farm incomes covers all living expenses & is not used for farm expenses, or if your farm business is incorporated or an LLC), you will likely not include off-farm income in your cash flow.
5. Farm's cash balance for the first day of the year is listed at the top, while the last day is listed at the bottom. That last day balance is also your Ending Cash Balance.
6. Two figures to note at the bottom of the statement: Net Change in Cash & Total Balance
7. Is there enough left after everything has been paid, to be able to handle an unexpected emergency or event that puts the squeeze on cash?

Understanding Cash Flow

1. Payments on active credit cards should be considered part of cash flow from operations.
2. Periodic purchases and sales of capital assets show you're generating adequate cash to invest and upgrade your operation.
3. Cash flow in farming is seasonal in nature. Uneven cash flow can be evened out through financing, prepaid shares, new enterprises, season extension, etc.
4. A sustainable operation needs cash flow in the short run & profitability and cash flow in the long run to stay in business.
5. A good cash flow sheet will help you fix a financial problem before it gets out of hand.
6. A farm can be profitable and have a negative cash flow and an unprofitable farm can have a positive cash flow. Learn to understand your financial situation to create a profitable farm with a positive cash flow.
7. When penciling out an operation or a new enterprise, reduce revenues by 20-30 percent and see if the numbers still pencil out.
8. This is one of the main documents a lender will look at when considering financing an operation. Spend some time with it.

Farm Name

CASH FLOW BUDGET (YEAR)

	Schd F	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Operating Income														
Farm Stand Income	4													
# of Days / Month														
Avg # of Units / Day														
Avg \$ per Unit														
Farmers Market Income	4													
# of Farmers Mkts / Month														
Avg # of Units / Market														
Avg \$ per Unit														
Wholesale Income	4													
# of Whole Customers														
Avg # of Units/Customer/month														
Avg \$ per Unit														
Crop insurance/disaster	8													
Custom hire income	9													
Other Income	10													
Total Operating Income														
Financing and Investing														
Owner Contributions														
Investor Contributions														
(Credit Cards, LOC) Revolving Debt Draws														
<= 1 Year) New Long Term Debt														
Total Cash from Financing & Investing														
Total Sources of Cash														

Operating Expenses														
Car and truck	12													
Chemicals	13													
Conservation expenses	14													
Custom hire (machine work)	15													
Payroll/workers' comp	17													
Fertilizers/Soil amendments	19													
Feed	18													
Fuel/Oil- Vehicles and equipment	21													
Fuel/Oil- Irrigation pumps	21													
Insurance (other than health)	22													
Interest	23													
Labor hired	24													
Rent or lease (equipment)	26a													
Rent or lease (land)	26b													
Repairs and maintenance	27													
Seeds and transplants	28													
Supplies- Irrigation	30													
Supplies- Office	30													
Supplies- Marketing	30													
Supplies- Miscellaneous	30													
Taxes	31													
Utilities- Irrigation District	32													
Utilities- Office	32													
Veterinary, breeding, medicine	33													
Fees (Producer Cert, Fmarket, etc)	34													
Total Operating Expenses														
Capital Expenses (Asset Purchases)														
Equipment														
NSE Certified Walk-In Cooler (for example)														
Vehicles														
Irrigation														
Tools														
Infrastructure														
Total Capital Expenses (Asset Purchases)														
Total Operating & Capital Expenses														
Financing and Investing														
Owner Repayments														
Investor Repayments														
(Credit Cards, LOC) Revolving Debt Pmts														
<= 1 Year) Long Term Debt Principal Pmts														
Total Cash to Financing & Investing														
Total Uses of Cash														
Monthly Net Cash from Operations & Asset Purchases														
Monthly Net Cash from Financing & Investing														
Total Balance														



Farm Financing Sources

Farm Credit System, Banks and Credit Unions

Traditional lenders that can be long-term financing partners

- Typically available for larger operations that need more than \$100,000
- Difficult to qualify for a loan if you are a beginning farmer, asset-poor, and/or credit-challenged

Non-Profit Lenders – California FarmLink, Cal Coastal

Mission-driven lenders that provide loans to farms that do not qualify for conventional financing

- Great resource for beginning farmers
- More flexible than banks and Ag Credit, but still have some credit criteria

Family & Friends

People in your life who know you, believe in your business, and trust you with their money

- If available, generally one of the most “patient” sources of capital
- It is critical to treat these loans like any other: sign a repayment plan & be sure to provide updates.

Community-Supported Financing (Your Loyal Customers)

- They know you, trust you, and value the food that you are producing
- You may be able to work out simple agreements without having to go through “underwriting”
- Probably best for moderate amounts of money (up to \$25,000)

Slow Money

People passionate about sustainable food who want to invest in local, sustainable food enterprises.

- An alternative based less on credit and more character, relationships and trust
- No established application process yet, but may be an option up to \$50,000

Online Peer-to-Peer Lending – Lending Club, Prosper

Many people make small loans to your farm.

- An alternative if you do not qualify for non-profit lenders and/or seek a faster process
- Best suited for people with good credit (or you might pay credit card-like interest)

Matched Savings (Individual Development Accounts)

Grant money in exchange for attending financial literacy workshops and regular savings over time

- Great way to save up to pay for a future expense like equipment
- Limited availability, income limit requirements, need to plan ahead, only up to \$5000-\$10,000

Crowdfunding – Kickstarter, IndieGoGo

Many people make small contributions to your farm because you have an interesting project

- Contributions (not loans) – you do not have to pay the money back
- Involves a lot of work and time to craft a story and promote your project
- Most suitable for small amounts of money (up to \$5000-10,000)

Vendor Financing

Some agricultural suppliers have flexible payment terms, allowing farmers to align their payment plan with their cash flow. In addition to offering sales on credit with their company, they may also offer cash discounts for paying on time. Shop around to find the right vendor for your needs.



Financial Literacy: What You Need to Know to Make Good Business Decisions

For an agricultural business to thrive, a farmer must understand the basics of the financial system. Below are basic topics to help improve financial literacy.

Establish a Track Record With a Bank

- Open a savings and checking account and obtain a debit/ATM Card

Business Planning and Money Management

- Develop a business plan and set financial goals
- Understand cash flow management, assets, liabilities and net worth

Tax Preparedness

- Understand filing responsibilities and tax terminology
- Consult tax professional

Credit

- Know how and where to obtain credit, as well as the implications of using and misusing credit
- Differentiate among the types of credit and learn what is best suited to your business
- Establish good credit by having a credit card & making on-time payments for all accounts
- Know how to monitor and repair your credit rating if necessary

Prepare for Financing

- Even if you don't need financing to start your business, understand your financing options, including "alternative" ones, and how financing works.
- Prepare yourself in the event you need financing as your business expands. This preparation may include filing a Schedule F income tax form up to three years before you need financing.

Debt Management

Recognize how using debt can be a tool in asset building. There are many tools available to help measure debt load, determine appropriate debt, and differentiate between good and bad debt.

Risk Management

Understand your insurance needs and select the appropriate insurance for your farm business.

Investing & Retirement Planning

- Implement investment/retirement strategies and benchmarks to achieve financial goals.
- Determine short- and long-term needs and the different investment vehicles for each.
- Evaluate the legal implications, risks and rewards associated with investment options.

Farm Business Management Resources

- AgPlan (from University of Minnesota)
www.agplan.umn.edu/
- ATTRA: National Center for Appropriate Technology
www.attra.ncat.org/marketing.html
- Center for Farm Financial Management (University of Minnesota)
www.cffm.umn.edu/
- Cornell University “Campus to Farm Guide”
www.smallfarms.cornell.edu/2013/08/08/campus-to-farm-guide-brings-cornell-ag-research-to-your-doorstep/
- Grown in Marin Resources for Farmers
www.ucanr.edu/sites/Grown_in_Marin/Resources/Resources_for_Farmers/
- Minnesota Institute for Sustainable Agriculture (MISA) Publications
www.misa.umn.edu/Publications/index.htm
- New England Small Farm Institute
www.smallfarm.org/
- Northeast Beginning Farmers Project
www.nebeginningfarmers.org/
- Practical Farmers of Iowa Farminars
www.practicalfarmers.org/news-events/events/farminars/
- Small Business Development Centers
www.sba.gov/
- Washington State Department of Agriculture Small Farm and Direct Marketing Publications
www.agr.wa.gov/marketing/smallfarm/
- Veggie Compass (UW-Madison)
www.veggiecompass.com/

Bookkeeping and Accounting Resources

- NCAT’s “Basic Accounting: Guidance for Beginning Farmers” (PDF)
www.californiafarmlink.org/storage/documents/basicaccounting.pdf
- Beginning Farmer and Rancher’s “Help About How to Get Help” (PDF)
www.californiafarmlink.org/storage/documents/help-about-how-to-get-help-march-2014.pdf

About California FarmLink

The mission of California FarmLink is to link independent farmers and ranchers to the land and financing they need for a sustainable future.

Established in 1999, California FarmLink has developed a program of economic development support for beginning, limited-resource, immigrant and other underserved farmers across the state. To help farmers access land and capital, grow their businesses, and create jobs, FarmLink works directly with farmers in two main program areas.

ACCESS TO LAND

- Provides farmers and ranchers with information on land leasing, purchasing and alternative land tenure options.
- Coaches farmers on how to find land and helps them find financing for land purchases.
- Maintains an online hub of land for lease or sale, connects landowners and farmers, and helps them negotiate strong leases.
- Works with a network of experienced farm estate attorneys and CPAs to assist retiring farmers in passing farm and ranch businesses and assets to the next generation.
- Works with land trusts and public agencies to develop best management practices in the leasing of farm and ranch land, and innovative easements and leases that help farmers build equity.

ACCESS TO CAPITAL

- Provides flexibly structured loans of \$5,000 to \$250,000 for farm operating, infrastructure and equipment costs.
- Provides technical assistance and coaching in credit counseling, financing options, loan packaging, and cash flow projections.

Visit www.cafarmlink.org for more information about California FarmLink's services and resources, and to join our mailing list to receive our quarterly newsletter.



FARMLINK

www.cafarmlink.org