Building a Sustainable Business

A Guide to Developing a Business Plan for Farms and Rural Businesses

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Worksheet Introduction Why Are You Developing a Business Plan?

Spend a few moments thinking about your planning needs. Be clear about which issues you would like to address with your plan and consider how you will use the final plan. This Worksheet is for your eyes only.

What key issues are motivating you to plan?

1. **Who is your business planning team? Who should be involved in your planning process?**

2. **How will you use your business plan? Will it serve as an internal organizing tool, be used to communicate outside your business, or both?**

Worksheet 2.1A Brief History of Our Farm Operation

Write a brief history describing the important events and decisions in your life and operation. Why did you make the choices you did? What have been the most important outcomes resulting from the interaction of your own choices and external circumstances? What key lessons have you learned? Include planning team members in this review. Use whatever time frame (one, five, ten years) best describes why and how you've arrived at your current business situation.

Worksheet 3.2 Creating My Business Mission Statement

Use the questions below to begin sketching a brief mission statement that communicates your values, management philosophy, and future vision. Remember to have each one of your planning team members complete this Worksheet.Then share your statements, discuss your similarities and differences, and draft a final mission statement. Going through this process as a team will generate more ideas and will result in a common mission statement that every one of your planning team members support.Try to limit your response to each of the questions so that, once combined, your mission statement does not exceed five to six sentences. Remember, write in the present tense and keep it positive.

I would like our business to be known for the following in the future:

The internal and external purpose of my business is to:

Our business mission statement will communicate to:

Based on your answers above, write internal and external mission statements that communicate your business' purpose and the qualities for which you would like your business to be known:

Internal mission:

External mission:

Worksheet 3.4 Identifying Our Family Business Goals

Have each member of your planning team draft personal goals as well as one or more short-term and long-term goals for each functional management area of your business.

Short-term Goals (1-5 years)

Intermediate Goals (5-10 years)

Long-term Goals (10 Years +)

Worksheet 3.5 Prioritizing Goals

Use the questions below to prioritize goals for your family and business. Remember high priority goals need not receive all of your attention and resources; priorities are not permanent. Simply use this worksheet as a starting point for family discussions and planning in the chapters to come.

(A) Which goals are most important for family well-being and for business success?

(B) Which short-term goals, if attained, would help you achieve long-term goals?

(C) Which short-term goals conflict with or impede your long-term goals?

(D) Which goals are so important that they should be attained even if it prevents you from reaching other goals?

(E) List your top five goals by priority.

1.

2.

3.

4.

5.

Worksheet 2.2 Current Market Assessment

Complete this worksheet for each of your major products or services. Be as specific as you can and, where relevant, include numeric facts and figures.These will be the basis for projections you'll make later on for the strategies that you consider.

Product/Service: _____

Markets Served: Geographic/Customer Segments

Answer the following questions for each major market segment (geographic and/or customer type) you serve. Use additional sheets if this product has more than three major market segments.

Segment	**1.** _____	**2.** _____	**3.** _____
Potential Number of Customers	**a.** _____	**a.** _____	**a.** _____
Current Number of Customers	**b.** _____	**b.** _____	**b.** _____
Current Sales Volume	**c.** _____	**c.** _____	**c.** _____
Current Sales per Customer (c / b)	**d.** _____	**d.** _____	**d.** _____
Potential Sales Volume (a x d)	**e.** _____	**e.** _____	**e.** _____

Unique Characteristics

What are the unique features that distinguish this product or service? For which customer segments are they important? How easily can they be imitated by competitors?

Characteristic 1: _____

Appeals to which segments? _____

Easy for competitors to imitate? _____Yes _____ No

Characteristic 2: _____

Appeals to which segments? _____

Easy for competitors to imitate? _____Yes _____ No

Distribution

Describe the current distribution channels for this product.

Logistics: _____

Market Locations: _____

Market Intermediaries: _____

Marketing Costs (transportation, labor, spoilage, price discounts for intermediaries):

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Pricing

What price do you receive for this product or service, and how does it compare to the price of a typical competitor? How much power do you have to set the price for this product or service? How sensitive is demand to price changes?

Typical Price and Price Range:

Price Relative to Competitor:

TASK 2

Our Power to Set Prices: _____ Low _____ Some _____ High

Demand Sensitivity to Price Changes: _____ Low _____ Some _____ High

Promotions

Describe the strategies you use to promote consumer awareness of this product or service. How effective are they in reaching your most important potential customers? How costly are they?

Changing Market Conditions

Describe important trends of the supply and demand side of the market for this product or service.Are there important new competitors or competing products? Is demand expanding?

Worksheet 2.4 Institutional Considerations

Describe institutional factors that currently affect your ability to use and manage physical resources. Include any long-term leasing arrangements, conservation easements, permit requirements, legal restrictions, production or marketing contracts.

Long-term Leasing Arrangements for Real Estate
(specify whether items are leased in for your use or leased out for the use of others)

Long-term Agreements and Easements

Permit and Legal Restrictions
(specify the agency responsible for issuing permits, conditions and compliance factors, fees, and your ability to meet these conditions)

Long-term Production Contracts and Marketing Agreements

Type	Acre Hrs/	Unit Price/	Units	Acre Quantity/	Item	2 Machine	1 Machine	Acre Hrs/	Operation	Month
Labor		Operating				Machinery				

Crop later Complete

Type	Acre Hrs/	Unit Price/	Units	Acre Quantity/	Item	2 Machine	1 Machine	Acre Hrs/	Operation	Month
Labor		Operating				Machinery				

Crop later Complete

Inputs Other	Req. Equipment Machinery	Items Medications Vet	Required Feed	Labor Type	Labor Hours	Space Facility	Period or Month

Livestock/Poultry

make Complete

Worksheet 2.7 Enterprise/Calendar Matrix

Summarize and combine your crop and livestock production systems in this calendar. Look for bottlenecks or conflicts in timing of operations.

Enterprise and Tasks	Hours/Month Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Total Hrs/Month												

Person

Enterprise

Use

Worksheet 2.9 Assessing Worker Abilities and Needs

Use this worksheet to describe the experience, skills and goals of each member of your workforce.Then estimate your average cost for this person and consider where this person ideally fits into your operation.

Name and Current Position:

1. What is the person's background-experience and education?

2. What particular abilities does this person have?

3. What are this person's strengths and weaknesses?

4. What are the person's interests? What motivates them?

5. What are the person's own personal goals in life?

6. What are we currently paying this person ($/hour)?

7. Conclusion:Where might this person best fit in meeting our human resource needs?

Worksheet 2.10 Likely Changes in Our Human Resources Situation

Use this worksheet to describe likely changes in your human resources situation over the next year, five years or ten years.

Current Workforce:Will anyone who currently works in our operation be leaving for other work or for personal reasons? What activities/enterprises will this affect?

Future Workforce:Will any new people be joining our operation? What new knowledge and skills will they bring? Do we have enough physical and financial resources for them to be fully employed and appropriately paid?

Future Management: Do we foresee a change in the allocation of decision-making and management responsibilities?

Worksheet 2.11 Estimating Family Living Expenses and Income Needs

Use this worksheet as a guide for estimating your annual family living expenses and necessary income contribution from the farm business.

Family Living Expenses ($/year)

Food and meals		_____
Medical care and health insurance		_____
Cash donations		_____
Household supplies		_____
Clothing		_____
Personal care		_____
Child / dependent care		_____
Gifts		_____
Education		_____
Recreation		_____
Utilities (household share)		_____
Nonfarm vehicle operating expense		_____
Household real estate taxes		_____
Dwelling rent		_____
Household repairs		_____
Nonfarm interest		_____
Life insurance payments		_____
Other		_____
Total cash family living expense		_____
Family living from the farm		_____
Total family living expenses	**(a)**	_____

Other Nonfarm Expenditures

Income taxes		_____
Furnishings & appliances		_____
Nonfarm vehicle purchases		_____
Nonfarm real estate purchases		_____
Other nonfarm capital purchases		_____
Nonfarm savings & investments		_____
Total other nonfarm expenditures	**(b)**	_____
		_____
Total cash family living investment & nonfarm capital purchases (c) = (a + b)		_____
Nonfarm income	**(d)**	_____
Necessary contribution from farm business (net farm income)	**(c) – (d)**	_____

Worksheet 2.12 Income Statement

Use this worksheet as a guide for constructing income statements for the past several years. Where possible, include itemized revenue and expense details. Suggested crop and livestock expense categories are listed in worksheets 2.5 and 2.6. You may want to use a computerized package such as FINPACK to collect and process the information needed for your income statement.

For the period beginning _____
and ending _____

Gross farm income			_____
Total cash operating expenses		–	_____
Inventory changes			
Crops and feed (ending – beginning)	**+/–**	_____	
Market livestock (ending – beginning)	**+/–**	_____	
Accounts receivable (ending – beginning)	**+/–**	_____	
Prepaid expenses and supplies (ending – beginning)	**+/–**	_____	
Accounts payable (beginning – ending)	**+/–**	_____	
Accrued interest (beginning - ending)	**+/–**	_____	
Total inventory change		**+/–**	_____
Depreciation		–	_____
Net farm income from operations		=	_____

Worksheet 2.13 Balance Sheet

Construct your current and historical balance sheets. Where possible, include itemized details under each asset and liability category.You may want to use a computerized package, such as FINPACK (see "Resources"), to collect and process the information needed for your Balance Sheet.

Balance Sheet Date _____

TASK 2

Assets (in dollars)	Market Value	Cost Value
Current Farm Assets		
Cash and checking balance		
Prepaid expenses & supplies		
Growing crops		
Accounts receivable		
Hedging accounts		
Crops and feed		
Crops under government loan		
Market livestock		
Other current assets		
Total Current Assets (a)		
Intermediate Farm Assets		
Breeding livestock		
Machinery and equipment		
Other intermediate assets		
Total Intermediate Assets (b)		
Long-term Farm Assets		
Farm land		
Buildings and improvements		
Other long-term assets		
Total Long-term Assets (c)		
Total Farm Assets (d) = (a +b+c)		
Nonfarm Assets (e)		
Total Assets (f) = (d +e)		

Liabilities (in dollars)	Market Value	Cost Value
Current Farm Liabilities		
Accrued interest		
Accounts payable & accrued expense		
Current farm loans		
Principal on CCC loans		
Principal due on term loans		
Total Current Farm Liabilities (g)		
Intermediate Farm Liabilities (h)		
Long-term Farm Liabilities (i)		
Total Farm Liabilities (j) = (g +h +i)		
Nonfarm Liabilities (k)		
Total Liabilities (l) = (j + k)		
Retained Earnings (m) = (f2 – l)		
Net Worth (n) = (f1 – l)		
Market Valuation Equity (o) = (n – m)		

f1 = Market Value of Total Assets

f2 = Cost Value of Total Assets

Worksheet 2.14 Earned Net Worth Change Analysis

Use this worksheet to calculate your overall change in wealth earned from farm and nonfarm income after adjusting for living expenses and partner withdrawals.

For the period beginning _____ **and ending** _____

Net Farm Income		_____
Nonfarm Income	+	_____
Family Living/Partner Withdrawals	–	_____
Income Taxes	–	_____
Earned Net Worth Change	=	_____

Worksheet 2.15 Financial Ratios Based on the Balance Sheet and Income Statement

Use information from your balance sheet and income statement to calculate the following ratios that measure liquidity, solvency, profitability, repayment capacity and efficiency.

Current Ratio:
This is a primary measure of liquidity used by most businesses.

Current Assets (Balance Sheet)		_____
Current Liabilities (Balance Sheet)	÷	_____
Current Ratio	=	_____

TASK 2

A current ratio of 2:1, with two dollars of current assets for every dollar of current debt, is usually considered adequate. If your current ratio approaches 1:1, your ability to sustain your business during a financial downturn may be limited.

Debt to Asset Ratio:
This solvency measure is sometimes referred to as your percent in debt.

Total Liabilities (Balance Sheet)		_____
Total Assets (Balance Sheet)	÷	_____
Debt to Asset Ratio	=	_____

When calculated based on the market value of your assets, a debt to asset ratio under 40% is usually considered comfortable; over 60% is usually considered vulnerable.

Rate of Return on Assets:
This profitability measure can be interpreted as the average interest rate being earned on the financial resources invested by you and lenders in your business.Adjust net farm income for the estimated opportunity cost of unpaid family labor to make your figures comparable to those for businesses that hire labor and management

Net Farm Income (Income Statement)		_____
Interest Expense (Income Statement)	+	_____
Opportunity Cost for Family Labor and Management (estimated)	–	_____
Return on Assets	=	_____
Total Farm Assets (Balance Sheet)	÷	_____
Rate of Return on Assets	=	_____

The amount you deduct for labor and management depends on your goals for how much income you feel you need from the farm. Since farming has not historically been a high return business, a rate of return greater than 5% (when assets are valued at market value) is usually considered adequate. Remember, though, if you are earning only 5% and paying interest at 10%, you may be headed for problems.You may be able to maintain this if your debt to asset ratio is low. But if you have substantial debt, you will need to set your profitability goals a bit higher.

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Term Debt Coverage Ratio:

This measure of repayment capacity indicates whether your business is generating enough income to make principal and interest payments on intermediate and long term debt.

Gross Farm Income (Income Statement)		_____
Cash Operating Expenses (Income Statement)	–	_____
Scheduled Interest Payments on Intermediate and Long-term Debt (Income Statement)	+	_____
Family Living Expenses and Taxes (from the Earned Net Worth Change Worksheet)	–	_____
Funds Available for Debt Payments	=	_____
Intermediate and Long-term Debt Payments	÷	_____
Term Debt Coverage Ratio	=	_____

A term debt coverage ratio of over 150%, meaning that you are producing $1.50 of income that is available for debt repayment for each $1.00 of scheduled debt repayment, is usually considered adequate.

Operating Expense Ratio:

This measure of overall efficiency indicates the percentage of business revenues that are available for family living expenses, debt repayment and new investments.

Cash Operating Expenses (Income Statement)		_____
Interest Expense (Income Statement)	–	_____
Gross Farm Income (Income Statement)	÷	_____
Operating Expense Ratio	=	_____

While thumb rules for the ratios listed above can be used across farm types and across industries, operating expenses will vary substantially from business to business and industry to industry.As a general guideline, most farm business strive to keep operating expenses under 70% of gross revenues. If you are operating a small farm that employs sustainable practices, your financial success probably depends on operating efficiency. In that case, you should probably strive to keep operating expenses below 60% of revenues. If you are involved in a retail business, sales volume might be more important to your bottom line than operating expense levels if cost of goods sold is included. In that case, a much higher operating expense ratio might be expected. So, this ratio is useful for internal tracking of your business, but not very useful for comparisons with other businesses.

Worksheet 2.16 Whole Farm Trend Analysis

Use the table below as a guide for doing a trend analysis for important measures of physical resources, operating efficiency, financial position and financial performance.

Year	_____	_____	_____	_____	_____
Physical Resources					
Number of acres	_____	_____	_____	_____	_____
Number of cows	_____	_____	_____	_____	_____
Operating Efficiency					
Hay yield (tons/acre)	_____	_____	_____	_____	_____
Milk per cow (lbs/year)	_____	_____	_____	_____	_____
Financial Position					
Ending net worth	_____	_____	_____	_____	_____
Current ratio	_____	_____	_____	_____	_____
Debt to asset ratio	_____	_____	_____	_____	_____
Term debt coverage ratio	_____	_____	_____	_____	_____
Financial Performance					
Net farm income	_____	_____	_____	_____	_____
Rate of return on assets	_____	_____	_____	_____	_____
Labor and management earnings	_____	_____	_____	_____	_____
Operating expense ratio	_____	_____	_____	_____	_____

Worksheet 2.17 Risk Management

Briefly rank your business' exposure to production, environmental, market, contract, and personal risk.Then briefly describe how you currently manage for risk.

Market Risk

Exposure to risk: _____ Low _____ Medium _____ High

Type of risk: _____

Tools for minimizing risk: _____

_____

_____

Production Risk

Exposure to risk: _____ Low _____ Medium _____ High

Type of risk: _____

Tools to minimize risk: _____

_____

_____

Contract Risk

Exposure to risk: _____ Low _____ Medium _____ High

Type of risk: _____

Tools to minimize risk: _____

_____

_____

Financial Risk

Exposure to risk: _____ Low _____ Medium _____ High

Type of risk: _____

Tools for minimizing risk _____

_____

_____

Personal Risk

Exposure to risk: _____ Low _____ Medium _____ High

Type of risk: _____

Tools for minimizing risk: _____

_____

_____

Worksheet 2.18 Whole Farm SWOT Analysis

Summarize the internal strengths and weaknesses and the external opportunities and threats for your business as it exists today. Consider all aspects of your business—marketing, operations, human resources and finances—as well as the links among these aspects.

Internal Factors	External Factors
Strengths:	
Opportunities:	
Weaknesses:	
Threats:	

SWOT Analysis

- Strengths- internal
  Family has needed skills
  location to market(s)
  60% of land very productive
- Weaknesses-internal
  No experience marketing
  financial position
  fencing
  Poor facilities for direct marketing

SWOT Analysis

- Opportunities-External
  - Urban development
  - Good road frontage
  - Partner with neighbors

- Threats-External
  - Regulations (Zoning)
  - New highway-will lose land
  - Volatile market prices

Worksheet 3.3 Estimating Our Family's Goal for Profit

Estimate future family expenses—family living, education, retirement and vacation expenses—to determine your minimum income ("necessary contribution") from the business. It may be easiest to work from your current expenses (Worksheet 2.9) when estimating future expenses.

Family Living Expenses ($/year)		**Current**	**Future**
Food and meals			
Medical care and health insurance			
Cash donations			
Household supplies			
Clothing			
Personal care			
Child / dependent care			
Gifts			
Education			
Recreation			
Utilities (household share)			
Nonfarm vehicle operating expense			
Household real estate taxes			
Dwelling rent			
Household repairs			
Nonfarm interest			
Life insurance payments			
Other			
Total cash family living expense			
Family living from the farm			
Total family living expenses	**(a)**		
Other Nonfarm Expenditures			
Income taxes			
Furnishings & appliances			
Nonfarm vehicle purchases			
Nonfarm real estate purchases			
Other nonfarm capital purchases			
Nonfarm savings & investments			
Total other nonfarm expenditures	**(b)**		
Total cash family living investment & nonfarm capital purchases (c) = (a + b)			
Nonfarm income	**(d)**		
Necessary contribution from farm business (net farm income)	**(c) – (d)**		