

Developing a Farm Business Plan

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In collaboration with AgriBank, FCB

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AND

Visions: Farm Business Planning program developed by experts throughout the Midwest for AgriBank, FCB.

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Preparing and submitting a detailed business plan to your partners, management team and potential creditors or investors is standard practice throughout the business community. Financing a multi-million-dollar farm is no different. The day of "handshake lending" is gone even for the well-established business. People offering potential funding need to know who you are, where you have been, where you are, and where you want to be in the future. Investors need to know this information so that they can evaluate their risk exposure as well as your ability to meet the lending terms and provide a return on their investment. A well-constructed business plan provides you and your management team with a roadmap to achieve your vision.

The proposed plan must be both realistic and achievable in order to be credible. Neither over optimism nor pessimism is useful. The development of a contingency plan, which characterizes both the "upside potential" and the "downside risk", should be included in the plan.

Price and production rate projections must be stated. In brief, the approach is to (1) introduce what you are going to tell them, (2) tell them and (3) tell them what you told them. This leads into discussions which (1) describe the present state of the business as well as your projections, (2) detail the production, marketing and financial plans and (3) set specific goals and timelines. Supporting analysis and other details can be attached. A personalized cover letter to the reader/lender is also useful.

The following document provides a standard outline for a farm business plan and suggests approaches that should be considered when writing a business plan. Some of these issues will apply to your operation and some will not. Use this document as a guide being certain to communicate the necessary information in your own terms and words. The plan should be applicable to you and your team because, after all, it is **your** business plan!

INTRODUCTION

Executive Summary:

Restrict to no more than two pages and place it in front of the table of contents. Write it last, by careful selection of the salient and key features including target plan dates detailed in the other sections.

Plan's Table of Contents:

Set up the needed components more or less following an outline similar to this one. Try to limit the table of contents to one page. Provide a section reference page number list at the right margin of the page.

Vision Statement:

Speaks to who you are as a firm and management team. Try to answer the following questions:

- What business are you in today?
- What is the history of this business?
- What business goals do you collectively have?

Sample Vision

Sample Dairy will be generating sufficient profits by the end of 1998 to allow Don and Tom Jr. to enter the business under a mutually agreeable equity and management decision-making

arrangement. Tom Sr. and Martha will gradually reduce their ownership and management of Sample Dairy. The farm will provide an opportunity for all family members to participate in community, educational, and personal activities at a level similar to owners of other businesses of similar size.

Mission Statement:

Mission statements summarize why the farm business exists. The reasons for being in business are based on the values of the owner/operators and are influenced by the circumstances facing the business. In addition, the mission statement describes what products or services the business will market and their purpose for doing so.

Evaluate your mission statement using the criteria in the following table:

<i>Our Mission Statement--</i>			
Describes our values:	_____	yes	_____ no
Defines our circumstances:	_____	yes	_____ no
States the purpose of the farm:	_____	yes	_____ no
Defines our products and services:	_____	yes	_____ no
Identifies our target markets:	_____	yes	_____ no
Includes technology used:	_____	yes	_____ no
Defines tangential activities:	_____	yes	_____ no

Sample Mission

Sample Dairy’s mission is to improve the profit of the operation to provide an adequate standard of living for the future of three families that will own and operate the business. The first responsibility is to develop a succession plan that is fair to all family members. A variety of options will be considered and a cautious and considered approach will be used in developing the firms’ long term strategy.

In carrying out day-to-day business, Sample Dairy will strive to:

1. *Treat family members with respect and communicate frankly and openly.*
2. *Follow the philosophy that Sample Dairy can remain a family owned and operated business that generates sufficient income to maintain an acceptable quality of living for all the family members.*
3. *Be considered as leaders and strong supporters of activities in the community.*

Introduction and Overview of the Current Business:

Describe the business, where it is, how long it has been in existence (or in this case, who the principals are and how their respective experiences relate to and support the proposed business venture), and who will run it. It is acceptable to brag a little, assuming you are proud of what you have done. Use or refer to photos and maps, particularly as they might assist in describing the growth and development of your business to date.

What are your projected gross sales and what measures of business performance you will use (e.g. return on assets, operating efficiency, asset turnover ratio, etc.)

Speak to who you are as a firm and management team in the first section. Try to answer the following questions:

- What business are you in today?
- What is the history of this business?
- What business goals do you collectively have?

1. Historical Perspective:

Depending upon what is in the previous section, a Historical Perspective may not be needed. Consider a list of important dates and major events. How has the business changed and how has it been financed? Has there been an increase in net worth, acres, herd size, employment or production rates? Is the performance due to inflation or to good business management? Try to focus on how the "management team" brings the knowledge and experience to bear on the expected performance of the business over time.

2. Present Situation:

Clearly and accurately describe the business as it is now including total volume sold, value added, number of workers, acres farmed, rented, herd size, assets controlled by type, markets serviced, etc.

Now that you have laid some basic groundwork of where you are and what your mission is, it is time to get to the heart of the business plan. The plan can be divided into four main areas: Management, Marketing, Operations, and Financial.

MANAGEMENT

Longer Term Business Objectives:

Why have the members of your management team (and the investors now in it) decided to "spend your lives" developing this plan? Why are you committed to it? Where do you want to be .X. years in the future? ...and why?

Outline some of your long-term family and business goals. A well-conceived long-term goal should be **D**irectional, **R**easonable, **I**nspiring, **V**isible, and **E**ventual (**DRIVE**). These goals should drive you toward your mission statement. Try identifying at least 5 long-term goals.

Immediate Goals for this Plan:

First articulate the long-term general objectives. Then continue with more specific measurable goals like equity funding levels, production per cow, number of cows, projected partner draws (in current dollar terms), weeks of vacation, intentions about business growth and control, including any plans or intent to transfer it to the next generation in so many years, etc. Try to order the goals in a logical way that demonstrates the relationship between profits and other measures of personal success as you see them. As more people become involved in the management team, the less detail on personal goals will be helpful.

Your goals should be (**SMART**) **S**pecific, **M**easurable, **A**ttainable, **R**ealistic and **T**ime bounded. In addition to the business goals, there are also those of the individual and the family. These goals can conflict with the business goals.

For starters, try writing goals for the following measures so that they meet the **SMART** characteristics:

- equity funding levels
- production per cow
- number of cows
- projected partner draws
- intentions regarding business growth and control
- any plans or intent to transfer control or ownership to the next generation
- add z (units) to business in y (years)
- provide employment opportunities within the community (projected number of jobs - full and part time)
- retire the new debt in x years
- reduce price or income risk by x percent
- meet or exceed environmental quality control guidelines and regulations

These are just some ideas - outline your ideas in your own terms and words.

The Management Team:

Some specific questions to address in this area are as follows:

- Who are the members of your management team?
- What skills and interests do each bring to the business?
- How do you divide areas of responsibilities?
- How will the management of the operating dairy farm be organized?
- How do you (plan to):
 - communicate ?
 - settle differences ?
 - make major decisions ?
 - evaluate performance ?
 - measure accomplishments towards common goals ?
 - determine or set or write out changes in goals or objectives?
- What are the family relationships, if any?
- What formal role will the spouses have, if any?
- Who will hire, train, supervise, or fire employees?
- What are the current roles and responsibilities of members of the management team?
- What will be the principal role(s) of member of the management team once the dairy is operational?
- What in their backgrounds is relevant to this plan?
- What experience does each member bring to this venture?
- What have you done to assure business continuity as people retire, get ill, etc.
- Do you carry "key person" insurance?

Other Key Staff and Employees:

Some of the same questions addressed previously will also need attention in this section. People are the most important resource in a business. Will there be incentive programs? Training programs? Fringe benefits? If you have prepared/revised written job descriptions or if you have developed/implemented a "personnel manual" in the business, be sure to say so.

If the situation calls for it, you may need to speak to the following additional questions:

- How will workers be recruited, trained and supervised (labor and management positions)?
- What will be the source of new workers?
- What sources of information will be used to keep workers and management aware of current practices and technologies?
- What are the projected labor needs by functional area (feeding, milking, maintenance, etc.)?
- What experience do you have in labor supervision?
- What will be the source of any new workers?
- What has been your employee turnover over time?

Legal Entities and Asset Ownership or Control:

Many farm businesses use real estate, machinery and livestock owned by a combination of several other legal entities. If so, who owns what? What obligations are involved? Are or will there be leases and other contracts included in the plan?

At this point, prepare a description of the legal aspects of the plan by answering the following questions:

- What is the legal form(s) of the business?
- Is it a proprietorship, partnership, corporation or LLC?
- What arrangements are in place to smooth the eventual dissolution of the business?
- Are any arrangements in place to handle situations where an owner/operator has an accident or health problem.
- Outline the main asset ownership patterns.
- What is the ownership of the assets used in the business?
- If any long-term lease obligations exist, note them.
- Any life leases or trusts of note?
- Are "key-manager" insurance policies in effect?
- Are there any wills or other estate plan papers?

Insurance Issues:

Outline insurance policies that relate to the business. How and what measures do you have in place to protect the business from various hazards such as fire, yield problems, accident, weather, etc.?

Evaluation:

List the business' strengths, weaknesses, opportunities and threats in the area of management. Some potential items to address are labor management, communications between the management staff, business organization, and ability of the owner/operators to plan, organize and direct. Develop action plans for how weaknesses will be addressed or overcome.

MARKETING

Products and Services Produced:

Some issues to address here are:

- What business are you in?
- What commodities do you produce?
- What are all the products you sell (milk, meat, manure, etc.)?
- What do you plan on doing to control quality of your product(s) and what influence has this had on the prices received (e.g. milk quality and composition, animal health, volume discounts, hauling discounts, on-farm processing (e.g. on-farm concentration) etc.

Market and Economic Outlook:

Some issues to address here are:

- What direct impact will the current quota system have on the business strategy?
- Are there trends or overall strategic conditions of concern or potential concern you are trying to adjust to or take advantage of (e.g. Farming on the urban fringe, proximity to market?)
- What are you using for long run planning prices in the proposed plan?
- What are the "upside" and "downside" cost and price expectations over the life of the plan?

Purchasing and Marketing Strategies Used:

Some issues to address here are:

- What are the principal marketing opportunities for your milk? Are reliable alternative vendors available?
- What risk management strategies do you plan to implement as part of the milk marketing and procurement of inputs?
- How are input prices and hence their influence on costs kept under control?
- What strategies will be used to manage facility costs during the planning and construction phases of the project?

Evaluation:

List the business' strengths, weaknesses, opportunities and threats in the area of marketing. Some potential items to address are current and potential markets for your product and

marketing or hedging ability. Focus on items that you can control and develop action plans for how weaknesses will be addressed or overcome.

OPERATIONS

Production Plan and Performance:

Agricultural producers are often said to know more about how to grow or produce it than how to market it. Maybe so, but be sure to detail your plan by addressing production rates and volume, practices and how to safeguard the production. How do you decide on what to grow ...how to grow it ...etc.? What sources of expertise do you draw from? Are you hiring any consultants - to do what? Do you have a health maintenance program for your livestock? Outline the rates of production and key management performance trends (e.g. reproductive performance, growth rates, milk quality, forage quality, genetic merit of the herd, etc.) emphasizing the improvements in performance and link expectations for the future to your specific business goals where possible.

Some specific questions that are imperative to address in this section are:

- How and what do you do to minimize herd health and biosecurity problems?
- What sources of expertise do you rely on (consulting engineers (facilities, nutrient plan/permitting, university specialists, business and project planning consultant, attorney, accountant, etc.) ?
- Outline production rates and key herd performance measures (e.g. productivity, reproductive performance, growth rates, milk quality, forage quality, genetics, etc.) emphasizing the improvements in performance and linking expectations for the future to your specific business goals where possible.
- Respond to the following questions and add additional insights as they arise:
 - What will be the principal and alternative forage sources?
 - What innovative production and management technologies do you plan on implementing?
 - Where is the land located and how much travel is involved?
 - Have the necessary environmental / nutrient management plans been filed?
 - How much land is available/rented/leased long term for manure incorporation and on what terms?
 - What is the water availability and quality?
 - What feed do you buy and in general what is the projected ration?
 - How many cows and other stock are in and planned for?
 - What is the strategy or strategies to be used to rapidly populate the facility?
 - How will replacement heifers be secured (raised on-site, contract raised, purchased)?
 - What work do you plan to custom hire (e.g. manure application, hoof trimming, etc.)?
 - Where will you source cattle from and what biosecurity precautions will you take?
 - Is your market secure and are there alternatives?
 - How will herd performance be monitored and controlled (information systems, electronic ID, milk recording, etc.)?

Evaluation:

List the business' strengths, weaknesses, opportunities and threats in the area of operations. Some potential items to address are herd production management (milk yield, reproduction, genetics, etc.), herd health, crop production management, waste management, record keeping systems, and time management. Develop action plans for how weaknesses will be addressed or overcome.

FINANCIAL

Financial Plan and Funding Proposal:

A brief verbal description of the proposed financial plan should be in order. Much of this section consists of or refers to appended past, present and future financial statements and appropriate footnoted comments concerning how assets are valued, how future price and production assumptions made and other key details in interpreting them.

This means submission of the "Big 3" financial statements. Be sure to explicitly state how assets were valued. Lenders expect to see them at "conservative market value" while equity investors may be interested in other values.

- **Long Run** (5 year or so plans) - How it matches against the specified goals and how it deals with risks
- **Transitional Plan** - "Getting from here to there" several years in the future
- **Proposed Financing for the Plan** - Sources and uses of funds

Alternative approaches, if utilized, need to provide similar information. Each component will require additional verbal explanation in order to explain such things as why this particular plan was selected, how assets were valued and noted analysis of particular interest or concern such as how income will be shared and/or extra cash used to...(do what?)

- Past Record or the "track record"
- Current Condition in terms of: (1) profitability, (2) liquidity, and (3) solvency
- Projected Plan in Financial Terms (including financial feasibility)

Keep in mind that mistakes are better made on paper than in concrete or actual financing. In discussing the financial plan, draw from the previously stated goals and when you intend to reach them. "Timing is everything." A half-filled livestock facility due to inadequate funds makes for a financial disaster. An attempt to harvest twice the crops without investing in new equipment may also prove ruinous. Be sure to discuss the "down-side" risks as you see them including a "sensitivity analysis" section. At what prices could you still pay debt?

Discuss the planned timelines as developed in the Project Plan. When will you need how much money to do what? When will you be at "full production" or capacity? When can you begin repayments? If major facility investments are involved:

- When will planning be done?
- When will permits be obtained?
- When will the investments occur?
- When will production start/change?

- When must financing be arranged?

Develop and discuss timelines that include "windows of opportunity", "barriers and bottlenecks" and strategies to minimize cost overruns. How will progress toward goals be monitored? What management information/decision support systems are/will be in place to monitor and control the performance of the business?

Specifically, items to include and address in this section are:

- Provide a brief overview of the proposed financial plan (goals in terms of member equity contribution, personal guarantees (if any), potential sources of equity and debt capital).
- Describe projected average annual costs and returns assumptions (per cwt., per cow and total farm), including details of milk quota program (milk price implications)
- Describe projected capital budget
- Projected Cash Flow Summary (monthly first year, quarterly/annual-years 2-6)
- Projected Statement of Financial Condition (Balance Sheet) (six years)
- Projected Statement of Change in Owner Equity (six years)
- Projected Income Statement (P&L) (six years)
- Projected Farm Financial Standards Ratios
- Describe how projections correspond to specified performance goals and sensitivity analysis
- Proposed Financing for the Plan - Sources and uses of funds
- How will financial performance be monitored and controlled (e.g. cost accounting, managerial accounting, monitoring/reporting strategies)?
- How will the construction project be managed (e.g. general contractor, LLC managers roles, others)?
 - What role (if any) will the design engineer play in monitoring of the construction project?
 - Will there be construction completion incentives/penalties?
- Discuss the planned timelines as outlined in the Project Plan.
- Develop and discuss timelines that include "windows of opportunity", "barriers and bottlenecks" and strategies to minimize cost overruns and maximize returns at start-up.
 - Develop a timeline and/or project plan showing major milestones
 - When will planning be completed?
 - Are managers being compensated for time spent in planning?
 - When will permits be obtained?
 - When must financing be arranged?
 - When will the investments occur?
 - When will you need how much money to do what?
 - When will you be at "full production" or capacity?
 - When can you begin repayments?
 - When will production start/change?
- How will progress toward goals be monitored? What management information/decision support systems are/will be in place to monitor and control the performance of the business?

Evaluation:

List the business' strengths, weaknesses, opportunities and threats in the financial area of operations. Some potential items to address are how the business compares to similar businesses in the areas of Liquidity, Solvency, Profitability, Repayment Capacity, and Financial Efficiency, record keeping systems, and relationships with lenders. Develop action plans for how weaknesses will be addressed or overcome.

Summary and Conclusions

Business Plan Summary:

Restate what you told them and use it as an abstract for the executive summary. Speak to the related risk exposure and profit potential and talk about the debt repayment capacity, particularly what would happen if prices or production were below expectations (referring to the sensitivity analysis).

Conclusions:

What does it all mean? Re-affirm your team's commitment to the business and to the specific plan. Write this section only after carefully reviewing the previous sections for consistency.

Attachments:

Use appendices to attach detail that some readers might find less interesting. Remember that different people with varying experiences and "world views" may differ on the importance of any specific item. What to do is a judgement call and the overall length of the document makes a difference. The longer it becomes (due to a complex plan) the more likely it is that some items should be included in an appendix. Such material is as follows:

- Photos and Farm Maps
- Letters of Reference
- Existing Legal Contracts and Mortgages
- Deeds and Titles
- Individual Net Worth Statements

SAMPLE DAIRY, LLC - Business Plan Development Assignments

SECTION	RESPONSIBLE PERSON(S)	PLANNED COMPLETION DATE	COMPLETED (X) / COMPLETION DATE
Vision Statement			
Mission Statement			
Introduction and Overview of Current Business			
MANAGEMENT			
Longer Run Business Objectives			
Immediate Goals for this Plan			
The Management Team			
Other Key Staff and Employees			
Legal Entities and Ownership			
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