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Business Planning for the Agriculture Sector

A guide to business plan development for Start-up to Mid-Size Operations



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**Business Planning for the Agriculture Sector:
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Operations**

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Purpose of this guide:

There are a variety of resources for business owners to use in developing a plan. Consultants can be hired, books purchased, the internet utilized, yet at the end of the day, many of the agricultural business folks we meet in our travels are at a loss as to how to begin to assemble a business plan. The primary use for this guide is to assist agricultural producers in developing a basic plan used to secure funding for start-up, expansion, and operating loans in an agricultural business. Our goal is to provide basic items which should be covered in a business plan to steer you in the right direction for development and provide other resources to expand your knowledge of business planning as the process unfolds for your unique operation.

The business plan does not need to be a complicated document. One designed for lenders should be relatively short (six or seven pages) and give the user an understanding of your business, the direction you are going and the short and intermediate goals you expect to achieve. When using the plan for borrowing purposes, the document is a chance to give the lending institution confidence in the management of the business requesting financial assistance.

Where to begin?

You have a direction you would like to pursue, now you just need the cash and clarity to make it happen. That's it, just get some cash and away you go! If only it was that easy. If you are still struggling with a particular direction to focus on, might we suggest the Extension publication ***Starting an Ag Business? A Pre-Planning Guide*** (EB 2004-08) available through NY FarmNet at Cornell University.

This publication expects the business operator to have a solid idea on which to develop the financial and strategic plans that will increase the likelihood of success.

The point to start developing a written plan consistently falls in the realm of mission and goals in the literature. The reality is that quite often the kernel of interest spurs into "on the back of a napkin" financials and rough projections of market demand. As a clear business plan is developed, focus on the end product – where do you want the company to be in 10 years, then work backward to assemble the information that explains how you achieve that level of success.

Business Planning and the Strategic Planning Process

There are several interconnected pieces of planning that businesses complete. Firms may do this in a very systematic way, or develop a plan by default. The business plan is interconnected to a strategic plan, a marketing plan, and a succession plan to name a few. All are related and integral to a business that is performing well and showing growth. However, they do not have to be daunting, or long.

A strategic plan has been historically called a "long range" plan and can be a one page summary, or road map of the direction the business is heading. Another analogy is that the strategic plan is the umbrella that covers all of the other plan components. A well known team builder and speaker, Steven Covey specifies: "We may be very busy, we may be very efficient, but we will also be truly effective only when we begin with the end in mind." (Covey, 2004)

Clearly identify the business goals for five years from now. Write them down and let them stew for a bit. Bring your team members into the discussion -- middle management, fellow owners, and trusted employees.

A mission statement is a concise sentence or two that sums up the characteristics and goals of a company. Clear, short and to the point is the preferred format, without limiting the potential for growth in areas important to the business.

Your mission statement can also guide developing specific goals and strategies to move your operation forward in a controlled, coordinated effort. Growth is always positive, but it can work against you if not monitored and fit into the overall plan you have for the business.



Questions to Ask in Writing a Mission Statement:

1. What single, solitary word is the focus for our organization?
This is a single focus word within our organization.
2. What would be the 2 or 3 words that would explain why we exist?
3. What one sentence would sum up what our organization is about, in a very simple, clear, easy to understand way?

Take your 2-3 words and put them into a single non-technical sentence that anyone could easily understand. (mystrategicplan.com)

Example Mission Statements

Mission Statement for "180s" (athletic training apparel)

Jumpstarted in 1995 with the sole mission of pushing performance wear beyond all previous boundaries, 180s was created for athletes who are pushing themselves, in the most unforgiving environments.

Mission Statement for Advance Auto Parts

It is the Mission of Advance Auto Parts to provide personal vehicle owners and enthusiasts with the vehicle related products and knowledge that fulfill their wants and needs at the right price. Our friendly, knowledgeable and professional staff will help inspire, educate and problem-solve for our customers.

Tractor Supply Co.'s Mission

To work hard, have fun and make money by providing legendary service and great products at everyday low prices.

Hershey Foods

Our mission is to be a focused food company in North America, and selected international markets, and a leader in every aspect of our business. Our goal is to enhance our #1 position in the North American confectionery market, to be the leader in U.S. chocolate-related grocery products, and to build leadership positions in selected international markets.

First Things First, Are your Ducks in a Row?

A business plan is an important tool in planning for the future, but there are other elements critical to your success. There are several items to have in place as you work through your business planning process.

1. What is your financial position?
 - credit reports
 - credit score
 - relationship with your lender
2. Ability to provide equity (20% cash expected investment)
3. Status of family & friends support to help you weather the ups and downs.
4. Transition income -- will there be an alternative income source during start-up
5. Have you developed your marketing plan. A MARKET IS YOUR FIRST CONCERN!
6. Be realistic and conservative in your projections and figures.

“I have heard there are grants to help me get going”

GRANTS:

Grants are available on a limited basis, with strings attached. **www.Grants.gov** is a large source of federal money available. Most grants require matching funds and/or can't be used for equipment or land purchases.

Local Chamber of Commerce offices and business development programs may have connections to a variety of funding streams. Amounts and eligibility will vary.

Angel Investors are private individuals with money to invest. They do not advertise, and can be a challenge to find. Word of mouth is their billboard.

At the end of the day, it must be a viable entity that can stand on its own. Grants can be used to supplement, but are a poor way to keep an idea afloat.

How do you know your financial position?

Credit Reports

Overview: Credit reports are prepared by one of three credit reporting firms (Transunion, Fair Issac and Equifax). They obtain payment histories from lending agencies, credit card companies and public records. This information is then used to develop a numeric score indicating how likely an individual will perform on future debt obligations. Credit scores have proven to be extremely accurate and the lending community relies heavily on these reports in making loan recommendations.

A minimum credit score of 700 is necessary for mainstream borrowing.

- Obtain before talking with lender
- Check for accuracy
- Be ready to document and explain adverse ratings

Lending relationships

A positive relationship with your lender is critical. They are there to lend you money and make money doing so, but it is a long term project leaning heavily on trust.

- Long Term Lenders -- banks for real estate and land purchases
- Working Capital -- loans geared for intermediate assets -- equipment, feeder stock, seeds, etc.
- Keep an eye out for specialized programs (i.e. young or beginning farmer programs)
- Tax Management Plans
- Detail tax management income deferrals or extra ordinary expense

Equity position:

A lender will be looking at your equity position, how much you have of value as found on your balance sheet, as well as your ability to pay back a loan through earnings and cashflow.

A balance sheet will reflect your asset values and the liabilities against them. Many lenders have limits as to how much debt you can accept as compared to the equity you have on hand. The best way to strengthen that position is pay down debt or increase equity.

Framework for a Business Plan

Business plans all work within the same general guidelines. There will be alternative layouts and differing opinions about the importance of some elements. The format used here is based upon work done at Penn State and the USDA Extension service (agalternatives.aers.psu.edu).

1. Executive Summary

This “elevator pitch” summarizes the key points of your business and the corresponding plan. It is the last part written once all the pieces are completed and in play. Research findings and recommendations are summarized here. The idea is to interest the reader in your plan enough so they will continue to investigate the details.

2. Mission, Goals and Objectives

This element begins with a brief, general description of the business involved. Following that is a mission statement for the operation. A mission statement should be a concise write-up of the key ideals and purpose for the business. Why does the business exist in three sentences or less. Developing a mission statement and goals takes time and thought. There are resources available to help you in that endeavor on the internet. Try www.businessplans.org/mission.html as an example.

Goals are critical to the success and growth of a business, and can be a challenge to write clearly and in a useful format. A popular format is the SMART goals. This format includes:

- S** -- specific description of an item to achieve
- M** -- measurable with a quantitative element included
- A** -- attainable in scope, within the ability of the operation
- R** -- realistic, not pie in the sky or blown out of proportion
- T** -- timebound -- a deadline must be provided to keep the goal on target and accountable.

Typical Business Plan Model

Executive Summary	<ul style="list-style-type: none">• Elevator Pitch or abstract that distills the idea down to a short paragraph.
Mission & Goals	<ul style="list-style-type: none">• Mission Statement expresses the values of the operation in a few sentences.• Goals -- short, intermeditate and long term length SMART Goals
Background	<ul style="list-style-type: none">• Description of the operation, location, history, how does it fit into today's market structure
Organization	<ul style="list-style-type: none">• Is the company an LLC, Sole Proprietor or Corporation? Who are the key personel involved, their background and responsibilities.
Operations Plan	<ul style="list-style-type: none">• Provide a few details about how the product is made, quality upheld, show the process is sustainable.
Marketing Plan	<ul style="list-style-type: none">• Description of exactly what product or service you are providing.• Detailed market research results, market strategy, marketing budget, SWOT
Financial Statements	<ul style="list-style-type: none">• Income statement, balance sheet, cashflow projections• Five year projections showing growth
Summary	<ul style="list-style-type: none">• Synopsis of ideas. Analysis by independent counsel (extension, NY FarmNet)

J. Perry, NY FarmNet Cornell University 2009



Core Business Concept and Developing a Mission Statement:



1. Why are you in business? _____

2. What basic beliefs or values drive the business? _____

3. What are the basic products and services? _____

4. Who is the target customer? _____

5. How do you add value? _____

6. What public image do you desire?

source: Streeter, D.H. 2007



Setting Business Goals:

Remember:

S pecific
M easurable
A ttainable
R ealistic
T imebound

Long Term Goals: 10 years or longer

Intermediate Goals: 3- 5 year start up to 10 years

Short term Goal: 1 year or less



Long Term Goals

Strategic



Financial



Intermediate Term Goals

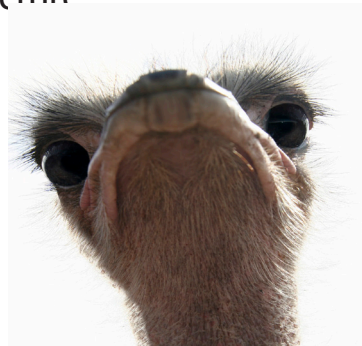
Short Term goals

3. Background

This portion of your plan provides an opportunity to fit your operation into the larger industry status. Begin with a brief statement about the main purpose of the business, its location, and operators. Then relay a bit of history regarding the industry your operation works within. Refer to articles, publications, and research that document the viability of the industry you are working in. A brief discussion of history relative to the current operation may also help. This is your opportunity to defend your reasoning for entering into the field that you have. Provide support for the reasonableness of venturing into the direction you are heading, with the intent to make a profit.

Case Study Example of a Background Statement

The owners of Windy Knoll have been in agriculture from their youth. Dairy, hogs, rabbits and poultry were all raised at one time or another. Ostrich came onto the scene in Cortland County after an introduction to a breeder at the NY Farm Show in Syracuse. After attending a seminar about the potential for ostrich meat, a local breeder was located. Following research about the fiscal potential of an ostrich enterprise, two females and one male African Black ostrich were purchased and brought to the farm. The farm runs from valley to ridge with 100 acres total, 60 of that tillable with 20 in ostrich pasture. The pasture is subdivided into paddocks for rotation of the animals to maximize forage usage and minimize damage to the soil/plant structure.



4. Organization

The purpose of this section is to layout the structure of the business both as an entity and as a workplace for the owners and employees.

First, explain the business structure. Is it a sole proprietor, partnership, LLC, or corporation? If the entity is owned by multiple individuals detail the ownership and the involvement of each individual.

The second element is management. This is a critical aspect of the plan. Clearly explain the experience the owners have in the business sector selected. Explain any training or experience for each person. Describe the current responsibilities for each, and show evidence of a mechanism for training new employees.

Document elements including, but not limited to:

- Experience of key people
- Education of key people
- Skills of people involved. (owners and employees who have a significant role)
- Computer skills
- Production skills
- Responsibilities of management and key people.

Outside resources

Identify the professionals you work with in your operation.

Examples include:

- Attorney
- Accountant
- Oversight resources (i.e. Dairy profit teams)
- Ongoing education courses (Community College etc)

Outside Resources:

Attorney: _____

Accountant: _____

Extension Educator: _____

Nutritionist / Feed Dealer: _____

Veterinarian: _____

Agronomist: _____

Organization and Human Resources



Business Structure:

☐ Sole Proprietor

☐ Partnership

☐ Limited Liability Corporation

☐ Corporation

Owner #1:

Responsibilities:

Experience:

Strong Skill Areas:

Owner #2:

Responsibilities:

Experience:

Strong Skill Areas:

5. Operations Plan

An operations plan will vary in content depending on the type of business you are presenting. However, the key elements remain the same:

Products/services

List current products and services sold for business income. Provide specifics that differentiate your product from those elsewhere in your marketplace or give your farm a distinct competitive advantage.

Process / Operations

The goal in this section is to provide the reader with the confidence that you know what you are doing, and have your business risks minimized. Describe the operation briefly, including key points that highlight quality or unique management decisions you are operating with. Build in a discussion of key land, buildings, and equipment if pertinent to your operation.

In some situations, an appendices showing a detailed list of land with production history, buildings with use and age, and equipment with age or engine hours can be helpful to show details of the operation. Commodities grown with yields and use (cash sales or feed) may also be included.

Ostrich Operational Plan example: Windy Knoll Farm **Operations Plan**

The breeding trio on the farm lays eggs from late March to mid-September. Each female may lay an egg every other day, however it is typically a bit less than that. The eggs are incubated on site and turned automatically by the machine. Eggs are candled at 10 days to check for fertility. Hatching occurs at 42 days. Chicks are vulnerable for the first three months and require careful care and diligence in upkeep. Chicks have access to pasture after 2 weeks.

All stock are run in ¼ acre paddocks with 5' tall woven wire fence with access to water and cover. They run in the paddocks year round. Pastures are rotated if space is available. Supplemental feed of grower pellets is provided twice a day. Adults are dewormed with Ivermectin once a year.

Animals are sent to processing at about fourteen months depending on demand and growth rate.



Operations Plan



Products / Services:

Product Description

Package Size offered

Unique Characteristics as compared to your competitors

Process / Operations

Crop / Animal Growth process

Product Development Process (made on site / contracted out, etc)

Volume Produced

Expected Growth -- requirements to meet this growth

6. Marketing Plan

The marketing plan is an important element in the business planning structure. A detailed breakout of developing a comprehensive marketing plan is beyond the scope of this guide. Please refer to Putting Market Information to Work (Gloy 2009) for detailed information on marketing plans.

A synopsis of developing a Market Strategy:

- A.** Remember your business goals and mission
-- set sales goals within those parameters
- B.** Gather market data using survey research and SWOT analysis
(see below)
- C.** Reality Check!! How do you truly stack up against all the competition
(you have some)
- D.** Be very clear on your cost of goods sold, so your selling price
will cover costs and profit
- E.** Identify your target market & the plan to get the product to them!!
- F.** Develop a marketing budget 10% (thumb rule) and spending plan.

SWOT Analysis: (Strengths, Weaknesses, Opportunities, Threats)

One tool that assists your marketing plan, but can also be critical to your strategic plan and mission is a SWOT analysis. This tool organizes you to critically think about the strengths and weaknesses of the operation (internal), and the opportunity and threats (external) to the business.

One method is to pull in a small team (partners, key employees or advisors) to sit down and be very realistic in terms of challenges and strengths that your operation is looking at. Focus on areas you can influence by correcting or taking advantage of business strengths. The operation goals can be tailored to fit the situation and move the business forward.

- The first half of the process is the strengths and weaknesses portion. This is a review of your business from the inside out. Time to be honest and open minded about where you are strong and where you need to grow.
- The second half is focused beyond your walls, into your competition. What threats are there to your business, what opportunities can you exploit? Don't be judgmental, list them all.

EXAMPLE SWOT Analysis Sheet “Windy Knoll Farm”

For each possible enterprise, brainstorm about ideas related to the four areas below.
Use this sheet to determine whether you should explore an enterprise idea further.

<p>STRENGTHS</p> <p>owners’ animal handling experience</p> <p>animal nutritional knowledge</p> <p>in-house fence / shelter construction</p> <p>access to grass and local feed</p> <p>land is sheltered, in ag area</p>	<p>WEAKNESSES</p> <p>unknowns about raising ostrich chicks</p> <p>lack of resources on best practices</p> <p>time needed to market product</p> <p>limited land base for expansion</p>
<p>OPPORTUNITIES</p> <p>high quality, tasty product</p> <p>healthy relative to other meats</p> <p>target market is looking for meat alternatives</p> <p>upscale chefs are familiar with meat</p>	<p>THREATS</p> <p>meat characteristics unfamiliar</p> <p>preparation knowledge lacking</p> <p>inability to supply large accounts</p> <p>fan steaks primary top end cut -- need to develop market for grind</p> <p>Cortland County not known for trend setting culinary set</p>

SWOT Analysis Sheet

For each possible enterprise, brainstorm about ideas related to the four areas below.
Use this sheet to determine whether you should explore an enterprise idea further.

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS



7. Financial Plan

Overview: The financial plan should be structured to measure the profitability and equity growth of the farming business. The business ownership should be able to measure the business internally over a period of time and provide sufficient detail to compare results with similar sized businesses. The plan should detail the financial record keeping system used by the business and who has the responsibility to maintain and keep the information current. Farming businesses that develop good habits of keeping accurate and detailed financial records from inception of the business tend to be more successful and have better relations with providers of capital for the business

Questions to Consider:

1. Cash versus Accrual methods of accounting

Accrual financial statements provide the true earnings picture for the agricultural business. Professional accountants provide the most useful accrual statements but can be expensive. Over time, the cost may be reflected in lower borrowing costs. Accrual statements can be constructed from cash value market statements if balance sheets and income statements are accurately prepared on a consistent basis.

- Cash basis statements are more common for small operators, but of little use unless carefully prepared on a consistent basis.

2. Financial record keeping systems (for business use)

- Shoebox for receipts (no need to proceed further if expecting to borrow funds)
- Organized record keeping book.

[Cornell Farm Account Book Or General Account Ledger]

- Software designed for agricultural business use
 - a. Quick Books
 - b. Excel worksheets self designed
 - c. Specific software for agricultural businesses
 - Red Wing Software -- expensive but very detailed

3. Business consultants and or accountants

- Detail who and how long retained by business

4. The Financial System used should provide at a minimum

- Balance sheets, preferably year end, prepared on a consistent basis
- Income statements prepared on a consistent basis
 - cover the period between the beginning and ending balance sheets
- Statement of cash flows
- Budget for upcoming operating cycle or next 12 months

Financial Instruments:

The three critical financial pages for any business plan include the income statement, balance sheet, and cashflow statement. Examples of each of these are found in the appendix. All three documents work together to paint a picture of the success of a business to provide profit and growth to its' owners. A lender or investor expects to see the business earn a profit over time, or there is no reason to invest in the operation.

If the business is a start-up operation, "pro-forma" statements are developed that show projected income and growth based on research and industry standards for similar companies.

Income Statement

An income statement provides a summary of the income generated by sales of product or services by the company. The income produced minus all expenses incurred by the business result in a profit or loss for the operation.

Income

The income is typically the easier part to understand. How many units of product or services are being sold that year at a given rate to produce total income? Expenses are more involved to calculate.

Expenses

Variable expenses include all items that change as the volume of goods or services change. Fuel used, number of parts purchased, hours of labor to assemble each part are examples of costs that change depending on the number of products sold.

Fixed expenses must be paid regardless of how many units are sold. Insurance expenses, maintenance contracts, and telephone service are examples of fixed costs that are not impacted by sales volume.

$$\text{Income} - \text{expenses} = \text{Profit or (loss)}$$

Start-up businesses may incur a loss for the first year or two because of large start-up expenses that need to be paid off before sales volume is up to full capacity. Providing projections for three to five years will show the long term profitability of such operations.

Paid Labor

Labor is an element that is often discounted in small start-up businesses. You have an opportunity cost to your labor. If you are working on this new venture, you are unable to devote that time to another job. You need to figure in labor costs as an expense for the operation, even owner labor invested.

Balance Sheet

The balance sheet is a snap shot in time of the equity a business is developing as liabilities for products, equipment, and property for example are paid off.

The assets of a business ALWAYS = the Net Worth – liabilities of an operation.

Net worth and equity are terms used interchangeable on balance sheet forms.

The example balance sheet on page 33 shows typical categories of short term, intermediate and long term assets and liabilities. Guidelines for the categories typically follow IRS rules to allow for depreciation (drop in value due to wear and age) to be accounted for in calculating taxes. Refer to IRS Guide to Farming or your tax accountant for more detailed information on asset categories

The liabilities for the equipment, land, and stock that a business purchases will also need to be figured in at the bottom of the income statement. Interest paid is a fixed expense, however the monthly payments are Capital Purchases that are often listed separately at the bottom of the balance sheet to account for capital expenditures prior to net profit calculations. (see example in appendix)

Cashflow Projections

The third instrument used to paint a picture of fiscal strength is a cashflow statement.

The purpose of a cashflow statement is to demonstrate how the income and expenses shown on an income statement are distributed over the course of a year.

Monthly cashflow projections are required for many operations to assure adequate income each month to cover incurred debts. Operations such as potato farms or crop farms must borrow money in the spring to pay for seed and planting costs with an understanding that following harvest, all underlying, short term debt will be paid off. That system works well for growers, providing a successful harvest occurs in the fall. Operations will have their own busy and down times. A cashflow projection allows to estimate the ability to cover debt for a particular part of the year.

Annual Projections

Many lenders also require annual income projections for three to five years into the future to gauge the long term success of the operation. The projections will also be compared to your goal statements in the business plan narrative to assure continuity in thought and calculation.



From a Lender's perspective:

As you construct your business plan keep in mind one of the primary readers and users will be either your current or prospective lender. The plan will be the main document guiding the lender in making a decision to commit the lending institutions' funds to your business. Most lenders base their decisions on the five "C's" of credit which are: **Character, Capital, Capacity, Collateral and Conditions**. Your plan should provide sufficient detail so the lender will be able to document each of these credit factors. The following is a brief description:

Character:

Character is the lender's subjective evaluation of skills for the ownership and/or management of the business. Personal information, including credit history (credit reports), educational background, community involvement and personal references, will be gathered to assist the lender in making the credit decision. When meeting with lenders first impressions are critical in establishing a relationship, therefore professionalism and respect are important factors in managing the relationship.

Capital:

Capital is determined by an examination of the business entity's balance sheet which is a listing of assets and liabilities at a specific point in time. The entities equity, or capital, position is determined by subtracting assets from liabilities. The majority of lenders use a market value balance sheet which list assets at their fair market value. Lenders generally look for an equity position of at least 50% (assets and equity are equal amounts). Care should be taken when completing the balance sheet and use realistic values for assets, remembering the value listed is what a reasonable, knowledgeable buyer would pay for the asset if offered for sale. All too often individuals value assets at what they are worth to the business and not what the market will pay. Real estate, livestock and machinery are the items most often over valued on most balance sheets.

Lenders will pay particular attention to the current position (working capital) of the borrowing entity. The current position is determined by the difference between liquid assets (cash or those assets that can be easily converted to cash, accounts receivable and inventories) and liabilities that are due within the current year or operating cycle of the business.

Capacity:

Capacity is the ability of the business entity to generate sufficient funds to pay operating expenses, provide for future capital needs to sustain the business, make scheduled debt payments, provide for owners' living expenses, meet income tax obligations and have funds left over (margin) in case projected income levels were not achieved. Capacity is determined by analysis of the most recent 12 month year end operating cycle and the two prior year's income tax returns.

In the case of a new business, capacity will be determined from analysis of a carefully prepared budget for the next operating cycle of the business.

Collateral:

In most cases, collateral securing the loan will include real estate, machinery/equipment, vehicles and livestock. The lender will value the collateral for security purposes at a lower value than listed on the balance sheet submitted with the loan application. Collateral value takes into account the cost of acquisition, holding cost and the marketing cost to dispose of the asset. When collateral is taken by the lender the business has an obligation to maintain assets in good working order and notify the lender before sold or otherwise disposed of.

Conditions:

When a loan is approved most lending institutions establish conditions the borrower must adhere to during the life of the loan. Typical conditions include requirements to notify the lender of changes in the business ownership, changes in security taken as collateral and any adverse change in the business. Depending on the size of the loan and business lenders may establish financial requirements for minimum working capital, minimum equity and restrictions on borrowing additional money from other lenders.



Summary

As you begin to collect the worksheets provided in this guide, as well as additional resources used in your quest to establish a business plan, you will find much of the work is now complete. Use the typical business plan model on page 11 as your guide. Assemble the pieces in the appropriate order with the financial forms at the end. The information you have gathered will need an executive summary to brief the reader on what is in the plan. Placing the documents into a narrative similar to that of the example ostrich business plan in the appendix will get the operation down on paper.

Once a plan is on paper, the business can begin to refer to the plan and scrutinize the decisions made and goals established. A business plan need revision and revisiting to make it a worthwhile effort to develop. An annual review with all the stakeholders in the business is a bare minimum to assure the business is meeting its goals and progressing forward.

We hope that the business planning guide has assisted in the development of a plan for the business you are working with.

NY FarmNet has staff available to assist in financial and personal issues that affect the success of family businesses at any size. You can find us on the web at NYFarmnet.org or at 1-800-547-3276.



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Example of Cornell Farm Business Record Book

8

FARM OPERATING EXPENSES AND OTHER CASH OUTFLOW (continued)[illegible]

Sample Income Statement

Projections for Hometown Stables

May be Changed

Income Statement

Calculated value

Scenario A - Expected Occupancy

Income

	Horses	Board rate	MONTHLY Total Income	YEARLY
Board A - Main Barn	3	\$ 625	\$ 1,875	22,500
Board B - Building 3	2	\$ 600	\$ 1,200	14,400
Board C - Owner	2	\$ 475	\$ 950	11,400
Short Term Board			\$ -	0
Arena Rental			\$ -	0
Groom's Quarters Rent			\$ 500	6,000
Total			\$ 4,525	\$54,300

Expenses

Direct Horse Variable expenses

	# Horses	Hrs/Month	Rate/cost	Overall total	
Feeding - AM/PM	7	62	\$6.50	\$403	4,836
Feeding - Lunch/Late pm	7	62	\$1.00	\$62	744
Stall Cleaning	7	31	\$2.00	\$434	5,208
Hay	7	31	\$3.50	\$760	9,114
Bedding	7	15.5	\$5.00	\$543	6,510
Grain	7	31	\$0.00	\$0	0
Manure	7	31	\$0.58	\$125	1,500
Sub Total				\$2,326	\$27,912

Indirect Horse Variable expenses

	# hrs/mo	Rate/hr		
LABOR				
Fence repair	5	\$7.25	\$36	435
Building/Facilities repair/upkeep	15	\$7.25	\$109	1,305
Equipment Maintenance (Tractor/Mower)		\$7.25	\$20	240
Land Improvement (soil/grading)	5	\$7.25	\$36	435
Paddocks/Manure Management	25.98	\$7.25	\$188	2,260
Ring Maintenance	8.83	\$7.25	\$64	768
Lawn Mowing/Land scaping upkeep	4.665	\$7.25	\$34	406
Standard cleaning/sanitation	5.3259	\$7.25	\$39	463
Prof Fees - Accting, bookkeeping	1	\$40.00	\$40	480
Snow Plowing	4.665	\$12.00	\$56	672
Sub Total			\$622	\$7,464

SUPPLIES

Office Supplies (cleaning/toilet/notes)		\$40	480
Pasture treatment (seed/fertilizer/lime)		\$50	600
Repairs - Bldg		\$100	1,200
Repairs & Maintenance - Equip/Tractor		\$47	564
Repairs Fencing		\$35	420
Supplies -barn		\$30	360
Supplies - Footing	2,000	\$167	2,000
Utilities - Other (electricity)		\$ 432	5,187
Sub Total		\$901	\$10,811

Total variable expenses	\$3,849	\$46,187
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Fixed Expenses

Annual Calculations Monthly

Annual

Insurance - Care, Custody, Control	250	21	250
Insurance - Liability	350	29	350
Insurance - Property	3000	250	3,000
Insurance - Vehicles	0	0	0
Payment Truck		0	0
Payment Equipment		0	0
Taxes - federal/state/sales		0	0
Taxes -property	627.2	52	627
Taxes - school	2800	233	2,800
Security system	268.8	22	269
Utilities -Telephone		0	0
Depreciaton	3744	312	3,744
Total Fixed Expenses		920	\$11,040

Total Expenses	\$4,769.00	\$57,227.00
Net Profit or (loss)	-\$243.95	\$2,927.44

EXAMPLE BALANCE SHEET HILLSIDE FARM

as of January 1, 2010

Assets

Short Term

Checking	2,000
Savings, CD's	4,000
hogs (feeder)	1000
cattle (feeder)	7000

Intermediate

Cattle (brood)	2,000
Hogs (sows)	1,000
Sheep	3,200
Laying Hens	475
F 350 Truck	25,000
car	19,000
Gator	6,200
tractor	6,000
livestock trailer	9,500

Long Term

Land	35,850
barns	38,000
house	106,000

TOTAL ASSETS 266,225

Liabilities

Intermediate

Cattle (feeder)	1,500
Truck	20,500
Car	17,900
Gator	6,000
trailer	9,200

Long Term

Mortgage	102,000
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TOTAL LIABILITIES 157,100

Category Description

Short Term: Items that are readily available (cash/savings) or items used up within a year (feed, bedding) Stock for slaughter/sale listed here.

Intermediate: Items that have a 5-7 year lifespan according to the IRS. Breeding stock is included here. Equipment and machinery.

Long Term: Items IRS lists as long term -- Land and buildings are the two primary elements here.

Liabilities are the debts owed by the owner to the lending institution for each item. As the liabilities decrease, the Net Worth increases.

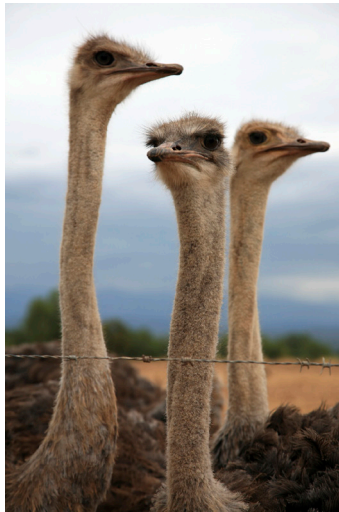
**TOTAL ASSETS = LIABILITIES + NET WORTH
THIS IS ALWAYS YOUR CROSS CHECK!!!**

Sample Cash Flow Statement

<i>Receipts</i>	Line	January	February	March	April	May	June	6 month Subtotal
Crop Sales Corn	1							
Hay	2							
Beans	3							
	4							
Government payments	4							
Custom work	6							
Dividends, refunds, resale	7							
Cash, rent, other	8							
Livestock products	10							
Misc. Income	12							
Non-breeding livestock raised	14							
Operating Sales Total	A							
Livestock purchased for resale	16							
Breeding livestock sale	18							
Machinery, equipment, building sales	18							
Capitol sales total	B							
Total farm receipts	C							
INFLOW FROM LOANS	20							
NON-FARM RECEIPTS	21							
TOTAL DOLLARS AVAILABLE	D							
<i>Expenditures</i>								
Hired labor	25							
Repairs	26							
Interest	27							
feed	28							
Seed, plants, other	29							
Fertilizers and chemicals	30							
Machine hire	31							
Supplies	32							
Breeding fees	33							
Misc. expense	34							
Vet medicine	35							
Fuel and oil	36							
Storage	37							
Taxes	38							
Insurance	39							
Utilities	40							
Cash rent	41							
Freight and trucking	42							
Conservation expense	43							
Operating expenditures total	E							
Livestock purchased for retail	45							
Breeding stock purchase BEEF	46							
	47							
Machinery and equipment purchased	48							
Land and building improvement	49							
Capital expenses total	F							
Total farm expenses	G							
Outflow from loans	50							
Non-farm expenses and investments	51							
Family living	FL							

Windy Knoll Ostrich Farm

Business Plan



Prepared December 2009

Jeff Perry

Business Planning

NY FarmNet

1-800-547-3276

Executive Summary

Windy Knoll Farm is located in Cortland County, NY. The farm raises ostrich for meat from egg to consumer ready products. The birds are pasture raised with no antibiotics or hormones. Feed is grown on the farm or purchased locally. Ostrich meat is a healthy, pleasant alternative to other domestic meat products. The health values and flavor offer diverse cooking possibilities. The farm also maintains an educational goal to answer questions and clarify the understanding of the ostrich industry in the Northeast United States.

Objectives and Goals

Mission Statement

Windy Knoll Ostrich Farm strives to produce a healthy, high quality ostrich meat product and educate the public on the enjoyment and benefits of cooking with ostrich meat.

Long Range Strategy and Implementation:

Short Term Goals: (Within 2009 calendar year)

1. Purchase breeding trio
2. Establish area for egg hatching and incubation
3. Construct first range of paddocks

Intermediate Term Goals:

1. Season 1 – spring of 2012 – hatch out 12-20 chicks
2. Begin to develop 2 restaurants and 2 convenience stores as potential customers for the products.
3. Purchase meat birds for product development if available
4. Establish contract for processing into retail cuts and grind into snack sticks

Season 2

1. Hatch out 12-20 chicks
2. Begin processing 1-2 birds per month
3. Establish restaurant ordering procedures and begin sales
4. Begin retail and wholesale sales of snack stick products
5. Construct second phase of grazing paddocks

Long Term Goals:

1. Increase to three breeding trios.
2. Gain restaurants in the regional area by two restaurants per year. They will be placed in a chef share program if demand for fan cuts is too severe.
3. Maintain less than 10% mortality on young chicks after hatching
4. Hire part time assistant to focus on hatching and chick growth.

Business Description

History and Location

The owners of Windy Knoll have been in agriculture from their youth. Dairy, hogs, rabbits and poultry were all raised at one time or another. Ostrich came onto the scene in Cortland County after an introduction to a breeder at the NY Farm Show in Syracuse. After attending a seminar about the potential for ostrich meat, a local breeder was found and after researching the fiscal potential of the enterprise, two females and one male African Black Ostrich were purchased and brought to the farm. The farm runs from valley to ridge with 100 acres total, 60 of that tillable with 20 in ostrich pasture. The pasture is subdivided into paddocks for rotation of the animals to maximize forage usage and minimize damage to the soil/plant structure.

Organization and Management

Windy Knoll is a sole proprietorship at this time. An LLC option is available if the operation continues to grow. The property has been in the family for multiple generations, originally in dairy. The ratite paddocks are converted cow pasture that has exposed rock and steep inclines that limit its use to that of pasture.

Resource Inventory

Management Team

Herb Oliney -- Owner and operator

Responsible for:

feeding and care

Hay harvesting

Long term planning decisions

Jan Oliney -- Daughter of the owner

Responsible for:

Chick hatching and care

Management of paddock rotation

- **Land** – 20 acres possible for pasture with 4 currently in ostrich paddocks. 60 acres used for hay production
- **Buildings** – 1 80 year old horse barn for hay storage
 - 1 30 year old shop/maintenance facility
 - 1 20 year old converted/repaired dairy barn for animal housing and equipment storage
- **Equipment** – one 50 hp vintage tractor, one 65 hp 1970's tractor in good repair. Manure spreader, older line of hay equipment.
- **Capital** – Owners have limited investment capital available up to \$15,000.
- **Commodities** – 1000 bales of hay typically on hand, available for sale.

Operations Plan

The breeding trio on the farm lays eggs from late March to mid-September. Each female may lay an egg every other day, however it is typically a bit less than that. The eggs are incubated on site and turned automatically by the machine. Eggs are candled at 10 days to check for fertility. Hatching occurs at 42 days. Chicks are vulnerable for the first three months and require careful care and diligence in upkeep. Chicks have access to pasture after 2 weeks.

All stock are run in ¼ acre paddocks with 5' tall woven wire fence with access to water and cover. They run in the paddocks year round. Pastures are rotated if space is available. Supplemental feed of grower pellets is provided twice a day. Adults are wormed with Ivomectin once a year.

Animals are sent to processing at about fourteen months depending on demand and growth rate.

Marketing Plan

Product Description

The ostrich grow to market weight in 12-14 months. They weigh approximately 200# at this time. Meat yield is about 50% of live weight with half of that being grind. The result is about 40-50 lbs of burger and 30-40 lbs of cuts to include prime (fan and tenderloin) and choice (stir fry and oyster). The meat is high in iron, has no bone and almost no fat. It does have a tough connective silver flesh between the muscles, so having a knowledgeable processor is essential. The burger is processed into individually wrapped snack sticks labeled for retail sale. The meat cuts are cryo packed, weighed and labeled for individual sale.

Sales

- Ostrich meat will be handled in frozen form. The snack sticks are fresh, dipped in a nitrate solution as a preservative so the shelf life is approximately 30 days if kept from heat and light. The retail meat cuts are marketed the following ways:
 - Wholesale to restaurants in the region. Personal contacts made, samples offered, delivery of product is typical.
 - Direct retail sales to individuals. Local festivals, advertising, word of mouth used to expose local community. Sampler packages are available that include a sample of the various cuts and includes recipes and cooking ideas.
 - Advertising in local print form will be limited. Festivals and craft shows give the best opportunity to fully educate potential consumers on the benefits and unique characteristics of ostrich meat. While healthy and tasty, it can be easily overcooked which will ruin the flavor and turn someone off to the meat quickly.
 - While national trends show potential meat prices at \$12 to \$14 per pound for fan steaks, the local consumers will not shoulder that large a gap between beef and ostrich. A \$10 per pound price for the best cuts and an \$8 price for good stew beef and tenderloins will be more competitive and still generate a profit for the farm.

Strengths, Weaknesses, Opportunities and Threats

Strengths:

- Knowledge of animal husbandry
- Located in a populated, diverse area of the state
- Land base and equipment available

Weaknesses:

- Ostrich is an unknown commodity – education will be necessary
- Current size limits availability of high end meat cuts
- Marketing will be part time at start-up until volume of production and sales warrant more time on this.

Opportunities:

- Ostrich is a healthy, red meat alternative
- Ostrich meat has been well received by those that try it
- Chefs are more aware of ostrich meat than average consumers
- Price can be competitive to other high quality meats

Threats:

- Lack of exposure to the ostrich meat will hamper sales
- Chefs may not be willing to risk such an “exotic” meat
- Economy has already decreased eating out
- Area restaurants are limited in scope, may not stretch to accommodate new ostrich dishes

The Financial Plan

The farm owns the property outright. Breeding trio of birds cost \$5000 and the fencing updates cost \$5000. Equipment is all fully depreciated and paid for. Transportation of birds to slaughter is contracted to a local livestock hauler.

Financial projections are attached.

Income statement

Balance sheet based on calendar year

Summary

The Windy Knoll farm is poised to grow into the ostrich meat industry. Resources are available and the markets are untapped. Overall investment is reasonable. The primary risk is lack of understanding about the flavor and benefits of ostrich meat in our diet. Education will be a large part of the marketing campaign. The land and labor resources will allow for a fair amount of growth without additional inputs in land or labor. Profitability on a per pound basis is very lucrative. Finding a processor that can handle the meat cutting properly and be an inspected plant is a concern. The farm owners have faith that obstacles can be overcome and ostrich will become an important niche meat market in the central NY area.

FINAL NOTES

A business plan is a perpetual work in motion. Provide yourself as much information as needed to help the business progress forward with you at the helm. The lender for a loan wants the stripped down, less than 10 page version. It may be advantageous to you to incorporate your Business Plan into your Strategic Plan, Marketing Plan, Succession Plan, and Production Plan. Each one is a piece of the overall management of a business. Not all pieces are needed every day, but every piece is needed on at least one day in the life of the business.

More information on individual topics and resources to help develop all components of a comprehensive business plan are available through NY FarmNet.

Windy Knoll Ostrich Farm

Income Statement

		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Number of adults for meat	2 breeding trio	0	24	27	27	24
number of chicks		24	24	22	22	22
adult birds for next year		0	3	5	2	2

Income

pounds of premium meat sold	15 lbs cut/brd	0	4320	4860	4860	4320
pounds of snack sticks sold	45 lbs grind / bird	0	13230	13860	15750	13860
price per pound meat	12 price per pound					
price per pound snack stick	14 price per pound					
Total		0	17,550	18,720	20,610	18,180

Expenses

Direct Variable expenses	cost / bird / day					
feed purchased breeder	1.25	2737.5	2737.5	2737.5	2737.5	2737.5
feed purchased starter	1	1500	4320	3960	3960	3960
labor	\$5 per day	1825	1825	1825	1825	1825
wormer	6 per year	6	6	6	6	6
Sub Total		\$6,069	\$8,889	\$8,529	\$8,529	\$8,529

Indirect Variable expenses (may be affected by animal numbers)

LABOR						
Fence repair		100	105	110	116	122
Building/Facilities repair/upkeep		150	105	110	116	122
Equipment Maintenance (Tractor/Mower)		200	210	221	232	243
marketing budget 10% of gross sales		200	1,755	1,872	2,061	1,818
Sub Total		\$650	\$683	\$441	\$463	\$486

SUPPLIES

Pasture treatment (seed/fertilizer/lime)	50	100	100	100	100
Repairs - Bldg	0	100	100	100	100
Repairs & Maintenance - Equip/Tractor	0	100	100	100	100
Repairs Fencing	0	300	300	300	300
Supplies -barn	100	100	100	100	100
Utilities - Other (electricity)	150	150	150	150	150
Sub Total	300	850	850	850	850

Total variable expenses	7,019	10,421	9,820	9,842	9,865
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Windy Knoll Ostrich Farm

Income Statement (page 2)

Fixed Expenses

(no impact by or on animal numbers)

Insurance - Liability	100	100	100	100	100
Insurance - Property	100	100	100	100	100
Insurance - Vehicles	0	0	0	0	0
Payment Truck	0	0	0	0	0
Payment Equipment	0	0	0	0	0
Taxes - federal/state/sales	0	0	0	0	0
Taxes -property (farm related)	600	600	600	600	600
Taxes - school (farm related)	500	500	500	500	500
Utilities -Telephone	450	450	450	450	450
Interest expense	536	536	536	536	536
Depreciaton	500	500	500	500	500
Total Fixed Expenses	2,786	2,786	2,786	2,786	2,786

Total Expenses	9,805	13,207	12,606	12,628	12,651
Net Profit or (loss)	(\$9,805)	\$4,343	\$6,115	\$7,982	\$5,529

Capital expenditures	7% for 7 years	Annual payment				
fencing installation	6000					
2 breeding pair	8000					
total	14000	2000	2000	2000	2000	2000
Profitability after debt service	(\$11,805)	(\$9,462)	(\$5,347)	\$635	\$4,165	

Windy Knoll Ostrich Farm

Balance Sheet as of January 1, 2001

Assets	YEAR 1
Short Term	
cash on hand	1000
value of adults for meat	9600
Meat in inventory	1000
Intermediate Term	
Breeding Trios	0
tractor	0
fencing	8000
Long Term	
shelters	3000
land	250000
Total Assets	\$272,600
Liabilities	
Short Term	
operating loan	0
Intermediate Term	
loan for breeding trios	8000
tractor loan	0
fencing loan	6000
Long Term	
loan for shelter	0
mortgage for land	0
Total Liabilities	14,000.00
Net Worth	\$258,600

OTHER A.E.M. EXTENSION BULLETINS

EB No	Title	Fee (if applicable)	Author(s)
2010-01	When to Exit Dairy Farming: The Value of Waiting		Tauer, L. and J. Dressler
2009-22	Marketing the Unique Story of Your Farm Business for Success		Schmit, T., Hulcoop, L. and R. Weybright
2009-21	Dairy Farm Business Summary, New York Dairy Farm Renters, 2008	(\$16.00)	Knoblauch, W. and L. Putnam
2009-20	New York Economic Handbook 2010	(\$10.00)	Extension Staff
2009-19	Fruit Farm Business Summary, Lake Ontario Region New York, 2008		White, G., DeMaree, A. and J. Neyhard
2009-18	2009 Federal Reference Manual for Regional Schools, Income Tax Management and Reporting for Small Businesses and Farms	(\$25.00)	Bouchard, G. and J. Bennett
2009-17	2009 New York State Reference Manual for Regional Schools, Income Tax Management and Reporting for Small Businesses and Farms	(\$25.00)	Bennett J. and K. Bennett
2009-16	Bedded Pack Management System Case Study		Thurgood, J., Bagley, P., Comer, C., Flaherty, D., Karszes, J. and M. Kiraly
2009-15	Dairy Farm Business Summary, Northern New York Region, 2008	(\$12.00)	Knoblauch, W., Putnam, L., Karszes, J., Murray, P., Vokey, F., Ames, M., Deming, A. and J. Prosper
2009-14	Dairy Farm Business Summary, Central Valleys Region, 2008	(\$12.00)	Knoblauch, W., Putnam, L., Karszes, J., Murray, D., Radick, C., Wickswat, C., Manning, J., Collins, B., Balbian, D., Allhusen, G. and S. Buxton
2009-13	Dairy Farm Business Summary, Northern Hudson Region, 2008	(\$12.00)	Conneman, G., Putnam, L., Wickswat, C., Buxton, S., Smith, R. and J. Karszes
2009-12	Dairy Farm Business Summary, Southeastern New York Region, 2008	(\$12.00)	Knoblauch, W., Putnam, L., Kiraly, M., Walsh, J., Hulle, L. and C. Wickswat
2009-11	Dairy Farm Business Summary, Intensive Grazing Farms, New York, 2008	(\$16.00)	Conneman, G., Karszes, J., Grace, J., Beck, R., Staehr, A., Benson, A., Murray, P., Glazier, P., Carlberg, V., Anderson, J. and L. Putnam

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