

Preparing a Business Plan

A Guide for Agricultural Producers

Direct Farm Marketing Example



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PREFACE

Managing an agricultural business in the 1990s and beyond will be more complex with good planning skills becoming increasingly important. As farming becomes more capital intensive, margins narrow and the adoption of rapidly changing technology becomes the norm, planning techniques which are used in other businesses must be applied to agriculture. One of these planning techniques is preparing the formal business plan. A formal business plan integrates written goals with marketing, production and financial targets into a management strategy for the business along with identifying human resource requirements. Other factors such as increased environmental awareness and the globalization of agriculture emphasize the need for effective planning at the farm level.

The purpose of this publication is to provide farmers with business planning information and a format for developing a business plan for his or her farm business. While information and sample business plans are available for non-farm businesses, examples of business plans for farms are difficult to find. Each farm business is unique in terms of physical characteristics, income level and people involved in owning and operating the farm. This publication will provide a good starting point to assist farm managers to prepare formal business plans for their own operation.

Terry Peterson, Director
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HOW TO USE THIS MANUAL

To assist you in writing your Business Plan, we have enlisted the help of “Stewart and Judy Black”. We’ll follow Judy and Stewart as they discuss, research and prepare their own Business Plan. Their experience will be useful as you think about your farm. You’ll find yourself comparing their experience with yours and making modifications in your head about your on-farm market. Our manual will invite you to use their experience as a springboard to prepare your own Business Plan.

As Judy and Stewart progress through the various elements of the Business Plan, we show you the “process” they go through on the left-hand page. On the right-hand page we show their response or conclusion to their efforts. This is the written part of their Business Plan.

Making up a Business Plan is a “stretching” experience. Some research in order to get the information you need in some instances. Other information will be already inside your head and just needs putting down on paper. A good source of research about Direct Farm Marketing and similar businesses is your local B.C. Ministry of Agriculture, Fisheries and Foods. If there is a local Direct Farm Marketing Association, the executive committee may be of help also in providing statistics.

Some of the terms used, especially in the sections on finance, were new to Stewart and Judy. We have included explanations of these terms at the back of the book. Judy found it helpful to talk with their accountant about one or two of these terms to be certain she understood them correctly.

INTRODUCTION

You have great ideas, you have a strong desire to start a direct farm market operation or expand an existing farm stand. . .but, fortunately, you have a built-in sense of caution which tells you that this is serious business and maybe, this time, you’d better put something down on paper.

If you have reached this point, it’s probably because you have been a successful grower of whatever it is that you grow. Customers are beating a path to your door and they like what they see and they buy whatever you have to sell. Not only that, but you have been looking around and you have seen what other growers are doing on their farm market operations. Instinctively, you realize you could be doing more with your own set-up.

Now it’s time to get serious and look at your farm stand, or your direct farm sales plans, and consider it as a formal business operation, just like any other retail sales business in your area. There are many things you will need to consider, ranging from the need for more on-farm help to business licences, financial planning, advertising and promotion, on-farm parking arrangements, meeting the competition, an increase in growing area and the number of products you can make available for sale, what equipment you need, what buildings may need to be constructed, how your products will be priced and displayed and who will do what in your direct farm market.

Introduction continued...

Just thinking about all of this can be off-putting and overwhelming. But wait! help is at hand. This manual is designed to be a literal road map to assist you to build a solid plan, a Business Plan, that will turn out to be the best tool you ever owned.

When, step by step, you have completed this project, you will have not just a written document which describes in considerable detail all aspects of your on-farm market business, you will personally be so fired up that your enthusiasm will rub off on everyone associated with you.

Warning! It will require your time and every grower knows that time is a commodity which is jealously guarded. But think of it this way: You would never skimp on the time it takes to plant, fertilize, weed and nurture the fruits, vegetables and value-added products you produce. To be really productive in your business, it is important to devote an appropriate amount of time to the administrative side - and that includes planning.

From talking with farmers, we've discovered that most of them do actually plan, but perhaps not in a formal way. They keep a journal of weather conditions, when they applied fertilizer, the quantity of lettuce they planted and harvested, etc. Or, on the back of an envelope, they make a list of things they need to do in a given period of time. But when they need to obtain additional financing to carry on or expand their operation, they realize that more formal planning is necessary. This is where our Guide comes in.

Meet Stewart and Judy Black.

They live on a 10-acre farm they call **Country Gourmet**, on the Saanich Peninsula, near the town of Sidney, about 25 km north of Victoria.

Stewart, 38, is a biology teacher at the Sidney high school.

Judy, 37, grew up in the Okanagan where her family ran an orchard. Most of their products were sold at a fruitstand near the highway. When Judy became a teenager, it became understood that her summers were devoted to working at the fruitstand. Since she met and married Stewart, she has worked in several different nurseries. The couple has no children.

In 1990, when Stewart landed the teaching post at Sidney, the couple bought a 10-acre property. It belonged to an elderly couple, long since retired. The former owners had grown corn and potatoes, and an acre of raspberries on the little farm, all of which they sold at the farm gate. Judy and Stewart found that the same customers continued to come looking for their berries and were happy to buy fresh vegetables at the same time.

So for the past five years, Judy, in addition to working part-time at a local retail nursery, and Stewart, have managed to "farm" about three acres of the property.

Now Stewart and Judy have to make a decision. Each September, Stewart has found himself more and more reluctant to return to teaching. He enjoys the challenge of growing vegetables. Judy, too, has learned a great deal about retailing from her work at the nursery and she would like the opportunity to expand their part-time farm into a full-time project. But, could they both make a living from the farm? The income they currently made from the farm would

Introduction continued...

have to be considerably increased. They would both have to work really hard to make it pay. Besides, it would take a great deal of money to improve the farm to accomplish what they felt had to be done to make the operation a paying proposition.

After endless conversations, they invited Bruce Fisher, their local District Horticulturist, over for lunch one day in early December and discussed their situation with him.

As it turned out, their timing was excellent. Bruce told them about the upcoming Pacific Northwest Farm Direct Marketing Conference to be held in late February. Going to the Conference would help them put their ideas in focus, he suggested. As well, the pre-Conference tour would show them what other Direct Farm Marketers were doing and they could pick up ideas for their own operation.

As part-time farmers, Stewart and Judy had already joined the local Direct Farm Marketing Association and although they didn't attend many meetings, they had for the last three years advertised their produce in the annual Produce Guide.

At the conference, Judy and Stewart attended as many sessions as possible, some together and others separately. Comparing notes, they were amazed to learn how many ideas and how much information they collected on market layout, signs and marketing. At the trade show they observed attractive booths and collected brochures and leaflets from a variety of suppliers. On the tour, they visited a variety of direct farm marketing operations and Stewart kept a notebook in which he jotted down ideas which appealed to the couple.

On the drive home, Judy was excited about the possibilities for their own farm. She told Stewart about her new ideas for marketing jams, jellies, chutneys, speciality veggies and maybe even ancient grains!

Back home, the couple sifted through the wealth of paper they had collected. Their enthusiasm was high and Stewart sat up late one night in the cluttered little room they used as a farm office and worked out some figures. This was a sobering situation. He calculated they needed about \$125,000 in order to set themselves up.

Stewart and Judy had about \$25,000 they could scrape up from savings, but where would the \$100,000 come from?

On Monday morning, the Blacks went down to the credit union where they banked and spoke to their loans manager. She was friendly but non-committal. "Let's have a look at your Business Plan first, and then we'll see what we can do," she told them.

COMPONENTS OF A BUSINESS PLAN

The term "Business Plan" was not new to Stewart and Judy. At a local direct marketing seminar a year ago, they had picked up a government publication on preparing a business plan. Judy dug deep into the filing cabinet and eventually found it. She started reading it out loud to Stewart at the supper table one evening.

"Give me that," said Stewart, reaching for the book. His face registered dismay as he skimmed through the publication. "We'll never get through all this," he said. "Look at this financial stuff. How on earth will we figure all this out?"

Judy frowned. "Look Stewart, if we want to go ahead with our ideas, we have to plan. If we have to borrow some of the money we need, we have to produce a Business Plan and that's that."

"Let's tackle it page by page, step by step," she continued. "We'll ask Rhonda Li, who did our taxes last year. She's a Chartered Accountant, you know. Maybe she can help us with the financial bits."

Stewart's face brightened. "Good idea, Judy. And what about all that information we got at the Conference. Some of that may come in handy too."

From the booklet, Judy and Stewart learned there are several essential elements to any Business Plan. The sections they would have to research and write up included:

Summary & Business Profile
Marketing
Human Resources
Production
Finance

Within each section, there were a number of sub-sections. At the end of the pamphlet, there was a paragraph about an Informal Business Plan. It suggested gathering all kinds of information pertinent to the operation and assembling in file folders or a looseleaf binder.

"It's going to be a lot of work," groaned Stewart. "Yes," agreed Judy, "But we already have a lot of information in our heads, and doing this together, by the time we're through, we'll know exactly what we're getting into and that means fewer unpleasant surprises once we get going."

"Right," said Stewart, "Let's do it!"

"But not tonight," yawned Judy, "Let's start tomorrow."