



Business Planning Concepts & Methods

SRM Meeting - Cindy Garretson-Weibel 2/2011



Business Planning
Can Enhance Sustainability
by Providing You With a
Roadmap You Can Use in
Operating Your Ranch



Sustainability of Agriculture

- Planning Can Help Overcome Challenges
 - Profitability (or lack thereof)
 - Aging population



Profitability

- Rancher's share of the food dollar


1910 = \$.40

2009 = \$.11 (steak)

Farmer's Share of Retail Food Dollar

Did you know that farmers and ranchers receive only 20 cents of every food dollar that consumers spend on food at home and away from home?

According to USDA, off farm costs including marketing, processing, wholesaling, distribution and retailing account for 80 cents of every food dollar spent in the United States.

Bacon 1 Pound  Retail: \$2.79 Farmer: \$0.40	Top Sirloin Steak 1 Pound  Retail: \$6.99 Farmer: \$0.80	Bread 1 Pound  Retail: \$2.99 Farmer: \$0.10	Fresh Carrots 2 Pounds  Retail: \$2.99 Farmer: \$0.83	Beer 6-Pack Cans  Retail: \$5.49 Farmer: \$0.10
Cereal 18 Ounce Box  Retail: \$3.99 Farmer: \$0.08	Cheddar Cheese 1 Pound  Retail: \$3.99 Farmer: \$1.61	Eggs 1 Dozen  Retail: \$1.99 Farmer: \$1.05	Flour 5 Pounds  Retail: \$1.99 Farmer: \$0.50	Boneless Ham Price per Pound  Retail: \$4.99 Farmer: \$0.44
Lettuce 1 Head (2 Pounds)  Retail: \$1.29 Farmer: \$1.02	Milk 1 Gallon, Fat Free  Retail: \$2.50 Farmer: \$1.30	Potato Chips Lays Classic,  Retail: \$3.49 Farmer: \$0.09	Fresh Potatoes Russet, 10 Pounds  Retail: \$3.00 Farmer: \$0.33	Soda Two Liter Bottle  Retail: \$0.99 Farmer: \$0.06

Farmer's share derived from USDA, NASS "Agricultural Prices," 2010.



January 1, 2010



U.S. Farm & Ranch Income

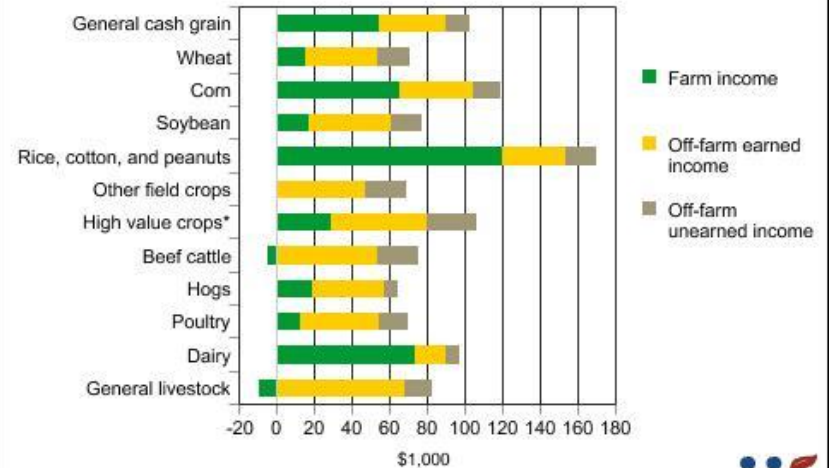
Average farm operator household income from farm and off-farm sources, 2004-2009F



Source: Agricultural Resource Management Survey, ERS and NASS, USDA.



Farm operator household income varies by commodity specialization, 2008



*Includes fruit, nuts, vegetables, greenhouse and nursery.
Source: Agricultural Resource Management Survey, ERS and NASS, USDA.





Aging Population

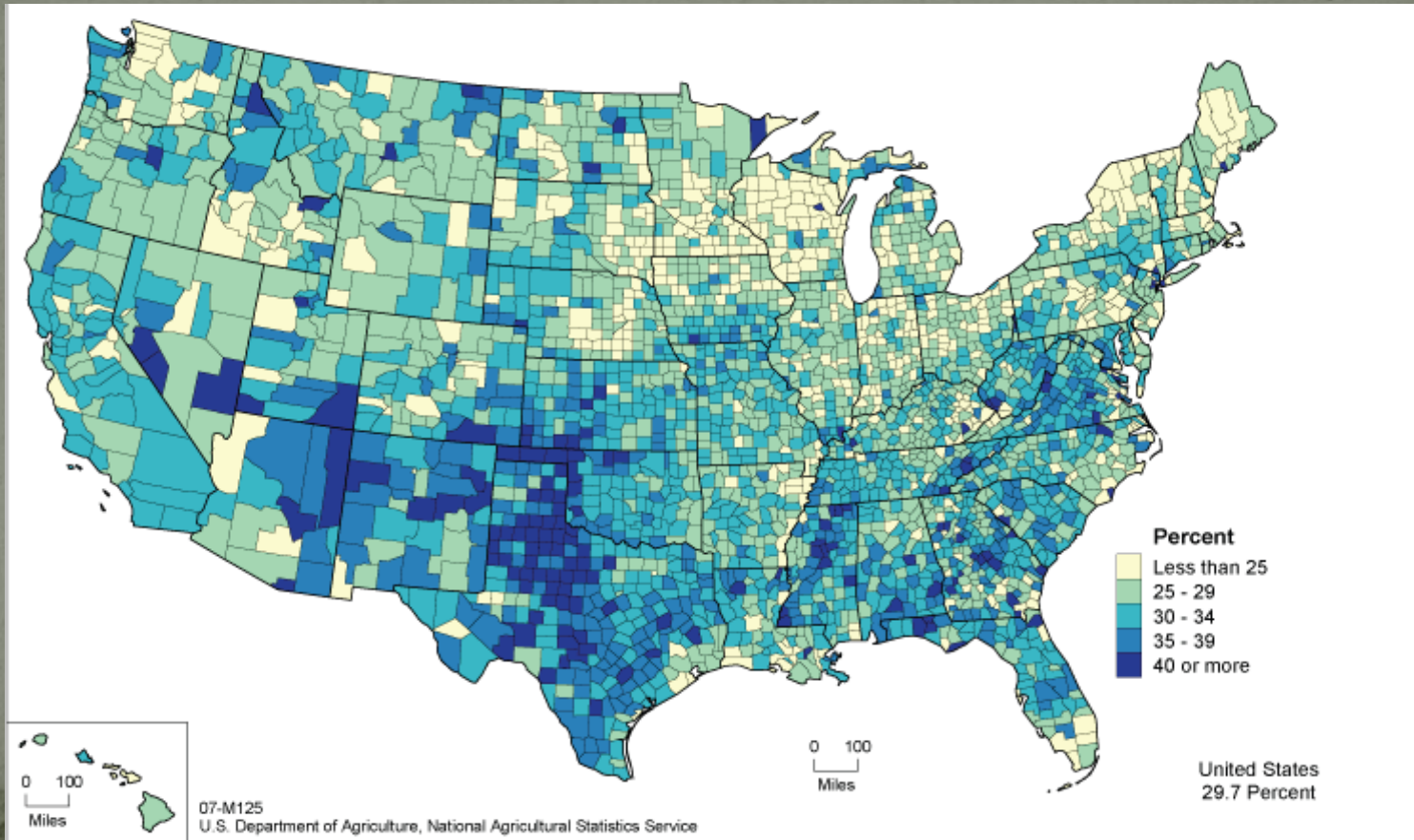
- The majority of agricultural operators are between 45 and 64, but the fastest growing group is those 65 years and older.

Source 2007 Census of Agriculture





Age Demographics

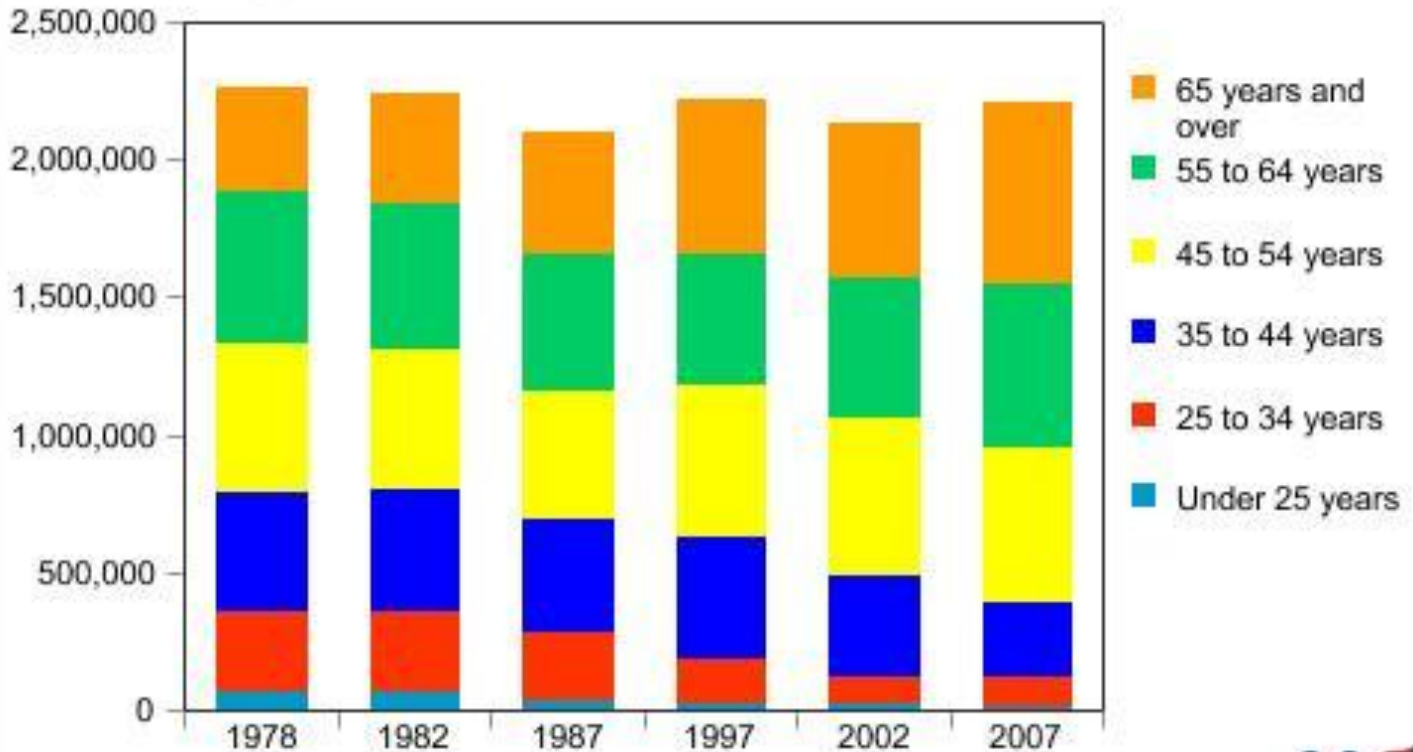




Age Demographics

Age distribution of farm operators, 1978-2007

Number of farm operators





Sustainability of Agriculture

- Planning Can Help Create New Opportunities
 - Increase Financial Options
 - Improve Resource Utilization
 - Bring Family Members Back



Increasing Financial Options

- Help Increase Income
 - Current operation may be viable, but more income is desired to meet objectives, and more income is possible from existing resources
- Help Distribute Cash Flow
 - Bring cash returns to the land unit's operation at various times throughout the year vs. once or twice
 - Multiple products and/or services can be timed to accomplish this objective
- Help Reduce Financial Risk

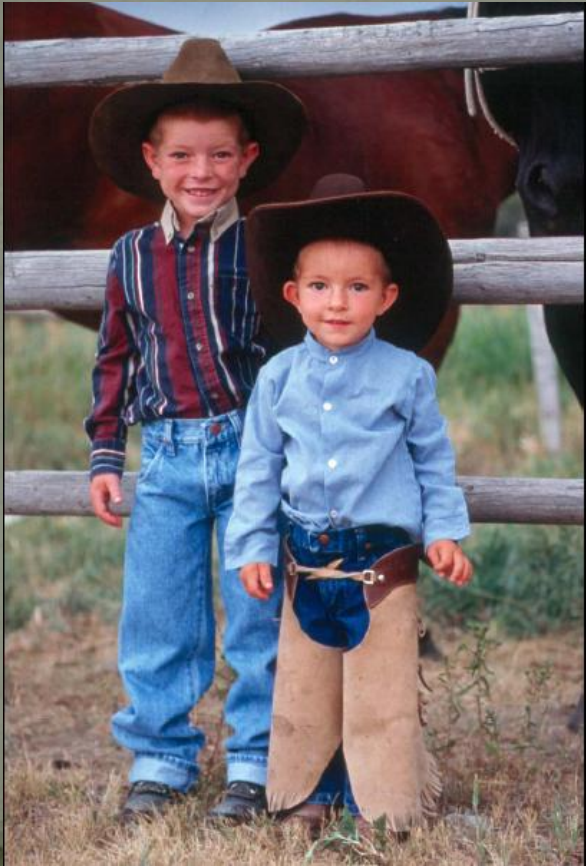


Improving Resource Utilization

- Labor resources
- Facilities and equipment
- Natural and cultural resources



Keeping the Family on the Ranch



- Often not enough income from existing operations to support more than one family
- Planning can help identify new opportunities to support multiple families



Key to Proper Planning is Communication





Roll play





Planning (But Not in a Vacuum) Is Important

- to Overcome:
 - The Lack of Profitability
 - Aging Population
- to Create New Opportunities
 - Increase Financial Options
 - Improve Resource Utilization
 - Bring Family Members Back
- and Ensure Sustainability





Break



Business Planning Process





The First Step in Planning: Assessing Your Operation

- **Communicate, Communicate, Communicate**



Getting Started: Assessment

- Look at existing enterprise
- Identify values and goals



Assessing Your Ranching Operation

- Explore personal and family values
- Develop personal, family and operational goals
- Evaluate skills and traits for each family member
- Inventory all resources associated with the farm or ranch
- Develop a SWOT analysis



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Personal and Family Values

- Fundamental core of one's life
- Standards and convictions
- What is important to you, what interests you or concerns you



Personal and Family Values

Examples

- **Fundamental beliefs**
 - Honesty, integrity, religious beliefs
- **What's important to you**
 - Open spaces, viewing wildlife
 - Working with your family
 - Money?
 - Heritage



Personal & Family Values

- Are your values in line with those of the entire family?
 - Communicate your values



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Goals

*“If You Don’t Know Where You’re Going,
You’ll Probably End Up Somewhere Else.”*



Goal Setting

- SMART Goals
 - **S**pecific
 - **M**easurable
 - **A**ttainable
 - **R**elevant
 - **T**ime-bound
- ❖ Written Goals
- ❖ Prioritize Goals
- ❖ Shared Goals



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Assessing Skills and Traits

- Personal Traits and Characteristics
- Lifestyle and Family Traits
- Family Financial Management
- Business Skills & Traits
- Natural Resource Characteristics
- Community Characteristics



Skills & Traits

- Balance goals and values of everyone with an interest in the enterprise
- Don't assume you know other people's goals or values



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Resource Inventory

- Human Resources
- Financial Resources
- Marketing Resources
- Land, Soil, Plant, Water Resources
- Livestock
- Facilities
- Equipment/Machinery
- Wildlife Resources (consumptive and non-consumptive)
- Fishery Resources
- Cultural Resources
- Recreation Resources
- Community Resources



Monitoring

- Incorporating monitoring into the business planning process can be an important management tool



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Enterprise Feasibility

- Assess
 - Strengths
 - Weaknesses
 - Opportunities
 - Threats



SWOT Analysis

	POSITIVE	NEGATIVE
INTERNAL	Strengths	Weaknesses
	<ul style="list-style-type: none"> • Good land stewards • Value open space • Know cattle operation well • Willing to set family goals • Want to raise kids on ranch 	<ul style="list-style-type: none"> • Not enough \$ to support all family members returning • Lack of marketing knowledge • Doesn't know where to get help
EXTERNAL	Opportunities	Threats
	<ul style="list-style-type: none"> • Premium being paid for "natural" • Could market timber • Interest in local foods 	<ul style="list-style-type: none"> • Potential reduction in grazing AUMs • Drought conditions • Small population in community



Summary: Steps to Sustainability

- Assess
- Determine Feasibility
- Then Implement

- **Communicate, Communicate, Communicate**



Components of a Business Plan

●



What is a Business Plan

- A **business plan** is a formal statement of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the team attempting to reach those goals. (Wikipedia)
- It is not just your financial statements
- Cindy's definition: A communication tool to enhance your success and ensure your survival



Business Plan Components

- Executive Summary
- Overview of the Industry and the Business
- Market Analysis
- Market Plan
- Management Team
- Financial Plan
- Break-even Analysis



Business Plan Components

- **Executive Summary**
- **Overview of the Industry and the Business**
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- Appendix



Executive Summary

- An overview of the plan
 - Business idea
 - Market opportunities
- Answers “who, what, where, when and how”



The Industry and the Business

The industry:

- Industry trends
- Market size, growth trends
- New products, developments, markets
- Customers

The business:

- Business structure
- How the business fits into the industry



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Market Analysis & Market Plan

- 4 Ps of Marketing
 - Product
 - Placement/distribution
 - Price
 - Promotion



Marketing Claims

- Source & Age Verification
- Natural, Organic
- Grass-fed
- NHTC
- Humane Treatment





Market Distribution

Regional/local food programs can lead to sustainability

- Direct marketing
- Community supported ag (CSA) programs
- Farmers' markets





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- **Management Team**
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Management Team

- Family members
- Key employees
- Others
 - Accountant
 - Attorney
 - Consultants





Business Plan Components

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- Market Plan
- Management Team
- **Financial Plan**
- **Break-even Analysis**



Financial Plan

- Financial statements
 - Profit and loss projections
 - Cash flow projections
 - Pro-forma balance sheets



Break – even Analysis

- The point at which total costs equals net sales
 - Fixed costs
 - Variable costs
- Quick way to look at whether realistic to make change



Appendix

- Resumes
- Job descriptions
- Maps
- Permits



Summary Benefits of Planning & Communicating





Benefits of Planning & Communicating

- 1
- 2
- 3
- 4
- 5
- 6



Resource Tools Available

- Sustaining Western Rural Landscapes, Lifestyles and Livelihoods *Agricultural Enterprise Diversification Resource Guide*
- Team of professionals
 - NRCS, Cooperative Extension, Ag Marketing
 - Small Business Development Center





Questions?



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