

Building a Sustainable Business

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

Developed by the Minnesota Institute for Sustainable Agriculture (MISA)
Published by Sustainable Agriculture Research and Education (SARE)



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



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Project Coordinators

Gigi DiGiacomo, Economic Consultant
Debra Elias Morse, Consultant
Robert King, University of Minnesota

Authors

Gigi DiGiacomo, Economic Consultant
Robert King, University of Minnesota
Dale Nordquist, University of Minnesota

Contributors

Vern Eidman, University of Minnesota
Debra Elias Morse, Consultant
Susan McAllister, Marketing Consultant
Kenneth Thomas, Professor Emeritus, University of Minnesota

Farmer Business Plan Participants and Reviewers

Nancy Aspelund
Mabel Brelje
Mary Doerr, Dancing Winds Farms
Frank Foltz, Northwind Nursery and Orchards
Dave and Florence Minar, Cedar Summit Farm
Greg Reynolds, Riverbend Farm

Technical Reviewer

Damona Doye, Oklahoma State University

Editor

Beth Nelson, Minnesota Institute for Sustainable Agriculture

Production

Nancy Goodman, copy editor
Andy Zieminski, cover design
Jim Kiehne, layout
Valerie Berton, SARE Outreach

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Other publications in the Sustainable Agriculture Information Exchange series include:

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For more information on this series, the Information Exchange, or MISA, contact: Minnesota Institute for Sustainable Agriculture, 411 Borlaug Hall, 1991 Buford Circle, St. Paul, MN 55108-1013; (612) 625-8235, or toll-free (800) 909-MISA (6472); Fax (612) 625-1268; misamail@umn.edu; www.misa.umn.edu.

Center for Farm Financial Management

The Center for Farm Financial Management at the University of Minnesota cooperated in the development of this publication. The Center's mission is to improve the farm financial management abilities of agricultural producers and the professionals who serve them through educational software and training programs. Contact: Center for Farm Financial Management, University of Minnesota, 130 Classroom Office Building, 1994 Buford Avenue, St. Paul, Minnesota 55108; (612) 625-1964 or toll-free (800) 234-1111; cfm@cffm.agecon.umn.edu; www.cffm.umn.edu.

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Preface

Business planning is an important part of owning and managing a farm. Producers traditionally go through the business planning process to:

- Evaluate production alternatives;
- Identify new market opportunities; and
- Communicate their ideas to lenders, business partners and family.

As agricultural entrepreneurs define and create themselves away from more “conventional” farming models, business planning has become more important than ever.

Producers considering innovative management practices and immature markets use business plans to map out strategies for taking advantage of new opportunities such as organic farming, on-farm processing, direct marketing and rural tourism. A business plan helps producers demonstrate that they have fully researched their proposed alternative; they know how to produce their product, how to sell what they produce, and how to manage financial risk.

“Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses” was conceived in 1996 by a planning team for the Minnesota Institute for Sustainable Agriculture (MISA), to address the evolving business planning needs of beginning and experienced rural entrepreneurs. From the onset, the planning team envisioned a truly useful guidebook that would be relevant to the alternative farm operations and rural businesses of today. There are certainly more detailed business planning, strategy building, succession planning, marketing and financial planning resources available. It was not our intention to replace these materials. Many of these existing resources are listed in an extensive “Resources” section at the end of this Guide. Instead, our objective was to compile information from all available resources, including farmers and other business experts, that could be used to create a business planning primer—a guide that will help today’s alternative agriculture entrepreneurs work through the planning process and to begin developing their business plans.

This Guide was developed over a period of seven years by a team of University of Minnesota faculty and staff, individual farmers and consultants. Six farmers developed business plans using the draft materials. This Guide incorporates recommendations on content, language and organization from the

farmers as well as examples from five of the review team’s business plans. We are grateful to them for their willingness to share their business planning efforts. This Guide was originally targeted toward Upper Midwest producers and entrepreneurs, hence the “Resources” section is weighted toward Midwest organizations. As the project evolved, we realized that the material is applicable to a variety of operations throughout the United States; the basic business planning process is universal. The Sustainable Agricultural Research and Education (SARE) Outreach agreed that this information should reach a national audience and graciously agreed to co-publish this material. This Guide benefited greatly from a careful review by Damona Doye, Extension Economist, Oklahoma State University, and we are grateful for her suggested revisions. Parallel to the development of this Guidebook, a business planning software package was developed by the Center for Farm Financial Management at the University of Minnesota. This Guide and software are complementary.

Ultimately, this Guide is as much about the planning process as it is about the creation of a final business plan. MISA followed one of the farm reviewer families, Cedar Summit Farm owners Dave and Florence Minar and their family, throughout their planning process. The Minars’ planning experience—their initial exploration of values, brainstorming of goals, and research into on-farm milk processing, markets and financing—is incorporated throughout this Guide’s text and Worksheets. A completed business plan for the Minars’ Cedar Summit Creamery is attached in Appendix A. This enabled us to “put a face” on the business planning process, and we thank the Minars for their openness in sharing so much of their story. Armed with their business plan, the Minars were able to obtain financing. We are happy to report that as we go to press, Cedar Summit Creamery is up and running.

We hope this Business Planning Guide will assist today’s alternative and traditional business owners alike with the creation of a holistic business plan rooted firmly in personal, community, economic and environmental values. With a business plan in hand, today’s farmers and rural entrepreneurs will be able to take that first step toward the creation of a successful and sustainable business.

2010 Update. Prior to a 2010 reprinting of the Guide, we updated the Resources section. We also caught up with the Minars and provide an update on Cedar Summit Creamery on page 243.

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INTRODUCTION

“Business planning is a critical component to any operation. Even though a ‘seat-of-the-pants’ approach to farming might work, it takes too long to figure out if a decision is a poor one; you can waste years doing the wrong thing when you could have been doing the right thing.”

—Greg Reynolds, Riverbend Farm owner/operator.

Regardless of whether you are a beginning entrepreneur who has recently inherited a business, an experienced farmer who is considering on-farm processing, or a retiring business owner who is looking to pass on the farm, business planning is important. It is an ongoing process that begins with the identification of values and ends with a strategic plan to address critical management functions.

Like many rural entrepreneurs, you may have a strong sense of the values that drew you to the land or inspired you to begin a business. You may also have a clear set of personal and business goals that you would like to pursue “when the time is right.” But, if you’re like most farmers and rural business owners, you run into problems when trying to incorporate values and goals into day-to-day business decisions. How can you build a balanced and sustainable business—one that reflects your values and is successful—in the long run?

Unlike most other business planning tools, *Building a Sustainable Business: A Planning Guide for Farmers and Rural Business Owners* takes a whole-farm approach. You will consider traditional business planning and marketing principles as well as your personal, economic, environmental and community values—those less tangible things that are a part of your thoughts every day, but which often don’t become a planned part of your business. You will be asked to integrate values with business management practices throughout this Guide.

Planning Tasks

- One: Identify Values
What’s Important to You?
- Two: Review History and Take Stock of Your Current Situation
What Have You Got?
- Three: Clarify Your Vision, Develop a Mission Statement and Identify Goals
Where Do You Want to Go?
- Four: Strategic Planning and Evaluation
What Routes Can You Take to Get Where You Want to Go?
- Five: Present, Implement and Monitor Your Business Plan
Which Route Will You Take and How Will You Check Your Progress Along the Way?

Structure of This Guide

This Guide is divided into five chapters—each reflecting a critical “planning task.”

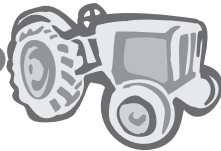
These icons let you know which of the four key management areas is being discussed in each Planning Task.



The Four Key Management Areas:

▶ Marketing

- Operations
- Human Resources
- Finance



The Four Key Management Areas:

▶ Operations

- Marketing
- Human Resources
- Finance



The Four Key Management Areas:

▶ Human Resources

- Marketing
- Operations
- Finance



The Four Key Management Areas:

▶ Finance

- Task One: Identify Values—What’s Important to You?
- Task Two: Review History and Take Stock of Your Current Situation—What Have You Got?
- Task Three: Clarify Your Vision, Develop a Mission Statement and Identify Goals—Where Do You Want to Go?
- Task Four: Strategic Planning and Evaluation—What Routes Can You Take to Get Where You Want to Go?
- Task Five: Present, Implement and Monitor Your Business Plan—Which Route Will You Take and How Will You Check Your Progress Along the Way?

Within each Planning Task, the four key functional planning areas are addressed: *marketing, operations, human resources* and *finances*. In Planning Task One, you and your planning team (family, business partners, lenders) will identify the values that bring each of you to the table. Planning Task Two asks you and your team to document business history and take stock of your current situation. In Planning Task Three, you will clarify a future vision for your business as well as develop goals and a mission statement that reflect the values you identified in Planning Task One. Planning Task Four addresses the crux of your business plan: the development and evaluation of strategic marketing, operations, human resources and financing alternatives. Finally, in Planning Task Five you will pull everything together into a written business plan.

Within each task, you’ll find examples of completed worksheets from five of the farmers who completed business plans for their enterprises using this guide.

To print a complete set of blank worksheets, go to www.misa.umn.edu/publications/bizplan.html

Mabel Brelje: Certified organic small grain, corn, and soybean grower

located in Glencoe, Minnesota. Mabel began the planning process shortly after receiving organic certification in 1998. At that time, her planning needs were three-fold and revolved around human resources, operations and marketing issues. Her primary planning issues concerned: (1) chronic labor and equipment shortages; (2) lack of established, reliable markets; and (3) the need to find a buyer for the farm.

Mary Doerr, Dancing Winds Farm:

On-farm goat cheese producer and bed and breakfast operator located in Kenyon, Minnesota. Mary had been operating her farm business for 14 years prior to developing her business plan as part of the MISA review process. At the time, Mary's planning objectives included improving financial management, increasing the number of B&B guests, and developing an apprenticeship cheese-making program on the farm.

Frank Foltz, Northwind Nursery and Orchard:

Edible landscape nursery stock grower and marketer located in Princeton, Minnesota. Frank had operated his family business for 17 years when he drafted a business plan to ready the catalogue portion of his business for sale to an outside buyer and to map out a long-term plan for on-farm nursery stock sales, tourism, and homesteading education.

Dave and Florence Minar, Cedar Summit Farm:

Large-scale dairy graziers located in New Prague, Minnesota. They operated the farm together for 30 years before preparing a business plan in 1999-2001. The Minars' primary planning objective was to evaluate on-farm milk processing as a strategy to reduce year-to-year income volatility and to create permanent work for several of their adult children. Dave and Florence shared their worksheets and business plan with MISA. You will see examples from their planning experience and their final business plan for the newly created Cedar Summit Creamery throughout this Guide.

Greg Reynolds, Riverbend Farm:

Organic Community Supported Agriculture (CSA) vegetable grower and marketer located in Delano, Minnesota. Greg was in his fourth growing season when he sat down to write a business plan as part of the MISA review process. His critical planning issues were human resources and finance related. Greg struggled with seasonal labor and cash-flow constraints. Throughout the planning process, Greg considered two strategy alternatives: hiring labor and purchasing labor-saving equipment to address his seasonal shortages.

Using This Guide

This Guide is intended to be user-friendly—written so that anyone should be able to walk through the business planning process by following the Planning Tasks.

As you begin the planning process, try to work through the tasks as they are ordered and to consider all four of the functional areas within each task, since these aspects of business management are interrelated. However, it is equally important to work through this Guide in a way that makes sense given your needs and time constraints. You may not be able to address all of your planning needs the first time through this Guide. It may be more important to simply begin the process of planning and to recognize that it will be an ongoing project.

Some of the Planning Tasks are quite involved, such as Task Four, in which you develop alternative business strategies. As you go through each consideration for each of the marketing and finance alternatives, it can be easy to forget where you are! We've provided a flow diagram that we'll repeat at the beginning of each section, to help you keep track of where you are in the planning process and show you how it relates to the big planning picture.

The Table of Contents includes a list of completed Worksheet samples and the page number where they can be found in the text. This will allow you to find them more easily when you begin working on your own Worksheets. Blank Worksheets for you to use are found at the end of each Planning Task.

Each Planning Task also ends with a section about which parts of your work from that Planning Task should be included in a final business plan. You can also use the FINPACK Business Planning Software to help you assemble the final plan, and use the data directly from financial Worksheets.

Before You Begin: Why Develop a Business Plan and Who Should Be Involved in the Planning Process?

New and experienced business owners, regardless of history or current situation, can benefit from business planning. As an experienced producer, you may develop a business plan to: map out a transition from conventional to organic production management; expand your operation; incorporate more family members or partners into your business; transfer or sell the business; add value to your existing operation through product processing, direct sales or

cooperative marketing. It's never too late to begin planning! If you are a first-time rural land owner or beginning farmer who may be considering the establishment of a bed and breakfast or community-supported agriculture (CSA) enterprise, business planning can help you identify management tasks and financing options that are compatible with your long-term personal, environmental, economic, and community values.

Business planning is an on-going, problem-solving process that can identify business challenges and opportunities that apply to your marketing, operations, human resources and finances, and develop strategic objectives to move your business beyond its current situation toward your future business vision.

Once developed, your business plan can be used as a long-term, internal organizing tool or to communicate your plans to others outside your business. Use your business plan to:

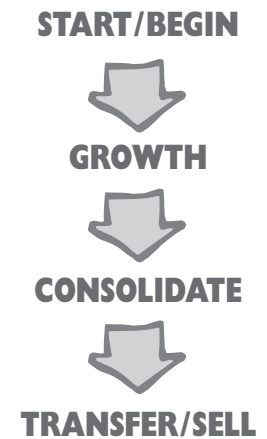
- Make regular or seasonal marketing, operations, human resources and finance decisions.
- Pursue long-term personal, economic, environmental and community goals.
- Develop a business profile for communicating within or outside your family to potential business partners, lenders and customers.

Before you begin working through this Guide, take a few moments to consider where you are in the business life cycle and why you are developing a business plan. Are you just beginning? Ready for growth? Planning to consolidate and transfer out of the business?

Based on your position in the business life cycle, what do you want to accomplish? Do you need to explore a critical finance- or operations-related challenge that you currently face? Research a perceived marketing opportunity? Prepare for an anticipated internal change in human resources? Most likely you have several, interdependent planning motives. This Guide is designed to help you work through many of them. Be aware, however, that retirement and farm transfer issues are not treated directly in the text or Worksheets. If retirement and business transfer are your critical planning issues, you may benefit by working through the first few tasks (identifying values, reviewing your history and current situation, and identifying your vision and goals), before talking with an attorney or financial consultant to help you develop specific business liquidation or transfer strategies.

Once you've identified why you're developing a business plan, you need to decide who will be involved in developing your plan. Your planning should ideally be done as a team—this will not only enrich brainstorming, but will also secure support for your plan by those who are involved in the operation. Your planning team can be thought of as business “stakeholders”—those people who

Figure 1.
The Business Life Cycle¹



¹ *Financial Management in Agriculture*, 7th ed., Barry et al., 2002.

This symbol will appear wherever we encourage you to fill in your own worksheet or business plan.



play a key role in your operation or who will be involved in business and personal decisions. Stakeholders often include family members, employees, partners, renters, other producers, landlords, customers, resource organizations, input dealers, lenders, community members, and veterinarians or other technical experts. These critical stakeholders should be considered your “planning team.”

Use the **Why Are You Developing a Business Plan? Worksheet** to think about your specific business planning issues and to help you identify your planning team. If you are feeling overwhelmed and unsure about where to begin in the planning process, try narrowing your initial planning focus to one critical management area. For example, in the Worksheet at right, Cedar Summit Farm owner Dave Minar began the planning process by identifying a critical issue related to his dairy farm’s long-term human resources availability. Minar considers his desire to employ more family members through the farm business his critical planning issue; it is his motivation behind the idea for on-farm milk processing which Dave and his wife, Florence, explore and present in their business plan (Appendix A).

Once you’ve identified the critical planning issues that you would like to address with your plan, think about how your plan will be used. If you intend to use the plan as a guide to seasonal operations, you will want to focus on the practical aspects of implementation. If your primary planning objective is to attract a potential business partner or financing, you will need to devote more time and space to fleshing out your business vision, its financial feasibility, and a marketing description of your final product or service.

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