



Handbook
Series
Book 6



Minnesota Institute for Sustainable Agriculture

Building a Sustainable Business

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



Developed by:
**the Minnesota Institute for
Sustainable Agriculture**
Saint Paul, MN

Co-published by:
**The Sustainable
Agriculture Network**
Beltsville, MD

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
Karol Keane, cover
Jim Kiehne, layout
Valerie Berton, Sustainable Agriculture Network

This publication was developed by the Minnesota Institute for Sustainable Agriculture in cooperation with the Center for Farm Financial Management, with funding from the Minnesota State Legislature.

This publication was co-published by the Sustainable Agriculture Network (SAN), under a cooperative agreement with USDA's Cooperative State Research, Education, and Extension Service.

To order copies of this book (\$14.00 plus \$3.95 shipping and handling), contact (802) 656-0484, sanpubs@uvm.edu, (800) 9096472, or misamail@umn.edu. This publication can be viewed on-line at www.misa.umn.edu/publications/bizplan.html.

Copyright © 2003, Minnesota Institute for Sustainable Agriculture

Library of Congress Cataloging In Publication Data

Building a sustainable business : a guide to developing a business plan for farms and rural businesses / by the Minnesota Institute for Sustainable Agriculture.

p. cm. – (Sustainable Agriculture Network handbook series ; bk. 6)

Includes bibliographical references.

ISBN 1-888626-07-0 (pbk.)

1. Farm management. I. Minnesota Institute for Sustainable Agriculture.

II. Sustainable Agriculture Network. III. Series.

S561.B84 2003

630'.68-dc21

2003005514

The SARE program provides information to everyone, without regard to race, religion, national origin, sex, age, disability, familial or veteran status. Every effort has been made to make this publication as complete and as accurate as possible. It is only a guide, however, and should be used in conjunction with other information sources and in consultation with other financial and production experts. The editors/authors and publisher disclaim any liability, loss or risk, personal or otherwise, which is incurred as a consequence, directly or indirectly, of the use and application of any of the contents of this publication. Mention, visual representation or inferred reference of a product, service, manufacturer or organization in this publication does not imply endorsement by the USDA, the SARE program, MISA or the authors. Exclusion does not imply a negative evaluation.

Cover photo collage: top, Greg Reynolds; right, Frank Foltz's son; lower left, Florence and Dave Minar; upper left, Mary Doerr

Sustainable Agriculture Information Exchange

This publication was developed through the Sustainable Agriculture Information Exchange, a clearinghouse of sustainable agriculture information and materials in Minnesota. The Information Exchange is a program of MISA, the Minnesota Institute for Sustainable Agriculture. MISA is a partnership between the University of Minnesota's College of Agricultural, Food and Environmental Sciences and the Sustainers' Coalition, a group of individuals and community-based, nonprofit organizations. MISA's purpose is to bring together the agricultural community and the University community in a cooperative effort to develop and promote sustainable agriculture in Minnesota and beyond.

To ensure that all of the Information Exchange's publications are applicable and user-friendly, they are developed by teams and reviewed by individuals who will use the material, including farmers, researchers, extension educators and other agricultural community members.

Other publications in the Sustainable Agriculture Information Exchange series (available through the University of Minnesota Extension Service Distribution Center) include:

Collaborative Marketing: A Roadmap & Resource Guide for Farmers (BU-07539-S)

Discovering Profits in Unlikely Places: Agroforestry Opportunities for Added Income (BU-07407)

Hogs Your Way: Choosing a Hog Production System in the Upper Midwest (BU-07641)

Minnesota Soil Management Series (PC-07398-S)

Organic Certification of Crop Production in Minnesota (BU-07202)

Whole Farm Planning: Combining Family, Profit, and Environment (BU-06985)

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; cffm@cffm.agecon.umn.edu; www.cffm.umn.edu.

Sustainable Agriculture Research and Education (SARE) Sustainable Agriculture Network (SAN)

SARE is a program of USDA's Cooperative State Research, Education, and Extension Service. For more information about SARE grant opportunities and informational resources, go to www.sare.org. SAN publishes information about sustainable agriculture under a cooperative agreement with CSREES. For more information about SAN, or other SAN publications, contact: Andy Clark, SAN Coordinator, Sustainable Agriculture Network, 10300 Baltimore Ave., Bldg. 046 BARC-West, Beltsville, MD 20705-2350; (301) 504-5236; Fax (301) 504-5207; san@sare.org

Funding for this project was approved by the Minnesota State Legislature and the Energy and Sustainable Agriculture Program of the Minnesota Department of Agriculture.

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. Two formal reviews were conducted by MISA throughout the 1998–2000 period to test and refine this Guide. During these reviews, six farmers were asked to

develop their own business plans using the draft materials. This Guide incorporates recommendations on content, language and organization from the review process as well as examples from five of the review team's business plans. We are grateful to them for their assistance and 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 Network 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.

Table of Contents

Introduction	11
Structure of This Guide	12
Using This Guide	14
Before You Begin: Why Develop a Business Plan and Who Should Be Involved in the Planning Process?	14
Blank Worksheet	18
The Five Planning Tasks:	
Task One: Identify Values—What’s Important to You?	19
Values: What Are They and How Are They Important to the Planning Process?	19
Identify Your Own Values	20
Identify Common Values	22
Preparing the Values Section of Your Business Plan	23
Blank Worksheets	24-25
Task Two: Farm History and Current Situation—What Have You Got?	27
A Brief History of Your Business	28
Assess Your Current Situation	30
Marketing Situation	30
Product: What is our product?	32
Customers: What markets do we serve?	32
Unique Features: What are the unique features that distinguish our products?	33
Distribution: How do we distribute our products?	34
Pricing: How do we price our products?	35
Promotion: How do we promote our products?	37
Market and Industry: How is our market changing?	38
Operations Situation	38
What physical resources are available for our farm business?	39
What production systems are we using?	43
What management and management information systems do we have in place to support our farm operations?	46
Human Resources Situation	46
Current Work Force: Who is involved in our business and what roles do they play?	47
Skills: What are our unique skills? What skills do we lack?	48
Change: Will our labor situation change in the near future? Will someone enter or leave the operation?	49
Financial Situation	51
Financial Needs: What are our current family living expenses?	51
Financial Performance: How well has our business performed in the past, and how strong is our current financial position?	52
Risk: To what type of risk is the business exposed?	61
Financial Environment: What is our current business environment and how is it changing?	62
Whole Farm SWOT Analysis	64
Prepare the History and Current Situation Section of Your Business Plan	66
Blank Worksheets	67-86
Task Three: Vision, Mission and Goals—Where Do You Want to Go?	87
Dream a Future Vision	88
Develop a Mission Statement	90
Set and Prioritize Goals	91
What Are Goals?	91

Write Out Goals.	94
Identify Common Goals.	94
Prioritize Goals.	95
Prepare the Vision, Mission and Goals Section of Your Business Plan	96
Blank Worksheets	97-101

Task Four: Strategic Planning and Evaluation—What Routes

Can You Take to Get Where You Want to Go?	103
Develop a Business Strategy	106
Marketing Strategy	106
Markets: Who are our target customers and what do they value?	108
—Segmentation	
—Sales potential	
Product: What product will we offer and how is it unique?	112
Competition: Who are our competitors and how will we position ourselves?	114
Distribution and Packaging: How and when will we move our product to market?	115
—Scope	
—Movement	
—Packaging	
—Delivery scheduling and handling	
Pricing: How will we price our product?	121
Promotion: How and what will we communicate to our buyers or customers?	126
—Image or product	
—Message	
—Tools and delivery	
—Timing and frequency	
—Costs	
Inventory and Storage Management: How will we store inventory and maintain product quality?	131
Develop a Strategic Marketing Plan	132
Operations Strategy	134
Production and Management: How will we produce?	134
—Production system	
—Production schedule	
Regulations and Policy: What institutional requirements exist?	137
Resource Needs: What are our physical resource needs?	138
Resource Gaps: How will we fill physical resource gaps?	139
—Land and buildings	
—Machinery and equipment	
Size and Capacity: How much can we produce?	143
Develop a Strategic Operations Plan	144
Human Resources Strategy	145
Labor Needs: What are our future workforce needs?	146
—Tasks	
—Workload	
Skills: What skills will be required to fill workforce needs?	148
Gaps: How will we fill workforce gaps?	149
Compensation: How will we pay family and members of our workforce?	151
Management and Communication: Who will manage the business and how?	152
—Management	
—Communication	
Develop a Strategic Human Resource Plan	154
Financial Strategy	154
Risk Management: How will we manage risk?	155
Organizational Structure: How will we legally organize and structure our business?	158
Finance: How will we finance capital requirements?	160

Develop a Strategic Financial Plan	163
Whole Farm Strategy	164
Evaluate Strategic Alternatives	166
Long-Term Outlook	167
Profitability: Will this new strategy significantly increase net income from the farm?	168
—Enterprise Evaluation for Profitability: Net return and break-evens	
—Whole Farm Evaluation for Profitability: Partial budgeting and long-range planning	
Liquidity: Will this new strategy help generate cash flow sufficient to pay back debts in a timely fashion?	174
Solvency: Will this new strategy lead to growth in net worth?	175
Risk: Will this new strategy affect the risks faced by the farm business and family?	176
Transition Period Evaluation	177
Choose the Best Whole Farm Strategy	179
Develop a Contingency Plan	182
Prepare the Strategy Section of Your Business Plan	184
Blank Worksheets	186-231

Task Five: Present, Implement and Monitor Your Business Plan—Which Route Will You Take and How Will You Check Your Progress Along the Way? 233

Organizing and Writing Your Business Plan	233
Implementation and Monitoring	238
Develop an Implementation “To-do” List	238
Establish Monitoring Checkpoints	240
Maintain Records	241
Review Progress	242
Blank worksheets	243-245

List of Footnote References 246

Resources 247

Glossary 261

Appendices 267

Appendix A: Business Plan: Cedar Summit Farm	269
Appendix B: Farm Financial Standards Council Business Performance Measures (Sweet Sixteen)	277
Appendix C: Sample Job Description	279
Appendix D: Direct Labor Requirements for Traditional Crop and Livestock Enterprises	280

List of Figures

Figure 1. The Business Life Cycle	15
Figure 2. Example from Cedar Summit Farm—Introduction Worksheet: Why Are You Developing A Business Plan?	17
Figure 3. Example from Dancing Winds Farm—Worksheet 1.1: My Values	21
Figure 4. Example from Cedar Summit Farm—Worksheet 1.2: Common Values	23
Figure 5. Example from Cedar Summit Farm—Worksheet 2.1: A Brief History of Our Farm Operation	29
Figure 6. Example from Cedar Summit Farm—Worksheet 2.2: Current Market Assessment (side 1)	31
Figure 7. “Northwind Notes-Apple Growing” from Northwind Nursery Catalogue	32
Figure 6. Example from Cedar Summit Farm—Worksheet 2.2: Current Market Assessment (side 2)	37
Figure 8. Farm map: the Foltzes’ Northwind Nursery and Orchards	39
Figure 9. Example from Cedar Summit Farm—Worksheet 2.3: Tangible Working Assets	40
Figure 10. Example from Cedar Summit Farm—Worksheet 2.4: Institutional Considerations	41
Figure 11. Crop Enterprise Checklist	42
Figure 12. Livestock Enterprise Checklist	42

Figure 13.	Example from Cedar Summit Farm—Worksheet 2.5: Describing Crop Production Systems	43
Figure 14.	Example from Cedar Summit Farm—Worksheet 2.6: Describing Livestock Production Systems	44
Figure 15.	Example from Cedar Summit Farm—Worksheet 2.7: Enterprise/Calendar Matrix	45
Figure 16.	Example from Cedar Summit Farm—Worksheet 2.8: Human Resources Matrix	47
Figure 17.	Example from Cedar Summit Farm—Worksheet 2.9: Assessing Worker Abilities and Needs	49
Figure 18.	Example from Cedar Summit Farm—Worksheet 2.10: Likely Changes in Our Human Resources Situation	50
Figure 19.	FINBIN Average Expenses for 2001 Farm Family in Minnesota and North Dakota	52
Figure 20.	Comparison of Financial Results Based on Tax and Accrual Information	53
Figure 21.	Comparison of Net Worth Based on Cost and Market Values for Assets	53
Figure 22.	Defining Financial Performance Measurement Areas	54
Figure 23.	Example from Cedar Summit Farm—Worksheet 2.12: Income Statement	55
Figure 24.	Example from Cedar Summit Farm—Worksheet 2.13: Balance Sheet	56
Figure 25.	Example from Cedar Summit Farm—Worksheet 2.14: Earned Net Worth Change Analysis	57
Figure 26.	Example from Cedar Summit Farm—Worksheet 2.15: Financial Ratios Based on the Balance Sheet and Income Statement (sides 1 and 2)	58
Figure 27.	Example from Cedar Summit Farm—Worksheet 2.16: Whole Farm Trend Analysis	60
Figure 28.	Common Sources of Agricultural Risk	62
Figure 29.	Example from Cedar Summit Farm—Worksheet 2.17: Risk Management	63
Figure 30.	Example from Cedar Summit Farm—Worksheet 2.18: Whole Farm SWOT Analysis	65
Figure 31.	Envisioned Northwind Nursery and Orchard Map	88
Figure 32.	Example from Cedar Summit Farm—Worksheet 3.1: Dreaming a Future Business Vision	89
Figure 33.	Example from Cedar Summit Farm—Worksheet 3.2: Creating My Business Mission Statement	90
Figure 34.	Example from Cedar Summit Farm—Worksheet 3.4: Identifying Our Family Business Goals	93
Figure 35.	Group Goal Setting—Reconciling Different Goals	94
Figure 36.	Example from Cedar Summit Farm—Worksheet 3.5: Prioritizing Goals	95
Figure 37.	Market Segmentation Alternatives	108
Figure 38.	Cedar Summit Farm Marketing Survey, May, 2001	109
Figure 39.	Example from Cedar Summit Farm—Worksheet 4.1: Customer Segmentation	110
Figure 40.	Example from Cedar Summit Farm—Worksheet 4.2: Potential Sales Volume	111
Figure 41.	Example from Cedar Summit Farm—Worksheet 4.3: Product and Uniqueness	113
Figure 42.	Example from Cedar Summit Farm—Worksheet 4.4: Competition	114
Figure 43.	Direct Marketing Options	116
Figure 44.	Intermediary Options	117
Figure 45.	Recommendations for Approaching Retail Buyers	118
Figure 46.	Example from Cedar Summit Farm—Worksheet 4.5: Distribution and Packaging (side 2)	120
Figure 47.	Blooming Prairie Wholesale Produce Pricing List	122
Figure 48.	Differentiated Product Pricing Strategies	123
Figure 49.	Undifferentiated Commodity Pricing Strategies	124
Figure 50.	Example from Cedar Summit Farm—Worksheet 4.6: Pricing	125
Figure 51.	Common Pricing Strategy Mistakes	125
Figure 52.	Cedar Summit Draft Logo Designs	127
Figure 53.	Example from Cedar Summit Farm—Worksheet 4.7: Promotion	128
Figure 54.	1998 Educational Classes from Northwind Nursery Catalogue	129
Figure 55.	Cedar Summit Farm price list with Minnesota Grown logo posted at their farm stand	129
Figure 56.	Cedar Summit Farm holiday flyer/advertisement for cheese and meat boxes	130
Figure 57.	Example from Cedar Summit Farm—Worksheet 4.8: Inventory and Storage Management	132
Figure 58.	Excerpt from Cedar Summit Farm's Worksheet 4.9: Marketing Strategy Summary (side 2)	133
Figure 59.	Excerpt from Cedar Summit Farm's Worksheet 4.10: Production System and Schedule	135
Figure 60.	Mabel Brejle's Five Year Crop Rotation Plan	136
Figure 61.	Permits Required by Cedar Summit Farm to Build Plant and Process	137
Figure 62.	Some Agricultural Licenses and Permits Required by the State of Minnesota	137
Figure 63.	Excerpt from Cedar Summit Farm's Worksheet 4.14: Resource Needs and Acquisition	139
Figure 64.	Machinery Acquisition Options	141
Figure 65.	New Versus Used Machinery and Equipment	141

Figure 66.	Pladot bottle filler used by Valley Fresh Dairy, West Virginia	142
Figure 67.	Excerpt from Mabel Brelje's Business Plan—Crop Yield Projections	143
Figure 68.	Example from Cedar Summit Farm—Worksheet 4.16: Estimating Output and Capacity	144
Figure 69.	Excerpt from Cedar Summit Farm's Worksheet 4.17: Operations Strategy Summary	145
Figure 70.	Example from Cedar Summit Farm—Worksheet 4.18: Tasks and Workload	147
Figure 71.	Florence Minar working on the Minnesota Organic Milk (MOM's) processing line	148
Figure 72.	Labor Acquisition Options	149
Figure 73.	Example from Cedar Summit Farm—Worksheet 4.19: Filling Workforce Needs	150
Figure 74.	Barriers to Effective Communication	153
Figure 75.	Excerpt from Cedar Summit Farm's Worksheet 4.23: Human Resources Strategy Summary	154
Figure 76.	Risk Management Alternatives	156
Figure 77.	Example from Cedar Summit Farm—Worksheet 4.24: Risk Management	157
Figure 78.	Legal Organization Options	158
Figure 79.	Example from Cedar Summit Farm—Worksheet 4.25: Business Organization	159
Figure 80.	Finance Alternatives	160
Figure 81.	Financial Assistance Options for Beginning Farmers	162
Figure 82.	Financial Strategy Issues	162
Figure 83.	Excerpt from Cedar Summit Farm's Worksheet 4.27: Finance	163
Figure 84.	Excerpt from Cedar Summit Farm's Worksheet 4.28: Financial Strategy Summary	163
Figure 85.	Example from Cedar Summit Farm—Worksheet 4.29: Summarize a Whole Farm Strategic Plan of Action	165
Figure 86.	Allocating Whole Farm Expenses	166
Figure 87.	Tips for Analyzing Strategic Plans	167
Figure 88.	Example for Bed and Breakfast Enterprise—Break-even Analysis	170
Figure 89.	Example from Hog Finishing Operation—Worksheet 4.32: Partial Budget	172
Figure 90.	Example from Hog Finishing Operation—Worksheet 4.33: Long-Range Income Statement	173
Figure 91.	Example from Hog Finishing Operation—Worksheet 4.34: Long-Range Projected Cash Flow	174
Figure 92.	Income Sensitivity Analysis Prepared by Mabel Brelje	176
Figure 93.	Example from Hog Finishing Operation—Worksheet 4.36: Risk Analysis	177
Figure 94.	What to Do if Your Strategy Isn't Feasible in the Long Run	177
Figure 95.	Example from Hog Finishing Operation—Worksheet 4.37: Transitional Cash Flow	178
Figure 96.	Strategy "Best Fit" Tests	180
Figure 97.	Example from Cedar Summit Farm—Worksheet 4.38: Scoring and Deciding on a Final Business Strategy	181
Figure 98.	Example from Cedar Summit Farm—Worksheet 4.40: Executive Summary Statement	185
Figure 99.	Example from Cedar Summit Farm—Worksheet 5.1: Business Plan Outline	236
Figure 100.	Common Presentation Pitfalls	237
Figure 101.	The Minar family began processing their first batch of milk in March, 2002	238
Figure 102.	Example from Cedar Summit Farm—Worksheet 5.2: Implementation To-do List	239
Figure 103.	Example from Northwind Nursery and Orchard—Worksheet 5.3: Monitoring	240
Figure 104.	Record Keeping Ideas	241



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.”

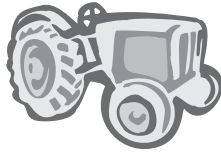
These icons let you know which of the four key management areas is being discussed in each Planning Task.



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:

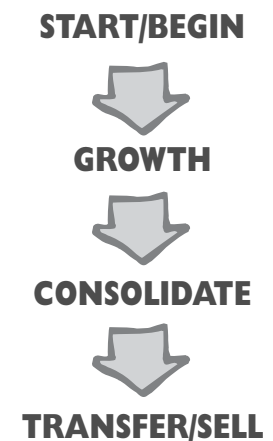
- ☉ Make regular or seasonal marketing, operations, human resources and finance decisions.
- ☉ Pursue long-term personal, economic, environmental and community goals.
- ☉ Develop a business profile for communicating within or outside your family to potential business partners, lenders and customers.

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.

Spend a few moments thinking about your planning needs. Be clear about which issues you would like to address with your plan and consider how you will use the final plan. This Worksheet is for your eyes only.

What key issues are motivating you to plan?

We have several adult children who want to continue farming. We would like to add jobs to our farm without increasing our milking herd. We would like to explore the feasibility of building and operating an on-farm creamery to add value to our milk, increase profitability and support more family members financially. We would also like to begin to map out a retirement plan that includes turning over the business to our children.

1. Who is your business planning team? Who should be involved in your planning process?

First and foremost, our planning team includes all five of our adult children and their spouses. We also consider our local farm business management instructor and other experienced processors as members of the planning team who can provide information and feedback on some of our ideas.

2. How will you use your business plan? Will it serve as an internal organizing tool, be used to communicate outside your business, or both?

Initially our plan will be used to communicate outside our business with a lender to secure financing. Our plan will also be used as an internal organizing tool to develop job descriptions, a production and processing schedule, a marketing and delivery plan, and cash flow projections.

Figure 2.
Example from Cedar Summit
Farm—Introduction
Worksheet: Why Are You
Developing a Business Plan?

