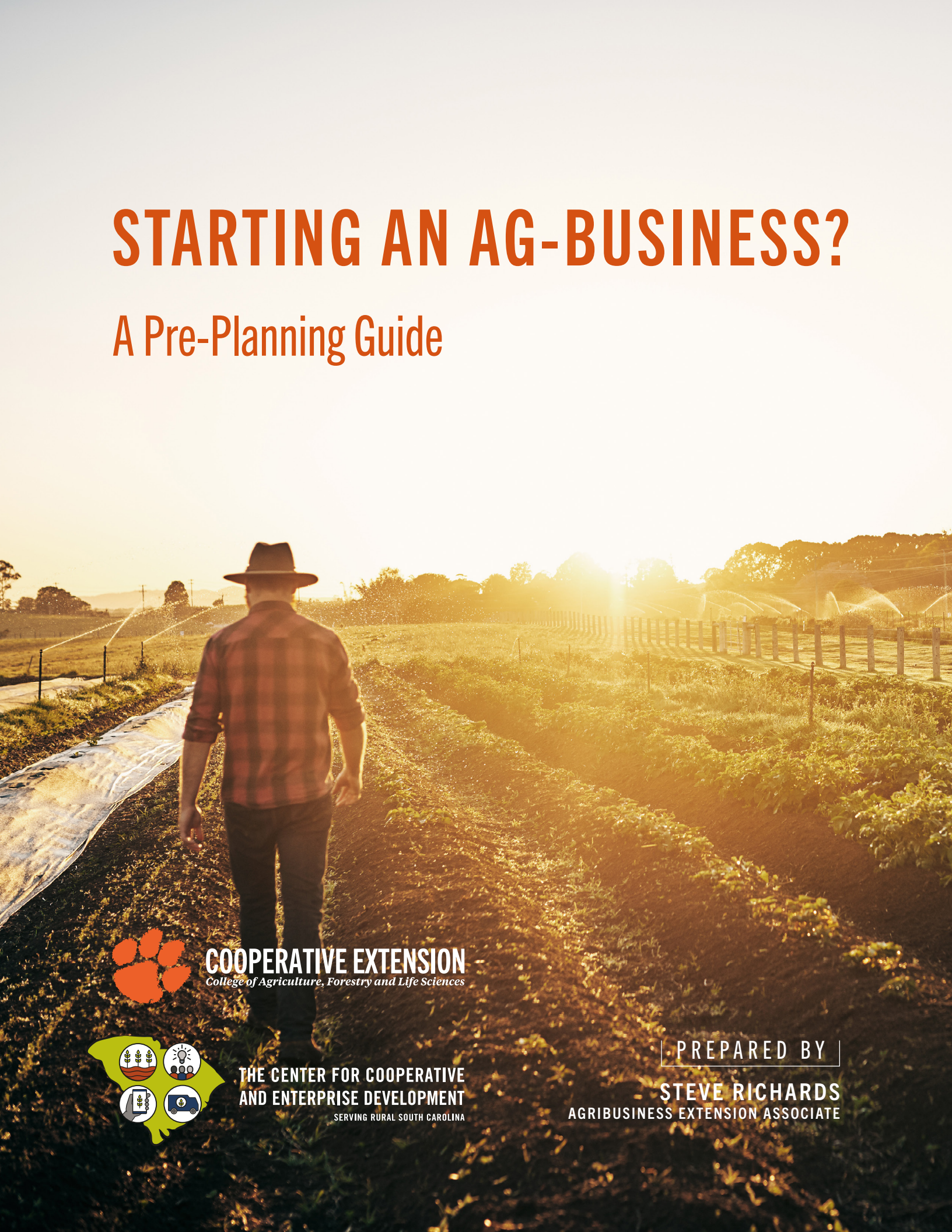
STARTING AN AG-BUSINESS?

A Pre-Planning Guide



COOPERATIVE EXTENSION
College of Agriculture, Forestry and Life Sciences

THE CENTER FOR COOPERATIVE AND ENTERPRISE DEVELOPMENT
SERVING RURAL SOUTH CAROLINA

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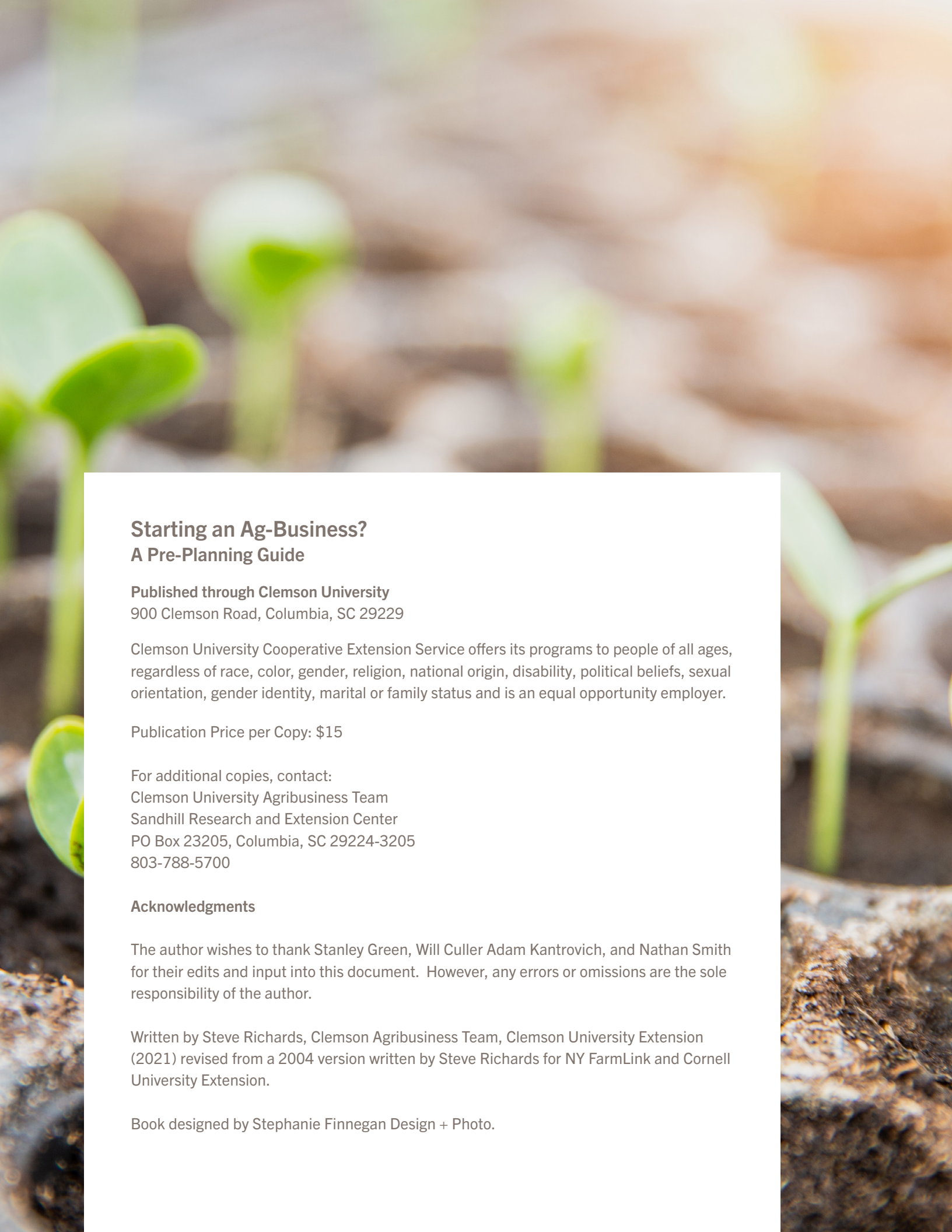

Starting an Ag-Business?
A Pre-Planning Guide

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INTRODUCTION

BUSINESS PLAN OR PLANNING?

It's been fourteen years since the first version of this business planning workbook was printed. A lot has transpired in my career and I have seen many, many business plans since then. What has changed during those fourteen years in terms of business planning? A business plan is still pretty much the same as it always was – a document that contains an entrepreneur's hopes for a successful business.

SO, WHAT HAS CHANGED?

It is my firm belief that the business plan is not as important as the owner's ability to manage their business. A business plan can be helpful, but it can also be a hurdle that a successful business owner needs to overcome on their way to success. After helping hundreds of family businesses with business plans, I'd like to argue that the skill of business planning is more important than the business plan.

What good business operators have is a way of thinking about their business. A written document that becomes obsolete within a year's time is not very helpful. A business plan is a living, breathing document that changes and it is the process of "planning" that assists in the success of a business as it and the owner evolves over time. Heck, a lot of plans become obsolete as soon as the business starts operations. Why is this?

- **A business plan is a best guess**. Until you start operating, you cannot know all the things you don't know. There is a significant discovery period during start-up.

- **The pace of change.** It used to be that you could write a strategic plan for three to five years in one shot. Now, you are lucky to have business conditions that are consistent for even two years in a row.

- **Reality check.** The dream of running a business is often different than the reality.

- **People change and lives change.** The business plans that fit your lifestyle today may not fit your lifestyle in the future. The business grows, the family grows or shrinks, and your needs from the business change.

I would like to suggest that this guide is to help you think about business planning. This is a dynamic process, where you think and re-think the principals of your business on a continuous basis. A business owner needs to see opportunities as they develop and act on the best ideas. The owner needs to think about their life as part of the business and to project the needs of their personal/family life and the needs of the business moving forward. This process will help develop as a business planner, not just develop a business plan.

WHO IS THIS GUIDE FOR?

Business planning can be a long and tedious process, but it doesn't have to be. The process of business planning can be much more rewarding if you take time to focus your thoughts and ideas. This workbook is intended to help you decide which enterprise is best, to act like a funnel by narrowing down ideas to what is financially and personally rewarding. Specifically, this guide is for:

- **People who would like to decide what kind of business to start.** If you are in this category, the sky is the limit. If you fall into this category, this book will be extremely helpful in narrowing down the possibilities.

- **People who want to know what business ownership involves.** If you have owned your own business, this book can help you assess what skills you will need to become successful. In addition, this book should provide you with a realistic picture of what it takes to manage an agricultural business.

- **People who own land and want to start an agricultural business.** Maybe you have already purchased a farm and are having trouble deciding what business you would like to start? Or, maybe you have already been farming and you would like to know what other options or enterprises to explore?

- **People who are looking to purchase a farm and start a business.** If you are looking to bite off the whole thing all at once, this book can help you focus your thoughts on what enterprise you would like to start, what the best location for your enterprise might be, and what type of farm/farmland would be best to obtain for your new enterprise.

- **People who are having trouble starting the business planning process.** Sometimes it takes momentum to get through the business planning process. This booklet can assist you by clarifying your vision for your agricultural enterprise. This new-found excitement for your agricultural business idea can help propel you through the planning process.

- **People who want to farm full time, part time, or as a hobby.** This book will help you determine the income that the business will need to generate to support a hobby, a part time job, or an entire family.

DO YOU KNOW WHAT YOU WANT TO DO?

If you don't already know, look at the next few pages and get some ideas. During this exercise, don't think about money. Think about what agricultural enterprise you would enjoy. There will be plenty of opportunities in the remainder of this book to think about money.

Commodity production

These are the typical farm products that grow well in your area. The good news is that there is usually a lot of technical support for these types of production systems. However, there can be slim margins in commodity production, usually resulting in larger farms and higher startup costs.

However, there are still opportunities in agricultural commodity production. Research the top commodities grown in your area. A useful source of information is NASS (National Agricultural Statistics Service) at *nass.usda.gov* where you can find statistics on almost any crop on a county by county level.

"Alternative" and "specialty" agricultural products

If commodity production does not sound like it is what you would like to do, then perhaps you are more interested in an "alternative" agricultural product—alternative meaning that it is an alternative to conventional commodity production. The following list was compiled by the Cornell Farming Alternatives program. This list is by no means complete, but perhaps you will find something that interests you.

BIOTECH PRODUCTS AND PRODUCTS FOR SCIENTIFIC USE

Animals raised for medical use
Animals raised for medical products
Herbs raised for medical use
Herbs raised for medical products

FIELD CROPS

Aduki beans
Amaranth grain for food and feed
Barley, waxy hull-less
Bird seed (sunflowers, millet, canary, etc.)
Buckwheat
Canola for oil
Comfrey
Corn snack foods
Crambe
Field peas (food and feed)
Fresh or stone ground flours, arid grains
Fuel crops (ethanol generation, etc.)
Garbanzo beans
Indian corn, miniature or regular sized
Kenaf
Lentils
Lupines, Sweet (as cash grain and for feed)
Malting barley
Medics
Mustard
Organically grown grains of all types
Popcorn, white arid colored
Seed production
Natto soybeans
Soybeans for human consumption
Soybeans processed into tofu, tempeh food products
Sunflower for oil and birdseed
Value added seed production (Registered and Certified Seed)
Wild rice

FISH AND GAME

Beefalo (hybrid of buffalo and beef)
Buffalo (American Bison)
Deer farming
Fallow deer, Red deer, white tailed deer
Elk (Wapiti)
Fish bait-worms, minnows
Game farms for tourists
Guinea fowl
Mallard duck for meat
Peacocks for feathers
Pheasant rearing for release/restocking programs and for meat
Rabbits for meat
Rabbits (Angora) for hair
Salmon, Trout

FOREST PRODUCTS

Apple tree firewood
Christmas trees
Firewood
Furniture, e.g. outdoor chairs, picnic tables
Nuts
Saw logs
Tree seed collection
Toys from wood

FRUITS

Apples, Applesauce
Berry products, jams, jellies, wines, juices, pie fillings
Blackberries
Blueberries, highbush cultivated and low bush foraged
Cider
Cranberries, Currants, Dried fruit
Elderberries, elderberry wine
Fresh white and pink grape juice
Gooseberries
Grape pie filling
Homemade jams, jellies
Mixed berry juices
Melons
Pick-your-own products
Raspberries, red, black, purple, and yellow
Raspberries, chocolate covered
Rhubarb products
Strawberries, day neutral types
Table grapes, seeded and seedless
Wine grapes for home brewing market

HORTICULTURAL/NURSERY

Annual flowers sold as potted plants

Dried flowers, cultivated arid wild
Field grown cut flowers
Field grown mums
Greenhouse production
Herb bedding plants
Herbs for culinary purposes
Herbs for potpourri and dried arrangements
Ornamental shrubs and perennial flowers
Organically raised bedding plants and fruit trees
Potted annuals
Specialty bedding plants
Vegetable transplant/bedding plant production
Wild flowers and seeds

LIVESTOCK AND ANIMALS

Beef, conventional and organic
Buffalo
Donkeys, miniature
Elk, meat processing, jerky
Fox, red, silver, and blue
Goats for milk (fresh and cheese) and meat
Goats (Angora) for hair
Honey and beeswax products
Horses, trail rides, draft horse breeding, caval, miniatures, exotic
Llama for pack animals, hair, and pets
Mink
Mules, donkeys
Rabbits for meat and lab animals
Rabbits (Angora) for hair
Sheep for lamb and mutton, wool, milk (for cheese)
Sheep wool for home spinning market
Sheepskin leather products
Veal, conventional and "FACT" certified

POULTRY

Balut (duck eggs partially incubated)
Chicken eggs partially developed for oriental markets
Chicken processed into patties for wholesale markets
Duck for meat
Ducks for liver pate
Free range poultry of all types
Geese
Organically raised poultry of all types
Turkey, fresh, frozen or cooked

SERVICES AND RECREATION

Antique shop
Barn dances
Bed and breakfast inn
Boat storage
Campground
Child care in country setting
Chuck wagon
Composting of municipal wastes
Confections and candles
Entertainment agriculture
Subscription farming
Crafts
Antique restoration
Custom machinery work
Custom planting and care of window boxes and container annuals
Custom planting and care of vegetable gardens
Custom slaughter
Farm sitting
Gift shops
Hunting, fishing, and nature hike guides
Lectures on herbs, gardening at farm
Museum of old farm equipment on working farm
Pet motels for large as well as small animals
Petting zoo
Religious services held on farm, e.g. sunrise Easter services, weddings
Restaurant
Seed and supplies distributor
Sleigh rides with work horses
Small engine repair
Taxidermy, mammal and bird
Tours for public, school children, bus tours of farm, winery, etc.
Trail rides
Vacations on farm
Wagon trains

VEGETABLES

Asparagus
Baby vegetables
Cabbage
Carrots
Celery

Cole crops (broccoli, cauliflower, brussels sprouts, kohlrabi)
Corn, miniature
Garlic
Gourds, ornamental
Gourmet vegetables
Horseradish
Hydroponically produced crops, out of season
Indian corn, regular, strawberry type, and mini-multicolored
Mushrooms, bisporous, shiitake, etc.
Onions (diversification, e.g. transplants, shallots, sweet, early)
Organic vegetables of all types
Oriental vegetables
Peppers, green and specialty types (purple, hot, etc.)
Pumpkins
Red beets
Sprouts (Alfalfa, bean, etc.)
Squash
Sweet corn
Sweet potatoes
Tomatoes, little yellow types

WHAT IF MY IDEA ISN'T ON THE LIST?

No need to be discouraged—in fact, you should be encouraged! You may have thought of something that is new and improved that no one else is currently producing!

USING A PRE-PLANNING CHECKLIST

Narrowing down your new business options can be tricky, especially if you have a lot of ideas! The checklist below will help you weed out the not-so-good ideas by asking you pointed questions.

1. Answer all the questions in the checklist for each business idea. For right now, you just need a sentence or two to describe each answer.

2. Rate your answers for each of the questions on a scale from 1-3, with 1 being "not likely" or "not thought out completely" or "no-way" and 3 being "very likely" or "thoroughly thought out". An answer of 2 is somewhere in between.

3. Review your checklist with your family, friends, and trusted advisors. Have them rank your ideas with the same checklist. Make sure you get honest input.

4. Compare your checklist with those responses gathered from others. Are your responses similar or drastically different? The idea of starting your own business can carry a lot of positive emotions with it. Don't be blinded by your desires to a point where you aren't logically thinking through your business idea.

5. Total up your rankings. Did you end up with a total score of less than 25? Did you end up with a lot of answers with a 2 rank? How can you improve on your business idea? Remember, as you change the answer to one question, you often change the answer to another question as well.

PRE-BUSINESS PLANNING CHECKLIST

Use a pencil, as you may change your answers and rankings frequently. Fill out this checklist for each of your business ideas according to the procedure explained above and see how you rank yourself. If you need help answering one of the questions, read the corresponding chapter in this workbook.

PRE-BUSINESS PLANNING CHECKLIST	FOR HELP, READ	YOUR RANK
Is it something that I like to do? (And do you have the necessary expertise?)	Chapter 1	
How much time will I spend doing it? (Part time, Full time, or Hobby?)	Chapter 1	
How much money do I want to make? (Supplement or provide entire income?)	Chapter 1	
Who is going to buy my product and where do they live? (Target the customer)	Chapter 2	
How much will people pay for my product? (What price will you receive?)	Chapter 2	
How will I sell my product to the customer? (Distribution and promotion methods)	Chapter 2	
How am I going to produce it? (Equipment and facilities requirements)	Chapter 3	
Where am I going to produce it? (Land characteristics)	Chapter 3	
How much will it cost to start up and run? (Capital Costs and Fixed Costs)	Chapter 4	
Will I make a sustainable profit with this business? (Operating Costs and Margins)	Chapter 5	
	Total Score	

EXAMPLE: THE SPICE CARAVAN

I had a business idea when I was living in Columbus, Ohio. This business was to buy large volumes of spices and repackage them into smaller amounts and charge a higher price. The store would be in a mall in a neighborhood where many "foodie" type of customers live.

While I didn't fill out a Pre-Business Planning checklist, I did something similar. I first asked myself these same questions and noted the areas where my plan was weakest: start-up costs, operating costs, and the amount I could charge for the repackaged spices. I felt that after some careful analysis, I could overcome these stumbling blocks.

PRE-BUSINESS PLANNING CHECKLIST FOR "SPICE CARAVAN"

PRE-BUSINESS PLANNING CHECKLIST	FOR HELP, READ	YOUR RANK
Is it something that I like to do? (And do you have the necessary expertise?)	Chapter 1	3
Yes, I used to have a job testing spices at a food processing plant.		
How much time will I spend doing it? (Part time, Full time, or Hobby?)	Chapter 1	2
I would like this venture to be a full time job.		
How much money do I want to make? (Supplement or provide entire income?)	Chapter 1	2
I would like this venture to pay for all my family living needs.		
Who is going to buy my product and where do they live? (Target the customer)	Chapter 2	3
Customers in Columbus, Ohio who like to cook and want better spices.		
How much will people pay for my product? (What price will you receive?)	Chapter 2	2
I am hoping that consumers will pay $2 for 1 ounce of spice/spice blends.		
How will I sell my product to the customer? (Distribution and promotion methods)	Chapter 2	2
I am going to open a store front in a strip mall in an upscale neighborhood.		
How am I going to produce it? (Equipment and facilities requirements)	Chapter 3	3
I am going to buy in large volumes of spices and repackage them.		
Where am I going to produce it? (Land characteristics)	Chapter 3	3
Not applicable. I will not produce any of the spices myself.		
How much will it cost to start up and run? (Capital Costs and Fixed Costs)	Chapter 4	1
I am not suer. Can't be that much, right?		
Will I make a sustainable profit with this business? (Operating Costs and Margins)	Chapter 5	1
I buy the raw spices for $1 an ounce, that's 100% markup – sounds great, right?		
	Total Score	**22**

WHAT REALLY SANK THIS BUSINESS IDEA?

It wasn't until I passed my business idea by my brother that I found a real flaw in my business plan. When I asked him if he would shop at this store, he simply said, "Sure, I would go there at least……one or two times a year." My brother had pointed out that, while the business idea was possibly viable, the number of customers coming to the store would have to be immense! If repeat customers only came to the store once or twice a year, I would have to be one of the only suppliers of spices in the entire area to generate enough customer traffic to keep my store in business.

LESSONS LEARNED

Most business ideas, once scrutinized by yourself and those that you trust, can perish before they get to the more intense planning and start up stages. If you can use this checklist to narrow down your ideas first, you can save yourself a lot of time.

USING A BUSINESS MODEL CANVAS

Like the pre-planning checklist, the business model canvas outlines your business idea in a way that it can be critiqued. In many ways, the business model canvas provides a visual summary of your business idea and functions like an executive overview.

The business model canvas focuses on four main areas of business design: infrastructure, product offering, customers, and finances. The key questions corresponding to each block in the canvas guide you through your business startup idea.

A blank business model canvas is on the next page. Below is a description of the blocks on the canvas and the questions that this block should answer. The answers to these questions will become easier as you work through this guide. You can always revisit this canvas and improve your answers. In fact, that is the point! Keep fine tuning your idea with input from others.

Customer Segments: Describe your target market – which customers will generate the most sales?

Customer Relationships: What are customer expectations in these target markets? How will we establish this relationship and maintain it?

Channels: Which channels (retail, wholesale, internet, etc.) will we use to reach the target customer?

Value Proposition: What need are you filling for your customer? What pain are you relieving or what gain are you creating? This, in other words, is your product or your service.

Revenue Streams: What are the largest revenue streams and how will the customer pay for this value?

Key Partners: Key suppliers, business partners, distributors, etc. Who are these key partners and what activities to they perform?

Key Activities: What key activities does our value proposition require?

Key Resources: What key resources are needed does our value proposition require?

Cost Structure: What are the major costs involved in your business model?

Fill in the business model canvas shown below. Three examples follow. Example one is Spice Caravan before fine tuning, example two shows the Spice Caravan after feedback is incorporated, and example three is Finger Lakes Fruit Juice.

KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITION	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
	KEY RESOURCES		CHANNELS	

COST STRUCTURE	REVENUE STREAMS

KEY PARTNERS

Who are our Key Partners?

Who are our Key Suppliers?

Which Key Resources are we acquiring from partners?

Which Key Activities do partners perform?

- Suppliers: quality and availability of spices
- Grocery Stores, food writers, and chefs: referrals

KEY ACTIVITIES

What Key Activities do our Value Propositions require?

Our Distribution Channels?

Customer Relationships?

Revenue streams?

- Repackaging bulk spices
- Testing spices for volatile oil content (taste and freshness)
- Retail sales

KEY RESOURCES

What Key Resources do our Value Propositions require?

Our Distribution Channels? Customer Relationships?

Revenue Streams?

- Suppliers or spices
- Relationships with chefs and food writers
- Walk in traffic
- Grocery store nearby

VALUE PROPOSITION

What value do we deliver to the customer?

Which one of our customer's problems are we helping to solve?

What bundles of products are services are we offering to each Customer Segment?

Which customer needs are we satisfying?

- Higher quality ingredients for cooking
- Finding those hard to find ingredients for ethnic cooking
- Pre-packaged in smaller quantities - in air tight containers (keeps it more fresh)
- Can bundle as spice blends or with other cooking ingredients or utensils

CUSTOMER RELATIONSHIPS

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?

Which ones have we established?

- How to use spices, how to cook with them
- Excitement about cooking with spices

CHANNELS

Through which Channels do our Customer Segments want to be reached?

How are we reaching them now? How are our Channels integrated?

Which ones work best?

Which ones are most cost-efficient?

How are we integrating them with customer routines?

- Retail storefront

CUSTOMER SEGMENTS

For whom are we creating value?

Who are our most important customers?

- "Foodies"
- People who like to cook and know about quality spices
- Families
- Married women and men
- Ages 30–55
- Post HS Education
- Above average household income
- Live in Columbus, Ohio

COST STRUCTURE

What are the most important costs inherent in our business model?

Which Key Resources are most expensive?

Which Key Activities are most expensive?

- Variable costs are the raw ingredients (spices), bags, and containers
- Buy in bulk and repackage in smaller amounts and markup at least 100%
- Overhead costs: my salary, storefront rent, insurance, utilities

REVENUE STREAMS

For what value are our customers really willing to pay?

For what do they currently pay?

How are they currently paying?

How would they prefer to pay?

Ho much does each Revenue Stream contribute to overall revenues?

- Buy in spices for an average of $1.00 per ounce and resell for at least $2.00 per ounce

KEY PARTNERS

Who are our Key Partners?

Who are our Key Suppliers?

Which Key Resources are we acquiring from partners?

Which Key Activities do partners perform?

- Suppliers: quality and availability of spices
- Grocery Stores, food writers, and chefs: referrals
- Online food writers, critics, and bloggers

KEY ACTIVITIES

What Key Activities do our Value Propositions require?

Our Distribution Channels?

Customer Relationships?

Revenue streams?

- Repackaging bulk spices
- Testing spices for volatile oil content (taste and freshness)
- Retail sales
- Website and mail order sales

KEY RESOURCES

What Key Resources do our Value Propositions require?

Our Distribution Channels? Customer Relationships?

Revenue Streams?

- Suppliers or spices
- Relationships with chefs and food writers
- Walk in traffic
- Grocery store nearby
- Website

VALUE PROPOSITION

What value do we deliver to the customer?

Which one of our customer's problems are we helping to solve?

What bundles of products are services are we offering to each Customer Segment?

Which customer needs are we satisfying?

- Higher quality ingredients for cooking
- Finding those hard to find ingredients for ethnic cooking
- Pre-packaged in smaller quantities - in air tight containers (keeps it more fresh)
- Can bundle as spice blends or with other cooking ingredients or utensils
- Gift sets and sets of spices for BBQ, ethnic cooking

CUSTOMER RELATIONSHIPS

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?

Which ones have we established?

- How to use spices, how to cook with them
- Excitement about cooking with spices

CHANNELS

Through which Channels do our Customer Segments want to be reached?

How are we reaching them now? How are our Channels integrated?

Which ones work best?

Which ones are most cost-efficient?

How are we integrating them with customer routines?

- Retail storefront
- Online sales, mail order sales to increase distribution range

CUSTOMER SEGMENTS

For whom are we creating value?

Who are our most important customers?

- "Foodies"
- People who like to cook and know about quality spices
- Families
- Married women and men
- Ages 30–55
- Post HS Education
- Above average household income
- ~~Live in Columbus, Ohio~~
- Ethnic populations that are looking for ingredients they cannot find

COST STRUCTURE

What are the most important costs inherent in our business model?

Which Key Resources are most expensive?

Which Key Activities are most expensive?

- Variable costs are the raw ingredients (spices), bags, and containers
- Buy in bulk and repackage in smaller amounts and markup ~~at least 100%~~ as much as the market will bear
- Overhead costs: my salary, storefront rent, insurance, utilities

REVENUE STREAMS

For what value are our customers really willing to pay?

For what do they currently pay?

How are they currently paying?

How would they prefer to pay?

Ho much does each Revenue Stream contribute to overall revenues?

- Buy in spices for an average of $1.00 per ounce and resell for at least $2.00 per ounce
- Markup spice blends 200% or more
- Gift sets: may be able to markup even further

EXAMPLE: FINGER LAKES FRUIT JUICE BUSINESS MODEL CANVAS

KEY PARTNERS

Who are our Key Partners?

Who are our Key Suppliers?

Which Key Resources are we acquiring from partners?

Which Key Activities do partners perform?

- Orchards and vineyards who have excess fruit
- Would be key to contract with suppliers so in years with crop losses there is still enough fruit for the juice company
- Contracts with wholesale food and beverage distributors
- Relationships with retailers so that they are included to order the products from wholesalers

KEY ACTIVITIES

What Key Activities do our Value Propositions require?

Our Distribution Channels?

Customer Relationships?

Revenue streams?

- Buying fruit
- Juicing, pasteurizing, and bottling fruit juices
- Wholesale accounts and relationship
- Direct store delivery

KEY RESOURCES

What Key Resources do our Value Propositions require?

Our Distribution Channels? Customer Relationships?

Revenue Streams?

- Fruit
- Wholesaler relationship
- Custom (hire out) bottling operation

VALUE PROPOSITION

What value do we deliver to the customer?

Which one of our customer's problems are we helping to solve?

What bundles of products are services are we offering to each Customer Segment?

Which customer needs are we satisfying?

- Fresh local fruit juice
- Produced in the orchard and vineyard region of the Finger Lakes
- Higher end fruit juice, packaged in a wine bottle
- A non-alcoholic alternative to wine
- A lot of interest in what wine grapes taste like before they are fermented into wine

CUSTOMER RELATIONSHIPS

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?

Which ones have we established?

- Wholesale food distributors, grocery stores, and specialty food retailers

CHANNELS

Through which Channels do our Customer Segments want to be reached?

How are we reaching them now? How are our Channels integrated?

Which ones work best?

Which ones are most cost-efficient?

How are we integrating them with customer routines?

- Wholesale channel
- Retail channel not ruled out, but not important at this time

CUSTOMER SEGMENTS

For whom are we creating value?

Who are our most important customers?

- "Foodies"
- Families
- Married women and men with children
- Ages 30–55
- Post HS Education
- Above average household income
- Tourists to the Finger Lakes region
- Central New York markets in Rochester and Ithaca
- Target same customers who are higher than average wine buyers in the region

COST STRUCTURE

What are the most important costs inherent in our business model?

Which Key Resources are most expensive?

Which Key Activities are most expensive?

- Variable Costs: fruit, bottles, labels, production labor, other ingredients, contact bottling, propane
- Overhead Costs: interest, management costs, insurance, repairs, property taxes, depreciation, office supplies
- Necessary Profit: pay myself, pay back the bank (principal payments)

REVENUE STREAMS

For what value are our customers really willing to pay?

For what do they currently pay?

How are they currently paying?

How would they prefer to pay?

Ho much does each Revenue Stream contribute to overall revenues?

- Final retail price will be $8 to $10 per bottle (25oz wine bottle)
- Wholesale price will be 50% to 65% of retail price, depending on the food and beverage distributor
- Sales forecasted at 2400 to 3600 bottles per year

CHAPTER 1

IS YOUR IDEA A GOOD FIT?

What makes a good fit? First, is an agricultural business what you want to pursue? Second, do you want this business to be part time or full time? Third, how much money do you need to make? The exercises below will help you figure this out.

CHOOSING A BUSINESS THAT YOU LIKE

It is best to realize that there are some realities that make agriculture a challenging business. Think about these things (and if you have a family, talk with them). Make two lists: What do you like about the business idea and what don't you like about the idea? Are you (and your family) willing to struggle through the possible pitfalls of operating a farm business?

FARM BUSINESS IDEA
WHAT I LIKE ABOUT IT
WHAT I DON'T LIKE ABOUT IT

CHOOSING A BUSINESS VENTURE THAT FITS YOUR SKILLS

Nobody likes to do something that they are terrible at! Before you start a farm business, you need to rate your expertise in managing that business. In what areas of business are you strongest? In what areas do you have weaknesses?

BUSINESS SKILLS AS THEY RELATE TO RUNNING A FARM BUSINESS
WHAT I'M GOOD AT
WHAT SKILLS I NEED TO LEARN

HOW MUCH TIME DO YOU WANT TO SPEND DOING IT?

Do you want this venture to be part time or full time? Do you or your spouse need to maintain an off-farm job? Realistically analyze how much of your time you want to commit to this business enterprise.

How many hours a week can you commit to this business? _____

How many hours a week does your family want to commit? _____

HOW MUCH MONEY DO YOU WANT TO MAKE?

What income do you need to support your lifestyle? Do you want to provide a supplemental income for your family? Do you want to provide the entire income for your family?

I would like to make $_____ per year with this farming operation.

I expect this amount will provide _____ % of my family's living needs.

REALITY CHECK: COMPARING ENTERPRISE IDEAS WITH PERSONAL GOALS

The pointed questions below are designed to help you narrow down your options. What do you enjoy and what don't you enjoy? Be honest. If this venture is to consume a large part of your life, you need to really want to do it!

I AM INTERESTED IN RAISING ANIMALS

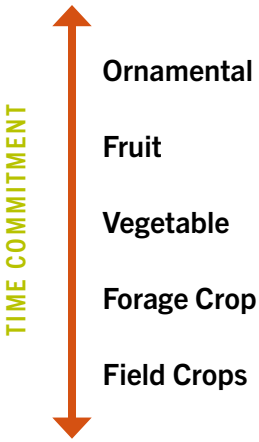
Do you like animals? How much do you like animals? Do you have the time to care for them? Livestock operations are 24 hours/day, 7 days/week.

The graphic to the left shows that there are varying levels of commitment to animal operations, but in general the time commitment for livestock operations is high.

As an example, let's examine a beef/dairy livestock operation; Milking is an example of raising animal products, cow/calf is an example of raising animals, and fattening steers for market is an example of finishing.

I AM INTERESTED IN RAISING PLANTS

What kind of plants do you want to grow? How intensive are the cultivation practices? What scale of operation are you thinking of?

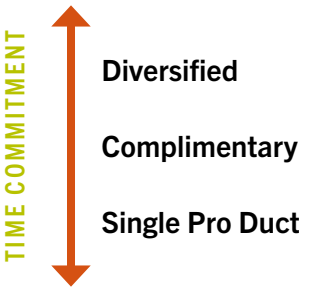


While all plant production takes a lot of skill, certain types take more annual time than others.

The scale of the operation has a lot to do with the time spent, but all other factors being equal, time commitment varies from ornamental crops to non-irrigated field crops.

DIVERSIFICATION VERSUS CONCENTRATION?

How many products do you want to produce? Will these products have different raising/planting and harvesting times?



Diversification reduces risk of production and market losses and may help with cash flow fluctuations. However, it is possible to become too diversified. Managing products that are complimentary (similar) will take less time than those that are completely different. You will want to stay away from producing "a little bit of this and a little bit of that" without an apparent plan.

I AM INTERESTED IN DIRECT MARKETING

Are you good at selling things? Do you like people? How are your customer service skills? How are your employee management skills?

There is no way to be completely isolated from other people. However, if you want to direct market or retail your farm products, you will have to have strong interpersonal skills, as you will be dealing more with people than your wholesale or commodity producing counterparts.

I AM INTERESTED IN VALUE-ADDED PRODUCTION

Will you have to process the product yourself? Will you grow it and process it and market it? What scale of production will you be able to sustain?

Producing, processing, and marketing agricultural products is a strategy to increase income. However, this has ramifications for what scale you wish to operate. The time commitments of following the product through the entire value-added chain may limit how much product you can produce. You may wish to explore options in which someone else helps produce, process, or market your product.

WRITE DOWN YOUR LIST TOPPERS

In the spaces below, write down what you consider to be the "top" of your list of products that you would like your agricultural business to produce. No need to put them in order of how much you like them, just write them down. Try to narrow these ideas down to 5 products.

Recap: What are your goals for this new enterprise?

My family and I want to spend _____ hours per week on this enterprise

My family and I want this enterprise to supply _____ % of our family income

CHAPTER 2

CAN YOU SELL YOUR IDEA?

There is a reason this chapter comes before the chapter about growing and producing your product. That's because your ability to sell your idea may be more critical to the success of your business than the ability to produce the product. In fact, the pointed questions in this chapter may be the most important questions in the whole workbook.

Navigating this chapter

This entire chapter can be summarized in the worksheet that you will fill out for your product idea(s). If you have multiple answers or multiple product ideas, make copies of the worksheets before writing in this workbook.

ROW 1: DESCRIBE YOUR PRODUCT OR SERVICE

Describe what your product is and what its attributes and benefits are. Use as much detail as possible. The answers to this question will directly relate to the answers to the next question.

ROW 2: WHO IS MOST LIKELY TO BUY YOUR PRODUCT?

Describe your customer with specific traits, such as: male/female, age range, married/single, kids/no kids, college degree/no college degree, high income/middle income/low income? Try to describe what values your typical customer might have (i.e. health conscious, environmentally minded, desires a local food supply, values quality food products, etc.).

ROW 3: HOW ARE YOU GOING TO REACH YOUR CUSTOMER?

Where are your customers located? Imagine you are a telescope zooming in on your target customer. What state do they live in? What region of that state? What township? What village or city? How many likely customers does this geographical area include? You may find that your customers are widely dispersed (organic grains, for instance) or that most people demand your product in one way or another (milk, for instance).

ROW 4: DETERMINE THE BEST METHOD TO REACH THESE CONSUMERS

This may depend upon what you are producing, your proximity to your customers, and how widely dispersed your customers are. Retailing involves selling your product directly to the final customer. Products that most customers buy work better for retail. If you are intending to retail directly from your farm, how likely is your target customer to drive by and stop at your farm? Products that have widely dispersed customers tend to be wholesale products, meaning that you will rely on someone else to sell your product.

ROW 5: HOW WILL YOUR CONSUMER KNOW ABOUT YOUR PRODUCT?

Great! You have an idea for an excellent product that your customer is dying to buy! How are you going to let your customer know that you have this excellent product for sale? Are you going to advertise in the local paper, drive around shouting through a bull horn, hang an "open" flag in front of your farm, or wait for "word of mouth" to eventually reach your customer? If you are going to sell wholesale, have you contacted the wholesaler to see if they would be willing to carry your product? Also, how much of your product will they carry? What kind of contract do they offer in exchange for your product?

ROW 6: WHAT PRICES WOULD YOUR CUSTOMER BE WILLING TO PAY?

Write down a range of prices and the units that are in quantities that the customers would most likely buy. For instance: "between $8 and $19 a bushel" are typical for wholesaling, but "$.25 to $.57/pound" would be the units that most retail customers are used to seeing. You could do some preliminary market research, discovering what prices are being paid for comparable products. If you are going to sell your products through a wholesaler, ask the wholesaler what price they pay for the product. Also ask the wholesaler if there are premiums or discounts for quality, reliability, and/or volume. The key to this exercise is to determine what range of prices are being received in the market. If possible, try to determine the reason for the prices at the high and low ends of the scale and where your product ranks.

ROW 7: WHAT MAKES YOUR PRODUCT SPECIAL (VERSUS THE COMPETITION)?

Why would your customer pick your product over someone else's? List your product attributes that differentiate it from other, comparable products. Try to describe these traits in measurable quantities. For instance, instead of writing something like "better quality pears", try to explain this detail further with something like "larger, fresher, less blemished pears." Be realistic as well—can you produce a differentiated product on a consistent basis at the volume demanded by your consumer? If you are selling wholesale, list the attributes of your wholesaler: what do they want from you: quality, volume, reliability, low price, or all the above? How will you achieve this at a higher rate than other suppliers to the wholesaler?

EXAMPLE: FINGER LAKES FRUIT JUICES

Upon moving to New York State, I had another business idea. This one passed my initial Pre-Business planning checklist and was on its way to a full-fledged business plan!

The basic idea was this: wineries in the Finger Lakes region were having problems with contamination caused by the Asian lady beetle (which causes off flavors if the juice is fermented into wine). There were other opportunities, as well, with excess orchard fruit in the area (apples, pears, and some peaches and cherries) not being sold.

My idea was to take this fruit and juice, pasteurize, and bottle it for sale.

I figured that each individual vineyard or orchard would not invest the capital needed to install a pasteurizer, as the amount of unusable fruit from each operation was small. However, my business would pool low value fruit from several orchards and vineyards and capitalize on economies of scale with a centralized pasteurizing and bottling operation.

I expected that I would wholesale this product to local groceries and farm retail outlets, as my goals were to have this be a part time job to supplement family income.

Follow examples through this workbook to find out how this turned out!

WORKSHEET #1: USE THIS WORKSHEET TO MAP OUT YOUR SALES STRATEGY

BUSINESS IDEA:	
1. Describe your product or service. What are its attributes and benefits?	
2. Who is likely to buy this product or service? What are the characteristics of this customer?	
3. Where are your customers located? How far away are they? Are they concentrated in an area or widely dispersed?	
4. Determine the best method to reach your customers. Retail? Wholesale? Both? Sales outlet locations?	
5. How will your customer find out about you and the products you offer?	
6. What is your expected range of prices that your customer would be willing to pay?	
7. Who is the competition and what do they offer? What makes your product better than those that they offer?	

EXAMPLE: FINGER LAKES FRUIT JUICES

BUSINESS IDEA: FINGER LAKES FRUIT JUICES	
1. Describe your product or service. What are its attributes and benefits?	Unsaleable fruit is collected, juiced, and pasteurized. The benefit is that this fruit, instead of being dumped, could be turned into bottled local fruit juices and sold as a value added product. In addition, I figured many people would be interested in local fruit, non alcoholic grape juice, and the associated healthy benefits.
2. Who is likely to buy this product or service? What are the characteristics of this customer?	The customers for this product would be retail food outlets Finger Lakes region of New York State (wholesale) The final customers would be local residents and tourists to the Finger Lakes area buying from food retail outlets. The typical customer would be a married female who is buying the juice for her children. Demographics would be typical of someone who would shop at Whole Foods, GreenStar Cooperative, and local farm markets.
3. Where are your customers located? How far away are they? Are they concentrated in an area or widely dispersed?	There are 50,000 potential customers within a 90 minute drive from the proposed processing site in Hector, NY. There are more than 200 food outlets, wineries, and farm markets concentrated into this area. Some additional market research was also performed to find out where the best local markets are located (ESRI mapping). The two hottest markets appeared to be Ithaca, NY and the eastern suburbs of Rochester, NY.
4. Determine the best method to reach your customers. Retail? Wholesale? Both? Sales outlet locations?	Self distribution via delivery truck. Prices charged would be wholesale prices, as I do not intend to sell the product directly to the customer. The goal would be to resell the product to the retailer and they would sell the final product. Orchards and vineyards that contribute fruit to the juices may also want to sell this at their own retail outlets. Some direct to consumer retailing could occur in the future at farm markets, festivals, and road side stands.
5. How will your customer find out about you and the products you offer?	I will contact the orchards, vineyards, and food retailers. This could be a combination of cold calls, or I could look for local distributors willing to take the product on their trucks for deliveries. Some advertisement would be done through a website and social media, but not paid advertising (media) at the beginning.
6. What is your expected range of prices that your customer would be willing to pay?	The price range for high end juices at Whole Foods/GreenStar Coop/Farm Markets is between $8 and $10 per quart. I would package the juice in wine bottles (25oz) and aim for a similar retail price per bottle. Considering that I am going to wholesale the product, I could expect to see anywhere from 50% to 65% of the retail price ($4 to $6.50)
7. Who is the competition and what do they offer? What makes your product better than those that they offer?	The competition would be national fruit juice producers. There are no local competitors or producers The juice products made by my company would be more fresh, local, and price competitive. Also, there are no other businesses bottling grape juice made from wine grapes - somewhat a novelty to taste the flavors without the alcohol!

NARROWING DOWN YOUR IDEAS FURTHER

Now that you have the data in the worksheet in front of you, it is time to fine tune your product idea. Below are some common reasons for business ideas failing to pass muster. If you find that your idea suffers from one of the faults listed below, you may need to rethink your idea a bit.

1. **Not enough potential customers for your product**

    a. The location of your farm is not near your likely customer

    b. Not enough likely customers will visit your retail location.

    c. Your wholesale distributor does not serve your likely customer or has more than enough suppliers for your product idea.

    d. Not enough repeat business from potential customers.

2. **Your location is too far from retail and/or wholesale outlets**

    a. Locations of farmers' markets are too distant from where you live.

    b. Wholesale outlets are too distant from where you produce/live.

    c. The time and money spent delivering product is not feasible.

3. **Market saturation/lack of sufficient differentiation**

    a. Too many other people had the same idea or similar ideas

    b. Wholesaler is not accepting any more product of that type

    c. Too many other retail sites offering comparable products

    d. Too many other vendors at farmers' market offering comparable products

    e. Your product is not significantly different from other products

4. **You will have problems promoting your product to your likely customer**

    a. You cannot think of an appropriate promotion mechanism to reach your customer

    b. Promoting your product to your likely customer would be too expensive

    c. You would have to "educate" your customer before they would be willing to try your product or pay more for your product.

    d. You are not a good salesperson.

5. **Your product will not command the price you hoped that it would**

    a. Due to the reasons (#1 to #4) listed above.

    b. The customer just isn't willing to pay extra for your product, regardless of how different it is from comparable products.

    c. The wholesale market price range is much lower than you expected.

DO SOME HOMEWORK ON YOUR MARKETING STRATEGIES

One of the simplest ways to do some preliminary market research is to talk about your ideas and research the products you are thinking about growing, processing, or selling.

Some examples:

- Ask your friends and family what they think about your ideas—do they think that the product will sell? Would they buy it? Would their friends buy it? How much would they buy and how frequently would they buy it?

- Hone in on your target customer: who they are, where they live, where they shop, and what they buy. Try to really describe who is the typical customer for your product.

- Visit people in a different part of the state who are growing, processing, or selling comparable products. Many farm businesses are quite open and friendly to visitors. In some cases, these businesses are willing to help get you started with some good advice.

- Contact your local cooperative extension office or specialist. Interview them about their experiences with farm businesses that are producing comparable products. Ask them about meetings and industry groups that might be pertinent for you to attend.

- If you are going to wholesale your product, visit the wholesaler! Have the wholesaler tell you what they want—maybe it is something different than what you had in mind.

- Remember that you will have to test these ideas further when you prepare your full business plan.

CHAPTER 3

HOW WILL YOU PRODUCE IT?

This chapter is designed to help you to do some preliminary research on what start-up costs and infrastructure items are needed to produce your product. Specifically: land, buildings, facilities, and equipment.

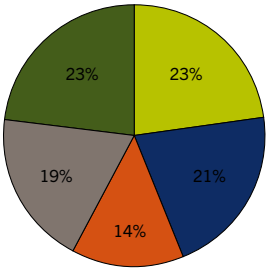
WORKSHEET 2: LAND CHARACTERISTICS

What are the characteristics of the land you have or the land you need? The land characteristics worksheet is located on page 25.

ROW 1: LAND CAPABILITY

Not everything can be grown on every type of land. "Dirt is not just dirt," it can range in its suitability to agricultural production and its suitability to certain types of crops. The United States Department of Agriculture (USDA) Natural Resource Conservation Service (NRCS) has done extensive work surveying all the soils in the United States. The results of this survey can be used to determine farm land capability by classing the soils from I-VIII: Class I being the best soil for agricultural production and VIII being off limits. Soils classes I-II are most likely to be used for agricultural production, as soils III-VII have severe to uncorrectable limitations. In the United States, the land capability classes are as follows:

LAND CAPABILITY, UNITED STATES



Classes I & II: 23% of total land

Class III: 21% of total land

Class IV: 14% of total land

Class V-VI: 19% of total land

Class VII-VIII: 23% of total land

In general, if you are going to grow some sort of cultivated crop, then soil classes I and II would be the desired soils. These soils are not necessarily found in all areas of the country and they are usually in short supply. If you are going to raise livestock on pastureland, then soils III through V may suffice; depending upon the type of livestock operation. There are other measures of soil capabilities and productivity indexes which may be useful to consult as well.

What you want to write down in Row 1 is the land capability range that is necessary to support growing your product without amelioration. If you already own or rent land, write down what capability classes you have on your farm and how many acres of each class is available on your property or property close by (in case you were to rent some land from a neighbor). If you have trouble identifying the soils on your farm or a prospective farm, contact your local extension crop specialist to help you do some soil testing and to find your parcels on an NRCS soil survey.

Soil amelioration is another option, depending on what the land capability limitations are. Organic matter, fertilizers, drainage, irrigation, adjusting pH, and adaptive production practices are just a few things that can be done for soils in classes III-IV. If you must ameliorate, you may wish to write some notes underneath your soil capability range in row 1.

ROW 2: LAND LOCATION

Do you know where you would like your farm business to reside? Family goals may dictate that you want to be close to a certain city or to certain family members. If you want to direct market, the location of the farm should be close to your markets. In this row, write down the regional locations that you would consider good locations for farm land. If you own the land, describe the location in geographic terms.

ROW 3: OTHER LAND CHARACTERISTICS

Are there any other characteristics that you would like to place on your land choices? Write down such things that may be important to you. Is water availability important? Do you need road frontage? Do you need a building site for new construction (with electricity, telephone, and sewage)? What about being in an agricultural district or having an easement on the deed to your property? Write as many other factors that may help you make your decision. If you already own or rent the land, write down the characteristics of the property are important to your future business.

ROW 4: BUYING OR RENTING LAND

What land tenure options are you open to exploring? Maybe you already own your land. If not, there are advantages and disadvantages to both buying and renting, as shown below.

BUYING LAND	
ADVANTAGES	**DISADVANTAGES**
• The feeling of ownership! • You can do almost whatever you want • You have something for the future • It may provide a good investment	• You are tied to that location • You may have to take on debt • You have to pay high property taxes • Land is not always a good investment
RENTING LAND	
ADVANTAGES	**DISADVANTAGES**
• You can make your location flexible • Cheaper than buying land in many cases • May not have the take out debt to start your business • May be less risky	• You can't always do what you want • Your lease could expire or the owner could sell • If you have to improve the leased land, are you going to be compensated for it?

Write down which options you would be open to exploring and the costs of each. If you already own or rent the land, write "already own" or "already rent" down in this row.

WORKSHEET #2: LAND CHARACTERISTICS

BUSINESS IDEA:	
1. Land capability needed. Soil class needed? Amelioration needed?	
2. Location factors. Personal, marketing, zoning, and other preferences.	
3. Other factors. Water resources, building sites, utilities, support services, etc.	
4. Buy or rent the land? Options to consider? Cost of renting or buying?	

EXAMPLE: FINGER LAKES FRUIT JUICES

The juice products would all be made from local fruit, but not fruit grown at my location. My farmhouse had just over 2 acres and could support some fruit trees. I had tried growing 7 fruit trees in the past and all of them died. This made me realize that I really wasn't a fruit farmer and I should concentrate my efforts on the value added and marketing aspects of the business idea.

WORKSHEET 3: BUILDINGS AND FACILITIES

Some of your product ideas may require special buildings or facilities. Buildings and facilities are often a stumbling block to those who want to start processing their own food products.

ROW 1: WHAT BUILDINGS AND FACILITIES ARE NEEDED?

Under each product idea, write what buildings and facilities will be needed for these enterprises. Keep in mind that equipment, supplies, and finished products need storage areas. Also, very important: will you need your personal house to be on this land?

ROW 2: WILL YOU BUILD, RENOVATE, OR RENT BUILDINGS AND FACILITIES?

The buildings and facilities that you may need for your enterprise don't necessarily have to be built on your land. What other options do you have? Could you rent storage space or processing facilities? Keep an open mind before you decide you need to spend money to accomplish your production goals.

ROW 3: ESTIMATE THE COST

How much do you estimate the buildings and facilities cost for each product idea? Write down some estimates of what it would take to buy, rent, renovate, refurbish, etc.

WORKSHEET #3: BUILDING AND FACILITIES

BUSINESS IDEA:	
1. What buildings and facilities are required? Is housing needed?	
2. Build, renovate, or rent the building and facilities?	
3. Cost of each option? Cost to rent, cost to buy, cost to renovate?	

EXAMPLE: FINGER LAKES FRUIT JUICES

BUSINESS IDEA: FINGER LAKES FRUIT JUICES	
1. What buildings and facilities are required? Is housing needed?	Already have a personal house on premesis. Would need to have facilities in which to press, pasteurize, and store juices. There are a number of outbuildings on-site that could be used for this purpose.
2. Build, renovate, or rent the building and facilities?	There would have to be some light construction (pad, roof expansion, septic installation). Also, the inside of the barn would need to be renovated to accommodate the necessary equipment. Washdown walls, walk in cooler and an outside, covered cement pad for shipping and receiving as well as washing picking bins.
3. Cost of each option? Cost to rent, cost to buy, cost to renovate?	The estimated costs are figured with me doing the labor: Expand roof ($1500), plumbing ($1500), septic expansion ($8500), cement pad ($3000), used walk in cooler ($3000). Total estimated cost of $17,500.

WORKSHEET #4: NECESSARY EQUIPMENT

Do you have the necessary equipment to start producing your product? Equipment expenses are one of the top three expenses in any type of farming and are often underestimated by those new to the occupation.

ROW 1: WHAT EQUIPMENT IS NEEDED?

Simply list the equipment that you think is necessary for your operation. If you aren't sure, check with Cooperative Extension, other farmers, and agricultural service providers.

ROW 2: WILL YOU BUY, RENT, LEASE, OR CUSTOM HIRE YOUR EQUIPMENT NEEDS?

Try to estimate the costs of buying, renting, or custom hiring your equipment needs before you make your decision. The more money that you can save on your equipment needs, the better off you may be. Also factor in your skills at maintaining equipment—if you aren't good at this, perhaps renting or hiring out your equipment needs might be beneficial.

ROW 3: ESTIMATE THE COST OF THE EQUIPMENT

What is your cost estimate of buying, leasing, or hiring equipment?

WORKSHEET #4: NECESSARY EQUIPMENT

BUSINESS IDEA:	
1. What equipment is needed? Make a list.	
2. Buy, rent, or custom hire your equipment?	
3. Estimate the cost of the equipment.	

EXAMPLE: FINGER LAKES FRUIT JUICES

BUSINESS IDEA: FINGER LAKES FRUIT JUICES	
1. What equipment is needed? Make a list.	Used screw-type press for light to heavy pressing, used small scale dairy pasteurizer Continuous process tanks: stainless steel tanks and clean-in-place equipment Supplies: pipes and spare parts, shipping and installation costs
2. Buy, rent, or custom hire your equipment?	There is a mobile bottling line in the Finger Lakes. Typically, this service is offered to wineries, but since I was going to bottle the fruit juices in wine bottles (25oz), this service would also work for me. Cost of this service will show up in Cost of Goods Sold.
3. Estimate the cost of the equipment.	Pressing equipment ($5000), continuous process tanks ($5300), used dairy pasteurizer ($3200), Supplies: pipes and parts ($1500), shipping and installation ($2000) Total Equipment: $17,000

CHAPTER 4

WHAT IS IT GOING TO COST?

Commercial lenders say the top reason business plans fail to gain approval is that the financial statements look amateurish. This can be avoided by knowing how to format your financial statements in the correct manner. The first step is accounting for business costs in the appropriate category: start-up costs, cost of goods sold, and overhead costs.

Startup and Capital costs: These are the costs that are incurred before the first product or service is produced and sold. These can be initial capital costs (i.e. money spent on land, buildings, machinery and equipment) or startup costs (i.e. money spent on permits, licenses, and fees that are one-time start-up expenses).

Cost of Goods Sold: Cost of goods sold are those expenses that can be directly assigned to a product and occur only if you are producing that product. Examples include raw materials and hourly labor.

Overhead costs: You could think about overhead costs as being those costs that aren't directly assignable to one product idea or another. Overhead costs are those expenses that will occur whether or not you produce anything at all. Some examples are rent, interest, insurance, and property taxes.

CAPITAL COSTS: LAND, BUILDINGS, FACILITIES, AND EQUIPMENT

If you don't already have the land, buildings, facilities, and equipment that you need for this project, then you have an advantage in the fact that you have some choices. Each of these choices has many alternatives—choosing the alternative that best fits your business ideas and your pocket book is usually the best strategy.

WORKSHEET #5: STARTUP CAPITAL COSTS

Fill in with costs estimated in worksheets 2-4. These are your startup capital costs. While these estimates may be rough at this point, at least you have a ball park figure. Bankers, agricultural professionals, and others experienced with the start up costs of agricultural businesses can help you review these figures for accuracy before you start working on your full business plan.

WORKSHEET #5: STARTUP CAPITAL COSTS

WHAT ARE THE TOTAL COSTS FOR THOSE ITEMS THAT YOU ARE BUYING* (WRITE DOWN A RANGE):		
Land Costs	**From $**	**To $**
Buildings	**From $**	**To $**
Equipment	**From $**	**To $**
Total Capital Cost Range	**From $**	**To $**

** Note: If you are renting, leasing, or hiring someone else to do some of these things, do not write these costs in this worksheet, as these will be listed as operating costs in another worksheet.*

EXAMPLE: FINGER LAKES FRUIT JUICES CAPITAL ESTIMATED CAPITAL COSTS

WHAT ARE THE TOTAL COSTS FOR THOSE ITEMS THAT YOU ARE BUYING (WRITE DOWN A RANGE):		
Land Costs	**From** $0	**To** $0
Buildings	**From** $17,500	**To** $35,000
Equipment	**From** $17,000	**To** $20,000
Total Capital Cost Range	**From $34,500**	**To $55,000**

WORKSHEET #6: STARTUP COSTS: PERMITS, LICENSES, AND FEES

You may be surprised at how much these costs turn out to be! The good news is that many agricultural businesses do not need as many permits and licenses as conventional businesses do.

WORKSHEET #6: STARTUP COSTS: PERMITS, LICENSES, AND FEES

ESTIMATE THE COSTS OF PERMITS, LICENSES, AND FEES	
Required Permits:	**Costing: $**
Required Licenses:	**Costing: $**
Other Fees:	**Costing: $**
	Total Cost $

EXAMPLE: FINGER LAKES FRUIT JUICES STARTUP COSTS

ESTIMATE THE COSTS OF PERMITS, LICENSES, AND FEES	
Required Permits: 20-C food processing permit	**Costing:** $70
Required Licenses: Wholesaler Permit (NY)	**Costing:** $620
Other Fees: Legal fees for creating an LLC	**Costing:** $810
	Total Cost $1500

TOTAL UP YOUR STARTUP COSTS	
From worksheets #5 – #6, total up all the startup costs that you will incur with your business ideas. You may have a range of costs if you have multiple business ideas.	
Total Startup costs will range from $	**to $**

EXAMPLE: FINGER LAKES FRUIT JUICES STARTUP COST RANGE

TOTAL UP YOUR STARTUP COSTS	
Total Startup costs will range from $ 36,000	**to $ 56,500**

HOW WILL YOU FINANCE YOUR STARTUP COSTS?			
To cover these costs, you will to use your own money or someone else's money. Using your own money (or bringing in financial partners) is often called "equity financing" and using someone else's (namely, the bank) money is called "debt financing." In this workbook, we are only going to cover debt financing.			
Total Startup costs (use the high end of your range)		**$**	
How much of the startup costs will be financed with equity?		**$**	
How much of the startup costs will be financed with debt?		**$**	
What are the terms of the debt?	**Length of loan:**	**Interest rate:**	
What will the payments be per month?		**$**	**Principal**
		$	**Interest**
		$	**Total Payment/ Month**
What are the payments per year?		**$**	**Principal**
		$	**Interest**
	Total Payment/Year	**$**	

Note: To calculate payments per month or per year, familiarize yourself with amortization schedules or with a financial calculator. There are many on-line tools to help you calculate payments.

EXAMPLE: FINGER LAKES FRUIT JUICES STARTUP COSTS

HOW WILL YOU FINANCE YOUR STARTUP COSTS?			
Total Startup costs (use the high end of your range)		$56,500	
How much of the startup costs will be financed with equity?		$40,000	
How much of the startup costs will be financed with debt?		$16,500	
What are the terms of the debt?	**Length of loan:** 5 years	**Interest rate:** 8.5%	
What will the payments be per month?		$233.33	**Principal**
		$108.34	**Interest**
		$341.67	**Total Payment/Month**
What are the payments per year?		$2,800	**Principal**
		$1,300	**Interest**
	Total Payment/Year	**$4,100.00**	

OPERATING COSTS: COST OF GOODS SOLD AND OVERHEAD

Fill out the worksheets in this section to determine your cost of goods sold and overhead costs. The reason you perform this exercise is to find out how much it costs to produce a unit and how many units need to be produced to cover your overhead costs.

Cost of Goods Sold: These are costs that can be directly assigned to the product you are producing. These are also called input costs, production costs, and variable costs in other publications. Good examples of these costs for farm enterprises are: seed, fertilizer, spray, irrigation supplies, and labor. For value added products, good examples are processing costs, packaging, and food ingredients.

Finger Lakes Fruit Juices Example: The cost of goods sold in this example would be the raw ingredients (fruit), the electric and labor for processing, the food ingredients (sugar), the packaging (bottles), and the custom hire expense of paying someone to bottle the product.

Overhead Costs: These are costs that cannot be easily assigned to the product you are producing. These are also called fixed costs in other publications. Good examples of these costs for farm enterprises are: machinery repair, interest, insurance, land rent (if renting), and property taxes. For value added products, good examples are non-processing utilities, office supplies, professional services, and administrative labor.

Finger Lakes Fruit Juices Example: The overhead costs in this example would be interest, office staff, insurance, building repair, property tax, office supplies, and professional services (legal and accounting).

HOW THESE COSTS RELATE TO EACH OTHER AND TO PROFITABILITY

Revenue: This is the price per item sold multiplied by the number of items sold (units x price)

Shutdown Point: When revenue is less than the cost of goods sold. At this point, the sales do not cover the cost of producing the item and the operation will have to shut down in the short term.

Contribution Point: When revenue exceeds the cost of goods sold, but is not enough to cover all the overhead costs. A business can operate at this level for a while, but eventually will have to increase revenue to cover all costs.

Break Even Point: When revenue has covered both the cost of goods sold and the overhead costs.

Profitability: Every dollar earned after the break-even point.

WORKSHEET #7: DETERMINE YOUR COST OF GOODS SOLD

Try to determine all the direct costs that will go into each of your product ideas. The table below can fit multiple ideas or multiple methods of bringing your product to market. There are two examples of this worksheet filled out on the next two pages. Notice there is an example for 2400 bottles produced and 3600 bottles produced and that the cost of goods sold do not change due to production volume.

WORKSHEET #7: DETERMINE YOUR COST OF GOODS SOLD

IDEA #1: UNIT:		IDEA #2: UNIT:		IDEA #3: UNIT:		IDEA #4: UNIT:	
COST OF GOODS SOLD	$	COST OF GOODS SOLD	$	COST OF GOODS SOLD	$	COST OF GOODS SOLD	$
Total COGS		Total COGS		Total COGS		Total COGS	

EXAMPLE #1: COST OF GOODS SOLD FOR FINGER LAKES FRUIT JUICES (2400 BOTTLES PRODUCED)

Finger Lakes Fruit Juices is considering four different products. Notice that the Cost of Goods Sold is listed as per bottle figures. In this instance, some items were easy to figure out on a per unit basis – like bottles. A case of 12 bottles cost $6.00, so that equals $0.50/bottle and the labels are $0.26 each. Added sugar is about $0.25 per bottle. Labor and propane used per bottle may be a little more difficult. In this instance, the total labor to press and pasteurize the juice was estimated at $3.64 per bottle and propane at $0.76 per bottle for the pasteurizer operation.

In this example, we are looking at a 2400 bottle production level. The different product ideas are as follows:

Product Idea #1: Grape Juice ($500/ton, with 4 pounds of fruit needed per bottle)

Product Idea #2: Apple Juice ($0.10 per pound, with 4 pounds of fruit needed per bottle)

Product Idea #3: Pear/Peach Juice ($0.57 per pound, with 4 pounds of fruit needed per bottle)

Product Idea #4: Cherry Juice ($0.67 per pound, with 5 pounds of fruit needed per bottle)

IDEA #1: GRAPE JUICE UNIT: PER BOTTLE		IDEA #2: APPLE JUICE UNIT: PER BOTTLE		IDEA #3: PEAR/PEACH JUICE UNIT: PER BOTTLE		IDEA #4: CHERRY JUICE UNIT: PER BOTTLE	
COST OF GOODS SOLD	$	COST OF GOODS SOLD	$	COST OF GOODS SOLD	$	COST OF GOODS SOLD	$
Purchased Fruit	$4.00	Purchased Fruit	$0.40	Purchased Fruit	$2.29	Purchased Fruit	$3.33
Propane (Pasteurizer)	$0.76	Propane (Pasteurizer)	$0.76	Propane (Pasteurizer)	$0.76	Propane (Pasteurizer)	$0.76
Labor	$3.64	Labor	$3.64	Labor	$3.64	Labor	$3.64
Bottles and Labels	$0.76	Bottles and Labels	$0.76	Bottles and Labels	$0.76	Bottles and Labels	$0.76
Other Ingredients	$0.25	Other Ingredients	$0.25	Other Ingredients	$0.25	Other Ingredients	$0.25
Contract Bottling	$0.42	Contract Bottling	$0.42	Contract Bottling	$0.42	Contract Bottling	$0.42
Total COGS	**$9.83**	**Total COGS**	**$6.23**	**Total COGS**	**$8.12**	**Total COGS**	**$9.16**

EXAMPLE #2: COST OF GOODS SOLD FOR FINGER LAKES FRUIT JUICES (3600 BOTTLES PRODUCED)

Finger Lakes Fruit Juices is considering four different products with two different production volumes. In this example, we are looking at a 3600 bottle production volume. Notice how the Cost of Goods Sold is the same for both the 2400 and the 3600 production volumes? This is due to the fact that the per unit cost typically remains the same, regardless of volume. There will be some times where an efficiency in input costs is reached, but this usually occurs when a business is much larger (not a start-up business).

In this example, we are looking at a 3600 bottle production level. The different product ideas are as follows:

Product Idea #1: Grape Juice ($500/ton, with 4 pounds of fruit needed per bottle)

Product Idea #2: Apple Juice ($0.10 per pound, with 4 pounds of fruit needed per bottle)

Product Idea #3: Pear/Peach Juice ($0.57 per pound, with 4 pounds of fruit needed per bottle)

Product Idea #4: Cherry Juice ($0.67 per pound, with 5 pounds of fruit needed per bottle)

IDEA #1: GRAPE JUICE UNIT: PER BOTTLE		IDEA #2: APPLE JUICE UNIT: PER BOTTLE		IDEA #3: PEAR/PEACH JUICE UNIT: PER BOTTLE		IDEA #4: CHERRY JUICE UNIT: PER BOTTLE	
COST OF GOODS SOLD	$	COST OF GOODS SOLD	$	COST OF GOODS SOLD	$	COST OF GOODS SOLD	$
Purchased Fruit	$4.00	Purchased Fruit	$0.40	Purchased Fruit	$2.29	Purchased Fruit	$3.33
Propane (Pasteurizer)	$0.76	Propane (Pasteurizer)	$0.76	Propane (Pasteurizer)	$0.76	Propane (Pasteurizer)	$0.76
Labor	$3.64	Labor	$3.64	Labor	$3.64	Labor	$3.64
Bottles and Labels	$0.76	Bottles and Labels	$0.76	Bottles and Labels	$0.76	Bottles and Labels	$0.76
Other Ingredients	$0.25	Other Ingredients	$0.25	Other Ingredients	$0.25	Other Ingredients	$0.25
Contract Bottling	$0.42	Contract Bottling	$0.42	Contract Bottling	$0.42	Contract Bottling	$0.42
Total COGS	**$9.83**	**Total COGS**	**$6.23**	**Total COGS**	**$8.12**	**Total COGS**	**$9.16**

WORKSHEET #8: DETERMINE OVERHEAD COSTS

You could think about overhead costs as being all those other costs that aren't directly assignable to one product idea or another. Typical overhead costs are as follows:

Interest (Interest portion from your loan payment worksheets earlier in this chapter)

Insurance (Liability insurance, auto insurance, casualty insurance)

Property Taxes (Due to business operations, not your personal property tax)

Office Supplies (Paper, ink, computer supplies, forms, pens, pencils, etc.)

Professional Services (Tax accounting, legal fees, consulting, etc.)

Depreciation (Recapturing the cost of your investment)*

Utilities (Those that cannot be split out from production, like water/sewer)

Miscellaneous (Someone always has something that doesn't fit on the list)

Office/Management Salaries (If spread out over all enterprises)

Building Repairs (If building is used by all enterprises)

Equipment Repairs/Vehicle Expense If equipment is shared across all enterprises)

Rent Expense (Land, building, and/or equipment rent if shared across all enterprises)

Land Rent (If the rented land is shared across all enterprises)

WORKSHEET #8: OVERHEAD COSTS

For your product ideas, list the annual overhead costs involved. Be sure not to list your capital costs as overhead expenses or count any Cost of Goods Sold as fixed costs: they will either be one or another, but not both.

OVERHEAD COSTS	$
Interest	
Office/Management Salaries	
Insurance	
Repairs, Building	
Equipment Repairs/Vehicle Expense	
Property Taxes	
Depreciation*	
Utilities	
Rental Expense (Land, Equipment)	
Office Supplies	
Professional services	
Miscellaneous/Other	
Total Overhead Costs	

**Depreciation is a fairly tricky expense to calculate. It represents the expenses of using capital expense items over time. An example of depreciation is a truck you buy for $10,000. You figure that the truck will last five years before you need to replace it. You would recognize $2,000 of depreciation expense to account for the eventual truck replacement. Your tax accountant/ preparer will usually help with this calculation.*

EXAMPLE: OVERHEAD COSTS FOR FINGER LAKES FRUIT JUICES

These are the fixed costs for Finger Lakes Fruit Juices. Notice how the interest amount of $1300 is from the debt financing worksheet? Also, there is $1750 of depreciation added into the expenses. This is figuring that the building improvements and equipment will last about 20 years before it needs to be replaced, so about 5% of the capital costs of getting the juice company going are recognized below.

OVERHEAD COSTS	$
Interest	$1,300
Office/Management Salaries	$3,900
Insurance	$500
Repairs, Building	$500
Equipment Repairs/Vehicle Expense	
Property Taxes	$1,000
Depreciation	$1,750
Utilities	
Rental Expense (Land, Equipment)	
Office Supplies	$350
Professional services	
Miscellaneous/Other	
Total Overhead Costs	**$9,300**

PLANNING FOR PROFIT

Profit is the amount of revenue left over after the cost of goods sold and overhead expenses have been paid. You may have noticed that some expenses were left out of worksheets #7 and #8.

These are expenses that typically come out of a business' profit:

What you pay yourself: If you aren't already included in labor or management salary

Bank principal payments: The principal portion of the debt figured earlier in chapter

Income taxes: Personal income taxes or taxes owed on profits of the business

Retained earnings: Money left to reinvest in the company

WORKSHEET #9: DETERMINING WHAT PROFIT YOUR BUSINESS NEEDS

The worksheet below lets you add in those amounts that your profit must cover. By planning on profit needs up front, there will be fewer surprises about the financial viability of your enterprise.

WORKSHEET #9: PLANNED PROFIT

PLANNED PROFIT	$
What I need to be paid	
Bank principal payments	
Income taxes	
Retained earnings	
Other	
Total Planned Profit	

EXAMPLE: FINGER LAKES FRUIT JUICES

The bank principal payments are taken from the examples provided in the last chapter. The family living expenses are meant to supplement living needs. No provisions for retained earnings have been made in this example.

PLANNED PROFIT	$
What I need to be paid	$5,000
Bank principal payments	$2,800
Income taxes	$5,000
Retained earnings	
Other	
Total Planned Profit	$12,800

WRITE THE RESULTS FROM WORKSHEETS #7, #8, AND #9 BELOW		
Idea #1:	**Total Cost of Goods Sold:**	**$**
Idea #2:	**Total Cost of Goods Sold:**	**$**
Idea #3:	**Total Cost of Goods Sold:**	**$**
Idea #4:	**Total Cost of Goods Sold:**	**$**
Total Annual Fixed Costs (Worksheet #8)		**$**
Total Planned Profit (Worksheet #9)		**$**

EXAMPLE: FINGER LAKES FRUIT JUICES

WRITE THE RESULTS FROM WORKSHEETS #7, #8, AND #9 BELOW		
Idea #1: Grape Juice	**Total Cost of Goods Sold:**	**$**9.83
Idea #2: Apple Juice	**Total Cost of Goods Sold:**	**$**6.23
Idea #3: Pear/Peach Juice	**Total Cost of Goods Sold:**	**$**8.12
Idea #4: Cherry Juice	**Total Cost of Goods Sold:**	**$**9.16
Total Annual Fixed Costs (all ideas)		**$9,300.00**
Total Necessary Annual Profit		**$12,800.00**

CHAPTER 5

IS YOUR BUSINESS FEASIBLE?

Business plans are often based on assumptions. The closer your assumptions match reality, the better the business plan. This chapter will test your assumptions to see if they are feasible.

DETERMINE YOUR OVERHEAD AND PROFIT 'BURDEN'

Burden, for the purposes of this workbook, is the overhead cost plus the desired profit. Using the formula below and the results from worksheets #8 and #9, determine your overhead and profit burden. This burden will be the same for all your product ideas.

Burden	=	Overhead Cost	+	Desired Profit
_____	=	_____	+	_____

EXAMPLE: THE BURDEN FOR FINGER LAKES FRUIT JUICES

Burden	=	Overhead Cost	+	Desired Profit
$22,100	=	$9,300	+	$12,800

DETERMINE YOUR "PER UNIT BURDEN"

The amount of product that you can sell will be limited by either your production capacity or what the market can bear. Which is the most constraining? Can you sell all that you are able to produce? Can you produce more than you can sell?

The marketing chapter (Chapter 2) can give you ideas on how to assess the size of the market. Picking a number that is realistic if very important at this stage of the process. You can vary this number to see the results of highest possible volume or the lowest necessary volume to break even.

EXAMPLE: PRODUCTION VOLUME RANGE, FINGER LAKES FRUIT JUICES

PRODUCT / SERVICE	RANGE OF PRODUCTION VOLUME
Idea #1: Grape Juice	**2400 to 3600 bottles**
Idea #2: Apple Juice	**2400 to 3600 bottles**
Idea #3: Pear/Peach Juice	**2400 to 3600 bottles**
Idea #4: Cherry Juice	**2400 to 3600 bottles**

WORKSHEET #10: DETERMINE YOUR "PER UNIT BURDEN"

You now have all the numbers that you need to determine what price you need to obtain from the market. The only step left is to combine all these numbers into a sensible format. The first step is to determine your per-unit burden, which is the burden divided by the volume sold.

WORKSHEET #10: CALCULATING YOUR PER UNIT BURDEN

PRODUCT / SERVICE	BURDEN \ VOLUME		PER UNIT BURDEN
Idea #1:	\	=	**$**
Idea #2:	\	=	**$**
Idea #3:	\	=	**$**
Idea #4:	\	=	**$**

In the next example, notice how per unit burden goes down with production/sales volume – making it easier for revenue to contribute to overhead and profit. When production increases, overhead costs and desired profits drop on a per unit basis. Cost of goods sold per unit stays the same. This is what is referred to as economies of scale. The next examples will illustrate this.

EXAMPLE: PER UNIT BURDEN FOR FINGER LAKES FRUIT JUICES (2400 BOTTLES)

PRODUCT / SERVICE	BURDEN \ VOLUME		PER UNIT BURDEN
Idea #1: Grape Juice	$22,100 \ 2400 bottles	=	$9.20 per bottle
Idea #2: Apple Juice	$22,100 \ 2400 bottles	=	$9.20 per bottle
Idea #3: Pear/Peach Juice	$22,100 \ 2400 bottles	=	$9.20 per bottle
Idea #4: Cherry Juice	$22,100 \ 2400 bottles	=	$9.20 per bottle

EXAMPLE: PER UNIT BURDEN FOR FINGER LAKES FRUIT JUICES (3600 BOTTLES)

PRODUCT / SERVICE	BURDEN \ VOLUME		PER UNIT BURDEN
Idea #1: Grape Juice	$22,100 \ 3600 bottles	=	$6.13 per bottle
Idea #2: Apple Juice	$22,100 \ 3600 bottles	=	$6.13 per bottle
Idea #3: Pear/Peach Juice	$22,100 \ 3600 bottles	=	$6.13 per bottle
Idea #4: Cherry Juice	$22,100 \ 3600 bottles	=	$6.13 per bottle

Note: See how the per unit burden goes down with increased production. This is due to overhead cost and necessary profit remaining the same as production increases; making these costs a smaller portion of the per unit burden.

WORKSHEET #11: DETERMINE THE PRICE YOU NEED TO COVER COSTS AND PROFIT

Using the results from your previous worksheets, it should be easy to fill out this final sheet. The cost of goods sold per unit comes from worksheet #7. The burden per unit comes from worksheet #10.

WORKSHEET #11: PER UNIT PRICE

IDEA #1:		IDEA #2:	
Units		**Units**	
Volume		**Volume**	
Cost of Goods Sold		**Cost of Goods Sold**	
Plus: Unit Burden		**Plus: Unit Burden**	
Per Unit Price		**Per Unit Price**	
IDEA #3:		**IDEA #4:**	
Units		**Units**	
Volume		**Volume**	
Cost of Goods Sold		**Cost of Goods Sold**	
Plus: Unit Burden		**Plus: Unit Burden**	
Per Unit Price		**Per Unit Price**	

EXAMPLE: FINGER LAKES FRUIT JUICE'S PER UNIT PRICE NEEDED (2400 BOTTLES)

IDEA #1: GRAPE JUICE		IDEA #2: APPLE JUICE	
Units	Bottles	**Units**	Bottles
Volume	2400	**Volume**	2400
Cost of Goods Sold	$9.83	**Cost of Goods Sold**	$6.23
Plus: Unit Burden	$9.20	**Plus: Unit Burden**	$9.20
Per Unit Price	**$19.03**	**Per Unit Price**	**$15.43**
IDEA #3: PEAR/PEACH JUICE		**IDEA #4: CHERRY JUICE**	
Units	Bottles	**Units**	Bottles
Volume	2400	**Volume**	2400
Cost of Goods Sold	$8.12	**Cost of Goods Sold**	$9.16
Plus: Unit Burden	$9.20	**Plus: Unit Burden**	$9.20
Per Unit Price	**$17.32**	**Per Unit Price**	**$18.36**

EXAMPLE: FINGER LAKES FRUIT JUICE'S PER UNIT PRICE NEEDED (3600 BOTTLES)

IDEA #1: GRAPE JUICE		IDEA #2: APPLE JUICE	
Units	Bottles	**Units**	Bottles
Volume	3600	**Volume**	3600
Cost of Goods Sold	$9.83	**Cost of Goods Sold**	$6.23
Plus: Unit Burden	$6.13	**Plus: Unit Burden**	$6.13
Per Unit Price	**$15.96**	**Per Unit Price**	**$12.36**
IDEA #3: PEAR/PEACH JUICE		**IDEA #4: CHERRY JUICE**	
Units	Bottles	**Units**	Bottles
Volume	3600	**Volume**	3600
Cost of Goods Sold	$8.12	**Cost of Goods Sold**	$9.16
Plus: Unit Burden	$6.13	**Plus: Unit Burden**	$6.13
Per Unit Price	**$14.25**	**Per Unit Price**	**$15.29**

The big question: Can you produce and sell the product at the price and volume needed to have a sustainable business?

Look at the price that you have calculated for your products and compare this with the prices you estimated in the marketing chapter of this workbook (Chapter 2).

- Are you in the range of prices that you think the market will pay?
- Are you at the high or low end of the range?
- What about the volume of production needed to meet the breakeven price for your product? Can you produce at this volume?
- If you can produce this amount of product, can you sell that much?
- Are there any other factors that you have failed to consider up to this point?

If your answer to the big question is "yes, I can produce and sell this product(s) at the price and volume needed to have a sustainable business," then you are ready for the next step! If you are not quite ready to start, see what you can tweak to make your idea viable.

FINAL EXAMPLE: WHAT EVER HAPPENED TO FINGER LAKES FRUIT JUICE?

Are you in the range of prices that the market will pay for your product?

In chapter 2, I mentioned that the retail price of high end fruit juices was between $8 and $12 a bottle, with wholesale prices ranging from $4 to $6.50 per bottle. As you can see from the figures in the examples, only the apple juice's per unit price at a production volume of 3600 bottles even comes close to the prices set by the market place.

Are you at the high or low end of the range?

Definitely in the high end of the range. If the marketing strategy were changed to only sell these products at retail price (direct to consumer, etc.), the apple juice is still higher than the $12 a bottle estimate for the juice market price.

What about the volume of production needed to meet the market price for your product? Can you produce at this volume?

Let's look at the problem another way: what production volume would be needed to produce the juice, for retail, and achieve a $12 retail price? For each product, we would have to reduce the overhead and profit margin needed by the following:

Grape juice: $12.00 less variable unit cost ($9.83) = $2.17 to cover overhead and profit

Apple juice: $12.00 less variable unit cost ($6.23) = $5.77 to cover overhead and profit

Pear/Peach: $12.00 less variable unit cost ($8.12) = $3.88 to cover overhead and profit

Cherry juice: $12.00 less variable unit cost ($9.16) = $2.84 to cover overhead and profit

Volume Needed = Total Burden (dollars) divided by per unit gross margin

Grape juice: $22,100/$2.17	=	10,184 bottles
Apple juice: $22,100/$5.77	=	3,830 bottles
Peach/pear juice: $22,100/$3.88	=	5,696 bottles
Cherry juice: $22,100/$2.84	=	7,782 bottles
Total Production Needed:	=	27,492 bottles

If you can produce this amount of product, can you sell that much?

In the marketing section, I estimated that there were about 50,000 potential customers in the area. If I were to produce 27,492 bottles of juice, then I would have to sell almost 2 bottles to every potential customer in the area. Not a likely scenario, especially since these production numbers are all based on covering all costs at retail price.

Wholesaling this product between $4 and $6.50 per bottle isn't even possible, since the per unit variable costs are almost all above $6.50 (apple is close at $6.23). Wholesaling, therefore, is in the "shutdown point" of production – not possible with the cost structure in this example.

What are other considerations to bring costs in line with expected price?

1. I could pay someone else to perform the whole process and I would just market the product at retail markets.

2. I could reduce my expectations of what I need to be paid. In this example, I wanted to make $5,000 per year from this enterprise*

3. I could start smaller and not take out any debt to finance the enterprise.

4. I could look at ways to increase the retail and wholesale prices for the product

*Keep in mind that if you change your business model, you may end up compromising on what you had for your personal goals. In this instance, if I took less pay from the enterprise, then it really wouldn't be worth it to me. I could just take a part time job and earn as much or more than starting and running this business.

Outcome:

Needless to say, there is no Finger Lakes Fruit Juice company. What would you do to make this business idea more viable?

CHAPTER 6

WILL OTHERS BELIEVE YOUR IDEA?

At this point, you should be explaining your business idea to everyone who will listen. At the same time, you want to be conscious of your brand and your pitch – how you promote your business idea.

BRANDING BASICS

A brand is a collection of associations in the mind of your customer the helps them identify and differentiate your product from other products. It is the sum of the product attributes you listed in Chapter 2.

Your brand is also YOU! As a small business owner, you are viewed as part of the product or service you provide. So, when you promote your brand, you need to promote yourself. Specifically, you need to walk the walk and talk the talk! A brand is defined as delivering on a promise to your customers:

- Your product's quality, benefits, differentiation, and price
- Your product's ability to satisfy the most important needs of target customers
- Your ability to be credible, relevant, distinctive, and inspiring!

COMMUNICATING YOUR BRAND

Advertising is how you plan to communicate the major aspects of your marketing "mix" from Chapter 2: your product (attributes/benefits), how much it costs (pricing), how the customer can buy it (distribution/ marketing channel), and how your brand should be most important in the customers mind (promotion/branding).

Some guidelines for successful "messaging" are to make it simple, unexpected, credible, emotional, and fun with the brand as the "hero of the story". The media that is used for the messaging can be printed, televised, emailed, or published in digital/social media. Each media type has its own rules of engagement and should be approached with different strategies. The product "pitch" outlined below is just one of the strategies to get the word out to your target audience.

PROMOTING YOUR IDEA TO AN OUTSIDE AUDIENCE

The most common advertisement method for small businesses is word-of-mouth. You want to be conscious of how you structure your word-of-mouth advertisement. There is a technique for "pitching" your business idea to others, as outlined below.

- The purpose of your pitch is to sell your product, not to lecture on it.
- Focus on moving your audience to the next step in the process. The steps in a customer's purchase decision are: awareness, understanding, trying, purchasing, and repurchasing.
- Tell a compelling story, connect with your audiences' emotions and demonstrate how your product satisfies their needs.

There are some great resources outlining how to best pitch your business idea, depending on the audience and the media used. Most emphasize the bullet points above. Some added tips are to keep it short, relevant, and easy to grasp. Avoid clichés, overstating attributes, and getting too technical or bogged down in details.

CHAPTER 7

OK, YOU'RE SERIOUS. WHAT'S NEXT?

Upon arriving at this chapter, you should know the following about your plans:

- Know what type(s) of agricultural business(s) you are interested in starting
- Know what land and equipment resources are needed for your product ideas
- Know ball-park start up and operating costs of each product idea

NOW THAT YOU KNOW WHAT YOU WANT TO DO, WHAT'S NEXT?

Now that you are pretty sure what you want to do, you will have to create a business plan and organize all the permits and forms you will need to fill out to get started.

1. PREPARE FINANCIAL STATEMENTS

There are some financial statement worksheets in the appendix of this document. Also, to help with farm income and expense projections, there are a number of free enterprise budgets available through Clemson Cooperative Extension. You may wish to put your financial statements on a spreadsheet, so that they are type written and neat. Templates for these statements are also available through Clemson Cooperative Extension.

2. PREPARE A BUSINESS PLAN

This book was intended to help focus your thoughts on what is needed to make a good business plan; however, it was not designed to help you create a full business plan. For help with a full business plan, there are other resources available through your local Clemson Cooperative Extension Educator. View the *Business Plan Development Guide* at *clemson.edu/extension/agribusiness/sccced/index.html*

One thing you will want to keep in mind when you are doing a business plan is who is this plan really for? The business plan should first be for you as a written guide for your business to follow. Second, if you need investors

or a bank loan, your business plan must also meet the needs of your banker or investor.

3. GET YOUR BUSINESS STARTED

Each state has its own set of laws, permits, and registrations. Typically, there will be a one-stop business information website for you to visit and determine what you need. For those who want to start businesses in South Carolina, you can find a helpful publication *Starting an Agricultural Business in South Carolina? Seven Steps to Getting Started* at *clemson.edu/extension/agribusiness/sccced/index.html*. The sections in this publication cover the topics below:

- Business Name, Structure, and Registration
- Licensing, Permits, and Certifications
- Business Banking and Insurance
- Funding Your Business
- Hiring Employees for Your Business
- Business Taxes and Recordkeeping
- Business Intellectual Property Protection
- Additional Sources of Information in South Carolina

4. PUT YOUR MANAGEMENT PLAN IN PLACE

When you first start out, it will most likely be just you. However, there are different areas of management that need to be performed. Make sure you are covered! Some key considerations are:

- Have a system of responsibility and accountability
- Separate duties where there is a chance of fraud to occur (i.e. cash receipts)
- Fill positions with the best possible candidate. Friends and family may not be the best choice.
- If you don't have the capacity to hire someone, make use of service providers, consultants, and mentors.

Full-time, Part-time "Squeeze"

If you are fortunate enough to hire some employees, keep your management plan in mind. One thing that is often overlooked by new businesses is the amount of time that certain jobs or tasks should take – not the actual amount of time they actually take. The "squeeze" occurs when you don't have the capacity to fill each job function with a full-time employee. Attention to management is needed to avoid the following results of this "squeeze":

1. Left to employees' discretion, a part-time task becomes a full-time job. Employees have a way of stretching tasks out to get the hours they need. This leads to cost over-runs or #2 in this list.
2. Multiple part-time tasks get combined into full-time responsibilities. Without proper forethought, these can be combined in a way that neither fits employees' skills, nor benefits the business.
3. During the start-up phase, those involved in the business often have to put in a lot of additional time and effort to get beyond the "squeeze" period. This leads to burnout and disinterest. Keeping morale high during this period must be a management priority.

Management Worksheet

The short worksheet on the next page lists some areas of management. Fill in those sections that you will do and identify areas where you may need help. For a full business plan, you will want to have short biographies and a description of why that person is qualified to perform that management task. Also, list any advisors that you may need to help with your business, as your business will probably be too small to hire all of these positions in the beginning.

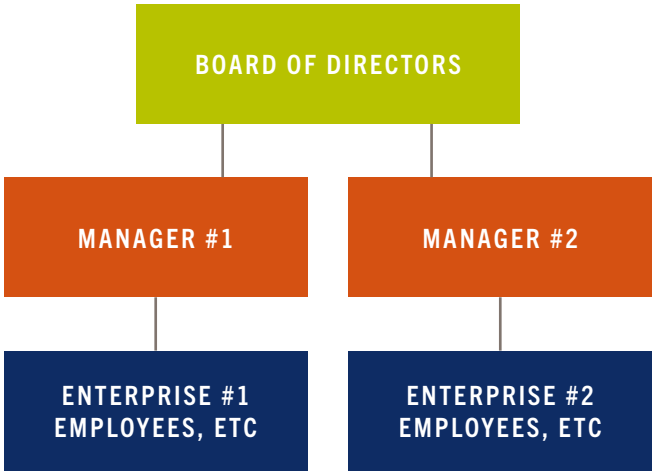
MANAGEMENT DUTIES WORKSHEET

PRODUCTION AND QUALITY ASSURANCE	HUMAN RESOURCES / PEOPLE MANAGEMENT
WHO WILL MANAGE, ADVISE, AND/OR HELP?	WHO WILL MANAGE, ADVISE, AND/OR HELP?
RECORD KEEPING / FINANCES	**FUTURE PLANNING AND STRATEGY**
WHO WILL MANAGE, ADVISE, AND/OR HELP?	WHO WILL MANAGE, ADVISE, AND/OR HELP?
REGULATOR COMPLIANCE (TAXES, PERMITS, ETC)	**REPAIRS AND MAINTENANCE**
WHO WILL MANAGE, ADVISE, AND/OR HELP?	WHO WILL MANAGE, ADVISE, AND/OR HELP?

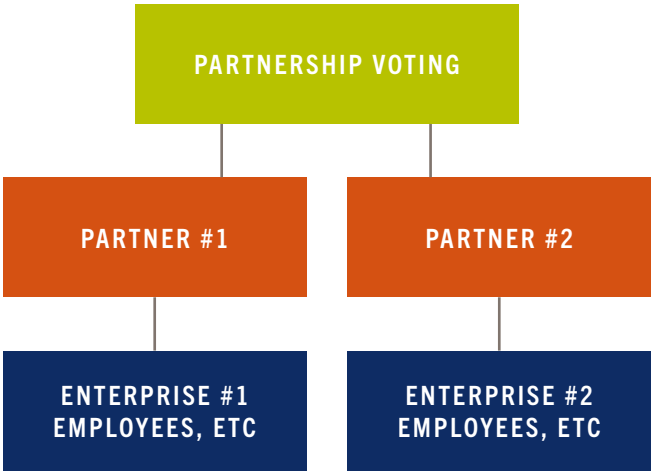
ORGANIZATIONAL CHART EXAMPLES

These are just a couple of examples of business organizational charts. Your organizational chart can be any combination of these models. What is important is that there is someone designated to be responsible for each area of the business and that each person is accountable for their actions and decisions.

CORPORATE MODEL

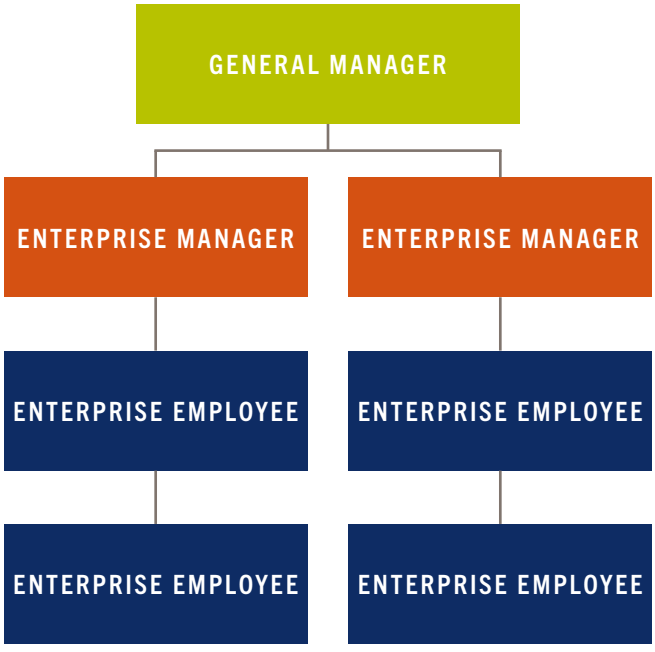


SHARED GOVERNANCE MODEL



Note: You can see that if every decision is decided by an equal number of votes, there will have to be some tie-breaking mechanism.

TRADITIONAL MODEL



ORGANIZATION, ACCOUNTABILITY, AND MANAGEMENT WORKSHEET

Sketch an **organizational chart** below. Who is in charge of each area of the business and who is ultimately responsible for each activity?

Management: How will performance be measured, how corrective action will be taken, and how communications will be handled between the participants in the business.

APPENDIX

ADDITIONAL WORKSHEETS AND EXAMPLES

ANNUAL SALES WORKSHEET

YEAR / PRODUCT	YEAR 1	YEAR 2	YEAR 3	YEAR 4
Product/Service #1 Units				
Sale price @ unit				
Total Product #1				
Product/Service #2 Units				
Sale price @ unit				
Total Product #2				
Product/Service #3 Units				
Sale price @ unit				
Total Product #3				
Product/Service #4 Units				
Sale price @ unit				
Total Product #4				
Totals: All Categories				

EXAMPLE: ANNUAL SALES WORKSHEET – FINGER LAKES FRUIT JUICE

YEAR / PRODUCT	2019
Product/Service #1 Units	900
Sale price @ unit	$12.00
Total Product #1	$10,800
Product/Service #2 Units	900
Sale price @ unit	$12.00
Total Product #2	$10,800
Product/Service #3 Units	900
Sale price @ unit	$12.00
Total Product #3	$10,800
Product/Service #4 Units	900
Sale price @ unit	$12.00
Total Product #4	$10,800
Totals: All Categories	$43,200

12 MONTH SALES FORECAST

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	ANNUAL TOTALS
Product/Service #1 Units													
Sale price @ unit													
Total Product #1													
Product/Service #2 Units													
Sale price @ unit													
Total Product #2													
Product/Service #3 Units													
Sale price @ unit													
Total Product #3													
Product/Service #4 Units													
Sale price @ unit													
Total Product #4													
Monthly Totals: All Categories													

BALANCE SHEET

ASSETS		LIABILITIES	
Checking Account		Credit Cards	
Savings Account		Unpaid Bills	
Cash		IOU's	
Stocks & Bonds		Other	
Vehicles		Car Loans	
Machinery		Machinery Loans	
Farm Equipment		Equipment Loans	
Tools/Supplies		Other	
House		Home Mortgage	
Land		Land Mortgage	
Other		Other Loans	
Total Owned		Total Owed	
Total Owned - Total Owed =		Equity	

EXAMPLE: BALANCE SHEET – FINGER LAKES FRUIT JUICE

ASSETS		LIABILITIES	
Checking Account	$7,500	Credit Cards	$1,500
Savings Account	$50	Unpaid Bills	$500
Cash	$400	IOU's	0
Stocks & Bonds	$35,000	Other	0
Vehicles	$5,000	Car Loans	0
Machinery	$20,000	Machinery Loans	0
Farm Equipment	0	Equipment Loans	$16,500
Tools/Supplies	$500	Other	0
House	$100,000	Home Mortgage	$80,000
Land	0	Land Mortgage	0
Other	$35,000	Other Loans	0
Total Owned	**$203,450**	Total Owed	**$98,500**
Total Owned - Total Owed =	**$104,950**	Equity	**51.6%**

INCOME STATEMENT – PROFIT AND LOSS WORKSHEET

BUSINESS NAME: PROFIT AND LOSS STATEMENT DATED:	
INCOME (UNIT SALES × PRICE)	$
Gross Income (Total Income)	
COST OF GOODS SOLD	$
Total Cost of Goods Sold	
Gross Margin (Sales minus Cost of Goods Sold)	
Gross Margin % of Sales (Gross Margin/Sales)	
OVERHEAD EXPENSES	$
Total Overhead Expenses	
Total Expenses (COGS plus Overhead Expenses)	
Net Income (Gross Income minus Total Expenses)	

EXAMPLE: INCOME STATEMENT – FINGER LAKES FRUIT JUICE

BUSINESS NAME: FINGER LAKES FRUIT JUICE PROFIT AND LOSS STATEMENT DATED: 2019 PROJECTION	
INCOME (UNIT SALES × PRICE)	**$**
Grape Juice: 900 bottles @ $12/bottle	$10,800
Apple Juice: 900 bottles @ $12/bottle	$10,800
Pear/Peach Juice: 900 bottles @ $12/bottle	$10,800
Cherry Juice: 900 bottles @ $12/bottle	$10,800
Gross Income (Total Income)	**$43,200**
COST OF GOODS SOLD	**$**
Purchased Fruit	$9,018
Propane	$2,736
Labor	$13,104
Bottles and Labels	$2,736
Other Ingredients	$900
Contract Bottling	$1,500
Total Cost of Goods Sold	**$29,994**
Gross Margin (Sales minus Cost of Goods Sold)	**$13,206**
Gross Margin % of Sales (Gross Margin/Sales)	**30.6%**
OVERHEAD EXPENSES	**$**
Interest	$1,300
Office/Management Salaries	$3,900
Insurance	$500
Repairs, Building	$500
Equipment Repairs/Vehicle Expense	—
Property Taxes	$1,000
Depreciation	$1,750
Utilities	—
Rental Expense (Land, Equipment)	—
Office Supplies	$350
Professional Services	—
Miscellaneous/Other	—
Total Overhead Expenses	**$9,300**
Total Expenses (COGS plus Overhead Expenses)	**$39,294**
Net Income (Gross Income minus Total Expenses)	**$3,906**

ANNUAL CASH FLOW PROJECTION

BUSINESS NAME: ANNUAL CASH FLOW STATEMENT DATED:	
INCOME (UNIT SALES × PRICE)	$
Gross Income (Total Income)	
COST OF GOODS SOLD	$
Total Cost of Goods Sold	
Gross Margin (Sales minus Cost of Goods Sold)	
Gross Margin % of Sales (Gross Margin/Sales)	
OVERHEAD EXPENSES	$
Total Overhead Expenses	
Total Expenses (COGS plus Overhead Expenses)	
Net Income (Gross Income minus Total Expenses)	
Less: Debt Payments	
Less: Personal Draw (Owner pay)	
Less: Income Taxes	
Net Cash Position, End of Year	

EXAMPLE: ANNUAL CASH FLOW PROJECTION – FINGER LAKES FRUIT JUICE

BUSINESS NAME: FINGER LAKES FRUIT JUICE PROFIT AND LOSS STATEMENT DATED: 2019 PROJECTION	
INCOME (UNIT SALES × PRICE)	**$**
Grape Juice: 900 bottles @ $12/bottle	$10,800
Apple Juice: 900 bottles @ $12/bottle	$10,800
Pear/Peach Juice: 900 bottles @ $12/bottle	$10,800
Cherry Juice: 900 bottles @ $12/bottle	$10,800
Gross Income (Total Income)	**$43,200**
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Purchased Fruit	$9,018
Propane	$2,736
Labor	$13,104
Bottles and Labels	$2,736
Other Ingredients	$900
Contract Bottling	$1,500
Total Cost of Goods Sold	**$29,994**
Gross Margin (Sales minus Cost of Goods Sold)	**$13,206**
Gross Margin % of Sales (Gross Margin/Sales)	**30.6%**
OVERHEAD EXPENSES	**$**
Interest	$1,300
Office/Management Salaries	$3,900
Insurance	$500
Repairs, Building	$500
Equipment Repairs/Vehicle Expense	—
Property Taxes	$1,000
Depreciation	Not cash exp
Utilities	—
Rental Expense (Land, Equipment)	—
Office Supplies	$350
Professional Services	—
Miscellaneous/Other	—
Total Overhead Expenses	**$7,550**
Total Expenses (COGS plus Overhead Expenses)	**$37,544**
Net Income (Gross Income minus Total Expenses)	**$5,656**
Less: Debt Payments	$2,800
Less: Personal Draw (Owner pay)	$5,000
Less: Income Taxes	$5,000
Net Cash Position, End of Year	**($7,144)**

SOURCES AND USES OF CAPITAL

USE OF FUNDS / ASSETS	COST	SOURCES OF FUNDS
LAND AND LAND IMPROVEMENTS		
Total Land Costs		
BUILDINGS AND FACILITIES		
Total Building and Facility Costs		
EQUIPMENT		
Total Equipment Costs		
STARTUP COSTS		
Total Startup Costs		
Total Project Costs		
Total Bank Commitment		
Total Personal Commitment		

EXAMPLE: SOURCES AND USES OF CAPITAL – FINGER LAKES FRUIT JUICE

USE OF FUNDS / ASSETS	COST	SOURCES OF FUNDS
LAND AND LAND IMPROVEMENTS		
No Land Improvements Needed		
Total Land Costs	**$0**	
BUILDINGS AND FACILITIES		
Building Renovations	$17,500	$16,500 Loan and $1,000 Cash
Total Building and Facility Costs	**$17,500**	$16,500 Loan and $1,000 Cash
EQUIPMENT		
Pressing Equipment	$5,000	Loan from Grandma
Processing Tanks	$5,300	Loan from Grandma
HVAC Equipment	$3,200	Loan from Grandma
Pipes and Parts	$1,500	Loan from Grandma
Shipping and Installation	$2,000	Loan from Grandma
Total Equipment Costs	**$17,000**	Loan from Grandma
STARTUP COSTS		
Permits, Licenses, and Fees	$1,500	Cash
Contingencies for Cost Overrun	$20,500	Cash
Total Startup Costs	**$22,000**	Cash
Total Project Costs	**$56,500**	
Total Bank Commitment	**$16,500**	29% Bank Commitment
Total Personal Commitment	**$40,000**	71% Personal Commitment

NOTES

THE CENTER FOR COOPERATIVE AND ENTERPRISE DEVELOPMENT

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