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The Basics of Farm Business Planning



Your business plan is a roadmap to the success of your farm or ranch. Photo by Preston Keres, USDA

Also available at www.sare.org/business-planning-basics, or order a free hard copy at (301) 779-1007.



SUSTAINABLE FARMING AND RANCHING MEANS taking care of the land, the environment, people and the community, while the farm business makes a profit. Many farmers and ranchers choose sustainable farming and ranching as a lifestyle that reflects their values. Common goals include:

- Having a good quality of life for themselves, their families and their employees
- Producing fresh, healthy foods for their communities
- Taking care of the land for the next generation
- Helping their communities understand and accept their way of farming

Farm business planning is critical because it helps you to identify and achieve long-term goals for yourself, your family, your business and your land.

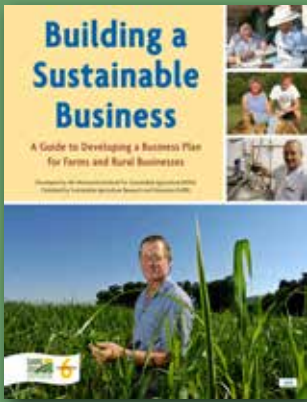
Creating a solid business plan for your operation can be an involved process. This publication will introduce you to its basics, including what a

business plan is, why you need one, and what to expect from the planning process when you're ready to get started.

This publication summarizes the five tasks (or steps) to help you create a written business plan. These tasks are based on SARE's *Building a Sustainable Business* (www.sare.org/business), an in-depth workbook that guides readers through the many details of the planning process.

Along with information about each task, *Building a Sustainable Business* provides dozens of worksheets you can use to create a unique plan for your own situation. When you're ready to start planning, consider using the guidance and worksheets in *Building a Sustainable Business*.

See the "Resources" section of this guide for more publications on a range of related topics, such as federal funding opportunities, planning the transition to organic, setting up a legal structure for your farm business, and adapting your farm to a changing climate.



OUR IN-DEPTH BUSINESS PLANNING GUIDE

This bulletin introduces you to the business planning process. When you're ready to create a business plan for yourself, use the workbook *Building a Sustainable Business* for guidance.

Available free online at www.sare.org/business

To order a print copy (\$21 plus shipping), visit www.sare.org/business or call (301) 779-1007

In general, you can think of a business plan as a "roadmap to success."

AN INTRODUCTION TO BUSINESS PLANNING

BEFORE WE GET INTO THE DETAILS OF HOW TO create a business plan, let's first address some important questions about the process, including:

- What is a business plan?
- Why create a business plan?
- Who should you involve in business planning?
- When should you start the business planning process?

What is a Business Plan?

In general, you can think of a business plan as a "roadmap to success." It combines all of the following:

- The big-picture ideas of why you're farming
- What you hope to achieve with your business
- How you'll get there using resources that you have on hand
- New strategies for operations, marketing, human resources and finance

Some of the most important pieces of a business plan include:

- A formal mission statement and goals for the farm
- An inventory or assessment of your farm's current situation
- Clear strategies for short- and long-term activities that will help you meet your goals
- A collection of documents about your business, such as budgets, cash flow statements and inventory lists, to help you make sure the plans you create are realistic and likely to succeed

A written business plan is a critical document to share with lenders, potential investors and others when you're seeking the resources you need to make changes to your farm business.

Why Create a Business Plan?

Farms often have more than one enterprise, or revenue stream. For example, a single farm may produce many commodity crops (e.g., corn, soybeans, rye), annual specialty crops (e.g., tomatoes, carrots, peppers), fruit and nut tree crops, pastures or forage crops, and livestock (e.g., dairy, eggs, meat). In addition to crops, farms may also manage multiple related enterprises as part of their business (e.g., farm stands, autumn hayrides, or Christmas wreath sales). Each of these enterprises on a single farm can have its own revenue cycle, maintenance needs, production cycles and risks. At the same time, farms can involve many people—business partners, family members and long-time employees—who probably have different skills, interests, needs and goals.

Business planning helps you piece this information together so that you can:

- Identify and pursue your short- and long-term goals in a realistic and strategic way
- See if a particular enterprise—or the business as a whole—is a good use of your labor, equipment, natural resources and capital
- Explore new opportunities, identify possible risks to your business and respond to unexpected setbacks
- Monitor your progress toward your goals and make changes if needed
- Communicate better with potential business partners, lenders or customers

Nobody can plan for everything, but you can plan for the expected and try to anticipate the unexpected.

Who Is Involved in Business Planning?

Most farmers and ranchers don't go at it alone. Maybe your spouse or partner, parents, siblings or children are part of the operation in some way. Or, maybe you work with non-family business partners, regular employees, shareholders or investors. **The business planning process needs to include everybody who has an active interest in the farm's day-to-day operations and its long-term success.**

You'll also want to involve special advisors during the process, depending on your needs. These advisors may include accountants, bankers, lawyers and farmer

mentors. Other helpful advisors include local Extension specialists and staff from various USDA agencies, such as the Natural Resources Conservation Service, Rural Development, and the Farm Service Agency.

Disagreements about major decisions—such as what crop to plant, how to market an item or where to invest time or money—can lead to serious conflicts that prevent the farm business from succeeding. But when you include everybody in the planning process, together you can see how each person’s goals fit into the overall goals of the farm. You can also include each person’s values in the overall vision and long-term direction of the farm. This will help to:

- Make everybody feel more invested in the business
- Put each person’s skills to their best use
- Reduce the risk of conflict down the line

When a disagreement does arise, identify a neutral party who can act as a mediator. Everybody involved in the disagreement should agree on who the mediator will be, and this person should have experience in conflict resolution. Even without disagreement, a trusted mentor or advisor can help you navigate the parts of the planning process you may find difficult.

When to Start the Business Planning Process

Certainly, if you’re a beginning farmer or an experienced one who doesn’t already have a business plan, now is a good time to create one! It’s useful for every farmer to go through the planning process when thinking about making a major change to your operation, or if you have a critical problem you’d like to address.

Also, business planning is not a one-time activity. **In general, it’s good to revisit your business plan every one or two years.** Use this time to reexamine your goals or to see if the plan needs updating due to recent events that took place within or outside of your business. You’ll also see in our discussion of planning task 5 later in this publication that it’s important to have a system for monitoring your plan. Planning basically means putting your ideas into action, and a monitoring system allows you to see if your ideas are working.

Many things can happen, both good and bad, that can trigger the need to update your farm’s business plan. Just a few examples:

- Somebody who is deeply involved in the farm needs to cut back on their time for personal

reasons, for example because they’ve had a baby or a parent’s health is declining

- An experienced, trusted manager is leaving to start a farm of their own
- A child who has been helping out is going off to college and may not return to the farm
- A new marketing opportunity appears in your area
- An enterprise has been very successful and you’re thinking about expanding it
- Natural disasters or extreme weather are hitting your farm particularly hard

How to Create a Business Plan

Your business plan should be a roadmap to managing your farm or ranch so that all its parts flow smoothly. In the following sections, we’ll summarize the five tasks of business planning. These tasks are presented in greater detail in the workbook [Building a Sustainable Business](http://www.sare.org/business) (www.sare.org/business). When you’re ready to dive in, use the information and worksheets in *Building a Sustainable Business* to complete each task.



Business planning can be a time consuming process, but it will help you achieve your goals. Photo by Kirsten Strough, USDA

Task 1: Identify Values

START THE BUSINESS PLANNING PROCESS BY identifying your values. These are your most important ideas, beliefs or standards that guide you when you need to make decisions. Naming your values now will help you later in the business planning process when it's time to create your mission and vision, goals, and business strategies.

Try thinking about how your values apply to different areas of your life and farm business: for example, your personal, economic, environmental and community values. Ask yourself questions like:

- What's most important to you in each of these areas?
- How do you define success in each?

If family members, business partners or other people are part of your planning process, you should involve them now. Give them a chance to identify their values. Take time to see which values you share and which values might be different. This will make it easier to resolve any conflicts in the later steps of the process.



The business planning process begins with identifying your strongest values. Photo by Preston Keres, USDA

Planning task 1 in *Building a Sustainable Business* (pgs. 19–25) includes more information on this step, along with worksheets to help you capture both your personal values and shared values among your planning team.

Assessing the details of your current business is an important step in identifying new opportunities. Photo by Christophe Paul, USDA

Task 2: Farm History and Current Situation



BUSINESS PLANNING INVOLVES EXPLORING NEW directions for your business. But before you begin thinking about the future, it's important to have a complete view of your current situation and how you arrived there.

Planning task 2 in *Building a Sustainable Business* (pgs. 27–86) walks you through the information you should collect at this point. This task takes time and effort. Worksheets are provided in that publication to help you stay organized.

The first major step in this task is to write a brief history of your farm and a description of its current state. Areas to address include:

- How you entered the business and the key stages of growth that have led you to where you are now
- Your biggest successes and failures along the way
- Major events outside your personal story that have affected your farm—for example, changes in

your community, your markets, your industry as a whole, the environment, etc.

Next, you'll need to go into detail describing your current situation in four key areas. At a glance, the topics you'll address include:

- **Marketing:** products, customers, distribution, pricing and promotional activities
- **Operations:** physical resources, production systems and management systems
- **Human resources:** employees and their skills, experience and roles
- **Finances:** personal living expenses, past business performance, current financial position and risk exposure

Use the worksheets in planning task 2 of *Building a Sustainable Business* to guide you through the information you'll need to collect for each of these business areas.

After you've reviewed your history and current situation, you'll be ready to prepare a SWOT analysis (strengths, weaknesses, opportunities, threats). A SWOT analysis identifies your farm's internal **strengths** and **weaknesses**, and its external **opportunities** and **threats**. As you move forward with the planning process, you should look for ways to combine information in your SWOT analysis. For example, see how you can use your farm's strengths to overcome its weaknesses and how you can use external opportunities to address threats.

Task 3: Vision, Mission and Goals

NOW IT'S TIME TO IMAGINE THE FUTURE FOR YOUR farm business and to set short- and long-term goals for reaching your vision. It's important to include all the key members of your planning team in each step in this task. As with values, you can easily find differences in each person's vision and long-term goals for the farm, along with shared ideas. Taking each person's values, vision and goals into account is important to the success of the planning process and business management.

Planning task 3 in *Building a Sustainable Business* (pg. 87) includes worksheets with prompts that can help you turn your ideas into clear statements of vision, mission and goals. There are also real-farm examples to further guide you.

Vision

The first step in this task is to describe your vision for the future of both your farm business and the people involved with it. At this point it helps to revisit the values you laid out in task 1 because your vision should reflect your most important values. To get yourself thinking about a vision for the next five, 10 or 20 years, consider questions like:

- What will your farm look like in the future?
- What will you be producing?
- Who will be working there and in what roles?
- What will the landscape look like?



- How will your farm fit into nearby communities?
- How much will you earn from the farm business?
- What will your quality of life be?

Mission Statement

After writing down your vision, the next step is to develop a mission statement. The mission statement is a description of your farm and its guiding principles, and it draws on your values, current situation

The business strategies you develop later in the planning process should align with your vision for where you want to be in the future. Photo by Lance Cheung, USDA

Your goals are specific targets for making your vision a reality.

and vision. It should be general and short, typically no more than 3–5 sentences.

Think about how you'll use your mission statement as you create it, because this can shape what you say and how you say it. For example, are you using it as an internal document to guide decisions, or do you plan to share it with lenders or customers to help them learn about your products and practices?

Goals

The last part of this task involves setting goals. Recall your vision for how the farm will look and operate in the future. Your goals are specific targets for making your vision a reality. In this step you should think about

your personal, family, business, financial and environmental goals.

Think about what you want your farm to look like in the future, what you want to be doing with it, who you want involved, and so on. Your goals can be a mix of short, medium and long term. Goals that have a good chance of success are written using SMART guidelines. This means they are specific, measurable, achievable, realistic and timely. They should address the "who," "what" and "why" for each area of your business (marketing, operations, human resources and finance). Goals don't address "how" you will achieve your future vision.

Task 4: Strategic Planning and Evaluation

IN TASK 3 YOU IDENTIFIED WHAT YOU WANT TO achieve with your farm business. Now it's time to make a plan for **how** you'll do so. Here you will:

- **Develop a business strategy.** What realistic set of actions will you take to reach your goals?
- **Evaluate strategic alternatives.** Will your plan result in an improvement over your current situation, especially in terms of time or finances?
- **Decide on a whole-farm course of action.** Are you ready to implement your plan? If not,

will you brainstorm new ideas or stick with your current situation?

- **Develop contingency plans.** How can you adapt if you find out things are not going as you expected?

This is a very involved and complex task. The amount of information you need to compile here is similar to planning task 2, and it will be in the same four functional areas: marketing, operations, human resources and finances. Except this time, you'll conduct detailed research on things like potential customers, competitor prices and the resources you need to implement your strategies. You'll also make projections about things like sales volumes, your labor and capital needs, input expenses, cash flow and profitability.

Planning task 4 in *Building a Sustainable Business* (pgs. 103–231) includes in-depth guidance and many worksheets to help you gather the information needed to create your business strategy. Task 4 worksheets ask detailed questions to help you answer questions in these areas:

- **Marketing:** markets, products, competition, distribution and packaging, pricing, promotion, inventory and management

To complete the involved level of planning required in task 4, you may need to go beyond your management team and consult with lenders, Extension agents or other specialists. Photo by Christopher Willis, USDA



- **Operations:** regulations and policy, resource needs and gaps, size and capacity
- **Human resources:** labor needs and gaps, compensation, management and communications
- **Finances:** risk, organizational structure, financing options

You will need to take your time and work closely with your planning team members to complete this task. It's very possible you'll need to expand your team for some of these steps, for example by consulting with bankers, Extension specialists, other farmers or people in the industry with whom you're doing business.

Task 5: Present, Implement and Monitor Your Business Plan

IN THIS FINAL TASK, IT'S TIME TO PUT EVERYTHING into a written business plan. There's no one-size-fits-all format or template for a business plan. A lot of it depends on your specific situation: what you're trying to accomplish and who you need to share your business plan with. But, all plans should be well organized, thorough and easy to understand.

Planning task 5 in *Building a Sustainable Business* (pgs. 233–247) begins with sample outlines of business plans for five different situations:

- For guiding the management team (a holistic plan)
- For communicating with lenders or other investors
- For adding a new product
- For a cooperative or other collaborative marketing group
- For a beginning farmer or startup business

Finally, after all this planning work, it might seem intimidating to actually start implementing your plan! Task 5 in *Building a Sustainable Business* gives an example of a farm family who wrote out an implementation “to-do” list for the first year of their plan. It included three important details: the task, the person responsible and the deadline.

Two very important parts of managing a successful business are **monitoring progress** and **keeping records**.

Creating a list of monitoring checkpoints allows you to see if your plan is succeeding or if you're heading into trouble. Think of these checkpoints as targets or objectives that are similar to your goals, only they're more detailed and on shorter time frames. For example, a monitoring checkpoint might be achieving a specific production target, sales volume or profit margin, etc. at the end of year one.

Of course, the only way you can monitor your progress is by keeping good records. Keep records of any aspect of your business that relates to your monitoring checkpoints and goals. These can be actual numbers, such as expenses, productivity measures and sales figures, or they can be more like observations, such as the plant species or wildlife populations around the farm, or even reflections on conversations with customers.

Remember, business planning isn't something you do once and then say you're finished. Revisiting your business plan every 12 months or so is a great way to help you adapt to change or to correct what isn't working, all while keeping your long-term goals in sight.



Remember, business planning isn't something you do once and then say you're finished.

Recordkeeping is crucial to ensuring your plans are on the right track. Records can include field observations and numbers. Photo by Lance Cheung, USDA

Resources

Most state Extension services will have both specialists and resources available to help you meet your business planning, financing and marketing needs. In addition, the following publications are available through SARE.

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

This book provides in-depth guidance on the steps to creating a business plan. It includes dozens of worksheets to help you create a unique plan for your operation.

www.sare.org/business

Farmers' Guide to Business Structures

This book walks you through the process of identifying, creating and maintaining the best legal structure for your farm business.

www.sare.org/business-structures

Organic Transition: A Business Planner for Farmers, Ranchers and Food Entrepreneurs

If transitioning to organic is one of your goals, this book will lead you through each step of the planning process. Though not a comprehensive guide to the certification requirements of the USDA National Organic Program, the book assists you in creating an actionable transition plan for your enterprise.

www.sare.org/organic-transition

Building Sustainable Farms, Ranches and Communities: A Guide to Federal Programs for Sustainable Agriculture, Forestry, Entrepreneurship, Conservation, Food Systems and Community Development

This guide lists funding opportunities offered by federal programs. It is indispensable for anyone seeking government help to foster their innovative enterprise in forestry or agriculture.

www.sare.org/resources/building-sustainable-farms-ranches-and-communities

Cultivating Climate Resilience on Farms and Ranches

This bulletin will help you understand the potential impacts of climate change at the farm level and how you can use your farm's resources to adapt to the challenges and pursue new opportunities.

www.sare.org/cultivating-resilience

Scaling Up Your Vegetable Farm for Wholesale Markets

This bulletin guides you through the likely changes you'll need to consider when planning to branch out into wholesale markets, such as expanding your operations and working with new customers.

www.sare.org/wholesale-marketing

Transitioning to Organic Production

This bulletin introduces you to the requirements of the USDA National Organic Program and outlines many of the key strategies producers use to make their three-year transition to organic production a successful one.

www.sare.org/transitioning-to-organic

This bulletin was written by Marion Simon, Kentucky State University, and Andy Zieminski, SARE Outreach. SARE would like to thank the authors of *Building a Sustainable Business* for their valuable contributions: Gigi DiGiacomo, Robert King and Dale Nordquist, all of the University of Minnesota. It was produced by Sustainable Agriculture Research and Education (SARE), supported by the National Institute of Food and Agriculture (NIFA), U.S. Department of Agriculture under award number 2020-38640-31524. USDA is an equal opportunity employer and service provider. Any opinions, findings, conclusions or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the view of the USDA.



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