

## **Summary of Educational Information Presented at Building a Sustainable Business Workshop Series**

Hal Pepper, Megan Leffew, Danny Morris, Joey Mehlhorn, Rachna Tewari, Ross Pruitt, Ryan Milhollin, Joe Horner and Rick Riddle

The pages that follow represent the slides that were presented during the Building a Sustainable Business Workshop Series that was conducted over eight consecutive Tuesday evenings in January and February of 2019. The workshop series was conducted as part of UT Extension's project titled "Business Planning and Marketing Education for Tennessee Farmers" and was partially funded by a grant awarded by the Southern Extension Risk Management Education Center (SRMEC) and United States Department of Agriculture National Institute of Food and Agriculture.

The workshop series was conducted on January 8, 15, 22, 29 and February 5, 12, 19 and 26 using distance technology (Zoom) to connect participants in four locations (Jackson, Memphis, Columbia and Knoxville). The locations were hosted by Danny Morris, Jade Clark, Les Humpal and Adam Hopkins.

The workshop series consisted of the following twelve presentations:

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Center for Profitable Agriculture

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Center for Profitable Agriculture

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University of Tennessee



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

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A UNIVERSITY OF TENNESSEE - FARM BUREAU PARTNER

Farm Bureau

January 8, 2019

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## Who Benefits From Developing a Business Plan?

- Business owners (new or experienced).
- Stakeholders (business partners, investors, lenders, spouse)

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## The Business Planning Process Helps You:

- Identify values important to you and your team.
- Organize and prioritize.
- Identify management tasks (who will do what), gaps, challenges and opportunities.
- Communicate with others about your vision, objectives, resources and financial considerations.

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## Considerations When Developing a Business Plan

- The process of planning (and collecting input from the entire planning team) is critical to the success of a business.
  - Where are you in the life cycle of your business?
  - What do you want to accomplish?
  - Identify your vision and goals before you sit down with an attorney or business consultant.

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## Considerations When Developing a Business Plan

- Input from a team can be very useful.
  - Carefully select your planning team members.
    - Include those who will play a key role in making business and personal decisions.
    - Family, partners, lenders and possibly employees, renters, landlords, customers, resource organizations, input suppliers, community members and technical experts.
  - May take longer than developing a plan on your own but can pay off.
    - Others may think of things you overlooked.
    - Other team members may be more likely to support a plan when they have input.

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## Considerations When Developing a Business Plan

- A business plan should be a living document—reviewed and updated as needed.

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## Identifying Values— Laying the Groundwork to What is Important to You

Danny Morris  
Area Farm Management Specialist  
University of Tennessee Extension

January 8, 2019

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## Outline

- Values – What do you hold dear?
- How values can direct a business's operations
- Importance of values to the planning process
- Values of everyone involved in the business
  - Shared values are important
- Creating a mission statement that lists the values of the business

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## What are Values?

- Values are standards, beliefs, or qualities that we consider worthy of pursuing.
  - Something (as a principle or quality) intrinsically valuable or desirable.
- Values are more than a mere objective or goal.
  - They impact how you achieve your goals.



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## How do Values Impact the Farm?

- Values can determine how you conduct business on your farming operation.
- Values reflect your viewpoint on life, how you carry out your actions, and indicate what you find to be important.



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## Values Can Be Different

- What is your motivation?
  - Profit?
  - Recreation?
  - Sustainability?
  - Be your own boss?
- How do you value money?
- How do you value the environment?
- Do your values mirror those of your business partner?



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## Putting Your Core Values in Writing

- Writing down your core values gives you a path to follow as you move forward with your business.
- Value identification become paramount when you are planning with other business partners, particularly family.
  - Written values can help resolve business disputes, which can become familial disputes when working with family.



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## Operating Agreements

- If you decide to operate as an entity, you will likely complete an operating agreement.
- An operating agreement provides rules about the operation of the business, method of management, allocation of profits and losses among members, how membership is transferred, and how to dissolve the company<sup>1</sup>.
- It would not be unwise to include your vision for the business in the operating agreement if you decide to create an entity.



<sup>1</sup> Source: *The Legal Environment of Business*, Meiners, Ringleb, & Edwards.

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## Example of a Values

- On page 24 of your text, you will see a worksheet that is designed to help you identify the values of your business.
- We will look at an example of a set of values for a small cattle operation.
- Can you identify the overarching values of this particular farm?

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## Worksheet 1.1 – My Values

1. **Personal Values:** I value time spent on the farm with my family. We aim to utilize the resources with which we have been blessed. Our goal is to make supplemental income for our family while teaching our kids to work hard.
2. **Economic Values:** I try to be a good steward of the money I earn. I intend to raise our cattle profitably and be mindful of where we spend our money. We create a budget and try to follow it as best as possible. We prioritize our needs and spend money on one major project a year.
3. **Environmental Values:** We want to reduce erosion as much as possible in our pastures. We do this so we keep the land in a productive state. We do use herbicides and commercial fertilizers, but only as needed.
4. **Community Values:** We support local retailers by buying supplies locally.
5. **Overarching Value:** We want to raise cattle as efficiently as we can. Profit is our motive. However, safety of our animals and family comes first. We ensure that all of our animals are cared for and we all make it home safely.

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## Example of Values

- What does this farming operation value?
  - Profit?
  - Environment?
  - Recreation?
  - Community?
  - Combination of all of the above?

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## Conclusion

- Values are important in giving direction to a business.
- Values are best written down and shared with business partners.
- Values can be different between businesses and be multifaceted.
- You should spend time developing your value statement for your farm.

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## Farm History and Current Situation: What Have You Got?

Danny Morris  
Area Farm Management Specialist  
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January 8, 2019

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## Session Objectives

- Create a current market assessment for your business
- Determine the tangible assets of the business
- Review the institutional requirements such as permits
  - Including local, state, and federal rules and regulations
- Describe crop and livestock production systems
- Discuss the enterprise and human resource matrixes
- Assess worker capabilities and needs

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## Session Overview

- History of Your Operation – How did you get where you are at?
- Current Market Assessment
- Tangible Assets – Equipment, land, and other assets
- Possible Crop Production Systems
- Possible Livestock Production Systems
- Enterprise and Human Resources Matrixes
- Assessing Human Worker Skills and Needs

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## History of the Operation – Why is it important?

- If you are an experienced producer, it is important to consider how you have gotten to where you are.
- List successes and failures you have experienced.
- Identify key opportunities and challenges that you have encountered.
- Doing this can provide insight on the future decisions that you will make.

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## History of the Operation – What if I am a new business?

- Think about what has made you want to begin a business.
- What past experiences have triggered your desire to farm?
  1. Personal
  2. Economic
  3. Environmental
  4. Community
- Learn about the land that you plan to farm or property you plan on purchasing.
- Learn more about the markets that you intend to sell in.

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## A Brief History of a Farming Operation - Example

- On page 29 (Figure 5), we see a brief history of the Cedar Summit Farm. The farm is owned by Dave and Florence Minar.
- Notice that they have a detailed history of their operation, which impacts their present day production decisions.
- After looking at this example:
  1. What historical aspects of the farm are the Minars most proud of?
  2. What current production decisions were influenced by the farm's history?

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## Assessing Your Current Situation

- Four main business management functions:
  - Marketing
  - Operations
  - Human Resources
  - Finances



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## Marketing Situation

- Traditionally, in agriculture we ask the following of a farmer:
  1. How many acres do you farm?
  2. What type of crops do you grow?
  3. What livestock do you raise?
- The focus was on raising an undifferentiated, non-value added commodity that was sold to anonymous buyers.



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## Marketing Situation – Key Questions to Ask

- Product: What is our product?
- Customers: What markets do we serve?
- Unique Features: What are the unique features that distinguish our products?
- Distribution: How do we distribute our products?



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## Marketing Situation – Key Questions to Ask

- Pricing: How do we price our products?
- Promotion: How do we promote our products?
- Market and Industry: How is our market changing?



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## Product

- What product do we want to raise?
- This is an important question to ask because it will determine what resources will be needed to produce the product.
- Good follow up questions are:
  1. Will our land be able to produce this product?
  2. Do I have the labor to raise this product?
  3. What machinery will I need?



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## Customers

- Customers are the lifeblood of your business. This is the market that you will serve.
- You are trying to identify your target audience of your product, which will determine what products you will sell.
- Important questions to ask:
  - Is your customer base segmented?
  - Who will be your competition?



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## Customers

- It can be important to gather further information on your customers when considering a new business venture or additional enterprise.
- You need to consider the impact to your current customer base if you decide to implement a major change such as adding a new product line or changing locations.
- Alienating an existing customer base to chase a new clientele could be detrimental to your business.
  - **Be mindful of that!**

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## Unique Features

- Product differentiation may be a large component of your business.
- Example of value-added product differentiation:
  - Grass-fed beef
  - Certified organic produce
- Something to consider: Marketing terms such as "natural" have no official definition by the USDA, but is a marketing technique. It is advisable to only make claims on your products that you can substantiate.



Use worksheet 2.2 to help identify Unique Characteristics of Products.

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## Distribution

- A very important part of your business is getting your products to your customer.
- Whether you are selling retail or wholesale, the task of getting your products to market is crucial.
- Key things to consider:
  - What market channels will we sell through? (i.e. grocery stores, restaurants, etc.)
  - Will you sell directly to customers, through a farmers market, online?

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## Distribution

- The various ways of distribution have their advantages and disadvantages that have to be considered.
- Example of Distribution: Farmers Market
  - Advantages: Established market channel, existing customer audience, ability to directly interact with customers.
  - Disadvantages: Time devoted to being at market, labor expense of someone manning the booth, booth fees, competition of other producers at the market.



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## Pricing

- The price of your products should be based on your production costs.
- Businesses that do not factor in expenses into their prices are setting themselves up for failure.
  - In agriculture, unless you are truly producing a value-added product that is differentiated from others products, we tend to be price takers. Beef and row crop producers are subject to this.
  - Farmers markets tend to be an example of where pricing based on production costs is very important.
    - Example: If another vendor sets up beside you and sells their tomatoes at \$1.00 per pound, can you afford to sell at that same price and be profitable?

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## Promotion

- Effective marketing is key to attracting new customers.
- Promotions may come in the form of online marketing, posters in public places, or other means of advertising.
- Promotions may even include promotional pricing that is geared at increasing customer traffic, which can be effective at the retail level.
- Look at Figure 6 on page 37 of the book to review the promotion worksheet used by Cedar Summit Farms.



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## Market and Industry

- As time goes on, markets and industries change.
- On the supply side, new competition might emerge.
- On the demand side, customer perception can change and influence purchase decisions.
- It is your goal as the owner of the business to adapt to these changes and capitalize on the opportunities market changes present.

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## Market and Industry

- If you are planning a major business change, such as starting a new enterprise or exiting an existing one, due to market changes, consider the worksheet "Changing Market Conditions" section of Worksheet 2.2 found on page 69 of the text.



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## Operations Situation

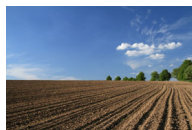
- Resources: What physical resources are available to you?
- Production: What production systems will you implement?
- Management: What management systems will you use in your operation?
  - What skillset do you have that can help you manage your business?
  - How can you improve to be a better manager?
    - Do you need to hire someone with a certain skillset that you do not have or cannot acquire?

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## Resources

- Land
- Equipment
- Labor



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## Physical Resources Available to You

- Land is the foundation to agricultural production.
  - What is the lay of your land and what type of agricultural production can it sustain? **You must consider the total land area!**
  - What is the soil profile of your property?
  - Is there water available for livestock production or irrigation for crops?
  - How close are you located to your customer base?
  - Are you permitted to do what you want to do on your property?
    - Environmental regulations, lease agreements, easements, conservations agreements, and zoning regulations may impact what you can do on your land.

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## Physical Resources Available to You

- Equipment may be needed to start agricultural production.
  - What equipment do you already have?
  - Do you need a particular piece of machinery for a new enterprise?
  - Do you buy new or used equipment?
  - Do you know how to operate the machinery and/or work on the equipment if needed?
  - Can you afford the pieces of machinery that you will need?

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## Physical Resources Available to You

- Labor is very important for certain types of agricultural production.
- Labor has become one of the largest issues in agriculture.
  - Will you be able to physically plant, maintain, and harvest your produce?
  - Will you need H2A labor for certain fruit/vegetable production?
    - **Working with a reputable agency that can help source this labor pool is very important.**
  - How many workers can you afford to employ either full-time or part-time?

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## Operations: Institutional Considerations

- The need for proper written agreements such as leases, getting the proper permits, and having the right contracts in place are paramount.
- Let's look at Figure 10 on page 41 to cover somethings you need to review when completing your business plan.



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## Crop Production Systems

- After identifying the resources available to you, you need to identify:
  - Crop rotations
  - Timing of operations
  - Machinery and inputs used
  - Quantity of production
  - Storage of products raised
  - Processing and deliver to market



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## Crop Production Systems

- Budgeting is crucial for a crop production system.
- A checklist for crop inputs is helpful in completing a budget.
  - Helps to account for all costs of production and identify things you may not have considered.
- Figure 11 (on page 42 in the text) is an excellent resource for completing a budget for your farm.

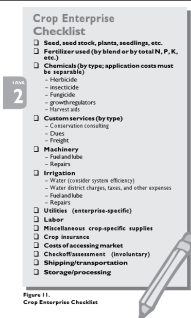


Figure 11:  
Crop Enterprise Checklist

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## Crop Production Systems

- Additional resources when planning crop production systems:
  - USDA's Web Soil Survey – free resource to get an estimate of the production potential of your farm.
    - Does not replace a soil test.
    - Soil test kits are available through your local UT Extension office as well.
  - Local University of Tennessee Extension county office.
  - When searching online resources, be sure to add either "extension" to your search or look for ".edu" so the information is research-based and unbiased.

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## Crop Production Systems

- When deciding where to plant and what to plant:
  - You need to understand what your farm is capable of doing.
  - If it is highly fertile, then you have more possibilities.
  - If it has thin soils and eroded soils, your options will be limited.
  - Total land area for production is very crucial as well.
    - Land available for planting.
    - Stocking rates.
    - Timber on property needs to be considered.

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## Livestock Production Systems

- Livestock production requires as much, if not more, planning that crop production.
- For example in a cattle operation, you have to consider the following:
  - Feed
  - Forages
  - Herd health
  - Financial needs
  - Equipment needs
  - Labor needs



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## Livestock Production Systems

- The type of livestock that you are raising will determine what your overall production system will look like.
- The dates of certain agricultural practices will have a large impact on the overall production system as well.
  - Cattle Example: Your breeding season will impact the pressure on your pastures from a stocking rate standpoint and even hay needs in the winter.
    - Calving season will also impact when you market your calves, which has a large impact on overall profitability.

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## Livestock Production Systems

- On page 73, Worksheet 2.6, you can use this worksheet to plan your livestock production systems for a calendar year.
- This is helpful to determine labor needs, total feed required, and herd health maintenance requirements.



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## Enterprise/Calendar Matrix

- The enterprise/calendar matrix is used to see if your crop production and livestock production systems interfere with one another.
  - Do you have enough land area to raise your crops and produce sufficient forages for your cattle?
  - Does the equipment used for crop production fit the needs of the livestock production system?
  - Do you have the time and money to do both?

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## Human Resource Situation

- People are essential to a farming operation and you need to be able to answer a few very important questions.
  - Current Work Force: Who is involved in our business and what roles do they play?
  - Skills: What is our current skill set and what skills do we lack?
  - Changes in Labor: Will our labor situation change soon?
    - Will someone be joining the operation?
    - Will someone retire?
    - Does part of the family have any health issues?

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## Human Resource Matrix

- A human resource matrix can help determine who is involved in your operation and what their role is.
- The matrix can be helpful in determining the job functions between the various enterprises that you are involved in.
- Let's look at Figure 16, which is found on page 47 of your text.

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## Human Resource Matrix

Use this worksheet to identify the people involved in your operations and the roles they play.

Person	Duty	Role	Production/Management	Marketing	Finance	General
Base Owner	Order feed, vet, ag, city taxes	Production labor and management	Production labor and management	Production labor and management	Production labor and management	Production labor and management
Finance Manager		Marketing	Marketing	Marketing		General customer care
Feed Buyer	Feed manager, milking and other labor				Production labor and management	Production labor and management
Cow Herd					Production labor and management	General labor
Agon work	Marketing, feedstore and warehouse					
Summer student		Feed animals	Feed animals	Feed animals	Marketing	Order form labor

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## Human Resources: Skills

- As the owner of the operation, you will want to evaluate your labor pool, including yourself.
- Evaluating your labor pool allows you to consider the education, abilities, strengths, weaknesses, and goals of both you and your employees.

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## Financial Situation

- Detailed information on current finances is crucial to any business.
- Your financial assessment should answer these questions:
  - Financial need: What are your current family living expenses?
  - Financial performance: How well has your business done?
  - Risk: What type of risk do you face on your farm?
  - Financial environment: What is the current business environment?

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## Financial Situation: Family Living

- Goals of the farm:
  - To provide supplemental income to cover a portion of family living expenses
  - To provide enough income to allow you to be fully employed on the farm
- Family living expenses need to be calculated.
- Figure 19 (page 52 of the text), provides a checklist for calculating common family living expenses.

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## Measuring Financial Performance

- Financial information is the only way to determine the profitability of the business.
- You will need to have the following documents to evaluate your farm:
  - Income Statement
  - Balance Sheet
  - Accrual Adjusted Cash Flow
- These will be used to measure your financial performance.

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## Income Statement

- The income statement shows the net farm income for the previous fiscal year.
- It lists all revenue items, accounts for all expenses, and shows overall profitability.
- It does not account for loan payments, income taxes, or family living.
- Worksheet 2.12 on page 55 shows an income statement for Cedar Summit Farm.

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## Balance Sheet

- The balance sheet lists all assets and liabilities of the business to determine the owner's equity in the business.
- Equity is calculated by subtracting total liabilities from total assets.
- The balance sheet is important to show the change in equity overtime.
  - As time goes on, are you able to pay down debts and increase assets?
  - Valuation of assets: Market versus Cost.

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## Financial Ratios

- Five recommended financial performance measurement areas include:
  - Profitability – Net Income Statement
  - Liquidity – Balance Sheet
  - Solvency – Balance Sheet
  - Repayment Ability – Cash Flow Analysis
  - Efficiency – Ratios such as return on investment and return on assets can help determine efficiency of the business.

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## Financial Records

- You can generate financial records either on paper or electronically.
- The UT Extension Farm MANAGE program is designed to assist producers in developing a farm plan for their operation, which includes the creation of an income statement, balance sheet, and cash flow statement.

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## Measuring Financial Performance

- Review figures 20 through 27 in the text on pages 53-60 of actual examples of measuring financial performance.
  - Key things to look at:
    - Income Statement
    - Balance Sheet
    - Cash Flow Analysis
    - Whole Farm Trend Financial Analysis



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## Risk Exposure

- In production agriculture, you are exposed to many types of risk.
  1. Production Risk
  2. Price Risk
  3. Market Risk
  4. Personal Risk
- Tools to manage some of this risk: planning, crop insurance, contracting prices, insurance, and luck.

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## Financial Environment

- Interest Rates – as rates increase; debt becomes more “expensive.”
- Employment – the loss of labor can halt production.
- Inflation – loss of purchasing power results in higher operating expenses.
- Government Actions – local, state, and federal regulations can add operating costs in the form of permits, audits, and, maybe even, fines.

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## Section Summary

- Establish the need to assess the current market
- Identify tangible assets that we can use
- Consider what regulations and rules we must operate under
- Detail crop and livestock production systems
- Evaluate the overlap between each enterprise
  - Struggle to balance finances, equipment, and labor between them all
- Assess human resources and what skillsets we have

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## Homework

- Worksheet 1.1 My Values
- Worksheet 1.2 Common Values
- Worksheet 2.1 A Brief History of Our Farm Operation
- Worksheet 2.2 Current Market Assessment
- Worksheet 2.3 Tangible Working Assets
- Worksheet 2.4 Institutional Considerations
- Worksheet 2.5 Describing Crop Production Systems
- Worksheet 2.6 Describing Livestock Production Systems
- Worksheet 2.7 Enterprise/Calendar Matrix
- Worksheet 2.8 Human Resources Matrix
- Worksheet 2.9 Assessing Worker Abilities and Needs

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## Building a Sustainable Business Workshop Series

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[www.Extension.Tennessee.edu](http://www.Extension.Tennessee.edu)

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## Building a Sustainable Business Workshop Series




United States Department of Agriculture  
National Institute of Food and Agriculture

This series is supported by USDA/NIFA under Award Number 2015-49200-24228.

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## Vision, Mission and Goals

Dr. Joey Mehlhorn  
Parker Chair of Excellence in Agriculture  
Professor, Agricultural Economics  
The University of Tennessee at Martin  
January 15, 2019

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## Session Objectives

- Current history of your operation recap
- Casting a vision
- Developing a mission statement
- Understanding goals and goal setting
- Getting started with your mission statement

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## Assess Your Current Situation: Marketing

- Product
  - What is your product?
- Customers
  - What markets do you serve? Where and who?
- Unique Features
  - What is special about your product?

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## Assess Your Current Situation: Marketing

- Distribution
  - Sale to first handler
  - Wholesaler or retailer
  - Direct marketing
- Pricing
  - You have to know your cost of production.
  - What is the competition?

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## Assess Your Current Situation: Marketing

- Promotion
  - How do people know about your product?
- Market and Industry
  - How is the market changing?

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## Assess Your Current Situation: Operations

- Physical Resources
  - What do you have available?
- Production
  - What production systems are you using?
- Management
  - Understand your management team

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## Assess Your Current Situation: Human Resources

- Labor and management capabilities that are available for your farm.
- Labor can be a challenge and you need to identify needs and connect employees to correct task.
- You need to grow your management and leadership abilities.

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## Assess Your Current Situation: Financial

- Financial needs
  - Family living expenses?
  - Will you have off farm or off business revenue?
  - Need to maintain good records.
- Financial Performance
  - Understand your financial position
  - Financial statements

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## Assess Your Current Situation: Risk

- What kinds of risk is your business exposed to?
- Production risk
- Protection of your personal assets

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## Assess Your Current Situation: Financial Environment

- General economic conditions
- Your business is impacted by the larger economic conditions around you.
- Interest rates, employment, inflation

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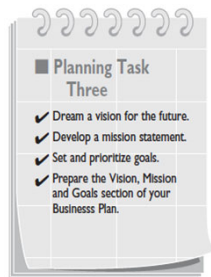
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## SWOT

- **Strengths**
  - What advantages does your business have?
  - What do you do better than anyone else?
  - What unique resources can you draw upon?
  - What do people in your market see as your strengths?
- **Weaknesses**
  - What could you improve?
  - What should you avoid?
  - What are people in your market likely to see as weaknesses?
- **Opportunities**
  - What good opportunities can you spot in your area?
  - What interesting trends are you aware of?
- **Threats**
  - What obstacles do you face?
  - What are your competitors doing?
  - Is changing technology threatening your position?
  - Do you have bad debt or cash-flow problems?

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Task 3: Where do you want to go?

## VISION, MISSION AND GOALS

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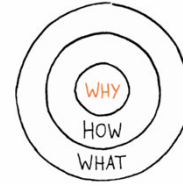
## Start with Why (Simon Sinek)

### The Golden Circle

**WHAT**  
Every organization on the planet knows WHAT they do. These are products they sell or the services

**HOW**  
Some organizations know HOW they do it. These are the things that make them special or set them apart from their competition.

**WHY**  
Very few organizations know WHY they do what they do. WHY is not about making money. That's a result. WHY is a purpose, cause or belief. It's the very reason your organization exists.



"Start with Why: Creating a value proposition with the Golden Circle model" Dave Chalkey, <https://www.smartinsights.com/digital-marketing-strategy/online-value-proposition/start-with-why-creating-a-value-proposition-with-the-golden-circle-model/>

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## Vision

- Critical to the success of any business.
- You must understand what you value and what you want in your business (make sure your loved ones are on the same page).
- Start with brainstorming.

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## Developing a Mission Statement

- Three Important features
  - It defines what the company does for its customers
  - It defines what the company does for its employees
  - It defines what the company does for its owners

Tim Barry "How to write a business mission statement in 5 easy steps" <https://articles.bplans.com/writing-a-mission-statement/>

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## Guideline for Mission Statement

- Start with a market defining story
- Define what your business does for its customers
- Define what your business does for its employees
- What does the business do for its owners
- Discuss, digest, cut, polish, review, revise

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## Set and Prioritize Goals

- Goal setting is the critical first step in developing a strategic plan.
- Goals need to be clearly defined and should be driven by your values.
- Goals should describe what you want to include (make sure you include family in the process)

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## SMART Goals



"The trouble with not having a goal is that you can spend your life running up and down the field and never score." Bill Copeland

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AND LAND-USE SCIENCE

## Specific

- What do you want to accomplish?
- Why is this goal important?
- Who is involved?
- Where is it located?
- Which resources or limits are involved?

"SMART Goal: How to Make Your Goals Achievable", MindTools <https://www.mindtools.com/pages/article/newsmgt/goals.htm>

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## Measurable

- Measurable allows you to track your progress.
- Should address the following
  - How much?
  - How many?
  - How will I know when it is accomplished?

"SMART Goal: How to Make Your Goals Achievable", MindTools <https://www.mindtools.com/pages/article/newsmgt/goals.htm>

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## Achievable

- Make sure it is realistic and attainable
- Should address the following
  - How can I accomplish this goal?
  - How realistic is the goal, based on other constraints (financial, human, physical, etc..)

"SMART Goal: How to Make Your Goals Achievable", MindTools <https://www.mindtools.com/pages/article/newsmgt/goals.htm>

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## Relevant

- Does the goal matter to you? Is it pushing you closer to what you want to achieve?
- Relevant goals are yes to the following questions.
  - Does it seem worthwhile?
  - Is it the right time?
  - Does it match our efforts/needs?
  - Are we the right leaders to reach the goal?

"SMART Goal: How to Make Your Goals Achievable", MindTools <https://www.mindtools.com/pages/article/newsmgt/goals.htm>

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## Time Bound

- You have to have a target date.
- Don't let everyday tasks to overshadow your long term goals.
- Time bound goals answer the following questions.
  - When?
  - What can I do six months from now?
  - What can I do six weeks from now?
  - What can I do today?

"SMART Goal: How to Make Your Goals Achievable", MindTools <https://www.mindtools.com/pages/article/newsmgt/goals.htm>

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## Write Out Goals

- If it is important write it down!
  - Written plans give you checkpoints to follow.
- Identify common goals
  - Recognize differences
  - Have all family members and stakeholders on the same page
  - Conflict can arise at this point, but it is better than rising later on in the business.

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## Homework

- Worksheet 2.10 Likely Changes in Our Human Resources Situation
- Worksheet 2.11 Estimating Family Living Expenses and Income Needs
- Worksheet 2.12 Income Statement
- Worksheet 2.13 Balance Sheet
- Worksheet 2.14 Earned Net Worth change Analysis

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## Homework

- Worksheet 3.1 Dreaming a Future Business Vision
- Worksheet 3.2 Creating My Business Mission Statement
- Worksheet 3.3 Estimating Our Family's Goal for Profit
- Worksheet 3.4 Identifying Our Family Business Goals
- Worksheet 3.5 Prioritizing Goals

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## Building a Sustainable Business Workshop Series

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Website: <http://www.utm.edu/departments/agnr/faculty/mehlhorn.php>

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## Building a Sustainable Business Workshop Series




United States Department of Agriculture  
National Institute of Food and Agriculture



This series is supported by USDA/NIFA under Award Number 2015-49200-24228.

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## What Routes Can You Take to Get to Where You Want to Go?

Megan Bruch Leffew  
Marketing Specialist


CENTER FOR PROFITABLE AGRICULTURE  
 INSTITUTE OF AGRICULTURE  
A UNIVERSITY OF TENNESSEE - FARM BUREAU PARTNERSHIP 

January 22, 2019

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Pages 103-133

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## If I plant these seeds, will they grow?




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## If we build (grow, produce, offer) it, will they come (and buy it)?

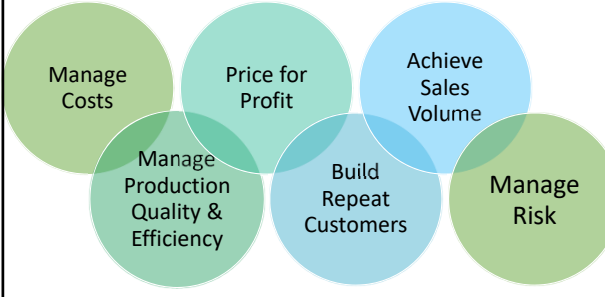
## And will we be profitable?



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## How achieve profitability?

**Profit/Loss = Income – Expenses**



Manage Costs

Price for Profit

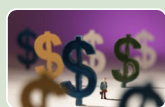
Achieve Sales Volume

Manage Risk

Build Repeat Customers

Manage Production Quality & Efficiency

## Why Businesses Fail (The 3 Ms)



### Money

Capital &  
Cash Flow



### Management

Skills &  
Experience



### Marketing

Knowing &  
Accessing  
Customer

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Clark, Scott. *Reasons for business failure come in three broad groups.* Puget Sound Business Journal. July 21, 1997.

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## Why Businesses Fail (The 4<sup>th</sup> M)



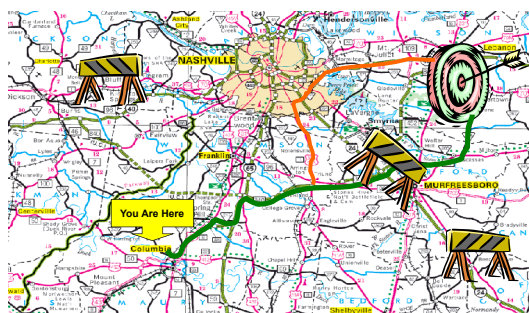
### Magic

Passion, Energy, Drive

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## A marketing plan is like a roadmap...



## Session Objective



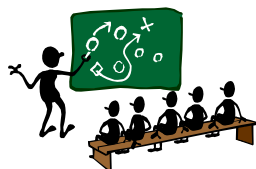
- To increase your understanding of basic marketing fundamentals needed to develop and implement a marketing plan

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## Session Overview

- Taking a market driven approach to market planning
- Pricing Your Product (for Profit)



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## Where to Start



1. Assess your resources, mission and goals



2. Take on a customer state of mind



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Marketing is all about understanding target customers and developing strategies to reach them.



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## Take a Market Driven Approach



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## Take a Market Driven Approach

Is there a need/want your business can fulfill?

- What and how much is needed or desired?
- What is valued?
- What competition exists?

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## How?



- Listen to your customers and potential customers
- Ask your customers or potential customers
- Research related products and services online and in person
- Read industry studies
- Network with local business/tourism organizations
- Talk to others in business

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## Researching your Target Market



Look for insight through

- Facts
- Figures
- Reports
- Observation

Two types

- Primary data
- Secondary data

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## Secondary Data

- Usually your *first source* of information
- Created/discovered by someone else; still very useful to you
- Less costly than “producing” new information
- Often includes analysis – summarized and in usable form
- Rely on credible sources

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## Examples of Secondary Data Sources

- Census of Agriculture
- U.S. Population Census
- University studies
- Food sites/trade publications
  - epicurious.com
  - newhope360.com
  - PickTNProducts.org



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## Primary Data Collection



- Research conducted (and analyzed) by you – customized data
- The main methods are:
  - Personal observation or interaction
  - Surveys
  - Focus groups

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## Examples

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### APPENDIX C

#### Sample Telephone Survey of Potential Customers

Interviewer Number \_\_\_\_\_ Phone Number \_\_\_\_\_

Introduction: Hello, I am \_\_\_\_\_ calling for \_\_\_\_\_ County Farmers Market. We are planning to open a farmers market this season, and we are trying to gauge community interest in the market. I have a few questions I'd like to ask you. This survey will only take about \_\_\_\_\_ minutes, and I would appreciate your thoughts and input.

1. First, how long have you lived in the \_\_\_\_\_ area? Check one.  
 \_\_\_\_\_ 1 year or less \_\_\_\_\_ 10 to 19 years  
 \_\_\_\_\_ 2 to 4 years \_\_\_\_\_ 20 or more years  
 \_\_\_\_\_ 5 to 9 years
2. Last summer, did you buy fresh fruits and vegetables at any of the following locations? Check each location where they were bought.  
 \_\_\_\_\_ At a roadside stand? \_\_\_\_\_ At a farmers market?  
 \_\_\_\_\_ At a pick-your-own operation? \_\_\_\_\_ At markets other than supermarkets?
3. Which of the following four statements describes your feelings about shopping at the proposed \_\_\_\_\_ farmers market when it opens? Check one.  
 \_\_\_\_\_ I will definitely shop there \_\_\_\_\_ I will probably shop there  
 \_\_\_\_\_ Not sure \_\_\_\_\_ I probably won't shop there  
 \_\_\_\_\_ I will not shop there at all.

Please answer questions 4 and 5 only if respondent is **not** planning to shop at proposed market.

4. Are there any particular reasons you do not plan to shop at the market?  
 \_\_\_\_\_ No \_\_\_\_\_ Yes If yes, ask question 5.

## WHAT'S HOT 2019 CULINARY FORECAST

NATIONAL RESTAURANT ASSOCIATION | 100 CENTENNIAL

### TOP TRENDS FOR 2019

1. Cannabis/CBD-infused drinks
2. Cannabis/CBD-infused food
3. Zero-waste cooking (elevated cuisine using food scraps)
4. Globally inspired breakfast dishes
5. Global flavors in kids' meals
6. Hyper-local (e.g. restaurant gardens, onsite beer brewing, house-made items)
7. New cuts of meat (e.g. shoulder tender, oyster steak, Vegas Strip Steak, Merlot cut)
8. Veggie-centric/vegetable-forward cuisine (e.g. fresh produce is star of the dish)
9. Chef-driven fast-casual concepts
10. Craft/artisan/locally produced spirits

Center for Profitable Agriculture 0 50

Summary of Major Findings and Recommendations:  
Feasibility of a Federally Inspected, Custom Livestock Processing Facility in Tennessee  
October 2017

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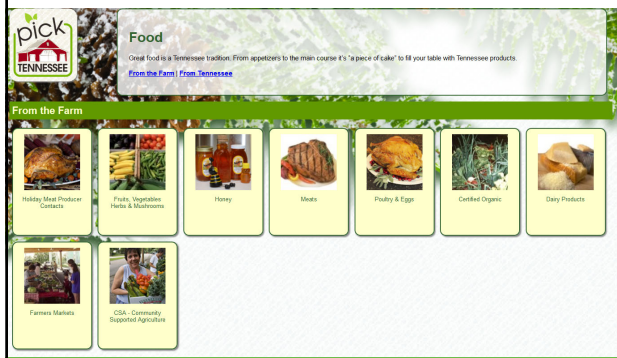
Growth Prospects for the Tennessee WINE INDUSTRY

AN OVERVIEW, DEMAND AND COST OF PRODUCTION-BASED ANALYSIS

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## Check Out the Competition



## Take a Market Driven Approach

Who is the target market?

- Demographics & Psychographics
- Customer Values (Customer Benefit, Cost, Convenience, Communication)

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A portion of the population with a

1. Need/want that your business can fulfill
2. Willingness to purchase
3. Ability to purchase

Your first and best customer

Target Market



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## Different Target Markets for Different Products



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## Characteristics of Customers

- Demographic Analysis
  - Age
  - Gender
  - Geographic location
  - Annual income
  - Marriage/family status
  - Ethnicity
  - Education level
- Psychographic Analysis
  - What do they VALUE?
    - Lifestyle
    - Behavior patterns
    - Beliefs and values
    - Attitudes
  - How do they make decisions? What information do they need?

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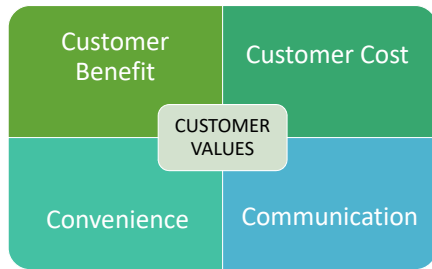
## Different Target Markets have Different Values



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## Take on a Customer State of Mind



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## How?

- Listen to your customers and potential customers
- Ask your customers or potential customers
- Research related products and services online and in person
- Research industry studies



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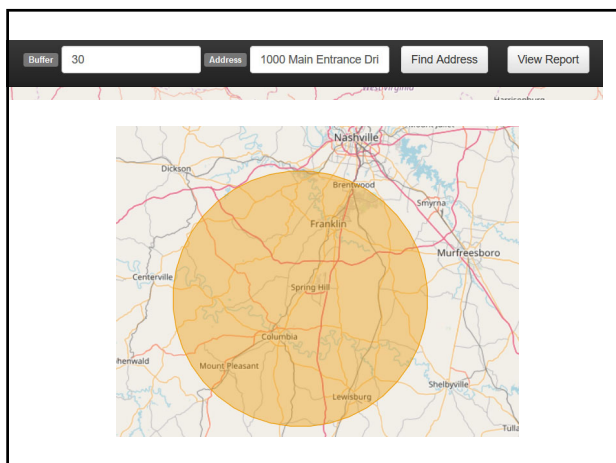


## Examples

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## TargetTN – targettn.utk.edu



	A	B
1	Variable Name	Value
2	Population Total	770,065
3	Male	375,335
4	Female	394,730
5	In Poverty	197,849
6	Median Age	38
7	White Alone	631,258
8	Black Alone	79,317
9	Asian Alone	23,368
10	American Indian and Alaska Native Alone	1,159
11	Other Race Alone	20,895
12	Two or More Races	13,976
13	Hispanic or Latino	55,231

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## Consumers Perception of Local Food/Producers

**LOCAL IS EVOLVING INTO A POWERFUL CATEGORY**

Local is no longer merely a bridge between organic and natural; it now speaks to consumer desire for a food system with integrity. "Local" offers a compelling narrative that resonates with many salient food trends and consumer concerns.

**Local...**

- Offers greater transparency and trust: Consumers believe local producers and small farmers have more integrity and are deeply invested in the quality of their products
- Is fresher and more seasonal: Smaller production signals food that is in tune with the seasons and the unique qualities of the locale from which it comes
- Tastes good: Consumers attribute better taste and, in some cases, nutrition, to local foods
- Supports the proximate food economy and community: Purchasing locally produced food provides consumers with a sense of contributing to and supporting small farmers and their community
- Minimizes our carbon footprint: Shorter supply chains represent environmental benefits by requiring less fuel for transport

- Trustworthy
- Transparent
- Unique
- Authentic
- Tastes Good
- Nutritious
- Supports Small Farms
- Supports Community
- Environmentally Friendly



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## SHOPPING BEHAVIOR

Locally grown is one of the cues that consumers use to determine higher-quality foods.

**"I look for..."**

25% 2013  
20% 2010  
13% 2007

"...food and beverages that are locally grown or produced"


**"I buy more..."**


29% 2014  
32% Millennials 18-35  
26% Gen X 36-49  
26% Boomers 50+

"...local products than a year ago"

Source: Culture of Wellness 2013 report  
Source: Organic & Natural 2014 report


buy local




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## Food Attributes Appealing to Values

- Direct from local, family farm
  - Helps the "little guy"
  - Authentic
  - The story
  - The experiences
- Sustainable environmental practices
- Sustainable communities
  - Supports local economy
  - May support underserved groups (special needs or resource stressed)



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## MARKETING LOCALLY RAISED BEEF

Lessons Learned from Tennessee Value-Added Beef Producers Focus Groups

Consumer Preferences for Tennessee Beef: Results of a Consumer Survey

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## Social Media Research Strategies

**Listen**

- Trending topics
- Follow discussions

**Engage**

- Get involved in discussions
- Ask questions
- Use polls



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## Take a Market Driven Approach

Does a profitable market exist?

- Is there adequate market size and potential share?
- Able to produce at a cost low enough and sell at a price high enough to generate a profit?

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## How?

- Census data
  - Population by age, race, ethnicity
  - Household income
- Expenditure data from Bureau of Labor Statistics
- Industry studies
- Run some numbers



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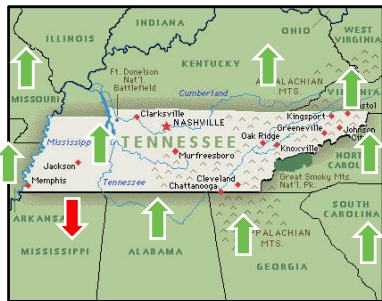
## Examples

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### Agritourism Number of Farms 2007 to 2012 Census

Tennessee	U.S.
20.8%	42.0%
510 to 616 farms	

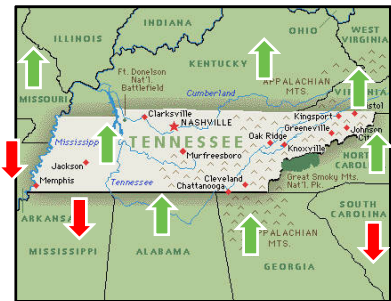


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### Agritourism Value of Sales 2007 to 2012 Census

Tennessee	U.S.
83.1%	24.23%
\$6.5 m to \$11.9m	



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### Average Sales Per Farm 2007 to 2012 Census

Tennessee	U.S.
51.6%	-12.5%
\$12,759 to \$19,342	



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### Agritourism Gross Sales by Farm

Agritourism and Recreational Services	Tennessee		
	2007	2012	% Change
Total Farms	510	616	21%
\$1-999	161	243	51%
\$1,000-4,999	189	198	5%
Farms with Receipts of \$5,000-9,999	50	32	-36%
\$10,000-24,999	57	61	7%
\$25,000+	53	82	55%

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School Enrollment	15 miles	30 miles	45 miles
<b>Enrolled Public Kindergarten</b>	551	3,076	10,493
<b>Enrolled Private Kindergarten</b>	16	192	897
<b>Enrolled Public Grades 1-4</b>	3,352	14,490	42,090
<b>Enrolled Private Grades 1-4</b>	123	662	2,950
<b>Enrolled Public Grades 5-8</b>	2,453	14,011	42,185
<b>Enrolled Private Grades 5-8</b>	101	892	4,630
<b>Enrolled Public Grades 9-12</b>	2,782	13,442	43,305
<b>Enrolled Private Grades 9-12</b>	71	967	3,447

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Expenditures	15 miles	30 miles	45 miles
<b>Entertainment</b>	65,012.8	342,131.1	1,151,024.0
<b>Fees and admissions</b>	15,208.2	81,547.0	279,519.7

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## Take a Market Driven Approach

How do I reach the target market?

- Develop, implement and evaluate marketing strategies. (Product, Positioning, Price, Place, Promotion, People)

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## Marketing Strategies Differ Depending on Target Market



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Marketing is all about understanding target customers and developing strategies to reach them.



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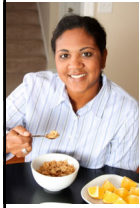


- All of your marketing strategies should be consistent with
  1. Your resources, mission and goals
  2. Your target audience and their values

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## Develop Your Marketing Strategies



Customer Benefit  
→ Product &  
Positioning

Customer Cost →  
Price

CUSTOMER  
VALUES  
→ MARKETING  
STRATEGIES

Convenience →  
Place or  
Distribution

Communication  
→ Promotion

## Product (Customer Benefit)

What does the customer need or want?  
How can your product be unique?

- Product characteristics and features
  - Packaging
  - Information
  - Services
  - Experiences



## Product Positioning (Customer Benefit)



- Image or message to portray to customers through marketing efforts
- Mental pitch
- Consider your unique selling proposition
- Be consistent

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## Place/Distribution (Convenience)

- Where are customers likely to access product?
  - Farmers market
  - On-farm retail
  - Roadside stand
  - Internet sales/shipped
  - Other retailers (wholesale sales)



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## Place/Distribution (Convenience)



- Days/hours
- Delivery services
- Aesthetics
- Merchandising
- Customer comforts

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## Price (Customer Cost)

- Pricing is part science and part art
- Consider
  - Fixed and variable costs of production and marketing
  - Supply and demand
  - Customer willingness to pay
    - Retail vs wholesale
  - Competition
  - Image/Positioning
  - Product/Service Quality
  - Place



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## Promotion (Customer Communication)



- How do customers learn about products or services?
  - Promotion Strategy Options
    - Word-of-Mouth
    - Publicity
    - Public Relations
    - Sampling
    - Discounting
    - Advertising

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## Promotion Musts

- Connect with state promotion programs
- If you aren't on the web, you aren't.
  - Website
  - Social media
  - E-mail
- Don't put all your eggs in one basket
- Develop a promotion budget



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## Take a Market Driven Approach

Is there a need/want your business can fulfill?

- What and how much is needed or desired?
- What is valued?
- What competition exists?

Who is the target market?

- Demographics & Psychographics
- Customer Values (Customer Benefit, Cost, Convenience, Communication)

Does a profitable market exist?

- Is there adequate market size and potential share?
- Able to produce at a cost low enough and sell at a price high enough to generate a profit?

How do I reach the target market?

- Develop, implement and evaluate marketing strategies. (Product, Positioning, Price, Place, Promotion, People)

## Develop a Marketing Budget



- Create budget based on expected sales and costs of marketing activities
- Marketing budgets often 5-10% of sales
  - Ads 3-5%
- May change over product life cycle

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## Pricing Your Product (for Profit)

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## How do direct marketers set prices currently?



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## Today's Topics



- Factors to consider in pricing
- Strategies to develop a price
- Pricing resources

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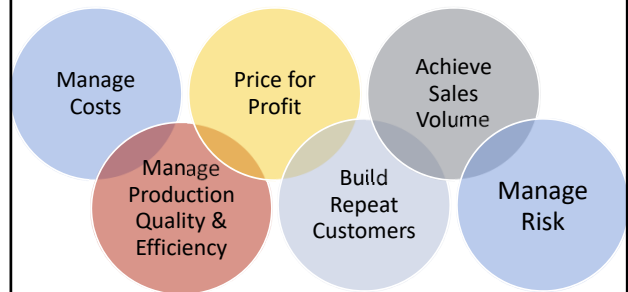
## Pricing is part of the marketing plan.



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## How achieve profitability? $\text{Profit/Loss} = \text{Income} - \text{Expenses}$



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## Factors to Consider in Pricing

- Costs
- Customers
- Competition
- Pricing Strategies to Meet Goals



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## Factors to Consider When Setting Prices



- 3 C's
  - Costs
  - Customers
  - Competition

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## Considering Costs – Breakeven Analysis

- Price at which a product must be sold to cover the costs of producing and marketing it
- Lowest price to be considered (typically)
- Breakeven Price Per Unit =  

$$\text{Variable Cost per Unit} + \frac{\text{Total Fixed Costs}}{\text{Projected Units Sold}}$$

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## Example Breakeven Analysis

- Consider a hypothetical strawberry jam producer with:
  - Annual Fixed Costs = \$10,049
    - Annual payment of startup costs, utilities, insurance, advertising, bookkeeping, etc.
  - Variable Costs Per Jar = \$1.96
    - Ingredients, jar, lid, label, boxes, etc.
  - Projected Units Sold = 7,500

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## Example Breakeven Analysis

- Breakeven Price Per Unit =  

$$\text{Variable Cost per Unit} + \frac{\text{Total Fixed Costs}}{\text{Projected Units Sold}}$$
- Breakeven Price Per Unit =  

$$\$1.96 + (\$10,049 / 7,500) = \$3.30$$
- If the farmer sold 7,500 jars, she would need to charge \$3.30 a jar on average to cover the costs of production and marketing.

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## Example Breakeven Sensitivity

	7,000 Units Sold	7,500 Units Sold	8,000 Units Sold
Variable Costs Per Unit	\$2.06	\$1.96	\$1.86
Total Fixed Costs	\$10,049	\$10,049	\$10,049
Fixed Costs Per Unit	\$1.44	\$1.34	\$1.26
<b>Breakeven Price</b>	<b>\$3.49</b>	<b>\$3.30</b>	<b>\$3.12</b>

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## What are your costs?

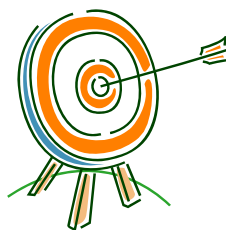


- Records
- Accountant
- Extension Specialists

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## Considering Customers

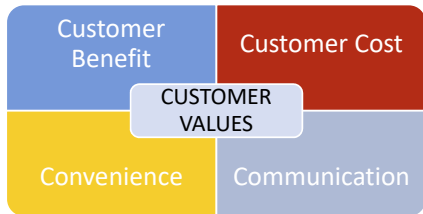


- Understand target audience characteristics needs and preferences
- Must
  1. Have need/desire for product
  2. Be willing to purchase
  3. Be able to purchase

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## Considering Customers



- Understand customers perceive product value
  - Quality, reputation, wholesomeness, appearance...
- Determine if price is a major or minor factor in purchase of product

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## Example – Consider Customers

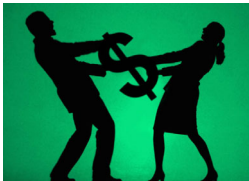


- Who is the target audience?
- How might they perceive the value of this product?
- How price sensitive are they likely to be?

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## Considering Competition



- Characteristics, market share, production and prices impact market environment
- Help identify own competitive advantages
- Think broadly when identifying competition

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## Considering Competition

- Gather information
  - Name
  - Years in business
  - Product description (sizes, packaging, characteristics)
  - Distribution method/location
  - Positioning, Brand identity/image
  - Amount of product produced
  - Customers & Market share
  - Strengths & Weaknesses
  - Price(s)
- How easy it is for new competitors to enter industry?
  - Barriers to entry, market potential
- How will existing businesses react to new business?

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## Sources of Reference Prices



- PickTNProducts.org
- Local and Regional Food Market News
  - North Carolina Grass Fed/Pasture Raised Meats
  - National Retail Report – Local & Organic
  - Farmers Markets
  - Farmers Auctions
  - Farm-to-School
  - <https://www.ams.usda.gov/market-news/local-regional-food>

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## Sources of Reference Prices

- Farmers Market Price Reports  
<http://www.uky.edu/Aq/CDBREC/TNfarmersmarket.html>
- USDA Fruit and Vegetable Price Reports
  - Wholesale and Retail Prices  
<https://www.marketnews.usda.gov/mnp/fv-home>
- Livestock, Meat, Poultry and Eggs Market News  
<http://www.ams.usda.gov/AMSV1.0/LPSMarketNewsPage>

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## Example – What might we learn about our competition?

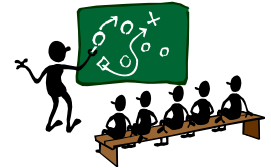


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## Pricing Strategies to Meet Business Goals

- **Loss Leader** – price below cost to attract new customers or encourage sales of other products
- **Markup & Margin** – to meet goals for profit above costs or % of selling price
- **Penetration** – introductory price - above costs but lower than competition to grow market share



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## Pricing Strategies to Meet



- **Volume or Multiple** – 1 price for single product and another/ cheaper price for multiple units
- **Product Bundle** – price for group of items
- **Price Skimming** – unique product at high price then lowering as competition enters
- **Premium Pricing** – high price for luxury, high-quality or unique product

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## Example – Considering Strategies

- What are our business goals?
  - Would like to earn at least 30% return to costs for capital and labor.
- Which pricing strategy will help us meet our goals?
  - Markup
  - Selling Price =  $\$3.30 + (\$3.30 \times 30\%)$
  - Selling Price =  $\$3.30 + \$0.99$
  - Selling Price =  $\$4.29$



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## The Art and Science of Pricing

### Science

Calculate breakeven price  
Research customer demographics, needs, preferences  
Evaluate the competition



### Art

Consider pricing strategies  
Evaluate all cost, customer and competition information  
Experiment with prices



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## The Art & Science of Pricing

- Are customers willing to pay more than the breakeven price?
- How does customer willingness to pay compare to cost-based mark-up or margin?
- Does the competitor information seem to indicate that a price higher than breakeven can be charged?
- Should the price be higher, lower or the same as competitors' prices?
- What pricing strategy will best help the producer meet his or her goals?

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## Example – Using Information to Choose a Price



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Pricing Topic	Information Learned	Implications for Price
Cost (Breakeven)	\$3.30 per jar (7,500 units in sales)	Price needs to be greater than \$3.30 per jar to cover costs.

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Pricing Topic	Information Learned	Implications for Price
Cost (Breakeven)	\$3.30 per jar (7,500 units in sales)	Price needs to be greater than \$3.30 per jar to cover costs.
Customer	Seeking local, quality, homemade products Story adds value Willingness to pay estimated at around \$5-\$6 per jar.	Willing to pay \$5 to \$6 per jar.  Think will buy more jars with price closer to \$5 per jar. Need to sell large volume of jars.

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Pricing Topic	Information Learned	Implications for Price
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Customer	Seeking local, quality, homemade products Story adds value Willingness to pay estimated at around \$5-\$6 per jar.	Willing to pay \$5 to \$6 per jar.  Think will buy more jars with price closer to \$5 per jar. Need to sell large volume of jars.
Competition	Little "local" Lot of "non-local"  Competitive advantage – local, homemade  Reputable brand comparable jar size \$3.32	Our product fills a niche for local, homemade products where there is little competition. Our quality is excellent with enticing packaging.  We should be able to charge a price higher than competition.

## Example – Using Info to Choose a Price

- Price floor (Breakeven) --- \$3.30
- Goal (markup strategy) --- \$4.29 or more
- Highest (Customer willingness to Pay) – \$5 to \$6
- Competition -- \$3.32 range
- All customer and competition information indicates we can charge higher than breakeven.
- Indications are we can charge higher than competition and higher than markup required to meet goal for rate of return.
- Customer information indicates we can charge between \$5 and \$6....
- Set price at \$5.19 per jar

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## Key Concepts to Pricing for Profit

- Key component of overall marketing plan
- Should be consistent with other components of marketing plan
- Consider costs, customers, competition and business goals
- Part science and part art



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## Additional Resources

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## Additional Resource

A General Guide to Pricing

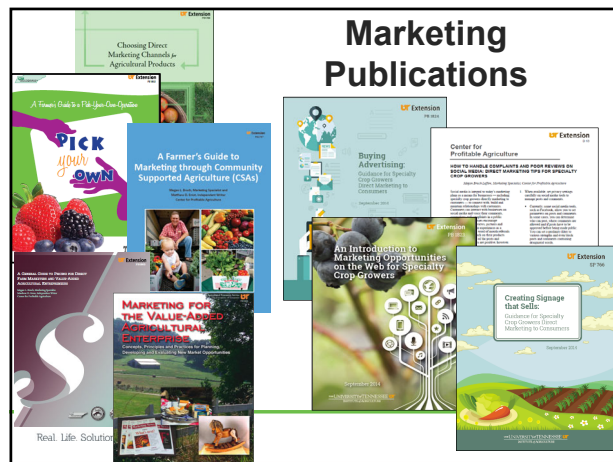
<https://ag.tennessee.edu/cpa>



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## Marketing Publications



## ONLINE MARKETING WEBINAR SERIES



- Upcoming Topics
  - Email Marketing
  - Developing a Social Media Strategy
  - Intro to Instagram and Twitter
  - Social Customer Service
  - Create Videos with iPhone
  - Legal Aspects of Social Media

Register at [tiny.utk.edu/MarketingWebinars](http://tiny.utk.edu/MarketingWebinars)

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## Session Summary

- Businesses that are product oriented – those that try to sell what they can produce without first looking at customers' needs – risk developing a product that won't sell.
- Instead, most successful businesses are customer-oriented – they design marketing strategies around the needs of their customers. - p. 106

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## Homework

- Worksheet 4.1 Customer Segmentation
- Worksheet 4.2 Potential Sales Volume
- Worksheet 4.3 Product and Uniqueness
- Worksheet 4.4 Competition
- Worksheet 4.5 Distribution and Packaging
- Worksheet 4.6 Pricing
- Worksheet 4.7 Promotion
- Worksheet 4.8 Inventory and Storage Management
- Worksheet 4.9 Marketing Strategy Summary

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## Building a Sustainable Business Workshop Series

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## Building a Sustainable Business Workshop Series




United States Department of Agriculture  
National Institute of Food and Agriculture

This series is supported by USDA/NIFA under Award Number 2015-49200-24228.

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## Strategic Planning and Evaluation

Dr. Rachna Tewari  
Associate Professor, Agricultural Economics and Agribusiness  
The University of Tennessee at Martin  
January 29, 2019

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## Session Objectives

- Production Management
- Regulation and Policy
- Resource Needs
- Resource Gaps
- Size and Capacity
- Storage and Inventory Management


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## Production System and Schedule

- *What production/management alternatives will we consider? How will we produce?*
- Make visits to similar sized operations
- Get valuable insights on production, equipment purchases and marketing
- Choice of production system heavily influenced by social, environmental and community values

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## Production System and Schedule

*Crops or livestock details:*

- Weed, pest and disease control
- Soil fertility, rotation, tillage, irrigation
- Water quality
- Seed selection
- Breed selection
- Fencing, feed, housing, stocking
- Waste and quality control


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## Production System and Schedule

- Service enterprises: focus on the systems component of the plan
- Alternative production systems
- Published research studies on reduced input, organic and livestock grazing systems
- Talk with other farmers: learn from their mistakes and successes

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## Production System and Schedule

- How management within each system may change over time
- How might your livestock management change:
  - ✓ Confined farrowing vs. pasture farrowing for hogs
  - ✓ Summer grazing to winter feeding for cattle

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## Regulations and Policies

- What institutional requirements exist?
- Local zoning, permitting, licensing and regulatory issues
- Regulations impacting production and operations plans, start-up costs

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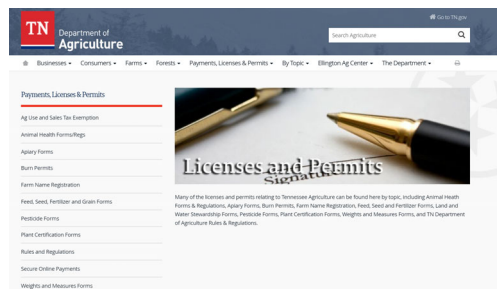
## Regulations and Policies

- Type of permits or licenses: based on the business life-cycle
- Check with your state's Small Business Association as well as your local or county regulators:
  - ✓ Environmental
  - ✓ Construction
  - ✓ Finance, bonding
  - ✓ Product safety regulations

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## Regulations and Policies



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## Describing Potential Crop Production Systems

**Worksheet 4.12 Describing Potential Crop Production Systems**

Complete this Worksheet for each major crop enterprise. Be as specific and accurate as you can, since this information will be the basis for the resource acquisition strategies that you consider.

Crop Enterprise: \_\_\_\_\_ Current Acreage: \_\_\_\_\_

Month	Operation	Machinery Operations		Operating Input				Labor	
		Hrs/Acre	Machine	Item	Quantity/Acre	Units	Price/Unit	Hrs/Acre	Type
			Machine 1						
			Machine 2						

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## Describing Potential Livestock Production Systems

**Worksheet 4.13 Describing Potential Livestock Production Systems**

Complete this Worksheet for each major livestock enterprise. Be as specific and accurate as you can, since this information will be the basis for the acquisition strategies you consider.

Livestock/Poultry Production System: \_\_\_\_\_ Projected Number of Units: \_\_\_\_\_

Month or Period	Facility Space Req.	Labor		Feed Required	Vet & Medications Items & Amounts	Machinery & Equipment Req.	Other Inputs
		Hours	Type				

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## Resource Needs and Acquisition

- Talking with experienced producers or your local Extension educator
- Pay special attention if you decide on growing a specialty commodity / alternative management systems
- Contact your regional SARE office for more information

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## Resource Gaps: How will we fill physical resource gaps?

- Compare current crop and livestock input needs (WS 2.5 and 2.6) to future operations (WS 4.12 and 4.13)
- Check for gaps, if any
- Consider strategy alternatives for filling or eliminating gaps. Will you:
  - ✓ Make better use of existing machinery and equipment?
  - ✓ Acquire additional (new or used) resources?
  - ✓ Gain access to additional resources through business arrangements (formal and informal)?

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## Physical Resources

- Land and buildings: purchase/rent/lease
- Machinery and equipment: additional needs/ replace old equipment/meet new resource requirements
- Purchasing, renting, leasing, custom hiring, or exchanging labor for access to equipment
- Buying new versus used equipment

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## Institutional Considerations

- How much can we produce? Farm size?
- Sizing the business and plan for any growth?
- Historical information about yield performance and productivity for traditional enterprises
- Check with your local Extension office or your state Department of Agriculture
- Estimate “best” and “worst” case production scenarios, or high and low output projections

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## Estimating Output and Capacity

- Begin by recording historic yield or production estimates from your farm or from available data
- Add best/worst-case production estimates in the “high output” and “low output” row
- Conclude by noting any production capacity limits (equipment, land, labor) throughout the transition and long term

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## Operations Strategy Summary

- Briefly describe the management system you intend to implement for each enterprise
- Detail crop rotations, pasture layout and rotation, milking schedules, etc
- Think about how these might change throughout your start-up or transition period

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## Operations Strategy Summary

- List new resource needs and your strategy for acquiring them
- Record all operating expenses for each enterprise or the whole farm (if appropriate)
- Pull your enterprise-specific operations strategies together into one, whole-farm production and operations strategy

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## Homework

- Worksheet 4.10 Production System and Schedule
- Worksheet 4.11 Regulations and Policies
- Worksheet 4.12 Describing Potential Crop Production Systems
- Worksheet 4.13 Describing Potential Livestock Production Systems
- Worksheet 4.14 Resource Needs and Acquisition
- Worksheet 4.15 Institutional Considerations
- Worksheet 4.16 Estimating Output and Capacity
- Worksheet 4.17 Operations Strategy Summary

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## Building a Sustainable Business Workshop Series

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# Recruiting, Hiring and Managing Agricultural Labor

Ryan Milhollin and Joe Horner  
Extension Specialists in Agricultural Economics



## Presentation Overview

- Missouri Farm Labor Guide
- Topics to discuss:
  - Recruiting the employee you want
  - Being competitive in compensation
  - Good hiring practices
  - Managing agricultural labor



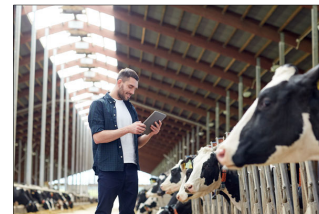
Web address:  
<https://extension2.missouri.edu/m199>

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Note, this presentation is meant to share general information about developing an approach to human resources management. Employers are encouraged to engage an attorney, accountant, consultant and other necessary professionals to ensure that their specific policies and human resources systems satisfy all necessary laws and business standards. The information in this presentation is correct and current to the best of our knowledge. As changes are made to these laws, some of this information could change.

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## Recruiting The Employee You Want



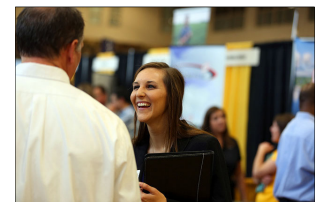
*"Getting the right people and the right chemistry is more important than the right idea."*

Ed Catmull,  
President of Pixar and Walt Disney Animation Studios

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## Recruitment

- Start by recognizing work needs
- Next, formalize a job's needs and expectations
- Then, seek out candidates
- ***Your goal is to attract qualified candidates who you could further screen later in the employment process***



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## Job Analysis

- Consider work needs on your business and characteristics of employees who could fill those needs
- Three-step process
  1. Identify task, responsibility and decision-making requirements
  2. Outline necessary qualifications
  3. Describe the work environment



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## Why do a Job Analysis?

- Prioritize work needs
  - What are most and least important tasks?
  - Give employees direction
- Manage employees' time
  - Assigning too many tasks and responsibilities may set up employees for failure
  - Assigning too few doesn't optimize resources
- Minimize redundancies
  - Avoid assigning too much work effort to the same tasks and responsibilities
- Hire the right people to do the job
  - Match work needs with qualifications



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## Identify Tasks, Responsibilities and Decision-Making Requirements

- Tasks
  - Feed cattle
  - Vaccinate cattle
- Responsibilities
  - Ensure animal health
  - Manage office
- Decisions
  - What supplements to feed
  - When to call a veterinarian
  - When to administer an antibiotic



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## Outline Necessary Qualifications

- Skills
  - How to operate a drone
  - How to speak to junior employees
- Knowledge
  - Soybean production practices
  - Animal husbandry
- Experience
  - At least two years working on a farm
  - Previous managerial role
- Education
  - Bachelor's degree in agronomy
  - Certificate program completion
- License
  - Commercial vehicle license
- Physical capabilities
  - Lift as much as 50 pounds



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## Describe the Work Environment

- Location
- Work conditions
  - Outside? At a desk? Travel?
  - Time of day? Days of week?
  - Seasonal, part-time or full-time?
- Reporting arrangements
  - Who does the employee supervise?
  - Who supervises the employee?
- Cultural
  - Identify beliefs, attitudes and values that add to your culture
  - Examples: work ethic, entrepreneurial, collaborative, resourceful, respectful, honest, customer service orientation



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## How to Conduct a Job Analysis

- Interview your current employees to identify employment needs
- Consider your needs for the future
- Review external resources for ideas, but customize to fit your operation
  - The [O\\*Net OnLine](https://www.onetonline.org/) resource is a good tool



## Job Descriptions

- Communicate expectations for a particular position
- Use a job analysis to help develop a job description
- Guide interviews based on description
- Post-hiring, reference the job description to ...
  - Identify training needs
  - Assess performance



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## Components of Job Descriptions

- **Title:** Indicate role and level of seniority (e.g., manager)
- **Job Summary:** Explain duties, responsibilities, qualifications and physical demands
- **Job Duties:** Name the tasks and work time allocated to each
- **Job Qualifications:** List required skills, knowledge, experience, education, certifications and other characteristics
- **Work Relationships:** Share how the employee fits in the hierarchy (i.e., reporting relationships)
- **Work Schedule and Environment:** Provide typical hours, overtime required and any irregular schedule notes (e.g., nights, weekends, holidays)
- **Salary and Benefits:** As an option, describe pay, time off, insurance coverage, retirement contribution, housing and transportation policies

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## Job Description Examples



### Job Description Template

One aspect of effective succession planning and leadership development is to fit the best candidate to each operational role, and ensure that everyone involved is clear about the position's qualifications and requirements. Non-emotional, objective decisions promote rational, consistent and fair outcomes. Emotion as a motivator is necessary, but it must be tempered with prudent thought – especially in writing.

Title: _____ (Required: identify position)	
Brief Description of Duties	
Primary Responsibilities	
Secondary Responsibilities	
Direct Supervisor	
Direct Report	
Other Positions or Related	
Specific Qualifications & Special Training	
Skills Required	
Supervised Experience	
Recommended Education	
Attitudes, Abilities or Interests	
Physical Requirements	
Salary Range	Low   High
Overhead	Never   Seldom   Often
Qualities	
Salary Responsibilities	

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- Farm Journal Legacy Project
  - Downloadable PDF
  - [farmjournallegacyproject.com/assets/1/6/businesscontinuity%20jobdescriptiontemplate1.pdf](http://farmjournallegacyproject.com/assets/1/6/businesscontinuity%20jobdescriptiontemplate1.pdf)
- CareerOneStop
  - Job Description Writer
  - [careeronestop.org/BusinessCenter/toolkit/GettingStarted.aspx](http://careeronestop.org/BusinessCenter/toolkit/GettingStarted.aspx)

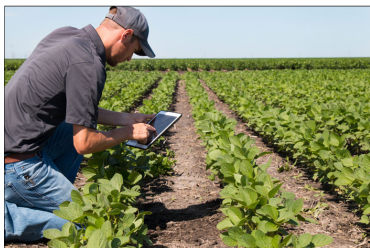
## Strategies to Find Employees

- Ask current employees
- Connect with school, FFA, 4-H or community contacts
- Place ads in local newspaper or radio
- Post flyers at community bulletin boards
- Promote on social media (e.g., Facebook, Twitter, LinkedIn, Instagram)
- Publicize on websites (e.g., AgCareers.com, agriCAREERS, AgGrad, Indeed, Monster, CareerBuilder)
- Hire a professional recruiter
- Offer internship and apprenticeship programs
  - Seven-factor internship test: [dol.gov/whd/regs/compliance/whdfs71.htm](http://dol.gov/whd/regs/compliance/whdfs71.htm)

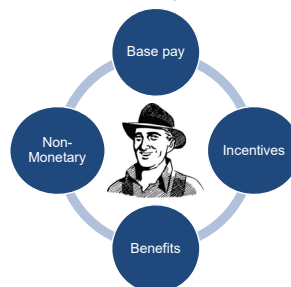


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## Being Competitive in Compensation



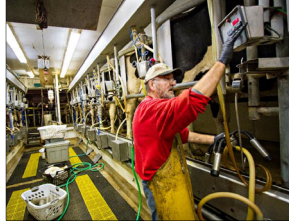
## Building a Total Compensation Package



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## Base Pay Considerations

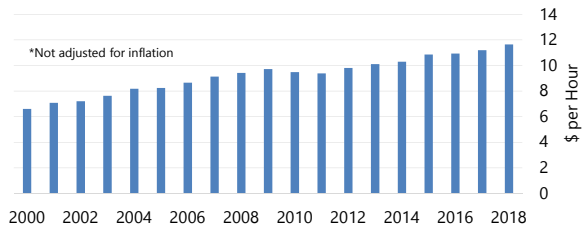
- Hourly wage vs. salary
- Roles / responsibilities
- Understand local labor competition and dynamics
- Good employees are attracted to competitive compensation



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## Tennessee Wage Rate Benchmarks

Hourly Wage, Crop & Animal Workers  
(2000 – 2018)



Source: USDA NASS, Farm Labor Survey

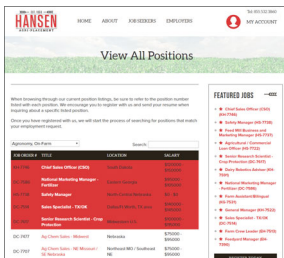
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## Current Hansen Agri-Placement Postings

TITLE	LOCATION	SALARY
Ag Shop Mechanic	Northeast Kansas	\$41,600
Applicator / Equipment Operator	West Central Nebraska	\$65,000
Farm / Ranch Assistant	South Central Kansas	\$52,000
Farm Assistant	Northeast Missouri	\$65,000
Farm / Swine Assistant	Northwest Illinois	\$50,000
Farm Assistant / Sprayer	Southeast Missouri	\$50,000
Farm / Feedlot Assistant	Southwest Nebraska	\$60,000

Source: <https://www.hansenagriplacement.com/>

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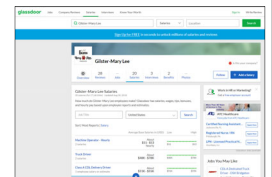
## What's Your Competition Offering

Check websites that review major local employers

- Employee reviews – satisfaction
- Pay scales

Sources:

<https://www.glassdoor.com/>  
<https://www.indeed.com/>



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## Incentive Offerings

- Goals
  - Reward employees for performance resulting in operational achievement
  - Encourage a productive work environment and strong morale
  - Allow employees to take ownership of their work
- Caution
  - Incentives should match worker goals and should be monitored periodically
  - Focusing exclusively on individual performance could create negative, head to head employee competition and decrease overall productivity

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### Formal Bonuses

- Typically cash-based, seasonal
- Work anniversaries, work efforts, milestones, holidays

### Informal Bonuses

- Cash-based, irregular
- Award superior performance, leadership, other successes

### Incentive Offerings

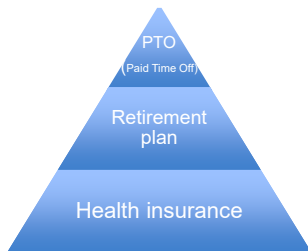
### Profit Sharing

- Employees earn portion of operational profits
- Incentivizes all employees to improve business performance

### Stock Ownership

- More complex; formula assigns shares to be held in ESOP trust fund
- Gives each employee vested interest in the operation

## Building a Total Benefits Package



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## Paid Time Off (PTO)



How much to offer?

Vacation, sick days, holidays, personal days

Avoid allowing busy season vacations

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## Retirement Plan

### Simplified Employee Pension (SEP)

- Employer is only contributor
- Inexpensive overhead and easily set up
- Employees may have their own SEP-IRA

### Savings Incentive Match Plan for Employees (SIMPLE)

- Employer can contribute 2% OR match up to 3% of salary each year
- Employees may have their own SIMPLE IRA



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## Health Insurance



### Small Business Health Options Program (SHOP)

- Small businesses with 1-50 employees
- Eligible for Small Business Health Care Tax Credit if:
  - Less than 25 employees, pay average salaries less than \$50,000, meet certain other criteria

### Greater than 50 employees?

- Subject to annual reporting

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## Work Opportunity Tax Credits

- Credits range from \$1,200 to \$9,600 per employee
- Employees that will qualify:
  - Veterans
  - SNAP recipients
  - Ex-felons
  - Supplemental Social Security recipients



Source: IRS

<https://www.irs.gov/businesses/small-businesses-self-employed/work-opportunity-tax-credit>

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## Non-Monetary Compensation

- Alternative to cash
  - Not easily valued
  - Intangible benefit
- Advantages
  - May cost little; provide significant value to employee
  - Potential tax advantages



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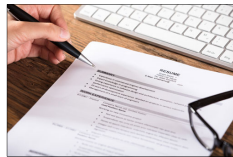
## Hiring Practices



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## Review Applicants

- Use application form and hiring checklist
  - Missouri Farm Labor Guide has templates
- Screen applications/resumes based on criteria you deem important for the position
- Divide applicants into three piles:
  - Advance for interview
  - Those you "might" interview
  - Those that you won't interview
- Schedule interview times for top candidates



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## Design Your Interview

- Share information about position/your business
- 80/20 listening rule
- Open-ended questions
- Be consistent, same questions for all interviewees
- Questions should focus on the job description
- Take good notes!



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## Interview Exercise

- Want to hire **crop farm worker**
- What are the **top five questions** you would ask?
  - Take a few minutes and jot them down.

### Crop Farm Worker

#### **Duties:**

- Operate and service farm machinery and equipment related to the planting and harvesting of crops.
- Apply pesticides, herbicides and fertilizers to crops.
- Operate irrigation equipment and maintain pipes/pumps.

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## Examples of Acceptable Questions

- Tell me about job tasks for which you've been responsible in the past.
- What types of tasks have you enjoyed the least (or most)? Why?
- Why are you interested in this position?
- An important task in this job is \_\_\_\_\_. What related experience do you have?
- Think of a skill that you previously had to learn on the job. What was your approach to making sure that you learned it?
- Name a situation where you have had a challenging relationship with a coworker or supervisor. What did you do in that situation?

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## Unacceptable Questions

- Avoid discriminatory questions about:



- Instead, direct questions to ability to perform job tasks, duties and getting to work when needed.

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## Closing the Interview and Evaluation

- Offer time for interviewee questions
- State the next steps to the interviewee (timeline, etc.)
- Be professional and have good etiquette
- Can do second round interviews if needed
- Post-interview evaluation
  - Rank the candidates on criteria you deem important
  - Candidates who "check the boxes" go to the next stage

### Checklist

- ☒ Responsible
- ☒ Competent
- ☒ Teamwork

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## Question for You

Which of the following do you feel is the biggest issue in the current rural labor workforce?

- A. Drug use
- B. Alcohol abuse
- C. Crimes / criminal behavior
- D. Reliability / timeliness
- E. None of the above

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## Further Candidate Evaluation

Employers may use background checks, drug tests and reference checks to validate and gather information about their "fit" with the business.

Screening Type	Resources/Information
Reference checks	Prior employers or provided contacts
Online/Social media	Google, Facebook, Instagram, Twitter, LinkedIn, Whitepages.com, switchboard.com, 411.com
Public Databases	Sex offender registry, Tennessee court records, Background checks
Drug Testing	Could have pre-employment requirement; onsite testing kit or external testing specialist/lab

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## Make the Offer

- Extend an offer to the most suitable candidate
  - OK to offer over the phone
  - Follow-up with written offer communication
  - Detail compensation, benefits, tasks, responsibilities and work schedule in written offer



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## Employee vs Independent Contractor

- An independent contractor is *a worker not defined as employee under common law*
- Unemployment insurance, workers' compensation and tax responsibilities vary by worker classification
- Use the IRS 20-point test to classify employees vs independent contractors

Category	Independent Contractor
Behavioral Control	The employer provides the person with broad objectives and gives flexibility to meet those objectives.
Financial Control	Person provides own supplies and tools for the job. Profit and loss risk management is the working person's responsibility.
Type of Relationship	Person performs similar services for other people, often on relatively short-term or project basis.

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## Managing Agricultural Labor



## Develop an Employment Manual

- An official source for operational policies, practices, standards and other details for your business
- Good tool for sharing information with employees
- Employers clearly explain their expectations, which protect from legal or compliance issues later



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## Employment Manual Key Elements

Category	Components
Business Background	History, Vision, Mission, Values
Expectations	Work Policies, Standards, Dress Code, Schedule, Training, Safety
Compensation and Benefits	Pay, Overtime, Bonuses, Insurance, Vacation, Sick Leave, Performance Reviews
Employment Relationship	At-Will or Contractual
Acknowledgment	Signed and Dated by Employee

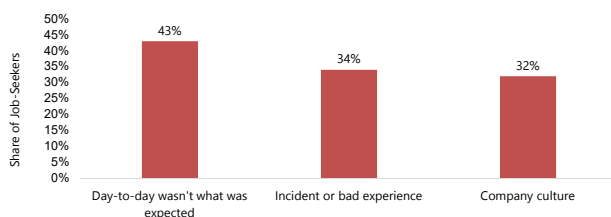
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## How to Do Your Own Manual

- Gather ideas from manuals developed by other farms and agribusinesses
- Gather feedback from current employees
- Seek legal counsel and other professional advice
- Start from scratch or customize an existing template
  - Employee Handbook Template (Michigan State University Extension) [canr.msu.edu/uploads/234/68198/Agriculture\\_Employee\\_Handbook\\_Template\\_MSU\\_-\\_Final\\_Version\\_02032014.docx](https://canr.msu.edu/uploads/234/68198/Agriculture_Employee_Handbook_Template_MSU_-_Final_Version_02032014.docx)
  - Sample Farm Employee Handbook (Farm Commons) [farmcommons.org/resources/sample-farm-employee-handbook](https://farmcommons.org/resources/sample-farm-employee-handbook)

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## Nearly one in three job-seekers have stayed at a job for no more than 90 days (Jobvite). Why?



Source: 2018 Jobvite Job Seeker Nation Survey

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## Onboarding New Employees

- Share your business vision, mission and goals
- Tour the business/ meet coworkers
- Discuss expectations
  - Important tasks, policies, dress code, recording timesheets, emergency contact information, safety practices, etc.
  - Refer to employment manual for detailed policies
- Leave plenty of time for questions
- Send paperwork packet with them

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## Training

- Establish a on-going training plan
- Written goals should drive training efforts
  - Communicate expectations
  - Involve current employees
  - Timeline, track progress
- Accommodate various learning styles



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## Communication Helps, Too

- Communication can make expectations clear and build understanding
  - Informal: impromptu staff discussions
  - Formal: employee manual
- Establish a feedback loop
  - Conduct performance reviews for employees
  - Request that employees take worker satisfaction surveys



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## Best Practices to Support Retention

- Offer incentives — financial or gifts — contingent on performance
- Promote employees who have earned it
- Offer training and continuing education
- Provide spontaneous feedback
- Support a positive work-life balance
- Say “thank you” for their work and effort
- Give public recognition

### Note —

The practices you choose don't necessarily need to be expensive. However, employees should value the practices you adopt, so get to know your workers!

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## Question for You

Would you be comfortable sharing your employment records with an outside auditor/investigator?

- A. Yes
- B. No

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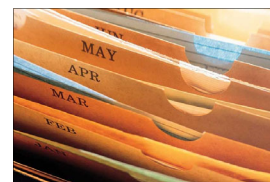
## Recordkeeping Guide Sheet

Length of Time	Type of Record	Relevant Statute
5 years	<ul style="list-style-type: none"> <li>• Record of serious work-related illness &amp; injuries</li> </ul>	<ul style="list-style-type: none"> <li>• Occupational Safety &amp; Health Act</li> </ul>
3 years	<ul style="list-style-type: none"> <li>• Payroll records, collective bargaining agreements, sales and purchases records</li> <li>• Earnings, hours worked, time 'offered' but 'refused' for H-2A workers</li> <li>• I-9 forms (or 1 year after termination)</li> </ul>	<ul style="list-style-type: none"> <li>• Fair Labor Standards Act &amp; Age Discrimination in Employment Act of 1967</li> <li>• Immigration &amp; Nationality Act of 1952</li> <li>• Immigration Control Reform Act of 1986</li> </ul>
2 years	<ul style="list-style-type: none"> <li>• Records used to compute wages (e.g. time cards, work schedules and wage rates)</li> </ul>	<ul style="list-style-type: none"> <li>• Fair Labor Standards Act</li> </ul>
1 year	<ul style="list-style-type: none"> <li>• All personnel or employment records</li> <li>• Any employee benefit plan (e.g. pension or insurance plans); written seniority plan; or merit system after termination.</li> </ul>	<ul style="list-style-type: none"> <li>• Equal Employment Opportunity Commission</li> <li>• Age Discrimination in Employment Act of 1967</li> </ul>

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## Fair Labor Standards Act

- Covered employers must keep records for each non-exempt employee
- No form
- Lengths vary
  - 3 years for all payroll records, collective bargaining agreements, sales and purchases;
  - 2 years for records used to compute wages (e.g. time cards, work schedules and wage rates)



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## Employment Eligibility Verification

- Under federal law, all employees hired must verify authorization to work in the United States
- Be able to produce them for inspection within 3 days of an inspection/audit request
- I-9 Employment Verification Form
  - Paper Version (<https://www.uscis.gov/i-9>)
  - E-Verify System (<https://www.e-verify.gov/>)
- Form I-9 must be stored by the employer either for **three years** after the date of hire or for **one year** after employment is terminated, whichever is later



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## H-2A Visa Record Keeping Requirements

Employers certified under H-2A must keep "adequate and accurate" records:

- Worker's Earnings
- Hours Actually Worked
- Time "offered" but "refused" to work
- Start/end time
- Rate of pay
- Earnings/pay period
- Worker's home address
- Amount/reasons for deductions from wages

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## H-2A Visa Record Keeping Requirements

Employers certified under H-2A must also keep records for:

- Any terminated employees
- Reason for termination

In addition, the employer must notify the Employment & Training Administration National Processing Center (NPC) within 2 working days of termination or loss of worker.



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## Record Keeping Retention & Destruction

- Retain personnel records for up to 7 years
- Keep medical records/information in a separate file
- Keep a separate, confidential file re: disciplinary issues
- Always be prepared to produce records quickly
- Keep records in a secure location



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## Record Keeping Retention/Destruction Policy

Develop a policy around record retention & destruction

- Identify what documents need to be kept
- How long they must be kept
- How they are to be properly discarded
- Format for how they are kept (electronic vs. paper)
- Create a record retention schedule



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United States  
Department of  
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## Building a Sustainable Business Workshop Series




United States Department of Agriculture  
National Institute of Food and Agriculture

This series is supported by USDA/NIFA under Award Number 2015-49200-24228.


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## Tactical and Contingency Planning and Evaluating Strategic Alternatives


Dr. Ross Pruitt  
Associate Professor, Agricultural Economics  
University of Tennessee at Martin

January 29, 2019

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## Session Objectives

- Review of Strategic Planning
- Tasks of Management
- Strategic, Tactical, and Contingency Planning
- Evaluating Strategic Alternatives
- Making a Decision

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## Session Overview

- Good management sets the tone by setting appropriate goals for the business
- Strategic planning is the first step in achieving business (personal) goals
- Ongoing process that requires regular attention

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## Tasks of Management

- Plan
- Organize
- Direct
- Control/Evaluate

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## Planning

- Strategic decisions fall into the planning task along with setting of goals
- There are three parts of planning that managers need to be aware of:
  - Strategic
  - Tactical
  - Contingency – worst case situations

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## Strategic Decisions

- Big picture idea for the business that directly ties to the goals/objectives for its existence
- Strategy tends to be broad allowing flexibility for effective management
- Detail is still present to tie the mission statement into the actual activities occurring within the business

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## Being SMART with Strategic Planning

- Strategic planning is flexible, but still detailed
- Remember the acronym, SMART:
  - Specific
  - Measureable
  - Attainable
  - Related
  - Tractable/Time Bound

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## Tactical Planning

- Briefly be aware that tactical plans are the steps that make the strategic possible
- Shorter time frame to achieve tactics to support your strategic objectives

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## Contingency Planning

- What are you going to do when things don't occur as planned?
- Things go wrong for a variety of reasons:
  - Lower than expected prices
  - Poor hiring decisions
  - Unexpected production
  - Financial issues

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## Contingency Planning

- Can occur as a result of a good or bad outcome for the firm
- Must be prepared for change/unexpected to occur, but can't lose sight of tactical/strategic plans for something that has a limited probability of occurring

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## Evaluating Strategic Alternatives

- Majority of evaluation methods discussed are financial tools
- Final decisions reflective of ability to withstand risk
  - Risk: uncertainty with negative consequences
- Start small and add up to give yourself greater clarity on the situation

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## What Not to Do

- Use prices/production inconsistent with actual, local, or historic data
- Ignore the value of home-grown products as they are not free
- Ignore depreciation, taxes, interest, repairs, taxes, and insurance

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## Important Terms

- Liquidity: ability to pay short-term debt/obligations
- Solvency: ability to pay long-term debt/obligations (i.e. how withstand low profitability years)
- Net return: compensation to (unpaid) labor, management, and equity capital

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## Calculating Break-Evens

*Break-even Volume =*  
*overhead expenses*

$$\left[ \frac{\text{market price}}{\text{unit}} - \frac{\text{direct expenses}}{\text{unit}} \right]$$

*Break-even Value =*

$$\frac{\text{overhead expenses} + \text{direct expenses}}{\text{production volume}}$$

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**Figure 88.**  
**Example for Bed and Breakfast Enterprise—**  
**Break-even Analysis**

**Break-even Volume Example**

Direct expenses/unit (a) = \$10/room (including breakfast when occupied)

Overhead expenses (b) = \$4,000

Market price/unit (c) = \$75/room

Break-even output (b) / (c - a) = 4,000 / (75 - 10) = 62 rooms/year

**Break-even Value Example**

Average direct expenses (a) = \$800

Average overhead expenses (b) = \$4,000

Production volume (c) = 80 rooms

Break-even value (a + b) / (c) = (4,000 + 800) / 80 = \$60/room

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## Partial Budgeting

- Enterprise budgets are a very useful tool to start analyzing strategic alternatives
- Once completed, then can use partial budgeting
  - Offers ability to see how a change to existing enterprise impacts the overall business
  - From there, the impact on entire business can be analyzed

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### Worksheet 4.32 Partial Budget

If appropriate, calculate and record the impact of each whole farm business strategy using the partial budget approach. Begin by estimating additional income (added inflows) and new expenses (additional outflows). Next, estimate any reduction in your annual expenses (reduced outflows) and income (reduced inflows) that will occur as a result of your proposed strategy or business change. Lastly, total up the positive impact of your business strategy (e) and the negative impact (f). What is the net effect on profit and cash flow? What is your return on assets?

**Whole Farm Strategy: Hog finishing**

Added Inflows	Profit	Cash Flow	Added Outflows	Profit	Cash Flow
Cull breeding stock	\$ 1,875	\$ 1,875	Feed	\$ 8,187	\$ 8,187
			Veterinary	1,250	1,250
			Supplies	900	900
			Marketing	150	150
			Utilities	200	200
			Depreciation	1,000	
			Interest	1,739	
			Debt repayment		4,967
			Income taxes		1,883

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**Worksheet 4.33 Long-Range Projected Income Statement**

Use the space below to record average income and expenses (variable and fixed costs) for your present business (base plan) and the whole farm strategy alternative you are considering. The base plan should project the average expected future results for your current farm operation. Do this column first based on past history (Worksheet 2.10) and then build on it for each of your alternative strategies using information from your gross sales revenue projections (Worksheet 4.8) and the whole farm cost analysis (Worksheet 4.27). Then, calculate the net farm income for each alternative by subtracting total expenses from total revenue. How do your proposed alternatives compare to your present business income? Remember, when projecting the income for each strategy alternative, assume that your strategy has been fully implemented.

Revenues:		Base Plan	Strategy #1	Strategy #2
Gross product sales				
	Hay sales	\$ 18,022	\$ 18,022	
	Corn sales	80,670	80,670	
	Soybean sales	70,121	70,121	
	Pig sales	89,100	89,100	
Cull breeding livestock				
Other income			1,875	
Total revenue	(a)	2,200	2,200	
		260,113	261,988	
Expenses:				
Annual variable expenses				
	Seed	12,718	12,718	
	Fertilizer	12,718	12,718	

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## Long-Run Financial Statements

- While hard to predict future, the long-run financial statements build off of the partial budgeting worksheet
- Transition periods are expected as may take a few years for income to reach expected level while expenses are 100% from year 1

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## Sensitivity Analysis

- Sensitivity analysis is another tool to forecast how resilient your business can be if things don't go as expected
- If we have created the base scenario of expected price/production, then can adjust assumptions to best and worse cases for price/production

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## Sensitivity Analysis

- Sensitivity analysis lets you "shock" your results to test how resilient your business is.
  - Only changes one variable at a time
- In addition to the previous slide, what happens if:
  - Prices fall by five percent?
  - Expenses increase by five percent?
  - Interest rates increase by three percent?

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	Yield/Acre	Avg. Projected Market Price/Unit	Gross Income/Acre	Input Cost/Acre	Net Profit/Acre
<b>Best Case Yield</b>					
Alfalfa	6 tons	90	540	142	398
Soybeans	35 bushels	10	350	68	282
Wheat	50 bushels	3.5	175	73	102
Corn	150 bushels	3.0	450	94	356
<b>Worst Case Yield</b>					
Alfalfa	3 tons	90	270	142	128
Soybeans	30 bushels	10	300	68	232
Wheat	30 bushels	3.5	105	73	32
Corn	100 bushels	3.0	300	94	206

Figure 92 on page 176

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## If It's Not Working...

- If your strategic plan isn't working, have you considered:
  - Refinancing? Seeking more favorable terms?
  - Reducing costs?
  - Leasing capital assets/items?
  - Changing production/marketing plans?
  - Introduction of additional equity capital?
  - Other per figure 94 on p. 177

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## Making a Final Decision

- While the financial estimates generated are objective, some may still desire one last test
- The following tests help make sure your numbers for proposals still fit within the overall framework of your business (figure 96, p. 180)

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**Vision Consistency Test.** How well does the proposed strategy fit with your whole farm and personal vision? If the strategy does not lead toward your personal and business vision or embrace the core values of your planning team, it should be rejected. Success and enthusiasm will be low and the plan is unlikely to succeed otherwise.

**Goodness of Fit Test.** How well does the proposed strategy fit with your external analysis of the industry and the internal analysis of your farm? Does the proposed strategy explain how it will build on your business' current strengths and opportunities while managing for weaknesses and threats? Recall your SWOT analysis from Worksheet 2.18 (in Planning Task Two).

**Building for the Future Test.** How well does the proposed strategy build for the future? Recall your vision from Planning Task Three. Will your business strategy help get you there? Moreover, will your strategy generate resources, such as soil quality and financial equity, for the next generation? If a strategy uses but does not generate resources, it should receive a low score for this test.

**Feasibility and Resource Test.** How realistic are the business' start-up and long-term resource needs? In other words, are resources available to implement your whole farm strategy? Review your current list of resources (Worksheet 2.3) and compare them to your resource needs (Worksheet 4.14 in Planning Task Four). Is your soil type appropriate for the crops that you want to grow? Can people be hired to do the work needed? Can financing be obtained?

**Performance Test.** How well does the proposed strategy help accomplish your marketing, operations, human resources and financial goals for the farm business? What are the projections for income, rates of return, and net worth growth? Most importantly, can your business survive the transition period?

**Importance Test.** How well does the strategy address the important or critical planning issues that you identified in Introduction Worksheet? Does your strategy focus on these important issues or on the trivial? If a proposed strategy does not address important issues then it should be rejected as written.

**Confidence Test.** How high is the confidence of your planning team in the anticipated outcomes of the proposed strategy? How high is the risk that events will occur that will change the expected results—particularly in a negative direction?

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## Session Summary

- Review of Strategic Planning
- Tasks of Management
- Strategic, Tactical, and Contingency Planning
- Evaluating Strategic Alternatives
- Making a Decision

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## Homework

- Worksheet 4.31 Enterprise Budget Break-Even Analysis
- Worksheet 4.32 Partial Budget
- Worksheet 4.33 Long-Range Projected Income Statement
- Worksheet 4.34 Long-Range Projected Cash Flow
- Worksheet 4.35 Projected Balance Sheet
- Worksheet 4.36 Risk Analysis
- Worksheet 4.37 Transitional Cash Flow
- Worksheet 4.38 Scoring and Deciding on a Final Business Strategy

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## Homework

- Worksheet 4.39 Contingency Planning
- Worksheet 4.40 Executive Summary
- Worksheet 5.1 Business Plan Outline
- Worksheet 5.2 Implementation To-Do List
- Worksheet 5.3 Monitoring

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## Building a Sustainable Business Workshop Series

### Speaker Contact Information

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Email: [rpruit10@utm.edu](mailto:rpruit10@utm.edu)

Web: <http://www.utm.edu/departments/agnr/faculty/rpruit.php>

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## Building a Sustainable Business

*“Developing a Business Plan for the Winery at Seven Springs Farm”*

James Riddle

- Limitations are self-imposed
- No is a starting point for negotiations

“The more I learn, the more I realize how much I don't know.”

—**Albert Einstein**

### **Title Page/Executive Summary**

Confidentiality Agreement

### **General Business Information**

Business Structure

### **Marketing**

Target Market

Competition

Marketing Strategy

Marketing Strategy

Marketing Strategy

Marketing Strategy

### **Management/Operations**

Business Organization

Business Registration

Management and Employees

Labor Planning

Payroll Taxes

Insurance

Suppliers

Professional Consultants

Licenses & Permits – FDA/TTB

Licenses & Permits – Local/County Liquor Control

Licenses & Permits – State Liquor Control Commission

Licenses & Permits – State/County Department of Public Health

Outside Influences

### **Financial Section**

Financial Projections and Supporting Information

The 5 “C’s” of Credit *“What is the bank looking for in my loan request.”*

Capacity to repay

Capital - the money you personally have invested in the business

Collateral - guarantees of security you can provide the lender

Conditions - the intended purpose of the loan

Character - the general impression you make on the potential lender or investor

Other financing options

**<https://www.agmrc.org/commodities-products/fruits/wine/winery-and-vineyard-feasibility-workbooks>**

**Business Planning Resources**  
**Building a Sustainable Business Workshop Series**  
**February 12, 2019**

Hal Pepper  
Financial Analysis Specialist  
Center for Profitable Agriculture

- Center for Profitable Agriculture <https://ag.tennessee.edu/cpa/Pages/default.aspx>
- University of Tennessee MANAGE Program  
<https://ag.tennessee.edu/arec/Pages/manage.aspx>
- Tennessee Farmland Legacy <https://farmlandlegacy.utk.edu/>
- University of Tennessee Organic & Sustainable Crop Production  
<http://organics.tennessee.edu/growers.htm>
- Pick Tennessee Conference <https://picktnconference.com/>
- Tennessee Small Business Development Centers <https://www.tsbdc.org/>
- University of Kentucky Center for Crop Diversification <http://www.uky.edu/ccd/>
- North Carolina State Extension <https://www.ces.ncsu.edu/>
- Agricultural Marketing Resource Center Business Development <https://www.agmrc.org/>
- Center for Farm Financial Management <https://www.cffm.umn.edu/>
- Cornell Small Farms Program <https://smallfarms.cornell.edu/resources/beginning-farmer/>
- farmdoc <http://www.farmdoc.illinois.edu/>
- Mississippi State-Cashing In On Business Opportunities <http://srdc.msstate.edu/cashing/>
- ATTRA Sustainable Agriculture Program <https://attra.ncat.org/>
- IRS-Starting a Business <https://www.irs.gov/businesses/small-businesses-self-employed/starting-a-business>
- USDA New Farmers <https://newfarmers.usda.gov/>



## Building a Sustainable Business Workshop Series



SOUTHERN  
EXTENSION  
RISK MANAGEMENT  
EDUCATION



United States Department of Agriculture  
National Institute of Food and Agriculture

This series is supported by USDA/NIFA under Award  
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## Food Product Cost and Pricing Tools

Hal Pepper  
Financial Analysis Specialist

CENTER FOR  
PROFITABLE AGRICULTURE  
**UExtension**  
INSTITUTE OF AGRICULTURE  
A UNIVERSITY OF TENNESSEE - FARM BUREAU PARTNERSHIP



February 19, 2019

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## What We'll Cover

- Introduce spreadsheet to calculate costs of food products and prices to cover the costs.
- Introduce spreadsheets to calculate costs of using commercial kitchens.

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## Food Product Cost & Pricing Spreadsheet

- [www.smallfoodbiz.com](http://www.smallfoodbiz.com)  
Food Product Cost & Pricing Spreadsheet  
Holds 30 recipes  
\$49.99

You Tube Video demonstrating how to use the Spreadsheet available at:

[https://www.youtube.com/watch?v=F5TQ8ID\\_s-c](https://www.youtube.com/watch?v=F5TQ8ID_s-c)

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## Product Cost & Pricing Tool

Mama Bear's Berry Cookies				Recipe Yield	24	Desired Yield	24
						Yield Difference	1.00
INGREDIENTS	TOTAL QUANTITY	TOTAL PRICE	PER UNIT PRICE	UNITS IN ORIGINAL RECIPE	UNITS REQUIRED FOR DESIRED YIELD	INGREDIENT COST	
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-

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## Product Cost & Pricing Tool

Mama Bear's Berry Cookies				Recipe Yield	24	Desired Yield	24
						Yield Difference	1.00
INGREDIENTS	TOTAL QUANTITY	TOTAL PRICE	PER UNIT PRICE	UNITS IN ORIGINAL RECIPE	UNITS REQUIRED FOR DESIRED YIELD	INGREDIENT COST	
All-purpose flour (in ounces)	400	13.99	\$ 0.035	5.25	5.25	\$ 0.184	
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-
			\$ -		0.00	\$ -	-

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## Product Cost & Pricing Tool

Mama Bear's Berry Cookies				Recipe Yield	24	Desired Yield	24
				Yield Difference		1.00	
INGREDIENTS	TOTAL QUANTITY	TOTAL PRICE	PER UNIT PRICE	UNITS IN ORIGINAL RECIPE	UNITS REQUIRED FOR DESIRED YIELD	INGREDIENT COST	
All-purpose flour (in ounces)	400	13.99	\$ 0.035	5.25	5.25	\$	0.184
Sugar (in ounces)	80	7.59	\$ 0.095	3	3.00	\$	0.285
Butter (in ounces)	16	2.99	\$ 0.187	4	4.00	\$	0.748
Eggs	12	2.69	\$ 0.224	2	2.00	\$	0.448
Salt (in ounces)	16	0.77	\$ 0.048	0.25	0.25	\$	0.012
Brown Sugar (in ounces)	32	2.89	\$ 0.090	1.2	1.20	\$	0.108
Dried Cherries (in ounces)	12	1.99	\$ 0.166	0.5	0.50	\$	0.083
Dried Blueberries (in ounces)	12	2.87	\$ 0.239	0.5	0.50	\$	0.120
Chocolate Chips (in ounces)	12	3.69	\$ 0.308	4	4.00	\$	1.230
Vanilla Extract (in liquid ounces)	8	13.99	\$ 1.749	0.25	0.25	\$	0.437
Baking Soda (in ounces)	16	0.99	\$ 0.062	0.25	0.25	\$	0.015
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-

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## Product Cost & Pricing Tool

Mama Bear's Berry Cookies				Recipe Yield	24	Desired Yield	65
				Yield Difference		2.71	
INGREDIENTS	TOTAL QUANTITY	TOTAL PRICE	PER UNIT PRICE	UNITS IN ORIGINAL RECIPE	UNITS REQUIRED FOR DESIRED YIELD	INGREDIENT COST	
All-purpose flour (in ounces)	400	13.99	\$ 0.035	5.25	14.22	\$	0.184
Sugar (in ounces)	80	7.59	\$ 0.095	3	8.13	\$	0.285
Butter (in ounces)	16	2.99	\$ 0.187	4	10.83	\$	0.748
Eggs	12	2.69	\$ 0.224	2	5.42	\$	0.448
Salt (in ounces)	16	0.77	\$ 0.048	0.25	0.68	\$	0.012
Brown Sugar (in ounces)	32	2.89	\$ 0.090	1.2	3.25	\$	0.108
Dried Cherries (in ounces)	12	1.99	\$ 0.166	0.5	1.35	\$	0.083
Dried Blueberries (in ounces)	12	2.87	\$ 0.239	0.5	1.35	\$	0.120
Chocolate Chips (in ounces)	12	3.69	\$ 0.308	4	10.83	\$	1.230
Vanilla Extract (in liquid ounces)	8	13.99	\$ 1.749	0.25	0.68	\$	0.437
Baking Soda (in ounces)	16	0.99	\$ 0.062	0.25	0.68	\$	0.015
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-
			\$ -		0.00	\$	-

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## Product Cost & Pricing Tool

### Mama Bear's Berry Cookies

#### PER UNIT INGREDIENT COSTS

BATCH INGREDIENT COST	\$ 3.67
MINUTES REQUIRED FOR PREPARATION (ONE BATCH)	
PREPARATION LABOR HOURLY RATE	
ORIGINAL RECIPE YIELD	24
PER PIECE COST	\$ 0.15
TOTAL UNITS/ITEMS IN EACH PACKAGE	
TOTAL INGREDIENT COST (ONE PACKAGE)	\$ -

#### PER UNIT PACKAGING COSTS

PACKAGING COST	\$ -
MINUTES REQUIRED FOR PACKAGING (ONE PACKAGE)	
PACKAGING LABOR HOURLY RATE	
TOTAL PACKAGING COST	\$ -

<b>TOTAL PER UNIT PRODUCT COST</b>	<b>\$ -</b>
------------------------------------	-------------

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## Product Cost & Pricing Tool

### Mama Bear's Berry Cookies

#### PER UNIT INGREDIENT COSTS

BATCH INGREDIENT COST	\$ 3.67
MINUTES REQUIRED FOR PREPARATION (ONE BATCH)	35
PREPARATION LABOR HOURLY RATE	\$ 11.50
ORIGINAL RECIPE YIELD	24
PER PIECE COST	\$ 0.43
TOTAL UNITS/ITEMS IN EACH PACKAGE	
TOTAL INGREDIENT COST (ONE PACKAGE)	\$ -

#### PER UNIT PACKAGING COSTS

PACKAGING COST	\$ -
MINUTES REQUIRED FOR PACKAGING (ONE PACKAGE)	
PACKAGING LABOR HOURLY RATE	
TOTAL PACKAGING COST	\$ -

<b>TOTAL PER UNIT PRODUCT COST</b>	<b>\$ -</b>
------------------------------------	-------------

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# Product Cost & Pricing Tool

## Mama Bear's Berry Cookies

### PER UNIT INGREDIENT COSTS

BATCH INGREDIENT COST	\$ 3.67
MINUTES REQUIRED FOR PREPARATION (ONE BATCH)	35
PREPARATION LABOR HOURLY RATE	\$ 11.50
ORIGINAL RECIPE YIELD	24
PER PIECE COST	\$ 0.43
TOTAL UNITS/ITEMS IN EACH PACKAGE	3
TOTAL INGREDIENT COST (ONE PACKAGE)	\$ 1.30

### PER UNIT PACKAGING COSTS

PACKAGING COST	\$ -
MINUTES REQUIRED FOR PACKAGING (ONE PACKAGE)	
PACKAGING LABOR HOURLY RATE	
TOTAL PACKAGING COST	\$ -

<b>TOTAL PER UNIT PRODUCT COST</b>	<b>\$ 1.30</b>
------------------------------------	----------------

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PACKAGING	TOTAL QUANTITY	PRICE	PRICE PER UNIT	UNITS USED IN ORIGINAL RECIPE	UNITS REQUIRED FOR DESIRED YIELD	PACKAGING COST
Cellophane Bag	100	4.59	\$ 0.046	1	3	\$ 0.046
Ribbon (in inches)	60	0.87	\$ 0.015	4	11	\$ 0.058
Label	100	14.99	\$ 0.150	1	3	\$ 0.150
			\$ -		0	\$ -
			\$ -		0	\$ -
			\$ -		0	\$ -
			\$ -		0	\$ -
			\$ -		0	\$ -

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# Product Cost & Pricing Tool

## Mama Bear's Berry Cookies

### PER UNIT INGREDIENT COSTS

BATCH INGREDIENT COST	\$ 3.67
MINUTES REQUIRED FOR PREPARATION (ONE BATCH)	35
PREPARATION LABOR HOURLY RATE	\$ 11.50
ORIGINAL RECIPE YIELD	24
PER PIECE COST	\$ 0.43
TOTAL UNITS/ITEMS IN EACH PACKAGE	3
TOTAL INGREDIENT COST (ONE PACKAGE)	\$ 1.30

### PER UNIT PACKAGING COSTS

PACKAGING COST	\$ 0.254
MINUTES REQUIRED FOR PACKAGING (ONE PACKAGE)	3
PACKAGING LABOR HOURLY RATE	\$ 9.00
TOTAL PACKAGING COST	\$ 0.70

<b>TOTAL PER UNIT PRODUCT COST</b>	<b>\$ 2.00</b>
------------------------------------	----------------

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### CHANNEL MARGINS

WHOLESALE MARGIN %	50%
PRIVATE LABEL/CO-PACKER MARGIN %	35%
DISTRIBUTOR MARGIN %	30%
ESTIMATED RETAILER MARGIN %	40%
BROKER COMMISSION %	5%

### PER UNIT PRODUCT PRICING

YOUR WHOLESALE PRICE	\$ 4.00
YOUR \$ PROFIT FROM WHOLESALE	\$ 2.00
YOUR PRIVATE LABEL/CO-PACKER PRICE	\$ 3.08
YOUR \$ PROFIT FROM PRIVATE LABEL/CO	\$ 1.08
YOUR PRICE TO DISTRIBUTORS	\$ 2.80
YOUR \$ PROFIT FROM DISTRIBUTOR SALES	\$ 0.80
BROKER COMMISSION	\$ 0.20
YOUR \$ PROFIT AFTER BROKER FEES	\$ 1.80
SUGGESTED RETAIL PRICE	\$ 6.67

### END PRICE ANALYSIS

IF YOU WANT A RETAIL PRICE OF	7.99
THEN WHOLESALE PRICE WOULD BE	\$ 4.79
THEN PRODUCT COST SHOULD BE	\$ 2.40

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# Spreadsheets to Calculate Costs of Using Commercial Kitchens

- <https://texaslocalfood.org/value-added-products/>

## Costs of using commercial kitchens

- Commercial kitchen on your farm
- Commercial kitchen hourly rental
- Commercial kitchen long term lease
- Commercial kitchen build operate

These spreadsheets are free.

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# Commercial Kitchen On Your Farm

## FACILITIES, EQUIPMENT, & REGULATORY COST ESTIMATES

*These worksheets provide estimates for discussion purposes only. Modify any/all information in green/tan cells to meet your needs. Check your own data to be Go to:*

[Production Assumptions](#)

[Estimated Annual Pre-Tax Returns](#)

What type(s) of processing will take place on the farm? (choose one)

C = Canning

Estimated Days of Use per Year (processing days per year)

60

Estimated Hours of Use per Day (hours of processing per day of use)

8

Estimated Facility Costs

(could be new construction or renovations)

\$40,000

Useful Life of Facilities (years)

20

Useful Life of Equipment (years)

7

Total Processing Equipment Costs

\$29,256

Facility Overhead Costs per Day of Use

\$102.99

Facility Overhead Costs/Processing Hour

\$12.87

Annual costs for maintaining regulatory compliance (e.g. licenses, permits, fees)

\$500.00

Regulatory Costs per Day of Use

\$8.33

Annual estimated utilities costs for processing

\$1,000.00

Utilities Costs per Day of Use

\$16.67

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EQUIPMENT (modify color-shaded cells to fit your needs)									
ITEM	DESCRIPTION	PURPOSE	APPROX. PRICE						
			ALL "A"	DRYING "D"	CANNING "C"	BAKING "B"	DRY & CAN "DC"	DRY & BAKE "DB"	CAN & BAKE "CB"
1	3-compartment sink	A	\$500	\$500	\$500	\$500	\$500	\$500	\$500
2	Can opener	A	\$100	\$100	\$100	\$100	\$100	\$100	\$100
3	Cooler (refrigerator), reach-in	A	\$2,831	\$2,831	\$2,831	\$2,831	\$2,831	\$2,831	\$2,831
4	Dishwasher, commercial	A	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
5	Freezer, chest, 22 cubic ft.	A	\$850	\$850	\$850	\$850	\$850	\$850	\$850
6	Hand wash sink	A	\$245	\$245	\$245	\$245	\$245	\$245	\$245
7	Label dispenser	A	\$80	\$80	\$80	\$80	\$80	\$80	\$80
8	Mop sink	A	\$500	\$500	\$500	\$500	\$500	\$500	\$500
9	Range (6 burners, griddle, two ovens)	A	\$3,415	\$3,415	\$3,415	\$3,415	\$3,415	\$3,415	\$3,415
10	Scale, ingredient	A	\$500	\$500	\$500	\$500	\$500	\$500	\$500
11	Storage racks, wire	A	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100
12	Thermometer, dial	A	\$50	\$50	\$50	\$50	\$50	\$50	\$50
13	Utensils	A	\$750	\$750	\$750	\$750	\$750	\$750	\$750
14	Water heater	A	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
15	Water softener	A	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
16	Work tables (2)	A	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300
17	Bread pans	B	\$250	\$0	\$0	\$250	\$0	\$250	\$250
18	Dough sheeter	B	\$2,000	\$0	\$0	\$2,000	\$0	\$2,000	\$2,000
19	Mixer (10 qt.), planetary, stand	B	\$2,100	\$0	\$0	\$2,100	\$0	\$2,100	\$2,100
20	Oven, double deck for baking	B	\$5,500	\$0	\$0	\$5,500	\$0	\$5,500	\$5,500
21	pH meter	C	\$50	\$0	\$50	\$0	\$50	\$0	\$50
22	Pickling/fermentation tank 5 gal	C	\$96	\$0	\$96	\$0	\$96	\$0	\$96
23	Pickling/fermentation tank, 10 gal	C	\$127	\$0	\$127	\$0	\$127	\$0	\$127
24	Pickling/fermentation tank, 30 gal	C	\$161	\$0	\$161	\$0	\$161	\$0	\$161
25	Stock pot, 60 qt stainless	C	\$150	\$0	\$150	\$0	\$150	\$0	\$150
26	Stock pot, 60 qt with spigot	C	\$350	\$0	\$350	\$0	\$350	\$0	\$350
27	Water bath (for hot-process products)	C	\$800	\$0	\$800	\$0	\$800	\$0	\$800
28	Dehydrator cabinets, 15 sq ft. (5)	D	\$850	\$850	\$0	\$0	\$850	\$850	\$0
29	Dehydrator, solar, 15 sq ft.	D	\$2,500	\$2,500	\$0	\$0	\$2,500	\$2,500	\$0
30	Vacuum packer	D	\$350	\$350	\$0	\$0	\$350	\$350	\$0
31	Produce washing sink	DC	\$1,400	\$1,400	\$1,400	\$0	\$1,400	\$0	\$0
32	Slicers, manual for fruit & veg	DC	\$550	\$550	\$550	\$0	\$550	\$0	\$0
33	Small meat grinder	DC	\$500	\$500	\$500	\$0	\$500	\$0	\$0
34				\$0	\$0	\$0	\$0	\$0	\$0
35				\$0	\$0	\$0	\$0	\$0	\$0
36				\$0	\$0	\$0	\$0	\$0	\$0
37				\$0	\$0	\$0	\$0	\$0	\$0
38				\$0	\$0	\$0	\$0	\$0	\$0
39				\$0	\$0	\$0	\$0	\$0	\$0
40				\$0	\$0	\$0	\$0	\$0	\$0

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31	Produce washing sink	DC	\$1,400	\$1,400	\$1,400	\$0	\$1,400	\$0	\$0
32	Slicers, manual for fruit & veg	DC	\$550	\$550	\$550	\$0	\$550	\$0	\$0
33	Small meat grinder	DC	\$500	\$500	\$500	\$0	\$500	\$0	\$0
34				\$0	\$0	\$0	\$0	\$0	\$0
35				\$0	\$0	\$0	\$0	\$0	\$0
36				\$0	\$0	\$0	\$0	\$0	\$0
37				\$0	\$0	\$0	\$0	\$0	\$0
38				\$0	\$0	\$0	\$0	\$0	\$0
39				\$0	\$0	\$0	\$0	\$0	\$0
40				\$0	\$0	\$0	\$0	\$0	\$0
		ALL	"A"	DRYING "D"	CANNING "C"	BAKING "B"	DRY & CAN "DC"	DRY & BAKE "DB"	CAN & BAKE "CB"
		SUBTOTAL	\$36,955	\$25,371	\$23,405	\$29,071	\$27,105	\$32,771	\$30,805
	Freight estimate (%)	10%	\$3,695	\$2,537	\$2,340	\$2,907	\$2,710	\$3,277	\$3,080
	Installation & contingency estimate (%)	15%	\$5,543	\$3,806	\$3,511	\$4,361	\$4,066	\$4,916	\$4,621
	TOTALS		\$46,194	\$31,714	\$29,256	\$36,339	\$33,881	\$40,964	\$38,506
Range of project costs			\$29,256	to	\$46,194				

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## Additional Resources



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- NGFN Value Added Processor Community of Practice  
<https://groups.google.com/group/proc-cop>
- National Good Food Network [ngfn.org](http://ngfn.org)
- Niche Meat Processor Assistance Network (NMPAN) [www.nichemeatprocessing.org](http://www.nichemeatprocessing.org)

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## CPA Staff Resources

- Rob Holland, Director
- Kim Giorgio,  
Administrative Assistant
- Hal Pepper,  
Financial Analysis Specialist  
(Value-Added Dairy)
- Megan Bruch Leffew,  
Marketing Specialist  
(Agritourism)
- Troy Dugger,  
Program Coordinator



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## Connect with us!

- [ag.tennessee.edu/cpa](http://ag.tennessee.edu/cpa)
- [facebook.com/ValueAddedAg](https://facebook.com/ValueAddedAg)
- E-news lists
  - Farmers markets
  - Value-added meats
  - Agritourism
  - Value-added dairy products
  - Email request to join to [cpa@utk.edu](mailto:cpa@utk.edu)



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- February 21-23, 2019
- Cool Springs Marriott
- 8 associations represented
- Learn more at [picktnconference.com](http://picktnconference.com)

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## Building a Sustainable Business Workshop Series

**Hal Pepper**  
**Center for Profitable Agriculture**

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[facebook.com/ValueAddedAg](https://facebook.com/ValueAddedAg)

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## Building a Sustainable Business Workshop Series



SOUTHERN  
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RISK MANAGEMENT  
EDUCATION



United States Department of Agriculture  
National Institute of Food and Agriculture

This series is supported by USDA/NIFA under Award  
Number 2015-49200-24228.

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## Finalizing Your Business Plan

Danny Morris  
Area Farm Management Specialist  
University of Tennessee Extension

February 19, 2019

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## To Do List

- What should I put in my plan?
- What should my plan look like?
- Who should have input on the final plan?
- How do I measure progress towards completing/implementing my plan?
- What if I fail?

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## Things to Put in Your Plan

- Executive Summary that reflects your goals for the business
- Financial Information – balance sheet, income statement, cash flow projections, etc.
- Production Records – inputs, yields, gains (if livestock), labor hours, etc.
- Measurable Goals – be able to track your progress and review them

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# Communicating Your Plan to Others

- You need to be able to communicate your plan to others.
- Lenders will want to know how you plan to use the financing you are seeking to expand your business.
- Accountants will need to be able to discuss tax implications with you about capital purchases and/or fluctuations in income levels.
- Attorneys may need to be contacted for legal counsel.
- Insurance providers will need to know what policies the business needs.
- The list goes on and on, but you need to be able to tell others what you plan to do.

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## Have a Plan B! (and Plan C) [maybe even Plan D...]

### **Plan A: Holistic**

- Cover
- Executive Summary
- Table of Contents
- Business Mission
- Business Background (History and Current Situation)
- Vision and Goals
- Key Planning Assumptions
- Marketing Strategy
- Operations Strategy
- Management and Human Resources Strategy
- Financial Strategy
- Projected Income Statement and Cash Flow
- Appendices (relevant support information such as market research, resumes, brochures, letters of recommendation, tax returns, etc.)

### **Plan B: For Lender/Other Investors**

(This is the format of the FINPACK Business Planning Software)

- Cover
- Executive Summary
- Farm Description (Business type and size, location, history and ownership structure)
- Strategic Plan (Mission, goals, industry analysis, competitive position, business strategy, implementation plan)
- Production and Operations Plan (Crop and livestock systems, other enterprises, risk management plan, environmental considerations, quality control systems)
- Marketing Plan (Marketing strategy and resources, promotion and distribution, inventory and storage management)
- Human Resources Plan (Management team, family and hired labor, consultants, personnel management)
- Financial Plan (Balance sheet, asset management, projected profitability, cash flow, long-range projections, historical trends, benchmarks, capital required)

#### Plan C: New/Alternative Product

- Cover
- Executive Summary
- Statement of Goals and Objectives
- Background of Proposed Business Idea
- Technical Description of Product
- Description of Industry and Competition
- Marketing Analysis and Strategy
- Operations Analysis and Strategy
- Human Resources Analysis and Strategy
- Financial Analysis and Strategy
- Supporting Data and Assumptions
- Conclusions and Summary
- Appendix (Marketing surveys, certified bids, brochures, etc.)

#### Plan D: For Cooperative or Other Collaborative Marketing Group

- Cover
- Mission Statement
- Executive Summary
- Management Team
- Market Description
- Product Description
- Business Strategy
- Financial Plan
- Appendix (Articles of Incorporation, By-Laws, etc.)

#### Plan E: Beginning Farmer/Start-Up Business

- Cover
- Mission Statement
- Goals and Personal History
- Whole Farm Business Strategy
- Performance/Market Assumptions
- Income Projections
- Cash Flow Projections
- Risk Analysis
- Contingency Plan

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## Business Planning Software

- The book mentions on page 236 the use of AGPLAN and FINPACK.
- UT Extension Farm Manage specialists use FINPACK to assist farm families in business planning.
- FINPACK can be used to create balance sheets, income statements, cash flows (annual, monthly, and projected).
  - **Monthly cash flows are a great way to track progress towards projections in your business plan.**

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## Things to Avoid

- Too much detail
- Graphics without substance
- No executive summary
- **Inability to community plan**
- Infatuation with product or service
- Focusing on production estimates
- **Unrealistic financial projections**
- Technical language or jargon
- **Lack of commitment**

## Monitoring Progress

- After you start the implementation of your plan, then what?
- You need to track progress.
- Set measurable goals:
  - Dollar amount of product sold by a certain date.
  - Production amount you need to produce to break even.
  - Reduce expenditures by a set percentage by the end of the quarter.

# Keep Good Records!

- You cannot measure what you do not track.
- Records will help you do measure progress of the business.
- Ways to keep good records:
  - Quicken
  - QuickBooks
  - Excel (great method and very customizable)
  - FINPACK or AGPLAN

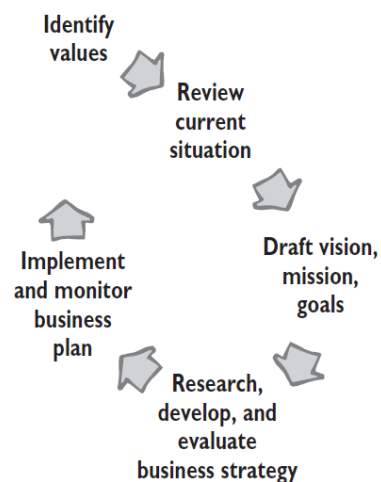
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## Review Progress

- Not only monitor your progress
- But make changes to correct things hindering your progress
- Monthly cash flows and P&L reports are very good at helping track this
- FINPACK can do this as well as Quicken
- Excel can as well, but you have to program it to do so

### The Full Circle of the Business Planning Process



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## Most Important Thing to Remember

- Get started!
- Involve the right people.
- Find a method of record keeping that you will actually use.
- Ask those who are experts in areas where you are not for help if needed.
- Realize you may fail.
  - If so, look at your records, consult with your professional team and partners, and try to make corrections where possible.

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## Building a Sustainable Business Workshop Series

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