

Vermont Farm Viability Enhancement Program  
Program Assessment: Findings and Recommendations

Submitted to

The Vermont Housing and Conservation Board  
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by

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## EXECUTIVE SUMMARY

This assessment of the Vermont Farm Viability Enhancement Program was undertaken at the request of the Vermont Housing and Conservation Board which oversees the program. The purpose of this report was to evaluate the quality of business plans submitted to the program and to make recommendations about the guidelines issued to service providers in creating those plans. The effort was produced with funding from the Vermont Farm Viability Enhancement Program through a contract to the author.

For the purposes of this review, 13 first year business plans and 42 Year-Two evaluation reports were read and critiqued. In addition, certain service providers and VHCB staff were interviewed to provide context that informed the effectiveness of the program to achieve its goals. Findings from this review were intended to evaluate the effectiveness of the program in providing business planning services, and recommendations have been made about ways to improve and fine-tune program guidelines issued to business plan service providers. A summary of these recommendations is listed below. In addition, this review assessed the degree to which the program has enabled participating farm families to implement the business plans. The review also considered the nature and extent to which farmers' report impacts on the quality of their lives since they began participating in the program.

The first recommendation was to improve the focus statement in an executive summary for each business plan. Establishing the primary purpose of the business plan at the outset facilitates the identification of concerns and setting of specific goals for the farm family. This focus enables measures and indicators of success to be established and tactical activities to reach goals at the outset of the planning process. With the addition of a timeline for goal accomplishment, these steps provide a comprehensive planning framework to focus the entire planning process.

Financial statement documentation is generally strong throughout the business plans reviewed. Adequate compilation of income statements, balance sheets and cash flow projections were included with most plans. The analysis of these statements can be improved for the benefit of the farmers so they can use that information to identify areas of strength and weakness in their operations and attend to risk factors they may confront on the future. Summarizing financial statement information into one spreadsheet whereby actual performance can be compared to industry benchmarks that inform future projections is one suggestion. Including financial ratio analysis of profitability, leverage and liquidity, as well as key production information in this summary provides context that can be used to decipher trends and realistically assess the veracity of projections.

An analysis of a farm's internal capabilities and resources can identify its strengths and weaknesses. A further analysis of the economic and environmental landscape within which the farm operates can illuminate opportunities or threats to its viability. Such SWOT analysis is highly valuable for assessing the starting place of a farm's business plan. In addition to listing strengths, weaknesses, opportunities and threats in a section of

the plan, providing additional concrete evidence that elaborates and supports these points is recommended.

For most plans, a primary business planner worked with the farmer to create the business plan document and compile financial statements. Frequently, other production and technical assistance providers were also employed to make recommendations about particular production practices and farming activities. Business plans would be strengthened if a list of these technical recommendations and the names of the consultants offering that advice were included. That way, future performance can be compared to the recommendations to determine if the advice was used and whether it was helpful in addressing specific problems.

Financial success is fundamentally important to improving the quality of life for farm families. For many farms, the overall business planning process is not complete without also taking into consideration the family living budget. In order for families to plan for the educational needs of their children, retirement savings, estate transfer and emergency savings, an assessment of current household spending practices is beneficial. From an accounting of household spending, family budgets and savings plans can be developed. While the focus of business planning necessarily puts most of the time and resources into farming activities, the quality of life goals for families require some attention to family living costs and household budgets.

For some farms that are in the start-up or expansion phases of development or for those considering value-added or alternative products, enterprise budgets and breakeven analyses are important aspects of the planning process. They may not be necessary in all cases, but judicious use of these analytical tools will improve the overall planning effort. Similarly, cash flow budgets for seasonal businesses and capital budgeting procedures for growing businesses or ones with high debt loads can be useful planning tools.

For Year-Two follow-up evaluations, the following comments and recommendations were made. Most year-two evaluations lacked financial statements due to the timing of the farm visit. It was recommended that financial statements be completed at end of farmers' fiscal year. Part of the problem rests with the variability of good record keeping systems vs. less established ones among farms. It was recommended that the time frame of late winter/early spring be targeted for gathering plans when farmers generally have more time to sit down and reflect on their performance. A May 30 deadline target should be established for receipt of year-two evaluation reports by the program managers.

Profitability and productivity measurements required by the guidelines are appropriate, but their meaning should be put into an appropriate context. Numbers by themselves are algebraic exercises. Compiling a trend analysis which compares two to three years of actual performance informs past progress and can be used to compare and assess the reliability of future budgets. Benchmarking with industry norms is another contextual benefit whereby the farm's performance can be related to similar operations in the industry. For some industries this comparative information may need to be further developed.

Measuring the quality of life for farm families and the extent of plan implementation is another important aspect that informs the value and success of the farm viability program. Gathering information each year about family and household satisfaction provides indications and descriptions about what is contributing to or detracting from quality of life. Farm family stresses are revealed and can be addressed. Successes in family life can be celebrated. Plan implementation relates directly to succinct and clear goals and objectives established at the outset. Comparing results in subsequent years to goals and timelines established in the first year of business planning identify factors that are contributing to and detracting from goal accomplishment. Over time, new or modified goals may be incorporated into the dynamic process of on-going business planning.

Future issues that should be addressed by program managers and associated service providers include a redoubling of efforts to provide solid and comprehensive transition and estate planning assistance to farm families. Training for providers could be accomplished through a workshop that uses the resources of attorneys, accountants and family communication consultants familiar with the legal, financial, tax and family relationship issues that farm families confront.

Follow-up assistance to certain families may also more efficiently use the resources and expertise available if informal teams of advisors are organized for specific families. The Small Business Development Centers, Extension specialists, family counselors, and technical advisors including veterinarians, crop consultants, marketing specialists, accountants, financial analysts industry experts, and representatives from the private sector representing suppliers and trading partners are among the possible participants in such an advisory team.

Ideally, farmers participating in the program will come to see the value and benefit of planning and will make use of their plans in ways that enhance their chances of success and improve the quality of their lives. This study revealed that over 60% of participating families were making adequate or major progress toward implementing their plans and an equal number reported the quality of their lives was satisfactory or improving. Analysis of this data revealed a statistically significant correlation between successful plan implementation and satisfactory quality of life. Conversely, worsening quality of life was correlated with a failure to implement business plans. No clear cause and effect relationship can be deduced, nevertheless, these findings reinforce the importance of on-going assistance not only to create business plans, but to help participating farmers with their implementation.

One concern for the future of the program has to do with questions about paying for planning work after the initial grant funds dwindle. Putting a majority of resources into getting the plans written and started is important, but follow-up work in future years is also a consideration that will need to be addressed. It is hoped that once farmers see the benefits of planning, they will be more willing and able to contribute toward covering toward covering the costs for some of these services.

## INTRODUCTION

The Vermont Farm Viability Enhancement Program was initiated in 2003 in response to economic changes affecting Vermont agriculture and the needs of an evermore diverse set of farmers. The Farm Viability Program is funded by the Vermont Housing and Conservation Board (VHCB), which in turn is supported by appropriations from the Vermont Legislature, USDA Natural Resource Conservation Service and grants from philanthropic foundations. VHCB collaborates with the Vermont Agency of Agriculture, Food and Markets in managing the program and the services it provides to participating farmers. For the purposes of this report, the service provider organizations that contract with the VHCB to conduct business planning on participating farms included the Intervale Center, UVM Cooperative Extension, and the Northeast Organic Farmers Association. Each of these service providers in turn, contracts with individual consultants to carry out various aspects of the planning process including financial planning, marketing assistance, facilities assessments, production and technical assistance advice, transition planning, family budgeting, expansion planning, and enterprise analysis.

The purpose of this report was to describe findings from a review of first year business plans and Year-Two follow-up evaluations. The report includes recommendations about ways to improve the business planning process for participating farmers, consulting business planners, service provider organizations, and the VHCB staff and Farm Viability Advisory Board. The report also addressed the program guidelines that have been developed in an attempt to bring consistency and depth to the business planning process for farm families. The Farm Viability Program has developed these guidelines for first year business plans and Year-Two follow-up evaluations. These guidelines are designed to be used by service providers and consulting planners and technical experts as they work with individual farmers to develop business plans and assess their implementation. Given the many and varied needs of individual farm families relative to the list of planning processes mentioned above, no two plans are exactly alike. Guidelines serve an essential function to ensure that vital pieces of information are described and analyzed. First and foremost, the business plans should be seen as a tool to be used by the family to help them address their own goals and objectives, understand their operation's strengths and weaknesses, and allow farm management to use the resulting plans in short-term and long-term decision making. Secondly, the plans may, in some cases, be useful to external sources such as lenders or investors as tools to assist with lending or investment decisions. In designing guidelines for plan format and content, it is good to remember that the primary purpose of these plans is to provide farm owners with strategic tools for understanding and making decisions about their particular operation. Given the wide variation in farm types and management needs, some flexibility in business plan guidelines is warranted.

A total of 13 first year business plans were read and analyzed. In addition, 42 Year-Two follow-up evaluations were assessed. The report is organized into the following sections: a description of the methods used to evaluate the Vermont Farm Viability Program, a discussion of the findings and recommendations that came out of that review, and

suggestions of future issues that deserve increased attention by the program managers and service providers.

## **SUPPORT FOR BUSINESS PLANNING**

Numerous books, manuals, workbooks, templates, and internet websites have been developed to describe and assist with the development of business planning and management skills for farmers and food-related small businesses. Other publications have addressed the resource and training needs of extension personnel and service providers who assist farmers with planning and technical or production concerns. The literature consistently highlights that business planning is most importantly a process undertaken to benefit the farmer (Brodsky, 1998; Holcomb and Muske, 2000; Miles and Brown, 2005). The agricultural economy is dynamic and ever-changing and resulting market conditions necessitate that farmers respond and adapt to them by finding new markets, adding value to commodities, diversifying their production, adopting innovative environmental practices, using improved accounting and analytical tools, or increasing the scale of their operations in order to remain viable (Argiles, 1998; Miles and Brown, 2005; Schlough and Streeter, 2002).

Business planning, marketing strategies and technical assistance are evermore important to success within this evolving and dynamic economic environment that individual farmers live and operate. Schlough and Streeter (2002) pointed out that Extension, and by presumption other agricultural service providers, should focus on “effective business planning practices that will lead to improved profits and career satisfaction” for farmers (p. 1). Noting a 1987 survey of Extension agents from New York State, Schlough and Streeter identified that the primary obstacle to success for alternative agricultural enterprises was insufficient marketing information and skills (p. 3). Schlough and Streeter’s own survey of New York Extension agents in 2002 revealed that field agents reported that farmers had a strong interest in business and marketing assistance and the favored venue for delivering that assistance was one-to-one assistance or learning from other farmers as peers (p. 8). These researchers noted a concern among Extension agents that there seemed to be “a gap between current capacity [among extension educators and specialists] and what they would like to be able to provide (p. 10). Apparently, most agricultural service providers are trained and have experience in specific crop or livestock practices, and lack any regular exposure to business planning and marketing assistance. Schlough and Streeter’s survey revealed that more than 75% of Extension educators and specialists had read less than eight business plans during the previous three years and more than 90% had read less than 8 marketing plans (p. 13). While their survey indicated a high frequency of involving other partners in the delivery of services, 76% of Extension respondents frequently or always addressed inquiries from farmers themselves, and rarely referred requests for assistance to other providers (p. 7). More optimistically, 75% of respondents did say they collaborated with other partners to answer farmers’ questions (p. 7). Actual open-ended comments from survey participants were most telling. Respondents called for educators and specialists who “understand agriculture – all realms of it, or are willing to take a look at the human side,” “specialists who like farmers and relate to their issues without being pompous and derogatory” and a centralized go-to

resource which has all the information about business planning and marketing assistance or “knows where to obtain it,” (p. 26). Whether intentional or not, these are precisely the obstacles the Vermont Farm Viability Enhancement Program through the VHCB was designed to overcome.

Farms in Vermont and around the country are also becoming more diverse in a reaction to economic trends and agricultural policies. Adapting to new market niches by providing commodities that larger farms do not produce or by adding value to commodities through specialty food products and on-farm processing are ways by which small operations are trying to compete (Miles and Brown, 2005, p. 12). These researchers noted that “enterprise diversification provides income at more points throughout the year, rather than relying on one harvest (or one species) to provide all income” (p. 13). As a result, these operations need business planning, market analysis and enterprise analysis assistance to enhance their competitive position (p. 13).

The provision of business planning, market research, financial record-keeping and analysis, and enterprise budgeting requires trained and experienced service providers willing and able to collaborate among each other to maximize the use of expertise available in a geographic area and give farmers the best help available. An added benefit of this approach is the unbiased, realistic perspective that third party specialists offer to the overall business planning process. While the knowledge and opinion of bankers and accountants who regularly work with farmers remains a vital and important aspect of a strong and vibrant agricultural economy, the perspective of planners and technical specialists who do not have a financial interest in the farms’ performance is unique and different (Holcomb and Muske, 2000, p. 8). Bringing the collective wisdom of basic and applied research, real-world wisdom and a commitment to working one-on-one with farm families is a relatively novel approach that can be successfully used by a partnership of service providers from varying points of expertise and different organizations. Such an approach helps farmers delve into the numbers associated with their operation to discern causes and results that improve the chances for business success as well as the family’s quality of life (p. 8). This model of collaboration among and between various organizations, consultants and technical experts is used by the VHCB in managing the Farm Viability Program to deliver business planning services to farmers.

The aim and scope of this study was to determine the success of this collaborative in providing business planning services to farmers and to illustrate the extent to which business planning and implementation was occurring on participating farms.

## **METHODS**

This program assessment began with a review of the Guidelines for Farm Business Plans and the Guidelines for Year-Two Farm Viability Evaluations developed by the VHCB. The 13 first year business plans were read and detailed feedback was provided about each plan. This feedback was summarized in narrative form and provided to the program coordinator. These narratives were incorporated into letters sent to the associated service

provider organization for each farm along with the program coordinator's own comments. Themes that emerged from this detailed analysis are aggregated in the Findings and Recommendations section below and provide the basis for suggestions about amending or clarifying program guidelines. An additional 42 Year-Two follow-up evaluations were reviewed. Highlights of this review are also summarized in the Findings and Recommendations section.

Among the qualitative data included in these follow-up evaluations were opinions expressed by farmers about their quality of life and the extent to which they were successful implementing their business plans. These opinions were then reduced to categories that could be cross-tabulated to determine statistical significance between quality of life measures and the extent of plan implementation.

In addition to a review of documents, the program coordinator, certain business planning consultants and agricultural policy leaders were interviewed. A meeting of service providers, at which preliminary results of this assessment were discussed, also provided context to this report.

## **FINDINGS AND RECOMMENDATIONS**

This section is divided between observations about first year business plans and Year-Two follow-up evaluation reports. Within the first year plans, the following areas are discussed in more detail below: an executive summary dealing with the focus of the plan, SWOT analysis (strengths, weaknesses, opportunities and threats), the farm history and description of facilities and resources, transition planning, technical and production assistance provider recommendations, marketing aspects of plans, and financial statement analysis, cash flow management, breakeven analysis, enterprise analysis and capital budgeting. Year-Two evaluations elicited the following observations which are also discussed in more detail below: financial statements, profitability and productivity, quality of life indicators, and the extent of plan implementation to date.

### ***First Year Business Plans***

#### **Executive Summary**

Most business plans had at least a rudimentary executive summary. However, many plans never explicitly stated, clearly and right up front, what the primary purpose was or who the intended audience was. Clearly and concisely stating the specific purpose of the plan and who it is directed towards would help to focus the business strategy and options for the principal owners and farm operators. A comprehensive executive summary, with more clear and concise representation of the essential needs of the business, and a firm focus on the overall purpose of the plan would give each planning effort more focus. For some business plans, the summaries read like mission statements and the strategies employed in support of that mission. While these are essential and valuable, the executive summary would be stronger with a succinct summary of:

- 1) what the company does, and
- 2) what it plans to do over the next 3 to 5 years (the crux of the plan).

The executive summary should then identify:

- a) two to five primary goals for the forthcoming three to five year period,
- b) specific and measurable performance indicators or outcomes for each goal by time frame (year 1, year 2-3, year 4-5), and
- c) in bullet points or table format if appropriate, the tactical objectives, actions and investments by timeframe that will lead to accomplishment of goals and desired outcomes.

When recast in this succinct summary form, these three steps (overall goals, outcome measures and tactical actions and investments) provide a solid framework and organizing structure for all the rest of the information contained in the plan. In several plans, the summaries missed the essential purposes of the plans which were often identifiable somewhere in the body of the text. While the fundamental need and purpose for the plans were described in articulate terms, these descriptions were often buried somewhere in the middle of the documents. As a result, these plans suffered from a lack of focus on this key purpose. Editing of the business plan and its information to find these focus statements will improve the organizational logic of the entire document, frame the questions that arise from the focus issue, and help determine the types and range of technical assistance the family will need as it implements the plan.

### **SWOT Analysis**

Most plans included a SWOT Analysis section. It would have been helpful to have had more substantiation of and elaboration on the major areas outlined in the SWOT analysis. Frequently, a bulleted list of strengths, weaknesses, opportunities and threats was provided. However, saying that a family is “good with cows” without providing examples and evidence does not give sufficient reason to justify or support the stated strength.

### **Farm History and Description**

Most plans provided some description of farm assets and the history of the family’s farming experience. Sometimes this information was scattered throughout the document and frequently it lacked quantifiable description. For example, “the family has been farming all their lives” is an important measure, but it does not indicate precisely how many years have they been in farming, the kind of past experience they have gained, or the particular type of farming they are directing the plan to address. In addition to the guidelines provided by VHCB as amended in April 2006, other descriptions of abilities, major achievements and accomplishments in recent years would be helpful. This is especially true for beginning farmers or those planning to move from rental situations to real estate ownership. More specific details on the family’s background and experience would help substantiate their capacity to become farm owners. Actual accomplishments, in addition to providing a reality check for the goals and objectives spelled out in the plan, are worth celebrating.

### **Transition and Estate Planning**

As a general rule, the first year business plans reviewed for this report had only begun addressing issues around transition and estate planning. This appears to be an area that

calls for additional efforts on the part of service providers and consultants in future work with these families. Among the suggestions are to hold a training session with an accountant and an attorney familiar with the tax and legal implications of transfer and estate planning, and a communication expert familiar with intra-family relationship dynamics.

When a plan indicates that “the next generation is interested in farming,” this is a critical point that could use much more discussion. What plans are being made by the family to facilitate the next generation’s ownership and management? Will this be a focus of work in subsequent years of the Farm Viability Program? Itemized below are some of the questions that should be posed to determine the younger generation’s abilities and capacity to take over the operation:

- Are they contemplating some type of ownership transfer agreement (partnership, or other means) to gradually transfer equity? What organizational form makes the most sense in a particular farm’s case?
- What are the specific experiences, skills and interests of the younger generation to indicate they will have the means and abilities for ownership and management?
- Do they have a credit history of their own?
- How is the younger generation reimbursed now: with salary, housing, vehicle, part ownership in livestock, some of the above, none of the above, or some other means?
- Can the farm continue to provide for family living needs of both the elder and younger generations, and also service the debt on the existing or proposed farm operation?
- What arrangements have been considered when the younger generation has to bear the added costs of purchasing assets from the parents?
- Have the two generations sat down together to review their mutual needs and goals to ensure there is agreement on what those goals are and ways to accomplish them?
- Are the combined life, health and liability insurance coverage adequate for their needs, and can insurance play a role in reducing the cost of ownership?

Future work with these families should concentrate on this process of transferring ownership from the older generation to the younger one. It will require discussions with all concerned parties to ensure that the needs, wishes and expectations of both generations are adequately met. As part of the transition planning, a cash flow projection should be made. Cash flow items should include all of the following in order to have a comprehensive understanding of whether there are sufficient funds available to meet everyone’s needs.

Net farm income (sales minus expenses minus debt service costs)

- + off-farm income from all sources
- family living costs for the older generation
- family living costs for the younger generation
- retirement or other savings required by both generations
- ownership transfer costs for the younger generation (if paid directly to the older generation, these payments will offset some of the other income needs for the older generation)
- farm capital investment needs
- = remaining capacity of the farm to make additional investments, contribute to savings or provide draw to owners

Understanding how much the elder generation will need to have available to live on, how they might be able to finance the asset ownership to the younger generation and how these facts, together with the points raised above, play into the transition plan will make the final ownership transition plan stronger and more useful to all of the parties involved. There are decisions for the older generation to make regarding their hopes and needs, for the younger generation to consider regarding their aspirations and capabilities, and for all of them together to be able to communicate and understand when taken in the aggregate.

In several instances, the plans stated that the older generation's retirement is the equity in the real estate and other farm assets. The fundamental question of how these families plan to convert these fixed assets into cash for retirement living is not addressed. On the surface, the elder generation's retirement is a cost to be borne by the younger generation. Retirement and estate planning would help. Plans should include assistance to quantify the total amount of retirement funds projected to be needed by the older generation, and to design ways to minimize income and capital gains tax obligations and ownership transfer costs from one generation to the next.

### **Technical and Production Assistance Recommendations**

Most plans were missing a summary of the technical and production assistance recommendations made by consultants other than the business planner who wrote the primary document. To the extent necessary and appropriate, a summary should be included with the plan (bullet point format would suffice) of the specific advice provided in the following areas: organic certification / organic production practices; herd, crop and manure management, financial record keeping and financial analysis; transition (estate, retirement, operation and ownership) planning, and any other guidance of a technical, production or operational nature. Itemizing specific findings and recommendations made by each specialist is important documentation to help remind the farmers and providers alike what was discussed, and can serve as points of reference for comparing actual results with original plans.

### **Marketing Strategies and Assessment of Needs**

Marketing strategies for diversified and value-added products generally include solid analysis of competition, pricing and promotion. Less attention has been paid to the products offered for sale and the means of distributing them.

## **Products**

For diversified operations with multiple products, organizing the existing product mix by width (the number of product lines) and depth (the number of individual items within each line) will help to determine what new product research and development is warranted in which product line. As new products or product lines are developed that hold promise, the business will simultaneously have to evaluate when to drop existing products or lines that may not have strong sales or profit margins. I often use the example of Ben & Jerry's Ice Cream which adds new flavors all the time, but also drops them, too. Their "flavor graveyard" located at their Waterbury, VT plant gives a lighthearted, but important sense of the reasons that some items are dropped – high cost/low profit, difficult to make, limited customer appeal, product doesn't meet strict quality standards or the company's reputation, for example. There is probably some natural maximum number of product items and product lines that can be reasonably managed and marketed by a company with numerous product items and product lines. Accordingly, at least some attention has to be placed on deciding when to terminate some products as new ones are added.

## **Distribution**

When marketing is the major focus of a plan, a critical assessment of the current marketing strategy will help to inform and ground the numerous important suggestions offered by the technical assistance providers. In my experience, most specialty food ventures have done an outstanding job creating exciting products. They have thought carefully about their pricing strategies to ensure sufficiently high and sustainable gross margins, and they have implemented successful communications (advertising and promotion) strategies. However, most plans are not sufficiently clear about distribution challenges. Again, that's not too different from most other businesses in this industry. Distribution is the marketing function of getting products, physically and logistically, from the sugarhouse or the cheese plant into the hands of consumers. The challenge of distribution is this: how does the company identify the level of customer service, satisfaction and delivery speed they desire at a cost they can reasonably bear? It is not possible to simultaneously maximize service and minimize costs. Accordingly, the challenge is to decide what distribution functions they do best themselves and so will retain under their control, and what functions others can do better or cheaper, and so should be contracted out.

Attaining clarity around and making decisions about the distribution challenges and logistical options should be the major focus of future market planning. Developing a logistical monitoring and tracking system will enable these companies to determine if they are achieving desired results. The idea behind a logistical information system is to integrate and link all components of the supply chain including:

- Sourcing & procurement of raw materials and ingredients
- Production scheduling
- Order processing, customer billing & customer service
- Inventory control
- Warehouse & materials handling

- Transportation, shipping & packaging

When the proposed marketing strategy envisions a complex combination of multiple different distribution channels including direct sales, third party representatives, mail order, internet, and wholesale distributors, it will be important to keep track of who is responsible for each logistical step itemized above. Again, the focus should be on achieving a desired level of customer service at an affordable cost.

## **Financial Statement Analysis**

Most business plans did a good job providing income statements, balance sheets and cash flow projections. Over time, improving the accounting practices on farms or among business planners to provide modified accrual accounting financial statements will provide documents most useful to financial analysis. A number of different software packages are used by accountants, farmers and business planners. No particular software is recommended. The essential point is that statements useful to decision-making be generated.

FINPACK software starts to do comparative balance sheets and provides substantial ratio analysis, but it does not generate a succinct summary of income and expenses, assets and liabilities and ratio analyses to facilitate trend analysis over time or comparison of company performance with industry benchmarks. Analysis of the financial statements included with business plans would benefit by including a one-page summary spreadsheet that contains the highlights of all this information in one place. An example can be found in Appendix A. In this way, side-by-side comparisons can be made between past performance, a benchmark and the future years' projected financial statements. Furthermore, this summary could be useful in analyzing specific trends for the business over time and highlighting particular line items of interest. While the financial information most frequently submitted provides certain helpful ratio analyses for each business such as liquidity, profitability and solvency measures, including this in a summary page could aid trend analysis from year to year and comparisons between this farm and other similarly sized operations in the same commodity or industry. Such benchmark information is readily available for conventional dairy farms. It may be available from NOFA, CROPP, UVM Extension or FINPACK for organic dairy farms. Developing benchmark information for organic vegetables and other products may be an area that VHCBC or the service provider organizations may want to create. The financial summary sheet on one or two pages that captures the essential "story" of past balance sheet information, actual operating results, projected cash flows, and essential ratios allows the owners and any current or prospective lenders or investors to quickly and efficiently assess past financial performance and the veracity of projections.

Another issue that arises periodically is the valuation used for farm assets. For example, it is undoubtedly true that dairy cattle are selling at retail prices of \$1,400 and bred heifers for \$1,500, but those figures cannot be relied upon to calculate the net asset value for livestock currently owned. In a typical herd, at least 20% of the milking age animals should be valued as cull cows, since the annual cull rate on most farms is at least that high. One way to do this is to value 80% of the herd at dairy value and 20% at beef

value. Notwithstanding that adjustment, a farm will not receive the full auction price for dairy animals when sold. The retail price should be discounted by the cost of commissions, advertising, and other expenses associated with the sale of animals. While most farms would continue to have sizeable net worth, such adjustments would more realistically portray the financial position of the operation.

In general, the financial section of most business plans would be strengthened by a written explanation summarizing key ratio analyses, the changes to financial position, and measurements of operating profitability in recent years. Simply providing several pages of income statements, balance sheets, and projections does not help the farmers learn to use this information or the business planners to identify areas of particular strength or weakness that should be addressed by the plan. It would also be helpful to indicate what assumptions are used in developing projections.

### **Cash Flow Management and Liquidity**

For seasonal businesses, such as vegetable farms, maple sugaring operations, and pasture raised beef, cash flow management and liquidity sufficient to cover short term operating needs and other obligations is a big concern. Cash flow and liquidity are also vital for growing businesses especially early in their life. The challenge is finding the cash flow to finance the cost of sales (inventory and payables) until revenue is received at the end of the season. This is particularly critical given goals for increasing sales. Sales that depend on investments in inventory and production costs at the beginning of the season require the upfront cash to finance the necessary assets and operating costs months before the sales materialize. In such cases, the business plan should identify how growth will be financed, and how family living and the farm's fixed costs will be financed during the short-revenue months.

In other cases, cash flow and liquidity are short because of a combination of low profitability and high debt. For businesses that are heavily leveraged and seasonal, liquidity – available cash when needed to cover short term obligations – is a key to success. Year two and year three cash flow projections become especially important planning tools in such instances. While not necessarily very accurate in terms of predictive capability, cash flow projections would help with planning for working capital needs into the medium term of the business's life. Paying down existing debt while amassing sufficient pre-season cash to finance the subsequent growing season should be part of the plan and the cash flow projections should begin to inform this process. In addition medium term projections help the owners estimate realistic growth targets.

### **Capital Budgeting and Cash Flow Management**

For other farms, cash flow management is a function of high debt payments attributable to on-going capital purchases of land, buildings, machinery and equipment. Such farms would be well served by a capital budgeting and asset acquisition planning process. In some cases, the farms' continued borrowing to purchase assets in the face of volatile milk prices has contributed to sizeable open account balances and intermediate indebtedness. This situation calls for rational decision-making to prevent on-going cash flow shortages. If the farm operators are serious about reigning in debt service costs and accounts payable

balances, they have to reduce annual borrowing to finance new acquisitions. However, with history as a guide, they are not likely to altogether halt the purchase of new assets. Accordingly, they should develop an annual capital budget that seeks to moderate the amount of new borrowing on an annual basis used to finance asset purchases. Simultaneously, they are generally not in a position to finance assets with cash until they have reduced open account balances. Absent significantly increased revenue sources, the logical solution is to ration the amount and number of new assets which can be purchased. A capital budget will enable such farms to evaluate the useful life of existing assets and plan a replacement schedule within the capacity of the farm to finance and pay the debt service costs on new investments. When this is the case, future planning efforts should seek to eliminate the relatively high cost borrowing associated with accounts payable balances, and gradually reduce the total intermediate term indebtedness.

Another capital budgeting situation that arises is with young farmers starting out on rented land. In the longer term, the farm operators might use the combined processes of operational and capital budget planning to either negotiate a long-term lease on their current property or determine whether farm ownership is a realistic and desirable goal.

A final capital budgeting application occurs for operations considering a value added enterprise. Capital investment analysis is particularly important for a cheese making facility, for example. Moving toward a value-added alternative requires a clear-eyed analysis of the security they are giving up (a regular milk check) for the hope of greater returns per hundredweight of milk produced (wholesale or retail cheese sales).

## **Breakeven and Enterprise Analysis**

Breakeven and enterprise analysis may not be needed in all farm business plans. However, breakeven analysis can be particularly helpful for start-up enterprises, business expansion proposals and seasonal businesses. Enterprise analysis is useful to operations thinking about adding a diversified activity or for commodity producers considering some value-added activity, such as adding a cheese plant, growing their own concentrate feed, or processing maple candy from bulk syrup.

### **Breakeven Analysis**

A breakeven spreadsheet provides both *what if?* scenarios and a reasonable range of sales possibilities. Relying on analysis of projections and comparing them with actual operating results helps to accurately predict a realistic breakeven point of production. Table 1 includes an example breakeven analysis for various time periods using the following formula: Breakeven Revenue = Fixed Costs / (1 – (Variable Costs / Revenue)).

$$BE\$ = \frac{FC}{1 - \left(\frac{VC}{R}\right)}$$

In order to calculate breakeven revenue, costs first need to be divided between fixed costs for the period and variable costs of production. In the example in Table 1, when placing the projections in context with the actual performance over two years of results, the

breakeven gross revenue appears to be in the neighborhood of \$22,000 to \$25,000 per year. In the Table 1 illustration, a 100% sales increase from 2005 levels would result in gross revenues of \$42,000 and the cost of sales would be \$16,000. Such an analysis is not only useful in determining realistic sales goals to cover expenses, but also enables the business to plan its working capital or line of credit needs at the beginning of the season in an amount approximately equal to the cost of sales.

**Table 1.** Breakeven analysis example based on actual and projected income and expenses

	<b>2004 actual</b>	<b>2005 actual</b>	<b>Lowest level of sales from projections</b>	<b>Highest level of sales from projections</b>
<b>Gross Sales</b>	\$17,000	\$21,000	\$27,000	\$103,000
<b>Cost of Sales</b>	\$ 9,000	\$ 8,000	10,600	\$ 40,200
<b>Gross Margin</b>	53%	38%	39%	39%
<b>Net Profit (Loss)</b>	(\$ 8,000)	(\$ 3,500)	\$ 4,500	\$ 48,000
<b>Annual Fixed Costs</b>	\$12,700	\$15,500	\$11,600	\$ 13,400
<b>Apparent Breakeven Gross Revenue</b>	\$27,000	\$25,000	\$19,000	\$ 22,000

## Enterprise Analysis

Enterprise analysis is probably not necessary for every business plan either, but for those operations in the start up stage, planning on adding a value-added process, or engaged in a diversified farm, such analysis can be particularly useful.

Take the example of a cheese or other milk processing facility. The assumptions used in creating cash flow projections for cheese sales should be compiled and spelled out somewhere in the financial section of the report. Determining the amount of milk that will be converted into a value-added product, the amount of milk lost in the production process, and product that goes unsold, returned, or given away as a trade allowance should be estimated. Processing costs including direct labor, raw milk value (what it could have been sold for as a commodity), and indirect costs for culture, packaging and overhead attributed to the cost of sales should be calculated. Determining the appropriate level of marketing expenses and all other general and administrative costs of the enterprise also need to be factored into the analysis. If cheese is to be aged, the delay in receiving income will affect the cash flow of the business. The point is that converting raw milk into cheese includes numerous steps that have financial repercussions quite different from a commercial dairy farm. All the assumptions used in putting together initial projections should be itemized. They will be valuable when actual performance is

compared to projections, and they will enhance the accuracy and flexibility of future financial projection development and use.

Another example is a farm that grows its own grain and concentrates for livestock feed. The first question is to consider whether they have sufficient land available for this purpose, and to what extent they can lower direct feed costs as a percent of milk sales. Nevertheless, growing these crops involves both explicit and hidden costs of production that an enterprise analysis can best illuminate. The explicit costs manifest in the fertilizer, chemical, fuel and maintenance costs for growing and harvesting these crops. The hidden cost associated with growing grain includes the higher than average attrition on machinery and equipment. In the final analysis, the purchased feed cost *savings* are not free. An analysis of the fixed and variable costs per ton of corn grain or bushel of soybeans grown would help a farmer see the actual costs of producing their own grain which could then be compared to the market price of purchased feed commodities. Such an analysis might not change their practices, but at least they would know their opportunity cost per ton of feed produced.

A final example of enterprise analysis is a vegetable farm growing a number of different varieties and crops. Determining the variable costs of each crop, and distributing the fixed costs of the farm over the different crops on a pro-rata basis (on a square foot, linear foot, or acre basis) would assist a farmer in determining the breakeven production needed for each crop and which crops are the most profitable. Another thing to keep in mind however is that customers to a farm stand or farmers' market expect certain crops to be available, such as sweet corn and strawberries. Even if they may not be the most profitable crops, they may need to be offered for sale in order to attract customers.

Regardless how enterprise analysis is used, it can help determine whether the financial returns and rewards outweigh the risks of the particular undertaking.

### **Risk Analysis and Viability Assessment**

One of the chief advantages of business planning is that it helps a farmer determine whether a particular undertaking is financially viable and operationally feasible before making the investment and committing the time into the endeavor. In some cases, the business plans that have been done for the Farm Viability Enhancement Program indicate significant risks to income on both the revenue and the cost side of projections, or the history of the operation raises serious questions about the farmer's ability and resources to carry out the plan. In such cases, it appears that part of the job of the business planner, as an unbiased third party, is to point out these risks and caution the farmer about proceeding. A way to do this that still gives the farmer some hope and help is to explore possible alternative production scenarios together with strategies to realistically achieve them within their abilities and available resources. For example, if projections for an organic dairy herd do not look promising, the farmer might be encouraged to explore other uses for available labor and land base, such as raising replacement animals, or expanding another enterprise such as maple syrup. The essential point of business planning is to limit risk once an enterprise or endeavor is selected and pursued.

## **Future Needs**

A final step in the first year business planning phase is to identify with the farmer the kind of assistance they may need in future years. Asking questions about particular cropping practices or herd management concerns they would like to improve in subsequent years and identifying appropriate technical and production assistance providers to work with the family is a pre-planning step for subsequent work with farmers in the program. Some business plans, for example, indicated the farmers wanted to establish a “profitability team.” Without additional information, it is hard to know what kind of expertise they were seeking, and which individuals they may have already contacted to set up this team. It’s a good idea to have such a team, but putting an appropriate one together requires some forethought about the particular needs of the farm and the goals they set for themselves. The first year business plan should be comprehensive enough to identify both the areas of particular concern where future assistance can be most helpful and the type of advisors needed for such a team.

## ***Year-Two Follow-Up Evaluation***

Forty-two Year-Two business plan evaluations were reviewed. While the guidelines seem to be generally sufficient, particular emphasis could be placed on certain areas that are highlighted below. Findings were summarized in an effort to help focus attention on what is working, where additional work is needed, and the reasons farmers’ stated for plan implementation successes and setbacks. Quality of life and plan implementation were two areas of particular interest to see how families involved in the Farm Viability Enhancement Program were doing.

## **Highlights**

- Year 1 plans that clearly spelled out specific goals and objectives made it easier to identify progress in Year 2. For those plans where this was the case, the consultant was able to do a goal by goal assessment of accomplishment, changing focus, or needing further work. This connected the first year’s work of planning to the follow-up work in a more accessible and measurable way for everyone involved.
- Assessment of Quality of Life indicators provided meaningful descriptions of the kinds of stresses families are facing, overcoming or continuing to struggle with. These have been summarized in the Quality of Life data in a separate section below.
- Assessment of Plan Implementation provided indicators for how well farmers are using the plans that result and what actions are being accomplished. It also provided insight into future planning needs culled from these reports. Findings are summarized in the Plan Implementation data in a separate section below.

## **Financial Statements**

It was difficult to summarize financial performance because of the range in size and variety of businesses, many evaluators were unable to include financial information due to the date and timing of their farm visit, and because consultants reported financial information in different formats. The purposes of the on-farm visit and Year-Two evaluation that are spelled out in the Guidelines seem sufficient. In order to improve

reporting and to make evaluations consistent across providers, it is suggested that profitability and production information be gathered at the conclusion of the farms' fiscal year (generally December 31). As a result farm visits planned for the period from January through March probably make the most sense over time. That way current full-year information can be compared with prior year results and with plans and budgets developed in year 1. If farm visits were timed according to the availability of the financial information, it would make it easier for both consultants and farm operators to sit down together to analyze the data, identify goal accomplishment, and focus on financial and production performance areas that need further attention. There is also generally more time available to focus on planning and reflection during the winter months.

### **Profitability and Productivity**

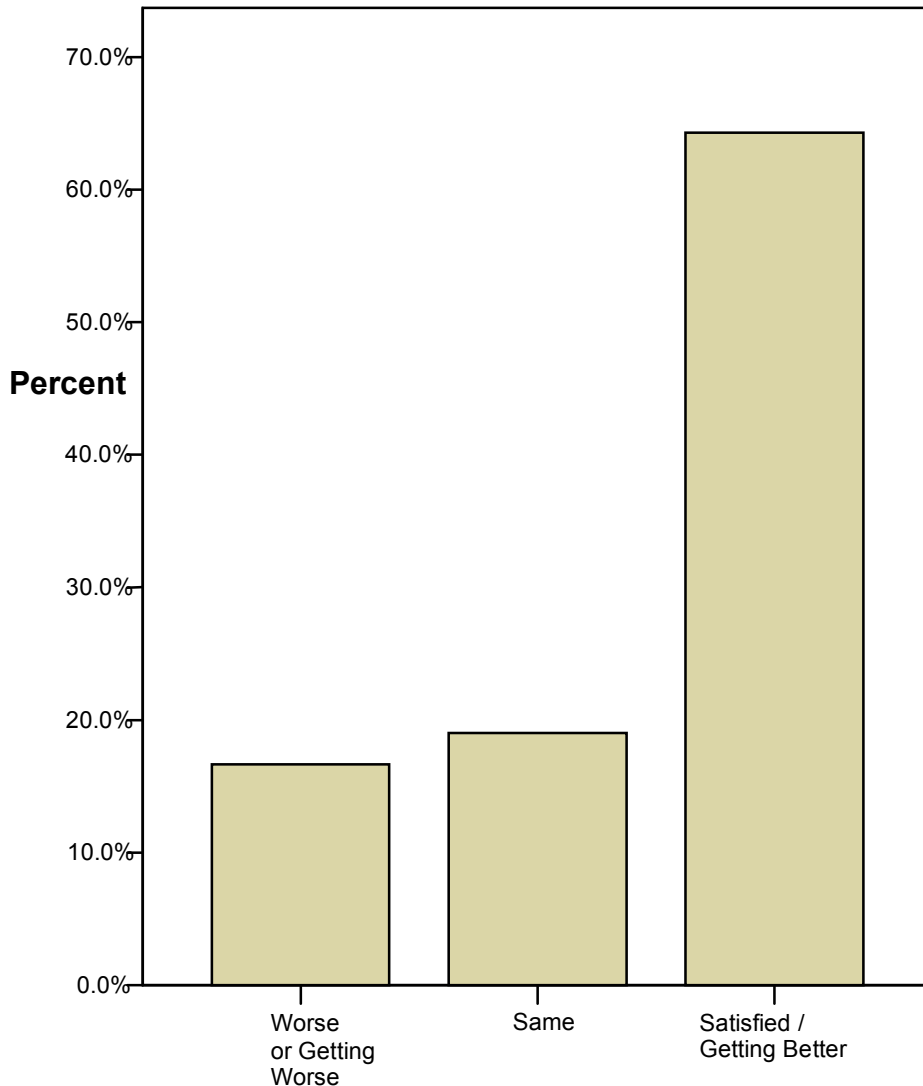
It was difficult to draw conclusions on the benefits of Farm Viability efforts because most plans lacked sufficient financial data to complete an analysis. These are important measurements for the program's management and for the individual farms involved. Subsequent planning phases will benefit from complete financial statements analyzed in a timely fashion so that analysis can be immediately be put to use by farmers and assessed by consultants and Farm Viability staff. Some type of spreadsheet or data base may be useful to aggregate this data for use by the Farm Viability Program in order to create benchmarks for crops or industries that do not currently have them. The profitability and production measures identified in the program guidelines appear to be the most important areas to emphasize.

### **Quality of Life Indicators**

Quality of Life measures as indicated by farm family and consultant reports are summarized in Table 2 and Figure 1. The majority (64%) of Farm Viability participants reported that they were either satisfied with their quality of life or that it was improving. Eight families (19%) reported it was about the same and seven (17%) reported it getting worse.

**Table 2:** Quality of Life Reported by Year-Two Evaluations of Farm Viability Program

	<i><b>Worse or Getting Worse</b></i>	<i><b>About the Same</b></i>	<i><b>Satisfied or Getting Better</b></i>
Number of Farms Reporting (42 valid records)	7	8	27



**Figure 1.** Quality of Life Reported by Year-Two Evaluations of Farm Viability Program

Farm families that reported their Quality of Life was *satisfactory or getting better*, they listed the following reasons for improvement.

- They have time for personal pursuits and can take time-off from the farm
- Improved profitability and cash flow were reducing stress
- Building a new home or moving into a different house
- They are working out management autonomy between generations
- Extra hired labor is now available / affordable
- Added labor and management assistance
- Operating efforts and farm investments are producing results
- Off-farm income is helping the financial picture and less time is needed on the farm
- Able to begin saving for retirement
- Able to double compensation to owners since they began planning

- Farm is growing
- Expecting a baby
- Now have more family time
- Planning has made the day to day less stressful
- Have begun planning for children's higher educational needs
- Paying off debts, especially credit cards and short-term debts
- Quality of life is good in spite of having to work hard during the production season
- Could take a family vacation or take time off from the farm for the first time in awhile

Families that reported Quality of Life *concerns* indicated the following setbacks or problems:

- Breakup of family business relationship was traumatic and difficult
- Workload stress
- High debt
- Uncertainty about family transition and succession
- Divorce
- Chronic illness / decline in health
- Still not able to support operators from farm income
- Hard to manage new and growing business with weather and market setbacks
- Exhausted at the end of the season / part-time labor is difficult to find and keep
- No time off
- Undercurrents of frustration from time constraints and communication miscues
- Insufficient / ineffective communication between generations over transition issues

These findings indicate that when farm financial pressures are reduced, additional labor is found or positive experiences occur in the household (new home, new baby, plans implemented for retirement or children's education), then quality of life improves. On the other hand, continued heavy workloads, high debt, illness, insufficient income and generational transfer problems adversely affect quality of life. Farm Viability planning efforts should therefore continue to help farm families address financial and workload stresses, and increase the provision of technical assistance in the area of transitional and succession planning.

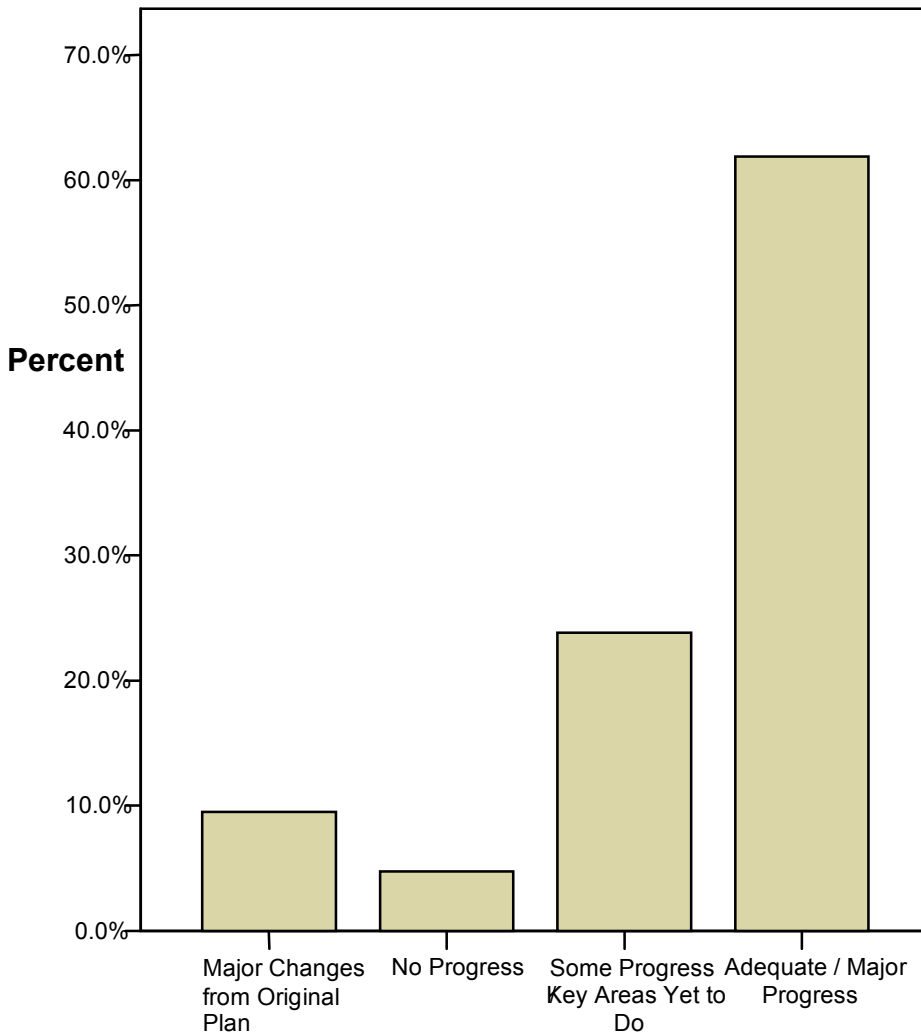
### **Extent of Plan Implementation to Date**

Plan Implementation as indicated by farm family and consultant reports are summarized in Table 3 and Figure 2.

Of the 42 Year-Two Evaluations reviewed, 62% indicated they were making adequate or major progress toward implementing their plans, and another 23% were making some progress. Six farms (14%) experienced major changes or setbacks that prevented them from implementing their plans.

**Table 3:** Success Implementing Business Plans Reported by Year-Two Evaluations of Farm Viability Program

	<i>Major Changes from Original Plan</i>	<i>No Progress / Setbacks</i>	<i>Some Progress / Key Areas Remain</i>	<i>Adequate or Major Progress toward Plan Implementation</i>
Number of Farms Reporting (42 valid records)	4	2	10	26



**Figure 2.** Success Implementing Business Plans Reported by Year-Two Evaluations

Farms that reported planning *accomplishments* listed the following achievements.

- Terminated operations due to inadequate labor or profitability
- Improved profitability and / or production
- Successful first phase of expansion completed
- Increased production
- Planning was beneficial to future growth
- Production plans were implemented
- Planning provided an opportunity to step back and take stock of the situation
- Implemented a number of short-term goals
- Successfully added on to facilities
- Now have more information to work with and make decisions around
- Completed the transition to organic / received organic certification
- Improved marketing efforts
- Plan served as a guide to develop the farm business
- Plan helped in loan application
- Began composting
- Abandoned idea after planning showed its adverse affects
- Surpassed year 1 goals
- Helped establish name brand market identity
- Now set weekly sales goals by product and market
- Use planning and evaluation tools and methods in farm operation
- Began regular review of financial performance
- Improved marketing and advertising
- Added diversified enterprises (several operations reporting)
- Set up new legal structure
- Are regularly following goals
- Implemented marketing and design changes for farm stand

Farms that reported *additional planning needs* listed the following areas for future work. Most of these areas call for additional attention and involvement of Farm Viability planners and technical assistance providers.

- Address liability exposure
- Planning assistance for appropriate legal structure / organizational form
- Address labor needs
- Farm transition planning assistance / more emphasis on transition planning
- Develop wills, estate plans and farm transfer plans
- Improve communication between generations about farm transition
- Marketing assistance (several farms, particular vegetable and non-traditional enterprises)
- Help with value-added enterprise development (several farms)

Table 4 displays the results of a cross-tabulation of reported changes in quality of life and the extent of business plan implementation. There was a statistically significant correlation between a satisfactory or improved quality of life and adequate or major

progress implementing the business plan (Pearson chi square = 17.374,  $p < .001$ ). Conversely, worsening quality of life was correlated with a failure to implement business plans. The data is not able to show cause and effect, however. It appears that for some farms, problems related to life (health, divorce, problems with communication) were the primary reasons that plans were not implemented, whereas with other farms, on-going problems with labor, work load, high debt, and inadequate income were the significant contributing factors to worsening quality of life.

**Table 4.** Cross-tabulation of quality of life and business plan progress

		Business Plan Progress		Total
		<i>Little or No Progress</i>	<i>Adequate or Major Progress</i>	
Quality of Life	<i>Same or Worse</i>	12	3	15
	<i>Satisfied or Better</i>	4	23	27
Total		16	26	42

### Other Issues

Year-Two evaluation reports also pointed out other issues that were raised during the implementation process. The issues listed below were especially true for farms reporting that they had not accomplished some or any of their goals.

- Plans are being implemented at a slower pace out of a desire to grow out of cash flow rather than increasing debt
- Altered production goals once they realized the main enterprise focus was not profitable and plans needed to be changed
- Still in need of a business partner
- Marketing help is needed for plans to be fully implemented
- Not sure how transitional planning will proceed and other goals depend on farm succession decisions
- Need to increase focus on financial analysis
- Comprehensive marketing plan is needed
- Need to develop and use an income and expense budget

These findings indicate the value of developing explicit short-term and long-term goals with an appropriate timeline and measurement indicators for their successful completion. Including these explicit measures in the Year 1 plan will contribute to improved Year 2 evaluations, better communication of the benefits of planning with farmers, help to overcome some of the logistical barriers to gathering data (because the farmer and the consultant can focus on what is most important about the planning process), and help to overcome some the communication inefficiencies between farmers and consultants. The findings indicate that where explicit goals were present, farmers were more able to

successfully implement their plans and measure actual performance against where they wanted to be.

## **SUGGESTIONS FOR FUTURE PLANNING AND EVALUATION**

The analysis of Year-Two evaluation reports informed areas for the Vermont Farm Viability Enhancement Program to address with its service providers and consulting contractors. The areas identified most frequently in these evaluation reports were labor needs, communication between business partners and family members, personal and family living budgets, transition, succession and estate planning, marketing assistance, financial record keeping and analysis, and goal setting. These issues are expanded upon in the discussion below.

### ***Labor needs***

Labor is needed on farms both part-time during the growing season and year-round depending on the nature of the enterprise. Issues of both labor availability and affordability were raised by program participants. How to address labor needs is a function of sufficient farm revenue to pay for the added labor, as well as having the necessary labor management skills and systems in place to appropriately supervise hired labor.

### ***Communication***

Communication between business partners and family members was raised as an issue in several contexts. On the one hand, doing a better job “letting one hand know what the other is doing” is a day-to-day operational concern. Making the time to discuss and come to general agreement on overall goals and expectations for the farm is another area. Farms that were making progress improving their communication reported better quality of life, more agreement on goals, and improved implementation of plans. Farms where communication problems existed showed greater challenges with transitioning and succession plans and encountered both financial hardships and strained personal relations.

### ***Family Living Budgets***

Personal and family living budgets should be accounted for just as farm expenses are. In so doing, a family can determine where their money is going now, and can use that information to build budgets for on-going household expenses, unforeseen needs, emergency savings, retirement, and children’s education.

### ***Business Transition, Succession and Estate Planning***

A number of families participating in the Farm Viability Enhancement Program expressed needs for transition planning assistance and business succession. It appears this assistance is only partially being offered, and should get renewed emphasis in future phases of business planning. For it to be effective, transition planning necessarily requires all members of the family or business enterprise to be actively involved and

engaged. This aspect of transition planning is closely related to the need for open and honest communication described above. Other technical assistance providers may need to be called in to address these needs including, mediators, counselors, clergy, attorneys and accountants or tax advisors. One suggestion is for the Farm Viability Program to organize a training session for service providers and consultants to hear from an attorney, an accountant and someone knowledgeable about farm family dynamics and farm economics to present to the group.

### ***Marketing Assistance***

Marketing assistance should focus on identifying target customers, product characteristics, the appropriate type of market (retail vs. wholesale) for the operation, the distribution needs to get products to intended customers, advertising and communication methods, and pricing assistance. Marketing is much more than just advertising and promotion! Most marketing failures appear to be related to weak products, or the wrong product for the market and distribution problems rather than pricing or communication problems. Identifying the appropriate target market, the strengths and weaknesses of the product, and how to deliver to the intended market are keys to effective market development and customer satisfaction.

### ***Financial Record-Keeping and Analysis***

Many different methods of maintaining farm records have been utilized by program participants. No one system is ideal for all of them. The key questions around a record-keeping system involve determining what works best for the operators and the operation and what provides the most useful information and means for analysis. The following is a list of the type of information that should be maintained.

- Production records, by crop, enterprise, or animal units
- Income and expense data: useful for budgeting, comparing actual against budget, completing income tax forms, and analyzing business trends.
- Sales or income by major product or through major marketing channels will help determine areas of profit or those with problems, especially for highly diversified operations
- Cash flow analysis: particular for seasonal businesses or businesses with existing liquidity problems. Cash flow analysis will help a farm understand and meet its short-term obligations.
- Balance Sheets should be compiled at the close of each fiscal year. Furthermore, farms with substantial current liabilities may want to track them more frequently and closely to determine changes in short-term obligations. Trend analysis can be completed by comparing balance sheet information over a series of years.
- Comparison with industry benchmarks is useful to determine how the farm is doing compared to its peers. Such analysis will highlight areas of strength and weakness in the business.

### ***Goal-Setting***

Goal setting is a very important part of the planning process. Setting explicit goals by time period (short-term in year 1, year 2 and year 3) and long-term (5-year, 10-year and

20-year plans) will help to identify the activities necessary in order to accomplish those goals, the time frame in which to get them, and who will be the responsible party for particular goals. Goal setting not only spells out “what” to do, but “how” it will get done, by “whom” and by “when” it is to be accomplished. Accountability and performance measurement are necessary steps in the goal setting process.

## **CONCLUSIONS**

The conclusions to this assessment are in two categories. First, the effectiveness of the Farm Viability Enhancement Program to provide assistance to farms was assessed, and second, the role of business planning in the success of farmer participants’ operations was addressed.

The Vermont Farm Viability Enhancement Program was established as an effort to provide strategic, long-term planning for farmers. It relies on an extended and collaborative set of service provider organizations, individual business planners, and technical assistance providers. The program has established guidelines for plans that continue to be modified and updated as lessons are learned from the field. The focus of this study was limited to the first two years of business planning efforts. As plans continue to be modified and implemented over remaining years, the relative degree and efficacy of the program to provide sustained assistance to farmers will become more apparent.

This assessment documented areas where business plans are serving the needs of farmers as well as areas where business planning efforts can be improved. While the body of this report spends most of its space highlighting ways the program can improve the delivery of its services, it should be recognized that after only three years of operation, the program is generally doing a good job bringing a host of service providers together in a collaborative fashion to address the planning strategies and goals for individual farm operations through a direct one-on-one interface with families at their farms. This effort, while intensive and time consuming is one that should continue to reap dividends for the participating farmers. Simultaneously, it further improves communication, familiarity, trust, and a willingness to work across organizations in a collaborative effort that more fully utilizes the knowledge, skills and resources available to Vermont agriculture.

As a policy initiative, the Farm Viability Enhancement Program is perhaps the most important state-wide endeavor of the past few years. Vermont policy-makers have always been actively engaged in creative solutions to the economic circumstances surrounding agriculture. Among past examples and on-going policy implementation solutions are the current use tax abatement program, purchase of development rights on farmland, the farm loan programs of the Vermont Agricultural Credit Corporation, continuing financial and technical assistance from branches of USDA, and technical assistance from the Agency of Agriculture, Food and Markets, UVM Cooperative Extension, Small Business Development Centers and non-profit organizations such as the Intervale Center and the Northeast Organic Farmers Association. The Vermont Housing and Conservation Board should be commended for enabling and supporting this

collaborative process through the Farm Viability Enhancement Program. Business planning, marketing assistance and technical support across an array of service providers unifies and integrates virtually all of the work and financial resources of the policy initiatives mentioned above. Program management has actively responded to suggestions offered throughout this assessment process to modify program guidelines in a way that supports the business planning carried out by service providers. Open communication through meetings where all the service providers sit down together helps build a shared sense of commitment to the process and lessons learned by each organization are able to be shared through constructive dialogue. These efforts should continue. The VHCB can assist this process by organizing future training sessions for service providers around transition and estate planning, family communication and marketing assistance.

The process also has been beneficial to farm families. During the two year period subject to this review, 62% of farmers reported adequate or major progress toward implementation of their initial plans, and 64% of participating farmers reported that the quality of their lives was satisfactory or improving. As one family commented, the process helped them see that they were not alone, and that the problems they had been struggling with in isolation were easier to manage when they found assistance available and willing to work with them. On-going monitoring and evaluation of the program and its work with farmers will be able to refine, document and quantify the extent and value of this assistance. Additional experience will also illuminate emerging issues on farms and in the agricultural economy. In such instances, it will be necessary for service providers to develop their own professional abilities to address these new challenges.

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# APPENDICES

**Appendix A. Sample financial summary for trend analysis and benchmark comparison**

	2004 actual	2005 actual	Industry Benchmark Data	2006 pro- forma	2007 pro- forma	2008 pro- forma
<b>Income Statement</b>						
Revenues (by primary enterprises)						
Major items and total operating expenses						
Net profit/loss						
<b>Balance Sheet</b>						
Assets by current, fixed and total						
Liabilities, by current, LTD and total						
Owner's Equity						
<b>Ratio Analysis</b>						
Liquidity measures (current ratio)						
Leverage ratios (equity to assets)						
Profitability Ratios (Return on Equity, Net Profit Margin, Return on Assets, etc.)						
<b>Production information</b> as deemed useful: Milk production per cow, or milk sold per year, # of cattle grazed, # of acres in vegetables, sq ft greenhouse space, etc.						

## Appendix B. Statistics

### Satisfied vs. all others \* Business Plan Progress Cross-tabulation

		Business Plan Progress		Total
		Little or No Progress	Adequate or Major Progress	
Quality of Life	Same or Worse	12	3	15
	Satisfied or Better	4	23	27
Total		16	26	42

### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	17.374(b)	1	.000		
Continuity Correction(a)	14.720	1	.000		
Likelihood Ratio	18.156	1	.000		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	16.961	1	.000		
N of Valid Cases	42				

a Computed only for a 2x2 table

b 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.71.