

Vermont Housing and Conservation Board  
**Vermont Farm Viability Enhancement Program**

**GUIDELINES FOR FARM BUSINESS PLANS – 2007**

**RATIONALE**

A Farm Business Plan is a written document that directs business decision-making. A well-written Farm Business Plan establishes goals and objectives and lays out a strategy to achieve them. Farm Business Plans are essential tools if a farmer is expanding an existing farm or considering a new venture. Even if no new venture is being considered, a Farm Business Plan detailing business activities for the next three to five years, is an excellent management tool.

Farm Business Plans are developed for both internal and external use. Internally, the Farm Business Plan is used as a business development map. It provides details on how a farmer plans to reach his or her goals and objectives. The plan exposes opportunities and risks and allows the farmer to clearly evaluate his or her operation over the next few years.

Externally, the Farm Business Plan is used by financial institutions, business partners, investors, and anyone else interested in a farmer's business affairs. The plan explains to outsiders exactly what a farmer's objectives are, how those objectives will be met, and how the outsiders' interests will be served.

Because planning is so crucial to a farm operation, it's important to examine every aspect of the farm business carefully and honestly. The plan should be realistic in assessing what the farm operator is capable of and what possibilities exist for the farm.

The Farm Business Plan also acts as a standard against which to compare actual business results. Regularly comparing actual results against the Farm Business Plan is a good way to identify problems and act on them quickly, before they become unmanageable.

**COMPONENTS**

Farm Business Plans to be developed using funding from the Vermont Farm Viability Enhancement Program must adequately describe the current status of the farm, as well as the strategies or business changes considered, and the plan for implementation of those changes. In addition, the narrative section of the plan must be backed up by numerical data that accurately reflect the farm's financial position—both current and projected. The outline below should be treated as a checklist of topics that plans developed with Viability Program funds should address. A plan that follows the checklist will be easier for Viability Program staff to review and compare. Grantees and contractors who submit plans that eliminate, reorder, or rename categories may be asked to rework these documents before final approval by the Viability Program. Underlined items are required!

## **I. Cover Sheet and Table of Contents**

- A. A Cover Sheet that addresses the following is required:
- Name of farm and farmers'/owners' names
  - List of specialists who contributed writing or provided input
  - Date of plan
  - Statement: "Business plan produced with funding from the Vermont Farm Viability Enhancement Program"
- B. A Table of Contents, with page numbers, is required (helps readers quickly find sections and references)

## **II. Summaries**

- A. A Narrative summary is required and should address, in a format of one's choosing, the questions below: (A draft of the summary may be written at the outset of the planning process, however, the draft should always be reexamined at the end of the planning process and altered to reflect the conclusions and findings of the final document.)
- What is the plan all about or what is the purpose of the plan?
  - What are the crucial issues facing the farm that this plan will try to address?
  - What are the goals of the farm business? (Try to make the goals specific, measurable, attainable, realistic, and tangible (SMART).)
  - What specific management changes, capital improvements, or product/market developments will the plan describe in more detail?
- B. A Financial Summary (narrative) is also required; choose from among the bulleted items below (the summary should be completed after preparing the balance sheet, income statement, and cash flow projection):
- Net worth of farm (from balance sheet)
  - Gross sales
  - Net cash farm income (from income statement)
  - Net farm income from operations (from income statement)
  - Rate of return on farm assets (from income statement and balance sheet)
  - Rate of return on farm equity (from incomes statement and balance sheet)
  - Operating profit margin ratio (from income statement and balance sheet)
  - Net cash flow (from cash flow statement)
  - Production information (from farm records)
  - Historical year-to-year changes to any of the above indicators
  - Assumptions relevant to financial statements

## **III. Descriptions**

- A. A Basic Farm Description that addresses the following is required:
- Farm location
  - Number of acres owned and/or rented
  - Ownership structure (for example, "sole proprietor," "family corporation," etc.)

- When acquired or how long owned (for example, “acquired in 1997” or “in the family since 1952”)
- Brief description of primary current buildings (for example, “80 cow comfort stall dairy barn, heifer freestall, machinery shed)
- Brief description of personnel, their qualifications and their farm responsibilities (for example, “Bob—full time manager, has 2-year ag. degree; Mary—part time, bookkeeping and fieldwork; son Bill, high school student, part time field work and relief milking; farm also hires seasonal labor by the hour during haying”)
- Brief description of production units (for example, “120 milk cows,” “3 acres commercial vegetables,” “700-tap sugarbush,” etc.)
- Farm map; can be a hand drawn sketch, a use value appraisal map reduced to fit on standard sized paper; an orthophoto map, an FSA/NRCS farm map, a soils map, or other map that depicts farm boundaries and other significant features

**B. A Products and Markets Description that addresses the following is required:**

- Brief description of each product sold (for example, “raw milk, bulk” “mixed vegetables—wholesale and retail,” etc. If multiple crops are produced it is not necessary to describe each one, instead describe broad categories.)
- Brief description of each market (for example, “milk shipped to Agri-Mark” or “vegetables sold at farmers’ market, local restaurants, farmstand, and prepayment CSA customers”)
- Brief description of current promotion efforts (if appropriate), (for example, “web-based marketing in place,” etc.)
- Brief production history (for example, “shipped 700,000 lbs. milk last two years, with 18,000 lb. rolling herd average)

**IV. Analyses**

**A. A “SWOT” Analysis that addresses the following is required:**

- Outline of strengths, weaknesses, opportunities, and threats (SWOT analysis)
- Narrative elaboration of the most significant strengths, weaknesses, opportunities, and threats with justification and evidence for each (for example, a description of the farm’s problem with finding and keeping hired labor, or a description of the potential for attracting tourists to the farm)

**B. Management Analysis that addresses the following is required:**

- Narrative description of who manages key components of the business and what strengths and weaknesses managers have; should address operations/production, financial management, human resources/labor, marketing/distribution, and customer relations
- Assess if current manager(s) has (have) the skills and abilities to do these tasks well, and where changes to management are warranted

**C. A Market Analysis is required; select bulleted items as applicable:**

- For commodity producers the analysis can be a brief forecast, such as for milk prices
- For other producers, the analysis should, as far as possible, assess market demand, growth potential, pricing levels, competitive forces, trends, distribution, and promotion.

(If a market analysis is completed by a technical assistance provider, the provider's report may be inserted here.)

- D. An Enterprise Analysis (recommended for vegetable producers); select bulleted items as applicable:
- Cost of production and revenue stream for each crop or type of crop
  - Comparative revenue by enterprise for each market where the crop is sold
  - Labor cost by enterprise, including value of operator's labor
- E. Comparative Business Analysis (sometimes called benchmark analysis); select bulleted items as applicable):
- This is an analysis that compares the farm's key financial ratios or financial indicators to industry norms.
  - The analysis can use score sheets such as the VEDA/UVM Extension Farm Finance Scorecard developed in 2005.
  - The analysis can also be a line item comparison of income and expenses to line items aggregated from farm business summaries of a similar type, such as Farm Credit's Dairy Farm Summary.
  - For dairy farms, the analysis can be run using FINPACK software.
- F. Sensitivity Analysis (determines farm's ability to withstand external changes affecting the business); select bulleted items as applicable:
- Interest rate sensitivity analysis estimates net farm income and/or rate of return on farm assets with various interest rates on existing debt or projected borrowing.
  - Breakeven analysis: Estimate fixed costs, add variable costs and calculate resulting revenue; the level at which total costs equal total revenue is the breakeven point.

## **V. Planning**

- A. A Listing of Proposed Business Ideas and Strategies is required:
- A listing of all the actions to be taken that are related to the SWOT (for example, continued emphasis on early season crops to maintain strong production in this product line (S), proposed use of irrigation to address droughty soil problem (W), building a farmstand to take advantage of nearby customer base (O), and collaborating with other producers to combat threat of inferior products eroding consumer confidence (T).
- B. An Implementation Plan with a timeline is required; select bulleted items as applicable:
- Description of the implementation schedule or timeline, including target date for completion
  - Detailed description of one or more existing enterprises, or a specific aspect of one enterprise, and how the enterprise will be fine-tuned or adjusted to increase profits or to meet challenges of the future. Insert technical assistance report here, or refer the reader to the appendix if it is to be included there.
  - An enterprise budget or cash flow projection, with explanatory narrative, for an isolated product line

- Detailed description of a new venture, such as a capital improvement, an expansion, or a new product development, etc. (A technical assistance report may be inserted here, or refer the reader to the appendix if it is to be included there.)
- Detailed description of one or more management changes, such as becoming certified organic, instituting regular herd health checks, changing a feeding program, or changing a nutrient management system, etc. (A technical assistance report may be inserted here, or refer the reader to the appendix if it is to be included there.)
- Detailed description of a transition, such as planned changes to ownership structure, transitions to new ownership, financial reorganizations, etc. (A technical assistance report may be inserted here, or refer the reader to the appendix if it is to be included there.)
- Identification of financing source(s)
- Short and long-term goals for changes to overall net farm income from operations as a result of the management changes, capital investment, or ownership transition, etc.

## **VI. Financial Information**

### **A. A Balance Sheet is required:**

- An up-to-date balance sheet that conforms to the Vermont Farm Viability Enhancement Program Balance Sheet template (available on Microsoft Excel). The balance sheet is a statement of financial condition showing assets and liabilities. Asset value should be market-based; farm and nonfarm assets and liabilities should be separated; see directions for template.

### **B. An Income Statement is required:**

- An up-to-date income and expense statement that conforms to the Vermont Farm Viability Enhancement Program Income Statement template (available on Microsoft Excel). The income statement is a listing of cash farm income and cash farm expense; accrual adjustments to cash income and expenses are strongly suggested (this requires two balance sheets); deduction for depreciation expense strongly suggested.

### **C. A Cash Flow Projection is required:**

- A cash flow projection for one or more future years, or for a time period such as 18 months; the projection should be by month, unless there is a specific reason that a different format be used as warranted by the farmer's planning goals. The projection should conform to the Vermont Farm Viability Enhancement Program Cash Flow Projection template (available on Microsoft Excel). Cash flow should take into account all income and expenses that affect cash available for the farm business. As much as possible, detail should be presented in a "line of business" or "product unit" format so that various elements of the farm business may be compared.

### **D. Optional additional financial information:**

- Historical balance sheets, income statements, or cash flow statements (required if readily available)
- Pro forma (projected) balance sheets and income statements showing projected financial status after implementation of the business plan
- Schedule of major capital sales and purchases

- Loan summary

## **VII. Appendices**

- A. A Summary of Technical Assistance (received by the farmer in addition to business planning) is required. (The summary may be written by the farmer or the business planning consultant. Alternatively, actual reports written by technical assistance providers may be submitted.)
- B. Farm pictures (optional)
- C. Building plans, cost estimates, etc. (optional)

## **CONFIDENTIALITY**

Farm business plans contain confidential financial information, such as past and projected income statements. Farm business plans may also contain trade secrets and marketing strategies that producers wish to keep confidential for reasons of competitive advantage. Farm business planners and technical assistance providers must agree to keep farm business plans confidential to protect farmers' interests, but must agree to furnish copies of completed farm business plans to Vermont Housing and Conservation Board staff.

VHCB staff will require copies of completed farm business plans for several reasons: (1) to monitor quality of work conducted by those receiving VHCB funds, (2) to collect data on the economic viability of the farms being assisted, in anticipation of being able to measure the success of the Program over time.

VHCB, as a public instrumentality, is subject to the Vermont Open Records Law, 1 VSA § 317. The statute contains specific exemptions for tax-related information of persons, personal financial information of an individual, and trade secrets. Therefore the information submitted by service providers to VHCB will be held in confidential files at VHCB and will not be available for public inspection under the Open Records Law.

Notwithstanding the Records Law exemption, when VHCB shares business plans with selected staff of the Program's statutory administrative partner, the Agriculture Agency, or with selected staff of the Viability funding agency, USDA/NRCS, strict confidentiality guidelines will be followed. Staff or contractors who are approved for viewing business plans will not be allowed to make copies, or to share information from the plans with any other person. When plans are removed from VHCB files for inspection, the approved staff will be required to sign for the documents, and sign again when they are returned to the files.