



Vermont Housing &
Conservation Board

VERMONT FARM & FOREST
VIABILITY PROGRAM

Vermont Farm & Forest Viability Program Guidelines for Farm Business Plans

Updated 2014

RATIONALE

A Business Plan is a formal statement of a set of business goals that details the strategies that will be used to obtain such goals and guides the decision-making on how to achieve the desired results.

A well-written Farm Business Plan establishes goals and objectives and lays out a strategy to achieve them. It is an essential tool for a farmer who is expanding an existing farm, considering a new venture, wants to better understand and strategically improve his or her business, obtain financing, and/or bring in new owners. A Business Plan can help you to run through different scenarios before time and money are invested to measure if these plans are feasible and profitable. 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 past operation and plan for changes over the next few years. It also allows the farmer to benchmark their results and productivity against the written plan and/or industry standards.

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

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. The business plan is a working document that should be updated as plans develop or change over time and revised as needed.

COMPONENTS

Farm Business Plans to be developed using funding from the Vermont Farm & Forest Viability Program (VFFVP) 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 details the topics that plans developed with Vermont Farm & Forest 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 categories without a clear explanation may be asked to rework these documents before final approval by the Viability Program.

I. Cover Sheet and Table of Contents

a. Cover Sheet – required

- Name of farm and Farmers'/owners' names
- List of specialists who contributed writing or provided input
- Date of plan
- The following statement: "Business plan produced with funding from the Vermont Farm Viability Program"

b. Table of Contents – required

Table of contents should include page numbers; this helps readers quickly find sections and references.

II. Summaries:

a. Narrative Summary – required

We recommend you write this last. A draft of the summary may be written at the outset of the planning process, however, the draft will have to be reexamined at the end of the planning process and altered to reflect the conclusions and findings of the final document. The summary should address, in a format of one's choosing, the questions below:

- Mission and/or vision statement
- 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 specific management changes, capital improvements, or product/market developments will the plan describe in more detail?
- What are the goals of the farm business? (Try to make the goals Specifics, Measurable, Attainable, Realistic, and Tangible – SMART).

b. Financial Summary – required

Summary should be completed after preparing the balance sheet, income statement, and cash flow projection. The following items are required:

- Net worth of farm (from balance sheet)
- Gross sales
- Cash flow statement
- Net cash flow (from cash flow statement)
- Net cash from income (from income statement)
- Net farm income from operations (from income statement)

- Production information (from farm records)
- Historical year-to-year changes to any of the above indicators
- Assumptions relevant to financial statements

The following items are recommended, but not required:

- Rate of return on farm assets (from income statement and balance sheet)
- Rate of return on farm equity (from income statement and balance sheet)
- Operating profit margin ration (from income statement and balance sheet)

III. Descriptions

a. Basic Farm Description – required

This section must include:

- Farm location
- Number of acres owned and/or rented
- Ownership structure (ex. sole proprietor, LLC, etc.)
- When land was acquired
- Brief description of primary buildings and condition of these buildings
- Brief description of personnel, their qualifications, and their farm responsibilities.
- Brief description of production units (ex. 120 milk cows, 2 acres vegetables)
- Farm Map (place map in Appendices); can be hand-drawn, a use value appraisal map reduced to fit on standard sized paper, etc. – any other map that depicts farm boundaries and significant features.

b. Products and Markets Description – required

This section must include:

- Brief description of each product sold
- Brief description of each market
- Brief description of current promotion efforts (if appropriate)
- Brief production history

IV. Analyses

a. “SWOT” Analysis – required

Outline of Strengths, Weaknesses, Opportunities, and Threats (SWOT)

This should be a narrative elaboration of the most significant strengths, weaknesses, opportunities, and threats that the business or product may face, and include justification and evidence for each.

b. Management Analysis – 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. Description of roles played by key advisors can be placed here or as an appendix

c. Market Analysis – required

Select bulleted items as applicable:

- For commodity producers the analysis can be a brief forecast of trends
- For other producers, the analysis should include:
 1. Assessment of market demand
 2. Growth potential
 3. Pricing levels
 4. Competitive analysis
 5. Trends
 6. Distribution
 7. Promotion

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

d. Enterprise Analysis – highly recommended for vegetable or livestock producers

Select bulleted items as applicable:

- Cost of production and revenue stream for each crop or selected crops
- Comparative revenue by crop for each market where the crop is sold
- Labor cost by crop or enterprise, including value or operator's labor

e. Comparative Business Analysis (Benchmark Analysis) – optional

This is an analysis that compares the farm's key financial ratios or financial indicators to industry norms. Select bulleted items as applicable:

- Score sheet such as the VEDA/University of Vermont Extension Farm Finance Scorecard developed in 2005.
- 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 – optional

Sensitivity analysis is used to determine a 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 result revenue; the level at which total costs equal total revenue is the breakeven point.

g. Risk Management Analysis – recommended

Identify and describe the top risks (at least 3-4) from the following categories and list key strategies to mitigate those risks:

- Production Risks: weather, disease, pests, and other factors that affect the quantity and quality of production
- Market or Price Risk: competition, price variation, strength of markets, market access
- Financial Risk: identification of any major financial risks (this can include ones addressed in other places in the business plan, or financial risks that are not identified other places); it can also include external financial risks such as interest rates and lending climate
- Legal/Institutional Risks: status of legal documents such as land leases, partnership agreements, conservation easements, contracts, and deed restrictions; applicability of government policies and regulations including permits, public health, labor laws, insurance, best management practices, and numerous other topics
- Human Risks: human situations that impact the viability of the farm. This includes, but is not limited to, communication, labor management and supply, health of owner and employees, farm safety, or divorce.

h. Natural Resource Management Analysis – optional

The Natural Resource Management Analysis section is applicable to farms that have current or potential natural resource issues or challenges, such as runoff, stream bank erosion, riparian zones, or poor soil health. It is also applicable for those who want to compare changes in their management of natural resources over time.

The Resource Management Analysis is an opportunity to help farmers identify any issues, increase their understanding of Accepted Agricultural Practices, engage partners such as the Vermont Association of Conservation Districts (<http://www.vacd.org/>) and USDA Natural Resource Conservation Service, or utilize technical assistance dollars.

This section could take the form of:

- An overall assessment of farm environmental impact
- A soil analysis or soils description and plan for improving soil health
- A overview of current inputs (compost, fertilizer, and other amendments) and outputs (any known runoff) on the farm
- A land use plan
- An analysis of the costs and benefits of different amendments or the financial impacts of conservation practices
- A Nutrient Management Plan, in accordance with state regulations
- A grazing plan
- Wildlife, habitat, or hunting resources

i. Energy Analysis - optional

An assessment of current energy usage and opportunities for increased efficiency. If reducing energy usage rises to be a primary concern, the appropriate technical providers can be brought in to work with the farmer as a part of the process, including arranging for an energy audit of the farm. It could additionally include:

- plans to implement any recommendations from audit or other technical assistance, and/or
- a description of future plans for increased energy efficiency or investment in renewable energy for the farm business.
- a description of the short- and long-term financial impacts of changes in technology related to energy use

V. **Planning**

a. **Proposed Business Ideas and Strategies – required**

This section should list all of the actions to be taken that are related to the SWOT. For example:

- Strength: continued emphasis on early season crops to maintain strong production in this product line
- Weakness: proposed use of irrigation to address drought soil problem
- Opportunity: building a farmstand to take advantage of nearby customer base
- Threat: collaborating with other producers to combat threat of inferior products eroding consumer confidence

b. **Implementation Plan and Timeline – required**

The implementation plan and timeline section is often where technical assistance is most applicable. If this is the case, a technical assistance report should be summarized or referred to, and the report should be attached as an appendix. Select bulleted items as applicable:

- Description of the implementation schedule or timeline for proposed business ideas and strategies, including target date for completion
- Detailed description of one or more existing enterprises, and how the enterprise will be adjusted to increase profits or to meet challenges of the future.
- An enterprise budget or cash flow projection, with explanatory narrative, for an isolated product line or for a new venture
- Detailed description of one or more management changes, such as becoming certified organic, instituting regular herd health checks, or changing a nutrient management system, etc.
- Detailed description of a transition, such as planned changes to ownership structure, financial reorganizations, etc.
- Identification of financing source(s)

c. **Exit Strategy – recommended**

Discuss the exit strategy and/or retirement plan for the business, and provide information on how the owner desires to exit the business in the future. While exit planning can be an in-depth process (and for those who are near to or in the middle of retiring or transferring their business can enroll in this program for a full Transfer Plan), this section is designed to spur farmers to think about the fact they will not continue to run their business forever, and what their options may be in different scenarios. Possible items to discuss or consider, depending on the farm:

- Risks or scenarios that would cause farmer to consider exiting the business
- Personal and business goal(s) of exiting owner(s), including what type of exit strategy owner is most interested in (sale, transfer, merger, liquidation)
- Basic assessment of exit or retirement income needs, and analysis of the worth of the farm should it need to be sold
- Assessment of current insurance situation, liquidity, and market factors related to exiting the business (for example, feasibility of selling the business and brand)
- Assessment of any serious legal, personal, or tax implications for exiting or transferring the farm or business, including implications of ownership structure on exit (for example, is there an up-to-date operating agreement and exit agreement?)

VI. Financial Information

a. Balance Sheet – required

Provide an up-to-date balance sheet that conforms to the Vermont Farm Viability 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. Income Statement – required

Provide an up-to-date income and expense statement that conforms to the Vermont Farm Viability Program Income Statement Template (available on Microsoft Excel)

c. Cash Flow Projection – 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 formation be used as warranted by the farmer’s planning goals. The projection should conform to the Vermont Farm Viability 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. Historical Information – required if readily available

Historical balance sheets, income statements, or cash flow statements (not required if not readily available)

e. Other financial information – optional

- 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. Summary of Technical Assistance – required

A summary of the technical assistance received by the farmers in addition to business planning is required. The summary may be written by the farmer, or by the business-planning consultant. Alternatively, actual reports written by technical assistance providers may be submitted.

b. Farm Map

c. Farm pictures – optional

d. 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.