



Developing a Farm Business Plan

University of Tennessee
Center of Farm Management
Rachel Painter
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2025

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Welcome. I'm Rachel Painter and I have the honor of serving as a farm management specialist with the University of Tennessee Extension. In this presentation, you will learn how to start writing your own farm business plan.

Center of Farm Management Programs



**Income Tax
Seminars**

**Farm Transition
Planning**



Before we begin, let me share a little bit about our Center of Farm Management including the programs we offer and how we can help you.

We have Extension, Research, and Teaching faculty and staff in the University of Tennessee Agriculture and Resource Economics department that are a part of our center, and we host four major programs that would potentially apply to you as a farmer in Tennessee.

Farming Fundamentals is a program for beginning farmers and is an online program available on our website farmingfundamentals.Tennessee.edu.

Master Farm Manager is for those that are not new to agriculture but are seeking to make more informed decisions in managing their farm. This program is offered both online and in person across the state, with sessions like this one on business planning as well as market outlooks, recordkeeping, budgeting, lease agreements, insurance, and more.

We also offer Income tax seminars for tax preparers or accountants in person each year, and we offer programs on farm transition planning, also referred to as Farmland Legacy programs in person.

Center of Farm Management – MANAGE Program

Farm Management Extension Specialists help families analyze their total farming business so they can make informed decisions regarding their future.



Find out more at
Manage.Tennessee.edu

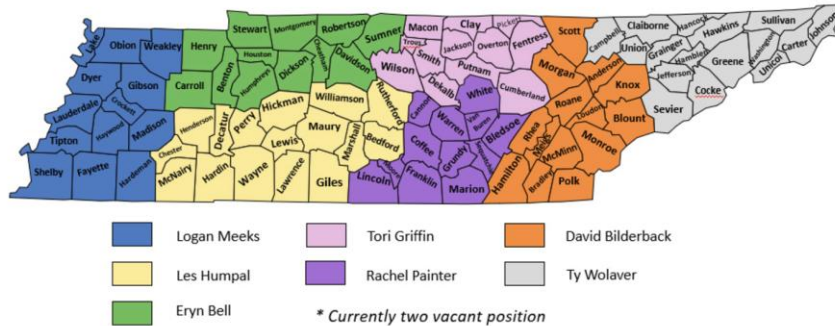
- Review current financial situation
- Capitalize on strengths and reduce weaknesses in the farm business
- Develop individualized farm and financial plans
- Explore enterprises and alternatives
- Evaluate capital investment opportunities including land and/or machinery purchases
- Analyze potential impacts of changing the scope of the enterprise



Our team also works one-on-one with farmers across the state every day. I can come alongside you to review your current financial situation and determine a path forward. That can look like developing a farm plan and evaluating enterprises and alternatives for your operation, including land or equipment needs and decisions. Please let me know if you would like to schedule an in person farm visit or time to discuss your operation confidentially.

To become involved or to obtain additional information

contact your county Extension office



manage.tennessee.edu

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Here is a map of our farm management specialist territories. We are all here to serve and happy to help you. You can also contact your county agent to contact us as well.

Developing a Farm Business Plan



Scan the QR code or visit this link
for a copy of the slides

tiny.utk.edu/planpresentation

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Let's begin our topic for today, which is developing a farm business plan. These slides are available online at tiny.utk.edu/planpresentation if you would like to revisit them or access them in a different format.

Developing a Business Plan

Defines and summarizes how resources and financing will be used to reach financial, marketing and operational goals

- These documents are not stagnant
 - continually changing and evolving
- Not just about financial projections.
 - **Considers all aspects of the business**



Executive Summary



Business Description



Marketing Plan

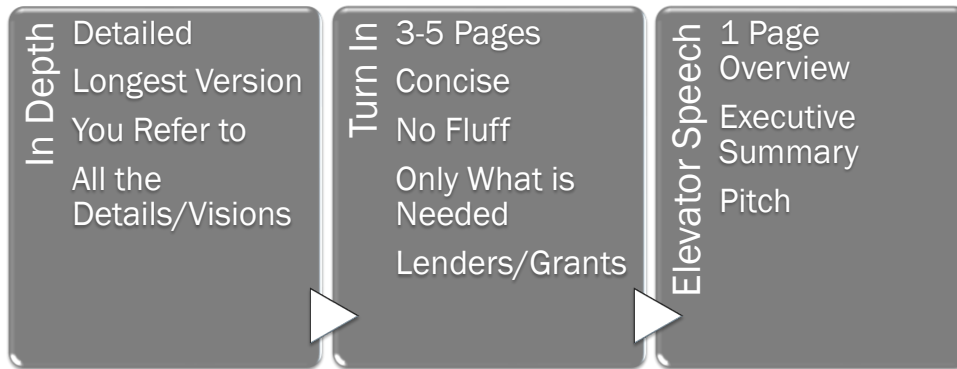


Financial Plan

A business plan is a written document that is continually changing and evolving over time and as anything about your operation changes. The business plan defines and summarizes how you plan to utilize resources you have and any financing you may need to reach your financial, marketing, and operational goals.

A basic business plan has four main sections, the executive summary, business description, marketing plan, and financial plan.

Business Plan: 3 Versions

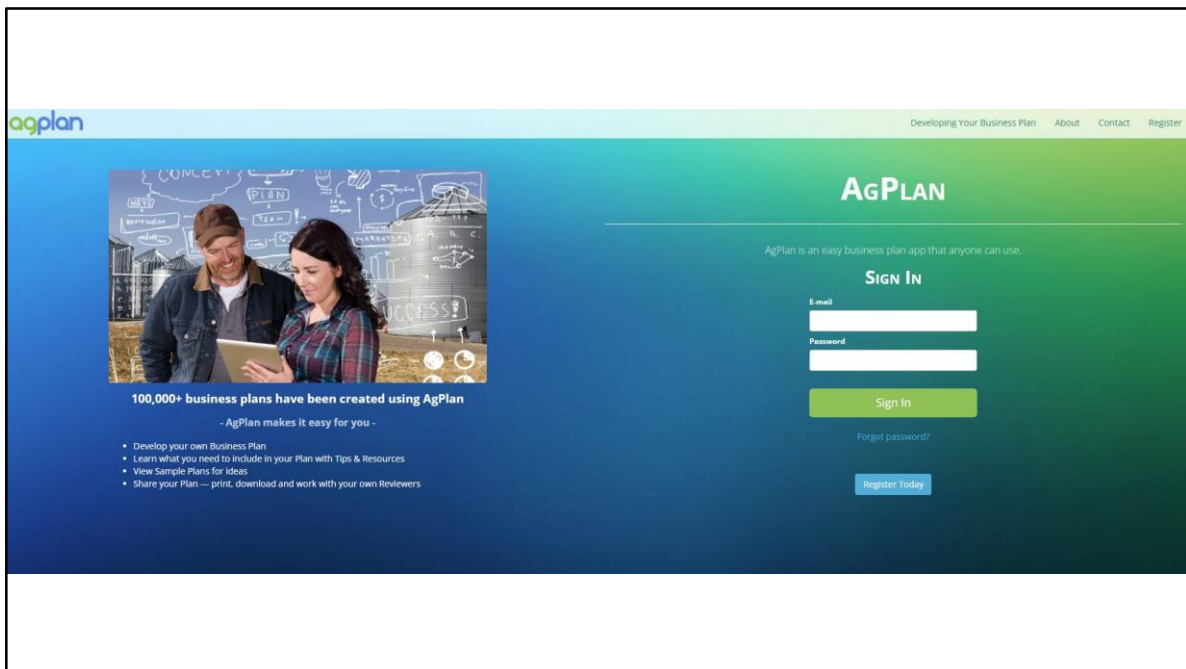


When writing a business plan, you want to use it as an opportunity to write a version that helps you plan for the future and document any important information about the farm and business decisions to look back on in the future. Your business plan that is just for yourself and any other owners to access should be detailed enough that if someone had to pick it up and start running your business in your absence, they have all the important information that they would need to do so.

After writing that version for yourself, you would plan to update that around every year or so and anytime anything major changed about the operation.

You would take that longer version and edit it down any time you need to turn in a business plan or parts of a business plan for any purpose, whether that be a funding program through the state or federal government, or for a lender. This condensed version would ideally be that 3 – 5 page range or maybe even less, depending on the guidelines of what they are looking for.

You may want to provide any decision makers or even investors or heirs with an updated one page overview each year, providing updates on mainly the executive summary of current goals or financial health of the business in a short summary.



There are many ways to write your business plan. Agplan is a great free, online option.

AGPlan

- Free resource developed by the University of Minnesota
- Online platform
- Main website: agplan.umn.edu
- Create as many plans as you would like
- Share with reviewers who can view, edit, or comment
- Provides tips, resources, and samples for each part of a business plan
- Add attachments as needed



AgPlan is offered by the University of Minnesota and only you can access your business plan in the online platform unless you choose to share it with others to review or edit with you. There are samples and tips in the platform to help guide you along as well. Many producers I work with will share their business plan with me so that they can have me review it and offer feedback online after we have initially met to begin discussing their plans and goals.

Business Plan Template for Agricultural Operations

This guide is designed to be used with the publication *Business Planning for Agricultural Operations* to assist producers in developing a business plan. Include attachments and additional documentation as necessary.

Primary Contact Name

Business Legal Name

Address

Phone Number

Email Address



Executive Summary

Provide a summary of the entire business plan. Include goals for the next 3 - 5 years and capital funding requested to meet those goals. Write this section last.

Developing a Farm Business Plan

- Template/Executive Summary D179A
- Business Description D197B
- Marketing Plan D197C
- Financial Plan D197D

Find this publication series at

tiny.utk.edu/farmbusinessplan

We also have a series of publications our team developed to assist you with writing a basic business plan. The template at the back of publication A in this series, *Developing a Farm Business Plan*, is meant to be used as a place to think about and write down the main points you should include in each section as you get started. You can access these publications at the link here on the screen, tiny.utk.edu/farmbusinessplan.

D 197-A

Department of Agricultural
and Resource Economics

BUSINESS PLANNING FOR AGRICULTURAL OPERATIONS

January 2023
*Leti Hampel, Extension Specialist, Center of Farm Management
Barbara Painter, Extension Specialist, Center for Profitable Agriculture*

As farmers look to manage their operations, a written business plan is a critical risk management tool that can be utilized to make informed decisions. A business plan is a comprehensive document that defines and summarizes how resources and financing will be used to realize financial, marketing and operational goals. The process of developing a business plan is helpful to identify strategies to utilize resources efficiently and maximize profitability.

A business plan is often required when securing financing or grant funding. Plans can vary greatly in terms of length, depth and scope based on the target audience and application of the plan. Designed as a living document, plans should be updated annually and as goals and circumstances change. The components of a basic business plan include an executive summary, business description, marketing plan and financial plan. This series of publications can assist agricultural producers in developing a complete business plan. To find other publications in this series, see below in Additional Resources.

Executive Summary


The executive summary is a brief description of the overall plan and is often written last. This section should provide a summary of the operation including the name, location, ownership and a brief description of the products and

services offered. A concise mission statement that defines the purpose of the operation and how customers' needs will be met is often included. The goals and plans for the future of the operation over the next 3 to 5 years should also be covered, including any capital requests to realize those goals.


Business Description

The business description is an overview of the current operation and ownership structure. The description should include the operation's products and services, location, and facilities, including the land, buildings and equipment.


Describe in detail the size and scope of the business, including the number of employees, production capacity and community impact. When considering an expansion or new enterprise, the number of jobs created and economic impact for the community should be addressed. Applicable permits or licenses to meet state and local regulations for the current operation and any expansion or diversification plans should be included in the business description. Identify the ownership structure, which refers to the legal structure of the business (sole proprietor, partnership, corporation, limited liability partnership or cooperative). If there is more than one owner, the portion owned by each party should be outlined.




Executive Summary




Business Description




Marketing Plan






Financial Plan



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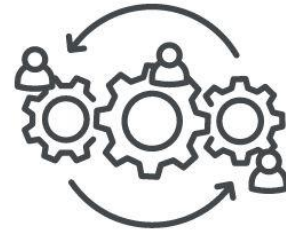




As we go through this presentation and through the publication series, you will notice these icons in the bottom left corner of the presentation and throughout the publication. These icons help you know which section you are writing and how to keep these sections organized in your mind and in your written business plan. Use these icons if you feel lost and refer back to them if you need to.

The first part of your business plan will be your executive summary, which just means a summary of the rest of the business plan.

Executive Summary

- The first piece, but last written part of your plan
- Most important because this may be all that is read
- Brief description of the overall plan that includes:
 - Name
 - Location
 - Ownership
 - Description of products and services offered
 - Concise mission statement
 - Goals and plans for the next 3-5 years
 - Capital requests



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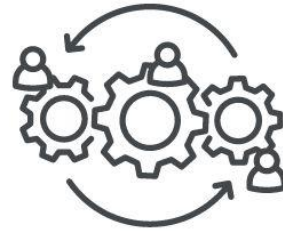
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Since it is a summary of the rest of the business plan, you will write this section last. This will be extremely important as it should have all of the most important details included in it and again, could be provided to anyone with stock or financial ownership of the farm – from a partner or heir to a lender.

This executive summary should include some main contact information, including the name of the business and owners, the location, and description of products or services offered. Then, a concise mission statement or value statement, followed by major goals and plans for the next 3 – 5 years and any capital requests if you have those or the funds needed to reach those goals.

Executive Summary

- How you will monitor certain production/financial measures?
 - Recordkeeping System or Plan
- Business transition plan
 - Who will succeed after you?
 - How/when will you make that transition?
- Lease agreements
- Big ownership changes, enterprise changes, business size changes, new production methods, new markets targeted



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If you are looking to borrow money, you may need to include this information in your executive summary as well to show that you are able to take on this responsibility and explain any issues that the lender or business partner may have – such as how you will show with records that you are meeting benchmarks or monitoring the success of the project. If the recipient is older or not in good health, then the lender or funder may ask about a transition plan or who will take over the liability or project if something were to happen to you.

If the operation relies heavily on lease agreements or any contracts for profitability and sustainability, they may ask for copies of written lease agreements.

You may also need to explain if any major changes have recently taken place or will take place within the business in the executive summary to again ease concerns and provide that explanation upfront so they don't have to sift through the rest of the business plan.

Department of Agricultural
and Resource Economics

D 197-B

**BUSINESS PLANNING FOR AGRICULTURAL OPERATIONS:
BUSINESS DESCRIPTION**



January 2023
Les Humpal, Extension Specialist Center of Farm Management
Rachel Painter, Extension Specialist Center for Profitable Agriculture

A business description is an overview of the current operation, business history, location, facilities and business structure. The business description is the second section of the business plan, following the executive summary. This section is often written first and should be the easiest to complete. Along with the other publications in this series, this guide can assist agricultural producers in developing a comprehensive business plan.

Business Overview

The business overview should provide the reader with a general idea of the purpose of the operation including an understanding of what is produced and marketed. Describe the size and scope of the business including the products, services, and/or activities offered and purpose of the operation.

For example, a meat processing operation should describe the services that are offered including United States Department of Agriculture (USDA) inspected and/or custom processing options and the volume or capacity of the operation. Market channels for this example would include channels of distribution including wholesale or direct to consumer cuts offered. A forest product business should describe where the operation fits within the segment of the industry, meaning whether rough cut lumber or finished wood products are offered.

When considering an expansion or new enterprise, the number of jobs created and economic impact for the community should be addressed. Enterprises can create both direct and indirect economic impacts within their communities. One example of a direct economic impact is creating new jobs within the community.

Business History

This section of a business description can be extensive for operations that have been in the family for generations, or brief for new, beginning operations. The business history provides an overview of who has owned and managed the operation and for how long. Describe when and how the operation began and how it has changed in terms of size, scope and profitability. This section provides the opportunity to discuss major changes or updates that have been made to the operation over time.

When starting a new business, describe the background of the owners and how the operator's experiences will benefit and contribute to the sustainability of the operation.

Location

Where a business is located is critical for the success of the business as it relates to the



Executive Summary



Business Description



Marketing Plan



Financial Plan



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The first section of the business plan you will write is the Business Description.

Business Description

- Second part of your business plan, but written first
- Overview of the current operation and ownership structure
- Resources available and resources needed



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Business Overview

Business History

Location

Facilities

Business Structure

The second section of your business plan, but the part that you will write first is your business description. This should also be the easiest part of the plan as it is simply describing your business.

The business description will include the business overview, history, location, facilities, and business structure.

Business Description: Business Overview

- Purpose of your operation
- Products or services
- Size and scope of your business
- Economic impact within the community
 - How does your business better the community around you?



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Business Overview

Business History

Location

Facilities

Business Structure

You will begin with the business overview, which is just what you currently do on your operation and the ownership structure – for example, Dennis Farm is a 140 acre cow-calf operation in Coffee County, Tennessee owned by Joe and Wanda Dennis. If you are applying for funding related to economic impact or the supply chain, you may also want to include any kind of economic impact such as the number of employees the farm has and if you sell direct to consumer or provide inputs for another farm business in the local area that those businesses in turn rely on you to be able to run their operations as well. If you are going to be providing job opportunities or if you would be providing a product consumers wouldn't normally have access to in your area with funding, then you would want to outline that importance and community impact here, and of course be sure to include that in your executive summary later as well.

Business Description: Business History

- Who has owned and managed the operation and for how long
- How the business started
- Changes over time (size, scope, and profitability)
- If starting a new business, describe the background of the owners and how that experience will be an asset to the operation



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Business Overview

Business History

Location

Facilities

Business Structure

Next is your business history. You will want to provide some information on how the business started, such as Dennis Farm began operation as a dairy farm in 1876 with Joe's family. Since then, the family has passed down the farm and changed to a cow-calf operation and sold the dairy cows in 1982. Since Joe took over in 1985, the farm increased in size by purchasing an adjoining 28 acres to increase road frontage for the farm and provide a separate access point to move and check the cows. If this is a new operation, you would want to include the background or knowledge of the owners and how they plan to use their expertise to be profitable.

Business Description: Location

- Physical location
- Where products/services are provided
 - How does the consumer access your product?
 - Ex. Farmers markets, pick up sites, retail stores, online orders etc.
- The cost and ease of transportation
 - Sourcing inputs
 - Supplying products/services to the consumer



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Business Overview

Business History

Location

Facilities

Business Structure

Next in your business description is your location. The location should include the actual address and addresses of any land parcels for the operation, as well as any locations where products are sold. We want to think about where do I take or transport my products to be sold. The location section of your business description can be used as a strategic point in the future if the market should change and any selling locations are changed to explain why the operation itself changed. Meaning, if a grain elevator opened up or closed nearby, that could really impact the business decisions on the operation.

Business Description: Facilities

- Provide an overview of:
 - Land
 - Buildings
 - Equipment
 - Details will include size, type and quality/condition
- Discuss additional equipment or infrastructure needs you have to reach specific goals
 - Describe the investment required to obtain these items
- Include all permits and licenses utilized to meet state and local regulation
- Include expansion plans



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Business Overview

Business History

Location

Facilities

Business Structure

Next is facilities. We want to provide a list or overview of any infrastructure on the farm, from buildings or large equipment. We also want to include the year they were built or any type of upgrades that have happened or need to happen, or the condition they are in.

If you are seeking funding for facilities or infrastructure, describe that here and how it would impact or change the farm from an operational standpoint.

Business Description: Business Structure

- Identify the legal structure of your business
 - sole proprietor, partnership, corporation, LLC, etc.?
- If there is more than one owner, write out how the business is split
- Speak with an attorney or a CPA (certified public accountant) to choose what entity best fits your needs
- If employees are utilized, provide a list of roles, responsibilities, and the managerial structure used



Business Overview

Business History

Location

Facilities

Business Structure

Here is where you want to outline your current business structure, operational structure and who makes decisions. Again, if anything changes to that, you would want to come update this section of the business plan.

Business Description: Other Considerations

- Describe the resources you are working with
 - Human capital, financial capital, connections, equipment, etc.
- Include back up plans
 - What will you use if your tractor breaks down?
 - Who will pick up the slack if an employee is out of work for a while?
 - What happens in emergencies – drought or extreme heat?
 - What happens if you are dealing with issues such as pest management?
- Include your production process
 - Value-added item
 - How is it produced, what is the output level, and what does the schedule look like?
- Differentiation: What makes your item different than everyone else's?
- Describe your production quality control plan
- Describe any environmental stewardship plans
- Discuss any regulation/licensing barriers



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Here is just a long list of other considerations that may or may not apply to you. Again, these considerations would likely be in the version that is just for you and other owners to write together, but it would be a good idea to include any of this information or other information that would be important to know should something happen to you. If you are the only one to know how you decide to apply a fungicide every spring and who you typically purchase that from or who advises you on crop insurance decisions and how to contact them, or if you sell apple pies and you are the only one to know the recipe, then this is where you would to include that in your business plan

Department of Agricultural and Resource Economics

BUSINESS PLANNING FOR AGRICULTURAL OPERATIONS: MARKETING PLAN

January 2023
Les Hampel, Extension Specialist, Center of Farm Management
Rachel Painter, Extension Specialist, Center for Profitable Agriculture

A marketing plan includes an analysis of the market and strategies to meet the needs of target customers. The marketing plan is the third section of the business plan, following the business description. Along with the other publications in this series, this guide can assist agricultural producers in developing a comprehensive business plan.


Market Analysis
 A market analysis includes an overview of the size of the market, trends and competition for each product or service being offered. When developing marketing strategies, it is critical to have a thorough understanding of current market trends and what products or services are already being offered by competitors. To analyze the market, utilize census data and surveys, as well as personal observations to form a well-rounded view of the market. Visit similar operations and observe the products and services offered, as well as the promotional strategies used to meet customer needs. Describe the competition and where the business fits into the market. Define what segments of the markets are available to capture or what needs of consumers are not met with the current offerings.

A description of the competition should include:

- Products, services, and/or activities offered.
- Number of employees.
- Geographical area served or reached.
- Primary markets including wholesale and direct to consumer channels.

Target Market
 Identify the target customers for the products and services offered by the operation. Demonstrate a thorough understanding of the 4 C's of the target consumer: consumer cost, consumer benefit, convenience and communication.

- **Consumer cost** — The cost outlines what a consumer will have to give up to obtain the product or service. For example, the cost and time of driving to an agritourism destination or on-farm store should be considered.
- **Consumer benefit** — The benefit for the consumer includes what the consumer will receive by purchasing the product or service.
- **Convenience** — How easy is it for consumers to find and purchase the product or service?
- **Communication** — Communication channels include in person and online, such as websites, social



Executive Summary

Business Description

Marketing Plan

Financial Plan

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The next major section of your business plan is your marketing plan.

Marketing Plan

Third part of your business plan,
following the business description



Market Analysis

Target Market

Marketing Mix



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Within your marketing plan, you will have three main sections, the market analysis and an outline of your target market, or who you plan to target to sell your products and services to, and your marketing mix, or how you plan to market to your target market.

Marketing Plan: Market Analysis

- Overview of the Market:
 - Current supply and demand for the product or services
 - Trends within the market
 - Competition
- Competitor Analysis:
 - Describe competition in detail:
 - Products and services offered
 - Location and area served
 - Primary market channels and buyers (wholesale, direct to consumer, on-farm sales, etc.)

- Census Data
- Research Publications
- Association Data
- Surveys
- Observations
- Competitors



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A market analysis is simply you analyzing the market for your products and services, meaning giving an overview of current supply and demand and influences or trends impacting that supply and demand.

You would want to look at data from surveys or the census online for national and state level data, as well as reports and insight from associations you may be a part of. Do you see any market gaps you want to explore filling demand for or do you see the market trending towards lower prices and you want to diversify or extend or add value to your product to reach another level of the supply chain to gain more of the consumer dollar? A major part of the marketing plan for just yourself and owners to analyze and discuss is going to be a competitor analysis.

Who are our main competitors and what are they doing? How do their production and marketing practices differ from yours? What decisions are they seeming to make this year, and has that changed since last year? We want to be aware of what our competitors are doing not because we necessarily want to copy them, but because what they are doing may be impacting our market if they are supplying the same product to the same person or buyer as we are.

Marketing Plan: Target Market

'Everyone' is not your target audience.
Narrow down who your customers are to
effectively market your products and
services.

Who is your target customer?



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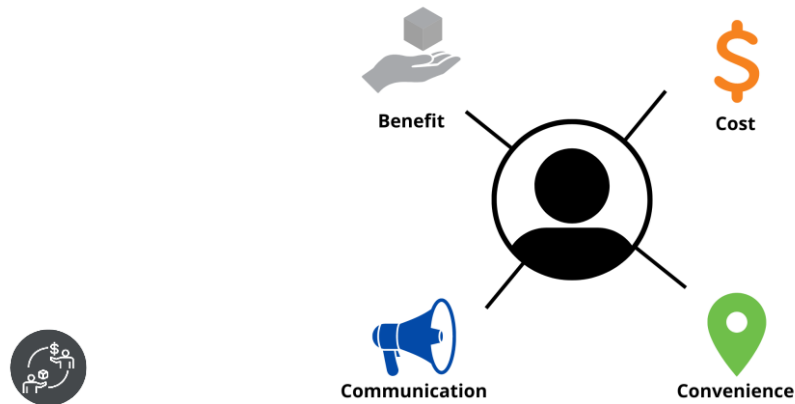
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After our market analysis, we want to describe our target market. Everyone is not our target customer. If we are selling grain, our target customer or buyer may be two different grain elevators in the area. If we are selling goats, we may have some individual buyers that we could segment into their preferences and target their preferences differently than the local sale barn where we take goats one Saturday a month. We aren't describing every customer we have here, but segmenting the market into groups of buyers that have similar preferences and purchasing habits.

Marketing Plan

Consumer's Cs



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In marketing, especially direct to consumer marketing, we concentrate on the consumer's Cs – Consumer benefit, consumer cost, convenience, and communication.

Marketing Plan: 4Cs

Consumer Benefit



- What the consumer gets in return
- What does your product provide for the consumer?

Consumer Cost



- What the consumer must give up to receive the product or service
- The price of the product, time, mileage, opportunity cost

Convenience



- Where can the consumer get your product?
- How easy is it to find, purchase, and access your product?

Communication



- How does the customer communicate and engage?
- In-person and online including emails, newsletters, websites, and social media
- Consider what the customer values and is interested in learning



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We want to describe the benefit our customer gets from purchasing from us – what does your product provide intrinsically and extrinsically? They are getting the product itself but are there any characteristics such as production methods that set your product apart that they are getting from purchasing from you?

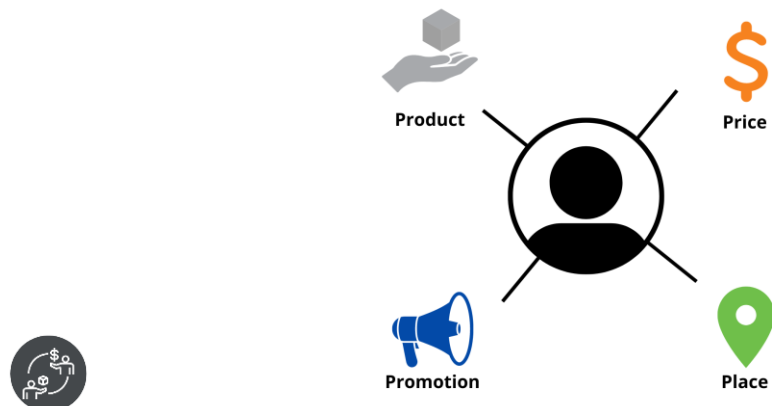
Consumer cost – what is their willingness to pay? Do you notice that certain customers are more price sensitive? If you increase the price, then they switch to buying from someone else, or are they loyal and always come back to you?

How convenient is purchasing from you for your customer? Do they have to come to you or are you delivering? Are you always easy to work with?

Communication – how does the customer or buyer want to communicate with you and what questions do they frequently ask? This is what they want to know and care about, so how can you make sure to communicate those details to them easily and often and using the platform or way that they like to communicate with you.

Marketing Plan

Producer's Ps



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We match those Consumer's Cs up with the Producer's Ps. Product, Price, Place, and Promotion. The Producer's Ps are how you plan to meet consumer demand – or your marketing mix.

That is why these icons match up with those from the consumer's Cs.

Marketing Plan: Marketing Mix

Product



- Clearly define your product or service
- How does your product differ from competitors' products?

Price



- Provide prices of all goods and services offered
- Compare prices to competitors' prices
- Is there a sustainable profit margin?

Place



- List all locations where your products are offered
- Include online and physical locations and distribution channels

Promotion



- Describe strategies to establish a customer base and encourage return customers
- Provide brand images, logo, or branding colors or guides



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To begin with Product, we want to describe the products and services we offer in detail. This can look like a product sheet that you offer if you are selling direct to consumer or it could look like a list of the products you plan to sell that year if you are selling commodities – an estimate of the number of bushels or the number of bulls you plan to sell that year if that was your product. If you differentiate your product somehow from other's, you would want to describe that here.

Next, on price, again if we are selling direct to consumer we may have a longer list of products offered and we can just put the prices next to the products on a list. If we are selling a commodity and maybe there are even standards we are trying to reach to get a certain price, we would want to describe those standards or levels of moisture or quality to reach those various price points and which ones we plan to try to meet to get that price. In the version just for you, if you know your cost of production, you can describe the profit margin for that year here.

Place – again we want to list the places we sell our products – where do you deliver your grain to? Which farmers markets do you plan to sell at this year?

Promotion – we want to describe any promotional strategies we use to reach new customers and to encourage return customers to purchase again. So how are you again meeting the communication preferences and needs of your buyers so that they know about you and what you have to offer or what messages are you sending to buyers with

your communication both verbal and nonverbal.

Department of Agricultural
and Resource Economics

D 197-D

**BUSINESS PLANNING FOR AGRICULTURAL OPERATIONS:
FINANCIAL PLAN**



January 2023
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For many operations, the financial plan is the most important part of the business plan. The financial plan is the fourth and final section of the business plan, following the marketing plan. This component provides the opportunity to evaluate and communicate the current financial resources of the operation and ability to withstand volatility in the marketplace. A financial plan will also include any funding request and sources sought to obtain such funds. Along with the other publications in this series, this guide can assist agricultural producers in developing a comprehensive business plan.

Financial Position

The financial position refers to the current financial strength of the operation at a point in time. A balance sheet is often used to communicate the assets, liabilities and owner's equity of the operation in this section, documenting the business's net worth. Using the balance sheet, financial ratios can evaluate the ability of the operation to meet short- and long-term obligations and the capacity to withstand risks. For an existing operation, how has the net worth changed over the last three to five years? For a new operation, the financial position should describe the ability of the owner to make new investments and meet

financial obligations. See Additional Resources for more information about developing financial statements.

Historical Performance

This section describes key trends and indications of how the operation has performed over the last 3 to 5 years. Measures of production and financial performance that paint a picture of how the operation has grown or changed over time are provided here. Include production levels, such as yield, quantity produced or services provided. Describe the profitability of the operation by including or summarizing the income (profit and loss) statement. This information is often included on a Schedule F tax return. Explain any positive or negative changes in production or financial performance and adjustments that will be implemented to remain profitable.

Financial Projections

The financial projections may be the most important part of a business plan, providing an explanation of where the business will be in the next 3 to 5 years. Before starting or expanding a business, consider how investments will impact profitability and long-term sustainability of the operation.



Executive Summary



Business Description



Marketing Plan



Financial Plan



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The next major section of your business plan is your financial plan.

Financial Plan

- The final section of your business plan, following marketing plan
- Typically considered the most important part of your plan
- Show and evaluate the current financial resources of the operation
- Funding requests

Financial Position

Historical Performance

Financial Projections

Capital Request



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In your financial plan, the components provide the opportunity to evaluate and communicate the current financial resources of the operation and ability to withstand volatility in the marketplace or take on risk. At the end of the financial plan, we will outline any funding requests or funding needs and how those would be used.

Financial Plan: Financial Position

- Current financial position your operation is in (stamp in time)
- Utilize a balance sheet
 - Assets
 - Liabilities
 - Owner's equity
 - Net worth
- Evaluate the ability of your operation to meet obligations as well as handle risk
- How has your net worth changed over time?
- Can you make new investments?



Assets	This Year	Last Year
Current assets		
Cash and cash equivalents	\$ 10,000	\$ 10,000
Accounts receivable	35,000	30,000
Inventory	25,000	20,000
Total current assets	70,000	60,000
Fixed assets		
Plants and machinery	\$ 20,000	\$ 20,000
Less depreciation	-12,000	-10,000
Land	8,000	8,000
Intangible assets	2,000	1,500
Total assets	88,000	79,500
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable	\$ 20,000	\$ 15,000
Taxes payable	5,000	4,500
Long-term bonds issued	15,000	10,000
Total liabilities	40,000	29,500
Shareholder's equity		
Common stock	\$ 40,000	\$ 40,000
Retained earnings	8,000	10,000
Total shareholder's equity	48,000	50,000
Liabilities and shareholders' equity	\$ 88,000	\$ 79,500

The first part of your financial plan is your financial position. This simply means what is the financial health of the operation right now, or at a stamp in time? You can use a balance sheet to evaluate and communicate this. The balance sheet would outline your assets, liabilities, owner's equity, and net worth of the business. This can help you see if you are able to make new investments or purchases, and how much of the operation is owned by the owners versus the bank.

Financial Plan: Historical Performance

- Key trends in how the operation has performed over the last 3-5 years
- Things to include:
 - Production levels
 - Yield
 - Quantity Produced
 - Profitability
- Provide income statement (profit or loss)
 - Many of the things you need can be found on a Schedule F



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Exhibit 4 / Cash Income Statement for the Year	
Revenues	
Livestock	\$105,800
Crops	83,700
Government Payments	3,600
Custom Work	6,600
Total Revenues	\$199,700
Expenses	
Chemicals	\$1,600
Feed	40,000
Fertilizer	20,000
Gas, Fuel, Oil	5,000
Insurance	5,000
Hired Labor	14,500
Rent	3,000
Repairs and Maintenance	5,000
Seeds	4,000
Supplies	3,000
Property Taxes	11,400
Utilities	2,000
Vet and Medicine	1,000
Machine Hire	2,000
Other	2,000
Depreciation	7,000
Interest	24,000
Total Expenses	\$150,500
Net Farm Income (before taxes)	\$49,200

After describing where you are at today, or your financial position, you want to look back in time to show your historical performance. So, using what you have today or your balance sheet, you can look back at balance sheets over the past 3 to 5 years to show a change, and you can also use an income statement to show your net farm income. This can help show how you have, hopefully, used the funds and resources you have wisely to paint a picture of financial stability.

Financial Plan: Financial Projections

- Considered the most important part of the financial section
- Describes where your business is headed financially (3-5 years)
- Discuss business expansion
- If investments are needed, how will they impact profitability and sustainability?
- Provide a cash flow statement
 - Show how projected income will exceed the expenses
- Include how production and marketing scenarios will impact profitability
- Discuss how the operation will withstand volatility/issues it may face



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Table 2. Sample cash-flow statement: January 1 to December 31, 2015

Description	Amount		
	Jan.-June	July-Dec.	Full year
Cash inflows			
1a Farmers markets	\$ 6,700	\$ 12,500	\$ 19,200
1b Wholesale sales	\$ 10,000	\$ 15,500	\$ 25,500
2 Collection of accounts receivable	\$ –	\$ –	\$ –
3 Capital sales	\$ –	\$ –	\$ –
4 Other	\$ –	\$ –	\$ –
5 Total cash inflows	\$ 16,700	\$ 28,000	\$ 44,700
Cash outflows			
6 Cost of product sold	\$ 12,300	\$ 15,000	\$ 27,300
7 Nonfamily labor	\$ 500	\$ 2,000	\$ 2,500
8 Family labor	\$ 3,000	\$ 3,600	\$ 6,600
9 Supplies	\$ 450	\$ 750	\$ 1,200
10 Utilities	\$ 200	\$ 100	\$ 300
11 Advertising	\$ 125	\$ 125	\$ 250
12 Insurance	\$ 25	\$ 25	\$ 50
13 Taxes, licenses, and fees	\$ 325	\$ 325	\$ 650
14 Capital expenditures	\$ –	\$ –	\$ –
15 Loan principal and interest due	\$ 200	\$ 200	\$ 400
16 Other expenses	\$ –	\$ –	\$ –
17 Total cash outflows	\$ 17,125	\$ 22,125	\$ 39,250
Cash balance			
18 Net cash from operations (#5 – #17)	\$ (425)	\$ 5,875	\$ 5,450
19 Beginning cash balance	\$ 2,500	\$ 575	\$ 2,500
20 Net cash available (#18 + #19)	\$ 2,075	\$ 6,450	\$ 7,950
21 Minimum acceptable cash balance	\$ –	\$ –	\$ –
22 Cash over (or short) (#20 minus #21)	\$ –	\$ –	\$ –
23 New short-term borrowing necessary to maintain minimum cash balance	\$ –	\$ –	\$ –
24 New long-term borrowing necessary to maintain minimum cash balance	\$ –	\$ –	\$ –
25 Owner capital additions (withdrawals)	\$ (1,500)	\$ (1,500)	\$ (3,000)
26 Ending cash balance	\$ 575	\$ 4,950	\$ 4,950
(#20 + #23 + #24 + #25)			

Next we want to project how we are going to meet our goals in the future. To do so, we would make some financial projections. You can develop a cash flow statement for the next year to show expected income and expenses over the next year or two, or you can use a budget to project from a particular enterprise what the revenue would be.

We want to project how any investment would impact our financial health, meaning provide some financial ratios before the investment and then how those ratios would change after the investment.

We can also describe how the financial health of the farm would be impacted under various scenarios, such as volatility in prices or various impacts on yields and if we could still make payments under those scenarios.

Financial Plan: Financial Requests

- Used if funding is being requested
- Describe:
 - How much is needed
 - How the funds will be used
 - Timeline of implementation
- Show the sources you will seek for financial support, include the amount
- Examples include: owner's equity (personal investment), private lending, or grant funding programs



Using the previous projections, you would want to outline exactly how much funding would be needed and what the funding would be used to purchase or do if a request is being made. We would want to clearly outline a list of the items to be purchased and a timeline for implementation for the project. When would it be up and running and able to start paying for itself? How long are the terms you are seeking on the funding? Where are you getting the funds from? If this is a cost share program, you may be required to have a financial letter from your bank or lender to show that you have the means to provide the capital to purchase the items and then get reimbursed the approved amount. This section should be to the point and clearly outline exactly what you are asking for.



Developing a Farm Business Plan



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Again, after you have written the main sections of the business plan, you would go back and summarize that to form your Executive summary. We hope this outline of writing a business plan has been clear and you feel empowered to develop this tool for your farm and family.

Thank you for listening. Access these slides at tiny.utk.edu/planpresentation or visit our website at farmmanagement.tennessee.edu for more information about what we do and how we can help you.