"tilling the soil of opportunity..."

NxLeveL™ Guide for Agricultural Entrepreneurs

First Edition

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NX LEVEL TRAINING NETWORK

"Helping Entrepreneurs Reach the Next Level of Success..."

US WEST FOUNDATION

University of Nebraska

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Dedicated To

Farmers and ranchers everywhere striving to reach their dreams and goals of success.

NxLeveL Education Foundation
Denver, CO
1.800.873.9378
http://www.nxlevel.org

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Foreword

Your NxLeveL™ course was made possible by several parties. Primary funding for developing the NxLeveL™ training programs has been provided by the U S WEST Foundation. This funding allowed the University of Colorado at Denver to create the NxLeveL™ Training Network, which is housed at the University.

NxLeveL™ started with the 14 western states that made up U S WEST's operating territory. It is a partnership between the University and various agencies to provide local training, including the Nebraska Edge at the University of Nebraska. Local training partners vary from state to state, with the majority being Small Business Development Centers. Other groups include state economic development agencies, community colleges and state universities, public assistance agencies, and a Hispanic Chamber of Commerce. While the University provides oversight and general support for the network, each instructor provides local insight and expertise critical in making this entrepreneurial training a success.

The NxLeveL™ Training Network was founded in 1996 on the premise that business training classes were instrumental in developing and strengthening the small business base in the communities it serves. This premise has proven sound in over 400 communities in which NxLeveL™'s local partners have facilitated training programs. These programs have trained over 20,000 individuals in 750 classes from January 1996 to June 2000. In these classes, an average of 85% of the enrollees finished the training, 65% completed a business plan.

The effect of trained participants in the community has been profound. For example, follow-up surveys have indicated that for those participants who own a business, sales increased by 27% within a year of graduation and, each business tends to, on average, create at least one new job in the community. Further, of those graduates not in business, 40% go on to start new businesses.

As impressive as these statistics are, we continued to improve by listening to the comments and concerns of the participants, educators, and state and community sponsors who administer the training. Most felt that the traditional "off the shelf" entrepreneurial books do not contain material specific to their success. They asked for practical material that would cover the issues entrepreneurs face when deciding to either start businesses or grow their existing ones.

We listened to the comments and concerns of the 4,000 individuals and 180 instructors who completed the training and set about to improve our curriculum. First we sought out educators, successful entrepreneurs and individuals who truly were experts in their given field. Calling on this group, we developed course materials and curriculum based on that collective expertise, and designed courses and additional materials that were considered vital to a small business owners success. The result was the NxLeveL™ Business Start-ups

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Again we listened to individuals throughout our Nation's small rural communities who were interested in an industry specific curriculum—agriculture. We teamed up with the University of Nebraska's Nebraska EDGE training program to develop a curriculum for agriculturally based entrepreneurs. The project was funded by the U.S. Department of Agriculture's Sustainable Agriculture Research and Education (SARE) program of the CREES, U.S. Department of Agriculture. The result is our newest product, the NxLeveL™ Agricultural Entrepreneurs Program. Farmers involved in successful direct marketing businesses, educators and agricultural consultants participated in the development of this curriculum. These materials are specifically designed for the producer who is searching for innovative ideas and enhanced marketing opportunities.

NxLeveL™ training programs are designed to be affordable for both the training partner and the participant. Because the U S WEST Foundation agreed to underwrite the cost of the training materials and donated NxLeveL™ copyright profit back into programs, the cost of these materials is half that of other national entrepreneurial training programs.

The U S WEST Foundation, University of Colorado at Denver, the University of Nebraska and the state sponsoring coalitions have teamed to help entrepreneurs start new businesses and reach the next level of success. We understand that a strong base in small business builds a strong community, which furthers our primary goal of developing better, more viable communities.

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introduction to the text

Introduction

The signature of American agriculture is independence and innovation. From the early producers who framed the beginnings of our rural communities to today, these producers have offered a reliable food source that has served us well. Through droughts, floods and prosperous times, our Nation's agricultural producers have excelled in production—*they have fed the world!*

Today's small producers are at a crossroad that will again shape the future of our rural landscape. Trends show consolidation and concentration of the agricultural industry which are resulting in fewer producers across the country. It is the time to again look to be innovative and follow our heritage as we struggle with the future direction of the agricultural industry.

"Consumers are becoming environmentally sensitive and are demanding more natural ingredients and environmentally sound growing practices. **Opportunities abound for the producers!**"

Consumer trends show opportunities for small producers who place their products directly in the consumer market. Recent growth in farmers' markets and value-added food product are evidence of this market potential. Studies also predict that by the year 2005, 50 to 55 percent of all food dollars will be spent on food consumed away from home. Consumers are becoming environmentally sensitive and are demanding more natural ingredients and environmentally sound growing practices. Opportunities abound for the producers!

Small producers are capable of capitalizing on these trends through innovative production and marketing methods. Niche markets can be captured with traditional crops using non-conventional production systems. Target markets can also be the aim of alternative agricultural systems such as sustainable, organic, low-input, biodynamic and regenerative agriculture. Producers can and do increase their economic returns by increasing their share of the consumer dollars through value-adding. To do this, producers need to actively participate in the production, processing and/or the direct marketing of their own agricultural products.

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"Adding value to an agricultural product means to capture a greater share of the end-value of your product..."

What is direct marketing? Direct marketing is based on the idea that producers control the processing of their products, from planting or birth to final sale. Direct markets are often specialty markets that provide higher value to the consumer product and a higher price to the farmer. The traditional direct market for producers has been the farmer's market. Today, there are many more options available such as community and restaurant sponsored agriculture, mail order business and the Internet.

What is value-added agriculture? Adding value to an agricultural product means to capture a greater share of the end-value of your product, such as processing a raw commodity into a more usable consumer product. Although processing costs can be excessive and may require immense capital outlay, they can also require minimal time and expenses. Value can be added through packaging, new uses, delivery, breeds, hybrids, services, production methods and a special bond or relationships between the consumer and producer. Value can also be added to commodity products through delivery to niche markets such as non-GMO end users or ethnic markets.

chemical & residue free

Two types of production systems that are adding value to commodity and non-commodity products are sustainable and organic agriculture. Although these are not the only two, they are recognized as "highly desirable" by high-end users concerned with the environmental and social aspects of agriculture.

Sustainable agriculture encourages farmers to explore the use of production methods that integrate natural biological cycles into agriculture. To be considered sustainable, methods must be ecologically sound, economically viable, and socially responsible. Organic production is a more management-intensive agricultural production system based on the concept that the farm is an organism with natural cycles and equitable exchange of biological goods, i.e., solar energy, nutrients, water, and microbial activity. Although organic standards have yet to be decided, consumers will commonly associate organic with "chemical free" and "residue free" products.

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Other value-adding options are branded beef, high oil corn, free range hogs, special cuts of beef or pork, convenience size packaging of popcorn, and specialty grains. The list is long and the opportunities are wide.

Small producers are in the unique position to take advantage of emerging trends, niche markets, consumer preferences and alternative agricultural methods. However, jumping into an unfamiliar market can be very risky. To be successful, agricultural entrepreneurs are encouraged to first test the soundness of their ideas and assess the economic factors that will affect their business potential. That is the objective of "*Tilling the Soil of Opportunity...*" *NxLeveL™ Guide for Agricultural Entrepreneurs.*

The "*Tilling the Soil of Opportunity...*" materials were specifically developed to assist producers in testing their innovative ideas. The curriculum will help you ask the correct questions that are critical to the success of your new business. What is the market potential of the product? Who are the customers or end-users? How is the product distributed? How is the new venture financed? How does one cashflow the entire operation? The answers to these questions will help decide whether or not your agricultural business is economically viable.

Operating successful agricultural businesses will be one of the keys that shapes the future of our rural communities and the future of the agricultural industry.

To all these small producers, this one's for you!

"Operating successful agricultural businesses will be one of the keys that shapes the future of our rural communities and the future of the agricultural industry..."

NOTE TO THE PARTICIPANTS:

You will find a one-page agenda for each of the ten sessions immediately following the Course Overview on the next page. An option is to insert the one-page outline in front of the proper session for easy reference.

introduction TEXT i-3

Other value-adding options are branded beef, high oil corn, free range hogs, special cuts of beef or pork, convenience size packaging of popcorn, and specialty grains. The list is long and the opportunities are wide.

Small producers are in the unique position to take advantage of emerging trends, niche markets, consumer preferences and alternative agricultural methods. However, jumping into an unfamiliar market can be very risky. To be successful, agricultural entrepreneurs are encouraged to first test the soundness of their ideas and assess the economic factors that will affect their business potential. That is the objective of "*Tilling the Soil of Opportunity...*" *NxLeveL™ Guide for Agricultural Entrepreneurs.*

The "*Tilling the Soil of Opportunity...*" materials were specifically developed to assist producers in testing their innovative ideas. The curriculum will help you ask the correct questions that are critical to the success of your new business. What is the market potential of the product? Who are the customers or end-users? How is the product distributed? How is the new venture financed? How does one cashflow the entire operation? The answers to these questions will help decide whether or not your agricultural business is economically viable.

Operating successful agricultural businesses will be one of the keys that shapes the future of our rural communities and the future of the agricultural industry.

To all these small producers, this one's for you!

"Operating successful agricultural businesses will be one of the keys that shapes the future of our rural communities and the future of the agricultural industry..."

NOTE TO THE PARTICIPANTS:

You will find a one-page agenda for each of the ten sessions immediately following the Course Overview on the next page. An option is to insert the one-page outline in front of the proper session for easy reference.

i-4 T E X T introduction

"tilling the soil of opportunity..."

NXLEVEL™ GUIDE FOR AGRICULTURAL ENTREPRENEURS

participant material

course overview

"tilling the soil of opportunity..."

NXLEVEL™ GUIDE FOR AGRICULTURAL ENTREPRENEURS

participant material

course overview

Session 1. Take Stock of Your Resources

Session 2. Basic Equipment Required: Planning and Research

Session 3. The Legal Terrain

Session 4. Manage from the Ground Up

Session 5. Plant It, Grow It, MARKET It!

Session 6. Reap the Benefits–Marketing Strategies

Session 7. Get Your Budgets In Line

Session 8. Analyze THESE: Cash Flow and Financial Statements

Session 9. Cultivate Your Money Resources

Session 10. Harvest Your Future

Learning Objectives
- Gain an understanding of the course curriculum and expectations
- Learn about Entrepreneurship and explore personal, family and business resources, knowledge and skills
- Gain knowledge of the components of the NxLeveL™ Agricultural Business Plan
- Understand and develop a mission statement, goals and objectives
- Experience networking with class participants

Take Stock of Your Resources
Session One

Date: ______________________

Instructor Topics

1. **Getting the class started**
   - Administrative Details
   - Staff Introductions
   - Instructor Introduction
   - Standard Student Introductions (optional)
2. **Course Introduction**
   - Review Books
   - Review Course Outline and Session Dates
   - Explain In-class Structure: Class Openers, Instructor Topics, Guest Speaker, Break, Work Hour, Total Class Time
3. **Expectations**
   - Student Responsibilities
     Student Contract
     Attendance, Absenteeism, Timeliness
     Homework, Reading assignments, In-class participation
     "Break food" Rotation
   - Instructor Responsibilities
     Preparedness
     Availability for questions between sessions, individual counseling
4. **Student Introductions (unique)**

—No Guest Speaker This Session—

Break

5. **Instructor Topics**
   - Importance of Entrepreneurship...Importance of *You*
   - What IS an Entrepreneur? What Makes A Good Entrepreneur?
   - Ongoing Self-Assessment
   - Exploring Your Resources
   - Introduction to the NxLeveL™ Agricultural Business Plan
6. **Work Hour**

Assignment for Session Two:

TEXT — **READ** all of the TEXT material in Introduction to Session I, and Session I: Take Stock of Your Resources. **READ** the TEXT material for Session 2: Basic Equipment Required–Planning and Research

WORKSHEETS — Read and Complete Session 1 WORKSHEETS

WRITE — Using the *Writing Your Plan* page at the end of the WORKSHEETS section for Session One as your guide, write **Section II. Business Concept, Mission & Goals** of your NxLeveL™ Agricultural Business Plan

Learning Objectives
- Gain an understanding of the course curriculum and expectations
- Learn about Entrepreneurship and explore personal, family and business resources, knowledge and skills
- Gain knowledge of the components of the NxLeveL™ Agricultural Business Plan
- Understand and develop a mission statement, goals and objectives
- Experience networking with class participants

Take Stock of Your Resources
Session One

Date: ______________________

Instructor Topics

1. **Getting the class started**
   - Administrative Details
   - Staff Introductions
   - Instructor Introduction
   - Standard Student Introductions (optional)
2. **Course Introduction**
   - Review Books
   - Review Course Outline and Session Dates
   - Explain In-class Structure: Class Openers, Instructor Topics, Guest Speaker, Break, Work Hour, Total Class Time
3. **Expectations**
   - Student Responsibilities
     Student Contract
     Attendance, Absenteeism, Timeliness
     Homework, Reading assignments, In-class participation
     "Break food" Rotation
   - Instructor Responsibilities
     Preparedness
     Availability for questions between sessions, individual counseling
4. **Student Introductions (unique)**

—No Guest Speaker This Session—

Break

5. **Instructor Topics**
   - Importance of Entrepreneurship...Importance of *You*
   - What IS an Entrepreneur? What Makes A Good Entrepreneur?
   - Ongoing Self-Assessment
   - Exploring Your Resources
   - Introduction to the NxLeveL™ Agricultural Business Plan
6. **Work Hour**

Assignment for Session Two:

TEXT — **READ** all of the TEXT material in Introduction to Session I, and Session I: Take Stock of Your Resources. **READ** the TEXT material for Session 2: Basic Equipment Required–Planning and Research

WORKSHEETS — Read and Complete Session 1 WORKSHEETS

WRITE — Using the *Writing Your Plan* page at the end of the WORKSHEETS section for Session One as your guide, write **Section II. Business Concept, Mission & Goals** of your NxLeveL™ Agricultural Business Plan

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

Learning Objectives
- Understand the business planning process and uses (internally and externally) of a formal business plan
- Learn the components and organization of business plans
- Gain knowledge of the need for, how to do and where to do agricultural market research
- Begin market research through the identification of industry-specific, agricultural business and global resources
- Build networking through interaction with other entrepreneurs and guest speaker

Basic Equipment Required: Planning and Research
Session Two

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **What is Business Planning?**
2. **Business Plans**
3. **Research—Why, What, How**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Three:

WORKSHEETS Read and Complete Session 2 WORKSHEETS

WRITE Using the *Writing Your Plan* page in your WORKSHEETS section for Session 2 as your guide, write **Section III. Background Information** of your NxLeveL™ Agricultural Business Plan

TEXT **REVIEW** the TEXT material in Session 2. **READ** all of the TEXT material in Session 3: The Legal Terrain

Learning Objectives
- Understand the business planning process and uses (internally and externally) of a formal business plan
- Learn the components and organization of business plans
- Gain knowledge of the need for, how to do and where to do agricultural market research
- Begin market research through the identification of industry-specific, agricultural business and global resources
- Build networking through interaction with other entrepreneurs and guest speaker

Basic Equipment Required: Planning and Research
Session Two

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **What is Business Planning?**
2. **Business Plans**
3. **Research—Why, What, How**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Three:

WORKSHEETS Read and Complete Session 2 WORKSHEETS

WRITE Using the *Writing Your Plan* page in your WORKSHEETS section for Session 2 as your guide, write **Section III. Background Information** of your NxLeveL™ Agricultural Business Plan

TEXT **REVIEW** the TEXT material in Session 2. **READ** all of the TEXT material in Session 3: The Legal Terrain

Learning Objectives
- Identify and select a legal structure for your business
- Become aware of government regulations facing small business and outside resources available for guidance in compliance
- Research regulations specific to your agricultural business and determine the impact and cost to your business
- Identify contracts and leases that will be used in your business, and other contracts that may be important to the business later

The Legal Terrain
Session Three

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **The Legal Structure of Your Business**
   Options
   Pros and Cons

2. **Government Regulations**
   Regulations and taxes

3. **Contract and Leases**
   What is a contract?
   Contract terms
   Leases

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Four:

WORKSHEETS Read and Complete Session 3 WORKSHEETS

WRITE Using the *Writing Your Plan* page in your WORKSHEETS section for Session 3 as your guide, write **Section IV. Organizational Matters, Part A.–Ownership, Regulations and Contracts** of your NxLeveL™ Agricultural Business Plan

TEXT **READ** the TEXT material for Session 4: Manage from the Ground Up

Learning Objectives
- Identify and select a legal structure for your business
- Become aware of government regulations facing small business and outside resources available for guidance in compliance
- Research regulations specific to your agricultural business and determine the impact and cost to your business
- Identify contracts and leases that will be used in your business, and other contracts that may be important to the business later

The Legal Terrain
Session Three

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **The Legal Structure of Your Business**
   Options
   Pros and Cons

2. **Government Regulations**
   Regulations and taxes

3. **Contract and Leases**
   What is a contract?
   Contract terms
   Leases

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Four:

WORKSHEETS Read and Complete Session 3 WORKSHEETS

WRITE Using the *Writing Your Plan* page in your WORKSHEETS section for Session 3 as your guide, write **Section IV. Organizational Matters, Part A.–Ownership, Regulations and Contracts** of your NxLeveL™ Agricultural Business Plan

TEXT **READ** the TEXT material for Session 4: Manage from the Ground Up

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

Learning Objectives
- Understand the concept of managing human resources
- Identify internal and external (outsourced) management team members and determine related expenses
- Determine current and future employee needs and related expenses, and identify employee management issues
- Identify business insurance, other risk management needs and associated expenses
- Identify other operations controls needed to manage risk

Manage from the Ground Up
Session Four

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **Management Overview**
   Can you be a "Manager" and an "Entrepreneur"?
   Identifying Activities and Allocating Tasks
   Communication
2. **Managing Human Resources**
   Building the "Team"
   Managing the "Team"
3. **Managing Risk**
   Qualified Advisors
   Insurance
   Other Operations Controls

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Five:

WORKSHEETS Read and Complete Session 4 WORKSHEETS

WRITE Using the *Writing Your Plan* page in your WORKSHEETS section for Session 4 as your guide, write **Section IV. Organizational Matters, Part B.–Management Issues** of your NxLeveL™ Agricultural Business Plan

TEXT **READ** the TEXT material for Session 5: Plant It, Grow It, MARKET It!

Learning Objectives
- Understand the concept of managing human resources
- Identify internal and external (outsourced) management team members and determine related expenses
- Determine current and future employee needs and related expenses, and identify employee management issues
- Identify business insurance, other risk management needs and associated expenses
- Identify other operations controls needed to manage risk

Manage from the Ground Up
Session Four

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **Management Overview**
   Can you be a "Manager" and an "Entrepreneur"?
   Identifying Activities and Allocating Tasks
   Communication
2. **Managing Human Resources**
   Building the "Team"
   Managing the "Team"
3. **Managing Risk**
   Qualified Advisors
   Insurance
   Other Operations Controls

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Five:

WORKSHEETS Read and Complete Session 4 WORKSHEETS

WRITE Using the *Writing Your Plan* page in your WORKSHEETS section for Session 4 as your guide, write **Section IV. Organizational Matters, Part B.–Management Issues** of your NxLeveL™ Agricultural Business Plan

TEXT **READ** the TEXT material for Session 5: Plant It, Grow It, MARKET It!

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

Learning Objectives
- Develop an understanding of marketing issues and their day-to-day impact on company profitability
- Understand the *necessity* for market research and analysis
- Describe your product/service, including: features and benefits, life cycle and seasonality issues and growth plans
- Develop your customer profile(s) and analyze the competition
- Learn how to use customer and competition profiles to analyze market potential
- Examine preliminary production potential

Plant It, Grow It, MARKET It!
Session Five

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **What is Marketing? What is a Market?**
2. **The 4 P's of Marketing—P #1: Product**
3. **Analyzing the Customer**
4. **Analyzing the Competition**
5. **Production Potential–Can You Produce It?**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Six:

WORKSHEETS Read and Complete Session 5 WORKSHEETS

WRITE Using the *Writing Your Plan* pages at the end of the WORKSHEETS section for Session 5 as your guide, write **Section V. The Marketing Plan—Part A. The Products/Services**, **and Part B. The Market Analysis** of your NxLeveL™ Agricultural Business Plan. Remember, there are two "Writing Your Plan" instruction pages in your WORKSHEETS, one for Part A, and one for Part B.

TEXT **REVIEW** all of the TEXT material in Session 5. **READ** all of the TEXT material in Session 6: Reap the Benefits–Marketing Strategies

Learning Objectives
- Develop an understanding of marketing issues and their day-to-day impact on company profitability
- Understand the *necessity* for market research and analysis
- Describe your product/service, including: features and benefits, life cycle and seasonality issues and growth plans
- Develop your customer profile(s) and analyze the competition
- Learn how to use customer and competition profiles to analyze market potential
- Examine preliminary production potential

Plant It, Grow It, MARKET It!
Session Five

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **What is Marketing? What is a Market?**
2. **The 4 P's of Marketing—P #1: Product**
3. **Analyzing the Customer**
4. **Analyzing the Competition**
5. **Production Potential–Can You Produce It?**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Six:

WORKSHEETS Read and Complete Session 5 WORKSHEETS

WRITE Using the *Writing Your Plan* pages at the end of the WORKSHEETS section for Session 5 as your guide, write **Section V. The Marketing Plan—Part A. The Products/Services**, **and Part B. The Market Analysis** of your NxLeveL™ Agricultural Business Plan. Remember, there are two "Writing Your Plan" instruction pages in your WORKSHEETS, one for Part A, and one for Part B.

TEXT **REVIEW** all of the TEXT material in Session 5. **READ** all of the TEXT material in Session 6: Reap the Benefits–Marketing Strategies

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

Learning Objectives
- Understand the importance of the business image in overall marketing strategies
- Learn what elements influence price and the price/quality relationship
- Examine promotional tools and select the most effective mix for your business
- Gain an understanding of distribution channels, and how placement strategies impact your agricultural businesses

Reap the Benefits–Marketing Strategies
Session Six

Date: ____________________

Due: ____________________

Class Opener

Instructor Topics

1. **Marketing Strategies Overview**
2. **Product Strategies**
   Product Line and Product Mix
   Packaging–Image Development
   Service Enhancements
3. **Pricing Strategies–What IS the "Right Price?"**
   Pricing Strategies
   Understanding Your Costs
4. **Promotional Strategies**
   Advertising and the Media
   Public Relations and Networking
   Other Promotional Tools
5. **Placement (Distribution) Strategies**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Seven:

WORKSHEETS Read and Complete Session 6 WORKSHEETS

WRITE Using the *Writing Your Plan* pages at the end of the WORKSHEETS section for Session 6 as your guide, write **Section V. The Marketing Plan—Part C. Marketing Strategies** of your NxLeveL™ Agricultural Business Plan

TEXT **REVIEW** all of the TEXT material in Session 6. **READ** all of the TEXT material in Session 7: Get Your Budgets In Line

Learning Objectives
- Understand the importance of the business image in overall marketing strategies
- Learn what elements influence price and the price/quality relationship
- Examine promotional tools and select the most effective mix for your business
- Gain an understanding of distribution channels, and how placement strategies impact your agricultural businesses

Reap the Benefits–Marketing Strategies
Session Six

Date: ____________________

Due: ____________________

Class Opener

Instructor Topics

1. **Marketing Strategies Overview**
2. **Product Strategies**
   Product Line and Product Mix
   Packaging–Image Development
   Service Enhancements
3. **Pricing Strategies–What IS the "Right Price?"**
   Pricing Strategies
   Understanding Your Costs
4. **Promotional Strategies**
   Advertising and the Media
   Public Relations and Networking
   Other Promotional Tools
5. **Placement (Distribution) Strategies**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Seven:

WORKSHEETS Read and Complete Session 6 WORKSHEETS

WRITE Using the *Writing Your Plan* pages at the end of the WORKSHEETS section for Session 6 as your guide, write **Section V. The Marketing Plan—Part C. Marketing Strategies** of your NxLeveL™ Agricultural Business Plan

TEXT **REVIEW** all of the TEXT material in Session 6. **READ** all of the TEXT material in Session 7: Get Your Budgets In Line

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

Learning Objectives
- Gain an understanding of the basic uses of financial information
- Understand how bookkeeping, record-keeping and accounting systems tie to the production of *useful* financial information
- Examine the bookkeeping and record-keeping activities of your business and who controls them
- Understand the importance of budgeting and the role of assumptions
- Explore how budgets provide performance feedback for the business
- Prepare budgets, including the Fixed Assets Acquisitions Budget, Growth (or Start-up) Expenses Budget, Sales and Operating Expenses Budgets and Cash Flow Projection
- Understand the usefulness of a Sensitivity Analysis

Get Your Budgets In Line
Session Seven

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. Overview of Financial Information

2. The Importance of Bookkeeping, Record-keeping and Accounting Systems

3. Why Should You Budget?

4. The Basics of Budgeting

5. Preparing Budgets

6. Feedback From Your Budgets & Sensitivity Analyses

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Eight:

WORKSHEETS Read and Complete Session 7 WORKSHEETS

WRITE Using the *Writing Your Plan* page at the end of the WORKSHEETS section for Session 7 as your guide, write and assemble **Section VI. The Financial Plan—Part A. Managing Books and Records, Part B. Budgets and Assumptions** and **Part C. Cash Flow Projections** of your NxLeveL™ Agricultural Business Plan

TEXT **REVIEW** all of the TEXT material in Session 7. **READ** all of the TEXT material in Session 8: Analyze THESE: Cash Flow and Financial Statements

Learning Objectives
- Gain an understanding of the basic uses of financial information
- Understand how bookkeeping, record-keeping and accounting systems tie to the production of *useful* financial information
- Examine the bookkeeping and record-keeping activities of your business and who controls them
- Understand the importance of budgeting and the role of assumptions
- Explore how budgets provide performance feedback for the business
- Prepare budgets, including the Fixed Assets Acquisitions Budget, Growth (or Start-up) Expenses Budget, Sales and Operating Expenses Budgets and Cash Flow Projection
- Understand the usefulness of a Sensitivity Analysis

Get Your Budgets In Line
Session Seven

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. Overview of Financial Information

2. The Importance of Bookkeeping, Record-keeping and Accounting Systems

3. Why Should You Budget?

4. The Basics of Budgeting

5. Preparing Budgets

6. Feedback From Your Budgets & Sensitivity Analyses

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Eight:

WORKSHEETS Read and Complete Session 7 WORKSHEETS

WRITE Using the *Writing Your Plan* page at the end of the WORKSHEETS section for Session 7 as your guide, write and assemble **Section VI. The Financial Plan—Part A. Managing Books and Records, Part B. Budgets and Assumptions** and **Part C. Cash Flow Projections** of your NxLeveL™ Agricultural Business Plan

TEXT **REVIEW** all of the TEXT material in Session 7. **READ** all of the TEXT material in Session 8: Analyze THESE: Cash Flow and Financial Statements

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

Learning Objectives
- Explore ways of managing the cash flow cycle
- Understand internal operations controls relating to cash management
- Review the content and purpose of an Income Statement and Balance Sheet
- Learn tools used for financial statement analysis

Analyze THESE: Cash Flow and Financial Statements
Session Eight

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **Understanding and Managing the Cash Flow Cycle**
2. **Establishing Internal Controls for Cash**
3. **Introduction to Financial Statements**
4. **Financial Statement Analysis**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Nine:

WORKSHEETS	Read and Complete Session 8 WORKSHEETS
WRITE	Using the *Writing Your Plan* page at the end of the WORKSHEETS section for Sessions 7 and 8, continue working on **Section VI. The Financial Plan–Part C. Cash Flow Projections,** and **Part D. Additional Financial Information** of your NxLeveL™ Agricultural Business Plan
TEXT	**REVIEW** all of the TEXT material in Session 8. **READ** all of the TEXT material in Session 9: Cultivate Your Money Resources

Learning Objectives
- Explore ways of managing the cash flow cycle
- Understand internal operations controls relating to cash management
- Review the content and purpose of an Income Statement and Balance Sheet
- Learn tools used for financial statement analysis

Analyze THESE: Cash Flow and Financial Statements
Session Eight

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. Understanding and Managing the Cash Flow Cycle
2. Establishing Internal Controls for Cash
3. Introduction to Financial Statements
4. Financial Statement Analysis

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Nine:

WORKSHEETS Read and Complete Session 8 WORKSHEETS
WRITE Using the *Writing Your Plan* page at the end of the WORKSHEETS section for Sessions 7 and 8, continue working on **Section VI. The Financial Plan–Part C. Cash Flow Projections,** and **Part D. Additional Financial Information** of your NxLeveL™ Agricultural Business Plan
TEXT **REVIEW** all of the TEXT material in Session 8. **READ** all of the TEXT material in Session 9: Cultivate Your Money Resources

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

Learning Objectives
- Understand the difference between debt and equity financing
- Gain information about different conventional and non-traditional sources of financing
- Examine realistic options and barriers for financing agricultural businesses

Cultivate Your Money Resources
Session Nine

Date: ____________________

Due: ____________________

Class Opener

Instructor Topics

1. **Choosing the Right Financing**
2. **Other Financing Sources**
3. **Keys for Successfully Obtaining Financing**
4. **Financing Challenges for Agricultural Businesses**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Ten:

WORKSHEETS Read and Complete Session 9 WORKSHEETS–and read and complete Session 10 WORKSHEET on Succession and Estate Planning

WRITE Using the *Writing Your Plan* page at the end of the WORKSHEETS section for Sessions 7, 8 and 9, complete **Section VI. The Financial Plan–Part C. Cash Flow Projections, Part D. Additional Financial Information** and **Part E. Conclusion.** You should also be working on the final pieces of your draft NxLeveL™ Agricultural Business Plan, including the **Cover Sheet, Table of Contents, Executive Summary** and **Appendix**

TEXT **READ** all of the TEXT material in Session 10: Harvest Your Future

Learning Objectives
- Understand the difference between debt and equity financing
- Gain information about different conventional and non-traditional sources of financing
- Examine realistic options and barriers for financing agricultural businesses

Cultivate Your Money Resources
Session Nine

Date: ____________________

Due: ____________________

Class Opener

Instructor Topics

1. **Choosing the Right Financing**
2. **Other Financing Sources**
3. **Keys for Successfully Obtaining Financing**
4. **Financing Challenges for Agricultural Businesses**

Guest Speaker

Break
- Refreshments
- Networking Activity

Work Hour

Assignment for Session Ten:

WORKSHEETS Read and Complete Session 9 WORKSHEETS–and read and complete Session 10 WORKSHEET on Succession and Estate Planning

WRITE Using the *Writing Your Plan* page at the end of the WORKSHEETS section for Sessions 7, 8 and 9, complete **Section VI. The Financial Plan–Part C. Cash Flow Projections, Part D. Additional Financial Information** and **Part E. Conclusion.** You should also be working on the final pieces of your draft NxLeveL™ Agricultural Business Plan, including the **Cover Sheet, Table of Contents, Executive Summary** and **Appendix**

TEXT **READ** all of the TEXT material in Session 10: Harvest Your Future

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

Learning Objectives
- Discuss negotiating in the business world
- Examine reasons for growing your business
- Recognize the pitfalls of unmanaged growth, and gain an understanding of managed growth
- Explore estate planning, succession issues and exit strategies
- Evaluate your NxLeveL™ learning experience

Harvest Your Future
Session Ten

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. **Negotiating in the Business World**
2. **Managing Growth**
3. **Estate Planning, Business Succession, and Exit Strategies**
4. **Barriers and Pitfalls**

Short Break

Course Evaluation

Break into small groups and discuss the following:

1. **What did you like most about the course?**
2. **What did you like least about the course?**
3. **Which guest speakers were most effective? Least effective?**
4. **What module would you shorten? Lengthen?**
5. **What module(s) would you like to see added? Deleted?**
6. **What was THE most important thing you got out of the course?**
7. **What suggestions do you have for the Instructor/Facilitator that would improve the delivery of the course?**

Break and Graduation—all remaining time.

Learning Objectives
- Discuss negotiating in the business world
- Examine reasons for growing your business
- Recognize the pitfalls of unmanaged growth, and gain an understanding of managed growth
- Explore estate planning, succession issues and exit strategies
- Evaluate your NxLeveL™ learning experience

Harvest Your Future
Session Ten

Date: ______________________

Due: ______________________

Class Opener

Instructor Topics

1. Negotiating in the Business World
2. Managing Growth
3. Estate Planning, Business Succession, and Exit Strategies
4. Barriers and Pitfalls

Short Break

Course Evaluation

Break into small groups and discuss the following:

1. What did you like most about the course?
2. What did you like least about the course?
3. Which guest speakers were most effective? Least effective?
4. What module would you shorten? Lengthen?
5. What module(s) would you like to see added? Deleted?
6. What was THE most important thing you got out of the course?
7. What suggestions do you have for the Instructor/Facilitator that would improve the delivery of the course?

Break and Graduation—all remaining time.

NxLeveL™ Guide for Agricultural Entrepreneurs–Participant Session Outline

text

take stock of your resources
session one

text

take stock of your resources
session one

take stock of your resources

session one

take stock of your resources

session one

take stock of your resources

SESSION ONE

this Session

WHAT'S IN THIS SESSION?

In this session we will cover five topics:

Entrepreneurial Traits. First, we will point out those traits that have been identified in successful entrepreneurs. Later, in the workbook section, you will fill out the *Entrepreneurial Traits Assessment Worksheet*, to identify the extent to which these traits are present in you and your family members.

Lifestyle Preferences. Second, we will investigate the importance of lifestyle and your decision to start or expand your agricultural business. Personal and family issues will be considered, as well as economic, societal and environmental factors that may impact your business. In the workbook section, you will have a chance to fill out the *Personal and Family Considerations Worksheet* that will help you determine the importance you place on lifestyle preferences. For instance, you may discover that your desire to practice land stewardship without the use of chemicals may lead you to organic farming. Or, you may decide to continue your cow/calf operations but add a direct marketing outlet.

Resource Inventory. Third, the importance of developing a realistic resource inventory will be discussed. Your resource inventory will be made up of five components; (1) personal knowledge as it relates to the operation of your agricultural business, (2) an assessment of your family members' knowledge, availability and desire to be part of the business; (3) an assessment of your business knowledge and that of your family's knowledge; (4) an inventory of your physical resources that are related to your agricultural operation; and finally, (5) a picture of your personal financial resources—the assets and income that you can bring to start your new business.

take stock of your resources

SESSION ONE

this Session

- entrepreneurial traits p2
- lifestyle preferences p7
- resource inventory p9
- mission statements p11
- goals & objectives p14

WHAT'S IN THIS SESSION?

In this session we will cover five topics:

Entrepreneurial Traits. First, we will point out those traits that have been identified in successful entrepreneurs. Later, in the workbook section, you will fill out the Entrepreneurial Traits Assessment Worksheet, to identify the extent to which these traits are present in you and your family members.

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In the workbook section, you will complete a series of worksheets that will help you assess the positives and negatives in the areas that makeup your resource inventory.

An entrepreneur is a builder—one who sees an opportunity, sizes up its value and finds the resources to make the most of it.

Mission Statements. Fourth, you will prepare mission statements that reflect the personal and business goals of the new venture you are starting or the expansion of your existing business. The mission, or concept statements, will provide guidance as you work your way through the remaining nine sessions.

Goals and Objectives. Fifth, and finally, you will develop your goals and objectives for the next three to five years. Again and again you will be asked to come back to your personal or business concept and answer many questions. Does your idea still make sense in light of the new industry information you have discovered? With your new insight in marketing your farm product(s), do you need to revise your original business concept? Is this new concept still in tune with your personal and economic goals? Is your personal financial status such that you can self-finance your new venture? If not, what kind of financing is available to help get you started?

In short, this session will help you and your family members understand why you are developing your agricultural business from both the personal and business angles. It will also help you develop a realistic inventory of the resources you will bring to your new venture. Perhaps most importantly, it will help you decide how to ask important questions in future sessions, like, "My original business idea has changed. Does the new idea still fit with my personal goals?"

Traits of Successful Entrepreneurs

Entrepreneur Defined

Those involved in successful agricultural enterprise often share "entrepreneurial traits." So, what is an entrepreneur? He or she is a builder—one who sees an opportunity, sizes up its value and finds the resources to make the most of it. Entrepreneurs are innovators: they have a strong desire to create something new. It may be a new product or a new process, but always a better idea. The entrepreneur also has a vision of how the business will grow—and the drive to make it happen.

1-2 TEXT take stock of your resources

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Perhaps you are saying "I don't want to be an entrepreneur, I'm a rancher or a farmer." Traditionally, agricultural producers have been primarily interested in generating an income to support their family and a lifestyle that fits their social and economic goals. Their agricultural businesses have tended to be relatively small and local. These small business owners are generally more concerned with managing what they have, while entrepreneurs are more concerned with developing new ideas, new markets and new challenges.

You might also wonder, "Why study entrepreneurship when I'm happy with my current farm operation?" There are several reasons. First, your farm operation is a business, one that you have the ability to control and successfully manage. Second, you can be a successful business owner without being an entrepreneur, but you can't be an entrepreneur without first starting a business. As a business owner, you may find that your personal and economic goals change over time. Low commodity prices, high land values, college education for your children or other factors might influence your decision to become an entrepreneur and develop new business opportunities.

Secondly, the sound management, marketing and financial techniques and skills that successful entrepreneurs share can help you in becoming a more successful agricultural business owner. That success may show up by your operation becoming more profitable, or it may give you the extra time your personal lifestyle goals demand.

Third, as we shall see, entrepreneurial traits are not magic or inherited. Far from being a commodity that certain lucky individuals were born with, these traits may be better viewed as developed skills or habits. And habits are one thing we all share in common. Your goal is to identify the skills and habits of successful entrepreneurs and develop those same skills and habits in your work and personal lives.

"The entrepreneur has a vision of how the business will grow—and the drive to make it happen."

What Makes a Good Entrepreneur?

passion.

Entrepreneurs are a diverse lot. No one gender, age, education level or ethnicity has a particular advantage in entrepreneurship, but certain personalities do. By looking at the profile of successful entrepreneurs, you can assess your strengths against theirs. What characteristics seem to be common? Which of these characteristics are the most important to you as you develop your agriculture business? Many entrepreneurs exhibit these:

Passion

Loving what you are doing seems to be essential to doing it well—whether the doing is raising cattle, growing oranges, making horseradish or just running your agricultural business. Time seems to have very little meaning when we are passionate about what we are doing. The time and effort

take stock of your resources TEXT 1-3

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expended on our passion leaves us feeling exhilarated rather than exhausted. Perhaps this is one source of the motivation producers need to put in the long hours required to launch and grow their products.

Persistence

Entrepreneurs are determined. They can carry a task to completion and are willing to work longer and harder than others. They will do whatever it takes to get the job done, which is often critical in overcoming the many daily challenges faced by entrepreneurs.

Part of persistence is discipline. Entrepreneurs often have to do things they don't like to do in order to meet their goals. For example, some producers do not enjoy financial record-keeping. Yet most successful producers know this is vital to the success of their business, and make sure financial functions are done properly and on-time.

Good Health, High Energy

creativity.

Starting a business requires a tremendous amount of energy. Determining feasibility, getting permits, finding a location and contacting suppliers and distributors are time and energy consuming. Because of the many demands placed on entrepreneurs, good health and high energy are practically requirements. Without your health and energy, your business would be much more difficult to maintain. In fact, when the owner's health fails, the business is often not far behind. If you wish to be an entrepreneur, take care of this valuable asset.

Creativity/Innovation

New products and services come from new ideas and new ways of looking at a problem. Creativity and flexibility are valuable qualities in building a business. Successful producers tend to utilize their creativity to not only address the problem at hand but to also address the root causes or the symptoms. For example, asking the question, "Will this approach remedy the situation or will the problem happen again?" is one key to deciding if you are dealing with the actual problem or merely treating a symptom of the problem.

1-4 TEXT take stock of your resources

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Sometimes, being on the outside of a given business or industry seems to make it easier to see a new solution. It is important that once you have entered your business that you remember to step back and take a new look once in a while.

Independence and Self-Reliance

When you own your own business, no one else is going to make the decisions for you. Furthermore, you may not have someone to rely on for the work you're unfamiliar with or don't like. Part of independence and self-reliance is knowing when you don't know. Successful entrepreneurs realize their limitations and know where to go to get help—whether that be with technical crop assistance or with financial record keeping.

"A 'customer-driven philosophy' involves creating your business around what the customers want, rather than deciding for them…"

Intuition

Intuition is the ability to see the patterns and possibilities in a set of events—to see beyond the obvious. Some people would call this a "gut feeling." Whatever you call it, entrepreneurs who have it often have an uncanny ability to predict how a given set of circumstances will affect their business. Entrepreneurs need to trust their intuition to help them make the right business decisions.

self confidence.

Self-Confidence

It obviously takes a great deal of confidence to "go it alone." New venture owners have to believe in their ability to make their businesses prosper. They are also realistic and open to change. They recognize they can't and don't know everything and therefore ask questions and seek advice from others. Because of their self-confidence, entrepreneurs identify problems and begin working on their solutions quickly. Entrepreneurs are viewed as leaders because they are often the first to identify the problem.

Market Awareness

Entrepreneurs seem to intuitively understand that their fortunes rise and fall at the marketplace. They introduce the right product at the right time. Some call this a "customer-driven philosophy" and it involves creating your business around what the customers want rather than deciding for the customers.

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Lack of Need for Status

Entrepreneurs' status needs are satisfied by achieving goals rather than by clothing, trucks, boats or luxury homes. While entrepreneurs may enjoy and partake in some of these luxuries, they aren't the reason for their efforts. Entrepreneurs typically don't judge themselves by external standards, but by whether or not they have achieved their own internal goals and objectives.

Ability to Accept Challenges

Much is written about entrepreneurs as risk takers, but in fact they are neither low nor high-risk takers. Rather, they are willing to accept challenges where they can influence the outcome. Some refer to this as "calculated risk taking." Entrepreneurs seldom act until they have assessed the risk. A challenge is highly motivating to entrepreneurs, and they enjoy the thrill and excitement of taking on new challenges.

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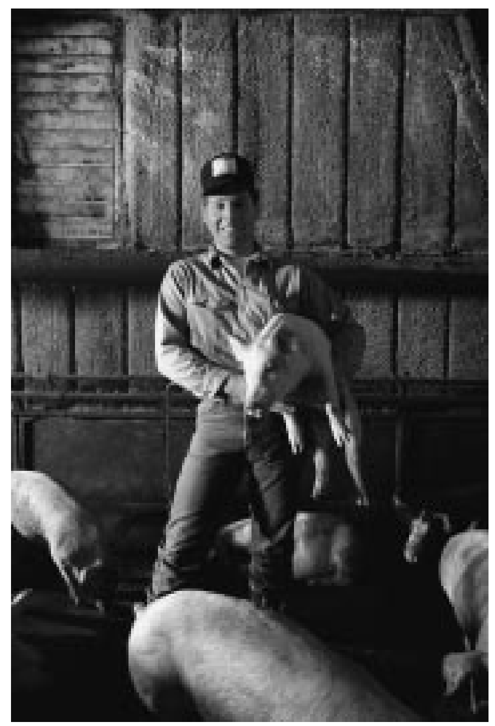

Hard Work Ethics

Agricultural producers are inevitably hard-working, as are entrepreneurs. Creating and successfully running a new business or expanding an existing one takes hard work and a lot of time.

While looking at entrepreneurial aptitudes may be useful, it's important to decide whether the venture is worth doing and whether you want to do it. In the end, we know entrepreneurs not by their traits, but by what they do. It is the behaviors of entrepreneurs that distinguish them. Remember that actions speak louder than words.

Commonality of All Traits

The above examples of entrepreneurial traits all have one thing in common—they are all things we can work on. If you believe that you are not very creative, then chances are you will not practice being creative. The skills and habits displayed by successful entrepreneurs can be adopted and used successfully by you in your agricultural business with study, proper application and practice.

1-6 TEXT take stock of your resources

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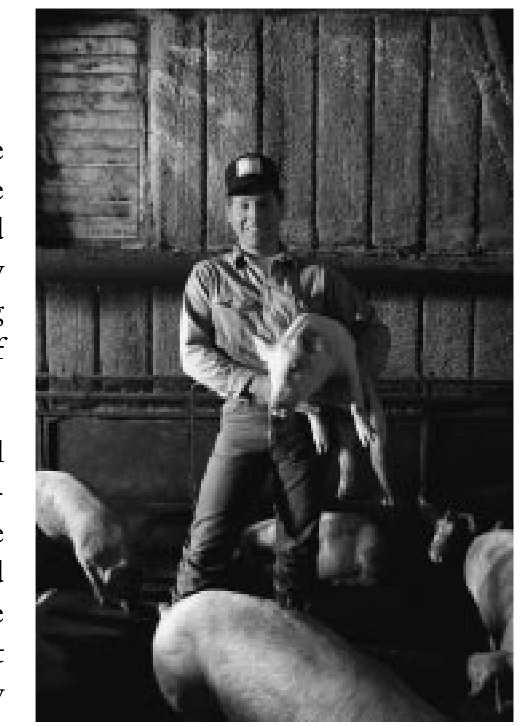

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Risks and Drawbacks of Entrepreneurship

It is true that there is a definite risk in going into business for yourself. However, risks can be minimized. Entrepreneurs are not gamblers. They are interested in minimizing risks with planning, information gathering and analysis. Entrepreneurs are willing to take calculated risks. For the true entrepreneur, however, the rewards of entrepreneurship far outweigh the risks.

Let's look at some of the risks and drawbacks common to entrepreneurs.

- **Failure.** Entrepreneurs must assume the emotional and financial risks of failure.
- **Time.** A major drawback to undertaking an entrepreneurial effort is the tremendous amount of time it takes to make the business successful. Most report 60-70 hour per week as normal.
- **Family.** Because of the strain of operating a business, many families suffer. When the family is involved in the business, the strain increases.
- **Money.** Most start-up entrepreneurs have their own money at risk.

Entrepreneurs really enjoy what they do!

Rewards of Entrepreneurship

Just as there are risks and drawbacks related to entrepreneurship, so too exist rewards. Naturally we are not all motivated by the same things. However, the following appear to be the major issues for most entrepreneurs:

- **Independence.** The freedom to act independently is paramount in an entrepreneur's decision to be his or her own boss.
- **Money.** The financial return from their efforts is not limited to normal work for normal pay.
- **Fun!** Entrepreneurs describe what they do as fun—that is, they really enjoy what they do!

independence money fun!

Lifestyle Preferences

Just as individuals pursue entrepreneurship with different personal ambitions, those involved in agricultural businesses approach the personal side of their businesses in many different ways. For some, the personal aspects of developing and running an agricultural venture provide the overpowering rationale. Others are more motivated by family or other considerations

take stock of your resources TEXT 1-7

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such as economic, societal or environmental factors. The important point is that you think about and determine what YOUR lifestyle goals are and how they are involved in your idea of developing or expanding a business.

Assessing lifestyle preference entails what you value as a human being. It speaks to who you are, the priorities in your life that guide all of your decisions and what motivates you. You will need to study these personal issues in order to create a compatible fit between your personal and business life.

Personal and Family Considerations

"What would you do to pursue your goals and dreams regardless of others in your life?"

The first place to start in determining your personal and family considerations is by understanding what motivates you and your family. You might immediately wonder why personal and family considerations are separated. For some they are the same—they have personal and family desires that are so closely interwoven that the two are indistinguishable. However, for many others, personal goals are not always shared so closely with other family members. We all know about the new farmer who moved his family out of the big city to get away from it all. The trouble is, most of the family liked "it all" and really wanted to stay. Unfortunately, these feelings only surfaced after the initial enthusiasm for the idea decreased.

Personal considerations are those views, aspirations, desires and goals that are tied most closely with your own sense of well being. What would you do to pursue your goals and dreams regardless of others in your life? What if you didn't have a farm loan, family responsibilities or anything else to tie you down? It is interesting to consider these questions, and for many a thorough understanding of their personal desires helps them better assess their family goals.

aspirations & goals.

Of course, most of us do have family and financial obligations. Besides these we often have many other responsibilities that can include debt, aging parents, church or commitments to other groups and individuals that we can not easily disregard. This is the place where we bring in family considerations. By tempering our desire to go anywhere to fulfill our lifelong dream we take into consideration the ones we are going to take with us, as well as the commitments that will undoubtedly follow us.

As you fill out the *Personal and Family Considerations Worksheet* in the following section, keep in mind the many factors, responsibilities and commitments that temper your desires. Also, you will want to pay attention to the desires of your family for two important reasons. First, they are going with you in this endeavor, and if they are committed to the new ventures' success from the start it will defuse many potential family tensions that arise out of time and money issues. The more that the family is in agreement on why everyone is supporting the new business or the revised farm operations,

1-8 TEXT take stock of your resources

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the less chance for continued hassles about these issues. Second, your new agricultural business will need labor. In fact, sufficient labor of the right kind and at the right time will be one of the most difficult challenges facing many of you. Labor is a key component of agricultural businesses and your family can play a critical role. If you have counted on a family member's commitment to help, you best make sure they are behind the idea, or you might find that you are incurring unexpected labor costs.

Some find it helpful to have each family member fill out an *Individual Personal and Family Considerations Worksheet*. Others sit down at the kitchen table and fill out one family worksheet based on family agreement after much discussion and negotiation. The point is you don't want to assume that your family shares all your personal goals in regards to starting or expanding your agricultural operations. Get them involved!

Resource Inventory

It is important to consider what you can contribute to your new business' success before you launch it. Would you ever think about diving into a swimming pool before you accurately assessed your ability to swim? Or before you knew how deep the water was? Of course not. In the same manner, you will want to find out what skills you possess and what resources you have available before starting your business. This is important in two ways. First, it shows in which areas of the business that you are knowledgeable and competent. Equally important, it shows those areas where you will need assistance in to help ensure that your business is successful.

"Make a list or inventory of the skills you possess…"

A good way to do this is to make a list or inventory of the skills you possess. You can start by answering a series of questions about your experience and competencies in the following worksheet section. This is a time for complete honesty and reflection. Remember that you are the boss and that you must realistically know what you can and cannot do. This is also a time when you will want to be sure to include the family. From your family's last group session you should have a good idea of where your family business is headed from a philosophical standpoint. Now is the time to figure out who has the talents to help you get there.

Your resource inventory will be made up of five components: your personal and family members' interest, experience and availability; you and your family members' general business skills; your physical resources or those assets you already own that may be needed for production; and finally, your personal financial status.

take stock of your resources TEXT 1-9

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Resource Inventory

It is important to consider what you can contribute to your new business' success before you launch it. Would you ever think about diving into a swimming pool before you accurately assessed your ability to swim? Or before you knew how deep the water was? Of course not. In the same manner, you will want to find out what skills you possess and what resources you have available before starting your business. This is important in two ways. First, it shows in which areas of the business that you are knowledgeable and competent. Equally important, it shows those areas where you will need assistance in to help ensure that your business is successful.

"Make a list or inventory of the skills you possess…"

A good way to do this is to make a list or inventory of the skills you possess. You can start by answering a series of questions about your experience and competencies in the following worksheet section. This is a time for complete honesty and reflection. Remember that you are the boss and that you must realistically know what you can and cannot do. This is also a time when you will want to be sure to include the family. From your family's last group session you should have a good idea of where your family business is headed from a philosophical standpoint. Now is the time to figure out who has the talents to help you get there.

Your resource inventory will be made up of five components: your personal and family members' interest, experience and availability; you and your family members' general business skills; your physical resources or those assets you already own that may be needed for production; and finally, your personal financial status.

Personal and Family Interest, Experience & Availability

"Although business skills can be learned, it is important that you accurately determine your level of competence when starting out."

The first inventory has to do with the interest, knowledge and availability of you and your family members. You need to consider questions like, "Do we have the interest and/or knowledge to actually perform the agricultural work required to raise or produce our product?" Whether you are growing organic tomatoes or raising bison, you must understand the required components needed to grow the product or raise and care for your animals. By answering questions regarding your agricultural knowledge and human resources availability, you may discover technical and labor areas in which you need assistance. Additionally, you may discover that you or your family members need to stop doing some of their current, and maybe not as valuable, activities so they can assist with the new operation.

General Business Skills

Fortunately for many of us, we possess general business skills that will come in handy as we develop our agricultural business. These skills have to do with time and employee management, marketing and financial areas such as record keeping or tax reporting. The more skills you and your family members have to offer your new business, the less outside help your new business will have to hire to perform these required functions. Although business skills can be learned, it is important that you accurately determine your level of competence when starting out. Do not assume you will pick it up as you go along. Those that have been in business before or are currently running a business will have the advantage of understanding their limitations and strengths in the business skill area.

Physical Resources (Land, Building & Equipment)

Some individuals may be involved in an existing agricultural operation and have existing land, buildings and equipment that they can use in their new business. This is the place to detail those assets that you already own or lease that you believe will be required to run your agricultural enterprise. Besides identifying agriculture-based assets like tractors, land, etc., you should also include office equipment and furniture, personal computers, and other business assets that will assist you in running your business. The concept to keep in mind here is that of control—who controls the decision? For instance, if you control the use of land through a land lease, are the conditions of that lease such that you are allowed to grow the product you wish?

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Personal Financial Statement

Most of us have probably filled out a personal financial statement before or something very much like it. Anytime we have applied to a bank for a credit card, automobile or farm loan, we have been asked to provide information about our financial status. Banks and other creditors look at two different areas that when combined determine our financial health.

The first part has to do with the things we own (assets) and the debt we used, if any, to buy them. This is a snap shot of our financial status at any one time and shows our assets, our debts (liabilities) and our net worth. Our net worth is determined by subtracting the total of our assets from the total of our liabilities. In your business you will learn that this is called a Balance Sheet, because your assets always equals (balances) your liabilities plus net worth. In later sessions we will study financial statements and what they mean. Here we are trying to get an idea of the ready cash you can apply to your agricultural business to meet start-up costs and whether you have sufficient cash to provide a reasonable amount of working capital to the new operation. It will also help determine if you have pledgeable assets that a lender might take as collateral to make a loan to your business.

The second part of your personal financial statement has to do with the money you make. Consider whether you or other family members are able and willing to continue working your current jobs while your business gets established. Income that is outside the proposed business could be important to support the family, or perhaps as a separate source of income to entice a banker to make a business loan to you. The idea that you will find work if the business is slow in getting started really needs to be thoroughly investigated. Do you have the job skills that are so heavily demanded that you could virtually go to work any time you wanted? Most of us don't have those skills, and we would be surprised how difficult it can be to find a job without a job.

"Successful business owners have both a business mission statement and a personal mission statement…"

Mission Statements

A mission statement generally refers to the overall mission of the business. It is a written statement that in broad terms describes what the business hopes to do and be. Successful business owners have both a business mission statement and a personal mission statement. A good place to start in developing mission statements is with a description of the basic concept regarding your agricultural business.

take stock of your resources TEXT 1-11

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Your Concept Description

It is important for you to be able to describe in a general way your business concept. You should be able to tell someone you do not know and who knows nothing about your business, what products you plan to raise, how you plan to raise them, and what markets you believe you will be able to reach with your products. It is helpful to consider who will be involved in your new or expanding agricultural business in terms of operations and technical expertise. Also, in what stage of development is the business? Is this a new venture, or an addition to an already established operation? Growth is always important to every business either new or expanding. Do you plan to grow rapidly, or slowly? How will that growth occur and be managed?

This session's worksheets and the questions they pose will assist you in developing a working concept description of your business. After you have developed your concept description, try this test. If you have developed a good concept description you will be able to briefly explain your business in the simplest of terms to someone you don't know and who has little or no agricultural understanding or background.

Personal Mission Statement

"Your personal mission statement is unique to you…"

The personal mission statement represents the values and principles on which you base your life. Your personal mission statement is unique to you. A good starting point to compose your mission statement is with written bullet points. These points are the basis of what is important to you and your family and what you personally strive to achieve. These are the values and principles upon which you base your life. For example, consider the following:

- I value time
- Being honest is important to me
- It is important to follow through on my commitments

values.

Linking these bullets together in a sentence provides a good idea of your personal values and principles that you will want to reflect in your business.

> *"I will be personally honest in all my relationships and will strive to follow through on all my commitments in a timely fashion."*

This statement should serve as a guide for the creation of your new or expanding business mission statement. If it doesn't help, you should ask yourself, "why not?" Do you really want to start or expand a business that doesn't reflect what you hold to be personally important? Your business should reflect your personal goals and aspirations. Most entrepreneurs find that these goals are the very reason they start their own businesses. At the

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very least, ask yourself whether you want to spend the time and effort necessary to establish such a business if that business is a place where you wouldn't even want to work as an employee.

Business Mission Statement

After you have developed a personal mission statement, you can then synthesize those concepts into your business mission statement. First, you will want to consider your business values. What will be your venture's business ethic? How will customers, employees and family members be treated? What about honesty and integrity? Think about the basic values for which you want your business to be known.

"A reflection of your own measure of success..."

Business mission statements also contain your vision for the business. What are the future plans you have for the business? If the business grows as you wish where would it be in three to five years? Growth, position and community are all important elements you may wish to consider in your mission statement.

"An external measure to gauge your business' ability to meet customer needs..."

The purpose of your business should be reflected in your mission statement and should incorporate your own personal values and vision. Purpose can be defined two ways. First, as a reflection of your own measure of success, purpose helps you determine if your business is meeting your internal needs. Second, purpose can be used as an external measure to gauge your business' ability to meet customer needs.

A business mission statement sums up all of the above. Your values and vision as expressed in your business purpose should represent your business mission. It should be concise and focused and should present in broad terms what the business hopes to do and be.

Examples of some agricultural business mission statements are:

- *The Walnut Tree Farm is dedicated to growing and shipping the highest quality organic produce available. We only grow products that enhance the quality of life for our customers, employees and community.*

take stock of your resources TEXT 1-13

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- *The Walnut Tree Farm is dedicated to growing and shipping the highest quality organic produce available. We only grow products that enhance the quality of life for our customers, employees and community.*

- *To become the #1 branded beef producer in the United States by offering only the highest quality branded products and superior delivery service.*
- *Once-A-Day Apple Farm provides only the best variety of apples available in the State of Washington. We pride ourselves on our high quality produce and timely delivery to all our customers.*

Goals and Objectives

After developing your mission statements, it is a good idea to develop some specific goals and objectives.

Goals

"By always expressing your goals in quantifiable, measurable terms, you can easily track the progress you are making toward your goal…"

Goals are targets that you hope to reach. They are best described in quantifiable terms and expressed in a specific, quantifiable period of time. Goals can be short-term (one year or less) or long-term (two to five years). For instance, you may wish to express a goal in terms of dollars or numbers of customers. Sales will reach $100,000 by year two, or, at the end of year one the business will have 15 customers, are examples of goals that can be expressed in concrete terms. If you do not set quantifiable numbers for your goals you may have a hard time determining if you have reached them. Consider the goal of "a good number of customers," or "sufficient customers by year's end." What constitutes a good customer and what is a good number of them? How many are sufficient? Similarly, "sales that are sufficient to support my family" is not readily determinable, and is subject to much vagueness. What about expenses as they impact sales and profitability? The term "support my family" is too subjective. A better way to express that goal would be: "my personal income from the business to reach $3,000 per month by year two."

Another problem of subjective goals is that you never know where you are in terms of reaching those goals. By always expressing your goals in quantifiable, measurable terms, you can easily track the progress you are making toward your goal. For instance, if your year end goal is to reach

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$100,000 in sales and you are at $80,000 with two months to go, you know exactly how much sales you will need in the last two months of the year to reach your goal.

As you establish the goals for your business remember that each goal should be compatible with your business mission statement, and that each goal should be compatible with all other goals. If your goals contradict each other, or your goals contradict your mission statement, you will find it impossible to start or keep your business headed in the direction you want it to go.

Objectives

Objectives are the means by which goals are reached. Your objectives are the specific strategies for reaching your goals. A goal may have several objectives, and every objective must be measurable.

Consider objectives as those steps necessary to reach the goal. For instance, in reaching the following goal you might set these three objectives.

"Objectives are means by which goals are reached…"

Goal:

By the end of year, our fruit and vegetable subscription sales operation will have a membership of 100 customers.

Objectives:

1. By January, a marketing list will need to be developed that contains 300 potential CSA customers. Contacts are to be made in February and March. Contacts will include telephone solicitation, newspaper ads and group presentations.
2. By end of March, we will have 50 members at the $200 level. Also from conversations with customers we will have a preliminary list of the customers' interests and produce needs for the summer.
3. By end of April, we will have 25 additional $200 level paid subscription sales. We will continue to market to existing and potential customers through the CSA newsletter. We will ask for referrals from current customers.
4. By end of June, contact with referrals should generate another 25 short-season customers at the $100 level.

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5. In fall, we will conduct and complete a customer mailed survey. We will follow-up with a telephone call if needed to reach an 80% response rate. Because of our excellent customer service, we will have 85% of our customers renewing their membership for the next year. To reach our final goal of 100, we will contact new referrals.

One of the most important aspects of objectives is to make sure you assign someone (you or an employee) the responsibility over that objective. Remember that you as the business owner are ultimately responsible for setting the goals and objectives of your agricultural business. However, it is certainly appropriate that you involve employees and customers when setting your goals and objectives. You may want to assign some or all of the objectives of a particular goal to a trusted employee, or an employee may have one or two objectives from various goals assigned as a responsibility. The important point is that objectives are assigned and the results monitored. If you wait till the end of a year to determine if your objectives are being carried out properly to meet your goals, chances are they won't be. Periodically monitoring the progress you are making in achieving your objectives also provides an excellent opportunity to reevaluate and determine if you need to adjust, amend or completely rethink your established goals.

"Make sure you assign someone the responsibility over a particular objective…"

in Conclusion

This session covered five topics.

Entrepreneurial Traits. First, in relating the successful traits and characteristics of successful entrepreneurs, it was determined that these same traits and characteristics could be beneficial to one starting or expanding an agricultural business. These traits were discussed and it was determined that these traits were not inherited or innate. Anyone can successfully incorporate these traits into their venture by study, proper application and practice.

Lifestyle Preferences. Secondly, the importance of lifestyle preferences was discussed. Acknowledging that we all have different personal and family considerations, it was determined that incorporating these preferences into our business plans made good sense. Personal, family, economic, environmental and societal considerations all play important parts in determining our lifestyle preferences and should be considered in our business aspirations.

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Resource Inventory. The importance of developing a realistic resource inventory was discussed. Personal and family agricultural interest, experience and availability, as well as general business knowledge and skills are important elements that you will bring to your new business or enhance an existing operation. A listing of the physical assets of land, machinery and equipment that could be used in your business is important to develop and acknowledge as a potential business resource. Your personal financial position must be assessed first as a potential resource of cash for starting or expanding your business, and for keeping it afloat as it starts or expands. Finally, your personal financial statement is the starting point lenders use in evaluating your credit worthiness and your ability to borrow money. It is important to understand how others view this important document.

Mission Statements. Fourth, the importance of mission statements was discussed. The starting point of the mission statement is to have a good, basic business concept definition. From this definition, the personal mission statement and business mission statement follow. Your personal and business mission statements need to be consistent if you are to keep your business on track.

Goals and Objectives. Finally, goals and objectives were discussed. It was determined that goals are best described in concrete terms and time periods. Goals can be either short or long-term, and are usually expressed in terms of dollars or numbers. Goals are always compatible with each other and your personal and business mission statements. Objectives are the steps necessary to reach your goals. Objectives should be assigned to individuals to carry out and should be periodically monitored to ensure that goals will be met. Periodic monitoring of objectives allows you to reevaluate your goals as needed and warranted.

take stock of your resources T E X T 1-17

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worksheets

take stock of your resources
session one

worksheets

take stock of your resources
session one

take stock of your resources

session one

take stock of your resources

session one

worksheets introduction

The worksheets in this book are designed to help you develop a business plan which will serve as your road map to develop or grow your agricultural business. Coupled with the *NxLeveL™ Guide for Agricultural Entrepreneurs* text, the ideas, tools and techniques you are learning will help you take a hard look at your business and help you decide whether you have the time, energy, desire and resources to grow your agricultural enterprise to the next level.

While there are numerous books and courses on how to write a business plan, NxLeveL™ is designed to comprehensively help you create *and understand* your agricultural business plan. By writing thoughts down and then using them as the building blocks for creating the written plan, you will be evaluating the strengths and weaknesses in your business plan development, and ultimately move toward keeping and growing a successful venture.

How to Use the NxLeveL™ Agricultural Business Plan Worksheets

The worksheets are just that, *work* sheets. They will serve as a guide to help you through the process of writing your *NxLeveL™ Agricultural Business Plan* one step at a time. They are designed for answering a series of questions related to the normal operations of a business and for stimulating thought about potential growth of your business. There are also worksheets to assist you in developing marketing strategies, examining operating costs, predicting expansion costs, and projecting future financial performance. If you are unsure of how to answer a particular question or complete a worksheet, ask your instructor for clarification or undertake additional research.

The purpose of the worksheets is to provide a method for you to put your thoughts and facts down on paper. The preparation of a business plan is a process of research and information gathering, analysis and study, writing and calculations. The worksheets coincide with the 10-session NxLeveL™ Guide for Agricultural Entrepreneurs business course in which you are enrolled. The structure will give you direction, purpose and discipline. Your goal is to produce a *NxLeveL™ Agricultural Business Plan* with sufficient detail about your business so family members, outsiders, potential partners, and potential lenders and/or investors will understand your business' current stage of development, what you are planning for the future and why. Most importantly, the *process* you go through to produce a well-researched business plan will lead you to a new level of understanding about your agricultural business, and about the business world in general.

introduction W O R K S H E E T S i-i

worksheets introduction

The worksheets in this book are designed to help you develop a business plan which will serve as your road map to develop or grow your agricultural business. Coupled with the *NxLeveL™ Guide for Agricultural Entrepreneurs* text, the ideas, tools and techniques you are learning will help you take a hard look at your business and help you decide whether you have the time, energy, desire and resources to grow your agricultural enterprise to the next level.

While there are numerous books and courses on how to write a business plan, NxLeveL™ is designed to comprehensively help you create *and understand* your agricultural business plan. By writing thoughts down and then using them as the building blocks for creating the written plan, you will be evaluating the strengths and weaknesses in your business plan development, and ultimately move toward keeping and growing a successful venture.

How to Use the NxLeveL™ Agricultural Business Plan Worksheets

The worksheets are just that, *work* sheets. They will serve as a guide to help you through the process of writing your *NxLeveL™ Agricultural Business Plan* one step at a time. They are designed for answering a series of questions related to the normal operations of a business and for stimulating thought about potential growth of your business. There are also worksheets to assist you in developing marketing strategies, examining operating costs, predicting expansion costs, and projecting future financial performance. If you are unsure of how to answer a particular question or complete a worksheet, ask your instructor for clarification or undertake additional research.

The purpose of the worksheets is to provide a method for you to put your thoughts and facts down on paper. The preparation of a business plan is a process of research and information gathering, analysis and study, writing and calculations. The worksheets coincide with the 10-session NxLeveL™ Guide for Agricultural Entrepreneurs business course in which you are enrolled. The structure will give you direction, purpose and discipline. Your goal is to produce a *NxLeveL™ Agricultural Business Plan* with sufficient detail about your business so family members, outsiders, potential partners, and potential lenders and/or investors will understand your business' current stage of development, what you are planning for the future and why. Most importantly, the *process* you go through to produce a well-researched business plan will lead you to a new level of understanding about your agricultural business, and about the business world in general.

How to Use the NxLeveL™ Agricultural Business Plan Worksheets–continued

The worksheets are presented and should be completed in order of the sessions and as assigned in class. A suggested method for completing your business plan worksheets is as follows:

Step 1: Read the assigned worksheets carefully but do not fill in the blanks.

Step 2: Attempt to answer questions or complete worksheets as assigned.

Don't expect to complete every worksheet on your first attempt. Keep a list of information you will need to research in order to complete the worksheet, but do as much as you can the first time through.

Step 3: Research needed information to answer each question or complete each worksheet.

Step 4: Complete each worksheet to the best of your ability.

Step 5: Use the answers or worksheets to write the sections of the NxLeveL™ Agricultural Business Plan assigned in the "Writing Your Plan" blocks found at the end of the worksheets provided for each session.

Please remember that all businesses are different, and it is, therefore, impossible to cover every business situation with general questions and worksheets. The worksheets focus on business knowledge and practices common to most agricultural businesses. In many ways, it is up to you to determine what makes your business different and special within the framework of your industry and marketplace. The assignments will help you explore your business ideas, assess business opportunities, and practice research, analysis and planning skills acquired through this NxLeveL™ course.

Writing a plan is a lot of work. But the insight gained through testing your current business status and exploring potential growth opportunities will save you money, time and energy in the long run. The outline of the *NxLeveL™ Agricultural Business Plan* used in this course is as follows:

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How to Use the NxLeveL™ Agricultural Business Plan Worksheets–continued

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business plan *outline*

Assigned in Session:	Section # and Name	Worksheet Pages	Business Plan Order
9-10	**Cover Page**	9-4 and 9-8	1
9-10	**Table of Contents**	9-5 and 9-8	2
9	**Section I. Executive Summary**	9-5 thru 9-8 and 10-2	3
1	**Section II. Business Concept, Mission & Goals**	1-1 thru 1-18	4
	General Description of the Business		
	Stage of Development		
	General Growth Plan Description		
	Preview of Resources Available		
	Personal and Business Mission Statement		
	Goals and Objectives		
2	**Section III. Background Information**	2-1 thru 2-8	5
	The Industry		
	Background Industry Information		
	Current/Future Industry Trends		
	The Business "Fit" in the Industry		
3-4	**Section IV. Organizational Matters**		
3	**A. Ownership, Government Regulations, and Contracts**	3-1 thru 3-8	6
	Business Structure		
	Government Regulations		
	Contracts and Leases		
4	**B. Management Issues**	4-1 thru 4-16	7
	Managing Human Resources		
	Risk Management		
	Other Operations Controls		
9	**C. Succession and Estate Planning**	10-4 thru 10-5	8
5-6	**Section V. The Marketing Plan**		
5	**A. The Products / Services**	5-1 thru 5-6	9
	Products/Services Description		
	Features/Benefits		
	Life Cycles/Seasonality		
	Growth Description (Future Products/Services)		

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business plan outline

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9-10	**Table of Contents**	9-5 and 9-8	2
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	Background Industry Information		
	Current/Future Industry Trends		
	The Business "Fit" in the Industry		
3-4	**Section IV. Organizational Matters**		
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4	**B. Management Issues**	4-1 thru 4-16	7
	Managing Human Resources		
	Risk Management		
	Other Operations Controls		
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	Features/Benefits		
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	Growth Description (Future Products/Services)		

business plan *outline—continued*

Assigned in Session:	Section # and Name	Worksheet Pages	Business Plan Order
	(Section V. The Marketing Plan–continued)		
5	**B. The Market Analysis**	5-7 thru 5-20	10
	Customer Analysis		
	Competitive Analysis		
	Market Potential		
	Current Trade Area		
	Market Size and Trends		
	Market Potential		
	Production Potential		
6	**C. Marketing–Strategies**	6-1 thru 6-14	11
	Product Strategies		
	Price/Quality Relationship		
	Promotional Strategies		
	Placement/Selling Strategies		
7-8	**Section VI. The Financial Plan**		
7	**A. Managing Books and Records**	7-1 thru 7-3	12
7	**B. Budgets and Assumptions**	7-4 thru 7-20	13
	Fixed Assets Acquisitions Budget		
	Growth or Start-up Expenses		
	Sales and Operating Expenses Budgets		
7	**C. Cash Flow Projections**	7-21 thru 7-32	14
	Monthly Cash Flow Projections—Year One		
	Notes to Cash Flow Projections		
	Sensitivity Analysis		
	Annual Cash Flow Projections—Years Two and Three (Optional)		
8-9	**D. Additional Financial Information**	8-1 thru 8-8 and 9-1 thru 9-4	15
	Income Statement and Balance Sheet		
	Summary of Financial Needs		
	Personal Financial Statement		
9	**E. Conclusion**	9-7	16
9-10	**Appendix Section**	10-2 thru 10-3	17
	Action Log		
	Supporting Documents		

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business plan outline—continued

Assigned in Session:	Section # and Name	Worksheet Pages	Business Plan Order
	(Section V. The Marketing Plan–continued)		
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Writing Hints

Should your agricultural business plan "look" professional? Well, yes and no. The answer is based on how you will use your *NxLeveL™ Agricultural Business Plan*. If you plan to attract investors or use the plan to secure financing, your plan needs to look as professional as possible. For the purpose of the NxLeveL™ course, the most important thing that your plan needs to convey is your ideas, research, and analysis in a readable format. The length should be dictated by how much detail you need to describe your business and analyze your growth plans, ideally less than 30 pages plus an Appendix. Your instructor will prefer that you submit a typed version with text on the right page only.

One good writing technique is to put your first thoughts down on paper, then let them rest for a few days. This is a method of focusing your thoughts on your business. After writing your initial thoughts, you can then edit, refine, expand or revise them. In other words, your answers to the questions on the worksheets become your guide or notebook for developing the specific section of the business plan. Writing will take time. It is best to complete one section before tackling the next section, and then to keep notes on sections that require additional research and rewriting.

Many people will discover about halfway through the worksheets that they may want to change some of their assumptions or growth ideas. While some minor adjustments are to be expected, it is our advice to complete the plan all the way through on your original business idea or growth plan. This way you can see the financial impact of your ideas. It becomes much easier to make the right changes in the second draft. You simply need a complete picture of your business concept before you start revising individual parts. Most people will rewrite and edit the plan several times before the first draft is considered complete.

Making Use Of Your Plan

There are many uses for your business plan. In developing the plan, you will have evaluated your resources, marketplace, customers, and sales and financial strategies. Since successful entrepreneurs are continually developing new ideas, refining old ones, or adapting to a changing environment, your plan will help you look at what you are currently doing well, what you could be doing differently to improve your business, and what you are considering for growth possibilities. The first and foremost purpose of the plan is as a management tool for *you*, the owner and manager of your business, regardless of other external uses of the plan.

A business plan may also be used to determine the interest of potential investors or lenders investing in your business. A plan is essential when seeking financing. It helps financiers make decisions more quickly and easily. It may also be used to inform family members and/or employees of your goals.

Your decision to start, continue and/or grow a business is an ongoing journey. To make the most out of your trip you need to decide to be active rather than passive, and to have an adequate map to plan your trip. In terms of business, the map is the business plan.

introduction WORKSHEETS i-v

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i-vi W O R K S H E E T S introduction

take stock of your resources

SESSION ONE

The organizational presentation of the *NxLeveL™ Agricultural Business Plan* shows the Cover Page, Table of Contents, and Executive Summary as the first sections. Those individual pieces will actually be written last, after the rest of the plan has been developed.

In this session you will first be asked to complete several assessment worksheets, including *Entrepreneurial Traits*, a *Personal and Family Considerations Worksheet*, an *Economic, Environmental and Societal Considerations Worksheet*, and several *Resources Inventory Worksheets*. You will then begin your writing work with Section II. Business Concept, Mission and Goals. This section begins the *body* of your *NxLeveL™ Agricultural Business Plan* and provides the first opportunity for the reader to understand your agricultural enterprise, its stage of development and your thoughts about your business' future growth and development. Additionally, understanding your personal and business' Mission Statements, Goals and Objectives will clarify for the reader, and for *you*, the direction of the rest of your business plan analysis.

NxLeveL™ Agricultural Business Plan Outline

- Cover Page
- Table of Contents
- Section I. Executive Summary

Section II. Business Concept, Mission & Goals

- General Description of the Business
  - Stage of Development
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Entrepreneurial Traits Assessment Worksheet

While no one gender, age, education level or ethnicity has a particular advantage in entrepreneurship, certain personality qualities have been correlated with the ability to succeed in an entrepreneurial business endeavor.

Use the worksheet on the following page to assess which entrepreneurial qualities you possess, and in which areas you could improve. Place a check mark or X in the appropriate response column (*yes*, *sometimes* or *not really*, *no* or *don't know*) for each statement under the entrepreneurial traits. Be honest in assessing yourself *as you are now*. Remember, entrepreneurial traits can be learned, and *recognizing* the personal qualities you need to develop in order to succeed in your business may be your first step in that learning process.

If your family members will be involved in the agricultural enterprise, consider having each of them fill out the assessment worksheet as well. Each person may have a different set of entrepreneurial strengths that can be tapped into for your business.

Evaluating the Entrepreneurial Traits Assessment Worksheet
The more check marks in the "Yes" column the better–but only someone with exceptionally well-developed entrepreneurial traits will have checked all "Yes" answers. Carefully evaluate the "Sometimes" and "No" answers. As the reading suggested, there may be some real clues in this self-assessment that indicate whether pursuing this entrepreneurial endeavor is wise for you and your family. For example, if you answered "No" to the question, "*I really enjoy talking about my agricultural enterprise ideas*," you should be asking yourself, "Why don't I? Does this mean I'm really not very interested in pursuing this business?" If you responded "No" to the statement, "*I have the physical stamina to handle the work load and schedule for this agricultural enterprise,*" perhaps your next question to yourself should be, "Well, then, who in the family does?"

Next, look at the "Don't Know" column. Your responses here may indicate that you have not had the opportunity to test yourself in some of these areas. For example, if you have always worked for someone else in a supported environment, you may not have had the opportunity to test your intuition, and, therefore, responded "Don't Know" to those statements.

This worksheet provides a great opportunity for you and your family to review your responses and assess the family's overall "entrepreneurial spirit." It is not intended to be a perfect measurement of whether or not you are entrepreneurial. Rather, the purpose is to stimulate your thoughts about what will make it more possible for your agricultural business to succeed. You will be prompted throughout the workbook pages to involve your family in the discussion and implementation of your business concept. Start now! The more family members understand their roles relative to your business effort, the better the chance for both business and family success.

1-2 WORKSHEETS take stock of your resources

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Entrepreneurial Traits Assessment Worksheet

TRAIT	Yes	Sometimes / Not Really	No	Don't Know
1. Passion				
I really enjoy talking about my agricultural enterprise idea.				
When I get involved in "doing" my business, time passes very quickly.				
I am always thinking about new/better ways to approach my business.				
2. Persistence				
I stick with a project until it is completed.				
I am willing to work 12-16 hours per day, six days per week and possibly Sundays and holidays to make my agricultural business idea work.				
3. Good Health/Energy				
I am in good health.				
I have the physical stamina to handle the work load and schedule for this agricultural business.				
I have the emotional strength to withstand the strain of this agricultural enterprise.				
4. Creativity/Innovation				
I adapt well to changes.				
I enjoy doing things differently.				
I often think of innovative ways to solve problems.				
5. Independence/Self-reliance				
I like to make my own decisions.				
I am a self-starter and am self-disciplined.				
I get things done on time.				
I am able to and like to work on my own.				
I know when I need help, and will seek it.				
6. Intuition				
I am capable of making "gut feeling" decisions, and they are often good ones.				
I pay attention to patterns of events, and try to look beyond the obvious.				
7. Self-confidence				
I have self-confidence and the courage to face risks.				
I am responsible and enjoy providing leadership.				
I keep promises and enjoy people's trust.				
8. Market Awareness				
I pay attention to agricultural business events locally, regionally and nationally.				
I am open to ideas about new products and new ways of doing business.				
9. Lack of Need for Status				
I am willing to lower my standard of living until my business is established.				
I am interested in accomplishing my agricultural business goals, even if that means not buying a new house or new truck and not vacationing in Hawaii.				
10. Ability to Accept Challenges				
I enjoy the challenge of working hard on new projects.				
I can juggle multiple tasks and obligations well.				
I find ways of developing and organizing plans of action.				
11. "Hard Work" Ethics				
I am willing to put in the time and effort to give this business time to succeed.				
My personal integrity is more important than my monetary success.				

take stock of your resources WORKSHEETS 1-3

Entrepreneurial Traits Assessment Worksheet

TRAIT	Yes	Sometimes / Not Really	No	Don't Know
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Personal and Family Considerations Worksheet

Agricultural enterprises are usually managed and operated by families; therefore, the family is going to be affected by whatever changes take place regarding the business decisions. Some family members may be satisfied with the current family agricultural business or with an off-farm job. Your desires may satisfy more of your own lifestyle preferences and personal needs, but ignoring how other family members view the venture is a dangerous personal and business position to take. Don't assume that your family shares all your personal goals in starting or expanding your agricultural business. Involve the whole family in completing the *Personal and Family Considerations Worksheet*.

Using the Worksheet

There are several options for using this worksheet. One is to have each family member fill out his/her own worksheet, encouraging each member to independently complete the process, and emphasizing that there are not "right" or "wrong" answers. Then transfer the individual results onto a summary sheet (illustrated below) using abbreviations for the family member names. You can then share the summary sheet with all members, and have a meaningful discussion about results. This exercise allows family members to individually think through their personal, family and future concerns, and then present their thoughts in an organized manner. Remember there are no right or wrong answers, and it is the rare family that totally agrees in all areas! The purpose of the worksheet is to get concerns and discussion out on the table before decisions affecting all family members are made. The result may be an overwhelming enthusiasm for the project once concerns are addressed and discussion about implementation clears the air.

Sample Summary Sheet

Make an extra copy of the *Personal and Family Considerations Worksheet* and label it "Summary." When all family members have completed their worksheets, log responses on the summary sheet using abbreviations or initials for family member responses, as shown below.

Personal and Family Considerations Worksheet—Summary

Fran = F; Tommy = Ty; Grace = G; Tim = Tm

Personal Considerations	Strongly Agree	Agree	Disagree	Strongly Disagree
1. I have no problem working 10-12 hours a day, 6 days a week, including holidays.	Ty, G	F		Tm
2. I know I can work productively for long hours and meet deadlines, no matter what it takes.	Ty	G, F	Tm	
3. Foremost among my personal goals is the freedom to pursue my own desires.		Tm		
4. I am prepared to lose my savings.	Ty	G		F, Tm
5. I can go without a vacation for a year.	Ty, G		F, Tm	
...etc.				

1-4 WORKSHEETS take stock of your resources

Personal and Family Considerations Worksheet

Agricultural enterprises are usually managed and operated by families; therefore, the family is going to be affected by whatever changes take place regarding the business decisions. Some family members may be satisfied with the current family agricultural business or with an off-farm job. Your desires may satisfy more of your own lifestyle preferences and personal needs, but ignoring how other family members view the venture is a dangerous personal and business position to take. Don't assume that your family shares all your personal goals in starting or expanding your agricultural business. Involve the whole family in completing the *Personal and Family Considerations Worksheet*.

Using the Worksheet

There are several options for using this worksheet. One is to have each family member fill out his/her own worksheet, encouraging each member to independently complete the process, and emphasizing that there are not "right" or "wrong" answers. Then transfer the individual results onto a summary sheet (illustrated below) using abbreviations for the family member names. You can then share the summary sheet with all members, and have a meaningful discussion about results. This exercise allows family members to individually think through their personal, family and future concerns, and then present their thoughts in an organized manner. Remember there are no right or wrong answers, and it is the rare family that totally agrees in all areas! The purpose of the worksheet is to get concerns and discussion out on the table before decisions affecting all family members are made. The result may be an overwhelming enthusiasm for the project once concerns are addressed and discussion about implementation clears the air.

Sample Summary Sheet

Make an extra copy of the *Personal and Family Considerations Worksheet* and label it "Summary." When all family members have completed their worksheets, log responses on the summary sheet using abbreviations or initials for family member responses, as shown below.

Personal and Family Considerations Worksheet—Summary

Fran = F; Tommy = Ty; Grace = G; Tim = Tm

Personal Considerations	Strongly Agree	Agree	Disagree	Strongly Disagree
1. I have no problem working 10-12 hours a day, 6 days a week, including holidays.	Ty, G	F		Tm
2. I know I can work productively for long hours and meet deadlines, no matter what it takes.	Ty	G, F	Tm	
3. Foremost among my personal goals is the freedom to pursue my own desires.		Tm		
4. I am prepared to lose my savings.	Ty	G		F, Tm
5. I can go without a vacation for a year.	Ty, G		F, Tm	
...etc.				

Personal and Family Considerations Worksheet

	Personal Considerations	Strongly Agree	Agree	Disagree	Strongly Disagree
1.	I have no problem working 10-12-hour days, six days a week, including holidays.				
2.	I know I can work productively for long hours and meet deadlines, no matter what it takes.				
3.	Foremost among my personal goals is the freedom to pursue my own ideas.				
4.	I am prepared to lose my savings.				
5.	I can go without a vacation for a year.				
6.	It is important to me to create my own space in which to work.				
7.	At the expense of professional stability and perhaps higher income, it is important to me to be able to determine when and where I work.				
8.	When I think about the future, I envision positive, new growth opportunities.				
9.	I am prepared to sacrifice money and/or time to commit to community, religious or charity obligations during the first five years of my business.				
10.	If I needed to, I could keep a full-time job and run my ag-business on the side.				
11.	I would rather spend less time working at my non-agricultural business job.				
12.	I too often sacrifice things I like to do for the sake of the business.				
13.	My current ag-business doesn't hold my interest or use my skills very well.				
14.	I wouldn't mind if our new enterprise took a few calculated risks to make more money.				
15.	I would be willing to borrow money to finance the new agricultural enterprise.				
16.	If the new agricultural enterprise fails, I would continue working in the agricultural business.				
	Family Considerations	**Strongly Agree**	**Agree**	**Disagree**	**Strongly Disagree**
17.	My family obligations rank number one on my list of priorities.				
18.	My family will tolerate my working 60 hours or more per week.				
19.	My family is prepared to lose the family savings.				
20.	I have the enthusiastic support of my family to pursue an entrepreneurial venture.				
21.	Our family spends spends adequate time together.				
22.	Our family usually has enough spending money.				
23.	We don't mind talking business when the whole family is together.				
24.	Family relations do not get strained when there isn't enough money.				
25.	The agricultural business is not too much for the family to handle now.				
	Future Considerations	**Strongly Agree**	**Agree**	**Disagree**	**Strongly Disagree**
26.	It is important to me that the business provides more income in the future.				
27.	Being able to stay on the land is more important than making more money.				
28.	The family should always come before the business.				
29.	I'd like to maintain my present role in the agricultural business or off-premise job.				
30.	It is very important for the children to work in our agricultural enterprise.				
31.	I would like to have more responsibility in the agricultural business in the future.				
32.	I am willing to work harder than I do right now.				

take stock of your resources WORKSHEETS 1-5

Personal and Family Considerations Worksheet

	Personal Considerations	Strongly Agree	Agree	Disagree	Strongly Disagree
1.	I have no problem working 10-12-hour days, six days a week, including holidays.				
2.	I know I can work productively for long hours and meet deadlines, no matter what it takes.				
3.	Foremost among my personal goals is the freedom to pursue my own ideas.				
4.	I am prepared to lose my savings.				
5.	I can go without a vacation for a year.				
6.	It is important to me to create my own space in which to work.				
7.	At the expense of professional stability and perhaps higher income, it is important to me to be able to determine when and where I work.				
8.	When I think about the future, I envision positive, new growth opportunities.				
9.	I am prepared to sacrifice money and/or time to commit to community, religious or charity obligations during the first five years of my business.				
10.	If I needed to, I could keep a full-time job and run my ag-business on the side.				
11.	I would rather spend less time working at my non-agricultural business job.				
12.	I too often sacrifice things I like to do for the sake of the business.				
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	Family Considerations	**Strongly Agree**	**Agree**	**Disagree**	**Strongly Disagree**
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	Future Considerations	**Strongly Agree**	**Agree**	**Disagree**	**Strongly Disagree**
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32.	I am willing to work harder than I do right now.				

Economic, Environmental and Societal Considerations

Along with personal and family considerations, agricultural enterprises face ongoing decisions revolving around economic, environmental and societal issues. Try answering the following questions, again involving your family members in the discussions.

Economic Considerations

Economics is simply how individuals handle their resources. These resources may be intangibles, such as job satisfaction that give us our "quality of life"—or, they may be tangibles which are the assets we possess that provide us with a "standard of living." There often appears to be a willingness to trade off the lifestyle that goes along with agricultural businesses for a lower standard of living.

1. Discuss the "quality of life" issue relating to you (and your family) in your agricultural business. What are the intangible things that are important to you?

2. Discuss the "standard of living" issues in your family and business. What tangibles are important to you? How do they compare or contrast with the intangibles? Is there a deficiency in either component?

Environmental Considerations

Operating practices of agricultural businesses may be in conflict with, or at least challenged by, your personal environmental goals and/or the environmental concerns of the community. Balancing these concerns has become a larger issue in the past few years.

3. How do your current operating practices fit with your environmental goals? With the community's concerns? How does your family's safety and health concerns fit with your business operations? Discuss the balance between "environmental concern" and "economic injury" (i.e., economic injury level of pest infestation vs. use of pesticides)?

Societal Considerations

Water quality, food safety and erosion are a few issues that affect our current society as well as future generations. How you address these issues can have tremendous societal impacts.

4. Discuss how your current operating practices impact other people or future generations. If you had the opportunity to make all the improvements you wanted, what changes would you put into practice? How would this change your societal impact?

1-6 WORKSHEETS take stock of your resources

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Resources Inventory

Considering what you and your family members can contribute to your agricultural enterprise's success will help sort out skills and resources you already possess, and those that may need enhancing. The objective here is to create an inventory of all the resources available to you–desire, training, experience, personal contacts, support from friends, savings, income, equipment, etc., that will help in making your agricultural business successful. It's time to "take stock" of what you know, what you have and what you need to make your business venture work for you.

Your Personal Experience and Interest

1. What specific experience or interest do you have related to your agricultural enterprise concept? Describe your expertise.

2. What technical knowledge do you have that relates to your business concept? What technical expertise are you lacking? Describe resources available for providing additional technical expertise.

Family Experience, Interest and Availability

3. What specific experience or technical knowledge do family members have related to your agricultural enterprise? List family members, skills or expertise and availability in terms of time willing to work in your agricultural business.

Name	Skills/Expertise	Availability

General Business Skills

4. What is your entrepreneurial history? Have you worked for an entrepreneur or start-up business? Have you owned a business? Was it successful? If not, what did you learn from that experience?

take stock of your resources W O R K S H E E T S 1-7

Resources Inventory

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4. What is your entrepreneurial history? Have you worked for an entrepreneur or start-up business? Have you owned a business? Was it successful? If not, what did you learn from that experience?

Resources Inventory–continued

5. In which of the general business skills listed below do you feel competent? In which areas will you need help? Are there family members who have competency in areas where you don't?

Skill	Personally Competent	Family Member Competent	Need Help
Time Management			
Employee Management			
Record Keeping			
Tax Reporting			
Marketing			
Leadership			
Other:			

Physical (Land, Buildings and Equipment) Resources

If you have completed an agricultural business physical resources inventory in the past, find it! You will be able to use some of the information on it, but don't skip this section, since you may be asked to inventory and evaluate resources that you might not have completed previously. If this is your first inventory, be forewarned that this is not an armchair exercise that will take only 10 minutes. To do a thorough analysis, you will have to do some measuring, testing, and may have to get some outside expertise involved.

Using the worksheet on the following page, list your physical resources (general description) and complete the information columns relating to that resource. "Quality" for items such as land should include soil type, fertility, pH or slope. For water, quality may mean mineral or bacteria content, murkiness, weed presence, etc. Any other features that may affect your use of the resource for this agricultural business concept should be noted in the quality column. Similarly describe "limitations": for example, water limitations might include low well capacity, inaccessibility, poor quality; equipment limitations could be extreme age, unsafe condition, obsolete design; land limitations might include highly erodible land limits, toxicity, etc. In the "Usable for this Agricultural Project" column, consider whether the resource is underutilized, or how it could be cross-utilized with your other existing agricultural business operations.

1-8 WORKSHEETS take stock of your resources

Resources Inventory–continued

5. In which of the general business skills listed below do you feel competent? In which areas will you need help? Are there family members who have competency in areas where you don't?

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Employee Management			
Record Keeping			
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Physical (Land, Buildings and Equipment) Resources Inventory Worksheet

ITEM	QUANTITY (or size)	QUALITY (or age)	LIMITATIONS	USABLE FOR THIS AG PROJECT?
Buildings				
Tillable Land				
Pasture				
Woodlot				
Water				
Surface				
Well				
Machinery/Equipment				
Other				

take stock of your resources W O R K S H E E T S 1-9

Physical (Land, Buildings and Equipment) Resources Inventory Worksheet

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Buildings				
Tillable Land				
Pasture				
Woodlot				
Water				
Surface				
Well				
Machinery/Equipment				
Other				

Personal Financial Resources

Starting or expanding an agricultural business will automatically cause you to think about your financial future, and may require some initial investment, perhaps for a building, land, equipment, breeding stock, seed or starting inventory. The following questions and worksheets will help you assess your personal financial resources.

Outside income available to support or supplement the family during your agricultural business' start-up phase might be critical. A separate source of income might also entice a lender to make a business loan, since that outside income provides some security related to your ability to pay back the loan. Answer the following questions regarding sources of income.

1. Are you and/or other family members willing and able to continue working your current off-farm jobs while your new business gets established? How much of this outside source of income would be available to contribute to the start-up costs of the new agricultural business, versus how much is already relied upon to cover normal household living expenses?

2. Will the new agricultural enterprise impact your current on-farm income? How? Will there be transition costs?

3. Are you willing and able to "find work" if the business is slow in getting started? Are other family members? Do you have the outside job skills that would allow you to readily find a job?

Next, the *Personal Financial Statement Worksheet* on the following page will help you prepare for what most lenders will require: a listing of what you own, what you owe and your resulting net worth. This "picture" of your financial status will help you assess the ready cash you can apply to your agricultural business' start-up costs, and whether you have sufficient cash to provide working capital during the start-up phase of your business. It will also identify whether you have pledgeable assets that a lender might use as collateral to make a loan to you.

1-10 WORKSHEETS take stock of your resources

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Personal Financial Statement Worksheet

Assets: list all assets, whether paid for or not. **Liabilities:** list all the money you owe using the categories shown and any "other" that apply to you. **Net Worth** is determined by the formula: Total Assets minus Total Liabilities = Net Worth. Your Net Worth will provide an indication of how much you have available to invest in your agricultural business concept. Note: you may need to provide additional detailed information on some items. Attach a separate schedule and note the schedule number where the worksheet indicates "see sch. ___."

NOTE: This is a PERSONAL Financial Statement, and does not include the assets/liabilities of your agricultural business.

Name:		**Prepared as of:**	
ASSETS		**LIABILITIES**	
Cash on hand (In checking accounts)		Current household bills	
Cash (In savings accounts)		Credit/Charge cards (specify):	
Certificates of deposit			
Notes, acounts receivable			
Marketable securities (stocks, bonds)		Installment loans	
Life insurance (cash value)		Notes, accounts payable	
Other current assets (specify):		Liens, past due items	
		Rent, taxes, interest due	
		Loan payments due this year	
		Other current liabilities (specify):	
Total Current Assets		Total Current Liabilities	
Real estate - market value (see sch. ___)		Real estate debts (see sch. ___)	
Buildings & improvements (see sch.___)		Other non-current liabilities (specify):	
Major household items			
Other personal assets			
Other assets (specify):			
Total Non-current Assets		Total Non-current Liabilities	
(A) Total Assets **(current + non-current)**		**(B) Total Liabilities** **(current + non-current)**	
		(A - B) NET WORTH:	

take stock of your resources **W O R K S H E E T S** 1-11

Personal Financial Statement Worksheet

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Name:		**Prepared as of:**	
ASSETS		**LIABILITIES**	
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		Other current liabilities (specify):	
Total Current Assets		Total Current Liabilities	
Real estate - market value (see sch. ___)		Real estate debts (see sch. ___)	
Buildings & improvements (see sch.___)		Other non-current liabilities (specify):	
Major household items			
Other personal assets			
Other assets (specify):			
Total Non-current Assets		Total Non-current Liabilities	
(A) Total Assets **(current + non-current)**		**(B) Total Liabilities** **(current + non-current)**	
		(A - B) NET WORTH:	

Writing Your Business Plan—Getting Started

One of the first writing exercises you should undertake is to define your reasons for writing this business plan. Your purpose may be to clarify your own thoughts about your agricultural business and its future, to create a guide for managing your business, to clarify your business operation, to obtain financing or some combination of these factors. While this information does not become a formal part of your business plan, it will help you think about who your *reader* is, and what you hope to accomplish by writing a business plan.

1. Define the purpose of your business plan. Who will use your business plan? What do you hope to accomplish by writing this plan?

Agricultural Business Concept Description

At this stage, being able to generally describe your agricultural business is essential to understanding the rest of your business plan. An outside reader should be able to understand what business you are in, what products or services your business offers, what market you believe exists for those products or services and what kind of growth plans you have for the business—all by reading your general description. Use the following questions to help you summarize your current thoughts about your business. Remember, you might change some of your thoughts as you proceed through the detailed analysis of your concept. Don't be afraid to return to some of these early questions as the course progresses. As you learn more, you will probably need to rewrite parts of this business description.

2. What agricultural business are you currently in? What are the key products or services of your existing business?

3. What agricultural enterprise are you thinking about starting or adding to your existing operation? What are the key products or services of the new business segment? Why do you want to start or add this agricultural business component?

1-12 WORKSHEETS take stock of your resources

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Agricultural Business Concept Description–continued

4. What market do you believe exists for these products or services?

5. How do you (or will you) operate your agricultural business? Who is involved in the operations? How much of your time is spent in the business? *Existing businesses*: What will change if you add a new agricultural business component to your existing business?

6. What stage of development is your business in? (Development stage, first year of operations, stable or mature business, stagnant mature business, etc.)

7. Is growth a part of your plan for your business? If so, describe what kind of growth you are projecting, and how you think that growth will occur (adding products or services, expanding your market area, changing your product or service mix, etc.)

Please Note:
Your *Entrepreneurial Traits Assessment Worksheet*, *Personal and Family Considerations Worksheet* and *Economic, Environmental and Societal Considerations Worksheet* will not be included as a formal part of your business plan, although your instructor may suggest that you include them in the Appendix Section as backup information. If your plan will be used to obtain funding, your *Personal Financial Statement Worksheet* should be included in the Financial Section of the business plan.

take stock of your resources WORKSHEETS 1-13

Agricultural Business Concept Description–continued

4. What market do you believe exists for these products or services?

5. How do you (or will you) operate your agricultural business? Who is involved in the operations? How much of your time is spent in the business? *Existing businesses*: What will change if you add a new agricultural business component to your existing business?

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Your Personal and Business Mission Statements

In the broadest sense, a mission statement is a description of what you and/or your business hope to do and be. Having examined some of your personal and family values using the prior worksheets, you should be able to describe what is important to you, what you value, what you personally will strive to be. Start by looking at the values and principles on which you base your life, and creating bullet points that describe them. Examples might include:

- *My family comes first*
- *I strive to be honest in everything*
- *I will finish everything I start*

1. My personal mission statement includes:

You can then choose to carry part of your personal mission statement values and visions into your business mission statement. Every business must have an ultimate purpose—a "mission." The mission statement is one of the most important parts of your business plan. It expresses your business values, your vision and your philosophy of doing business, and the purpose of your business. It is helpful to first work on each of these segments of the mission statement individually.

Your Agricultural Business Values
Business values establish the philosophy of your business. They express the way family, employees and customers are treated, your economic and environmental philosophies and social values. Doing business ethically, being honest and treating all people with dignity exemplify values. Carefully think about and develop a basic set of values to incorporate into the mission for your business. They should reflect your fundamental human values defined in your personal mission statements.

2. What values would you like your agricultural business to be known for in the future?

Your Business Vision
The vision of your business will create the definition and shape of its future. A vision statement should be based on your agricultural business values and where you want the business to be three to five years in the future (i.e., stage of growth, position in the community, etc.). It establishes the ultimate future view of the business.

3. What is your vision for the future of your business?

1-14 WORKSHEETS take stock of your resources

Your Personal and Business Mission Statements

In the broadest sense, a mission statement is a description of what you and/or your business hope to do and be. Having examined some of your personal and family values using the prior worksheets, you should be able to describe what is important to you, what you value, what you personally will strive to be. Start by looking at the values and principles on which you base your life, and creating bullet points that describe them. Examples might include:

- My family comes first
- I strive to be honest in everything
- I will finish everything I start

1. My personal mission statement includes:

You can then choose to carry part of your personal mission statement values and visions into your business mission statement. Every business must have an ultimate purpose—a "mission." The mission statement is one of the most important parts of your business plan. It expresses your business values, your vision and your philosophy of doing business, and the purpose of your business. It is helpful to first work on each of these segments of the mission statement individually.

Your Agricultural Business Values
Business values establish the philosophy of your business. They express the way family, employees and customers are treated, your economic and environmental philosophies and social values. Doing business ethically, being honest and treating all people with dignity exemplify values. Carefully think about and develop a basic set of values to incorporate into the mission for your business. They should reflect your fundamental human values defined in your personal mission statements.

2. What values would you like your agricultural business to be known for in the future?

Your Business Vision
The vision of your business will create the definition and shape of its future. A vision statement should be based on your agricultural business values and where you want the business to be three to five years in the future (i.e., stage of growth, position in the community, etc.). It establishes the ultimate future view of the business.

3. What is your vision for the future of your business?

Your Personal and Business Mission Statements–continued

Purpose of Your Business

The purpose of your agricultural business should be determined in two ways. First, purpose should be defined by an internal measure of success. Second, the only external purpose of any company is to serve the customer. The purposes are interrelated. Profits and growth allow you to serve the customer and take care of the family. You should integrate your values and vision when defining the purpose of your business. Together, they provide the framework for your business concept. (*Example: I love strawberries. The internal purpose of my business is that it will give me a chance to grow strawberries. The external purpose of my business is to provide quality, organically-grown strawberries to fruit lovers in the area.*)

4. What is the purpose of your business, internally and externally?

Your Mission Statement

A mission statement sums up all of the above elements: values (the philosophy of how you are going to do your business), vision (where are you going with your business), purpose (what your business does to satisfy your internal measure of success *and* serve the customer). It should be short and focused (no more than 35 words). It is stated in the present tense, in positive terms and without "qualifiers". Remember, many companies proudly display their mission statement in a place visible to customers and suppliers. The challenge is to live up to it. *(Example: Strawberry Farm's mission statement is "to provide quality, organically grown strawberries to Niobrara County residents, at a fair market price, and in a 'pick-your-own' fun, safe, and family-oriented environment.")*

5. Write a one- or two-sentence mission statement about your agricultural business. If you need to, write a longer statement and cut it down to size by going back and removing the adjectives, adverbs and words between commas.

   My agricultural business mission statement is:

take stock of your resources WORKSHEETS 1-15

Your Personal and Business Mission Statements–continued

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   My agricultural business mission statement is:

Goals and Objectives

A goal is often described as a dream with a deadline, and objectives are how you get there! Your goals are targets, or desired outcomes, for your agricultural business. You should consider your short-term goals (within one year) and those that are two to five years into the future. The desired outcomes are related to functions (rather than to individuals) within the agricultural business. Goals are usually measured in dollars and other tangible desired outcomes. Each goal must be stated in a quantitative manner that allows you to track progress towards the goal. In other words, every goal must be measurable. It is important that all goals are compatible with the mission statement and with each other.

Objectives are the specific strategies for reaching goals. A goal may have several objectives, and every objective must be measurable. Each objective should be an assigned responsibility of some individual within your business.

Goals and objectives can be set for *any* aspect of your agricultural business, with the most common set for the following:

- Sales volume
- Owner compensation
- Number of employees
- Assets
- Customer satisfaction
- Owner time commitment
- Profit

When setting goals and objectives ask the following questions:

- What will I do?
- How will I do it?
- Who will do it?
- Why should I do it?
- When will I do it?
- What is the outcome?

To help illustrate goals and objectives, consider the following example:

I have a small plot of land on which to grow strawberries.

One of my short-term goals is to prepare the ground properly for organically growing strawberries.

The objectives relating to that goal might include:

- *Research ground preparation techniques by using the internet.*
- *Contact the local extension service regarding crop appropriateness for my area.*
- *Hire appropriate labor to physically prepare the ground.*

Using the *Goals and Objectives Worksheet* on the following page, identify at least three short-term goals and objectives, and three to five long-term goals and objectives for your agricultural business. Remember, the objectives should include what needs to be done, when it needs to be done and who will be responsible for doing it.

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Goals and Objectives Worksheet

SHORT TERM GOALS and OBJECTIVES (Within One Year)		
Goal #1:		
Objectives : What	**When**	**Who**
Goal #2:		
Objectives: What	**When**	**Who**
Goal #3:		
Objectives: What	**When**	**Who**
LONG TERM GOALS and OBJECTIVES (Two to Five Years)		
Goal #4:		
Objectives: What	**When**	**Who**
Goal #5:		
Objectives: What	**When**	**Who**
Goal #6:		
Objectives: What	**When**	**Who**

take stock of your resources WORKSHEETS 1-17

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Writing Your Plan

Now you're ready to start writing your agricultural business plan. Read the "Writing Hints" section in the Introduction to Session 1, and listen for your instructor's additional directions about other formatting requirements such as whether typed or handwritten assignments are acceptable, etc.

Using the worksheets and questions found in this session to guide you, follow the instructions below to describe your agricultural business concept, your mission statements and business goals and objectives. Format this section into paragraphs under the following headings and subheadings:

Section II. Business Concept, Mission & Goals

General Description of the Agricultural Business Concept

Review your answers to questions 2 through 7 in the Concept Description section. Describe your business so an outsider will clearly understand what business you are in, what products or services you offer, who your market is, how you operate (generally), the stage of development of your business, and what your growth ideas include. This is the first opportunity for you to explain the nature of your business, so offer enough detail to make your description clear to the first-time reader.

Next, review all of your resources inventories. Generally describe the resources you think you have available now (personal and/or family members' skills and expertise, physical resources, general financial resources) that will enhance or challenge your ability to succeed in this agricultural business. Remember, this is a general description or "preview" of your resources, since the details of those resources will be addressed in later business plan segments.

Personal and Business Mission Statements

Review your answers to questions in the Mission Statement section. Include the personal and business mission statements you wrote. Make sure the business mission statement is clear, concise and understandable.

Goals and Objectives

Using the Goals and Objectives worksheet to guide you, summarize your short-term (within one year) and long-term (two to five years out) business goals and objectives. Be sure your objectives are specific and indicate who is responsible for getting them done and by what deadline. A suggested presentation technique is to use goal statements with bullet points underneath for the objectives that pertain to that goal.

Additional Writing Comments:
Again, remember this is the first time your reader will be exposed to your business information, so be sure you are writing so that someone with no knowledge of your agricultural business will understand your discussion.

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basic equipment required:
planning & research
session two

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SESSION TWO

this Session

What's In This Session?

This session covers four topics.

The Basics of Planning. Agricultural entrepreneurs pride themselves on being full of action. They grow or raise a product, market and sell it. Planning may sound like an academic exercise better suited for large corporations, the classroom or consultants, but planning plays an extremely important part in the success of a small agricultural business. Planning is the logical place to start, and this session first looks at the basics of planning.

NxLeveL™ Agricultural Business Plan. The truth of the matter is that many of the best business ideas are never realized because people don't put them to the test. The *NxLeveL™ Agricultural Business Plan* for agriculture-based entrepreneurs does just that—it puts your ideas to the test and defines the specific requirements for growing your business. The *NxLeveL™ Agricultural Business Plan* is the capstone of your efforts in this course of study. Each session in the process introduces elements that are in some way contained in the business plan.

Introduction to Market Research. Marketing is the gathering of information and its use to make informed decisions about your product or service within your industry. Market research, when considered in the broad sense, concerns itself with all the research you will do in understanding your market, your customers and your industry. Much of market research centers on information that relates to your customer or buyer. A part of market research is industry research which relates to information about the general industry in which you operate.

Industry Research and Analysis. Industry research is an important part of market research. It provides business owners with essential information that allows them to identify opportunities and develop the right marketing plan

required basic equipment

planning & research

SESSION TWO

this Session

- the basics of planning p2
- NxLeveL™ agricultural business plan p7
- introduction to market research p14
- industry research and analysis p15

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within their industry. Thorough knowledge and understanding of your industry, its trends and future potential will provide the background for all your subsequent marketing and financial decisions.

This session will provide you with an understanding of the planning process. Based on that understanding, the concepts of the *NxLeveL™ Agricultural Business Plan* will be introduced. At the end of this session you will be prepared to start your own industry research and begin developing your own *NxLeveL™ Agricultural Business Plan*.

"Planning is the dynamic process of preparing your business for the future…"

The Basics of Planning

What is Planning?

Planning is the dynamic process of preparing your business for the future. Planning is essential to an agricultural business because it is very often more than just your business. It is your home and your lifestyle. When you begin the planning process to start a business, streamline your existing operation or become more diversified, lifestyle issues must be taken into account for you and your family.

prepare.

The first part of this session focuses on the planning process. Later sessions will focus on the results of this process as you prepare your own business plan. Managers have five major functions in a business. They plan, organize, staff, direct and control the operations of the business. All five are important for success. These functions need to happen in the order listed. Planning is first. The four remaining functions assume that sound planning has already happened.

Types of Planning

There are three common types of planning processes:

Strategic Planning

Strategic planning is the systematic process of evaluating the impact of your business environment and the major decisions you face. The goal is to ensure long-term success. During the strategic planning process you typically focus your attention two to five years into the future.

Operational Planning

This process focuses on the actions that must be taken in the short term, usually within one year. When operational planning is not based on a strategic plan, your business runs the risk of making decisions that seem good today

2-2 TEXT basic equipment required: planning and research

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but could have a negative long-term impact. For example, this year you decide to use chemical pesticides on your fields. After researching the alternative markets, next year you decide you want to become organically certified. Due to your earlier decision to use chemicals on your fields, your certification is now delayed several more years. Operational planning should ideally occur after strategic planning has been completed. However, small businesses are usually short-term oriented and thus emphasize operational planning.

the future.

Financial Planning

Financial planning includes the process of preparing budgets and projected financial statements. These documents must be updated whenever any planning activity is undertaken. The "numbers" are merely a numerical representation of the strategic and operational planning processes. Unfortunately, many agricultural operations lack financial planning. At best, it is annually completed for the banker and tax accountant—not for their own use in their operation. As you begin your financial planning, it is very important to remember that family expenses should be kept separate from business expenses and different farm enterprises should be tracked separately.

"Planning helps you find out what is important…"

Importance of Planning

Why should agricultural entrepreneurs devote a portion of their valuable time to the process of planning for the future? Some of the benefits associated with planning include:

- Provides a look at the whole business
- Provides framework of daily decision making
- Develops useful communication tools
- Increases chance of success
- Points out future business opportunities / trends
- Provides feedback results in improvements
- Allows you to act not react
- Assists with transition of operation from generation to generation

basic equipment required: planning and research TEXT 2-3

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One additional benefit of planning is that it helps you find out what is important. The process helps you sort through hundreds of questions and concerns about your business and focus on the handful that are causing the majority of your problems. This is called the **80/20 rule**:

> *In any organization 80% of the problems can be solved by focusing on 20% of the underlying cause (customers/suppliers/employees/policies). Similarly, 80% of the opportunities result from 20% of your customers/suppliers/employees/policies.*

When To Do Planning

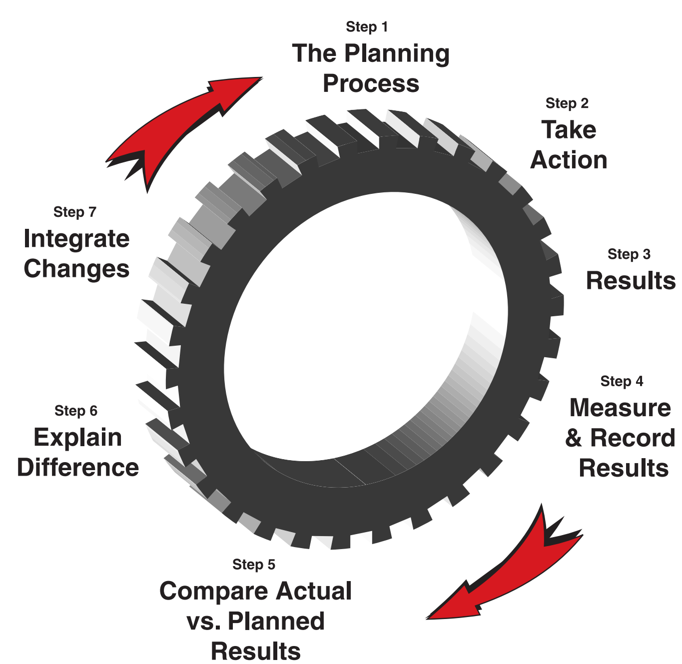
Planning is a proactive process to help you reach your goals and objectives. Planning often starts as a reaction to some key event such as seeking financing or buying a business. This is not sufficient to successfully start and grow a business. Planning needs to be integrated into the ongoing management of your business. Planning is goal-directed.

"Planning is a proactive process to help you reach your goals and objectives..."

Planning should be done on a continuous basis. It is a key part of managing your business and needs constant attention, just like marketing and bookkeeping. It makes sense to concentrate your planning activities during an annual process, but you should be working on the plan constantly to insure that opportunities are captured.

Planning Cycle

Planning is a seven-step process. All seven of these steps are taking place on a daily basis in a well-managed business.



2-4 TEXT basic equipment required: planning and research

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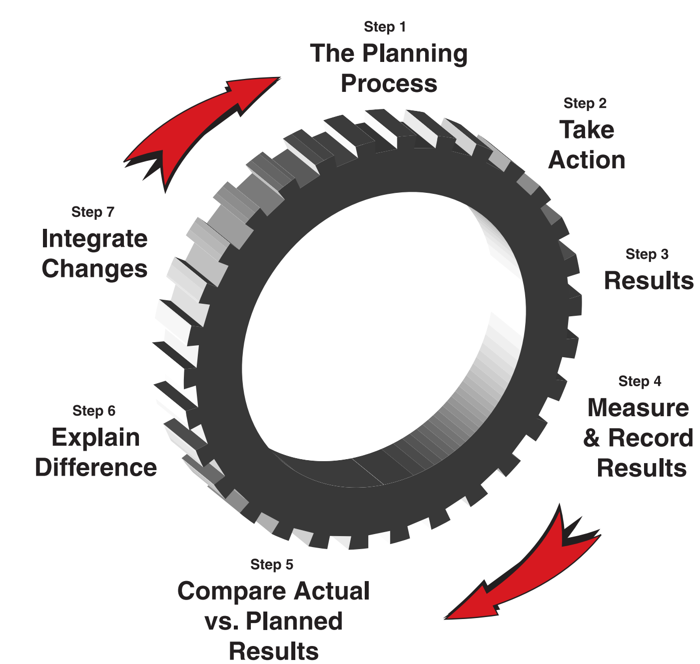

- *Step #1* is committing to the planning process, which prepares the business for the future.

- *Step #2* is taking action by making decisions that implement the plan. Every business owner makes decisions either with or without a plan. A plan provides you with a guide for taking the right actions.

- *Step #3* is what results from the action. Something happens as a result of every decision. This occurs regardless of a plan.

"As the business owner, you must thoroughly understand the plan, which is best accomplished through active participation…"

- *Step #4* is to measure the results and record this measurement in records of the business.

- *Step #5* is to compare the actual results to your planned results. This can't be done unless you have done the planning in Step 1.

- *Step #6* is to explain why the actual results vary from the planned results. This is done whether the variance is positive or negative. You will learn a great deal about how your business really functions as a result of this step.

- *Step #7* is to integrate the changes you want to make in your plan as a result of what you learned in step 6; and then start the cycle again.

WHO DOES THE PLANNING?

Owners Take the Lead

You must be actively involved in the planning process. Don't delegate all the responsibility to an employee, a team or a consultant. It is great to have others organize and participate in the process, but you must be seen as a strong advocate of the process. More importantly, you must thoroughly understand the plan, which is best accomplished through active participation.

Assemble a Planning Team

Now that you are committed to being actively involved in the process, it is time to identify the other members of your planning team. Why should you use a team approach? Can't the owner just write the plan and then tell the other family members and employees what to do? No, not successfully. You

basic equipment required: planning and research TEXT 2-5

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must involve family members and key employees to make them feel a sense of ownership in the plan. This greatly improves the chances of successful implementation. Besides family members and key employees, you may want to involve professionals in your planning process. Examples of these would include your banker, lawyer, accountant/tax preparer, insurance agent, etc.

"It is vital that everyone, including the children and spouse, be involved in the planning process. This 'family team' will be central to your business' success."

Now that you have assembled your team, it is time for your first meeting. At the initial meeting, you should define a time line for future meetings and for completing the planning process. Make sure that everyone on the team understands his/her responsibilities, both at the meetings and in the work done between meetings. In an agricultural business, this may mean establishing set times for family members to meet and discuss the issues at hand. It is vital that everyone, including the children and spouse, be involved in the planning process. This "family team" will be central to your business' success.

Keys for Success

A well-executed planning process can have a tremendous positive impact on a business. Conversely, the frustration of a process that does not result in agreement on the future of the business can be devastating. Here are some ideas for making your planning process a success.

- Owner assumes the lead role
- Plan involves everyone in the business
- Planning is a process
- Plan in definable steps
- Plans reflect reality
- Have a contingency plan for the worst case
- Plans should be flexible
- Identify how specific goals and objectives will be achieved
- Keep in mind the skills of the staff who will implement the plan
- Assumptions are documented
- Revise the plan when needed

2-6 TEXT basic equipment required: planning and research

must involve family members and key employees to make them feel a sense of ownership in the plan. This greatly improves the chances of successful implementation. Besides family members and key employees, you may want to involve professionals in your planning process. Examples of these would include your banker, lawyer, accountant/tax preparer, insurance agent, etc.

"It is vital that everyone, including the children and spouse, be involved in the planning process. This 'family team' will be central to your business' success."

Now that you have assembled your team, it is time for your first meeting. At the initial meeting, you should define a time line for future meetings and for completing the planning process. Make sure that everyone on the team understands his/her responsibilities, both at the meetings and in the work done between meetings. In an agricultural business, this may mean establishing set times for family members to meet and discuss the issues at hand. It is vital that everyone, including the children and spouse, be involved in the planning process. This "family team" will be central to your business' success.

Keys for Success

A well-executed planning process can have a tremendous positive impact on a business. Conversely, the frustration of a process that does not result in agreement on the future of the business can be devastating. Here are some ideas for making your planning process a success.

- Owner assumes the lead role
- Plan involves everyone in the business
- Planning is a process
- Plan in definable steps
- Plans reflect reality
- Have a contingency plan for the worst case
- Plans should be flexible
- Identify how specific goals and objectives will be achieved
- Keep in mind the skills of the staff who will implement the plan
- Assumptions are documented
- Revise the plan when needed

RESULT

The desired result of this course is to research and prepare a well-reasoned business plan. A **Business Plan** is a document resulting from the planning process that usually contains a Cover Page and Table of Contents followed by six major components: Executive Summary, Business Concept, Mission and Goals, Background Information, Organizational Matters, Marketing Section and the Financial Section. Additionally, most business plans have a Conclusion and an Appendix that contains supporting information.

the plan.

THE NXLEVEL™ AGRICULTURAL BUSINESS PLAN

A business plan has several potential uses. Business plans are written for three major audiences:

- The internal management team
- Potential lenders and investors
- Potential partners, advisors and key employees

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These individuals look at business plans from their own particular point of view. An owner might wish to determine if the idea is viable. A lender wants to fully understand the assumptions that underlie the cash flow projections—the source of the loan repayment. Before investing in the venture, potential partners want to know that the industry research on which your product decisions are made are reliable.

COMPONENTS OF THE NXLEVEL™ AGRICULTURAL BUSINESS PLAN

The major components of the plan are:

- Cover Page
- Table of Contents
- Executive Summary
- Agricultural Business Concept, Mission, and Goals
- Background Information
- Organizational Matters
- The Marketing Plan
- The Financial Plan
- Conclusion
- Appendices

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Components Explained

The *NxLeveL™ Agricultural Business Plan* is made up of several components or parts. The function of each is explained below.

The Executive Summary

"The **Executive Summary** is the 'opening argument' of the business plan…"

The Executive Summary is the "opening argument" of the business plan. It is your chance to take the floor and convince your audience that your business is worth a go. It is the most important section of the plan because it is the first thing readers see. It must capture and hold their attention. This is especially true with agricultural endeavors, as very few people are familiar with alternative crops, livestock, cultivation and production practices.

Keep in mind the three "C's" to creating an effective executive summary: Be clear, concise and convincing. Clarity enables those unfamiliar with the industry to understand the general scope and feasibility of your business. If you use terms common only to people in your industry without at least defining them, you may lose the interest of a big segment of your audience.

Agricultural Business Concept, Mission, and Goals

"The **Agricultural Business Concept, Mission, and Goals** section offers a general description of the business and its stage of development…"

This section offers a general description of the business and its stage of development. Entrepreneurs use this section to present their **business concept**. This is a brief, but compelling, description of why the business exists. It presents the need the business fills. It also explores growth and product expansion potential. For example, if your business is raising organic carrots, this could eventually lead into providing specialty types of organically grown lettuce. Demonstrating foresight in the early stages of planning carries weight with those interested in participating in a business. This section also previews the skills and experience of the owner, his family members and the key employees that are participating in the business.

Any business plan should describe in some detail the products or services that will be offered. What value will be delivered to customers? What is the company's mission? How fully developed is the product idea? This is your opportunity to demonstrate the focus and scope of your business. A business **mission statement** states, in the broadest terms possible, what the business hopes to be and do.

Finally, this section of the plan should clearly state the specific goals and objectives you have for your growing agricultural business. Short-term (one year) and long-term (two to five years) goals and objectives should be carefully examined.

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Background Information

This section presents the industry in which your business operates. Depending on your business, you may need to look beyond the broader agricultural industry to find subsets such as the fiber production industry. Once you have selected your appropriate industry you can find information that answers questions such as: What are the past and present industry trends that impact the business? Where is the industry headed in the next one, three and five years? On what basis do businesses compete? What economic, societal, environmental or political trends impact the industry? How attractive is the industry for your business?

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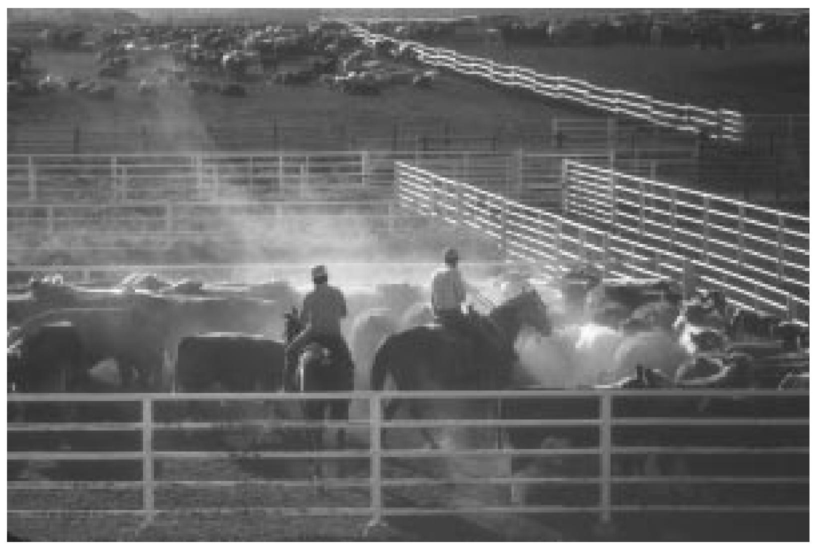
Organizational Matters



This section usually begins by describing the legal form of ownership of your business. Will it be a limited liability company? A sole proprietorship? A "sub-chapter S" or "C" corporation? Or, will it be a cooperative?

This section presents the people and structures that will make the business run smoothly and successfully. At what point do you estimate you will need additional personnel? What are the responsibilities and qualifications of your team? Businesses often attach resumes to this section to highlight the strengths of the team.

In the management section, you should describe how different parts of the business work together. Who will report to whom? Which areas of the business will be responsible for which functions? Businesses often illustrate this with an organizational chart. An organizational chart is a blueprint of the management hierarchy. It details reporting relationships and where different parts of the business exist in relation to one another.

"The **Organizational Matters** section usually begins by describing the legal form of ownership of your business…"

Your management team may consist of only you, or a combination of you, your family, and external contractors that you hire on a short-term basis. What tasks will you be responsible for and what tasks will you rely on outside services, consultants, mentors, and helpers to perform? What production tasks do you perform and what tasks do your family members or employees perform? Will you do accounting and payroll in-house or hire an accountant or bookkeeper? Will you use outside sales representatives, distributors or brokers to help distribute your product?

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The management section of the business plan is a good place to present possible weaknesses within the business. Businesses often list potential challenges along with contingency plans for troubleshooting and solving these problems.

The organization section of the business plan should also present information about how records will be kept and budgets and controls managed. How will the business make sure it continues to operate honestly, efficiently and profitably?

"The **Marketing Plan** identifies the markets your agricultural business intends to serve…"

The Marketing Plan

The marketing plan identifies the markets your agricultural business intends to serve. Marketing describes everything your business does as it readies its goods and services for the marketplace. This means marketing is more than selling your product on the open market—it is about focusing on your customers' needs and delivering a product that your customers want. The marketing plan also outlines the business' unique strengths relative to its competitors. It describes how the business will be positioned in its market.

The marketing plan contains the following sections:

Products/Services Description
What products will the business offer? What features and benefits do the products provide to customers? Businesses might also include information about the **seasonality** of the product. What are the main growing, harvesting and selling times of your product? Does your product have a growth phase longer than one year? Where does the product fit in its industry **life cycle**? Is it in the **introduction, growth, maturity** or **decline** phase? What growth of existing products is anticipated? What new products will the business offer in the future? Can value be added to an existing product?

Market Analysis
The **market analysis** is the result of market research findings relating to customers and competition. It presents your business' **target market.** The target market is the segment of the overall market on which the business focuses all of its marketing efforts. What is the market potential for organically grown produce sold through a farmer's market or for all-natural handmade wool sweaters? How large is

2-10 TEXT basic equipment required: planning and research

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the target market for fee hunting, specialty mushrooms or free-range eggs? How fast is it growing and what sales volume can it generate in the future? What is the target customer profile? Are customers located near or far away?

Demographic and Psychographic data are used to help describe the target market. **Demographic data** gives quantitative information like people's addresses, age, income level, spending patterns and family composition. **Psychographic data** gives qualitative information about people's lifestyles. What are their hobbies? Beliefs? Attitudes? This information determines all marketing strategies, including those regarding product, price, promotion and placement.

weakness strength.

In the **competitive analysis**, you analyze your business competition. Who are your competitors? Competition, for example, for a free-range poultry operation may be the local grocery store, a meat packing company, or large poultry producers. Is the market already saturated with other companies? What does your business offer that's better than the competition? What are its unique strengths? Weaknesses? When you conduct your competitive analysis, it is important to look at all aspects of your competition to learn how to produce a better product and provide a better service that will have a strong chance of succeeding in the marketplace.

A major aspect of the market analysis is a list of **possible barriers to entry**. What are the initial start-up costs? What special skills or expertise are required to compete? How long will it take to set up the business' operations? What government regulations apply to the business?

The **Marketing Plan** contains the following sections:

- Products / Services Description
- Market Analysis
- Marketing Strategy

Marketing Strategy

This section introduces the marketing strategy and addresses how your business will overcome obstacles to achieve its objectives.

What does your agricultural business hope to achieve in its markets? What strategies and tactics will it use to achieve these objectives? This section outlines what mix of product, pricing, placement and promotion strategies your business will use to compete and serve your target customers. What promotional strategies will you use? Newspaper or periodical ads? Radio? Direct mail? Will you create a business web site, register with several search engines, and link to other related web pages? What sort of customer service will the business provide? How will products or services be packaged? Will products be widely or selectively distributed? How much will marketing efforts cost and for how long will each tactic be used?

In addition, this section presents how the business will provide products or services. Where will your supplies come from? How will products be grown or raised? Distributed? Sold? How will you maintain production levels to meet customer orders?

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The Financial Plan

The financial plan is usually the longest and most critical section of the business plan. This is where the business lists the financial requirements for launching or growing the business. The financial plan is composed of three sections: budgets and cash flow projections, financial statements and additional financial information. Together these are the "meat and potatoes" of the business plan.

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Budgets & Cash Flow Projections

Budgets and Cash flow analysis are perhaps the most critical financial tools that you will develop. They detail sources of revenue and operating expenses and the timing of both! Here you project into the future how much actual cash is coming in and going out of your business, and in what specific budget categories. It is a particularly useful tool for determining when and how much money a business will need to borrow during an annual cycle—along with when and how much cash is required to pay bills each month.

For agricultural businesses, this section is especially important for two main reasons. First, it is typical that you will have to supply several inputs to your crop or animals in terms of capital or cash outlay for several months prior to selling your products at the market. It is only after a sale that you will get cash to put back into your business. The cash flow will show what you have to cover in terms of regular expenses until a sale occurs. Secondly, you may have to carry some accounts receivable, which is the unpaid balance of money owed to you when you make a sale for other than "all cash."

2-12 TEXT basic equipment required: planning and research

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Most business plans contain **monthly cash-flow projections** for the first year and **annual cash-flow projections** for years two and three of the business.

Financial Statements

The Financial Statements contain several items that give a quantitative profile of the business. The **income statement** is a financial report showing revenues earned, expenses incurred and the resulting **net income** or **net loss**. A **projected income statement** presents the monthly profits a business *expects* to generate for the first year of business and quarterly profits for the two years that follow.

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Another Financial Statement included in this section is the **balance sheet**. This is a list of all of the business' assets and liabilities. It is an itemized report of the net worth of your business at a given point in time. **Assets** are any items of value owned by the business. These include equipment, accounts receivable, inventory, cash and any prepaid expenses. **Liabilities** are debts owed in the long and short term. These include lease payments, accounts payable, bank mortgages, operating capital, other bank debts and equipment depreciation. **Depreciation** is the decrease in value of buildings or equipment from wear and tear and the passage of time. It is a *non-cash* expense. By subtracting total liabilities from total assets, you can calculate your business' overall **net worth**.

Additional Financial Information

This section of the business plan summarizes the financial requirements of your business, the business' existing debt, and the financial position of you and other owners. The **summary of financial needs** presents what your business requires to fuel its growth. The business' **existing debt** is a summary of all outstanding loans the business has up to present. The **personal financial statement** lists the principle owner's assets that he or she is able to invest in the business, their personal liabilities and what sources of income they have outside of the business.

"The **Conclusion** prioritizes and schedules your tasks and tactics…"

Conclusion

Given your research, calculations and projections, can your business continue to be a viable venture? Can you profitably operate your business? This is the time for you to make a judgment call about what you expect to achieve in your business and when you expect to achieve it. What is your long-term vision for the business? This section prioritizes and schedules your tasks and tactics. What will you achieve in the next one, three and five years?

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This final section of the business plan presents a timetable for action and any supporting documents the business is using to enhance its business plan.

The **supporting documents** might include resumes of the owner and other employees, market research findings, product specifications, brochures and customer testimonials.

Introduction to Market Research

Marketing is simply the process of using information to determine your customers and the best ways to reach those customers in an effort to achieve sales. A definition of marketing would include all those activities that influence commercial movement or sale of goods and services from the provider to the buyer. Your ultimate goal in understanding marketing is to prepare your marketing plan, which is an integral part of your business plan.

To make good, informed marketing decisions, you need information about your industry and your customers. **Market Research** in the broadest sense describes your customers, your marketplace, and your industry. It often is centered on information about your market and your customers. Market research answers questions like: How big is the market in terms of numbers of customers? What does the typical customer "look like" in terms of age, income, buying preferences and habits? **Industry Research** is an important component of market research. It centers on the industry in which your market is located. Industry research answers questions like: How has the industry developed? Where is the industry headed? And perhaps most importantly: How do small businesses operate within the industry?

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If you were interested in starting an Ostrich Farm, you would begin your industry research with information on the current status of Ostrich production in the United States. After your research, you may discover information such as the following:

Ostrich production began in the United States in the 1980's. In the early stages of the industry, producers saw their original investments increase considerably. However, as the industry matured, the prices for birds declined and larger farms began purchasing smaller farms, thus limiting the number of ostrich producers. Recently the industry has begun to move from a breeder market to a commercial products industry. However, experts foresee the competition from other meats and a lack of processors as major barriers to the growth of the ostrich market. To penetrate the existing meat and hide markets, it is estimated that 250,000 breeding pairs would be necessary with 20 to 30 processing plants in operation nationwide and each plants processing 200,000 birds annually. For comparison, in 1997, 100,000 birds were processed. The ostrich produces a variety of marketable products, ostrich meat, live birds, eggs, ostrich leather, ostrich oil, and ostrich feathers. Ostrich meat products are packaged as the "healthy red-meat" and are sold in restaurants and retail outlets.

Industry Research and Analysis

Research Sources

There are many sources of information you can use to research your industry. Your *NxLeveL™ Agricultural Business Resource Guide* lists many sources of industry information. However, you may want to develop additional sources of information for your business plan. Here are some places to start.

"Don't forget to utilize the NxLeveL™ Website at: www.nxlevel.org for up-to-date resources…"

Library

Your local library is an excellent place to start your research. In addition to looking for the resources provided to you in the *Resource Guide,* you can search for new sources. A library's primary task is to organize information. It tries to efficiently tell customers where to find the information they seek. Many times the information is located within the library itself. Other times the library can order the information for you from a larger library or tell you how you might obtain the book, periodical, etc. that you seek directly from another source.

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agExtra

If you were interested in starting an Ostrich Farm, you would begin your industry research with information on the current status of Ostrich production in the United States. After your research, you may discover information such as the following:

Ostrich production began in the United States in the 1980's. In the early stages of the industry, producers saw their original investments increase considerably. However, as the industry matured, the prices for birds declined and larger farms began purchasing smaller farms, thus limiting the number of ostrich producers. Recently the industry has begun to move from a breeder market to a commercial products industry. However, experts foresee the competition from other meats and a lack of processors as major barriers to the growth of the ostrich market. To penetrate the existing meat and hide markets, it is estimated that 250,000 breeding pairs would be necessary with 20 to 30 processing plants in operation nationwide and each plants processing 200,000 birds annually. For comparison, in 1997, 100,000 birds were processed. The ostrich produces a variety of marketable products, ostrich meat, live birds, eggs, ostrich leather, ostrich oil, and ostrich feathers. Ostrich meat products are packaged as the "healthy red-meat" and are sold in restaurants and retail outlets.

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If you have not been to the library recently you will find that it has changed. Over the years libraries have developed new technologies to better serve customers. In its attempt to organize its information, libraries have found computerized **databases** to be extremely helpful. Having the information computerized allows you to quickly and efficiently search all the libraries' databases (and many times other off-premise databases). Libraries have staff that can train you on how to use the computer equipment. In smaller libraries you may still find the manual "card catalog" system based on author, title, and subject. But whether your library has the latest in computer-aided search capabilities or the old standard card catalog, the information is there for you to search out. One of your best allies in the library is the **reference librarian**. This individual is there to help you in your search. Explain your project and most times you will find helpful assistance.

the net.

Internet

The Internet has grown dramatically in popularity over the last few years. Those familiar with its ability to search out information, often within the convenience and privacy of their own homes, feel that it is the best place to start a research project. Like the library, what makes the Internet so efficient is the ability for you to quickly and efficiently search a computerized database.

"The Internet gives you the ability to quickly and efficiently search a computerized database…"

By using your computer's **modem** you can connect to an **Internet Service Provider** (ISP) directly over common telephone lines. Using a computer program known as a **browser** (such as Netscape or Microsoft's Internet Explorer) you can search databases that contain information from around the world. These databases are nothing more than specialized computer address directories called **search engines**. These search engines provide you with the addresses of web sites that contain the information you have requested. If you don't have a computer with Internet access you might try your local or regional library, your area schools or a friend.

Consider these following examples as you begin your Internet research:

- If you are interested in raising minks and want to learn more about its market potential, you can search many of the University Extension publication sites for excellent technical and marketing information. A couple of good sites to start with are the University of Florida, http://edis.ifas.ufl.edu and the University of Missouri, http://muextension.missouri.edu/xplor/.
- Suppliers of organic seeds can be researched through a web search for organic seed suppliers or try researching organic seed buyers and find their recommended supplier lists.

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- Helpful information on sustainable agricultural practices can be researched through numerous Web pages, such as the National Sustainable Agriculture Research and Education home page at http://www.sare.org, the Alternative Farming Systems Information Center at http://www.nal.gov/afsic/, and the Appropriate Technology Transfer for Rural Areas (ATTRA) at http://www.attra.org.

Primary and Secondary Information

"You gain an understanding of your industry and your customers by means of information…"

You gain an understanding of your industry and your customers by means of information. Information comes to you as either primary or secondary. **Primary information** or data is that information that you originate. That means you are doing the primary job of generating the information. The information you gather in this manner is "first hand" to you. **Secondary information** or data is that information that comes to you through the efforts of others. All of the printed material from the library, the Internet, and other sources is "second hand" to you. You have read the information, but it was first gathered and then presented by someone else. Both types of information have their place and use by you as you gather information on your industry or on your customers.

The library and the Internet are alike in that they both provide large amounts of secondary information. In both, you will find lots of written information. By way of a book, periodical or written information printed off a web page, this information is designed to be read. This secondary information is a good place for you to find background on your industry. To a lesser degree it will also help you understand more timely information on your industry such as **niche markets** that are currently "hot" or where the industry is headed in the next three years. Including the library and the Internet, major sources of secondary data include:

Major Sources of Secondary Data:

- Public libraries
- University libraries / Extension Offices
- Government (federal, state, local) departments and agencies
- Small Business Development Centers
- Trade associations
- Industry associations
- Chambers of commerce

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- Trade associations
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- Local newspapers
- Business periodicals: *Business Week, Wall Street Journal, Journal of Commerce, Inc.*
- Agricultural (Alternative) periodicals: *Successful Farming, Farm Digest, Journal of Agricultural Economics*
- *Journal of Marketing* (Chicago)

Additionally, the library and the Internet are also your best sources to the contacts you need to go about collecting your own primary information. Here, instead of the information being presented directly to you, you will have to initiate contact to follow-up with the information source. Many times you will be presented with lists of organizations, government groups or agencies and others that have some interest and knowledge about the subject you are researching. From this group you will conduct your primary information gathering. This is often the best place to look for the most up-to-date information. Given the time that it takes printed material to appear, industry experts often have the trends and current industry updates well in advance of printed material. Recently this lag time of knowledge and distribution has been trimmed. The Internet, and the ease with which printed material can be published on a website, offers almost instantaneous access to the latest information.

Research Methodology and Tools

You have been to the local library and your local school where you "surfed the net" and ended up with lots of secondary information. Your first step is to read, read, read! Or, at the very least, do a "concentrated skim" through the material you have collected and thoroughly read the pieces that are most relevant to your business idea. Before you start to contact the individuals and organizations indicated through your secondary sources, it is best to have a working knowledge of the subject. Has anyone ever asked you for information and you realized they didn't understand enough about the subject to ask the right question? That can be frustrating for both sides. Many of the individuals you will contact for additional information will be busy. They will appreciate your ability to ask concise, specific questions in a straightforward, knowledgeable manner.

"Remember to ask concise, specific questions in a straightforward, knowledgeable manner..."

Ways to Contact Information Sources

After you have a working knowledge of your subject by a thorough reading and understanding of your secondary data sources, you are ready to search out further information. Using the contact information you gained from the library and the Internet, you can initiate contact. The question is how to initiate contact.

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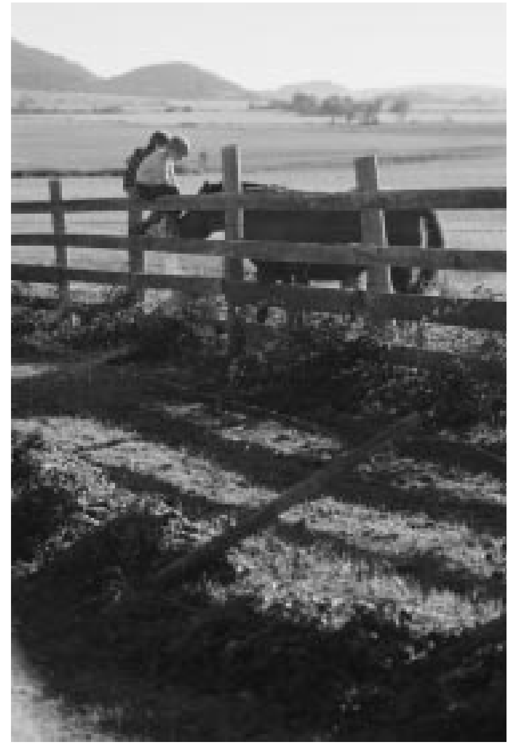

- In person
- Telephone
- Facsimile (Fax)
- Internet E-mail
- U.S. mail, express mail services, etc.

Tools to Use When Contacting Information Sources

After you have prioritized your sources of information and decided what method of contact you will use for each, it is time to decide what research tool to use when you contact them.

Interview
The interview is the tool you will use most when contacting information sources. In its simplest form, it is nothing more than asking questions. Used effectively, the individuals you contact will feel as if they have had a good conversation, rather than as if they had been "grilled" when the interview has concluded. The best way to be prepared for your contact is to have first done your background research. You will want to have read the background information you received from the library or Internet prior to conducting your interview. It is also a good idea to be prepared for the interview. One way is to write down all the areas you wish to cover or even specific questions you want to ask.

"An interview, in its simplest form, is nothing more than asking questions…"

Survey
A survey is like a written interview. The major difference is that you are not there to ask follow-up questions or to clarify questions your respondents may have when they are filling out your survey. Surveys can be specific in that the questions they ask have preset answers. We have all filled out surveys like this where we choose from three or four answers provided to us. Other surveys ask open-ended questions. Here, a question is asked and a blank space is provided. The respondent in his or her own words can provide a written answer to the question. Not surprisingly, the easier you make the survey to complete, the more responses you will get back. Therefore, surveys that have a few questions with preset answers to circle have a higher response frequency than open-ended surveys where respondents have to think about the question, formulate their answer, and then put down that answer in writing.

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- In person
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Focus Group

A focus group is another research tool that we will discuss further as we learn more about marketing. In short, it involves bringing together individuals that are representative of a larger group and focusing on their impressions, thoughts and ideas about a particular product, or in this case, industry. Based on the findings of this representative group, you are able to make decisions about your product. Those decisions are based on facts discovered from this group.

Focus groups can be very expensive. Because of the expense of using focus groups as a means of finding out more about a particular industry, this practice is almost exclusively limited to large companies. We will discuss ways you can use inexpensive focus groups to help you with your market research, but focus groups will probably not be of much help to you in doing your industry research.

Given the low effectiveness of surveys, you will want to use a focus group only after carefully designing your survey and thinking through the sources of information you wish to contact. Given the expense of focus groups, it will likewise not be your main method of gaining information from your industry sources. In terms of effectiveness and expense, the interview, personal or telephone, will be your most effective and efficient means of gaining primary information from your industry sources.

Analyzing Your Industry Research

From your library research, you have interviewed people in person, by telephone and by fax. You did a mail survey and even conducted some limited focus groups. You have a lot of good information, but what do you do with it? Now that you have conducted your industry research and gained information from both secondary and primary sources, it is time to analyze that information. Until you apply your research efforts to your business idea, the information is useless.

The purpose of analysis is to interpret and draw conclusions from the data you have collected.

However, before you draw your conclusions, consider the following:

- Challenge the validity of your research findings
- Check for its completeness and timeliness
- Recheck to ensure the findings are representative of the larger industry

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- Assign value and weight to the findings
- Review your findings and conclusions with a mentor or industry expert

Note that the last recommendation calls for you to review your findings with a mentor. A **mentor** is any individual with specific knowledge that could be helpful to you as you start or expand your business. The knowledge could be basic business skills, knowledge of the industry or perhaps technical expertise about production. A mentor is a knowledgeable individual you can bounce ideas off as you meet periodically and discuss how your business is progressing.

Now it is time to summarize your findings. This brief summary contains your conclusions about your industry and background information of your agricultural business. This is simply a way for you to consolidate your findings and focus your efforts. Revisit this summary down the road frequently and compare it to new conditions in your industry. It will remind you that your industry is a dynamic, changing place.

"A **mentor** is any individual with specific knowledge that could be helpful to you as you start or expand your business…"

Drawing Conclusions: What Does your Industry Look Like?

After gathering and analyzing your primary and secondary research, your summary should be able to answer the following questions:

- How has the industry developed?
- What have been the historical growth patterns in the industry?
- How has international trade impacted your industry?
- Will international trade (continue to) impact it in the future?
- How do small businesses operate in this industry?
- How are small businesses affected by large businesses?
- How are products/services marketed in this industry—locally, regionally and nationally?
- What are the current growth patterns in the industry?
- Are there any niche markets that are hot?
- What is the industry's size at present?
- What is the industry's projected size a year from now? Five years from now?
- What are other agricultural businesses doing in the industry in terms of sales? Profit margins?
- What are the current government regulations in the industry?
- What new regulations are being projected by industry experts?

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- In addition to regulation, what production issues do you face in your industry in terms of: soil, water, equipment, labor and yield?
- How will technology impact your industry and the small businesses within it?

The Industry Analysis Test

The goal of industry analysis is to determine whether your industry is attractive in terms of starting and operating a new venture. Use this Industry Analysis Test as a tool to help you make that determination.

Using a scale of 1 to 5 (1 having the least relation to and 5 having the highest relation to) rate the degree to which each criteria listed in the chart below applies to your industry.

"The goal of industry analysis is to determine whether your industry is attractive in terms of starting and operating a new venture…"

Industry Analysis

least related 1 2 3 4 5 most related

The factors that help determine an industry's attractiveness are:

Easy entry	This describes how many barriers there are for new businesses trying to enter the market. These can be a plus if a business is already established in the market. High production costs, long set-up times, complex technical knowledge requirements, and logistical challenges are all examples of barriers to entry. The greatest barrier to entry is a competitor with a large marketing or cost advantage. A low score here means that your industry is very difficult for new competitors to enter.	
Level of Competition	This describes the number of competitors in the market and the nature of their competition for customers' dollars. When competition is intense, the opportunities for gaining an edge (or even entry into a market) are few. When a market is mature and sales are leveling off or decreasing, competition is the most intense. Revenues might be falling, technological breakthroughs are few, and businesses begin to compete on the basis of price alone.	
Availability of Substitutes	This describes how easily customers can use substitute products from other industries to satisfy their needs. An example of this would be individuals ability to purchase their produce from a grocery chain rather than the organic-food cooperative market. Buyer leverage. This describes the bargaining power that buyers have over businesses in the market. If buyers have many choices of products and spend comparatively little on products in the industry, then their bargaining power is high. They can drive down the price and heavily influence the content of the product and the service that is delivered.	
Buyer Leverage	This describes the bargaining power that buyers have over businesses in the market. If buyers have many choices of products and spend comparatively little on products in the industry, then their bargaining power is high. They can drive down the price and heavily influence the content of the product and the service that is delivered.	
Supplier Leverage	This describes the amount of bargaining power that suppliers have over businesses in the industry. A business that relies on a limited number of large suppliers is vulnerable to price increases and suppliers dictating the terms of the sale of inputs. This can make a market less attractive to businesses by raising their costs and reducing their ability to control their markets.	

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Using the rating scale described, calculate the total of the points you gave your industry for each of the above criteria. Look below for an explanation of your score.

- **17-25 points**: Your industry is very competitive! You best rally your troops and be prepared for an uphill struggle. Chances are the cost of competing in this industry is high, as are the risks. You may want to consider other related, more "user-friendly" industries where there is less extreme competition. This industry might be experiencing market maturity or a slow down. Ask yourself: Are the rewards high enough to offset the risks and costs of market entry?
- **10-17 points**: This score places your industry in the middle of the pack in terms of attractiveness. Entering this industry won't be a walk in the park, but it certainly won't be as risky or as costly as entering some other industries. There may be real challenges in several areas, but these are offset by opportunities in other areas.
- **5-10 points**: Can it be true? Do industries like this exist? Yes, they do, but not for long! Therefore, if you're lucky and clever enough to have identified an industry like this that has low competition, is moderately easy to enter and is in its most immature stage, you best move, and move fast! Chances are other businesses big and small will soon get wise to what you've found: a market, just begging to be entered.

"Small agricultural businesses need to plan…"

in Conclusion

This session covered four topics.

The Basics of Planning. First, the idea that planning is critical to the success of every business was discussed. While many believe that planning is only suited to large business, nothing could be less true. Small agricultural businesses need to plan. Through the process of planning, small business owners can stay on top of new ideas and better understand their market, customer and industry. Strategic, operational and financial planning were presented and explained as was the Planning Cycle.

NxLeveL™ Agricultural Business Plan. Here the business plan outline was presented as a guide to understanding the final product of the planning process. The various sections of the business plan were presented and explained. The importance of each business plan section was discussed.

basic equipment required: planning and research TEXT 2-23

Using the rating scale described, calculate the total of the points you gave your industry for each of the above criteria. Look below for an explanation of your score.

- **17-25 points**: Your industry is very competitive! You best rally your troops and be prepared for an uphill struggle. Chances are the cost of competing in this industry is high, as are the risks. You may want to consider other related, more "user-friendly" industries where there is less extreme competition. This industry might be experiencing market maturity or a slow down. Ask yourself: Are the rewards high enough to offset the risks and costs of market entry?
- **10-17 points**: This score places your industry in the middle of the pack in terms of attractiveness. Entering this industry won't be a walk in the park, but it certainly won't be as risky or as costly as entering some other industries. There may be real challenges in several areas, but these are offset by opportunities in other areas.
- **5-10 points**: Can it be true? Do industries like this exist? Yes, they do, but not for long! Therefore, if you're lucky and clever enough to have identified an industry like this that has low competition, is moderately easy to enter and is in its most immature stage, you best move, and move fast! Chances are other businesses big and small will soon get wise to what you've found: a market, just begging to be entered.

"Small agricultural businesses need to plan…"

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Introduction to Market Research. A general introduction to marketing was provided. It emphasized that marketing is the all-encompassing task of knowing your marketplace, your customer and your industry. The concept of market research was presented along with one of its primary components—industry research. While market research in its broadest sense defines all aspects of your market, product and customer, the idea of industry research conveys information about the overall industry in which your business operates. The idea that marketing is about understanding information was presented. It was shown that information comes to those doing research in two ways. Primary information is the data you originate on your own. Secondary information is the data that someone else originated and comes to you from other sources.

"The starting point of all good market research is with a sound analysis of the industry..."

Industry Research and Analysis. Fourth, the importance of industry research and analysis was discussed. The starting point of all good market research is with a sound analysis of the industry. It was shown that the library and the Internet are two good places to start your research. Both will yield a lot of secondary data from which you can gain general background knowledge on your industry. From the sources of this secondary information you can determine which organizations and individuals would be good contacts for you as you seek out primary information and a more detailed understanding of your industry. Ways to contact information sources and tools to use when contacting them were also presented. The summarization of your industry findings was discussed under the topic of industry analysis. Finally, an Industry Analysis Test was presented in order to help you determine the attractiveness of your industry for your new agricultural business.

2-24 TEXT basic equipment required: planning and research

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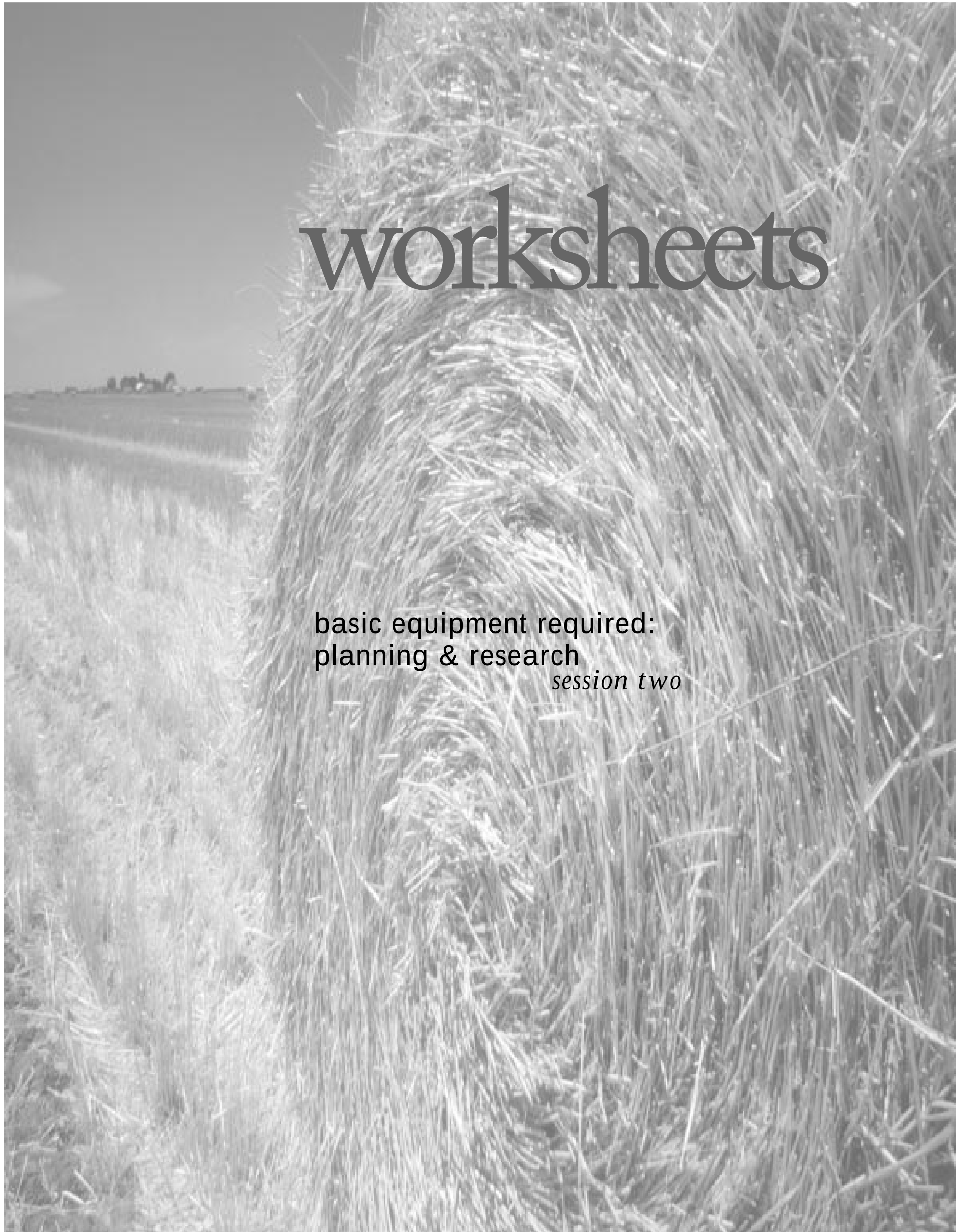
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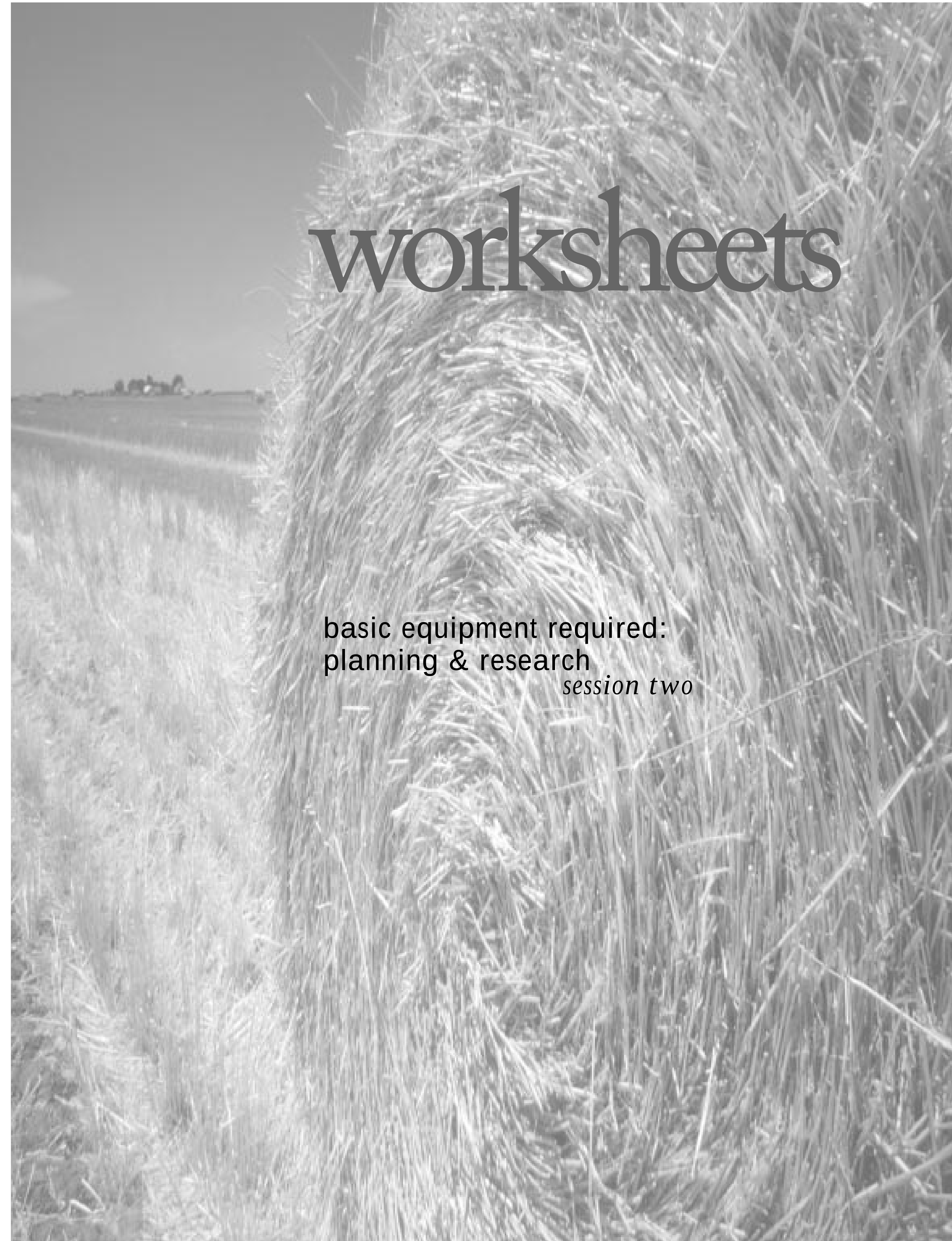
session two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required basic equipment

planning & research

SESSION TWO

Understanding your industry is one of the keys to developing a successful business. Studying and researching the industry should be an ongoing process regardless of your stage of business development. Updated industry information allows alert entrepreneurs to stay on top of change issues, make decisions about growing their businesses, and be aware of potential pitfalls. The smart business operator tracks industry and economic trends so that the effects on their businesses can be predicted and measured.

There are tremendous resources available to gather industry information. Knowing where, what and who those resources are is the key to developing a meaningful analysis of how trends and standards will affect your agricultural business. Your *NxLeveL™ Agricultural Business Resource Guide* provides you with some of the key resources available for researching your industry. Learning how to use those resources and identifying other local sources of key information will further enable you to analyze how your business fits in the industry and what options to consider for the future.

This section of your *NxLeveL™ Agricultural Business Plan* provides the opportunity for the reader, and *you*, to understand the industry in which your business functions, the trends that may be influencing your industry now and in the future, and where your business "fits" in the industry picture.

NxLeveL™ Agricultural Business Plan Outline

Cover Page
Table of Contents
Section I. Executive Summary
Section II. Business Concept, Mission & Goals

Section III. Background Information
The Industry
Background Industry Information
Current / Future Industry Trends
The Business "Fit" in the Industry

Section IV. Organizational Matters
Section V. The Marketing Plan
Section VI. The Financial Plan
Appendix Section

required basic equipment

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Sources of Information

Basing your business plan and decisions on facts rather than personal beliefs is important to the success of your business. There are many sources of information about your particular type of agricultural business. For example, the *U.S. Global Outlook* is a government publication which profiles many industries and gives projections of their future trends (stable, growing, declining). Information can be useful in analyzing your particular market niche, projecting how your market may change through the impact of technology, etc. Your task is to think about how you plan to keep up with and anticipate the industry changes.

Use the questions that follow to help identify specific industry resources to get you started on your quest for updated industry information. Remember, your *NxLeveL™ Agricultural Business Resource Guide* will also list resources in which to locate your agricultural industry information.

1. In what industry(s) is your agricultural business? (Be as specific as possible.)

2. Identify trade associations that have specific industry information pertinent to your agricultural business. Indicate the name of the association, address, phone, fax and toll-free numbers if available, E-mail address and Internet home page.

3. Identify industry publications, magazines or periodicals specific to your agricultural industry. If you find more than one, list them—they may be very useful in your future research. Show the name, address and phone numbers to call for subscriptions. Most industries have publications with valuable information about managing a business in that industry. Consult with your trade associations, suppliers, cooperative extension service and your local librarian who can help you identify available publications.

2-2 WORKSHEETS basic equipment required: planning and research

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Sources of Information—continued

4. **Identify federal government publications and sources of information.** The U.S. Government is a valuable source of free and low-cost information. The Agricultural Statistics Board, for example, collects and disseminates national and (some) state data on agricultural commodities. Data is provided on prices, volume, inventories and stocks, rate of harvest and utilization for a variety of crops, livestock and agricultural inputs (such as fertilizer). Check with your local library, call the U.S. Government information number listed in your phone book, check the U.S. Government websites and see your *NxLeveL™ Agricultural Business Resource Guide* for government resources that could be helpful to your business.

5. **Identify other sources of agricultural business information.** What other sources of agricultural business information is available? Is there a Cooperative Extension Service office in your area? A Soil conservation Service? An Agriculture Department at a local university or college? **List any additional local resources you find.**

Key Contacts

Another important factor in the success of your business is your ability to network with key contacts who may be able to help you find information or solve problems. Successful entrepreneurs maintain an awareness of local and regional contacts who can be valuable resources for their business. Use the following steps to help you update your contact list:

1. **Who is the Director of your Chamber of Commerce?** The local Chamber of Commerce is a good place to meet other business owners, get to know the director and find out what business committees exist.

2. **Who is your trade association contact person?** Your trade association is familiar with the various challenges of your business. Find out who in the trade association is available to help you on a local or regional level.

basic equipment required: planning and research WORKSHEETS 2-3

Sources of Information—continued

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Key Contacts—continued

3. **Who is your local librarian?** Small business owners tend to ignore their local librarian as a valuable contact person. Meet your librarian and learn what assistance is available and what research tools your library provides.

4. **Who is your local SBDC or BIC Director?** Your local Small Business Development Center (SBDC) provides counseling to a wide variety of business owners. Counselors have business education and experience; some may even be staff agricultural experts. Most SBDCs also maintain extensive business libraries to help with finding specific industry information. If you live in a larger metropolitan area, the Small Business Administration (SBA) may have a Business Information Center (BIC) established specifically to aid small business.

5. **Who is the director of the local or regional Cooperative Extension Office? Are there extension agents available who specialize in your agricultural business area?** List names, addresses and phone numbers.

6. **Are there other producers cooperatives, growers associations, organized organic or ecological groups in the area?** Identify the names, addresses and phone numbers of the leaders of these groups.

7. **Identify other local business and civic organizations.** Being active in local organizations and networking with your community is a key to success for many types of businesses. Determine which organizations would be of benefit to you and your business.

8. **Identify representatives of suppliers.** Many owners think of suppliers as merely the people that sells them products. These representatives often have considerable knowledge of the industry. Get to know more about supplier representatives and their backgrounds.

2-4 WORKSHEETS basic equipment required: planning and research

Key Contacts—continued

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Background Information

Now it's time to put the resources you have identified to work. Using your trade association information, industry publications, periodicals and other resources you identified, research your industry information to enable you to answer the following questions:

Background of Your Industry

1. How has the industry developed? What have been the historic growth patterns in the industry? How, or has, international trade impacted the industry in the past? How has technology impacted the industry?

2. How do small businesses operate within the industry? How well have small businesses prospered in the industry? How are small businesses in the industry affected by large companies? By franchises?

Current and Future Industry Trends

3. What are the current trends of the industry (growth patterns, niche markets)? What is the current size of the market? What are the typical current sales costs and profit margins? Who are the consumers? How do they buy?

4. Discuss current industry trends related to production issues (soil, water, facilities, equipment, labor, yield, seasonality). Do these trends affect sales costs and/or profit margins?

5. What future trends are being predicted by industry experts? (Document your sources.) How will current and future technology impact the industry? What are the positive and/or negative effects of government regulations on the industry?

basic equipment required: planning and research W O R K S H E E T S 2-5

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Background Information—continued

Background of Your Business and Business "Fit" in the Industry

6. Describe the background of your existing business. Background information on your agricultural enterprise is important to the reader of your business plan. You should include:

- When your business was founded
- Who started the business
- Why your business was started
- Why the business has (or has not) been successful
- How the business has (or has not) grown
- The profitability patterns of the business
- If the business purpose has changed over time

7. How do your products and services (your business) fit into the industry? Relate the fit to current and future trends.

Action Log

As you move through the process of evaluating your agricultural business and writing your business plan, you will be identifying activities requiring future action. All businesses change over time—keeping track of and reviewing activities enhances your ability to respond to change issues. The Action Log is introduced here to encourage you to "write it down" now while you're thinking about what needs to be done. In fact, it might be helpful to make several copies of the Action Log, and head one "Personal" and one "Business." Feel free to write down whatever activity you have on your mind on the appropriate sheet while in class. By writing it down, you record the action required and free your mind to concentrate on the in-class activities.

Remember, this is an ongoing process, and you will be prompted throughout the sessions to return to this worksheet. A suggestion is to move the Action Log sheets into the new sessions as you work through the worksheets so that you can continue to add activities as they come up during the sessions.

2-6 W O R K S H E E T S basic equipment required: planning and research

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Action Log—continued

For each identified activity, assign one person who will be primarily responsible for the completion of that activity. Also determine the date when work on that activity will begin. Consider how the activity fits into your overall plan as well as the availability of the person responsible. For each activity determine when the activity must be completed. Be realistic—a person outside of your organization may judge your managerial ability based on your ability to meet these deadlines.

Finally, estimate costs involved with the activity, since some activities may require a budget. You should review the estimated costs as you gather more information and add to the activity list.

As you complete an activity, log the date it was completed. Make sure the activity is *really* complete before filling in the date (not that you are *wishing it* complete!) While the original activity may be complete, there may be some action required in the future relating to that activity. Make a note or log a date when you want to review the activity again.

Items To Do	Who is Responsible	Start Date	Estimated Complete Date	Estimated Budget	Date Completed	Further Action Required

basic equipment required: planning and research **W O R K S H E E T S** 2-7

Action Log—continued

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Using the preceding information found in this session to guide you, write this portion of the business plan to describe your industry and how your agricultural business will operate within it. Format this section into paragraphs under the following headings and subheadings:

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The Industry

Background Industry Information

Review your answers to questions 1 and 2 in the Background Information section. Summarize the information to describe the background of your industry. Include what industry(s) you are discussing, the current size in terms of dollar sales and/or number of businesses or customers, whether large or small firms dominate the industry, and how the industry has developed or grown.

Current and Future Trends

Review your answers to questions 3 through 5 in the Background Information section. Summarize your answers to include how products or services are currently bought, sold, delivered, packaged in your industry, what the current sales costs and profit margins are and if they are expected to change in the future. Discuss how the industry as a whole is changing, and whether the industry is growing or declining. Discuss trends relating to production issues, and the potential impact of changing technology and government regulations.

The Business "Fit" in the Industry

Review your answers to questions 6 and 7 in the Background Information section. Provide a brief history of your agricultural business' development, then describe how you see your business fitting into the industry. Is it one of the smallest or largest? Will your business be like most others in the industry or will it be different? Is your agricultural business prepared for the changing trends related to production? Include any unique aspects to the agricultural enterprise that you feel will impact its ability to survive in this industry and in the coming era.

2-8 WORKSHEETS basic equipment required: planning and research

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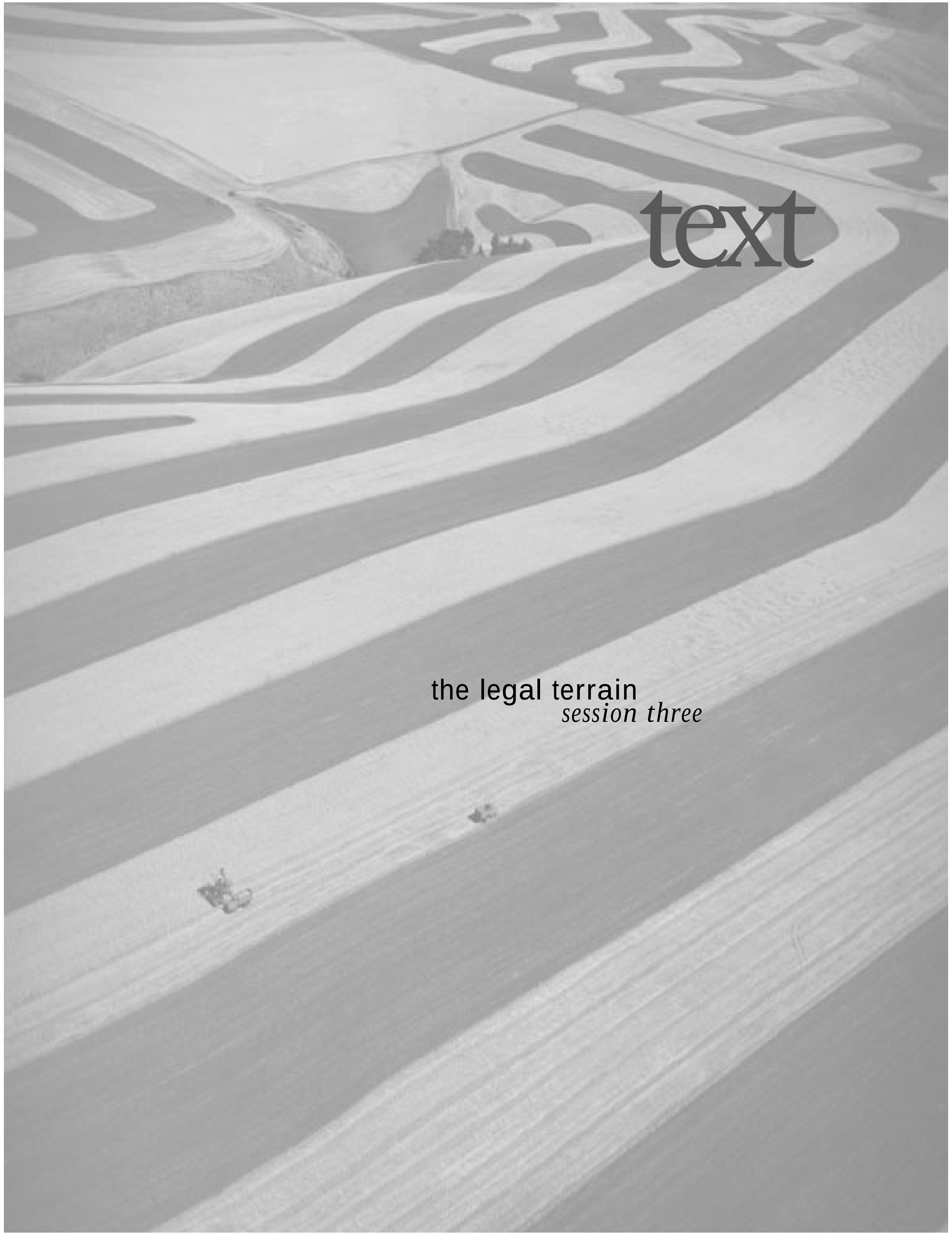
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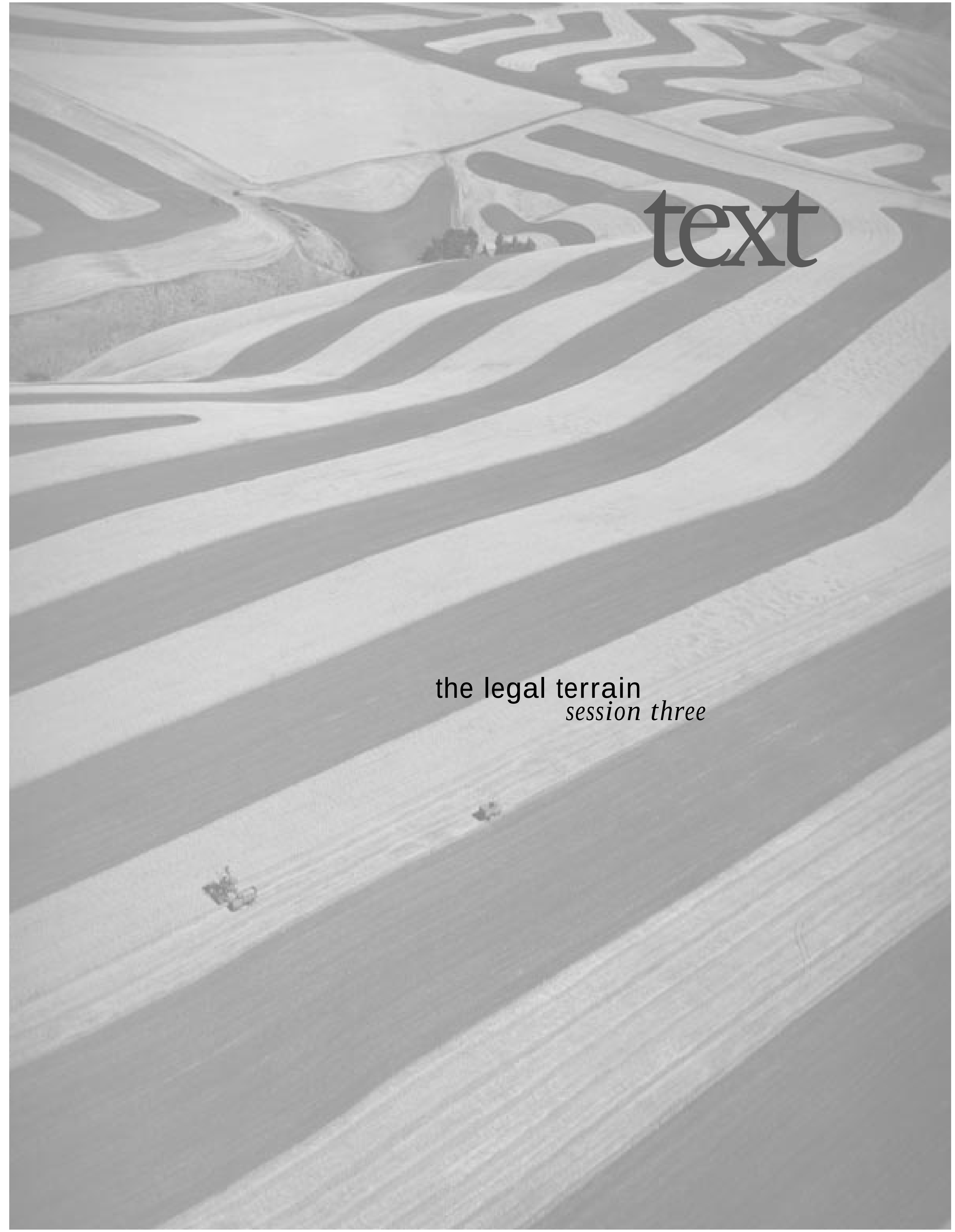
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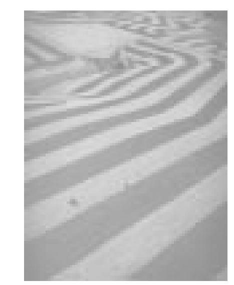

the legal terrain

session three

this Session

What's in this Session?

This session covers three topics.

Legal Structure of Ownership. What legal entity should you choose for the structure of your business? There are several forms of business entities for you to consider. The most common types of business ownership structures are discussed in this session. This session will assist you in understanding the basic characteristics of the various legal forms of ownership and their advantages and disadvantages. Selecting the one that is right for you involves many considerations, including ownership control, taxes and legal liability issues. This understanding will guide you through the process of choosing the form of ownership that best suits your needs.

Government Regulation. How does government regulation affect your farm? How is government regulation enacted and by whom? These and other questions you may have concerning government regulation will be examined by first looking at the legal system through the three branches of government. Through this examination, some major areas of agricultural regulation will be presented. Throughout this section we will address government regulation that specifically impacts your agricultural business.

Contracts. Contracts are the center of business activity. Without them, there would be no agreement on the terms of purchases or sales of goods or services. While we may think contracts are difficult to understand and interpret, without them it would be very difficult for your business to exist. This section will cover general aspects of contracts and will provide you with enough knowledge to begin thinking about the many contract decisions you, as an agricultural entrepreneur, will face. Finally, the lease—a specialized form of contract—will be addressed.

the legal terrain
SESSION THREE

this Session

- legal structure of ownership p2
- government regulation p8
- contracts p22

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Ownership Strategies

Selection of the Business Entity

One important decision you will make concerns the legal entity you choose for the structure for your agricultural business. Chances are your decision will mark you as a "closely held business." You have probably heard the expression before but may have wondered exactly what it means. When the term "closely held business" is used, it usually refers to a business which is owned by a few people and whose stock isn't publicly traded. Normally, closely held businesses have 25 or fewer owners, and *most closely held businesses are owned by one or two individuals.*

"Selecting the one that is right for you involves many considerations, including ownership control, taxes and legal liability issues…"

As you read through the following descriptions of the various legal entities, you may want to refer to this session's worksheets which recap the main benefits of each business form.

Sole Proprietorship

The most common form of a closely held business is the sole proprietorship, which is run by an individual, often under a state-registered trade name. In a sole proprietorship, your business is not a separate business entity. A sole proprietorship has its advantages as a form of ownership. It is the simplest way of doing business and avoids the potential for double taxation, which can occur in other forms of business ownership—like a corporation. Double taxation occurs when you are taxed twice on the same income. For instance, as an owner of a corporation you would have both your corporate earnings and your corporate dividends taxed. However, there are down sides to sole proprietorships. You can be exposed to personal liability for every act and debt of the business and there will be no ability to expand your business through new owners and their capital. You may have employees, but they cannot be owners with you. Other disadvantages are that many of the tax deductions available to other forms of businesses, such as expenses for health benefits and defined benefit pension plans, are unavailable to the proprietor. We will discuss estate planning and succession issues later in Session 10, but for now, remember that a sole proprietorship terminates at your death, so it is difficult to work into an effective estate plan. It is also difficult to make gifts to your successors of "shares" of the agricultural business under a sole proprietorship.

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General Partnership

A general partnership is formed when two or more persons jointly create a business. Their partnership is based upon an agreement (either written or oral) to operate a business together. The Uniform Partnership Act has been adopted in most states. It sets forth the rights and duties of the partners to each other and to third parties who deal with the partnership. It also provides for uniform procedures for partnership dissolution.

"A **General Partnership** is formed when two or more persons jointly create a business…"

You can customize your partnership agreement's terms to deal with management issues, distribution of profits, and the authority to conduct business on behalf of the partnership. As for taxes, the partnership files only an "informational" tax return. Each of the partners must report their portion of the partnership's income or losses on their individual tax returns with what the IRS calls a "K-1" statement. This "passing through" of the partnership earnings avoids double taxation and is an advantage of the partnership structure. Partnerships are fairly simple to set up, which is another advantage to this type of entity. You will need to file a "doing business as" (DBA) name statement to protect your partnership's trade name.

passing through.

There are some disadvantages to the partnership form. Partners are jointly and severally liable for all the obligations of the partnership. Being **joint and severally liable** means that all the partners are liable, both individually, as well as together as a group for partnership obligations. The liability issues surrounding partnerships requires that you consider all the issues and your knowledge of an individual before you enter into an agreement to be their partner. Another disadvantage is that most partnerships terminate upon one partner's death, so it is hard to use them in estate planning. Managing the relationship between partners can also be a disadvantage and is the number one cause of partnership break-ups.

Limited Partnership

A limited partnership is a special form of partnership in which certain individuals or corporations operate as the general partners. They are in charge of managing the day-to-day activities of the business. Limited partners are silent investors and do not participate in the day-to-day management. Limited partners may, however, vote to dissolve and wind down the affairs of the limited partnership. The limited partners are only liable for partnership debts to the extent of their investment. So, if you invested $15,000 as a limited partner, regardless of the activities of that partnership or the extent of its debts or obligations resulting from legal matters, you would be exposed to only $15,000 of losses.

"A **Limited Partnership** is a special form of partnership in which certain individuals or corporations operate as the general partners…"

Strict formalities must be observed by the limited partners to avoid the joint and several liability of the general partners. The Uniform Limited Partnership Act addresses the partner's duties, liabilities and rights in windup

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and dissolution. A certificate of limited partnership must be filed with your state and you will need to file a DBA to protect your trade name. Some states require the use of "Ltd." to accompany the trade name of a limited partnership.

Corporations

A corporation is a separate legal entity wholly apart from the individual shareholders who own it. All states have laws that describe how corporations can operate within that state. Corporations have several things that they share in common.

"A **Corporation** is a separate legal entity wholly apart from the individual shareholders who own it..."

Corporations must maintain appropriate books and records, including the minutes of annual corporate meetings. The corporation owns the business assets. The Board of Directors runs the corporation. You own "stock" in the corporation and elect the officers and the board (which can be you alone). As we will discuss in Session 10, gifts of stock in the family agricultural business are an effective estate and succession-planning tool. Remember that all states require that the corporation be created by your adoption of articles of incorporation, bylaws and minutes of the organizational meeting. Most require a formal filing with the state department of commerce.

Corporations are said to have a **corporate shield**, which refers to the fact that the corporation is a separate legal entity. If properly set up and maintained, the corporation can "shield" the owners from financial obligations or legal judgments incurred by the corporation. If not properly set up and maintained, creditors may "pierce the corporate veil" and obtain personal judgments against the individuals that make up the corporate ownership. In these instances, those individuals are liable to pay corporation obligations and/or are legally liable for the decisions of the corporation. For these reasons, it is always advisable to seek legal advice when entering into a corporation structure.

corporate shield.

Aside from features just discussed, which apply to all corporations, there are also different corporate structures that have some unique features. The different types of corporations are:

C-Corporations

"**C-Corporations** are usually the large, publicly held companies, but they also include small and even single-owner companies..."

Most businesses in the United States are operated as C-Corporations. The letter "C" refers to a subchapter of the Internal Revenue Code regarding corporate tax treatment. C-Corporations are usually the large, publicly held companies, but they also include small and even single-owner companies. A C-Corporation may have a single shareholder that comprises the entire board of directors, holds all the corporate offices and is the only employee! The distinguishing characteristics of a C-Corporation are that it may have more than one class of stock (such as common stock and preferred stock),

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may have an unlimited number of shareholders, and taxes on the corporation's profits are paid by the corporation as a separate tax paying entity. This can result in double taxation as discussed earlier. Double taxation by smaller corporations can often be avoided by careful year-end planning with your accountant.

S-Corporations

These corporations are special types of corporations that have elected to be taxed so that their profits and losses are not reported at the corporate level but are passed on to the individual shareholders. This allows the earnings to be reported on your personal tax returns in much the same way as partnerships. S-Corporations are limited to one class of stock and are restricted to 35 shareholders. In order for your company to become an S-Corporation, you must file a special election with the Internal Revenue Service within certain deadlines depending on when you file your articles of incorporation with your state. The S-Corporation can provide a substantial tax benefit for the family agricultural producer in that it may allow you to pass the losses of your business through to your personal tax return.

"The **S-Corporation** can provide a substantial tax benefit for the family agricultural producer..."

You should be aware that you can make the "S" election only once during the existence of your corporation. After this election you are also allowed to deselect the "S" designation only once. So, if you are going to make this decision, carefully consider the change!

Other Types of Corporations

If your business is organized for import/export, then you may want to consider formation as a Foreign Sales Corporation or an Interest Charge Domestic International Sales Corporation. These two highly specialized types of corporations provide the import or export business with significant tax advantages. You may want to set up a subsidiary export corporation to run under your primary company. This is a very complex area. You should talk to your tax accountant and lawyer before pursuing any such corporate structure.

"The **Limited Liability Company**, or **LLC**, is a relatively new form of business entity..."

Limited Liability Companies

The Limited Liability Company, or "LLC," is a relatively new form of business entity. It is established by an operating agreement, which is a document similar to a partnership agreement. Most states also require that you file limited liability articles and annual reports. You should have your lawyer assist you in this process.

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The LLC form of business combines the best attributes of partnerships and S-Corporations. The LLC is taxed like a partnership, but liability is limited like a corporation. One of the distinguishing features of an LLC is that the parties may allocate in their operating agreement their shares of gain or loss. This allocation does not have to be equal to the percent of their original investment. For instance, if one party can utilize a business loss because of their personal tax situation, the LLC form of business allows for the beneficial allocation of that business loss. Unlike the restrictions on an S-Corporation, an LLC can establish classifications of owners through the operating agreement. Transferability of ownership should also be addressed in the buy/sell provisions of the operating agreement. Another advantage of an LLC is that it can be used effectively in estate planning. Where there is more than one owner, the tax advantages and freedom from personal liability make the LLC an ideal business entity for the ownership and operation of an agricultural business.

"A **Cooperative** is controlled and owned by its members and operated for their mutual and exclusive benefit…"

Cooperatives

A cooperative is a unique business entity that is controlled and owned by its members and operated for their mutual and exclusive benefit. Cooperatives represent the self-help form of business organization. This form of business organization is employed by groups of individuals who share common interests or needs. Members are committed to achieving individual objectives through group actions. "User ownership," "user control" and "user benefits" describe both the obligations and the goals for establishment of a cooperative. Effectiveness depends upon the members' ability to lead meetings, solve conflicts and manage the business.

Cooperatives have been used to address a range of business activities, including employee-owned businesses, marketing of agricultural commodities, purchasing of agricultural production inputs, credit unions, retailer-owned wholesaling functions, child care services, retirement living facilities, rural electric and rural telephone services, burial societies, value-added processing and more.

The advantages of establishing a cooperative can include improved quality of services, reduced purchase costs and higher returns for their products, all of which are made possible by the cooperative's collective bargaining power. For example, cooperatives can add value to the members' raw commodities by processing them into new products that are marketed under exclusive

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brand names. Cooperatives can also improve the quality and availability of products and services members receive, and reduce their operating costs. Another advantage is that the producer is in control of their interaction with the cooperative—it is a self-help approach to meeting the producers' needs.

Disadvantages of the cooperative form of business may include lack of management and marketing experience and expertise. Because of the cooperative's unique structure, member education is needed for the producers to keep current about issues affecting the cooperative and their products' markets and for making informed decisions. Additionally, over time, membership commitment to patronize the cooperative may diminish and the individual member's goals and objectives may diverge. This may cause conflicts in the management of the cooperative. Another disadvantage of a cooperative is that initial capital investment requirements of the producers are frequently high, sometimes requiring capital outlay for buildings and processing equipment.

open membership • limited membership

Types of cooperatives

Types of cooperatives can be grouped into "open membership" and "limited membership" organizations.

Open Membership

Open membership cooperatives describe most existing agricultural cooperatives in the Western Cornbelt Region. Producers who meet the qualifications described in the articles and by-laws of the cooperative qualify for membership by doing business with the cooperative. As a qualifying customer they are entitled to share in the profits of the cooperative. With their share of the earnings, based on patronage business equal to the value of the common stock share, they are informed of their member status, including voting privileges. Open membership cooperatives are internally financed organizations. The majority of earnings are allocated by the board of directors to member-patrons on a patronage basis—a portion in cash and the balance reinvested in the cooperative in the name of the member. All earnings allocated on a patronage basis are subject to personal income tax by the member. Earnings not allocated on a patronage basis are subject to corporate tax payable by the cooperative. Equities of retiring members or redemption of equities to active members is at the discretion of the board of directors based on earnings and capital requirements of the organization. Timing of equity retirements frequently deals, in part, with the transfer of intergenerational ownership of the cooperative. Patronage of open membership cooperatives is typically a voluntary decision by the member.

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Limited Membership

Limited membership cooperatives are similar in many respects. The differences include the ability to purchase membership privileges for the right to patronize the cooperative. Membership includes a binding commitment to use the cooperative. Ownership shares are treated as marketable assets subject to provisions described in the articles and by-laws. Limited membership cooperatives are widely being used for value-added ventures.

Characteristics of Cooperatives

	Open Membership	Limited (Closed) Membership
Membership Qualifications	Doing business in the trade area	Purchase membership share
Investment Requirements	Earned membership (only direct investment when starting a new cooperative)	Purchase membership (ownership share)
Redemption of Ownership	At discretion of the board of directors	Marketable subject to articles and by-laws
Distribution of Earnings	Based on patronage	Based on Patronage
Commitment to Use	Voluntary	Volume commitment tied to ownership interest
Control	One person—one vote	One person—one vote

"Legal, sound and safe business practices benefit both farmers and consumers alike…"

Government Regulation

Compared with just a few decades ago, the amount of government regulation that agricultural businesses face today has significantly increased. Every day new and different laws and regulations are being proposed, in part to address changing technology and consumer preferences. Ten years ago, who would have considered the need for genetically engineered foods regulations or a "green tax" to discourage the over use of pesticides and fertilizers?

American Legal System

The American legal system is based on three branches of government: legislative, executive and judicial. The process of governmental regulation begins with the enactment of law. Congress, made up of the House of Representatives and the Senate, enacts legislation that, upon the signature of the President, becomes federal law. In most cases, it is the job of the executive branch to carry out that law through the process of administrative rulemaking. Finally, the force of that law is interpreted and refined by the judicial (or court) system through court challenges.

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In many instances, states start with the federal standards and add to them in an effort to increase safety or responsibility. Sometimes the states forge into new regulatory territory without federal prompting. Finally, counties and cities can pass ordinances that are also added into the mix. Again, both state and local laws are subject to court interpretation.

Recently, the amount of government regulation has increasingly come under fire by agricultural lobby groups. Agreeably legal, sound and safe business practices benefit both farmers and consumers alike. However, many producers feel that the American commerce is over-regulated. They believe that too many laws have been passed and that many of those laws have been implemented incorrectly by the administrative rulemakers. Federal and state courts have also added their interpretation of these laws which have added confusion for the producers and the rule enforcers. Agricultural producers and their support groups have become increasingly proactive in their effort to educate various government employees, elected officials and political appointees in the dangers and disadvantages of over-regulating the agricultural industry.

Statutory Law

federal
state
county
city

Law is said to be "statutory" when it arises from enacted legislation. Federal law once enacted becomes part of the United States Code and is subject only to the U.S. Constitution and judicial review. Two examples of federal legislation that have far reaching impact on agriculture are the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT).

State laws are subject to federal override, except in those instances where the federal government has delegated a particular area to state authority. For instance, states have the right to determine drivers license requirements. County and city ordinances are likewise subject to state override. There is an important point here to note in terms of government regulation. Laws enacted by lower jurisdictions typically cannot *contradict* the higher authority but are usually allowed to make *additional* requirements.

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Groups like these keep their members aware of new or impending legislation that will affect their business. A few agricultural related groups are the American Farm Bureau, the National Council of Agricultural Employers, the National Cattlemen's Association, and the Tree Fruit Research Foundation. There are special interest groups for nearly every specialty category in agriculture. You may also wish to find a group comprised of like-minded business owners that monitor the legislative activities in your state. Your local chamber of commerce should have an agriculture committee, which you can join, that monitors local and state regulatory activity. You will undoubtedly have your most direct influence at the state, county and city level. Here you can show up and actively participate as your state legislature or county commission debates additional regulation that will affect your agricultural business.

Administrative Rulemaking

Under the executive branches of both the federal and state governments, the various administrative agencies are established to implement federal codes and state statutes. These agencies can create law by way of administrative regulation. Many laws affecting business originate from administrative rulemaking. An example of agency rulemaking is the fertilizer labeling regulations of the U.S. Department of Agriculture. It is interesting to note that in many states, several state agencies have established an administrative court with their own departments to handle the enforcement of their regulations.

"Make it a point to stay in touch with the political appointees and agency employees that can affect your business…"

Business support groups try to educate political appointees and agency employees as they write the administrative rules (often called Executive Orders). Their goal is to make sure the rules are written accurately to reflect the intention of the legislation and to help business in general be viewed in a favorable light. Your state or local rulemakers will be involved in implementing any state or local legislation. Make it a point to stay in touch with the political appointees and agency employees that can affect your business.

Judicial Systems

If education and public awareness do not sway the legislators and rulemakers, business support groups have taken action in the court system to seek a change in the interpretation of laws and administrative rules. The federal trial courts hear cases of federal law or cases that involve issues crossing state lines or affecting the nation's waterways. Each of the states has a supreme appellate court and most have an intermediary level of appeal as well. The states also use local trial courts, which are usually based upon county lines.

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The courts hold trials, hear appeals from lower courts and probate estates. They also review the decisions of administrative agencies and the actions of both state and federal legislatures for conformity with federal law and constitutional requirements. In reviewing the actions of the other two branches of government, the courts establish law through their interpretations. This is called common law. The courts use decisions from previous cases that are similar to the one they are hearing as a basis for their judgments.

One of the strengths of the judicial system is that it is virtually impossible to legally influence any judge, jury members or court employees. This insures that judges and juries render verdicts on the basis of fact and the law, not on public opinion.

Arbitration and Mediation

Some states have begun to recognize that the traditional method of resolving legal disputes (the civil lawsuit) is too expensive and time-consuming. One response has been arbitration administered under the court system. A person called an arbitrator is appointed to decide the solution to a conflict and is given the authority of the court. Informal proceedings take place under a fast-track time schedule. Many contracts now provide for this procedure instead of litigation. Since some states leave arbitration issues to the involved parties, you may want to spell out in your contracts that the arbitration is binding and not available for appeal.

"Each state and county also has its unique set of laws and rules that carry out local public policy..."

A similar, but wholly voluntary and even less formal process is mediation. The primary difference between arbitration and mediation is that the mediation process is non-binding. The mediator is usually selected to assist the parties in communication, to deliver an unbiased point of view and to help the parties arrive at a settlement. Mediation often preserves business relationships because the process is far less adversarial than a lawsuit or even arbitration. Of course, the participants must have a desire to resolve the dispute or the process is ineffective. Again, the savings to the parties in time and cost are often significant.

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Areas of Government Regulation Affecting Agricultural Businesses

It is impossible to list or explain all the laws and regulations which may affect agricultural businesses. They regulate virtually every phase of the production, sale, marketing and shipment of agricultural products. The laws and regulations are constantly in a state of change. Our purpose here is to make you aware of some of the areas of law where agricultural entrepreneurs are affected. In addition to the federal Congress and the federal agencies that enact that legislation and adopt rules, each state and county also has its unique set of laws and rules that carry out local public policy. What follows is a sample of some of the regulations you may encounter.

"The employer is required to withhold for federal, state and local income taxes, state unemployment compensation, injured worker compensation and consumer protection escrows…"

Taxation

Federal and State Income Tax

Federal, state and local governments all have the power to collect taxes. Income taxes are assessed on personal and corporate income. In most states, your agricultural and business land will be taxed at different levies. Your corporation's profits are taxed, and any income paid to the company's owners is taxed to each individual as well. Most states have an income tax structure, which parallels the federal system. Additionally, some states have *business occupation* taxation as well, which can be levied on a non-income basis, such as total sales.

Sales Tax

Most states have enacted sales taxes, which affect business by taxing transactions. There are many different methods of sales taxation. Some states tax nearly all transactions. Other states exempt "necessity" items like retail food and clothing purchases from sales taxation. Others attempt to pass this level of taxation on to transient visitors through motel and occupancy taxes, gas taxes and similar taxes. Most states that use sales tax also require that you register your business with the state taxing authority. Some require a bond in order for you to receive a tax reporting identification number. In a few states, counties and cities have local taxing authority. Most states have favorable classifications for small agricultural producers. Check with your accountant or state department of commerce to make sure you know how your agricultural business will be taxed.

Property Tax

Most states also assess taxes against real estate and personal property as a means of funding state government and/or education. The property tax structure can take on interesting twists, such as part of your equipment being taxed as real estate and the rest as personal property. For example, seed cleaning equipment may be a fixture and taxed as real estate, but your combine

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would be subject to personal property taxation. Many states have special property tax discounts or deferrals for agricultural or timber land. Make sure you take full advantage of these special programs and save taxes wherever you legally can. Remember, however, there is a special penalty or recapture if you take the land out of resource use.

Business License Fees
Many local jurisdictions can tax your business under a system of business license fees. You should consult with your county finance department to determine what, if any, local business fees are assessed.

"Many states have special property tax discounts or deferrals for agricultural or timber land..."

Employees

Payroll/Withholding
The federal government has a standard system for requiring employers to deduct and pay various payroll taxes on their employees. These include the Federal Insurance Contributions Act (FICA), which is the social security tax, and the Federal Unemployment Tax Act (FUTA), which is federal unemployment insurance. The employer is also required to withhold sums from their employees for federal, state and local income taxes, state unemployment compensation, injured worker compensation and consumer protection escrows. As an employer, you must make quarterly (sometimes monthly or more frequently) payments of tax withholdings to the government. Incorrect or late payments can result in severe penalties and interest against your business. Anyone who has observed an IRS "lock-out" has seen the devastating effect of the failure to pay withholdings!

Some farm employers will attempt to avoid federal withholding requirements by calling their workers "independent contractors." In most states, persons or businesses performing labor or services for others (called the owner in this example) will be considered to be independent contractors if they:

- Are free from the direction and control of the owner, except that the owner can always specify the desired results
- Are responsible for obtaining their own licenses and complying with all business regulations
- Provide their own tools or equipment to assist them
- Have authority to hire employees to assist them

regulations & responsibility

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regulations & responsibility

- Receive payment upon completion of specific portions of the project
- File tax returns as a business and not as a W-2 wage earner from the owner's business
- Hold themselves out to the public as an independent business through business cards, advertisements, telephone listings, etc.
- Perform work for more than two owners in a year
- Have a place of business outside that of the owner

"It makes good business sense to provide a safe and healthy workplace for your employees…"

You should carefully review the IRS qualifications as summarized in the **IRS 20 Point Checklist** in Session 4 text. Also, check your state's laws regarding independent contractors.

Child Labor
In many states, anyone aged 14 through 17 must have a work permit. There are many exceptions for agricultural employees, however if the child is operating farm machinery, those exceptions will not apply. Some states also have the "summer exception" which grants a 90-day exception from compliance with these laws, especially for canneries and food processing employees.

Migrant Workers
Federal law controls the activities of farm labor contractors who provide seasonal labor under the Migrant and Seasonal Agricultural Workers Protection Act. This law prohibits the employment of illegal foreign workers. The Act also contains protections for migrant workers in the areas of safe working conditions and housing. There are exceptions for small family farmers who engage farm labor directly, rather than through a contractor.

Many states have special programs for small agricultural producers who employ migrant farm workers. Make sure you comply with those regulations. Of course, you must also strictly observe all Immigration and Naturalization Service (INS) rules regarding employment of foreign workers. Your state department of agriculture or county extension office will be able to assist you in this area.

Responsibility for the Acts of Employees
Under civil law, the general rule is that the employer is responsible for the acts of their employees which injure another person and which occur within the scope of their employment. If your employee hits a child in a crosswalk

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while delivering your crops to the processor, your business is probably liable. Liability means money! This is the primary reason why many businesses buy liability insurance and incorporate to avoid personal liability.

Wage and Hour Regulations

The federal government has established a minimum wage under the Fair Labor Standards Act (FLSA). Most states have also adopted such requirements. Also included are state and federal requirements regulating overtime, provision for periodic breaks, consecutive hours worked and similar such provisions. There are three main exceptions to the FLSA for small agricultural producers. If you use less than 500 person days of outside labor or if workers under the age of 16 are working with their parents and are paid on a piece rate, then you may be exempt from minimum wage, equal pay rules, and overtime regulations. These rules are quite complex. You should familiarize yourself with the laws and keep updated on the most recent increases to the minimum wage.

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OSHA

The Occupational Safety and Health Administration (OSHA) sets guidelines for worker safety. The Department of Labor has in the past issued temporary rules that precluded enforcement of OSHA regulations against agricultural producers with fewer than 11 employees. Family members are always excluded. If OSHA applies to your agricultural business, then be aware that there are severe financial penalties for failure to comply with these regulations. Regardless of the OSHA rules, it makes good business sense to provide a safe and healthy workplace for your employees. Many states have their own agencies that regulate additional occupational safety and health issues created by state law. You should also note that the federal Environmental Protection Agency has adopted rules relating to pesticide exposure to agricultural workers.

The Hiring Process

Under the Civil Rights Act, your business is prohibited from discriminating against someone on the basis of his or her race, color, sex, national origin and age. Consequently, there are a number of federal and state codes and regulations affecting your hiring process. You may not inquire as to a person's age, religion or sexual practices. It is a good rule of thumb not to ask any questions in the interview which are not job related. It is also strongly

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recommended that you establish a standard set of questions to be used as a checklist in your interview process. The hiring process will be covered in more depth in the next session.

Harassment

Anti-discrimination concepts have also been utilized by the government to discourage harassment in the workplace. Harassment can take many forms. Your best guide for avoiding those problems is to adopt and enforce an employee policy manual that specifies conduct that will not be tolerated.

Family Leave

Many states have adopted legislation providing for parental leave for pregnancy, family illness and elder care. These standards are often phased in based upon your number of employees. Again, your state department of labor will be able to assist you with these guidelines.

Consumer Regulations

Consumer Protection

There are a number of federal and state consumer protection regulations affecting agricultural producers. Your state department of agriculture can direct you to the appropriate resource in your area to assist you in complying with consumer protection regulations. These requirements fall primarily within the following categories:

"Many states have adopted legislation providing for parental leave for pregnancy, family illness and elder care…"

a. **Product Labeling.** Most agricultural products are subject to federal and state regulations on product labeling and content. The Federal Food and Drug Administration regulates labeling and is responsible for the inspection of produce, canned goods and fish. The US Department of Agriculture regulates the labeling and inspection of meat products.

b. **Quality Standards.** A U.S. Center for Disease Control report estimates that nearly 76 million cases of food borne illnesses occur in the U.S. each year. Obviously, most of those illnesses arise after the products leave the farm! Nevertheless, most of your products will be subject to some type of domestic quality standards for uniformity and consumer safety. The Federal Agriculture Department is still trying to write standards for organic farmers.

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c. **Export Standards.** Those of you who are dealing with an export market will need to be aware of the standards imposed in the foreign country and have all certification and testing performed. Your local international trade council will be a great help in this confusing area.

Business Registry

A state's department of commerce often maintains the state's business registry. Its duties include the registration of assumed business names and trademarks, annual corporate and partnership filings, and administration of state securities laws.

Uniform Commercial Code

The Uniform Commercial Code (UCC) was drafted in response to the need for uniform regulation in all states for such business contracts as bills of lading, warehouse receipts and letters of credit. The UCC also regulates bank interactions, such as checks passing through the interstate stream of commerce. The UCC was intended to remain uniform throughout the states (except Louisiana, which did not adopt it). Agricultural producers are defined as "merchants" under the code and crops, livestock and nursery products are defined as "goods". Therefore, most of the UCC provisions apply to your agricultural business. We will discuss the UCC later in this chapter when we review the elements of contracts.

UCC uniform regulation

Zoning

The basic concept of zoning is the government's regulation of the use of land and the structures thereon to protect the health, safety and general welfare of the public. Zoning divides the county into districts or zones and regulates each district regarding the use of the land. Many states protect agricultural activities in "farm zones" by prohibiting nuisance complaints by rural residents against dust, noise, or smells. There are also regulations in some states about splitting up your farmland (called partition). Don't assume what you want to do is okay. Always check with your local county zoning authority.

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Bankruptcy

Bankruptcy can affect family agricultural producers in ways they never could have imagined. Consider the effect of an insolvency of your processor, your customers, or your suppliers? What about the cashflow problems of your own farm? It is important to understand the basics of bankruptcy, your rights, and your remedies.

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General Background

The U.S. Constitution establishes a bankruptcy court and requires the federal government to provide for relief from excessive debt through the Bankruptcy Code. Bankruptcy laws affect every business and unquestionably add to the bulk of paperwork you must deal with when you request a loan. The best strategy for dealing with potential bankruptcy of others is to know your processors, suppliers, and customers.

It may not be wise to rely on one supplier for too much of any material or product you need on your farm. If you do, it is a sound business practice to try to understand as much as possible about the financial condition of the supplier. Consider the difficulties you would encounter if you found a notice of bankruptcy in the mail just when you needed that delivery of organic fertilizer, which you could only get from one certified supplier. It is a good practice to have identified backup suppliers in case such an event happens.

"Know the reputation and financial status of the parties you deal with..."

In terms of your customers, do not let accounts become too stale. Know the reputation and financial status of the parties you deal with. The worst strategy is to wait until you receive notice of the filing from the bankruptcy court. If you do receive notice of a bankruptcy, you must stop your collection efforts. The best thing to do is to gather your paperwork and go see your lawyer. If you have delivered your products to the insolvent party under consignment you may be able to have the trustee release them to you. The law also allows agricultural producers who delivered farm products to the bankrupt party to reclaim their goods if delivery was within 10 days of the other person's insolvency. If you grow grain crops you are given a priority claim of up to $4,000 for providing these crops to an insolvent grain storage facility. The various states also have adopted special lien laws to secure those who furnish labor, services, or materials (seed, fertilizer, fuel, etc.) for agriculturally related purposes in the event of a bankruptcy. There are basically four types of bankruptcies with which you should be familiar.

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Chapter 11: Business Reorganization

The Bankruptcy Code under Chapter 11 provides an opportunity for businesses which find themselves unable to meet current cash flow but which have assets to come up with a plan to reorganize and pay off some of their unsecured debt. The debtor remains in possession of its property and proposes a plan to the bankruptcy court for restructuring its debts. Usually creditors without liens get nothing. Until the court approves a plan or the case is dismissed, the creditors are prohibited from foreclosing against the insolvent party. A creditor's committee consisting of the 10 largest unsecured creditors is established to assist the court in formalizing the plan of reorganization. Even though the court supervises the plan, it is up to you to see that your rights as a creditor are protected.

Chapter 12: Farm Bankruptcies

Typically, the land-rich, cash-poor family farmer who cannot meet current loan payments is faced with cash flow problems arising either from a single season crop, which had a bad yield or falling market prices. Chapter 12 of the Bankruptcy Code was written to protect and benefit small agricultural operations. Under this law, if you cannot meet current cash flow demands, then you are permitted to retain your land, continue farming and pay creditors over time. A trustee is appointed to help you reorganize the business and protect your creditors' interests, but you continue to operate the farm. You will need to prepare a plan to be approved by the court on how you will be able to repay your debts. This is like a special type of business plan. In order to use this law you may not have more than one and a half million dollars of debt, of which 50% must be farm related. You should not consider using Chapter 12 protection without the assistance of an experienced Chapter 12 attorney. Additionally, there has been pending federal legislation to eliminate the Chapter 12 bankruptcy option, you should check with your lawyer for the most current information.

land-rich
cash-poor.

Chapter 13: Reorganization for Individuals with Regular Income

Individuals who have regular income can adjust their debts under Chapter 13. This chapter is also available for restructuring the debts of a sole proprietorship. The debtor continues in possession of assets and proposes a plan for payment of debts and reducing arrears on long-term debt over time. A trustee collects the payments and distributes funds to the creditors. When the plan is fully performed, the debtor receives a discharge from all debts except those long-term secured debts, such as home mortgages, whose maturity dates extend beyond the term of the plan.

Chapter 7: Liquidation

This is often referred to as a "straight bankruptcy." All states have adopted "exemption" laws that allow debtors to keep an interest in certain assets such as $25,000 equity in their home, a motor vehicle, tools of the trade, and

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clothing. The Bankruptcy Code adopted these state exemptions to help the debtor make a fresh start after the bankruptcy proceedings conclude. At the beginning of the case, the trustee collects the debtor's non-exempt assets, creditors' claims are scheduled, and priorities are established. The non-exempt assets are liquidated and the claims are paid pro rata, according to their priority. The creditors with liens on property under Article 9 of the UCC will obviously fare better in bankruptcy than "unsecured" creditors without liens. The debtor then receives a discharge of its financial obligations in order to start over. Many Chapter 11, 12 and 13 cases ultimately end up in liquidation because the plans are not property performed.

Environmental Regulations

Hazardous Materials

In the 1960's and 1970's, a number of environmental laws were passed, such as the Clean Air Act and the Clean Water Act. The major emphasis of the Clean Water Act over the past 20 years has been on "point sources" of water pollution, such as a specific factory or a chemical plant. However, increasing attention is now being addressed to "non-point" sources of pollution of waterways from agricultural run-off. Nevertheless, the courts have recently held that the Act does not apply to livestock activities under federal grazing permits. Your right to spray and even apply non-airborne pesticides and herbicides are regulated under numerous state laws and regulations. The Food Quality Protection Act of 1986 (FQPA) repealed the zero tolerance standard for food pesticide residues. The Act also required federal agencies to develop new food safety regulations. The Environmental Protection Agency, under the authority of the Clean Air Act, has issued far-reaching regulations, including emission controls for farm and ranch equipment and new rules on particulate matter.

clean air.

"If your farm handles any chemicals, you should check to see if they are regulated..."

The Resource Conservation and Recovery Act (RCRA) was adopted to regulate the handling of hazardous materials from their creation to disposal. Any agricultural producer who deals with compounds that could be dangerous to employees or the public is regulated. Most states have laws and regulations parallel to this federal law. Your state's department of environmental quality

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will often have a complex permitting system tracking the hazardous material from "cradle to grave." If your farm handles any chemicals, you should check to see if they are regulated.

The Environmental Response Compensation and Liability Act (CERCLA or "Superfund") and its equivalent state laws create a method for cleaning up hazardous substances, which were previously released into the environment. Under CERCLA, there is a series of potentially responsible parties identified in any cleanup activity, and those parties are then allocated the responsibility of paying the costs of the cleanup. Under CERCLA, a new owner of land or even a long-term tenant can be held liable to clean up an environmental dump caused by a prior owner or tenant. The one exception is if you tried to investigate the land's condition before you purchased or leased the property. Therefore, it is very important for you to review the prior history of any property you buy or lease. There are environmental consultants who are very capable of providing these "Phase I" audits for you.

Endangered Species Act

When this law was passed, most of us applauded the protection of our national symbol—the bald eagle. Little did we think that 20 years later virtually every private landowner, and particularly small producers, would feel the impact. Prohibitions against many normal farming practices are now being implemented under this act.

Petroleum Storage Tanks

Many agricultural producers will use petroleum products in the operation of vehicles and machinery or heating oil for furnaces and boilers. Most states now regulate the storage tanks themselves, as well as the cleanup of any petroleum products that may have leaked from tanks in the past. This seems to be one of the areas of greatest impact of environmental laws on small agricultural operations. These cleanups can often exceed several hundred thousand dollars.

Wetlands

Under the authority of the Clean Water Act, the Army Corps of Engineers and the various state environmental quality agencies have adopted regulations identifying and protecting wetlands. Primarily, these regulations involve the filling or other disruption of wetlands and mitigation of any impacts in

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Agriculture-Related Regulations

There are other government regulations that specifically impact agriculture and therefore your agricultural business. These include regulations whose agency of enforcement includes the United States Department of Agriculture (USDA), Food and Drug Administration, Environmental Protection Agency, and even U.S. Customs (concerning imports). The Federal Agriculture Improvement and Reform Act of 1996 (FAIR) was the most comprehensive package of farm legislation in the past 50 years. It provides farm production programs through the 2002 crop year.

"The **Federal Agriculture Improvement and Reform Act of 1996 (FAIR)** was the most comprehensive package of farm legislation in the past 50 years..."

Contracts

A contract can be as simple as walking into the farm supply store, picking up a bag of feed, showing it to the owner with whom you have done business for 15 years, nodding and the owner entering the price on your account. All the elements of a contract are present. The owner offered the goods for sale, you agreed to purchase them at that price, and value was exchanged when you got the feed and the owner recorded an account receivable. Unfortunately, not all your business transactions can be that simple. You need to understand the basics of contracts to protect yourself whether you are buying or selling. The more formal requirements of contracts and how they may affect your farm transactions are presented next.

Elements of a Contract

In transactions involving the sale of goods, the Uniform Commercial Code (UCC) has significantly impacted the common law of contracts. Remember, earlier we learned that crops, livestock and nursery products are all defined as "goods." Article 2 of the UCC applies primarily to the sale of goods and most of its provisions are limited to transactions between businesses. The following focuses on some of the UCC's most important provisions and identifies the differences between the UCC and the common law of contracts and how these affect your farming business.

contract
completion
compliance

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Formation

In order to determine whether you have a deal, the first question is, have you both agreed to the same thing? Under the common law of contracts, there must be a valid offer for goods or services and an acceptance of those goods and services at an agreed upon price. If the buyer proposes any alternative term or any variation, this changes the original deal and becomes a counteroffer from the buyer to the seller. The counteroffer is then subject to the seller's acceptance or rejection. The counteroffer terminates the original offer and substitutes the counteroffer in its place. At this point, the seller is not required to accept the counteroffer or even live by the original offer. In other words, the counteroffer terminated the offer and only the counteroffer is then on the table. A simple example of this would be if you went to your neighbor who had some extra fertilizer for sale and they said, "Three bags for one hundred dollars," and you responded, "How about four for a hundred?" This is a counteroffer.

"A contract can be as simple as walking into the farm supply store, picking up a bag of feed, showing it to the owner, nodding and the owner entering the price on your account…"

Under the common law, an offer of contract is only open for a reasonable amount of time or until the seller withdraws it prior to acceptance. Under the concept of firm offers, the UCC allows the parties to agree to leave the offer open for a stated period of time, and that agreement in itself is a contract.

Consideration

In order for the contract to be enforceable, there must be some value or consideration passing between the two parties. In the farm supply store example, you received the feed as consideration and the owner received your account receivable. Contracts can also be supported by mutual future promises. You can promise to grow specialty crops for a company with delivery six months from now, and they can promise to ship you 10 cases of their new product thereafter. You have a contract. *The court does not usually concern itself with the fairness of the consideration* unless one party has acted under fraud or undue influence, as in a threat of physical harm, for example.

Capacity

In order to enter into a contract, the parties must have the mental capability to do so. For that reason, most states agree that contracts with minors for unessential goods or services are unenforceable against the minor. Likewise, you cannot contract with a person who does not have the mental capacity to

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understand the nature of the transaction regardless of his or her age, i.e., someone with Alzheimer's Disease. Another example of lack of capacity is when the person with whom you were dealing was too intoxicated or under the influence of drugs, prescribed or otherwise, to form the necessary understanding of the deal. The serious consequence of dealing with a party who does not have capacity to enter into the contract is that the transaction is void.

"The court will NOT allow you to escape a bad deal just because it was one entered into foolishly..."

Legality

For a contract to be enforceable, the terms of the transaction must be legal. For example, one could not enforce a contract to grow controlled substances or one for illegal child labor, or any number of other transactions which are deemed to be void for public policy reasons.

The Statue of Frauds/Written Agreements

The Statute of Fraud provides that contracts exceeding $500 or which cannot be performed within one year must be in writing. Most states also require that any type of transaction involving real estate be in writing, regardless of the value or time frame. The writing does not have to be fancy; you just need to outline the essential elements. A contract was once enforced for the sale of a subdivision lot that was written on the back of a cedar shingle. The parties were identified by their initials, the price was "$10K cash," and the property was described as "lot 16." Like every general rule of law, the Statute of Frauds is different in every state and there are many exceptions to it. The UCC expands this concept and allows the contract to be any type of written memorandum between the parties, such as a series of letters that collectively could be construed to represent the contract terms.

Common Contract Issues and Terms

When you receive a contract, you should make sure that you understand all of the conditions of the deal. Most business contracts will include the following terms.

Performance

Performance means the actions you are to complete under the contract. For instance, you might be required to deliver 10 crates of specialty produce to a restaurant by a particular date. This is the performance required of you.

performance.

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Price

Your contract should establish how many units you are to deliver, at what price, and whether it is in U.S., Canadian or Belizian dollars. The UCC will fill in a non-existent price term in a contract if the parties' actions indicate there is a contract. However, it is recommended that you understand the price term of your agreement before you start performance.

Quality Control

Does your contract require an international import/export certification? Do you need to deliver a sample prior to the contract becoming effective? Are you growing the product according to the buyer's specifications? Are there any quality or quantity tolerances allowed? Does "jumbo hand picked berries" mean the same thing to the buyer and the seller? Have you done business with this party before so that your prior performance can establish these standards?

Bailout

Does the agreement allow for an escape? Are you bound to deliver produce in the future or is this a single delivery agreement so that once you have performed this stage you can bail out of the remainder?

"Remember that every contract is special to its circumstances, and your lawyer should review the agreement before you finalize it..."

Time to Perform

You should identify specifically when performance is due, both from the delivery and payment side of the transaction. You should also consider when payment is due and what, if any, are the carrying charges. If the parties do not identify the time of performance, the UCC implies a "reasonable" time. But what is reasonable to you and what is reasonable to the other party may be different.

Non-Conforming Goods

Under the common law, the party must deliver exactly what the contract calls for, or the buyer does not have to accept the goods. However, under the UCC, if a party ships goods reasonably believed to be acceptable by the other party, even though they do not match exactly with the terms of the agreement, and if the buyer does not reject those goods within a reasonable time, then the UCC recognizes the deal.

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Place of Delivery

Where are the goods or services to be delivered? Who pays for shipment? Who bears the risk of loss while the goods are in transit? Failure to review the delivery terms of the agreement carefully can result in all of your profit being utilized to pay for these costs.

"**Warranty**: A promise or representation about the goods which is part of the deal and creates an expectation that the goods will conform…"

fitness for purpose.

Warranty

A warranty is a promise or representation about the goods (remember farm crops, livestock, seed, dairy products, and nursery stock are all defined as "goods" under the UCC), which is part of the deal and creates an expectation that the goods will conform. A warranty can be created by a description of the goods, a sample or model, or a verbal or written statement. It is not necessary to use formal terms, such as a "warranty" or "guaranty," but a warranty must be more than an opinion that the quality is good or some other unspecified term. Obviously, it is best to deal with warranties in writing so that there is no confusion as to what is intended. Take note that you may have made a warranty by sending a sample unless you disclaim any implied warranties on the sample. There are also implied warranties of "fitness for the particular purpose" for which the goods sold and of "merchantability"—which is a basic quality warranty. These implied warranties may be disclaimed in writing. It is highly recommended that you consult with your lawyer before offering any warranty and before attempting to disclaim the UCC implied warranties.

Estoppel

Generally, a party to a contract may not deny the existence of a contract or demand a change to the performance under the contract when the other party has begun performing under the agreement, and the first party knowingly allows the other party to continue its performance and accepts the benefits. Therefore, even if the other party's performance is not identical to the terms of the original contract, the doctrine of estoppel can modify the written contract.

Good Faith

Many states have adopted the requirement of "good faith" and "fair dealing" in consumer contracts. The UCC specifically provides that every contract, including those between businesses, has an implied obligation of good faith in its performance or enforcement. Many courts are now enforcing these good faith requirements. That does not mean, however, that the court will allow you to escape a bad deal just because it was one entered into foolishly. The courts have been reluctant to apply the doctrine of unconscionability where two merchants or parties of equal bargaining power are involved. The Code does not define the term "unconscionable," but rather, it looks to

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the prevention of oppression and unfair surprise. It is not intended to disturb the allocation of risk because of superior bargaining power, so again, don't think this rule will allow you to get out of a bad agreement.

Contract Remedies

Liquidated Damages

Sometimes the parties to a contract will provide for specific consequences if one party breaches the agreement. This is generally referred to as liquidated damages. An example may be "failure to deliver the 10 crates of tomatoes by noon Saturday will result in $5,000 damages to buyer." The courts do not allow the recovery of liquidated damages if they are a penalty rather than an accurate forecast of the reasonable cost of obtaining the goods or services elsewhere. Nevertheless, you should review these provisions very carefully because if they are enforceable, they can often be quite severe.

good faith
fair dealing.

Arbitration

The concepts of arbitration and mediation were discussed earlier. Many contracts provide for arbitration, in place of a party's rights to bring a lawsuit to enforce the agreement. You should consider whether that is beneficial to you before you enter that term into the agreement. Many small businesses prefer to use arbitration or even mediation because of the high cost of trying to pursue a lawsuit in court.

Professional Fees and Expenses

Most well-drafted contracts will provide for the winning party to recover their attorney and other expert's fees, such as appraisers, accountants, etc., and all court costs, against the losing party. You should make sure that this term also covers arbitration, the defense of your position if the other party goes bankrupt and such other fees and costs in any appeal.

Specific Performance

Specific performance is a remedy which is rarely allowed by the courts outside of real estate transactions or transactions involving unique and irreplaceable property. The specific performance decree requires the party to actually perform instead of granting the injured party money damages.

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Drawing up a Contract

You have just seen that contracts can be very simple, or they can be quite complex. You should always determine whether the proposed agreement fits into the way you do business. It should be apparent to you by now that the boilerplate, fine print or standard clauses found in most business agreements are important. In the event of a dispute, every term of that contract will be reviewed and utilized by one party or the other. Likewise, you should never assume that a printed form is standard and cannot be modified.

"It is highly recommended that you review any complex contract with your lawyer..."

It is highly recommended that you review any complex contract with your lawyer. To save time and expense, you should be thoroughly organized before you visit your lawyer. Outline the key elements of your understanding and any terms that are different than the contract provided to you. By helping your lawyer understand the common practices in your farming specialty, you can help your lawyer protect your best interests.

Some sample contracts have been included in the *NxLeveL™ Agricultural Entrepreneurs Resource Guide* to assist you. However, always remember that every contract is special to its circumstances, and your lawyer should review the agreement before you finalize it.

Leases

A lease is a specialized contract. It is an agreement giving one party possession of another party's land or personal property (like equipment) for a period of time. Leases are addressed in this session because they are one of the more important contracts you may sign as an agricultural producer. They involve long-term, on-going relationships between the parties, and they often represent one of your largest fixed costs. Here are some things to think about when entering into a lease.

- Are the permitted practices too limited regarding water use, fertilizers, etc.?
- Is it a crop payment or cash lease?
- Will the lease term extend beyond the harvest season?
- Is the term long enough to recoup your capital costs, i.e., orchard leases?
- Are the outbuildings included?
- What about access?
- Has your landlord's banker consented to honor your lease?

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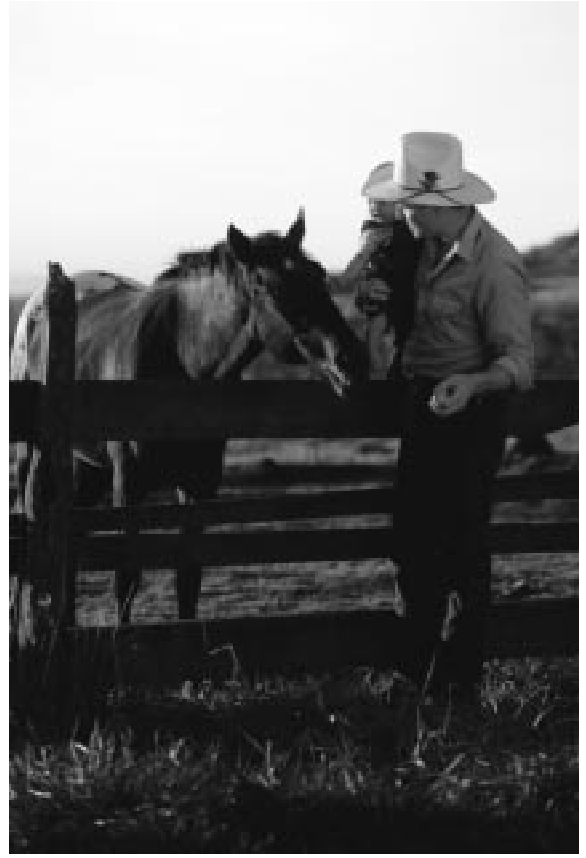

- Has your landlord done something in the past to interfere with your business plan, i.e., prior heavy chemical use/new organic farm proposal?
- Who pays for new fencing and other capital improvements?
- Are there nuisance waivers (noise, dust, hours of operation) if the landlord lives on the land?
- Can you get along with the landlord—have other farmers had problems there?
- What area are you leasing?
- Have you considered the true cost of the lease? Are taxes paid by you or the landlord?
- Will there be payment "escalators," i.e., cost of living adjustments?
- What are the lease responsibilities for insurance, maintenance, etc.?
- Are there any renewal options?
- Purchase rights—does any of your payment go to future purchase?
- Are you given a right of first refusal if the landlord wants to sell?

"A **lease** is a specialized contract..."

Again, sample leases have been included in the *NxLeveL™ Agricultural Entrepreneurs Resource Guide* to assist you. Before finalizing, consult your lawyer for review of the leases' legal ramifications.

in Conclusion

This session covered three topics.

Legal Structure of Ownership. There are a number of different forms of business entities, but the most common form is still the closely held corporation. This may change in the future as most states have adopted laws allowing the formation of LLCs. The choice of the form of your business entity can affect how easy the business may be to transfer to your family, employees or a third party purchaser, the amount of liability you assume personally, and how both you and the business are taxed. Before you select

the legal terrain TEXT 3-29

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an entity and look for ways to finance it, you should consider the particular business and tax planning strategies you wish to achieve. Remember to follow all the rules governing the formation and maintenance of your particular type of entity to ensure that the business is able to continue in that form. That way you will retain all the rights and benefits you sought when establishing the ownership structure. It is highly recommended that you seek advice from your lawyer and accountant when considering the legal structure of your business.

Government Regulation. Virtually every aspect of modern agriculture faces regulation to some extent. It is a good idea to educate yourself about regulations that apply to your type of operation. Although laws and regulations may seem to be a maze, your careful compliance will help ensure that you are not subject to legal liability or government imposed fines due to non-compliance. Before you start your agricultural business or attempt to expand your existing operation into new product areas, you should thoroughly understand the regulatory environment you are about to enter.

Contracts. Contracts are an integral part in the world of business. All transactions take place in the form of a contract in one way or another. Contracts can be simple or complex, written or verbal, performed or breached. No matter what, if you enter a transaction there is a contract underlying that transaction. For this reason it is crucial that you understand the basics of contracts. Be sure you understand both your desires as well as the desires of the other party in all your contract negotiations. A good practice is to always put your agreements in writing and do not sign any agreement until you are completely comfortable with it.

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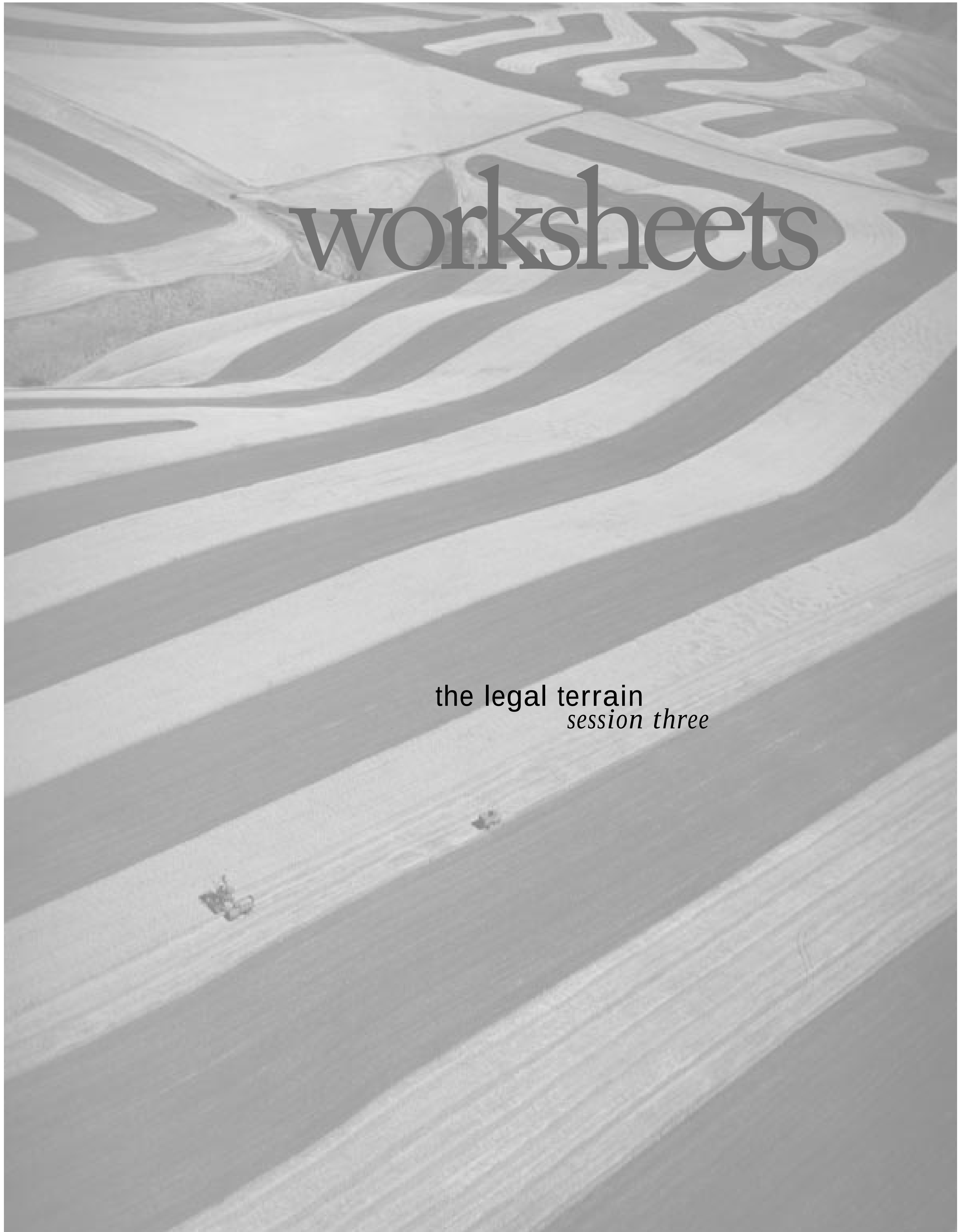

worksheets

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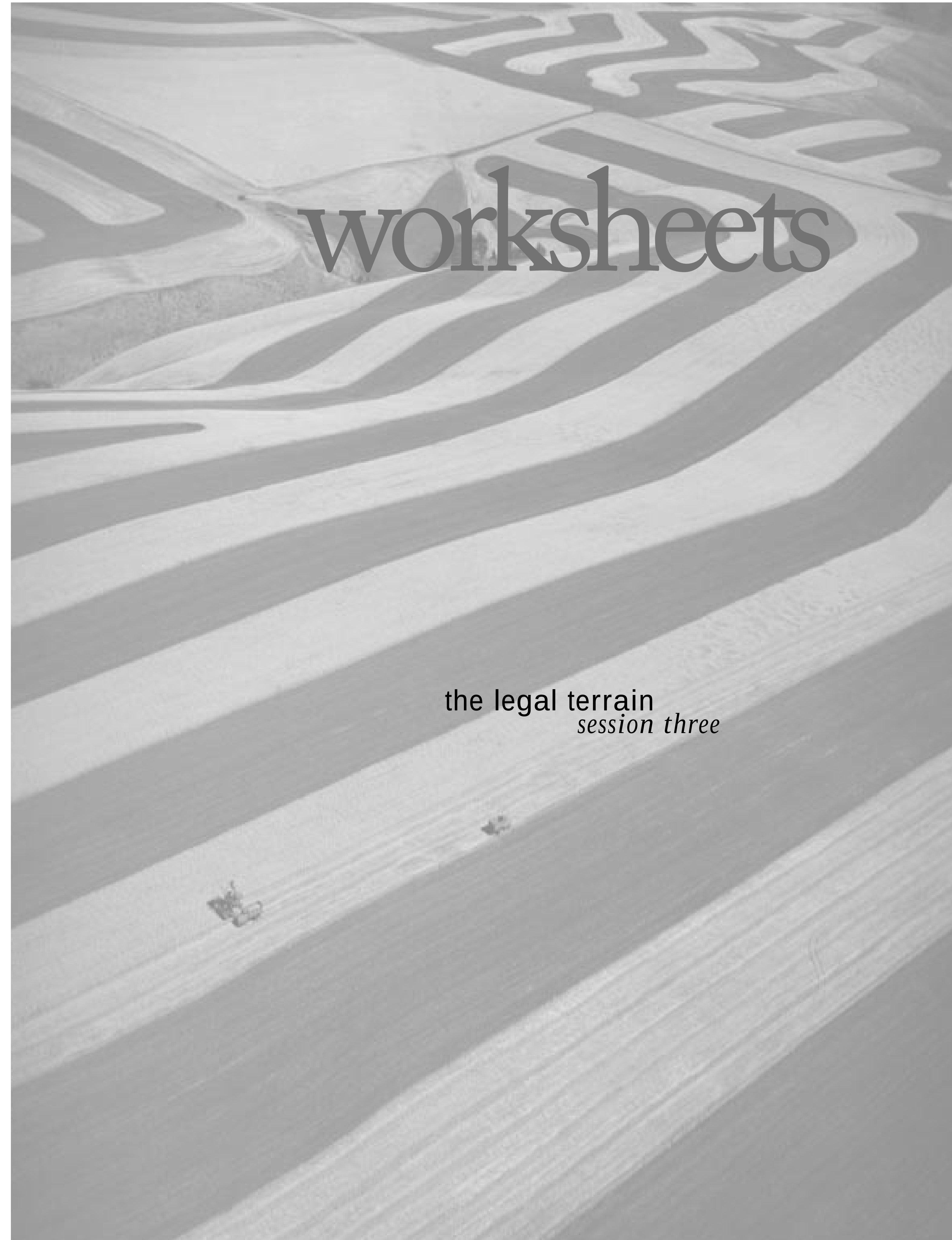
session three



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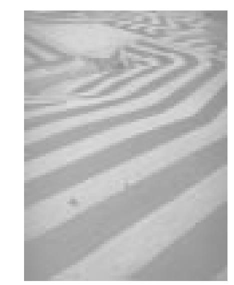

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session three

the legal terrain

SESSION THREE

Setting up a legal structure of your business that works for you and your organization is a task that should be reviewed as your business develops and grows. What may have been an appropriate legal structure when the business was established may no longer be appropriate. The discussion of legal structures will help you examine the form of business you have chosen and compare it with other available options.

Most agricultural enterprises have to deal with legal and/or regulatory restrictions on the local, state and federal levels. Whether it's knowing what licensing is required to run your business, recognizing the federal restrictions regarding owning and raising a native species, or complying with labeling regulations for processed products, the agricultural business owner is responsible for the gathering of appropriate information to conduct business within the guidelines of government regulations.

Contracts and leases are at the very core of most business activities. Understanding what constitutes a contract and the related terminology will help you make better use of your attorney's time when you are faced with developing or entering into contractual arrangements. The most common agricultural business contract is a lease. Knowing the terminology and basic lease elements gives you a head start in making appropriate lease arrangements.

This section of your *NxLeveL™ Agricultural Business Plan* helps the reader, and *you*, understand the legal organizational structure under which you operate and why that structure was chosen, your regulatory challenges, and contractual and lease arrangements required in your business.

NxLeveL™ Agricultural Business Plan Outline

Cover Page
Table of Contents
Section I. Executive Summary
Section II. Business Concept, Mission & Goals
Section III. Background Information

Section IV. Organizational Matters
A. Ownership, Regulations, and Contracts
Business Structure
Government Regulations
Contracts and Leases

Section V. The Marketing Plan
Section VI. The Financial Plan
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Forms of Doing Business

You have several choices of forms of doing business that may be appropriate for your agricultural business. The reasons for choosing one legal structure over another are primarily tax, liability and accounting issues. Unless you have extensive backgrounds in these areas, this is a management decision you should not make on your own! Seek tax and legal advice regarding whether the structure you have chosen is right for you. As your business changes, be sure your legal form of doing business continues to meet your needs. The most common legal entities are briefly described below.

Sole Proprietorship
- Your business is completely owned and operated by you
- It is easy to start this type of business, requiring little paperwork
- You own all assets and are entitled to all profits that may be produced
- You are responsible for all liabilities and consequences
- There is no business income tax—earnings pass through to your individual income taxes

General Partnership
- Your business is owned and operated by you and at least one other person
- Together you share profits and losses, and the assets and liabilities according to a written partnership agreement
- You and your partners have legal liability for one another's acts
- There is no specific business income tax—partners pay personal income tax on their individual shares of the profits

Limited Partnership
- Similar to a general partnership, but with two types of partners—general and limited
- Limited partners are limited in legal liability based on the amount of their capital contribution to the business
- *General* partners are responsible for all management decisions

C-Corporation
- A separate legal entity formed by you alone or in conjunction with other owners
- Corporations pay corporate income taxes, owners pay individual taxes on any salaries and/or dividends they receive from the corporation
- Usually requires more paperwork to establish and be recognized as a legal entity on the state and federal level. Organized correctly, the corporation stands on its own for liability purposes.

S-Corporation
- A corporation with a separate Chapter S tax election
- Taxes the owners like a partnership, instead of the corporation as a separate entity
- There are eligibility requirements which restrict ability to elect this option

Limited Liability Company
- A new hybrid form of ownership which combines the liability advantages of a corporation with taxation as a partnership

Cooperative
- Employees own the business as a group, and make group decisions related to sharing of profits, direction of the cooperative, general policies, etc. Taxation is based on legal structure.

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Forms of Doing Business

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Describe the legal structure of your business. The most desirable structure for your business may depend on the type of business, the kinds of products or services you will offer and tax issues. Check with your state about the rules governing each. Talk with an accountant and/or attorney to determine if your chosen legal structure is the best one to meet your needs.

1. Is your agricultural business a sole proprietorship, partnership, corporation, limited liability company or cooperative? Describe the advantages and disadvantages of this legal structure using the table below.

Legal structure of your agricultural business: ______________________

Advantages	Disadvantages

2. Why did you choose this structure? Did you consult with your accountant? Your attorney? How does this legal structure suit the needs of the owners?

3. Who are the owners of your business? What is their financial share of ownership?

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Forms of Doing Business

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Government Regulations

Research the regulations and/or licensing requirements under each of the categories below. Use the questions and/or charts to help you sort out the information applicable to your agricultural business.

Taxation, Licensing and Permits

Indicate which taxes, licenses or permits apply to your agricultural business and describe the registration requirements and fees.

Type of tax	How does this tax impact your business?	Registration requirements
Federal Income Tax		
State Income Tax		
Local Income Tax		
Sales/Use Tax		
Property Tax		
Other Taxes:		
Type of license or permit	**How does this license or permit impact your agricultural enterprise?**	**License/permit fees**

Employee Taxes and Regulations

1. What are the payroll taxes and withholding requirements for your agricultural business?

2. How do wage and hour regulations impact your agricultural enterprise employees?

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Employee Taxes and Regulations

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2. How do wage and hour regulations impact your agricultural enterprise employees?

Government Regulations–continued

3. What OSHA guidelines regarding worker safety apply to your business?

4. Explain how other employee regulations and/or taxes impact your agricultural business? (ADA, labor laws, harassment, organized labor laws, etc.)

Regulation or Tax	Impact on your business

Environmental Laws

Use the chart below to explain the laws or regulations within the environmental categories shown that impact your agricultural business. Indicate any costs associated with compliance and/or abatement of environmental issues.

Environmental Issue	How does this issue impact your business?	Compliance or abatement costs
Hazardous materials		
Petroleum storage tanks		
Wetlands and waterways		
Smell		
Other:		
	Total Costs	$

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Government Regulations–continued

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Government Regulations–continued

Regulation Issues Specific to Agricultural Enterprises

1. What other USDA or FDA regulations apply to your agricultural enterprise? (List the regulation, the impact on your business and any associated costs of licensing or compliance.)

Regulation or Tax	Impact on your business	Cost

2. Are there any other regulations, licensing or permits not listed above that impact your agricultural enterprise? (If so, explain the regulation and associated costs of licensing, permits or compliance.)

Regulation or Tax	Impact on your business	Cost

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Government Regulations–continued

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Regulation or Tax	Impact on your business	Cost

Contracts and Leases

Contract and leases are essential tools in today's business environment. While your attorney can and should help you enter into, understand and even potentially negotiate contracts and leases, it is essential that you know when and how to use these tools.

Identify which of the following contracts and/or leases will be utilized in your business, and the intended purpose. Indicate with a check mark whether you already have the document in place, will prepare it yourself, or will have your attorney prepare or review it.

Type of Contract or Lease	Intended Use	Already in place	I will prepare	Attorney prepare/ review
Employment Agreement				
Non-disclosure Agreement				
Independent Contractor Agreement				
Power of Attorney				
Partnership Agreement				
Buy/Sell Agreement				
Promisory Note				
Lease Agreement				
Land Usage Contract				
Warranties				
Other:				

1. Are there any contracts or leases that you have entered into that are not written? If so, describe the purpose and duration of the contract, the parties involved and whether or not a written contract should be prepared.

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Warranties				
Other:				

1. Are there any contracts or leases that you have entered into that are not written? If so, describe the purpose and duration of the contract, the parties involved and whether or not a written contract should be prepared.

Writing Your Plan

Using the information and worksheets found in this session to guide you, write a summary of your answers to the questions to describe the ownership, government regulations and contracts and lease strategies you have developed for your agricultural business. Format this section into paragraphs under the following headings and subheadings:

Section IV. Organizational Matters

A. Ownership, Government Regulations and Contracts

Business Structure

Review your answers to questions 1 through 3 in the Forms of Doing Business section. Describe the legal structure you chose for your business and why. Then describe who owns the business and their financial share of ownership.

Government Regulations

Review the Government Regulations worksheets. Summarize the taxation and regulation issues that you face in your agricultural enterprise. Include general taxation and licensing, employees taxation and regulation issues, environmental laws, USDA and FDA regulations specific to your business, and any other regulations that impact your business. Be sure to describe how you comply with regulations, and any licensing or permits that are required for compliance.

Contracts and Leases

Write a paragraph discussing the types of contracts and leases used in your agricultural business. Include contracts that regulate ownership issues (buy-sell agreements), employment issues, operations issues, etc. Describe lease agreements that are either in place or need to be developed to operate your agricultural enterprise. Consider including copies of lease agreements and contracts in the Appendix section of your business plan.

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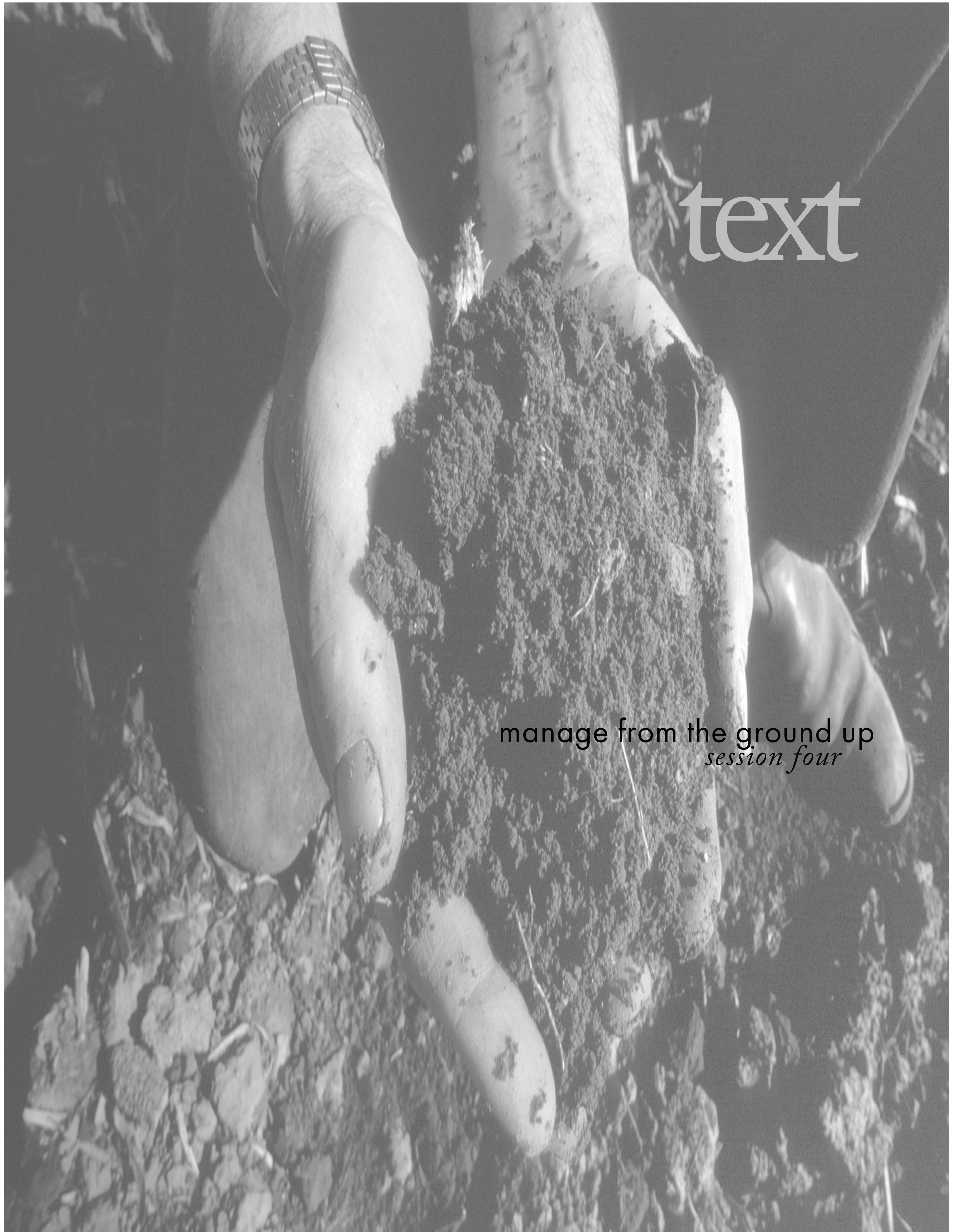
Contracts and Leases

Write a paragraph discussing the types of contracts and leases used in your agricultural business. Include contracts that regulate ownership issues (buy-sell agreements), employment issues, operations issues, etc. Describe lease agreements that are either in place or need to be developed to operate your agricultural enterprise. Consider including copies of lease agreements and contracts in the Appendix section of your business plan.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SESSION FOUR

this Session

What's in This Session?

This session covers three topics.

Management Overview. A well-managed business is a viable, organized venture in which everyone knows where the business is going, how it will get there and what their roles are in helping the business succeed. This is true for any sized organization, even a one-person operation. You set the strategies that you, your family partners and employees follow to build a productive and profitable business. Management is the process of implementing those strategies. There are many facets of managing a business, including production management, resource management, time management and financial management. Financial management will be discussed in detail in later chapters. Successful management involves three steps: identifying business activities, allocating tasks and creating the structures and policies necessary to achieve your vision by defining your expectations.

Managing Human Resources. The most important asset of any business is people. For this reason, one of the most important jobs you do will be to develop your workforce. If you do this well, you have a good chance of building a stable, sustainable business. Most agricultural businesses need labor in addition to the owner, at least part of the time. You will need to decide the type of help you need to do certain tasks, and when it is important to add to your staff.

If you are like most entrepreneurs, one of the most difficult challenges you face is allowing people to help you. That's right! Most entrepreneurs succeed because they are a "jack-of-all-trades"—multi-talented, highly motivated and full of both ideas and the energy necessary to carry out those ideas. While these traits are valuable, they can also represent a major stumbling block as you try to manage a business composed of qualified individuals in whom you have delegated authority and responsibility. This session offers some valuable

manage from the ground up

SESSION FOUR

this Session

- management overview p2
- managing human resources p10
- managing risk p19

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insights to help you select individuals who share your vision to help you operate your business and the steps necessary to reward and motivate them to grow personally and professionally.

Managing Risk. Agricultural businesses have been facing risk since the first entrepreneur put a seed in the ground, grew the crop, harvested it and sold that harvest. Agricultural businesses face such diverse risks as unpredictable weather conditions and market forces that can drastically affect the marketing and pricing of the venture's products. It is important that you take precautions to protect your business from potential risk from the very start. In order to do so, this session examines how to choose advisors who can assist you in mitigating the manageable risks. One of the best ways to do this is to select appropriate insurance coverage for your business. Finally, we will touch on the importance of developing standardized procedures in your business to further reduce risk.

"Integrate your entrepreneur side with your manager side..."

Management Overview

Can You Be a Manager and an Entrepreneur?

The unique qualities that make a successful entrepreneur may not necessarily make a good manager. Think about it. What traits do you associate with an entrepreneur? An exuberant sense of confidence, independence, strength passion, internal drive and the ability to thrive in the face of uncertainty and chaos are traits that come to mind.

Now think of the qualities you associate with the traditional business manager. Strong group orientation, masterful at working and directing others, deliberate at planning, analyzing and ensuring consistent, quality performance come to mind. People-oriented traits seem best suited to this task.

To integrate your entrepreneur side with your manager side you must be aware of these differences and identify your own skill set and comfort range. This is not to say that you shouldn't challenge yourself to develop new skills. Decide what you do best and what you enjoy, and delegate to others who are competent to do the rest.

4-2 TEXT manage from the ground up

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Management Planning

Good management planning helps businesses develop and meet challenges. This is especially important for agricultural businesses which can take many years to reach a sustainable level. Later, as you grow, neither well-timed ideas nor unique products and services will be enough to sustain success. Don't wait until you have a crisis. Make a deliberate effort now to create the structure that will support consistent growth and outstanding performance. This is management planning.

Some business owners fear management planning because it takes the day-to-day control away from the owner and places it in the hands of others. After all, it is the business owner who has taken all the risks in starting the business. Owners of many agricultural businesses also face the very real challenge of finding and keeping a very seasonal labor force. However, a good management structure allows businesses, even seasonal ones, to succeed on the strength of a good human resource base, not just the start-up energy and drive of the entrepreneur. And by being greater than the sum of its parts, your business can tackle its many challenges.

"Leverage your strengths for maximum competitive advantage…"

Good managers design their companies to maximize their business' unique strengths. Today corporate managers define these as **core competencies**. This is just a fancy way of describing the things that your business does better than any competitor. In the case of an agricultural enterprise, this might mean livestock you raise that is of superior quality to that of your competitor. In the course of managing your business you should repeatedly renew focus on your core competencies. A marginal retail farm stand operation, for example, might put a resource drain on a successful wholesale produce operation. Your goal is to leverage your strengths for maximum competitive advantage.

"Good managers examine their customers and competitors, industry trends and the strengths of competing products and services…"

Business management must also fit with the industry and the markets in which it competes. Good managers examine their customers and competitors, industry trends and the strengths of competing products and services. These elements impact how businesses design and perform internal functions such as marketing, finance, accounting and sales.

Map Out Your Business

map it.

Businesses often create an **organizational chart** to represent the way different management functions of the business fit together. Think of this as a strategic map or a visual record of the relationships among people. How will your internal or external team members function and how will your people report and communicate with one another? Most businesses link their team members on the basis of function, products or the geographic regions they serve. Consider any configuration that is appropriate to your needs, but remember to keep it streamlined.

manage from the ground up TEXT 4-3

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The most common structure for businesses is **functional**. Functional structures are created on the basis of the different major tasks performed by the business. In its simplest form, the functional organization chart begins with the President or CEO and moves down to include sales and marketing, finance and operations.

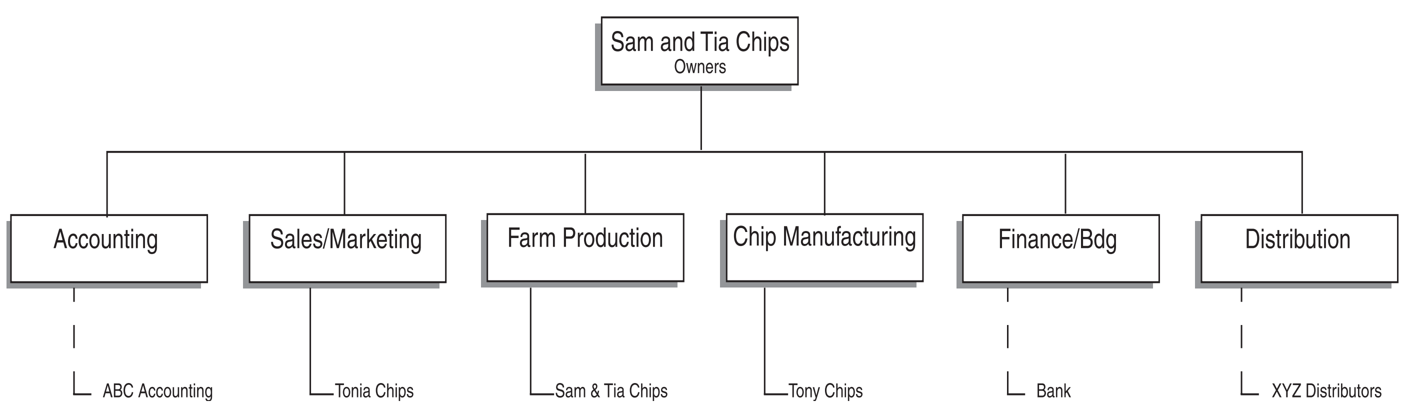
- Sales Representatives
- Accounting
- Purchasing/Logistics
- Advertising
- Budgeting
- Manufacturing/growing /Production

"The most common structure for businesses is functional..."

An example of a business structured along functional lines would be a farm business that produces value-added tortilla chips for distribution to food wholesalers and direct retail customers. It uses its internal and external team members to fulfill crucial tasks including: finance department to manage financial resources, an accounting department to allocate costs, a marketing

Functional Organanizational Chart EXAMPLE

Chips Family Operation



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4-4 TEXT manage from the ground up

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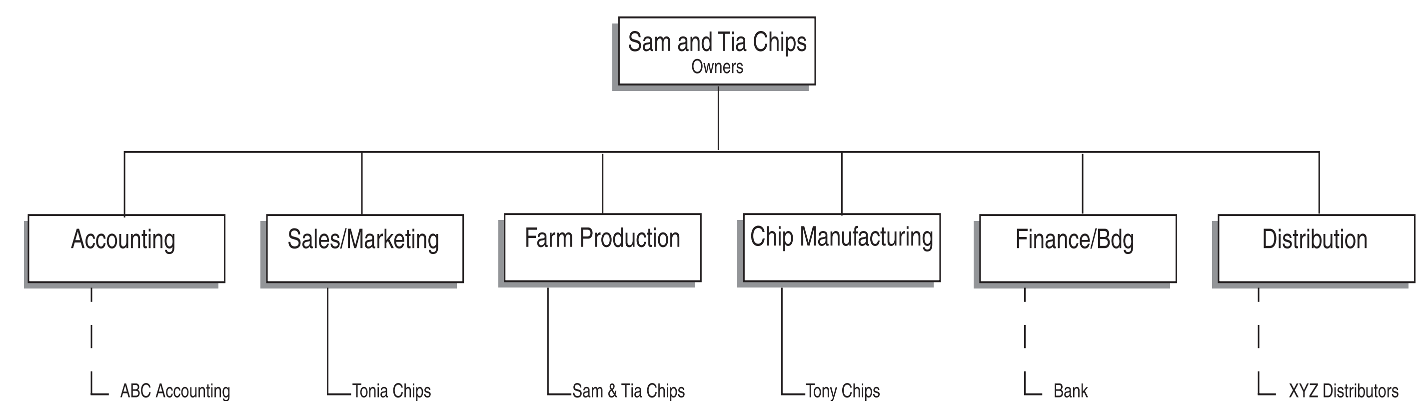

and sales department to identify the product, pricing, promotional and distribution strategies, and a manufacturing department that produces the goods. Each functional area works together to achieve an overall organizational goal of manufacturing and marketing high quality tortilla chips.

Remember, these functional areas do not necessarily represent a large staff. The marketing and sales department may be one person who also does some of the production work. However, understanding which hat you are wearing is critical to running an efficient and effective operation.

Three Steps to Effective Management

The First Step: Identify Activities

The first step in effective management planning is to identify the key activities of the business. Key activities should tie to your short and long-term goals and objectives as well as the daily operation of your business. Which activities are key to your continual survival and success? Which are less critical on a daily basis but important for on-going performance? Some of these activities may be specific to your business and may not fit neatly into traditional functional categories. Listed below are the functions that most businesses must perform.

Three steps to effective management:

- identify activities
- allocate task
- set expectations

Use this list as a starting point for your own brainstorming.

- Accounting
- Inventory
- Human Resources
- Marketing & Sales
- Logistics Management
- Quality Control
- Financial Planning & Budgeting
- Research & Development
- Manufacturing/Growing/Production
- Engineering
- Customer Service
- Purchasing

Think of these traditional functions as processes that your business goes through everyday. While you're at it, consider how you can improve performance.

time
interest
expertise

Step Two: Allocate Tasks

The next step businesses take in management planning is to allocate responsibility for various tasks. Since you might be the only employee your business has, begin by asking yourself which tasks you do particularly well. Which tasks are you less comfortable with? Where are you cutting corners because you lack the time, interest or expertise?

Based on this, identify the key activities you will perform and those you will delegate.

If you have a team assembled, which individuals, personalities and qualifications fit with which tasks? Chances are you or your employees are or will be performing several tasks at once. What are these? Do the individual tasks you are performing logically fit together? In what order should the tasks be performed? Would it be more efficient to separate tasks and reassign them among your team?

manage from the ground up TEXT 4-5

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"The concept of a 'virtual team' allows you to benefit from the skills of many different people without actually having them inside your business..."

the team

When we use the word "team" we are not necessarily referring to a group of full-time employees working at your business. It can be a **virtual team** composed of you, your business partners, your family members and a collection of part-time or outside advisers (e.g., banker, attorney, suppliers, customers, etc.), mentors or business professionals. This concept of a virtual team, or the management team that works together via phone, fax and computer modem, is an important one for many businesses today, especially farm, home-based and other smaller operations. It allows you to benefit from the skills of many different people without actually having them inside your business. The use of technology can be quite useful for the agricultural entrepreneur who may be in a remote location. For example, the Internet can connect you with other farmers around the country or help locate used equipment. You may also send financial information to your tax accountant via e-mail.

Outsourcing refers to the practice of hiring people or businesses outside of your company to perform tasks as an alternative to the expense of hiring a full-time employee. Today, large companies do this to reduce their overhead and focus their resources on their core competencies. Services contracted to others may include accounting, marketing and sales, purchasing, inventory management, and market research. In an agricultural operation, they may include hiring another farmer to cut your hay or contracting for veterinary services. This strategy can offer businesses many benefits. You have limited resources and time, and you must carefully choose where you will spend your time. If others can do something better than you, why not benefit from their expertise? Allow them to make your business more competitive by contracting with them to do what they do best.

Individuals who provide outside services are referred to as independent contractors because your business does not provide the normal package of benefits to them. In effect they are their own independent businesses. However, be sure to review the IRS 20 Point Checklist to determine if you are truly outsourcing or whether you are trying to avoid recognizing an actual employee relationship.

4-6 TEXT manage from the ground up

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Situations when to use contingent/contract labor:

- A rush order increases work load suddenly but it drops back to normal once the order is done
- More employees than usual are absent due to illness or vacations
- A special, one-of-a-kind project requires your immediate attention
- Seasonal demands are disrupting your ability to provide top-level customer service
- You need a worker with specialized knowledge or skills for a certain project
- You need temporary help every week for a few hours, for example for payroll computation

While these are compelling arguments in favor of contingency workers, watch out for hidden costs which *may* accompany these workers:

- Low Productivity: Temporary workers may lack the commitment, motivation and loyalty of full-time employees.
- Low Return on Training Investments: It takes time to recover the costs of training an employee. Contingent workers, by definition, do not stay in the job long enough to recoup these costs
- Disrupted Teamwork: Teams require stable membership, high levels of cross-training and operational cohesion. These elements are difficult to achieve in a team where the members come and go quickly.
- Poor Safety: Contract workers receive less safety training than regular workers and those supervised by outside agencies tend to have more injuries than those supervised by host plant supervisors.

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manage from the ground up TEXT 4-7

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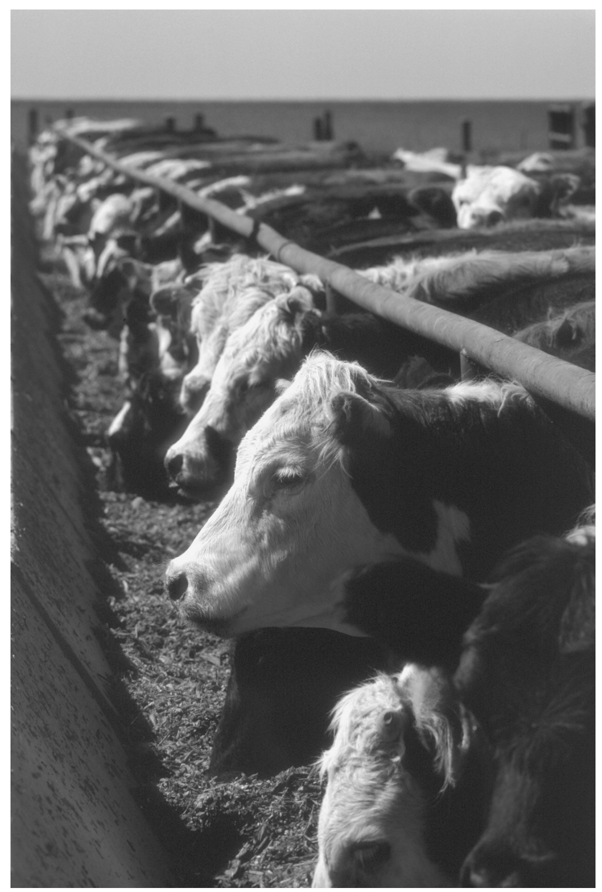
Step Three: Set Expectations

The next step in creating an effective management system is to set goals and objectives for everyone performing tasks in your business: yourself, partners, family members, employees or contractors. What can the business expect of each person? Who should be held accountable for specific tasks? What is the time frame for task completion and assessment?

Building a great organizational structure takes time. It also takes a real commitment to thinking critically and creatively about your business. Give your team plenty of time to learn how to work together and share ideas. And, most importantly, try to identify what each person needs to do to help others best perform.

Other Management Strategies



Consider the following issues as you go about making your management systems responsive to your customers, your employees and others that are involved in your business—your suppliers, your bankers, etc.

"Entrust tasks to qualified employees and other members of the management team..."

Stay Focused

Having identified which tasks you can do best and allocated responsibility for the rest, you must discipline yourself to focus on your activities. One of the biggest challenges for entrepreneurs is to contain the impulse to try to do everything. One key to being a successful entrepreneur is knowing and understanding the concepts behind time management. Successful entrepreneurs understand that their function is to entrust tasks to qualified employees and other members of the management team, thereby freeing the entrepreneur to use their time effectively in carrying out the many tasks that go with being the owner of a small business.

4-8 TEXT manage from the ground up

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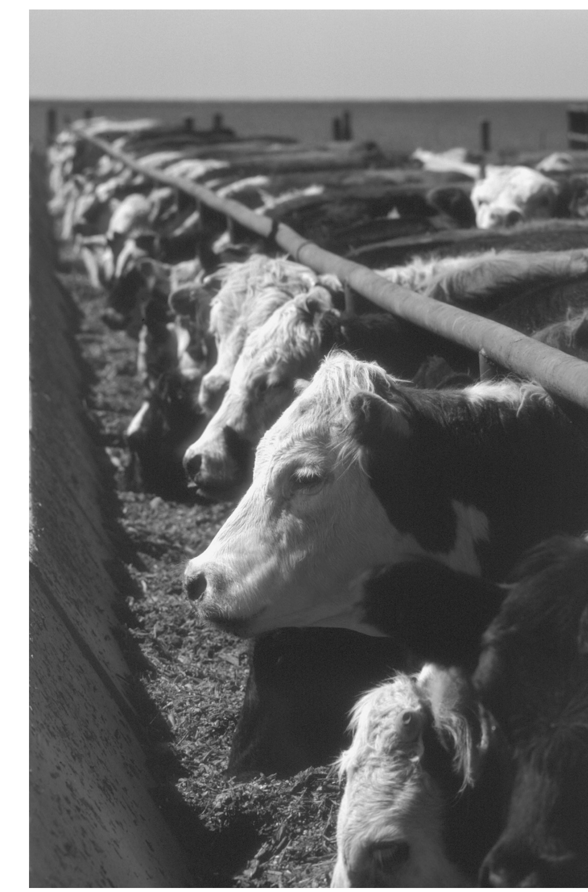

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Maintain Good Communication

One of the biggest obstacles for businesses is poor communication. How do different people, separated by space, time and different operating styles, communicate and work together? Imagine an army in which Privates set their own marching orders without ever hearing from the Sergeant. Obviously, things would not run well. For businesses, failure to design effective communication practices can lead to:

- A lack of cooperation
- Poor coordination between different functions
- Inefficient use of time and resources
- Missed opportunities for creative problem solving
- Diminished "team spirit" and morale
- A resistance to change
- A lack of discipline
- Failure to meet long-term goals

How do businesses ensure that effective communication is built into the company? They begin by establishing formal practices like scheduling daily or weekly staff meetings. In these, members can be updated on goals and performance, raise questions and gather feedback.

"Learn from the successes and mistakes of others..."

Get Advice

One of the most important things you can do for your business is get outside advice. Ask a mentor, a colleague or professional to evaluate the way you plan to structure your business. If you can afford it, try a paid consultant. Today, there are more voices of experience for entrepreneurs than ever before. You should also seek out advice from friends or business acquaintances that are in the same or similar businesses. Join or start a farm organization. If you are adding a retail store to your farm operation, talk with other store owners. If you are converting part of your old farmhouse into a bed and breakfast, join the local bed and breakfast association and get to know other members. How did they tackle similar issues? Your motto here is to learn from the successes and mistakes of others. Then improve upon their ideas and tailor their advice to fit your business.

"One of the most important things you can do for your business is get outside advice..."

Have Fun, Be Creative

One of the most valuable things businesses can do is strive to have fun and work creatively. The more people enjoy their work, the better they perform. The more creative businesses are, the more innovative they can be in solving problems and outperforming competitors. The happier your employees are, the better they will serve your customers.

manage from the ground up TEXT 4-9

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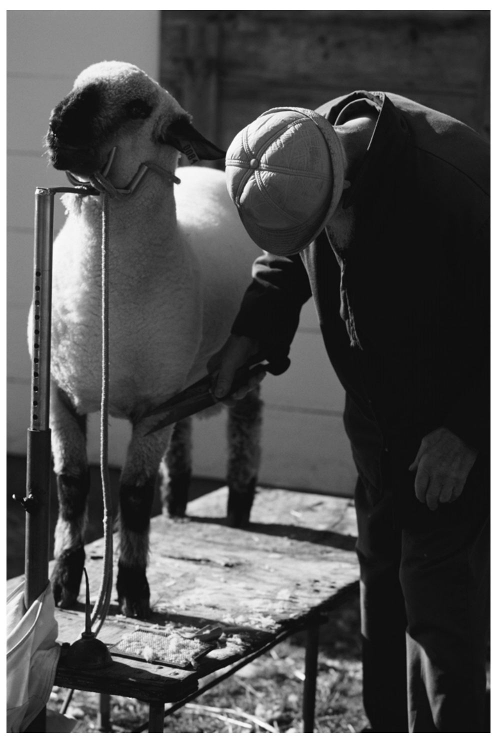
Managing Human Resources

This section presents the basic skills you will need to effectively manage your employees and outside contractors. Just because you've seen certain human resource practices used elsewhere, doesn't mean that you should necessarily duplicate them in your own business. Think of how differently the employee handbook at a computer company with 20,000 employees would look compared to the handbook used in a U-pick, organic produce company with 10 employees or a family-run poultry operation that only hires temporary seasonal help. The industry in which you operate, the products you produce and your core competencies will all govern how you manage your employees. Begin with the basics (policies for hiring, training, rewarding and motivating employees) and build on them to ensure that your business successfully conveys your own enthusiasm and vision, as well as your personal and business goals.

clear concise carefully written



For additional information on personnel rules and regulations that are not covered in this session, please refer to the NxLeveL™ Aricultural Resource Guide for a list of contacts or visit an Internet personnel management course at www.ianr.unl.edu/nebraskaedge/hrframe.htm

Job Descriptions

At some point in your business, you will be faced with the decision to grow. For most that will mean hiring additional employees—perhaps your first employee! After you have quantified the tasks the new employee will perform and checked your resources available for compensating the new employee, you will want to consider a formal job description. A **job description** clarifies work roles by placing in writing a clear, concise description for each task and responsibility that must be performed by the employee holding that job. Many times the job description will also address the educational and training requirements one should have to successfully undertake the job. The job description specifies the details of the work to be done, including:

- Tasks to be performed
- Performance criteria
- Skills or qualifications
- Importance of each duty
- Supervision
- Future projects
- Training
- Growth and advancement

4-10 TEXT manage from the ground up

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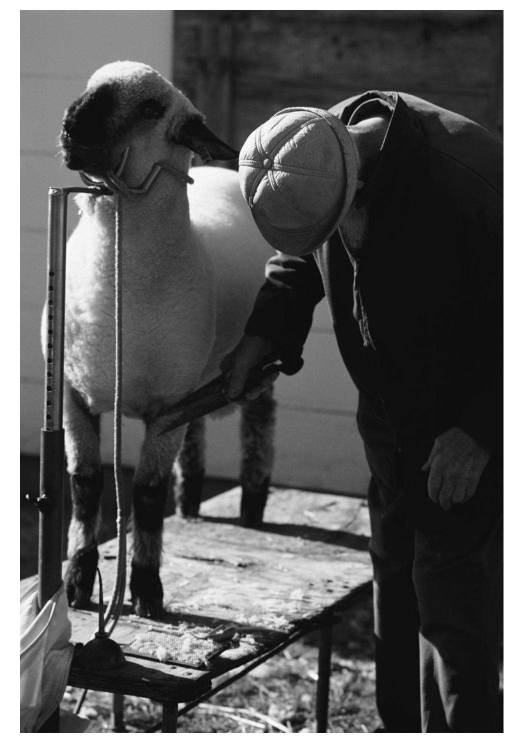

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Having a job description in hand will be essential as you begin your search for that perfect person to add to your business. A carefully written job description will also establish the performance criteria by which the employee's work will be judged. Job descriptions are important not only for your managers, but for the rest of your labor force as well.

agExtra

Writing a job description:

Job descriptions detail the requirements of workers in each job in an organization. In many small businesses the owner/manager has at one time or another worked in nearly every job in the business and may be able to write the job descriptions alone. A better approach may be to have the employees describe their jobs in as much detail as possible. Managers can then review and edit these descriptions as needed. Written job descriptions should include, at a minimum, the following information:

1. ***Job Title:*** The title of this position

   Examples: Sales Clerk, Production Specialist, Feed Manager

2. ***Job Purpose:*** In one or two sentences, summarize the primary function of this job.

   Example: *Production Manager: Insures the accuracy, safety and operation of farm equipment by performing preventive maintenance, repair and calibration of equipment. Oversees production of field crops by managing supplies, crop health, necessary production staff and equipment needs.*

3. ***Work Activities:*** List the main duties of this position in order of importance. To do this employees may want to start at the beginning of the work day and think of all the things they do in the normal sequence of a day. Activities may need to be described in some detail. Some descriptions estimate the percentage of time spent on each activity.

4. ***Job Requirements:*** Specifies the qualifications, skills, education, experience and type of person desired for this position.

5. ***Work Relationships:*** Identifies this person's position in the chain of command and key working relationships they have with other employees. Generally will pinpoint:

   Reports to: The person or department head which directly supervises this job.

   Supervises: Any workers who report to the person in this position.

   Key Relationships: Likely contacts and relationships with other co-workers, departments and customers.

manage from the ground up TEXT 4-11

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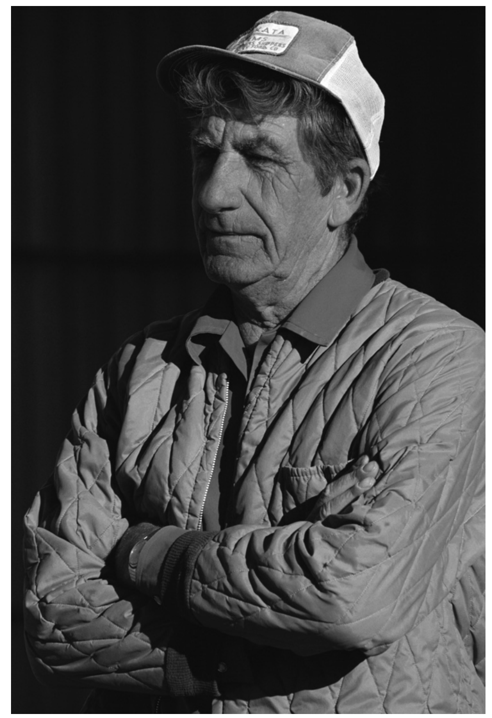
Hiring the Right People

Hiring the right people is the second step in creating a strong, capable management team that will allow your business to grow. It will be important as your business grows for you to have a layer of talented people to whom you can delegate responsibility and authority, including the supervision of your production labor. Expecting too much and rewarding too little is one of the major mistakes made by entrepreneurs. This can create resentment which ultimately will result in poor performance and high employee turnover. It has been said that the cost of hiring the wrong employee in a position for a year is equal to five times their annual rate of pay, while the cost of having the wrong manager is ten times their rate of pay. Investing time in selecting good people now will pay off later. Here are the basics:



"Let the applicant's resume or application form guide your creative questioning..."

Have Face-To-Face Interviews

Let the applicant's resume or application form guide your creative questioning. Some of the most revealing questions and "meaty" interviews result from interviewers following their instincts. Get the person to talk about their achievements, goals and values. Try to pinpoint specific projects they've started and finished. When finished, you should clearly understand their past performance record. Try to understand their personal motivations for wanting the job you are offering. In the northeast, for example, people are entering agriculture from other fields. Does your potential farm stand manager express a love of the outdoors, a desire to get up with the sun, and an interest in winter rather that summer vacations? Don't forget to take notes!

"what if..."

Use "what-if" questioning. Presenting potential employees with a selection of possible business and interpersonal scenarios can offer you insight into their personality and work style. Ask them how they would react to a specific "crisis" in your business, to an ambiguous or uncertain situation or their approach to a given challenge. How would they better market your product? Control for costs or control inventory? This type of questioning can help you to separate the "doers" from the talkers.

4-12 TEXT manage from the ground up

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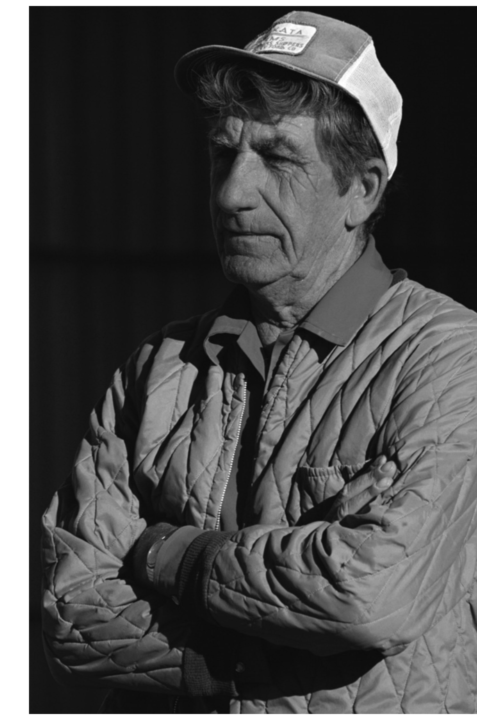

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Check References

Reference checks allow you to cross check details and verify the highlights of a particular candidate's qualifications. These checks also can offer you valuable additional insight into the candidate. How do they work under pressure? Are they detail-oriented and able to follow through on tasks? How disciplined are they and how much supervision do they require to be productive? Use your interview notes and their resume or job application as a guide to help you dig for more information. Be advised that you may get limited information from your reference checks due to recent liability issues associated with reporting on previous employees.

"Reference checks can offer you valuable additional insight into the candidate..."

Paperwork Requirements

The "paperwork" in hiring an employee has increased over the last few years. Many accounting and/or payroll services have expanded their services to include assistance in hiring, firing, benefits administration, and the paperwork that goes along with employee administration. As mentioned in Session 3, if you hire migrant workers, you will need to comply with a variety of laws regulating their employment. One good source of information for small business and labor regulations is your state labor department.

"One good source of information for small business and labor regulations is your state labor department..."

Keeping Your Employees

There are two key strategies used to keep your employees. The first is to create a work environment in which employees feel motivated, supported and safe. The second is to provide appropriate compensation.

Motivating Your Employees

Biologists now believe that, in life, organisms survive through cooperative strategies rather than survival of the fittest. The same is true for businesses. It is vital to create a situation in which employees want to come to work and contribute to the success of the business. One way to do this is to be careful to match an employee's skills to a task. For example, it may be too stressful for a shy person to be put in charge of sales at the farmers market, but that same person may have a good design sense and be the right choice to set up and restock the displays. Another way to create a cooperative environment is to set an example and the tone of the business. Business owners who come to work on time, display a positive attitude, and demonstrate a problem-solving approach to issues will see similar behaviors and attitudes in their staff. Making training a regular part of your work schedule is also key to motivating employees. Updating or learning new skills and techniques will help keep employees interested in their jobs. Sending staff to conferences or meetings that can help them professionally will also help your agricultural

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manage from the ground up TEXT 4-13

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business. Finally, help your employees make the connection between the work they do and the end result. For example, give the person who picks the fruit an opportunity to see customers buy that fruit at the farmers market.

Some might assume that salary is the most important motivator for employees. This isn't always the case. Many small businesses often lack the cash flow to pay out big salaries. You can still attract the best. Often other motivators such as new challenges and learning and involvement in decision making are at the top of the list of what employees consider important. Pay the salary you can afford, then use other intangibles to motivate them. Capitalizing on non-monetary motivation is of critical importance for a small, growing business. An employee who is only concerned with the minimum job requirements or earning a salary may not be the kind of person you want in your business.

agExtra

Case Study: Bob Jones, Riverside Farm

Bob Jones began his organic vegetable farm fifteen years ago on five rented acres in Western Massachusetts. He did all of the work himself with occasional help from friends. After five years of getting established, Bob realized that if he was ever going to be able make a living from his pursuit, he would need to expand his production acreage. To do that, however, he would need to have more consistent help. During the past ten years, Bob has increased the land he has in production to twenty acres, and after some trial and error he has developed a personnel management system that works for him and the twelve people he now has employed. In addition to his own employees, Bob has an extended network of advisors and contracted service providers including his payroll service, tax accountant, loan officer, and members of the marketing cooperative through which Bob wholesales a portion of his crops.

Key to Bob's management approach is a strong belief that his business will benefit if there are more people engaged in agriculture. Therefore, Bob views himself as a mentor to his employees and looks for managers who want to learn the business and make agriculture a career. Because he expects the people he trains to move on to their own enterprises, Bob has designed a four-year advancement plan which he presents to new recruits. Thus, a new employee has goals and learning objectives from the outset and knows what to expect if he or she stays for four years and performs well.

Bob likens his staff to a basketball team. Each team member has specific responsibilities, and all must work together to "win" a good harvest. This includes the managers (farm manager, equipment manager, greenhouse manager, sales manager) who are permanent employees and the mix of domestic and H-2A workers employed as seasonal laborers. Bob sees his role as that of a player/coach. In addition to leading the team, Bob serves as the farm's mechanic. After several frustrating years of hiring outside help to

4-14 TEXT manage from the ground up

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repair equipment and trying to train employees to be mechanics, Bob decided to take on the job himself. He had the necessary skills and enjoyed the work. Furthermore, he discovered that the farm experienced less down time from equipment malfunctions when he regularly worked on the machinery.

To ensure that good communication is maintained among the team, Bob uses several simple but effective techniques. First, he works with his managers to create a weekly production plan that is posted in a prominent location. It includes a schedule of what each part of the business is doing each day. Second, Bob works with the crew for the first one or two hours of each day to help get things set up and to resolve any questions and sets aside a check-in period at the end of the day. As a part of his own time management strategy, Bob schedules an hour of his time each day to deal with the inevitable unplanned situations that arise. As Bob Jones says, learning to manage the unexpected is the toughest part of the business.

Today Riverside Farm enjoys steady growth and profitability.

Compensating Your Employees

The rewards that businesses offer their employees can be divided into two categories: regular compensation and benefits, and additional rewards and incentives. Basic benefits describe those things that all employees receive. Rewards and incentives are given above and beyond basic compensation to motivate employees to exceed performance targets and enhance the level of innovation within a business. Use creativity to compensate and reward your people in other ways. Some types of businesses offer stock options, flexible work hours or additional vacation time, for instance.

salary
benefits
bonuses

Regular Compensation and Benefits

Salary

This is the compensation amount you offer your full time employees. The guiding principle here is to know what your people are worth and to create competitive compensation packages to pay them accordingly. Check out what other agricultural businesses pay for help. If you are venturing into a new area of business activity in order to diversify your operation, search and outplacement firms can provide valuable information as you seek to identify appropriate salary levels.

Vacation time

You need to determine your vacation policy. Which employees are entitled and how will that benefit be accrued? Vacation leave practices are often dictated by the geographic area and industry in which a business operates

manage from the ground up TEXT 4-15

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and, for many agricultural businesses, the seasonal cycle. A key decision may be whether to have staggered vacation times or to plan for a complete operation shut down once a year.

Holidays

Decide what your holiday policy will be in terms of giving days off on holidays. Although some holidays are considered standard paid time off for many businesses (Christmas, Thanksgiving, New Year's Day, etc.), you have flexibility in determining which holidays you honor and when those holidays are actually taken.

Sick leave

Competitive forces within the industry a business operates usually dictate sick leave practices. You should decide how many sick days you will pay and how many you will tolerate before disciplinary action is taken.

"Incentives are a good way to motivate and reward your employees..."

Health and medical coverage

This is one of the fundamental benefits that many employers offer to their employees. However, in the earliest stages of a business' life, providing this benefit simply may not be financially possible. Just as soon as your business is able and can qualify, you should consider getting some form of group medical coverage for your employees. It is often better to have a modest "group" plan based on the power of all your employees than to have no insurance at all. Many times you can join an existing group of other companies to achieve better rates from the insurance provider. Your business can begin by paying a lesser portion of the premium for each individual employee's coverage, then grow into increasing its contribution based on employee longevity or the business' ability to pay. Many medical coverage packages also include some form of life insurance and dental care coverage. Shop around and ask a lot of questions in order to find your best deal.

4-16 TEXT manage from the ground up

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Additional Rewards and Incentives

Incentives are a good way to motivate and reward your employees. While often on a monetary basis, incentives don't always require monetary basing to be effective. Consider the "employee of the month" photograph in your local supermarket. Many small business owners build incentives into their employees' performance evaluation planning process. When employees exceed targeted levels of performance they are rewarded by a variety of methods. Your incentives can be as creative and inspired as you like.

"Just as you seek out mentors to assist you, you can provide mentoring to your key employees..."

Mentoring

Mentoring programs can be a good way to provide incentives and reward your best employees. Just as you seek out mentors to assist you, you can provide mentoring to your key employees. An integral part of your job as the leader is to help your employees succeed in your business. As your business grows, your time should increasingly be spent mentoring or "coaching" as opposed to "doing." A successful mentoring program can be based on two points. The first is to establish set meetings with time for skill building, goal setting, skill review and "coaching" time. The second is to delegate responsibility and authority as the employee matures. Without the actual experience and practice of decision making, an employee will never fully realize their decision making potential. The result of a successful mentoring program can be of great benefit to you—the owner. As your employees take over more of the day-to-day operational tasks, it will allow you to focus your energy on visualizing the future and creating the strategies that will allow both your business and your employees to reach that future.

coaching.

Documenting Employee Performance

You've selected your employee carefully by conducting an appropriate employee interview(s). During this process you went over the tasks and responsibilities of the job using a clear, written job description. You have checked their references, made an offer of employment and it was accepted. Prior to starting work, you and the employee set attainable goals and the expected (minimum) job performance was clearly spelled out. Now the employee is on the job, and it is your responsibility to provide the employee feedback as to his or her job performance. Periodically you will want to provide the employee with a "job review" or "employee evaluation."

"Periodically provide your employees with a 'job review' or 'employee evaluation'..."

Use a standard process to document the performance of all employees:

- Have a private conference with the employee in a private area.
- Go over the job performance expected and agreed upon by both of you at the start of the job (or since the last review). It is good to make the goals as measurable as possible.

manage from the ground up **TEXT** 4-17

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coaching.

Documenting Employee Performance

You've selected your employee carefully by conducting an appropriate employee interview(s). During this process you went over the tasks and responsibilities of the job using a clear, written job description. You have checked their references, made an offer of employment and it was accepted. Prior to starting work, you and the employee set attainable goals and the expected (minimum) job performance was clearly spelled out. Now the employee is on the job, and it is your responsibility to provide the employee feedback as to his or her job performance. Periodically you will want to provide the employee with a "job review" or "employee evaluation."

"Periodically provide your employees with a 'job review' or 'employee evaluation'..."

Use a standard process to document the performance of all employees:

- Have a private conference with the employee in a private area.
- Go over the job performance expected and agreed upon by both of you at the start of the job (or since the last review). It is good to make the goals as measurable as possible.

- Go over the actual job performance during the review period. Document your review in writing and sign it.
- The employee may want some time to go over the review before responding. Schedule a follow-up appointment within a few days.
- Meet again to discuss your assessment of the employee's performance. The employee should sign the review not necessarily in agreement but rather as documentation that the process occurred.
- Between reviews, document all issues with the employee in writing. Should any problems arise with the employee, they should be clearly pointed out along with the improvement or problem resolution expected and time frame.
- Use performance evaluations to assist you in making decisions about employees including retaining, promoting, reassigning or terminating the employee. Also, it is best to peg employee compensation to job performance.

Firing People

One of the least pleasant things you will have to do as a manager is make the difficult decision to ask someone to leave your company. Unavoidably, sometime as an employer you will have to fire an employee. Many times it is no one's fault, such as a layoff or a restructuring of the business. For instance, you may stop selling a particular product or providing a certain service. Other times it may be an easy decision such as when an employee is caught stealing or is found to be dishonest. Other times an employee is not performing as you had hoped or has continual personality conflicts with other employees or customers.

"Make sure the employee knows the reason they are being terminated..."

Some things to keep in mind when terminating an employee:

- Chose a quiet place that is private.
- When you do act, it should be quick and clean. If you have made the decision to terminate, don't get into an argument with the employee or a discussion of "just one more chance."
- Be prepared with the written documentation concerning the poor job performance or employee problems (if applicable). Make sure the employee knows the reason they are being terminated.

Depending on the circumstances of the termination, you may wish the employee to leave the workplace as quickly as possible. If the termination is due to a layoff, you may wish to build some "severance time" into the official termination date and let the employee use the workplace as a base to find another job.

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The Personnel and Company Handbook

Early in your business' life, you may wish to develop an employee and company handbook. Your business' handbook can look any way you want it to, but it should contain the following:

- A letter from you—the founder, team leader and coach
- The company mission statement
- Your employee relations policy
- Your employee benefits package
- A "principles of doing business" statement should include the purpose of the handbook and its author, who should use it, an explanation of its terms and the time frame it covers
- Your employee performance appraisal and problem resolution procedures
- Vacation policy and holidays
- Reporting structure and functions within the organization

The purpose of the handbook is to provide information that will be needed by employees regarding all issues, practices, and procedures related to employee relations. It is very important that you have your legal advisor review your company handbook and any other employee policies and practices.

Managing Risk

How can risk be managed? Many agricultural entrepreneurs may wonder if risk can be managed at all. Considering the many natural risks that agriculture has historically faced, this is a valid concern. Weather has always plagued the agricultural industry—too much water at the wrong time or not enough when you need it. Natural weather phenomena such as wind, hail, floods, hurricanes and tornadoes are all risks in the business of agriculture. However, the risks associated with your agricultural operation are not finished at the end of a non-eventful weather season. If you raise crops or animals, the selling price can vary widely in any given year and seems to fluctuate in cycles that have little to do with the agricultural entrepreneur, nor it seems, can they do much about it. National and global trends affect price, and it

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always seems the "middleman" is the one making the profit. Yet another set of risks can be associated with accidents. Traditionally, farming carries with it some of the highest accident rates of any occupation. In this section we will look at several types of risks and what the agricultural entrepreneur can do to manage them.

Establish Procedures and Controls

We will spend a great deal of time later in this section discussing one way to address risk—that of insurance. This is appropriate because there is no other means of risk management that is as cost efficient, effective or readily available. However, there are two important ways the business owner can reduce his or her risk that is completely dependent on them. Having thorough and well-formulated safety procedures and operational controls can reduce many of the risks that small businesses face everyday.

standard procedures

Safety Procedures

Establishing safety procedures on the farm can help to prevent many accidents. Compliance with OSHA standards and regulations can also minimize the risk of having your operation fined or shut down. When establishing procedures, you must first identify areas of potential problems. Walk yourself through a typical day in the operations of your business and consider when and how you place yourself, your employees or your neighbors at risk of harm. Educate everyone working on your farm to operate equipment properly. Be sure that flammable materials and any chemicals are stored appropriately. Establish ways to check in with and communicate with employees who may be working at remote locations and practice responding to emergencies. Train everyone involved in your operations—employees, family members, temporary help—in your procedures, and review them periodically to be certain they are current.

"Thorough and well-formulated safety procedures and operational controls can reduce many of the risks..."

Operational Controls

In the broadest sense operational controls are all the policies and procedures you have establish to guide the day-to-day operations of your business. Some of you may have worked in a large corporation which has a **Standard Operating Manual** or other such reference book. These manuals set down in writing the steps one would use when fulfilling a certain function or action in the business. In other words, what are the steps necessary to implement company policy in fulfilling day-to-day workflow?

For instance in the financial management area, a standard operating manual might give the exact steps in counting the daily sales receipts, entering that information in the proper accounting format, and finally, the requirements for making that deposit at the bank. It answers questions about who is

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authorized to count the money and make the accounting entries. Perhaps more than one employee will be required to go to the bank—especially if the business has large cash deposits.

In addition to financial management, you will want to establish operational controls in other crucial areas of your business. Granted, many small agricultural businesses are pretty much a one-person show. That means you do all the work and are responsible for carrying out that work in the manner you think best. However, as you grow and hire additional employees or when you use family members or contract labor, it will benefit you to consider your operations controls.

Standard procedures are crucial to an agricultural business. Consider the organic grower who has to maintain certain controls to insure their organic certification. In this example, consider the following areas that would benefit from operational controls:

"Standard procedures are crucial to an agricultural business..."

- **Tracking of field records.** Organic certifiers require that organic procedures be documented on fields from the first year of transition. Useful records would include field maps, field production and harvest history, and storage information.
- **Production practices.** Each crop would require an activity log of actual production practices such as dates, tillage techniques, varieties planted, input records, weather conditions, pest problems and control, equipment cleaning methods, etc. These records can help plan the next years' practices or help guide hired labor.
- **Storage facilities.** Records of storage site cleaning methods, amounts stored, and dates of storage are required to show that contamination is prevented. This is particularly important if the farm produces both organic and conventional crops. Both storage and shipping containers need these records.
- **Buffer zones.** Since crops can be contaminated by chemical drift or runoff from neighboring fields, field borders and water runoff zones must be marked on field maps. Crops from these areas must be harvested and stored separately, and records must verify these amounts.
- **Product tracking.** Amounts of each crop must match the acres planted, harvested, stored, shipped and sold, to avoid any appearance of mixing organic and conventional crops. Noting buyers and shipping dates will help verify these activities.

Establishing a manual that covers your most basic and important tasks will allow you to turn over the business to a trusted employee or family member for a few days should you ever decide to take a vacation. It could also protect you if you are ever called away from the business due to accident or illness.

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General Background on HACCP

Developed in the 1960's, the Hazard Analysis and Critical Control Point (HACCP) system is a preventive strategy for assuring safe food products. The HACCP system's goals are about food safety and not about quality. The HACCP system considers biological, physical, microbiological and chemical hazards with the strongest emphasis being placed on microbiological hazards. The National Advisory Committee on Microbiological Criteria for Foods (NACMCF) has since revised the original HACCP system and expanded it from three to seven principles. The Food and Drug Administration has made the implementation of HACCP programs in seafood plants mandatory, and the Food Safety and Inspection Service has done the same for the meat and poultry industry. In a draft copy of the FSIS Microbiological Hazard Identification Guide For Meat And Poultry Components Of Products Produced By Very Small Plants, published August 26, 1999, it states that *"Under section 9 Code of Federal Regulations (CFR) Part 417, all very small plants (those with less than 10 employees or with annual sales of less than $2.5 million) are required to implement Hazard Analysis and Critical Control Point (HACCP) systems by January 2000."*

HACCP Principles

HACCP is a systematic approach to food safety consisting of seven principles:

1. **Conduct a Hazard Analysis**
   Prepare a list of steps in the process where significant hazards occur and describe the preventive measures necessary to control the hazards.
2. **Identify the CCPs in the Process**
   The goal of the CCPs is to prevent, eliminate or reduce a hazard to acceptable levels.
3. **Establish Critical Limits or Specifications for Each CCP**
   Regulatory standards and guidelines, literature surveys, experimental studies and experts are important sources for establishing critical limits, which serve as boundaries of safety for each CCP.
4. **Establish CCPs Monitoring Requirements and Procedures**
   Monitoring is conducted to verify if a CCP is under control and producing a record. Examples of measurements for monitoring are time, temperature, pH level, moisture and can seam inspection.
5. **Establish Corrective Actions Should Deviations Occur**
   Corrective actions must include specifications on disposal of noncompliance product. The cause of noncompliance must be identified and corrected immediately.
6. **Establish an Effective Record-Keeping System**
   Excellent record keeping is essential and must include data obtained during the operation of the plan and the HACCP plan itself.

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7. Establish Verification Procedures

Verification should determine if the HACCP system as implemented is in compliance with the HACCP plan as designed. Four aspects may be addressed:

1. Verify that critical limits for CCPs are satisfactory;
2. Confirm that the facility's HACCP plan is functioning effectively;
3. Conduct periodic validations, independent audits, or other procedures to assure accuracy of the HACCP plan; and
4. Obtain verification by regulatory agencies.

Source: USDA Food Safety and Inspection Service

In general controls can be grouped into categories, including:

- The Control Environment
- Authorization
- Segregation of Duties
- Physical Controls
- Processing Controls
- Monitoring/Review/Training

establish controls.

The worksheets in this session have been designed to help you establish those controls that will be beneficial to you. Here are a few areas of operation that you may want to consider developing some standards of control:

- **Production Quality:** Field equipment may be inspected during field rounds to ensure accurate seed placement or fertilizer application rate. Weeds may be cultivated at

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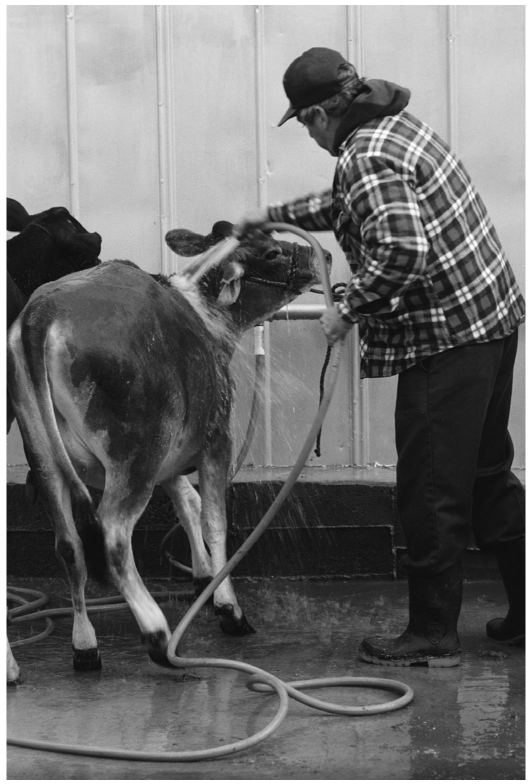
specific stages to ensure effective control that is not harmful to crops. Irrigation need or depth may be monitored by soil measurements. Fertilization needs may be determined by soil tests taken at certain times of the year or depths of soil.



- **Insect/Pest Management:** Managers should know pest ecology to describe the pest life cycle, season of damage and control opportunities. Preventive measures for each pest are planned prior to the crop year. Scouting for pest outbreaks at specific times can catch problems before they get out of hand. Setting pest level thresholds for control actions can avoid unnecessary control costs.
- **Disease controls:** Many confinement swine operations require visitors to wear "clean suits" and boot covers to avoid disease introduction. Other farmers with livestock on pasture may take manure samples to determine if and when worming is needed rather than applying de-wormers on a set schedule. Vegetable growers may insist on disease-resistant varieties when they buy seed.
- **Use of equipment:** Youth may be required to complete a farm equipment safety course before operating motorized equipment. Every equipment operator may receive instructions on vehicle controls and emergency procedures.

- **Maintenance and Repairs:** Farm equipment may have schedules and log books for preventative maintenance, fuel use, filter replacement, or repair notes. Each facility may have a scheduled inspection to ensure proper functioning of lights, heating/cooling and watering systems.
- **Chemical Storage and Applications:** Designated and labeled areas for farm chemical storage and handling are required in some areas. Only trained and licensed staff may apply some pesticides. Some chemicals require protective clothing, limited application conditions or quarantine of fields after application.
- **Fire Prevention:** Procedures for fuel handling and storage, chemical storage, and burning management may be received by each worker. Emergency equipment, procedures and phone numbers could be prominently placed and recognized by each worker.

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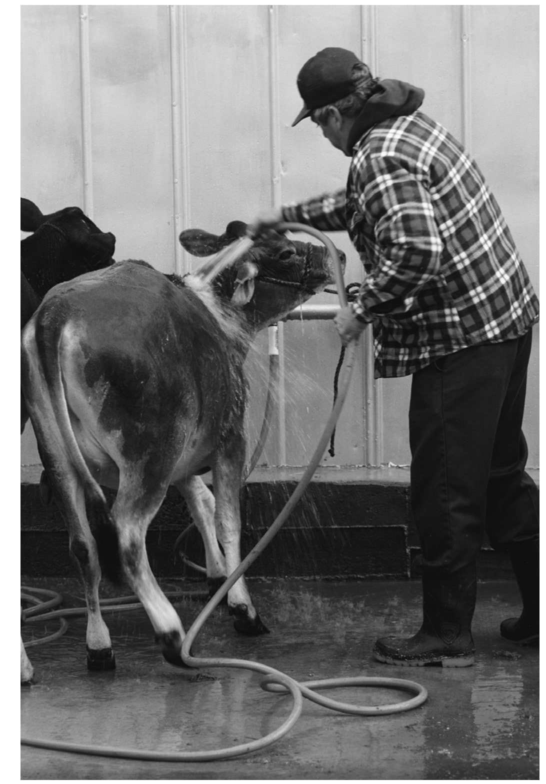

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Hazmat

In 1992, the Hazardous Materials Registration Program (HAZMAT) was established for individuals who transport or offer to transport hazardous materials. The registration program requires these individuals to register annually and pay a fee to the Department of Transportation. The fees are used for planning and training grants that help to prepare for hazardous materials emergencies.

Hazardous materials associated with agriculture include fertilizers, pesticides, soil amendments and fuels. Hazardous Materials Regulations apply to anyone transporting these agricultural products on a public road. Exceptions for farmers do exist in Section 173.5 of the Hazardous Materials Regulations if they are transporting agricultural products between their own fields or to and from their farm. For example, the requirements in the Hazardous Materials Regulations need not be met if the products, excluding gases, you are transporting between fields of your own farm are for use on your own farm. Other exceptions may also apply. All states have to authorize these exceptions by law or regulation. For more information contact your state hazardous materials regulations office or the U.S. Department of Transportation, http://hazmat.dot.gov.

Source: U.S. Department of Transportation

Seek the Help of Qualified Advisors

Your experience as a business owner may soon tell you that you don't have all the answers and you need to seek the help of outside advisors. In this section, the focus is on advisors who can help in the area of risk management and ultimately, in protecting your business.

"Interview your professional advisors to find a fit in personality, objectives, and business philosophy."

Here are three points to keep in mind when selecting a professional advisor. You should interview your professional advisors to find a fit in personality, objectives, and business philosophy. While the hourly rate your advisor charges is one consideration in the overall cost of professional services, experience and efficiency are equally important. Lastly, trust your gut feelings.

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You have not become successful in your business by missing the cues and signals coming your way by verbal and nonverbal communication. Find someone you like who will help you grow your business.

Accountant

One of the most important advisors you can enlist for your team is a qualified accountant. An accountant can help you organize your books and help you in business management, tax reporting and strategic planning. One problem businesses have is that they do not take this first step in their business organization. Later, they find that their accounting system is not set up properly, their tax reporting has not been done accurately or in a timely fashion and that there is no room to grow within the system which they have established. Small businesses can perform the day-to-day bookkeeping either in-house or through a bookkeeping service in order to save money. Your accountant can then be used for the more complex planning and organizational issues. An agricultural entrepreneur should look for an accountant who is experienced in working with farming operations and the Schedule F income tax form. We will devote more time to the important issues of the accounting relationship, book and record keeping, and financial management issues in upcoming sessions.

"One of the most important advisors you can enlist for your team is a qualified accountant…"

risk management

Banker

It is inevitable that during the course of your business you will need outside capital either for major improvements, such as buying a new tractor or a new building, or for cash flow management and operating funds. It is much easier to obtain funding when you need it if you have already established a relationship with a banker or other lender such as the Farm Service Agency. It is difficult for a banker to immediately respond to a loan request without having had the opportunity to review your business plan and tax returns and conduct an on-site visit of your facilities. A periodic meeting with your accountant and banker is a very good way of protecting your business.

"It is important that you have a financial advisor as a member of your risk management team…"

Remember that in today's world of Community Development Financial Institutions (CDFI's), community loan funds, etc., your banker may not be a traditional banker. Also, some entrepreneurs develop advisor relationships with bankers or other financial professionals outside of and/or in addition to the borrowing relationship. You may want your financial advisor's opinion and counsel to be independent of the fact that you owe them money. Whether you grow your business through borrowed funds or not, it is important that you have a financial advisor as a member of your risk management team.

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You have not become successful in your business by missing the cues and signals coming your way by verbal and nonverbal communication. Find someone you like who will help you grow your business.

Accountant

One of the most important advisors you can enlist for your team is a qualified accountant. An accountant can help you organize your books and help you in business management, tax reporting and strategic planning. One problem businesses have is that they do not take this first step in their business organization. Later, they find that their accounting system is not set up properly, their tax reporting has not been done accurately or in a timely fashion and that there is no room to grow within the system which they have established. Small businesses can perform the day-to-day bookkeeping either in-house or through a bookkeeping service in order to save money. Your accountant can then be used for the more complex planning and organizational issues. An agricultural entrepreneur should look for an accountant who is experienced in working with farming operations and the Schedule F income tax form. We will devote more time to the important issues of the accounting relationship, book and record keeping, and financial management issues in upcoming sessions.

"One of the most important advisors you can enlist for your team is a qualified accountant…"

risk management

Banker

It is inevitable that during the course of your business you will need outside capital either for major improvements, such as buying a new tractor or a new building, or for cash flow management and operating funds. It is much easier to obtain funding when you need it if you have already established a relationship with a banker or other lender such as the Farm Service Agency. It is difficult for a banker to immediately respond to a loan request without having had the opportunity to review your business plan and tax returns and conduct an on-site visit of your facilities. A periodic meeting with your accountant and banker is a very good way of protecting your business.

"It is important that you have a financial advisor as a member of your risk management team…"

Remember that in today's world of Community Development Financial Institutions (CDFI's), community loan funds, etc., your banker may not be a traditional banker. Also, some entrepreneurs develop advisor relationships with bankers or other financial professionals outside of and/or in addition to the borrowing relationship. You may want your financial advisor's opinion and counsel to be independent of the fact that you owe them money. Whether you grow your business through borrowed funds or not, it is important that you have a financial advisor as a member of your risk management team.

Lawyer

You will undoubtedly need a lawyer for advice in organizing your business and complying with all the laws and regulations covering your business. The most practical way of selecting a business lawyer is by a referral from other professionals or by individuals in businesses similar to yours. They will be familiar with the law firms in your area that provide specific business services. You might also place a call to the president of the state or local bar association, the director of your Chamber of Commerce, or see if your county extension agent has a listing. The world of business law is quite complex—It is recommended that you find a lawyer or firm that specializes in business work, specifically in agricultural businesses. If your lawyer is not familiar with the types of things discussed in the previous chapters, they may not have the experience necessary to help you protect your business.

> "You will undoubtedly need a **lawyer** for advice in organizing your business and complying with all the laws and regulations covering your business..."

Insurance Agent

It is highly recommended that you establish a good relationship with a qualified **agricultural business insurance agent**. Businesses have a need to insure various risks as a means of avoiding disastrous consequences. Nothing can mitigate risk management issues as effectively as a well-thought-out and properly executed program of insurance coverage.

> "It is highly recommended that you establish a good relationship with a qualified **agricultural business insurance agent**..."

The Role of Insurance in Managing Risk

When business owners get together for coffee at the local cafe, one of the things they often complain about is insurance. They feel overwhelmed and overcharged. They talk about horror stories of local businesses that were wiped out because they thought they had adequate coverage but discovered after a disaster that they were under-insured. Part of their frustration stems from not understanding insurance and, in some cases, their reliance on insurance agents that were not properly qualified to serve the needs of their type of business.

Insurance is a complicated issue. Lawsuits abound in our society and uncertainty hurts all businesses. Remember that you may be legally liable for damages even in cases where you exercised reasonable care. Similarly, you may be liable for the acts of others under contract with you. You may also be held liable for property of others placed in your care. All are insurable with the right policy. "Better safe than sorry" is an old adage that should apply to insurance coverage and your business.

> "Better safe than sorry..."

Choosing an Agent

People buy insurance in two ways: through an agent or through a broker. Agents work for one or more insurance companies and are paid a commission for each policy they sell. Brokers are hired by their customers and receive a

manage from the ground up T E X T 4-27

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fee for their services. Brokers generally do business with large companies that want customized insurance packages for specialized needs. Agents generally provide more standardized coverage.

The industry has two types of insurance agents: **direct writer** and **independent agents**. Direct writers represent only one insurance company, while independent agents represent multiple insurance companies. Direct writers tend to be more familiar with the product they offer because they only represent one company. An independent agent offers an array of products from a variety of companies which often means they offer more competitive prices.

Choose an agent the same way you would choose any other business associate or supplier. A good insurance agent should ask you enough questions and spend sufficient time with you to thoroughly understand your business. By asking "what if" questions, the agent can gather enough information to determine all potential areas of loss for your business. For your part, you need to be honest with your insurance agent. Agents can only give good advice on complete information.

ask questions.

Personal referrals are the best method for choosing an agent. Ask your banker, accountant, other businesses or a farm service organization for a recommendation. Farm Bureau members in New England get a discount from one insurer, for example. You may need several agents for the various types of insurance you need. Also be aware that insurance varies greatly from state to state. Selecting an insurance agent should be based on the following:

- Personal referral about reputation
- Services offered
- Agent's communication skills
- Cost

Getting three bids and checking references is recommended. You should understand exactly how your premium is calculated and make sure the agent's estimate is correct.

A good agent becomes the interpreter of your insurance needs. They should pick the policy that is in your best interest and is competitively priced. The agent is also your contact with the insurance company. You will need to have confidence in your agent should a claim arise.

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What Insurance Coverage Do I Need?

Perhaps you already have some insurance. What type of coverage do you need? There is no specific answer to this question because not all businesses are alike. Insurance is a necessity in most businesses. The standard advice is to only insure against what you can't afford to lose. If you cannot afford to pay 100 percent of a business loss, you need insurance.

In most cases, insurance is required as a condition for a bank loan. In a sole proprietorship, adequate insurance is critical because you are personally liable for all debts. Having adequate insurance is one way to manage this possible risk of being personally liable for your business' default on loans.

Many business owners naively believe their business doesn't need insurance. Even in the case of home-based businesses, thinking your homeowner's policy will cover any business loss is a huge mistake. The activities of your home office are not likely to be insured by your homeowner's policy unless you have a special "rider" on that homeowner's policy or have a separate home office coverage.

"Insure against what you can't afford to lose..."

Insurance can contribute to your success by reducing the risks under which you operate your business. The basic steps to begin developing your insurance program are:

1. Go over the coverage you already have
2. Develop a plan to determine what further insurance is needed and how to buy it economically
3. Obtain professional advice

Ask your agent to look at your present coverage to analyze what additional areas of risk your business exposes you to and recommend the types and amounts of insurance your business requires. The four kinds of insurance most businesses should have include:

- Fire insurance
- Liability insurance
- Automobile insurance
- Workers' compensation insurance

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- Fire insurance
- Liability insurance
- Automobile insurance
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Types of Insurance

The insurance industry generally divides its coverage into two main categories: **property and liability** and **life and health**. Property and liability are the most important types of insurance for businesses. A property policy provides insurance on your building and other physical assets. Liability protects you against claims of injury or property loss resulting from negligence on your part. Life and health coverage is primarily seen as part of your employee benefit package. It may also insure the owner and/or partners. Farm insurers often offer package policies. However, be sure to let your insurer know exactly what type of business activities you are conducting. A farm stand and a riding stable on the same property, for instance, are two very different business activities with different insurance needs.

"The cost of liability insurance is generally related to the risk of your industry..."

Basic Business Insurance Coverage

Again, many farm insurers offer package policies, but the insurance coverage most businesses should consider are:

Liability Insurance

Liability insurance protects your business if, for example, someone suffers a bodily injury while on your site and sues you for damages. Your insurance policy should cover your costs for these damages. Many policies will also cover injuries like libel and slander (if you are in the publishing business, for instance). The cost of liability insurance is generally related to the risk of your industry. Thus, if your company deals with toxic waste disposal, the cost of your liability insurance will probably be much greater than that found in a non-hazardous industry. As an agricultural business, your cost may depend upon what you produce on your farm and how you produce it, and whether or not your operation is open to the general public.

risk liability.

Liability for the acts of animals kept as pets or part of the farm operation is another area specific to agricultural business. There are basically two classes of animals: wild and domestic. As a rule, you have no liability for wild animals still in their natural environment. Ownership of domestic animals, such as farm livestock, dog, cats, etc. does carry certain legal liabilities—you must restrain or confine your domestic animals in a manner as not to create an unreasonable risk of harm to others. For example, legal liabilities may arise if your cattle get into your neighbor's cornfield or they cause a car accident while they were crossing the road. You may have contracted a disease

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on your place that because of carelessness spreads to your neighbor's herd. Or, your dog chases the neighbor's horse through a fence and the horse is injured.

There are many rulings that apply to agricultural liability. If you are in a potential liability situation, contact your lawyer for advice and procedures.

Product Liability

Product liability insurance protects you against injury or property loss due to a product defect or design flaw, this list includes farm machinery, livestock products and food products. The frequency of these types of lawsuits has grown over recent years. For instance, the Center for Disease Control, estimates that food-borne diseases cause 325,000 serious illnesses which result in hospitalizations, 76 million cases of gastrointestinal illnesses, and 5,000 deaths each year in the United States. Costs associated with these food-borne diseases are estimated to be $5 to $6 billion in direct medical expenditures and lost productivity alone. Judgements against companies have resulted in multi-million dollars liability awards. Armed with these facts, product liability may be the most important coverage for any agricultural business.

reduce risk

"Product liability may be the most important coverage for any agricultural business..."

Professional Liability

Professional insurance protects people whose business involves services or consulting. People who are self-employed in fields such as law, engineering and accounting need professional liability insurance to protect both their personal and business interests. Generally, these professions can be sued for malpractice by their clients for giving allegedly faulty advice. Perhaps other farmers hire you to advise on production planning, for example, and pay you for that service. Find out from your insurance agent if that activity exposes you to any special liability issues.

Completed Operations Insurance

CPAs or other licensed professionals need this type of insurance to protect themselves against any errors or omissions in the products they provide to their clients. For example, you ask an accounting firm to value a company in which you're thinking of investing. After you rely on their valuation and

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purchase the company, you find out that the valuation was highly over-inflated. You can sue the accounting firm for omitting material discrepancies. The accounting firm's completed operations insurance would help them to cover any damages they may have to pay to you as a result of your lawsuit.

Business Property Insurance

Most businesses need business property insurance to protect company equipment or assets that are stolen or damaged by fire, flood, vandalism or other unfortunate incidents. Other hazards, such as windstorm, hail, smoke and explosion can also be insured. The coverage is written for a specific value such as the cost of replacing a building or its market value. Premiums are based on the insurable value.

"Pick the policy that is in your best interest and is competitively priced..."

Business Interruption Insurance

This type of insurance protects a business against the loss of business due to some disaster. Common reasons are fire or weather damage. It is particularly important to some industries, especially those with a high risk of fire damage, like restaurants. Agricultural businesses may be able to purchase disaster relief insurance.

Commercial Auto Insurance

Commercial auto insurance is not much different from the automobile insurance most of us have on our personal cars. Most commercial auto policies include property coverage for the vehicle itself, as well as liability coverage for damage caused by the driver of the vehicle to other vehicles and persons. Also covered is the cost of injuries to the driver and passengers of the vehicle. If your company has more than five vehicles, you can buy **fleet insurance** to cover them all on one policy. If you are transporting people for a fee, you will need a special type of endorsement or policy.

Surety or Fidelity Bonds

Bonds are similar to insurance. You can buy a bond as insurance for a customer or other third party to guarantee that you will perform some specific action for a customer. Bonding is very important in the construction industry where the bond guarantees that you have the financial capacity to perform. If you fail to perform as agreed, the client can get a settlement to cover their losses. You can also buy fidelity bonds for employees to protect the business against employee dishonesty and theft. Fidelity bonds should be used to cover both cash and merchandise losses.

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Disability Insurance

Although generally very expensive insurance, you should consider this coverage if you cannot afford a loss of income if you were injured and could not work. Even if you had savings to fall back on, disability insurance could give you the resources you need to hire someone else to take your place while you were recovering.

"Protect your business against employment practices liability..."

Key-Man Insurance

One of the problems faced by many small firms is the loss of a key employee or partner. **Key-man insurance** is a special kind of insurance that protects the company against financial loss caused by the death or disability of a valuable employee or partner. The key person is insured with life and disability insurance. The business is usually the policy owner and beneficiary.

Employee-Related Insurance and Other Plans

Workers' Compensation Insurance

Workers Compensation insurance covers employees when they are injured on the job and is required by law in every state. Requirements in each state vary. Most require that businesses have some type of benefits that cover medical and rehabilitation costs and lost wages for employees hurt on the job. It consists of two components. The first part covers medical bills and lost wages for the injured employee. The second encompasses employers' liability, which covers the business owner should the spouse or children of a worker permanently disabled or killed decide to sue. In some states, a third optional element has been added to protect the business against employment practices liability such as claims from sexual harassment, discrimination and the like.

As a business just starting out you may not have the size or the track record for a private insurer (or private workers compensation programs may not be allowed in your state). In these instances, you will have to enroll in your state's workers compensation fund and be subject to the "state pool". Your business' risk rating, category-based, employee premiums, and reporting requirements are all determined by the administrators of the state fund.

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Other Payroll Insurance

In addition to workers compensation insurance there are other payroll-based employee insurances that are determined by state and federal law. Federal Unemployment Insurance (FUI), State Unemployment Insurance (SUI) and Federal Insurance Contributions Act (FICA) are the main ones. These were discussed in Session 3 and will come into play in later financial sessions as you budget your payroll expense.

Group Health/Medical Insurance

Employee health insurance was discussed earlier in this session. It is especially important to small businesses because employee benefits, such as group life and health coverage are the fastest growing component of employee benefits and pension plans. Health coverage for employees is a must as your business grows if you intend to attract and retain the best employees.

Life Insurance

Life insurance for employees often comes as part of a health insurance package. If not, term life insurance can be purchased for your employees at a reasonable cost.

Pension Plans

"Health coverage for employees is a must…"

Providing retirement savings is one of the most effective measures a business can offer to recruit and retain good employees. Most small businesses do not offer a pension plan. Only 20 percent of companies with less than 20 employees have an employee-based pension plan. The primary reason is cost. Generally, there are two types of plans: a defined plan that pays a set amount and a contribution plan that promises but does not guarantee a set amount.

An example of a contribution plan is profit sharing. A company makes an undefined contribution based on a profitability formula. As you know, profitability changes every year. A defined plan guarantees a certain level of income at retirement. The best example is public employee retirement plans where retirees are guaranteed a set amount based on length of service and wage level.

SELF-INSURANCE

Many small firms are looking at self-insurance as a way to cover the medical needs of their employees. Consider self-insurance carefully! Self-insurance is a practice of choosing not to purchase health coverage, but paying claims

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Agricultural Specific Insurance

Some risks are specific to agriculture, such as weather patterns, pricing, and changes in agricultural policies. Since the passage of the 1995 Farm Bill, livestock and commodity price fluctuations have increased with producers assuming more of these risks. General categories of agricultural risks include:

"Let your insurer know exactly what type of business activities you are conducting..."

- Production or yield risk—weather related.
- Price or market risks—fluctuations in price of production outputs or inputs and selling price of products.
- Institutional risks—caused by changes in governmental policies and regulations.
- Human or personal risks—included is the health of the producer, asset losses, and contracting risks.
- Financial risk—fluctuations in interest rates, cash flow or loss of equity.

Production or yield risk can be minimized through federally funded crop insurance. Crop insurance policies are sold by private insurance agents and the producer premiums are subsidized by the federal government. Federal crop insurance is available for about 60 crops nationwide. Many of the fruits and vegetables grown by small agricultural producers are not covered, however some alternative crops are being piloted in specific regions of the country. Check with your agent to find out if you qualify.

Other agricultural risks can be reduced through the purchase of fire and extended coverage on agricultural buildings, equipment and livestock. Additional insurance for livestock can be purchased for mortality, theft and medical purposes. Some producers may find that commercial insurance is more cost-effective than maintaining the risk of self-insurance—or maintaining a reserve fund for emergencies. To know what bests works for your operation, you should review your areas of potential risk exposure and plan to reduce their consequences without sacrificing potential gains.

weather & pricing changes

manage from the ground up TEXT 4-35

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Agricultural Specific Insurance

Some risks are specific to agriculture, such as weather patterns, pricing, and changes in agricultural policies. Since the passage of the 1995 Farm Bill, livestock and commodity price fluctuations have increased with producers assuming more of these risks. General categories of agricultural risks include:

"Let your insurer know exactly what type of business activities you are conducting..."

- Production or yield risk—weather related.
- Price or market risks—fluctuations in price of production outputs or inputs and selling price of products.
- Institutional risks—caused by changes in governmental policies and regulations.
- Human or personal risks—included is the health of the producer, asset losses, and contracting risks.
- Financial risk—fluctuations in interest rates, cash flow or loss of equity.

Production or yield risk can be minimized through federally funded crop insurance. Crop insurance policies are sold by private insurance agents and the producer premiums are subsidized by the federal government. Federal crop insurance is available for about 60 crops nationwide. Many of the fruits and vegetables grown by small agricultural producers are not covered, however some alternative crops are being piloted in specific regions of the country. Check with your agent to find out if you qualify.

Other agricultural risks can be reduced through the purchase of fire and extended coverage on agricultural buildings, equipment and livestock. Additional insurance for livestock can be purchased for mortality, theft and medical purposes. Some producers may find that commercial insurance is more cost-effective than maintaining the risk of self-insurance—or maintaining a reserve fund for emergencies. To know what bests works for your operation, you should review your areas of potential risk exposure and plan to reduce their consequences without sacrificing potential gains.

weather & pricing changes

agExtra

Types of Crop Insurance

MPCI—Multiple Peril Crop Insurance policies cover losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. MPCI is available at varying levels of coverage, provides a source of guaranteed income when there is a production loss.

GRP—Group Risk Plans use a county-based index for determining a loss. The county yield is determined by the National Agricultural Statistics Service (NASS). When the producer's insured crop falls below the trigger level chosen by the producer, a payment is made to the producer. Payments are not based on the individual farmer's loss records. GRP protection costs less than MPCI. GRP is usually selected by producers whose crop losses have traditionally followed the county pattern. If the county yield does not reflect a loss, the individual producer's crop losses may not be covered.

Dollar Plan—The dollar plan is based on the cost of growing a crop in a specific area and provides protection against a decrease in value due to crop damage. A loss occurs when the annual value of the crop is less than the amount of insurance. Coverage is based on a selected percentage of the catastrophic level of coverage (CAT), limited, or other coverage levels.

Group Revenue Insurance Policy (GRIP)—GRIP makes loss payments to the producer only when the average county revenue for the insured crop falls below the revenue chosen by the producer.

Adjusted Gross Revenue (AGR)—insures the revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. The plan uses information from a producer's Schedule F tax forms to calculate the policy revenue guarantee.

Crop Revenue Coverage (CRC)—provides revenue protection based on price and yield expectations by paying for losses below the guarantee at the higher of an early-season price or the harvest price.

Income Protection (IP)—protects producers against reductions in gross income when either a crop's price or yield declines from early-season expectations. To determine coverage, see the policy provisions.

Revenue Assurance (RA)—provides dollar-denominated coverage by the producer selecting a dollar amount of target revenue from a range defined by 65-75 percent of expected revenue. To determine coverage, see the policy provisions.

Catastrophic Coverage (CAT)—Introduced after the Federal Crop Insurance Reform Act of 1994, CAT pays 55 percent of the established price of the commodity on crop losses in excess of 50 percent. The premium on CAT coverage is paid by the Federal Government; however, producers must pay a $60 administrative fee for each crop insured in each county. Limited-resource farmers may have this fee waived. CAT coverage is not available on all types of policies.

—*Source: Risk Management Association, USDA*

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agExtra

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Additional Risk Reduction Methods

Because producers' goals, attitudes and personal finances vary, their risk management strategies will also differ. No one type of risk response will provide protection from all type of risks. Thus, commodity-based producers may use contracting as a risk management strategy.

"No one type of risk response will provide protection from all type of risks..."

Forward Contract—A cash-market transaction in which the seller agrees to deliver a specific commodity to a buyer at some point in the future. Forward contracts are privately negotiated and are not standardized. For example, a producer has just planted a blue corn crop that is expected to yield 2000 bushels. To eliminate the risk of a decline in the price of the corn before harvest, the producer sells the corn forward to a processor. The two parties agree today on a forward price of 750 cents per bushel, for delivery five months from now when the crop is harvested. No money changes hands now. In five months, the farmer delivers the 2000 bushels to the processor in exchange for the fixed price of $15,000.

Futures Contract—Futures contracts are standardized according to the amount of commodity being bought or sold, the expected time and place of delivery, and the quality of the product. Futures contracts are sold on an organized exchange. Intermediate gains or losses are posted each day during the life of the futures contract. A futures contract may be made for inputs to avoid the risk of price increases and unavailability or for production to lock in future sale prices.

Options—An agricultural option provides the right, but not the obligation, to buy or sell a futures contract at a certain price for a limited time period. You can choose the right to "exercise" or use the option if it works to your advantage. Options can help eliminate negative financial impacts of an unfavorable price movement and yet can allow you to share in the positive financial impacts of a favorable price move. Costs associated with options trading may be higher.

Hedging—Hedging is the buying or selling of a futures contract(s) for protection against the possibility of a price change in the commodity that you are planning to buy or sell. A hedge can help lock in existing profits.

For more information on any of the above risk managment strategies, contact your local county extension office or university/college farm management specialist.

contracting risk strategy.

manage from the ground up TEXT 4-37

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in Conclusion

This session covered three topics.

Management Overview. An important task of the agricultural entrepreneur is to develop the traits of a successful manager. While the ideas, energy, and "jack of all trades" skill base of the entrepreneur were important in starting your business, it will be equally important to develop management skills as the business grows. Good management planning helps businesses to grow and meet challenges. As you grow, neither well-timed ideas nor unique products and services will be enough to sustain success.

Management team building is an important process in developing sound management planning. Your "team" will likely be composed of both internal members (employees, family members) as well as external ones (outside advisors, business professionals, mentors and independent contractors). Successfully managing your team involves three steps: identifying business activities, allocating tasks and creating the structures and policies necessary to achieve your vision by defining your expectations.

Managing Human Resources. In the rush of day-to-day pressures to make products, fill orders, and collect payments, the important task of managing your business's most precious resource may be overlooked. A skilled manager understands the importance of the individuals who help make the business function and manages these human resources wisely. When some of these individuals are employees, creating your personnel policies is a key element in good management practice.

Employment policies should embrace the hiring, performance review, motivation, and termination of employees. The Personnel and Company Handbook is a good place to document these and other employee policies, which will include employment documentation, employee benefits and reward and incentive programs established to motivate your employees.

Managing Risk. Risks abound in our world. Agricultural businesses in particular should address these risks from the beginning. Seeking out the advice of professionals in accounting, insurance, banking and the law will

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enable you to make informed decisions regarding protection techniques. Developing lasting relationships with your advisors will help you with the management of business risk and will help develop a set of professional advisors who can assist you in running your business.

Insurance is a very important component in managing your business risk. There is no other means of risk management that is as cost efficient, effective or readily available. A well-planned and executed plan of insurance coverage will greatly reduce many of the risks you will face in your business.

Establishing good farm safety practices and ensuring that everyone working on the farm is educated to operate equipment properly will minimize the risk of work-related accidents. Having thorough and well-formulated operational controls can reduce many of the uninsurable risks that small businesses face everyday.

minimize risk.

manage from the ground up TEXT 4-39

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minimize risk.

ag Extra Add-On

IRS 20 Point Checklist

Following is a general "test" that will help in determining whether a worker is an employee or a contractor. This serves only as a guideline. Consult an employment lawyer or the IRS for a better determination.

Complete this test on one of your workers. If a "Factor Indicating Employment Relationship" is true then check the "Employee" column. If the factor is false check the "Independent Contractor" column. Remember, only one or two of these criteria need to be true for the IRS to determine that there is an employer-employee relationship.

Employee	Independent Contractor	Factor Indicating Employment Relationship	How to Avoid
1.		Instructions given to worker about when, where, and how to perform work.	Do not instruct regarding job sequence. Instead, specify result desired. Do not have worker attend employee meetings. Communicate with worker on an individual basis.
2.		Training of the worker.	Avoid training or work orientations except to meet safety standards
3.		Integration in business operations	List worker services on customer invoices as performed by an independent contractor
4.		Worker must perform services personally	Do not require worker to render services personally
5.		Company hires, supervises, pays assistants of worker	Worker's assistants are worker's employees. Company should not recruit assistants for the worker.
6..		Company & worker have a continuing relationship	If relationship is a continuing one, have a contract between the company and the worker for a fixed term, even if that term is lengthy.
7.		Company sets hours of work	If practical, worker should not have a schedule of work hours.
8.		Worker works full time at the company's business.	Never specify minimum hours per day or "full time". Instead, specify contract starting and ending date.
9.		Worker performs all work on company's premises	Do not provide worker with a particular office or let worker use office staff or equipment on a regular basis.
10.		Worker performs service in order/sequence set by company	Worker should be expected to use his judgement to complete the job as required by the contract.
11.		Worker must submit regular written reports to company	Avoid requiring reports during or at the end of the job. The contract should provide that work must be completed to the satisfaction of the company.
12.		Company pays worker by the hour, week, or month	Pay worker by the piece or by the job.
13.		Company pays worker's business and travel expense	Business and travel expenses should be built into compensation under the contract. Worker must acquire and maintain own licenses.
14.		Company furnishes worker with significant tools, materials & equipment	Worker furnishes own tools and equipment. Company should not specify the particular type of equipment. Build cost of required equipment into compensation under the contract
15.		Worker lacks investment in his facilities	Company should document worker's investment in premises, inventory, supplies, vehicles, and equipment.
16.		Worker cannot realize a profit or loss on the project	Worker bears the risk of profit or loss on the job. Worker must provide own insurance.
17.		Worker is allowed to perform services for the company only.	Worker is allowed to perform services for others and, in fact, does.
18.		Worker only markets to the company for his work	Company keeps on file copies of Worker business cards, yellow page ads. Avoid using employment application or employment services to find these workers.
19.		Company has the right to discharge worker at will	Can only terminate relationship pursuant to the contract. Do not give worker reprimands, suspension, or progressive discipline.
20.		Worker has the right to terminate relationship with company	Worker should contract to complete specific job, and early termination would be a breach of contract.

4-40 T E X T manage from the ground up

ag Extra Add-On

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Interviews

The interview is the first opportunity for two-way communication between the organization and the applicant. It is designed to clarify points of information for both the employer and the applicant. For best results follow these suggested guidelines:

Guidelines for effective interviewing:

Put applicant at ease: Conduct the interview in a relaxed physical setting. Give a warm, friendly greeting. Names are important. Introduce yourself and find out how the applicant pronounces his/her name. Talk briefly about yourself (position in the company, interests, hobbies, etc.) to break the ice. Tell them the purpose of the interview and that they will have an opportunity to ask questions at the end. Ask if it is okay with them for you to take notes. Begin with simple questions and general information about your organization and the position.

Develop relevant interview questions: Questions should be formulated in advance and should be relevant to the individual's ability to perform, motivation to do a good job, and overall "fit" with the firm. See Sample questions below.

Focus on knowledge, skills, abilities and characteristics necessary to the job: One way to do this is to prepare a Job Preview List which summarizes the many responsibilities and duties of the position you are trying to fill. Be sure to describe the job realistically rather than painting a "rosy" picture.

Address the applicant's questions: Allow applicants to have a chance to ask questions. Tell them, "We've given you a preview of what the job would be like, but we'd like you to ask anything you want about the company, training and so on." Also encourage them to tell you anything else they wanted to mention that you have not specifically asked about. Once all questions have been answered explain the next steps in the decision process and tell the applicant when to expect a decision. Thank the applicant.

After the interview: Take time to write summary notes immediately. Describe behaviors and impressions he or she created. Cite facts and specific incidents from the interview or from their work or educational history. Wait a day and then complete an evaluation form. Develop the form by listing the most important knowledge, skills, abilities and characteristics desired in this position. Rank the applicant's abilities in each area as either high (score 3), medium (score 2) or low (score 1) and determine the minimally acceptable score. Eliminate applicants falling below this score then reevaluate remaining applicants.

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Sample Interview Questions

Questions dealing with Work Experience:
Key issues to question when discussing work history:

- Why are there gaps in the applicant's employment history?
- Why has the applicant changed jobs so frequently?
- Why is the applicant switching careers?
- Are there non-work commitments (without identifying specifically what they are) which could prevent working last-minute overtime, weekends, etc.

There are two different approaches you could take to acquiring this information:

1. **Unless the applicant has provided a complete chronology fill in the gaps by asking:**

   "Tell me about the work experiences you've had the past 10 years. Start with the job you have now and then work backwards from there. For each job tell me...":

   - the names and locations of the companies where you worked
   - the names of supervisors you had there
   - the job titles you had
   - a brief description of what you did in each job

Make sure you get complete information on each job and fill in the gaps by asking:

"You were there from when to when?"

2. **If you do have a complete job history you may want to start with the most relevant job:**

   "Tell me about your work experience starting with the job you feel gave you the best preparation for the position you are applying for. Tell me all about that job."

   - How did you get the job?
   - Why did you choose this position?
   - What were your actual job duties?
   - What did you learn on the job?
   - What did you like best and what did you like least about this job?
   - Tell me about the hours, the pay, your attendance record.
   - Why did you leave (or why are you leaving)?"

Probe and follow up to insure you have a full understanding of how the applicant got the job, job duties and reasons for leaving. Take notes, then summarize to insure you have it right.

"So you worked as a _____where most of your time was spent doing _____and _______ and you used these skills: ______and ______. You chose the job because of ________ and your reasons for leaving are _______. Is that correct? Anything else to add?"

If time is available, discuss other jobs held that might be pertinent. Emphasize jobs held in the last 5 years as older experience is less likely to be relevant.

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3. **Ask other work experience questions you have specifically planned for this applicant based on information from the application form, resume or reference checks.**

Questions dealing with Training and Education:
Key issues to question when discussing educational history:

- Why are there gaps in the applicant's educational history?
- What did the applicant do during these times?

Again there are two different approaches you could take to acquiring this information:

1. **You can take a chronological approach:**

   "Tell me about your education and other training starting with high school. Please tell me the name of the school and whether you got a certificate or diploma."

Be careful about asking for graduation dates as this may be viewed as an indirect question regarding the age of the applicant.

2. **Or you can focus on the most relevant training the employee has had:**

   "What did you learn in school or training courses that might be helpful for you if you worked in this position? What specific training have you had in __________? What courses have you taken in _________ or ___________?"

Summarize to insure you have a full understanding of all relevant education or training

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manage from the ground up TEXT 4-43

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agExtra Add-On

Employee Discipline

Discipline normally conjures up negative feelings and images. However, this need not be. Positive discipline is an opportunity for a misguided employee to change behaviors and improve their performance. Essential to any disciplinary practice is a standard set of rules and expectations that are fair, concise and clearly communicated and understood. Once they are in place, they can be enforced equitably to all employees. Below are some general guidelines for establishing your company's standards of conduct:

1. Rules and standards must be communicated to all employees. (Review your company policies, handbooks and employment offers. As a precaution, make sure nothing indicates a specific length of employment or implies that employment will continue if performance is satisfactory. You may want to include a statement which states that the handbook contents are guidelines and do not qualify as a contract of employment, either explicit or implied.)
2. Rules and standards must be administered to all employees fairly.
3. Rules and standards must be reasonable and should be agreeable to all employees before the rules are set.
4. It should be communicated to all employees that they are expected to adhere to all rules and standards.
5. Employees should also know that if their situation changes or if the rules put undue harsh conditions on them, exceptions or modifications may be made. These exceptions must be fairly implemented and justifiable to other employees.
6. Employees should also know that all rules and standards may be discussed that they feel are unreasonable as well as working conditions that are hazardous, discomforting or burdensome.
7. Formal procedures need to be outlined for employees who do break the rules without permission. Usual steps include informal verbal reminders, followed by formal verbal warnings, written warning, suspension or dismissal. If the situation is in violation of a serious rule, such as stealing or abuse of property, termination may be immediate.
8. There should also be an appeals procedure for an employee who feels he or she has been unfairly treated.
9. Recognition of good performance, reliability and loyalty should be recognized.

Once you have developed your Standards of Conduct, provide them to all employees. You should have your employees sign an acknowledgment that they have read and understand the Standards of Conduct and agree to follow the rules. They should also indicate they understand the rules and that failure to do so will result in discipline actions with termination possible.

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agExtra Add-On

Employee Discipline

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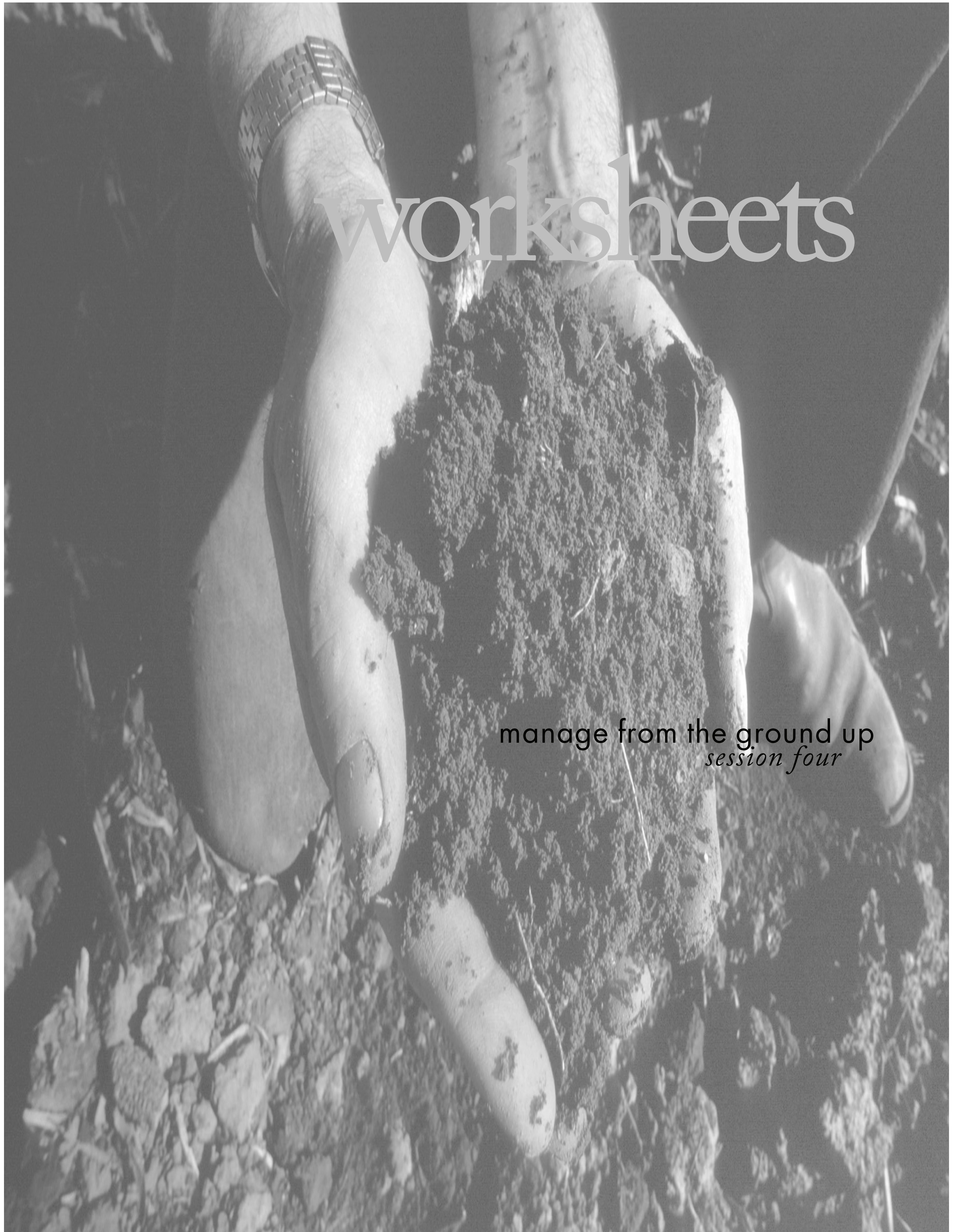
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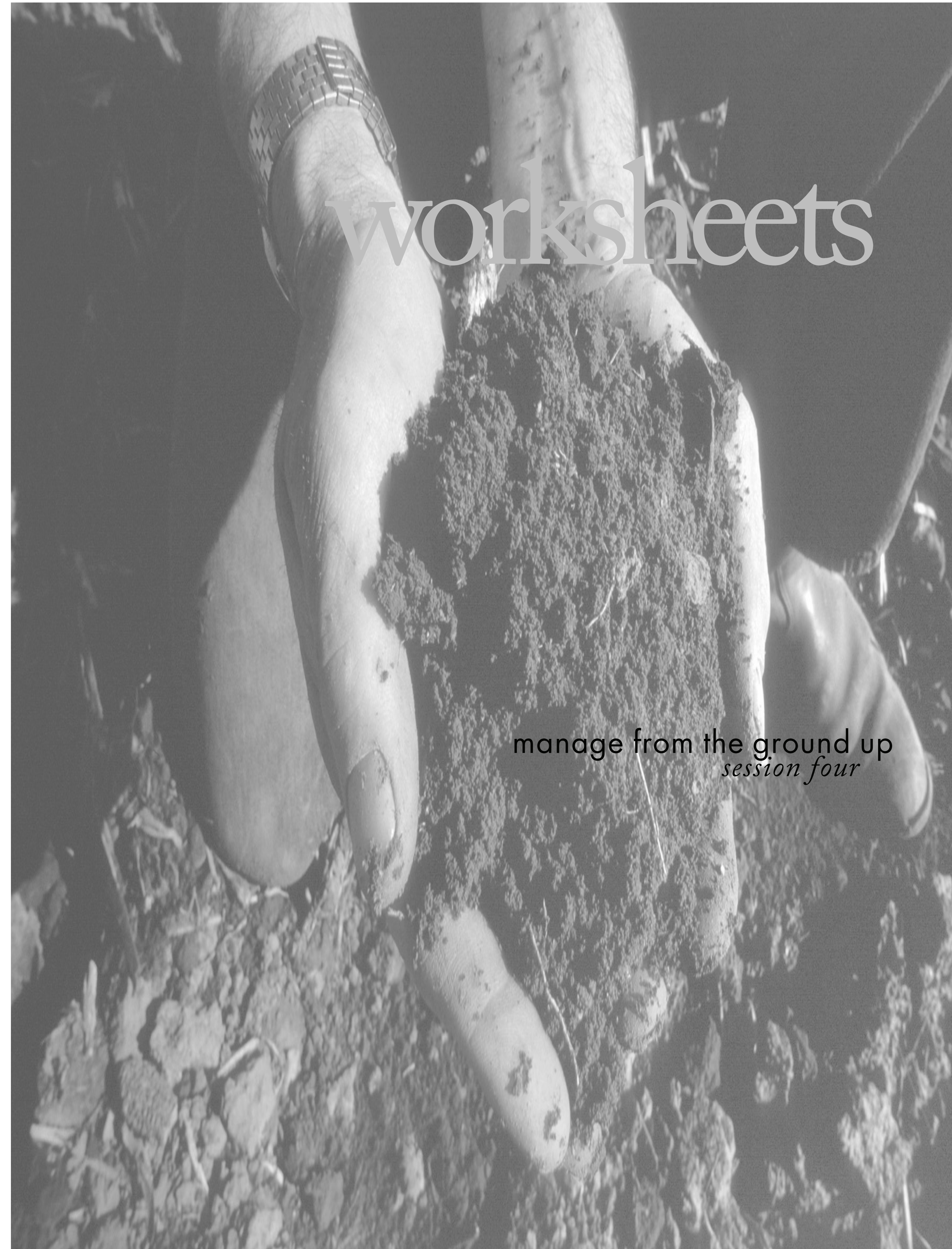
manage from the ground up
session four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manage from the ground up

SESSION FOUR

Managing people, planning, organizing, measuring progress, solving problems and managing risk are all parts of the management details of your business. Management involves evaluating your own expertise and that of your potential management personnel, gathering knowledgeable resources around you and hiring professionals who can help you when needed. Managing your "human resources" by building an effective "team" comprised of employees, family members, outside service professionals and advisors is one of the keys to business success.

"Managing risk" implies that there are tools available to help you minimize the negative effects of risk on your business. While agricultural businesses face diverse and often uncontrollable risks such as weather, there are many other manageable risks that can and must be examined. Appropriate insurance coverage along with other internal and external risk controls become essential management tools.

Finally, identifying other operations controls for your business and who will implement them is discussed as a further "risk management" tool. Standardized procedures will keep your team running smoothly and make the daily operations of your business manageable. This section of your *NxLeveL™ Agricultural Business Plan* will help *you*, and your reader, sort out key management issues that will help your agricultural enterprise thrive.

NxLeveL™ Agricultural Business Plan Outline

manage from the ground up

SESSION FOUR

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NxLeveL™ Agricultural Business Plan Outline

Cover Page
Table of Contents
Section I. Executive Summary
Section II. Business Concept, Mission & Goals
Section III. Background Information
Section IV. Organizational Matters
B. Management Issues
Managing Human Resources
Risk Management
Other Operations Controls
Section V. The Marketing Plan
Section VI. The Financial Plan
Appendix Section

Managing Human Resources

This section will help describe the management philosophy of your agricultural business. The management of a business varies with the number of details in its day-to-day operations. It is important for you to know and describe the credentials and qualifications of the people who are helping you manage and direct your business.

Start by identifying the owners and/or managers of your business and their titles.

Name	Owner	Manager	Title
Example: Jane Smith	X		CEO
Example: John Deere		X	Farm Manager

Develop a resume for each owner and/or manager. Individual resumes (or job descriptions, if the position is not yet filled) will be included in the Appendix Section of your *NxLevel™ Agricultural Business Plan*, and should contain the person's name, title, address and the following:

- What are the person's most important duties?
- What is the person's previous business experience?
- What is the person's educational background?
- What are the person's personal interests?
- Who are the person's references?

Identify Key Management Activities of the Business

Management structures come from identifying the key activities of the business, and then analyzing your skills and the skills of all of your other potential management team members. This allows you to determine what expertise you have "in house" and what expertise you need to seek from outsiders. The purpose of the Management Skills Matrix exercise is to help you identify those specific areas of business expertise where you need to seek assistance. In other words, this exercise will help you clarify who belongs on your Management Team.

Review each skill area listed in the *Management Skills Matrix Worksheet*. In the "Adequate Knowledge" column write the name of your management team member (you, other owners or a key employee) who has skill in that area, or write an "O" to indicate that you currently utilize an *Outsider* to provide the skill. If you don't know whether you really have adequate knowledge or should seek an outsider, leave that skill blank for the moment.

4-2 WORKSHEETS manage from the ground up

Managing Human Resources

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Managing Human Resources—continued

For those skill areas about which you are unsure whether or not you have adequate knowledge or should use an outsider, place an "X" in either the "Assistance Needed" column or the "Education Needed" column.

Management Skills Matrix Worksheet

Skills	Adequate Knowledge (write in the name)	Assistance Needed (X)	Education Needed (X)	Cost of Education Needed ($)
Overall Decision Making				
Planning				
Organizing				
Accounting & Taxes				
Financial Management				
Cost Control				
Pricing				
Quality Control				
Production Knowledge				
Equipment Management				
Inventory				
People Management				
Personnel Policies				
Time Management				
Sales				
Marketing				
Promotion				
Customer Service				
Credit & Collections				
Research & Development				
Other				
Other				

Now look at the skills that you checked "Assistance Needed" or "Education Needed" or left blank. You have decisions to make here. Would it be better to allocate these tasks and/or train someone inside your organization, or obtain the needed expertise by using outsiders on a contractual basis? Do you have the time and associated costs to obtain the education yourself, or educate one of your management employees? The next section may help you answer these question by looking at the use of outside services and advisors you could add to your "team."

manage from the ground up WORKSHEETS 4-3

Managing Human Resources—continued

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Managing Human Resources—continued

Outside Services

Having identified your management personnel and inventoried their management skills, you're ready to make the next human resources decision. You can obtain expertise that your business lacks by using outsiders. Almost all small businesses make some use of attorneys and accountants. Besides procuring traditional "professional" services, you can also obtain other expertise such as marketing or soil engineering on a contractual basis. Additionally, you may consider contracting for more routine (non-managerial) services such as secretarial, equipment or building maintenance and janitorial services. This practice is called ***Outsourcing***, and allows you to "rent" the expertise you need without permanently increasing your employee costs (e.g., payroll, payroll taxes, employee benefits, etc.). ***Be sure to consider the legal issue of Independent Contractor vs. Employee as defined by the IRS Twenty-Point Checklist when determining functions you intend to have performed by outsiders.***

Look at the *Management Skills Matrix Worksheet* on the prior page which identified areas of expertise that could be outsourced, then fill out the *Outside Services Worksheet* below. For each category of service you need, budget an appropriate monthly amount. Consider obtaining two or three bids for each service category, which will help you develop realistic budget figures. You need to calculate the monthly expenses of each function and total annual cost of all outsourced services. Then you can compare the costs involved in utilizing outsider expertise versus training and employing someone internally to perform those same functions.

Outside Services Worksheet

Category of Service	Who	Cost per month	Cost per year
Professional/Managerial Services			
Accountant			
Lawyer			
Banker			
Insurance Broker/Agent			
Production Advisors			
Marketing			
Other:			
Other:			
Non-Managerial Services			
Secretarial			
Maintenance			
Janitorial			
Other:			
Other:			
	Total Monthly Cost		
		Total Annual Cost	

4-4 WORKSHEETS manage from the ground up

Managing Human Resources—continued

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Managing Human Resources—continued

Advisory Board

Advisors can be a real enhancement to your total management "team" by adding expertise and unbiased views to your business at a low cost. Many advisory boards are set up to meet a limited number of times during the year, while others meet on a regular basis. Different than a corporation's formal Board of Directors, most small business advisory board members serve on a non-compensated basis, often rewarded for their participation by having their meeting meal paid for, or by discounts on products or services of the business. The board may consist of family members who may or may not be directly involved with the enterprise, business professionals in the community, former or current owners of similar businesses, customers, or interested observers. The key to an effective board is to identify categories of expertise that might enhance your board, then finding the appropriate individual to fit that category.

An example of an effective agriculture-related business advisory board is a vineyard and small bed and breakfast operation in New Mexico. Long before the idea was even considered feasible, the owners did their homework by contacting several other growers, a bed and breakfast marketing guru, and several long-time non-agricultural business owners from a nearby community. They asked if the group members would be willing to meet at a local restaurant three times over a period of one month, where the advisory board members would be served dinner and asked questions about the local economy and ideas relating to the potential of their small business' survival. They quickly learned that adding "home-grown/home-picked" items to their bed and breakfast menu would be a novelty for the area, and that they might even consider offering some of those items for sale, since there were no other bed and breakfasts offering that special *added value*. When their doors opened just prior to Valentine's Day, they quickly discovered that the cost of dinner for the advisory board members was well worth it! They sold out of their "home-grown/home-picked" items completely on the first day, and have since added on a small separate specialty gift room that is thriving—and, again, used the advisory board to help determine additional items to feature!

Using the worksheet below, identify potential Advisory Board members by category and then by name if you know someone who fits that category.

Advisory Board Worksheet

Advisory Board Member Category	Knowledge or Expertise Desired	Potential Advisory Board Member Name

manage from the ground up WORKSHEETS 4-5

Managing Human Resources—continued

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Managing Human Resources—continued

Personnel

The effective use of human resources is important to a business' success, particularly in agriculture-related businesses. Now that you have identified management and outside services, you should examine the rest of your "team" needs by analyzing your employee requirements. What will employees do and what skills will they need? Good employees can make the difference between a successful business and a marginal one. It is important to know where to find qualified employees. Written job descriptions that clearly define the duties of each employee and a written personnel/policy manual that details the relationship between employee and employer are vital documents. Training new employees and retraining existing personnel is critical to most operations.

Identify your non-management personnel needs by using the worksheet below to detail job title, skills and qualifications, job responsibilities, and to identify full and part-time positions and when needed (seasons, specific hours of the day, etc.). Then answer the questions below the worksheet.

Personnel Needs Worksheet

Job Title	Skills and Qualifications	Job Responsibilities	Full or Part Time	When Needed

1. **Do you have current job descriptions written for your management and personnel positions?** _____ **Yes** _____ **No .** (If not, make a note on your Action Log from Session 2 as an activity that needs to be scheduled and completed.) Remember, copies of job descriptions and/or resumes need to be included in the Appendix section of your agricultural business plan.

2. **Do you have a written personnel/policy manual?** _____ **Yes** _____ **No.** (If not, you may want to add that activity to your Action Log from Session 2.)

3. **Do you anticipate having any difficulty attracting the type of personnel you require?** _____ **Yes** _____ **No. Specify where you will obtain employees.**

4-6 WORKSHEETS manage from the ground up

Managing Human Resources—continued

Personnel

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Managing Human Resources—continued

4. **What process will you use to screen and hire personnel (e.g., job skill testing, job interviews, drug testing, etc.)?**

5. **What training is needed for new employees? For existing employees? Specify training needs for each position. Who will conduct employee training (in-house, paid consultant, community college, etc.)? Estimate the cost for employee training.**

6. **What paperwork will be required at the time of hiring new personnel?** (*Hint:* Every new hire must complete a W-2, I-9, and optional benefits acceptance/decline form if eligible for benefits.) **With what additional legal requirements of hiring must you comply?**

Salaries and Wages

Now that you've examined your management and personnel desires, you would be wise to "test" those desires against the reality of what your personnel will cost. Salary and wage expense is a major category of operating expenses. This section will help you summarize wage and salary expenses of employees you intend to have working for your business. Remember that payroll taxes required by law and optional fringe benefits you agree to pay for your employees must be included in the calculations.

It's likely the number of employees (and hours worked) will vary from month to month, especially if your business has seasonal highs and lows. Don't forget to include the wages of part-time employees. Compare the type and cost of benefits you offer to industry averages and particularly to your local competition. Determine if you need to make some changes. Optional benefits can make the difference between keeping or losing key employees.

manage from the ground up W O R K S H E E T S 4-7

Managing Human Resources—continued

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Managing Human Resources—continued

Employee Salary/Wage & Benefits Worksheet (monthly)

Title:		Notes:	
Work Performed:			
Salary/Wage per Hour/Month: $			
Mandatory Benefits:		**Optional Benefits:**	
Social Security	$	Medical Insurance	$
Federal Unemployment	$	Dental Insurance	$
State Unemployment	$	Vision Insurance	$
Workers Compensation	$	Life Insurance	$
Other	$	Disability Insurance	$
		Pension Plan	$
		Profit-sharing Plan	$
		Other	$
Total Mandatory/Month	**$**	**Total Optional/Month**	**$**
To be hired for the months of:		**Grand Total/Month**	**$**

Employee Salary/Wage & Benefits Worksheet (monthly)

Title:		Notes:	
Work Performed:			
Salary/Wage per Hour/Month: $			
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Other	$	Disability Insurance	$
		Pension Plan	$
		Profit-sharing Plan	$
		Other	$
Total Mandatory/Month	**$**	**Total Optional/Month**	**$**
To be hired for the months of:		**Grand Total/Month**	**$**

4-8 WORKSHEETS manage from the ground up

Managing Human Resources—continued

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To be hired for the months of:		**Grand Total/Month**	**$**

Managing Human Resources—continued

Make copies of the Employee Salary/Wage & Benefits Worksheets found on the left page.

Step 1: *Make enough copies of the worksheets for the number of employees you have or anticipate having. Fill out one worksheet for each employee (<u>including</u> active owners and managers who will be paid a wage.) Use the "notes" section to document anticipated wage level changes, bonuses, seasonal requirements, etc. (<u>Note</u>: This is a monthly worksheet, so for part-time or seasonal employees, detail months not working or anticipated seasonal monthly hours fluctuations.)*

Step 2: *Using the information you have accumulated in this session, list the job title for each employee required in your business on the Employee Salary/Wage & Benefits <u>Summary</u> Worksheet below. Don't forget to include active owners (who will be paid a wage, not owners/proprietors taking a draw) and managers.*

Step 3: *After working through the individual Employee Salary/Wage & Benefits Worksheets, fill in the amount of the salary/wage and cost of benefits to be paid each employee for each month on the <u>summary</u> worksheet below. (Don't forget seasonal fluctuations.)*

Step 4: *Calculate the total monthly salaries by adding down the columns, and the total yearly salaries for each Employee Title by adding across the rows. Check for accuracy—column totals and row totals should match.*

Employee Salary/Wage & Benefits Summary Worksheet

Employee Title		1	2	3	4	5	6	7	8	9	10	11	12	Yearly Total
1.	Wage Benefits													
2.	Wage Benefits													
3.	Wage Benefits													
4.	Wage Benefits													
5.	Wage Benefits													
6.	Wage Benefits													
7.	Wage Benefits													
8.	Wage Benefits													
Monthly Totals	Wage Benefits													

manage from the ground up WORKSHEETS 4-9

Managing Human Resources—continued

Make copies of the Employee Salary/Wage & Benefits Worksheets found on the left page.

Step 1: *Make enough copies of the worksheets for the number of employees you have or anticipate having. Fill out one worksheet for each employee (<u>including</u> active owners and managers who will be paid a wage.) Use the "notes" section to document anticipated wage level changes, bonuses, seasonal requirements, etc. (<u>Note</u>: This is a monthly worksheet, so for part-time or seasonal employees, detail months not working or anticipated seasonal monthly hours fluctuations.)*

Step 2: *Using the information you have accumulated in this session, list the job title for each employee required in your business on the Employee Salary/Wage & Benefits <u>Summary</u> Worksheet below. Don't forget to include active owners (who will be paid a wage, not owners/proprietors taking a draw) and managers.*

Step 3: *After working through the individual Employee Salary/Wage & Benefits Worksheets, fill in the amount of the salary/wage and cost of benefits to be paid each employee for each month on the <u>summary</u> worksheet below. (Don't forget seasonal fluctuations.)*

Step 4: *Calculate the total monthly salaries by adding down the columns, and the total yearly salaries for each Employee Title by adding across the rows. Check for accuracy—column totals and row totals should match.*

Employee Salary/Wage & Benefits Summary Worksheet

Employee Title		1	2	3	4	5	6	7	8	9	10	11	12	Yearly Total
1.	Wage Benefits													
2.	Wage Benefits													
3.	Wage Benefits													
4.	Wage Benefits													
5.	Wage Benefits													
6.	Wage Benefits													
7.	Wage Benefits													
8.	Wage Benefits													
Monthly Totals	Wage Benefits													

Managing Human Resources—continued

Other Employee-Related Issues

Motivating and rewarding strategies for your personnel can stimulate enhanced performance potential and foster longevity with your business. Motivating *yourself* is also part of your human resources strategy, so don't forget to include your own personal motivators when answering the questions below.

1. **What motivational incentives have you created within your business environment?**

2. **Do you have a Personnel and Company Handbook? If "yes", describe its impact on overall employee relations—does it enhance motivation?** (If "no", make an entry on your Action Log from Session 2.)

3. **What policies are in place for employee problem resolution?**

4. **What policies and/or procedures are in place for firing employees?**

5. **Describe your overall philosophy of "human resources management" within your business.** (Remember, "human resources" also includes family members.)

4-10 WORKSHEETS manage from the ground up

Managing Human Resources—continued

Other Employee-Related Issues

Motivating and rewarding strategies for your personnel can stimulate enhanced performance potential and foster longevity with your business. Motivating yourself is also part of your human resources strategy, so don't forget to include your own personal motivators when answering the questions below.

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4. What policies and/or procedures are in place for firing employees?

5. Describe your overall philosophy of "human resources management" within your business. (Remember, "human resources" also includes family members.)

Risk Management

Managing risk generally begins with the issues of insurance and extends to special needs and requirements depending on the types of products or services sold. You have a lot to lose, so you should review your insurance needs and the adequacy of your existing policies *each year* with your insurance agent. A good time to do that is during the process of writing or updating your business plan. You will want to obtain several comparative bids for your insurance needs and investigate premium payment options before deciding which bid to use. After consulting with your insurance agent(s), fill out the *Types of Insurance Worksheet* below, making sure it reflects updated costs.

Types of Insurance Worksheet

Types of Insurance	Required	Type/Coverage	Annual Cost
Protecting Your Business			
General Liability			
Product Liability			
Completed Operations			
Errors/Omissions			
Professional Liability			
Automobile Liability			
Business Property			
Fire and Theft			
Flood Insurance			
Business Interruption			
Fidelity/Surety Bonds			
Crop Insurance			
Other			
Protecting Yourself			
Personal Disability			
Key-Person			
Life Insurance			
Medical			
Other			
Protecting Your Employees			
Group Health			
Life			
Pension Plan			
Workers' Compensation			
Other			

manage from the ground up WORKSHEETS 4-11

Risk Management

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Completed Operations			
Errors/Omissions			
Professional Liability			
Automobile Liability			
Business Property			
Fire and Theft			
Flood Insurance			
Business Interruption			
Fidelity/Surety Bonds			
Crop Insurance			
Other			
Protecting Yourself			
Personal Disability			
Key-Person			
Life Insurance			
Medical			
Other			
Protecting Your Employees			
Group Health			
Life			
Pension Plan			
Workers' Compensation			
Other			

Risk Management—continued

The topic of "managing risk" extends to products/services that are proprietary, add value to your business, and may need protection like a patent, trademark or copyright.

Complete the *Intellectual Property Rights Worksheet* below describing costs associated with protecting your existing rights or any that you intend to pursue. (Skip this step if not applicable.)

Intellectual Property Rights Worksheet

Intellectual Property Right	Cost Associated	What must be done to secure intellectual rights?
Patent		
Trademark		
Copyright		
Product Name		
Other:		
Other:		

What other inside and outside risks could affect your business and what internal management policies and procedures have you considered implementing to protect your business from them? For example, an *inside risk* might be a structural threat (fire breaks out). What management policies and procedures should you implement to protect you, your employees, your business? An *outside risk* is if, for example, someone comes to rob your business. Again, what management policies and procedures should you implement to protect you, your employees, your business?

Complete the *Other Risks Worksheet* below, describing other inside and outside risks your business may face, and what policies and procedures you have developed to help manage those risks and associated costs. For example, installing and maintaining a water sprinkler system in the livestock barn (risk management) will have an associated cost.

Other Risks Worksheet

Description of the Risk	Inside or Outside	Policies/Procedures to Manage the Risk	Costs

4-12 WORKSHEETS manage from the ground up

Risk Management—continued

The topic of "managing risk" extends to products/services that are proprietary, add value to your business, and may need protection like a patent, trademark or copyright.

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Trademark		
Copyright		
Product Name		
Other:		
Other:		

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Other Risks Worksheet

Description of the Risk	Inside or Outside	Policies/Procedures to Manage the Risk	Costs

Other Operations Controls

Operating controls are all the policies and procedures you use in your business to safeguard your assets and achieve your business objectives. In other words, these are the ways you manage the risks of operating your business day-to-day. Controls are used for every aspect of your business. In general, controls can be grouped into categories, including:

The Control Environment	Procedures you establish to "set the example" for how work should be done; for example, weekly staff meetings, clean desk policies, customer orientation.
Authorization	Who can and should perform various functions?
Segregation of Duties	Separating physical control from authorization and record-keeping; these are "checks and balances."
Physical Controls	This includes locks, identification cards, safes.
Processing Controls	Systems and procedures to be sure activities are performed on time and with the desired output.
Monitoring/Review/Training	What supervision is needed, who should perform it and how? What initial and ongoing employee training is needed, and how it is acquired?

You should maintain a complete operations manual which includes all of your policies and procedures. A *general* description of your policies and procedures is part of your business plan. If you don't have a policies/procedures manual, make a note on your Action Log from Session 2 as to when you will develop one.

Using the *Other Operations Controls Worksheet* on the following page, do the following:

Step 1: ***Identify the activities of your business which require some operating controls.***
The more succinct your categories, the easier it will be to identify the controls you use. Several major heading areas are included on the next page to get you started, but you will need to fill in the specific activities under each, and add more if needed.

Step 2: ***Identify who is responsible for establishing the controls for this activity.***

Step 3: ***Briefly describe the controls in place. If there are no controls in place, check the column "Need to be Developed."***
Try to be clear and concise. Think about these controls in terms of who, what, when, where and why. If you identified an activity for which adequate controls have yet to be developed, make a notation on your Action Log from Session 2.

manage from the ground up **W O R K S H E E T S** 4-13

Other Operations Controls

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Other Operations Controls—continued

Other Operations Controls Worksheet

Activity Requiring Operating Controls	Person Responsible	Describe Controls in Place	Need to Be Developed
Personnel			
Purchasing			
Inventory Control			
Customer Service			
Customer Credit			
Pricing			
Farm Safety			
Quality Control			
Employee Training (Initial and Ongoing)			
Other			

4-14 WORKSHEETS manage from the ground up

Other Operations Controls—continued

Other Operations Controls Worksheet

Activity Requiring Operating Controls	Person Responsible	Describe Controls in Place	Need to Be Developed
Personnel			
Purchasing			
Inventory Control			
Customer Service			
Customer Credit			
Pricing			
Farm Safety			
Quality Control			
Employee Training (Initial and Ongoing)			
Other			

Writing Your Plan

Using the information and worksheets found in this session to guide you, write a summary of your answers to the questions to describe the management issues of your agricultural business. Format this section into paragraphs under the following headings and subheadings:

Section IV. Organizational Matters

B. Management Issues

Managing Human Resources

Internal Management Team

Review the Managing Human Resources section of the workbook. Summarize your management philosophy and describe your management team. Include details about your key managers and why they were chosen, with a reference "(see resume in Appendix ___)" for each manager you determine to be an essential part of the credibility of your team. If a management position is unfilled, include the job description in the Appendix instead of a resume. This section should tell your reader why you and your team are <u>uniquely qualified</u> to manage this business. Include an <u>organizational chart</u> for your business to help clarify roles and responsibilities of your management team.

Personnel

Summarize your non-management personnel needs. Discuss where and how you recruit new employees, what screening processes you use in hiring, and if you have trouble finding qualified recruits for your business. Also discuss your training procedures for new personnel, and your re-training efforts for existing personnel.

Outside Services/Advisors

Review your Outside Services and Advisory Board worksheets. Describe how your management "team" is augmented and enhanced by the use of qualified outside service providers, and discuss the outside services for which you contract. Then discuss whether or not you use (or will use) an Advisory Board, and what impact that part of the "team" has (or potentially has) on your business.

Risk Management

Review your Types of Insurance, Intellectual Property Rights, and Other Risk Worksheets. Summarize how you will manage risk in your business, including the types of insurance you need, insurance costs, any intellectual property protection your business requires. Also address other inside and outside risks your business faces, and what management policies and procedures are in place help you manage those risks.

TURN THE PAGE! This "Writing Your Plan" section continues!

manage from the ground up WORKSHEETS 4-15

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TURN THE PAGE! This "Writing Your Plan" section continues!

Writing Your Plan—continued

Other Operations Controls

Review the Other Operations Controls Worksheet. Describe the key activities that require internal operating controls. Indicate what controls are in place, and who is responsible for ongoing development of controls in each area. Include how you monitor the activities and the control functions. Then tell why the controls that are in place enhance the overall effectiveness of your agricultural business.

NOTE: *The financial/cost information you accumulated during this session will be used in the later Financial Sessions. As you continue making decisions, you may want to review worksheets that reflect cost decisions.*

4-16 WORKSHEETS manage from the ground up

Writing Your Plan—continued

Other Operations Controls

Review the Other Operations Controls Worksheet. Describe the key activities that require internal operating controls. Indicate what controls are in place, and who is responsible for ongoing development of controls in each area. Include how you monitor the activities and the control functions. Then tell why the controls that are in place enhance the overall effectiveness of your agricultural business.

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text
plant it, grow it, market it!
session five


text
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session five

plant it, grow it, market it!

SESSION FIVE

this **Session**

- introduction to marketing p2
- market research p9

What's In This Session

This session covers two topics.

Marketing. Marketing describes everything your business does as it readies its goods and services for the marketplace.

Agricultural entrepreneurs need to become successful marketers if their businesses are to be successful. People buy from businesses because they give them what they want in the most convenient and cost-effective way. These are the businesses that have successfully used marketing. They have spotted new trends and created products and services that customers want. They put products on the market with the right message, in the right place, at the right price, and at the right time. They have turned well-researched market opportunities into successful businesses.

Market Research. Gathering information to make informed, intelligent marketing decisions is the activity called market research. This session describes the tools and methodologies of research used to find out information in four key areas. Your research will center on your product, customer, competition, and production potential.

Market research is an essential on-going process of maintaining an understanding of the changing environment in which businesses operate. Market research is periodically used to up-date knowledge about target customers. Market research will help a business predict future changes in its market. It also gives businesses feedback, so they can challenge their assumptions and fine-tune their marketing vision.

After working through this session, you will understand why careful and clever market research should be the cornerstone of your business plan and the marketing decision making process.

plant it, grow it, market it!

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Introduction to Marketing

Marketing Beginnings

Marketing was first recognized as a key business function among traders of farm goods and basic manufactured goods. Marketing was the means of exchanging goods and bringing them, literally, to the marketplace. As time went on and industrialization took hold, marketing became more focused on production as a means of increasing output and efficiency. Before the 1950's, comparatively little importance was placed on the actual selling of goods. It was thought that high-quality products would sell themselves. In the mid-1950's, with falling consumer demand and supply levels bouncing back from World War II shortages, businesses found they needed to update their product and sales-oriented approach. Some businesses began to shift strategy towards a **customer orientation**. This means researching and listening to customers as products and services are developed. In the increasingly competitive economic conditions of the late 1970's and 1980's, businesses began shifting their marketing strategies again towards **competitor orientation**. This was a focus on customers and competitors, with an eye towards long-term profitability. With the recessions of the early 1980's and 1990's businesses were under pressure to reduce costs yet find new ways to differentiate their products in a crowded field of domestic and foreign competitors. Businesses began taking a more proactive marketing stance by returning to their core competencies and targeting niche markets.

"Mass Markets are composed of many people with broadly similar needs (as do large grocery chains)..."

What Is a Market?

A market is composed of actual or potential buyers of a product or service and the sellers who offer goods to meet buyers needs. Businesses can target **mass markets,** composed of many people with broadly similar needs (as do large grocery chains), or **niche markets**, composed of fewer customers with specific and very similar needs (like organic produce sold at the health food store).

Markets are impacted by economic conditions, the quantity and quality of competitors, consumer trends, governmental regulations, trade barriers and agreements (like NAFTA or GATT), and cultural and demographic shifts.

5-2 TEXT plant it, grow it, market it!

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Markets are impacted by economic conditions, the quantity and quality of competitors, consumer trends, governmental regulations, trade barriers and agreements (like NAFTA or GATT), and cultural and demographic shifts.

How well you understand your customer and your market conditions will determine how effectively you are able to navigate your business around obstacles and take advantage of new opportunities.

"Niche Markets are composed of fewer customers with specific and very similar needs (like organic produce sold at the health food store)..."

Marketing Philosophy: Customer vs. Product Orientation

What ever happened to the business that believed the world needed a better mousetrap simply because they could build one? They pumped time and money into creating the most advanced technological mousetrap one could imagine. At the end of all their efforts customers didn't buy the mousetrap. Why? Because the old one worked just as well and cost a lot less. In short, the world didn't need what they thought was a better mousetrap! Businesses that set their goals without first looking to their **customer's needs** often end up paying a price.

Businesses that focus solely on improving productivity and designing new products around new technology suffer from a **product orientation**. These businesses sell what they produce rather than make what they can sell to satisfy customer needs.

customer needs

When businesses focus on their internal operations at the expense of their customers, they risk developing a product their customers don't need and won't buy. Inward focus can allow your market and customers to move right out from under you.

The following example is one case where a business lost its customer base because the owner failed to recognize the needs of the customer.

agExtra

Case Study: A Celery Grower

A celery grower had been producing celery for the restaurant trade near his farm. To save costs, he decided to grow a non-blanched product. The result was a celery stalk with poor, unappealing color. The restaurant chefs were disappointed with the color of the celery and decided not to use the grower's celery for their entrees. The celery grower lost their business because he failed to recognize the Chef's need for celery with a healthy, appealing color.

plant it, grow it, market it! TEXT 5-3

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Most successful businesses have a **customer orientation** and design their marketing strategies around the needs of their customers. Customer orientation impacts nearly everything a business does and guides all of its strategic decision making. These activities include carefully researching and segmenting individual customer markets. They also include customized pricing, product placement, and promotional strategies to fit these segments. Finally, they tailor personal selling techniques to fit the buying styles of their customers.

"Successful businesses have a **customer orientation** and design their marketing strategies around the needs of their customers..."

For example, at Farmers' Markets, customers attend because they want the experience, smell, and taste of farm fresh foods and products. When buying fresh cut flowers, customers want to select flowers by the stem and create their own bouquet. Sellers who understand this selling technique will outsell and build their business faster than those growers who assemble bouquets before arriving at market. By assuming that they know what the customer wants, these growers lose business.

"Having successful marketing objectives and strategies also requires that you understand the **operating environment** in which your business exists..."

Having successful marketing objectives and strategies also requires that you understand the **operating environment** in which your business exists. This environment includes the external trends and influences that impact a business as it tries to meet customer needs. These include competition, the economy, technology trends, government regulations, and demographic and lifestyle shifts. Marketers evaluate changes in customer needs and in market conditions and adjust their strategy accordingly.

By understanding and anticipating external influences, marketers create objectives that give broad direction to the business. By identifying outside trends and internal competencies, they work to answer the following questions: What business should we be in? Which direction should we head in the next 1, 3, and 5 years? Are we serving the original customer base we planned to serve?

Consider the following example of two agricultural entrepreneurs. One raised corn based on a product orientation and another on the basis of a customer orientation.

5-4 TEXT plant it, grow it, market it!

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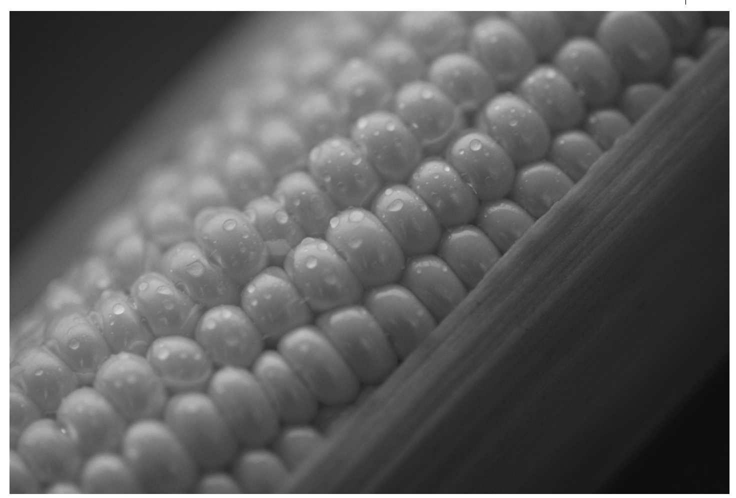
Consider the following example of two agricultural entrepreneurs. One raised corn based on a product orientation and another on the basis of a customer orientation.

case study

Case Study: Farmer John Raises Corn

Farmer John enjoyed raising corn. He used all the latest and best technology and produced good yields. John never enjoyed the marketing of his crop and was glad each year when this task was finished. When harvest was over he was happy to get rid of his corn at the local elevator. Some years the price he received for his corn crop was good, and he made a profit. Other years the price was barely enough to cover his production costs.



Farmer John's neighbor, farmer Tom, enjoyed raising corn also. He used the latest and best technology and produced good yields too. Tom however chose corn varieties that were known for their high food value and end use applications. His crop went to a processing plant because it met certain quality standards. Farmer Tom enjoyed receiving a premium price for his specific market oriented corn. Tom worked on building a good relationship with his buyer, so that he would be kept up to date with changing varieties and market demand.

WHO MARKETS?

maximize profit.

Successful Entrepreneurs Use Marketing

Successful agricultural entrepreneurs trumpet the virtues of marketing. However, most small business owners do not use it effectively! Unfortunately, marketing is not one single task you can do to succeed. It is a collection of strategies and tactics that aid small agricultural businesses in succeeding. You may not desire or be able to capitalize a huge commodity farm operation or afford the latest and most expensive high-technology machinery, but you can find your niche in the marketplace and deliver superior value. You can succeed by creating a marketing strategy that plays upon your unique strengths, small size, and flexibility to serve your customers well. Aggressive entrepreneurial marketing will allow you to:

"Successful agricultural entrepreneurs trumpet the virtues of marketing..."

- Maximize your profits
- Attract the attention of the right customers

plant it, grow it, market it! TEXT 5-5

case study

Case Study: Farmer John Raises Corn

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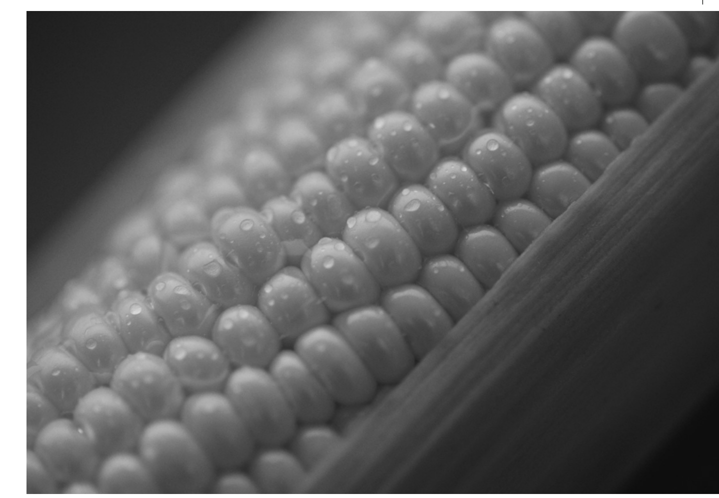

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- Keep focused on customer needs thereby providing superior service
- Create a niche market in the face of larger competitors
- Identify new opportunities quickly, and respond creatively
- Maximize resources and control costs

"Every business in every industry must market its products and services..."

Types of Marketing

Every business in every industry must market its products and services. **Business-to-business marketing** represents a larger annual sales volume than does consumer products marketing. This is the sale of industrial products as inputs to other businesses that then manufacture intermediate or finished goods. For instance, you may supply a specialty food producer with organically grown white corn that is in turn used in the production of their niche white corn chips. Another example would be growing hybrid seed corn to seed suppliers for use in their hybrid seed sales business.

"Service marketing involves the sale of intangible services offered by people to both individual consumers as well as businesses..."

Examples of agricultural business-to-business marketing are:

- Specific quality grains for fructose production
- Clean, hybrid soybeans for use in tofu
- Specialized, no-hormone cattle operation
- Custom feeding or cutting and packaging for specific markets (e.g. gourmet steak restaurant)
- High quality oats to be used in cereals, cookies, etc.

"Consumer product marketing is what comes to mind for most agriculture entrepreneurs..."

One of the fastest growing sectors of the U.S. economy is in the marketing of services. **Service marketing** involves the sale of intangible services offered by people to both individual consumers as well as businesses. Attorneys, bankers, accountants, farm machinery mechanics, and soil testing laboratories all market their services. Marketing services is different from marketing tangible products for several reasons. Services tend to be more variable in quality, services are produced usually at the moment of delivery, and services cannot be stored for later sale.

Consumer product marketing is what comes to mind for most agriculture entrepreneurs. Consumer product marketing focuses on the direct marketing of products for final consumption by individuals and is the most highly visible and profitable type of marketing.

5-6 TEXT plant it, grow it, market it!

- Keep focused on customer needs thereby providing superior service
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Examples of agricultural consumer product marketing would include:

- A U-pick fruit and berry operation where coupons are offered in off-season as an incentive for the customers to come and pick their own
- Jams and jellies produced by the grower and sold at a farmer's market
- A pastured poultry operation where consumers come directly to the site to purchase farm-fresh, free range, processed chickens and eggs
- A community supported agriculture (CSA) operation where subscribers receive their pre-ordered assortment of fresh produce each week
- Fresh mushrooms grown and processed into a cream spread and then sold at festivals and garden shows

The Marketing Section of your Business Plan

Would you consider taking a long trip in your car without knowing where you were headed, what route you would take and which specific turns and stops you would make along the way? Of course not! What we've just described is the process of creating a plan for your trip. ***For your marketing efforts this is the marketing portion of your NxLeveL™ Agricultural Business Plan.***

target market

Purpose of the Marketing Section

The ultimate purpose of your business plan marketing section is to present as concisely as possible the strategies you will use to get your product known and purchased by customers. The finished marketing section of your business plan might be 10-15 pages. The marketing vision that is well thought out contains the following information:

- What do you want your business to accomplish in its markets? These should be expressed as specific objectives.
- Where is your **target market**?
- What is your **marketing niche**?
- What is your **product positioning**? What is your **competitive advantage**?

plant it, grow it, market it! TEXT 5-7

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- What will your business do to accomplish its objectives? What **marketing tactics** will you use?
- What resources will you require to implement the plan? What is your budget?
- How will you implement specific marketing mix strategies?
- When and how often will you review your plan and make changes?

The most important part of any marketing section is first committing yourself to it and then using it. This should be a living, working document that you refer to regularly and re-examine at least every three months.

Elements of the Marketing Section

Your marketing plan tells what you want to accomplish, how you plan to go about doing it, and what specific tools you will use in the process. The elements, which will govern your marketing efforts, are research and analysis, strategies, and tactics.

Research and Analysis
Research and analysis is the foundation for your marketing strategies and tactics. Research into your industry, market, and customers is the starting point in determining the strategies and tactics that will be most successful in marketing your product or service. The methodologies and tools that were discussed in Session 2 to research your industry will be the starting point for the upcoming more complete discussion in this session.

Strategies
Strategies describe the general plan for marketing the products or services of that business. These may include targeting customers who are between 24-40 years old, targeting a niche market for organically grown carrots, or positioning your business as the premium-priced, high-quality grower. In marketing, strategies show how customers will be segmented into target groups. They show how products will be positioned in the market to maximize the competitive advantages for that business. Some agricultural business marketing strategies might include:

"The most important part of any marketing section is first committing yourself to it and then using it..."

- Express mail fresh fruits or produce for holidays as replacements for flowers
- Develop ethnic markets for sheep and goat meats

5-8 TEXT plant it, grow it, market it!

- What will your business do to accomplish its objectives? What **marketing tactics** will you use?
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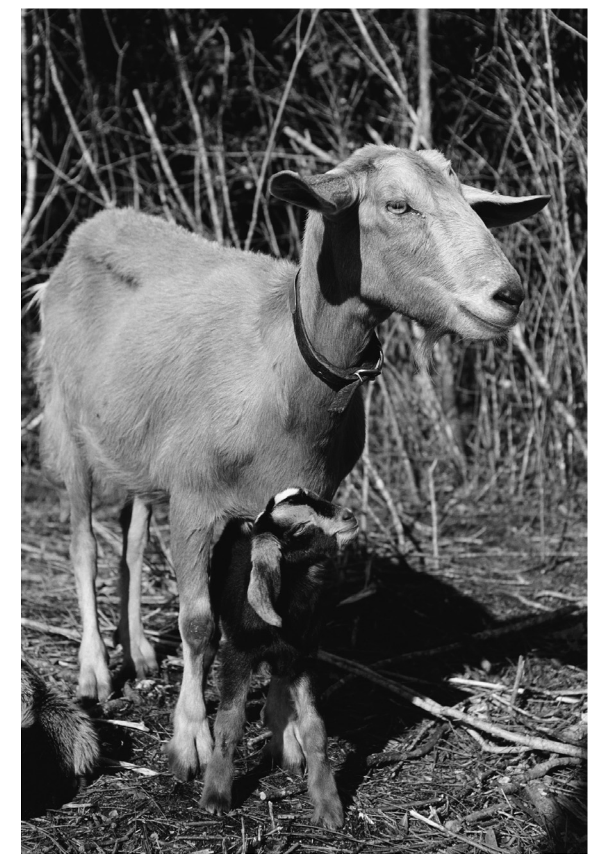

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- Express mail fresh fruits or produce for holidays as replacements for flowers
- Develop ethnic markets for sheep and goat meats

- Offer organically raised, free range pork for sale to high-end restaurants
- Market fresh vegetables and mushrooms to chef-owned restaurants
- Sell fresh brewed organic coffees at farmers' markets

"Train your people to value and make the customer feel special..."

Tactics

Tactics are specific actions used to support strategies. Businesses use marketing strategies with specific tactics for each of the major elements of the marketing mix. **The marketing mix** (often called the **4 P's of marketing**) is composed of **product, price, promotion, and placement**. Consider also, **position and people**. Know who your customers are and how to place your product in the market place. Train your people to value and make the customer feel special. By designing complementary strategies with specific tactics, businesses work to achieve their marketing objectives. Some agricultural marketing tactics might include:

- Participate in ethnic celebrations or fairs with a booth and do a free sampling
- Provide free products to local chefs for their evaluation and feedback
- Supply gourmet restaurants with a high quality niche product—"edible flowers"

market fresh

Research and analysis, strategies, and tactics that compose your marketing vision will focus your efforts and guide your decision-making. When your marketing vision is written down it becomes a base line that can be referred to, challenged, and fine tuned.

Market Research

What Is Market Research?

Market research is the process of evaluating all aspects of your potential market. It encompasses planning, collecting, and analyzing data about your industry, customers, and competitors to help steer all marketing strategy. Market research is about getting the facts that complement or negate your assumptions. The golden rule for marketers? In order to be useful, market research must be valid, reliable, and representative of target customers. For the purpose of this session your market research will center on ***product, customer, competition, and production potential.***

plant it, grow it, market it! TEXT 5-9

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Define Your Research Objectives

In market research, starting at the beginning means identifying what you do and do not know about your market. It also requires that you recognize the primary marketing problem or opportunity for your business. Are customers spending more or less on your type of product? Are customers buying more or less of your product? Is there a viable **distribution channel** (the way you get your product to your customers) for your product? Are **production costs** prohibitively high? These are some typical marketing questions that invite market research.

"Identify what you *do* and *do not* know about your market...."

The initial phase of your market research process should include understanding, as precisely as you are able, the information you need to fill in the most important gaps in your knowledge about your market.

As you begin to define your research objectives, consider doing the following:

- Ask why you need given information and if it is readily obtainable.
- Rephrase questions about your market to get a new perspective.
- Prioritize your questions.
- Test your objectives by creating sample data about your market. Does it help to answer questions and set strategy?

Are you afraid of getting off track? As you are trying to figure out what market data is relevant to your business, look to where your sales come from: your customers. Ask yourself the following four questions to keep research on track:

the beginning

- Who are my customers?
- What's on their minds?
- Where can they be reached?
- What do they buy?

The Market Research Process

While market research consulting firms and consumer product manufacturers undertake large research projects, small firms can do truly effective market research as well. Gathering market research need not be a confusing task. For example, use the clever, time-tested technique of breaking the research process into small parts. This organizes your efforts and incidentally makes it a lot less intimidating. So, just like the big players, let's start at the beginning.

5-10 TEXT plant it, grow it, market it!

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Understanding Customer Buying Behavior

If your goal is to create a profitable business, you must identify and satisfy the needs of your customers. One of their most important needs is the ability to buy in the manner, time frame, and place that they choose. Market research helps identify customer needs and perceptions of product offerings. It also uncovers their attitudes that influence what, when, and how they buy. This dynamic is known as **buyer behavior**. Before you begin your market research process, it is important to understand how and why different types of customers make purchases differently.

"Identify and satisfy the needs of your customers…"

How do individual consumers make purchase decisions?
Consumers who buy products through retail outlets make their decisions in many different ways depending on the products they buy. Just think how differently you go about buying a garden tiller, plant seed, or berry plants. In general, consumers' purchase behavior involves ***identifying their need, gathering information, evaluating alternatives, and finally, evaluating their post-purchase level of satisfaction.***

caseStudy

Case Study: All-Natural Beef Cooperative

All-Natural Beef Cooperative, a 20-member beef cooperative located in Kansas and Missouri, wanted to know what their customers preferred in meat cuts and taste. They conducted surveys of meat managers and consumers. They used on-site samplings and computer kiosks that recorded consumer preferences. The results allowed the cooperative to target their customers with new marketing practices such an "All Natural" label and product orientation.

Consumer purchases vary according to the following:

- **Their level of involvement in the purchase**. How important is the product to customers? What percentage of their income does its price represent? How often do they buy the item? How complex or unique is the product? How risky or visible is the product?

plant it, grow it, market it! TEXT 5-11

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- **Their degree of brand loyalty**. How important is a particular brand to customers? Do they have a positive or negative feeling towards one brand because of past purchases? Do they associate the brand with particular events, memories, related products, or people? Or do they fail to distinguish between different brands altogether?

agExtra

Many older customers at farmers' markets relate to heirloom tomatoes because these are what they and/or their parents use to grow. As a result, brandy wine, pineapple, rainbow and green zebra, to mention only a few of the heirloom varieties, are very popular and big sellers. Burpee Big Boy and Better Boy tomatoes have been grown by many of the customers, and they ask for these tomato varieties specifically when buying tomatoes. Growers should be prepared to grow these "branded tomatoes" for market.

"The more you understand about how and why your customers buy, the better your marketing decisions..."

- **Their habit and learning**. How complex is the decision process for a given product? How much must customers learn before being able to make an informed purchase? Is the product purchased habitually? Or must customers learn something new or change old buying behavior before buying? Do customers make an active decision to purchase?
- **Consumer motivation.** Why is the customer making the purchase? Is it satisfying physiological (food, shelter), safety (protection, security), social (acceptance, friendship), ego (prestige, success), or other needs?
- **Consumer perceptions**. How do consumers perceive different brands and product offerings? What are their attitudes and means for evaluating different products? Do consumers have a positive or negative image of a product based on past experiences?

It is dizzying when you realize how many social, economic, cultural, and geographic influences affect consumer purchases. However, even as a small business you can gain valuable information when you know your customers' buying habits. The more you understand about how and why your customers buy, the better your marketing decisions.

5-12 TEXT plant it, grow it, market it!

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Market Research Goal

The combination of your secondary and primary research activity ought to be focused on a main goal. That goal is to ***determine your market potential***. If you remember that you are attempting to answer some basic but important questions at the conclusion of the research, your research project will stay on track. At the conclusion of your market research you should be able to thoroughly answer three important questions:

- Who is your customer?
- Who is your competition?
- What is your production potential?

In answering these questions you will be lead to your goal and the most important question of all: *What is my **market potential**?* As you read through the remaining parts of this session, remember that you will be called upon to do your own market research as you complete the worksheet section.

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Research Methodologies and Tools

In Session 2 you found that two types of information are available to you. Primary information is the information that you generate yourself doing the information gathering first hand. Examples of primary information would include information you developed using personal interviews, surveys and focus group interviews. Secondary information is the information that is available to you through the research efforts of others. Examples of secondary information are information found in books and articles or on the Internet.

In doing market research we want to again employ the tools and methods we used in doing the industry research in Session 2.

Methodologies
Ways you contact sources of information

- In person
- Telephone
- Facsimile (Fax)

plant it, grow it, market it! TEXT 5-13

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- In person
- Telephone
- Facsimile (Fax)

- Internet e-mail
- U.S. mail, express mail services, etc.

Tools
Means you use to gather information from sources

- Interview
- Survey
- Focus group

An additional method to use in gathering information is that of direct observation. This has not been previously discussed and is a particularly useful technique in market research.

Observation
With observation you record what your customers do naturally. Through observation, market researchers determine how consumers behave as they buy and use a product or how they are influenced by some marketing strategy being used by the business. This method works very well in a retail environment. If you find a product that is in direct competition with your product, you can learn much by observing how customers purchase that product. If your product is already being sold, watch how your customers act while purchasing your product.

"With observation you record what your customers do naturally..."

The only pitfall of observation techniques is that the presence and/or bias of the observer can influence the behavior of the subject. As you observe customer behavior in stores, community markets, etc., try to be inconspicuous in your presence.

Six Steps to Determining Your Product's Market Potential

Step 1: Conduct Secondary Research

There are six steps in developing an overview of your product's market potential. The first step in conducting market research is to gather all the relevant data from secondary sources. As before, the library and the Internet are two excellent places to start your research of already published information.

5-14 TEXT plant it, grow it, market it!

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With observation you record what your customers do naturally. Through observation, market researchers determine how consumers behave as they buy and use a product or how they are influenced by some marketing strategy being used by the business. This method works very well in a retail environment. If you find a product that is in direct competition with your product, you can learn much by observing how customers purchase that product. If your product is already being sold, watch how your customers act while purchasing your product.

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The only pitfall of observation techniques is that the presence and/or bias of the observer can influence the behavior of the subject. As you observe customer behavior in stores, community markets, etc., try to be inconspicuous in your presence.

Six Steps to Determining Your Product's Market Potential

Step 1: Conduct Secondary Research

There are six steps in developing an overview of your product's market potential. The first step in conducting market research is to gather all the relevant data from secondary sources. As before, the library and the Internet are two excellent places to start your research of already published information.

Typical information sought through secondary research is market size, location, and growth patterns. Also, you can use secondary information to get a better understanding of your customers: where they live, how numerous they are, their income brackets, educational level, and buying patterns.

Finding secondary research is simply a matter of investing the time and effort to seek it. You may wish to refer back to Session 2 for a condensed resource list for collecting secondary data. Several books offer valuable listings of secondary data of all kinds. A good one is *Find It Fast* by Robert I. Berkman. Additionally, please check the *NxLeveL™ Agricultural Resource Guide*.

"Qualitative Data is data that cannot be counted..."

After the secondary research is gathered, don't forget to read it! It may seem like an impossible job to read through all the research but nothing will help you get your marketing efforts organized more quickly than a thorough understanding of the printed material that is available.

Step 2: Determine Information Needed and Primary Research Design

After you have a good understanding of the secondary information you have gathered and analyzed, you will want to design your primary research around the information you are missing. For instance, instead of relying solely on national trends or some information on a composite customer, you can do research into the characteristics of your particular customer. Before you decide on which methods and tools you will use in your research efforts, you need to be familiar with the types of data you will encounter in your primary research.

"Quantitative Data describes things that can be measured and analyzed with statistical analysis..."

When businesses gather primary data they are often gathering **qualitative data**. Qualitative data is data that cannot be counted. It reveals the quality of a subject's experience or beliefs. Qualitative research is gathered by allowing customers to answer questions in an open-ended and unstructured manner. A person's preferences for organic or non-organic vegetables, preference for a lettuce or spinach salad mix, or interest in home canning are examples of qualitative data.

Quantitative data describes things that can be measured and analyzed with statistical analysis. These are expressed in numbers and reveal the quantity of a customer's particular characteristic. What do your customers earn each month? How old are they? How much do they spend each month on groceries? Rent? Gas? How many children do they have?

Both qualitative and quantitative information can be important to you as you do your market research. There is a problem with using only quantitative data gathered from a small number of individuals to make marketing

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Both qualitative and quantitative information can be important to you as you do your market research. There is a problem with using only quantitative data gathered from a small number of individuals to make marketing

decisions. Small sample sizes are not reliable for this type of decision making. Would you make the decision to completely change your product based on the thoughts of a handful of customers? Of course not!

When you combine quantitative and qualitative data you can develop a good base of information such as the characteristics of your typical customer.

Here are some tips you will find useful as you design the research tools you will use in conducting your primary research.

Creating a Survey? Try These Tips

- Keep questions short, simple, and to the point
- Make it very easy for the respondent to complete
- Use a rating scale of 1-5, 1= strongly disagree 5 = strongly agree
- Surveys should take no longer than 5-10 minutes to complete
- Be careful not to bias the answers with your question construction
- Offer respondents some reward for completing the survey (money, discounts, simple gift, lottery ticket, prize)
- Say thank you

Recipe for the Perfect Focus Group

- Assemble 6-10 people who represent your target customer
- Gather in an informal and relaxed setting
- Add one interviewer/moderator with good listening skills
- Initiate open-ended questions
- Listen as participants share ideas, respond to one another, and stimulate each person's thinking
- Guide discussion gently for no more than one hour
- Consider videotaping the session for later review

Old, New, Inexpensive, and Innovative Market Research Methods

- Enclose pre-stamped envelopes with mail surveys
- Tap into the knowledge of the reference librarian at your local library
- If you are already in business, prepare a questionnaire for your existing customers
- Talk with other business people in your area and benefit from their expertise
- Get on-line and use the Internet to research your key words
- Create snappy and brief surveys for people who use the kinds of products or services that you will provide: look for them at farmers' markets, in grocery stores, at restaurants, in natural food stores, at festivals, at hardware stores…wherever they may be

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Old, New, Inexpensive, and Innovative Market Research Methods (cont'd)

- Be honest and friendly: most people like to help the little guy
- Read advertising and marketing industry periodicals as they often contain valuable research findings
- Inexpensive, fast-research on-line. Some entrepreneurs and big businesses are now posting market research questionnaires on the Internet. For as little as $500 you can put a questionnaire on a web site and get answers to your questions within a few days (rather than the 4-6 weeks traditional questionnaires can take). Quick response time is critical to getting to markets more quickly than your competition.

Step 3: Conduct Primary Research

Using the research methodologies and tools discussed in Session 2 and this session, you are now ready to conduct your primary research. You may find that using personal interviews will provide all the information you need. Or you may find that surveys, focus groups, and observation (or some combination thereof) can be useful in supplying other types of needed information. Two important questions to have answered at the conclusion of your primary research:

1. Who is your customer?
2. Who is your competition?

"what information?"

Who is Your Customer?

The place to start your primary research is with your customer. You may ask, "What information should I find out about my customer?" The answer is, of course, everything. The more you know and understand your customer's wants, needs and desires, the better able you are to meet those needs with a product that sells. The goal of gathering and analyzing this information is to prepare a customer profile. This customer you expect to market your product or services to is called your **target customer** and represents an average or typical customer. It may be one profile of one customer group or several profiles covering several customer groups. For instance, a popular heavy-soled work boot is marketed primarily to farm workers, yet this same boot is also marketed to young people who feel they make a statement when they wear them. This one work boot has two vastly different customer profiles; a *primary* customer profile describing a male farm worker and a *secondary* customer profile describing a young college-aged individual. Good customer profiling will keep you on track toward accomplishing your number one marketing job, which is ***targeting your marketing efforts on the most appropriate customer groups***.

"The customer you expect to market your product or services to is called your target customer..."

plant it, grow it, market it! TEXT 5-17

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"The customer you expect to market your product or services to is called your target customer..."

Regardless of what other information you feel you may need to get out of your primary research, an accurate customer profile should be one of your top priorities. As you research your customer and develop a customer profile it is helpful to understand the language used by marketers in describing their customer.

Demographic vs. Psychographic Customer Data

Businesses gather demographic and psychographic data in order to discover more about their customers. **Demographic data** describes specific characteristics of an individual such as age, level of education, occupation, income, marital status, and address.

"**Demographic data** describes specific characteristics of an individual..."

Psychographic (lifestyle) **data** describes an individual's activities, interests, opinions, and beliefs. This data gives marketers insight into such things as how their potential customers live, make buying decisions, or plan for the future.

Good demographic and psychographic data is particularly key for small businesses. Their success is most often built upon knowing their customers better and satisfying their needs with more personal service than larger competitors. To do this, businesses need to have the right answers for these questions: Where are my customers? Why do they buy and how much are they willing to spend on my kind of product? What are the product or service features that are most important to them?

"Psychographic (lifestyle) Data describes an individual's activities, interests, opinions, and beliefs..."

To illustrate the magnitude of demographic and psychographic trends, consider the following three demographic and three psychographic trends that have directly impacted marketing strategy in the 1990's.

Three Major Demographic Trends

Shifts in the age make-up of the American market

In the U.S., 77 million baby boomers (people born between 1946 and 1964) make up 1/3 of the total population and represent more than 1/4 of the economy's purchasing power. In the last decade of this century, baby boomers' income is expected to double. The size of the youth market (people aged 12-19) is expected to continue decreasing, but their spending is increasing. The mature market (individuals 50 years old and over) commands half of the discretionary income in the U.S. and holds 77% of its assets. Within 30 years, 1/3 of all Americans will fit into this group.

demographics.

Changes in family composition

Increases in the divorce rate and the percentage of working women and a decrease in the birthrate after 1960 have all caused major changes in the make-up of the typical American family. In fact, it seems no one can agree on whether or not there exists a

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typical American family anymore. Single-parent homes, smaller families in married households, and a decline in the proportion of teenagers are also key trends.

Increasing proportion of working women

lifestyles.

In 1990, 58% of women worked in non-agriculture industries as compared to 33% of working women in 1950. Women are now entering the work force at younger ages and changing the face of American business in nearly every industry. The time crunch that many working couples feel today has helped to fuel the boom in catalog, telephone, and Internet shopping. Other time saving services and food products are experiencing similar booms.

Three Major Psychographic/ Lifestyle Trends

Shifting male-female purchasing roles

Because more women are working, men are playing a larger role in child care and household duties than ever before. Because women are earning more money and achieving more professional independence, they are spending more money on travel, dining out, entertainment, and luxury products.

Three Major Psychographic/Lifestyle Trends:

- shifting male-female purchasing roles
- increased interest in healthy lifestyles
- increased buying-power of young adults

Increased interest in healthy lifestyles

In 1990, half of all American grocery shoppers read the labels on the food they bought. Americans are quitting smoking, drinking fewer alcoholic beverages, and eating less red meat. Fat-free, low fat, low salt, sugar-free, and natural products are more popular than ever. Americans are now interested in fitness; they are jogging, climbing, hiking, biking, and swimming more than ever before.

Increased buying-power of young adults

In the 1980's, the youth market began to become more concerned with career, personal style, and lifestyle choices. As a result, today they are spending more on clothing, personal grooming products, and automobiles. Young adults and teenagers are more involved

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with household and food purchases than ever before. The increase in the number of divorced households and the frequency with which young adults are transplanting themselves to pursue jobs and education means more are setting up their own households at younger ages.

Trends Spell Opportunity for Small Business

New trends like these may be years in the making, but when they are recognized they spell tremendous opportunity for new businesses. And not just for businesses in large cities. Small town or rural entrepreneurs can investigate how these trends spin-off into micro trends that mean business opportunities in their areas.

"Detect micro trends within your community and move swiftly to take advantage of the entrepreneurial opportunities they present..."

For example, you may think that the increase in working women in America has no importance for you. But when you look closer you just might find that in the past two years traffic on your local highway has increased by 20 percent and that 30 percent of that traffic is women commuting to work. Seeing an opportunity, you might investigate opening a drive through fresh fruit and vegetable store that caters to professional women. Where? Why somewhere along the highway, of course!

opportunity.

Look around, ask questions, and use market research to put your business in the right place at the right time. This way you can detect micro trends within your community and move swiftly to take advantage of the entrepreneurial opportunities they present.

Who is Your Competition?

Have you ever heard someone say, "I have no competition?" The next time you hear this or the next time you are tempted to say it, please consider that everyday a business owner calls it quits although they said they had no competition. There is absolutely no such thing as "no competition." In the past, many rural areas were said to have "protected markets," protected from the competition of more urban businesses. However, advances in rapid transportation and technology have all but eliminated those protections, and all businesses find themselves in a highly competitive environment wherever they are located.

Your job is to determine the "who" and "what" of your competition. Your goal is to determine the advantages you have over your competition. By doing your market research you will find your market niche or those areas where you are more competitive than other businesses in your marketplace.

In addition to identifying niche opportunities, competitive analysis allows you to identify those areas in which you need help. These are areas that you wish to review for possible improvement and could include packaging, customer service, etc.

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Step 4: Identifying Your Competitive Advantage

After you have identified your target customer(s) and developed a good understanding of your competition, you are able to identify your competitive advantage. A **competitive advantage** comes from offering more value to your customers than do your competitors. Value can come from, among other things, a higher quality product, lower prices, better service, or more convenient distribution.

competitive advantage.

If you are able to provide a high quality product, you may have a competitive advantage over your larger competitors. You would only want to position yourself in this way if your customers value quality. What if your customers value service? A competitive advantage has two key criteria:

- It must be something your customers value
- It must be something you do better than your competitors

In some cases, a business may decide not to enter a given market because it cannot find a position that gives it a competitive advantage. But, when you truly understand your competitive advantage, you can develop effective marketing strategies that utilize that advantage to the fullest. Some additional examples of competitive advantage are:

- Developing a new technology
- Serving a specialized customer niche
- Establishing unique distribution channels
- Obtaining production cost advantages due to better sourcing (locating and purchasing the inputs needed for your production)
- Developing a stronger base of financial resources (i.e., through cheaper debt or additional equity)
- Building a unique brand identity

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Step 5: Drawing Conclusions-What Is Your Market Potential?

After gathering your primary and secondary research information you are ready to analyze your market potential. The worksheets in this session will help you determine your market potential. After you finish the worksheets you will have answered these important questions.

- Who is your target customer?
- What are the defining characteristics of your target customer?
- Who is your competition?
- What are your competitor's product(s)?
- What is your current trade area?
- What is your market size?
- What are your market trends?
- What is your market potential?
- What is your true production potential?

"Determine your market potential..."

grow, grow, grow!

Step 6: Overview of Production Potential

You have determined the profile of your customer(s), your competitor profiles, and your competitive advantage. Using these facts, combined with the results of your other primary and secondary research, you have analyzed the findings and determined your market potential. Your last task is an overview of your production potential.

Your overview of production potential is not a technical analysis of how to produce your agricultural product. In the *NxLeveL™ Agricultural Resource Guide*, there are agencies listed to help you determine the technical requirements of growing your product or raising your animals. This section is about looking back at the resources you identified in Session 1 and determining your potential to produce your product. If your research and analysis shows a strong demand for your product, wouldn't you want to know if you have the **production potential** to meet that demand?

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This section concerns itself with four types of considerations. Questions regarding 1) buildings, facilities, equipment and machinery; 2) climate; 3) soil; and 4) water. All need to be answered if you are to understand your production potential.

Buildings, facilities, machinery and equipment necessary to conduct your agricultural business must be evaluated and compared to the resources you identified in your earlier resource inventory. The assets that are not already owned will have to be accounted for in later sessions when the costs of starting the venture are determined. Whether you purchase, lease, borrow money or use savings, you will need to secure the use of these assets in order to operate your agricultural business.

Four types of considerations regarding **Production Potential**:

- buildings, facilities & equipment and machinery
- climate
- soil
- water

Climate considerations are divided into those required by your business venture and those provided (usually encountered) at your location. Temperature, annual precipitation, frost, growing season, and other climate-related factors need to be weighed in the determination of production potential.

Likewise, soil considerations are divided into those required by your agricultural business and those characteristics of the land to be used. Topography, accessibility, moisture, drainage, pH, nutrient level, pollution, and other soil-related factors also are part of the calculation of production potential.

Finally, water too is in the equation. Questions about water availability, intended purpose for use, flow rate, volume, location, pumping requirements, and other water-related factors all play a part.

agExtra

Goldenseal is medicinal herb that has been collected for hundreds of years for inflammation of the eye, mouth, and digestive system. Because of over-harvesting and increased demand, the growing of Goldenseal has become more profitable. But, do you have what do you need to grow it if you live in Kansas? Or Oregon?

Goldenseal grows mainly in hardwood forests in eastern North America. Goldenseal requires rich, moist loamy soil with good water drainage. Raised beds produced the best results for good water drainage. Soil pH levels should be between 5.5 and 6.0. Unless Goldenseal is grown under a forest canopy, irrigation will be necessary. Goldenseal is ready to harvest in three to five years. To harvest, larger plots will require a mechanical digger such as a modified potato, horseradish, or bulb digger. A commercial root washer will be needed to clean roots from soil and debris. Roots must then be dried in a well-ventilated area or in a drier. Average price for Goldenseal roots range from $30 to $50 per pound.

plant it, grow it, market it! TEXT 5-23

This section concerns itself with four types of considerations. Questions regarding 1) buildings, facilities, equipment and machinery; 2) climate; 3) soil; and 4) water. All need to be answered if you are to understand your production potential.

Buildings, facilities, machinery and equipment necessary to conduct your agricultural business must be evaluated and compared to the resources you identified in your earlier resource inventory. The assets that are not already owned will have to be accounted for in later sessions when the costs of starting the venture are determined. Whether you purchase, lease, borrow money or use savings, you will need to secure the use of these assets in order to operate your agricultural business.

Four types of considerations regarding **Production Potential**:

- buildings, facilities & equipment and machinery
- climate
- soil
- water

Climate considerations are divided into those required by your business venture and those provided (usually encountered) at your location. Temperature, annual precipitation, frost, growing season, and other climate-related factors need to be weighed in the determination of production potential.

Likewise, soil considerations are divided into those required by your agricultural business and those characteristics of the land to be used. Topography, accessibility, moisture, drainage, pH, nutrient level, pollution, and other soil-related factors also are part of the calculation of production potential.

Finally, water too is in the equation. Questions about water availability, intended purpose for use, flow rate, volume, location, pumping requirements, and other water-related factors all play a part.

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in Conclusion

This session covered two topics.

marketing research
marketing strategies

Marketing. Why do you need marketing? Because without it your business won't know what and where to sell, who to sell to, or what price to charge. Researching your markets, identifying the target customer, creating appropriate strategies, budgeting, and controlling marketing efforts are all key to marketing success. Having done these things, selling your product becomes much easier. It doesn't matter what you are selling or to whom. Everybody markets. This is especially true for successful entrepreneurs.

The ultimate purpose of the marketing section in your business plan is to present as concisely as possible the strategies you will use to get your product known and purchased by customers. Your marketing plan tells what you want to accomplish, how you plan to go about doing it, and what specific tools you will use in the process. The elements governing your marketing efforts are research, analysis, strategies, and tactics.

Market Research. The role of market research is to provide businesses with the information necessary to identify marketing opportunities and problems, understand buyer behavior, and develop marketing strategies. This aids you in evaluating your customers' reactions to your proposed strategies.

As an agricultural entrepreneur, you may never feel that you have all the information that you need to answer all of your questions about your market. You shouldn't rely solely on your intuition. Conversely, you do not have to fund expensive market research. There is some middle ground. A great deal of free and valuable market information is available to the agricultural entrepreneur. Your task is to define what you need to know and set out in an organized and creative manner as you seek your information.

You use research methodologies and tools in designing and conducting your market research. Methodologies (ways that you contact sources of information) can include in person, telephone, fax, e-mail, or regular mail systems. The tools you use to gather that information can include interviews, surveys, focus group interviews, and observation.

In doing the research described in this session you will have fully described the product or service you are marketing, your customer, your competition, and your production potential. This information can then be studied and analyzed to give you your first understanding of your ultimate market potential. By truly understanding your market research information you will be able to look at developing truly effective marketing strategies, which is the task of the next session.

5-24 TEXT plant it, grow it, market it!

in Conclusion

This session covered two topics.

marketing research
marketing strategies

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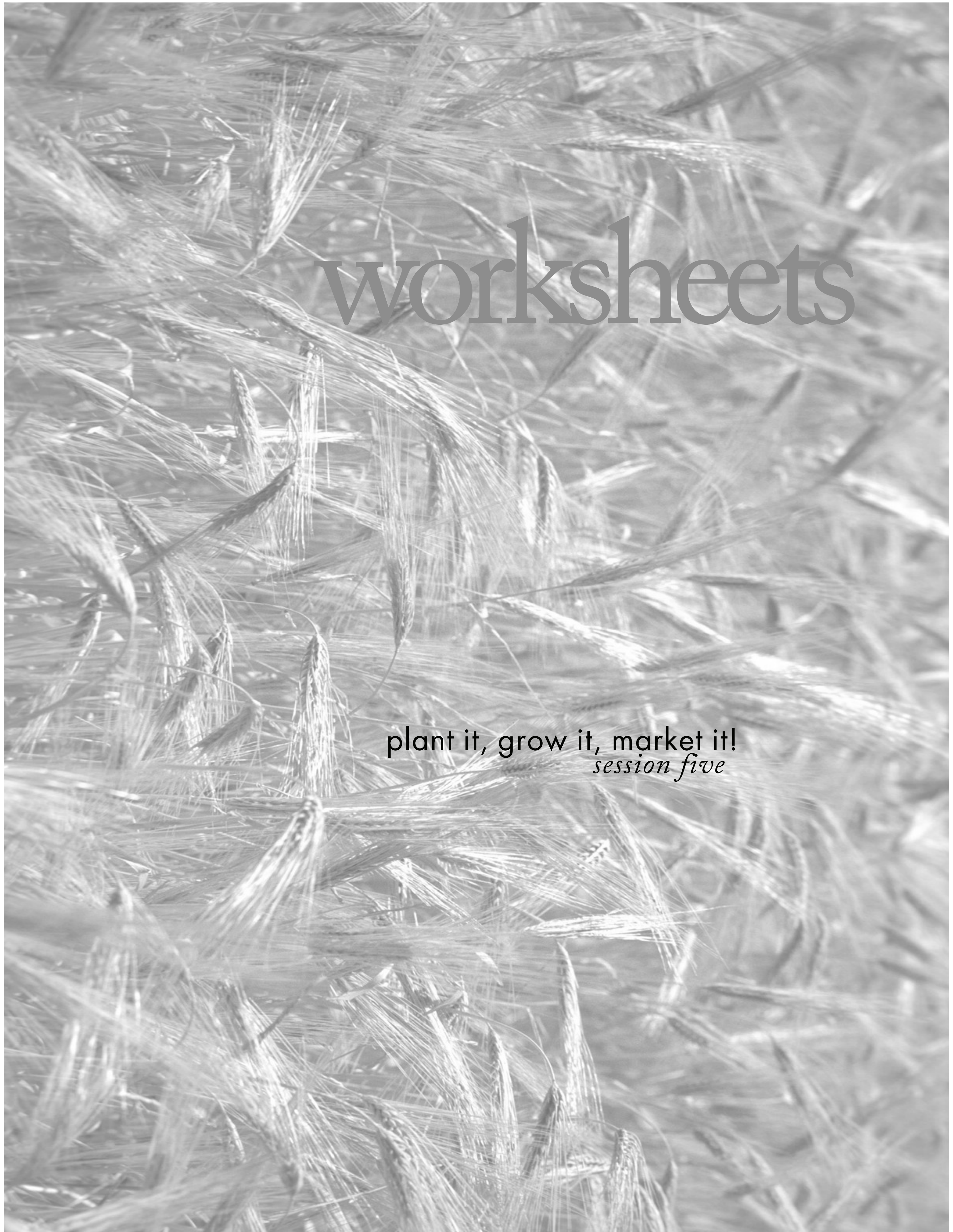
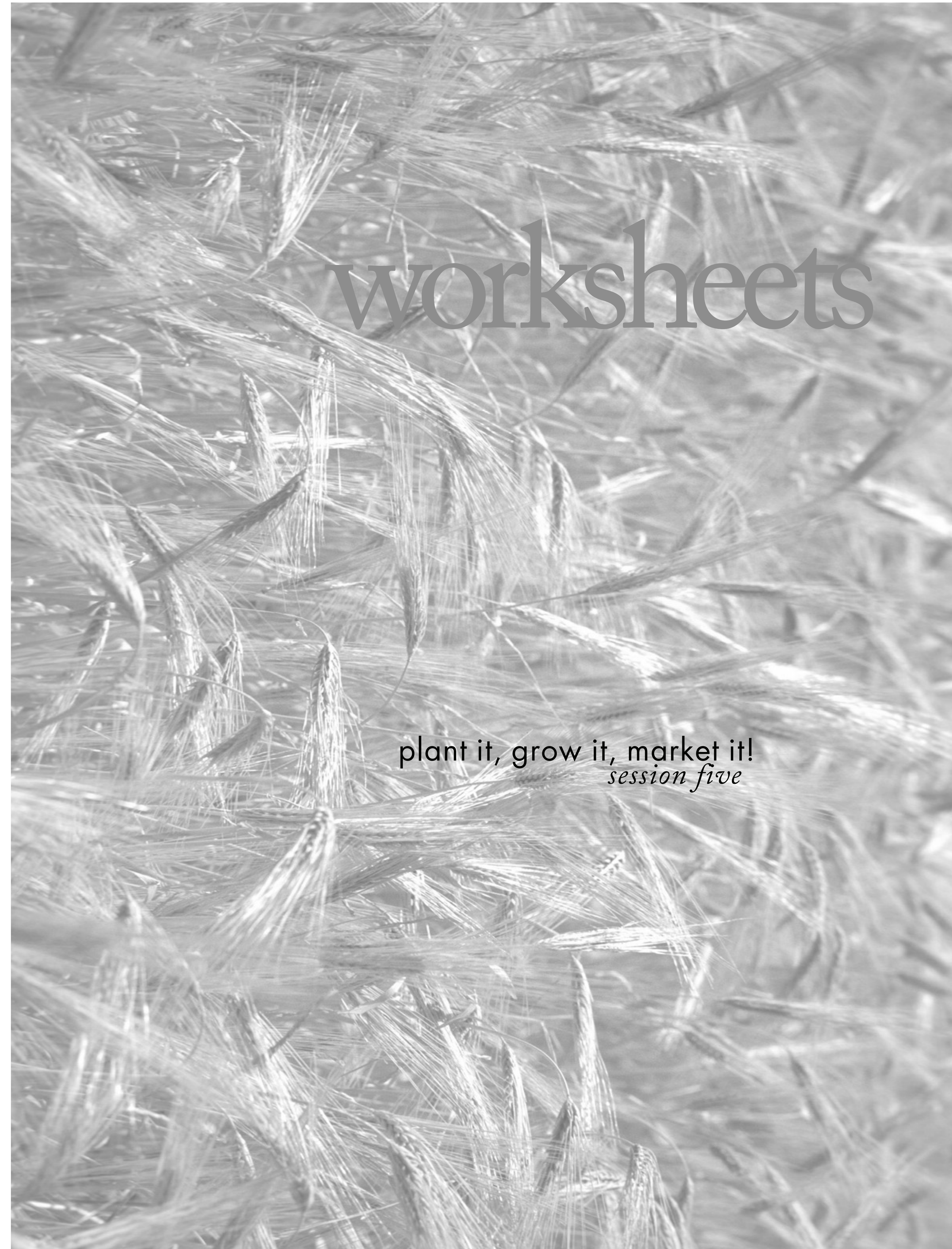


worksheets

plant it, grow it, market it!

session five



worksheets

plant it, grow it, market it!

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plant it, grow it, market it!

session five

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session five

Your Products/Services

As your reading discussed, the term "marketing" is one of the most misunderstood and misused terms in the business world. The naive notion that "marketing" equates to "advertising" is a misleading and incomplete definition. While advertising is *a part* of marketing, the process of marketing entails research, analysis and strategic decision making. In Session 2, we researched your agricultural business industry. Now it's time to research and analyze your products/services related to that industry, your customers and competition, and your potential to successfully market your business.

Your ability to clearly describe what products/services you sell, what they do, what makes them unique or special, who will buy them, why people might buy them and how much you will sell them for begins the process of marketing. Analyzing these aspects of your products/services enables you to move forward with other marketing decisions.

This first part of the Marketing Plan section of your *NxLeveL™ Agricultural Business Plan* helps the reader, and *you*, understand what your products/services are, what makes them unique, what features you consider important and the benefits the customer derives from those features. Your description will also explore the life span and seasonality issues related to your products/services, and your growth plans for adding new products/services to your business.

NxLeveL™ Agricultural Business Plan Outline

- Cover Page
- Table of Contents
- Section I. Executive Summary
- Section II. Business Concept, Mission & Goals
- Section III. Background Information
- Section IV. Organizational Matters

Section V. The Marketing Plan

- A. The Products/Services
  - Products/Services Description
  - Features/Benefits
  - Life Cycles/Seasonality
  - Growth Description

- Section VI. The Financial Plan
- Appendix Section

plant it, grow it, market it!
SESSION FIVE

Your Products/Services

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- A. The Products/Services
  - Products/Services Description
  - Features/Benefits
  - Life Cycles/Seasonality
  - Growth Description

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- Appendix Section

Products/Services Description

When trying to describe your products/services, think about your agricultural enterprise from the perspective of your potential customer. As you continue through this section, you may find your descriptions changing as you learn more about your market.

This section will help you fully describe your products/services. You will first be identifying the product/service, its unique features and the benefits to the customer. Then we will examine the issues of your product/service life cycle and seasonality. Sue-Sweet's Strawberry Patch, a fictitious agricultural enterprise, will be used to illustrate some of these concepts.

Using the <u>chart on the following page</u>, complete these four steps:

1. **Identify the products/services your business will offer.** Write a brief description of the product/service in the space provided. *Example: organically-grown strawberries.*

2. **Determine the unique product features, including size, quality, product mix, varieties or types, materials used, etc.** Think like a customer—why should I buy it? What features make your product unique, special and compelling to buy? *Example: large, extra-sweet strawberries that are organically grown.*

3. **Determine the unique service features. If you are selling a product, describe packaging, delivery, instruction or other services that accompany the product. If you are selling a service, describe the services offered.** *Example: Strawberries will be clean, packaged in convenient 25-packs, or customers can provide their own containers and receive a discount. Customers also have the option of picking their own, accompanied by a "picker" expert.*

4. **Identify the benefits to your customer or user.** For each feature, there is a benefit to the customer. Remember, the benefit is what your product/service will DO FOR or GIVE TO your customer. *Example: Families can have a fun, family outing which is educational and productive by picking their own strawberries and learning about organic growing from their accompanying "picker" expert.* Again, <u>think like a customer</u>. Is someone buying "organically grown strawberries" because it's food or because it's healthy? Is the pick-your-own option offered because it's cheaper, or fun and educational?

   Repeat steps 1 through 4 for all products/services you plan to offer in the future. Use additional sheets if needed, and log features and benefits of products/services you might be adding in the future. By going through the same product/service description and analysis, you will be comparing existing products/services with new ones to make sure they compliment existing product/service lines, and to make sure they blend into your business concept.

5-2 WORKSHEETS plant it, grow it, market it!

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Products/Services Description—continued

Make additional copies of this table if needed for more products/services.

Product/Service Name or Description:
Product Features (size, quality, varieties or types, etc.)
Service Features (packaging, delivery, instruction, other accompanying services)
Benefits to the Buyer or User (What will the product "give to" or "do for" the customer?)

Now try to answer the following questions about your products/services. While you may not have all the answers at this point, the questions should stimulate thought about what additional information you may need to fully describe your ag-business. Use your Action Log from Session 2 to record activities that may lead you to the answers.

1. How do you think your products/services compare to those of the competition? (Consider price, quality, availability, etc.)

2. (*For services only*) Can you sell this service as well as you can perform it? Are your credentials and skills equal to, or better than your competition?

3. Are there any liability issues attached to making, producing or selling your products/services? Will you have to deal with regulatory agencies or obtain special insurance?

plant it, grow it, market it! W O R K S H E E T S 5-3

Products/Services Description—continued

Make additional copies of this table if needed for more products/services.

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Products/Services—Life Cycle and Seasonality

Life Cycles

Every product/service has a life span and your marketing priorities may be influenced by that product/service's place in its life cycle. Marketing for an *established* product/service is generally different from that of a *new* one. Pricing considerations for a *declining* product are considerably different than those for a *growing* one. Taking time to analyze where your product/service currently is in its life span may help you make decisions about marketing efforts you choose later.

Some of the factors influencing a product/service's position in the product/service life cycle include how long it's been around, visibility, familiarity to users, frequency of use and popularity over alternative products. Length of existence is not always a reliable way of gauging a product/service's life cycle. Campbell's Soups have been around over a hundred years, with the products holding steady in their life cycle at the "maturity" stage. Medicinal herbs, which have been used for centuries, are just reaching the "growing purchase" stage in the United States.

Services have life cycles as well. Repair service for 10-key calculators, for example, declined tremendously when the price of new calculators plummeted, making it cheaper to buy a new one than have the old one repaired. Internet service providers, however, are currently one of the fastest growing service groups in the United States, varying directly with the number of people wanting to utilize on-line services at home and at work.

Using the worksheet on the following page, determine where your product/service is in its life cycle. Note that the worksheet is designed to evaluate two products/services. Copy the worksheet if you have additional products or services to review.

Seasonality

Some products/services vary greatly in the number of units sold month to month, based on the season and the location of your business. This is particularly true for agricultural crops and other weather-related industries. For example, a lawn care service in Wyoming will experience a peak from May through September, but will be nearly dormant from November through February. That same service in California may have a much longer season and may never experience the dormant periods. Analyzing your product/service's seasonality will help you plan for production purchases and labor needs when you begin forecasting costs. In this section, the information will tell the reader, and *you*, that you recognize the seasonality of your products/services and will plan your marketing efforts accordingly. Consider such issues as: *How does seasonal volume influence price? How might staggered production affect seasonal fluctuations?*

Utilizing your actual sales figures from the prior year, or estimating sales if historic information is not available by individual product/service lines, plot your product/service's seasonality. Place a dot in the appropriate monthly column representing where your product/service sales in that month fall between zero and peak sales, with the middle being an average sales month. Connect the dots so you can visually see your product/service's seasonality.

5-4 WORKSHEETS plant it, grow it, market it!

Products/Services—Life Cycle and Seasonality

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Products/Services—Life Cycle and Seasonality (Continued.)

Product/Service Life Cycle

Place a check mark to indicate position in the life cycle.

Product or Service Name:			
	1. New Product (first sales)		**4. Maturity** (sales hold steady)
	2. Growing Purchase (rapid increase)		**5. Loss of Value** (sales fall off)
	3. Established Position (sales peak)		**6. Declining Purchase** (rapid loss of sales)

Product/Service Seasonality

Put a dot under the January column at the level of sales for that month.
Repeat for each month. Connect the dots to see your product/service seasonality.

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Peak Sales												
Average Sales												
Zero Sales												

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plant it, grow it, market it! WORKSHEETS 5-5

Products/Services—Life Cycle and Seasonality (Continued.)

Product/Service Life Cycle

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Product or Service Name:			
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Writing Your Plan

Using the information and worksheets found in this session to guide you, summarize your analysis and describe your products/services. Format this section into paragraphs under the following headings and subheadings:

Section V. The Marketing Plan

A. The Products/Services

Products/Services Description

Review your work in the Products/Services section. Write this section assuming the reader knows nothing about your agricultural business or your products/services. Describe the types of products/services you sell, including how your products or services compare to the competition (price, quality, availability, your skills, service, etc.). Include everything your first-time reader needs to know to understand what your agricultural business product or service offers.

Features/Benefits

Review the Features and Benefits chart. Summarize the features and benefits of your agricultural products/services. Include what your products/services do, why people should buy them, what features make them unique and special. Then describe the benefits to the customer.

Life Cycles/Seasonality

Review the Life Cycles and Seasonality worksheets. Describe where your products/services are in their life span and how that influences your agricultural business decisions. Discuss the seasonality of your products/services and what role seasonality plays in your business planning. Don't forget to address issues such as seasonal volume influencing price and staggered production possibilities.

Products/Services Growth Potential

Are there any new or spin-off products/services you intend to add to your business? Include why you are adding them, when you anticipate adding them, and how they "fit" into your current product/service mix. Also discuss life cycles and seasonality including how, or if, those elements played a role in your decision to add those new products/services.

NOTE: It would also be a good time to review your Action Log from Session 2 and note activities relating to the addition of new products/services that you may have forgotten.

__Session 5 continues__ and contains another "Writing Your Plan" assignment, so keep working!

5-6 WORKSHEETS plant it, grow it, market it!

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The Market Analysis

The next step in the process of developing your marketing plan is to analyze the marketplace. Learning everything you can about the environment in which you plan to do business is essential to effective marketing. Marketing is an ongoing process of analyzing the marketplace elements, making decisions about those elements, and then finding the best ways to shift and adjust your marketing strategies to best serve the customer.

This next part of the Marketing Plan section of your *NxLeveL™ Agricultural Business Plan* helps the reader, and *you*, understand who your customer is, based on the customer profile you develop. You will also analyze who your competition is, where the competition is located, and how you compare to the competition. Knowing the *profile of your customer* and determining your *competitive advantage* then allows you to determine your realistic *market potential* based on your current trade area, the market size, market trends, and your current and projected growth sales volume. The last segment that must be addressed in this session revolves around the question, "Can you produce it?" Analyzing whether you can provide the product/service using available resources may be key to your decision to move forward with your agricultural business concept. A series of worksheets will help you look at production resources.

NxLeveL™ Agricultural Business Plan Outline

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Section V. The Marketing Plan
B. The Market Analysis
Customer Analysis
Competitive Analysis
Market Potential
Current Trade Area
Market Size and Trends
Market Potential
Production Potential

Section VI. The Financial Plan
Appendix Section

plant it, grow it, market it!
SESSION FIVE cont'd

The Market Analysis

The next step in the process of developing your marketing plan is to analyze the marketplace. Learning everything you can about the environment in which you plan to do business is essential to effective marketing. Marketing is an ongoing process of analyzing the marketplace elements, making decisions about those elements, and then finding the best ways to shift and adjust your marketing strategies to best serve the customer.

This next part of the Marketing Plan section of your NxLeveL™ Agricultural Business Plan helps the reader, and you, understand who your customer is, based on the customer profile you develop. You will also analyze who your competition is, where the competition is located, and how you compare to the competition. Knowing the profile of your customer and determining your competitive advantage then allows you to determine your realistic market potential based on your current trade area, the market size, market trends, and your current and projected growth sales volume. The last segment that must be addressed in this session revolves around the question, "Can you produce it?" Analyzing whether you can provide the product/service using available resources may be key to your decision to move forward with your agricultural business concept. A series of worksheets will help you look at production resources.

NxLeveL™ Agricultural Business Plan Outline
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Section II. Business Concept, Mission & Goals
Section III. Background Information
Section IV. Organizational Matters
Section V. The Marketing Plan
B. The Market Analysis
Customer Analysis
Competitive Analysis
Market Potential
Current Trade Area
Market Size and Trends
Market Potential
Production Potential
Section VI. The Financial Plan
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Your Customer Profile

Your customers are the most important part of your business. Without customers you wouldn't be in business. It's critical to carefully analyze who your customers are, how much and how often they buy from you, and why they do business with you rather than the competition.

A "market" is a group of people (or businesses) who are, or will be, your customers. Marketing is often defined as the process of understanding the needs and wants of your customers. The more specific the information you gather about your market, the better you can make your sales projections.

We will be profiling both "individual" and "business" customers. Use the worksheets that are appropriate to your agricultural business.

Individual Customers

Physical characteristics of your customers (age, gender, occupation, etc.) are called *demographics.* Some common demographic customer characteristics include:

Gender — Men and women exhibit very different buying habits, so analyzing how many men and women in your market is an important demographic.

Age — Age is second only to gender as the most important characteristic to measure and is generally defined in age ranges, again exhibiting different buying habits.

Income — Income level is a good indicator of whether the customer or household has financial capability to buy, particularly non-essential purchases.

Occupation — Occupation relates closely with age, income and education, and again may indicate financial capability.

Location — Location can relate to proximity to your business, neighborhoods, upper or lower income level housing areas, as well as regional or national location.

Family Status — Customers needs and desires vary based on whether they are single, married, divorced, widowed.

Children — Households with children can exhibit very different buying habits than those with no children or grown children.

Education — Education may be an indicator of advertising comprehension, reasoning power, interest levels, etc.

Ethnic Origin — People from different cultures have different values and needs, which may influence their buying habits.

Psychological characteristics that motivate people to buy are called *psychographics*. Do they value image, appearance, security, price, function, quality in products or services? Do their cultures (conservative, liberal, religious, artistic, environmental) influence their buying habits? Are hobbies or interests a factor in what they buy? Developing your customer profile based on both demographics and psychographics will help you define the key characteristics of those people who are most likely to purchase your products/services and avoid wasting time trying to promote in the wrong market.

Identifying *expectations* of your customer groups will help you "think like a customer." What do customers want and expect from your product/service regarding quality, price, service, convenience, etc.?

5-8 WORKSHEETS plant it, grow it, market it! (cont'd)

Your Customer Profile

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Identifying expectations of your customer groups will help you "think like a customer." What do customers want and expect from your product/service regarding quality, price, service, convenience, etc.?

Your Customer Profile—continued

Individual Customers—continued

You may have only one customer group or you may have more than three. Use the worksheet for the number of markets you want to profile, using the space for Group A as the market you are most interested in or that you believe is your strongest market. Break down each characteristic you select into more specific measurable information. Age, for example, is usually broken down by those less than 18, those 18 to 24, those 25 to 34, those 35 to 49, those 50 to 64, and those over 65. Gender is simply men, women or both, etc. Make additional copies of the worksheet if you want to profile more than two groups.

Individual Customer Profile Worksheet

Demographic Characteristics	Customer Group A	Customer Group B
Gender (male, female, both)		
Age (range)		
Income Level (range)		
Occupation (blue collar, professional)		
Location (neighborhood, town, etc.)		
Family (single, married, widowed)		
Children (none, at home, grown)		
Education Level		
Ethnic Origin		
Other:		
Other:		
Psychographic Characteristics		
Where do they shop? (malls, boutiques, in town, catalogs)		
When do they shop? (am, pm, holidays, weekends)		
Why do they buy? (motivations)		
How do they shop? (in person, phone orders)		
Other:		
Other:		
Expectations		
What do buyers want and/or expect from your product or service?		

Where did you get the information about your customer(s)? What methods of researching your customer did you use?

plant it, grow it, market it! (cont'd) WORKSHEETS 5-9

Your Customer Profile—continued

Individual Customers—continued

You may have only one customer group or you may have more than three. Use the worksheet for the number of markets you want to profile, using the space for Group A as the market you are most interested in or that you believe is your strongest market. Break down each characteristic you select into more specific measurable information. Age, for example, is usually broken down by those less than 18, those 18 to 24, those 25 to 34, those 35 to 49, those 50 to 64, and those over 65. Gender is simply men, women or both, etc. Make additional copies of the worksheet if you want to profile more than two groups.

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Education Level		
Ethnic Origin		
Other:		
Other:		
Psychographic Characteristics		
Where do they shop? (malls, boutiques, in town, catalogs)		
When do they shop? (am, pm, holidays, weekends)		
Why do they buy? (motivations)		
How do they shop? (in person, phone orders)		
Other:		
Other:		
Expectations		
What do buyers want and/or expect from your product or service?		

Where did you get the information about your customer(s)? What methods of researching your customer did you use?

Your Customer Profile—continued

Along with potentially selling to individuals, you may choose to market your product/service to other wholesale or retail businesses. Using the worksheet below, research your potential business customers. Focus on the most promising within each category, but don't limit yourself to just one market. Prepare yourself to utilize several marketing options. Remember, the more you know about your target markets, the more directly you'll be able to apply your marketing strategies.

Business Customer Profile Worksheet

Characteristics	Wholesale Customers			Retail Customers		
Fill in the names of potential retailers and wholesalers and research the following information about them.	A.	B.	C.	A.	B.	C.
Annual Sales						
Number of Employees						
Location (town, region, country)						
One site or multiple branches						
Legal Structure (sole proprietor, partneshipr, corporation, LLC)						
Who handles purchasing?						
Where do they get info to buy?						
Procedures for buying?						
What do they expect from your product or service?						
Other						
Other						

Where did you get the information about your business customers?

5-10 WORKSHEETS plant it, grow it, market it! (cont'd)

Your Customer Profile—continued

Along with potentially selling to individuals, you may choose to market your product/service to other wholesale or retail businesses. Using the worksheet below, research your potential business customers. Focus on the most promising within each category, but don't limit yourself to just one market. Prepare yourself to utilize several marketing options. Remember, the more you know about your target markets, the more directly you'll be able to apply your marketing strategies.

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Who handles purchasing?						
Where do they get info to buy?						
Procedures for buying?						
What do they expect from your product or service?						
Other						
Other						

Where did you get the information about your business customers?

Competitive Analysis

A key to the success of your business is establishing a unique market niche. In this section you will compare your business to at least three major competitors. Use the form on the following page to record the rankings. Make additional copies if you choose to research more than three competitors. Be honest with yourself—the purpose is to help identify areas where you have a competitive advantage as well as areas for potential improvement. Don't forget to look at *indirect* competition as well as direct. And remember, there is no such thing as "no competition."

The worksheet is designed to help you prioritize competitive factors within the following areas:

1. *Products:* How well do products and/or services provided meet the needs of customers? How satisfied are customers with the products and services offered?
2. *Price:* How well do prices charged match customers' expectations and their assessment of value?
3. *Quality:* How good is the workmanship or grade of the product or service provided?
4. *Selection:* How many options are offered to the customer? How complete is the product line?
5. *Customer Service:* How well does the business meet customers' needs for attention, timeliness, information, knowledgeable assistance, ability to solve problems?
6. *Product Service:* If customers have problems with products or services purchased, are these problems fixed correctly, quickly and to the customers' satisfaction?
7. *Reliability:* How dependable are the products or services offered? Do products require frequent repair or replacement? Are services timely and as expected?
8. *Expertise:* Are the owners or staff of the business knowledgeable regarding the products or services offered? Do they answer questions well?
9. *Image/Reputation:* What is the business' image or reputation in the area? In the region? Nationally?
10. *Location:* How well does accessibility, parking, visibility and convenience of each competitor's physical location satisfy the customers' needs?
11. *Store Layout:* Is merchandise displayed in a manner that makes shopping easy and convenient for customers? Is space efficiently used?
12. *Appearance:* How well does the appearance of the product, store and/or personnel match the expectations of the customers?
13. *Sales Method:* Are sales approaches effective and in keeping with customer's expectations? (e.g., polite, avoids high pressure tactics, ethical, etc.)
14. *Credit Policy:* Are customers given a variety of ways to pay for purchases? (e.g., cash, store credit, credit card, layaway)
15. *Availability:* Are customers able to get the desired products or services in a timely fashion? How often and how long must they wait to get the product or service?
16. *Management:* Does the overall management of the business appear to be effective? Is the business clean and organized? Has the staff been trained? Is customer billing correct? Is customer service efficient? Is the owner involved?
17. *Longevity/Stability:* Has this business been open long enough to prove it has staying power?
18. *Advertising:* How frequently and how effectively is advertising used? How visible is this business as a result of the promotional efforts?

plant it, grow it, market it! (cont'd) WORKSHEETS 5-11

Competitive Analysis

A key to the success of your business is establishing a unique market niche. In this section you will compare your business to at least three major competitors. Use the form on the following page to record the rankings. Make additional copies if you choose to research more than three competitors. Be honest with yourself—the purpose is to help identify areas where you have a competitive advantage as well as areas for potential improvement. Don't forget to look at *indirect* competition as well as direct. And remember, there is no such thing as "no competition."

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17. *Longevity/Stability:* Has this business been open long enough to prove it has staying power?
18. *Advertising:* How frequently and how effectively is advertising used? How visible is this business as a result of the promotional efforts?

Competitive Analysis—continued

Competitive Analysis Worksheet
Identify three of your major competitors and record their names in the spaces below. Make additional copies of the worksheet below if you will be profiling more than three competitors.

Compare your business to the competition. Rank yourself and your competitors honestly for each factor using 1, 2, 3 or 4, with 1 being best and 4 being worst. Write "NA" (not applicable) if the factor does not apply to your business or to your competition. This process may take some research, such as going into your competitor's store or other physical location to look at or "test" some of the factors.

Priority is based on your assumption of the relative importance of each factor *to the customer*. The last step in utilizing this worksheet is to prioritize each factor by writing "high," "moderate," or "low" for the level of priority you would give each item, again based on your *customer*'s perspective.

Factors	You	Competitor A ________	Competitor B ________	Competitor C ________	Priority
1. Products					
2. Price					
3. Quality					
4. Product Selection					
5. Customer Service					
6. Product Service					
7. Reliability					
8. Expertise					
9. Image/Reputation					
10. Location					
11. Layout					
12. Appearance					
13. Sales Method					
14. Credit Policy					
15. Availability					
16. Management					
17. Longevity/Stability					
18. Advertising					
What is their estimated sales volume?					

5-12 WORKSHEETS plant it, grow it, market it! (cont'd)

Competitive Analysis—continued

Competitive Analysis Worksheet
Identify three of your major competitors and record their names in the spaces below. Make additional copies of the worksheet below if you will be profiling more than three competitors.

Compare your business to the competition. Rank yourself and your competitors honestly for each factor using 1, 2, 3 or 4, with 1 being best and 4 being worst. Write "NA" (not applicable) if the factor does not apply to your business or to your competition. This process may take some research, such as going into your competitor's store or other physical location to look at or "test" some of the factors.

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Factors	You	Competitor A ________	Competitor B ________	Competitor C ________	Priority
1. Products					
2. Price					
3. Quality					
4. Product Selection					
5. Customer Service					
6. Product Service					
7. Reliability					
8. Expertise					
9. Image/Reputation					
10. Location					
11. Layout					
12. Appearance					
13. Sales Method					
14. Credit Policy					
15. Availability					
16. Management					
17. Longevity/Stability					
18. Advertising					
What is their estimated sales volume?					

Competitive Analysis—continued

Using your worksheet research, answer the following questions regarding your competition.

1. Who are your strongest competitors and where are they located? (Close to your business, in another state...?) Is their location a strength or a weakness? What profile of customer are they targeting?

2. Summarize key features and benefits of your strongest competitors' products/services? How do their products/services meet consumer needs? What other strengths/ weaknesses do they have? How do you know this? How do their prices compare to yours?

3. Look back at your Competitive Analysis Worksheet at the areas in which you ranked 1 or 2. What are your key competitive advantages? How will your products/services better meet the needs and wants of your customers? How are your products/services unique and different from those of the competition? What can you do better than your competitors—how do you know this?

4. Looking again at the Worksheet, note the factors with "high" and "moderate" priority where you ranked 3 or 4. List changes you can make to improve your competitive position.

plant it, grow it, market it! (cont'd) WORKSHEETS 5-13

Competitive Analysis—continued

Using your worksheet research, answer the following questions regarding your competition.

1. Who are your strongest competitors and where are they located? (Close to your business, in another state...?) Is their location a strength or a weakness? What profile of customer are they targeting?

2. Summarize key features and benefits of your strongest competitors' products/services? How do their products/services meet consumer needs? What other strengths/ weaknesses do they have? How do you know this? How do their prices compare to yours?

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4. Looking again at the Worksheet, note the factors with "high" and "moderate" priority where you ranked 3 or 4. List changes you can make to improve your competitive position.

Market Potential

Geographic Boundaries of Your Market

Identifying the size of the trade area for your agricultural business is intricately connected to determining who your customer is, who your competitors are and where they are located, and how many potential customers exist for your product/service. Is your trade area your community or some select part of it? Your entire state? The region? Answers to those questions may impact your customer and competition analysis by increasing or decreasing the number of your potential customers, as well as the number of direct competitors.

1. **Identify the boundaries of the trade area of your business on the lines below. Describe in geographic terms (a map can be included in your business plan marking the boundaries). How did you determine your market area?**

Market Size and Trends

Finding out about trends in population growth, consumption, competition and pricing can help you figure out how many customers you potentially have, and how many of these potential customers are likely to become actual buyers.

Market Size

Determining the size of your market requires doing some additional research. If you are selling to the general public, you need to look at the U.S. Census data for your market area. Census information is usually available in the reference section of your local library or at the Census Bureau web site. If you sell to other businesses, a trade association, the Chamber of Commerce, Extension Office or the Yellow Pages may be able to provide a list of potential wholesale and/or retail business customers. Using the worksheet on the following page, answer the following questions and record your answers appropriately.

1. **How many individual potential customers live within your designated trade area? How many potential business customers exist within your trade area?** Look back at your Customer Profile Worksheets for Individuals and Businesses. List the top one or two target market individual groups, and the top three or four business target groups on the *Market Potential Worksheet* on the following page, and record the appropriate numbers.

2. **How many of the available potential customers in your trade area "fit" your customer profile? Review your Customer Profile Worksheets (Individual and Business Customers). Then carefully estimate the number of individuals/ businesses that fit your profile.** Record those numbers on the *Market Potential Worksheet* on the following page.

5-14 WORKSHEETS plant it, grow it, market it! (cont'd)

Market Potential

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Identifying the size of the trade area for your agricultural business is intricately connected to determining who your customer is, who your competitors are and where they are located, and how many potential customers exist for your product/service. Is your trade area your community or some select part of it? Your entire state? The region? Answers to those questions may impact your customer and competition analysis by increasing or decreasing the number of your potential customers, as well as the number of direct competitors.

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Market Potential—continued

Market Trends

3. **Is your potential market growing, declining or holding steady?** (Answer for both individual target markets and business customer markets.)

4. *(Individual customers)* **What is the per capita consumption of your product/service?** Seek information regarding the average annual dollars spent per person on your product/service, or the average number of units purchased by an individual. Also, think through how your product or service is purchased (once a year, monthly, every week, etc.).

   (Business customers) **What is the average order size per order and how many orders are generally placed per year?** For both questions, look at the trends for the last five years, then project trends for the next five years. **What are the reasons for these trends?**

5. **What are the price trends for your product/service? What is the lowest price you are likely to receive in the near future for your product/service? What is the highest price you are likely to receive? What market conditions will dictate these prices?**

Determining Market Potential—Projecting Sales Volume

Annual Sales Volume Projection Worksheet

Target Market	Total # in your trade area	# that "fit" your profile	those that "fit," how many can you actually sell to? (A)	Quantity per sale (B)	# of times per year customer would buy (C)	Expected price per unit (D)	Expected Sales Volume (Multiply A x B x C x D)
Individuals							
Businesses							
						TOTAL	

plant it, grow it, market it! (cont'd) WORKSHEETS 5-15

Market Potential—continued

Market Trends

3. **Is your potential market growing, declining or holding steady?** (Answer for both individual target markets and business customer markets.)

4. *(Individual customers)* **What is the per capita consumption of your product/service?** Seek information regarding the average annual dollars spent per person on your product/service, or the average number of units purchased by an individual. Also, think through how your product or service is purchased (once a year, monthly, every week, etc.).

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Businesses							
						TOTAL	

Production Potential

Once you understand your "markets" and take a first look at potential sales volume, the next logical question is, "Can I produce this?" While the following sets of questions and worksheets are not intended to have you perform a complete technical production analysis, they will help you re-evaluate some of your production resources inventoried in Session 1 to see if you have the potential to actually "do" your agricultural business concept. Use only the worksheets that apply to your business.

Building, Facilities and Equipment
What facilities and equipment are required by your agricultural business? Do you already own the required buildings? Will renovations to existing buildings and/or new construction be required? Do you already own the equipment or should you consider leasing or purchasing what you require?

Use the charts on the *Building, Facilities and Equipment Worksheet* on Page 5-17 to help you sort out your building, facility and equipment needs.

Climate, Soil and Water Requirements
Understanding climate requirements is obviously important for agricultural businesses such as crop production. But livestock production and some service businesses are also heavily affected by climate issues. Protection from the cold, inaccessibility due to snow or extreme heat may affect your business in ways you hadn't considered. Similarly, soil and water requirements are considerations not only for crop-related agricultural businesses, but for some livestock and service businesses as well. Again refer back to your *Resource Inventory Worksheets* in Session 1 and to your *Seasonality Worksheet* in the first part of this session.

Use the charts on the *Climate, Soil and Water Requirements Worksheets* on Page 5-18 to help you re-evaluate your soil and water resources, and log important information about the climate in which you operate.

5-16 WORKSHEETS plant it, grow it, market it! (cont'd)

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Use the charts on the Climate, Soil and Water Requirements Worksheets on Page 5-18 to help you re-evaluate your soil and water resources, and log important information about the climate in which you operate.

Production Potential—continued

Building, Facilities and Equipment Worksheet

Facilities Required				
	Purpose	Size	Special Features Needed	Location
1.				
2.				
3.				
4.				

Required Renovations to Existing Buildings			
	Purpose	Modifications Required	Estimated Cost to Renovate
1.			
2.			
3.			
4.			
		Total Estimated Renovation Cost	

New Construction Required				
	Purpose	Square Feet	Special Construction Features	Estimated Cost
1.				
2.				
			Total Estimated Construction Cost	

	Machinery/Equipment	Size/Capacity	Already Own	Must Purchase	Must Lease/Rent	Estimated Cost
1.						
2.						
3.						
4.						
					Total Cost	

plant it, grow it, market it! (cont'd) WORKSHEETS 5-17

Production Potential—continued

Building, Facilities and Equipment Worksheet

Facilities Required				
	Purpose	Size	Special Features Needed	Location
1.				
2.				
3.				
4.				

Required Renovations to Existing Buildings			
	Purpose	Modifications Required	Estimated Cost to Renovate
1.			
2.			
3.			
4.			
		Total Estimated Renovation Cost	

New Construction Required				
	Purpose	Square Feet	Special Construction Features	Estimated Cost
1.				
2.				
			Total Estimated Construction Cost	

	Machinery/Equipment	Size/Capacity	Already Own	Must Purchase	Must Lease/Rent	Estimated Cost
1.						
2.						
3.						
4.						
					Total Cost	

Production Potential—continued

Climate, Soil and Water Requirement Worksheet

Climate Considerations	
Required by your agricultural business	**Provided by your location**
Days to harvest (if applicable): Growing Degree Units (if aplicable): Heat Units (if applicable):	Date of last spring frost (average): Date of first fall frost (average): Days in the growing season:
Lowest temperature tolerated:	Winter low temperature anticipated:
Highest temperatures tolerated:	Summer high temperature anticipated:
Average annual precipitation required:	Average annual precipitation:
Other requirements:	Other requirements (response):
Given the information above, what are your anticipated climate challenges? (describe):	
What are possible solutions to the challenges, and estimated associated costs?	
Soil Considerations	
Soil requirements of your agricultural business	**Soil characteristics of the land to be used**
Acreage:	
Topography/accessibility:	
Fertility:	
Moisture/Drainage:	
pH:	
Other:	
What possible soil problems exist? (list)	
What are the possible solutions and estimated associated costs?	
Water Requirements	
(Note: You mave have several different purposes for water use, which changes requirements.) Purpose of the water:	Quality required: Flow rate required: Volume required: Location:
Purpose of the water:	Quality required: Flow rate required: Volume required: Location:
What limitations exist regarding the water supply and distribution system? (describe)	
What are the possible solutions and estimated associated costs?	

5-18 WORKSHEETS plant it, grow it, market it! (cont'd)

Production Potential—continued

Climate, Soil and Water Requirement Worksheet

Climate Considerations	
Required by your agricultural business	**Provided by your location**
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Lowest temperature tolerated:	Winter low temperature anticipated:
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Writing Your Plan

Using the information and worksheets found in this session to guide you, assemble the market analysis section under the following headings and subheadings:

Section V. The Marketing Plan

B. The Market Analysis

Customer Analysis

Based on your research and completion of the Customer Profile Worksheets, summarize a description of your target markets and their key characteristics. Include all relevant factors including demographic characteristics, psychographic information (motivation for buying, values, interests, preferences), lifestyle descriptions (where, how and when they choose to buy) and expectations. If more than one customer group is targeted, include an explanation of the multiple groups and why they were chosen.

Competitive Analysis

Review the Competitive Analysis Worksheet and your answers to the questions that followed it. Identify and briefly describe your major competitors. Include where they are located and whether their location is a strength or weakness. Then summarize your competitors' key strengths and weaknesses, including how they are currently performing to meet the needs of the customer. Clearly identify your competitive advantage by discussing the aspects of your agricultural business or products/services that are unique and superior to the competition.

You may choose to include the Competitive Analysis Worksheet in your business plan to show readers what factors were used for comparisons and the comparative scores.

Market Potential

Current Trade Area

Describe your actual geographic trade territory, including the boundaries and why you chose this trade area (why your customers will come to do business with you in this trade area). Include a map with your trade territory boundaries designated.

Market Size and Trends

Describe the size of your market in terms of number of potential customers. Summarize the trends for this market, including whether the market is growing, stable or declining, and why.

Market Potential

Describe the market potential in terms of your total potential sales. Include the calculations used in the Annual Sales Volume Projection Worksheet and any assumptions you used in making the calculations so the reader will understand the basis for your discussion of market potential. Discuss your current sales volume (existing business) and your projected ability to grow based on your market potential, including your plans for adding products/services.

TURN THE PAGE! This "Writing Your Plan" section continues!

plant it, grow it, market it! (cont'd) WORKSHEETS 5-19

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TURN THE PAGE! This "Writing Your Plan" section continues!

Writing Your Plan—continued

Production Potential

Looking at your Production Analysis Worksheets, briefly discuss any advantages or potential barriers to production based on your available resources. Are there other critical resources besides those listed on the worksheet that will determine your ability to actually "do" your business? Do you believe at this point that you will be able to produce the amount of goods/services required to achieve the total potential sales volume projected in the above paragraph, and why or why not?

(NOTE: We will return to projecting sales volume and business size in later session material. This is your "first look" at potential sales volume of your agricultural business.)

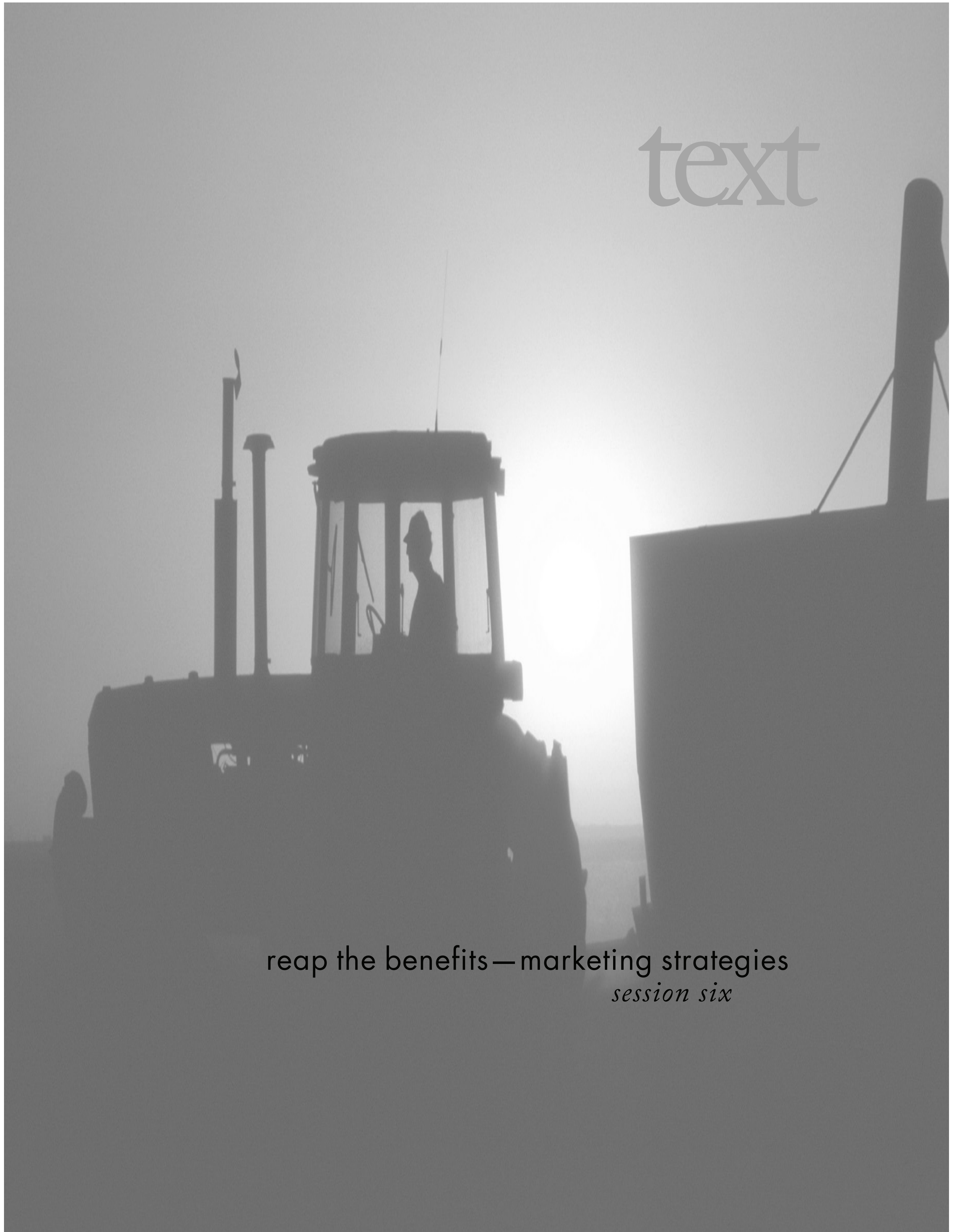
5-20 WORKSHEETS plant it, grow it, market it! (cont'd)

Writing Your Plan—continued

Production Potential

Looking at your Production Analysis Worksheets, briefly discuss any advantages or potential barriers to production based on your available resources. Are there other critical resources besides those listed on the worksheet that will determine your ability to actually "do" your business? Do you believe at this point that you will be able to produce the amount of goods/services required to achieve the total potential sales volume projected in the above paragraph, and why or why not?

(NOTE: We will return to projecting sales volume and business size in later session material. This is your "first look" at potential sales volume of your agricultural business.)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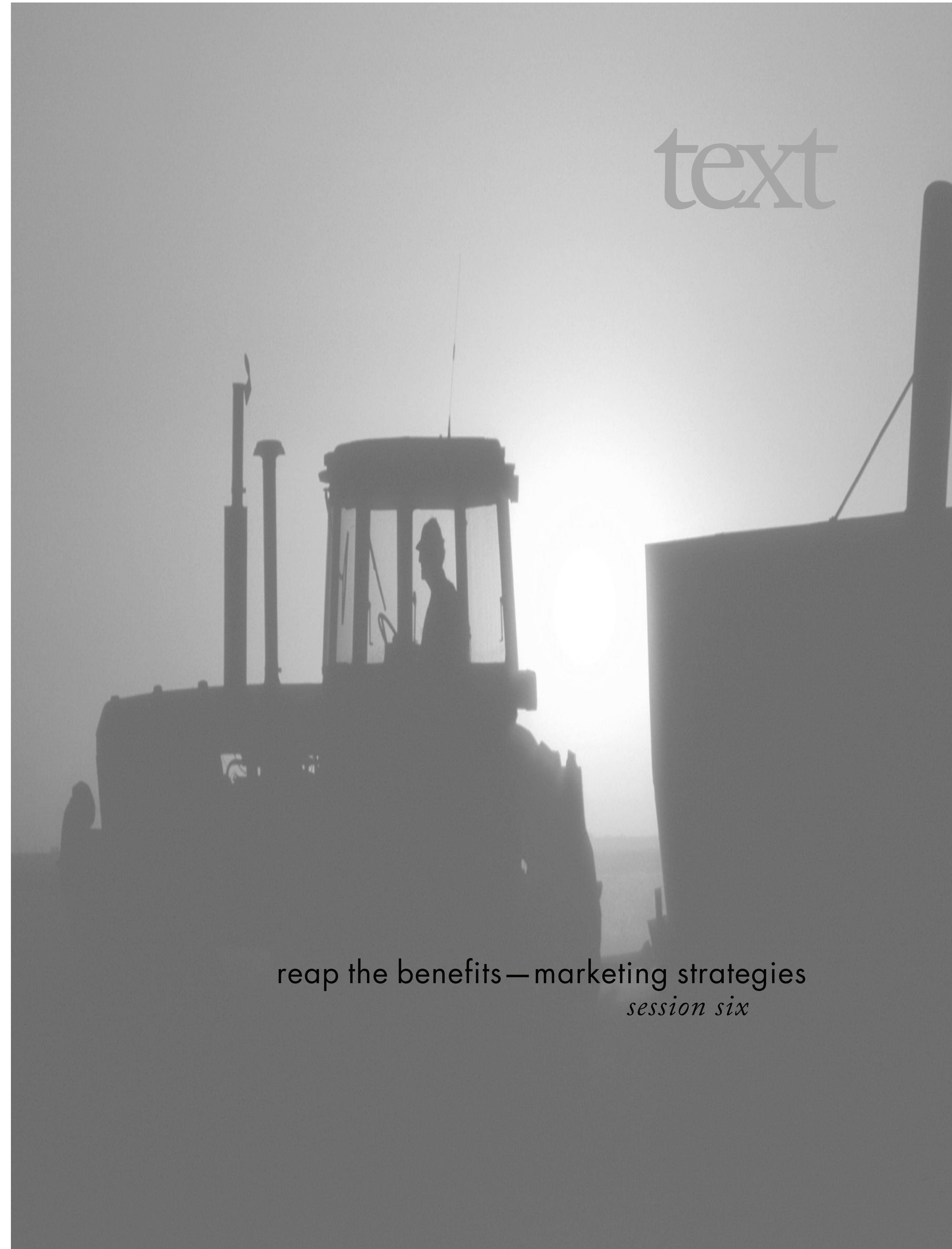
reap the benefits—marketing strategies
session six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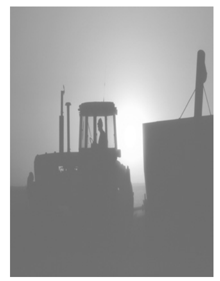

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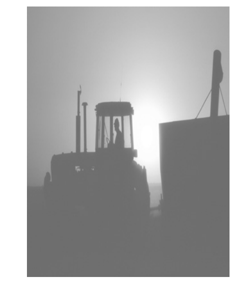

reap the benefits—marketing strategies

session six

reap the benefits—marketing strategies

SESSION SIX

this Session

What's in This Session?

This session covers two topics.

Marketing Strategies Overview. This session will help you understand how to develop sound marketing strategies that reflect your primary and secondary industry and market research. It will also show that sound marketing management leads to sound business management.

Marketing decision-making is not simply a step-by-step process, because one decision may influence the use of other marketing tools. This session will help you understand the interrelationship of marketing decisions.

The strategies you will use to market your product/services revolve around two basic marketing concepts: segmenting your market and positioning your product/service in the marketplace. The tools that you will use to implement these concepts are the 4 P's of marketing.

4 P's of Marketing. Entrepreneurs use Product, Price, Promotion and Placement to implement the marketing tactics and achieve marketing strategies. While each is separate in theory, in practice the 4 P's are intertwined in your marketing mix. For example, knowing what you sell (your product or service) and its unique attributes is what allows you to properly position it in your segment of the market. Pricing will influence your position decisions. Promotional methods will be partially driven by the segment of the market you are trying to reach. Placement (distribution) decisions will impact your ability to get the product or service into your customers' hands. Various aspects of the 4 P's are used in balance in what becomes a delicate patchwork—woven to best achieve your marketing strategies. In addition to the 4 P's, you should also consider positioning your product with the consumer and training your people to value the consumer.

reap the benefits—marketing strategies

SESSION SIX

this Session

- marketing strategies overview p2
- 4 p's of marketing p3
  - product p3
  - price p9
  - promotion p19
  - placement p30

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Marketing Strategy Overview

Marketing strategies are approaches that businesses take to achieve their marketing objectives. Just as there are different routes you may chose between to get from your house to the grocery store, there are many different ways for businesses to achieve their marketing objectives. Two major concepts relating to marketing strategies are: ***segmenting your market*** and ***positioning your product/service.***

Segmenting Your Market

"Segment your market and position your product/service in the marketplace..."

Businesses commonly divide their market into segments, then target specific segments with specific product offerings. **Market segments** are groups of customers with similar needs and characteristics. Market segmentation is the opposite of mass marketing, which aims to sell a single product to as broad a group of customers as possible.

The purpose of market segmentation is to identify a **target market.** You will remember in Session 5 we discussed your target customer(s). Here you will target one or more groups of your target customers, called market segments, in an attempt to anticipate and satisfy their needs with your products or services. You'll recognize if a market segment is worth targeting if it:

"**Market segments** are groups of customers with similar needs and characteristics..."

- Is large enough to generate profits
- Has unique characteristics and is measurable and definable
- Has growth potential
- Is accessible
- Has unmet needs

Examples of market segments that might interest an organic grower are:

- Health and fitness conscious individuals
- Environmentally concerned individuals

6-2 TEXT reap the benefits—marketing strategies

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Entrepreneurs usually target **niche markets**. A niche market is a smaller slice of a larger market that has very specific characteristics (size, location, tastes) that clearly separates it from larger markets. It is much easier for businesses to target niches and enter those markets than it is for them to try to enter a larger mass market. This is because niche markets tend to be less competitive and, hence, more profitable than mass markets.

Positioning Your Product or Service

Product positioning is a conscious decision by marketers to put their products/services in a particular position in the marketplace relative to other competitors' products/services. Through product positioning, the marketer communicates features and benefits of a product or service to customers.

"**Product positioning** is a conscious decision by the marketer to put their products/services in a particular position in the marketplace relative to other competitor's products/services…"

As you create your positioning statement, ask yourself about your product or service and its positioning in the market:

- Does it offer a significant benefit to your target audience?
- Does it truly separate you from your competitors?
- Is it unique and difficult to copy?

Excellent positioning doesn't come easily. For instance, positioning may be heavily influenced by your pricing decision. Pricing decisions are discussed later in the session.

Once you have segmented, targeted and thought about your positioning issues for your product, it is time to continue to the specific elements that define your marketing strategies—Product, Price, Promotion and Placement.

the four P's

Marketing's 4 P's: Product, Price, Promotion and Placement

The discussion of marketing strategies revolves around the traditional tools of marketing: Product, Price, Promotion and Placement (distribution).

Product

What Is a Product? What Is a Service?

In Session 5, you prepared much of the research, analysis and definition of your product or service. The discussion continues here with additional product strategies that need to be considered in your marketing plan.

TEXT 6-3

Entrepreneurs usually target **niche markets**. A niche market is a smaller slice of a larger market that has very specific characteristics (size, location, tastes) that clearly separates it from larger markets. It is much easier for businesses to target niches and enter those markets than it is for them to try to enter a larger mass market. This is because niche markets tend to be less competitive and, hence, more profitable than mass markets.

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A product is defined as a bundle of features and benefits designed to satisfy customer needs. A product can also be a service. A service delivers benefits like convenience, expertise or comfort. A product can even be a combination of a tangible item and intangible services.

Product Strategies

All businesses must decide which and how many products to offer, when to add new products, and how to position the entire product line. These are decisions regarding **product strategy**.

"What will you offer, how will you package it, and what services will enhance it?"

The purpose of this section is to familiarize you with the steps that go into creating a product strategy. While you have developed your product description in Session 5, here you will continue with how you can create a plan for what you will offer how you will package it, and what services will enhance it.

Your Product Line

A **product line** is a group of products or services offered by a single company. Usually these are similar products that build on the same strengths of the business and create a wider customer audience. The farm-ranch store that offers clothing, tractor parts, animal feed and farm tools is offering related product lines. The farm-mechanic that offers to repair transmissions, engines and exhaust systems is offering related service lines. **Product mix** consists of both the *depth* and *width* of product lines you offer.

"Product Line is a group of products or services offered by a single company..."

"Product Mix consists of both the *depth* and *width* of product lines you offer..."

One strategic decision is the **depth of the product line**. This describes the number of different items within the product line. When a grower decides to offer different types of vegetables at a farmers market (sweet corn, tomatoes, beans and lettuce mix) he is determining the depth of his product line.

6-4 TEXT reap the benefits—marketing strategies

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One strategic decision is the depth of the product line. This describes the number of different items within the product line. When a grower decides to offer different types of vegetables at a farmers market (sweet corn, tomatoes, beans and lettuce mix) he is determining the depth of his product line.

The **width of the product line** describes the diversity of products a business offers. If the same grower above decides to branch out and offer mushrooms and berries, he is extending the width of his product/service line. Particularly for new businesses, adding new products can be highly risky. New products may require marketing and operational skills outside of your business' competencies. Additional facilities may be required. That is why, before making any product line extensions, it is important to revisit your business' strengths and your long-term objectives.

"It is important to revisit your business' strengths and your long-term objectives..."

Packaging

Packaging helps to communicate and promote your product's image. Distinctive package design can attract target customers' attention and boost sales. Businesses that offer a line of products often design similar packaging (shape, color, size) in order to tie the line together in the minds of customers. Packaging also serves a very basic function of protecting products and providing information to customers about use, ingredients, quantity, and expiration date.

Clever design of your packaging can lead to increased sale of your products. Many businesses, old and new, have achieved success by cleverly identifying new ways to package existing products. By changing the packaging, they were able to entirely reposition the product in the minds of customers, hit new customer segments and, in some cases, open new channels of distribution.

agExtra

Food Labeling

Under regulation by the Food and Drug Administration and the Food Safety and Inspection Service, food labeling has become a general requirement for most food products. Food and nutritional labels have also become an important source of information for today's consumers. Although not all raw foods, i.e. fruits, vegetables and fish, are required to have nutrition labeling, a voluntary program is highly encouraged.

Food produced by small businesses may be exempt. Businesses with less than 100 full-time equivalent employees and less than 100,000 product units sold annually may qualify for this exemption by applying to the FDA. Businesses with less than 10 full-time equivalent employees and selling less than 10,000 units annually are exempt and do not need to notify the FDA. Exceptions also apply to retail businesses with annual gross sales less than $500,000 or with annual gross sales to consumers in the United States less than $50,000. Even though your business may fall into one of these categories, you should still consider food labeling as an excellent marketing tool, especially if you are marketing to the health conscious consumer.

TEXT 6-5

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General Requirements for Food Labeling:

1) **Required information.** All foods are required to include a statement of product identity, statement of net contents, ingredient and nutritional labeling, dietary supplement labeling, name and address of manufacturer, packer or distributor.

2) **Ingredient Labeling.** Ingredient Labeling contains information about the composition of the packaged food. Both the USDA and FDA require that ingredients be listed by their common, specific names and in their order of predominance. Because some people may be allergic to certain additives, the ingredient list must include them when appropriate.

3) **Nutrition Information Panel.** Under the label's "nutrition facts" panel, manufacturers are required to provide information on certain nutrients. Some are mandatory such as total calories, calories from fat, total fat, cholesterol, sugars, iron, dietary fiber, etc. and others are voluntary components. If the food is fortified or enriched, these components become mandatory. The nutrients must appear as percentages of the Daily Values and listed as amounts in grams or milligrams. The panel also carries a footnote stating what is the basis for the percentages such as a 2,000-caloried diet. Serving sizes are expressed in common household and metric measures, i.e., tablespoon, piece, slice, 1 pickle, 2 cookies, etc.

4) **Nutrient Claims.** "Free," "Low," "Lean," "Good Source" and others are all considered to be nutrient claims relating to the food product. Guidelines have been established for the use of these claims.

5) **Health Claims.** Claims for 10 relationships between a nutrient or food product and the risk of a disease or health-related condition are now allowed. They can be made through third-party reference (National Cancer Institute), statements, symbols or descriptions. However, they cannot detail the degree of reduction but can use the words "may" or "might." For example, "While many factors affect heart disease, diets low in saturated fat and cholesterol may reduce the risk of this disease."

Source: United States Food & Drug Administration

Consider these various packaging examples as inspiration:

- Coffee offered in single-serving tea-like pouches
- Business software made more user-friendly and configured to track dairy cattle records and milk production
- Mixed wildflower seeds sown in a can and sold as "Garden In a Can"
- Pre-cooked roasts that heat-up and are ready to be served in 10 minutes

6-6 TEXT reap the benefits—marketing strategies

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- Cow udder cream repackaged and sold as hand cream for very rough hands
- Grow your own mushroom logs and mushroom kits
- Dijon mustard in a squeezable container
- Pasta in western shapes-hats, boots, wagon wheels, animals-sold in craft supply stores
- Popcorn in a pouch, ready for micro-wave cooking
- Bottled water in individual-sized bottles

While packaging usually makes us think of an outside "wrapper" of a product, services can also be "packaged." Careful packaging of your service business may enhance the overall image and presentation of your business. Consider the impact on your customer of the following service business packaging elements:

- Professional-looking invoices, business cards, letterhead
- Clean delivery vehicles
- Certified technicians

"Careful packaging of your service business may enhance the overall image and presentation of your business..."

Service Enhancements

Even manufacturers of the simplest and lowest priced goods can find unique ways to enhance their offerings with good customer service. Service is one of the least expensive and most sure-fire ways for small businesses to enhance marketing efforts. Why? Because customers would rather be treated like a valued friend than a number! Yes, they *need* the product or service they are buying from your business, but they *want* the time savings of free delivery, peace of mind of having their regular orders on file and the "warm-fuzzy" feeling of being greeted by name.

By virtue of small size and mobility, small businesses can enjoy much closer customer contact than larger competitors. Consider these service enhancements:

- If you don't know your customers by name, you should!
- Offer free or low-priced delivery

know your customer.

TEXT 6-7

- Cow udder cream repackaged and sold as hand cream for very rough hands
- Grow your own mushroom logs and mushroom kits
- Dijon mustard in a squeezable container
- Pasta in western shapes-hats, boots, wagon wheels, animals-sold in craft supply stores
- Popcorn in a pouch, ready for micro-wave cooking
- Bottled water in individual-sized bottles

While packaging usually makes us think of an outside "wrapper" of a product, services can also be "packaged." Careful packaging of your service business may enhance the overall image and presentation of your business. Consider the impact on your customer of the following service business packaging elements:

- Professional-looking invoices, business cards, letterhead
- Clean delivery vehicles
- Certified technicians

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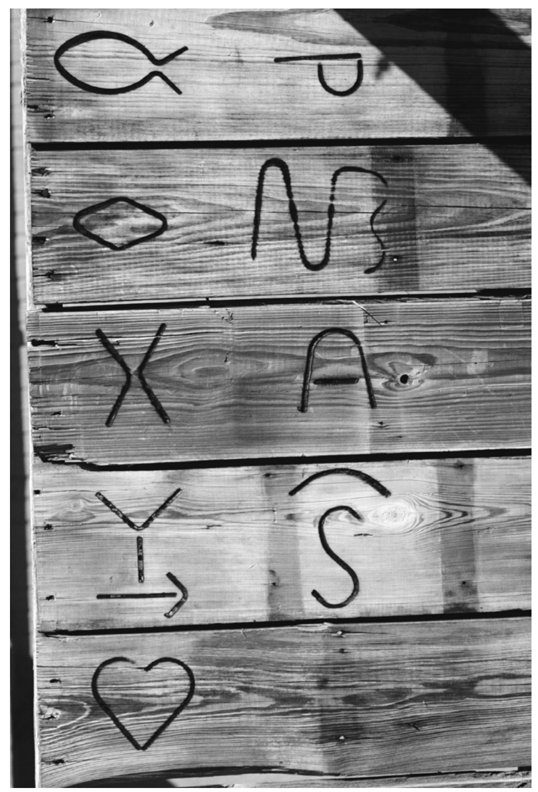
"Customers would rather be treated like a valued friend than a number!"

- Set up a fax and phone help/information number
- Create your own frequent customer program with rewards for repeat purchases
- Create a colorful, brief, informative customer newsletter
- Attach helpful tips and tailored promotional messages to invoice statements
- Have convenient and flexible hours that fit your customers schedules
- Offer free and convenient parking
- Give away free samples
- Send birthday greetings and offer birthday discounts
- Offer free demonstrations and installations
- Notify customers of new products, special events, etc., through the development of a customized database of customers
- Offer recipes and new ways to prepare foods



"A **brand** is a name or symbol that represents a product..."

buzz words

Branding Your Product or Service

A **brand** is a name or symbol that represents a product. A well-established brand associated with a quality product is a very valuable asset and a marketing enhancement. Although lacking the resources of their larger competitors, small businesses can create a unique **brand image** for their product, which will differentiate it from other products. How? By learning from brand powerhouses like John Deere®, Kleenex® and Sunkist®. These corporations have succeeded in part by creating categories of products that have distinct brands or "personalities." These can become as important to customer's opinions about the product as one of the recognized businesses for that line of products, for example: Frontier Coffee-Certified Organic®, Johnny's Selected Seeds®, and Ronnigers Garlic and Potatoes®. Additionally, a brand image may include a symbol, character or logo such as Tony the Tiger® or Mr. Gene Greens®.

6-8 TEXT reap the benefits—marketing strategies

"Customers would rather be treated like a valued friend than a number!"

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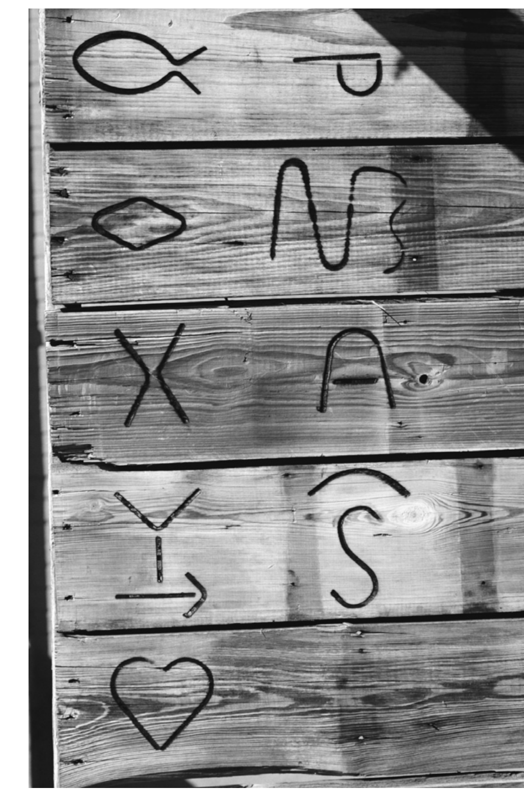

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A brand image is communicated through the product's benefits, its packaging, advertising and the service delivered along with it. Consider the following brand imaging tips:

- Create a plan: how will the product be conceptualized, packaged, distributed and promoted.
- Design your product with care: use shape, color, design and varied consumer uses to differentiate your product.
- Name your product with power: buzz words are key to consumer recognition and recall.
- Package your product creatively: use the package as a message platform.
- Look at the big picture: everything that has to do with your business should have the same consistent, clear look and identity.
- Understand merchandising: pay attention to product presentation on the shelf.

"A well-established brand associated with a quality product is a very valuable asset..."

An additional element of brand imaging is the product name. What makes a good name?

- It should suggest product benefits: Sunkist®, Mr. Clean®, or Beautyrest® mattresses
- It should fit the brand image: Troybilt Tillers® (ease of operation), Round Table Pizza® (cozy food for friends and families), Ding Dongs® (silly, playful food for kids), Vidalia Onions® (onions grown in Vidalia region of Georgia), Fingerling Potatoes® (varieties of small and tasty products)
- It should be easy to pronounce and recognize
- It should not be previously registered with another company

"Profits result only from lower costs and/or higher volume..."

Pricing

Agricultural Pricing Challenges

Traditional agricultural crops have been sold as generic commodities and, therefore, at a set price. While there has been some limited differentiation in agricultural commodities (e.g., grade of wheat, level of dirt and weeds in grain, etc.), it has been difficult for agricultural businesses to get higher prices for what is viewed as their generic commodity. The result is that producers have not been able to influence the price they receive. Profits result only from lower costs and/or higher volume. The challenge for agriculture is to develop alternative products or markets that generate higher

TEXT 6-9

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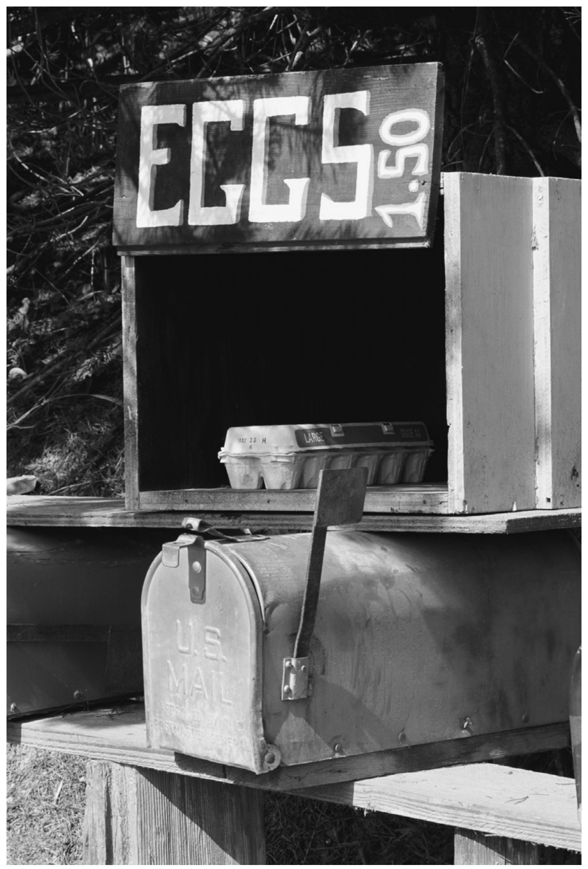
profits. One way discussed in Session 5 was to develop a means of *product differentiation.* Remember the lesson of the corn farmers, Tom and John? Finding a way that someone can differentiate between your agricultural product and your competitors' can mean higher prices, increased product demand and new uses for a "commodity" product. Value added strategies must also be considered. Making jellies and jams from berry surpluses, drying tomatoes, making salsa and soups are ways to bring more profit to your agricultural operation.

"Price is the amount of money asked for a sales unit of product or service..."



Pricing Strategies

Pricing can be seen as the bridge between your company's marketing strategy and its financial health. The revenue you will generate depends on your quantity of sales and your product or service price.

You must price your products and services at an amount high enough to gain a profit. On the other hand, your price must also attract customers and build sales. These may seem like contradictory goals but they don't have to be. It is up to you to gather enough information about your market and be able to find the right price. Different industries price their products and services differently. You will need to research the specific pricing practices used in your industry while you perform your market analysis. You should also review trade journals and trade association documents, and talk with businesses in your industry.

A good starting point in our discussion of pricing is understanding the difference between prices and pricing.

"**Pricing** refers to the art of balancing knowledge of the marketplace and an instinctive feel for the price."

Price is the amount of money asked for a sales unit of product or service.

For example, a sales unit in a grocery store may be a 5 lb. bag of potatoes or a jar of pickled jalapenos. In service businesses the sales unit will not be so concrete. You may price your work hourly or per acre, such as a custom operator who charges $8.47 per acre to windrow a field, plus extra for baling. As an alternative, you may choose to price your service as a flat project fee. If you charge a project rate, you will be paid a certain amount regardless of the amount of time it will take to complete a project. If you are a fast worker, this will be very much to your benefit. If you are a slow worker, your hourly rate will work out to a lower amount.

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6-10 TEXT reap the benefits—marketing strategies

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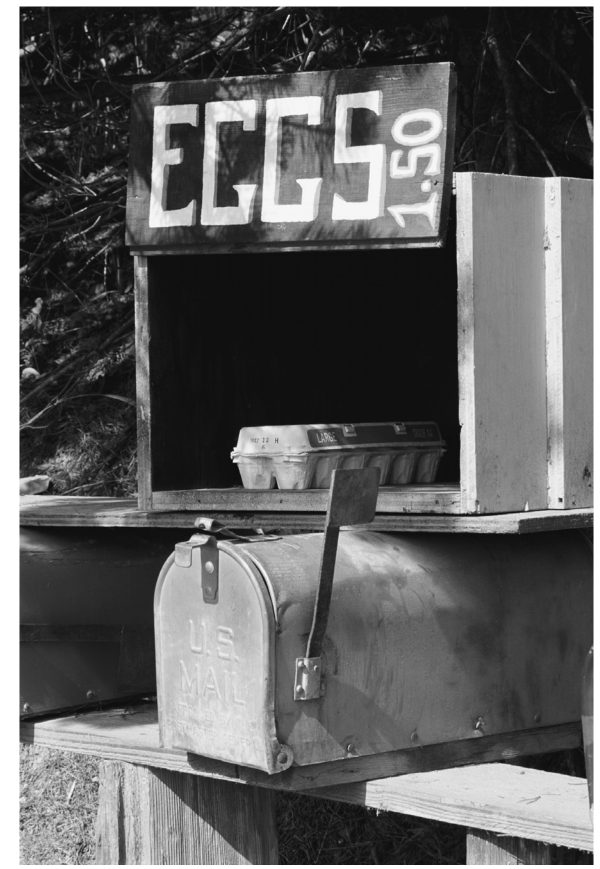

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Setting the price for your product or service begins with your pricing objectives. Are you primarily interested in covering your costs and perhaps making a small profit? Or is your goal to undercut your competitors and "buy" your way into a particular market? Perhaps you wish to achieve a particular return on your investment and will price your product regardless of competitive factors.

"The agricultural business owner must be alert to changes in the marketplace..."

Even after you have set your price—one that seems to meet the twin goals of sufficient sales volume and making a profit—your pricing work is not done. In fact, it will never be done. Perhaps in the area of pricing, more than any other aspect of business, the business owner must be alert to changes in the marketplace. These changes may affect everything from your cost for supplies or materials to new technology that makes your product quicker, better or less expensively.

Key factors to keep in mind when you consider your Pricing Strategy:

1. Pricing is an art, not a science.
2. The customer is the center of your business.
3. You operate in a competitive marketplace.
4. Your prices reflect your position in the marketplace.
5. Price is only one factor which consumers use to evaluate products or services.
6. The biggest mistake you can make is to assume that the lower the price the better one.

Key Point: You must have a complete picture of what it costs you to make your product or provide your service. Without this information you can not decide if your business will be profitable, and therefore desirable.

Understanding More About Cost

There are two categories of costs you need to understand: **Variable Cost** and **Fixed (or Operating) Costs**

Variable Costs

Variable costs are the cost of doing business or those out of pocket cost incurred each time you sell a product or service. Variable costs go up or down in relation to sales volume. They are sensitive to the quantity sold.

Variable costs include:

- Cost of materials
- Labor costs
- Commissions
- Shipping/packaging/ delivery charges

Understanding the terms:

VARIABLE COSTS also referred to as *COGS* (Cost of Goods Sold) —OR— *Variable Expenses*

Definition: COSTS TO PRODUCE A PRODUCT OR SERVICE THAT VARY

TEXT 6-11

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Example:
If you own a turkey farm, your variable costs will go up in November and December because you will need to prepare more turkeys for a peak sales period. If you have to hire temporary workers to meet this temporary rise in demand, such labor costs would be variable in nature. To determine whether an expense is a variable cost, ask yourself if the expense increased because you are selling more products.

Variable Cost Example

Assume you sell a jar of gourmet apple butter for $10.00.
Next, assume the costs to produce the apple butter:

Selling Price		$10.00
Product Costs:		
Raw material costs	3.00	
Hourly labor	1.00	
Sales Commission (10%)	1.00	
Shipping Charge	.50	
Total Variable Costs		5.50
Price minus Variable Costs		**$4.50**

The difference between the Selling Price and the Variable Costs is $4.50
Fixed costs and Profits must come out of this $4.50.

Understanding the terms:

FIXED (or OPERATING) COSTS

Definition: COSTS INCURRED REGARDLESS OF SALES

The $4.50 is called the **contribution margin**, because it represents how much is "contributed" from each unit toward paying for the fixed costs and profits

"The contribution margin is the amount you have left after paying variable costs..."

Your **contribution margin** is the amount you have left after paying variable costs, and it must pay for your fixed costs and still leave a profit. Once you know your contribution margin, you can use a formula to figure out how many units of your product you must sell to "break-even." Referring back to the apple butter example, the **break-even point** is how many units you need to sell to pay all your fixed expenses. Before we calculate the break-even point, let's make sure we understand fixed costs.

Fixed (or Operating) Costs
Fixed (or operating) costs are the costs of being in business. Basically they remain constant or fixed. Sometimes you may also hear them called administrative costs, overhead costs or fixed expenses.

Fixed costs include expenses like:

- Rent
- Telephone
- Insurance
- Accounting expenses
- Loan payments

6-12 TEXT reap the benefits—marketing strategies

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The most important point to remember is that before you can set a price that will earn a profit, you must know your total variable and fixed costs. If you leave out one of these in setting prices, you take the risk that you will not generate enough income to pay all expenses, with some left over. In most situations your cost is the minimum price you need to charge. While you may occasionally need to sell below cost to clear an inventory surplus, it can not be a habit. Remember you can not make a profit selling at cost!

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Now How Do We Begin To Set Prices?

Let's return to the question of how high you can set your price and still attract customers. To begin to answer this, we must look at your competition, customers and your company goals.

make profit

First, what does your competition charge for a similar product? Using our $10.00 apple-butter example again, assume you have found prices ranging from $8.00 to $13.00 for similar products sold by the competition. The lower price can be found in grocery stores. The gourmet stores selling to upper income families charged the higher price of $13.00. If we are trying to reach customers in the middle income bracket we will expect to charge a price somewhere in the middle. Chances are you will find that competitors selling to the same market we are targeting will charge a middle price of $9.00 to $11.00.

TEXT 6-13

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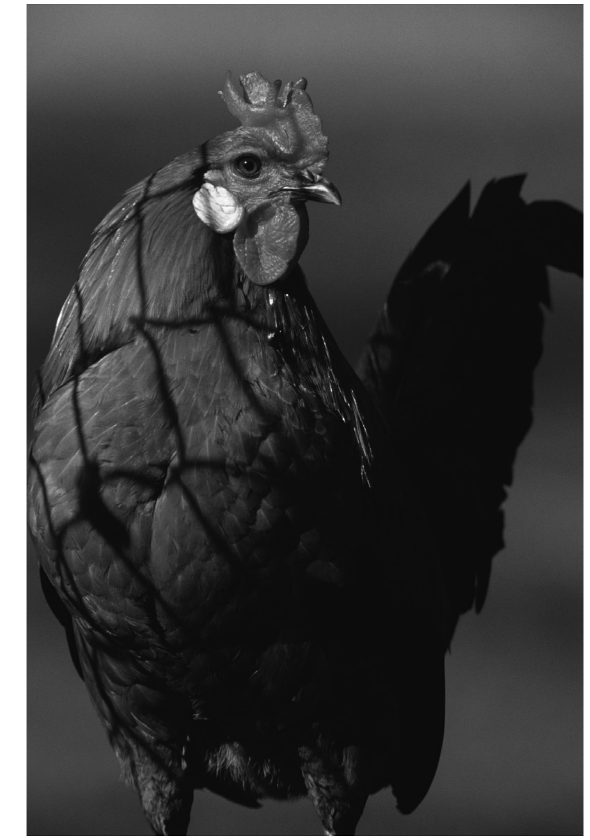

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"Competition-based Pricing is a useful tool to see where you might be able to price in relationship to the competition…"

Now we must compare our product to the ones being sold to the same market we have chosen. If our product is superior in quality or appearance to the $9.00 item we can justify a higher price. Assume, however, that we cannot find any real advantages to our product over the one selling for $11.00. If sales of the $11.00 butter products are strong, then we may choose to set our price at $11.00 also, and compete for the same customers. The other choice is to set our price slightly lower, and provide an incentive for customers to choose our product.

going rate

Competition-based pricing (also called "going-rate") is a useful tool to see where you might be able to price in relationship to the competition. Many new business owners set a price that is lower than the competitions'. This can backfire, and can easily put you out of business. First, until you know your costs, your desired profit, and how many jars of apple-butter need to be sold before you make that profit, it can be a dangerous pricing method, since all it measures is what your competition is doing or what the "suggested retail price" might be!

Second, cutting your prices can result in a poor image for your business. People will often assume they "get what they pay for." Cutting your price may give the appearance of lesser quality.

A better pricing method is **cost-based pricing**, which is what we have been leading up to. A tool called a **break-even analysis** can help you take the some of the guesswork out of the pricing situation by using our costs (rather than someone else's prices) as the basis for determining when we will break-even. Let's take a look at how it works.

Break-even Point

Let's assume you will start selling your apple-butter at a price of $10.00. You can raise it later as your company's reputation and sales volume increase.

Now that you have determined variable prices and set a price, you need to find out how many units you must sell to pay fixed costs. As you will recall, this is called your break-even point. Profits are the income you generate after reaching the break-even point. If you don't sell enough units to reach the break-even point you will never have a profit. If you're not going to make a profit then why are you in business?

6-14 TEXT reap the benefits—marketing strategies

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Remember our contribution margin? It came from the formula of:

Price - Variable Costs = Contribution Margin

Or, as in our example $10.00 - $5.50 = $4.50

The contribution margin is $4.50.

Now suppose you have monthly operating costs (fixed costs) of $1,350.00. How many jars will you need to sell to pay these costs? You will divide the total fixed costs by the contribution margin.

The formula looks like this:

<u>Operating Costs</u>
Contribution Margin = Break-even Point

break-even

Using our example, it would like this:

<u>1,350.00</u>
4.50 = 300 jars of apple-butter must be sold this month to break even.

Remember, break-even does *not* include any profit, so it would take selling 300 jars to cover just fixed and variable costs.

"A tool called a **break-even analysis** can help you take the some of the guesswork out of the pricing..."

The next question to answer is:
Can you sell 300 jars of apple-butter per month at a price of $10.00? If so, you will just cover your operating (fixed) costs. You would have to sell more to earn a profit. After you reach sales equal to your break-even point of 300 units, every jar you sell results in a profit of $4.50. (Remember that the $4.50 is your *contribution margin*. It is the amount of money left after paying variable costs of $5.50 per unit, which still have to be paid for every unit sold.)

If you **cannot** reach this break-even point, you will operate at a loss.

Let's return to our example, and find out what would happen if we lower the price to $9.00. First we determine the contribution margin:

$9.00 (price) - $5.50 (variable costs) = $3.50 (contribution margin).

Next, we determine how many jars must be sold to break-even:

<u>1,350.00 (fixed costs)</u>
3.50 (contribution margin) = 386 jars.

Now you must sell 386 jars at $9.00 each just to break-even! Can you sell an additional 86 jars at the lower price?

TEXT 6-15

Remember our contribution margin? It came from the formula of:

Price - Variable Costs = Contribution Margin

Or, as in our example $10.00 - $5.50 = $4.50

The contribution margin is $4.50.

Now suppose you have monthly operating costs (fixed costs) of $1,350.00. How many jars will you need to sell to pay these costs? You will divide the total fixed costs by the contribution margin.

The formula looks like this:

<u>Operating Costs</u>
Contribution Margin = Break-even Point

break-even

Using our example, it would like this:

<u>1,350.00</u>
4.50 = 300 jars of apple-butter must be sold this month to break even.

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Now you must sell 386 jars at $9.00 each just to break-even! Can you sell an additional 86 jars at the lower price?

We can also do this exercise by raising the price. How many jars will you need to sell if you set a price of $11.00 per jar?

Food for Thought
There is another way to look at this issue. Perhaps you can reduce your costs to lower your break-even point. What would happen?

Planning for Profit

Two types of profit goal setting:

- profit goals
- volume goals

profit goals

We've talking about pricing from the standpoint of meeting costs. In the long run, you'll want to do more than just cover your operating costs—you must also include your profit goals. This can be done by setting a specific **profit goal**, and then figuring out the price and units of sales it would take to meet that goal. You could also estimate, or forecast, a **sales volume goal** and then calculate the profits. This type of goal setting is exactly what you need to think about as you move into the financial sections of your business planning.

Profit Goals

Returning to the example, in addition to covering your operating costs of $1,350, you want to make a profit of $900. We know that the first 300 items you sell go toward operating costs. How many more must you sell to provide the $900 profit? (Remember for each item sold at $10.00, $4.50 contributes to operating costs and eventually to profits.)

Calculate this the same way you calculated the break-even point, substituting profits for operating costs:

Profit Break-even = Profit Goal / Contribution Margin
Profit Break-even = $900.00 / $4.50 Profit Break-even = 200 items

You must sell an additional 200 items to realize a $900 profit. This means selling a total of 500 items (300 to cover variable and fixed costs, and another 200 to cover variable and profit goal) to cover operating costs and provide your profit goal.

6-16 TEXT reap the benefits—marketing strategies

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Volume Goals

The second way to plan for profits is to forecast an attainable sales volume goal.

Returning to the example, 500 apple-butter sales may seem too large at this stage in your business. Perhaps your market research has shown that a volume of 400 is more reasonable for your size start-up business. What effect will this have on your profits?

plan for profit

Profits at a sales volume of 400 are calculated as follows:

Profit = (Sales Volume X Contribution Margin) - Operating Costs
Profit = (400 jars X $4.50) - $1,350.00
Profit = $1,800.00 - $1,350.00
Profit = $450.00

"It is essential to be consistent with all elements of your marketing strategies…"

Whether you set profit goals based on the profit percentage desired, the dollar amount of profits desired or the quantity of your product or service you are capable of selling, at least you are PLANNING for profit!

You need to be constantly asking yourself:

(1) What is the Minimum Price I can charge?
- Remember if your selling at cost you won't make any money.

(2) What are my Competitors selling the product for?
- How far above cost can you sell and remain competitive?
- If you're selling below your competitor, is your plan to capture the largest share of the market?
- Will the increased number of units sold result in enough additional profit to warrant cutting prices?
- What sets your product or service apart from the competition?

(3) What will your customers' reactions be to your prices?
- How will your customers react to higher prices than your competition?
- Will customers recognize the advantage of your product or service and be persuaded to pay a little more?

Coordinating Price with Other Elements of Your Marketing Strategies

No matter which pricing strategy you use for your products or services, it is essential that it be consistent with the other elements of your marketing strategies. Consider the issues below, recognizing that distribution and promotion strategies will be discussed in detail as we continue.

- **Product Strategy.** Is your price in line with your customers' perceptions of quality? If not, then you should consider lowering your prices, improving your quality or increasing your efforts to educate your customers about your product's quality.

TEXT 6-17

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fickle customers

- **Distribution (Placement) Strategy.** Is your product's price level consistent with the distribution outlets you are using? High-priced premium products should be distributed selectively. Likewise, lower priced economy products should be distributed on a broad basis to maximize their availability to the larger price-sensitive market.
- **Promotional Strategy.** Is your advertising message consistent with your product's price level? If yours is a premium-priced product, is your advertising image one of quality and service? If yours is a lower priced product, is your advertising image one of value? Are your sales promotions undercutting your own pricing strategy and profitability? Are coupons or price discounts being used more often than not and encouraging only short-term business by fickle customers?

Common Pricing Errors

Listed below are some common pricing problems:

- Basing price on current artificially low overhead costs vs. projecting into the future to anticipate how overhead might rise over time.
- Assuming that because you are the newest competitor on the block you must have the lowest prices.
- Trying to compete head-to-head on price with larger resource-rich competitors. Try instead to offer higher quality or more individualized and attentive service.
- Basing prices on manufacturing costs vs. on the value of product to customers. Costs may be far lower than the value of product to customers.
- Failing to include in the price an allowance for warranty costs, future service, research and development costs, cost of capital, dealer discounts, sales commissions.
- Ignoring the way customer demand for the product will change at different price levels. Estimate how much sales volume might increase if prices are lowered 10 or 20 percent. At what price do you earn the maximum profit given customer demand at different price levels?
- Basing prices on historic pricing strategies without regard to consumer demand, competition, changing cost structures and/or revised desired profit levels.

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fickle customers

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Pricing tips

1. A product is worth what someone is willing to pay for it!
2. In successful businesses, products/services are priced to generate a profit.
3. "Loss leaders" are priced to generate traffic, not make a profit.
4. Price wars are never won!
5. Intuition and "gut feelings" cannot replace product and cost knowledge.
6. Break-even is the point where profits start, and not before! Know your break-even points.
7. Start-up businesses generally cannot compete based on volume alone.

"Remember: If you promise higher quality, you must deliver or you will lose that customer AND your credibility..."

Promoting Your Product or Service

promotional strategies

What is Promotion?

Promotion is everything you do to communicate with your target customer and encourage the sale of your product or service. A business' **promotional strategies** utilize tools to achieve promotional objectives. Promotional strategies include advertising, public relations and networking, and a category of "other" promotional tools that we will touch on in this session.

If you are starting a small business and want to get off the ground, you must use promotion. Even the best product or service won't sell if people don't know it exists. This can be the most creative part of your entire marketing effort. The greater your imagination, the more memorable your impact will be. The whole goal of promotion is to catch and hold people's attention and get them to buy your product. The reality of a small promotional budget means that agricultural entrepreneurs must be even more creative and aggressive than their larger competitors.

"Promotion is everything you do to communicate with your target customer and encourage the sale of your product or service..."

The goal of this section is to help you to think like an experienced promoter and learn to analyze which promotional tools will be most effective for your business.

agExtra

Signage

The use of Signage at Farmers Markets can be quite competitive, allowing growers to draw in the customers business and outsell their counterparts. Much of this type of promotional material can now be created on personal computers. Colorful and informative signage grabs the attention of customers and draws them to the grower's stand. It is much like driving by a large mall and looking for the sign of your favorite fast food restaurant. Growers can do the same at Farmer's Markets by using signs to set them apart from other growers. The cost is usually very minimal.

TEXT 6-19

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Advertising

It's hard to imagine anyone who doesn't appreciate advertising's huge role in American popular and consumer culture. Advertising is the most well known, expensive and flashy method of communicating with consumers.

"Advertising is the most well known, expensive and flashy method of communicating with consumers..."

Advertising delivers paid promotional messages through mass communication channels such as television, radio, magazines and the Internet. Advertising's goal is to communicate messages about a product, service or company. Advertising messages may serve to raise awareness, influence customers to buy or increase a product's visibility. Businesses may use advertising to promote their individual products or their business' overall image.

Traditionally, many agricultural businesses are not the direct users of advertising as a promotional tool. However, it may be important to you to take this opportunity to understand media usage and how it impacts the end user.

The Advertising Planning Process

Advertising is not for everyone. It can be expensive and time consuming to create a truly effective advertising message. It can, however, be a profitable investment. Once you've decided to advertise, you must decide which media to use, what message to convey, what feeling to create, how frequently you will run your message, and how much you are willing to spend. Creating advertising can be a lot of fun, but to get the most out of your advertising dollars you should:

target audience

Identify your target audience

Before you create an ad, you must know to whom you are speaking and to what media they are exposed. Your target audience is defined through your market research and your market analysis. Review these findings to guide the content, style and placement of your advertising.

6-20 TEXT reap the benefits—marketing strategies

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Set your marketing objectives
Your advertising goals determine the advertising message and the medium you choose. Typical advertising objectives are to reach a certain percentage of the target market, to increase the target customers' exposure to your product/business, or to achieve a certain level of sales. Setting clear goals lets you gauge whether or not you received your money's worth.

Industry sources, newspapers and radio and television stations can offer good estimates of the monthly sales patterns for your industry. They know what their viewer demographics are so that you can plan your objectives realistically.

Create your advertising budget
Your advertising budget is one part of your overall promotional budget. How much you allocate depends on your objectives and your resources. It also depends on how widely and how frequently you want your message to be heard. How much will you spend on each ad message per month? How much will you spend developing and producing an ad piece?

Design your advertising strategy
This is the most strategic and creative part of the entire advertising management process. It relates directly to your positioning strategy. How will you encourage your customers to buy? What will your message and medium be? Will you use humorous short radio spots to highlight how speedy your service is? Or will you use a simple and classy color image to convey your premium quality? How about a spokesperson or a competitor comparison?

mini
magazines

Selecting Your Advertising Media
Media are the outlets that carry advertising messages, such as television, radio, magazines, newspaper, billboards, direct-mail or the Internet. You also have choices like creating your own home page on the Internet or publishing your own "mini-magazine."

How do you select the media that is right for your message and your budget? You should judge all media by the exposure, or reach and frequency they offer to your target customer. **Reach** describes the percent of your target market that sees your message. **Frequency** describes the number of times individuals in your target market see your message.

Impact and cost are also two major criteria for selecting an advertising medium. Different advertising mediums have different impact, based on their reputation, audience and other advertising content. Based on reach and frequency information, you can estimate how much it costs you to advertise per customer you influence. This way you can create a standard by which to compare your advertising choices.

Media are the outlets that carry advertising messages, such as:

- television
- radio
- magazines
- newspaper
- billboards
- direct-mail
- the Internet

TEXT 6-21

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For businesses that are introducing a new product, the frequency with which an advertising message is heard may be more important than the reach. It takes several exposures to a message before people are even aware of it and absorb it, much less take action on it! For agricultural entrepreneurs who are trying to fill a market niche, the objective is to reach targeted people frequently.

Review your media options listed below:

- **Television.** TV ads can communicate information about product usage and benefits using sound, color and motion. Cable TV can be a great, lower cost, highly targeted medium since it targets viewers with very specific interests. Home shopping channels are also a great way to promote and sell products with very little risk or expense.

- **Radio.** Radio can provide constant, flexible coverage to reach a wide range of audiences. You can choose the time, day and exact station to reach your target audience with multiple ads. Local radio advertising can be a very cost-effective way to spread a message. The cost of radio advertising has risen much more slowly than any other major advertising media. Radio stations have staff and equipment to help produce ad spots. Consider writing your own message. You don't want your ad to sound just like everyone else's.
- **Newspapers.** Newspapers are great for running short-term price promotions and coupon offers to very specific audiences. Newspapers reach a comparatively upscale audience and are useful for targeting specific geographic regions. By placing different coupon ads in various local papers, you can measure which is most effective for spreading your message. Newspaper ad salespeople can advise you on the best placement, day, size and length of run for your ad.

"For agricultural entrepreneurs who are trying to fill a market niche, the objective is to reach targeted people frequently..."

- **Magazines.** Magazines are a very targeted way to communicate a message to an audience. There are magazines for just about every special interest you can think of. They are often saved and read more than once by more than one person, so businesses get

6-22 T E X T reap the benefits—marketing strategies

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excellent coverage with magazine ads. Advertisers can use colorful ads placed next to relevant articles to maximize their visibility. Small businesses can often negotiate to use lower cost remnant space in magazines when it is available.

- **Direct mail.** Direct mail, the fastest growing and most flexible media for advertisers, allows businesses to send segment-specific promotional information to its customers and tailor its message to the audience. It can provide a great deal of detailed information on product usage and benefits.
- **Signage.** Billboards, personal vehicles, service stations, feed stores and even farm supply stores are spots that might be considered to post advertising messages. These are among the lowest-cost mediums. Messages must be clear, short and highly colored to be quickly noticeable and effective. Carefully placed signs near where target customers live, shop and commute is a highly effective way to hit a target market.
- **The Yellow Pages.** Yellow Page listings can be an essential way to promote your product or service if customers typically use the Yellow Pages to get information about your type of businesses. People who use the Yellow Pages are the hottest prospects of all because they are in a buying mood. Businesses may locate their listing in several different sections. One advantage of this medium is that small businesses can appear as big as their larger competitors.
- **Classified ads.** Many small businesses use only classified ads to promote themselves. Magazines, newspapers and classified ad newspapers all sell space for classified ads. These ads are less expensive than traditional ads and can contain more information. Classified ads are often offered at a discount to advertisers who use frequent listings. Chances are, if you see classified ads in your local paper or favorite magazine for your type of business, you could profit from placing ads there too.
- **Internet.** Internet or electronic commerce is one of the fastest growing mediums for advertising. Costs to develop an Internet home page varies from relatively inexpensive to costing thousands of dollars. Many small communities now have access to technical expertise through their community colleges or Internet Service Providers. They can assist you in developing your Web site for the customers you are targeting. Many businesses start with a basic Internet service and then add the ability to do "e-commerce" (i.e., direct purchases over the Internet) as appropriate. The key to Internet commerce is developing a Web site that your customers find informative, useful and one that sells your product.

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"Internet or electronic commerce is one of the fastest growing mediums for advertising..."

TEXT 6-23

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- **Classified ads.** Many small businesses use only classified ads to promote themselves. Magazines, newspapers and classified ad newspapers all sell space for classified ads. These ads are less expensive than traditional ads and can contain more information. Classified ads are often offered at a discount to advertisers who use frequent listings. Chances are, if you see classified ads in your local paper or favorite magazine for your type of business, you could profit from placing ads there too.
- **Internet.** Internet or electronic commerce is one of the fastest growing mediums for advertising. Costs to develop an Internet home page varies from relatively inexpensive to costing thousands of dollars. Many small communities now have access to technical expertise through their community colleges or Internet Service Providers. They can assist you in developing your Web site for the customers you are targeting. Many businesses start with a basic Internet service and then add the ability to do "e-commerce" (i.e., direct purchases over the Internet) as appropriate. The key to Internet commerce is developing a Web site that your customers find informative, useful and one that sells your product.

frequency.

"Internet or electronic commerce is one of the fastest growing mediums for advertising..."

Once you've selected your advertising tools, you need to decide when you will use each one. If yours is a seasonal product, you will want to coordinate your message with your customers' purchasing cycles and the availability of your product. For example, festivals are often held to commemorate the arrival of a new product season such as maple syrup in the spring, "Sap in Running," Saurkraut and Horseradish Festivals, and gourd and pumpkins festivals held in the fall.

"**Public relations** are organized efforts businesses undertake to present themselves in a positive way to the broadest public audience…"

Advertising messages can be aired in a few large "bursts" at scheduled intervals. They can also be spread evenly over a period of time to maintain customer awareness. When new products are being introduced, businesses often use a "burst" strategy with a cluster of advertising to create an early and intense impact to build customer awareness. Seasonal businesses and businesses offering short-term sales promotions also use this strategy.

Public Relations and Networking

Public relations are organized efforts businesses undertake to present themselves in a positive way to the broadest public audience: potential customers, government officials, stockholders, lenders, and other businesses.

The goal of public relations is to generate good publicity about a business. **Publicity** is unpaid communication about a business or its product or service in the mass media. Because it is unpaid, publicity is one of the most credible of promotional sources. Good publicity is a great promotional tool for small businesses.

"**Publicity** is unpaid communication about a business or its product or service in the mass media…"

How does an agricultural entrepreneur generate publicity? By becoming "newsworthy" and then by preparing press releases for radio, newspapers, magazines, or local television stations. A **press release** is written by a company to announce a new product or news about the company. Join several of your local trade or product associations, chambers of commerce and community clubs and take or make opportunities to speak in public or write articles for newsletters. Some great ways entrepreneurs can become newsworthy and generate publicity for their businesses are by:

- Co-sponsoring local sporting or charity events
- Participating in local fund-raisers by donating prizes or time
- Hiring local students to be interns
- Giving lectures to local trade organizations or chambers of commerce
- Sending your small business story to your local newspaper or trade association

6-24 TEXT reap the benefits—marketing strategies

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One example that produce growers used is joining the Chefs Collaborative 2000 (an effort that links chefs and growers together to encourage local purchasing by restaurant chefs). Growers donate fruits and vegetables to fundraisers and events in which many chefs participate. Chefs then become familiar with the growers and their products and will more likely promote their products at other fundraisers. This promotional technique has been highly successful for a mushroom grower in Ohio. It can also lead to new business opportunities such as the development of an RSA (Restaurant Supported Agriculture).

"If you have the gumption to start your own business, you also have the charisma and ability to interact with a wide variety people..."

Chances are, if you have the gumption to start your own business, you also have the charisma and ability to interact with a wide variety people. That's called **networking**. Use it!

By networking and increasing your circle of professional and personal contacts, you are also using one of the most time-tested inexpensive marketing tools. Continually widen your circle of contacts to include possible investors, customers, consultants, bankers, employees, vendors, distributors and other entrepreneurs. Take every opportunity to speak publicly, and when you do, bring a lot of business cards and collect a lot of business cards. Always follow-up on new contacts with a brief note, then a phone call. You can even create a networking schedule for yourself that includes lunch dates (for example, at least 3 times a week), follow-up notes and calls, presentations to local groups, charity events, trade shows, and classes and seminars. Set aside some time to work on these things every week.

charisma.

Other Promotional Tools

Direct Marketing

Direct marketing is among the least expensive (per sale generated) and fastest growing marketing methods today. It includes mail-order catalogues, door-to-door sales, telephone marketing, and even on-line marketing on the Internet. What do all of these efforts have in common? They work to make a sale on the spot without a middleman between the seller and the buyer. Because these methods are so direct, businesses can better measure their effectiveness, target their audience, personalize their marketing efforts, earn higher response rates, generate repeat sales and compete with even the largest competitors.

"Networking—one of the most time-tested inexpensive marketing tools..."

TEXT 6-25

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Direct marketing is a tremendous opportunity for bringing the customer closer to you without spending the dollars on advertising.

Trade Shows and Consumer Fairs

One of the most targeted and effective ways to promote your offerings to the customers who need them is at trade shows, farmers' markets or industry fairs. Each state usually holds at least one tradeshow that promotes new agricultural opportunities. For example, the Ohio Farm and Science Review, National Fruit and Vegetable Marketing Conference, Husker Harvest Days in Nebraska and National Pork Expo in Iowa. Additionally, some home and garden shows are now adding food and chef segments that may provide an opportunity to showcase value-added products that growers are producing.

The people who attend these types of events aren't just potential customers. They are serious prospects! For some businesses this is the primary promotional method they use. Consider the following trade show and consumer fair tips:

- Visit shows before you display at one: gather information on your competitors, selling techniques, new products, display tricks and network, network, network!
- Research and categorize your prospects before you attend: advertise ahead of time telling them where you'll be (enclose a map or a picture of your booth) and invite them for a sample or gift.
- Create brochures and fliers to circulate.
- Create catchy displays that fit your marketing image: use props, video, film, slides, music, lights.
- Visit trade show display companies ahead of time to get ideas.
- Attract passersby with merchandise, selling abilities and your personality.
- Set up your own booth or share a booth with a seller of compatible products.
- Staff your booth with enough people to give quality attention to prospects.

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prospects

6-26 TEXT reap the benefits—marketing strategies

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- Staff your booth with friendly, charismatic and knowledgeable people: this is your "charm patrol" and demonstrates how you value the customer.
- Create a trade show budget and track all expenses. A good rule of thumb is a need for sales to be about 10 times more than expenses.
- Follow up with all prospects you meet within 10 days—otherwise you're wasting your time.

Newsletters

Small businesses that create newsletters are able to keep up a dialogue with their customers. In order to be effective, newsletters should be published regularly and consistently, contain valuable information and up-to-the-minute news, be easy to read and enjoyable to look at, communicate your marketing image and focus on solutions for customers' problems. Even businesses on small budgets can hire a professional to help create an inexpensive but well-designed newsletter.

"Even businesses on small budgets can hire a professional to help create an inexpensive but well-designed newsletter…"

Brochures

Brochures allow businesses to go into greater detail about their business and their products or services than almost any other promotional medium. People expect detailed information in brochures, so be sure to deliver it to them in a compelling way. You should also:

- Include photos of your products or jobs you've completed.
- Use color photos or images if you can: it increases your customers' retention.
- Use the same logo or company headline on the cover as you use elsewhere.
- Include your experience, skills and training.
- Include your telephone and fax number, e-mail address, business address, hours.
- Consider creating a video brochure, a two to five minute video presentation of your business.

Word-of-Mouth

Word-of-mouth, in its simplest form, is one satisfied customer telling friends about your business. Additionally, word-of-mouth advertising can grow out of messages that originated in other media like radio, direct mail or magazines. While word-of-mouth advertising is often about a product, it needn't be that limited. A positive reputation spread from person to person is also the result of excellent service genuinely and creatively delivered.

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There are two important points to keep in mind about word-of-mouth advertising. The first is that it is not always controllable. You cannot control what others are going to say about you, your product or service, your employees or your business. Second, recent studies have shown that people will tell up to 5 other individuals about a good product or excellent service that they have received. However, they are willing to tell three times that many—15!—about a poor product or service if they feel they have been misused or misled by the company. Thus word of mouth is like a double-edged sword, except one edge is a lot sharper than the other!

Similar to word of mouth advertising is the use of spokespersons who have access to radio and television. For example, Chefs who have established a satisfying relationship with a grower will often feature their product during their cooking shows, sometimes even inviting the grower to participate! Another option is for the spokesperson to represent a product in return for a percentage of the sales generated from the show.

Free/Low Cost Promotion Methods:

- barter
- cooperative advertising
- personal letters
- fliers
- follow-up customer calls or visits
- "thank you" notes

Free/Low Cost Promotion Methods

Many of these tactics have been called by such diverse terms as guerilla, in-house or cost less marketing. What they all have in common is their relatively small expense versus the benefits they can generate. For instance, many companies spend substantial sums on marketing programs that are designed to attract new customers. Experience has shown that for a fraction of the cost, these same companies could mine their existing customer list for referrals or perhaps sell their existing customers a new product or service. ***In all of your customer contacts consider asking them for a referral and then questioning them about other products/services they would like to see you offer.***

Given the cash-strapped nature of many small agricultural businesses, you may be better served trying some of the following before engaging in an expensive advertising campaign.

- **Barter.** Barter allows you to trade your products or services for ad space. You gain from bartering because you're paying for space with your product valued at its full retail price (which includes your profit margin).

6-28 TEXT reap the benefits—marketing strategies

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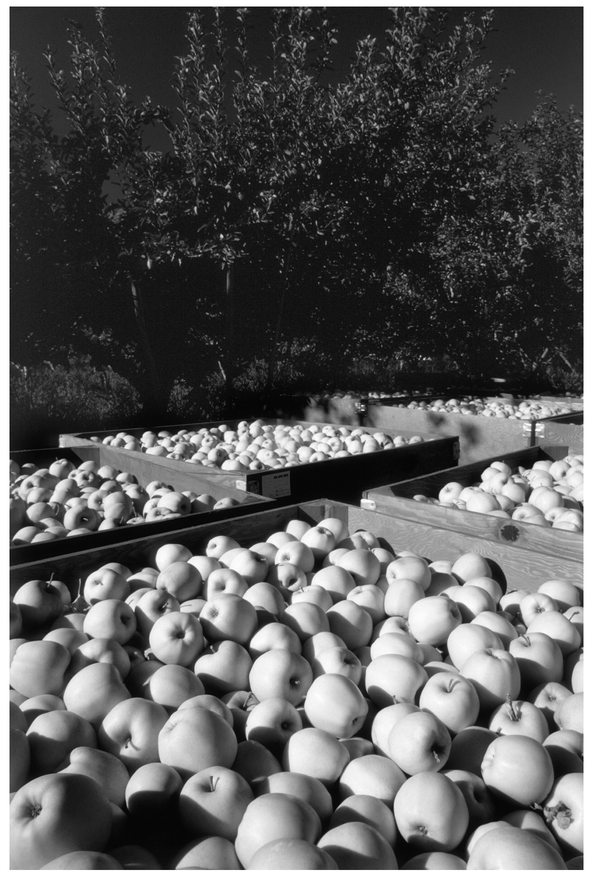
- **Cooperative Advertising.** Businesses that use **cooperative advertising** receive reimbursement of advertising costs from larger companies for mentioning their brand names in their promotional efforts. An example of this would be the custom harvester who includes the name John Deere® in his/her brochure.

"Remember: it is five times cheaper to keep current customers than to go out and find new ones!"

- **Personal Letters.** Personal letters are a great way to introduce yourself to carefully researched prospects. You can create completely customized letters that include specific information about your product or service. A personal letter can also build a relationship with the potentially new customer. It shows what you can do for them, that you are proactive, and tells them you will be following up.



- **Fliers.** Fliers that you create and distribute in your area can be a very economical way to spread the word about your business. People who see the flier may not act on it immediately, but if properly designed, it will catch their eye and raise their awareness. This is the first step of turning them into a customer. Choose your basic idea, combine it with a fitting picture or image and then explain more fully what you are offering. Fliers can also be used for existing or past customers to offer discounts tailored to their purchasing track record.
- **Follow-up customer calls or visits.** Follow-up customer calls or visits can help gauge customer satisfaction. Also, the simple act of following up tells people that you value them as customers and that they are important to you and your business. Which one of us doesn't like to be treated in this manner?

keep customers

- **"Thank you" notes.** Thank you notes to first-time and existing customers add a personal touch and enhance repeat business.

Simple low cost/no cost promotional strategies such as these can help you retain existing customers. Remember: it is five times cheaper to keep current customers than to go out and find new ones!

TEXT 6-29

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agExtra

Unusual Promotional Tips for Agricultural Entrepreneurs

- Create advertising specialties: imprinted pens, t-shirts, bumper stickers
- Make colored or unusually shaped business cards
- Send humorous promotional postcards
- Offer gift certificates
- Use trial sizes to encourage sampling
- Contact past customers: invite them to visit when you have new products
- Try toll-free telephone numbers: they are becoming less expensive
- Use home shopping networks

Managing Your Promotions

"Tracking the effectiveness of each of your promotional tools is essential..."

Managing promotional efforts involves setting budgets, creating a promotional calendar and measuring the effectiveness of each strategy. Because small businesses have less money to spend on promotions, they must make sure that what they do spend is as effective as it can be. Tracking the effectiveness of each of your promotional tools is essential. Then you will be able to fine-tune your methods as you learn which work best for you.

Placement (Distribution) Strategies

If you can't get your product to customers when they want it, even the best product at the best price won't sell. If this doesn't catch your attention, think of it this way: distribution represents between 15% and 50% of the final price of a product. If you choose the wrong methods of distribution, you risk placing yourself right out of your market!

Placing Your Product or Service: Distribution Strategies

Distribution describes all activities that are involved in moving goods from producer to customer. In the broadest sense, a business' physical distribution system is composed of taking orders, packing, inventory management,

6-30 TEXT reap the benefits—marketing strategies

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Distribution describes all activities that are involved in moving goods from producer to customer. In the broadest sense, a business' physical distribution system is composed of taking orders, packing, inventory management,

storage, transportation and follow-up service. The goals of a distribution system are to be on time, dependable, accurate, safe and able to satisfy customer needs.

"Distribution describes all activities that are involved in moving goods from producer to customer..."

Distribution strategy is about choosing the most cost-effective method to deliver the product to your customer. The strategy must fit with the rest of the marketing strategies (the product, price and promotion). Imagine a premium gourmet food item being sold at a discount store, or a gasoline company selling door to door. These businesses will not only miss selling opportunities, but will needlessly spend time and money in wrong distribution processes.

"Distribution Strategy is about choosing the most cost-effective method to deliver the product to your customer..."

Service businesses also must develop distribution strategies. Where will your clients come to get their taxes prepared? Will they contract with you directly? Will you set up an office? Will you use fax, e-mail, and the telephone to deliver services? As mentioned before, all of your marketing elements are intertwined: the type of product or service and how it is positioned and priced all influence how it is distributed.

Distribution and Small Agricultural Oriented Businesses

slotting fees

Few businesses have the time, money, or expertise to deliver their products themselves directly to their customers. By hiring professional distributors or outsourcing certain distribution tasks, small agricultural businesses may be able to more easily enter new markets. They may even outsource others to package, store, and deliver their goods while they focus on other things like customer service, product design, or promotion.

Another major challenge for small agricultural businesses is gaining entrance into traditional distribution channels. A good example of this is the prohibitively high **slotting fees** that many grocery chains charge to producers in order to put their products on the shelf. Luckily, there are several ways for small businesses to bypass these obstacles and distribute their products more quickly: door-to-door, farm or public markets, home shopping networks, classified ads, mail order, the Internet and fax-on-demand are some examples.

The remainder of this session will introduce you to the basics of distribution strategy and highlight some of the most effective ways for entrepreneurs to distribute products and services.

Distribution Basics

Businesses in every industry rely on distribution partners. **Intermediaries** are all of the businesses who help buy and sell, assemble, store, display and promote products. Intermediaries help businesses move their products through the **distribution channel**, the avenue by which the product travels

TEXT 6-31

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from manufacturer to final customer. This channel is composed of a group of independent businesses including manufacturers, wholesalers and retailers who deliver products to final customers. Ideally your intermediaries cooperate and coordinate their efforts to maximize their effectiveness and thus best serve the customer and you!

Types of Distribution Channel Intermediaries

There are several types of intermediaries that businesses work with to distribute their products:

Types of Distribution Channel Intermediaries

- retailers
- wholesalers
- distributors
- agents
- brokers
- cooperatives

- **Retailers** do not produce anything but are specialists at selling directly to final customers. They buy their products from manufacturers, distributors, and wholesalers, then **markup** the price to cover their costs and make a profit.
- **Wholesalers** buy and sell bulk merchandise to other wholesalers or retailers. Wholesalers do not sell directly to the public. Their expertise might lie in repackaging, storing, and reselling particular categories of goods. An example of this would be the wholesaler who represents all types of dried fruits and nuts, buys them in bulk and repackages them into smaller bags to resell to other grocery chains.
- **Distributors** buy merchandise from manufacturers and resell it to wholesalers, retailers, or sometimes directly to the final customer. Distributors are specialized according to the market they serve. A good example would be a distributor of coffee. They buy coffee beans direct from growers and roast the beans themselves. They then sell to wholesalers who repackage and re-label the coffee to sell to other retailers. The same distributor can also packages their beans themselves and sell them directly to customers in their own coffee shops.
- **Agents** charge a commission to facilitate sales between manufacturers and their final customers. Agents do not take title to the products they deal with, they simply represent businesses and their products. **Manufacturers' agents** sell a business' product in a specific geographic region, usually on an exclusive basis. **Sales agents** are different in that they often have more control over setting prices and terms of sale. It is not uncommon for them to take over all or part of the marketing effort for a product, including promotion and distribution strategy.
- **Brokers** unite buyers with sellers and have only short-term relationships with each. Like agents, they do not take title of the products they broker.

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from manufacturer to final customer. This channel is composed of a group of independent businesses including manufacturers, wholesalers and retailers who deliver products to final customers. Ideally your intermediaries cooperate and coordinate their efforts to maximize their effectiveness and thus best serve the customer and you!

Types of Distribution Channel Intermediaries

There are several types of intermediaries that businesses work with to distribute their products:

Types of Distribution Channel Intermediaries

- retailers
- wholesalers
- distributors
- agents
- brokers
- cooperatives

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- **Brokers** unite buyers with sellers and have only short-term relationships with each. Like agents, they do not take title of the products they broker.

- **Cooperatives.** Cooperative members sell the products they raise to the cooperative entity, which in turn markets those products to wholesalers, retailers and, in some cases, directly to the consumer. Cooperative members benefit from economy of scale (e.g., their combined production can be marketed to larger accounts), guaranteed price, and quality control measures. The American Berry Cooperative for example is an effort to organize berry growers in Ohio and surrounding states to create an industry for growers and buyers of raspberries and strawberries. In its infancy, this effort could enhance the growth and popularity of the raspberry industry in the midwest.

Selecting Your Distribution Strategy

Like setting any strategy for your business, a distribution strategy requires that you know your objectives, time and budgetary constraints, and the strengths and weaknesses of each of your alternatives. Distribution objectives might include increasing speed to market, safety and reliability, or reducing costs. Do your customers value speedy delivery? Does your product require technical support before a customer can use it? For cost or service reasons, do you need to retain complete control over the handling and delivery of your product?

Most industries have well-established distribution practices that include knowledgeable and capable intermediaries. However, your task is to identify which distribution option is best for your product, set your own strategy, and measure your own results. In some cases, traditional distribution channels might be inaccessible or not cost-effective for your products. In this case, you will have to exploit other more entrepreneurial methods to distribute your products or services.

speedy delivery

Below are some general guidelines for deciding if your business needs distributors. Chances are you will want to use distributors if:

- Customers are scattered geographically and often require speedy, small quantity deliveries
- Products require little or no technical selling

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- Customers are scattered geographically and often require speedy, small quantity deliveries
- Products require little or no technical selling

- Basic repackaging or customization of products is required to fit local customer needs
- Distributors are traditionally used in your industry

Business distribution strategies vary according to whether they produce consumer goods, industrial goods or services. The next section reviews the basics of distributing in each industry.

Distributing Consumer Goods

"Consumer Goods are those products that are produced and sold to the final consumer..."

Consumer goods are those products that are produced and sold to the final consumer. Below are several of the methods that are used to distribute goods in consumer-product industries.

- **Direct marketing**. Some businesses avoid intermediaries altogether by directly marketing their products to their customers. They may use door-to-door sales, their own retail stores and telephone or catalogue orders. By selling directly to the end customers, your business is able to completely control how your products are sold and serviced. You can remain on top of changes in your market and quickly respond to customer needs. Directly selling to consumers can also be faster and lower in cost (in the case of telephone and catalogue sales) than any other distribution method. One of the most important elements of direct selling is keeping a database of past, present and potential customers.
- **Manufacturer to retailer**. Most producers of consumer products rely on intermediaries to sell their products. In the case of large manufacturers selling to large retailers like Tractor Supply Company® and Sears®, businesses may bypass wholesalers entirely and sell directly to retailers who in turn sell to consumers. Businesses choose this strategy because retailers might be able to provide storage and logistical support more cheaply and effectively than wholesalers. On the other side, this gives the retailers more control over the terms of their transaction with the manufacturer.
- **Manufacturers via intermediaries to retailer.** Other businesses choose to distribute their goods to retailers via wholesalers or other intermediaries. This strategy is used by the larger manufacturers who sell to many small retailers. Wholesalers can be particularly helpful to businesses introducing new products. They can use their leverage and expertise in the industry to push the product into retailer outlets. Businesses can also use agents and brokers to sell to wholesalers or to retailers. These intermediaries

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operate on commission only and can be a handy replacement for a small business' in-house sales team. They can present a line of products professionally, coordinate in-store promotions, and share their in-depth knowledge of markets and customers.

Distributing Industrial Goods

Industrial goods. Industrial goods are products that are manufactured and sold as inputs to other businesses that make them into finished products.

Direct marketing to other businesses. This type of distribution is much more common in industrial markets than in consumer markets. Many industrial manufacturers have only a few very large customers who can be sold to directly and cost-effectively. Many industrial products are higher cost and more complex than consumer products. They also figure prominently in the production of other products—industrial goods must meet certain quality standards and be delivered on time. In short, buyers and sellers in industrial markets are tied together closely in a partnership. In-house sales forces, telemarketing and catalogues are the major ways that industrial manufacturers market directly to their customers.

"Buyers and sellers in industrial markets are tied together closely in a partnership..."

Manufacturer to intermediary. For industrial products, wholesalers and agents can provide a more cost-effective way for selling many small products to smaller customers. Intermediaries can also be very helpful for getting a new product established among industrial customers. They can also provide technical and promotional support depending on the terms of their contract.

How to Evaluate and Manage Your Intermediaries

Once you've decided that you do need to use intermediaries and have decided on which types to use, your next task is to evaluate them. You should consider:

- Selling ability
- Record for paying bills on time
- Promptness and accuracy in handling orders
- Willingness to cooperate and compatibility with your business' operating style

in depth knowledge

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in depth knowledge

clear simple &

"Sales Representatives are individuals that represent your product to others..."

- Willingness and ability to offer marketing feedback
- Dun & Bradstreet credit rating

Managing your intermediaries is best accomplished with a clear simple contract that covers the following:

- Sales staff and quotas
- Pricing policy and flexibility in offering discounts, etc.
- Minimum reorder and inventory quantities
- Geographical territory to be covered
- Handling of house accounts
- Training and technical support for the distributor
- Terms of payment
- Management of service and repairs
- Return policy
- Reports and feedback from distributors on sales and market conditions

Sales Representatives

Sales representatives defined

Sales representatives are individuals that represent your product to others, usually to those involved in retail sales of the product to the ultimate consumer. These individuals represent your product(s), as well as the products of others. Typically, they would have an exclusive to represent your product on a geographic, product category or other basis. Reps are almost always independent contractors that work on some type of base plus commission deal or on a straight percentage of the revenue they generate selling your product.

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The benefits of using sales representatives

A high quality professional representative can be the best friend a small business has. They are easy on a business' cash flow since they add no fixed costs. They are paid on commission and often do not receive their commission until after the business has collected its account receivable. In some industries the rep pays up front for products. Sales representatives are often specialists in the product category and geographic region in which they operate. Chances are, they know the industry and prospective customers far better than you do. Outside sales reps may have special technical knowledge of products. If so, they are a logical and cost-effective way for you to offer technical support and service to your customers in their territory. They can also help shoulder the responsibility of promotions and advertising.

"Sales Representatives are often specialists in the product category and geographic region in which they operate..."

The downside of sales representatives

Your product might be just one of many product lines that the rep carries, and lacking the right incentives, you might get lost in the shuffle. Some representatives may require a great deal of support to sell effectively. Lastly, it may take time to train, monitor and motivate a sales rep, and they may require a concerted effort if you are to get your money's worth.

Finding and recruiting excellent reps

The first step in building a first-rate outside sales team is finding the right sales reps to staff it. Trade journals, directories and magazines can provide information about who the major representatives are, what lines they carry, and what types of customers they serve. There are also national and local representative and dealer associations and lists of representatives maintained by local and state chambers of commerce. You can also inquire with businesses that deal in similar products as yours, and ask if they can recommend a good representative for a given territory.

Things to Consider When Selecting Sales Representatives

- Evaluate their selling technique, contact base and technical know-how.
- Gauge their personality to see if it's compatible with your business.
- Review their track record.
- Take them on a sales call and watch them in action.
- Clearly define your sales expectations.
- Get reliable references and follow up.
- Put them on a three-month trial basis to assess the "fit", then reassess the contract.

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Managing a Sales Representative

Managing sales representatives effectively is like managing any other group of people. Anticipate problems you may have and try to create safeguards against them. Create contingencies for when and if problems occur.

Approaches for managing your sales reps include:

- Contact your representatives at least once a week. Check on their progress, resolve questions, or just chat to keep each other "in the loop."
- Give each representative a good sales manual. It should contain the basics such as product specifications, current prices, competitive comparisons, and good product photos. You may also want to include selling angles with arguments and counter-arguments, excellent satisfied customer references, and reprints of articles, endorsements, and samples.
- Create an informal representative newsletter to keep them up-to-date, attentive and motivated. In it, you can announce winners of sales contests, new product developments, commonly asked technical questions, and territory sales volumes.
- Give regular and immediate support to representatives. Be prepared to attend initial and major sales calls.
- Always pay your commissions on time.
- Give your sales representatives lots of quality sales leads. The more qualified prospects the sales representatives have, the more product they can sell.
- Follow through with product promises. If you promise on-time delivery and top quality, deliver. Give your sales reps the goods to back up their efforts. If they truly believe in the product and know it lives up to its promises, they will sell more confidently.

In return, your sales representatives should:

- Give weekly updates on prospects and sales efforts.
- Prepare regular expense reports and receipts.
- Call for product or technical expertise when needed.
- Stay current on industry and market trends.
- Communicate any customer problems or complaints.
- Offer regular feedback on the sales territory.
- Be honest and positively represent the business.

Non-Traditional Distribution Strategies

Now for the good news: aside from all the traditional distribution methods, entrepreneurs have another entire collection of distribution tools available to them. These require a little more creativity and energy to use, but the rewards will speak for themselves. Unconventional distribution methods can be among the most effective and least expensive for small businesses.

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Consider those below as a starting point for your own ideas. Your only goal is not to let yourself be constrained by precedent and to find the most cost-effective and unique way to deliver value to your target customer. Many small businesses have successfully differentiated themselves by choosing unique distribution channels.

- Consignment selling
- U-pick Operation
- Mail-order catalogues
- Community Supported Agriculture
- Restaurant Supported Agriculture
- Classified ads
- Fax-an-order
- Subscription Sales
- Telephone orders/voice mail orders
- Overnight delivery
- Home shopping networks
- The Internet
- Bundle your products with other related products and "piggy back" on their distribution

fast
unique
&

"Find the most cost-effective and unique way to deliver value to your target customer..."

in Conclusion

This session covered two topics.

Marketing Strategies. Businesses use marketing strategies to achieve their marketing objectives. Just as there are different methods of transportation you may choose to utilize in a trip from New York to Boston, so too are there many different ways for businesses to achieve their desired marketing results.

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"Take the time to understand and utilize the power of your marketing strategies..."

Two important concepts presented in this overview of marketing strategies were the segmenting of your market and the positioning of your product or service. Market segments are groups of customers with similar needs and characteristics. While mass marketing aims to sell a single product to as broad a group of customers as possible, market segmentation involves the opposite. The purpose of market segmentation is to identify and select a target market and/or the group(s) of customers you are trying to sell your product or service to.

Product positioning is the means by which the marketer positions their products and/or services in a particular marketplace. The position is always relative to their competitor's products/services. Product features, benefits or services are all communicated to the customer through product positioning.

4 P's of Marketing. Product, Price, Promotion and Placement (distribution). Smart agricultural entrepreneurs recognize what many others don't: by using these four elements, you have the power to design your business' success. From start-up to growth and expansion, businesses create strategies for these elements that work in unison to achieve marketing objectives. When businesses take the time and energy to create just the right mix of strategies and tactics, they save time and money. They serve the right target customers. They succeed in positioning their product in the right place at the right time. They differentiate themselves from competitors. It is through the elements of marketing—the 4 P's— that businesses ultimately realize their marketing strategies.

The lesson of this chapter is this: take the time to understand and utilize the power of your marketing strategies. Your efforts will separate you from your competitors and put you one step closer to achieving business success.

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6-40 TEXT reap the benefits—marketing strategies

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Marketing on the Internet

Worldwide, the number of Internet users is growing by an average annual growth rate of 79%. According to Forrester Research, by year 2003, Internet commerce will reach an estimated $3.2 trillion in sales. That's a huge potential market for your business. But how should you approach it—or should you? And can you do what it takes to reach and serve those potential customers?

Reaching your customer is one thing. Making sure you can fulfill your customers' ordering demands is another consideration. To successfully market on the web, business owners involve all types of communications technology, including the World Wide Web, email, bulletin board systems, television, fax and telephone. The use of electronic commerce (e-commerce) means displaying your products, capturing the sales and tying the sales to inventory and accounting—all electronically. So, how and where do you begin?

Step 1: Get Online

The first step to Internet sales is getting online. You'll need a computer and an account with an Internet Service Provider (America Online, US West (or other phone company service providers), Compuserve, Prodigy, etc.) The average rate for unlimited access to the Internet is about $20 per month.

Step 2: Develop a Plan

The next step is to surf the web and become familiar with the industry standards. Questions to consider are: How can the communications/sales transactions be improved? What can your business do differently? How does the Internet fit with your business goals, distribution channels, marketing strategies? How do your customers use the Internet—for product information only or do they tend to purchase their products through the Internet?

Step 3: Build a Web site

A web site can be an advertising and marketing tool, similar to a full page ad in the newspaper, only available 24 hours a day, 7 days a week. A web site can also be designed to sell your products for you by having the customer follow through with a telephone call, email or credit card purchase—which is more expensive to manage. The development of a web site can be as little as $100 and run more that $25,000, depending on your scope of business. Before you post your web site to a server, you will need to select and register your web site address or domain name, such as www.yourbusiness.com. Registering your own domain name will cost about $120. However, domain registration does require some technical expertise, so you may want to have a web site design company or experienced web site designer help you or visit www.networksolutions.com for more information.

Continued...

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A web site can be an advertising and marketing tool, similar to a full page ad in the newspaper, only available 24 hours a day, 7 days a week. A web site can also be designed to sell your products for you by having the customer follow through with a telephone call, email or credit card purchase—which is more expensive to manage. The development of a web site can be as little as $100 and run more that $25,000, depending on your scope of business. Before you post your web site to a server, you will need to select and register your web site address or domain name, such as www.yourbusiness.com. Registering your own domain name will cost about $120. However, domain registration does require some technical expertise, so you may want to have a web site design company or experienced web site designer help you or visit www.networksolutions.com for more information.

Continued...

As you build your web site, think about the customer. Provide your customer with pages that emphasize your products and services. Use a site index and provide for easy navigation, develop a simple order process, and include good quality graphics and photographs of your products. You can also provide background information on the company, free tips on how to use the products, recipes, community information, and investment opportunities.

Step 4: Host your Web Site.

After you have developed your web site, it must be posted to a server. If you plan to sell products online, you will need a "secured server"—one that provides encryption of credit card information. Options available for hosting your web site are:

1) Vendor-hosted, no software needed.
An ISP or an e-commerce vendor (Yahoo Store, www.viaweb.com or Advanced Internet Technologies, http://aitcom.net/) will host your web site on their server for a fee. The scope of their services may range from usage reports, tracking tools and credit card verification and real-time transactions. Another option is online shopping malls such as iMall.com (www.imall.com) which will charge you a monthly fee to have some products listed within their malls.

2) Vendor-hosted, software needed.
This options requires more skill in developing your web site and the purchase of supporting software such as Commerce Court or Microsoft Access.

3) In-House Hosting.
If you expect a large volume of web traffic, you may want to host your own site. This usually requires hardware and software purchases, plus more computer programming knowledge. To maintain customer interest, you must have high-speed tranmission capabilities such as ADSL or ISDN.

Step 5: Market your Web site:

Now that your site it ready, your goal is to get as many people as possible to visit your site. How is this accomplished?

1) Register with all of the search engines. You can register your web site with each search engine or you can buy a service that will register your site to 400 search engines for a monthly or annual fee.

   Include META Tags, description tag and keyword phrases that help direct customers to your location. For example, if you operated a direct beef sales company, you would probably include key words such as steaks, beef, meat, gifts, gourmet, steak sales and foods.

2) Link with other complimentary businesses or consider the use of banners as a method to draw customer interest..

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3) Utilize e-mail services such as PostmasterDirect.com which provides e-mail lists of people who registered for specific email information. Additionally, e-mail your current customers and direct them to your web site.

4) Use Internet Classified Ads. Post your business information on all of the various classified ad web sites on the Internet. Posting on classifieds is usually free and easy, although it can be time consuming.

5) Put your web site on industry directories. Advertise online by finding directories of similar businesses, and getting your company listed there.

6) Sponsor online forums, chat-sessions, etc.

Step 6: Update Your Web site.

Customers prefer sites that are dynamic and interactive. Plan to change your web site to reflect new opportunities, information, products, etc.

Step 7: Advertise!

Advertise, advertise, advertise! Put your web address in all of your advertising. Include it on your business cards, your stationery, your price tags. Promote your web address wherever you promote your business.

So What is the Key to Success on the Internet?

A web site requires care and feeding. You have to keep it fresh and keep promoting it. You have to be able to afford the up front costs involved in getting online and building your web site. Then there are the costs of maintaining the site. Then, of course, there is the process of actually fulfilling your customers wants and needs generated from the web site. One of the major problems small companies face when deciding to use the Internet is keeping up with the correspondence back to the customer, and filling orders in a timely fashion. Consider your stage of development carefully before deciding how you want to approach Internet marketing.

There is little doubt that eventually most businesses will want to have a presence online. With more than 100 million users (and growing daily) this is a definite tool to consider. Like all of your other advertising and promotion tools, however, approach the Internet with the same planning and care you would any other investment in your business!

Listed below are a few agricultural businesses that conduct business on the Internet.

Chapel-Ridge Meat and Mercantile, http://users.desupernet.net/chapelridge/

Whitney Farms, an organic gardening supply business, http://www.whitneyfarm.com/index.html

Libby Creek, a community sponsored agriculturak organization, http://www.libbycreek.com

Coldwater Fish Farm, http://www.cohofish.com

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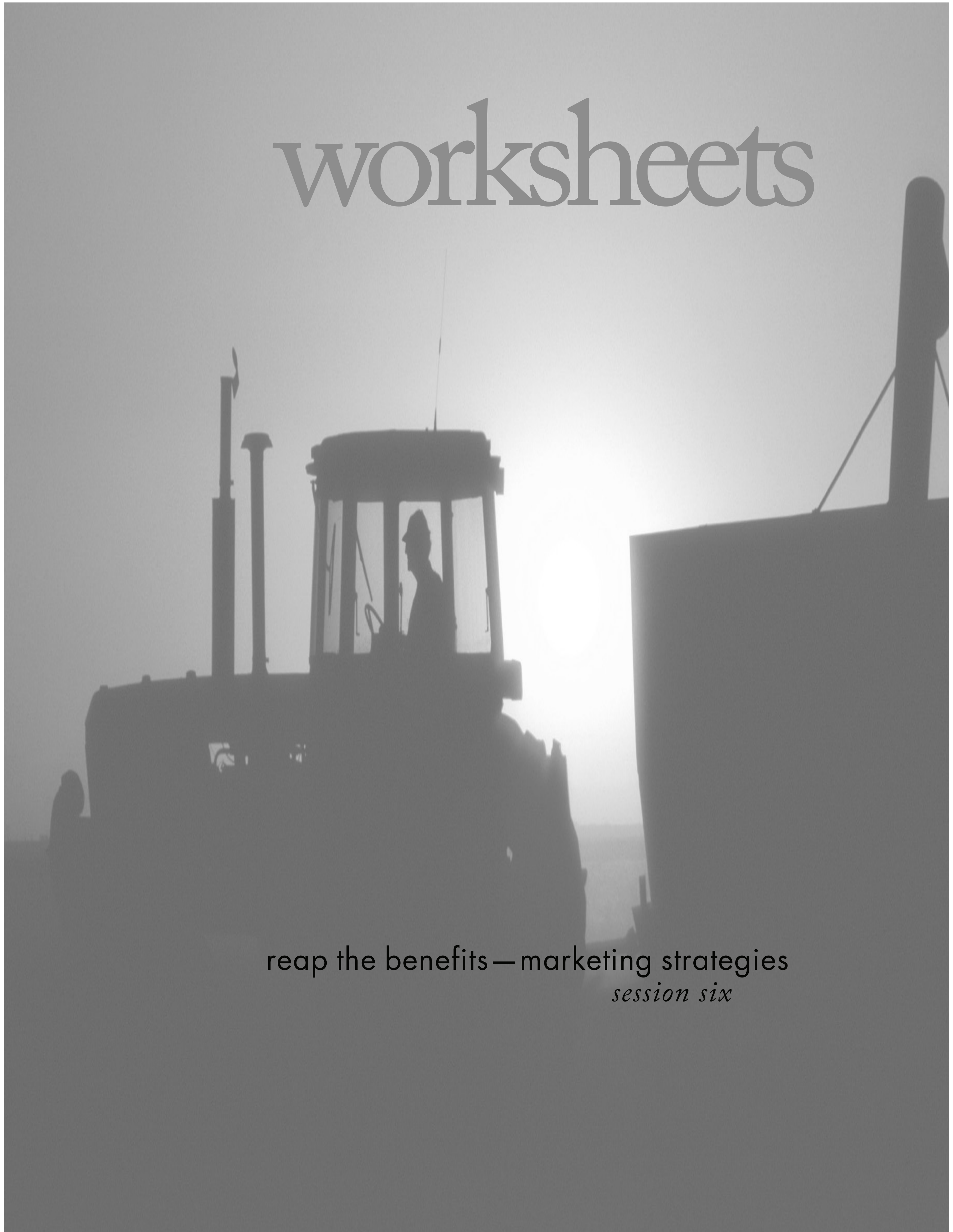
worksheets
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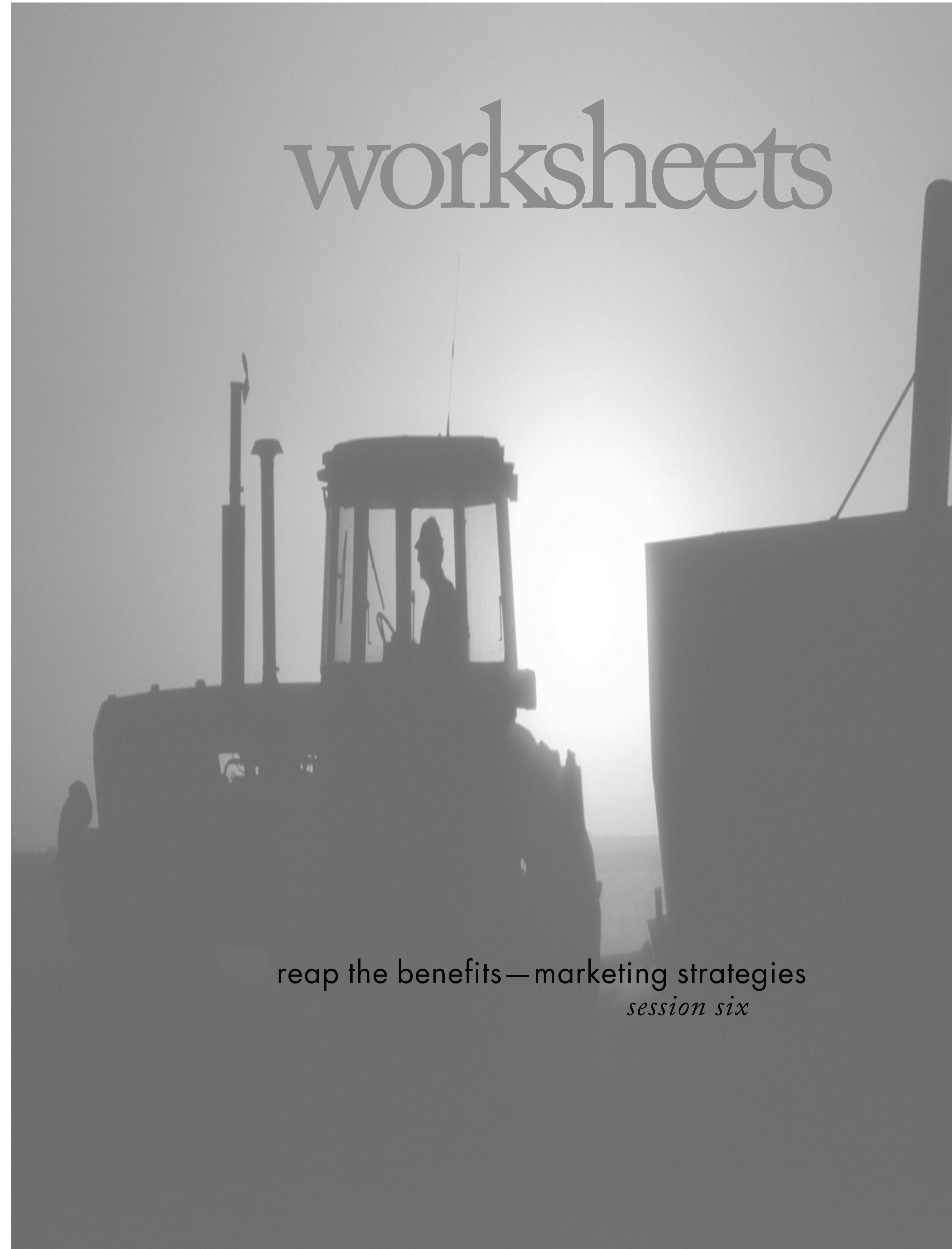
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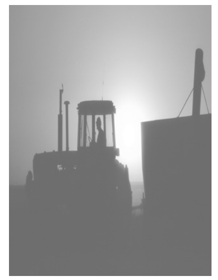

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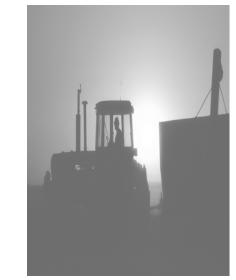

reap the benefits—marketing strategies

session six

reap the benefits—marketing strategies

SESSION SIX

Having completed your market research and analysis of your customer and competition, it's time to make some important decisions regarding marketing strategies. Marketing can make or break your venture. Sound marketing involves having a clear plan, implementing effective action, and monitoring the results. The information you gathered will help you make informed decisions about the actions you choose to communicate with, and attract the attention of, your existing *and* potential new customers.

This final part of the Marketing Plan section of your *NxLeveL™ Agricultural Business Plan* helps the reader, and *you*, understand your strategies, tactics and specific actions that comprise your total marketing effort. The 4 P's of Marketing (Product, Price, Promotion and Placement) are the elements around which your marketing strategies are built. **Product** for your agricultural business was *described* in Session 5, but you will continue to develop specific product strategies for packaging, branding and enhancing products/services offered. **Pricing** strategies are constantly revised in an ongoing business, and will be discussed in terms of positioning in the marketplace and ability to make a profit. **Promotional** activities will be explored, including advertising, direct marketing, public relations and networking tools that will be most beneficial to your business. Finally, if you can't get your product or service where your customers are, when they want it, even the best product won't sell! **Placement** options utilizing the most effective distribution channels for your products/services must be analyzed, and distribution/selling strategies developed. Throughout, you will begin to assign costs to the strategies discussed, which will then be used in the Financial Plan sections.

NxLeveL™ Agricultural Business Plan Outline

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Section II. Business Concept, Mission & Goals
Section III. Background Information
Section IV. Organizational Matters

Section V. The Marketing Plan
C. Marketing—Strategies
Product Strategies
Price/Quality Relationship
Promotional Strategies
Placement/Selling Strategies

Section VI. The Financial Plan
Appendix Section

reap the benefits—marketing strategies

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Product Strategies

In Session 5, you *described* your products or services. That step is crucial to understanding what you sell, and why customers *might* buy. You were asked to begin to develop some initial thoughts about product mix, packaging and labeling. Now that you have additional information about your customers, competition and production potential, continuing to develop specific product strategies that will enhance the chance that customers might buy is the next step.

Referring back to the text in this session, answer the following questions relating to specific product strategies such as **product mix, branding and/or distinctive labeling, packaging and imaging**. Look back at the Product Description section in Session 5 to see if your initial thoughts about product strategies have changed or expanded.

1. **Describe the mix of products/services within your product line.** If you are planning to sell only one product, indicate why you made that choice. If you are selling more than one product/service, describe the depth and width of the product line(s) and why you believe that mix will best serve your target market.

2. **Are you planning to create a "brand" or distinctive label for your product/service? If yes, describe how you intend to develop the brand or labeling image for your product/service.** Include the brand name, describe the image you want to create, and how the branding or labeling will enhance your product/service differentiation in the marketplace and/or add value to your agricultural product.

3. **What image do you want to present to your market? How will that image position you in the marketplace? Then how will you package your product/service?** (Use the chart on the following page to list the **packaging tools** you will use, including a brief description and how they will help create the image you want.)

6-2 WORKSHEETS reap the benefits—marketing strategies

Product Strategies

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Product Strategies—continued

Packaging Tools—Your Business Image

Packaging tools include everything from your stationary, business cards, brochures and flyers to your marketing slogan, advertising layouts and even to the way you and your employees present yourselves to the public. If you are marketing a product, you need to be aware that the Fair Packaging and Labeling Act establishes mandatory labeling requirements. For food products, the Food and Drug Administration has strict procedures for labeling and packaging.

If you are marketing a service, the "packaging" of your company is just as important. Your company may be judged by the total presentation of the business, just as a product may be chosen for an attractive outside cover. How you and your workers dress, the cleanliness of your work vehicles, the attitude of the service-provider, free estimates, follow-up phone calls and prompt responses are just a few of the elements to be considered when "packaging" your services.

Use the chart below to list all of the packaging tools you can think of for your agricultural business.

Packaging Tools	Brief Description	How It Helps Build Image
Example: Flyer	Two-color brochure describing the farm	Depicts wholesome values in a visual image. Connects the farm to the consumer.
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		

Your Marketing/Imaging Slogan

A marketing slogan is a short, clever and often humorous translation of your mission statement, and is one of your best packaging tools if used consistently and worded carefully. It is meant to convey a single, simple thought about your business that is useful and memorable to your customers. Examples include, General Electric Corporation: "*Progress Is Our Most Important Product*," and VISA: "*It's Everywhere You Want To Be*." Try writing a marketing/imaging slogan for your business.

reap the benefits—marketing strategies WORKSHEETS 6-3

Product Strategies—continued

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Pricing Strategies

Price/Quality Relationship

While there are other conscious and unconscious factors which can govern behavior, consumers consistently evaluate products by some combination of price and quality. Similarly, consumers tend to evaluate services by some combination of price and quality with "availability" often added into the definition of quality.

Each product/service has an identity, or *profile*, based on the balance of these two variables. Evaluation *begins* by looking at the perceived differences in each product/service's basic price/quality profile. Product profiles tend to run in cycles based on product age. Examples of the four basic profile combinations are:

Low Price/High Quality—An ideal profile which balances price and quality in the customer's favor. Many new businesses establish themselves with this profile because it competes so easily with the other three possible profiles.

High Price/High Quality—As demand for a product/service increases, producers realize they can increase the price assuming quality also remains high. Mercedes Benz, Rolex and Nikon are all representative of this group.

High Price/Low Quality—Companies with older, well-established products/services are lured by the profit inherent in cheapening the product and coasting on a quality reputation. Customers, once betrayed, may not give these products/services a second chance.

Low Price/Low Quality—The "discount" philosophy of many mass merchandisers was once thought to be the wave of the future. Because product quality from discounter to discounter is the same, price assumes greater significance. Service businesses run a little different risk in choosing this profile since services are generally provided on a "need" basis. Low price may not be enough to lure the customer more than once if the quality is below their definition of "standard."

Other Pricing Challenges

In agricultural-related businesses, you have additional pricing challenges based on such things as pricing and volume produced, post-harvest handling and storage, potential processing, and national/international supply and demand.

Use the worksheets on the following page to help you sort out your strategies for establishing prices for your products/services. Your pricing strategy will ultimately have to reflect your costs and profitability issues, which you will examine in the Financial Sessions. For now, determine your desired pricing strategy related to positioning in the market (based on research of your competition, the level of quality and convenience you choose to offer and the types of buyers targeted).

6-4 WORKSHEETS reap the benefits—marketing strategies

Pricing Strategies

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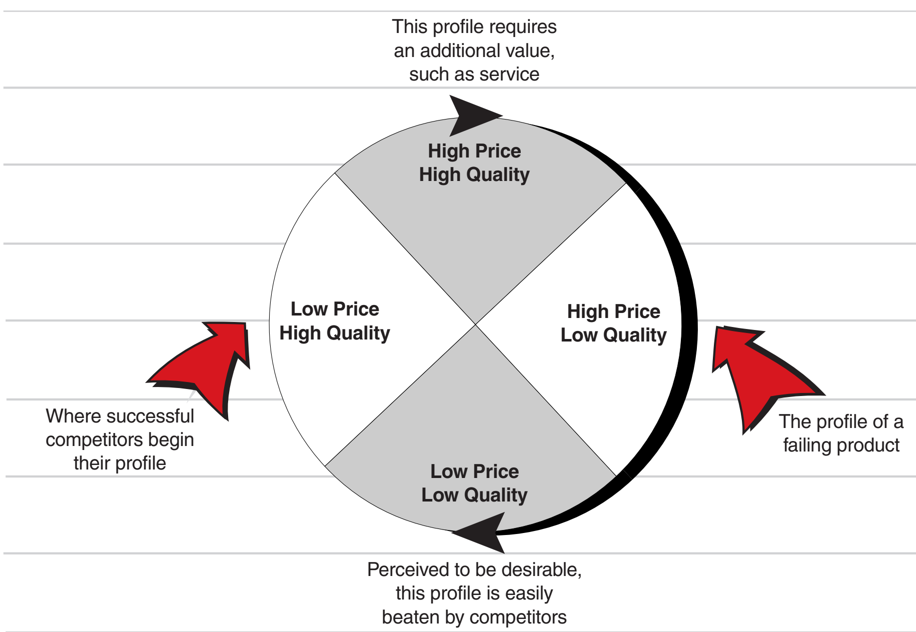
Pricing Strategies—continued

Defining Your Price/Quality Relationship

By using the diagram below, you can better understand the relationship between price and quality in your product/service, and the perceived price/quality of your business profile as a whole. Using the descriptions on the prior page to guide you, place an "x" on the circle for each of your products/services position. Now place a "y" on the circle in the position where your overall company profile fits. Are the two positions compatible?

Defining Your Price/Quality Relationship



Using the three major competitors from Session 5, write their names in the indicated spaces on the chart below. Mark each one's overall profile on the cycle chart above by writing in a "1" for competitor #1, etc., then indicating the description of their competitive profile below. Check your competitive position against those of your major competitors and answer the questions below.

Competitor's Name	Competitor's Profile	Competitor's Price
1.		
2.		
3.		

1. **Describe whether or not you are effectively positioned in the market based on the price/ quality relationship. Is your position consistent with your desired image? What other pricing challenges do you face (volume, handling issues, etc.)?**

reap the benefits—marketing strategies WORKSHEETS 6-5

Pricing Strategies—continued

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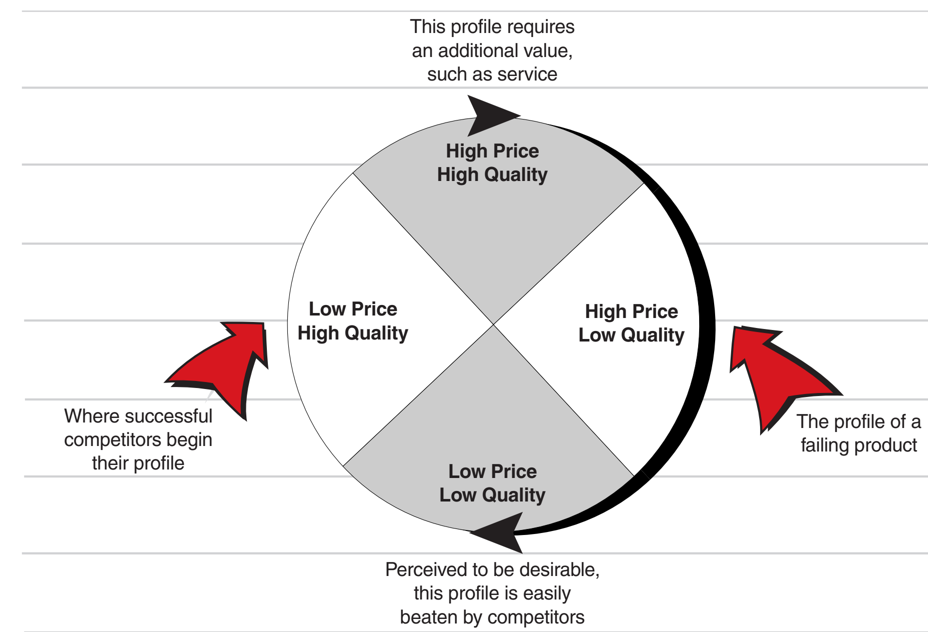

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Promotional Strategies

Advertising

The two most valuable resources you have to invest are money and time. If you don't have a lot of money to spend on advertising, you can devote additional time to public relations or sales. Since advertising, however, is one of the most common and heavily used promotional tools in business, you should make informed decisions about its use. Knowing your target markets, determining your trade area, and defining the features and benefits of your products/services has prepared you to begin making decisions about the types of advertising you believe will be most effective for your business.

While there are many ways of developing advertising budgets, three ways which are <u>not suggested</u> are:

- Matching your competitors' advertising
- Buying advertising as you go
- Spending whatever is "left over" on marketing

"Buying as you go" indicates there is no real advertising plan or budget, and overspending is the general result. "Spending whatever is left over" is a totally unplanned approach and can lead to disaster. What if there is nothing left over? How do you know if there will be anything left over? How will you measure effectiveness if you have no plan? "Matching your competitors advertising" can be dangerous as well. Unless you have some real insight as to the effectiveness of <u>their</u> plans, you could be duplicating something that really doesn't work well, and that you may not be able to afford.

Two <u>suggested</u> and proven effective ways of developing advertising budgets are:

- A list of specific marketing activities with advertising tools chosen for each
- A percentage of annual sales

Focus on what advertising tools you want to use, specific events or seasons around which you want to advertise, and use industry information as a *general gauge* of what others in your industry have determined to be an "appropriate" amount spent on advertising per year. A percentage of your annual sales can then serve as a target dollar amount, which you can then check against the advertising budget you develop from your list of specific marketing activities.

NOTE: Make additional copies of the Advertising Tools Worksheet. You may want to use them again in future projections.

Step 1: Evaluate the advertising tools you may want to use.
Not all advertising tools will be used equally in all months—but knowing general information and costs associated with all of the tools may help you decide which to use for specific activities. <u>Research</u> the actual costs of the advertising tools you are anticipating using. (If you don't know which you will use, doing the research on all may help you decide.) Start by putting a check mark by the advertising tools you might use.

6-6 WORKSHEETS reap the benefits—marketing strategies

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- Buying advertising as you go
- Spending whatever is "left over" on marketing

"Buying as you go" indicates there is no real advertising plan or budget, and overspending is the general result. "Spending whatever is left over" is a totally unplanned approach and can lead to disaster. What if there is nothing left over? How do you know if there will be anything left over? How will you measure effectiveness if you have no plan? "Matching your competitors advertising" can be dangerous as well. Unless you have some real insight as to the effectiveness of their plans, you could be duplicating something that really doesn't work well, and that you may not be able to afford.

Two suggested and proven effective ways of developing advertising budgets are:

- A list of specific marketing activities with advertising tools chosen for each
- A percentage of annual sales

Focus on what advertising tools you want to use, specific events or seasons around which you want to advertise, and use industry information as a general gauge of what others in your industry have determined to be an "appropriate" amount spent on advertising per year. A percentage of your annual sales can then serve as a target dollar amount, which you can then check against the advertising budget you develop from your list of specific marketing activities.

NOTE: Make additional copies of the Advertising Tools Worksheet. You may want to use them again in future projections.

Step 1: Evaluate the advertising tools you may want to use.
Not all advertising tools will be used equally in all months—but knowing general information and costs associated with all of the tools may help you decide which to use for specific activities. Research the actual costs of the advertising tools you are anticipating using. (If you don't know which you will use, doing the research on all may help you decide.) Start by putting a check mark by the advertising tools you might use.

Promotional Strategies—continued

Advertising—continued

Step 2: Estimate and research costs.
Fill in an estimate in the "*What I think now...*" column of what you think the cost per month (or per a certain quantity) will be for each item you checked. Research the actual costs of each of those tools, then fill in the "*What research revealed...*" column. You will use the *researched* pricing information when you determine specific events or timeframes during which you want to advertise.

Step 3: Research anticipated reach.
With the help of the appropriate advertising sales representatives, research how many of your targeted customers in your market area you can reach with each of the tools you checked and fill in the "*Anticipated Reach*" column.

Advertising Tools Worksheet

Tool	Intend to Use	Cost (indicate per month or per unit) What I think now...	Cost (indicate per month or per unit) What research revealed...	Anticipated Reach
Newspaper: Classified Display Ads				
Magazines				
Direct Mail				
Yellow Pages				
Thrifty Shopper				
Billboards				
Radio				
Network TV				
Cable TV				
Specialty Advertising (caps, pens, etc.)				
Brochures				
Trade Shows				
Internet Website				
Other:				

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Promotional Strategies—continued

Advertising—continued

Step 2: Estimate and research costs.
Fill in an estimate in the "What I think now..." column of what you think the cost per month (or per a certain quantity) will be for each item you checked. Research the actual costs of each of those tools, then fill in the "What research revealed..." column. You will use the researched pricing information when you determine specific events or timeframes during which you want to advertise.

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Cable TV				
Specialty Advertising (caps, pens, etc.)				
Brochures				
Trade Shows				
Internet Website				
Other:				

Promotional Strategies—continued

Advertising—continued

Step 4: Determine specific promotional activities for which you want to use advertising.
Use the worksheet below to determine your advertising strategies for specific events. List the promotional event, the month(s) in which it occurs and the advertising tools and associated costs you intend to use. *Strategy Hint*: Limit the number of specific activities for which you want to use advertising and build your advertising strategy around those. Make them "quality" events rather than spreading your efforts out over too many activities. Activities that would lend themselves to advertising efforts might include: start of the season sales, farmer's market in which you plan to participate, end of the season sales, clearance sales, special limited-time price offers, anniversary sales, holiday events, trade shows, etc.

Advertising Calendar Worksheet

Event (place a check mark under the month in which it occurs)	**Potential Advertising Tools and Costs** (list advertising tools, and post costs in the months used)	**1 Jan**	**2 Feb**	**3 Mar**	**4 Apr**	**5 May**	**6 Jun**	**7 Jul**	**8 Aug**	**9 Sep**	**10 Oct**	**11 Nov**	**12 Dec**	**Total**
	Monthly Cost Totals													
													Year Total	

Step 5: Determine the anticipated monthly advertising cost and the yearly total.
Add down the column to determine the total cost you have scheduled per month. Then add all the monthly totals across to determine the annual advertising cost you have projected.

Step 6. Compare your projected/desired annual advertising budget with your industry's suggested percentage of sales advertising budget.
Your industry research should have indicated a recommended percentage of average annual sales that is appropriate to devote to advertising. For most businesses, the average percentage spent on advertising ranges from 2 to 15 percent. Contact your trade association for additional information.

Advertising Budget based on % of Annual Sales $________.
Year Total from the worksheet above $ ________.
Will you need to make adjustments to your "desired" annual advertising budget?
No ______ Yes ______ What changes? ____

6-8 WORKSHEETS reap the benefits—marketing strategies

Promotional Strategies—continued

Advertising—continued

Step 4: Determine specific promotional activities for which you want to use advertising.
Use the worksheet below to determine your advertising strategies for specific events. List the promotional event, the month(s) in which it occurs and the advertising tools and associated costs you intend to use. Strategy Hint: Limit the number of specific activities for which you want to use advertising and build your advertising strategy around those. Make them "quality" events rather than spreading your efforts out over too many activities. Activities that would lend themselves to advertising efforts might include: start of the season sales, farmer's market in which you plan to participate, end of the season sales, clearance sales, special limited-time price offers, anniversary sales, holiday events, trade shows, etc.

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Promotional Strategies—continued

Public Relations and Networking Strategies

Public relations and networking can enhance the potential for positive "word of mouth" promotion about you and your business. Community involvement, sponsoring worthwhile community events and participating in activities that nurture the networking process can build your business rapport with customers and the community.

Often misunderstood, public relations is not something that just "happens" when an event becomes newsworthy. It is a planned effort to positively influence public opinion through honest, non-paid publicity efforts. Because you aren't restricted to paying the advertising media to present positive word/images about you and your business, your creativity is about all that limits your public relations possibilities. Some common events around which you can build public relations opportunities include:

- Company Anniversary
- New Employee Hired
- Employee Promotions
- Change of Location
- Introduction of New Products/Services
- Change of Ownership
- Awards Received (Company or Employee)
- Event Sponsored
- Other Unusual Activities/Circumstances

Once you choose an event, you can then issue news releases, call the media, create brochures or other advertising tools and talk about the activities in public. A few low-cost or no-cost activities that can help promote public relations events include:

- Community education seminars
- TV or radio talk shows
- Community bulletin boards
- Enclosures in monthly statements
- Sponsorship of community athletic events
- Meeting presentations
- Briefings with news editors
- Participation in fund raising events
- Articles in magazines/journals
- Displays
- Membership and active participation in community or professional organizations

1. **List three potential public relations activities for your business. How can you make these activities "newsworthy?" How will the activities potentially enhance your business?** (For example, could a press release get you an interview on local radio/TV and enhance your exposure to the community?)

2. **What service or community clubs exist in your community that would be beneficial for you to become involved with, and why? List the service organization or club name and key contact person.**

reap the benefits—marketing strategies **WORKSHEETS** 6-9

Promotional Strategies—continued

Public Relations and Networking Strategies

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Promotional Strategies—continued

Other Promotional Tools

There is a host of other promotional tools available to the agricultural business owner, including direct marketing, trade shows, newsletters and word of mouth discussed in the text and briefly highlighted below. Review the text material again and be creative in your use and selection of tools to enhance your marketing strategies.

Direct Marketing
Direct Marketing is among the fastest growing and least expensive (cost per sale generated) promotional methods used today. As the name implies, it eliminates the middleman between seller and buyer. The key is to develop the "right," best-targeted contact list based on your target market research and existing customer data. Direct marketing tools include mail-order catalogs, door-to-door sales, telephone marketing and on-line marketing on the Internet.

Trade Shows
Exhibits, industry fairs, trade shows and home and garden shows are among the most targeted methods of promoting your products/services. Attendees at these events aren't just potential customers—they're serious prospects or they wouldn't be there! Review the Trade Show Tips listed previously in this session's text, then research information regarding dates, times and locations and set-up requirements of local and/or regional shows.

Newsletters
Even very small businesses with limited promotional budgets can produce an inexpensive but well-designed newsletter. The ongoing dialogue newsletters create with customers can be invaluable, particularly if you make it easy to read and fun to look at. Along with valuable information and up-to-date news about your product or industry, newsletters can convey your marketing image, inform customers of your other promotional efforts (where you will be selling your product/service, new product offerings, etc.), and offer customers solutions to problems.

Word of Mouth
While this promotional effort is not totally controllable by the business owner, it is a potential positive result of offering excellent service and quality products in a timely fashion. The best insurance for backing up the positive relationship with your existing customers is to follow-up with brochures, catalogs or personal contacts—and encouraging them to mention you to others if they are pleased with your product/service.

Use the *Other Promotional Tools Worksheet* on the following page to list the other promotional tools you intend to use and the cost by month associated with each. You will have to research the costs of some of the tools, such as trade show fees, cost to produce a newsletter, etc. The sum of the *Advertising Calendar Worksheet* and this *Other Promotional Tools Worksheet* should represent your total promotional budget, and will be used in the financial information sections in later sessions.

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Promotional Strategies—continued

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Promotional Strategies—continued

Other Promotional Tools Worksheet
Use the worksheet below to determine your other promotional tools strategies. List the promotional tool to be used and record the costs associated with that tool in the appropriate months. Then add all the monthly totals across to determine the annual cost of using these promotional tools.

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Mail order catalog													
Door-to-door sales													
Telephone marketing													
On-line marketing													
Trade shows, fairs (markets, exhibits)													
Newsletter													
Other:													
Monthly Cost Totals													
												Year Total	

Review your *Advertising Calendar Worksheet* and the *Other Promotional Tools Worksheet*, and answer the following questions:

1. **Explain why you chose these Advertising and Other Promotional Tools for your business.** (Better cost for the "reach," best tools for your particular targeted market and why, appropriate mix of tools for this particular business and why, etc. Evaluate what percentage of the total promotional budget each tool represents and justify its usage.)

2. **How will you track the effectiveness of the promotional tools chosen?**

reap the benefits—marketing strategies WORKSHEETS 6-11

Promotional Strategies—continued

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2. **How will you track the effectiveness of the promotional tools chosen?**

Placement Strategies

Placement strategies revolve around the physical **location** of your business and **distribution** of your products/services to your customers. The location of your business should be compatible with the overall goals and strategies of your business. The relative importance of the physical location depends on what kinds of products/services you provide, what kind and amount of space you need and what impact the location has on distribution of your products/services.

Distribution is the process of moving a product/service from the manufacturer to the end user. The length of your distribution "chain" depends on where you are positioned within it. For example, if you are a retailer, you want to be positioned very near your end-user (which may be defined as "populated areas" or "places where the end-user gathers," e.g., county fairs, malls, etc.). If you are a producer located in New Mexico using wholesalers and distributors to reach end-users in New York, the chain is very long. The goal for most businesses is to achieve the shortest and least complicated distribution chain at the most reasonable cost, given your position in the chain. For a manufacturer, location near transportation hubs may be critical so that products change hands a minimum number of times before reaching the wholesaler or end-user. For an international service provider, perhaps the only real location issue is the availability of air transportation near the base location of the business.

Location

1. **Discuss the physical location of your agricultural business. What makes this a good or bad location for producing your products or offering your services?**

2. **Discuss the location of your business relative to your distribution needs. Is the location positioned effectively in the distribution chain? Is it cost-effective for your transportation needs (cost of getting materials/supplies in and shipping product out)?** *(Hint:* You may want to return to this question after working through the distribution strategies worksheet on the following page.)

3. **What other challenges does this location present for your agricultural business success?**

6-12 WORKSHEETS reap the benefits—marketing strategies

Placement Strategies

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3. **What other challenges does this location present for your agricultural business success?**

Placement Strategies—continued

Distribution

Traditional distribution and selling options (dealers, cooperatives, processors, etc.) should be considered for the portions of a traditional agricultural business. For the more nontraditional agricultural enterprises, many are looking for expanded distribution methods and taking a more active role in the total marketing effort. Determining which distribution/selling options are best and most cost-effective for your business is a great challenge when you consider where you are in the distribution chain (physical location) and costs associated with the use of those distribution strategies.

Use the following worksheet to help sort out some of your distribution and selling options.

Distribution or Selling Strategy	Advantages	Limitations	Associated Costs
Wholesalers			
Brokers			
Distributors			
Warehouses			
Processors			
Marketing Co-ops			
Others Wholesalers:			
Direct Markets			
Farmers Markets: (Local or Other)			
Fairs/Festivals: (Local or Other)			
Roadside Stand			
Restaurants			
Grocery Stores			
Other Direct Markets:			
On-Premise			
Road Frontage			
Pick Your Own			
Other On-Premise:			
Other Strategies			
Internet			
Other:			

reap the benefits—marketing strategies WORKSHEETS 6-13

Placement Strategies—continued

Distribution

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On-Premise			
Road Frontage			
Pick Your Own			
Other On-Premise:			
Other Strategies			
Internet			
Other:			

Writing Your Plan

Using the information and worksheets found in this session to guide you, describe your marketing strategies using the following headings and subheadings:

Section V. The Marketing Plan

C. Marketing—Strategies

Product Strategies

Review questions 1 through 3 in Product Strategies. Then write this section to explain your strategies relating to product/service mix, branding and/or distinctive labeling, and your business image. Include the packaging/imaging tools you will use, and your marketing/imaging slogan (if one was developed).

Price/Quality Relationship

Describe the relationship between price and quality in your products/services. Describe whether or not you are effectively positioned in the market based on the price/quality relationship and that of your competitors. Is your position consistent with your desired image? Explain why or why not. Explain other pricing challenges your agricultural business faces.

Promotional Strategies

Advertising

Describe the primary advertising tools you will use and why the specific tools were chosen. Address the size of your advertising budget, the approach you used to develop it, and how you intend to measure the effectiveness of the advertising tools you chose. Detail specific advertising events you have planned for the coming year.

Public Relations and Networking

Discuss how public relations and networking will enhance the effectiveness of your overall marketing strategies. Explain the public relations events you will pursue. Then discuss your plans for community involvement and networking (clubs or organizations in which you may seek membership or participation in club/organization events).

Other Promotional Tools

Refer back to the Other Promotional Tools Worksheet and describe the other promotional strategies you have chosen for your agricultural business besides advertising, public relations and networking. Discuss the costs associated with those tools, and how you will measure the effectiveness of your strategies.

Placement Strategies

Location and Distribution

Review questions 1 through 3 in the Placement Strategies section and the Distribution Worksheet. Discuss the distribution channels you have chosen for your agricultural business, and the physical location of your business related to those channels. Discuss the effectiveness of these placement strategies for your specific agricultural business.

In a final paragraph, summarize how all of your Marketing Strategies will differentiate you from your competitors and enhance the potential of your business success.

6-14 WORKSHEETS reap the benefits—marketing strategies

Writing Your Plan

Using the information and worksheets found in this session to guide you, describe your marketing strategies using the following headings and subheadings:

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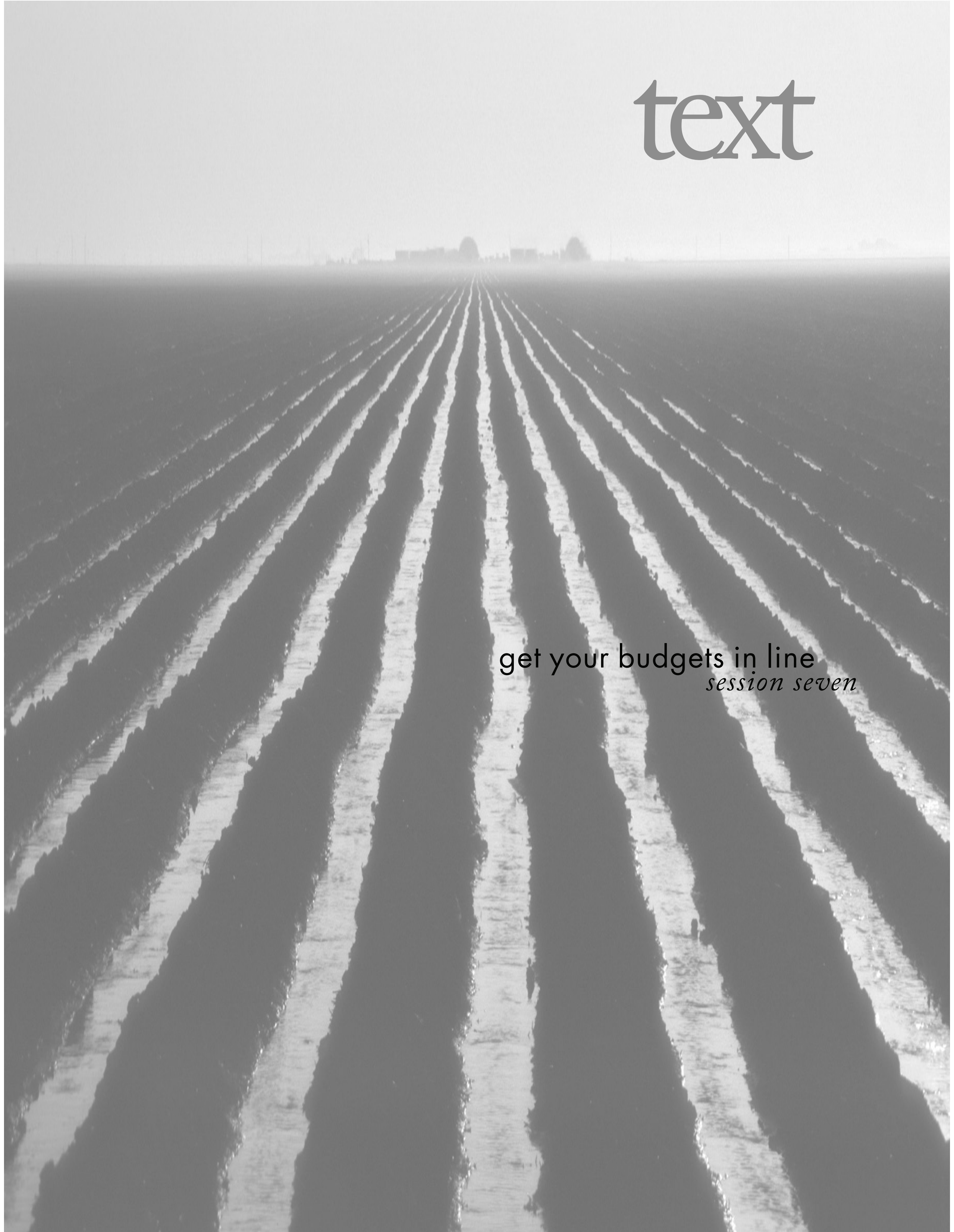
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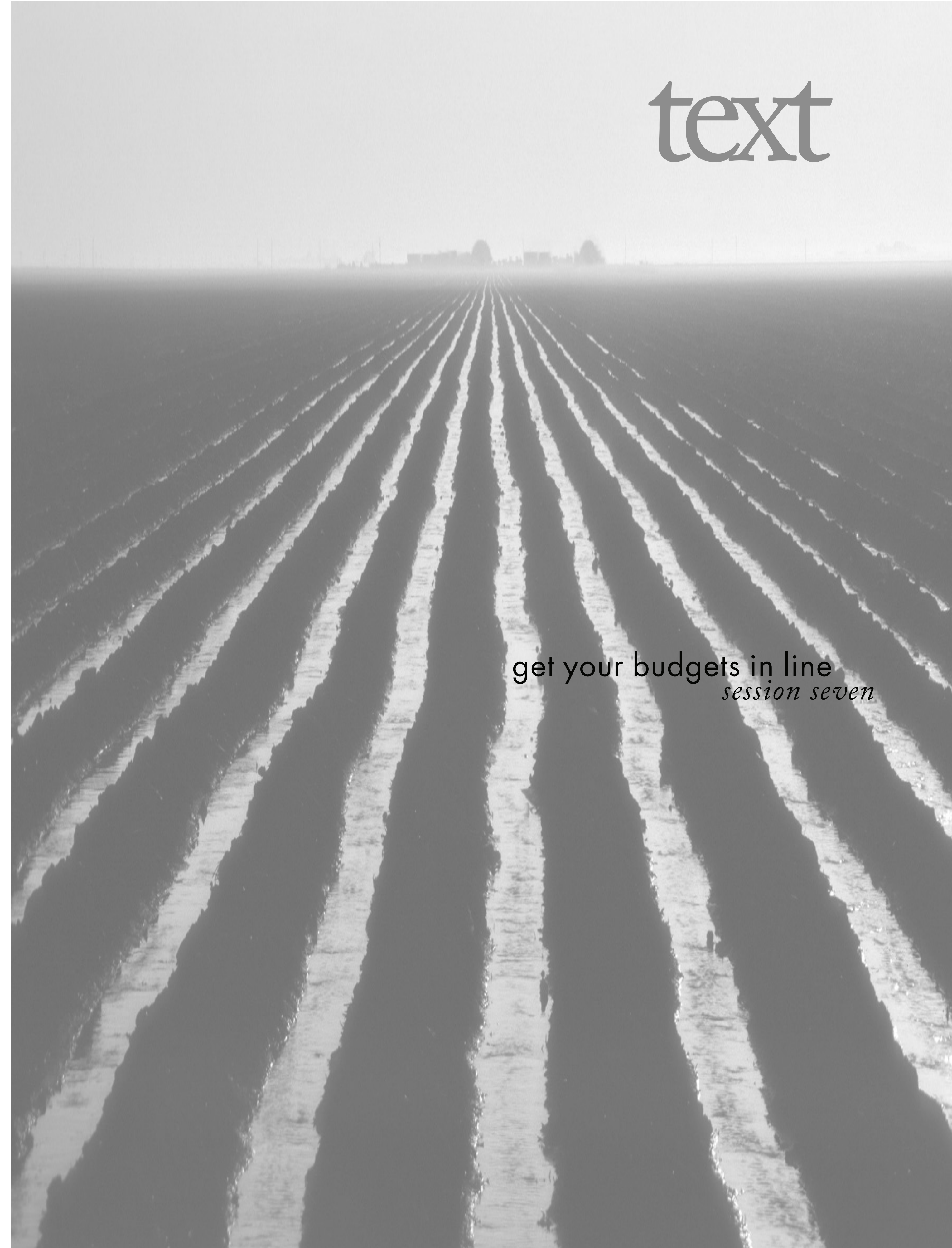
get your budgets in line
session seven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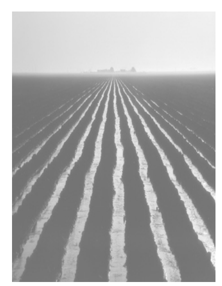

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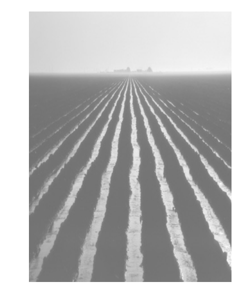

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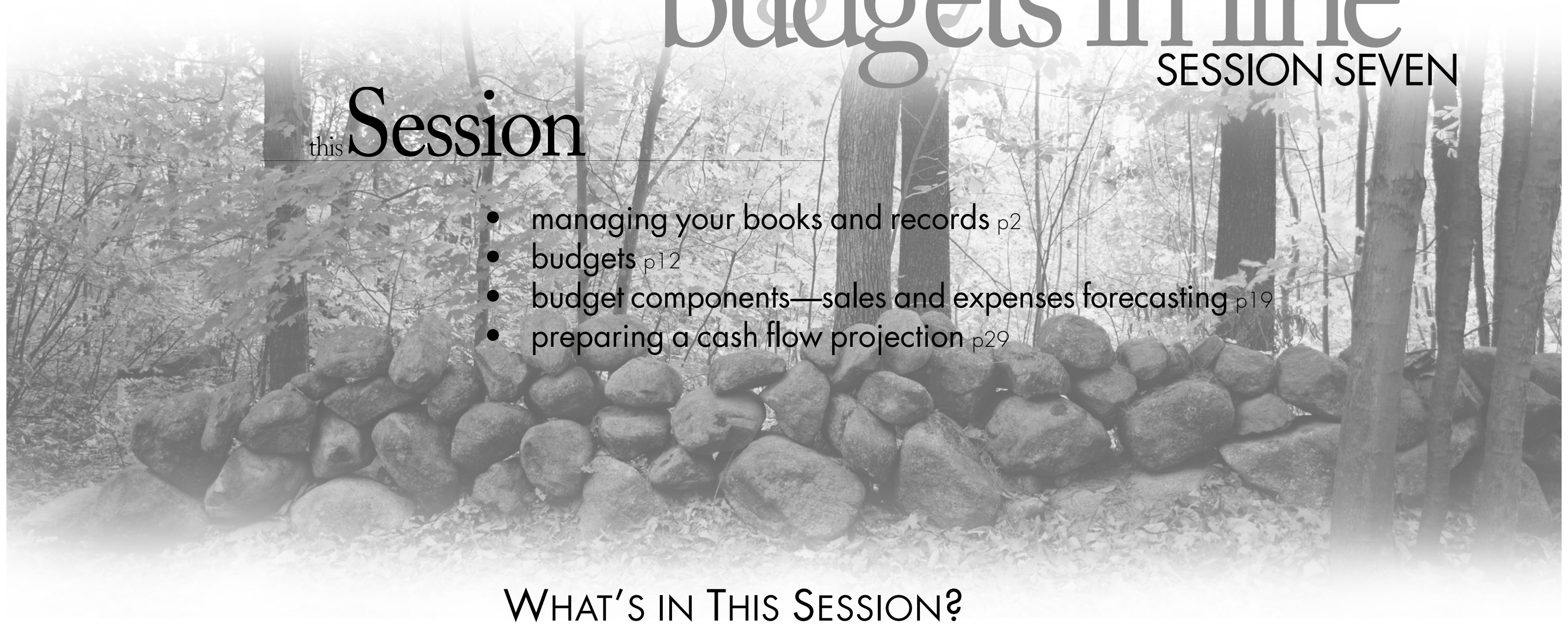


get your budgets in line

SESSION SEVEN

this Session

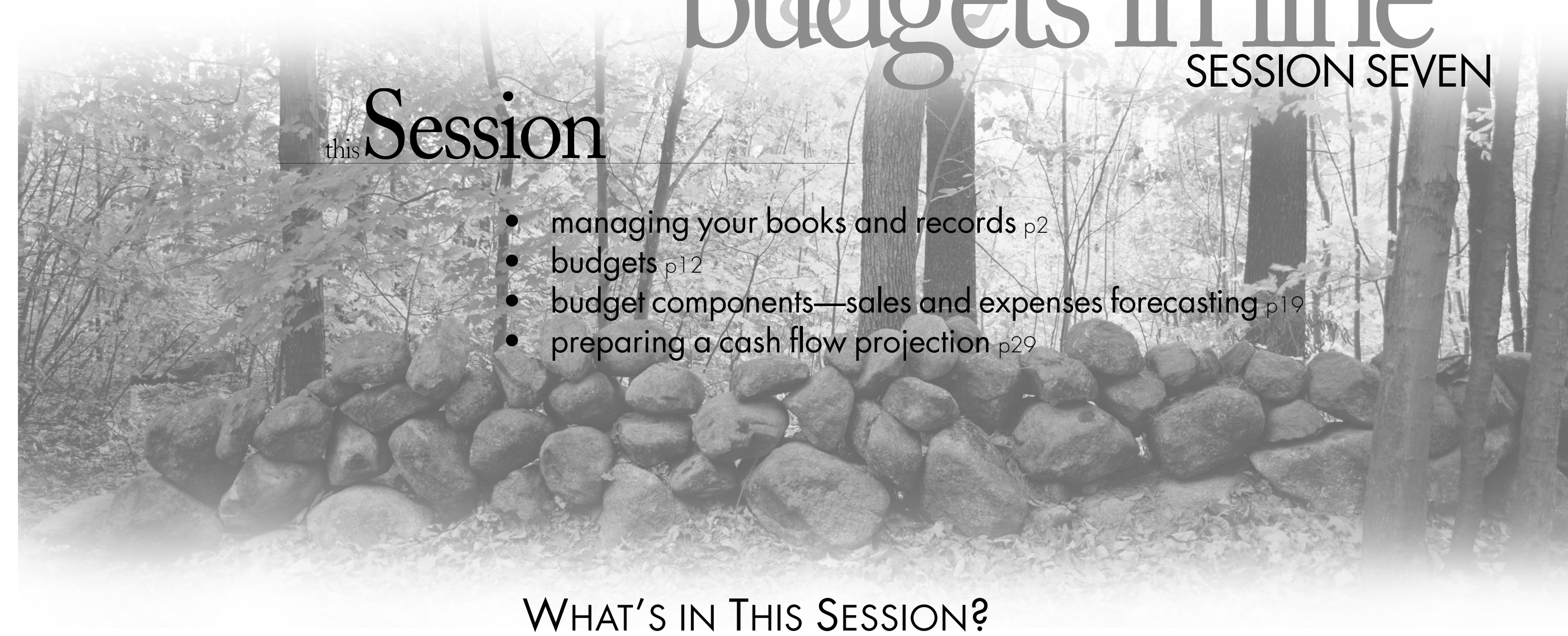
What's in This Session?

This session covers three topics.

Managing Your Books and Records. In the first part of this session, you will be introduced to some aspects of record keeping procedures and accounting systems. This is not intended to make you an expert or solve all your record keeping problems. The goal is to help you understand what these systems do, how they do it, and your role in managing them.

Budgets. Previously, the importance of planning and goal setting was discussed. Like any business, an agricultural business needs a map to help judge its success in reaching its goals. Good budgets and cash flow projections are among the best maps for the business' financial future. In this session, we will discuss the importance of budgets in the success of your business. The reasons agricultural businesses use budgeting will be presented, as will the basics of the budgeting process.

Preparing a Cash Flow Projection. Now that you understand what a budget is, and why budgeting is important, it is time to develop your own budget. This part of the session discusses the idea of the "cash budget" or, as it is more commonly called, the cash flow projection. Its main purpose is for monitoring how money comes into and goes out of your agricultural business. You will also see a cash flow projection example. Finally, budget analysis, including sensitivity analysis will be discussed.



get your budgets in line

SESSION SEVEN

this Session

- managing your books and records p2
- budgets p12
- budget components—sales and expenses forecasting p19
- preparing a cash flow projection p29

What's in This Session?

This session covers three topics.

Managing Your Books and Records. In the first part of this session, you will be introduced to some aspects of record keeping procedures and accounting systems. This is not intended to make you an expert or solve all your record keeping problems. The goal is to help you understand what these systems do, how they do it, and your role in managing them.

Budgets. Previously, the importance of planning and goal setting was discussed. Like any business, an agricultural business needs a map to help judge its success in reaching its goals. Good budgets and cash flow projections are among the best maps for the business' financial future. In this session, we will discuss the importance of budgets in the success of your business. The reasons agricultural businesses use budgeting will be presented, as will the basics of the budgeting process.

Preparing a Cash Flow Projection. Now that you understand what a budget is, and why budgeting is important, it is time to develop your own budget. This part of the session discusses the idea of the "cash budget" or, as it is more commonly called, the cash flow projection. Its main purpose is for monitoring how money comes into and goes out of your agricultural business. You will also see a cash flow projection example. Finally, budget analysis, including sensitivity analysis will be discussed.

Managing Your Books and Records

The Old Way Is Not the Only Way

All farms are required to keep a record of revenues and expenses that are reported each year to the Internal Revenue Service on a Schedule F. The purpose of the **Schedule F** is to detail the profit or loss associated with farming and to determine the farm's tax burden. For many farms, this exercise represents the extent to which they manage books and records. In other words, these farms simply keep records to report historic information to an outside party. While this may be typical, it is not the only use for accounting information and is certainly not the only reason your agricultural business should keep books.

"Managerial Accounting is not only historical, but also futuristic..."

As a manager, you should be concerned about keeping accounting information that gives you feedback on the health of your business and tracks how well you are achieving the goals set forth in your business plan. This type of accounting is called **managerial accounting** and, unlike financial or tax accounting, is not only historical, but also futuristic. Managerial accounting encourages you to use all of the information you control as a manager and to organize it in such a fashion that you can make better decisions, plan for expansions and contingencies, and create a more efficient business environment.

"Managerial Accounting creates a more efficient business environment..."

Fortunately, much of the information you gather to complete your annual tax accounting will serve as the backbone of your managerial accounting system. What managerial accounting does with the information, however, is different and will require you to look at your farm as a collection of *business sub-units*, all of which play a contributing role in generating returns to your bottom line.

Many people get confused about the differences between financial and managerial accounting. One of the easiest ways to remember the difference is to think about the audience for each. Financial accounting reports historical data in a standardized format to individuals outside of your organization. Managerial accounting reports historical data, budgets and assumptions to the operation's managers in an effort to keep them constantly informed.

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The following table will help to outline some of these differences.

Financial Accounting	VS	Managerial Accounting
• Focuses on parties outside of the business. • Reports past financial performance. • Is required by law and governed by regulators. • Uses standard formats. • Uses only financial data. • Focuses on the overall business.		• Focuses on internal management. • Supports management decision-making. • Is required by common sense and unregulated. • Uses flexible reporting systems. • Uses all available, relevant information. • Focuses on sub-units of the business.

accounting books & records

It's a Dirty Job, But...

Individuals generally do not start an agricultural business so they can stay up nights keeping the books. Someone has to do it—but it doesn't *have* to be you. Fortunately, there are many good bookkeepers and accountants out there who are happy working with those numbers that drive you crazy or that you don't have time to record.

Why do you need accounting? First, there are some legal requirements for keeping books and records. The federal government demands that you maintain records to support the figures on your tax return. Second, your banker or lender will require that records be kept. Third, the records are more important to the owner than to anyone else. Remember, accounting is a means of gathering financial information to run your operation. Sometimes you just need the overall picture and sometimes you need detail. Your accounting system should give you all the information you need.

"There are some legal requirements for keeping books and records..."

A quick word about terminology. You will hear people talk about **accounting**, **record keeping**, and **bookkeeping**. All three terms are used in this session. What is the difference? Well, in common usage there probably is not much difference. All three terms refer to keeping track of your business transactions. The important thing to note is that all three terms refer to systems involving accounting, books and records. The records are source documents which support amounts entered in the books and allow for the accounting of your money.

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What Makes a Good Accounting System?

It Works for You

Every agricultural business is unique, and a good accounting system recognizes and serves that uniqueness. The accounting system is supposed to provide you with needed information. Your decision making should not be hindered because your accounting system cannot provide you with the information you need.

"Simplicity is the key to an accounting system that gets used and used properly..."

Cost vs. Benefit of Information

Can you manage your agricultural business using a standard accounting system? Customizing standard systems or creating new systems to fit your needs can be very time consuming and expensive. Some important questions to consider are: How much detail do you really need? Is it worth the cost of getting it? Is it really important?

Keep it Simple!

Simplicity is the key to an accounting system that gets used and used properly. Try to eliminate duplication of effort, summarize whenever possible, and set up standard procedures to eliminate guessing and uncertainty. Make it as simple as possible. Systems that are complicated to use most often don't get used.

keep it simple!

Owner Involvement

The best accounting systems are developed and operated under the watchful eye of the business owner. You do not have to do the work yourself, but you must understand the system and be able to interpret the output. Remember, the more involved you are, the better your accounting system will function.

Internal Controls

A good accounting system includes policies and procedures to safeguard your agricultural business assets, promote the objectives of the business, and assure reliability of the financial statements and compliance with laws and regulations. These policies and procedures are called **internal controls**.

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THE PAPERWORK

Let's take a look at some of the typical paperwork used to document business transactions. You might not need all of these forms for your agricultural business or you might find that additional paperwork is required. Remember, every record keeping system is unique.

Invoice

The seller's request for payment. This is the bill.

Information included:
- Seller's name and address
- Invoice date
- Buyer's name and address
- Description/quantity of goods sold
- Dollar amount per item and in total
- Credit terms
- Method of shipment
- Payment due date

Purchase Order

The buyer's request for goods.

Information included:
- Buyer's name and address
- Date
- Seller's name and address
- Description/quantity of goods desired
- Expected price of the goods
- Special shipping instructions

Receiving Report

Indicates that goods have been received.

Information included:
- Date
- Description/quantity of goods received
- Seller's name and address
- Condition of goods received
- Name of person who received the goods

Checks

Authorize payment out of a bank account
and serve as evidence that a bill has been paid.

Information included:
- Date
- Check number
- Business name and address
- Payee's name
- Dollar amount
- Description of check purpose
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Cash Register Tapes

Give daily sales totals.

Information included:

- Date
- Description of item sold
- Per unit price of items sold
- Total sales amount
- Method and amount of payment
- Change required

Time Cards or Tickets

Help determine wages owed to employees.

Information included:

- Employee name
- Time period
- Pay rate
- Hours worked, by day
- Total hours worked
- Supervisor approval

Payroll Authorizations

Document employee status and pay information.

Information included:

- Employee name and address
- Date of hire
- Pay rate
- Job title
- Authorized work hours
- Benefits information
- Method of payment
- Who hired the employee

Types of Accounting Systems

Your accounting system helps you keep track of financial information. You will collect the data, record it, classify and summarize it and then report it in the form of financial statements. You need an organized method of doing this to avoid reporting incorrect or misleading information. Accounting systems can be as simple as your checkbook or as complicated as computer programs. Let's take a look at some common systems, starting with those more complex.

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Computerized Accounting Systems

Oh, the tedious tasks the computer can do for you! You can enter a single amount and the computer will place it in the proper journal, record a new total in the General Ledger and provide us with up-to-date financial statements. Sounds great, but are computerized systems right for every business? What kinds of systems are available?

> "Computerized accounting systems can be extremely complex, relatively simple, and everything in between…"

Computerized accounting systems can be extremely complex, relatively simple, and everything in between. In the simplest form, the computer does the mechanical tasks of adding and subtracting, while most of the brainwork is done by the bookkeeper. More complex systems are capable of providing management with information much too difficult to accumulate by hand. Most agricultural businesses find what they need lies somewhere in the middle.

In order to use a computerized accounting system, the agricultural business must have access to computer **hardware** (equipment) and **software** (programs that make the computer work.) In general, **computerized accounting software** can belong to one of the groups listed below:

- **Spreadsheets:** These programs are readily available for purchase and relatively inexpensive. Popular packages are Microsoft Excel, Lotus 1-2-3, and Quattro Pro. Spreadsheet programs are large worksheets with rows and columns, which can be set up to look like journal and ledger accounts. The more complex the business, the more difficult it may be to customize a spreadsheet program. However, many agricultural businesses choose to use spreadsheet programs because the programs are affordable.
- **Point-of-Sale Systems:** You know those scanners that most grocery and department stores use at the checkout stand? Those may seem like the old cash registers but they are really sophisticated computerized accounting systems. Data about merchandise is programmed into the computer when it is received and every transaction automatically updates inventory records. This provides valuable information about what is selling and what needs to be ordered. The program also automatically updates the accounting system by recording sales and cash received.
- **General Packages:** Several companies sell computerized accounting packages that can be adapted to most businesses. Prices vary greatly with the sophistication of the system. Leading sellers are Quicken, QuickBooks, and Peachtree. Some packages offer accounts payable, accounts receivable, and payroll modules, while others (like Quicken) are much simpler and include only a basic check register and cash receipts book. The simpler packages may not have good audit trails or the ability to look back and check your previous work.
- **Industry Specific:** Many companies and trade associations offer specialized computerized accounting systems designed to fit the needs of businesses in a particular industry. These systems often include project or inventory control modules. You can find specialized systems for restaurants, retailers, wholesale nurseries, livestock management, construction companies, etc. Trade associations have proprietary software to assist members with their business practices. The National Cattlemen's Beef Association has the Angus Information software to help manage livestock. FINPACK, FINFLO, and FINTRAN are a few software packages for farm financial management.

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Whether a computerized accounting system is right for your agricultural business is often a matter of cost versus benefit. If the benefit you receive is greater than the cost of installing and working with the system, then it is a good idea. Remember to define cost very broadly—take into account expenses, time and frustration! Implementing a new computer package can try your patience. There are likely to be misunderstandings, befuddling results, and baffling error messages at first. You should continue to manually record your information for a time while testing your new system. In most cases, initial problems will be overcome and the system will function properly, and ultimately help manage information for efficiently.

If you decide to use a computerized accounting system for your business, think about the following before making your selection:

"Whether a computerized accounting system is right for your agricultural business is often a matter of cost versus benefit..."

1. What are the hardware requirements?
2. How easily can the system be modified to your farm?
3. Will the computer supplier help you if you have problems?
4. If your needs expand in the future, can the software be added to?
5. How user-friendly is the system?
6. What types of training are available for learning the system?
7. Does the system produce the types of reports and documents you need?
8. Who will use the computer in your business? Do you need to hire someone?
9. Are other business owners or producers using this software?

cost vs. benefit

Manual Accounting Systems

Write-it-Once Accounting Systems

There are a number of **manual accounting systems** available that reduce repetition by allowing you to write one amount and update several books at once. This is done using special carbonized forms. For example, before you write a check to pay a supplier, you would place cards representing the cash

7-8 TEXT get your budgets in line

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and accounts payable accounts below the check. When you write the check amount, it will automatically transfer as a reduction to those accounts. These systems eliminate errors that occur when amounts must be written in more than one place.

Check Registers
The simplest form of accounting system, often sufficient for the needs of a small business, is a check register. These differ slightly from your personal check register. Business check registers have many columns to record the source of cash receipts or the reason for checks written. Monthly totals allow the business owner to easily prepare a simple income statement. However, it can be difficult to prepare a balance sheet from this information; you may need some help from your accountant!

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Special Note: Business Accounts vs. Personal Accounts
Whether keeping manual accounting records or more sophisticated computerized systems, it is important to separate business accounts from personal accounts for two basic reasons, taxes and management of the business. Tax laws allow for deductions of some business expenses and different tax rates may apply. When personal expenses are separate, you save time and work reviewing the areas of your business finances that can be improved upon without having to deal with the clutter of personal issues.

Using Bookkeeper and Accounting Services

Very few small businesses can get by without some professional accounting help. There are a wide variety of services to choose from.

Accounting Services

- **Bookkeeping:** You can hire a bookkeeping service to do any or all of the tasks required in your system. Often, outside services are used for accounts receivable, accounts payable and payroll.
- **System Design:** You may need help designing your accounting system and internal controls. Accounting and business consultants are experienced at creating a system to fit your farm and family needs. They review your needs and design a system. This will not require long term use of their services.
- **Income Taxes:** You will almost certainly need help planning for and preparing your income tax returns!

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- **Auditing:** As your agricultural business grows and prospers, you may need an independent audit. Sometimes an audit is required by loan agreements or when a business is to be sold.
- **Temporary Services:** Perhaps all you need is some help getting through the year-end closing of your books or preparing your annual budget. Maybe you have a busy season when extra help with accounts receivable or inventory would be great. Consider using one of the temporary service agencies in your area.

"CPA's…highly-skilled, highly-trained accountants offer auditing, income tax planning and preparation, estate planning, financial planning and write-up services…"

count 'em

Who Can Do This Work?

There are several types of accounting professionals. The services they offer and the rates they charge vary according to their qualifications.

Certified Public Accountants (CPA's) are the only accounting professionals who can perform an independent audit. They are highly-skilled, highly-trained accountants and offer auditing, income tax planning and preparation, estate planning, financial planning and write-up services. Although their rates may seem high, they can often save you money by refining your accounting system or helping you reduce income taxes.

Some states have other professional accountants who are not CPA's. These may include **Public Accountants** and **Licensed Tax Consultants**. These individuals are licensed by the state. They may not perform an independent audit and, while most are glad to help you with tax return preparation, not all offer income tax planning services. As the name implies, Licensed Tax Consultants specialize in income tax preparation. Public Accountants can be very helpful in designing your accounting system, performing weekly or monthly bookkeeping chores or doing payroll.

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Some states have other professional accountants who are not CPA's. These may include **Public Accountants** and **Licensed Tax Consultants**. These individuals are licensed by the state. They may not perform an independent audit and, while most are glad to help you with tax return preparation, not all offer income tax planning services. As the name implies, Licensed Tax Consultants specialize in income tax preparation. Public Accountants can be very helpful in designing your accounting system, performing weekly or monthly bookkeeping chores or doing payroll.

There are also many bookkeeping firms with very well-trained staff ready to perform bookkeeping functions for you at a low cost.

How to Choose a Bookkeeper

As a small business owner, you probably don't want to handle all the bookkeeping tasks yourself. How do you find a good bookkeeper?

Of course, you will want to follow the general procedures and think of the issues discussed in regard to hiring any employee. There are some special considerations when hiring a bookkeeper. The five effective steps to choosing a bookkeeper are:

1. **Write a job description.** This description should state which modules are in your accounting system, and which specific functions are in those modules, and what will be the responsibility of the new bookkeeper. Some bookkeeping positions are full-charge, which means the person works with every accounting aspect.
2. **Consider carefully if applicants have the right type of experience to do the job.** You do not need to hire the most experienced applicant, but you should judge if the applicant can handle the level of responsibility you need. Do you have other bookkeepers on staff who will supervise and train the new employee? Or will this bookkeeper be in charge? Do you need someone to come in and start everything from scratch, or are your systems in good working order?
3. **Check applicants accounting knowledge with tests or interview questions.** Your CPA can help you design questions appropriate for the job description you have written.
4. **Consider the requirements of your current computerized accounting program.** Is it important that the new bookkeeper be familiar with that program? Or, perhaps you want someone who can help you select a computerized accounting program and design your internal controls.
5. **Check references!** Be sure previous employers were happy with the person's performance. You can also talk to them about what tasks the employee did and relate them to the job description you have written. It can be difficult to detect a dishonest bookkeeper in advance, but you certainly won't know anything if you don't ask questions.

How to Work with Your Accountant

Since most accountants charge you by the hour, you should be diligent about giving them organized, complete information to reduce their time on your project! Many agricultural business owners bring their data to the accountant without any preparation, sometimes literally in a shoebox. This will cost extra. You may decide your time is valuable and you are willing to pay the accountant to organize your records. Remember, you still need to be involved with the final outcome and monitor the system to see that all is functioning correctly. Review the financial statements or your tax documents carefully.

"Be diligent about giving your accountant organized and complete information..."

get your budgets in line T E X T 7-11

There are also many bookkeeping firms with very well-trained staff ready to perform bookkeeping functions for you at a low cost.

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"Be diligent about giving your accountant organized and complete information..."

Your accountant will be able to better help you if they have a good understanding of your agricultural business. Many accountants specialize in clients from particular industries. This helps them understand the accounting issues you face. They still need to know particulars about your business and you. They cannot devise tax-saving plans without knowing your goals, your financial situation and your company. You need to be very candid with your accountant, so find someone you can trust. Professional accountants keep strict confidence regarding client information.

"Your accounting system should provide financial management information first and address tax requirements second..."

If you hire an accountant to help you design your accounting system, be clear about the information you need from that system to help you manage your business. Sometimes accountants can be too focused on income tax requirements and design a system that responds to those issues, but does not give the business owner all the useful management information desired. Your accounting system should provide financial management information first and address tax requirements second.

Budgets

As we discussed early in the chapter, most people see accounting as a means to report business history to bankers, accountants and the IRS. Few people view it as a method to organize, plan and manage a business. However, this is where the real strength of business accounting rests, and it is a tool that should not be overlooked by the agricultural entrepreneur.

decision making

Budgets, also known as forecasts, are a fundamental component of sound business practice and are the building blocks for a successful management accounting system. Budgets are critical for any farm or agriculture-related business that relies on income to support operations. Simply put, budgets are quantifiable, detailed plans of how money will flow through your agricultural business during a specific period of time.

Why Budget?

The strength of budgeting, or forecasting, comes from its ability to support decision making, resource allocation, planning, operational control, communication and performance evaluation. A manager who effectively uses the budgeting process constantly learns how to improve his or her business and to plan for the unexpected. Furthermore, the attention budgeting places on the future performance of the business forces the manager to align business practices with the goals set forth in the business plan.

7-12 TEXT get your budgets in line

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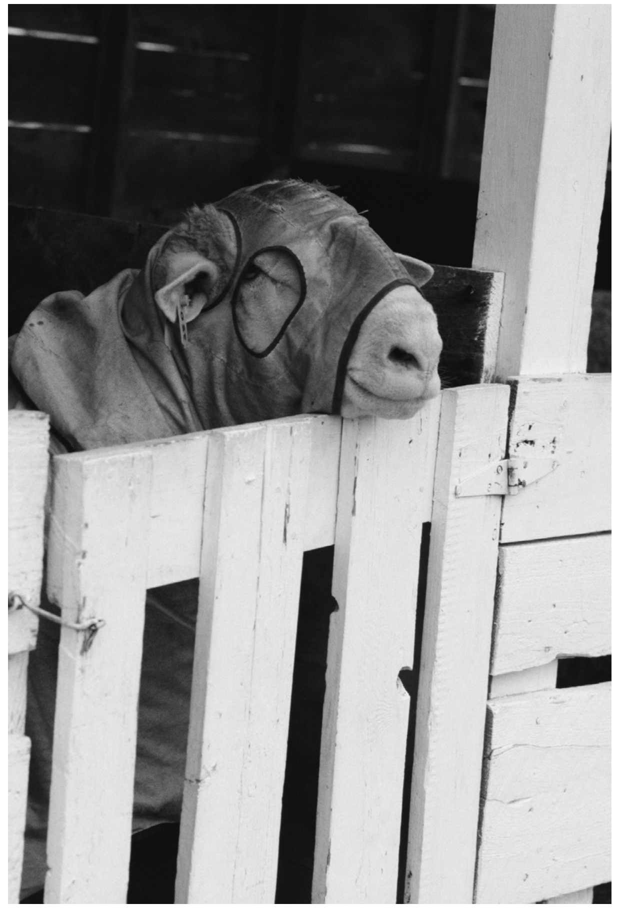
Many people have said: "Managing your farm without a budgeting system is like driving a car using only the rearview mirror." It is inefficient and dangerous.



What is a Budgeting System?

The budgeting system is the process of converting the strategic and operating decisions you make in your agricultural business into numbers, once your strategies, goals and objectives are determined. Future sales, expenses and cash flows are then forecasted.

Notice the *process* is emphasized rather than the *outcome*. Budgets are the outcome of the decision making process and are very important. We use them for feedback and evaluation of business results.

Benefits of a Budgeting System

Get To Know Your Agricultural Business

When you prepare budgets, look at every aspect of your agricultural business. You will get to know the business very well. Specifically, you will learn how each sub-unit of your operation contributes to the bottom line. This familiarity is invaluable when opportunities present themselves or changes occur.

"Your ability to anticipate unexpected situations in the budgeting process can keep you out of cash flow problems after the fact..."

Always Be Prepared

Unexpected situations can cause you to be *reactive* rather than *proactive*. This sentence is nowhere more true than in agriculture where the unexpected is a fact of life. While budgeting is not a cure for the unexpected, it helps the manager plan for contingencies and evaluate their potential impact on the bottom line. For instance, you may want to try running various revenue and cost scenarios before buying a new piece of equipment. By doing this, you can test whether your farm operation will make its debt obligations if commodity prices fall by 15% or if drought impacts yields. Your ability to anticipate these situations in the budgeting process can keep you out of cash flow problems after the fact.

get your budgets in line TEXT 7-13

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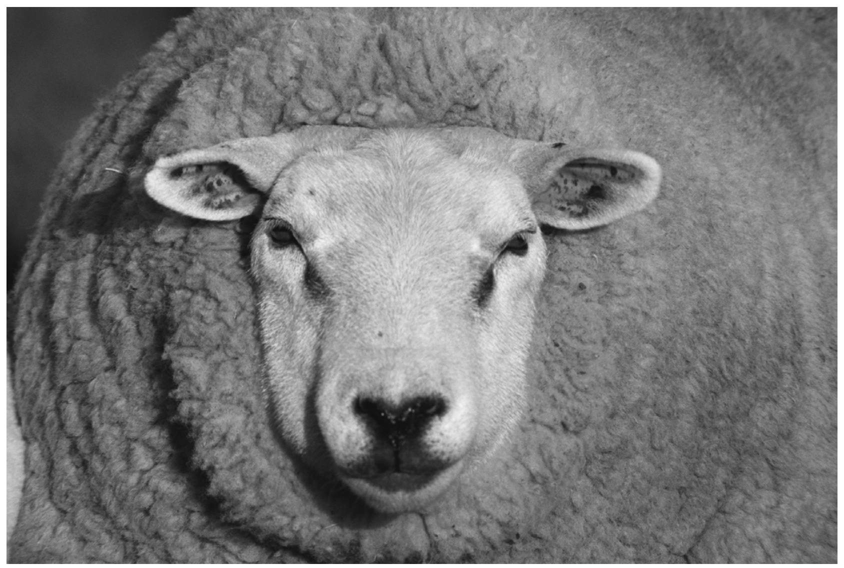
You must also be realistic. You certainly cannot anticipate every challenge your agricultural business will face, but the more knowledgeable you are, the easier it is to understand how changes affect the business, and what actions should be taken.

creativity.

Fuel Creative Ideas

By examining your agricultural business closely, you can find opportunities to reduce costs, improve products or increase efficiency. The budgeting process draws attention away from the daily routine of doing the work and focuses your attention on how the work is done. Analyzing the different steps of production and their impacts on budgeted outcomes, provides an opportunity to improve efficiency and effectiveness. Tractor maintenance is a good example. If every year during harvest your tractor breaks down, and requires that your farm hand lose a day of labor picking-up parts and making repairs, you may decide to increase your budget for spare parts inventory and limit the amount of harvest down time.



"A business without budgets has no means of determining success or failure..."

Provide Benchmarks

A business without budgets has no means of determining success or failure. By creating a budget, you automatically establish benchmarks, or markers along the route to achieving the goals and objectives in your business plan. To reach a goal you must have benchmarks to track progress. If your goal is to produce 50 acres of vegetables for wholesale markets, you will need to develop new contacts and possibly written contracts to sell your produce at the stores and vegetable stands. Determining the number of clients you need to cash flow your business and delivering a consistent amount of produce will help you establish and grow your business. The results of this effort will be programmed into your budgets and constantly re-evaluated based on the benchmarks you set.

Coordinate the Parts of the Business

Businesses—especially agricultural businesses—are complex. Budgets help you understand how each individual unit of the business contributes to other units, and ultimately to the success of the overall operation. Budgeting

7-14 TEXT get your budgets in line

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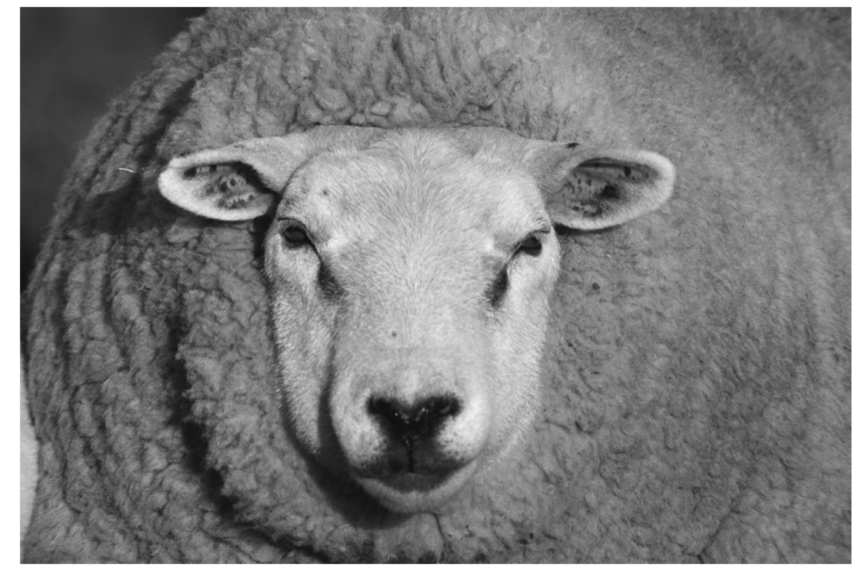

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assures that all functions of your business are moving in the same direction by focusing on both the goals and objectives of your business, as well as the interaction among business sub-units. In addition to assisting the owner/manager, budgets may also be useful in expressing to employees, suppliers and contractors how you expect them to work in relationship to the your agricultural business' financial goals.

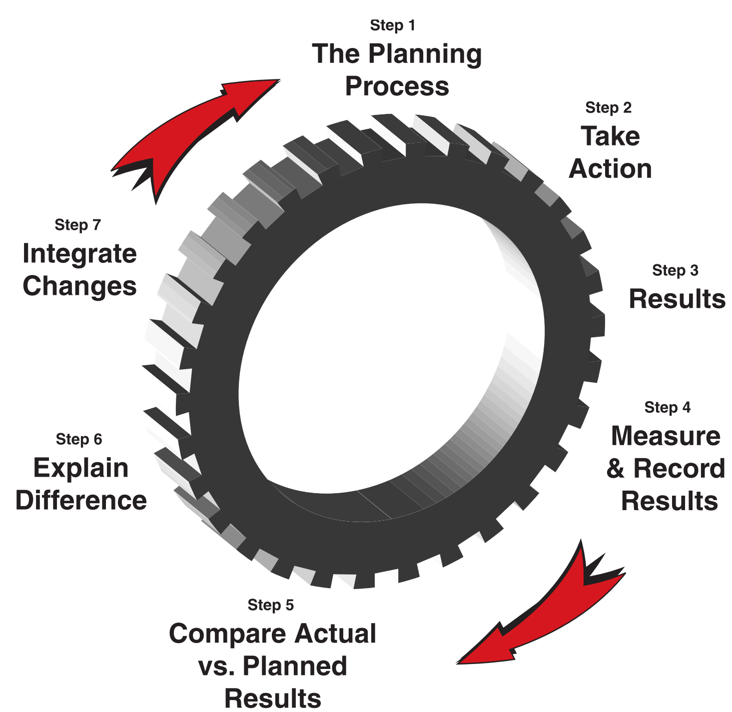
Involve Employees in the Business

goals & objectives

People do a better job when they care about their work. Involving employees in the budgeting process helps them understand your business. This ensures everyone is working towards the same goal. For instance, someone who works on the farm and feeds the cows may not seem to have an important role in the business decisions of the entire operation. However, this person is working with your equipment and your animals and is often the first to realize when repairs need to be made, when animals are sick, or when opportunities to improve efficiency arise. If this employee is a part of the budget process, their insights will be built into the system and they will understand the business better.

The Budget Cycle

The budget process is never-ending. Don't think of it as an activity you do for a few days and then ignore. Recall the planning process:



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get your budgets in line TEXT 7-15

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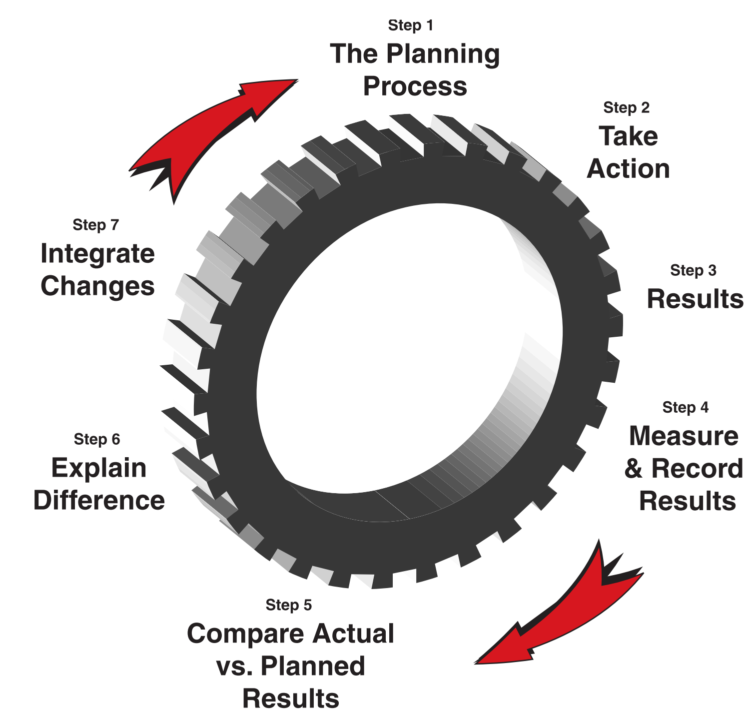

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Budgeting is part of the planning, analyzing and evaluation functions within this process.

How are Budgets Used?

"Budgets guide purchasing, production, marketing, personnel and financing activities..."

Budgets are the result of the planning stage of the cycle—they are needed for the operating and evaluation activities. Budgets guide purchasing, production, marketing, personnel and financing activities. Notice the operative word is *guide* rather than control. The budgeting process involves educated guesswork, not absolute accuracy. That is why the budget cycle is not a one-time activity. Budgets guides work, but when deviations occur, the results are evaluated and adjustments have to be made.

planning.

The evaluation of budgets is done by comparing budgeted to actual amounts. Variances are then noted and reviewed. As with financial statement analysis, the comparison of budgets versus actual results does not give answers, it only creates questions. For example, if budgeted fuel costs were $15,000 and the actual amount was $23,000, a variance of $8,000 is shown. This comparison has identified the variance but it does not tell *why* it happened. The relevant question is: *Why did fuel costs go over budget?* Perhaps an unforeseeable rise in fuel costs occurred, or perhaps fuel costs were grossly underestimated. Whatever is discovered becomes part of the on-going planning process—it helps to keep your business on track and helps you prepare better, more accurate budgets in the future.

Budgets are also useful in communicating your business plans. As you will remember, budgets can be used to help keep employees on track with the business owner. Additionally, budgets are an integral part of your business plan and financing proposals. A lender will likely ask to review your budgets before approving a loan for your agricultural business.

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Things to Consider Before Budgeting

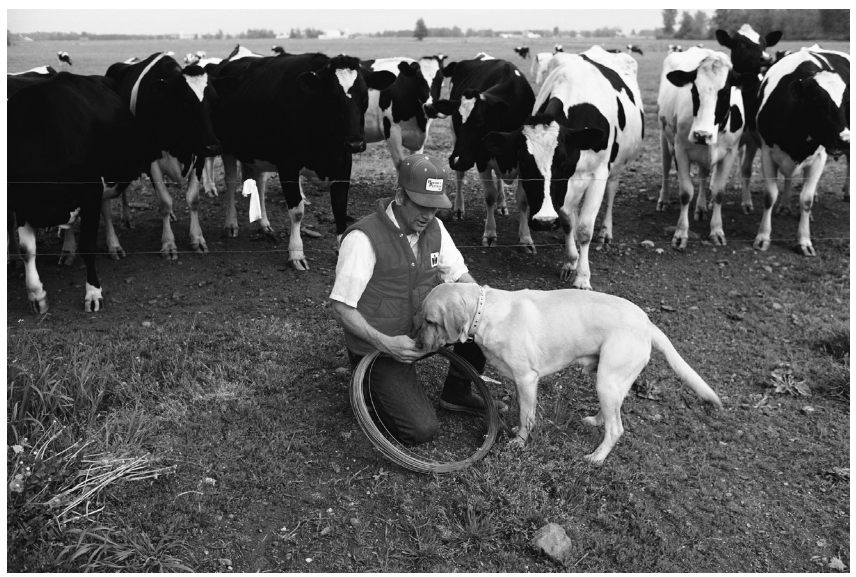
Information

The quality of your budget is directly impacted by the quality of information you put into the system. However, the information you put into the budgeting system does not have to be perfect—and in fact, it will many times be wrong and still be useful.

"The quality of your budget is directly impacted by the quality of information you put into the system…"

The information that goes into budgets is practical, common sense assumptions about your business. If your assumptions prove wrong, go back to the system and change them. Remember: *Practicality takes precedence over perfection in budgeting*. Budgets are living documents that change with time and with better understanding of your agricultural business.

Allow Creativity and Flexibility



Budgets should bend but not break. If the system is too rigid, the participants won't be allowed to think creatively. That is what you find when the budget is prepared by simply taking last year's numbers and increasing them by some percentage. Of course, past figures shouldn't be ignored. Comparisons of budget versus actual in previous years is very valuable information. However, your budget system should encourage new ideas and not be overly dependent on past assumptions.

creativity & flexibility

Write Down Assumptions

Budgeting involves forecasting the future, which cannot be done without making a lot of assumptions. Those assumptions should be written down. You will need that information when evaluating variances, and to explain your budgets to your lender and other interested outside parties. You may think you will remember your assumptions, but several busy months later, it just isn't that easy!

Use What You Have

Try not to create extra work for yourself. Make use of computerized spreadsheet programs to ease the clerical work of preparing budgets. Many computerized accounting systems have the capacity to accept budget amounts and produce reports comparing budget to actual figures. You can then concentrate on content rather than form.

get your budgets in line TEXT 7-17

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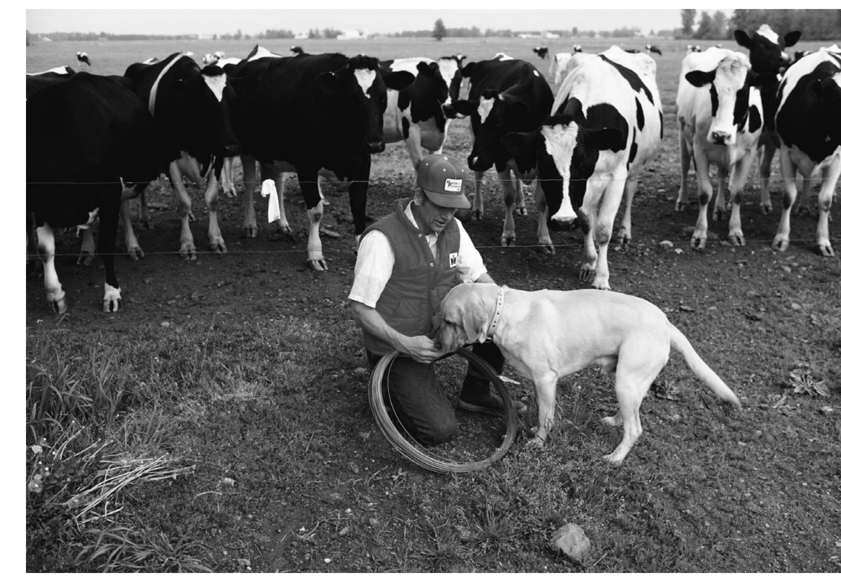

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Allocating Costs

"It is important to keep track of all costs…"

In a business as complicated as an agricultural business, it is important to keep track of all costs. Whether you are producing goods or providing a service, all of your direct costs must be assigned to some unit of the business in order to useful. Your indirect costs must also be tracked for overhead. This means that you must find a method to assign a value to every direct cost you incur and then pass that cost along to a sub-unit or production center in your agricultural business.

Why Do You Allocate Costs?

Costs are generally allocated in an agricultural operation for the following reasons:

evaluate & determine

- Encourage wise use of limited resources.
- Evaluate the effectiveness of business decisions.
- Assist in making pricing decisions.
- Determine asset value.
- Separate business and personal expenses.

case study

Case Study: Mary Jones, Owner of a Diversified Farm

Mary Jones operates a profitable, diversified farm that includes small grain production, dairy cows and Christmas trees. Just after fall harvest, Mary decided to buy a new no-till grain drill and combine. As Mary had previously done before, she allocated the cost of the purchase to the farm's overhead. Over the next two years, Mary noticed that the farm's profit margins declined. She assumed that falling milk prices were the culprit. In the third year Mary told her accountant that she was going to quit the dairy business. The accountant suggested that Mary review her books and look for the reason profits were not responding before she sells. The accountant further suggested that she carefully allocate as many costs as possible to each business unit (grain, dairy, Christmas tree). When Mary did this, she discovered that the cost of the grain drill and combine, when allocated to the grain operation, were causing a net loss in her grain operation and thus to the overall farm. This simple exercise saved Mary from liquidating the dairy herd and the associated profits. If Mary had not allocated costs, she would have never known where her true losses were occurring.

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How Do You Allocate Costs?

Cost allocation is frequently an easy bookkeeping step that is often overlooked. Although it can become very tricky when allocating overhead items such as the manager's time, shared equipment, professional services, land and utilities, you cannot forget these costs or indiscriminately pass them off as the "cost of doing business."

The key to assigning them is a heavy dose of common sense and a little trial and error. Begin by developing an allocation base that reflects a characteristic of the asset or its use. For instance, if you have a tractor that you use in both your grain (25%) and vegetable operations (75%), allocate costs accordingly. Or, if you use 20% of the square feet in your barn to make dried flower arrangements, then 20% of the amortized cost of the barn should be allocated to your flower operation. If you allocated a cost and it was incorrect, make an adjustment and try again.

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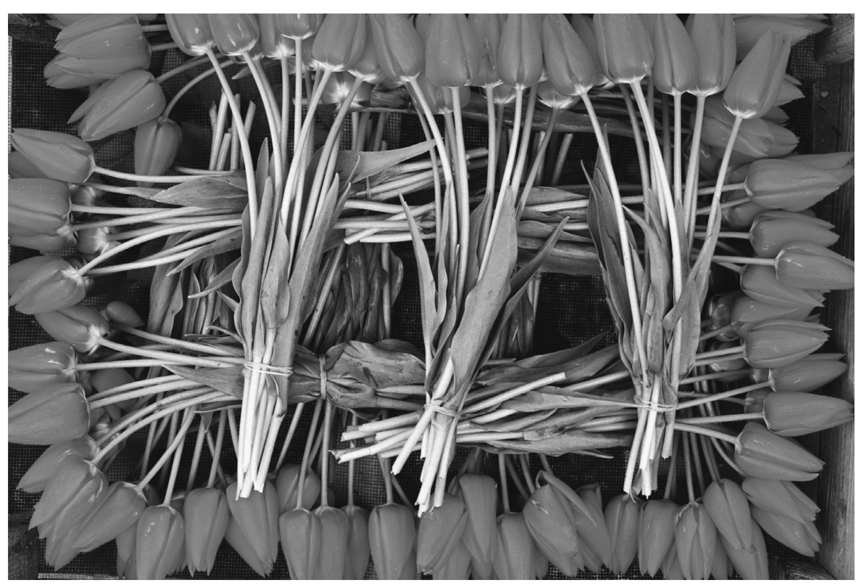
case study

Case Study: A Cut Flower Grower

A cut flower grower in the eastern United States was having trouble maintaining profitability and decided that the source of his problem was misallocated cost. In order to turn his operation around, he decided to allocate all costs back to his crops. He did this by putting a clip board and stop watch on every thing that cost him money in his operation. For example, when he started the tractor, he incurred cost. The grower would then start the stopwatch and assigned the time usage to the enterprise to which he was working. He used this information to assign costs directly to his crops and eventually used this information to change his production mix. The end result was a heavy boost to the bottom line.



Budget Components—Sales and Expenses Forecasting

Small business managers use budgets as a primary financial planning tool. Budgets come in many sizes, shapes and formats with each manager choosing a style that best reflects the way they need to receive information. However, a few basic rules apply.

common sense.

get your budgets in line TEXT 7-19

How Do You Allocate Costs?

Cost allocation is frequently an easy bookkeeping step that is often overlooked. Although it can become very tricky when allocating overhead items such as the manager's time, shared equipment, professional services, land and utilities, you cannot forget these costs or indiscriminately pass them off as the "cost of doing business."

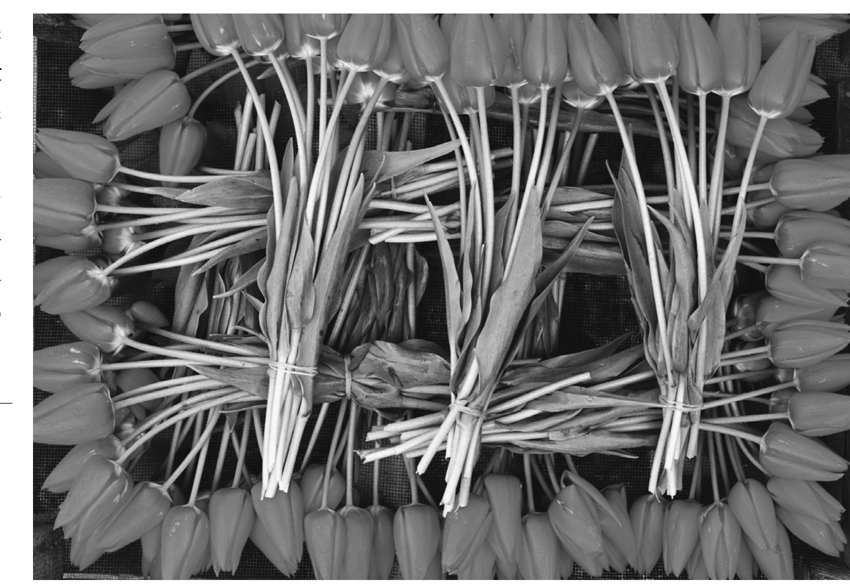
The key to assigning them is a heavy dose of common sense and a little trial and error. Begin by developing an allocation base that reflects a characteristic of the asset or its use. For instance, if you have a tractor that you use in both your grain (25%) and vegetable operations (75%), allocate costs accordingly. Or, if you use 20% of the square feet in your barn to make dried flower arrangements, then 20% of the amortized cost of the barn should be allocated to your flower operation. If you allocated a cost and it was incorrect, make an adjustment and try again.

"The key to allocating costs is a heavy dose of common sense and a little trial and error..."

case study

Case Study: A Cut Flower Grower

A cut flower grower in the eastern United States was having trouble maintaining profitability and decided that the source of his problem was misallocated cost. In order to turn his operation around, he decided to allocate all costs back to his crops. He did this by putting a clip board and stop watch on every thing that cost him money in his operation. For example, when he started the tractor, he incurred cost. The grower would then start the stopwatch and assigned the time usage to the enterprise to which he was working. He used this information to assign costs directly to his crops and eventually used this information to change his production mix. The end result was a heavy boost to the bottom line.



Budget Components—Sales and Expenses Forecasting

Small business managers use budgets as a primary financial planning tool. Budgets come in many sizes, shapes and formats with each manager choosing a style that best reflects the way they need to receive information. However, a few basic rules apply.

common sense.

First, a series of smaller budgets relating to the individual operating components of the business (business sub-units) are prepared. These are detailed forecasts of revenues and expenses that eventually become the basis for one of the most powerful management tools a business can use—the "budgeted cash flow," or Cash Flow Projection.

"...one of the most powerful management tools a business can use—the **'budgeted cash flow'** or **'Cash Flow Projection'**..."

As you will see in the pages that follow, the Cash Flow Projection takes the information from the Sales Budget and the Operational Budgets and combines them into one overall picture of the cash flowing in and out of the business.

CASE STUDY: *(for illustrative purposes, the following family agricultural business example will be used throughout Session 7 and Session 8)*

case study

Case Study: Staci and Joe Smith, Smith Farms, Inc.

Staci and Joe Smith own a diversified farm that produces all of the family's income. Smith Farms, Inc., which used to be a dairy farm operated by Staci and Joe, now produces organic vegetables and dairy replacement heifers. The Smiths' livestock operation is supported by local dairy farmers and the region's auction market, while their vegetable crops are sold exclusively through a roadside stand. Since Staci and Joe are the only organic producers in the region, they are able to attract customers from several nearby towns and frequently sell out of produce.

As the Smiths began preparing for the coming year, they wondered if they should expand their vegetable production to meet growing demand. They reviewed their books to help with this decision and realized that they have always viewed their farm as a single business unit, mixing the revenues and expenses of their livestock and vegetable operations. They asked their accountant for help in sorting out the details. She recommended that they develop a budgeting system that would break out the farm's finances into business sub-units. This way they could more effectively plan for their financial future and would be able to evaluate their business components more effectively.

Staci and Joe have an on-going farm operation that does not require a start-up budget. However, if start-up costs apply to your business, please see the *"Growth or Start-up Expenses Worksheet"* in the Session 7 Worksheet section.

In the following pages, we will follow Staci and Joe as they work through planning the coming year's operations. (Note: Information has been simplified for this presentation.)

7-20 TEXT get your budgets in line

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In the following pages, we will follow Staci and Joe as they work through planning the coming year's operations. (Note: Information has been simplified for this presentation.)

Sales Budgets (or Forecasts)

The sales forecast is the first budget you will complete. It is a consolidation of sales forecasts for each product or service offered, and becomes the basis for the rest of the budgets. **Remember:** Forecasting is difficult to do accurately, but is necessary if you intend to plan for success.

"Sales forecasting is a critical component of the budgeting process because all other budgeted categories are driven by forecasted sales..."

Smith Farms, Inc.
Sales Budget - Overall Farm
Year 200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
VEGETABLES					
Conventional Sweet Corn - Retail					
Units: Dozen			10,000		10,000
Price			$ 3.00		$ 3.00
Total			**$ 30,000**		**$ 30,000**
Organic Tomatoes - Retail					
Units: Pound			67,500		67,500
Price			$ 1.50		$ 1.50
Total			**$ 101,250**		**$ 101,250**
Organic Peppers - Retail					
Units: Bushels			1,000		1,000
Price			$ 15.00		$ 15.00
Total			**$ 15,000**		**$ 15,000**
VEGETABLES TOTAL			**$ 146,250**		**$ 146,250**
DAIRY HEIFERS - Replacement Heifers					
Units: Heifer	20			60	$ 80
Price	$ 1,100			$ 1,100	$ 1,100
Total	**$ 22,000**			**$ 66,000**	**$ 88,000**
****** TOTAL SALES ******	**$ 22,000**	**$ 0**	**$ 146,250**	**$ 66,000**	**$ 234,250**

be realistic.

Notice in the Smith example, sales are forecast quarterly. The quarterly estimates will be refined to monthly estimates when we move to the Cash Flow Projection. For now, simply trying to project in which quarter cash will actually be received from sales is sufficient.

Sales forecasting is a critical component of the budgeting process because all other budgeted categories are driven by forecasted sales. The projected number of sales units tells how many units must be purchased, made, grown or raised, which in turn dictates how many workers will be hired, and what labor costs and other expenses will be paid. Once these numbers are known, cash inflows and outflows can be forecasted. However, it all begins with the sales forecast!

get your budgets in line **T E X T** 7-21

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One word of caution: ***Be realistic!*** Resist the temptation to inflate sales estimates just to make the business look good. If the business isn't profitable, perhaps it should be abandoned. On the other hand, sales forecasts that are overly conservative may cause you to undercapitalize and be unable to support future sales growth. Insufficient inventory may be ordered or too few people hired.

Basing all other budgets on the sales budget can lead you back to the beginning again. For example, if your projected sales lead to a negative cash position, you may wish to come back to sales and see if you have been too conservative or if you need to change your production mix. Changing forecasted sales units will affect all of your other budgets and perhaps lead to a positive cash balance. However, avoid the temptation to determine the cash balance you want and juggle the sales forecasts until you get that balance.

In your business plan, you already identified your products and services and determined a pricing strategy. Now you need to add quantity. Often, prior years' sales are used as a base and projections are made from there. Gathering sales history may be a simple task of reviewing your records. If you are budgeting for a new crop, you may need regional price information. This information can be gathered from historical records on the market in which you plan to sell or through conversations other farmers, marketing consultants and buyers.

"When you are forecasting sales, pay particular attention to past trends or events that affected the industry and your business..."

When you are forecasting sales, pay particular attention to past trends or events that affected the industry and your business. You may find a trend that affects both the marketplace and your business, or you may find an unexpected event that temporarily changed your markets the previous year. For example, if last year you experienced a $.50 per pound rise in your retail organic tomatoes because of unusually low supplies, then you should not use last year's sales price when forecasting.

In earlier sections, we discussed the product life cycle. Knowing your product's position in its life cycle is very helpful when forecasting sales. For instance, cattle prices are known to have a 10-year cycle. Knowing where you are in the cycle may influence your livestock price forecast. If your product is seasonal, that should also be reflected in your forecasts.

7-22 TEXT get your budgets in line

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Remember that budgeting is a continuous cycle. When you examined your marketing strategies, you made some initial sales projections. Now you can refine those. Later on, after you have compared actual results to your budgets, you may need to again revise the figures for future months.

sales objectives.

Expense Budgets

The next series of forecasts that must be completed are expense budgets. Expense budgets detail how your farm will meet its expected sales objectives.

These forecasts are typically broken down into direct cost budgets, overhead budgets, and selling and administrative budgets. Direct cost budgets assign specific costs to particular units of the business. Overhead budgets account for costs that can not be allocated to a particular sub-unit of the business. Selling and administrative budgets assign costs associated with making and closing sales. Expense budgets are flexible and may include formats other than those illustrated in this session depending on your operation and management style. After you have developed your sales forecasts and your expense budgets, you will then be able to prepare your Cash Flow Projection and will see how cash from all of your operations flows in and out of your agricultural business.

"Expense budgets detail how your farm will meet its expected sales objectives..."

Direct Cost Budgets

Direct cost budgets are important resource management tools. Direct cost budgets are typically broken down into direct material components and direct labor components. This budget allows you, the manager, to examine your resource needs by category and period. It is very important to complete direct cost budgets for each unit of your business. In the case of the Smiths, this means that they will prepare separate budgets for their livestock sub-unit, and for each sub-unit of their vegetable production (peppers, tomatoes and corn).

get your budgets in line TEXT 7-23

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Smith Farms, Inc.
Direct Production Cost Budget - Sweet Corn Operation
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Direct Labor					
Farm Manager		$ 120			$ 120
Farm Hand		$ 600	$ 4,200	$ 1,200	$ 6,000
Direct Labor Total	**$ 0**	**$ 720**	**$ 4,200**	**$ 1,200**	**$ 6,120**
Direct Materials					
Seed		$ 750			$ 750
Soil Amendments		$ 3,700	$ 500	$ 300	$ 4,500
Pesticides		$ 300	$ 300		$ 600
Direct Materials Total	**$ 0**	**$ 4,750**	**$ 800**	**$ 300**	**$ 5,850**
Custom Charges					
Plowing		$ 120			$ 120
Disking		$ 100			$ 100
Manure Application			$ 60		$ 60
Custom Charges Total	**$ 0**	**$ 220**	**$ 60**	**$ 0**	**$ 280**
Land Charge	**$ 700**				**$ 700**
TOTAL DIRECT PRODUCTION COST	**$ 700**	**$ 5,690**	**$ 5,060**	**$ 1,500**	**$ 12,950**

hot or not?

Smith Farms, Inc.
Direct Production Cost Budget - Pepper Operation
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Direct Labor					
Farm Manager		$ 20	$ 140	$ 40	$ 200
Farm Hand		$ 210	$ 1,470	$ 420	$ 2,100
Direct Labor Total	**$ 0**	**$ 230**	**$ 1,610**	**$ 460**	**$ 2,300**
Direct Materials					
Transplants		$ 840			$ 840
Soil Amendments		$ 1,850		$ 60	$ 1,910
Direct Materials Total	**$ 0**	**$ 2,690**	**$ 0**	**$ 60**	**$ 2,750**
Custom Charges					
Plowing		$ 24			$ 24
Disking		$ 20			$ 20
Manure Application		$ 24			$ 24
Custom Charges Total	**$ 0**	**$ 68**	**$ 0**	**$ 0**	**$ 68**
Land Charge	**$ 140**				**$ 140**
TOTAL DIRECT PRODUCTION COST	**$ 140**	**$ 2,988**	**$ 1,610**	**$ 520**	**$ 5,258**

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Smith Farms, Inc.
Direct Production Cost Budget - Sweet Corn Operation
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Direct Labor					
Farm Manager		$ 120			$ 120
Farm Hand		$ 600	$ 4,200	$ 1,200	$ 6,000
Direct Labor Total	$ 0	$ 720	$ 4,200	$ 1,200	$ 6,120
Direct Materials					
Seed		$ 750			$ 750
Soil Amendments		$ 3,700	$ 500	$ 300	$ 4,500
Pesticides		$ 300	$ 300		$ 600
Direct Materials Total	$ 0	$ 4,750	$ 800	$ 300	$ 5,850
Custom Charges					
Plowing		$ 120			$ 120
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Manure Application			$ 60		$ 60
Custom Charges Total	$ 0	$ 220	$ 60	$ 0	$ 280
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200X Projections

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Custom Charges					
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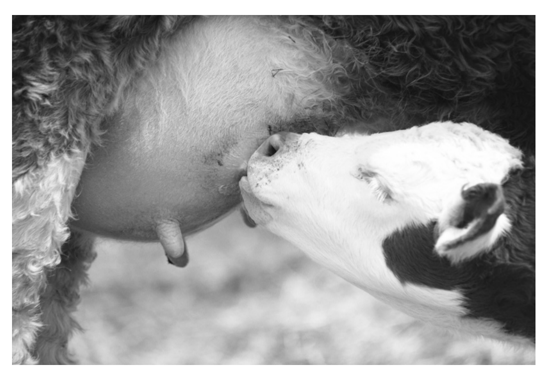
Disking		$ 20			$ 20
Manure Application		$ 24			$ 24
Custom Charges Total	$ 0	$ 68	$ 0	$ 0	$ 68
Land Charge	$ 140				$ 140
TOTAL DIRECT PRODUCTION COST	$ 140	$ 2,988	$ 1,610	$ 520	$ 5,258

Smith Farms, Inc.
Direct Production Cost Budget - Tomato Operation
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Direct Labor					
Farm Manager		$ 30	$ 210	$ 60	$ 300
Farm Hand		$ 950	$ 6,620	$ 1,890	$ 9,460
Direct Labor Total	**$ 0**	**$ 980**	**$ 6,830**	**$ 1,950**	**$ 9,760**
Direct Materials					
Transplants		$ 2,160			$ 2,160
Pesticides		$ 150	$ 600		$ 750
Soil Amendments		$ 160	$ 240	$ 90	$ 490
Direct Materials Total	**$ 0**	**$ 2,470**	**$ 840**	**$ 90**	**$ 3,400**
Custom Charges					
Pesticide Application		$ 30	$ 150		$ 180
Plowing		$ 35			$ 35
Disking		$ 30			$ 30
Compost Spreading	$ 35				$ 35
Irrigation (drip)		$ 30	$ 30		$ 60
Custom Charges Total	**$ 35**	**$ 125**	**$ 180**	**$ 0**	**$ 340**
Land Charge	**$ 210**				**$ 210**
TOTAL DIRECT PRODUCTION COST	**$ 245**	**$ 3,575**	**$ 7,850**	**$ 2,040**	**$ 13,710**

Smith Farms, Inc.
Direct Production Cost Budget - Dairy Heifers
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Direct Labor					
Farm Manager	$ 510	$ 408	$ 408	$ 680	$ 2,006
Farm Hand	$ 2,380	$ 2,240	$ 2,240	$ 2,520	$ 9,380
Direct Labor Total	**$ 2,890**	**$ 2,648**	**$ 2,648**	**$ 3,200**	**$ 11,386**
Direct Materials					
Fed Grain & Supplements	$14,704	$14,704	$14,704	$14,704	$ 58,816
Hay	$ 6,304	$ 6,304	$ 6,304	$ 6,304	$ 25,216
Corn Silage	$ 2,700	$ 2,700	$ 2,700	$ 2,700	$ 10,800
Bedding	$ 960	$ 960	$ 960	$ 960	$ 3,840
Misc. Supplies	$ 400	$ 400	$ 400	$ 400	$ 1,600
Direct Materials Total	**$25,068**	**$25,068**	**$25,068**	**$25,068**	**$100,272**
Professional Services					
Breeding & Registration	$ 1,200	$ 1,200	$ 600	$ 600	$ 3,600
Veterinarian	$ 840	$ 840	$ 840	$ 840	$ 3,360
Professional Svcs. Total	**$ 2,040**	**$ 2,040**	**$ 1,440**	**$ 1,440**	**$ 6,960**
Stock Purchases					
Heifers	$ 3,000			$ 9,000	$ 12,000
Stock Purchases Total	**$ 3,000**			**$ 9,000**	**$ 12,000**
TOTAL DIRECT PRODUCTION COSTS	**$32,998**	**$29,756**	**$29,156**	**$38,708**	**$130,618**



got milk?

get your budgets in line TEXT 7-25

Smith Farms, Inc.
Direct Production Cost Budget - Tomato Operation
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Direct Labor					
Farm Manager		$ 30	$ 210	$ 60	$ 300
Farm Hand		$ 950	$ 6,620	$ 1,890	$ 9,460
Direct Labor Total	**$ 0**	**$ 980**	**$ 6,830**	**$ 1,950**	**$ 9,760**
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	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
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Direct Labor Total	**$ 2,890**	**$ 2,648**	**$ 2,648**	**$ 3,200**	**$ 11,386**
Direct Materials					
Fed Grain & Supplements	$14,704	$14,704	$14,704	$14,704	$ 58,816
Hay	$ 6,304	$ 6,304	$ 6,304	$ 6,304	$ 25,216
Corn Silage	$ 2,700	$ 2,700	$ 2,700	$ 2,700	$ 10,800
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Professional Services					
Breeding & Registration	$ 1,200	$ 1,200	$ 600	$ 600	$ 3,600
Veterinarian	$ 840	$ 840	$ 840	$ 840	$ 3,360
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TOTAL DIRECT PRODUCTION COSTS	**$32,998**	**$29,756**	**$29,156**	**$38,708**	**$130,618**

got milk?

The Smiths break down their budgets by crop so they can see how each crop contributes to the business. This process is similar to how the sales projections were created. When the direct cost budgets are combined with sales projections, you learn how each crop contributes to the operation's gross margin.

In this example, the Smiths chose to account for as many costs as they could within each business sub-unit. This means that the Smiths make many assumptions about how to allocate such costs as wages, employment taxes, benefits, machinery, equipment and specific types of depreciation. At this point, the projection of direct costs is done on a quarterly basis. When we compile the Cash Flow Projection, the projections will be refined to a monthly basis.

Selling and Administrative Budgets

Selling and administrative budgets are important for operations that have a discrete selling entity like a roadside stand or farmer's market. This budget helps to separate the costs of selling from the costs of production.

"Selling and Administrative Budgets are important for operations that have a discrete selling entity like a roadside stand or farmer's market..."

Smith Farms, Inc.
Selling & Administrative Expense Budget - Retail Vegetables
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Sales Staff					
Retail			$ 1,920		$ 1,920
Total Sales Staff	**$ 0**	**$ 0**	**$ 1,920**	**$ 0**	**$ 1,920**
Utilities					
Telephone	$ 75	$ 120	$ 240	$ 75	$ 510
Electric	$ 20	$ 40	$ 50	$ 20	$ 130
Total Utilities	**$ 95**	**$ 160**	**$ 290**	**$ 95**	**$ 640**
Postage	**$ 30**	**$ 100**	**$ 350**	**$ 30**	**$ 510**
Printing	**$ 270**	**$ 270**	**$ 0**	**$ 0**	**$ 540**
Office Supplies	**$ 90**	**$ 180**	**$ 180**	**$ 90**	**$ 540**
Equipment Lease					
Computer	$ 45	$ 45	$ 45	$ 45	$ 180
Scale			$ 375		$ 375
Cash Register			$ 500		$ 500
Total Equipment Lease	**$ 45**	**$ 45**	**$ 920**	**$ 45**	**$ 1,055**
Uncollected Accounts					
Retail			$ 1,000		$ 1,000
Total Uncollected Accts			**$ 1,000**		**$ 1,000**
TOTAL SELLING & ADMINISTRATIVE	**$ 530**	**$ 755**	**$ 4,660**	**$ 260**	**$ 6,205**

7-26 T E X T get your budgets in line

The Smiths break down their budgets by crop so they can see how each crop contributes to the business. This process is similar to how the sales projections were created. When the direct cost budgets are combined with sales projections, you learn how each crop contributes to the operation's gross margin.

In this example, the Smiths chose to account for as many costs as they could within each business sub-unit. This means that the Smiths make many assumptions about how to allocate such costs as wages, employment taxes, benefits, machinery, equipment and specific types of depreciation. At this point, the projection of direct costs is done on a quarterly basis. When we compile the Cash Flow Projection, the projections will be refined to a monthly basis.

Selling and Administrative Budgets

Selling and administrative budgets are important for operations that have a discrete selling entity like a roadside stand or farmer's market. This budget helps to separate the costs of selling from the costs of production.

"Selling and Administrative Budgets are important for operations that have a discrete selling entity like a roadside stand or farmer's market..."

Smith Farms, Inc.
Selling & Administrative Expense Budget - Retail Vegetables
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Sales Staff					
Retail			$ 1,920		$ 1,920
Total Sales Staff	**$ 0**	**$ 0**	**$ 1,920**	**$ 0**	**$ 1,920**
Utilities					
Telephone	$ 75	$ 120	$ 240	$ 75	$ 510
Electric	$ 20	$ 40	$ 50	$ 20	$ 130
Total Utilities	**$ 95**	**$ 160**	**$ 290**	**$ 95**	**$ 640**
Postage	**$ 30**	**$ 100**	**$ 350**	**$ 30**	**$ 510**
Printing	**$ 270**	**$ 270**	**$ 0**	**$ 0**	**$ 540**
Office Supplies	**$ 90**	**$ 180**	**$ 180**	**$ 90**	**$ 540**
Equipment Lease					
Computer	$ 45	$ 45	$ 45	$ 45	$ 180
Scale			$ 375		$ 375
Cash Register			$ 500		$ 500
Total Equipment Lease	**$ 45**	**$ 45**	**$ 920**	**$ 45**	**$ 1,055**
Uncollected Accounts					
Retail			$ 1,000		$ 1,000
Total Uncollected Accts			**$ 1,000**		**$ 1,000**
TOTAL SELLING & ADMINISTRATIVE	**$ 530**	**$ 755**	**$ 4,660**	**$ 260**	**$ 6,205**

The Smiths completed a selling and administrative budget for the vegetable operation because of its sophistication and because it adds many additional costs to their agricultural operation. These costs are not directly related to production and would be out of place if included in the vegetable production expense forecasts. A clear example is the budget category marked "Uncollected Accounts." Uncollected Accounts is a cost resulting from Staci and Joe's marketing decision to extend credit to their customers and is clearly a factor of selling the product.

Overhead Budgets

Overhead budgets include all of those costs that could not be allocated specifically to a crop or business sub-unit. Overhead budget expense items must be paid whether there is income from the business sub-units or not.

"Overhead Budgets include all of those costs that could not be allocated specifically to a crop or business sub-unit..."

Smith Farms, Inc.
Overhead Budget - Overall Farm
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Indirect Labor					
Farm Manager	$ 1,530	$ 1,530	$ 1,530	$ 1,530	$ 6,120
Indirect Labor Total	**$ 1,530**	**$ 1,530**	**$ 1,530**	**$ 1,530**	**$ 6,120**
Professional Services					
Accountant	$ 450			$ 110	$ 560
Attorney	$ 500				$ 500
Book Keeper	$ 100	$ 100	$ 100	$ 100	$ 400
Professional Svcs. Total	**$ 1,050**	**$ 100**	**$ 100**	**$ 210**	**$ 1,460**
Farm Supplies					
Fencing				$ 2,000	$ 2,000
Stone/Gravel		$ 3,500			$ 3,500
Other	$ 625	$ 625	$ 625	$ 625	$ 2,500
Farm Supplies Total	**$ 625**	**$ 4,125**	**$ 625**	**$ 2,625**	**$ 8,000**
Insurance					
General Liability	$ 400	$ 400	$ 400	$ 400	$ 1,600
Excess	$ 100	$ 100	$ 100	$ 100	$ 400
Insurance Total	**$ 500**	**$ 500**	**$ 500**	**$ 500**	**$ 2,000**
Utilities					
Electric	$ 400	$ 400	$ 400	$ 400	$ 1,600
Telephone	$ 90	$ 90	$ 90	$ 90	$ 360
Gas	$ 600	$ 100	$ 0	$ 400	$ 1,100
Utilities Total	**$ 1,090**	**$ 590**	**$ 490**	**$ 890**	**$ 3,060**
Maintenance & Repair	**$ 300**	**$ 800**	**$ 500**	**$ 500**	**$ 2,100**
Fuel and Lubricants	**$ 400**	**$ 800**	**$ 750**	**$ 400**	**$ 2,350**
Depreciation					
Buildings	$ 1,300	$ 1,300	$ 1,300	$ 1,300	$ 5,200
Equipment	$ 5,300	$ 5,300	$ 5,300	$ 5,300	$ 21,200
Depreciation Total	**$ 6,600**	**$ 6,600**	**$ 6,600**	**$ 6,600**	**$ 26,400**
TOTAL OVERHEAD	**$ 12,095**	**$ 15,045**	**$ 11,095**	**$ 13,255**	**$ 51,490**

get your budgets in line TEXT 7-27

The Smiths completed a selling and administrative budget for the vegetable operation because of its sophistication and because it adds many additional costs to their agricultural operation. These costs are not directly related to production and would be out of place if included in the vegetable production expense forecasts. A clear example is the budget category marked "Uncollected Accounts." Uncollected Accounts is a cost resulting from Staci and Joe's marketing decision to extend credit to their customers and is clearly a factor of selling the product.

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Smith Farms, Inc.
Overhead Budget - Overall Farm
200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Indirect Labor					
Farm Manager	$ 1,530	$ 1,530	$ 1,530	$ 1,530	$ 6,120
Indirect Labor Total	$ 1,530	$ 1,530	$ 1,530	$ 1,530	$ 6,120
Professional Services					
Accountant	$ 450			$ 110	$ 560
Attorney	$ 500				$ 500
Book Keeper	$ 100	$ 100	$ 100	$ 100	$ 400
Professional Svcs. Total	$ 1,050	$ 100	$ 100	$ 210	$ 1,460
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Fencing				$ 2,000	$ 2,000
Stone/Gravel		$ 3,500			$ 3,500
Other	$ 625	$ 625	$ 625	$ 625	$ 2,500
Farm Supplies Total	$ 625	$ 4,125	$ 625	$ 2,625	$ 8,000
Insurance					
General Liability	$ 400	$ 400	$ 400	$ 400	$ 1,600
Excess	$ 100	$ 100	$ 100	$ 100	$ 400
Insurance Total	$ 500	$ 500	$ 500	$ 500	$ 2,000
Utilities					
Electric	$ 400	$ 400	$ 400	$ 400	$ 1,600
Telephone	$ 90	$ 90	$ 90	$ 90	$ 360
Gas	$ 600	$ 100	$ 0	$ 400	$ 1,100
Utilities Total	$ 1,090	$ 590	$ 490	$ 890	$ 3,060
Maintenance & Repair	$ 300	$ 800	$ 500	$ 500	$ 2,100
Fuel and Lubricants	$ 400	$ 800	$ 750	$ 400	$ 2,350
Depreciation					
Buildings	$ 1,300	$ 1,300	$ 1,300	$ 1,300	$ 5,200
Equipment	$ 5,300	$ 5,300	$ 5,300	$ 5,300	$ 21,200
Depreciation Total	$ 6,600	$ 6,600	$ 6,600	$ 6,600	$ 26,400
TOTAL OVERHEAD	$ 12,095	$ 15,045	$ 11,095	$ 13,255	$ 51,490

For the Smiths, those overhead costs were indirect labor (including farm management), road and lane maintenance, barn repairs, etc. Overhead forecasts may also include items such as business liability insurance, professional services and interest on the farm mortgage.

Cash Budgets by Business Sub-Unit

"Cash Budgets deserve special attention…"

Cash budgets deserve special attention because they represent the way each sub-unit of your business impacts your ability to pay overhead/operating expenses and, most importantly, to pay yourself.

To determine how much a sub-unit pays for operating expenses, start with each sub-unit's Sales Forecast and subtract the corresponding sub-unit's Expense Forecasts. The result is the amount that a particular product contributes to payment of operation expenses.

Smith Farms, Inc.
Cash Budgets (Contributions to Overhead)
Year 200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
VEGETABLES					
Sales					
Corn			$ 30,000		$ 30,000
Organic Tomatoes			$ 101,250		$ 101,250
Organic Peppers			$ 15,000		$ 15,000
Total Sales			**$ 146,250**		**$ 146,250**
Cost of Sales					
Corn Direct Production	$ 700	$ 5,690	$ 5,060	$ 1,500	$ 12,950
Tomatoes Direct Production	$ 245	$ 3,575	$ 7,850	$ 2,040	$ 13,710
Peppers Direct Production	$ 140	$ 2,988	$ 1,610	$ 520	$ 5,258
Total Direct Production Costs	**$ 1,085**	**$ 12,253**	**$ 14,520**	**$ 4,060**	**$ 31,918**
Vegetables Overhead Contribution	**$ (1,085)**	**$ (12,253)**	**$ 131,730**	**$ (4,060)**	**$ 114,332**

DAIRY HEIFERS - Replacement Heifers					
Sales	$ 22,000	$ 0	$ 0	$ 66,000	$ 88,000
Heifers Direct Production Cost	$ 32,998	$ 29,756	$ 29,156	$ 38,708	$ 130,618
Heifers Overhead Contribution	**$ (10,998)**	**$ (29,756)**	**$ (29,156)**	**$ 27,292**	**$ (42,618)**

7-28 TEXT get your budgets in line

For the Smiths, those overhead costs were indirect labor (including farm management), road and lane maintenance, barn repairs, etc. Overhead forecasts may also include items such as business liability insurance, professional services and interest on the farm mortgage.

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Smith Farms, Inc.
Cash Budgets (Contributions to Overhead)
Year 200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
VEGETABLES					
Sales					
Corn			$ 30,000		$ 30,000
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Conducting this analysis for the Smiths shows that their replacement heifers will drain cash from the business in all but the fourth quarter—that is, of course, if they try to pay for all of their expenses in cash. Because the heifer operation is expected to have negative cash flow during many months of the year, the Smiths must consider the best methods to finance these shortfalls. Before making this decision, they will create a Cash Flow Projection that covers all aspects of their agricultural business. They will then make a determination if cash flows from other business units can carry the heifer operation.

anticipate cash flow

The Cash Flow Projection

Cash flow projections forecast how you *anticipate* cash to flow in and out of the business in the future, usually on a monthly basis for at least a year. While it is important to understand how cash flowed through your business over the past year, most entrepreneurs are more concerned about how cash will flow through the business in the future. This future understanding is the basis for proper cash management, including managing borrowing needs.

The cash flow projection (or budget) is the business counterpart to your personal budget. It determines the cash requirements for your agricultural business. It is used to see the actual amount of money that is needed to open your business (start-up costs) and the amount needed to keep it open (operating costs).

"The cash flow projection (or budget) is the business counterpart to your personal budget..."

Preparing the Cash Flow Projection

To prepare the Monthly Cash Flow Projection, start with the information you have already gathered in preparing the Sales Forecast, Direct Cost Budgets, Overhead Budget and Selling and Administrative Budget. Next, determine how each of these budget items will affect cash flowing into and out of you business monthly. You will need to make adjustments to your forecasts for such things as accounts payable, accounts receivable, borrowing, interest income, etc.

In the Smith's case, their policy is to try and pay for everything using cash. This results in their Cash Flow Projection closely resembling the budgets they prepared earlier in the session. However, Staci and Joe anticipate having accounts receivable of $4,000 in their vegetable operation, expected accounts payable of $2,000 related to vegetable production, and $5,500 related to heifers. Since payables and receivables do not represent cash transactions, these amounts must be adjusted out of the Cash Flow Projection.

For example, the Sales Budget shows projected revenue from the vegetable operations of $146,250 for the year. Since the Smith's anticipate that $4,000 of those sales had yet to be paid in cash, the Cash Flow Projection reflects

get your budgets in line TEXT 7-29

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For example, the Sales Budget shows projected revenue from the vegetable operations of $146,250 for the year. Since the Smith's anticipate that $4,000 of those sales had yet to be paid in cash, the Cash Flow Projection reflects

Smith Farms, Inc.
Monthly Cash Flow Projection
Year 200X Projection - January through June

Months	START UP COSTS	1 January	2 February	3 March	4 April	5 May	6 June
(A) BEGINNING CASH BALANCE		**40,257.02**	**37,026.85**	**34,411.68**	**19,918.51**	**1,914.67**	**(15,659.17)**
CASH IN FROM OPERATIONS							
Cash Receipts							
1. Vegetable Operation							
2. Bred Heifer Operation		11,000.00	11,000.00				
3. Other Operation:							
4. Other Operation:							
(B) Total Cash Receipts		**11,000.00**	**11,000.00**				
CASH DISBURSEMENTS							
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets)							
5. Vegetable Operation					1,900.00	4,600.00	3,250.00
6. Bred Heifer Operation		10,900.00	11,000.00	11,098.00	9,918.67	9,918.67	6,918.64
7. Other Operation:							
8. Other Operation:							
Total Direct Production Costs (C1)		**10,900.00**	**11,000.00**	**11,098.00**	**11,818.67**	**14,518.67**	**10,168.64**
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)							
9. Vegetables Operation				530.00	50.00	150.00	555.00
10. Other Operation:							
11. Other Operation:							
12. Other Operation:							
Total Selling/Admin. Costs (C2)				**530.00**	**50.00**	**150.00**	**555.00**
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)							
13. Indirect Labor		510.00	510.00	510.00	510.00	510.00	510.00
14. Indirect Labor Payroll Taxes (incl in 13)							
15. Professional Services		600.00	450.00				100.00
16. Farm Supplies		625.00			4,125.00		
17. Risk Management - Insurance				500.00			500.00
18. Utilities		390.00	400.00	300.00	245.00	165.00	180.00
19. Equipment Maintenance/Repair				300.00		800.00	
20. Fuel and Lubricants		100.00	150.00	150.00	150.00	325.00	325.00
21. Other:							
Total Overhead Expenses (C3)		**2,225.00**	**1,510.00**	**1,760.00**	**5,030.00**	**1,800.00**	**1,615.00**
(C) Total Cash Disbursements (C1+C2+C3)		**13,125.00**	**12,510.00**	**13,388.00**	**16,898.67**	**16,468.67**	**12,338.64**
(D) Net Operating Cash (B - C)		**(2,125.00)**	**(1,510.00)**	**(13,388.00)**	**(16,898.67)**	**(16,468.67)**	**(12,338.64)**
CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
22. Interest Income		250.00	250.00	250.00	250.00	250.00	250.00
23. Investments in Business							
24. Loan Proceeds							
25. Other:							
Total Other Cash In (E1)		**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**
(E2) Other Cash Out							
26. Interest Expense		667.67	667.67	667.67	667.67	667.67	667.67
27. Capital Purchases (Assets)							
28. Loan Principal Payments		687.50	687.50	687.50	687.50	687.50	687.50
29. Other:							
Total Other Cash Out (E2)		**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**
(E) Net Other Cash (E1 - E2)		**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**
(F) Net Monthly Cash (D + E)		**(3,230.17)**	**(2,615.17)**	**(14,493.17)**	**(18,003.84)**	**(17,573.84)**	**(13,443.81)**
(G) Ending Cash Balance (A + F)		**37,026.85**	**34,411.68**	**19,918.51**	**1,914.67**	**(15,659.17)**	**(29,102.98)**

7-30 T E X T get your budgets in line

Smith Farms, Inc.
Monthly Cash Flow Projection
Year 200X Projection - January through June

Months	START UP COSTS	1 January	2 February	3 March	4 April	5 May	6 June
(A) BEGINNING CASH BALANCE		**40,257.02**	**37,026.85**	**34,411.68**	**19,918.51**	**1,914.67**	**(15,659.17)**
CASH IN FROM OPERATIONS							
Cash Receipts							
1. Vegetable Operation							
2. Bred Heifer Operation		11,000.00	11,000.00				
3. Other Operation:							
4. Other Operation:							
(B) Total Cash Receipts		**11,000.00**	**11,000.00**				
CASH DISBURSEMENTS							
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets)							
5. Vegetable Operation					1,900.00	4,600.00	3,250.00
6. Bred Heifer Operation		10,900.00	11,000.00	11,098.00	9,918.67	9,918.67	6,918.64
7. Other Operation:							
8. Other Operation:							
Total Direct Production Costs (C1)		**10,900.00**	**11,000.00**	**11,098.00**	**11,818.67**	**14,518.67**	**10,168.64**
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)							
9. Vegetables Operation				530.00	50.00	150.00	555.00
10. Other Operation:							
11. Other Operation:							
12. Other Operation:							
Total Selling/Admin. Costs (C2)				**530.00**	**50.00**	**150.00**	**555.00**
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)							
13. Indirect Labor		510.00	510.00	510.00	510.00	510.00	510.00
14. Indirect Labor Payroll Taxes (incl in 13)							
15. Professional Services		600.00	450.00				100.00
16. Farm Supplies		625.00			4,125.00		
17. Risk Management - Insurance				500.00			500.00
18. Utilities		390.00	400.00	300.00	245.00	165.00	180.00
19. Equipment Maintenance/Repair				300.00		800.00	
20. Fuel and Lubricants		100.00	150.00	150.00	150.00	325.00	325.00
21. Other:							
Total Overhead Expenses (C3)		**2,225.00**	**1,510.00**	**1,760.00**	**5,030.00**	**1,800.00**	**1,615.00**
(C) Total Cash Disbursements (C1+C2+C3)		**13,125.00**	**12,510.00**	**13,388.00**	**16,898.67**	**16,468.67**	**12,338.64**
(D) Net Operating Cash (B - C)		**(2,125.00)**	**(1,510.00)**	**(13,388.00)**	**(16,898.67)**	**(16,468.67)**	**(12,338.64)**
CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
22. Interest Income		250.00	250.00	250.00	250.00	250.00	250.00
23. Investments in Business							
24. Loan Proceeds							
25. Other:							
Total Other Cash In (E1)		**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**
(E2) Other Cash Out							
26. Interest Expense		667.67	667.67	667.67	667.67	667.67	667.67
27. Capital Purchases (Assets)							
28. Loan Principal Payments		687.50	687.50	687.50	687.50	687.50	687.50
29. Other:							
Total Other Cash Out (E2)		**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**
(E) Net Other Cash (E1 - E2)		**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**
(F) Net Monthly Cash (D + E)		**(3,230.17)**	**(2,615.17)**	**(14,493.17)**	**(18,003.84)**	**(17,573.84)**	**(13,443.81)**
(G) Ending Cash Balance (A + F)		**37,026.85**	**34,411.68**	**19,918.51**	**1,914.67**	**(15,659.17)**	**(29,102.98)**

Smith Farms, Inc.
Monthly Cash Flow Projection
Year 200X Projection - July through December

	7 July	8 August	9 September	10 October	11 November	12 December	Year TOTAL	Comments
(A)	**(29,102.98)**	**(298.32)**	**47,668.84**	**51,352.50**	**49,264.66**	**77,441.82**	**40,257.02**	
CASH IN FROM OPERATIONS								
Cash Receipts								
1.	51,187.50	70,125.00	20,937.50				142,250.00	4,000.00 in receivables
2.				11,000.00	44,000.00	11,000.00	88,000.00	
3.								
4.								
(B)	**51,187.50**	**70,125.00**	**20,937.50**	**11,000.00**	**44,000.00**	**11,000.00**	**230,250.00**	
CASH DISBURSEMENTS								
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets for details)								
5.	8,150.00	8,050.00	3,968.00				29,918.00	2,000.00 in payables
6.	9,718.67	9,718.67	9,718.67	10,402.67	12,902.67	12,902.67	125,118.00	5,500.00 in payables
7.								
8.								
(C1)	**17,868.67**	**17,768.67**	**13,686.67**	**10,402.67**	**12,902.67**	**12,902.67**	**155,036.00**	
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)								
9.	1,864.00	1,864.00	932.00	130.00	130.00	0	6,205.00	
10.								
11.								
12.								
(C2)	**1,864.00**	**1,864.00**	**932.00**	**130.00**	**130.00**	**0**	**6,205.00**	
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)								
13.	510.00	510.00	510.00	510.00	510.00	510.00	6,120.00	
14.								
15.			100.00		110.00	100.00	1,460.00	
16.	625.00				625.00	2,000.00	8,000.00	
17.			500.00			500.00	2,000.00	
18.	160.00	160.00	170.00	290.00	290.00	310.00	3,060.00	
19.		500.00		500.00			2,100.00	
20.	250.00	250.00	250.00	150.00	150.00	100.00	2,350.00	
21.								
(C3)	**1,545.00**	**1,420.00**	**1,530.00**	**1,450.00**	**1,685.00**	**3,520.00**	**25,090.00**	
(C)	**21,277.67**	**21,052.67**	**16,148.67**	**11,982.67**	**14,717.67**	**16,422.67**	**186,331.00**	
(D)	**29,909.83**	**49,072.33**	**4,788.83**	**(982.67)**	**29,282.33**	**(5,422.67)**	**43,919.00**	
CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
22.	250.00	250.00	250.00	250.00	250.00	250.00	3,000.00	
23.								
24.								
25.								
(E1)	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**3,000.00**	
(E2) Other Cash Out								
26.	667.67	667.67	667.67	667.67	667.67	667.67	8,012.04	
27.								
28.	687.50	687.50	687.50	687.50	687.50	687.50	8,250.00	
29.								
(E2)	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**16,262.04**	
(E)	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(13,262.04)**	
(F)	**28,804.66**	**47,967.16**	**3,683.66**	**(2,087.84)**	**28,177.16**	**(6,527.84)**	**30,656.96**	
(G)	**(298.32)**	**47,668.84**	**51,352.50**	**49,264.66**	**77,441.82**	**70,913.98**	**70,913.98**	

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Smith Farms, Inc.
Monthly Cash Flow Projection
Year 200X Projection - July through December

	7 July	8 August	9 September	10 October	11 November	12 December	Year TOTAL	Comments
(A)	**(29,102.98)**	**(298.32)**	**47,668.84**	**51,352.50**	**49,264.66**	**77,441.82**	**40,257.02**	
CASH IN FROM OPERATIONS								
Cash Receipts								
1.	51,187.50	70,125.00	20,937.50				142,250.00	4,000.00 in receivables
2.				11,000.00	44,000.00	11,000.00	88,000.00	
3.								
4.								
(B)	**51,187.50**	**70,125.00**	**20,937.50**	**11,000.00**	**44,000.00**	**11,000.00**	**230,250.00**	
CASH DISBURSEMENTS								
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets for details)								
5.	8,150.00	8,050.00	3,968.00				29,918.00	2,000.00 in payables
6.	9,718.67	9,718.67	9,718.67	10,402.67	12,902.67	12,902.67	125,118.00	5,500.00 in payables
7.								
8.								
(C1)	**17,868.67**	**17,768.67**	**13,686.67**	**10,402.67**	**12,902.67**	**12,902.67**	**155,036.00**	
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)								
9.	1,864.00	1,864.00	932.00	130.00	130.00	0	6,205.00	
10.								
11.								
12.								
(C2)	**1,864.00**	**1,864.00**	**932.00**	**130.00**	**130.00**	**0**	**6,205.00**	
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)								
13.	510.00	510.00	510.00	510.00	510.00	510.00	6,120.00	
14.								
15.			100.00		110.00	100.00	1,460.00	
16.	625.00				625.00	2,000.00	8,000.00	
17.			500.00			500.00	2,000.00	
18.	160.00	160.00	170.00	290.00	290.00	310.00	3,060.00	
19.		500.00		500.00			2,100.00	
20.	250.00	250.00	250.00	150.00	150.00	100.00	2,350.00	
21.								
(C3)	**1,545.00**	**1,420.00**	**1,530.00**	**1,450.00**	**1,685.00**	**3,520.00**	**25,090.00**	
(C)	**21,277.67**	**21,052.67**	**16,148.67**	**11,982.67**	**14,717.67**	**16,422.67**	**186,331.00**	
(D)	**29,909.83**	**49,072.33**	**4,788.83**	**(982.67)**	**29,282.33**	**(5,422.67)**	**43,919.00**	
CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
22.	250.00	250.00	250.00	250.00	250.00	250.00	3,000.00	
23.								
24.								
25.								
(E1)	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**3,000.00**	
(E2) Other Cash Out								
26.	667.67	667.67	667.67	667.67	667.67	667.67	8,012.04	
27.								
28.	687.50	687.50	687.50	687.50	687.50	687.50	8,250.00	
29.								
(E2)	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**16,262.04**	
(E)	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(13,262.04)**	
(F)	**28,804.66**	**47,967.16**	**3,683.66**	**(2,087.84)**	**28,177.16**	**(6,527.84)**	**30,656.96**	
(G)	**(298.32)**	**47,668.84**	**51,352.50**	**49,264.66**	**77,441.82**	**70,913.98**	**70,913.98**	

vegetable cash sales of only $142,250. The payables are subtracted out of the Direct Production Cost totals on the Cash Flow Projection in the same way. Other items of note in the Smith cash flow example include interest income on cash balances on savings and interest payments on outstanding debt.

The importance of managing your cash cannot be over-emphasized. After completing the Cash Flow Projection, Staci and Joe were left without answers to several hard questions. First and foremost was how to keep their agricultural business solvent during the months of May, June and July. Should Staci and Joe borrow more money from the bank? Would the feed supplier extend the terms of credit to 180 days? Should they borrow money from Staci's retirement account? Should they liquidate a portion of the herd? Would expanding the vegetable operation help?

reasons & justifications

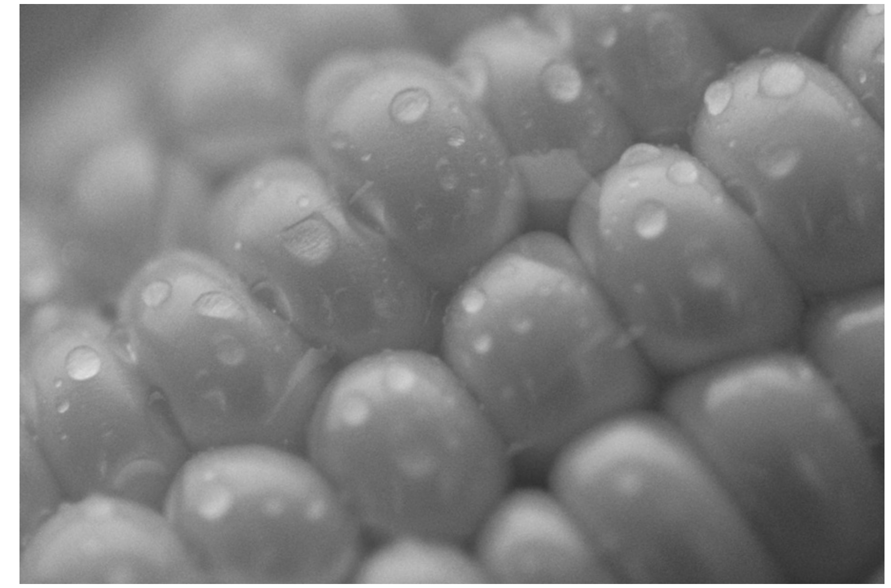
As you can see, the decisions facing the Smiths are not easy. However, the Smiths are at an advantage for having identified the problem now rather than waiting until June for the bank account to be empty. By using this forecasting and budgeting system, they can go back and run the numbers again. They can test new options and see their results on paper without risking time and/or the business' resources and cash.

Before completely re-evaluating their operations, the Smiths decided to refine their current analysis. To accomplish this they tested their assumptions using "What-If " scenarios.

"The assumptions should explain and justify your projections..."

The role of assumptions in preparing the cash flow projections

The assumptions that you used to forecast revenues and expenses make up an integral part of your cash flow statement. Your assumptions are those "reasons" or "justifications" you determined for the amounts recorded on the worksheet. Be sure to attach a corresponding list of assumptions, which are often called Notes to the Cash Flow Projection. The assumptions should explain and justify your projections. The reader needs to be able to clearly follow your thoughts about how you projected income and expenses. When you test new options using "What If" scenarios, be sure to document the new assumptions to correspond with your new decisions.



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"What If"—Sensitivity Analysis

Sensitivity Analysis is a form of "What If" analysis used most often on projected financial statements. Most often associated with the cash flow projections and/or projected income statement, it can be a very useful tool for entrepreneurs who want to see how changes in either sales or expense levels affect the monthly projected cash flow or the projected net income.

To perform a sensitivity analysis on the sample cash flow projection, you might start with projected sales. Try substituting different levels of sales and see how the "bottom line" cash balance is affected. Then carefully examine your direct production costs to make sure that the proper expense is being used. In some cases, direct production costs (variable expenses) may decrease due to an increase in sales volume (because of greater efficiencies). Conversely, if you reduce your sales level, you must determine if your variable expenses would go up on a percentage basis due to loss of economies of scale, volume buying power, etc.

"What if..."

Try varying your operating expenses to determine the new amount of cash available to meet your debt requirement and/or profit expectations.

Or, you may wish to vary other components of your projection (e.g., amount of debt, interest rate, capital asset purchase, etc.) to see the "sensitivity" of your bottom line cash balance to changes in your assumptions.

It is easy to see that sensitivity analysis is best performed on a computer spreadsheet program. Although it may take some time to initially setup the spreadsheet with the proper cells and formulas, performing the analysis on a computer offers the ability to quickly change your variables and see the bottom line with almost instantaneous results.

The Smiths decided to run two "What-If" scenarios on their Cash Flow Projection to test the impact on the business' ability to pay its obligations.

"What-If #1": Joe Smith believes that he underestimated the prices for his bred heifers. He feels that an improving market and better genetics will increase his sales price 5% overall.

If Joe's assumption are correct, the cash flow situation will improve for the Smith's, but not significantly enough to overcome the summer's cash flow shortfall.

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Smith Farms, Inc.
Monthly Cash Flow Projection - "What If" a 5% Increase in Heifer Prices
Year 200X Projection - January through June

Months	START UP COSTS	1 January	2 February	3 March	4 April	5 May	6 June
(A) BEGINNING CASH BALANCE		**40,257.02**	**37,576.85**	**35,511.68**	**21,018.51**	**3,014.67**	**(14,559.17)**
CASH IN FROM OPERATIONS							
Cash Receipts							
1. Vegetable Operation							
2. Bred Heifer Operation		11,550.00	11,550.00				
3. Other Operation:							
4. Other Operation:							
(B) Total Cash Receipts		**11,550.00**	**11,550.00**				
CASH DISBURSEMENTS							
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets)							
5. Vegetable Operation					1,900.00	4,600.00	3,250.00
6. Bred Heifer Operation		10,900.00	11,000.00	11,098.00	9,918.67	9,918.67	6,918.64
7. Other Operation:							
8. Other Operation:							
Total Direct Production Costs (C1)		**10,900.00**	**11,000.00**	**11,098.00**	**11,818.67**	**14,518.67**	**10,168.64**
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)							
9. Vegetables Operation				530.00	50.00	150.00	555.00
10. Other Operation:							
11. Other Operation:							
12. Other Operation:							
Total Selling/Admin. Costs (C2)				**530.00**	**50.00**	**150.00**	**555.00**
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)							
13. Indirect Labor		510.00	510.00	510.00	510.00	510.00	510.00
14. Indirect Labor Payroll Taxes (incl in 13)							
15. Professional Services		600.00	450.00				100.00
16. Farm Supplies		625.00			4,125.00		
17. Risk Management - Insurance				500.00			500.00
18. Utilities		390.00	400.00	300.00	245.00	165.00	180.00
19. Equipment Maintenance/Repair				300.00		800.00	
20. Fuel and Lubricants		100.00	150.00	150.00	150.00	325.00	325.00
21. Other:							
Total Overhead Expenses (C3)		**2,225.00**	**1,510.00**	**1,760.00**	**5,030.00**	**1,800.00**	**1,615.00**
(C) Total Cash Disbursements (C1+C2+C3)		**13,125.00**	**12,510.00**	**13,388.00**	**16,898.67**	**16,468.67**	**12,338.64**
(D) Net Operating Cash (B - C)		**(1,575.00)**	**(960.00)**	**(13,388.00)**	**(16,898.67)**	**(16,468.67)**	**(12,338.64)**
CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
22. Interest Income		250.00	250.00	250.00	250.00	250.00	250.00
23. Investments in Business							
24. Loan Proceeds							
25. Other:							
Total Other Cash In (E1)		**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**
(E2) Other Cash Out							
26. Interest Expense		667.67	667.67	667.67	667.67	667.67	667.67
27. Capital Purchases (Assets)							
28. Loan Principal Payments		687.50	687.50	687.50	687.50	687.50	687.50
29. Other:							
Total Other Cash Out (E2)		**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**
(E) Net Other Cash (E1 - E2)		**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**
(F) Net Monthly Cash (D + E)		**(2,680.17)**	**(2,065.17)**	**(14,493.17)**	**(18,003.84)**	**(17,573.84)**	**(13,443.81)**
(G) Ending Cash Balance (A + F)		**37,576.85**	**35,511.68**	**21,018.51**	**3,014.67**	**(14,559.17)**	**(28,002.98)**

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Smith Farms, Inc.
Monthly Cash Flow Projection - "What If" a 5% Increase in Heifer Prices
Year 200X Projection - January through June

Months	START UP COSTS	1 January	2 February	3 March	4 April	5 May	6 June
(A) BEGINNING CASH BALANCE		**40,257.02**	**37,576.85**	**35,511.68**	**21,018.51**	**3,014.67**	**(14,559.17)**
CASH IN FROM OPERATIONS							
Cash Receipts							
1. Vegetable Operation							
2. Bred Heifer Operation		11,550.00	11,550.00				
3. Other Operation:							
4. Other Operation:							
(B) Total Cash Receipts		**11,550.00**	**11,550.00**				
CASH DISBURSEMENTS							
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets)							
5. Vegetable Operation					1,900.00	4,600.00	3,250.00
6. Bred Heifer Operation		10,900.00	11,000.00	11,098.00	9,918.67	9,918.67	6,918.64
7. Other Operation:							
8. Other Operation:							
Total Direct Production Costs (C1)		**10,900.00**	**11,000.00**	**11,098.00**	**11,818.67**	**14,518.67**	**10,168.64**
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)							
9. Vegetables Operation				530.00	50.00	150.00	555.00
10. Other Operation:							
11. Other Operation:							
12. Other Operation:							
Total Selling/Admin. Costs (C2)				**530.00**	**50.00**	**150.00**	**555.00**
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)							
13. Indirect Labor		510.00	510.00	510.00	510.00	510.00	510.00
14. Indirect Labor Payroll Taxes (incl in 13)							
15. Professional Services		600.00	450.00				100.00
16. Farm Supplies		625.00			4,125.00		
17. Risk Management - Insurance				500.00			500.00
18. Utilities		390.00	400.00	300.00	245.00	165.00	180.00
19. Equipment Maintenance/Repair				300.00		800.00	
20. Fuel and Lubricants		100.00	150.00	150.00	150.00	325.00	325.00
21. Other:							
Total Overhead Expenses (C3)		**2,225.00**	**1,510.00**	**1,760.00**	**5,030.00**	**1,800.00**	**1,615.00**
(C) Total Cash Disbursements (C1+C2+C3)		**13,125.00**	**12,510.00**	**13,388.00**	**16,898.67**	**16,468.67**	**12,338.64**
(D) Net Operating Cash (B - C)		**(1,575.00)**	**(960.00)**	**(13,388.00)**	**(16,898.67)**	**(16,468.67)**	**(12,338.64)**
CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
22. Interest Income		250.00	250.00	250.00	250.00	250.00	250.00
23. Investments in Business							
24. Loan Proceeds							
25. Other:							
Total Other Cash In (E1)		**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**
(E2) Other Cash Out							
26. Interest Expense		667.67	667.67	667.67	667.67	667.67	667.67
27. Capital Purchases (Assets)							
28. Loan Principal Payments		687.50	687.50	687.50	687.50	687.50	687.50
29. Other:							
Total Other Cash Out (E2)		**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**
(E) Net Other Cash (E1 - E2)		**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**
(F) Net Monthly Cash (D + E)		**(2,680.17)**	**(2,065.17)**	**(14,493.17)**	**(18,003.84)**	**(17,573.84)**	**(13,443.81)**
(G) Ending Cash Balance (A + F)		**37,576.85**	**35,511.68**	**21,018.51**	**3,014.67**	**(14,559.17)**	**(28,002.98)**

Smith Farms, Inc.
Monthly Cash Flow Projection - "What If" a 5% Increase in Heifer Prices
Year 200X Projection - July through December

	7 July	8 August	9 September	10 October	11 November	12 December	Year TOTAL	Comments
(A)	(28,002.98)	801.68	48,768.84	52,452.50	50,914.66	81,291.82	40,257.02	
CASH IN FROM OPERATIONS								
Cash Receipts								
1.	51,187.50	70,125.00	20,937.50				142,250.00	4,000.00 in receivables
2.				11,550.00	46,200.00	11,550.00	92,400.00	
3.								
4.								
(B)	**51,187.50**	**70,125.00**	**20,937.50**	**11,550.00**	**46,200.00**	**11,550.00**	**234,650.00**	
CASH DISBURSEMENTS								
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets for details)								
5.	8,150.00	8,050.00	3,968.00				29,918.00	2,000.00 in payables
6.	9,718.67	9,718.67	9,718.67	10,402.67	12,902.67	12,902.67	125,118.00	5,500.00 in payables
7.								
8.								
(C1)	**17,868.67**	**17,768.67**	**13,686.67**	**10,402.67**	**12,902.67**	**12,902.67**	**155,036.00**	
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)								
9.	1,864.00	1,864.00	932.00	130.00	130.00	0	6,205.00	
10.								
11.								
12.								
(C2)	**1,864.00**	**1,864.00**	**932.00**	**130.00**	**130.00**	**0**	**6,205.00**	
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)								
13.	510.00	510.00	510.00	510.00	510.00	510.00	6,120.00	
14.								
15.			100.00		110.00	100.00	1,460.00	
16.	625.00				625.00	2,000.00	8,000.00	
17.			500.00			500.00	2,000.00	
18.	160.00	160.00	170.00	290.00	290.00	310.00	3,060.00	
19.		500.00		500.00			2,100.00	
20.	250.00	250.00	250.00	150.00	150.00	100.00	2,350.00	
21.								
(C3)	**1,545.00**	**1,420.00**	**1,530.00**	**1,450.00**	**1,685.00**	**3,520.00**	**25,090.00**	
(C)	**21,277.67**	**21,052.67**	**16,148.67**	**11,982.67**	**14,717.67**	**16,422.67**	**186,331.00**	
(D)	**29,909.83**	**49,072.33**	**4,788.83**	**(432.67)**	**31,482.33**	**(4,872.67)**	**48,319.00**	
CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
22.	250.00	250.00	250.00	250.00	250.00	250.00	3,000.00	
23.								
24.								
25.								
(E1)	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**3,000.00**	
(E2) Other Cash Out								
26.	667.67	667.67	667.67	667.67	667.67	667.67	8,012.04	
27.								
28.	687.50	687.50	687.50	687.50	687.50	687.50	8,250.00	
29.								
(E2)	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**16,262.04**	
(E)	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(13,262.04)**	
(F)	**28,804.66**	**47,967.16**	**3,683.66**	**(2,087.84)**	**28,177.16**	**(6,527.84)**	**30,656.96**	
(G)	**801.68**	**48,768.84**	**52,452.50**	**50,914.66**	**81,291.82**	**75,313.98**	**75,313.98**	

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Smith Farms, Inc.
Monthly Cash Flow Projection - "What If" a 5% Increase in Heifer Prices
Year 200X Projection - July through December

	7 July	8 August	9 September	10 October	11 November	12 December	Year TOTAL	Comments
(A)	(28,002.98)	801.68	48,768.84	52,452.50	50,914.66	81,291.82	40,257.02	
CASH IN FROM OPERATIONS								
Cash Receipts								
1.	51,187.50	70,125.00	20,937.50				142,250.00	4,000.00 in receivables
2.				11,550.00	46,200.00	11,550.00	92,400.00	
3.								
4.								
(B)	**51,187.50**	**70,125.00**	**20,937.50**	**11,550.00**	**46,200.00**	**11,550.00**	**234,650.00**	
CASH DISBURSEMENTS								
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets for details)								
5.	8,150.00	8,050.00	3,968.00				29,918.00	2,000.00 in payables
6.	9,718.67	9,718.67	9,718.67	10,402.67	12,902.67	12,902.67	125,118.00	5,500.00 in payables
7.								
8.								
(C1)	**17,868.67**	**17,768.67**	**13,686.67**	**10,402.67**	**12,902.67**	**12,902.67**	**155,036.00**	
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)								
9.	1,864.00	1,864.00	932.00	130.00	130.00	0	6,205.00	
10.								
11.								
12.								
(C2)	**1,864.00**	**1,864.00**	**932.00**	**130.00**	**130.00**	**0**	**6,205.00**	
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)								
13.	510.00	510.00	510.00	510.00	510.00	510.00	6,120.00	
14.								
15.			100.00		110.00	100.00	1,460.00	
16.	625.00				625.00	2,000.00	8,000.00	
17.			500.00			500.00	2,000.00	
18.	160.00	160.00	170.00	290.00	290.00	310.00	3,060.00	
19.		500.00		500.00			2,100.00	
20.	250.00	250.00	250.00	150.00	150.00	100.00	2,350.00	
21.								
(C3)	**1,545.00**	**1,420.00**	**1,530.00**	**1,450.00**	**1,685.00**	**3,520.00**	**25,090.00**	
(C)	**21,277.67**	**21,052.67**	**16,148.67**	**11,982.67**	**14,717.67**	**16,422.67**	**186,331.00**	
(D)	**29,909.83**	**49,072.33**	**4,788.83**	**(432.67)**	**31,482.33**	**(4,872.67)**	**48,319.00**	
CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
22.	250.00	250.00	250.00	250.00	250.00	250.00	3,000.00	
23.								
24.								
25.								
(E1)	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**3,000.00**	
(E2) Other Cash Out								
26.	667.67	667.67	667.67	667.67	667.67	667.67	8,012.04	
27.								
28.	687.50	687.50	687.50	687.50	687.50	687.50	8,250.00	
29.								
(E2)	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**16,262.04**	
(E)	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(13,262.04)**	
(F)	**28,804.66**	**47,967.16**	**3,683.66**	**(2,087.84)**	**28,177.16**	**(6,527.84)**	**30,656.96**	
(G)	**801.68**	**48,768.84**	**52,452.50**	**50,914.66**	**81,291.82**	**75,313.98**	**75,313.98**	

Smith Farms, Inc.
Monthly Cash Flow Projection - "What If" a $ .50 Decrease in Tomato Prices
Year 200X Projection - January through June

Months	START UP COSTS	1 January	2 February	3 March	4 April	5 May	6 June
(A) BEGINNING CASH BALANCE		**40,257.02**	**37,026.85**	**34,411.68**	**19,918.51**	**1,914.67**	**(15,659.17)**
CASH IN FROM OPERATIONS							
Cash Receipts							
1. Vegetable Operation							
2. Bred Heifer Operation		11,000.00	11,000.00				
3. Other Operation:							
4. Other Operation:							
(B) Total Cash Receipts		**11,000.00**	**11,000.00**				
CASH DISBURSEMENTS							
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets)							
5. Vegetable Operation					1,900.00	4,600.00	3,250.00
6. Bred Heifer Operation		10,900.00	11,000.00	11,098.00	9,918.67	9,918.67	6,918.64
7. Other Operation:							
8. Other Operation:							
Total Direct Production Costs (C1)		**10,900.00**	**11,000.00**	**11,098.00**	**11,818.67**	**14,518.67**	**10,168.64**
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)							
9. Vegetables Operation				530.00	50.00	150.00	555.00
10. Other Operation:							
11. Other Operation:							
12. Other Operation:							
Total Selling/Admin. Costs (C2)				**530.00**	**50.00**	**150.00**	**555.00**
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)							
13. Indirect Labor		510.00	510.00	510.00	510.00	510.00	510.00
14. Indirect Labor Payroll Taxes (incl in 13)							
15. Professional Services		600.00	450.00				100.00
16. Farm Supplies		625.00			4,125.00		
17. Risk Management - Insurance				500.00			500.00
18. Utilities		390.00	400.00	300.00	245.00	165.00	180.00
19. Equipment Maintenance/Repair				300.00		800.00	
20. Fuel and Lubricants		100.00	150.00	150.00	150.00	325.00	325.00
21. Other:							
Total Overhead Expenses (C3)		**2,225.00**	**1,510.00**	**1,760.00**	**5,030.00**	**1,800.00**	**1,615.00**
(C) Total Cash Disbursements (C1+C2+C3)		**13,125.00**	**12,510.00**	**13,388.00**	**16,898.67**	**16,468.67**	**12,338.64**
(D) Net Operating Cash (B - C)		**(2,125.00)**	**(1,510.00)**	**(13,388.00)**	**(16,898.67)**	**(16,468.67)**	**(12,338.64)**
CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
22. Interest Income		250.00	250.00	250.00	250.00	250.00	250.00
23. Investments in Business							
24. Loan Proceeds							
25. Other:							
Total Other Cash In (E1)		**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**
(E2) Other Cash Out							
26. Interest Expense		667.67	667.67	667.67	667.67	667.67	667.67
27. Capital Purchases (Assets)							
28. Loan Principal Payments		687.50	687.50	687.50	687.50	687.50	687.50
29. Other:							
Total Other Cash Out (E2)		**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**
(E) Net Other Cash (E1 - E2)		**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**
(F) Net Monthly Cash (D + E)		**(3,230.17)**	**(2,615.17)**	**(14,493.17)**	**(18,003.84)**	**(17,573.84)**	**(13,443.81)**
(G) Ending Cash Balance (A + F)		**37,026.85**	**34,411.68**	**19,918.51**	**1,914.67**	**(15,659.17)**	**(29,102.98)**

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Smith Farms, Inc.
Monthly Cash Flow Projection - "What If" a $ .50 Decrease in Tomato Prices
Year 200X Projection - January through June

Months	START UP COSTS	1 January	2 February	3 March	4 April	5 May	6 June
(A) BEGINNING CASH BALANCE		**40,257.02**	**37,026.85**	**34,411.68**	**19,918.51**	**1,914.67**	**(15,659.17)**
CASH IN FROM OPERATIONS							
Cash Receipts							
1. Vegetable Operation							
2. Bred Heifer Operation		11,000.00	11,000.00				
3. Other Operation:							
4. Other Operation:							
(B) Total Cash Receipts		**11,000.00**	**11,000.00**				
CASH DISBURSEMENTS							
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets)							
5. Vegetable Operation					1,900.00	4,600.00	3,250.00
6. Bred Heifer Operation		10,900.00	11,000.00	11,098.00	9,918.67	9,918.67	6,918.64
7. Other Operation:							
8. Other Operation:							
Total Direct Production Costs (C1)		**10,900.00**	**11,000.00**	**11,098.00**	**11,818.67**	**14,518.67**	**10,168.64**
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)							
9. Vegetables Operation				530.00	50.00	150.00	555.00
10. Other Operation:							
11. Other Operation:							
12. Other Operation:							
Total Selling/Admin. Costs (C2)				**530.00**	**50.00**	**150.00**	**555.00**
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)							
13. Indirect Labor		510.00	510.00	510.00	510.00	510.00	510.00
14. Indirect Labor Payroll Taxes (incl in 13)							
15. Professional Services		600.00	450.00				100.00
16. Farm Supplies		625.00			4,125.00		
17. Risk Management - Insurance				500.00			500.00
18. Utilities		390.00	400.00	300.00	245.00	165.00	180.00
19. Equipment Maintenance/Repair				300.00		800.00	
20. Fuel and Lubricants		100.00	150.00	150.00	150.00	325.00	325.00
21. Other:							
Total Overhead Expenses (C3)		**2,225.00**	**1,510.00**	**1,760.00**	**5,030.00**	**1,800.00**	**1,615.00**
(C) Total Cash Disbursements (C1+C2+C3)		**13,125.00**	**12,510.00**	**13,388.00**	**16,898.67**	**16,468.67**	**12,338.64**
(D) Net Operating Cash (B - C)		**(2,125.00)**	**(1,510.00)**	**(13,388.00)**	**(16,898.67)**	**(16,468.67)**	**(12,338.64)**
CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
22. Interest Income		250.00	250.00	250.00	250.00	250.00	250.00
23. Investments in Business							
24. Loan Proceeds							
25. Other:							
Total Other Cash In (E1)		**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**
(E2) Other Cash Out							
26. Interest Expense		667.67	667.67	667.67	667.67	667.67	667.67
27. Capital Purchases (Assets)							
28. Loan Principal Payments		687.50	687.50	687.50	687.50	687.50	687.50
29. Other:							
Total Other Cash Out (E2)		**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**
(E) Net Other Cash (E1 - E2)		**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**
(F) Net Monthly Cash (D + E)		**(3,230.17)**	**(2,615.17)**	**(14,493.17)**	**(18,003.84)**	**(17,573.84)**	**(13,443.81)**
(G) Ending Cash Balance (A + F)		**37,026.85**	**34,411.68**	**19,918.51**	**1,914.67**	**(15,659.17)**	**(29,102.98)**

Smith Farms, Inc.
Monthly Cash Flow Projection - "What If" a $ .50 Decrease in Tomato Prices
Year 200X Projection - July through December

	7 July	8 August	9 September	10 October	11 November	12 December	Year TOTAL	Comments
(A)	**(29,102.98)**	**(7,298.32)**	**16,918.84**	**17,602.50**	**15,514.66**	**43,691.82**	**40,257.02**	
CASH IN FROM OPERATIONS								
Cash Receipts								
1.	44,187.50	46,375.00	17,937.50				108,500.00	4,000.00 in receivables
2.				11,000.00	44,000.00	11,000.00	88,000.00	
3.								
4.								
(B)	**44,187.50**	**46,375.00**	**17,937.50**	**11,000.00**	**44,000.00**	**11,000.00**	**196,500.00**	
CASH DISBURSEMENTS								
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets for details)								
5.	8,150.00	8,050.00	3,968.00				29,918.00	2,000.00 in payables
6.	9,718.67	9,718.67	9,718.67	10,402.67	12,902.67	12,902.67	125,118.00	5,500.00 in payables
7.								
8.								
(C1)	**17,868.67**	**17,768.67**	**13,686.67**	**10,402.67**	**12,902.67**	**12,902.67**	**155,036.00**	
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)								
9.	1,864.00	1,864.00	932.00	130.00	130.00	0	6,205.00	
10.								
11.								
12.								
(C2)	**1,864.00**	**1,864.00**	**932.00**	**130.00**	**130.00**	**0**	**6,205.00**	
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)								
13.	510.00	510.00	510.00	510.00	510.00	510.00	6,120.00	
14.								
15.			100.00		110.00	100.00	1,460.00	
16.	625.00				625.00	2,000.00	8,000.00	
17.			500.00			500.00	2,000.00	
18.	160.00	160.00	170.00	290.00	290.00	310.00	3,060.00	
19.		500.00		500.00			2,100.00	
20.	250.00	250.00	250.00	150.00	150.00	100.00	2,350.00	
21.								
(C3)	**1,545.00**	**1,420.00**	**1,530.00**	**1,450.00**	**1,685.00**	**3,520.00**	**25,090.00**	
(C)	**21,277.67**	**21,052.67**	**16,148.67**	**11,982.67**	**14,717.67**	**16,422.67**	**186,331.00**	
(D)	**22,909.83**	**25,322.33**	**1,788.83**	**(982.67)**	**29,282.33**	**(5,422.67)**	**43,919.00**	
CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
22.	250.00	250.00	250.00	250.00	250.00	250.00	3,000.00	
23.								
24.								
25.								
(E1)	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**3,000.00**	
(E2) Other Cash Out								
26.	667.67	667.67	667.67	667.67	667.67	667.67	8,012.04	
27.								
28.	687.50	687.50	687.50	687.50	687.50	687.50	8,250.00	
29.								
(E2)	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**16,262.04**	
(E)	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(13,262.04)**	
(F)	**21,804.66**	**24,217.67**	**683.66**	**(2,087.84)**	**28,177.16**	**(6,527.84)**	**30,656.96**	
(G)	**(7,298.32)**	**16,918.84**	**17,602.50**	**15,514.66**	**43,691.82**	**37,163.98**	**37,163.98**	

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Smith Farms, Inc.
Monthly Cash Flow Projection - "What If" a $ .50 Decrease in Tomato Prices
Year 200X Projection - July through December

	7 July	8 August	9 September	10 October	11 November	12 December	Year TOTAL	Comments
(A)	**(29,102.98)**	**(7,298.32)**	**16,918.84**	**17,602.50**	**15,514.66**	**43,691.82**	**40,257.02**	
CASH IN FROM OPERATIONS								
Cash Receipts								
1.	44,187.50	46,375.00	17,937.50				108,500.00	4,000.00 in receivables
2.				11,000.00	44,000.00	11,000.00	88,000.00	
3.								
4.								
(B)	**44,187.50**	**46,375.00**	**17,937.50**	**11,000.00**	**44,000.00**	**11,000.00**	**196,500.00**	
CASH DISBURSEMENTS								
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budgets for details)								
5.	8,150.00	8,050.00	3,968.00				29,918.00	2,000.00 in payables
6.	9,718.67	9,718.67	9,718.67	10,402.67	12,902.67	12,902.67	125,118.00	5,500.00 in payables
7.								
8.								
(C1)	**17,868.67**	**17,768.67**	**13,686.67**	**10,402.67**	**12,902.67**	**12,902.67**	**155,036.00**	
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget for details)								
9.	1,864.00	1,864.00	932.00	130.00	130.00	0	6,205.00	
10.								
11.								
12.								
(C2)	**1,864.00**	**1,864.00**	**932.00**	**130.00**	**130.00**	**0**	**6,205.00**	
(C3) Overhead Expenses - Overall Business (See Overhead Budget for details)								
13.	510.00	510.00	510.00	510.00	510.00	510.00	6,120.00	
14.								
15.			100.00		110.00	100.00	1,460.00	
16.	625.00				625.00	2,000.00	8,000.00	
17.			500.00			500.00	2,000.00	
18.	160.00	160.00	170.00	290.00	290.00	310.00	3,060.00	
19.		500.00		500.00			2,100.00	
20.	250.00	250.00	250.00	150.00	150.00	100.00	2,350.00	
21.								
(C3)	**1,545.00**	**1,420.00**	**1,530.00**	**1,450.00**	**1,685.00**	**3,520.00**	**25,090.00**	
(C)	**21,277.67**	**21,052.67**	**16,148.67**	**11,982.67**	**14,717.67**	**16,422.67**	**186,331.00**	
(D)	**22,909.83**	**25,322.33**	**1,788.83**	**(982.67)**	**29,282.33**	**(5,422.67)**	**43,919.00**	
CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
22.	250.00	250.00	250.00	250.00	250.00	250.00	3,000.00	
23.								
24.								
25.								
(E1)	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**250.00**	**3,000.00**	
(E2) Other Cash Out								
26.	667.67	667.67	667.67	667.67	667.67	667.67	8,012.04	
27.								
28.	687.50	687.50	687.50	687.50	687.50	687.50	8,250.00	
29.								
(E2)	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**1,355.17**	**16,262.04**	
(E)	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(1,105.17)**	**(13,262.04)**	
(F)	**21,804.66**	**24,217.67**	**683.66**	**(2,087.84)**	**28,177.16**	**(6,527.84)**	**30,656.96**	
(G)	**(7,298.32)**	**16,918.84**	**17,602.50**	**15,514.66**	**43,691.82**	**37,163.98**	**37,163.98**	

"What If #2": Staci Smith recently heard that one of their farm neighbors was considering raising five acres of organic tomatoes. Staci fears that if this occurs, the market price will fall $.50 per pound. She completes the following analysis to see how this will impact cash flow.

Obviously, if this farmer does go into organic tomato production, the Smith's summertime cash flow crisis will be more severe.

in Conclusion

This session covered three topics.

Managing Books and Records. This information is not intended to turn you into an accountant overnight. Accounting is complicated, time-consuming and detailed, but extremely important for your business. In addition to providing information to lenders and other third parties, your accounting system is the basis on which you will supply your tax information. The business owner must be involved in the accounting process.

The idea of establishing written controls, like an accounting system, to cover all aspects of your business is also highly beneficial. By establishing operations controls, the business owner can insure two important items. One, that everyday tasks are accomplished in such a way that will not violate important certifications, which the business must maintain. And, two, that the owner makes an important step in managing the business in a professional manner.

Budgets. The budget process might seem difficult and time consuming, but the benefits far outweigh the costs. Without this process, you don't have any benchmarks—no way to see if you are doing better or worse than expected. Budgets are the means by which business owners track their successful efforts. More importantly, budgets are also the means by which agricultural businesses first understand and can then turn around their failing efforts.

Preparing the Cash Flow Projection. One very practical outcome of the budgeting process is the "cash budget", or as it is commonly known, the cash flow projection. After you have developed your assumptions you can prepare a cash flow projection that answers two very important questions: One, how much cash is needed to open the doors of your business? And, two, once you begin operations, will you have enough money to actually run your business on an ongoing, month by month basis?

7-38 TEXT get your budgets in line

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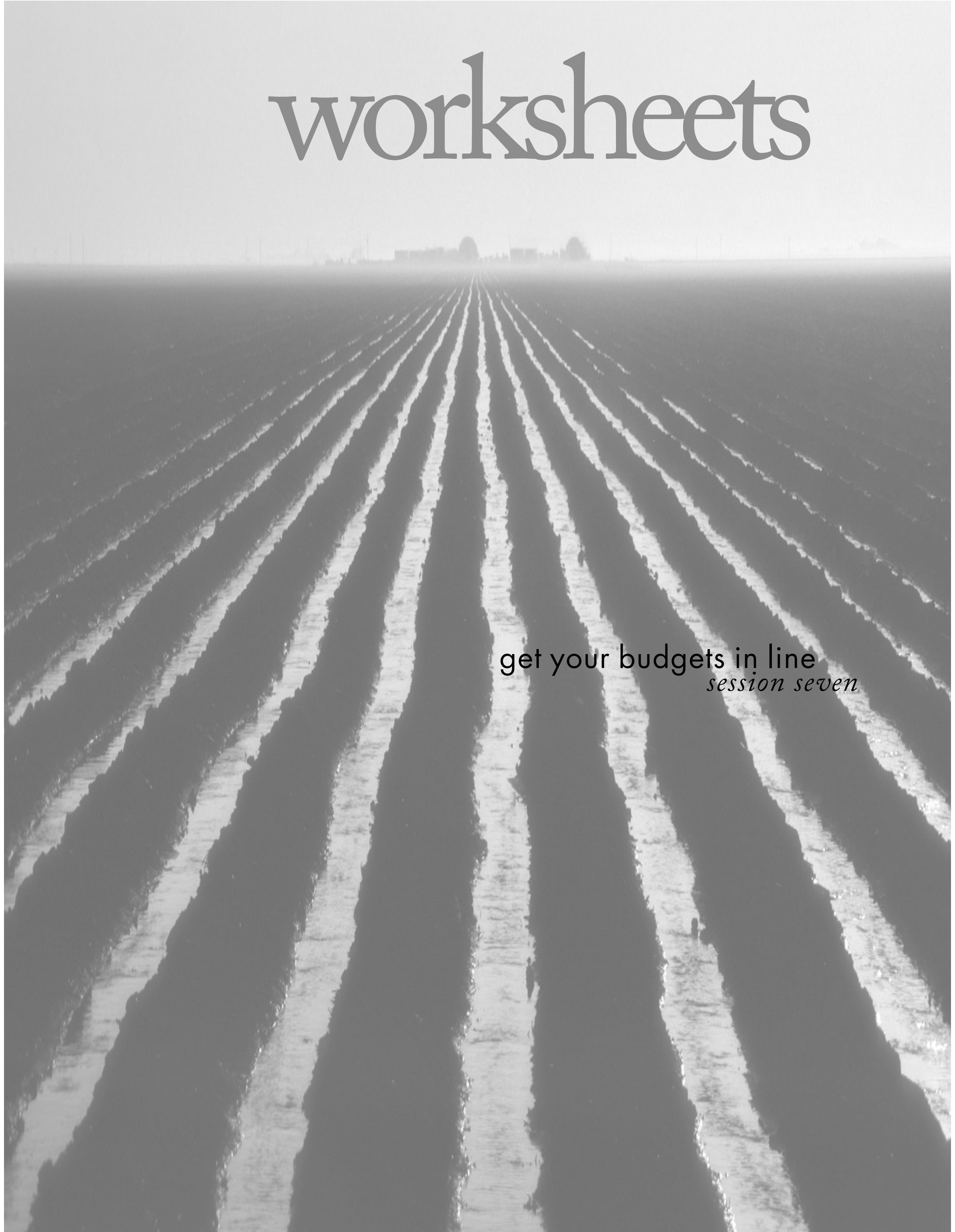
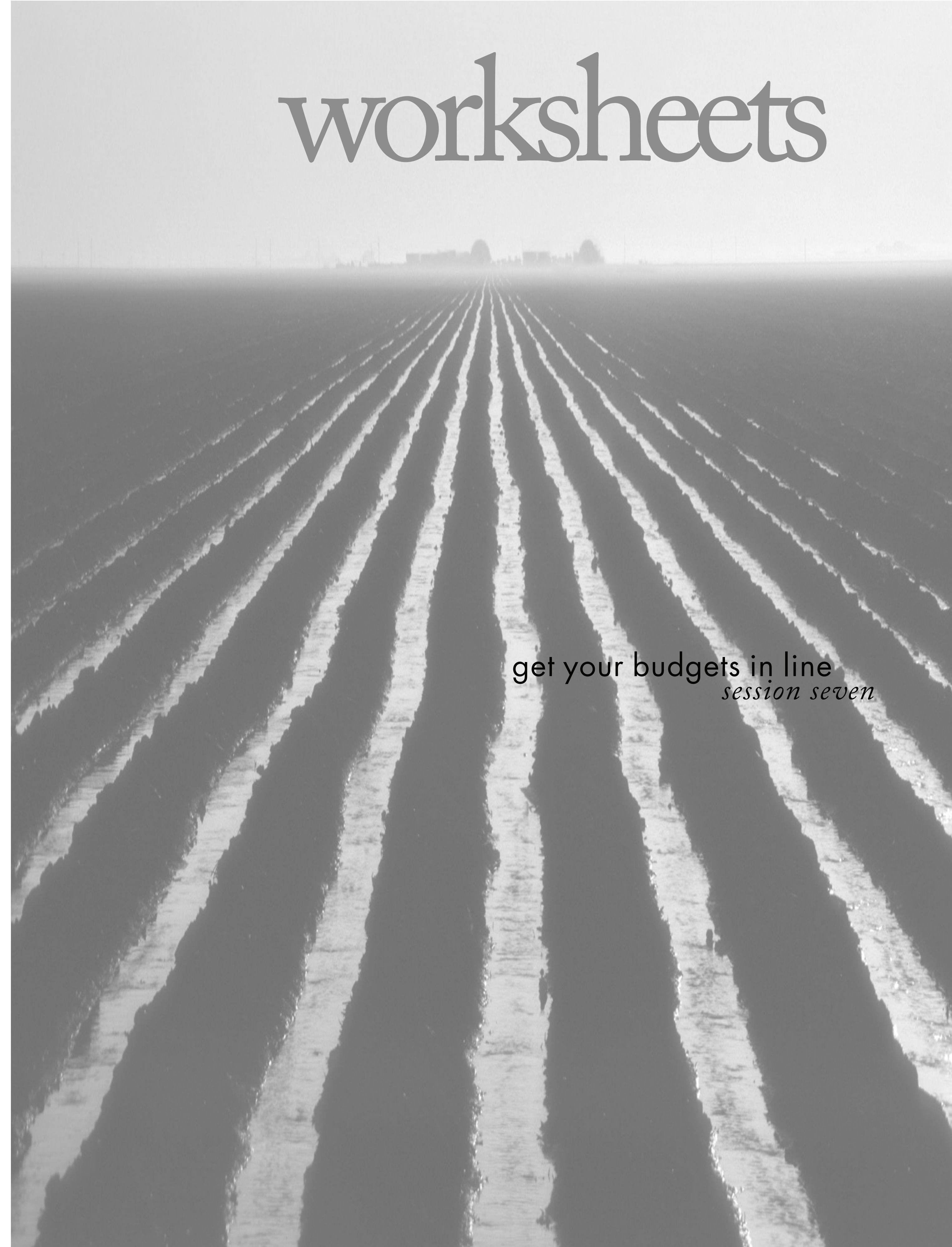

worksheets
get your budgets in line
session seven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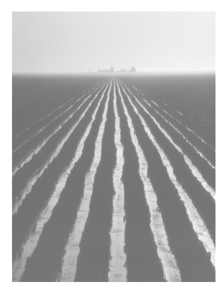

get your budgets in line

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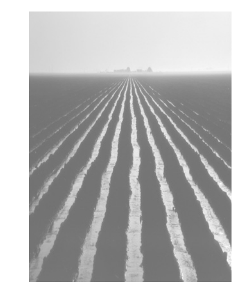

get your budgets in line

session seven

get your budgets in line

SESSION SEVEN

Effectively managing your money begins with the decisions about the bookkeeping, record-keeping and accounting functions of your business. A good place to start is identifying record-keeping chores that must routinely be performed in order to produce the financial information needed to manage and account for your business' activity.

The next step in managing financial information centers around budgeting. Budgeting is the process that helps you plan for revenues and expenditures. Budgeting is based on projecting the amount of revenue that can be produced, on what and how much money needs to be spent in a business, and what's left after it's spent. The decisions you make regarding budgeted expenditures will likely have some inaccuracies. However, the budgeting process provides you something against which to measure your progress and the adequacy of your decisions. Is your business performance better than or worse than you expected? Without tools for measuring, there are no real answers to these questions.

This section of your NxLeveL™ *Agricultural Business Plan* will guide you through preparing sales and operational budgets, which will then allow you to construct a Monthly Cash Flow Projection. The purpose of this session is to: (1) understand the budgeting process for the individual sub-units within your whole business, and (2) project how cash will flow in and out of your business based on all of the business sub-unit budgets. You have already completed some financial worksheets for this section in previous sessions. You will be prompted to review them again to see if any of your financial assumptions have changed since their original preparation. Remember, your business plan is an evolving document, so don't be discouraged by having to go back and review previous work.

NxLeveL™ Agricultural Business Plan Outline

Cover Page
Table of Contents
Section I. Executive Summary
Section II. Business Concept, Mission & Goals
Section III. Background Information
Section IV. Organizational Matters
Section V. The Marketing Plan

Section VI. The Financial Plan

A. Managing Books and Records

B. Budgets and Assumptions
- **Fixed Assets Acquisitions Budget**
- **Growth or Start-up Expenses Budget**
- **Sales and Operating Expenses Budgets**

C. Cash Flow Projections
- **Monthly Cash Flow Projections & Assumptions**
- **Sensitivity Analysis**
- **Cash Flow Projections—Years Two and Three**

Appendix Section

get your budgets in line

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Appendix Section

Record-Keeping Checklist

As the owner of your agricultural business you are very busy! You may not have enough hours in the day to perform all of the business tasks yourself, yet someone has to do them. From an operations standpoint, thinking about who can help you control the various daily tasks of your business *before* the burden becomes unbearable is the sign of a good manager.

You may not have time to do all of the record-keeping chores yourself. But they must be done! You need a particularly efficient way to keep track of the financial tasks that must be routinely performed and who is supposed to do them. Your goal is to produce the most complete and accurate sources of financial information possible within your organization. Sometimes seemingly simple tools, like the following Record-Keeping Checklist, can help the most.

Record-Keeping Checklist
Several standard categories of financial activities are listed on the worksheet on the following page, including accounts receivable, cash, accounts payable and payroll. You may wish to add other activities. Some standard tasks are shown under each activity. Add additional tasks that are appropriate to your agricultural business. Then determine the frequency of the tasks. Should this task be performed daily, weekly, monthly or quarterly? Place a check mark in the appropriate box. You can also note a specific date or time requirement in the box, such as "by the 15th" for a quarterly item. Finally, determine who should perform the task and indicate their name.

You should review this checklist periodically to see if all of your tasks have been included, and to see if the person assigned is keeping up with the list. There are some financial "chores" that have deadlines you *do not* want to miss. Depositing payroll taxes late, for example, can cost your business a tremendous amount in late penalties and interest. Skipping a payroll tax deposit entirely can jeopardize the whole organization. Even though you are delegating responsibility for the task, as the owner and/or manager you are still wise to periodically check up on areas that are essential to the business.

Complete the *Record-Keeping Checklist Worksheet* on the following page, and answer the following questions:

1. What is your business' record retention policy?

2. Describe your business accounting system. Is it manual or computerized? Does it provide sufficient information to effectively manage your agricultural business?

7-2 WORKSHEETS get your budgets in line

Record-Keeping Checklist

As the owner of your agricultural business you are very busy! You may not have enough hours in the day to perform all of the business tasks yourself, yet someone has to do them. From an operations standpoint, thinking about who can help you control the various daily tasks of your business *before* the burden becomes unbearable is the sign of a good manager.

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Record-Keeping Checklist—continued

Record-Keeping Checklist Worksheet

Financial Activities and Tasks	Frequency				Person Responsible
	Daily	Weekly	Monthly	Quarterly	
Accounts Receivable					
Post charges/payments					
Prepare an aging schedule					
Follow-up on delinquent accts					
Other:					
Other:					
Cash					
Deposit sales receipts					
Reconcile bank account(s)					
Balance petty cash					
Other:					
Other:					
Accounts Payable					
Maintain "Invoice Due" file					
Review missed cash discounts					
Follow-up on invoice problems					
Other:					
Other:					
Payroll					
Deposit federal payroll taxes					
Prepare state payroll reports					
Prepare federal payroll reports					
Other:					
Other:					
Other (list below)					

NOTE: Decide how often you need to review this checklist, and make a notation on your Action Log from Session 2.

get your budgets in line **WORKSHEETS** 7-3

Record-Keeping Checklist—continued

Record-Keeping Checklist Worksheet

Financial Activities and Tasks	Frequency				Person Responsible
	Daily	Weekly	Monthly	Quarterly	
Accounts Receivable					
Post charges/payments					
Prepare an aging schedule					
Follow-up on delinquent accts					
Other:					
Other:					
Cash					
Deposit sales receipts					
Reconcile bank account(s)					
Balance petty cash					
Other:					
Other:					
Accounts Payable					
Maintain "Invoice Due" file					
Review missed cash discounts					
Follow-up on invoice problems					
Other:					
Other:					
Payroll					
Deposit federal payroll taxes					
Prepare state payroll reports					
Prepare federal payroll reports					
Other:					
Other:					
Other (list below)					

NOTE: Decide how often you need to review this checklist, and make a notation on your Action Log from Session 2.

Fixed Assets Acquisitions Budget

In earlier sessions, you analyzed your existing resources (land, buildings, equipment) to determine if they would be usable and/or adequate in your new agricultural enterprise. Having continued your research and analysis, you are now ready to develop your *Fixed Assets Acquisitions Budget Worksheet*, specifying the amount of money you need to spend on new fixed assets to begin your business. Fixed assets are defined as assets which have useful lives of more than one year. Examples include land, buildings, leasehold improvements, machines, equipment, office furniture, computers, etc.

This section also will help you calculate the depreciation expense for your fixed assets. Depreciation is defined as the original cost of the asset divided by the useful life. There are several methods for calculating depreciation. Consult your accountant to determine the depreciation schedule most applicable to your agricultural business assets. Land is not depreciated, so be sure to deduct its value and only depreciate the structures (buildings located on the land) when calculating depreciation.

Use the worksheets on the following page to itemize planned capital costs, and to estimate depreciation. Refer back to your work in Sessions 1 and 5 relating to the usefulness or required modification of your existing fixed assets (Session 5, *Production Potential—Buildings, Facilities and Equipment Worksheet*.) If you are a new agricultural business, estimate your original fixed assets requirements based on your research and analysis of the business concept.

The following steps will help you fill out the *Fixed Assets Acquisition Budget Worksheet*.

Step 1: ***List each fixed asset to be purchased during the next year.***

Step 2: ***Fill in the cost required to buy each fixed asset (new or used) and the estimated acquisition date.*** (Be sure you have analyzed whether you really should purchase new, purchase used, or lease rather than purchase at all!)

Step 3: ***Estimate the useful life of each fixed asset to be purchased.*** The IRS has some guidelines on allowable useful life by asset category. Check that information before estimating the useful life, or consult your accountant.

Step 4: ***Fill in the annual depreciation for each fixed asset to be purchased (cost divided by the useful life).***

Step 5: ***Calculate the Total Cost for fixed assets to be purchased and Total Annual Fixed Assets Depreciation.***

Step 6: ***On the Total Fixed Assets Summary Worksheet, total the New and Existing Fixed Assets. Fill in the total cost, and annual depreciation of existing fixed assets. Fill in the total cost, and annual depreciation of assets to be purchased from the worksheet above. Now you have the total annual depreciation expense, which will be used in later worksheets.***

If you are an existing business or have assets being transferred into the business, use your last year's accounting information for the cost of existing fixed assets and depreciation totals.

7-4 WORKSHEETS get your budgets in line

Fixed Assets Acquisitions Budget

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If you are an existing business or have assets being transferred into the business, use your last year's accounting information for the cost of existing fixed assets and depreciation totals.

Fixed Assets Acquisitions Budget—continued

Fixed Assets Acquisition Budget Worksheet

New Purchases

List of Fixed Assets	New or Used	Cost	Acquisition Date	Useful Life (in years)	Annual Depreciation
	Total Cost $		**Total Depreciation $**		

Total Fixed Assets Summary Worksheet

Total New Acquisitons and Existing Fixed Assets	Cost	Annual Depreciation
New Fixed Assets (from worksheet above)		
Existing Fixed Assets (obtain totals from accountant or current records)		
TOTAL FIXED ASSETS		

get your budgets in line WORKSHEETS 7-5

Fixed Assets Acquisitions Budget—continued

Fixed Assets Acquisition Budget Worksheet

New Purchases

List of Fixed Assets	New or Used	Cost	Acquisition Date	Useful Life (in years)	Annual Depreciation
	Total Cost $		**Total Depreciation $**		

Total Fixed Assets Summary Worksheet

Total New Acquisitons and Existing Fixed Assets	Cost	Annual Depreciation
New Fixed Assets (from worksheet above)		
Existing Fixed Assets (obtain totals from accountant or current records)		
TOTAL FIXED ASSETS		

Growth (or Start-up) Expenses Budget

This next budget relates to the cost of adding a new segment into your existing agricultural business, or starting your new business concept. *Growth expenses* are those that are directly related to growing and/or expanding your business. They might include renovating an existing space, building a new space, opening a second location, and the various expenses is takes to launch that growth or expansion effort. *Start-up expenses* are the various expenses it takes to launch a new business component. They will be one-time expenditures, rather than *ongoing* costs to the business.

For new businesses, the purpose of isolating start-up expenses is to prepare for higher costs in the early opening months of the business, and to understand the total costs required to get the business started. For existing businesses, the purpose of isolating growth expenses is to calculate the cost of launching your growth project separately from your other existing business expenses. You will then be able to integrate these costs into your cash flow projection to see if the business can fund the growth itself or whether (and how much) additional funding is required.

Step 1: If you are starting a business, fill in the "Cash Available Now" (A.) for starting your business. If you are an existing business, the Cash Available Now is the current cash balance in your business.

Step 2: Review the expenses listed on the next page, and estimate the expense for those appropriate to your agricultural business concept. You may have some expenses not listed—write them under "Other Expenses." Try to be as accurate as possible. You may have to call an insurance agent, get bids on construction, or contact other professionals to obtain bids for accurate estimates of costs. Remember, these are the one-time expenses related to launching your business concept, not those expenses that are ongoing.

Step 3: Calculate the total of your growth/start-up expenses (B.).

Step 4: Calculate "Beginning Cash Balance or Additional Cash Required" (C.) by subtracting "Total Growth/Start-up Expenses" from "Cash Available Now" (A minus B = C). This amount will be used to start the Cash Flow Projection Worksheet in Session 8.

Step 5: Document your assumptions. The reasons behind the decisions you are making are called "assumptions" and need to be recorded for future reference. After all, you will be reviewing and changing this draft of your business plan often—wouldn't it be nice to remember why you made a decision reflected on these worksheets?! Assumptions also help the reader understand the rationale behind the numbers.

For each item of expense you will need to explain how you arrived at the estimated costs. Use the lines below the worksheet to write your assumptions (explanations and sources of information) about the corresponding numbered expense item.

NOTE: *Some of these expense items show up on other worksheets as ongoing costs to your business. Remember, here we are isolating one-time extraordinary expenses related specifically to a growth project or to a start-up phase.*

7-6 W O R K S H E E T S get your budgets in line

Growth (or Start-up) Expenses Budget

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Growth (or Start-up) Expenses—continued

Growth (or Start-up) Expenses Budget Worksheet

		Cost
A.	**Cash Available Now**	
1.	Purchase fixed assets (land, equipment, buildings, vehicles) (See Fixed Assets Acquisition Budget Worksheet)	
2.	Remodeling costs (buildings, fixtures, signs, paint, cleaning)	
3.	Installation fees (equipment, phones, hookup charges)	
4.	Deposits (utilities, lease, phone, leased equipment)	
5.	Fees, licenses, certifications	
6.	Special one-time legal fees (specifically for growth/start-up)	
7.	Special accounting / other professional fees	
8.	Pre-opening labor expense	
9.	Pre-opening training costs	
10.	Beginning inventory of merchandise or materials	
11.	Supplies (letterhead, forms, price tags)	
12.	Promotion (grand opening, prizes, give-aways)	
13.	Advertising (initial media, direct mail, coupons)	
14.	Other expenses (one-time, specifically related to growth/start-up):	
B.	**Total Growth (or Start-up) Expenses**	
C.	**(A-B) Beginning Cash Balance -or- Additional Cash Required ( )**	

Assumptions about Growth (or Start-up) Expenses

	Assumptions
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	
11.	
12.	
13.	
14.	

get your budgets in line WORKSHEETS 7-7

Growth (or Start-up) Expenses—continued

Growth (or Start-up) Expenses Budget Worksheet

		Cost
A.	Cash Available Now	
1.	Purchase fixed assets (land, equipment, buildings, vehicles) (See Fixed Assets Acquisition Budget Worksheet)	
2.	Remodeling costs (buildings, fixtures, signs, paint, cleaning)	
3.	Installation fees (equipment, phones, hookup charges)	
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B.	Total Growth (or Start-up) Expenses	
C.	(A-B) Beginning Cash Balance -or- Additional Cash Required ( )	

Assumptions about Growth (or Start-up) Expenses

	Assumptions
1.	
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5.	
6.	
7.	
8.	
9.	
10.	
11.	
12.	
13.	
14.	

Creating Meaningful Budgets (Forecasting)

Please Note: This course is NOT designed to present or develop complete farm/ranch recording-keeping, bookkeeping/accounting systems, or statements. Rather, the course material will help you develop WORKSHEETS that will enable you to look at your proposed agricultural idea and determine its financial impact on your existing agricultural business (or, if you are developing a new agricultural business, its financial potential). The remainder of the worksheets in Session 7 are not represented to be complete accounting financial statements. Use them to "work out" and test your financial thoughts and assumptions regarding your agricultural concept. Then, please use your accountant to formalize the information for traditional accounting presentation.

Throughout prior sessions, you have actually been preparing some of the individual revenue and expense items that will become part of your budgeting process and financial statements. In Session 5 (page 15) you took a "first look" at your potential *projected sales volume* for your agricultural business concept. In this session you will refine your sales forecast by developing projected sales budget for the specific sub-units of production within your total business. Then you can compare the new forecast with your work in Session 5.

Additionally, you have worked on some projected expense items in previous sessions that will need to be included in this sessions budgeting processes. Any of the worksheets from this and prior sessions that included potential expense items will need to be referred back to so that those expenses can be included in your budgeting process. Be sure to refer back to the worksheets listed below:

Licenses/Permit Fees	Session 3, page 4
Compliance/Abatement Expenses	Session 3, page 5
Cost of Acquiring Additional Education	Session 4, page 3
Outside Services Expenses	Session 4, page 4
Salaries/Wages & Benefits Expenses	Session 4, page 9
Insurance Expenses	Session 4, page 11
Advertising Expenses	Session 6, page 8
Other Promotional Tools Expenses	Session 6, page 11
Selling/Distribution Strategies Expenses	Session 6, page 13
Fixed Assets Acquisitions Budget	Session 7, page 5
Depreciation	Session 7, page 5
Growth or Start-up Expenses Budget	Session 7, page 7

As you work through the preparation of the budgets and cash flow projection in this session, review these worksheets again, making sure the assumptions you made while originally completing them are still valid.

7-8 WORKSHEETS get your budgets in line

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Sales Budgets (Forecasts)

Forecasting sales is important to your business from both a management and sales point of view. If you don't know how much you plan to sell in the next 12 months, you can't plan how much to spend. The projected number of sales units tells how many units must be purchased, made, grown or raised. That, in turn, dictates how many workers will be hired, and what labor costs and other expenses will be paid to sell at that projected level. As you can see, sales forecasting is critical to the entire budgeting process for your business!

If you have an existing business, the place to start is with your last year's sales data to see when sales were actually made within your business sub-units. If you are a new business, look for trends by reviewing your industry information, then try to be as realistic as possible in your projections. You should review the sections you've completed on products, customers, competitors and seasonality to assist in defining trends.

The *Sales Budget Worksheet* on page 7-10 is designed to help you forecast sales by your business sub-units. Remember the example of the Smith Farm in the Text. One of their business sub-units was Vegetables. Within that sub-unit, they sold several products including corn, peppers and tomatoes. This worksheet allows you to divide out your business in a similar fashion.

Note that the worksheet suggests that you can start by budgeting when sales will be made on a quarterly basis. Later, when preparing the Cash Flow Projection for the total business, you will be prompted to refine your budgeting to monthly projections. **Before you proceed, make several copies of the *Sales Budget Worksheet* found on page 7-10.**

Step 1: Divide your business into appropriate sub-units, and list the specific products/services sold within each sub-unit. Also list the "unit of sale" on the blank line following the word Units (for example, if the sub-unit product or service is corn, the units by which corn is sold is "dozen"; if the sub-unit is tomatoes, the units by which they are sold is "pound", or "case" or "box", etc.).

Step 2: Think about when you will actually sell your products or services, and forecast the number of units you will sell in each quarter of the year. Fill in those unit quantities on the worksheet. Remember: BE REALISTIC!

Step 3. Fill in the anticipated selling price per unit to correspond with the product/service. Again, recognize that forecasting is not an exact science and that prices may fluctuate. Choose the most realistic prices you can for your budgeting process, based on your research and industry trends for that product/service.

Step 4: Multiply the Units times the Price to get the Totals for each product/service and for each quarter. Then add all of the Totals within the Business Sub-unit to get the Sub-unit Totals. Finally add all of the Sub-unit Totals to determine the TOTAL SALES by quarter for all products/services within your business.

get your budgets in line WORKSHEETS 7-9

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Forecasting sales is important to your business from both a management and sales point of view. If you don't know how much you plan to sell in the next 12 months, you can't plan how much to spend. The projected number of sales units tells how many units must be purchased, made, grown or raised. That, in turn, dictates how many workers will be hired, and what labor costs and other expenses will be paid to sell at that projected level. As you can see, sales forecasting is critical to the entire budgeting process for your business!

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Sales Budgets (Forecasts)—continued

Sales Budget Worksheet–Overall Business by Business Sub-units

Sch. # _____

(Business Name) ______________________________
Sales Budget - Overall Business
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
BUSINESS SUB-UNIT (e.g., livestock, crops, etc.): ______________________					
Sub-unit product/service #1: ______________________					
Units: _____					
Price					
Total					
Sub-unit product/service #2: ______________________					
Units: _____					
Price					
Total					
******SUB-UNIT TOTAL*******					
BUSINESS SUB-UNIT: _______________________					
Sub-unit product/service #1: ______________________					
Units: _____					
Price					
Total					
Sub-unit product/service #2: ______________________					
Units: _____					
Price					
Total					
******SUB-UNIT TOTAL*******					
BUSINESS SUB-UNIT: _______________________					
Sub-unit product/service #1: ______________________					
Units: _____					
Price					
Total					
Sub-unit product/service #2: ______________________					
Units: _____					
Price					
Total					
********** SUB-UNIT TOTAL*********					
TOTAL SALES					

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Sales Budgets (Forecasts)—continued

Sales Budget Worksheet–Overall Business by Business Sub-units

Sch. # _____

(Business Name) ______________________________
Sales Budget - Overall Business
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
BUSINESS SUB-UNIT (e.g., livestock, crops, etc.): ______________________					
Sub-unit product/service #1: ______________________					
Units: _____					
Price					
Total					
Sub-unit product/service #2: ______________________					
Units: _____					
Price					
Total					
****SUB-UNIT TOTAL*****					
BUSINESS SUB-UNIT: _______________________					
Sub-unit product/service #1: ______________________					
Units: _____					
Price					
Total					
Sub-unit product/service #2: ______________________					
Units: _____					
Price					
Total					
****SUB-UNIT TOTAL*****					
BUSINESS SUB-UNIT: _______________________					
Sub-unit product/service #1: ______________________					
Units: _____					
Price					
Total					
Sub-unit product/service #2: ______________________					
Units: _____					
Price					
Total					
******** SUB-UNIT TOTAL*******					
TOTAL SALES					

Sales Budgets (Forecasts)—continued

Assumptions for the Sales Budget Worksheet

In the space provided below, make notes to yourself to remind you of the source of the information used to complete the *Sales Budget Worksheet*, and the reasons behind your calculations. Include things like why you estimated the units of sales as you did, why you assigned a certain selling price, any seasonal variations that influenced your forecasts, etc. Use additional sheets if needed.

Business Sub-Unit: ______________________ Product/Service # ___: ______________________

Assumptions:

Business Sub-Unit: ______________________ Product/Service # ___: ______________________

Assumptions:

Business Sub-Unit: ______________________ Product/Service # ___: ______________________

Assumptions:

Business Sub-Unit: ______________________ Product/Service # ___: ______________________

Assumptions:

Business Sub-Unit: ______________________ Product/Service # ___: ______________________

Assumptions:

get your budgets in line WORKSHEETS 7-11

Sales Budgets (Forecasts)—continued

Assumptions for the Sales Budget Worksheet

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Assumptions:

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Assumptions:

Business Sub-Unit: ______________________ Product/Service # ___: ______________________

Assumptions:

Business Sub-Unit: ______________________ Product/Service # ___: ______________________

Assumptions:

Direct Production Cost Budgets

Direct Production Cost Budgets allow you, the manager, to examine the resources needed to produce the level of sales you projected on the *Sales Budget Worksheet*. Direct cost budgets are typically broken down into direct material and direct labor components. It is really important to make decisions about how to allocate costs to specific budgets (including allocating your time as a direct labor cost if appropriate), so that each sub-unit of the business can be evaluated individually. Only then will you know how the direct costs relate to the level of sales–which then starts to tell you which business sub-unit can contribute to paying for other general business expenses, and which sub-units might actually drain the overall business resources.

Every business is different. The worksheets provided should serve as general guidelines, but will no doubt need to be customized to your particular agricultural endeavor. Two samples of direct cost budgets are provided: one for livestock operations, and one for crop operations.

Direct Production Cost Budget Worksheet–Livestock Example

Sch. # _____

(Business Name) ______________________________
Direct Production Cost Budget - Livestock Operations
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
DIRECT LABOR					
Farm Manager					
Farm Labor					
Payroll Taxes					
Direct Labor Total					
DIRECT MATERIALS					
Feed					
Nutritional Supplements					
Bedding					
Supplies					
Other:					
Other:					
Direct Materials Total					
PROFESSIONAL SERVICES					
Breeding & Registration					
Animal Health					
Other:					
Other:					
Professional Services Total					
OTHER DIRECT COSTS					
Transportation					
Utilities					
Other:					
Other:					
Other Direct Costs Total					
LAND CHARGE					
Land Charge					
TOTAL DIRECT PRODUCTION COSTS					

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Direct Production Cost Budgets

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Direct Production Cost Budget Worksheet–Livestock Example

Sch. # _____

(Business Name) ______________________________
Direct Production Cost Budget - Livestock Operations
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
DIRECT LABOR					
Farm Manager					
Farm Labor					
Payroll Taxes					
Direct Labor Total					
DIRECT MATERIALS					
Feed					
Nutritional Supplements					
Bedding					
Supplies					
Other:					
Other:					
Direct Materials Total					
PROFESSIONAL SERVICES					
Breeding & Registration					
Animal Health					
Other:					
Other:					
Professional Services Total					
OTHER DIRECT COSTS					
Transportation					
Utilities					
Other:					
Other:					
Other Direct Costs Total					
LAND CHARGE					
Land Charge					
TOTAL DIRECT PRODUCTION COSTS					

Direct Production Cost Budgets—continued

Direct Production Cost Budget Worksheet–Crops Example

Sch. # _____

(Business Name) ________________________________
Direct Production Cost Budget - Crop Operations *
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
DIRECT LABOR					
Farm Manager					
Farm Labor					
Payroll Taxes					
Direct Labor Total					
DIRECT MATERIALS					
Seeds/Transplants					
Soil Amendments					
Herbicides					
Pesticides					
Packaging					
Other:					
Other:					
Direct Materials Total					
CUSTOM CHARGES					
Plowing					
Disking					
Planting					
Fertilizer Application					
Pesticide Application					
Herbicide Application					
Harvesting					
Hauling					
Other:					
Other:					
Custom Charges Total					
OTHER DIRECT COSTS					
Transportation					
Utilities					
Other:					
Other:					
Other Direct Costs Total					
LAND CHARGE					
Land Charge					
TOTAL DIRECT PRODUCTION COSTS					

* Note: This same form may be used to account for the establishment costs of perennial crops like tree fruits, nuts or grapes.

get your budgets in line WORKSHEETS 7-13

Direct Production Cost Budgets—continued

Direct Production Cost Budget Worksheet–Crops Example

Sch. # _____

(Business Name) ________________________________
Direct Production Cost Budget - Crop Operations *
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
DIRECT LABOR					
Farm Manager					
Farm Labor					
Payroll Taxes					
Direct Labor Total					
DIRECT MATERIALS					
Seeds/Transplants					
Soil Amendments					
Herbicides					
Pesticides					
Packaging					
Other:					
Other:					
Direct Materials Total					
CUSTOM CHARGES					
Plowing					
Disking					
Planting					
Fertilizer Application					
Pesticide Application					
Herbicide Application					
Harvesting					
Hauling					
Other:					
Other:					
Custom Charges Total					
OTHER DIRECT COSTS					
Transportation					
Utilities					
Other:					
Other:					
Other Direct Costs Total					
LAND CHARGE					
Land Charge					
TOTAL DIRECT PRODUCTION COSTS					

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Direct Production Cost Budgets–continued

Again, notice that the cost projections are quarterly, but you will be refining that to a monthly breakdown when we get to the Monthly Cash Flow Projection. Complete the *Direct Production Cost Worksheets* using the following general guidelines. Remember to customize the worksheets to your particular business. ***Suggestion:*** **Make several copies of these worksheets.** You will want to have a direct production cost budget for each product/service within your business sub-units, so you may need several copies. (Refer to the sample budgets for the Smith Farm example in the Text to see how each sub-unit product has its own direct cost budget.)

Step 1: ***Refer to your Sales Projection Worksheet. Based on the projected sales volume, estimate as many of the direct costs of producing that product/service as you can. Record the costs in the quarters in which they will actually occur.***

Step 2: ***Add the columns down to each category total line within each quarter. Then add all of the subtotals down the column for the quarter to equal the Total Direct Production Costs for the quarter.***

Step 3: ***Add all of the individual lines across to calculate the totals for the year. Under the Total column, add all of the subtotals down the column, to equal the Total Direct Production Costs for the year.***

Step 4: ***Add the four Quarter Totals of Direct Production Costs across (the last line of the worksheet) and make sure it equals the total you calculated when you added the Total column downward.*** (Worksheet methodology hint: always add across each row and down each column to make sure the final total in the bottom right hand cell of the worksheet match. If they don't, you have a math error somewhere in the worksheet.)

It's a difficult task, but...

Assigning costs to these direct cost budgets may be one of the most difficult tasks agricultural business owners face. Allocating costs associated with use of machinery, equipment and labor is challenging. BUT, the process will truly allow you to manage the productivity of the business by understanding the relationship between the revenues and expenses of each business sub-unit.

Because this allocation of costs requires you to make many assumptions, it becomes particularly important for you to keep good notes regarding your decisions. Use the *Direct Costs Assumptions* space provided on the following page to document your decision-making related to each line of the *Direct Cost Worksheets*.

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Direct Production Cost Budgets–continued

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Direct Production Cost Budgets—continued

Assumptions Accompanying the Direct Cost Budgets

Direct Labor—Assumptions:

Direct Materials—Assumptions:

Professional Services—Assumptions:

Custom Charges—Assumptions:

Other Direct Costs—Assumptions:

Land Charge—Assumptions:

get your budgets in line WORKSHEETS 7-15

Direct Production Cost Budgets—continued

Assumptions Accompanying the Direct Cost Budgets

Direct Labor—Assumptions:

Direct Materials—Assumptions:

Professional Services—Assumptions:

Custom Charges—Assumptions:

Other Direct Costs—Assumptions:

Land Charge—Assumptions:

Selling and Administrative Expenses Budget

Operations that have a discrete selling entity like a roadside stand or farmer's market should consider developing a separate Selling and Administrative Expenses Budget rather than lumping those costs into that sub-unit's cost of production or into the general overhead budget. Selling and administrative costs are not directly related to production. While they might be considered overhead expenses, they are directly related to only certain business sub-units, and might significantly increase expenses related to that particular sub-unit. Keeping track of these expenses separately again allows for better management of the overall financial picture.

A *Selling and Administrative Expenses Budget Worksheet* is provided on the following page. Follow the same steps when filling it out as you did with the Direct Cost Worksheets, making sure that you add lines across and columns down to double check your math. Use the Assumptions lines below to document your reasons for assigning costs. Again, customize the expense categories as needed.

Assumptions Accompanying the Selling and Administrative Expenses Budget

Sales Staff–Assumptions:

Utilities–Assumptions:

Advertising, Printing–Assumptions:

Postage and Office Supplies–Assumptions:

Equipment or Space Lease–Assumptions:

Other (including Uncollected Accounts)–Assumptions:

7-16 WORKSHEETS get your budgets in line

Selling and Administrative Expenses Budget

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Utilities–Assumptions:

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Postage and Office Supplies–Assumptions:

Equipment or Space Lease–Assumptions:

Other (including Uncollected Accounts)–Assumptions:

Selling and Administrative Expenses Budget—continued

Selling and Administrative Expenses Budget Worksheet

Sch. # _____

(Business Name) ______________________________
Selling / Administrative Expenses Budget - Retail Vegetables
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
SALES STAFF					
Wholesale					
Retail					
Payroll Taxes					
Other:					
Sales Staff Total					
UTILITIES					
Telephone					
Electric					
Gas					
Other:					
Utilities Total					
ADVERTISING AND POSTAGE					
Phone Directory					
Newspaper					
Radio					
Internet Web Page					
Postage					
Other:					
Advertising / Postage Total					
PRINTING					
Business Cards					
Packaging					
Bags					
Brochures					
Other:					
Printing Total					
OFFICE SUPPLIES					
Furniture					
Paper Stock					
Other:					
Office Supplies Total					
EQUIPMENT LEASE					
Bins					
Pallets					
Computer					
Cash Register					
Scale					
Other:					
Equipment Lease Total					
UNCOLLECTED ACCOUNTS					
Wholesale					
Retail					
Other:					
Uncollected Accts Total					
OTHER SELLING / ADMINISTRATIVE COSTS					
Other:					
Other:					
Other Sell/Admin Costs Total					
TOTAL SELL/ADMIN COSTS					

get your budgets in line WORKSHEETS 7-17

Selling and Administrative Expenses Budget—continued

Selling and Administrative Expenses Budget Worksheet

Sch. # _____

(Business Name) ______________________________
Selling / Administrative Expenses Budget - Retail Vegetables
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
SALES STAFF					
Wholesale					
Retail					
Payroll Taxes					
Other:					
Sales Staff Total					
UTILITIES					
Telephone					
Electric					
Gas					
Other:					
Utilities Total					
ADVERTISING AND POSTAGE					
Phone Directory					
Newspaper					
Radio					
Internet Web Page					
Postage					
Other:					
Advertising / Postage Total					
PRINTING					
Business Cards					
Packaging					
Bags					
Brochures					
Other:					
Printing Total					
OFFICE SUPPLIES					
Furniture					
Paper Stock					
Other:					
Office Supplies Total					
EQUIPMENT LEASE					
Bins					
Pallets					
Computer					
Cash Register					
Scale					
Other:					
Equipment Lease Total					
UNCOLLECTED ACCOUNTS					
Wholesale					
Retail					
Other:					
Uncollected Accts Total					
OTHER SELLING / ADMINISTRATIVE COSTS					
Other:					
Other:					
Other Sell/Admin Costs Total					
TOTAL SELL/ADMIN COSTS					

Overhead Expenses Budget

Overhead budgets forecast all of those costs that could not be allocated specifically to a business sub-unit. These expense items will remain constant regardless of income or production level.

The *Overhead Expenses Budget Worksheet* on the following page should be customized to include expense lines that are specific to your business. Follow the same steps when filling it out as you did with the prior expenses worksheets, making sure that you add lines across and columns down to double check your math. ***Be sure to refer back to worksheets completed in previous sessions (see the list on page 7-8) for items you have already worked on that need to be included in this budget.*** Use the Assumptions lines below to document your reasons for assigning costs. Again, don't be afraid to customize the categories of expense to fit your business.

Assumptions Accompanying the Overhead Expenses Budget Worksheet

Indirect Labor–Assumptions:

Professional Services–Assumptions:

Farm Supplies–Assumptions:

Risk Management–Assumptions:

Utilities–Assumptions:

Equipment Maintenance and Repair–Assumptions:

Fuel and Lubricants–Assumptions:

Other (including Depreciation)–Assumptions:

7-18 WORKSHEETS get your budgets in line

Overhead Expenses Budget

Overhead budgets forecast all of those costs that could not be allocated specifically to a business sub-unit. These expense items will remain constant regardless of income or production level.

The *Overhead Expenses Budget Worksheet* on the following page should be customized to include expense lines that are specific to your business. Follow the same steps when filling it out as you did with the prior expenses worksheets, making sure that you add lines across and columns down to double check your math. ***Be sure to refer back to worksheets completed in previous sessions (see the list on page 7-8) for items you have already worked on that need to be included in this budget.*** Use the Assumptions lines below to document your reasons for assigning costs. Again, don't be afraid to customize the categories of expense to fit your business.

Assumptions Accompanying the Overhead Expenses Budget Worksheet

Indirect Labor–Assumptions:

Professional Services–Assumptions:

Farm Supplies–Assumptions:

Risk Management–Assumptions:

Utilities–Assumptions:

Equipment Maintenance and Repair–Assumptions:

Fuel and Lubricants–Assumptions:

Other (including Depreciation)–Assumptions:

Overhead Expenses Budget—continued

Overhead Expenses Budget Worksheet (Overall Business)

Sch. # _____

(Business Name) ______________________________
Overhead Budget - Overall Business
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
INDIRECT LABOR					
Farm Manager					
Farm Labor					
Payroll Taxes					
Other:					
Indirect Labor Total					
PROFESSIONAL SERVICES					
Accountant/Book Keeper					
Attorney					
IPM Scouts					
Marketing Consultant					
Other:					
Professional Services Total					
FARM SUPPLIES					
Tools					
Equipment					
Lumber					
Misc. Supplies					
Other:					
Farm Supplies Total					
RISK MANAGEMENT					
General Liability					
Excess					
Crop Insurance					
Worker's Compensation					
Health/Disability					
Other:					
Risk Management Total					
UTILITIES					
Electric					
Telephone					
Gas					
Other:					
Utilities Total					
EQUIPMENT MAINTENANCE AND REPAIR					
Parts					
Service					
Other:					
Eq. Maintenance/Repair Total					
FUEL AND LUBRICANTS					
Diesel					
Gasoline					
Motor Oil/Hydraulic Fluid					
Other:					
Fuel and Lubricants Total					
DEPRECIATION *					
Building					
Equipment					
Breeding Stock					
Other:					
Depreciation Total					
OTHER OVERHEAD					
Interest					
Other:					
Other Overhead Total					
TOTAL OVERHEAD					

*** Note: Depreciation is a non-cash item and will not be included on the Cash Flow Projection Worksheet**

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Overhead Expenses Budget—continued

Overhead Expenses Budget Worksheet (Overall Business)

Sch. # _____

(Business Name) ______________________________
Overhead Budget - Overall Business
Year (200X) Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
INDIRECT LABOR					
Farm Manager					
Farm Labor					
Payroll Taxes					
Other:					
Indirect Labor Total					
PROFESSIONAL SERVICES					
Accountant/Book Keeper					
Attorney					
IPM Scouts					
Marketing Consultant					
Other:					
Professional Services Total					
FARM SUPPLIES					
Tools					
Equipment					
Lumber					
Misc. Supplies					
Other:					
Farm Supplies Total					
RISK MANAGEMENT					
General Liability					
Excess					
Crop Insurance					
Worker's Compensation					
Health/Disability					
Other:					
Risk Management Total					
UTILITIES					
Electric					
Telephone					
Gas					
Other:					
Utilities Total					
EQUIPMENT MAINTENANCE AND REPAIR					
Parts					
Service					
Other:					
Eq. Maintenance/Repair Total					
FUEL AND LUBRICANTS					
Diesel					
Gasoline					
Motor Oil/Hydraulic Fluid					
Other:					
Fuel and Lubricants Total					
DEPRECIATION *					
Building					
Equipment					
Breeding Stock					
Other:					
Depreciation Total					
OTHER OVERHEAD					
Interest					
Other:					
Other Overhead Total					
TOTAL OVERHEAD					

*** Note: Depreciation is a non-cash item and will not be included on the Cash Flow Projection Worksheet**

Cash Contributions to Overhead Budgets

At this point you have created some really helpful information from the Sales Budgets and the Direct Cost Budgets to begin to see how each sub-unit of your business will impact your ability to pay overhead expenses.

Step 1: Using the Sales Budget Worksheet prepared earlier in this session, record the forecasted sales for each business sub-unit on the Cash Budget Worksheet below.

Step 2: Using the Director Cost Budget Worksheets prepared earlier in this session, record the forecasted direct costs for each business sub-unit.

Step 3: Subtract the Cost of Sales from the Total Sales. The result is the amount that sub-unit will produce to contribute to the payment of overhead expenses.

Step 4: Make sure you add all the rows across and columns down to see that your worksheet balances. Then start analyzing the results.

This worksheet is often overlooked, but is really a useful tool. It shows you which sub-units will be draining cash from the business and in which quarters, and which sub-units will produce excess cash to help pay for overhead expenses of the overall business.

Cash Contributions to Overhead Budget Worksheet

Sch. # _____

(Business Name) ________________________
Cash Budgets (Contributions to Overhead)
Year 200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Business Sub-unit:____________________					
Sales					
Product/Service # 1________					
Product/Service # 2________					
Product/Service # 3________					
Total Sales					
Cost of Sales (Direct Production Costs)					
Product/Service # 1________					
Product/Service # 2________					
Product/Service # 3________					
Total Direct Production Costs					
Business Sub-unit ________ Overhead Contribution					

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Business Sub-unit:____________________					
Sales					
Product/Service # 1________					
Product/Service # 2________					
Product/Service # 3________					
Total Sales					
Cost of Sales (Direct Production Costs)					
Product/Service # 1________					
Product/Service # 2________					
Product/Service # 3________					
Total Direct Production Costs					
Business Sub-unit ________ Overhead Contribution					

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Cash Contributions to Overhead Budgets

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Cash Contributions to Overhead Budget Worksheet

Sch. # _____

(Business Name) ________________________
Cash Budgets (Contributions to Overhead)
Year 200X Projections

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Business Sub-unit:____________________					
Sales					
Product/Service # 1________					
Product/Service # 2________					
Product/Service # 3________					
Total Sales					
Cost of Sales (Direct Production Costs)					
Product/Service # 1________					
Product/Service # 2________					
Product/Service # 3________					
Total Direct Production Costs					
Business Sub-unit ________ Overhead Contribution					

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Business Sub-unit:____________________					
Sales					
Product/Service # 1________					
Product/Service # 2________					
Product/Service # 3________					
Total Sales					
Cost of Sales (Direct Production Costs)					
Product/Service # 1________					
Product/Service # 2________					
Product/Service # 3________					
Total Direct Production Costs					
Business Sub-unit ________ Overhead Contribution					

Monthly Cash Flow Projections

A cash flow projection is a budget and goal-setting tool used to illustrate the flow of your business income and expenses over a period of time. It reflects an estimate of cash coming into your business from sales, investments and borrowing, and cash flowing out of your business to pay expenses, buy fixed assets, and take care of other business expenditures. It is the most critical managerial financial tool you have, and is critical to your business success.

You will calculate your projected cash receipts and cash disbursements for a 12-month period, and then ideally for two more years following. If the projected cash receipts are greater than the cash disbursements, you will have a positive cash flow. If the projected cash receipts are less than cash disbursements, you will have a negative cash flow. Negative cash flows are indicated by enclosing the number in parentheses.

What will this projection tell you? If you are planning an expansion or growth stage, or are starting a new agricultural business, the cash flow projection will help you decide how much additional cash must be injected into the business to grow or start your business. The cash flow projection will also show at what point the business will "cash flow" (support the level of expenses you have budgeted and make the principal payments on the existing and/or new debt).

You have already completed worksheets for the individual line items on this worksheet. If you still have work to do on previous worksheets, complete them before continuing.

Step 1: Make enlarged copies of the Cash Flow Projection Worksheet and the accompanying Notes to Cash Flow sheets —OR— transfer this worksheet to a computer spreadsheet program and let the computer do the calculating.

Use of the computer is highly recommended, as you will be changing and adjusting the worksheet several times, and will continue to use this tool in the future of your business.

For your convenience, the worksheet is presented on two pages. Because it summarizes so much information, it is still rather small to work with easily. If you aren't using a computer version, have enlarged copies made so you have adequate room to write.

Step 2: Review the Growth (or Start-up) Expense Worksheet you completed earlier, then transfer those numbers into the Start-up Costs column on the Cash Flow Worksheet. The Ending Cash Balance (G) in the Start-up Costs column becomes the Beginning Cash Balance (A) for the first month. Fill in your Beginning Cash Balance (A) for the first month. Remember, this amount should match the amount from the Growth (or Start-up) Expense Worksheet, line C. If that amount was "Additional Cash Required" it will be a negative number enclosed in parentheses.

Please Note: The columns in the *Monthly Cash Flow Worksheet* must be calculated one month at a time, adding the columns down, then carrying the Ending Cash Balance up to the top of the next column.

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Monthly Cash Flow Projections

A cash flow projection is a budget and goal-setting tool used to illustrate the flow of your business income and expenses over a period of time. It reflects an estimate of cash coming into your business from sales, investments and borrowing, and cash flowing out of your business to pay expenses, buy fixed assets, and take care of other business expenditures. It is the most critical managerial financial tool you have, and is critical to your business success.

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Please Note: The columns in the *Monthly Cash Flow Worksheet* must be calculated one month at a time, adding the columns down, then carrying the Ending Cash Balance up to the top of the next column.

Monthly Cash Flow Projections—continued

Step 3: Fill in the monthly amounts of projected Cash Receipts by business sub-units.
Look at the *Sales Budget Worksheet*. You projected quarterly sales for each business sub-unit—now consider in which months those sales will actually be paid into the business in cash. Record those cash "inflows" in the proper months.

Step 4: Fill in the monthly amounts of projected Cash Disbursements, starting with Direct Production Costs.
Refer to your *Direct Production Costs Worksheets*. Once again you had forecasted <u>quarterly</u> costs related to your business sub-units–now it's time to divide those out into <u>monthly</u> costs.

Remembering that inventory generally must be bought ahead of selling, raising or growing it, your challenge is to post the monthly cash flowing out of your business for purchases related to inventory and other direct production expenses. *Based on your prior research or history of similar agricultural businesses, decide when you will need to make your inventory purchases, and/or when your other direct production expenses will actually be paid out in cash.* Timing in cash flow is very important, so think hard about when you need to pay for the anticipated direct inputs based on when you are anticipating selling your products.

Step 5: Fill in the monthly amounts of Selling and Administrative Expenses.
Refer to your *Selling and Administrative Expenses Worksheet*. Again, you will need to spread your quarterly projection from that worksheet out into monthly amounts, <u>*based on when you anticipate the cash will actually go out of the business*</u> to pay for those expenses.

Step 6: Fill in the monthly amounts of Overhead Expenses.
Refer to your *Overhead Expenses Worksheet*. The other disbursement items listed on the *Cash Flow Worksheet* can be transferred from that Overhead Worksheet, except that you will need to spread those costs out to monthly amounts. (**Note:** Owner's salaries should have been included either as direct labor costs within individual business sub-units, or may be included as Indirect Labor on line 13, if you are not directly performing the labor functions for a specific sub-unit. Regardless of where they are included, be SURE that you do include a wage for yourself and/or family members working in the business.)

Step 7: Fill in Cash From Investment or Loan Activities
Review the items listed in this category, and complete the ones that pertain to your business. For example, if you have items such as interest income, interest or principal payments for existing business loans, record those monthly amounts on the appropriate lines. If you anticipate buying additional assets, record that monthly expense on the corresponding line. DO NOT, at this point, record loan amounts that you think you might need to cover monthly cash flow. The idea is to see how this Cash Flow Projection calculates out before making those borrowing decisions. Later you will recalculate the cash flow worksheet showing the impact of additional borrowing if needed.

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Monthly Cash Flow Projections—continued

Step 3: Fill in the monthly amounts of projected Cash Receipts by business sub-units.
Look at the *Sales Budget Worksheet*. You projected quarterly sales for each business sub-unit—now consider in which months those sales will actually be paid into the business in cash. Record those cash "inflows" in the proper months.

Step 4: Fill in the monthly amounts of projected Cash Disbursements, starting with Direct Production Costs.
Refer to your *Direct Production Costs Worksheets*. Once again you had forecasted <u>quarterly</u> costs related to your business sub-units–now it's time to divide those out into <u>monthly</u> costs.

Remembering that inventory generally must be bought ahead of selling, raising or growing it, your challenge is to post the monthly cash flowing out of your business for purchases related to inventory and other direct production expenses. *Based on your prior research or history of similar agricultural businesses, decide when you will need to make your inventory purchases, and/or when your other direct production expenses will actually be paid out in cash.* Timing in cash flow is very important, so think hard about when you need to pay for the anticipated direct inputs based on when you are anticipating selling your products.

Step 5: Fill in the monthly amounts of Selling and Administrative Expenses.
Refer to your *Selling and Administrative Expenses Worksheet*. Again, you will need to spread your quarterly projection from that worksheet out into monthly amounts, <u>*based on when you anticipate the cash will actually go out of the business*</u> to pay for those expenses.

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Monthly Cash Flow Projections—continued

Step 8: Calculate the Net Cash Flow for the first month (Total Cash Receipts [B] minus Total Cash Disbursements [C] = Net Operating Cash [D]).

Step 9: Calculate the Net Other Cash (E) by subtracting Other Cash Out (E2) from Other Cash In (E1).

Step 10: Calculate the Net Monthly Cash (F) by adding the values of (D) Net Operating Cash and (E) Net Other Cash.

Note that the Net Monthly Cash amount does NOT include the beginning cash balance. It, therefore, shows you how cash flowed in and out of your business for that month based solely on the activities for that month. This is an important management tool to understand, since it is not muddied by any previous month's activities.

Step 11: Calculate the Ending Cash Balance for the first month. (Beginning Cash Balance [A], plus a positive Net Monthly Cash amount [F]—OR—minus a negative Net Monthly Cash amount [F]).

Step 12: Fill in the Beginning Cash Balance for the second month (which is the Ending Cash Balance for the first month).

Step 13: Repeat the first twelve steps for each of the twelve months. Remember to complete only ONE month at a time!

Step 14: The Year Total column is a summary of the activity for all twelve months. The Beginning Cash Balance (line A) in month 1 at the beginning of the year is the same as the beginning cash balance in the Year Total column. Enter the beginning cash balance from month 1 on line A of the Year Total column. DO NOT add line A across.

You will add lines 1 through 29 and the subtotal lines across to calculate the year totals. Then calculate the totals down the Year Total column following the same instructions as indicated for all other columns. The Ending Cash Balance in the Year Total column should be the same number as the Ending Cash Balance in month 12.

Step 15: Analyze your Cash Flow Projection.

Remember, this is a management tool. Analyze how the cash is flowing through your business, and look at all the decisions you made that affect the management of your cash flow. For example, look at your decision regarding collection of Accounts Receivable. Is cash being collected too slowly? What happens if you shorten the collection time? Your instructor (or accountant) can point out other ways to improve your cash flow through similar decision adjustments.

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Monthly Cash Flow Projections—continued

Step 8: Calculate the Net Cash Flow for the first month (Total Cash Receipts [B] minus Total Cash Disbursements [C] = Net Operating Cash [D]).

Step 9: Calculate the Net Other Cash (E) by subtracting Other Cash Out (E2) from Other Cash In (E1).

Step 10: Calculate the Net Monthly Cash (F) by adding the values of (D) Net Operating Cash and (E) Net Other Cash.

Note that the Net Monthly Cash amount does NOT include the beginning cash balance. It, therefore, shows you how cash flowed in and out of your business for that month based solely on the activities for that month. This is an important management tool to understand, since it is not muddied by any previous month's activities.

Step 11: Calculate the Ending Cash Balance for the first month. (Beginning Cash Balance [A], plus a positive Net Monthly Cash amount [F]—OR—minus a negative Net Monthly Cash amount [F]).

Step 12: Fill in the Beginning Cash Balance for the second month (which is the Ending Cash Balance for the first month).

Step 13: Repeat the first twelve steps for each of the twelve months. Remember to complete only ONE month at a time!

Step 14: The Year Total column is a summary of the activity for all twelve months. The Beginning Cash Balance (line A) in month 1 at the beginning of the year is the same as the beginning cash balance in the Year Total column. Enter the beginning cash balance from month 1 on line A of the Year Total column. DO NOT add line A across.

You will add lines 1 through 29 and the subtotal lines across to calculate the year totals. Then calculate the totals down the Year Total column following the same instructions as indicated for all other columns. The Ending Cash Balance in the Year Total column should be the same number as the Ending Cash Balance in month 12.

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Remember, this is a management tool. Analyze how the cash is flowing through your business, and look at all the decisions you made that affect the management of your cash flow. For example, look at your decision regarding collection of Accounts Receivable. Is cash being collected too slowly? What happens if you shorten the collection time? Your instructor (or accountant) can point out other ways to improve your cash flow through similar decision adjustments.

Monthly Cash Flow Projection Worksheet–Months 1-6

(Business Name)________________________
Monthly Cash Flow Projection Worksheet
Year 200X Projection - January through June

Months	START UP COSTS	1 January	2 February	3 March	4 April	5 May	6 June
(A) BEGINNING CASH BALANCE							
CASH IN FROM OPERATIONS							
Cash Receipts							
1. Business Sub-unit #1 ________							
2. Business Sub-unit #2 ________							
3. Business Sub-unit #3 ________							
4. Business Sub-unit #4 ________							
(B) Total Cash Receipts							
CASH DISBURSEMENTS							
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budget Sch. ____ for details)							
5. Business Sub-unit #1 ________							
6. Business Sub-unit #2 ________							
7. Business Sub-unit #3 ________							
8. Business Sub-unit #4 ________							
Total Direct Production Costs (C1)							
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget Sch. ____ for details)							
9. Business Sub-unit #1 ________							
10. Business Sub-unit #2 ________							
11. Business Sub-unit #3 ________							
12. Business Sub-unit #4 ________							
Total Selling/Admin. Costs (C2)							
(C3) Overhead Expenses - Overall Business (See Overhead Budget Sch. ___ for details)							
13. Indirect Labor							
14. Indirect Labor Payroll Taxes							
15. Professional Services							
16. Farm Supplies							
17. Risk Management							
18. Utilities							
19. Equipment Maintenance/Repair							
20. Fuel and Lubricants							
21. Other:							
Total Overhead Expenses (C3)							
(C) Total Cash Disbursements (C1+C2+C3)							
(D) Net Operating Cash (B - C)							
CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
22. Interest Income							
23. Investments in Business							
24. Loan Proceeds							
25. Other:							
Total Other Cash In (E1)							
(E2) Other Cash Out							
26. Interest Expense							
27. Capital Purchases (Assets)							
28. Loan Principal Payments							
29. Other:							
Total Other Cash Out (E2)							
(E) Net Other Cash (E1 - E2)							
(F) Net Monthly Cash (D + E)							
(G) Ending Cash Balance (A + F)							

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Monthly Cash Flow Projection Worksheet–Months 1-6

(Business Name)________________________
Monthly Cash Flow Projection Worksheet
Year 200X Projection - January through June

Months	START UP COSTS	1 January	2 February	3 March	4 April	5 May	6 June
(A) BEGINNING CASH BALANCE							
CASH IN FROM OPERATIONS							
Cash Receipts							
1. Business Sub-unit #1 ________							
2. Business Sub-unit #2 ________							
3. Business Sub-unit #3 ________							
4. Business Sub-unit #4 ________							
(B) Total Cash Receipts							
CASH DISBURSEMENTS							
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budget Sch. ____ for details)							
5. Business Sub-unit #1 ________							
6. Business Sub-unit #2 ________							
7. Business Sub-unit #3 ________							
8. Business Sub-unit #4 ________							
Total Direct Production Costs (C1)							
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget Sch. ____ for details)							
9. Business Sub-unit #1 ________							
10. Business Sub-unit #2 ________							
11. Business Sub-unit #3 ________							
12. Business Sub-unit #4 ________							
Total Selling/Admin. Costs (C2)							
(C3) Overhead Expenses - Overall Business (See Overhead Budget Sch. ___ for details)							
13. Indirect Labor							
14. Indirect Labor Payroll Taxes							
15. Professional Services							
16. Farm Supplies							
17. Risk Management							
18. Utilities							
19. Equipment Maintenance/Repair							
20. Fuel and Lubricants							
21. Other:							
Total Overhead Expenses (C3)							
(C) Total Cash Disbursements (C1+C2+C3)							
(D) Net Operating Cash (B - C)							
CASH FROM INVESTMENT or LOAN ACTIVITIES							
(E1) Other Cash In							
22. Interest Income							
23. Investments in Business							
24. Loan Proceeds							
25. Other:							
Total Other Cash In (E1)							
(E2) Other Cash Out							
26. Interest Expense							
27. Capital Purchases (Assets)							
28. Loan Principal Payments							
29. Other:							
Total Other Cash Out (E2)							
(E) Net Other Cash (E1 - E2)							
(F) Net Monthly Cash (D + E)							
(G) Ending Cash Balance (A + F)							

Monthly Cash Flow Projection Worksheet–Months 7-12 and Year Total

(Business Name)______________________
Monthly Cash Flow Projection Worksheet
Year 200X Projection - July through December

	7 July	8 August	9 September	10 October	11 November	12 December	Year TOTAL	Comments
(A)								
CASH IN FROM OPERATIONS								
Cash Receipts								
1.								
2.								
3.								
4.								
(B)								
CASH DISBURSEMENTS								
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budget Sch. ____ for details)								
5.								
6.								
7.								
8.								
(C1)								
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget Sch. ____ for details)								
9.								
10.								
11.								
12.								
(C2)								
(C3) Overhead Expenses - Overall Business (See Overhead Budget Sch. ____ for details)								
13.								
14.								
15.								
16.								
17.								
18.								
19.								
20.								
21.								
(C3)								
(C)								
(D)								
CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
22.								
23.								
24.								
25.								
(E1)								
(E2) Other Cash Out								
26.								
27.								
28.								
29.								
(E2)								
(E)								
(F)								
(G)								

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Monthly Cash Flow Projection Worksheet–Months 7-12 and Year Total

(Business Name)______________________
Monthly Cash Flow Projection Worksheet
Year 200X Projection - July through December

	7 July	8 August	9 September	10 October	11 November	12 December	Year TOTAL	Comments
(A)								
CASH IN FROM OPERATIONS								
Cash Receipts								
1.								
2.								
3.								
4.								
(B)								
CASH DISBURSEMENTS								
(C1) Direct Production Cost/Variable Expenses/Cost of Goods Sold (See Business Sub-unit Budget Sch. ____ for details)								
5.								
6.								
7.								
8.								
(C1)								
(C2) Selling/Administrative Expenses (See Business Sub-unit Budget Sch. ____ for details)								
9.								
10.								
11.								
12.								
(C2)								
(C3) Overhead Expenses - Overall Business (See Overhead Budget Sch. ____ for details)								
13.								
14.								
15.								
16.								
17.								
18.								
19.								
20.								
21.								
(C3)								
(C)								
(D)								
CASH FROM INVESTMENT or LOAN ACTIVITIES								
(E1) Other Cash In								
22.								
23.								
24.								
25.								
(E1)								
(E2) Other Cash Out								
26.								
27.								
28.								
29.								
(E2)								
(E)								
(F)								
(G)								

Notes to the Monthly Cash Flow Projection

Once again, the ability of your reader to understand the source of the numbers used in the Cash Flow Projection is essential. Use the *Notes to the Cash Flow Projection Worksheet* to write the assumptions (or reasons) that justify the amounts posted to the Cash Flow Projections, or reference the worksheet and assumptions included in your Financial Plan—Section A. (*Example*: "See Fixed Assets Worksheet and Assumptions in Section A." or "See Schedule #3, Direct Production Costs"). Lines are numbered to correspond to the lines on the *Cash Flow Projection Worksheet*. Make copies of the worksheet to use with your Year Two and Year Three Projections. *NOTE:* Make several copies of this Worksheet to use with your Cash Flow Projections.

Notes to the Cash Flow Projection Worksheet

Line Item #	Notes to the Cash Flow Projection - Year _________
1.	
2.	
3.	
4.	
5.	
6.	
7.	
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9.	
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25.	
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27.	
28.	
29.	
Other Information:	

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Notes to the Monthly Cash Flow Projection

Once again, the ability of your reader to understand the source of the numbers used in the Cash Flow Projection is essential. Use the *Notes to the Cash Flow Projection Worksheet* to write the assumptions (or reasons) that justify the amounts posted to the Cash Flow Projections, or reference the worksheet and assumptions included in your Financial Plan—Section A. (*Example*: "See Fixed Assets Worksheet and Assumptions in Section A." or "See Schedule #3, Direct Production Costs"). Lines are numbered to correspond to the lines on the *Cash Flow Projection Worksheet*. Make copies of the worksheet to use with your Year Two and Year Three Projections. *NOTE:* Make several copies of this Worksheet to use with your Cash Flow Projections.

Notes to the Cash Flow Projection Worksheet

Line Item #	Notes to the Cash Flow Projection - Year _________
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2.	
3.	
4.	
5.	
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28.	
29.	
Other Information:	

Annual Cash Flow Projections—Years Two and Three

If you are using your plan to obtain money from traditional financing sources, you will need to include cash flow projections for a period of three years. Three year projections are also highly recommended from a management tool standpoint. The first year cash flow projection may not reflect a long enough time-frame to make decisions about your business' financial performance, particularly during a growth or start-up phase. It often takes the second and third year to get a true picture of how a typical year will flow.

Generally, lending institutions will accept the second and third year financial information in summarized annual form. For your purposes, however, you might find it beneficial to continue working through the monthly projections to have a more detailed analysis. Use blank copies of the same *Monthly Cash Flow Projection Worksheet* and *Notes to the Cash Flow Worksheet,* and follow the steps below:

Step 1: ***Carry your ending cash balance from the Year One worksheet to the Beginning Cash Balance in month one of the second year. Then repeat Steps 1 through 14 for Year Two. Use the same method for Year Three. Be sure to clearly mark the years on the worksheet. Don't forget to adjust for anticipated price increases, inflation, etc.***

Step 2: ***Again, analyze your Cash Flow Projections. Don't forget to include proceeds from new loans and payments for principal and interest in the Cash from Investment or Loan Activities sections of the worksheet.***

Evaluating Your Cash Flow Projection Worksheet
Analyzing the information presented on your *Cash Flow Projection Worksheet* is what makes this exercise valuable. In which months will additional cash be needed to cover operating expenses of your business? From where will that cash be obtained? How will you pay back additional funds needed? How will that further impact your cash flow? One of the best reasons to computerize the Cash Flow Projection Worksheet is so you can have the computer recalculate when making changes or adding new information.

Break-Even and Sensitivity Analysis

In the simplest of terms, the "break-even point" is the level of sales at which your total sales for the time period exactly covers your cost of product units sold and operating expenses. In other words, your business' Break-Even Point (BEP) is the volume of sales at which revenues and expenses are equal. You do not make a profit at the break-even point (and, in the case of a sole proprietorship, you may not even generate sufficient funds for the owner's draw), but you have generated enough revenue to cover your expenses. If you sell less that the BEP sales level, you will experience a net loss.

get your budgets in line WORKSHEETS 7-27

Annual Cash Flow Projections—Years Two and Three

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Break-Even and Sensitivity Analysis–continued

Agricultural enterprises always seem to operate in an environment of uncertainty! Will the weather hold long enough to bring in the crop? Will prices hold, or costs skyrocket? Will interest rates go up or down? Because of these uncertainties, you may be feeling a bit skeptical about the whole process of "projecting" values in your budgets. Performing **sensitivity analyses** may increase confidence in your projections.

A sensitivity analysis refers to identifying one factor in your projections which, if changed from the projected value, will significantly affect cash flow and/or profitability. While you may choose to experiment with several "sensitive" factors, choose one at a time and run the projections based on changing only that one factor. For example, choose a factor such as price, yield, sales, weather, number of visitors, etc. Now, change the value related to that factor on the *Cash Flow Projection Worksheet*. How sensitive is the net cash flow to that one change? Choose different factors to analyze, including seemingly positive changes (increased cash sales, which would also potentially increase expenses related to those sales). Then it's time to analyze the results.

1. **What happens to the net cash balance when those very sensitive factors change? Discuss each major sensitive factor individually. How does the sensitivity analysis help you plan for "extreme" circumstances within your agricultural business operating environment?**

2. **Discuss how many of the key factors of your agricultural business are actually "sensitive" or volatile. Has preparing the Monthly Projected Cash Flow (before and after the sensitivity analysis) resulted in you making changes to your enterprise? Explain.**

(*Hint:* This "what if" sensitivity analysis may cause you to want to reproduce the *Cash Flow Projection Worksheet* as a computerized spreadsheet with formulas so that you can work through several "what if" sensitivity factors and more easily see the numeric impact on your Net Cash Flow.)

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Break-Even and Sensitivity Analysis–continued

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(*Hint:* This "what if" sensitivity analysis may cause you to want to reproduce the *Cash Flow Projection Worksheet* as a computerized spreadsheet with formulas so that you can work through several "what if" sensitivity factors and more easily see the numeric impact on your Net Cash Flow.)

Agricultural Income and Family Cash Flow

To this point, you have analyzed your agricultural business concept as a separate financial entity. That is the appropriate way to view your business, thereby avoiding the co-mingling of business and personal income and expenses. Now it is also appropriate to see how the agricultural business income affects your family cash flow. Must the business be able to pay your family monthly living expenses? Is there additional off-farm income to help support yourself and your family, or are you relying on the agricultural enterprise to support your monthly living expenses? Will you be using all of your cash savings just to make this agricultural concept work, and how will that impact your family's financial future? These are just a few of the questions you should be asking about your total financial picture.

The *Agricultural Income and Family Cash Flow Worksheet* on the following page will help you look at the impact your agricultural enterprise will have on your family cash flow. While this worksheet is presented on an annual basis, it could also be completed on a monthly basis, particularly if seasonal fluctuations might have dramatic impact on the family cash position.

Step 1: Make several copies of the Worksheet on the following page.

Step 2: Fill in the amount of Annual Agricultural Income.
This is the amount of income you intend to withdraw from your agricultural business, either as Owner Withdrawal (if your business is organized as a proprietorship), or as Owner Salary/Wage (if your business is as a corporation). You were prompted to include a wage for yourself on either the Direct Production Costs Worksheet in the direct labor category (example, farm manager), or as Indirect Labor, line 13, on the Cash Flow Projection. Split out those amounts that you recorded as wages for yourself, and record the amount on the Annual Agricultural Income line.

Step 3: Complete the Non-Agricultural Income amounts as appropriate, and calculate the Total Family Income (A).

Step 4: Complete the expenses categories, and calculate the subtotals. Then calculate the Total Family Expenses (B).

Step 5: Calculate the Family Cash Position by subtracting Total Family Expenses (B) from Total Family Income (A).

Step 6: Analyze the Family Cash Position.
What impact does the agricultural business have on your family's cash position? Will the business ultimately replace your current non-agricultural income? Do you want it to? Did you include an adequate wage for yourself in the projections for direct and indirect labor? Must the business be able to pay your monthly living expenses? Will your family's savings cushion be eroded by your decisions regarding the business' cash flow? This exercise will help you realistically view the agricultural business' income goals as they relate to your family's cash requirements and future income goals.

get your budgets in line WORKSHEETS 7-29

Agricultural Income and Family Cash Flow

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Agricultural Income and Family Cash Flow—continued

Family Cash Flow Worksheet

Family Income (Annual)		**For the Year ________**	
Annual Agricultural Income (see instructions Step 2)		Notes/Comments:	
Annual Non-Agricultural Income:			
Non-Agricultural Salaries/wages			
Interest from Investments			
Other:			
Total Family Income (A)			
Family Expenses (Annual)			
1. Regular Annual Payments		**3. Food Expenses**	
Rent or Mortgage Payments		Groceries	
Home Insurance		Eating Out	
Auto Loan Payment		Other:	
Auto Insurance		**Sub-total 3:**	
Consumer Loan Payments		**4. Household Operating Expenses**	
Personal Loan Payments		Telephone	
Credit Card Payments		Gas	
Education Loan Payments		Electricity	
Life Insurance		Water and Sewer	
Health Insurance		Household Maintenance/Repair	
Child Care		Household Supplies	
Other:		Other:	
Sub-total 1:		**Sub-total 4:**	
2. Personal Expenses		**5. Annual Savings**	
Clothing and Shoes			
Cleaning, Laundry, Repair		**Sub-total 5:**	
Gas, Parking, Auto Repair		**6. Personal Taxes**	
Education, Training		Personal (Fed. and State) Income Tax	
Association Dues		Self-Employment Tax (if applicable)	
Subscriptions, Books		Other:	
Doctors, Dentist, Medical Care		**Sub-total 6:**	
Prescriptions		**7. Other Miscellaneous Expenses**	
Gifts and Contributions		Other:	
Travel			
Entertainment		**Sub-total 7:**	
Other:		**Total Family Expenses (B)** (sum sub-totals 1 through 7)	
Sub-total 2:		**Family Cash Position (A - B)**	

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Agricultural Income and Family Cash Flow—continued

Family Cash Flow Worksheet

Family Income (Annual)		**For the Year ________**	
Annual Agricultural Income (see instructions Step 2)		Notes/Comments:	
Annual Non-Agricultural Income:			
Non-Agricultural Salaries/wages			
Interest from Investments			
Other:			
Total Family Income (A)			
Family Expenses (Annual)			
1. Regular Annual Payments		**3. Food Expenses**	
Rent or Mortgage Payments		Groceries	
Home Insurance		Eating Out	
Auto Loan Payment		Other:	
Auto Insurance		**Sub-total 3:**	
Consumer Loan Payments		**4. Household Operating Expenses**	
Personal Loan Payments		Telephone	
Credit Card Payments		Gas	
Education Loan Payments		Electricity	
Life Insurance		Water and Sewer	
Health Insurance		Household Maintenance/Repair	
Child Care		Household Supplies	
Other:		Other:	
Sub-total 1:		**Sub-total 4:**	
2. Personal Expenses		**5. Annual Savings**	
Clothing and Shoes			
Cleaning, Laundry, Repair		**Sub-total 5:**	
Gas, Parking, Auto Repair		**6. Personal Taxes**	
Education, Training		Personal (Fed. and State) Income Tax	
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Gifts and Contributions		Other:	
Travel			
Entertainment		**Sub-total 7:**	
Other:		**Total Family Expenses (B)** (sum sub-totals 1 through 7)	
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Writing Your Plan

Using the information and worksheets found in this session, assemble the following information under the heading and subtitles shown below:

Section VI. The Financial Plan

A. Managing Books and Records

Review your Record-Keeping Checklist. Describe how you keep control of the major financial functions of your agricultural business. Indicate who is responsible for the key activities, and how you, as the owner/manager, follow-up periodically. (You may want to include a copy of your Record-Keeping Checklist in this section or in the Appendix.)

B. Budgets and Assumptions

Fixed Assets Acquisitions Budget

Check with your instructor to determine whether a copy of your Fixed Assets Acquisitions Budget Worksheet should be included in your plan. Write a paragraph briefly explaining the reasons for purchasing the new fixed assets, and why purchasing these assets (as opposed to leasing) is the right choice for your new agricultural business.

Growth (or Start-up) Expenses Budget

Again, check with your instructor to determine whether a copy of your Growth (or Start-up) Expenses Budget should be included in your plan. Write a paragraph indicating the amount of growth (or start-up) expenses required to launch your agricultural business or growth concept, and reasons for the major expense items included in this budget.

Sales and Operating Expenses Budgets

Consult your instructor to see if copies of the following worksheets should be included in your plan:

- Advertising Expenses
- Other Promotional Tools Expenses
- Selling/Distribution Strategies Expenses
- Licenses/Permit Fees
- Compliance/Abatement Expenses
- Cost of Acquiring Additional Education
- Salaries/Wages & Benefits Expenses
- Outside Services Expenses
- Insurance Expenses
- Depreciation Expenses

DO include completed copies of your Sales Budget, Direct Production Cost Budgets, Sales and Administrative Expenses Budget, Overhead Budget, and Cash Contribution to Overhead Budgets (for business sub-units), including the Assumptions that accompany each budget in the Financial Section.

PLEASE TURN THE PAGE–this Writing Your Plan Assignment Continues!

get your budgets in line WORKSHEETS 7-31

Writing Your Plan

Using the information and worksheets found in this session, assemble the following information under the heading and subtitles shown below:

Section VI. The Financial Plan

A. Managing Books and Records

Review your Record-Keeping Checklist. Describe how you keep control of the major financial functions of your agricultural business. Indicate who is responsible for the key activities, and how you, as the owner/manager, follow-up periodically. (You may want to include a copy of your Record-Keeping Checklist in this section or in the Appendix.)

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PLEASE TURN THE PAGE–this Writing Your Plan Assignment Continues!

Writing Your Plan–continued

C. Cash Flow Projections

Cash Flow Projection—Year One

Include copies of your completed Monthly Cash Flow Projection Worksheets and the Notes to the Cash Flow Projection in this section of your plan. Then write a paragraph discussing the results of the cash flow projection process.

Note: *Consult your instructor regarding Cash Flow Projections for Years Two and Three.*

Sensitivity Analysis

Explain the key factors of your agricultural business that are sensitive and, therefore, impact the financial viability of your enterprise. Discuss adjustments you made to your financial projections as a result of working through the sensitivity analysis. Again, include relevant copies of your Cash Flow Projections after applying the sensitivity analysis to show the reader how the monthly Ending Cash Balances are impacted by those sensitive factors.

7-32 WORKSHEETS get your budgets in line

Writing Your Plan–continued

C. Cash Flow Projections

Cash Flow Projection—Year One

Include copies of your completed Monthly Cash Flow Projection Worksheets and the Notes to the Cash Flow Projection in this section of your plan. Then write a paragraph discussing the results of the cash flow projection process.

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text
analyze these: cash flow & financial statements
session eight


text
analyze these: cash flow & financial statements
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session eight

analyze these: cash flow & financial statements

SESSION EIGHT

this Session

What's in This Session?

This session covers three topics.

Cash Flow Management. Managing the money (your *cash flow*) is one of the most important things an agricultural businessperson can do. In this session, the importance of cash flow management will be discussed. The cash flow cycle will be presented to help you learn some important key steps in cash flow management.

Introduction to Financial Statements. Accounting is a process of measuring, recording, and communicating financial information. The most important step in this process is communication. Financial statements are a standardized means of communicating business information.

People use financial statements to study a business' past, present and future. Users of financial statement information generally fall into two categories—internal and external. Internal users include owners and managers. They utilize financial information to get feedback about decisions they have made, evaluate performance of the business and identify planning opportunities and needs. External users include bankers, investors, partners, governmental agencies and competitors. For them, the information is helpful in evaluating potential investments, determining credit worthiness or assessing taxes.

Financial Statement Analysis. After preparing their financial statements, many entrepreneurs ask, "What now?" The analysis of financial statements can tell you much about the "financial health" of your business. One way financial analysts evaluate the financial health of ventures is by "ratio analysis." Also, by comparing one set of your financial statements to another set at a later time, you can see "trends" that are developing over time. You will learn these types of financial analyses in this section.

analyze these: cash flow & financial statements

SESSION EIGHT

this Session

- cash flow management p2
- introduction to financial statements p19
- financial statement analysis p29

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Cash Flow Management

Importance of Cash Flow Management

"Cash is the lifeblood of business..."

Cash is the lifeblood of business. Without cash, the business will cease to exist. You must pay careful attention to the health of your business as measured by your cash position. This is particularly true for many small businesses as they tend to be undercapitalized. This means the business is operated on a very tight budget or the equivalent of living from paycheck to paycheck. Careful cash management keeps the business from becoming delinquent in its debts and protects its credit rating.

It is equally important to manage your cash position carefully in good times, when the business is flush with cash, as in bad times, when cash is tight. Idle cash doesn't help profitability. Are you planning for growth? This presents cash flow management challenges. You might encounter a cash drain in the beginning as you establish new markets or new products. Good times or bad, careful cash flow management is an essential part of every business' success.

cash cushion

Reasons for Holding Cash

Why do businesses hold cash? In general, there are three reasons:

1. To meet current and upcoming planned expenditures.
2. As a precaution against unexpected expenditures or a drop in revenues.
3. To meet contract or regulatory requirements, such as compensating balances mandated by a loan agreement.

The amount of cash you hold, your "cash cushion," depends on your reason for holding it and your attitude about risk. Are you willing to assume the risk that you will not have enough cash to meet your obligations? What amount of safety margin makes you comfortable? Remember the trade off

8-2 TEXT analyze these: cash flow and financial statements

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between risk and reward. If you keep an extra $10,000 in your checking account "just in case," you might be missing opportunities to put that cash to use and earn a greater profit.

Of course, some businesses would love to have an extra $10,000 but never do! Perhaps the checking account balance never gets above $500. Deposits are made just in time to write checks. As you might suspect, these businesses have a greater risk of cash shortages.

Cash Management Keys

"Careful cash management is the key..."

Whether you take high or low risk with your cash balance, careful cash management is the key. There are several cash management techniques that can help you, including:

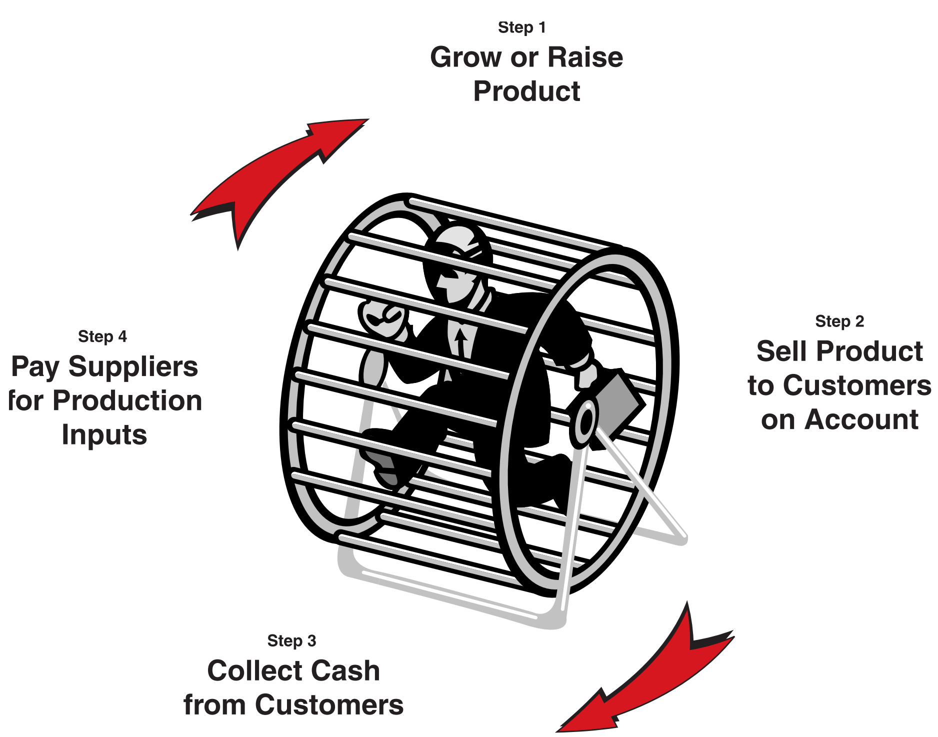
1. Managing the cash flow cycle.
2. Establishing good internal controls for cash.
3. Preparing cash flow projections.
4. Managing your cash position.

management tools

Let's take a look at each of these management tools.

The Cash Flow Cycle

The cash flow cycle (also known as the cash-to-cash cycle) represents the length of time that cash is tied up in business operations. If the cycle can be shortened, cash will be freed to begin the cycle again or to invest in other projects. The cycle looks like this:



analyze these: cash flow and financial statements TEXT 8-3

between risk and reward. If you keep an extra $10,000 in your checking account "just in case," you might be missing opportunities to put that cash to use and earn a greater profit.

Of course, some businesses would love to have an extra $10,000 but never do! Perhaps the checking account balance never gets above $500. Deposits are made just in time to write checks. As you might suspect, these businesses have a greater risk of cash shortages.

Cash Management Keys

"Careful cash management is the key..."

Whether you take high or low risk with your cash balance, careful cash management is the key. There are several cash management techniques that can help you, including:

1. Managing the cash flow cycle.
2. Establishing good internal controls for cash.
3. Preparing cash flow projections.
4. Managing your cash position.

management tools

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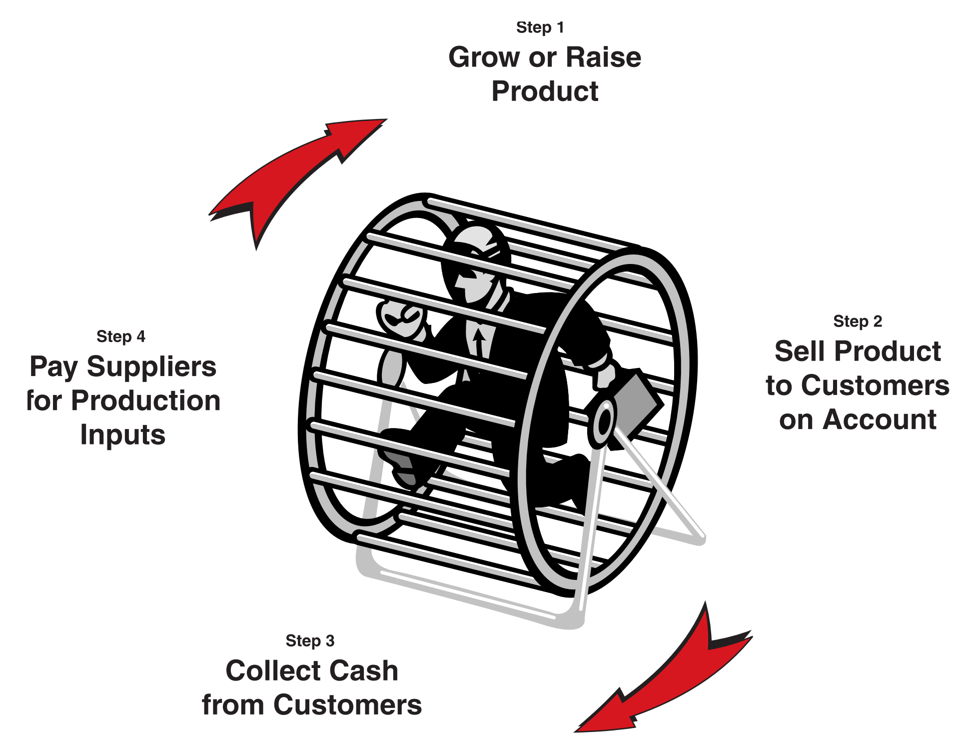

Therefore, the length of time cash is tied up in business operations is a function of: 1) how long it takes to grow or raise your products (inventory) and then prepare or further process your products for sale, 2) how long it takes your customers to pay and 3) how long before your suppliers are paid. Managing cash flow is managing these activities. To shorten the cycle, you can speed up sales, speed up collections from credit customers or slow down payments to suppliers.

By monitoring three balance sheet accounts, you can start to effectively manage your cash cycle. Those accounts are inventory, accounts receivable and accounts payable.

"Total inventory cost is a function of two variables: the quantity of goods in inventory and the cost per unit..."

Things that Influence the Flow/Timing of Cash In and Out of Your Business

Managing Inventory

Total inventory cost is a function of two variables: the quantity of goods in inventory and the cost per unit. Both of these variables are considered when managing inventory. You can reduce your investment in inventory by decreasing the quantity held or its cost. Reducing the per unit cost of inventory calls for careful attention to the purchasing function. A manufacturer also must monitor labor and overhead costs.

Why are you holding inventory? Businesses hold inventory to meet actual and potential customer orders, to guard against supplier shortages, to "corner the market" or because they have taken advantage of quantity discounts offered by suppliers. A bad reason for holding inventory, but a very common one, is that the business just has not taken the time to properly manage it.

the corner market.

Ratio analysis is a means of evaluating how effectively the cash flow cycle is being managed. There are several ratios related to inventory that might help illustrate inventory management.

8-4 TEXT analyze these: cash flow and financial statements

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Ratio analysis is a means of evaluating how effectively the cash flow cycle is being managed. There are several ratios related to inventory that might help illustrate inventory management.

Inventory turnover ratio:

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

This ratio tells the average number of times inventory turns (is sold) during the year. This can be converted into days by dividing the inventory turnover ratio into 365 days:

$$\text{Average Days in Inventory} = \frac{\text{365 Days}}{\text{Inventory Turnover Ratio}}$$

When using ratio analysis to analyze how their business is performing, business owners should consider industry averages, geographical location, financial history, and any other special circumstances. However, if they wish to decrease the cash-to-cash cycle, business owners may try to turn their inventory more often.

"Eliminate obsolete and slow-moving products…"

How to turn inventory over more frequently is a question many business owners ask themselves. The obvious answer is to increase sales. Another way is to reduce inventory. The first step is to eliminate obsolete and slow-moving products. Careful evaluation of what sells and what does not sell is vital.

Remember the Smith Farm Example in Session 7? This very issue of inventory control became critical for Staci and Joe Smith in their first year of retail operations. Staci and Joe offered their customers private label jams, jellies and salsas that they bought from a local co-packer. The co-packer had a minimum order of $5,000, which was the size of the Smith's original order. Unfortunately for the Smiths, this first order sold faster than the second order of $15,000 dollars. This left them with an average inventory of $7,800, an inventory turnover rate of 2.56 and average days in inventory of 142 days. In other words, the Smiths left money sitting in inventory that could have been put to good use on the farm.

just in time.

Some businesses have turned to **Just-In-Time (JIT)** systems to reduce inventory levels. These systems attempt to get inventory to your operation just in time to be used or sold. In that way, you have significantly decreased inventory levels and reduced the cash flow cycle. This may be easier said than done. The process requires special cooperation between you and your suppliers and is generally very difficult for businesses with wide swings in sales volumes. Many firms have installed only some of the JIT concepts and modified the process to suit their needs. You can find many books and articles about JIT systems.

analyze these: cash flow and financial statements TEXT 8-5

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Managing Accounts Receivable

Often businesses sell on credit either as a response to their competition or to make the sale. Making the sale is the reward but extending credit creates financial risk. When managing accounts receivable, we are always trying to balance financial and marketing goals, and their associated risks and rewards. Taking on new credit customers may help achieve sales goals, but if they prove to be slow-paying customers, the cash flow cycle may be lengthened and your financial position weakened. On the other hand, if you don't offer good credit terms, are you losing sales?

Ratios can also be used to help evaluate effectiveness of credit policies.

"Try to balance financial and marketing goals, and their associated risks and rewards..."

Receivables Turnover Ratio:

$$\text{Receivables Turnover} = \frac{\text{Net Credit Sales}}{\text{Average Net Receivables}}$$

This ratio indicates the average number of times receivables turn (are collected) during the year.

This can be converted into days by dividing the ratio into 365 days:

$$\text{Average Collection Period} = \frac{\text{365 Days}}{\text{Receivables Turnover Ratio}}$$

Staci and Joe Smith sell approximately one-third of their produce on account and have been fortunate to receive payments promptly from most of their clients. In fact, their receivables turnover ratio is 12.07 ($48,252.50/$4,000), turning over once per month during their sales season. They do, however, occasionally have uncollectible accounts, as reflected in their Selling and Administrative Expense Budget planning (see Session 7) where they budgeted $1,000 in uncollectibles.

Just like with the Average Days in Inventory, a business owner must consider their environment before evaluating whether this ratio is high or low. If they wish to decrease the cash-to-cash

8-6 TEXT analyze these: cash flow and financial statements

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cycle, they should try to reduce the average collection period for their receivables. To do this, business owners should review their:

1. Criteria for extending credit.
2. Credit terms offered.
3. Collection activities.

Managing Credit Terms
If your business sells to customers on account, you need policies to monitor who gets credit and how much. You are evaluating credit risk. When considering customer credit, you can use the same factors lenders use when evaluating a loan. Here is a brief summary:

"Try to reduce the risk of loss by performing the credit evaluation diligently..."

- **Credit History:** Credit history for new and repeat customers should be reviewed. Don't assume that all circumstances remain constant for your customers. Special attention should be given if a customer wishes to increase their credit balance or asks for special terms or extended credit. There are many agencies that can supply credit histories and ratings.
- **Character:** This refers to your evaluation of the customer's intention to pay. Consider their reputation and look at business references.
- **Capacity:** Capacity is the customer's ability to pay the debt. You need to look at past and present financial reports and observe their current operations.
- **Collateral:** Usually, there is no collateral for an accounts receivable transaction. You may be able to retrieve the merchandise but that is not always possible.
- **Conditions:** You should consider general and local economic trends.
- **Capital:** Customers with a solid financial position are less likely to default.

reduce risk.

It isn't likely that your credit evaluation will eliminate all bad debts. It is difficult to judge the likelihood that a potential customer will be a collection problem and even good customers can fall on hard times. So, try to reduce the risk of loss by performing the credit evaluation diligently.

Your business should have clear, written procedures about what customer data is required and which employees have authority to grant customer credit.

analyze these: cash flow and financial statements T E X T 8-7

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"Cash Discount is the amount of discount allowed to be deducted from the original invoice amount for early payment..."

The credit terms you offer customers include the credit period and cash discounts. If you extend the time before customers must pay, you will lengthen your cash flow cycle and may cause a cash crunch. Your bills may be due before expected receipts from your customers. Remember there is a cost to having funds tied up in receivables. The money can't work for you until you get it. On the other hand, if you shorten the credit period, your customers might have a cash crunch of their own and either become delinquent on their account or buy elsewhere. Determining the optimum credit period may take some experimentation. Also, review what your competitors are doing.

Cash discounts are another way to speed up the cash cycle. A **Cash discount** is the amount of discount allowed to be deducted from the original invoice amount for early payment. For example, you might offer your customers terms of "**2/10, net 30**." This means that customers paying within 10 days of the invoice date will receive a 2% discount. Otherwise, the normal payment period is 30 days. Businesses offer cash discounts to attract customers and to reduce the average collection period of receivables. The discount given is the price the business pays for these benefits. Two percent may not sound like much–but remember it is causing the customer to pay 20 days sooner than they would without the discount.

20/10 net 30

The part of credit sales that business owners like least is trying to collect from delinquent customers. There are collection agencies who will do this for you, but they charge a high fee and most businesses resort to this only after other efforts have failed. How much effort you put into collecting receivables is a trade off between the time and money you spend to do it versus the cash lost.

The best strategy is to not let accounts become delinquent in the first place. Careful review before extending credit will help. Also, an effective accounts receivable billing system will assure that customers receive timely, accurate invoices. If customers believe you will notice if they are delinquent, they are more likely to pay on time. Errors on invoices can cause disputes and delays, so every effort should be made to avoid those errors.

8-8 TEXT analyze these: cash flow and financial statements

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An effective management tool for keeping in touch with collections is to age your accounts receivable. An **aging report** lists all receivable amounts by how long they have been outstanding. Here's an example.

Smith Farms, Inc.
October Accounts Receivable Aging Report

Age of Account	Account Name	Amount	Totals
0 - 30 Days	Barnaby	$ 200.00	
	Johnson	$ 150.00	
	Total 0 - 30 Days		**$ 350.00**
30 - 60 Days	Hamilton's B & B	$ 1,250.00	
	Connor	$ 100.00	
	Kline	$ 200.00	
	Jones	$ 450.00	
	Total 30 - 60 Days		**$ 2,000.00**
60 - 90 Days	Jones	$ 350.00	
	Total 60 - 90 Days		**$ 350.00**
Over 90 Days	Jones	$ 300.00	
	Total Over 90 Days		**$ 300.00**
	TOTAL RECEIVABLES		**$ 3,000.00**

"An **Aging Report** lists all receivable amounts by how long they have been outstanding..."

effective.

The aging report allows you to identify slow-paying customers, follow up on collections, and evaluate credit and collection policies.

Merchant Credit Programs
Many retailers shift the credit risk and collection burdens away from themselves by becoming a revolving credit merchant. National credit cards, such as VISA and MasterCard, offer revolving credit financing to consumers. The retailer, after making the sale to the consumer, turns in the credit card charge slip and receives 95 to 98 percent of the total credit charge. Risk of nonpayment is born by the bank or other financial institution that issued the credit card to the individual. To become a credit card merchant, you need to fill out an application and sign an agreement with a bank or other financial institution offering the service. There are many such institutions offering different services and terms for their merchants, so you should check around before signing an agreement. Talk to your banker, other merchants and your small business counselor for some ideas. Or, if you have a newly registered business, look in your mailbox. The financial institutions will find you!

analyze these: cash flow and financial statements TEXT 8-9

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Another method used to shorten the cash-to-cash cycle is assigning or borrowing against your accounts receivable.

You can assign your accounts receivable and use them to get immediate access to cash. This ability to get cash immediately for your A/R is known as "factoring" if done at a commercial credit company. If you are pledging your receivables at a commercial bank it is known as an "A/R Line of Credit." The bank will review the collectibility of your receivables and lend you some percentage of the total. You repay the loan, plus interest, as you receive payments from your customers.

"To factor your receivables means to sell them to a financial institution..."

To **factor** your receivables means to sell them to a financial institution. The factoring agreement may be on a *with recourse* or *without recourse* basis, depending on who assumes the collection risk. If factored with recourse, the financial institution will seek funds from you, should receivable collections be less than anticipated. You still have collection risk. If factored without recourse, the financial institution cannot seek additional funds from you. As you can imagine, the financial institution will be very careful before entering into this type of transaction and will charge you more if they determine your receivables are high risk. Factoring does not result in a loan and no interest is paid. The factor's fee will be the difference between the accounts receivable sold and the cash the factor gives you. One advantage of factoring is that the factor typically will assume all administrative responsibility for collection. Customers send payments directly to the factor. Some businesses see this as a way to reduce overhead costs by reducing these accounting tasks.

"Both assigning and factoring your receivables are effective ways of speeding up cash inflows..."

Both assigning and factoring your receivables are effective ways of speeding up cash inflows. However, these methods can be very expensive. Interest rates charged on short-term loans for which receivables are assigned usually will be several points above the prime rate. Factoring can be even more expensive than accounts receivable lending. Depending on the quality of the receivables, the factorer may offer as little as 80% or less, of the face

8-10 TEXT analyze these: cash flow and financial statements

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value of the receivables. Factoring is not generally recommended for small businesses unless the receivables are of very high quality, with little collection risk, and the business owner needs cash quickly.

Managing Accounts Payable

The final component of the cash flow cycle is how long it takes to pay your bills. Within reason, this is the one piece of the cycle you would like to extend. Certainly, you do not want to become delinquent on your bills, but paying early without a discount incentive merely reduces your available cash.

Using a ratio to monitor this process is more difficult than with inventory or receivables because your suppliers are likely to offer a wide variety of credit terms. However, you may find it helpful to compute the average time to pay for purchases.

how long?

Average time to pay for purchases:

365 days divided by $\dfrac{\text{Total Purchases}}{\text{Average Accounts Payable}}$

Do your suppliers offer cash discounts for early payment? Should you pay early enough to take the discount? These points were discussed in relation to accounts receivable. Everything said there is now true for you, but from the customer's perspective! What you have to balance is the benefit of taking the discount versus the disadvantage of giving up the cash sooner.

The Smiths make most of their purchases in cash, which means that they have a very high accounts payable turnover ratio. In fact, Staci and Joe rarely exceed an average payables balance larger than $3,000 giving them an A/P ratio of 59.7 ($179,060/$3,000) and an average time to pay for purchases of 6.1 days. If they chose to stretch this ratio to 12 to 15, they might be able to take advantage of holding their cash for a longer period of time.

A tickler system is very helpful in controlling payments to creditors. Ideally, bills are paid just as they are due or, if cash discounts are taken, just at the end of the discount period. A tickler system (some system of filing that easily and quickly reminds you of payment dates) can help you do this. Bills to be paid are sorted by when they are due. This allows you to know what funds will be needed when, and be sure that those funds are available.

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Internal Controls for Cash Flow

The second key to successful cash management is to establish internal controls. Internal controls help a business safeguard its assets and assure accuracy of financial information. It is important to remember that internal

analyze these: cash flow and financial statements **TEXT** 8-11

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The second key to successful cash management is to establish internal controls. Internal controls help a business safeguard its assets and assure accuracy of financial information. It is important to remember that internal

controls are not there simply to guard against theft and embezzlement. They will also reduce the number of honest errors made, help locate errors before it is too late to fix them, and help employees operate efficiently and effectively.

Let's see how these concepts apply to cash. The objectives of internal controls for cash include:

1. To assure that all cash that should have been received was, in fact, received, deposited, and recorded properly.
2. To assure that all cash disbursements were authorized and properly recorded.
3. To assure that cash balances are secure and adequate.

"Every business transaction must be authorized by someone..."

Authorization

Every business transaction must be authorized by someone. For cash this is usually accomplished by having **authorized check signers**, or those allowed to sign on the business checking account. Your bank will maintain a **signature card** which contains specimen signatures of all persons authorized to sign checks. Usually, the business owner will be an authorized check signer, but it is often important to have additional persons on the signature card. What if the owner is out of town when the payroll checks must be signed?

Many businesses require dual signatures on checks above a certain amount. For example, the business may require two signatures on checks greater than $5,000 and on all checks to owners and employees.

evaluate & authorize

Check signers should carefully review what they are signing. There have been many cases of embezzlement made possible because the business owner simply signed anything the office manager or accountant put in front of them, without reviewing the information. Checks to be signed should be presented to the check signer with supporting documents attached. Examine the invoice and compare amounts, payee, and dates before signing the check. If you don't recognize the payee, ask questions or look at your **authorized**

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payee list, which details information (i.e. name, address, average payment amount, etc.) about those vendors and others to which the company makes regular or periodic payments.

Businesses that issue numerous checks sometimes use computer-generated signatures or a check-signing machine. This eliminates the need for someone to personally sign a large number of checks. In this case, the internal control needed is to guard the use of the computer program or check-signing machine so that no unauthorized persons have access. Having a machine sign the checks for you does not reduce your responsibility to review supporting documents.

"An **Authorized Payee** list, details information about those vendors and others to which the company makes regular or periodic payments..."

Reconciling Bank Account

It is essential that businesses **reconcile** their monthly bank statements to the cash balance on the books. Too many times this internal control is put off, until the task is so burdensome that it is dismissed forever. If it's not done for several months, mistakes can be harder to find and the whole process becomes very frustrating.

Reconciling items (items that explain the difference between the bank balance and what your checkbook indicates as the balance) are often simply a matter of timing. Deposits in transit are deposits you made that have not yet been posted by the bank. Outstanding checks represent those checks you have issued that have not been cashed by the payee. You have already deducted these amounts from your cash balance but they have not been deducted from your account by the bank at the time the bank statement was printed. Service charges may also be a reconciling item, as often the business does not know the amount of the charge until the bank statement is received.

"**Reconciling Items** explain the difference between the bank balance and what your checkbook indicates as the balance..."

Your banker can help you develop a useful bank reconciliation form. In fact, many banks include a form on the back of the monthly bank statement. A particularly useful form is to reconcile both the bank balance and the balance per books to the correct amount of cash. Here is an example of a bank reconciliation in this format:

Your Business
Bank Reconciliation
March 31, 1999

Balance per bank statement	$3,500	Balance per books	$2,900
Deposits in transit	490	Service charge	(15)
Outstanding checks	(1,075)	Error recording check	30
Correct cash balance	**$2,915**	**Correct cash balance**	**$2,915**

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This format is useful because it indicates the correct amount of cash. This is the cash balance that should be included on the balance sheet. In this example, the business will have to adjust its books for the service charge of $15 and the error of $30.

spot check

Bank statements should be mailed directly to the owner, then forwarded to the employee responsible for reconciling the bank statements. The owner should open the bank statement and take a few minutes to thumb through cancelled checks and look at the balance, just to see if there are any irregularities that can be spotted. This "spot check" is extremely useful in preventing potential embezzlement. Other personnel, especially those charged with writing checks or keeping the accounting records, should not have access to the statements.

Segregation of Duties

Segregating duties is a very important internal control for cash. This can be difficult for small businesses with few employees. Remember that we try to have different people performing the authorization, recording and custodial functions. Do not permit one employee to handle a transaction from beginning to end. The person who handles the cash should not be in charge of recording the amounts in the books. Here are some ideas for segregating duties in a business with plenty of people to cover all the tasks. Obviously, most businesses don't have the luxury of going to this extreme, but you can use this model to help you segregate the tasks as much as possible.

"Cash is easy to lose so steps must be taken to physically safeguard it..."

Physical Controls

Cash is easy to lose so steps must be taken to physically safeguard it. This includes controls for unused checks and cash on hand.

Using a safe to store cash is a good idea. Be sure, however, to install controls on access to the safe combination and how money is placed in and taken out of the safe. Remember, there is safety in numbers and you should have more than one person present when cash from the safe is handled. An even better physical control for cash is timely deposits. Get the cash off the

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business premises and into the bank. Banks have made it very easy for their customers to deposit cash daily with special merchant windows and night deposit boxes. Bank deposits should be made by the business owner, a trusted employee or, even better, by two employees together.

It is important to safeguard unused checks. You can lock them in a desk or safe and give access only to authorized check signers or the person who prepares the checks. Checks should be pre-numbered so that you can account for all in the series. Voided checks should be defaced so they may not be used again.

Controls for Cash Register

"Cash registers can be very valuable internal control devices..."

too many hands in the till

Cash registers can be very valuable internal control devices. Remember you have good internal control when there is a third party involved in the transaction. They will look out for themselves and point out any discrepancies. This is the case when cash registers are used because the customer can see the prices of items being purchased and review the total sale and change given. This is why many cashiers are instructed to hand the cash register tape to the customer.

Modern electronic point-of-sale systems that use scanners are very good for eliminating mistakes or theft. As long as prices are correctly entered in the system, sales will be made at authorized prices.

When there are cash shortages or overages, be sure to identify who had responsibility for the register at the time. Not only is there concern about theft, but such situations may indicate that some additional training is necessary or that your procedures are flawed. When there are too many hands in the till, reconciling shortages or overages becomes very difficult. The best solution is to have one person assigned to one cash register, with no other employee authorized to use that register. This is seldom possible. Many companies use employee identification numbers, which are logged into the register before use and the cash drawer physically changed. Several employees can use the same register but some tracing of responsibility is possible. In any case, it should be made very clear to employees who has authority to operate the cash register and who does not.

In addition, some employers will use surprise cash counts to test if internal controls over cash registers are appropriate and if employees are following those controls.

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Managing Your Cash Position

Cash Shortage

"Seasonality can affect your available cash…"

Your cash flow projection will show you when you can anticipate running out of cash, based on your projected inputs. If you decide to borrow money to meet your cash shortage, you need to consider when to borrow and how to borrow. For instance, you may be purchasing a piece of machinery that drains all your excess cash at a given time. This is a good time to consider a term loan. This allows you to purchase the machinery and then repay a loan over time, spreading out the payback over a period of months or years.

Your projection will also tell you when **seasonality** affects your available cash. Seasonal fluctuations may cause you to use all your cash to grow or raise your crop or product for the market (often over a period of several months), and not receive any revenue during that time. A cash flow projection will help you determine how much money you need to borrow over that time and when you can repay this short-term loan. This loan addresses your seasonal working capital needs and will be discussed in the next section.

seasonality.

Excess Cash

What a wonderful feeling to have excess cash! But what will you do with it? How should it be invested?

First, surplus cash is not required to meet current obligations. Many businesses have a targeted or minimum cash balance they believe they need. Recall that businesses hold cash in order to conduct daily operations and as a precaution against the unknown. If you find your cash balance exceeds this minimum, there are several things you should consider before investing those funds:

1. Is this a temporary surplus, or is this amount continually available?

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1. Is this a temporary surplus, or is this amount continually available?

2. What financial requirements are coming and when? Income taxes? Employee bonuses? Balloon payments on debt?
3. How much risk are you willing to take with this money?
4. How much time are you willing to devote to managing this cash?

"**Liquidity** refers to the ability to convert an investment back into cash easily...."

Answering these questions can help you select the best type of investment. The first two questions address the issue of liquidity. **Liquidity** refers to the ability to convert an investment back into cash easily. Do you need an investment that allows you to withdraw the funds quickly? Sometimes you can anticipate when the cash will be needed. If you know you will have a big tax bill to pay in March, you can choose an investment which allows withdrawal at any time, or that expires by March.

Every investment has some element of risk. Some have more than others. The amount of risk you wish to take is a big determinant in what types of investments are right for your excess cash. Different financial investment risks include:

1. **Default risk:** the risk that the issuer will be unable to make interest or principal payments on schedule.
2. **Liquidity risk:** the risk that the investment cannot be sold at a reasonable price on short notice.
3. **Return risk:** the risk that the market price of the investment will go down.

Different financial investment risks include:

- Default risk
- Liquidity risk
- Return risk

Of course, buying investments that have relatively little risk does have a drawback: risk and reward are inversely related. Investments with less risk will yield smaller returns. In general, if you want a greater return, you will have to accept more risk.

It is important to consider whether your excess cash is temporary or permanent. Short-term and long-term investing strategies differ. Long-term investments may include expanding your business or buying another one. For the most part, small business will use shorter-term investments to manage their excess cash. In all cases, you should consult your banker and investment counselor for advice.

buy & invest

analyze these: cash flow and financial statements TEXT 8-17

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There are many investments on the market, and here are some of the most common short-term strategies:

- **Interest-bearing.** Many banks offer money-market and other business bank accounts, which are accounts that pay interest at a rate higher than savings accounts. Although these accounts may not yield the highest return on your investment, they are generally safe, liquid and very easy to arrange.
- **Certificates of deposit.** CD's usually pay a slightly higher interest rate than a bank account, but you give up some liquidity. CD's are sold with a fixed term (one month to several years) and contain a penalty charge for early withdrawal. This investment may be appropriate when you have surplus cash for an identifiable period of time.

- **Government securities.** Generally considered to be secure, Treasury Bills sold by the United States Government have maturities of 91 days, 182 days, or one year. There is a ready market for T-bills so they can be sold with as little as one day remaining to maturity. The safety of this investment, of course, means the interest rates are relatively low. Additionally, many state and local governments issue bonds that are highly liquid and are not subject to federal income tax. Municipal bonds carry lower interest rates because of this tax advantage.
- **Money-market funds.** These funds pool the resources of many investors and purchase short-term securities, such as T-bills, CD's and high-quality commercial paper. A fund allows the investor to diversify holdings without having to buy each of the investments individually.

Introduction to Financial Statements

Basic Accounting Concepts

Accountants utilize basic principles to guide their work. It is easier to understand financial statements if you first understand a few of these principles.

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Historical Cost Principle

The **historical cost** principle states that all amounts should be recorded at the exchange price of the transaction at the time it occurred. Amounts are not adjusted later for changes in the fair market value. When you read a financial statement, you are looking into the past. Current fair market values are not shown. For example, suppose a farmer purchased 50 acres of land in 1978 at a price of $50,000. In 1996, the land is worth $250,000. Only the historical cost of $50,000 will be included in the financial statements. Why? Accountants choose this approach because fair market value estimates are very subjective and can change frequently.

"The Historical Cost Principle states that all amounts should be recorded at the exchange price of the transaction at the time it occurred..."

Economic Entity Concept

The **economic entity concept** calls for the separation of accounting records and information of a business from those of all other entities, including owners.

For example, a sole proprietor buys a computer for personal use. That computer will not be included in the financial statements of the sole proprietorship, even if business funds are used for the purchase. If the computer is purchased for business use, it will appear on the statements of the business.

Another example of this concept is the requirement to separate off-farm income from income generated on the farm, or, the general practice to separate personal from business income.

actual vs. accrual

Accrual Versus Cash Accounting

Under the **accrual basis** of accounting, a financial transaction (e.g. recognizing when to record revenues and expenses) is recorded when the transaction is completed, even if cash changes hands on a different date. The **cash basis** states that a financial transaction occurs when cash changes hands, regardless of when the action behind the transaction took place.

The accounting profession recommends the use of the accrual basis of accounting. However, most individuals and some small agricultural businesses use the cash basis. Consider as an example an agricultural business that decides to purchase transplants for spring planting. The greenhouse gives the farmer ninety days to pay. The farmer is on the cash basis and the greenhouse operator is on the accrual method. The greenhouse completes their sales transaction immediately and reports a sale although they have not been paid for it. The farmer takes delivery of the seedlings immediately and plants them, but does not record the expense until 90 days later when the bill is paid.

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Full Disclosure Principle

This principle states that full disclosure is required of events and circumstances that affect the user of the financial statements. This is done in the statements themselves or in attached footnotes. As a result of recent lawsuits, the amount of disclosure required has been steadily increasing.

Limitations of Financial Statements

Financial statements are the accepted means to communicate financial information about a business. However, there are limitations to the usefulness of financial statements.

Historical Cost Principle

We discussed the historical cost principle and the significance in determining amounts shown on the financial statements. Accountants chose this method to make the accounting information more reliable. It also can make the information irrelevant. Who cares how much was paid for something 50 years ago? Isn't it more important to know how much it is worth today? Remember, you generally won't find current market values in financial statements.

garbage in garbage out

Use of Estimates

Perhaps you think accounting is cut and dry, or an exact science. Most of the time it is, but business owners and accountants often use estimates and projections. Owners and accountants use estimates of income taxes due, bad debt losses and many other categories. Of course, accountants must always strive for fair reporting of financial information.

Garbage In, Garbage Out

Financial statements are compiled from the company's daily record-keeping. If the record-keeping has been inadequate, so will be the subsequent financial statements.

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Financial Statements Illustrated

To better understand the concepts behind Financial Statements, illustrations from the Smith Farms Example in Session 7 will be used throughout this section.

The Income Statement

The income statement is a summary of actions which took place during a given time period. Think of it as a video. It shows what happened to the business over a given span of time, but only in regard to two types of activities: the act of earning and the act of using resources. Many agriculture businesses already prepare an annual income statement. The statement is called the **IRS Schedule F**.

"**Revenues** are the earning activities, such as selling a product, charging rent or receiving a return on an investment..."

The Income Statement has a simple formula:

Revenues - Expenses = Net Income

Revenues are the earning activities, such as selling a product, charging rent or receiving a return on an investment. **Expenses** are the cost of resources used up in the process of earning revenue. The Income Statement is generally presented using the accrual method of accounting, meaning that all sales are recorded (not just the ones collected in cash), and all expenses incurred are also recorded whether paid for or not.

The preparation of an Income Statement from budgets or projections is called the Projected (or Pro Forma) Income Statement. Here's what the Smith Farms' Projected Income Statement would look like, based on their budget projections for the coming year as presented in Session 7.

revenues & expenses

"**Expenses** are the cost of resources used up in the process of earning revenue..."

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Financial Statements Illustrated

To better understand the concepts behind Financial Statements, illustrations from the Smith Farms Example in Session 7 will be used throughout this section.

The Income Statement

The income statement is a summary of actions which took place during a given time period. Think of it as a video. It shows what happened to the business over a given span of time, but only in regard to two types of activities: the act of earning and the act of using resources. Many agriculture businesses already prepare an annual income statement. The statement is called the IRS Schedule F.

"Revenues are the earning activities, such as selling a product, charging rent or receiving a return on an investment..."

The Income Statement has a simple formula:

Revenues - Expenses = Net Income

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revenues & expenses

"Expenses are the cost of resources used up in the process of earning revenue..."

"Agriculture-related revenues are earned mainly through sales..."

Smith Farms, Inc.
Projected Income Statement
Year Ending December 31, 200X

					% of Total Sales
Sales 1					
Vegetables	$	146,250.00			62.4%
Bred Heifers		88,000.00			37.6%
Total Sales			$	**234,250.00**	**100.0%**
Cost of Goods Sold (Direct Costs) 2					
Vegetables	$	31,918.00			13.6%
Bred Heifers		130,618.00			55.8%
Total Cost of Goods Sold			$	**162,536.00**	69.4%
Gross Profit 3			$	**71,714.00**	**30.6%**
Less Operating Expenses 4					
Selling/Administrative	$	6,205.00			2.6%
Indirect Labor		6,120.00			2.6%
Professional Services		1,460.00			11.3%
Farm Supplies		8,000.00			1.3%
Insurance		2,000.00			.6%
Utilities		3,060.00			.9%
Maintenance and Repair		2,100.00			3.4%
Fuel and Lubricants		2,350.00			1.0%
Depreciation		26,400.00 5			.9%
Total Operating Expenses			$	**57,695.00**	**24.6%**
Net Operating Profit (Loss)			$	**14,019.00**	**6.0%**
Non-Operating Income/Expense					
Interest Revenue	$	3,000.00			1.3%
Interest Expense		(8012.04)			(3.4%)
Total Non-Operating Income/Expense			$	**(5012.04)**	**(2.1%)**
Net Income Before Taxes 6			$	**9,006.96**	**3.8%**
Anticipated Taxes				1,981.53	.8%
PROJECTED NET INCOME 7			$	**7,025.43**	**3.0%**

Explanation of Income Statement components:
Note that for each item on the Income Statement, you can refer back to the Smith Farms Example Budgets in Session 7 to find the corresponding budget which explains the dollar amounts shown on the Income Statement.

ITEM 1 Sales: Agriculture related revenues are earned mainly through sales. If you are in an agricultural related service business it is called Fees Earned or Services Revenue. Notice that there is a separate category later in the

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Projected Income Statement
Year Ending December 31, 200X

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statement, called Non-Operating Income/Expense, which includes revenue-earning activities other than from your primary operations. In the Smith Farms Example, again notice that the total amount of sales is recorded including the amount still due as Accounts Receivable (rather than the cash sales recorded on the Cash Flow Statement). The Smith Farms reporting is done on the accrual basis. (See the Sales Budget in Session 7.)

ITEM 2 Cost of Goods Sold: The major expense for retailers, wholesalers and manufacturers is called cost of goods sold. In the Smith Farms Example, the cost of goods sold came from their Direct Cost Budgets for their various farm operations. (See the Direct Cost Budgets in Session 7.) Again note that total costs are recorded, even though the Cash Flow Statement indicated there were Accounts Payable, since the Smiths are using the accrual basis of accounting.

Cost of goods sold is aptly named. It refers to the costs associated with the products that the business sells. This sounds simple enough but there are many variations to consider. For example, in determining their vegetable-related COGS, the Smiths would include soil preparation, transplanting, integrated pest management, harvesting and post harvest handling costs as well as other costs like irrigation and some portion of the utilities. Like manufacturers, agricultural entrepreneurs must consider three different costs in their cost of goods sold:

"Cost of Goods Sold refers to the costs associated with the products that the business sells…"

- **Direct materials** are those materials that are an integral input toward the final product and can be easily identified. For example, the Smith's direct materials for their heifer operation include feed, supplements, and bedding.
- **Direct labor** is the cost of labor spent creating the final product. In the case of the Smith's heifer operation, it would be the cost of wages, employment taxes and benefits associated with the workers who actually provided the labor to feed and care for the heifers. (*Note*: Don't forget to account for labor inputs provided by family members!)

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- **Indirect costs** is a catchall phrase, encompassing all other costs associated with raising bred heifers not already included in direct materials or direct labor. This could include pasture management and silo repairs.

(**Note** – *Cost of Goods Sold was also discussed in Session 5 in more detail under pricing.)*

ITEM 3 Gross Profit: The subtotal Gross Profit is the amount of every sales dollar that remains after covering the cost of the products sold. Sometimes this is called gross margin. The margin is that dollar amount leftover to cover your operating (overhead) and non-operating expenses. When you subtract all operating expenses from the gross profit, the result is net income (or loss).

ITEM 4 Operating Expenses: Operating expenses (also called overhead) are all expenses (other than cost of goods sold) incurred in your major line of business such as wages, rent, advertising, payroll taxes, utilities, depreciation and many more. Each category of expense may have subcategories as well. For instance, utilities can be further divided into water, sewer, garbage, electrical, etc.

"In common usage, depreciation represents the decrease in value of an asset..."

ITEM 5 Depreciation Expense: In common usage, **depreciation** represents the decrease in value of an asset. Have you heard someone exclaim, "I just bought a new car and it depreciated $1,000 when I drove it off the lot!"

Accountants use depreciation to spread the cost of equipment, buildings and tools over the life of the asset. The cost of these items is an expense of doing business, just like wages or rent, but the equipment has a longer useful life and should generally not be shown as a onetime expense. Let's say your business bought a piece of equipment for $25,000 and you expect to use it for 10 years. Is this an expense of doing business? Yes, but you would record the expense over the 10-year useful life.

Although there are several methods of calculating depreciation, you must use the methods allowed under federal income tax laws: 1) the **straight-line method**, or 2) the **Modified Accelerated Cost Recovery System (MACRS)**. The simplest is the straight-line method. To calculate it, simply divide the cost of a piece of equipment by the allowed IRS Farm Property Recovery Period. In the above example, depreciation expense would be ($25,000/10 years) $2,500 per year. It is wise to consult your accounting professional for use and calculations related to allowable depreciation methods.

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ITEM 6 Income Taxes: Income taxes constitute an expense of doing business. Whether you will include this on the income statement or not depends upon the legal structure of your business. Income taxes are not considered an expense for sole proprietorships, LLC's or partnerships. This is because the taxes are levied on the owners, not on the business. Income taxes are levied on a corporation, so they would appear on the corporation's income statement.

ITEM 7 Net Income: We have worked our way to the net income amount or as it is often called, the bottom line. For the income statement, that means:

Revenues - Expenses = Net Income

bottom line.

The idea here is to profitably sell as much as you can and to keep your expenses as low as you can. This is fundamental to business success

The Balance Sheet

The balance sheet is like a photograph—a snapshot of the business at that precise moment. It shows the financial situation of a business at a particular point in time. The information presented in a balance sheet is related to that moment in time, and that moment only. The formula for the balance sheet is:

Assets = Liabilities + Owner's Equity

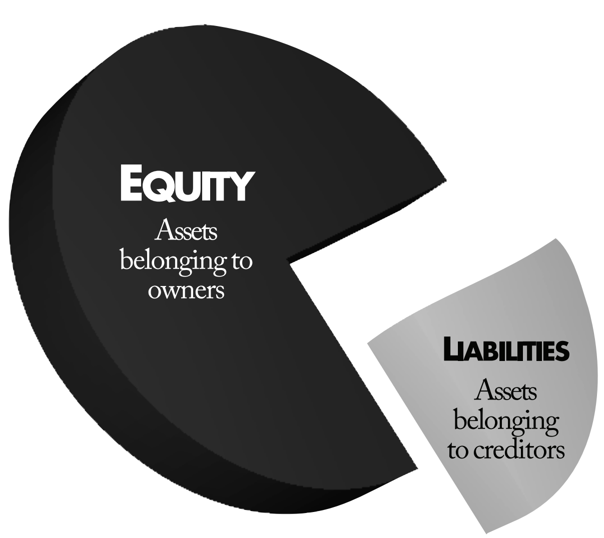
Assets are economic resources owned by the business. These assets are acquired using funds supplied by creditors or owners. **Liabilities** are amounts owed by the business to creditors. **Owner's equity** is amounts owed by the business to the owners.

"Owner's Equity is amounts *owed* by the business to the owners..."

The balance sheet presents a picture of what the business owns and who has a claim to those resources. It divides up the asset pie:

"Liabilities are amounts *owed* by the business to creditors..."

the asset pie *equity & liabilities...*



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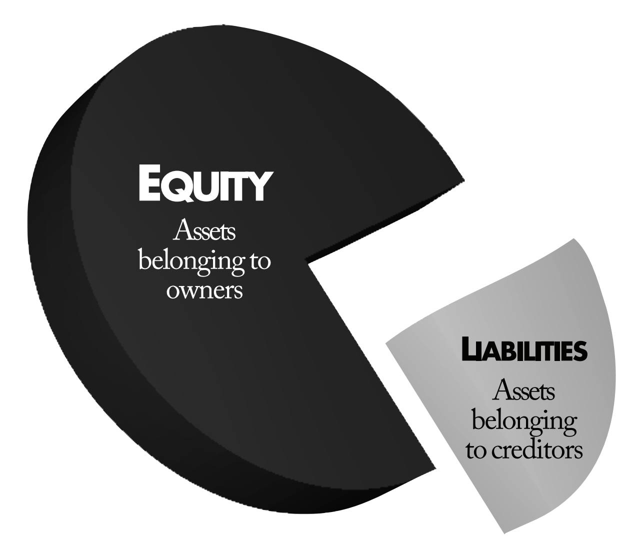

"Current Assets are resources the business owns which it expects to convert into cash or use up within one year of the balance sheet date..."

Most often, owner's equity is described as a residual amount; the amount left over after all liabilities have been subtracted from assets. This is true but perhaps not a helpful way to think about equity. Recall the discussion of the economic entity concept. If the business is thought of as separate from the owners, then, to the business, the owners are just like all other creditors. Any amounts loaned to the business by creditors must be repaid some day. Creditors generally expect to earn interest on their loan. Owners hope to get back any amounts put into the business plus some profit. Equity represents the amount the business owes to the owners for amounts invested plus profit.

Here's what the Smith Farm Projected (or Pro Forma) Balance Sheet might look like at December 31 of the coming year, based on the projections from Session 7:

Smith Farms, Inc.
Projected Balance Sheet
As of December 31, 200X

			% of Total Assets
ASSETS			
Current Assets ❶			
Cash	$ 70,913.98		9.2%
Accounts Receivable	3,000.00		.4%
Inventory	8,000.00		1.0%
Other	650.00		.1%
Total Current Assets		**$ 82,563.98**	**10.7%**
Property, Plant & Equipment ❷			
Land	$ 360,000.00		47.0%
Buildings	220,000.00		28.7%
Equipment	130,000.00		16.9%
Accum. Depreciation ❸	(26,400.00)		(3.4%)
Net Property, Plant & Equip		**$ 683,600.00**	**89.2%**
Intangible Assets ❹			
❺ Goodwill	1,000.00		.1%
Total Intangible Assets		**$ 1,000.00**	**.1%**
TOTAL ASSETS		**$ 767,163.98**	**100.0%**
LIABILITIES			
Current Liabilities ❻			
Accounts Payable	$ 7,500.00		1.0%
Wages Payable	1,200.00		.1%
Other	5,000.00		.7%
Total Current Liabilities		**$ 13,700.00**	**1.8%**
Long-term Liabilities ❼			
Notes Payable (Mortgage)	$ 100,000.00		13.0%
Notes Payable (Equip/Livestock)	33,000.00		4.3%
Total Long-term Liabilities		**$ 133,000.00**	**17.3%**
TOTAL LIABILITIES		**$ 146,700.00**	**19.1%**
OWNER'S EQUITY ❽		**$ 620,463.98**	**80.9%**
TOTAL LIABILITIES & OWNER'S EQUITY		**$ 767,163.98**	**100.0%**

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Explanation of Balance Sheet components:

ITEM 1 Current Assets: Current Assets are resources the business owns which it expects to convert into cash or use up within one year of the balance sheet date. Segregating assets provides information about the short-term ability (i.e. within one year) of the business to make payments and stay in business. In our Smith Farms example, the business already owns assets that it expects to convert into $82,563.98 cash in the next year. That is to say, in addition to the $70,913.98 of existing cash, accounts receivable will be collected, inventory will be sold and other assets will be converted into cash for a total of $82,563.98.

"Property, Plant and Equipment includes assets expected to last more than one year..."

ITEM 2 Property, Plant and Equipment: Property, Plant and Equipment includes assets expected to last more than one year. Remember, these assets are listed at historical cost. Our example shows buildings for $220,000 which includes the feedlot, equipment shed and various out buildings. That represents the cost of the buildings when the Smiths purchased them, not their market value today. Similarly, machinery and equipment is recorded on the books at its historic cost on the day purchased.

ITEM 3 Accumulated Depreciation: Depreciation has already been discussed as a means of spreading out over time the cost of long-term assets. How much cost has been expensed to date is then shown as Accumulated Depreciation and listed below property, plant and equipment on the balance sheet. It indicates how much depreciation expense has been recorded in the past. In the example, accumulated depreciation is $26,400. Therefore, $26,400 of depreciation expense has already been recorded, so out of the total cost of buildings and equipment of $350,000, there remains $323,600 of depreciation expense to be recorded in the future. Land is <u>not</u> depreciated because the life of land is infinite.

plant property & equipment

ITEM 4 Intangible Assets: Intangible Assets have no physical presence. You can touch the piece of paper that legally evidences your trademark, but you cannot touch the concept behind the trademark itself. Trademark is a

analyze these: cash flow and financial statements TEXT 8-27

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legal concept that says your registered trade symbol is unique to your business and protected from use by others. The most common intangible assets are patents, copyrights, franchises, trademarks, organization costs and goodwill.

"Goodwill is the intangible value of a business…

Many valuable assets are included in this category. The brand name and logo for your agricultural based products fall into this category. Just as the swoosh is important to Nike, so to is the Washington Apple logo important to those apple producers! Yet, these assets might not be large amounts in the financial statements. Intangible assets are recorded at historical cost. The only cost of the Washington apple producers' logo was a fee to the graphic design firm that designed it. Further, intangible asset costs are expensed in a manner similar to depreciation called **amortization**. The amount on the balance sheet is the original cost less accumulated amortization and may not be a very big number but may represent something very important to the company.

intangible.

This creates problems for small businesses trying to obtain financing. What if the most valuable asset the business owns is a trademark registration? The trademark will only be included on the balance sheet at the amount it cost to obtain it. Your most valuable asset is included on your balance sheet at a fraction of its worth to the business.

ITEM 5 Goodwill: Goodwill is the intangible value of a business. In our example, goodwill was created when the Smiths bought a local, roadside stand with a reputation for great customer service. They had to pay more for the business than its net asset value because of its great reputation. The difference between the asset value and what was actually paid resulted in an excess value. That excess value is called **goodwill**. Goodwill is recorded as an intangible asset.

ITEM 6 Current Liabilities: Current liabilities are debts a business expects to pay within the next year.

ITEM 7 Long-term Liabilities: Long-term liabilities are debts the business owes that are due more than one year from the balance sheet date. This often includes notes payable to the bank and investors. In this case, it includes a mortgage on the farm and a note secured by the Smith's equipment.

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legal concept that says your registered trade symbol is unique to your business and protected from use by others. The most common intangible assets are patents, copyrights, franchises, trademarks, organization costs and goodwill.

"Goodwill is the intangible value of a business…

Many valuable assets are included in this category. The brand name and logo for your agricultural based products fall into this category. Just as the swoosh is important to Nike, so to is the Washington Apple logo important to those apple producers! Yet, these assets might not be large amounts in the financial statements. Intangible assets are recorded at historical cost. The only cost of the Washington apple producers' logo was a fee to the graphic design firm that designed it. Further, intangible asset costs are expensed in a manner similar to depreciation called **amortization**. The amount on the balance sheet is the original cost less accumulated amortization and may not be a very big number but may represent something very important to the company.

intangible.

This creates problems for small businesses trying to obtain financing. What if the most valuable asset the business owns is a trademark registration? The trademark will only be included on the balance sheet at the amount it cost to obtain it. Your most valuable asset is included on your balance sheet at a fraction of its worth to the business.

ITEM 5 Goodwill: Goodwill is the intangible value of a business. In our example, goodwill was created when the Smiths bought a local, roadside stand with a reputation for great customer service. They had to pay more for the business than its net asset value because of its great reputation. The difference between the asset value and what was actually paid resulted in an excess value. That excess value is called **goodwill**. Goodwill is recorded as an intangible asset.

ITEM 6 Current Liabilities: Current liabilities are debts a business expects to pay within the next year.

ITEM 7 Long-term Liabilities: Long-term liabilities are debts the business owes that are due more than one year from the balance sheet date. This often includes notes payable to the bank and investors. In this case, it includes a mortgage on the farm and a note secured by the Smith's equipment.

ITEM 8 Owner's Equity: For a sole proprietorship, the owner's share of the business is listed as one amount, usually called **capital**. A partnership follows this same format, except that one capital amount is listed for each partner. LLC's use a similar format.

The owner's equity for a corporation is divided. The amount invested into the corporation by the stockholders is called **capital stock**. Profits which are retained by the owners are called **retained earnings**.

"Financial Statements are basically historical documents. However, this historical data can be used to identify trends and to forecast the future…"

Financial Statement Analysis

It doesn't do any good to get information if you don't use it. In this section, the financial information generated from the financial statements will be discussed and analyzed. These analyses are done in order to:

Forecast the Future

Remember financial statements are basically historical documents. However, this historical data can be used to identify trends and to forecast the future.

Make Comparisons

How well is the business doing? In the Smith Farms Example, is a $7,025.43 net profit appropriate for this business at this time? Is $133,000 too much debt? To answer these questions, information needs to be gathered and comparisons made—comparisons to other businesses, to your industry as a whole, to previous years, or to what you expected to occur are all useful. Making these comparisons can help you put the information, and your business, in perspective.

Identify Strengths and Weaknesses

Analyzing financial statements often promotes more questions than answers! If net income is low this year, why is it low? If the answer is because sales have dropped, why have they dropped? Doing the analysis can help you keep asking questions until you get to the heart of the matter.

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Get Feedback About Decisions

As comparisons are made with previous years or other businesses, you can see the results of strategic or operating decisions made. Did you tighten up your credit policies? Did sales decline? That feedback is valuable as you determine the financial outcomes (the numbers!) resulting from your management decisions.

"You cannot manage what you do not know..."

Be Knowledgeable

You cannot manage what you do not know. Keeping on top of your financial situation will help you be proactive rather than reactive.

Present Your Story

Discuss your analysis with your banker and accountant. Not only can they offer advice, but also they will be impressed that you are using the financial information you have.

Recognize Limitations

Financial analysis is very useful, but it does have its limitations. First, if you compare your financial results to those of other businesses, you must remember that using different accounting methods can cause financial information to vary. Don't make judgments about your business versus another if the data you are comparing is apples and oranges. Also, the relative size of businesses can be a factor. Comparing one business to another 10 times its size might not be relevant. If you compare your results to published industry data, you should keep in mind that the published information is based on averages. There can be wide deviations from those averages. Finally, it is important to keep digging. Too many times businesses get hung up in the symptoms and forget to worry about the causes.

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It isn't easy to get financial information about other small businesses, so often all that is available is published industry data. While it may not be as useful as comparing to your direct competition down the street, there is value in the process. There are several sources of financial industry information. Some trade associations publish averages or studies called Cost of Doing Business Surveys and make them available to members.

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There are also general sources which you can find in your library or obtain from your banker or CPA. The most widely used publications for small business analysis include:

1. *Annual Statement Studies*, published by Robert Morris Associates.
2. *Key Business Ratios*, published by Dun & Bradstreet.
3. *Almanac of Business and Industrial Financial Ratios*, published by Prentice-Hall.

"The Financial Statement is expressed as a percentage of a selected base amount..."

%

Types of Financial Statement Analysis

Vertical Analysis

In this method, each item in the financial statement is expressed as a percentage of a selected base amount. Net sales is used as the base amount on the income statement and total assets for the balance sheet. The percentages show the relative size of each component. This relative component view has two important advantages over comparing the actual dollar values in financial statement analyses. (Refer to the Smith Farms Income Statement and Balance Sheet presented earlier and look at the % columns which provide vertical analysis information.)

First, you can view categories in relation to their historical values. If operating expenses for Smith Farms, Inc. have typically been 16% of net sales in prior years, then you know some investigation into expenses is warranted since the Projected Income Statement reflects operating expenses of 24.6%. You will want to know why total operating expense has increased. Similarly, if current assets are usually 15% of total assets, what has changed over the period to cause current assets to fall to 10.7% of total assets?

"Vertical Analysis can be helpful when comparing to a business of a different size or to industry averages..."

Second, using vertical analysis can be helpful when comparing to a business of a different size or to industry averages. You do not compare actual numbers but rather the relationship of the numbers. How does your gross profit of 30.6% compare to other businesses that do what you do? Remember though, the more profit centers you have the less likely you are to find other businesses that do exactly what you do!

Another type of vertical analyses that can be helpful to businesses with more than one revenue center is to compare profitability at the margin. Here each profit center is compared by percentage as to its relative profit generating potential. Consider the following example based on the Smith Farms.

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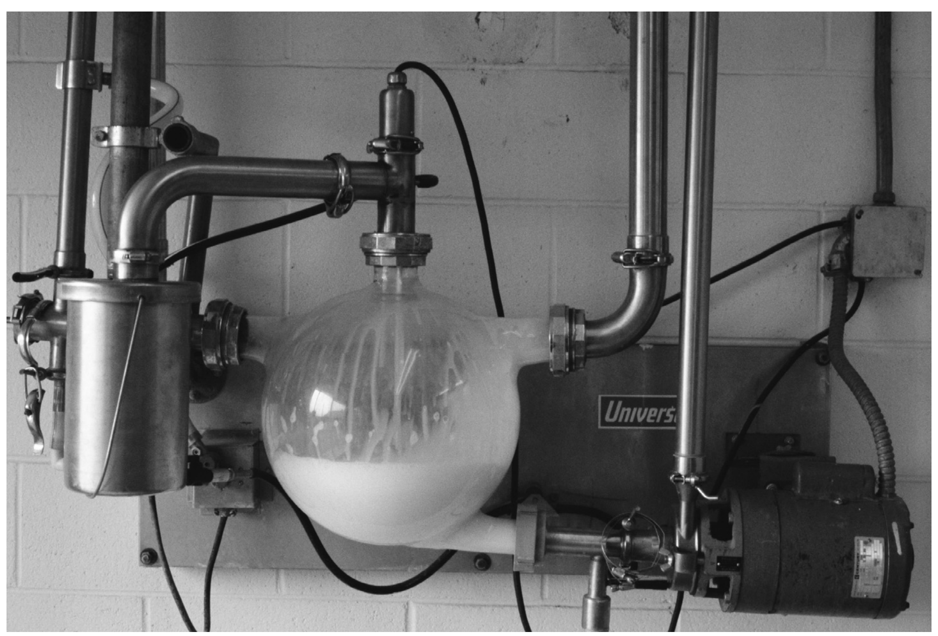
Smith Farms, Inc.
Profit Center Analysis
Based on Year 200X Projections

Profit Center	Sales	% of Total Sales	COGS	% of Total Sales	Gross Profit	% of Total Sales	Gross Profit Contribution
Vegetables	$ 146,250	62%	$ 31,918	13%	$ 114,332	49%	159%
Bred Heifers	88,000	38%	130,618	56%	(42,618)	(18%)	(59)%
Total	**$ 234,250**	**100%**	**$ 162,536**	**69%**	**$ 71,714**	**31%**	**100%**

Examining profit margin is important because profit margin is what covers the selling, general and administrative (overhead) expenses of your business. By examining the component make-up of profit margin, you can determine the profit generating potential of your various profit centers. Or, in the case of the Smiths, you can readily see the strain that the heifer operation places on their overall farm.



Looking at the Smith Profit Center Analysis raises many questions about the year's operations. First and foremost, why is the bred heifer operation losing money? Is it that sales are low, or perhaps operational costs increased to a level higher than their relative worth in the market? Another aspect to consider is how much time and effort is spent on the various centers. The Smiths may also want to evaluate the long-term potential of their replacement heifers compared to the benefits of liquidating the herd.

profit centers

Horizontal Analysis

Horizontal analysis also uses percentages, but this time you are moving across time rather than down the financial statements. Choose some base year and express amounts for all other years as a percentage of the base amount. For example, assume that the Smiths had $160,500 in gross sales in their base year (Year 1), followed by the sales shown below for Years 2 through 4.

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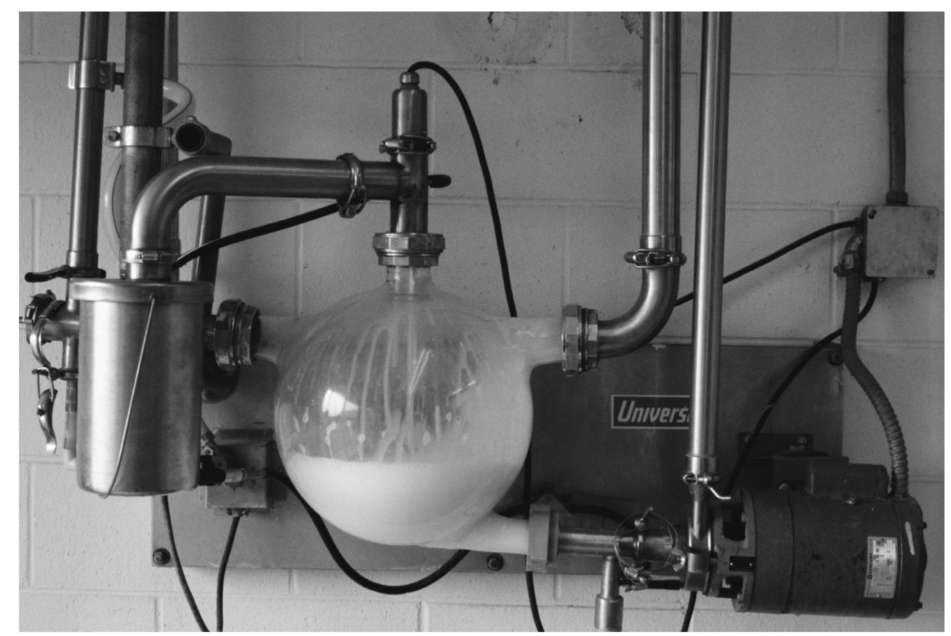

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	Year 1	Year 2	Year 3	Year 4
Annual Sales	$160,500	$171,700	$200,175	$234,250
Percent Change		7%	17%	17%

The trend in sales indicates that an event occurred between the second and third years that has altered the sales pattern at Smith Farm. This information is directly related to the Smith's purchase of a roadside stand and their entry into direct marketing. The question the Smiths now face is whether this growth in sales will continue at 17% and how they should forecast sales in Year 5. If they follow the current trend, next year's sales should be estimated at $274,072.

Ratio Analysis

A ratio is the comparison of one amount to another. Some industries use specialized ratios to evaluate performance. However, there are some standard ratios that can be grouped into three categories.

Liquidity ratios
Liquidity ratios refer to the business' short-term ability to pay its current and unexpected debts. Your lender will analyze these ratios before giving you a short-term loan.

Working capital: Current assets minus current liabilities

Current ratio: $\dfrac{\text{Current assets}}{\text{Current liabilities}}$

Quick ratio: $\dfrac{\text{Cash + marketable securities +receivables}}{\text{Current liabilities}}$

Working capital is the funds you need to support your business operations. You need money to pay your bills until inventory is sold and receivables are collected. Working capital needs and how to structure your business financing are discussed in the next session. The **current ratio** is another expression of working capital but, because it is expressed as a ratio, it focuses on the relationship of current assets to current liabilities rather than on the absolute amounts. After all, the working capital of Smith Farms is probably sufficient at $68,863.98 given their current operations, but may be inadequate if they shift production to focus on their livestock operation.

There are no established minimums or maximums for the current ratio because needs differ from business to business. However, there may be a rule of thumb for your industry. For every business, there is a level at which the ratio is too low and there is significant risk that current debts cannot be repaid. It is also possible to have a current ratio that is too high. True, a current ratio of 6 to 1 means there is little risk of failing to meet obligations,

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Operating Ratios:

- Gross Profit Percentage
- Inventory Turnover
- Receivables Turnover

but it may also mean that the business is keeping too much excess cash or not collecting receivables, or storing too much inventory. This is precisely the decision that the Smiths face given their current ratio of 6.1 to 1 ($82,563.98/$13,700) and quick ratio of 5.4 to 1 ($73,913.98/$13,700). The quick ratio is a refinement of the current ratio. It removes inventory from the calculation because it is the least liquid (i.e. the hardest to turn into cash) of the current assets. Remember, ratios don't tell you why something is the way it is. You should use ratios to help you determine what questions to ask.

Operating ratios

These three ratios reflect activities crucial to making a profit in your business.

Gross profit percentage: $\dfrac{\text{Gross profit}}{\text{Net sales}}$

Inventory turnover: $\dfrac{\text{Cost of goods sold}}{\text{Average inventory}}$

Receivables turnover: $\dfrac{\text{Net credit sales}}{\text{Average net receivables}}$

Gross profit was defined earlier in this chapter as net sales minus cost of goods sold and can be found in the vertical analysis portion of the Income Statement. Here we are expressing **gross profit** as a percentage of net sales. Your gross profit percentage is very important in making marketing decisions, determining cash needs, and examining your profitability. The high-volume discount stores like Wal-Mart squeeze their gross profit percentages down very low and try to make up the revenue with increased quantity. This strategy seldom works for small businesses so it is particularly important to keep an eye on this ratio. Many small businesses experience difficulties when their profit margins slip too low and not enough profit is earned to cover rent, wages and all the other costs of doing business. If the gross profit percentage is declining, it means either the sales prices are dropping, the costs of buying goods is increasing or the mix of what you are selling has changed.

increased. quantity.

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The **inventory turnover** ratio tells the average number of times inventory turns (is sold) during the year. Of course, you would expect a grocery store to have a much higher turnover ratio than a manufacturer of hand crafted saddles because groceries are purchased more frequently than saddles. Many small businesses get into trouble when their inventory sits and sits. You can't make a profit if you aren't selling the goods. This trouble can be spotted by reviewing the decreasing inventory turnover ratio. Conversely, if inventory is turning very rapidly, it may mean that customer demand is just being met and expanding the level of inventory may be necessary to avoid the potential of losing sales when you are out of stock.

"The Inventory Turnover ratio tells the average number of times inventory turns (is sold) during the year..."

Your credit policies will affect your **receivables turnover** ratio. Granting credit to slow-paying customers will make the ratio decline. A low receivables turnover ratio might answer why your business is always short of cash. On the other hand, if you have a receivables turnover ratio that is very high, perhaps it is because you are too rigid about selling on credit and are losing sales.

Capital structure ratios

If you look in published industry sources, you will probably find several ratios which measure the capital structure of the business. Only the most commonly used are listed here. The others are variations of this same theme.

Capital Structure Ratios:

- Debt to Total Assets
- Debt to Equity

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These capital structure ratios measure the percent of total assets which have been funded by borrowing. The remaining amount has been funded by the owners. For example, if the debt to total assets ratio for a business is 65%, then it follows that 35% of the total assets have been purchased with money supplied by the owners. Look closely at these ratios to determine the relative risk of your capital structure. Carrying large amounts of debt increases the risk of insolvency (the inability to meet long-term obligations) and necessitates current payments for interest and principal. A debt to equity ratio of 10 to 1 signals greater risk than a ratio of 3 to 1. Not enough debt may indicate a business that is very risk averse and perhaps missing golden opportunities. The Smiths are currently carrying a conservative debt to equity ratio of 4:1 which puts them at little risk of being unable to meet their long-term debt obligations.

golden opportunity

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golden opportunity

Profitability ratios

Here are some ratios that relate earnings to the resources available to the business. You might think of these as answering the question, "How well did I do given what I had to work with?" But, keep in mind that these measures are relative, and should be viewed in comparison to similar operations. For the Smiths, this means that they must determine if a 1% return to equity and 3.8% return on sales demonstrate a healthy profitability picture relative to other small, diversified farms.

$$\text{Return on sales} = \frac{\text{Net income}}{\text{Net sales}}$$

$$\text{Return on assets} = \frac{\text{Net income}}{\text{Total assets}}$$

$$\text{Earnings per share} = \frac{\text{Net income}}{\text{Average \# of common shares outstanding}}$$

Earnings per share applies only to corporations. This ratio helps an individual shareholder understand what the corporate net income means to him or her. Once again, this does not mean that a dividend will be paid immediately in this amount. For most closely or family held corporations, this ratio may not be meaningful.

full steam ahead...

in Conclusion

This session covered three topics.

Cash Management. Using Your Cash Flow Projection. If cash is the lifeblood of business, then consider yourself the donor. Do an examination of your business' cash position by doing cash flow projections, and prescribe ways to make the business healthy by managing the cash flow cycle. The importance of these procedures cannot be overemphasized. If you do not pay attention to cash flow, the long-term prognosis for your business is poor.

Introduction to Financial Statements. Communicating financial information is vital to running a healthy business. Successful entrepreneurs depend upon that information to help them make decisions.

8-36 TEXT analyze these: cash flow and financial statements

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Introduction to Financial Statements. Communicating financial information is vital to running a healthy business. Successful entrepreneurs depend upon that information to help them make decisions.

The basic ideas behind financial statements were discussed along with the general format and some ways to analyze the data. The financial statements are the end result of the accounting process.

Financial Statement Analysis. One of the best ways to help you determine the financial health of your company is by analyzing your financial statements. Through ratio analysis you can determine how your venture is doing in general, and you can evaluate its financial health relative to other companies similar to yours by comparing these key ratios. This comparison will also help you see trends that are developing over time. By understanding financial statement analysis, you will be a better financial manager.

agExtra Add-On

Depreciation and Amortization of Agricultural Assets

Depreciation

If you buy any agricultural property such as machinery, equipment buildings, breeding stock, irrigation systems, etc. that has a useful life of more than one year, you may depreciate it (or spread the cost of it) over several years for record keeping and tax reporting purposes.

To depreciate property, it must meet all of the following requirements:

1) It is used in business or held for the production of income.

2) It must be expected to last more than one year.

3) It is property that wears out, decays, gets used up, becomes obsolete or loses value from natural causes.

Depreciation Methods
The method generally used for depreciating property is the Modified Accelerated Cost Recovery System (MACRS). MACRS consists of two systems that determine how you depreciate your property. The main system is called the **General Depreciation System (GDS)** and the other is **Alternative Depreciation System (ADS)**. ADS generally provides for a longer recovery period. The type of property and property class will help determine whether you use GDS or ADS.

Each item of property depreciated under MACRS is assigned to a property class. The property class establishes the number of years over which you can recover the cost of your property—the recovery period. Agricultural property must be placed in one of these property classes:

3-year property, 5-year property, 7-year property, 10-year property, 15-year property, 20-year property.

Continued…

analyze these: cash flow and financial statements TEXT 8-37

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Continued…

Farm Property Recovery Periods (Examples)

Assets	GDS	ADS
Agricultural Structures (single purpose)	10	15
Cattle (dairy or breeding)	5	7
Automobiles and Truck	5	5
Heavy Duty trucks (more than 13,000 lbs)	5	6
Farm machinery and equipment	7	10
Trees or vines bearing fruit or nuts	10	20
Farm Buildings	20	25

Depreciation Recovery Rates

For personal property placed in service in a farming business after 1988, you must use the 150% declining balance methods over a GDS recovery period or you may depreciate the property using the straight line methods under either GDS or ADS. The following table lists the types of property you can depreciate under each method.

Method	Type of Property
150% Declining Balance using GDS	• All farm property (except real property) • All 15- and 20-year property • Nonfarm 3-, 5-, 7- and 10-year property
Straight Line using GDS	• Nonresidential real property • Residential rental property • Trees or vines bearing fruit or nuts • All 3-, 5-, 7-, 10-,15- and 20-year property
Straight Line using ADS	• Property used primarily outside the U.S. • Tax-exempt Property • Tax-exempt bond-financed property • Imported Property • Any property for which you choose to elect this method.

When Depreciation begins and ends.

You begin to depreciate your property when you place it in service for use in your business. You stop depreciating the property either when you fully recover your cost or when you retire it from service due to sale or exchange, abandonment or destruction.

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Amortization

The capitalized costs of all "Section 197 Intangibles" acquired after 1993 must be amortize over 15 years if the Section 197 Intangible is held in connection with your trade or business or in an activity engaged in for the production of income. You are not allowed any other depreciation or amortization deduction for a section 197 intangible.

The following assets are section 197 intangibles.

1. Goodwill.
2. Going concern value.
3. Workforce in place, including its composition and the terms and conditions (contractual or otherwise) of its employment.
4. Business books and records, operating systems, or any other information base, including lists or other information concerning current or prospective customers.
5. A patent, copyright, formula, process, design, pattern, know-how, format, or similar item.
6. A customer-based intangible.
7. A supplier-based intangible.
8. Any item similar to items (3) through (7).
9. A license, permit, or other right granted by a governmental unit or agency (including renewals).
10. A covenant not to compete entered into in connection with the acquisition of an interest in a trade or business.
11. A franchise, trademark, or trade name (including renewals).

You cannot amortize any intangible listed in items (1) through (8) that you created unless you created it during your purchase of a trade or business or a substantial part of a trade or business.

For additional information on depreciation and amortization, contact the Internal Revenue Service or consult your business accountant.

Source: Internal Revenue Service, Publication 225, Farmers Tax Guide (http://www.irs.ustreas.gov/prod/forms_pubs/pubs/p225toc.htm)

analyze these: cash flow and financial statements T E X T 8-39

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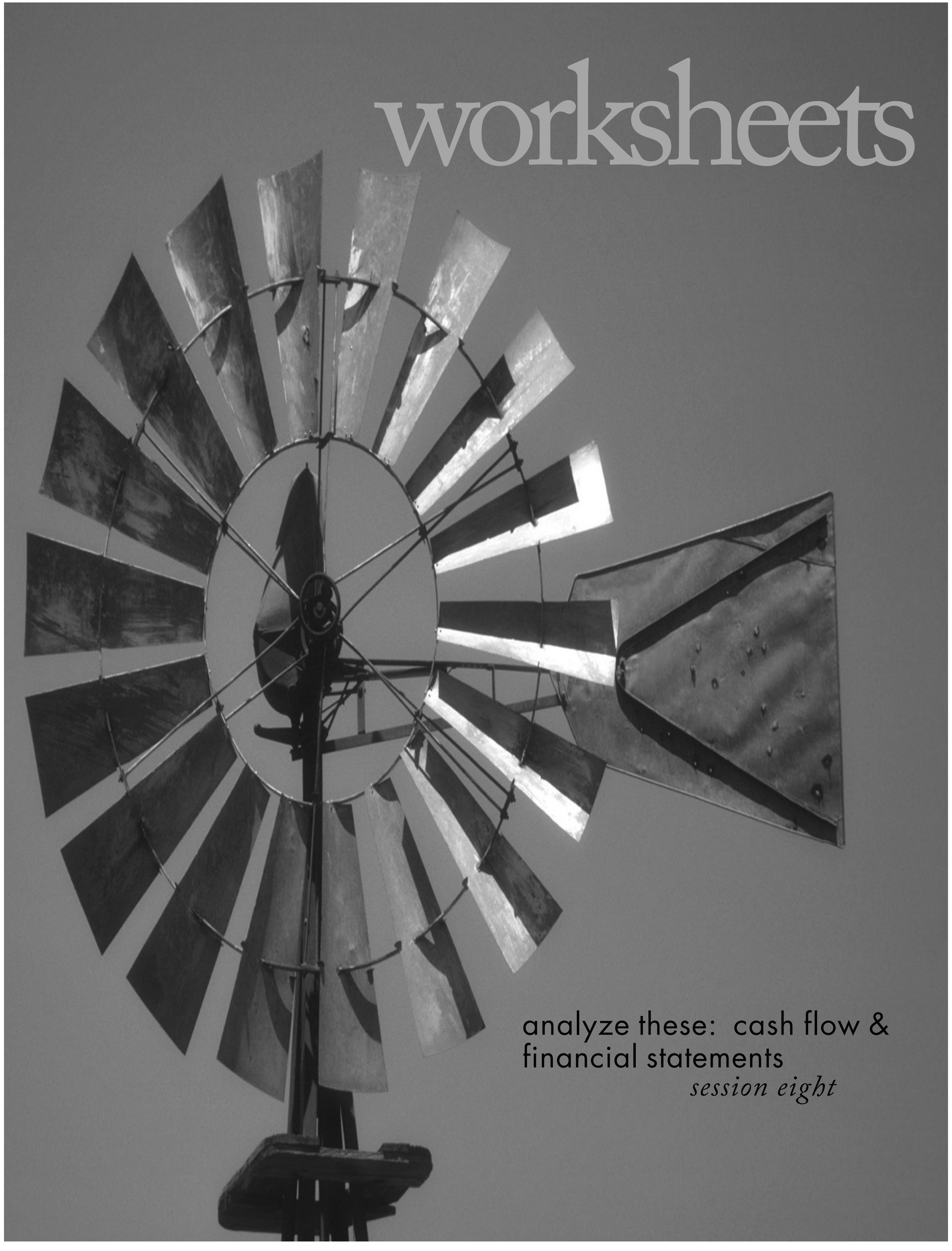
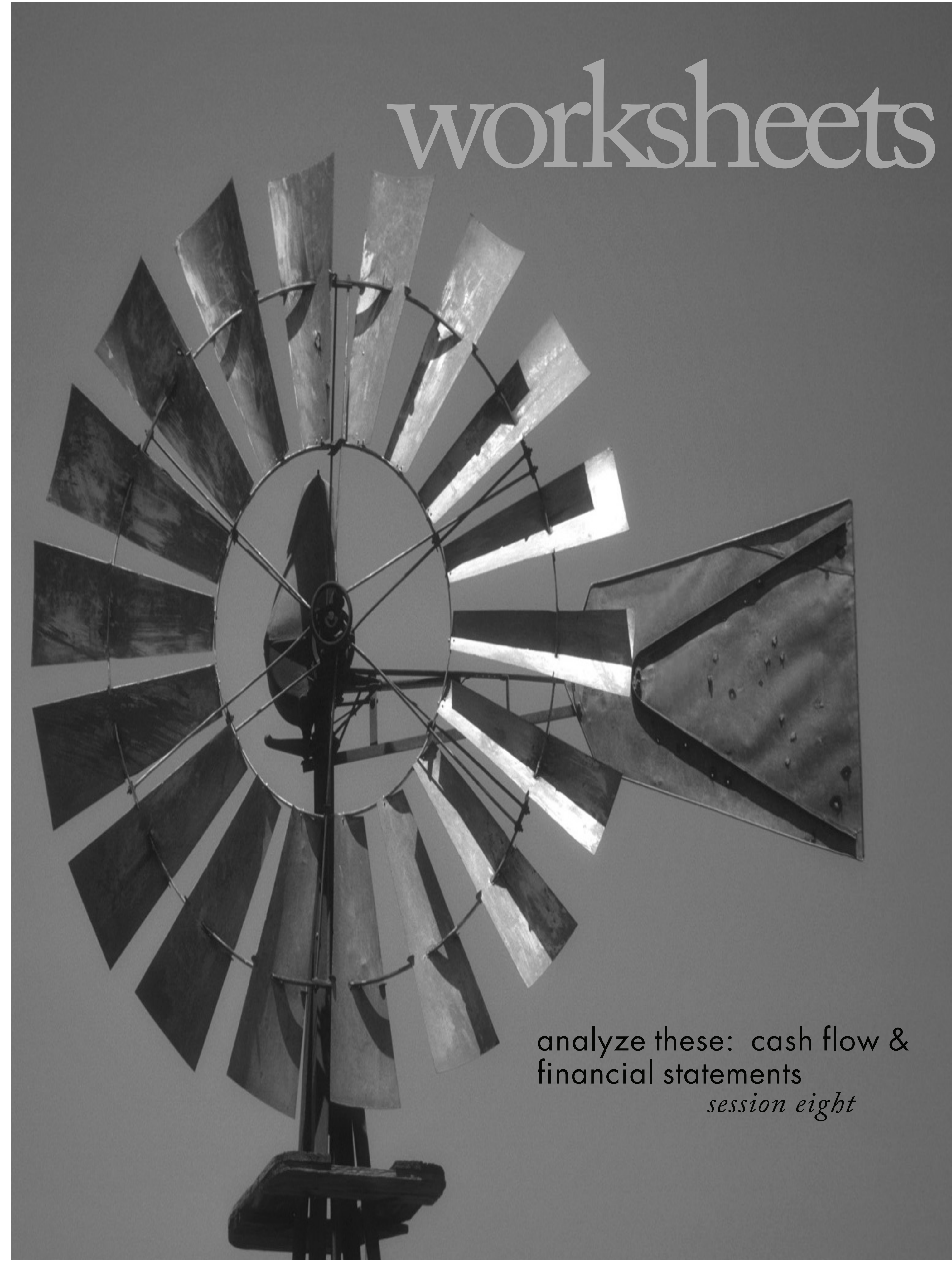

worksheets
analyze these: cash flow & financial statements
session eight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analyze these: cash flow & financial statements

SESSION EIGHT

Now that you have developed your budgets and cash flow projection, you can begin to truly "manage" the cash flowing in and out of your business. Analyzing the "levers of cash flow" or the things that influence how cash flows through your business becomes a key management tool.

Financial information presented in standardized formats is also a management tool. It is important to understand the basic accounting concepts used in presenting financial information, and how external users of financial statements (including lenders, creditors, investors, government agencies and competitors) might interpret the information. The Income Statement and Balance Sheet will be presented in this session so that you have the opportunity to understand where the numbers come from on those statements, and what they represent.

Finally, it doesn't do any good to get information from your financial statements and then not use it! Learn to analyze the information to help you run your business better. By knowing how to read your financial statements and understanding the tool of "ratios", you will have a lot of valuable financial information for better business decision-making.

NxLeveL™ Agricultural Business Plan Outline

Cover Page
Table of Contents

Section	I.	Executive Summary
Section	II.	Business Concept, Mission & Goals
Section	III.	Background Information
Section	IV.	Organizational Matters
Section	V.	The Marketing Plan

Section VI. The Financial Plan

D. Additional Financial Information
Income Statement and Balance Sheet

Appendix Section

analyze these: cash flow & financial statements

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Section V. The Marketing Plan

Section VI. The Financial Plan
D. Additional Financial Information
Income Statement and Balance Sheet

Appendix Section

Cash Flow Management

Look at your financial information you have prepared in the prior sessions, and answer the following questions.

Managing Inventory

1. Is your inventory turning at an appropriate rate for the business? How do you know?

2. How do you control the amount of inventory you keep on hand? What inventory control system(s) do you use? (Describe both computerized and manual systems).

3. How does controlling the amount of inventory you keep on hand and the inventory turnover ratio impact the amount of cash flowing in and out of your business?

Managing Accounts Receivable

4. What credit terms do you offer your customers?

5. How does your credit policy impact the cash flowing in and out of your business?

6. How does an accounts receivable aging report help you manage cash flow in your business?

8-2 WORKSHEETS analyze these: cash flow and financial statements

Cash Flow Management

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5. How does your credit policy impact the cash flowing in and out of your business?

6. How does an accounts receivable aging report help you manage cash flow in your business?

Cash Flow Management–continued

If you have not previously done so, prepare an aging report using a worksheet like the one shown below.

Accounts Receivable Aging Worksheet

(Business Name) ________________________
Accounts Receivable Aging Report as of _______

Age of Account	Account Name	Amount	Totals
0 - 30 Days			
		Total 0 - 30 Days	
30 - 60 Days			
		Total 30 - 60 Days	
60 - 90 Days			
		Total 60 - 90 Days	
Over 90 Days			
		Total Over 90 Days	
		TOTAL RECEIVABLES	

Managing Accounts Payable

7. How do you manage your accounts payable? How does the timing of bill payment impact your business' cash flow management?

8. What other cash management policies do you have in place? (Include internal controls for handling cash, excess cash management, and borrowing controls for cash shortages.)

analyze these: cash flow and financial statements **WORKSHEETS** 8-3

Cash Flow Management–continued

If you have not previously done so, prepare an aging report using a worksheet like the one shown below.

Accounts Receivable Aging Worksheet

(Business Name) ________________________
Accounts Receivable Aging Report as of _______

Age of Account	Account Name	Amount	Totals
0 - 30 Days			
		Total 0 - 30 Days	
30 - 60 Days			
		Total 30 - 60 Days	
60 - 90 Days			
		Total 60 - 90 Days	
Over 90 Days			
		Total Over 90 Days	
		TOTAL RECEIVABLES	

Managing Accounts Payable

7. How do you manage your accounts payable? How does the timing of bill payment impact your business' cash flow management?

8. What other cash management policies do you have in place? (Include internal controls for handling cash, excess cash management, and borrowing controls for cash shortages.)

Projected Income Statement

The Income Statement (sometimes referred to as the Profit and Loss Statement) provides a statement of the performance of your business over a certain period of time—for example, for the month of January, or from January 1 through December 31. The Income Statement's purpose is to match the expense required to offer your product or service with the income generated from the sale of your product or service.

In the previous session you prepared the *Projected Cash Flow Projection*. By including the non-cash items, you can develop a Projected Income Statement for your business. Non-cash items include: depreciation (previously calculated on the *Fixed Assets and Depreciation Worksheet*); total sales rather than just cash sales (which means Accounts Receivable are included); total expenses rather than just cash expenses (which means Accounts Payable are included), and any other non-cash accrued items that apply to your business.

Use the *Projected Income Statement Worksheet* on the following page and try to develop the statement of how your business will perform for the coming year based on your projections to this point.

Step 1: Fill in the annual projected Sales and Cost of Goods Sold (Direct Costs) portions on the worksheet.

Remember these amounts are total sales and total direct costs, including accounts receivable and accounts payable. See the *Sales and Direct Costs Worksheets* you prepared in Session 7.

Step 2: Calculate Gross Profit by subtracting the Total Cost of Goods Sold from the Total Sales.

Step 3: Fill in the operating expenses amounts.

Again, refer back to your *Selling/Administrative Expenses Worksheet* and *Overhead Expenses Worksheet* for amounts. Refer to the *Depreciation Worksheet* you calculated, or check with your accounting professional to see how much depreciation is recorded annually–be sure to adjust for any new anticipated depreciable assets you projected purchasing.

Step 4: Calculate the Total Operating Expenses.

Step 5: Subtract the Total Operating Expenses from the Gross Profit to determine Net Operating Profit or (Loss).

Step 6: Fill in any non-operating income or expense items, and total the Non-Operating Income/ Expenses.

Step 7: Subtract the Total Non-Operating Income/Expense from the Net Operating Profit/(Loss) to get the Net Income Before Taxes.

Step 8: With the help of your accounting professional, project anticipated taxes.

Step 9: Subtract the Anticipated Taxes from the Net Income Before Taxes to determine Projected Net Income.

Step 10: Calculate the percentage that each line represents of total sales by dividing the amount for that line by the total sales number.

8-4 WORKSHEETS analyze these: cash flow and financial statements

Projected Income Statement

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Projected Income Statement—continued

Projected Income Statement Worksheet

(Business Name) ________________
Projected Income Statement
Year Ending December 31, 200X

				% of Total Sales
Sales				
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	Total Sales		**$ __________**	________**%**
Cost of Sales (Direct Costs)				
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	Total Cost of Sales		**$ __________**	________**%**
Gross Profit			**$ __________**	________**%**
Less Operating Expenses				
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	Total Operating Expenses		**$ __________**	________**%**
Net Operating Profit (Loss)			**$ __________**	________**%**
Non-Operating Income/Expense				
	Interest Revenue	$ __________		________%
	Interest Expense	$ __________		________%
	Total Non-Operating Inc/Exp		**$ __________**	________%
Net Income Before Taxes			**$ __________**	________**%**
	Anticipated Taxes		**$ __________**	________%
PROJECTED NET INCOME			**$ __________**	________**%**

analyze these: cash flow and financial statements **W O R K S H E E T S** 8-5

Projected Income Statement—continued

Projected Income Statement Worksheet

(Business Name) ________________
Projected Income Statement
Year Ending December 31, 200X

				% of Total Sales
Sales				
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	Total Sales		**$ __________**	________**%**
Cost of Sales (Direct Costs)				
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	Total Cost of Sales		**$ __________**	________**%**
Gross Profit			**$ __________**	________**%**
Less Operating Expenses				
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
	__________	$ __________		________%
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	Total Operating Expenses		**$ __________**	________**%**
Net Operating Profit (Loss)			**$ __________**	________**%**
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Net Income Before Taxes			**$ __________**	________**%**
	Anticipated Taxes		**$ __________**	________%
PROJECTED NET INCOME			**$ __________**	________**%**

Projected Balance Sheet

The Balance Sheet is a statement that gives you a snapshot of your business at a certain point in time, such as at the end of a month, quarter or year. The Balance sheet reveals what your business owns (Assets), what is owes to outside creditors (Liabilities) and what the business owes to its owners (Owner's Equity). The standard formula for the Balance Sheet is:

Assets = Liabilities + Owner's Equity

Using the *Balance Sheet Worksheet* on the following page, try to develop the statement of what your business will "owe" and "own" at the end of the coming year based on your projections to this point.

Step 1: Fill in the amounts for each of the Current Assets and calculate the Total Current Assets.

Step 2: Fill in the amounts for each of the Fixed Assets—Property, Plant & Equipment—less accumulated depreciation and calculate Net Property, Plant & Equipment.

Step 3: Fill in amounts for any Intangible Asset items and total.

Step 4: Calculate the Total Assets (Total Current Assets + Net Property, Plant & Equipment + Total Intangible Assets).

Step 5: Fill in the amounts for each liability and calculate the sub-totals required.

Step 6: Calculate the Total Liabilities (Total Current Liabilities + Total Long-term Liabilities).

Step 7: Calculate the Owner's Equity (Total Assets minus Total Liabilities).

Step 8: Fill in the amount of Total Liabilities + Owner's Equity. This amount must equal the amount for Total Assets.

Step 9: Calculate some of the key ratios shown below and determine the amount of working capital your business would have.

Let's see how some basic management ratios for your business would look, based on your projections throughout Sessions 7 and 8. The "Benchmark" is what your industry indicates would be an appropriate ratio to strive for within your business.

Key Ratios

Current Ratio:
Current Assets ÷ Current Liabilities = ________. Benchmark: _____

Quick Ratio:
(Current Assets minus Inventory) ÷ Current Liabilities = ________. Benchmark: _____

Working Capital:
Current Assets minus Current Liabilities = ________. Benchmark: _____

Debt to Equity Ratio:
Total Debt ÷ Total Equity = _____________. Benchmark: _____

8-6 WORKSHEETS analyze these: cash flow and financial statements

Projected Balance Sheet

The Balance Sheet is a statement that gives you a snapshot of your business at a certain point in time, such as at the end of a month, quarter or year. The Balance sheet reveals what your business owns (Assets), what is owes to outside creditors (Liabilities) and what the business owes to its owners (Owner's Equity). The standard formula for the Balance Sheet is:

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Debt to Equity Ratio:
Total Debt ÷ Total Equity = _____________. Benchmark: _____

Projected Balance Sheet—continued

Projected Balance Sheet Worksheet

(Business Name) ________________
Projected Balance Sheet
Prepared as of ____________, 200X

ASSETS			**% of Total Assets**
Current Assets			
Cash	$ __________		________%
Accounts Receivable	$ __________		________%
Inventory	$ __________		________%
Other: __________	$ __________		________%
Total Current Assets		**$ __________**	**________%**
Property, Plant & Equipment			
Land	$ __________		________%
Buildings	$ __________		________%
Equipment	$ __________		________%
Other:__________	$ __________		________%
Accum. Depreciation	$_(__________)		(_______)%
Net Property, Plant and Equip.		**$ __________**	**________%**
Intangible Assets			
Goodwill	$ __________		________%
Other:__________	$ __________		________%
Total Intangible Assets		**$ __________**	**________%**
TOTAL ASSETS		**$ __________**	**________%**
LIABILITIES			
Current Liabilities			
Accounts Payable	$ __________		________%
Wages Payable	$ __________		________%
Other:__________	$ __________		________%
Other: __________	$ __________		________%
Total Current Liabilities		**$ __________**	**________%**
Long Term Liabilities			
Notes Payable	$ __________		________%
Other:__________	$ __________		________%
Other:__________	$ __________		________%
Total Long-term Liabilities		**$ __________**	**________%**
TOTAL LIABILITIES		**$ __________**	**________%**
TOTAL LIABILITIES & OWNER'S EQUITY		**$ __________**	**________%**

analyze these: cash flow and financial statements **W O R K S H E E T S** 8-7

Projected Balance Sheet—continued

Projected Balance Sheet Worksheet

(Business Name) ________________
Projected Balance Sheet
Prepared as of ____________, 200X

ASSETS % of Total Assets
Current Assets
Cash $ __________ ________%
Accounts Receivable $ __________ ________%
Inventory $ __________ ________%
Other: __________ $ __________ ________%
Total Current Assets $ __________ ________%
Property, Plant & Equipment
Land $ __________ ________%
Buildings $ __________ ________%
Equipment $ __________ ________%
Other:__________ $ __________ ________%
Accum. Depreciation $_(__________) (_______)%
Net Property, Plant and Equip. $ __________ ________%
Intangible Assets
Goodwill $ __________ ________%
Other:__________ $ __________ ________%
Total Intangible Assets $ __________ ________%
TOTAL ASSETS $ __________ ________%
LIABILITIES
Current Liabilities
Accounts Payable $ __________ ________%
Wages Payable $ __________ ________%
Other:__________ $ __________ ________%
Other: __________ $ __________ ________%
Total Current Liabilities $ __________ ________%
Long Term Liabilities
Notes Payable $ __________ ________%
Other:__________ $ __________ ________%
Other:__________ $ __________ ________%
Total Long-term Liabilities $ __________ ________%
TOTAL LIABILITIES $ __________ ________%
TOTAL LIABILITIES & OWNER'S EQUITY $ __________ ________%

Writing Your Plan

Using the information and worksheets found in this session, assemble the following information under the headings and subtitles shown below:

Section VI. The Financial Plan

C. Cash Flow Projections (complete from Session 7)

Continue working on the Budgets and Cash Flow Projections you started in Session 7. Be sure to include the assumptions for each budget. You should complete the subheading as shown in Session 7, including:

Monthly Cash Flow Projections—Year One
Notes to the Cash Flow Projections
Sensitivity Analysis
Cash Flow Projections–Years Two and Three (option)

D. Additional Financial Information

Projected Income Statement and Balance Sheet

Consult with your Instructor to decide whether you will attempt to prepare a projected income statement and balance sheet for your business to include in this section, or whether you need to engage the help of your accounting professional to help prepare those statements.

Summary of Financial Needs

You will actually complete the writing of this section in Session 9. For now, consider how much you will need to borrow to finance your business operation, including amounts needed for asset acquisition and working capital. Be thinking about where you will obtain the money, and how you intend to pay it back.

8-8 WORKSHEETS analyze these: cash flow and financial statements

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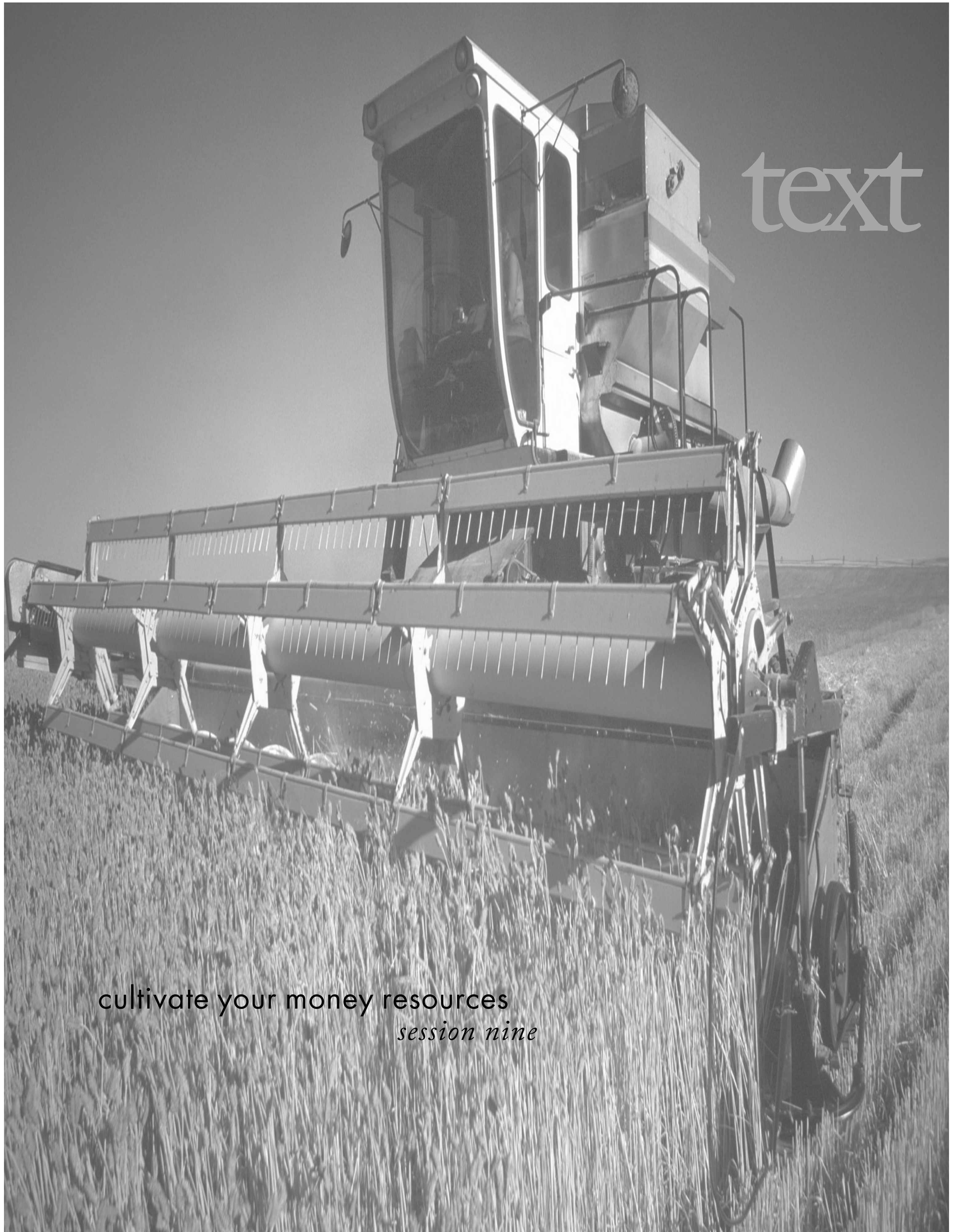
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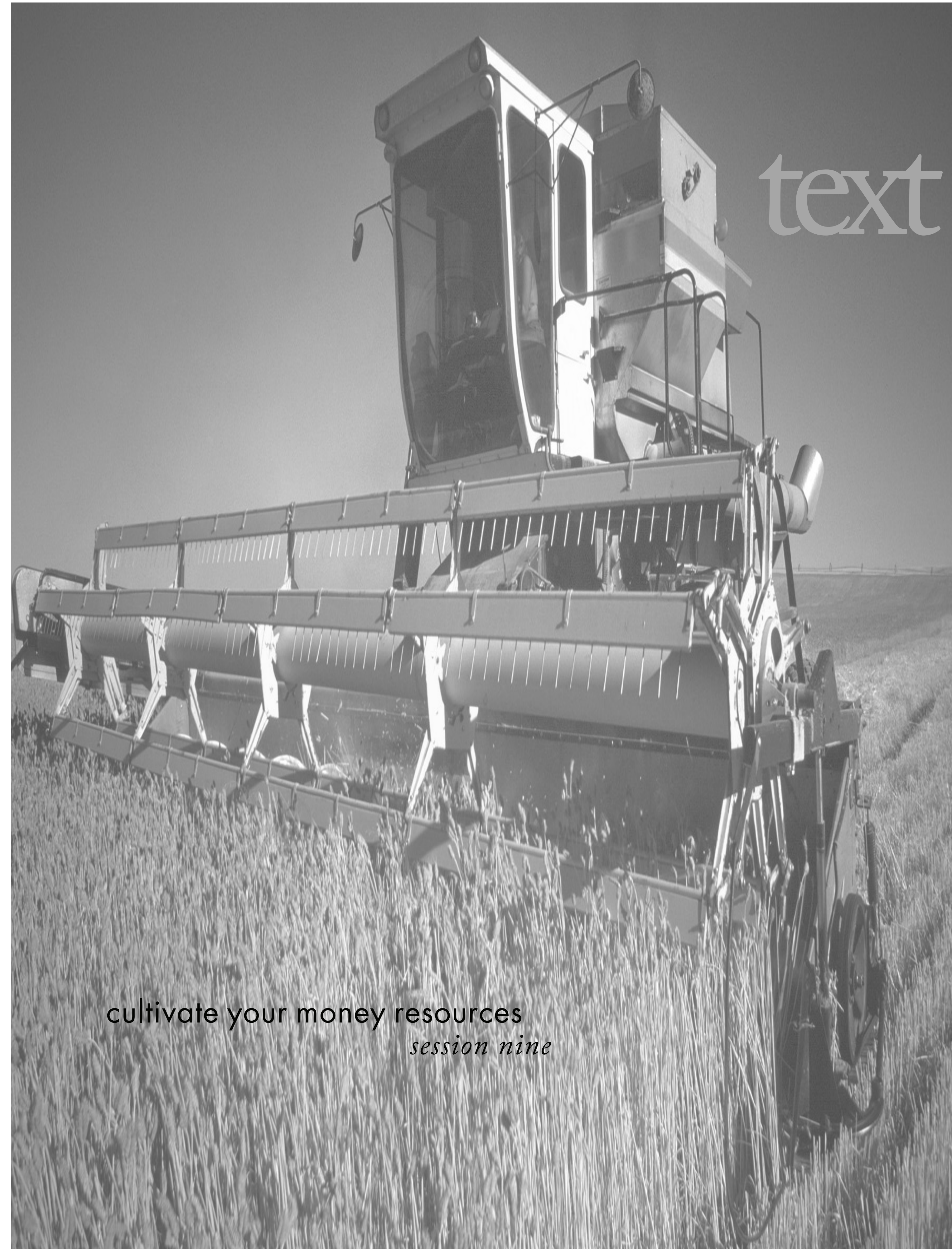
session nine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SESSION NINE

this Session

What's in This Session?

This session covers two topics.

Financing Your Business. Every day, thousands of businesses are forced to close their doors. The most common reason given for the high failure rate of small businesses is a lack of adequate capital. Capital is any asset that a business utilizes to create value and generate profits. Capital can include financial resources, equipment or even human capital. Working capital describes a business' most liquid assets, cash, accounts receivable and inventory. This is the type of capital that growing businesses usually lack. Like all businesses, agricultural businesses cannot survive without the cash to invest in people, equipment and supplies. It cannot survive without the cash to pay its expenses. Business owners, regardless of their size, need to know how to obtain capital necessary to grow their business. It is rare for a business to not need additional capital to grow.

Sources of Financing. Small business owners often think only of banks when they look to finance their businesses. There is, however, a wide variety of other ways to finance a small business. This session provides information about the many alternative money sources available to small, growing businesses. This should be viewed as the framework—your individual circumstances, location and goals will all influence your selection of money sources.

Financing Your Business

Financing Needs

The first step towards success when dealing with the various sources of money is to understand why your agricultural business needs financing. At what stage of development is your business? Are you planning a new venture, just getting started, expanding a successful venture or managing a business that has matured? This section describes typical reasons why a business would seek financing.

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SESSION NINE

this Session

- financing your business p1
- sources of financing p17

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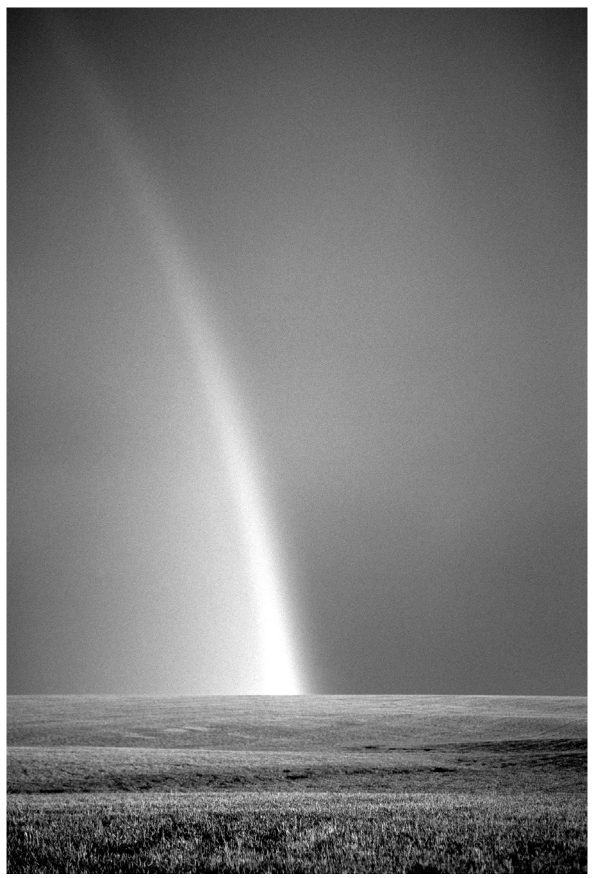
The Real World of Agricultural Finance

"You need to clearly understand your borrowing needs know all of the many sources of financing available to you..."

As many of you who are already farming know, financing an agricultural business is a difficult thing to do. Many banks still remember the bad real estate loans they made to farmers back in the 1980's and give extra scrutiny to requests for agricultural finance. This fact has been compounded in the late 1990's by an increase in price volatility. Traditional lenders are reluctant to grant long-term financing to farm operations. As a result, you will need to clearly understand your borrowing needs and should know all of the many sources of financing available to you.



Research & Development Money

Small business is the source of many innovative products and services. But to investigate and realize innovations, an entrepreneur needs **seed capital** or **pre-venture financing**. This type of capital may be used to fund market research, technical research, strategic planning and product development. All of this must be accomplished before a business can even offer a new product or service to its customers.

This type of early stage funding is usually provided by the owners of the business or investors. Businesses in this stage of their development are usually considered too risky by lending institutions.

Start-up and New Growth Financing

Start-up or new growth costs include professional fees, inventory, equipment, deposits, marketing materials and working capital. New growth-related costs might include the cost of upgrading equipment to expand capacity, compensation for additional employees, research and development costs for new products, bulk purchases of supplies or inputs, or additional working capital to support larger orders with longer payment terms. Regardless, businesses—new and old—cannot grow without an injection of capital. Using your Start-up/Growth Expenses Budget from Session 7, you now need to consider how those expenses will be funded.

pot of gold

Purchase a Business

Some entrepreneurs elect to purchase an existing business or a franchise. In addition to start-up costs, items such as goodwill and other intangible assets must be financed. Intangible assets might include an established brand name, patents, trade marks, copyrights, customer lists or a favorable location. It

9-2 TEXT cultivate your money resources

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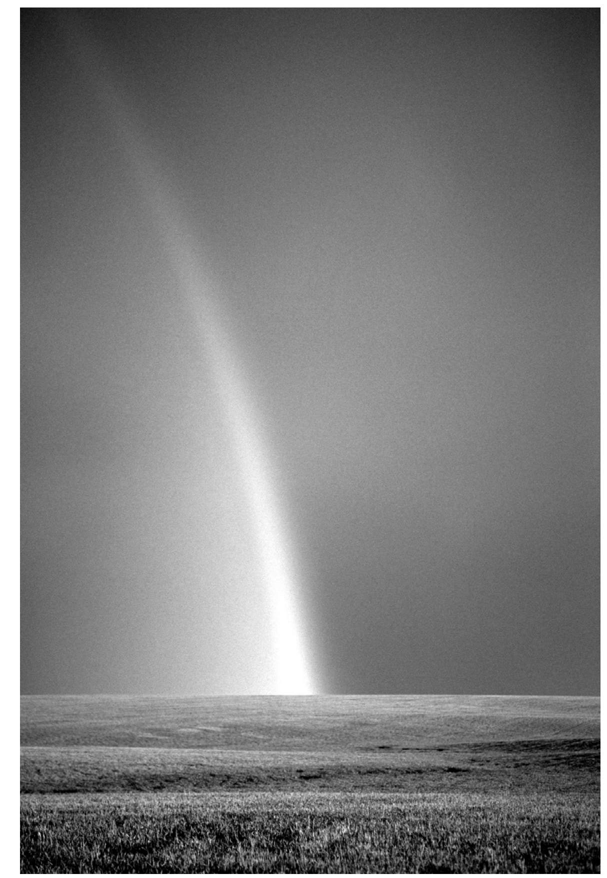

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may also include expertise or knowledge possessed by the people within the business. When an entrepreneur purchases an existing business they can usually only finance the portion of the purchase price that is linked to tangible assets like equipment, inventory or buildings. Goodwill is usually financed by the owner carrying a separate financing contract or by the purchaser in cash.

"Seasonal working capital is capital that is used to cover seasonal fluctuations in a business' expenses and operations..."

Seasonal Working Capital

As introduced above, working capital is money that is used in day-to-day operations to pay for things like supplies, payroll and operating expenses.

Seasonal working capital is capital that is used to cover seasonal fluctuations in a business' expenses and operations. Consider many agricultural businesses. They have distinct times when they incur the costs of producing the product and readying it for market, followed by the time of sales. If the product has an extended marketability period, cash from those sales can also be delayed several months due to the desire to sell the product at the best time of year. Other times, cash payment can be delayed due to industry practices.

Permanent Working Capital

Permanent working capital is funding that a business requires on a regular, on-going basis to cover such expense as debt repayment, utilities, marketing expenses and rent. It is rare that any business is able to fund its expansion solely from its own profits. It is almost always necessary to acquire or increase its working capital with of some sort outside financing. Before a business can do this, however, it must clearly distinguish between seasonal and permanent working capital requirements. Loans for seasonal capital are usually paid back within one year. Permanent capital loans are financed as a **term loan** and repaid over several **terms** or years.

A final note about working capital: One of the most common reasons for small businesses failure is their inability to properly anticipate working capital requirements. Often small businesses suffer from a disproportionate level of cash versus fixed assets. Fixed assets cannot be quickly converted into cash to pay bills.

"Real estate acquisition is something many small businesses face as they start or grow..."

Equipment Acquisition

A business can serve a limited number of customers with its existing equipment. Business expansion often requires the purchase of additional equipment. Commercial banks usually provide loans for this type of financing, or equipment manufacturers/dealers may provide reasonable terms.

cultivate your money resources TEXT 9-3

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Real Estate Acquisition

Real estate acquisition is something many small businesses face as they start or grow. Sources of real estate acquisition loans can include, banks, savings and loans, seller financing, Farm Service Agency and Farmers Home Administration.

Debt or Equity?

As mentioned above, business assets are financed by either debt financing or equity contributions. Let us consider some important characteristics of these two important types of financing.

Debt Financing

Debt financing is a direct obligation to pay an asset, usually in cash, to a creditor in exchange for having supplied your business with an asset, usually money. The creditor expects to be paid an additional sum of money for use of the funds, or **interest**, as well as having the original amount, or **principal,** repaid. The amount of time the loan is outstanding or being repaid is called the **term**. The amount of individual debt payments depends on the amount borrowed, term and the interest rate charged. Interest is said to be **fixed** if the rate of interest is the same over the term of the loan, or **variable** if the rate of interest is tied to an indexed rate, such as the prime rate, and changes when the indexed rate changes.

fixed or variable?

Short term loans are for less than one year. These are almost always seasonal working capital loans. The most flexible form is called a **line of credit** and allows the entrepreneur to borrow the money as needed up to an approved limit. This is like having a credit card that expires in a year, but with a much lower interest rate! As funds are repaid, the line of credit is replenished and the funds can be borrowed again. Lines of credit are almost always reviewed on annual basis.

Intermediate term loans are for two to seven years. These loans are for permanent expansion of working capital or to acquire equipment. The loans are either at a fixed or variable interest rate and may have a penalty for early repayment of the principal.

Long term loans are for seven or more years and are usually for real estate transactions or equipment purchases. These loans are generally at a fixed interest rate, although variable rate loans may be available.

9-4 TEXT cultivate your money resources

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Virtually every small business loan through a bank is a **secured loan**. This means the business (or the business owner) has pledged assets, or **collateral,** for the loan in case the business is unable to repay its debt. In this case, the lender can sell the collateral and repay the obligation should the borrower be unable to repay the loan. An unsecured loan simply means that no collateral has been pledged. Your business must be a very low risk to obtain an unsecured loan from a bank. Very often, people will obtain unsecured loans from family or friends.

"Virtually every small business loan through a bank is a secured loan..."

Equity Financing

Equity financing involves no obligation on the part of the business to repay money. However, equity does involve selling a portion of the ownership of your business. The individual supplying the money becomes an owner, or an investor in your business.

If your business is a partnership, the person or group who invests in your business becomes a partner and will have rights as defined in your partnership agreement. An investor may be either a general or limited partner. This is generally negotiated and clearly outlined in the partnership agreement.

If your business is a corporation, the investor becomes a stockholder in the business and has rights to exercise the powers of a stockholder as defined in your bylaws. The investor may be a holder of either common or preferred stock.

The major difference between the two is that preferred stockholders receive dividends (a percentage of profits paid by the business) prior to any dividends paid to common stockholders.

Many small businesses recognize the cost of an equity financing combined with the potential dilution of ownership may not be appropriate. Advantages and disadvantages of equity financing will be discussed next.

Four Tips for Financing Your Business

1. The more assets your business requires, the more financing it will need. Likewise, the more rapidly sales grow, the greater will be the business' asset requirements.

2. You should always finance your business' growth so that you maintain an appropriate level of cash, cash equivalent assets or financial liquidity. You can measure the level of your liquidity using the current ratio (current assets divided by current liabilities—see Session 8). Set a target ratio that your business must maintain. A current ratio of 2 means that your business has twice as much current assets as current liabilities.

continued...

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4. Internal and external sources of equity are available to your business. Equity initially comes from the owner's and other investors' investment in the business. This is known as *external equity* because it does not derive from business operations. *Internal equity* arises from the business' own profits from operations that are reinvested in the business.

Choosing Debt or Equity

There are advantages and disadvantages to both debt and equity financing. Let's look at some of them.

Ownership

"There are advantages and disadvantages to both debt and equity financing..."

A business owner using *equity* to finance a business is granting the investor a share of future profits. The investor is also acquiring the ability to exercise some control over the operation of the business. The loss of control is permanent unless you have negotiated a *buy-out clause* that allows you to buy the shares back from the investor at an agreed upon price. Sometimes, the right investor can provide the business with additional management expertise.

An owner may lose control under *debt* financing if the loan agreement contains restrictive covenants. Examples are limitations on dividends and salaries that can be paid out, mandatory compensating savings account balance, and requirements to maintain a minimum level of inventory.

Obligation to Repay

Using debt financing places pressure on the business to make scheduled loan payments to repay principal and interest. During start-up and early growth phases, an expanding company may have difficulty meeting these obligations.

debt or equity?

Tax Considerations

Debt—The interest portion of a loan payment is tax deductible and the principal portion is not. Equity—Dividends paid to any owners, including passive investors, are not tax deductible.

9-6 TEXT cultivate your money resources

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Capital Structure

The capital structure of a business is the mix of debt and equity financing it uses to fund its base of assets. Each type of financing has a different impact on your business' financial position and cash flow.

"**Debt**—The interest portion of a loan payment is tax deductible and the principal portion is not..."

Equity is a permanent source of funds for your business while debt is always temporary. Acquiring equity financing also increases the asset portion of your business' balance sheet. It need not be paid back, because it is not a debt.

The higher the percentage of *debt* financing a business uses, the greater the monthly payments it must make to repay that debt. This increases the risk that the business' cash flow will not be adequate to meet debt payments.

Carefully managed debt can also carry many benefits, most notably, **financial leverage.** Leverage exists as a result of the fact that interest payments, or interest expense of debt financing, is a fixed cost. While the business' operating income may rise, the obligation to repay the debt contract is held steady over time. This means that the business has the borrowed funds at its disposal to aggressively invest in its business, thus producing a greater return than what it must pay on its debt. It has effectively combined borrowed money with the owner's own money invested in the business to achieve leverage and earn a greater return than otherwise would have been possible. In this positive scenario, the business benefits.

"**Equity**—Dividends paid to any owners, including passive investors, are not tax deductible..."

Unfortunately, if the business operations are not as profitable as forecasted, the business will earn a lower return and have difficulty meeting its debt obligations.

Industry Standard Debt/Equity (D/E) Ratios

Every industry defines a given mix of debt and equity or a debt to equity ratio (Debt/Equity) as standard or acceptable. Creditors are reluctant to provide debt to businesses with D/E ratios that are outside of this standard range. Talk to your banker, accountant or local Small Business Development Center representative to determine the norm for your industry. Both creditors and investors will have their own ideas about how much risk is associated with your business. Risks specific to your business would also include industry, geographic and technological considerations, which will influence the acceptable industry D/E ratio.

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Timing

When seeking a source of equity capital, the length of time before a business gets a response or even receives capital varies widely. It almost always is a much longer wait when a business is seeking equity.

Initial Cost of Obtaining Financing

"You will have to prepare a loan package (including your business plan) that explains how much you want to borrow, for what you want the loan, and how do you intend to pay it back..."

There are initial costs associated with obtaining either debt or equity financing. In obtaining debt financing you will have to prepare a loan package (including your business plan) that explains how much you want to borrow, for what you want the loan, and how you intend to pay it back. Also, you will have to pay certain loan fees that cover the lender's paperwork in preparing the loan documentation including: obtaining title and collateral documents, perfecting liens, preparing the note and loan agreement and often, a loan origination fee. The cost of loan financing varies depending on whether the loan is with a private individual, loan company or a traditional bank.

In equity financing, the costs to bear can be dramatically higher than the costs associated with obtaining a loan. The company's financial statements will have to be audited by a Certified Public Accountant. The disclosure documents and agreements regarding the sale of the securities (stock) will require legal assistance. The printing and publication costs of the public documents can be many times higher than the total cost of issuing securities. Finally, if you plan to offer your stocks on the open market, a securities underwriter will need to be involved in setting up the syndication network of securities dealers that will peddle your stock. By issuing stock only to IRS qualified buyers, you can reduce some of the expense of a security issue. However, because many of these costs are fixed, most small companies find that they must issue a substantial amount of stock before it makes sense.

absolute control

9-8 TEXT cultivate your money resources

Timing

When seeking a source of equity capital, the length of time before a business gets a response or even receives capital varies widely. It almost always is a much longer wait when a business is seeking equity.

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absolute control

Owner Preferences

Equity financing A business owner with a desire to retain absolute control will have a difficult time working with an investor. On the other hand, an owner that feels there are advantages to having another voice in management decisions may welcome the right investor.

"A business owner with a desire to retain absolute control will have a difficult time working with an investor..."

Raising equity capital requires good sales and communication skills. You are selling both your business' promise of profitability and yourself as a qualified manager of your business. The ability to utilize networks of business and personal contacts is also useful.

Debt financing Whether debt financing comes from friends and family, your local bank, or a not-for-profit Community Development Loan Fund or microlender, it will eventually have to be repaid. Most entrepreneurs think long and hard before borrowing from friends and family, as this group is not usually in the business of lending money and are not aware of the risks of being a lender.

Lending Community/Potential Investors

Your traditional lending community may be reluctant to lend to start-up or new growth businesses. In this case, community loan funds or equity financing may be the best alternative. Can you offer an attractive rate of return to an investor? If equity seems like an attractive option then you should test the reaction of some potential investors.

promise of profitability

Unconventional Financing Techniques

- Barter financing: share space with similar businesses, set up mini-business space within an existing business. Consider renting health-inspected kitchen facilities from restaurants, churches or schools during their off-peak times.
- Landlord financing: negotiate to have your landlord pay for some needed upgrades, add that to the rent, and amortize it over the life of your business' lease, or negotiate free rent for a piece of the business.
- Use other people's credit: have a business of an acquaintance buy the inventory or supplies that you cannot get credit to cover, then pay them back according to their supplier's terms.

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- Contract financing: if yours is a service business, negotiate to have customers prepay for services through one-year, all-inclusive contracts. If you want to try fresh produce, consider starting an a Community or Restaurant Sponsored Agriculture type plan to help finance the seasonal inputs.
- Concession sales: if you are a retailer, sublease part of your retail space to other vendors whose products complement your own. Or consider reducing your marketing costs by sharing space in a successful food business' retail outlet and offer complementary food products.
- Staged financing: look for financing for your business in stages, starting with enough financing to help you get your agricultural business up and running so that you can prove you can be profitable.
- Trade credit: negotiate aggressive payment terms and credit from your suppliers.
- Leverage future commitments of business (as documented in letters from customers) to increase your business' credibility and likelihood of receiving financing from a bank.
- Buy a business instead of starting one from scratch: there are many ways to finance the purchase of an existing business. It is not uncommon to be able to negotiate financing from the seller for as much as 80% of the purchase price, or to incrementally repay the purchase price from future cash flows from operations. It is also easier to get bank financing for an existing business than for a start-up.
- Set up a home office. Save on office space rent and get home business related tax deductions by creating a usable and productive workspace in your home.
- Participate in a small business incubator. These have been set up in many communities to provide workspace and support services for a collection of small businesses. Many state and local governments sponsor incubators by providing below-market rent and other low cost services to start-ups. A kitchen incubator may also be available that provides an approved kitchen facilities at a low cost fee.

Obtaining Financing

learn more.

Identify Possible Sources of Financing

Once you have determined the financing your business needs, you should begin shopping for sources. Don't approach these sources until you know the exact needs of your business. How much money will you need? When will you need the additional money? How quickly will you be able to repay it? Acceptance guidelines vary from one financial institution to the next. Spend some time learning about the person and organization that you are going to approach for financing. Find out what information they specifically require. Some of the things you should know about any funding source before you even approach them for money, are:

"Spend some time learning about the person and organization that you are going to approach for financing..."

1. To whom should I submit my proposal?
2. What comprises a complete proposal?

9-10 TEXT cultivate your money resources

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3. How are decisions made regarding financing?
4. When will the decisions be made?
5. What types of businesses/ industries have they lent to or invested in before?
6. If they don't supply the funds, can they help you find other financing?

Here are some additional questions for bankers:

1. What other services can you offer my business?
2. Does your bank make SBA-guaranteed loans?
3. Does your bank participate in other government loan programs?
4. What is the handling charge on credit card receipts?
5. Can you supply my business with a line of credit?

The answers to these questions will provide valuable information. It is important to sell decision makers on *you* as well as on your business. Trust and confidence are key to approval of your financing proposal.

"A comprehensive business plan is the basis of your financing proposal..."

Negotiate Effectively

Session 10 presents important information concerning negotiation techniques. It emphasizes that you should understand your audience, whether you are seeking debt or equity financing. By first understanding your audience's needs and desires and then by effectively presenting your ideas, you will greatly increase the chances of obtaining the funds you need.

Using Your Business Plan in a Financing Proposal

A comprehensive business plan is the basis of your financing proposal. Some portions of a business plan are not included in a financing proposal and a financing proposal requires some information that is not in your business plan. You should update your business plan on an annual basis. It is a great management tool and will aid in the development of a financing proposal.

cultivate your money resources **T E X T** 9-11

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Step 1: Develop Your Business Plan

The preparation and updating of a complete business plan enables you to accurately predict the financing needs of your agricultural business. Rather than approach your banker each time a financing need presents itself, it is advantageous to identify all anticipated financing needs for at least one to three years and present them as a package.

Step 2: Customize Each Financing Proposal

Know the requirements of your lender. What comprises a complete submittal in their view? Are you willing to provide all the information that the lender requires? Some examples of further information would include personal and business tax returns, accounts receivable and payable aging reports, etc.

If you are ready to provide all the information at the level of detail requested, be sure to customize each proposal so that it meets all the requirements for each specific lender.

a little a lot

Determining How Much You Need

Small business owners are often unsure about how much financing to ask for. You have answered that question by preparing your business plan. The amount is based on future projections. Since projections are imprecise, it may be appropriate to ask a loan officer, "What is your reaction to the amount I am seeking?" It would not be acceptable to ask, "How much can I borrow?" This section discusses the two most important considerations when you are determining how much funding you will request.

"How your business will use the funds and the type of collateral you offer will determine the amount you request..."

Depends on Type of Financing

How your business will use the funds and the type of collateral you offer will determine the amount you request.

The amount available for financing the purchase of a piece of equipment may be determined by a bank rule limiting such loans to 75% of the purchase price. The financing of real estate and fixed assets is usually limited by clearly defined maximum percentages of the transaction that is to be financed.

Determining the amount of financing needed for **permanent working capital** or **seasonal working capital** is more difficult, since the amount needed depends on the accuracy of the financial forecasts.

9-12 TEXT cultivate your money resources

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Determining the amount of financing needed for permanent working capital or seasonal working capital is more difficult, since the amount needed depends on the accuracy of the financial forecasts.

Cash Flow Projection Is Always the Key

The key item in any financing proposal is the business' **cash flow projection**. It defines the amount of money you need to borrow, particularly for working capital, and demonstrates the monthly payments that the business can afford. The number of years required to repay a loan depends on the amount of financing being sought. A one-year cash flow projection may be sufficient for a seasonal working capital loan but a five-year loan to permanently expand working capital requires a three- to five-year forecast.

"The key item in any financing proposal is the business' Cash Flow Projection..."

The C's of Credit

Here, in detail, are six factors that lenders consider when evaluating your financing proposal.

Credit & Financial History

The financial history presented in your financing proposal should include a summary of your personal credit history as well as a summary of your business' financial performance to date.

Your business' financial history should include clear financial data tables and text summarizing your business' performance. You should include sales, cash flow and profits as well as key financial ratios like the Current ratio, the Inventory Turnover ratio and the Receivables Turnover ratio.

Do you know what a credit check will reveal about you and your business? If not, and you are concerned, have a credit company perform the check so you will know what to expect. Banks and other lending institutions routinely check the credit history of potential borrowers. As a small business owner, you should expect to have the credit check cover you and your business. You can order a copy of your personal credit history by contacting organizations like TCI Credit Bureau or EQUIFAX. Both will send you a copy of your credit report for a small fee.

Character

The soundness of a small business loan is often more dependent on the trustworthiness of the owner than the track record of the business. Your reputation in your local area is important and you should be able to give some good local business references. Also, the way you present your business and managerial ability as demonstrated by your presentation and loan package may influence the bankers inclination to make the loan.

"The soundness of a small business loan is often more dependent on the trustworthiness of the owner than the track record of the business..."

Capacity

Bankers make a loan with the expectation that a business will be able to make loan payments from its profits. Capacity refers to the ability of the business to repay the loan with cash generated from operations. Your financial

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The C's of Credit:

- credit and financial history
- character
- capacity
- collateral
- conditions
- capital

Collateral

What happens if the business cannot make its loan payments because of poor sales or lower-than-predicted profits? The bank will look to satisfy the debt by taking title to the **collateral**. Collateral are those assets that you are willing to pledge and that the lending institution will accept as security for a loan. Collateral is necessary to obtain a loan, but collateral without **capacity** or secure value usually will result in a negative answer to a financing proposal.

Conditions

How will expected economic trends impact your business? You addressed this question and others about risk in your business plan. Now you need to share your assessment of the risks with your banker.

Capital

Banks want to know that you are committed to your business. One way they determine that is by your capital investment.

Tips for Developing a Successful Banking Relationship

Deal with Banks Located Close To Your Business

You will be more inclined to visit your banker, and the reverse will be true, if your banker is local. Only choose a more distant banker if no local bankers understand your business needs. Local banks generally have a stronger commitment to supporting local businesses; therefore, they are more receptive to local loan requests.

Make an Appointment with the Right Person

First you need to identify the right person to talk with at the bank. Then make an appointment, whether your goal is to obtain some preliminary information or to present your financing proposal.

9-14 TEXT cultivate your money resources

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Select a Banker That You Feel Is Comfortable with You

Naturally this works both ways. You should feel like you can tell the banker your concerns and he or she will listen. Likewise, you want a banker who tells you his or her concerns. It is extremely frustrating to be told "no" to a financing proposal but receive no explanation.

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Select a Banker that Has an Interest In/Knowledge of Your Type of Business

Find a banker who either has existing clients in your industry or expresses interest in learning more about your industry. A banker who is knowledgeable will be able to offer you advice and advocate for approval of your financing proposal.

Ask the Banker for Advice About Your Situation, Not Money

During any meeting with your banker, ask for advice. Bankers meet with many business owners and see how various owners deal with problems. Your banker is also knowledgeable about local attorneys, accountants and business consultants.

Present a Complete Financing Proposal

Want to leave a good impression with your banker? Make sure your financing proposal is complete the first time and you will leave a positive impression. Many entrepreneurs approach bankers with poorly thought out proposals, so this is your chance to shine.

the truth.

Tell the Truth

The financing proposal is a marketing document. This means presenting your business situation in a positive light based on fact. If you approach the transaction trying to hide facts about your business, you are probably going to be unsuccessful. As hard as it may be, disclose problem areas at the beginning and then work to overcome them. If you hide them and then the banker uncovers the problems, he will think you are either not trustworthy or dishonest. In either case, you won't obtain the loan.

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Uses and Benefits of Loan

The banker is looking for the capacity of your business to repay the loan. Show the banker how the proceeds of the loan will be used to improve capacity to repay.

Be Flexible

If your banker offers a suggestion about how your proposal might be modified, listen before you reject their advice. The suggestion may prove to be even better for your needs and, more importantly, the banker would not make a suggestion if it was not important to the process.

"The lesson to learn here is to start the process well in advance of when the financing will be needed..."

Be Patient

Entrepreneurs think bankers take way too long to make decisions and bankers think business owners are always in a hurry. Find out before submitting your proposal how long the process will take and then provide the information needed by your banker. Finally, realize that the process may take longer than anticipated. The lesson to learn here is to start the process well in advance of when the financing will be needed

Do All of Your Banking at the Same Bank

Some entrepreneurs are always shopping banks in hopes of saving some service fees and getting a better interest rate. It always pays to shop around but, having done so, choose one bank to supply all the business services you need.

flexible & patient

Recommend Business Associates to Your Banker

Once you have developed a good relationship with your banker, support them by introducing other business owners to them. They need to make good loans and helping them find good business owners will be appreciated.

Action Plan

Approach your next search for financing by taking the following steps:

- Determine why you need financing.
- Select debt or equity. If debt, determine what type.
- Develop a well-researched, concise financing proposal.
- Present a customized version to each source of financing.
- Be persistent!
- Be professional.
- Demonstrate confidence and integrity.
- Know your financing target.
- Maintain close relationships with financing sources.

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Sources of Financing

Conventional Sources of Money

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Personal Funds

National studies show that four out of every five new businesses are launched with the personal funds of the owner. The exact percentage varies from year to year, but the fact remains that personal funds are the number one source of funding for a new business. Here is a review of sources of **personal funds**:

- **Savings:** This category includes money in a savings account, a money-market account, a certificate of deposit, or even money in a shoe box under the bed.
- **Investments:** Besides stocks and bonds, this includes stamps, coins, jewelry, land, livestock and precious metals
- **Life insurance:** Many life insurance policies, typically whole life, allow you to borrow against the cash surrender value of the policy.
- **Second mortgage:** You may be able to borrow a percentage of the equity you have in your home. This includes refinancing your house or taking a second mortgage loan.
- **Personal loans:** You may be able to obtain a personal "signature loan" at your bank or credit union.
- **Spouse income:** Determine how much is available on a monthly basis to help finance your business needs. You may want to invest this monthly amount in your business or use it as the basis for obtaining a loan.
- **Family and friends:** While not really a source of personal funds, your family and friends may provide capital because of your personal relationship with them.
- **Credit cards:** Credit cards are presented last because they should be considered only as a last resort.

cultivate your money resources TEXT 9-17

Sources of Financing

Conventional Sources of Money

"National studies show that four out of every five new businesses are launched with the personal funds of the owner..."

Personal Funds

National studies show that four out of every five new businesses are launched with the personal funds of the owner. The exact percentage varies from year to year, but the fact remains that personal funds are the number one source of funding for a new business. Here is a review of sources of **personal funds**:

- **Savings:** This category includes money in a savings account, a money-market account, a certificate of deposit, or even money in a shoe box under the bed.
- **Investments:** Besides stocks and bonds, this includes stamps, coins, jewelry, land, livestock and precious metals
- **Life insurance:** Many life insurance policies, typically whole life, allow you to borrow against the cash surrender value of the policy.
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Financial Institutions

This section examines financial institutions that provide debt financing.

Banks

Savings banks generally specialize in home mortgages and automobile loans. This doesn't mean you can't approach them for a business loan but it is not their major business line.

"You should contact the bank that would be most favorable to your type of agricultural operation and one that is knowledgeable in agricultural financing..."

Commercial banks are interested in business loans. Their loan officers are accustomed to processing business loan applications and are familiar with other financing options if you don't qualify for a loan from their bank.

There are many different banks that serve different markets. Small community banks are very focused on serving local businesses. A large commercial bank with hundreds of branches operates quite differently.

Not all banks specialize in agricultural loans. You should contact the bank that would be most favorable to your type of agricultural operation and one that is knowledgeable in agricultural financing. Usually favorable banks have available agricultural loan officers that deal specifically with agricultural lending.

It is important to understand that banks usually don't make loans to businesses in the start-up phase. They prefer to make a government guaranteed loan. Government guaranteed loan programs are discussed in detail later in this session.

Credit unions

Credit unions are started and managed by employees of a company, members of a labor union or other groups. If you or a family member belongs to a credit union, you may be able to borrow some of your needed capital from it.

Cooperative banks

Cooperative banks are owned by the individuals and businesses that use the services of the bank. They generally charge higher interest rates than commercial banks, but return a portion of this to the shareholders in a distribution at the end of the year. The Farm Credit System is a cooperative bank.

9-18 TEXT cultivate your money resources

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Consumer finance companies

Consumer finance companies make small personal loans 100% secured by collateral. They charge higher interest rates and processing fees than banks and credit unions, but are more flexible about approving financing requests.

Commercial finance companies

Commercial finance companies focus on business loans and operate similar to a consumer finance company.

"A Lease is merely a long-term agreement to rent..."

Commercial finance companies also make SBA guaranteed loans. Examples of these institutions are AT&T Capital, GE Capital Credit and The Money Store.

Leasing companies

Leasing companies rent fixed assets to businesses and individuals. A lease is merely a long-term agreement to rent. There are three kinds of leases:

- Financing leases are the most common. The lessee maintains the equipment and may have the right to purchase the equipment at the end of the lease.
- Operating leases are also called maintenance leases. The lessor is responsible for the maintenance of the equipment.
- Sale and leaseback is similar to a financing lease. The owner of a fixed asset sells it to another party who then leases it back to the original owner.

Here are some of the advantages and disadvantages of leasing:

bank on it...

Advantages of a lease

- A lease often requires no down payment.
- Your business will not have a liability on its balance sheet.
- You may be able to make payments over a longer term than with a loan.
- You can update high-tech equipment by ending one lease and starting a new one with new equipment.

Disadvantages of a lease

- A lease almost always costs more than a loan.
- You probably won't own the asset at the end of the lease, unless there is a buy-out option or it is a lease purchase agreement
- Business does not have an asset on its balance sheet.

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Checklist for Leasing Agreements

- Cost of the lease: How much is each payment and when are payments due? What is the real amount of rental fees or interest? Is there a "grace period" before you are assessed charges? What is the total amount you will have to pay over the lifetime of the lease?
- Extra Costs: Must you pay security deposits? Installation charges? License fees? Taxes? Are there penalties for early cancellation of the lease?
- Lease flexibility: What are the provisions for skipped or late payments?
- Service: What maintenance and service will be provided and by whom? Is there a guarantee for the equipment? Must you pay for service? Will you receive a refund for downtime if the equipment fails?
- Insurance: What level of insurance coverage is included in the lease? Will you be assessed an insurance fee or be billed separately by the insurance provider?
- Equipment Upgrades: What are the provisions for upgrading or replacing equipment during the term of the lease? How much will it cost you?
- Residual Value: What will the equipment be worth at the end of the lease period? (This directly impacts your lease payments.)

Small Business Administration

The U.S. Small Business Administration (SBA) was created in 1953 to assist small businesses. The SBA has both direct and guaranteed loans.

"A Direct Loan simply means that the SBA makes the loan directly to the small business..."

The term **direct loan** simply means that the SBA makes the loan directly to the small business. A **guaranteed loan** is where a financial institution makes the loan to the small business and a portion is guaranteed by the SBA.

The following information is taken from SBA materials. It briefly discusses the average number of employees or annual sales volume required to be considered a small business by the SBA.

"A Guaranteed Loan is where a financial institution makes the loan to the small business and a portion is guaranteed by the SBA..."

- **Manufacturing.** Maximum number of employees may range from 500 to 1,500, depending on the type of product manufactured.
- **Wholesaling.** Maximum number of employees may not exceed 100.
- **Retail and Service.** Annual receipts may not exceed $3.5 to $13.5 million, depending on the industry.
- **Construction.** General construction annual receipts may not exceed $7 to $17 million, depending on the industry.
- **Special trade contractors.** Annual receipts may not exceed $7 million
- **Agriculture:** Annual receipts may not exceed $0.5 to $3.5 million, depending on the industry.

9-20 TEXT cultivate your money resources

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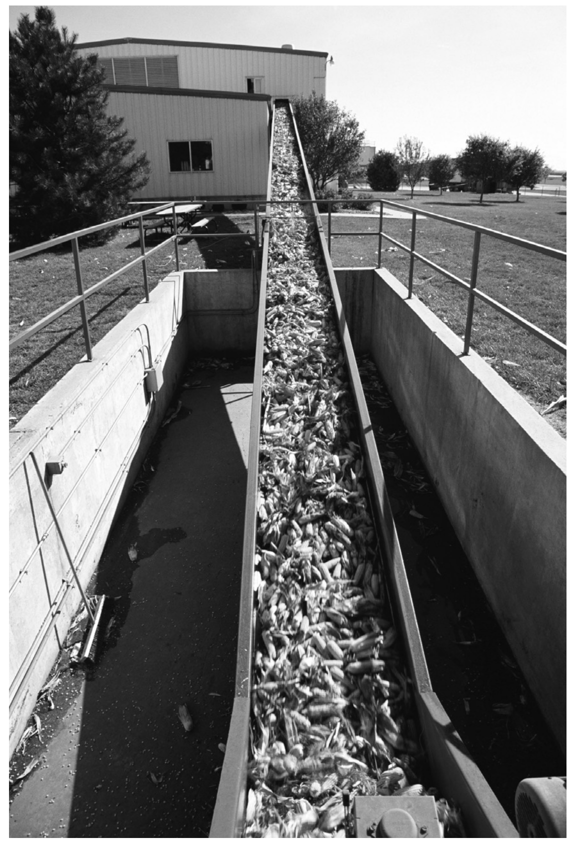
Farm Service Agency
USDA's Farm Service Agency (FSA) operates in most counties in the United States and provides both direct and guaranteed loans for farmers and ranchers. Most FSA loans are made to beginning farmers, youth projects, limited resource farmers, socially disadvantaged farmers and those suffering from natural disasters. Contact your local FSA office to find out more about the programs that serve your area.



Certified Development Companies
A Certified Development Company (CDC) is a non-profit organization sponsored by state or local governments or by private interests. The purpose of a CDC is to contribute to economic development and job creation by making government loans. The exact nature of these loans varies. Contact your local Small Business Development Center (SBDC) or Chamber of Commerce to find the CDC that serves your area.

Community Development Loan Funds
The most famous of the financial institutions involved in this type of lending is South Shore Bank in Chicago. To find out who makes community development loans in your area call the National Community Capital Association at (215) 923-4754.

Rural Development
The USDA Rural Development is a federal agency that provides assistance in rural areas. Their financial programs help support essential public facilities and services. They also provide loans to businesses through banks and community-managed lending pools, and offer technical assistance and information to help agricultural and other cooperatives get started and improve the effectiveness of their member services.

available funds.

Federal Loan Programs

SBA 7(a) Loan Guaranty Program
This is the largest of the SBA loan guaranty programs. A loan is made by a private lender to a small business and the SBA guarantees a percentage of the loan. Historically, this percentage has been about 90%. The 7(a) loan program was designed to help small businesses obtain long-term financing for needs such as working capital, machinery, equipment, fixtures, leasehold improvements, building acquisition and construction. The current maximum amount guaranteed by the SBA is $750,000.

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Special variations of the SBA 7(a) program include:

LowDoc: A variation of the 7(a) loan guaranty program for loans of $150,000 or less. The LowDoc program will finance either new or existing businesses and places less emphasis on collateral. It features a rapid approval process—usually two or three days. LowDoc requirements include:

- The applicant completes the front of a one-page SBA application, the lender completes the back. The applicant may need to include a copy of U.S. Income Tax Schedule C or the front page of the corporate or partnership returns for the past three years.
- Lenders will require additional information from the applicant.
- Personal financial statements are required for all guarantors.

"The small business must be 'export-ready'…."

export ready

CAP lines: This program helps small businesses meet their short-term and cyclical working capital needs by guaranteeing a lender. The SBA guarantees 75% of the line of credit up to a maximum of $750,000 with a maximum maturity of five years.

International Guaranteed loans

Both of the loan programs described in this section are available through commercial banks. The small business must be "export-ready."

Export Working Capital Program: The SBA will guarantee up to 90% of a loan with a maximum of $750,000. Loans are for 12 months with two annual renewal options. The loan may be used as described below:

- Pre-shipment working capital (To finance the labor and materials for manufacturing or purchasing goods for export.)
- Post-shipment exposure coverage (To finance foreign accounts receivable generated from export sales.)
- Combination of pre- and post-shipment financing

International Trade Loan: This is a long-term loan program for small businesses engaged or preparing to engage in international trade. The SBA can guarantee a maximum of $1 million for facilities and equipment and $750,000 in working capital.

9-22 TEXT cultivate your money resources

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Direct loans

As the name implies, these are loans that are made by the SBA directly to the small business owner. The maximum amount of a SBA Direct Loan is $150,000 and such loans are only available to applicants unable to secure a bank loan or a 7(a) loan. Direct loans are available only to businesses in high unemployment areas, Vietnam-era or disabled veterans, handicapped persons, low-income individuals and businesses located in low income neighborhoods. Direct loan funds are very limited and applicants are generally placed on a waiting list.

"An International Trade Loan is a long-term loan program for small businesses engaged or preparing to engage in international trade..."

Intermediary Loans

SBA 7(m) MicroLoan Program

These loans are made through intermediary lenders—generally nonprofit organizations with experience in lending and technical assistance, such as a CDC. This short-term loan has a maximum of $25,000 and preference is usually given to small businesses owned by women, low income individuals or minorities. Some intermediary lenders may require that borrowers complete a training program or receive business counseling. Loan proceeds may be used to purchase furniture and fixtures, machinery and equipment, inventory, supplies and working capital.

SBA 8(a) Participant Loan Program

Eligible small businesses must be 8(a)-certified firms. These loans are either direct loans or through lending institutions with the SBA guaranteeing the loan. Loan proceeds may be used for fixed assets or working capital.

504 Loan Program:

This loan program supplies long-term (10- to 20-year), fixed-asset financing through a CDC. Typically, 504 loan proceeds are provided as follows:

- 50% by an unguaranteed bank loan
- 40% by a SBA guaranteed loan (usual maximum is $750,000, but can go up to $1 million.)
- 10% by the small business borrower

Contact your local CDC to obtain more information and begin the application process.

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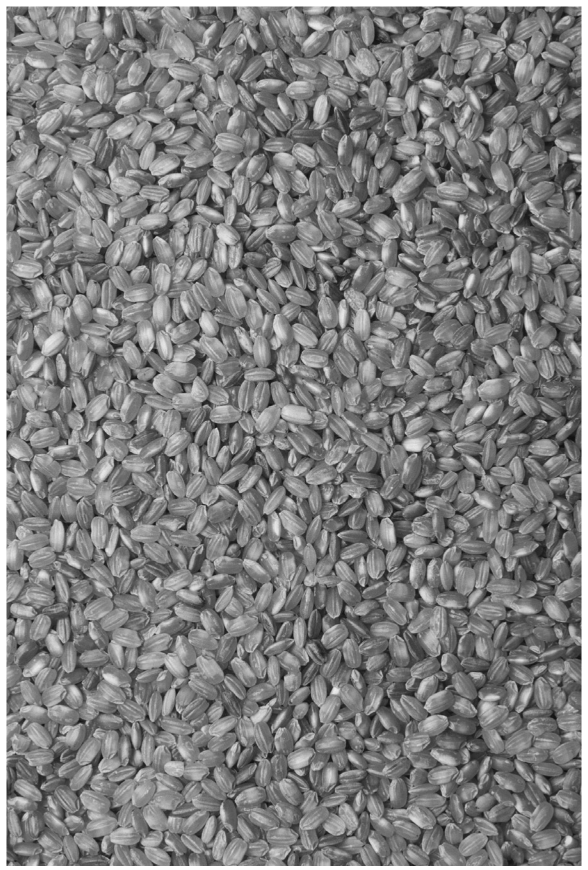
Rural Development (USDA) Programs

- **Intermediary Relending Program Loans:** The Intermediary Relending Program (IRP) makes loans to small businesses and other legal entities in cities having a population of less than 25,000. The loans are made by intermediaries such as CDCs or other public or private nonprofit organizations. The loan can finance up to 75% of a project with a maximum of $150,000. Loan recipients must document their inability to finance the project through commercial credit or other government programs. This program often appears locally under the name Rural Development Fund.



Business & Industry Program: The Business & Industry (B&I) Loan Guarantee Program has a goal of encouraging the commercial financing of rural businesses. The business owner applies through a commercial financial institution and together they submit an application to RD. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate and certain types of debt refinancing.

Most types of businesses in cities having a population of less than 50,000 are eligible. The maximum aggregate B&I Guaranteed Loan(s) amount that can be offered to any one borrower under this program is $25 million. The Business & Industry (B&I) Direct Loan Program is similar to the Guarantee program except the maximum loan amount to any one borrower is $10 million.

Other Government Loan Programs

State, county and city

The loan programs offered by state and local government vary greatly from state to state. Many counties and cities have established small loan funds. Check for such programs in your local area. The local government may operate the program themselves or contract with another agency, such as a CDC or microlender who has experience managing loan programs.

encourage business

Agricultural Development Finance Authority

Many states have what are known as Agricultural Development Finance Authorities. These authorities generally operate loan funds to support various types of agricultural and agriculturally related activities. To find out more, contact your state department of agriculture.

Revolving loan fund

Local and regional revolving loan funds were originally capitalized with grants from the Economic Development Administration, the HUD Community Development Block Grant Program and/or other sources.

9-24 TEXT cultivate your money resources

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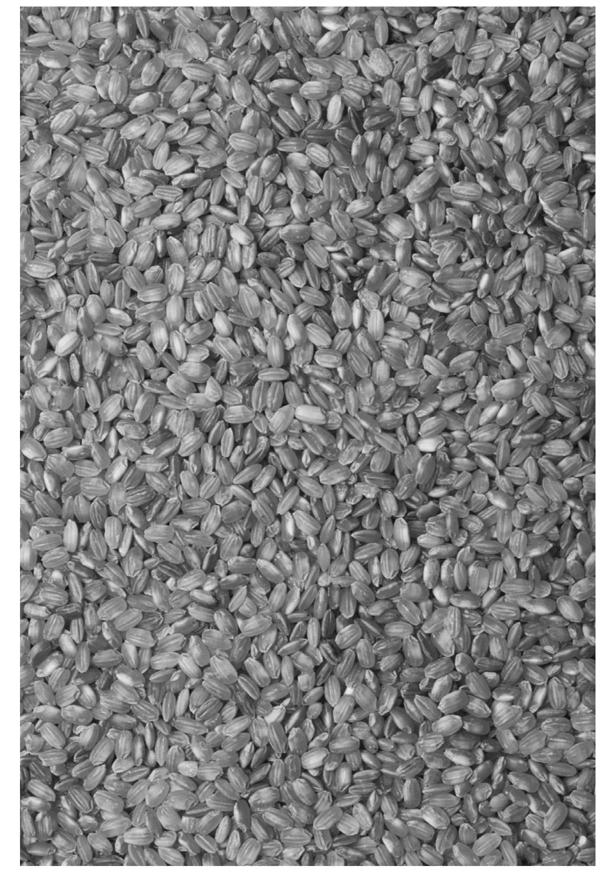

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These loans take a subordinated security position to a loan from a private lender. Loans are limited to eligible borrowers in particular counties or cities. Specific standards and rules vary from region to region.

Other Sources of Money

The previous section discussed a wide variety of sources of debt capital that are frequently used by small businesses. This section covers sources of equity capital. All sources described here are available to and used by small business owners, but are not as common as those in the previous discussion.

Equity

Preliminaries

If you decide to seek **equity capital,** it is important to remember that you are selling a portion of the ownership of your business. If your business is presently a sole proprietorship, it will have to become either a partnership or corporation. How you structure your partnership or corporation is a complex issue and you should seek legal counsel. Let's take a brief look at some important issues.

"If you decide to seek **equity capital**, it is important to remember that you are selling a portion of the ownership of your business..."

If your business is a partnership, the provider of equity capital will become a partner. How much of your business the investor will own is a matter of negotiation. You should have a written Partnership Agreement that carefully details the rights and obligations of each partner. Most partnerships are general partnerships. Limited partnerships have specific accountability and tax considerations. If you intend to form a Limited Partnership, you will want to consult an attorney who is well versed in these legal and tax considerations.

If your business is a corporation, the source of equity capital becomes a stockholder in the corporation. A corporation may issue preferred stock in addition to common stock. Preferred stockholders do not vote at stockholder meetings. It is also possible to issue more than one class of common stock and that not all classes of common stock have voting rights. It is also possible to sell the investor either warrants or rights for shares of stock in your business.

"A corporation may issue preferred stock in addition to common stock..."

Limited Liability Companies are a new and increasingly popular form of business ownership. If you are interested in obtaining equity capital in conjunction with this new form of business structure, consult an attorney who is up-to-date in this new area.

Be aware that obtaining equity capital is a long and time consuming process when compared to debt capital. Sources of equity capital will demand more information, take longer to review it, and you will need to utilize attorneys and accountants to complete the process.

cultivate your money resources T E X T 9-25

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If your business is a corporation, the source of equity capital becomes a stockholder in the corporation. A corporation may issue preferred stock in addition to common stock. Preferred stockholders do not vote at stockholder meetings. It is also possible to issue more than one class of common stock and that not all classes of common stock have voting rights. It is also possible to sell the investor either warrants or rights for shares of stock in your business.

"A corporation may issue preferred stock in addition to common stock..."

Limited Liability Companies are a new and increasingly popular form of business ownership. If you are interested in obtaining equity capital in conjunction with this new form of business structure, consult an attorney who is up-to-date in this new area.

Be aware that obtaining equity capital is a long and time consuming process when compared to debt capital. Sources of equity capital will demand more information, take longer to review it, and you will need to utilize attorneys and accountants to complete the process.

Venture capitalists
Venture capital is capital that is invested in an unproven business concept. These are high-risk investments in very young companies. In return for taking this level of risk, they are looking for investments that can provide them with very high rates of return on their investment.

Investment clubs
In some communities, a group of local business people will pool their money to make investments in both new and established businesses. This allows smaller investors to participate and allows larger investors to spread their risk.

Finding investment or venture capital clubs is simply a matter of keeping your eyes open and asking everyone you know if he or she knows whom to contact. Local Chambers of Commerce are a good source of information. There is no official listing of these groups and they range in size, investment strategies and targeted industries. Some are high profile and easy to locate, while others are much harder to identify and contact.

"Every area has some local entrepreneurs who have been very successful…"

Investment bankers
The term Investment Banker is often confusing because of the word banker. Investment Bankers are in the business of providing equity capital (not loans) to new and young businesses. They do this by selling shares of stock in your business to their customers. They rarely deal in amounts less than $1 million and are only interested in businesses that will offer attractive rates of return to their customers. They are interested in the same types of businesses as Venture Capitalists but take less risk.

angels.

Private investors, wealthy individuals
Every area has some local entrepreneurs who have been very successful. These people, sometimes referred to as "**angels,**" are often a source of both debt and equity capital for local small businesses. Your attorney, accountant or banker can often put you in touch with these types of individuals.

Professionally managed pools
Large institutions often pool their money into a partnership that invests funds in small businesses.

Strategic partnerships
Large corporations may invest in small businesses that help the corporation enter new markets and provide a return on investment. It is important to understand that their motive is more than profit. They are looking for small businesses that fit into their strategic mission or long-range plan. For this reason, these relationships are most commonly referred to as strategic partnerships. There are three common forms for such investments:

- **Stock purchase:** The large corporation buys some of your stock and becomes a stockholder in your company.

9-26 TEXT cultivate your money resources

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- **Stock purchase:** The large corporation buys some of your stock and becomes a stockholder in your company.

- **Joint venture:** The corporation and your business form a partnership. The corporation provides capital.
- **Licensing agreement:** You retain total control of your business but sell the corporation specified rights to use/sell products or services that are developed and owned by your business.

Employee Stock Ownership Plans

Employee Stock Ownership Plans (ESOPs) are similar to other methods of selling equity in your business. The difference is that you are selling the shares of stock to your employees only and not to outside investors. This provides your business with equity capital to use for expansion and gives your employees a vested interest in the success of your business. This is not an option for a start-up company unless you are well-financed upon starting.

Small Business Investment Company (SBIC)

The SBIC Program is the only venture capital program that is sponsored by the federal government. The SBA licenses private venture capital firms and these SBIC's have a portion of their financing guaranteed by the SBA. They provide equity capital and long-term debt to small businesses with significant growth potential.

security.

Specialized Small Business Investment Company (SSBIC)

SSBIC's operate the same as SBIC's but have additional financial leverage provided by the SBA. This is done in return for agreeing to invest in, or loan to, small businesses whose owners are socially or economically disadvantaged.

"The Securities and Exchange Commission (SEC) was formed and is the agency that enforces federal statutes relating to securities..."

Initial Public Offerings

The term Initial Public Offerings (IPO's) refers to the first time a corporation offers its shares of stock for sale on a publicly traded stock exchange.

Government regulation of IPOs

The federal government passed the Securities Act of 1933 which began government regulation of publicly traded securities. The Securities and Exchange Commission (SEC) was formed and is the agency that enforces federal statutes relating to securities. Any agreement that obligates your business to pay another party a portion of your profits or to make interest payments is a security. The 1933 act was passed to fulfill two objectives:

cultivate your money resources **T E X T** 9-27

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1) To provide full and fair disclosure to prospective investors of the character of new securities.
2) To prevent fraud and misrepresentation in the sale of securities.

Thus, the federal government closely regulates the issuance of publicly traded stocks. However, several cost-effective options are available to the entrepreneur seeking equity capital. Consult a securities lawyer before you begin to issue any shares of stock.

Small Corporate Offering Registration (SCOR)
Most states allow SCOR offerings which enable small businesses to originate and sell their own stock offering to investors with a minimum of cost and regulation. Most small businesses can raise up to $1 million per year provided they have equity equal to at least 10% of the amount of capital being raised. Form U-7 is the registration form for corporations registering under state securities laws that are exempt from SEC registration under Rule 504 of Regulation D. Average costs to prepare a SCOR offering are under $25,000.

blue sky.

Intrastate Offering
An intrastate offering is a security offered and sold only to residents of one state. Such an offering is exempt from SEC regulation but is still subject to the securities laws of the state where the security is being offered. Such state laws are often called **blue sky securities laws**. In order to qualify for the intrastate offering exemption your business must:

1) Be incorporated in the state where it is making the offering.
2) Carry out a significant amount of its business in that state.
3) Make offers and sales only to residents of that state.

Other Innovative Sources of Financing

Suppliers

A supplier can be a source of capital in two ways. First, a major supplier may be interested in providing you with equity or debt capital. A strong motivation for the supplier is often a desire to work with a proven wholesaler or retailer in your geographic area.

9-28 TEXT cultivate your money resources

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Second, you may be able to negotiate favorable terms for your business if the supplier profits by having your business present in your geographic area. These favorable terms can include discounts, extended payment periods, increased cooperative advertising or any other concession that can help your business conserve its capital and succeed. Your success will put money in the pocket of your supplier.

Find a Loan Guarantor

Small business owners often find that they cannot support the collateral and capacity requirements of their loan application. As a result, they are turned down for the loan or are offered a smaller loan. It is possible to overcome this problem by finding a third party that will guarantee your loan payments. This third party is someone with assets that can be used as collateral for your loan.

The banker is thus able to satisfy collateral requirements and you get the loan. The third party is assuming the risk of making the loan payments if you default. The cost of such a guarantee varies greatly.

third party

Use a Loan Broker

Loan brokers are in the business of finding financing for business owners and other individuals. They often charge an up-front flat fee although it may be a percentage of the loan amount being sought. You usually pay a fee for their services whether or not you are successful in obtaining financing. Some brokers will charge a smaller up-front fee and then take a percentage of the loan upon approval. In any case, you should select a loan broker very carefully. Ask for references of businesses that they have helped finance.

"Ask for references of businesses that a loan broker has helped finance..."

Franchising

It is possible to purchase some franchises with little money down and obtain the start-up financing directly from the franchiser. When a direct loan is not possible, the franchiser might guarantee your loan with a lender familiar with the franchiser.

cultivate your money resources TEXT 9-29

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Owner Contract, When Buying a Business

When selling their business, most entrepreneurs want the buyer to obtain financing so that they can be "cashed out." This is often not possible and the seller must carry a contract for a portion of the selling price. The term of such a contract, interest rate and collateral are all negotiable between the buyer and seller.

Grants

There are a few grant programs for small business owners. This section describes two programs of the federal government that are operated through the SBA.

Small Business Innovation Research (SBIR) Program

The SBIR Program began in 1982 and is designed to stimulate technological innovation and give small businesses the opportunity to propose concepts to meet the research and development needs of the federal government. There are 11 federal agencies participating in the program and the SBA publishes Solicitation Announcements on a quarterly basis.

cashed out

There are three phases to the program.

- Under Phase I, a small business can receive a grant up to $100,000 to develop a prototype or otherwise prove a concept.
- Under Phase II, a small business that successfully completed Phase I can receive as much as $500,000 to further develop the prototype for production.
- These is no government funding for Phase III, which is where the product is actually placed into production.

Small Business Technology Transfer (STTR) Program

This program started in 1992 and is similar to the SBIR program. The small business submitting an application must collaborate with a nonprofit research institution.

9-30 TEXT cultivate your money resources

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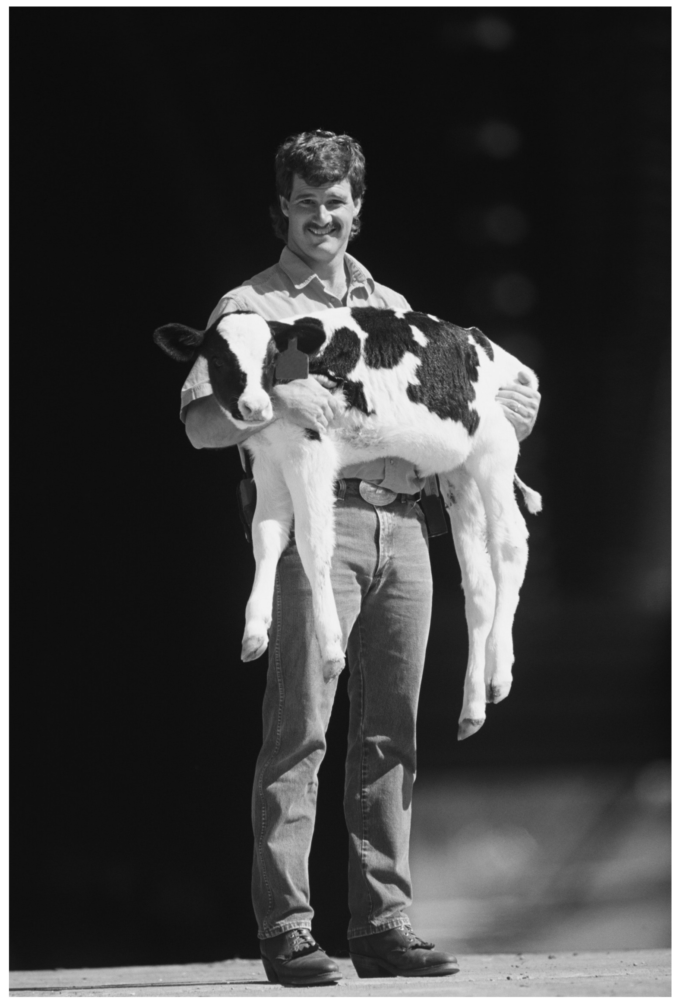
This session covered two topics.

Financing Your Business. Begin immediately to implement some of the concepts covered in this chapter. Start by developing a good relationship with your banker. At the same time, start “working” your personal and professional networks and make sure that you have a well-thought-out business plan. Financing your start-up or growing business all depends on your ability to plan your financing needs.



Sources of Financing. There are many ways to finance a new business. Creative combinations of leasing equipment, public or private loans, angel investors and supplier agreements, can become a patchwork of seed money to grow your business. However, entrepreneurs must first know exactly how much money their business will need and its projected revenues and expenses. With a well-researched business plan and carefully-written funding proposal, entrepreneurs can use their innovation, drive and sense of purpose to find just the right source of funds. As an entrepreneur, your perseverance, persistence and confidence in your idea you will inspire potential lenders and investors to become as enthusiastic about the promise of your business as you are.

enthusiasm & inspiration

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enthusiasm & inspiration

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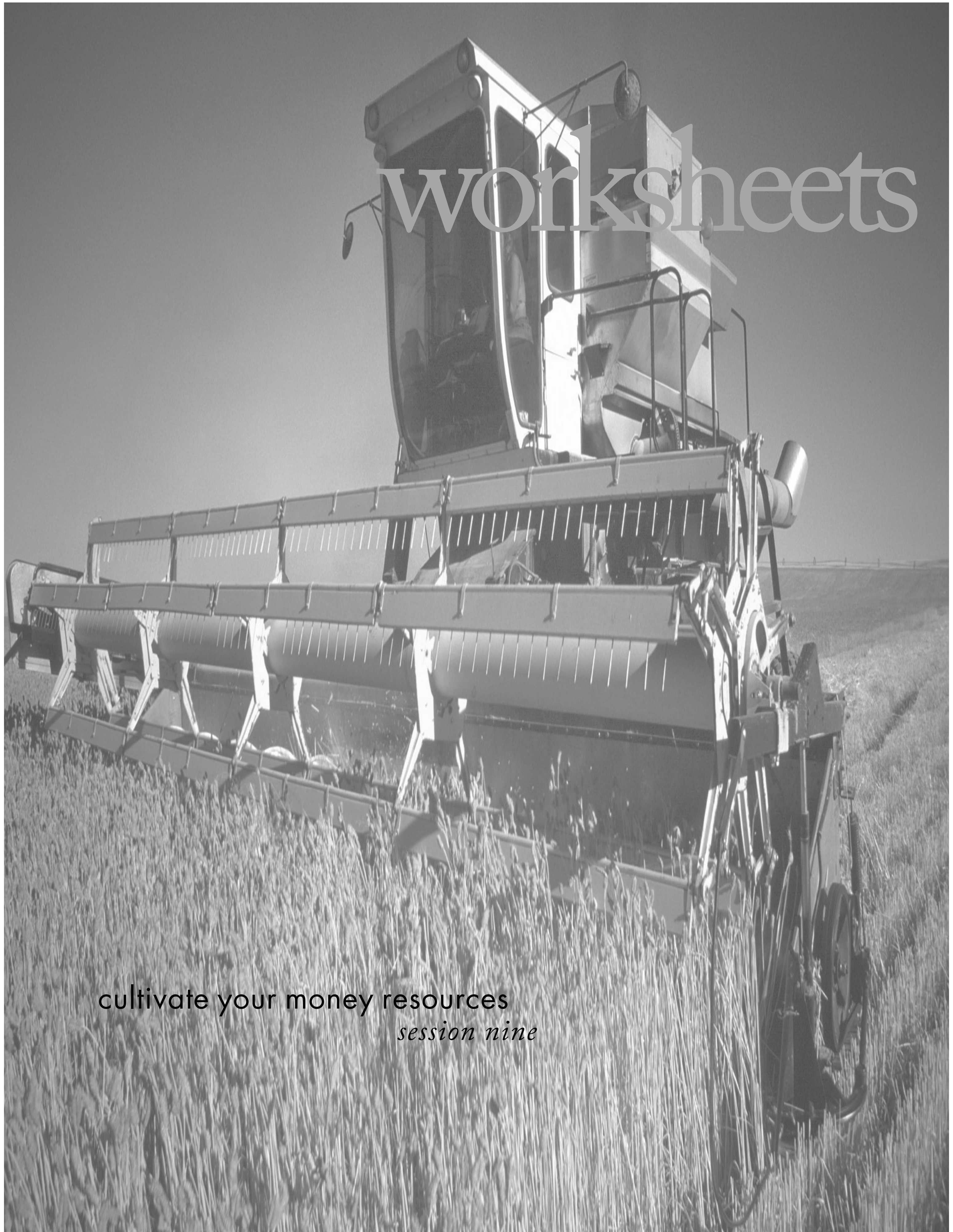
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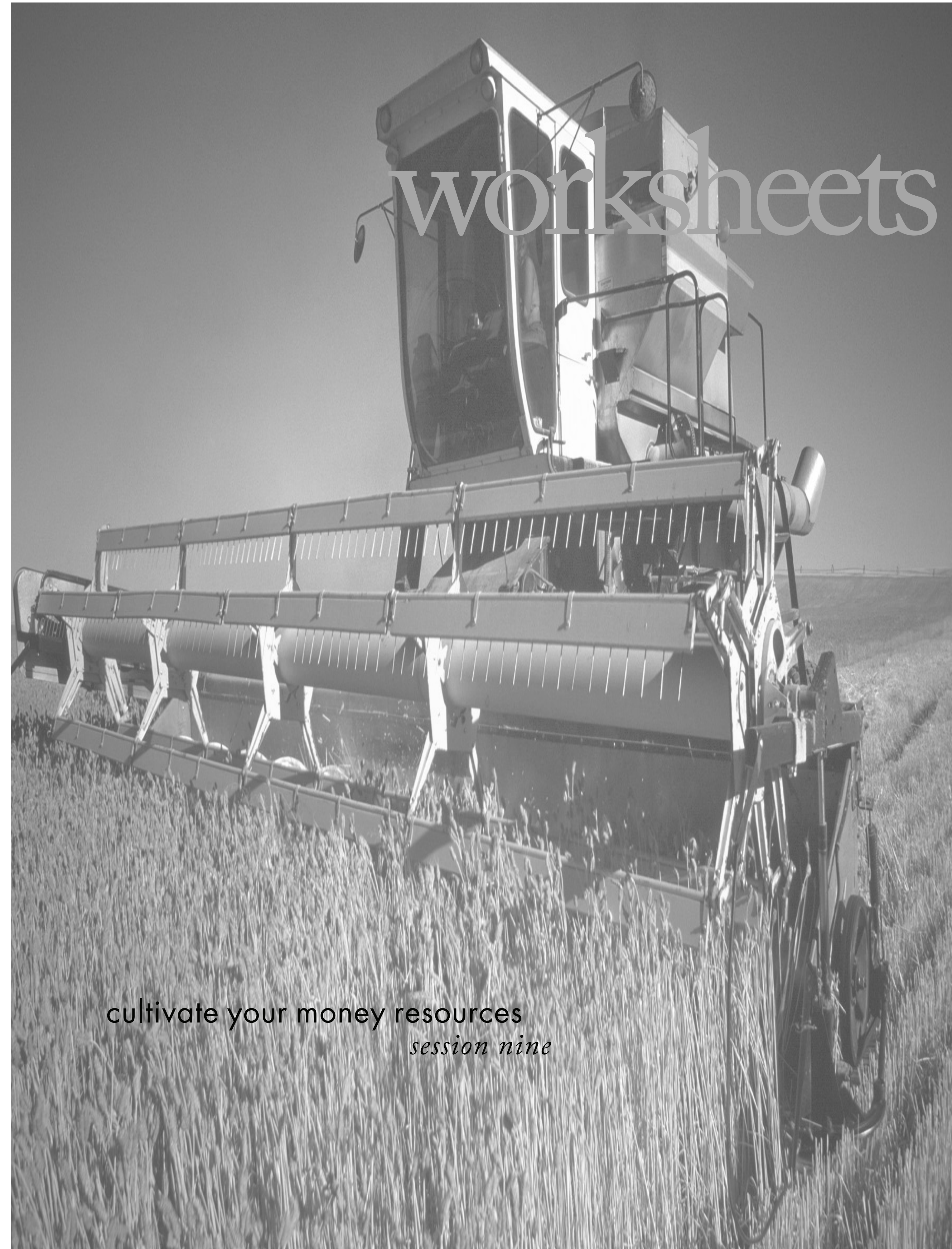
session nine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SESSION NINE

It's time to start putting all of the pieces together. You have projected your budgeted expenses and level of revenue. You mapped out how cash will flow in and out of your business on a monthly basis, based on those projections. You're now ready to analyze whether you will need additional funds to launch and sustain your agricultural business concept, and whether and how much seasonal borrowing may be required.

If your budgets and assumptions are not realistic, this is the time to make adjustments. Again, don't be discouraged by having to review and adjust your work. Bringing your budgets into a realistic financial view before making borrowing decisions is what understanding your financial information is all about. You must have realistic cash flow projections to be able to determine whether debt or equity financing is more appropriate for your business, and in what amounts. Understanding financing options and choosing the most appropriate financing tools will be critical to your business' future.

NxLeveL™ Agricultural Business Plan Outline

Cover Page
Table of Contents
Section I. The Executive Summary

Section II. Business Concept, Mission & Goals
Section III. Background Information
Section IV. Organizational Matters
Section V. The Marketing Plan

Section VI. The Financial Plan
- **D. Additional Financial Information**
  - **Income Statement & Balance Sheet (Sess. 8)**
  - **Summary of Financial Needs**
  - **Personal Financial Statement**
- **E. Conclusion**

Appendix Section

cultivate your money resources

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Appendix Section

Debt and Equity Financing

Getting the needed financing for your business can be challenging, but you have taken a huge step in the right direction by developing a business plan. One of the primary causes of business failure is undercapitalization. Seeking financing is part of doing business, particularly for the entrepreneur who seeks to *grow* the business. Funding sources may include your own savings, a family member, friends, financial institutions, suppliers and leasing companies. You need to plan for the amount of debt or equity financing needed to expand, grow or start your business.

There are two primary ways of obtaining additional funds with which to operate your business. *Debt financing* refers to any kind of loan, meaning you borrow money for your business and pay it back with interest. *Equity financing* means that you trade ownership in part of your business to "someone" in exchange for money. Regardless of the method, you need to determine your needs and consider how likely you are to obtain the money from each potential funding source.

Look at your Cash Flow Projections. If the business does not generate sufficient cash to cover the projected cash requirements, you have decisions to make. For example, do you have money in your personal savings to invest in your business yourself—and, is that a choice you and your family want to make? Will you need to seek outside funding instead of, or in addition to, using personal savings? Answer the following questions:

Step 1: How much money do you need to borrow, or to invest yourself, to cover your growth (or start-up) expenses and to operate the agricultural business for the next year? How much financing will you need and for how long? Will you seek Debt or Equity financing? Provide a list of potential sources for each.

Debt Financing: Amount Sought $________

Potential Sources: ________________________________

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Equity Financing: Amount Sought $________

Potential Sources: ________________________________

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9-2 WORKSHEETS cultivate your money resources

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Potential Sources: ________________________________

____

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Debt and Equity Financing—continued

Step 2: How will your debt financing be used?

Using the worksheet below, fill in:

Use of Borrowed Funds: On what will you spend the money? Examples:

- *Remodeling Costs*
- *Other Growth (or Start-up) Expenses* (installation, deposits and fees, legal and professional)
- *Purchase of Fixed Assets* (land, building, equipment, vehicles, etc.—list the categories and individual large expense items)
- *Seasonal Working Capital* (money needed to cover peak work or sales periods with repayment as the product is sold or the services are paid for)
- *Permanent Working Capital* (base inventory, supplies, etc.)
- *Operating Line of Credit* (revolving credit for operating expenses).

Amount Needed: Amount of total money needed for each purpose.

Length of Loan: How long you estimate it will take to repay the loan amount borrowed.

Use of Borrowed Funds	Amount Needed	Length of Loan

Step 3: How will you pay the money back? (Make sure you included the appropriate debt payments on your Cash Flow Projection Worksheet.)

cultivate your money resources **WORKSHEETS** 9-3

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Understanding Your Financial Needs

You should now have a much sharper picture of the amount of money you need to operate your business over the next two to five years. Understanding how much money you need to finance or invest yourself to make this business concept work is one of the most critical outcomes to business planning. You can give the *reader* of your business plan a concise summary of your financial requirements, including how you intend to repay any financed funds, by writing a short statement of your financial needs at the end of the financial section of the business plan. (See the ***Writing Your Plan*** assignment page at the end of this session, *Summary of Financial Needs* and *Conclusion*.)

Body Complete!–Head and Tail to Go...

Congratulations! You have almost completed the body of the plan. Now you need to create the front end pieces that introduce the plan to the reader. The Cover Page, Table of Contents and Executive Summary make up the introductory pieces needed to get your reader prepared and interested in the main content of your business plan.

Cover Page

The cover page should include the following information:

- Name of the agricultural business—use the full business name. If your corporation carries one name, but you actually do business under another name show both. As an example:

A.B.C. Agricultural Business, Inc., dba

Buy Value Agricultural Shop

- Business Address
- Business Phone Number(s)—include fax, toll-free number and e-mail address, website
- Logo (if you have one)
- Month and year the agricultural business plan was completed

9-4 WORKSHEETS cultivate your money resources

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Table of Contents

Organize the Table of Contents to show the major section headings and the page number that starts the section. It is even better if you show the detailed headings under the sections so the reader can find an individual piece of information if desired. For example:

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<u>Section</u>	<u>Page</u>
Section I. Executive Summary	**1**
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General Description of the Agricultural Business	**3**
Stage of Development	
General Growth Plan Description	
Preview of Resources Available	
Personal and Business Mission Statement	**5**
Goals and Objectives	**6**

Executive Summary

Although it is written last, the Executive Summary is quite possibly the most important part of your business plan. Many potential investors and/or lenders will take their “first look” at your agricultural business concept by reading only your Executive Summary. If this section doesn’t entice the reader to want to go into the body of the plan for additional information, then it has failed its purpose. It is, therefore, important to write it with care.

Once you have finished the other sections of your plan, take the best two or three thoughts from each section to create a summary. The key to writing a good summary is to write it *with your reading audience in mind*. If you are going to use your plan to attract investors, your Executive Summary should address all the important issues related to your potential investors. If the plan is going to a banker, the Summary should address the areas of concern of the financial institution reader. Getting the reader interested enough in your project to want to read the rest of the plan is the primary purpose for the Executive Summary.

cultivate your money resources **WORKSHEETS** 9-5

Table of Contents

Organize the Table of Contents to show the major section headings and the page number that starts the section. It is even better if you show the detailed headings under the sections so the reader can find an individual piece of information if desired. For example:

Table of Contents

<u>Section</u>	<u>Page</u>
Section I. Executive Summary	**1**
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Executive Summary—continued

The length of the Executive Summary should be no longer than two pages, and the information should follow the same general order as the sections of your business plan. While you are conveying a message with only two or three sentences, the parts should all fit together as a cohesive summary, not a collection of loosely related thoughts.

Before you attempt to write the Executive Summary, take a little time to review some of your early work. Some suggestions which might help you begin to organize your thoughts include:

- Look back at your mission statement, goals and objectives. Get a clear picture in your mind of how you want to present your business to your reader. Is your mission statement well-worded and concise enough to include in the opening paragraph of the Executive Summary? Can you summarize your goals and/or objectives in such a way as to make the reader want to learn more about you and your agricultural business?
- Review the Business Structure, Management and Personnel sections from Sessions 3 and 4. Consider focusing on why you (and your management team) are *uniquely qualified* to move forward with your agricultural business, and indicate to your reader that you realize how crucial your management capabilities are to the project.
- Summarize the Marketing Plan section in such a way that the reader has no doubt you have done your homework! Marketing tends to be one of the weakest sections in a typical business plan. The Executive Summary is a great place to let the reader know you understand how important marketing is to the success of your business, and that you have (and will continue to) put time into research and analysis.
- The Executive Summary normally includes a brief statement about financial needs, including the total amount needed, categories of how the money will be spent, and anticipated timeframe for payback.
- *Remember—you have only two pages to present the information, so pick your key points and remember your purpose—to entice the reader to want to continue reading!*

9-6 WORKSHEETS cultivate your money resources

Executive Summary—continued

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Writing Your Plan

Using the information and worksheets found in this session, assemble the following information under the headings and subtitles shown below:

Section VI. The Financial Plan

D. Additional Financial Information

Summary of Financial Needs

Review your responses to steps 1 through 3 in the Debt and Equity Financing section. Write a paragraph about your capitalization needs for your agricultural business. Explain how much money you will need to borrow or to invest yourself to cover your growth (or start-up) expenses, fixed asset purchases <u>and</u> to operate the business. Explain how much of the total funds required will come from owner investment, how much from borrowed funds, where you will get the money, how long you will need the money, and how it will be paid back. Summarizing the financial needs in this manner brings into focus all of the financial information you have presented to this point.

Personal Financial Statement

If you have a need to borrow funds, include a copy of your Personal Financial Statement prepared in earlier sessions. Be sure to review it, and update if necessary.

E. Conclusion

Write a paragraph summarizing the future of this project. Explain why you will, or will not, implement your agricultural enterprise plan? Provide a timeframe for planned implementation—or, if not implementing, what your next steps will be.

NOTE: Read ahead to Session 10 Worksheets to understand the contents of a typical Appendix Section. Then check with your instructor regarding what additional information you might choose to include in the Appendix Section of your plan.

cultivate your money resources WORKSHEETS 9-7

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Writing Your Plan–the "front end"

Develop Your Cover Page

Develop Your Table of Contents

Section I. The Executive Summary

Write a one to two page summary representing the various sections of your NxLeveL™ Agricultural Business Plan. Your goal is to make the reader want to read more! The Executive Summary usually takes a couple of re-writes to get "right", so don't be afraid to revise it several times. Again–remember, it's the power of the Executive Summary that will make your reader want to read the rest of your plan!

NOTE: Check with your instructor to see when the completed "draft" version of your business plan is due (at the start of Session 10, or additional time allowed for completion beyond Session 10).

9-8 WORKSHEETS cultivate your money resources

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session ten


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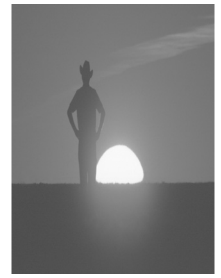

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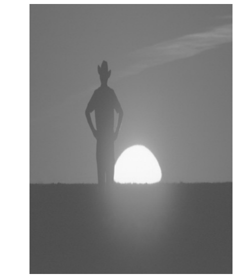

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session ten

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SESSION TEN

this Session

What's in This Session

This session covers three topics.

Negotiation. In this session, we will provide an introduction to negotiating followed by the basic rules and concepts that govern all negotiations. The concepts presented here are widely used throughout the business world. By understanding and utilizing basic negotiating concepts you too can negotiate effectively. Joint-problem solving, or a "Win-Win" approach, can be the most broadly applicable, straightforward and effective strategy for your agricultural business. This section also includes tips about negotiating with various individuals that you are likely to encounter (banker, attorney, landlord, etc.). Finally, the section concludes with a strategy aimed at reviving stalled negotiations and suggests when you should "walk away" from the negotiating table.

Managing Growth. The biggest challenge confronting entrepreneurs is how to intelligently and deliberately grow their businesses. This session will aid you in addressing the issues that affect your ability to manage growth. In exploring why you would want to grow, it is best to revisit the personal and business goals and objectives that brought you to start your business in the first place. After this reevaluation, three tools will be presented that will help you to grow your business: updating your business plan, cash management techniques and effective time management strategies.

Estate Planning and Succession Strategies. Most family agricultural business owners do not consider the investment it took for them to establish and grow their businesses. You have invested heavily in your businesses, both in terms of money at risk and the time and effort you have spent. That investment took careful thought and planning to become fruitful. It also takes careful thought and planning to accomplish your goals in passing the farm or ranch on to your successors and in preserving your estate. This section will introduce the topics of estate planning and succession strategies. This introduction will supply you with information helpful in protecting your business and your future.

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SESSION TEN

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- negotiation p2
- managing growth p11
- estate planning and succession strategies p18

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Negotiation

The Cornerstone in the Deal-Making Process

Negotiation is a large part of your business activities—dealing with employees and professional advisors, signing leases and contracts, defining supplier agreements and acquiring capital. The highly competitive nature of business demands that companies negotiate in order to survive. The act of engaging in business is the act of identifying common goals and interests between two parties and creating mutually beneficial solutions. When this occurs the two parties have a "deal." Negotiation is the cornerstone in the deal-making process.

"Negotiation is the cornerstone in the deal-making process..."

Are You a Negotiator?

Whether or not you consider yourself a skilled negotiator, the fact of the matter is that you do it everyday. When you debate which restaurant to go to with friends or when you have your tractor repaired, you are negotiating in some way. Everyone does it, but as you've no doubt discovered, some people are far better at negotiating than others.

Like most people, chances are you try to avoid the conflict that potentially arises from the negotiation process. It's true—often times negotiating is a messy, high-anxiety process in which resolution comes at the expense of one of the parties. But negotiation does not have to mean conflict.

what's the deal?

Negotiations can produce unique solutions that neither side could have achieved independently. Negotiations can create enduring agreements, enhanced partnerships and higher benefits for all.

Negotiating is a skill like any other and can be practiced and learned. By understanding what good negotiators do and why they do it, you can learn to represent your interests and goals with confidence and thus achieve great results. Clear goals, confidence and knowledge all speak directly to your ability to successfully negotiate deals.

What Is Negotiation?

Negotiation is the act of influencing others to achieve your personal goals, while taking into account the other side's interests. Good negotiators find

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Negotiation is the act of influencing others to achieve your personal goals, while taking into account the other side's interests. Good negotiators find

where their interests and those of their counterparts overlap. Negotiation is used to resolve conflict and create common solutions. Negotiations are complicated by conflicting personalities, delicate egos, cultural differences, time crunches and, worst of all, a sole emphasis on personal gain.

Consider the following: A husband and wife both wanted the last orange in the house. After considerable debate, which resulted in many hard feelings on both sides, the two decided that neither should benefit from the last orange. Further, they decided that since neither of the two could benefit, the most fair and equitable solution would be to throw the orange away and wait until they could go to the store and get two oranges. While they would have to wait, at least they both would have an orange. This was unfortunate because he didn't get his orange juice and she didn't have any orange peel for her recipe.

"Negotiation is the act of influencing others to achieve your personal goals, while taking into account the other side's interests..."

Anatomy of a Negotiation

Having a broad understanding of the anatomy of a negotiation can aid in pacing yourself and planning a strategy. What is the "anatomy" of a negotiation? It is a collection of *events* and *processes* that occur in every negotiation. Anyone who's tried to negotiate the sale price of a new car knows that negotiation is a process that requires time and patience. No matter who you are or what approach you follow, the process generally contains the same phases. These include setting an agenda, voicing demands and offers, working to minimize differences and lastly, closing the deal. Ideally, each of these stages builds upon the gains made in the previous stage and allows the two sides to evolve closer and closer to an agreed-upon settlement.

The list of stages in negotiation presented below is a starting point to reflect on your past negotiating experiences. What occurred at each stage? How did you behave? Were you aware of the process in which you were a part?

Stages of Negotiation:

1. Parties independently decide to negotiate
2. Parties together present reason for negotiation
3. Parties present wants and needs
4. Parties present demands or proposals for agreement
5. Parties review and test proposals
6. Parties narrow the field
7. Parties bargain for final settlement
8. Parties sign agreement (verbal or written)

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Negotiating "Personalities"

When most people judge their negotiating skills, they focus on traits like "hard" or "soft." These are the two most common and most basic of ways to describe a negotiating "personality." What does it mean to be a "hard" or "soft" negotiator? **Hard negotiators** are competitive, unyielding and focused exclusively on their own interests. **Soft negotiators** are submissive and focused on the interests of their counterpart.

"Hard Negotiators are competitive, unyielding and focused exclusively on their own interests..."

Most people perceive the process of negotiation as a contest of wills, in which the strongest and hardest negotiator wins. However, there is a middle ground wherein a **cooperative or flexible negotiator** can succeed. This negotiating personality is capable of furthering his or her own interests while creating a beneficial solution for both parties.

The following table highlights common behaviors of negotiators in the major stages of negotiation. This table also demonstrates how stereotypical behavior limits success. Can you find where any points of intersection exist between a hard and soft negotiator? How can an agreement be achieved?

"Soft Negotiators are submissive and focused on the interests of their counterpart..."

Negotiating Styles and Behaviors

Events in Negotiation	Competitive	Cooperative	Submissive
Setting the Agenda	• Tries to negotiate on home turf • Focuses debate on own issues • Ignores other party's demands	• Tries to negotiate on neutral turf • Focuses other party's issues as well as own • Listens to other's demands	• Negotiates on other side's turf • Focuses on other party's issues exclusively • Concedes to other party's demands
Voicing of Demands and Offers	• Requires other party to make first offers • Returns with very high demands, low offers • Exaggerates own position, ignores other side's	• Interchanges offers and demands with other party • Returns with moderate demands and offers • Shares reasons for interest in specific items, seeks same from other party	• Presents recent offers or demands on other party's terms • Returns with low demands and high offers • Concedes to other party's priorities
Final Bargaining	• Concedes only on items of low value or interest • Pushes for large concessions from other party	• Pursues equal concessions from both sides • Pursues mutually beneficial settlement	• Concedes to other party's demands • Makes large concessions, gives away the stores

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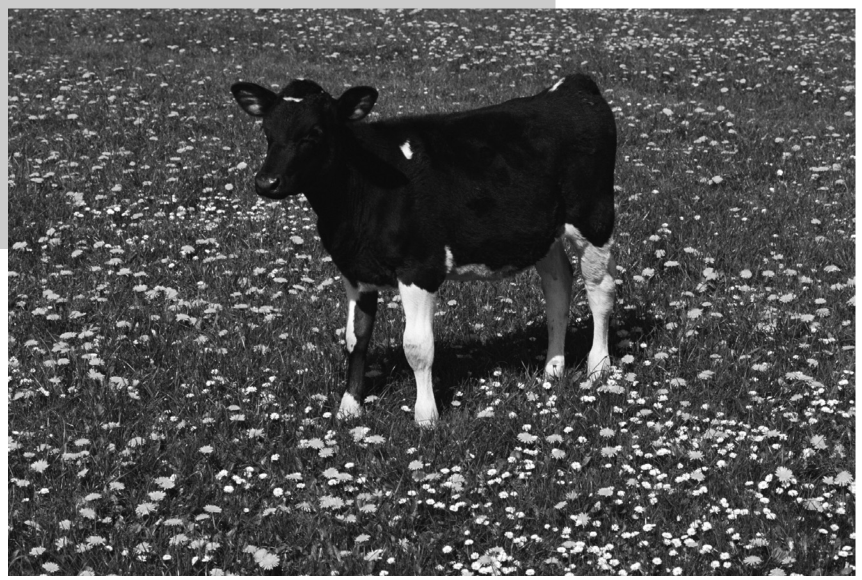
Use this as a guide to help identify how you have negotiated in the past. This exercise is a self-diagnostic test in which you begin to understand your behavior patterns. Does your behavior or style vary depending on the phase of the negotiation? With this knowledge you can begin to practice and improve your skills. Aim for flexibility and confidence.

Key Traits of the Effective Negotiator

- Ability to separate fact from fiction
- Ability to recognize and give credence to perceptions
- Never underestimates the power of perceptions
- A truly gifted listener
- Communicates interests and ideas clearly
- Maintains a broad perspective
- Understands the relationship involved
- Shows respect for his or her counterpart



Negotiation Conclusions: Strive for a "Win-Win"

Given the chance, why shouldn't a negotiator try to win concessions at the expense of their counterparts? Why shouldn't a person focus exclusively on personal gain and follow the "slash and burn" technique of deal making? Here are two good reasons why such techniques are shortsighted:

- One-sided agreements do not work in the long term.
- Benefits to both sides provide real incentive to stick to the agreement.

Recent research indicates that the more information that is shared between the negotiators and the more cooperative the approach, the better the outcome will be. A joint-problem solving approach is often referred to as a **"Win-Win."** In this agreement, each side has real benefits, and therefore each side wants the agreement to continue. An agreement that ends Win-Win encourages creativity and allows the process of negotiation to be a smoother, less trying one.

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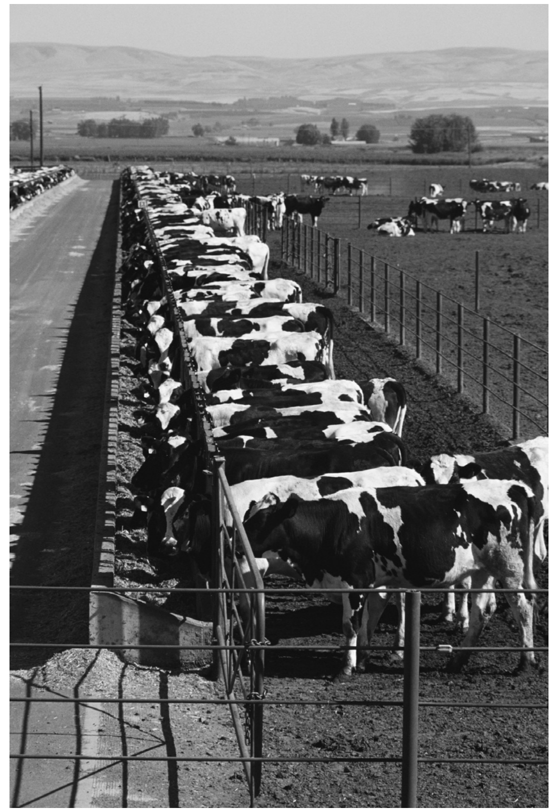
Who's That Across the Table?

Chances are, you will have to negotiate in some way with a large and varied cast of characters. Most of this information is common sense. The goal here is to equip you with the basic information to be the best negotiator you can be: confident, professional and well-prepared.



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confident professional &

Attorneys

When hiring attorneys to act on your behalf the issues generally involve price. Basically, lawyers price their services in two ways:

- **On contingency.** Payment is based on a percentage of the monetary outcome of a lawsuit. This sort of pricing schedule is only relevant when one is engaged in a lawsuit seeking damages.
- **A straight fee.** Charges are based on hourly work.

Fees are always negotiable, so collect fee structures from a number of different attorneys.

Lawyers tend to specialize in different types of law—personal injury, tax and estate planning, corporate, divorce and criminal to name a few. It is important to choose a lawyer that is knowledgeable in the field you are seeking advice.

Bankers

There are all types of banking institutions: some serve consumers and some serve businesses. There are banks that cater exclusively to small businesses like yours. Banks make money in one of two ways:

- Lending money
- Fees for services

As a business customer, you can almost always negotiate interest rates and fee structures. Your goal is to find a bank that understands your needs and has your interests at heart.

10-6 TEXT harvest your future

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- Fees for services

As a business customer, you can almost always negotiate interest rates and fee structures. Your goal is to find a bank that understands your needs and has your interests at heart.

Unlike others you will encounter in your negotiations, banks are limited by a number of government regulations. These limitations cause bankers to:

- Require personal endorsements of the principals or a guarantor(s) on small business loans
- Perform credit analysis on their business customers
- Avoid long-term debt
- Charge higher rates for riskier loans
- Often require collateral such as real estate or other assets to make loans

Venture Capitalists/Investors

Without a doubt, investors have an advantage over the average business owner for one simple reason: They negotiate deals far more often than most other people do. Engage the skills of a qualified investment attorney when negotiating with potential investors.

"Engage the skills of a qualified investment attorney when negotiating with potential investors..."

Some issues you will encounter when dealing with investors are:

- Share of equity: This refers to percentage of ownership they will have in your business.
- The mix of straight versus convertible debt: Convertible debt can be exchanged for stock (equity) in the company. Straight debt is simply money the business owes to that lender without any rights of ownership in the business attached.
- Consulting agreement: This obligates the business to "buy" a given amount of consulting time from the investor.
- Other issues include rights of refusal on any sale of management stock (stock that the business holds), right to veto any new financing, and preemptive stock purchase rights.

Investors can be individuals, groups called "syndicates," limited partnerships, corporations, or virtually any form of business. Try to seek out an investor that specializes in your particular product or industry. Investors and venture capitalists are interested in maximizing their returns. Larger investors are often interested in nothing short of market domination! Small investors might have different agendas. Regardless of your investors, you want to document all of your agreements in writing. It is a good idea to have your lawyer do the drafting, or at a minimum review all agreements before you sign them.

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harvest your future T E X T 10-7

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Suppliers

Most negotiations with suppliers will be related to a specific transaction. You will be negotiating purchase agreements involving price, delivery time, units, and quality. You should have someone in your business specifically charged with purchasing and negotiating with suppliers. That individual should have basic guidelines to follow when dealing with suppliers. These can include rules and regulations that govern ordering, invoicing, quality control and managing long-term agreements.

Since you will rely on suppliers to deliver quality products on time, chances are you are seeking a true partner when you select a supplier. It is wise to consider the rapport you have with a supplier. Is this someone with whom you want a long-term relationship? Do they share your values and standards? Remember that a supplier should ideally be someone with whom you will enjoy partnering.

Customers and Buyers

Depending on your business, you may or may not have the opportunity to negotiate with your customers. If you are in a service business, however, chances are you will be negotiating contracts that include price, delivery time and project terms. Your negotiations with customers will almost entirely be guided by your interest in creating a long-term relationship and providing the highest quality of service. For this reason, these negotiations will be somewhat different from all others in which you engage.

All of the same factors that guide your negotiations with suppliers also guide your dealings with the buyers to whom you sell: price, quality and delivery times. Some of the major issues you might be negotiating with these buyers are payment terms, late payment options, specification changes and contract changes.

problem customer

Let's talk about "problem customers." A **problem customer** may be a customer who chronically pays late, changes the details of a "firm" contract or demands unreasonable or special treatment. These people take up a large amount of time and energy as you try to resolve issues and ensure future business. A particularly important decision is whether or not to negotiate with these people. Do you want this person's business? What are the benefits and costs of keeping him or her as a customer? You need to decide if the profit potential of keeping the problem customer is worth putting up with the extra time, energy and hassles.

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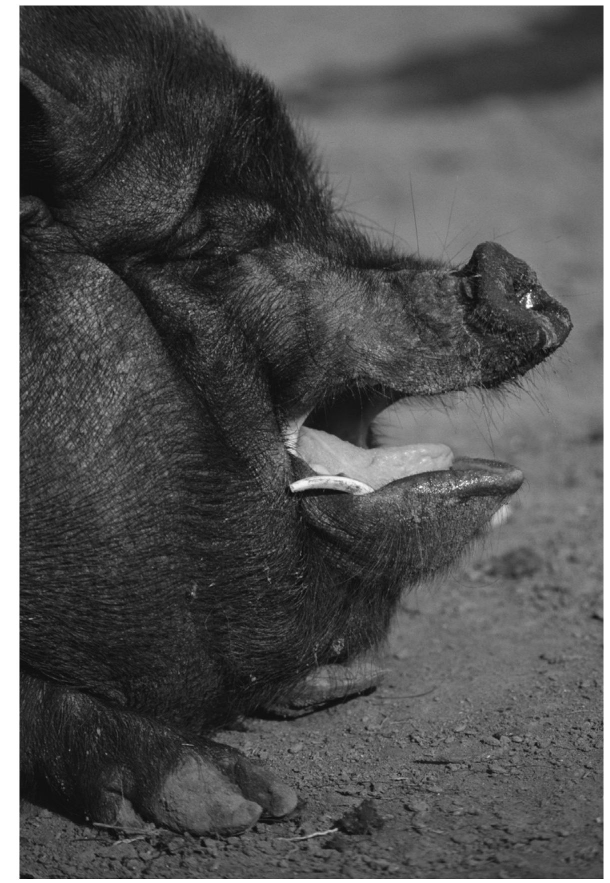

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Employees and Contractors
When you negotiate with employees who are or will be working for your business, the major issues you will be negotiating are:

- Compensation
- Benefits
- Job description, responsibilities, etc.

How will you compensate your employees? You will recall from Session 4 that there are a variety of ways to compensate an employee. How will you mix tangible rewards like salary and medical benefits with those intangibles like promotions, office space, time off and recognition?

The Major issues of negotiating with employees:

- compensation
- benefits
- job description, responsibilities

Contractors for your business will most likely have a more limited relationship with you. These negotiations will focus on more straightforward elements—cost, parameters of the project, reporting requirements and time frame for completion. As with all of your other negotiating counterparts, have as much information about your potential contractors as possible. What do they value? What are their goals?

Landlords
Every entrepreneur must work somewhere, whether it's out of your home, from your leased farm or from rented office space. This means that at some point you probably will negotiate a lease with a landlord. Rent is usually set to cover a fixed period of time and include several add-ons. These may include but are not limited to ground fees, cash rent, maintenance, improvements, land use and insurance. All of these are negotiable.

"At some point you will probably negotiate a lease with a landlord..."

CPR for Negotiations

How about when the negotiation is on it's last leg? Its time for CPR: *Cooperative Participation Resuscitation*. This is a quick, highly effective technique for reviving stalled communications.

Five steps to re-framing the issues and restarting tired negotiations

1. **Identify and describe the action.** What are your observations about the deal-making process? What do you see happening? What facts do you have? Where can you get additional information? What is your counterpart doing and saying? What are you doing and saying?
2. **Identify and describe your assumptions.** How are you interpreting events and facts? What are you assuming about your counterpart's behavior?
3. **Identify and describe the costs.** What are the costs of the decisions or events in which you are engaged? These costs can be measured in terms of time, money, relationships, productivity or emotions.

Continued...

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Continued...

4. **Identify and describe your needs.** What do you want that you are not currently getting? What are your personal or business objectives?
5. **Identify and describe your wants.** What do you want from your counterpart in order to satisfy your needs? This is your give-and-take scenario: what you want and what you are willing to do to get it? What is your plan of action?

"It is important to stay 'tuned-in' to the real process and issues when engaged in the deal-making process..."

This process can help those engaged in the deal making process to stay "tuned-in" to the real process and issues. You can get a good look at the whole scene. In doing this, you keep focused and gain insight into your counterpart's issues. Use this insight to slice up big problems into smaller, more manageable ones. Also try this technique for gaining concessions: cut the larger outcome you want into smaller pieces that can be achieved one at a time.

Walking Away from the Table

By using the strategies presented here, you will exhibit your commitment to the negotiating process. But is there ever a time when it is in your best interest to walk away from the negotiating table? When is enough, enough?

Different people reach this point under different circumstances and at different times. How do you decide? There are some general guidelines that can assist you in this decision. It's time to think seriously about leaving the negotiating table (or restarting negotiations at a later date) when:

walk away...

- Your counterpart's ethics clash with your own.
- You are forced into a time frame you cannot meet.
- Your counterpart is downright greedy.
- You have reason to believe your counterpart can neither provide for nor follow through on their part of the deal.
- You can achieve greater results elsewhere.
- You lose respect for your counterpart, don't like them, or can't justify a continued relationship with them.
- Economic conditions change

10-10 TEXT harvest your future

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Managing Growth

Why Grow?

Why would you want to grow your business? You are comfortable with the way your business operates. You have mastered the pricing of your products or services and feel you are serving your customer better than anyone else. Your business fits you like a glove, why would you want to change by growing?

Most businesses decide to grow to enhance their earnings and profits. Consider the major reasons that you may want to grow your business:

- To dominate the competition
- To enhance profits
- To master new challenges
- To achieve economies of scale
- To acquire volume discounts on inputs and materials
- To enhance your company's status and prestige
- To acquire a broader, more diversified customer base
- To reach more attractive customer segments
- To better serve your customers by being more accessible, having more resources, and offering lower prices

fits like a Glove.

The benefits of growing your company are not just limited to your market presence or bottom line. Well-managed, smart growth can mean exciting, exhilarating and fulfilling times for your entire business team.

Yes, But Should I Grow?

So you know what the benefits of growth are and why you want to grow your business, but should you? Can your business honestly perform better or achieve more by being larger than it is now? What will be the cost of that growth in terms of both required capital and extra time and energy? Think carefully before you leap into the task of growing your business. Growth simply for your ego's sake serves no other purpose than to dilute your precious resources and energy.

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Understand Your Personal Goals

Clearly, the profitability and financial health of your business are just two determining factors in how, when, and why you grow your business. As important as these issues are, many believe that some of the less tangible and less easily measured are equally important—your personal goals, for one. While not as concrete as dollars and cents, personal goals play an important role in determining the fulfillment from your business. While capital is an important ingredient for growth, your motivation is also an essential ingredient. Without the inspiration and commitment that can come only from loyalty to a vision, all the sales in the world will not be enough to ensure your business' success. What is the point of having a large, growing business if you don't enjoy doing it?

goals & values

"It is important to reflect upon your personal goals as well as your business goals…"

For this reason, as you plan for your agricultural business' growth, reflect upon the initial goals you set for yourself and your business in Session 1. Ask yourself:

- What do I want to accomplish for myself through this business?
- How will this business help me achieve my vision?
- When I began this business, what did I want to accomplish? What guided my efforts?
- What are the things I like most about my business?
- What are the things I dislike most about my business?
- Does my business reflect my values and my personality?
- What are the things I most value about being in business?

Understand Your Business Goals

Just as you have reflected upon your personal goals, you must also consider your business goals. What were your original objectives and financial projections? Is your business moving in the right direction to accomplish your projections? Have you hit your projections? Are your products or services truly reflective of your business' best strengths and performance?

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Review your marketing plan and ask yourself these questions: "Who are my customers? Why do they buy my product or service? Who are my competitors? What do I offer that they do not or cannot?" Then consider:

- Am I serving the customers I targeted in my business plan?
- Has the competitive landscape of my market shifted?
- Have the needs of my customers changed?
- Has my ability to meet the needs of my customers changed?
- Has the cost structure and pricing in my industry changed?
- Are there any new technologies that are affecting my ability to compete?

The answers to all these questions will help you revisit the thoughts that motivated you to create your agricultural business in the first place. Perhaps in the process you'll discover that your vision changed or your priorities shifted. Before you can succeed at managing a growing business, you have to be true to your own interests, skills and vision from both your personal and business sides.

"Learn how to grow successfully..."

What is Managed Growth?

If you decide to grow, your task is to learn how to grow successfully. Entrepreneurs who are successful in the long term distinguish themselves not just by a keen understanding of their market and the forces that drive it, but also by their ability to plan their own growth. They do this by identifying trends before the trends impact their business. They plan for their financial needs and begin laying the groundwork for additional financing long before they need it. They create management controls to sustain their performance and utilize budgets to safeguard their cash. Lastly, these keen growth managers create a confident, professionally managed business that can attract the best investors, employees and customers.

Many agricultural businesses do enjoy great success simply by going with the tide. However, the success they enjoy is rarely sustainable and is usually based on circumstantial factors. The results of failing to manage and plan for your business' growth can spill over to affect nearly all areas of your business' performance. The pitfalls of using this type of planning include:

- Experiencing only limited, short-term growth
- Unprofessional behavior

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- Poor employee morale
- High employee turnover
- Loss of profitability
- Under-utilization of resources
- Loss of customer loyalty
- Diminished quality of products
- Stress and burnout
- Loss of focus on core business goals and objectives
- Poor communication among employees
- Cash crunch and bankruptcy

Managing growth requires the right tools:

- updating your business plan
- cash management
- expert time management

Tools for Growth

Managing growth requires the right tools. What are these tools? They include updating your business plan, cash management and expert time management.

Updating Your Business Plan

Let's say that after careful review and consideration, you decide that now is the time to grow your business. The next step is to review and revise your business plan. Even the most well-researched and ingeniously written business plan can become out-of-date over time or when conditions change. Your customer's profile or market segment can shift, economic conditions can change, your competitors can introduce new products, or a new technology can emerge. All of these can make your original business plan obsolete.

strengths & weaknesses

In order to ensure that your plan does not become obsolete, you must periodically update it. And you must certainly update it before you seek the additional financing that will most likely be required to grow your business. To do this, ask yourself the following questions.

- What are the potential threats and opportunities for my business?
- Are my assumptions still valid?
- What are the business' strengths and weaknesses?

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- Can I measure my progress according to my original standards?
- Does my business plan accurately reflect my business today?
- What resources does the business require to achieve its goals?
- Are my customers' needs being expertly and uniquely served?
- Can my business operate more efficiently than it is currently?

"Your Business Plan will be used to gauge the vision and profit potential of your budding agricultural business..."

Remember all or part of your business plan will be used by current and potential investors/lenders, customers, suppliers, partners, consultants and employees to gauge the vision and profit potential of your budding agricultural business. Think of the growth phase you are entering as beginning an entirely new business. Look at your challenges and opportunities with fresh eyes and set new goals for yourself. By updating your business plan, you are creating the document that will guide this exciting phase of your business.

Cash Management

Your ability to skillfully manage cash determines your business' ability to grow. On the other hand, poorly managed cash can stall or completely curtail your growth plans. Take a moment to look at several of the biggest drains on cash that a business can have:

- Principal and interest payments on debt
- Cash tied up in excess inventory
- Uncollected accounts receivable

A cash flow projection can be your best survival tool when it is regularly maintained and updated to reflect actual financial performance. Good financial mangers don't stop there. Updated cash flow analysis is the basis of tracking and understanding deviations from the plan. Here are some basic cash management tips:

- Work out a format with your accountant that fits your business' needs
- Schedule your accounts receivable by major accounts

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- Pinpoint collection problems one by one
- Schedule major cash payments by supplier
- Plan for cash flows at least 12 months in advance
- Review and update your cash flow plan weekly
- Deal with cash shortages before they occur
- Use your banker as an advisor

"Given the time demands on your business and limited resources effective **time management** is more important than ever..."

Good Time Management

Given the time demands on your business and limited resources effective **time management** is more important than ever. Why do you need to develop and practice good time management skills? People can only be in one place at a time and only do one task at a time. Understanding how to maximize your time will improve productivity, increase the quality of performance, lower your stress level, and enhance relationships with employees, suppliers, and customers. A trip to your local library or bookstore will provide you with several time management resources.

1. **SPEND TIME PLANNING AND ORGANIZING.** Using time to think and plan is time well-spent. Organize in a way that makes sense to you.
2. **SET GOALS.** Goals give your life, and the way you spend your time, direction. Set goals which are specific, measurable, realistic and achievable.
3. **PRIORITIZE.** Use the 80-20—80 percent of the reward comes from 20 percent of the effort. The trick to prioritizing is to isolate and identify that valuable 20 percent. Once identified, prioritize time to concentrate your work on those items with the greatest reward.
4. **USE A TO DO LIST.** Some people thrive using a daily To Do list which they construct either the last thing the previous day or first thing in the morning. Such people may combine a To Do list with a calendar or schedule. Others prefer a "running" To Do list which is continuously being updated. Or, you may prefer a combination of the two previously described To Do lists.
5. **BE FLEXIBLE.** Allow time for interruptions and distractions. Time management experts often suggest planning for just 50 percent or less of one's time. With only 50 percent of your time planned, you will have the flexibility to handle interruptions and the unplanned "emergency."

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- Pinpoint collection problems one by one
- Schedule major cash payments by supplier
- Plan for cash flows at least 12 months in advance
- Review and update your cash flow plan weekly
- Deal with cash shortages before they occur
- Use your banker as an advisor

"Given the time demands on your business and limited resources effective **time management** is more important than ever..."

Good Time Management

Given the time demands on your business and limited resources effective **time management** is more important than ever. Why do you need to develop and practice good time management skills? People can only be in one place at a time and only do one task at a time. Understanding how to maximize your time will improve productivity, increase the quality of performance, lower your stress level, and enhance relationships with employees, suppliers, and customers. A trip to your local library or bookstore will provide you with several time management resources.

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6. **CONSIDER YOUR BIOLOGICAL PRIME TIME.** That's the time of day when you are at your best. Are you a "morning person," a "night owl," or a late afternoon "whiz?" Knowing when your best time is and planning to use that time of day for your priorities (if possible) is effective time management.
7. **DO THE RIGHT THING RIGHT.** Doing the right thing is effectiveness; doing things right is efficiency. Focus first on effectiveness (identifying what is the right thing to do), then concentrate on efficiency (doing it right).
8. **ELIMINATE THE URGENT.** Urgent tasks have short-term consequences while important tasks are those with long-term, goal-related implications. Work towards reducing the urgent things you must do so you'll have time for your important priorities. Flagging or highlighting items on your To Do list or attaching a deadline to each item may help keep important items from becoming urgent emergencies.
9. **PRACTICE THE ART OF INTELLIGENT NEGLECT.** Eliminate from your life trivial tasks or those tasks which do not have long-term consequences for you. Can you delegate or eliminate any of your To Do list? Work on those tasks which you alone can do.

10. **AVOID BEING A PERFECTIONIST.** Yes, some things need to be closer to perfect than others, but perfectionism, paying unnecessary attention to detail, can be a form of procrastination.
11. **CONQUER PROCRASTINATION.** When you are avoiding something, break it into smaller tasks and do just one of the smaller tasks or set a timer and work on the big task for just 15 minutes. By doing a little at a time, eventually you'll reach a point where you'll want to finish.
12. **LEARN TO SAY "NO."** Such a small word—and so hard to say. Focusing on your goals may help. Blocking time for important, but often not scheduled, priorities such as family and friends can also help. But first you must be convinced that you and your priorities are important—that seems to be the hardest part in learning to say "no." Once convinced of their importance, saying "no" to the unimportant in life gets easier.
13. **REWARD YOURSELF.** Even for small successes, celebrate achievement of goals. Promise yourself a reward for completing each task, or finishing the total job. Then keep your promise to yourself and indulge in your reward. Doing so will help you maintain the necessary balance in life between work and play.

Source: University of Nebraska, Cooperative Extension

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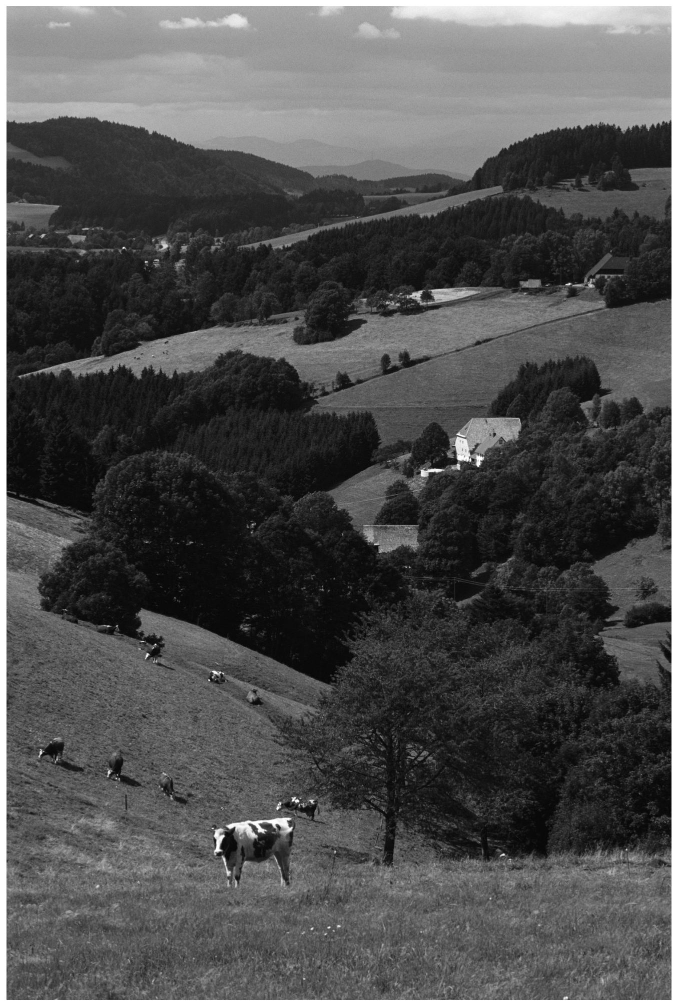
Estate Planning and Succession Issues

Estate Planning

"Careful farm owners consider their estate plan as part of their business plan..."

Careful farm owners consider their estate plan as part of their business plan. Just as you should spend time planning your business functions, effective estate planning takes careful, thoughtful planning with the help of qualified advisors.



What is Estate Planning

Your estate plan should consider three primary objectives: your family's future care and support; ways to minimize estate taxes or provide for the payment of any taxes which may be due; and plans for the transfer of the business either to a succeeding generation or to a third party. Estate planning will involve legal documents such as wills, trusts, etc., and may involve the use of insurance products.

Wills: The Basic Estate Planning Tool

The simplest form of estate planning is through the use of a document called a **will**. This is a legal document, which directs how you wish your estate to be divided and sets out the procedure for administering your affairs. At a minimum, you should at least have a will prepared by your attorney. If you do not have a will or trust when you die, the state will write a "will" for you under the probate statutes. The state's will, called "intestate succession," provides your surviving spouse some portion of your estate, typically one-half, and the remainder goes equally to any surviving children. Equal shares to all may not be your desire. Also, in most states, under the intestate succession laws, your farm or ranch would be sold and the cash distributed. Obviously, the state's "will" does not allow for you to plan for any of the three objectives described above, but your own will may take them into consideration. A negative feature of a will is that a court proceeding called a **probate** will be required in order to pass the estate on to your heirs. Probate is an expensive and time-consuming process and may be avoided by the use of a trust.

estate planning

Trusts: The Preferred Approach

A **trust** is a legal agreement which serves the basic function of a will but offers you far greater opportunities for estate planning. For instance, trusts

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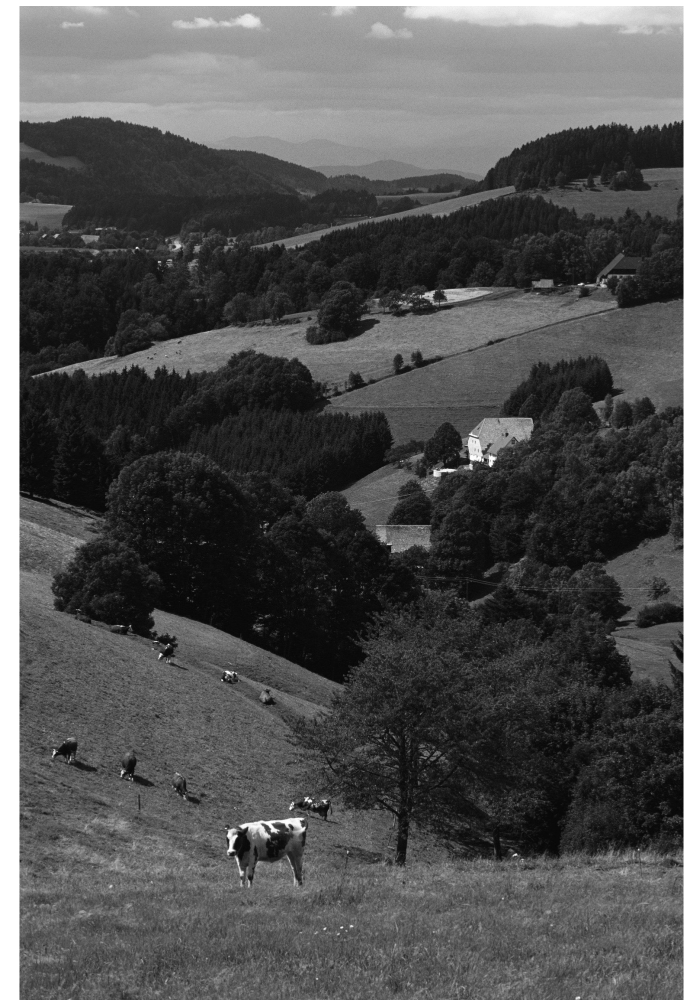

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can avoid the costs and public records of a probate proceeding, allow you to name a guardian to assist you in the event you were to become disabled, establish a guardian for and phased distribution of their inheritance to minor aged children, and provide you with many more tax minimizing tools. Typically, you would name yourself as trustee, so you do not turn over control of your assets until your death or disability. For most agricultural entrepreneurs, a trust will be the preferred estate planning device.

Tax Considerations

If your net estate exceeds $625,000 (as of 1998) at your death your estate may owe federal estate tax. Over the next eight years this amount will be phased up to $1 million before your estate may owe federal estate tax. In addition, many states have inheritance taxes. Most states follow the federal tax system. A **net estate** is the value of your assets minus liabilities. Under federal law you may leave any amount of assets to your surviving spouse without paying any estate tax. However, the result could be a bunching of assets in the survivor's estate, and therefore, may result in even higher taxes when your spouse dies. The time to plan is while both spouses are alive and can both utilize their $625,000 exemption. Simply splitting your estate into two separate estates can save thousands of dollars of unnecessary tax.

"There is a provision under the federal tax code which allows your estate to defer payment of portions of the estate tax attributable to the closely held agricultural business..."

One of your goals in estate planning may be to pass the farm or ranch on to future generations. You may not want it sold to pay estate taxes. A family farm is not generally liquid in the sense that its assets cannot readily be converted into cash. So, it may be advisable for you to anticipate the payment of estate or inheritance taxes with an insurance policy, thus avoiding liquidation of any of the business assets in order to pay taxes. You must be careful not to own the insurance policy yourself, or it will be included within your estate and also be subject to estate tax. You can either have the business own the policy or have a third party, such as your children, own the policy insuring your life.

You should be aware that there is a provision under the federal tax code which allows your estate to defer payment of portions of the estate tax attributable to the closely held agricultural business. These payments may be spread out over a period up to 14 years.

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You should be aware that there is a provision under the federal tax code which allows your estate to defer payment of portions of the estate tax attributable to the closely held agricultural business. These payments may be spread out over a period up to 14 years.

Another tax planning opportunity, available only to producers is a special valuation election for your operation after the date of your death. Many specialty farms are located close to urban areas or other developments. Your land may have value to someone else not as an income producing family farm but rather as development land. Normally the IRS Code requires that assets be valued at their highest market value (i.e., quick sale to a developer) rather than as a long term producing asset such as a farm. However, 6166 of the tax code allows your estate to elect special "farm valuation" for your farm land so long as it meets certain criteria. With careful planning, you should be able to avoid negative estate tax situations entirely.

Succession Issues

Succession issues are a family affair and require the participation of all those who will be involved. One of your objectives in an estate plan may be to pass your family business on to one or more of your children. But you need to discuss these desires with them, so you can all make plans for the future. To begin the succession process, you can start by allowing them to assume greater responsibility in running the farm before you retire.

children.

Family Issues

Are one or more of your family members capable of running your agricultural business after you die or retire? Can they work together? Do they want to? It is surprising how few parents ask themselves and their children these questions. Sometimes it is not a good idea to leave a family business to two siblings who could not get along as children. It may be better to leave the business to one child and buy life insurance on yourself for the other(s) to equalize their inheritance. Or it may be best to sell the business and distribute their inheritance to family members in assets that are not tied up in the farming or ranching operation.

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Gifts

You are permitted to make a gift up to $10,000 ($20,000 if you are married) per year in cash or other assets to anyone. Therefore, one very common method of succession planning is to make non-taxable gifts of interests in

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your agricultural business each year to the family members who will be carrying on the business.

Remember what you learned in Session 3 about business entities. You can see that gifts of shares of stock in the family farm corporation or gifts of interests in an LLC are fairly easy to accomplish. However, due to real estate title laws, it is unlikely that you could gift parts of the land itself if you did not have the operation held in one of the business entities like a corporation or LLC. If you start early enough and are fortunate to live long enough, you may reduce your estate to the non-taxable level and accomplish your succession planning goals simply through the use of gifts.

"Gifts of shares of stock in the family farm corporation or gifts of interests in an LLC are fairly easy to accomplish..."

By making gifts of portions of a business that is appreciating in value, you can also reduce the growth of your estate by having gifted away this appreciating share. Another great advantage to gifts of interests in a corporation or LLC agricultural business is what we call the "minority discount." Under this approach, a gift of two percent of the corporation is not worth two percent of the total value of the business, since it is a "minority interest." Let's assume your farm and equipment are worth $1 million. By simple division, you might assume that your $20,000 annual gift exclusion would allow you and your spouse to only give a two percent interest to each of your children per year. However, the IRS allows you to use a special minority discount in valuing your closely held agricultural business. Therefore, because of the minority discount, it may be possible for you to give a higher percentage (maybe even up to five percent in this example) and still have that interest valued at only $20,000. You must have a qualified appraisal before the IRS will recognize this special minority discount valuation.

"You should seek competent legal, tax, and insurance advice so that your desires and objectives are properly carried out and updated as business and family circumstances change..."

You can see that there are several issues involved in gift giving including the type of business entity, control factors, "tax basis" of gifts, age of gift recipient, gifts placed "in trust," etc. It is important to obtain qualified advice in this area. An estate plan, coupled with succession planning, is something that requires your careful thought. It will also evolve over time as your business matures and grows. You should seek competent legal, tax, and insurance advice so that your desires and objectives are properly carried out and updated as business and family circumstances change.

in Conclusion

This session covered three topics.

Negotiating. Negotiating can be a confusing and trying process, particularly when you are confronted with a "hard" negotiator and complex issues. As a negotiator, you have the right to negotiate in any way you choose. However, for long-term business success, the win-win scenario is your best bet.

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Confidence, skill, and effectiveness all come with practice, and the one thing entrepreneurs have ample opportunity to do is practice negotiations.

Careful preparation for negotiations starts by identifying interests and goals. You can then enter negotiations prepared to create a truly unique and beneficial agreement. Once the process of negotiation has begun, you can confront any barriers by following this simple advice: fall back and regroup, step into the other side's shoes, and re-frame the issues. By addressing issues directly and minimizing time spent on posturing by both sides, mutual agreement can be reached much more quickly. Think of your negotiating as on-the-job training. Each time you practice and use your negotiating skills you will improve your effectiveness as a deal-maker.

Managing Growth. We have presented a basic mix of the tools and strategies that aid in planning growth strategies and sources of financing to fuel your growth. No discussion would be complete without taking time to reflect on your business plan and your personal objectives and goals. These are perhaps the most important things to consider as your business grows. Only by reaffirming your vision for your business can you tap into the essential motivation and inspiration that will fuel continued growth. With these insights in hand you are prepared to lead your business and employees during an exciting and challenging time.

sweetness of success

Estate Planning and Succession Strategies. As your business becomes successful it, will become a major portion of your estate. As that happens it will be time for you to put into action some of the suggestions contained in this session. Your first step is to determine your estate planning goals and objectives and any family succession issues. With these firmly in mind you are prepared to meet with your accountant and lawyer to formulate a plan which should include estate tax planning, income for you during retirement, and passing your business on to your children. If you are not interested in passing along the business to family members, you will want to consider the exit strategies as you investigate selling your business to a third party. If you have planned properly, you will benefit from your retirement plan. If not, you may have unexpected and unwelcome tax consequences. It is best to start your planning as soon as possible and to involve family members as applicable.

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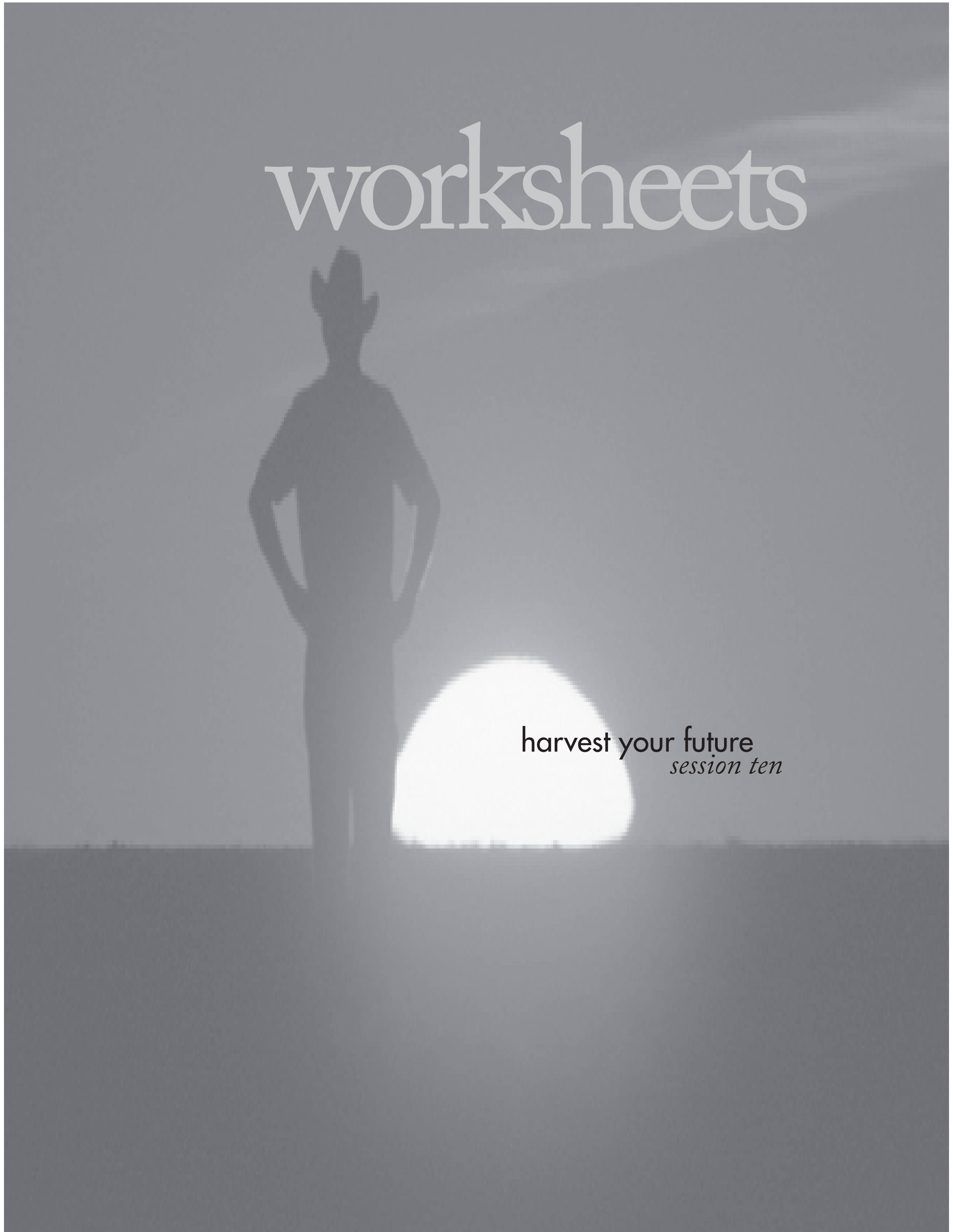
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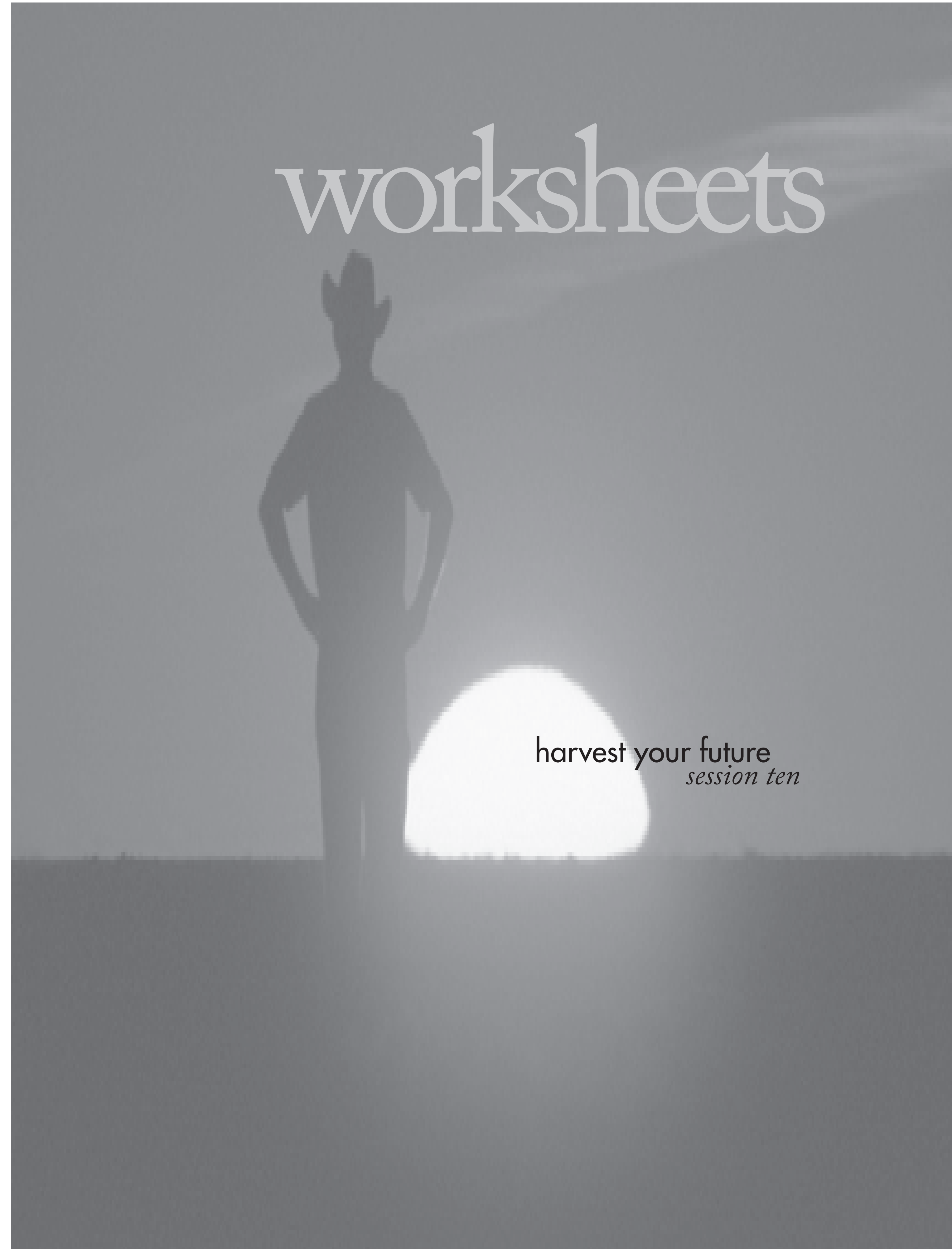
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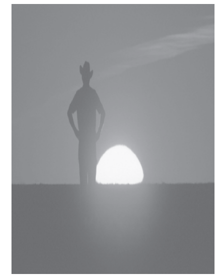

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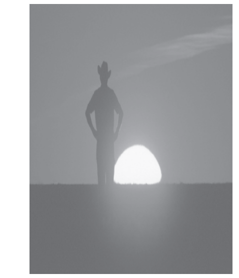

harvest your future
session ten

You're now ready to pull together the last pieces to make your plan complete. The business plan itself contains information about the key elements of your business as you view it now, but what about the future? Have you made plans to exit the business or transfer it to family members? How will taxes impact your succession strategy? What about the timing of your exit plan? These are just a few of the questions you should be addressing in the Estate Planning, Succession and Exit Strategies section of your plan so that the reader, *you, and your family,* know you are truly thinking about the future.

One of the last pieces of your plan that can be most helpful to your reader is the Appendix Section. If you are offering a new agricultural enterprise product, shouldn't your reader be able to see what the product looks like? If you have a great marketing idea, don't you want to the reader to see your promotional brochure, how your logo fits your image, etc.? The Appendix Section contains supporting documents so the reader can have as complete a picture of your business as possible. It can also include your Action Log of future activities.

Once these final few pieces are complete, you have a complete draft of your *NxLeveL™ Agricultural Business Plan*! Congratulate yourself for defining your business and its financial and growth potential. The business planning process is one that you will use over and over. Your business plan will "live and breathe" if you continue to use it as a management tool to guide your business decisions.

NxLeveL™ Agricultural Business Plan—COMPLETE

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Section I. Executive Summary
Section II. Business Concept, Mission & Goals
Section III. Background Information
Section IV. Organizational Matters
Section V. The Marketing Plan
Section VI. The Financial Plan

Appendix Section
Action Log
Supporting Documents


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your future
SESSION TEN

You're now ready to pull together the last pieces to make your plan complete. The business plan itself contains information about the key elements of your business as you view it now, but what about the future? Have you made plans to exit the business or transfer it to family members? How will taxes impact your succession strategy? What about the timing of your exit plan? These are just a few of the questions you should be addressing in the Estate Planning, Succession and Exit Strategies section of your plan so that the reader, *you, and your family,* know you are truly thinking about the future.

One of the last pieces of your plan that can be most helpful to your reader is the Appendix Section. If you are offering a new agricultural enterprise product, shouldn't your reader be able to see what the product looks like? If you have a great marketing idea, don't you want to the reader to see your promotional brochure, how your logo fits your image, etc.? The Appendix Section contains supporting documents so the reader can have as complete a picture of your business as possible. It can also include your Action Log of future activities.

Once these final few pieces are complete, you have a complete draft of your *NxLeveL™ Agricultural Business Plan*! Congratulate yourself for defining your business and its financial and growth potential. The business planning process is one that you will use over and over. Your business plan will "live and breathe" if you continue to use it as a management tool to guide your business decisions.

NxLeveL™ Agricultural Business Plan—COMPLETE

Cover Page
Table of Contents
Section I. Executive Summary
Section II. Business Concept, Mission & Goals
Section III. Background Information
Section IV. Organizational Matters
Section V. The Marketing Plan
Section VI. The Financial Plan

Appendix Section
Action Log
Supporting Documents

Executive Summary–One More Look...

Take one more look at your Executive Summary. It is really tempting to make the executive summary piece longer than two pages, but *don't*. If you can't get your reader interested in two pages, you probably can't in five or six either, especially if your reader has a limited amount of time to make the preliminary evaluation of whether or not to study your plan further.

Writing Your Plan

Finish Your Cover Page
Finish Your Table of Contents
Section I. Executive Summary

Take that "one last look" at your Executive Summary.

Action Log

Review your Action Log and update any activities that have been completed or need additional work. For your business plan, consider revising the Action Log to show only the activities that still require work and that give the reader information about your direction now that the business plan is complete. Include a copy of your revised Action Log in the Appendix Section.

Supporting Documents

This section of your business plan should include any information or documents which further explain or exhibit decisions and obligations of your business.

Step 1: Identify your intended audience.
Different audiences will require you to prepare slightly different Appendix sections. For instance, the appendices you send to a banker for a loan would be more detailed than the appendices you would send to a supplier to establish trade credit.

Step 2: Identify desired supporting documents.
Using the checklist on the following page, identify documents you will use as supporting exhibits for your agricultural business plan. Consider which supporting exhibits are needed based upon who will be reading your completed business plan.

Step 3: Collect these supporting documents/exhibits.
Complete any documents that are unfinished, and find those documents that are not readily available. Use the checklist to keep track of exhibits you have gathered and ones that still need to be assembled.

10-2 WORKSHEETS harvest your future

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Supporting Documents

Supporting Documents to be Considered for Appendix	Needed?	Completed
Historical business financial statements - 3 years		
Historical business tax returns - 3 years		
Current business credit report		
Resumes of each owner		
Resumes of key employees		
Recent tax return of each owner		
Organizational chart		
Job descriptions		
Property layout (showing outbuildings)		
Photos of business and/or equipment		
Map showing location		
Photos of products		
Photos of marketing tools		
Lease/rental agreements		
Contracts		
Loan documents		
Credit reports of major customers		
Licenses, permits or patents		
Letters of reference		
Market survey report		
Building permits		
Appraisals		
List of your attorney, accountant and other business consultants		
Certifications		
Other:		

Writing Your Plan

Update your Action Log and include a copy in the Appendix. Determine which Supporting Documents you want to include, then prepare a cover page for the Appendix section under the following heading:

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List the contents of the Appendix Section under this heading in the order in which the documents are organized, then include the documents in that order.

harvest your future WORKSHEETS 10-3

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Managing Your Future

Estate Planning, Succession Issues, and Exit Strategies

You've worked hard to plan out your business activities—now what about protecting the future of this business and your family? Answer the following questions regarding your estate planning, business succession plans and/or exit strategies. Consider involving family members in this discussion, as the decisions you make now could impact many generations yet to come.

1. **Do you have a will? If so, has it been reviewed recently, and does it cover the new aspects of your agricultural business?**

2. **What plans have you made to minimize estate taxes for your family members?**

3. **What business succession plans have you discussed with your family members? Are all family members in agreement regarding these strategies? Are there other exit strategies that could be discussed?**

4. **Is your agricultural business capable of funding retirement plans for you and/or other employees and family members? What retirement plans are currently in place? What addition retirement plans would you like to develop in the near future?**

10-4 WORKSHEETS harvest your future

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Writing Your Plan

The summary of information regarding Estate Planning, Succession Issues and Exit Strategies should be included in the following section of your business plan:

Section IV. Organizational Matters

C. Succession and Estate Planning

Using the answers from questions 1 through 4 on the prior page, explain your business succession and estate planning strategies. Include whether or not family members are part of your exist strategies, and other succession possibilities that exist. Try to answer questions like: How and when do you plan to retire from your agricultural business? Are retirement plans in place to monetarily support you during your retirement years? Why are estate planning and succession strategies important for agricultural enterprise owners, in general—and for you specifically?

To Do, or Not To Do ...

Is this a "do-able" plan? That question runs through almost all entrepreneurs' minds, particularly at the completion point of a planning project of this size.

There are a lot of elements to consider when deciding whether or not to actually *do* , or move forward with, your agricultural business plan project.

- Is it the right place and right time for you to move ahead?
- Do you have the support of your family?
- Did you gather enough information, or does the idea still need more work?
- Does the plan fit with your personal goals, family matters, income requirements?
- Do you have the *desire* to move forward?
- If you choose not to implement the project, does that mean you are a failure? Does that mean the plan was a failure?

1. Define "do-able" in your own words as it relates to your project.

harvest your future WORKSHEETS 10-5

Writing Your Plan

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Barriers and Pitfalls

If you intend to move forward with your agricultural business plan project, you know there will be some inevitable barriers and pitfalls along the way. Part of your last reading assignment concerned managing growth, and the problems that can occur as a result of growing too fast. Taking time to think about what you will face *before* you implement your plan is what this process has been all about.

2. What barriers and pitfalls do you expect to face in implementing your agricultural business plan project?

3. What will you do (specifically) to overcome or manage the above barriers and/or pitfalls?

4. What will you do to *manage* your business growth?

10-6 WORKSHEETS harvest your future

Barriers and Pitfalls

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2. What barriers and pitfalls do you expect to face in implementing your agricultural business plan project?

3. What will you do (specifically) to overcome or manage the above barriers and/or pitfalls?

4. What will you do to manage your business growth?

Getting Started Implementation Checklist

If you have decided to move forward with your agricultural business concept, the following checklist of basic implementation steps may serve as a reminder to some of the details facing you. Modify the list, and be sure to check into your specific state requirements.

___ 1. Protect your idea. (Patents, Copyrights, Trademarks, Brand Names)

___ 2. Finalize business name and structure. File "doing business as" (DBA) registration.

___ 3. Identify capital required, and seek necessary debt or equity.

___ 4. Secure facilities or equipment.

___ 5. Obtain insurance for facilities/equipment or other needs.

___ 6. Check state license requirements. Secure licenses, permits or bonding where necessary.

___ 7. Check certification requirement.

___ 8. Check local license requirements.

___ 9. Check zoning for business location.

___ 10. Obtain income tax information.

___ 11. Check on other local/state taxes that may apply to your business.

___ 12. Obtain federal tax I.D. number, if needed.

___ 13. If hiring employees, check on federal and state requirements.

___ 14. Check on environmental issues with regulatory agencies, if needed.

___ 15. Check to determine if you must comply with American with Disabilities Act (ADA).

___ 16. Establish accounting system.

___ 17. Establish bank account.

___ 18. Publicize and promote new business.

___ 19. Other: ____

___ 20. Other: ____

Congratulate yourself on completing this course.
You have taken a significant step toward your next LeveL of agricultural business success!

harvest your future WORKSHEETS 10-7

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glossary of terms

The business world is filled with specialized terms. Understanding the business vocabulary will enhance your ability to understand entrepreneurial concepts and allow you to feel less threatened by the language in business discussions.

This section is designed for easy "look up" of common business terminology and defines acronyms frequently used in business.

Accounts Payable (A/P): An unpaid balance of money owed by your business, generally referring to amounts owed for inventory, supplies, and other such ongoing expenses.

Accounts Receivable (A/R): An unpaid balance of money owed to your business by customer accounts.

Accrual Method of Accounting: An accounting system in which revenues are recorded when earned, and expenses are recorded when incurred, no matter when cash changes hands.

Action Plan: A detailed plan, used internally, which includes objectives, actions, and a budget for the next year.

ADA (Americans with Disabilities Act [of 1990]): A set of federal laws that prohibits discrimination on the basis of disability. Areas of compliance include job accommodations, hiring, and access to public buildings.

Advertising: Paid, on-going mass communication from a business to customers. It communicates messages about a product, service, and a company in mass media like television, radio, magazines, or newspapers.

AEO (Association for Enterprise Opportunity): A national trade organization for microenterprise development programs throughout the United States. Members provide business training, peer support, and credit opportunities to owners of very small businesses.

Agents: Charge a commission to facilitate sales between manufacturers and their final customers. They do not take title of the products.

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Aging of Accounts Receivable: The listing of accounts receivable according to the length of time the unpaid balance has been owed. Analysis is a management tool used to focus on accounts that are not being paid in a timely manner, uncollectible accounts, and potential cash flow problems.

Alternative Agriculture: New ventures or nontraditional enterprises such as nontraditional crops and livestock, recreation, tourism, food processing, unconventional production systems such as organic farming or aquaculture, and direct marketing.

Amortization: The process of liquidating a cost over a long period of time (i.e., a home mortgage) which is amortized by periodically making a payment which is applied to reduce the principal amount of the mortgage.

Annual Work Plan: A detailed document which is the result of operational planning. Highlights from this plan are included in the business plan.

Arbitration: A system administered by the court system to resolve disputes and is increasingly used in lieu of litigation.

Articles of Incorporation: A document filed by a corporation with a state's department of commerce which states, among other items, why the corporation is being formed, what type of business it will be, and serves to register the corporate name.

Assets: Any items of value owned; items on the balance sheet that reflect value owned including cash, accounts receivable, notes receivable, property, and property rights.

Assumed Business Name: The name a business operates under. Most states provide for the registration of assumed business names which allow a way to protect the name from misuse by others.

Assumptions: Management's reasons or justifications for projected income or expense items on cash flow or other financial projections. Assumptions should be documented and included as part of the financial information report to which it pertains.

Authorized Check Signer: Those who are allowed to sign on the business checking account.

Average Revenue: The average amount of money earned from selling one product or service.

Balance Sheet: An itemized report that lists assets, liabilities, and owners' equity at a given point in time. The standard balance sheet formula is: Assets = Liabilities + Owners' Equity

Bankruptcy: Condition in which a business cannot meet its debt obligations and petitions a federal district court for either reorganization of its debts or liquidation of its assets.

Barriers to Entry: Any factors that inhibit a business's ability to enter a market.

BBB (Better Business Bureau): A non-profit association that attempts to provide consumer information about businesses and attempts to control unethical business practices.

Bid Pricing: Pricing used by organizational buyers in which requests for proposals invite interested sellers to bid on a set of specifications developed by the buyer.

Bill of Lading: A shipping contract which outlines the terms of the shipping agreement and the means by which goods will be shipped.

Blue Sky: A law regulating the sale of securities, real estate, etc., especially designed to prevent the promotion of fraudulent stocks.

Board of Directors: The group of individuals elected by stockholders or appointed by management of a corporation who are responsible for directing the policies and overall affairs of the corporation.

Boilerplate: The detailed standard wording of a contract.

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Bottom Line: The last line of a financial statement used to show net profit or loss.

Brand: A name or symbol that represents a product.

Brand Image: Represents the overall impression of a brand by customers. This is formed by new information and past experiences.

Brand Introduction Strategy: Establishing market position for a new brand by building a distribution network and creating awareness and first-trial among consumers.

Break-Even Analysis: Identifies the point at which total revenue equals total cost and profits are zero.

Break-Even Point: The sales level at which neither a profit is earned nor a loss is incurred. The basic Break-Even Formula is: **S** (break-even level of sales $'s) = **FC** (fixed cost $'s) + **VC** (variable cost $'s). Analyzing the break-even point will help to predict the effects of changing costs or sales levels on the income of a business.

Bridge Loan: A temporary, short-term loan used until more permanent financing is secured.

Brokers: Professional intermediaries who bring buyers and sellers together. Brokers do not have formal or lasting relationships with either party. They are primarily used by businesses that do not need to maintain their own full-time sales force.

Business Concept: A brief, but compelling, description of why a business exists.

Business Dissolution: For enumeration purposes, the absence from any current record of a business that was present in the prior time period.

Business Ethics: The principles that guide interaction with customers, employees, suppliers, partners, lenders, and investors.

Business Failure: The closure of a business causing a loss to at least one creditor.

Business Interruption Insurance: Protects a business against the loss of business due to some disaster.

Business Plan: A document presenting information about the past, present, and future of a proposed or existing business venture. Sections include: summary and overview, detailed information sections on management and organization, the product or service of the business, the marketing plan, financial condition and projections, the operating and control system, growth plan, and any pertinent attachments.

Business System: The dynamics and expectations that pertain to members of the business, including family members and non-family members, exclusively as occupants of business roles whether in senior management or at lower levels.

Business-to-Business Marketing: The sale of products or services to business for use in manufacturing and processing other products.

Business Trust: An unincorporated association organized to conduct business for profit. It is operated by a board of trustees for the benefit of certificate holders.

Buyer Behavior: Customer attitudes that influence what, when, and how they buy.

Buying Center: A group of business managers who work together to select products and vendors and make final buying decisions; usually composed of individuals with different skills, backgrounds, and interests.

Buy-Sell Agreement: A contract which sets forth the terms and conditions by which associates in a business can buy out other associates.

Bylaws: An agreement among shareholders of a corporation for the structure of the business. They typically include provisions for the annual meeting,

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size and manner of election of the board of directors, number and duties of the officers, voting requirements for merger, and similar matters.

C Corporation: "C" refers to a subchapter of the Internal Revenue Code regarding corporate tax treatment. It may have more than one class of stock (such as common stock and preferred stock), may have an unlimited number of shareholders, and taxes on the corporation's profits are paid by the corporation as a separate tax paying entity.

CAP lines: The program where the SBA helps small businesses meet their short-term and cyclical working capital needs by guaranteeing a lender.

Capital: Cash and/or material assets, tools, property, or equipment owned or used in a business.

Capital Expenditure: The spending of money on equipment, plant purchase, or expansion.

Capital Stock: The total stock authorized or issued by a corporation.

Capital Structure Ratios: Measure the percent of total assets that have been funded by borrowing.

Carrying Costs: The cost of tying up money by holding inventory, plus additional costs like taxes and insurance on inventory.

Cash and Carry Wholesalers: Wholesalers that sell from warehouse facilities. Buyers pay cash and transport their own merchandise.

Cash Basis: A method of recording income and expenses in which each item is entered as received or paid.

Cash Budgets: Represents the way each sub-unit of your business impacts your ability to pay overhead/operating expenses and yourself.

Cash Discount: A discount offered to buyers who pay bills within a specified period of time.

Cash Flow: The movement, or flow, of cash in and cash out of a business.

Cash Flow Projection: A financial planning document used to analyze, forecast, and understand when and how cash flows into and out of a business. This forecasting tool is useful in determining when and how much money a business needs to borrow during an annual cycle and/or to service debt.

Cash Method of Accounting: An accounting system in which revenues are recorded when cash is received and expenses are recorded when paid.

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CDC (Certified Development Company): A nonprofit organization that contributes to the economic development of an area by making government loans to businesses.

CERCLA or "Superfund" (Comprehensive Environmental Response Compensation and Liability Act): Created a method for cleaning up hazardous substances that were previously released into the environment.

Certified Public Accountant (CPA): An accountant certified by a state examining board as having fulfilled the requirements of state law to be a public accountant.

Channels of Distribution: The network through which businesses move their products to their customers.

Chart of Accounts: A document for listing the unique account numbers given to every account.

Civil Law: The body of laws regulating ordinary private matters as distinct from laws regulating criminal, political, or military matters.

Closely Held Business: A business owned by a small number of persons (usually under 25) and whose interests in the business (shares, stock, partnership certificate, LLC memberships) are not publicly traded.

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Code of Federal Regulations: Codification of the general and permanent rules of the federal government published in the Federal Register.

Collateral: The assets pledged to a lender to secure or support a loan.

Commercial Auto Insurance: Includes property coverage for the vehicle itself, liability coverage for damage caused by the driver of the vehicle to other vehicles and persons, and covers the cost of injuries to the driver and passengers of the vehicle.

Common Law: Creation of law through judicial application of precedent, much of which was inherited from England.

Company Handbook: Provides information that will be needed by employees regarding all issues, practices, and procedures related to employee relations.

Competitive Advantage: Established when a business performs some marketing activity better than competitors: producing a better product, selling it for a lower price, distributing it more effectively, providing better service, or offering a wider variety of product or service configuration.

Competitive Analysis: Measuring a competitor's strengths and weaknesses in order to learn how to produce a better product and provide a better service.

Completed Operations Insurance: Protects CPAs and other licensed professionals from any errors or omissions in the products or services they provide to their clients.

Compound Interest: Interest earned on the principal and on previously accumulated interest.

Consideration: Something that suffices to make an informal promise legally binding, usually some value given in exchange for the promise.

Consumer: The final user of a product or service.

Consumer Databases: Demographic or financial information about individual consumers gathered from applications for credit, drivers' licenses, or telephone service records.

Consumer Product Marketing: Focuses on the direct marketing of products for final consumption by individuals.

Consumer Promotions: Short-term sales promotions to consumers.

Continuous Budget: A budgeting technique in which twelve months are always shown, with a new month added constantly.

Contract: A formal agreement or a promise or set of promises between two or more parties that is legally enforceable.

Contribution Margin: The amount left after paying variable costs. It must pay for fixed costs and still leave a profit.

Convenience Goods: Products that consumers buy frequently and without much reflection.

Cooperative: Structures in which the members invest in, own, and control the business.

Cooperative Advertising: Advertising in which manufacturers and retailers pool their resources to promote both the product and the store. Manufacturers offer retailers allowances to advertise the manufacturer's product, allowing retailers to also include the name of their store.

Copyright: The exclusive right to reproduce, sell, publish, or distribute literary or artistic work, i.e., works of authors, composers, etc.

Core Competencies: A way of describing the things a business does better than any of its competitors.

Corporate Mission: A broad statement of what business or businesses the company should be in.

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Code of Federal Regulations: Codification of the general and permanent rules of the federal government published in the Federal Register.

Collateral: The assets pledged to a lender to secure or support a loan.

Commercial Auto Insurance: Includes property coverage for the vehicle itself, liability coverage for damage caused by the driver of the vehicle to other vehicles and persons, and covers the cost of injuries to the driver and passengers of the vehicle.

Common Law: Creation of law through judicial application of precedent, much of which was inherited from England.

Company Handbook: Provides information that will be needed by employees regarding all issues, practices, and procedures related to employee relations.

Competitive Advantage: Established when a business performs some marketing activity better than competitors: producing a better product, selling it for a lower price, distributing it more effectively, providing better service, or offering a wider variety of product or service configuration.

Competitive Analysis: Measuring a competitor's strengths and weaknesses in order to learn how to produce a better product and provide a better service.

Completed Operations Insurance: Protects CPAs and other licensed professionals from any errors or omissions in the products or services they provide to their clients.

Compound Interest: Interest earned on the principal and on previously accumulated interest.

Consideration: Something that suffices to make an informal promise legally binding, usually some value given in exchange for the promise.

Consumer: The final user of a product or service.

Consumer Databases: Demographic or financial information about individual consumers gathered from applications for credit, drivers' licenses, or telephone service records.

Consumer Product Marketing: Focuses on the direct marketing of products for final consumption by individuals.

Consumer Promotions: Short-term sales promotions to consumers.

Continuous Budget: A budgeting technique in which twelve months are always shown, with a new month added constantly.

Contract: A formal agreement or a promise or set of promises between two or more parties that is legally enforceable.

Contribution Margin: The amount left after paying variable costs. It must pay for fixed costs and still leave a profit.

Convenience Goods: Products that consumers buy frequently and without much reflection.

Cooperative: Structures in which the members invest in, own, and control the business.

Cooperative Advertising: Advertising in which manufacturers and retailers pool their resources to promote both the product and the store. Manufacturers offer retailers allowances to advertise the manufacturer's product, allowing retailers to also include the name of their store.

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Corporate Shield: Refers to the fact that a corporation is a separate legal entity. The corporation can "shield" the owners from financial obligations or legal judgements incurred by the corporation.

Corporation: A group of persons authorized (by the state) to function as a separate legal entity having privileges and liabilities distinct from those of its individual members.

Cost Advantage: One type of competitive advantage in which a business can reduce production or marketing costs below those of competitors and is able to lower prices or channel savings into other areas.

Cost of Goods Sold (COGS): Costs associated with the sale of a product or service, which may include materials, freight, direct labor, and overhead.

Cost-Plus Pricing: A basic pricing method in which a business determines its costs then adds a desired profit margin.

Cost-Type Contract: A contract that provides for payment to the contractor of allowable and reasonable cost plus a profit.

Counter Offer: An offer or proposal made to offset or substitute for an earlier offer made by another.

Criminal Law: Concerns the rights of society as a whole versus the actions of one person.

CSA (Community Supported Agriculture): A direct marketing system that benefits both farmers and shareholders. A farmer grows produce for a group of customers who have pre-purchased a portion of the crop.

Culture: The implied beliefs, norms, values, and customs that define a society. Culture leads to common patterns of behavior. Like countries, businesses can have cultures also.

Current Assets: Cash or other items convertible to cash within one year or items that will be used up by the business within one year; generally cash, inventory, short-term notes receivable, and accounts receivable.

Current Liabilities: Monetary obligations that are due to be paid within one year; generally accounts payable, wages payable, taxes payable, current portion of long-term debt, interest, and dividends payable.

Current Ratio: Current assets divided by current liabilities, generally indicative of whether or not a business has sufficient current assets to meet the payment schedule of its current debts. The higher the ratio, the more likely a business is able to meet its current obligations.

Customer Orientation: When a business creates all of its product or service strategies around the needs of its customers.

Cyberspace: A linking up through a modem to access the World Wide Web which is often referred to as cyberspace.

D&B (Dun & Bradstreet): A firm that gathers and sells financial/credit information about businesses for other businesses or individuals.

Dealer: A distribution channel intermediary who is granted the right to exclusively sell a company's products in a franchise agreement.

Debt Capital: Business financing that normally requires periodic interest payments and repayment of the principal within a specified time.

Debt Sensitivity Analysis: A "what if" analysis used on projected financial statements. Sensitivity analysis allows you to see how changes in either sales or expense levels effect the monthly projected cash flow or the projected net income.

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Debt-To-Equity Ratio: The relationship of creditors' money to owners' money in a business, indicating the extent to which a business is dependent upon borrowed funds for its operation.

Decision Maker: The individual in a family or business who is ultimately responsible for the final selection of a product or service.

Demand Deposit: Money that is on deposit with a financial institution and that must be available to the depositor "on demand", such as a checking or savings account.

Demographics: The statistical study of population characteristics. Also, objective characteristics about consumers like age, income, occupation, marital status, education, or location.

Depreciation: The portion of the cost of tangible operating assets (such as buildings or equipment) recorded as expense for the accounting period; results from spreading out the cost of long-lived assets over several years.

Direct Cost Budgets: A resource management tool that allows managers to examine resource needs by category and period. These budgets are broken down into direct material components and direct labor components.

Direct Labor: For a manufacturer, factory labor costs that can be directly traced to the products.

Direct Loans: Loans made by the Small Business Administration directly to a small business.

Direct Mail: Presenting a product or services to the customer via mail without the use of middlemen.

Direct Marketing: The sale of products or services by a producer directly to the final customer. Also, presenting promotional information directly to potential consumers via direct door-to-door selling, telemarketing, direct mail, catalogue, direct response TV advertising; any presentation of a product or service directly to the consumer without the use of a middleman.

Direct Materials: For a manufacturer, those materials which become an integral part of a finished product and can be conveniently traced to it.

Direct Response: Marketing that allows the consumer to consummate the sale without outside interaction; asks for an order, aims for instant results, provides easily measurable results.

Direct Writer: A type of insurance agent who represents only one company.

Disability Insurance: Provides coverage for the loss of income due to being injured and not able to work.

Discretionary Income: Amount of spendable or savable income available after providing for the basic necessities such as shelter, food, clothes.

Distribution Channel: The way you get your product to your customers.

Distribution System: A group of independent businesses composed of manufacturers, wholesalers, and retailers created to deliver what the customer wants, when and where they want it. Also known as a channel system.

Distributors: Usually wholesalers of industrial products specialized according to the market they serve.

Dividend: A share of profits paid to stockholders of a corporation.

Double Taxation: Occurs when corporate net income is taxed, then dividends are paid to stockholders and taxed again as income to the stockholders.

Down-Sizing: The elimination of employees, often in large numbers, as a cost-cutting measure; also known as "right-sizing".

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Drop-Shippers (desk jobbers): Wholesalers who provide limited services and take title to the merchandise but do not take physical possession. They obtain orders from wholesalers and retailers and forward these orders to the manufacturer who sends the goods directly to the wholesaler or retailer. Commonly used for bulky commodities like lumber, iron ore, or gravel.

Durable Goods: Products that are used over time (computers, CD players, dishwashers)

Economies of Scale: A concept for mass production which means the more that is produced with the same machinery and overhead, the lower the per unit costs.

8(a) Program: A program authorized under the Small Business Act that directs federal contracts to small businesses owned and operated by socially and economically disadvantaged individuals.

80/20 rule: In any organization 80% of the problems can be solved by focusing on 20% of the underlying cause (customers/suppliers/employees/polices). Similarly, 80% of the opportunities result from 20% of your customers/suppliers/employees/policies.

Employer Identification Number (EIN): An identifying number of a business entity obtained from the IRS by filing application form SS-4; a "social security number" for a business entity.

Enterprise: Aggregation of all establishments owned by a parent company. An enterprise may consist of a single, independent establishment, or it can include subsidiaries or other branch establishments under the same ownership and control.

Entrepreneur: One who creates or launches new business ventures, often assuming the risk and management of the business.

Equity: The amount of the owners' investment in the business; what remains after total liabilities are subtracted from total assets; also called "net worth".

Equity Capital: An investment in exchange for partial business ownership. The investor's financial return comes from dividend payments and from growth in the net worth of a business.

ESOP (Employee Stock Ownership Plans): A plan in which shares of stock are sold to a trust for the benefit of the corporation's employees.

Establishment: A single location business unit, which may be independent, called a single-establishment enterprise, or owned by a parent enterprise.

Estate Planning: Family and business management that takes into consideration your family's future care and support, ways to minimize estate taxes or provide for the payment of any taxes which may be due, and planning for the transfer of the business either to a succeeding generation or to a third party.

Estoppel: A rule of law which requires a party to perform where they led the other party into believing there was a contract.

Executive Summary: The "opening argument" and most important part of the business plan because it is the first thing readers see. Purpose is to capture and hold the readers' attention.

Expenses: The outflow or other using up of assets by an entity in order to sell goods or services; expenses are subtracted from revenues to determine net income.

Factoring: A method of financing in which the business sells its accounts receivables at a discount for cash.

Family Agricultural Business: An agricultural business in which two or more family members have a significant ownership interest and/or

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participate in the senior management and where the ownership may be passed on to a the next generation.

Feasibility Study: A study to determine if a business opportunity is worth pursuing.

FICA (Federal Insurance Contributions Act): Legislation under which taxes are levied for the support of Social Security.

Financial Intermediary: A financial institution that acts as the intermediary between borrowers and lenders. Banks, savings and loan associations, finance companies, and venture capital companies are major financial intermediaries in the United States.

Financial Planning: The process of preparing budgets and projected financial statements. Family expenses should be kept separate from business expenses and different enterprises should be tracked separately.

Financial Statements: Accounting reports that generally include a Balance Sheet, an Income Statement (also called a Profit & Loss Statement), a Statement of Owners' Equity, and a Statement of Cash Flows.

Financing Lease: A lease that usually does not provide for maintenance service, is non-cancelable, and lasts the expected economic life of the asset.

504 Loan Program: This loan program supplies long-term (10 to 20 year), fixed-asset financing through a CDC.

Fixed Costs: Costs that do not vary significantly with the volume of output or sales, i.e., utilities, rent, depreciation, interest, administrative salaries. Also, costs that are constant regardless of quantity of products or services sold.

Fixed-Price Contract: A contract that provides for a specified price (or, in some cases, an adjustable price) for the supplies or services being procured, usually within a stipulated contract period. Under this type of agreement, maximum risk and responsibility are placed upon the contractor.

Fixed Rate: An interest rate that does not change during the life of the loan.

Fleet Insurance: Covers five or more vehicles owned by a company on one policy.

Flexible Budget: A budget which includes a range of activity levels, used to compare actual results to a budget which reflects actual sales volume.

Focus Group: A group of 6-12 people interviewed for the purpose of gathering general qualitative data about their preferences, opinions, beliefs, and experiences. Moderated by a trained professional who provides open-ended questions. Also, a selected group of potential consumers (or other defined category of participants) participate in a structured discussion for the purpose of providing their unbiased reactions to a product or service.

Forward Contract: A cash-market transaction in which the seller agrees to deliver a specific commodity to a buyer at some pint in the future.

FQPA (Food Quality Protection Act of 1986): Repealed the zero tolerance standard for food pesticide residues and also requires federal agencies to develop new food safety regulations.

Franchising: The linking of a parent company (franchiser) to independent "offspring" companies via a contract that allows the independent company owner (franchisee) to buy the license (franchise) to own and operate the business according to the parent company's comprehensive conditions and stipulations.

Frequency: The number of times individuals in your target market see your message.

FTC: Federal Trade Commission

Full-Time Workers: Generally, workers who work a regular schedule or more than 35 hours per week.

GLOSSARY g-9

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Full-Time Workers: Generally, workers who work a regular schedule or more than 35 hours per week.

Functional Structure: The most common structure for businesses and is created on the basis of the different major tasks performed by the business.

FUTA: The Federal Unemployment Tax Act. Federal unemployment insurance.

Futures Contract: Standardized according to the amount of commodity being bought or sold, the expected time and place of delivery, and the quality of the product. They are sold on an organized exchange.

General Ledgers: A business record that includes details of all accounts.

General Merchandise Wholesalers: Full-service wholesalers that offer a broad assortment of merchandise. They often lack depth in individual product lines, but perform several services like storing and controlling inventory, processing orders, and transporting goods.

General Partnership: Two or more persons who jointly own a business; general partners participate fully in management of the business, and liabilities are personal and unlimited.

Goodwill: Non-tangible value of a business, generally referring to the difference between the business's market value and the market value of its net tangible (appraisable) assets.

Gross Domestic Product (GDP): The most comprehensive single measure of aggregate economic output. Represents the market value of the total output of goods and services produced by a nation's economy.

Gross Profit: Net sales (gross sales less returned merchandise, discounts, or other allowances) minus cost of goods sold; also referred to as "Gross Margin".

Guaranteed Loans: A loan made by a financial institution to a small business with a partial guarantee given by the Small Business Association.

HACCP (Hazard Analysis Critical Control Point): A preventive strategy, consisting of seven principles, for assuring safe food products.

Hard negotiators: Competitive, unyielding, and focused exclusively on their own interests.

Hardware: Computer equipment (keyboard, monitor, etc.)

HAZMAT (Hazardous Materials Registration Program): HAZMAT requires individuals who transport or offer to transport hazardous materials to register annually and pay a fee to the Department of Transportation.

Hedging: The buying or selling of a futures contract(s) for protection against the possibility of a price change in the commodity that you are planning to buy or sell.

High-Involvement Purchases: Purchases that are more important to consumers because they are related to their self-identity and involve some risk. Consumers generally spend more time and energy making these purchases.

Holistic Management: A model that focuses on making decisions for the future that the environment can sustain, assisting in finding the cause of problems, and tailoring research to management needs.

Home-Based Business: A business where the primary activity of business or primary operating office is in one's own home.

Income Statement: A financial report showing revenues earned, expenses incurred in earning the revenues, and the resulting net income or net loss; also referred to as a Profit and Loss Statement.

Incorporate: To legally form a corporation by filing a certificate of incorporation with a state's secretary of state.

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Independent Contractor: A self-employed individual, not an employee of your business, who has his or her own business, has many occasions to work for others as a freelancer, and is responsible for their own acts, contracts, and withholdings.

Indirect Costs: All other costs not already included in direct materials or direct labor.

Industrial Buyers: Buyers of products and services used in the process of creating other products.

Industry Analysis Test: Determines whether your industry is attractive in terms of starting and operating a new venture.

Industry Profile: A compilation of pertinent information about a specific industry, such as its size, trends, growth potential, and history.

Informal Capital: Financing from an informal, unorganized source; includes informal debt capital such as trade credit or loans from friends and relatives and informal equity capital from informal investors.

Infrastructure: In business management terminology, the managerial support structure that surrounds the direct management team, referring to advisors, consultants, lawyers, accountants, bankers, and insurance agents.

Infringement: A breach of a law, right, or obligation.

Initial Public Offering (IPO): A public offering of securities by a first-time issuer.

Innovation: Products and services introduced into the marketplace that are new to both customers and to the business.

Institutional Advertising: Advertising that is "non-promotional", meaning it stresses identity and features and benefits related to the identity of the business rather than promoting specific merchandise or services.

Intangible Assets: Those assets which, literally, cannot be touched; these include a business's good will, customer lists, and patents.

Intellectual Property: Ownership or exclusive rights to processes or other products resulting from intelligent thought, such as trade secrets, copyrights, patents, or trademarks.

Intensive Distribution: Distributing a product through many retail outlets. Usually used for low-cost, frequently purchased "convenience" products.

Internal Controls: The policies and procedures a business establishes to assure reliability of its accounting records, to safeguard its assets, and to promote its goals and objectives.

Internet: It literally means a network of networks. The Internet is comprised of thousands of smaller regional computer networks scattered throughout the globe.

Inventory: The supply of materials owned and held by a business, including new raw materials, intermediate products/parts, work-in-process, finished goods (including merchandise purchased for resale), intended for internal consumption or for sale; an asset listed on a business balance sheet.

Inventory Turnover: The average number of times inventory turns (is sold) during the year.

Investment Bankers: A financial institution that arranges long-term financial transactions for its clients, often guaranteeing the sale of securities within a certain amount of time and at a specified price.

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Industrial Buyers: Buyers of products and services used in the process of creating other products.

Industry Analysis Test: Determines whether your industry is attractive in terms of starting and operating a new venture.

Industry Profile: A compilation of pertinent information about a specific industry, such as its size, trends, growth potential, and history.

Informal Capital: Financing from an informal, unorganized source; includes informal debt capital such as trade credit or loans from friends and relatives and informal equity capital from informal investors.

Infrastructure: In business management terminology, the managerial support structure that surrounds the direct management team, referring to advisors, consultants, lawyers, accountants, bankers, and insurance agents.

Infringement: A breach of a law, right, or obligation.

Initial Public Offering (IPO): A public offering of securities by a first-time issuer.

Innovation: Products and services introduced into the marketplace that are new to both customers and to the business.

Institutional Advertising: Advertising that is "non-promotional", meaning it stresses identity and features and benefits related to the identity of the business rather than promoting specific merchandise or services.

Intangible Assets: Those assets which, literally, cannot be touched; these include a business's good will, customer lists, and patents.

Intellectual Property: Ownership or exclusive rights to processes or other products resulting from intelligent thought, such as trade secrets, copyrights, patents, or trademarks.

Intensive Distribution: Distributing a product through many retail outlets. Usually used for low-cost, frequently purchased "convenience" products.

Internal Controls: The policies and procedures a business establishes to assure reliability of its accounting records, to safeguard its assets, and to promote its goals and objectives.

Internet: It literally means a network of networks. The Internet is comprised of thousands of smaller regional computer networks scattered throughout the globe.

Inventory: The supply of materials owned and held by a business, including new raw materials, intermediate products/parts, work-in-process, finished goods (including merchandise purchased for resale), intended for internal consumption or for sale; an asset listed on a business balance sheet.

Inventory Turnover: The average number of times inventory turns (is sold) during the year.

Investment Bankers: A financial institution that arranges long-term financial transactions for its clients, often guaranteeing the sale of securities within a certain amount of time and at a specified price.

Invoice: An itemized listing of goods or services sold; given to the buyer for payment purposes, usually detailing costs, discounts, payment terms, freight charges, shipping dates, and any other information pertinent to the sale.

IPO (Initial Public Offering): The first "offering for sale" of stock to the general public.

IRA (Individual Retirement Account): A savings plan that allows individuals and/or employees to set aside funds for retirement and defer paying taxes on those funds until withdrawn.

IRS (Internal Revenue Service): A federal agency created over 125 years ago to interpret and enforce the U.S. tax laws which provide for the assessment and collection of revenue used for operating government.

Job Description: Clarifies work roles by placing in writing a clear, concise description for each task and responsibility that must be performed by the employee holding that job.

Joint Liability: Where one joint debtor has the right to insist that a co-debtor be joined in the liability. The liability is required to be apportioned among the debtors.

Just-In-Time (JIT): The practice of producing only the exact amount of products needed by customers and delivering them at the exact time they are needed. Businesses who buy from JIT suppliers minimize inventory holding costs and expedite their turn-around time.

K-1: The tax form given to partners and members of LLC's showing their share of business profits or loss.

Keyman Insurance: Life insurance taken out by a business on an essential or very important employee with the company as beneficiary.

Keystone: A retailing term referring to doubling the cost of an item of merchandise to determine its retail selling price.

Large-Business-Dominated Industry: Industry in which a minimum of 60 percent of employment or sales is in firms with more than 500 workers.

Lead Blocker: In marketing terminology, someone who can provide entrance into a targeted market, such as an influential/reputable citizen within the market, celebrity endorsement, or someone with an established customer base.

Lease: A specialized contract giving one party possession of another party's land or personal property for a period of time.

Leasehold Improvement: Any improvement made to leased property; such improvements become the property of the lessor at the end of the lease and are categorized as an intangible asset to the lessee.

Letter of Credit (L/C): A document issued by a bank that guarantees the availability of funds or guarantees a loan up to a specified amount that can be drawn on by a business's creditor (or supplier) only under specific terms and conditions.

Liabilities: Short-term and long-term debts owed.

Liability Insurance: Insurance covering the insured against loses arising from injury or damage to another person or property.

Licensing Agreements: Documents that formalize an arrangement by which one business sells to another business the right to use their brand name or market their product or service.

Limited Liability Company: This is a new form of business entity which is a hybrid between a partnership and a corporation. They are highly flexible, provide limited liability to their members, and avoid double taxation.

Limited Membership Cooperatives: Similar to open membership co-ops but includes the ability to purchase membership privileges for the right to patronize the cooperative. Membership is a binding agreement to use the co-op.

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Limited Partnership: A partnership (two or more individuals jointly owning a business) which allows for general partners and limited partners; limited partners are usually financially liable for debts only to the extent of their investment, and have limited or no control over management of the company.

Line Extensions: Additions to a business's product or service offerings that deepen the existing product line (offering more varieties of the same products or services) rather than broadening it (offering more varieties of different products or services).

Line of Credit: A predetermined amount of short-term financing (generally from a bank) available for a business to borrow against on an "as needed" basis and repay during the specified life of the line.

Liquidated Damages: Specific consequences set out in a contract for one party breaching a deal.

Liquidity: The readiness and ease with which assets can be converted to cash without a loss, generally describing the degree of solvency of a business.

Liquidity Ratios: Demonstrates the business' short-term ability to pay its current and unexpected debts.

List Price: The stated price that would appear on a product line sheet or a catalog or be quoted by a salesperson. This is a business's official price before any discounts. This is also known as the final selling price.

Long-Term Debt: Loans scheduled to be paid back over a period longer than one year.

Long-Term Liabilities: Debt which will not mature within the next year.

Loss Leader: Merchandise or services purposely sold at a loss to increase customers, sales of related items, or promote awareness of services.

LowDoc: A variation of the 7(a) loan guaranty program for loans of $150,000 or less. It features a rapid approval process of usually two or three days.

MACRS (Modified Accelerated Cost Recovery System): The system of calculating depreciation used for income tax reporting.

Managerial Accounting: Historical and futuristic accounting in which you use the accounting information that gives you feedback on the health of your business and tracks how well you are achieving the goals set forth in your business plan.

Manufacturers' Agents: Agents that sell a company's product in a particular geographic area, usually on an exclusive basis. They do not take title to the goods they sell and earn their money through commissions. These agents also carry the product lines of other manufacturers and sell only to wholesalers, retailers, and industrial buyers.

Mark-Up: The percentage by which a products base price is increased to realize a desired profit margin. This is used with cost-plus pricing and is expressed as a percentage of the price of the product.

Market: A segment of a population considered actual or potential buyers; or, a gathering place for selling and buying.

Market Analysis: The result of market research findings relating to customers and competition.

Market Price: The price at which goods or services could reasonably be expected to sell to bona-fide buyers.

Market Segment: A uniquely identifiable sub-market of a larger market that is homogeneous in nature.

Market Share: The percentage of a market's total sales (in units or dollars) that a business receives.

Marketing: The sum of all activities that influence commercial movement (sale) of goods and services from the provider to the consumer.

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Limited Partnership: A partnership (two or more individuals jointly owning a business) which allows for general partners and limited partners; limited partners are usually financially liable for debts only to the extent of their investment, and have limited or no control over management of the company.

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Marketing Mix: The four marketing variables that a business can control to achieve a competitive advantage and sell to their target customer. These are product, price, placement and promotion, also known as the four P's of marketing.

Marketing Plan: The document that describes how a business will go about marketing its products or services. Contains information on target markets, product positioning, competitive advantage, and the marketing mix.

Mass Market: A market composed of many people with broadly similar needs.

Mass Merchandisers: Stores that sell at lower prices than department stores and specialty boutiques and offer a very broad assortment of products.

Media: The outlets that carry advertising messages, such as television, radio, magazines, newspaper, Internet, etc.

Mediation: A less formal and non-binding process than arbitration.

Mentor: Any individual with specific knowledge that could be helpful to you as you start or expand your business.

Merchandising: The planning and promotion of sales by presenting a product to the right market at the right time.

Merchantability: An implied warranty meaning that the goods are fit for normal use and are of the same quality as similar items produced by others.

Merger: A combination of two or more businesses into one.

Microenterprise: Operation and support of small businesses.

Mini-Marketing: The practice of marketing strategies on individual customers.

Minority-Owned Business: For the purposes of the Bureau of the Census' 1987 Characteristics of Business Owners (CBO) survey, businesses owned by members of the following minority groups: Black, Hispanic, and other minorities (primarily Asian, American Indian, and Alaska native).

Mission Statement: A written statement, in the broadest terms, describing what the business hopes to do and be.

Negotiation: the act of influencing others to achieve your personal goals while taking into account the other side's interests.

Net Estate: The value of your assets minus liabilities.

Net Income/Loss: The result after subtracting all expenses and taxes from total revenue.

Net Present Value: A calculation used to show what future dollars are worth today.

Net Profit: Sales minus variable costs and fixed costs. Net profit is used as a starting point to measure return on investment for specific products or businesses.

Net Worth: The total assets of a business minus its total liabilities.

Networking: Making contact with a variety of people in related fields to foster communication with additional contacts or provide information which goes beyond the reason for the initial contact.

Niche Market: A special segment of a market, often defined in terms of particular buyer characteristics, for which a business feels particularly well-suited to target.

NMBC (National Minority Business Council): A membership organization that offers assistance with procurement and international trade.

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NMSDC (National Minority Supplier Development Council): A business membership organization that works to increase procurement and business opportunities for minority businesses.

Non-Competition Agreement: A contract entered into to restrict an employee or owner from competing against their former business or employer. These contracts are permitted if they are narrow in time and geographical area.

Non-Disclosure Agreement: A contract where a person or company agrees not to disclose your trade secrets.

Non-Durable Goods: Products that are consumed in few sessions (i.e., food, cleaning products).

Open Membership Cooperative: Producers who meet the qualifications described in the articles and by-laws of the cooperative qualify for membership by doing business with cooperative. Customers are entitled to a share of the profits, and open membership co-ops are internally financed.

Operating Agreement: This is the agreement among the members of a limited liability company or parties to a partnership and serves in much the same way as a corporation's bylaws.

Operating Environment: Includes the external trends and influences that impact a business as it tries to meet customer needs.

Operating Expenses: See "Overhead".

Operating Lease: A lease that usually provides for maintenance service, is cancelable, and lasts less than the expected economic life of the asset.

Operational Planning: The planning process which focuses on actions needed in the short term (usually one year).

Options: Provides the right, but not the obligation, to buy or sell a futures contract at a certain price for a limited time period.

Order Processing: The tasks required to receive and process customer orders, including transmitting orders to warehouses, filling orders from inventory, preparing invoices, and shipping instructions.

Organic Farming: A management-intensive production system that is built upon the natural cycles and equitable exchange of goods and requires adequate biological diversity.

Organizational Chart: A chart diagramming the managerial structure of a business, designating specific areas of responsibility.

Outsourcing: The buying of parts of a product to be assembled elsewhere or the hiring of independent contractors to assist with business operations.

OSDBU (Office of Small and Disadvantaged Business Utilization): Located within nearly every federal department to assist minority businesses with selling to the government.

OSHA (Occupation Safety and Health Administration): A federal agency under the Department of Labor that issues standards and rules for safe and healthful working conditions, tools, equipment facilities and processes, and conducts compliance inspections.

Owner's Equity: The amount owed by the business to the owner.

Overhead: The regular ongoing operating expenses of a business, including rent, utilities, upkeep, taxes, administrative salaries; costs not directly associated with the product/service.

Overhead Budgets: Include all costs that could not be allocated specifically to a crop or business sub-unit.

Part-Time Workers: Employees working fewer than 35 hours per week.

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Partnership: A legal relationship created by two or more individuals voluntarily associating to carry on as co-owners of a business for profit.

Patent: Governmental granting of exclusive rights for a specified period of time to the inventor for his/her invention or process.

Pay-Back Period: The period of time required to recoup an initial investment.

Performance Bond: An indemnity agreement to protect against loss due to breach of contract; also called a contract bond.

Performance Reports: Reports to management that compare actual results to budgeted amounts and indicate variances.

Perk: A supplemental, non-monetary benefit or privilege received in addition to regular salary or wage.

Personal Financial Statements: Financial documents of an individual, often requested by financial institutions of the borrower or guarantor of a loan; generally includes a balance sheet and tax returns from prior three years.

Personal Guaranty: A contract where the individual acts as a surety or guarantees the obligations of another. Most often used by lenders dealing with a closely held corporation, where the principal shareholders are required to sign personally.

Personal Selling: One element of the promotional and sales mix which involves one-on-one communication between a sales representative and a customer.

Planning: The dynamic process of preparing your business for the future. The planning process must take into account lifestyle issues.

Point-of-Purchase Displays: Promotional displays in stores; for example, window displays, end-of-aisle display racks, hang-tags, and banners.

Population: The largest possible market for a product. The broadest starting point for segmentation strategy.

Preferred Stock: A special class of stock, often non-voting, which is given priority over common stock as to dividends.

Pre-Venture Financing: See "Seed Capital".

Price Promotions: Short-term discounts offered by manufacturers or retailers to encourage customers to try a product.

Primary Data: Original data collected by a business to answer specific, well-defined questions about the market. Primary data collection methods include focus group interviews, surveys, and questionnaires.

Prime Contract: Contract awarded directly by the federal government.

Principal: The dollar amount originally borrowed or financed on which interest is paid; also referred to as the "face amount" of a loan.

Private Offering: Solicitation of sale of a security to aid a few persons and at a low enough dollar threshold so that it does not trigger federal or state registration.

Pro Forma: An estimate or projection of future results from a present set of assumptions. Pro forma financial statements reflect what a business is projected to financially look like in the future based on a current set of assumptions.

Product: All of the tangible and intangible features and benefits offered by a business. This can be a physical product or a service offering.

Product Category: The general class of product types to which a product belongs.

Product Extensions: New variations of existing products. Extensions can be revised or repositioned products.

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Product Liability Insurance: Protects you against injury or property loss due to a product defect or design flaw.

Product Life Cycle: The phases a product or service goes through from innovation to decline as a result of changes in consumer demand and competition. Phases include introduction, growth, maturity, and decline. These impact the marketing strategy a business uses to sell its goods or services.

Product Line: The collection of products or services that a business offers.

Product Mix: Consists of the number of different items within the product line **(depth)** and the diversity of products offered by a business **(width)**.

Product Orientation: When businesses focus on their product or production methods in lieu of focusing on their customer needs. This can lead to producing products that customers do not want or need.

Product Positioning: The way a product is priced, promoted, and placed in the market to uniquely appeal to customers. Businesses use positioning strategies to maximize their competitive advantage and differentiate their offerings from competitors' offerings. Products are frequently "re-positioned" to communicate a new feature or target a new niche in the market.

Professional Liability Insurance: Protects people whose business involves services or consulting from being sued for malpractice for giving allegedly faulty advice.

Profit: The financial gain resulting from revenues after all business expenses have been paid.

Profit and Loss Statement: (P & L Statement): A document that outlines a business's performance in the present, or in the case of a projected P & L statement, in the future. Details revenues and expenses to arrive at net profits.

Profit Margin: The amount of each sales dollar that represents net income, usually stated as a percentage; net income divided by sales.

Promotion: Everything you do to communicate with your target customer and encourage the sale of your product or service.

Promotional Allowance: Price discounts offered by manufacturers to retailers in exchange for advertising the manufacturer's products. Allowances of this type are part of cooperative advertising agreements.

Promotional Mix: All of the strategies and tactics used by a company to communicate the benefits of its products or services to potential customers. These include advertising, personal selling, public relations, networking, sales promotions, and direct mail.

Property Insurance: A property policy provides insurance on your building and other physical assets.

Proprietorship: The most common legal form of business ownership; about 85% of all small businesses are proprietorships. The liability of the owner is unlimited in this form of ownership.

Prospecting: A key selling task in which a sales person identifies potential customers.

Prospectus: The official document that is used to advertise and sell new securities.

Psychographics: The study of psychological characteristics of a targeted population; in marketing, the analysis of targeted consumers' patterns of living and reasons for decision making based on activities, interests, and opinions.

Public Equity Markets: Organized markets for trading in equity shares such as common stocks, preferred stocks, and warrants. Includes markets for both regularly traded and non-regularly traded securities.

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Professional Liability Insurance: Protects people whose business involves services or consulting from being sued for malpractice for giving allegedly faulty advice.

Profit: The financial gain resulting from revenues after all business expenses have been paid.

Profit and Loss Statement: (P & L Statement): A document that outlines a business's performance in the present, or in the case of a projected P & L statement, in the future. Details revenues and expenses to arrive at net profits.

Profit Margin: The amount of each sales dollar that represents net income, usually stated as a percentage; net income divided by sales.

Promotion: Everything you do to communicate with your target customer and encourage the sale of your product or service.

Promotional Allowance: Price discounts offered by manufacturers to retailers in exchange for advertising the manufacturer's products. Allowances of this type are part of cooperative advertising agreements.

Promotional Mix: All of the strategies and tactics used by a company to communicate the benefits of its products or services to potential customers. These include advertising, personal selling, public relations, networking, sales promotions, and direct mail.

Property Insurance: A property policy provides insurance on your building and other physical assets.

Proprietorship: The most common legal form of business ownership; about 85% of all small businesses are proprietorships. The liability of the owner is unlimited in this form of ownership.

Prospecting: A key selling task in which a sales person identifies potential customers.

Prospectus: The official document that is used to advertise and sell new securities.

Psychographics: The study of psychological characteristics of a targeted population; in marketing, the analysis of targeted consumers' patterns of living and reasons for decision making based on activities, interests, and opinions.

Public Equity Markets: Organized markets for trading in equity shares such as common stocks, preferred stocks, and warrants. Includes markets for both regularly traded and non-regularly traded securities.

Public Offering: A general solicitation for participation in an investment opportunity. Interstate public offerings are supervised by the Securities and Exchange Commission.

Public Relations: Methods by which a business seeks to promote a favorable relationship with the public; marketing examples: positive publicity (news story), community event participation, customer service, civic organization membership.

Publicity: A free promotional tool which communicates product or company information to mass audiences through the media. Publicity media include newspapers, press magazines, or radio. Publicity often begins with a press release by a business.

Publicly Held Corporation: A corporation whose stock is traded publicly, and is therefore registered with the Securities and Exchange Commission.

Qualitative Data: Data that cannot be counted. It reveals the quality of a subject's experience or beliefs.

Quantitative Data: Describes things that can be measured and analyzed with statistical analysis. Data is expressed in numbers and reveals the quantity of a customer's particular characteristic.

Quantity Discounts: Discounts given to customers for volume purchases.

Quick Ratio: The relationship of "quick assets" (cash and other assets immediately convertible to cash) to current liabilities. This ratio is used by lenders to measure the ability of a business to meet its current debt obligations (quick assets divided by current liabilities).

Ratio Analysis: A means of evaluating how effectively the cash flow cycle is being managed.

RCRA (Resource Conservation and Recovery Act): Regulates the handling of hazardous materials from their creation to disposal.

Reach: The percent of your target market that sees your message.

Reconciling Items: Items that explain the difference between what the bank has for a balance and what your checkbook indicates as the balance.

Resellers: Wholesalers and retailers who buy products to resell to customers. These intermediaries do not process or repackage goods.

Retailers: Do not produce anything but are specialists at selling directly to final customers.

Retained Earnings: The accumulated, undistributed earnings of a corporation.

Return on Investment: A measure of a business's performance. Calculated by dividing net profits by total investment.

Revenues: The earning activities of a business; usually the act of performing a service or selling a product; revenues result in something of value being received by the business.

Rural Development (USDA): A federal agency specializing in loan programs for small rural businesses.

S Corporation (Sub-Chapter S Corporation): A business legally organized as a corporation that has elected the Sub-Chapter S status under the IRS Tax Code, meaning that the corporation will be taxed as a partnership whereby shareholders pay tax on corporate income or deduct corporate net operating loss on their individual tax returns.

Sale and Leaseback: An arrangement in which a business sells an asset while simultaneously leasing the asset back from the purchaser.

Sales Agents: Extensions of manufacturer's sales force. These intermediaries have more authority to set prices and terms of sale than manufacturer's agents, and may even take over a manufacturer's

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entire marketing effort. Sales agents specialize in specific types of products and operate primarily in industrial goods markets.

Sales Quota: An anticipated level of sales in a given selling territory.

SBA (Small Business Administration): A federal agency established to provide new and existing small businesses with advocacy, financial assistance, management counseling, and training.

SBDC (Small Business Development Centers): Established by Congress in 1980 to cooperatively join federal, state, and local governments, the educational community, and the private sector to make management assistance and counseling widely available to existing and prospective small business owners.

SBIC (Small Business Investment Company): A federally sponsored venture capital program which uses private venture capital firms and financing guaranteed by the Small Business Administration to provide equity or debt capital to small businesses.

SBIR (Small Business Innovation Research Program): A grant program, mandated by the Small Business Innovation Development Act of 1982, for small businesses working to meet research and development needs of the federal government.

Schedule F: Used to report revenues and expenses to the IRS each year. It is a detail of the profit or loss associated with farming and determines the farm's tax burden.

SCOR (Small Corporate Offering Registration): A program in which security offerings exempt from registration with the Securities Exchange Commission can meet state registration requirements with a minimum of cost and regulation.

SCORE (Service Corps of Retired Executives): An SBA volunteer management assistance program, providing one-on-one counseling, workshops, and seminars for small business (also see ACE).

Search Engines: Specialized computer address directories that provide addresses of web sites that contain the information requested.

Seasonality: Seasonal fluctuation such as growing, harvesting, and selling times of the product(s).

SEC (Securities and Exchange Commission): Established by Congress to protect investors and ensure that capital markets operate in an orderly and fair manner under existing securities laws.

Secured Loan: A loan in which the business, or the business owner, has pledged assets, or collateral, for the loan in case the business is unable to repay its debt.

Seed Capital: Capital used to fund market research, technical research, strategic planning, and product development.

Selective Distribution: The practice of distributing goods or services through a limited number of intermediaries and outlets. This enables manufacturers to have greater control over the way their products are sold.

Self-Insurance: A practice of choosing not to purchase health coverage but paying claims of a specific type and cost as they occur.

Selling and Administrative Budgets: Separates the costs of selling from the costs of production.

Service Marketing: Involves the sale of intangible services offered by people to both individual consumers and businesses.

7(a) Program: This is the largest of the SBA loan guaranty programs. The loan is made by a private lender to a small business, and the SBA guarantees a percentage of the loan. The 7(a) loan program

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was designed to help small businesses obtain long-term financing for needs such as working capital, machinery, leasehold improvements, etc.

7(m) MicroLoan Program: It is a short-term loan with a maximum of $25,000 and preference is usually given to small businesses owned by women, low income individuals, or minorities.

Several Liability: Even though there may be two or more debtors, the entire debt can be collected from one of them without apportionment.

Shelf Life: The term or period during which a stored product remains effective, useful, or suitable for consumption.

Short-Term Debt: Loans that are due within one year.

Short-Term Interest Rates: Interest rates for short-term borrowing, usually for a term of one year or less.

Signature Card: Documentation, maintained by your bank, which contains specimen signatures of all persona authorized to sign on the business checking account.

Simple Interest: Interest paid on the principal of a loan only, not on the principal plus accrued interest.

Size Standard: Standard based on the amount of a business's annual gross receipts used to determine eligibility for small business set-aside programs in government procurement.

Slotting Fees: A required fee by a retailer for stocking an item.

Small Business: A business smaller than a given size as measured by its employment, business receipts, or business assets. The SBA's Office of Advocacy generally uses employment data as a basis for size comparisons, with firms having fewer than 100 or fewer than 500 employees defined as small.

Small Business Innovation Development Act of 1982: Federal statute requiring federal agencies with large extramural R&D budgets to allocate a certain percentage of these funds to small R&D firms.

Soft negotiators: Submissive and focused on the interests of their counterpart.

Software: Programs that make the computer work.

Sole Proprietorship: Unincorporated, one-owner business, farm, or professional practice.

Squeeze Out: Techniques employed by one or more owners of a business to remove another owner.

SSBIC (Specialized Small Business Investment Companies): Privately owned venture capital firms whose private capital is supplemented (leveraged) by debt or preferred equity which is provided through open market financing guaranteed by SBA.

Standard Industrial Classification Code (SIC Code): A numerical code which identifies a business based on the type of business or trade activity.

Standard Operating Manual: Set down in writing the steps one would use when fulfilling a certain function or action in the business.

Statute of Fraud: Provides that contracts exceeding $500 or which cannot be performed within one year must be in writing.

Stewardship Principle: The expectation that members of the family must conform to higher standards of conduct and be held to higher expectations for performance in the business system compared with non-family employees.

Stockturn: The number of times the average inventory turns over (i.e., is sold) in a given period.

Straight-Line Method: The simplest way to calculate depreciation. It is the cost of a piece of equipment divided by the allowed IRS Farm Property Recovery Period.

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Strategic Planning: The systematic process of evaluating the long-term impact of the business environment; includes developing a mission statement, identifying goals, and designing strategies to achieve those goals.

Subcontract: A contract between a prime contractor and a subcontractor or between subcontractors to furnish supplies or services for performance of a prime contract or a subcontract.

Succession: The passing of control, that is legal authority, over operations to new leadership, usually but not in every case to family members in the next generation, along with the transfer of ownership (equity) interest in the business.

Succession Plan: A plan, preferably formal, whereby the controlling owners arrange to pass on authority and assets in the family business to the next generation or to non-family buyers of the business.

Surety Bond: These provide security from claims filed against a business.

Sustainable Agriculture: Production methods that integrate natural biological cycles into agriculture.

Tangible Assets: those assets which, literally, can be touched; e.g., equipment, buildings, inventory.

Target Market: The specific group of individuals who are chosen as most likely potential customers for the goods/services of a business and to whom the business wishes to appeal.

Target Return on Investment: An established level of financial return on an investment. This guides price setting.

Telecommuters: Work for a company by using a computer terminal set up in an employee's home. This terminal is linked by means of a computer modem to the company's central computer.

Telemarketing: The selling method whereby businesses use the telephone to contact and sell to potential customers.

Term Loan: A loan having a payoff due date of longer than one year; most commonly used for equipment, real estate, or other fixed asset purchases.

Terms: The conditions or provisions specified for repaying loans or paying invoices; usually includes the time limits, amounts to be paid, discounts.

Test Marketing: A way to experiment with a new product or service or marketing strategy. Businesses measure the effectiveness of the test before they initiate the strategy on a larger scale. Test marketing is used for specific, short periods of time.

Time Management: The process of understanding how to maximize your time in order to improve productivity, increase the quality of performance, lower your stress level, and enhance relationships with employees, suppliers, and customers.

Total Revenue: The total amount of money generated through the sale of a product or service.

Trade Discounts: Discounts offered to wholesalers or retailers who perform some marketing functions on behalf of the manufacturer.

Trade Name: The name of your business, registered with the secretary of state's office, also referred to in some states as "fictitious" or "assumed" name.

Trade Secrets: Confidential methods, processes, customer lists, and similar business information which are not of common knowledge.

Trade Shows: Large events at which different manufacturers, product and service providers set up booths to share information and promote their offerings to potential buyers.

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Trademark: A symbol, letter, device, or word that identifies a product; it is officially registered, generally in a secretary of state's office, and by law grants exclusive use to the owner or manufacturer.

Trust: A legal agreement which serves the basic function of a will but offers you far greater opportunities for estate planning.

Turnover: The rate at which items are sold.

UCC (The Uniform Commercial Code): A uniform business law and finance code.

Undercapitalization: Having too little capital (money or other resources easily converted to money) to carry a new venture through early development stages.

Unsecured Loan: A loan backed only by the strength of the borrower's signature and, therefore, is uncollateralized.

Variable Costs: Costs that do change significantly and in direct proportion to the volume of output or sales.

Variable Rate: An interest rate that changes during the term of the loan.

Venture Capital: Money used to finance new or unusual undertakings.

Vertical Integration: The business strategy of controlling many or all of the sourcing, manufacturing, and distribution tasks required by the business. Vertically integrated businesses may grow or manufacture their own inputs, and process, package or assemble inputs, and store, distribute, market, and sell finished products directly to their final customers.

Warranty: A promise or representation about goods which is part of the deal and which creates an expectation that the goods will conform to that promise.

Will: A legal document, which directs how you wish your estate to be divided and sets out the procedure for administering your affairs.

Wholesalers: Buy and sell bulk merchandise to other wholesalers or retailers. They do not sell directly to the public.

Work Done for Hire: A doctrine which states that ideas created while employed or commissioned by someone else are owned by the employer or commissioner.

Worker's Compensation Insurance: Covers employees when they are injured on the job and is required by law in every state.

Working Capital: Resources available in a business to cover short-term expenses determined by subtracting current liabilities from current assets.

World Wide Web: A wide area hyper media information retrieval system that provides computer access to a large universe of documents. The Web provides users with a consistent means to access a variety of information.

Zoning: The division of an area into zones, as to restrict the number and types of buildings and their uses.

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Agricultural Entrepreneur
resource guide

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Your *NxLeveL™ Agricultural Business Resource Guide* is conveniently 3-hole punched for easy binding, and is divided into tabbed sections that can be added to or changed at will.

Please note: The NxLeveL™ Agricultural Business Resource Guide is also available for download in Adobe .pdf format at www.nxlevel.org.

Tab 1

This introductory section, **Tab 1,** will outline the other tabs in ***The Guide*** and suggest their uses. There are a total of 4 tabbed sections, consisting of:

Tab 2 National Business Information
Tab 3 Sample Business Letters
Tab 4 Sample Business Forms & Agreements

Tab 2

Tab 2—National Business Information gives you a quick summary of key business contacts that would be required for starting an agricultural business.

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Marketing Information Resources 2-1
Industry Information
Consumer Information and Demographics
Franchising
Trade Associations
Marketing Resources

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Capital Information Resources
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Sustainable/Alternative Agriculture
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Agricultural Publications
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The following information is also available on the web for state specific information at www.NxLevel.org.

Tab 1

- Registering your business
- Obtaining sales tax licenses
- Obtaining a Federal Employers Identification Number
- Registering for Workers Compensation Insurance
- Registering for Unemployment Compensation Insurance
- OSHA state contact information
- Agricultural specific contacts
- Where to find more information about:
    - other required state licenses and permits
    - local business licenses and permit requirements
    - zoning and building permits
    - wage and hour, fair labor standards requirements
    - business incentives, employee training, local economic development programs
    - business assistance, publication and financing resources
    - counseling, training and managerial assistance for small business owners

Tab 3

Tab 3—Sample Business Letters may save you time, energy and money. The section starts with **Effective Business Letter Tips**, then suggests uses and formats that can be customized for frequently used letters in the categories shown below:

using the guide RESOURCE GUIDE Tab 1-3

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Order Acceptance
Delivery Receipt

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Acceptance of Non-Conforming Goods Notice
Demand for Goods
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Stop Shipment Order
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Explanation of Credit Rejection
Notice of Overdue Account
Account Past Due—Second Notice
Overdue Account—Final Notice
Installment Agreement to Pay Overdue Account

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Acknowledgment of a Complaint

TAB 4

Tab 4—Sample Business Forms & Agreements provides you with forms and agreements most frequently used in the business setting. While it is *not* suggested that you use the samples relating to legal matters without the advice of your attorney, all of these samples may give you a head start on understanding the typical form or agreement contents, which will potentially save you time and money. Again, you are encouraged to customize the format of the samples to fit your particular business situation, and to seek professional legal help where appropriate. Forms and agreements categories and their contents include:

using the guide **RESOURCE GUIDE** Tab 1-5

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General Tips on Forms and Agreements 4-2

Employment Matters 4-3
- Employment Agreement
- Non-Disclosure Agreement
- Employee Secrecy Agreement
- Employee Non-Compete Agreement
- Employee Invention Agreement
- Independent Contractor Agreement

Intangible Asset Protection 4-12
- Assignment of Copyrights
- Permission to Use Copyrighted Material
- Permission to Use Quote or Personal Statement

Legal and Organizational 4-16
- Power of Attorney
- Revocation of Power of Attorney
- Partnership Agreement
- Joint Venture Agreement
- Ratification of Organizational Meeting
- Notice of Annual Meeting
- Notice of Meeting of Directors
- Notice of Special Meeting of Directors
- Notice of Special Meeting of Shareholders
- Minutes of Meeting of Directors
- Minutes of Special Meeting
- Certificate of Corporate Vote
- Certificate of Corporate Resolution
- Record of Vote Establishing Salary
- Record of Vote for Execution of Property Lease

Tab 1

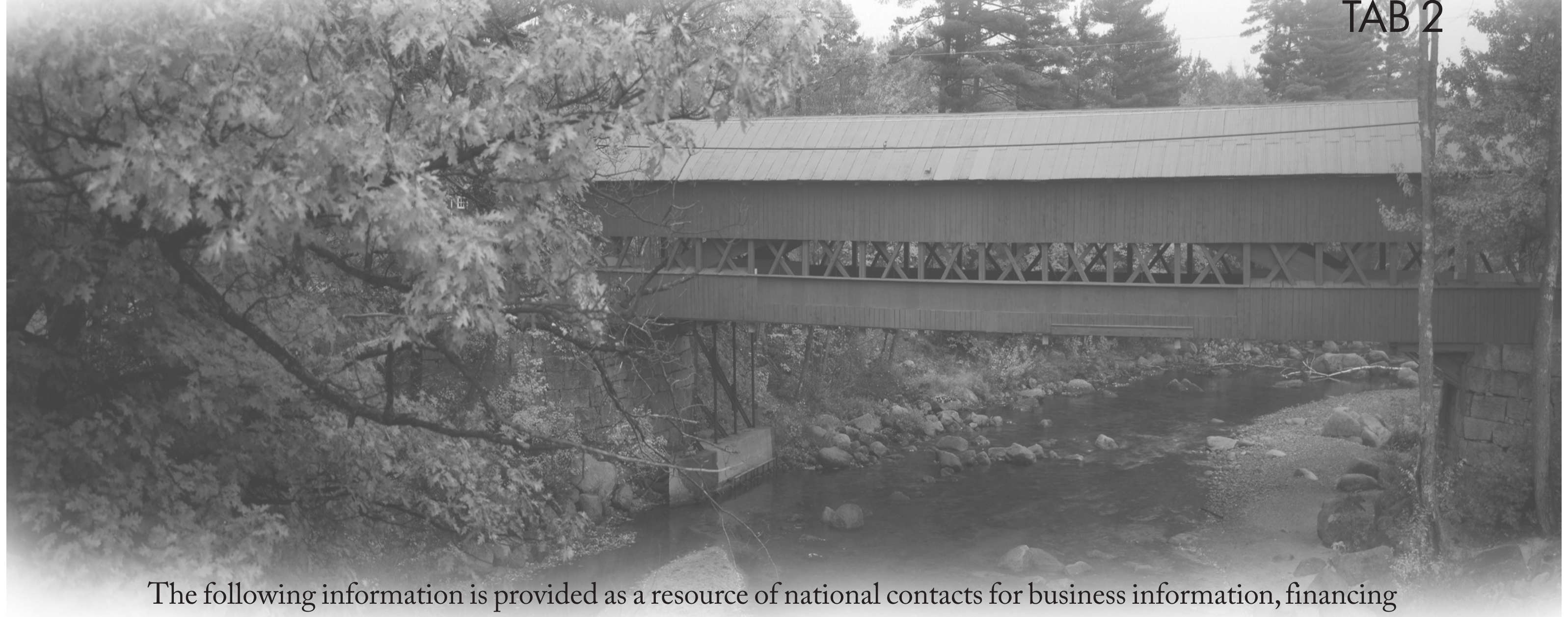
Tab 1-6 RESOURCE GUIDE using the guide

Leasing 4-30
- Lease Agreement
- Lease Amendment
- Lease Extension
- Agreed Lease Termination
- Assignment of Lease
- Notice to Vacate for Cause
- Lease of Personal Property

General Forms and Agreements 4-42
- Bill of Sale
- Promissory Note
- Single Installment Note and Guaranty
- Demand Note
- Payment in Full
- Notice of Default on Promissory Note
- Consignment Agreement
- Sales Agency Agreement
- Contract Modification
- Contract Termination

national business information

TAB 2



The following information is provided as a resource of national contacts for business information, financing and marketing opportunities. It is not meant to be a comprehensive list, but a start to help you with your industry and product research. Additional information is available for specific state contacts at www.NxLeveL.org. If you do not have access to the Internet, ask your instructor to assist you.

MARKETING INFORMATION RESOURCES

Industry Information

Industry Surveys

Standard & Poor's Corporation
25 Broadway
New York, NY 10004
Phone: 212-208-8000
Fax: 212-208-8786

Under constant revision, these surveys track profit margins, dividends, price-earnings ratios and other data collected over a five year span for each company within various industry segments.

Small Business Sourcebook: The Entrepreneur's Resource

Gale Research, Inc.
835 Penobscot Bldg.
Detroit, MI 48226
Phone: 800-877-4253
Fax: 313-961-6083
http://www.gale.com

Found in most libraries, this powerful set is a guide to over 25,000 sources of information designed to facilitate start-up, development and growth of specific small businesses, as well as similar listings for general small business topics. Industry topics include: general start-up information, primary associations, other organizations of interest, educational programs, reference works, sources of supply, statistical sources, trade periodicals, trade shows and conventions, consultants, franchises and business opportunities, information services, research centers and computer databases and software information.

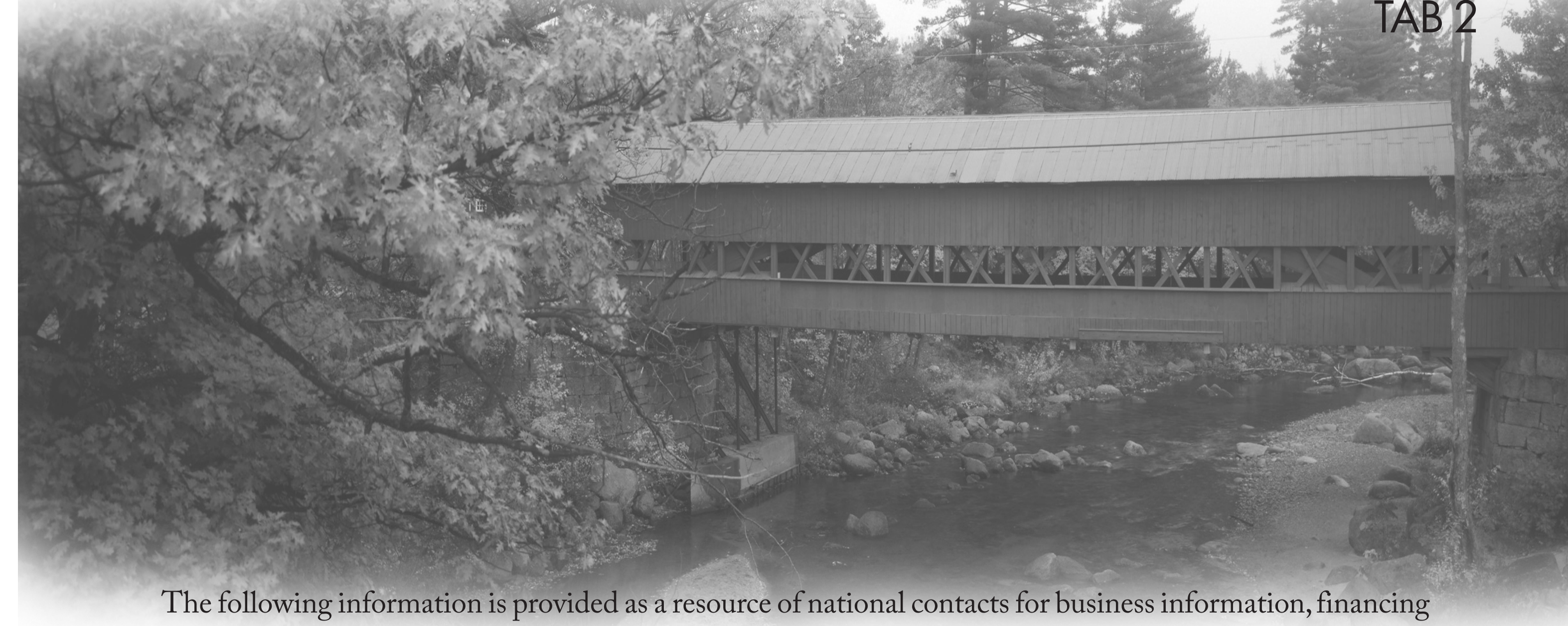
Standard & Poor's Register of Corporations, Directors and Executives

25 Broadway
New York, NY 10004
Phone: 212-208-8000
Fax: 212-208-8786

A leading industry directory of company information, this register consists of three volumes and can be found in the reference section of most libraries.

national business information

TAB 2



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Survey of Current Business

U.S. Department of Commerce
14th and Constitution Avenue NW
Washington, DC 20230
Phone: 202-482-2000
Fax: 202-482-5270
http://www.doc.gov

This monthly periodical is comprised primarily of statistical data, indexing the major fields of business activity for the current month and the preceding twelve. Statistical information includes prices, construction, domestic trade, finance, employment, payrolls and commodities, stocks.

Thomas Register of American Manufacturers

Thomas Publishing Company
5 Penn Plaza
New York, NY 10001
Phone: 212-695-0500
Fax: 212-290-7389
http://thomasregister.com

Published annually, this 29 volume set of information on American manufacturers is indexed by products and services, brand names and trademarks. Company profiles include addresses including zip codes, phone numbers, branch offices, asset ratings, company officials and a complete catalog guide.

U. S. Global Outlook

U.S. Department of Commerce
International Trade Association
14th and Constitution Avenue NW
Washington, DC 20230
Phone: 202-482-2000
Fax: 202-482-5270
http://www.doc.gov

Annual information on recent trends and outlooks in over 350 industries is provided in this reference, including summaries of production, employment, import competition and projections.

CONSUMER INFORMATION AND DEMOGRAPHICS

American Demographics

http://www.demographics.com/

American Profile System

Donnelly Marketing—Headquarters
1717 Park
Naperville, IL 60563
Phone: 630-637-1000
Fax: 630-637-6445
http://extra.entisoft.com/D/o/Donnelly_Marketing.HTM

Along with this general, American demographic profile, Donnelly Marketing can also provide customized demographic information for a specific location or industry.

Bureau of Labor Statistics

Division of Information Services
441 G Street NW
Washington, DC 20212
Phone: 202-606-6378
Fax: 202-606-6426
http://stats.bls.gov

This bureau produces many labor publications, including a report on wages, prices, and cost of living. Call or write for a list of their publications and determine what will fit your needs. The annual Consumer Expenditure Survey is the best source available for detailed household spending.

Bureau of the Census

U.S. Department of Commerce
Social and Economic Division
14th and Constitution Avenue NW
Washington, DC 20230
Phone: 202-482-2000
Fax: 202-483-6024
http://www.census.gov

This agency publishes a wide variety of information relating to industry trends and geographic populations, including the *Census of Business* which provides information on retail, wholesale and service industries. Call or write for a complete list of reports.

Center for Mature Consumer Studies

Georgia State University
University Plaza
Atlanta, GA 30303
Phone: 404-651-4177
http://www.marketing.gsu.edu/cmcs.htm

Tab 2-2 RESOURCE GUIDE national business information

Survey of Current Business

U.S. Department of Commerce
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County and City Data Book

U.S. Department of Commerce
Bureau of Census
14th and Constitution Avenue NW
Washington, DC 20230
Phone: 202-482-2000
Fax: 202-482-5270
http://www.doc.gov

Published annually, this census information contains complete statistical data, organized by counties and cities in the U.S., on income, employment, housing, and population.

Demographics of Online Food and Drink Visitors

http://www.ume.maine.edu/~specfood/highlight.html

Gives results from a project completed by the University of Maine on the type of people that visit sites related to specialty food and drinks.

Sales & Marketing Management's Survey of Buying Power

Sales and Marketing Management
355 Park Avenue South
New York, NY 10010
Phone: 212-592-6300
Fax: 212-592-6339
http://www.billcom.com

This annual survey includes information about population, households, income groups, and media.

SRI International

333 Ravenswood Avenue
Menlo Park, CA 94025
Phone: 415-859-3032
Fax: 415-326-6200
http://future.SRI.com

This research and consulting firm is best known for the VALS 2 psychographics system that classifies consumers into one or more of eight typologies based on a brief survey of their attitudes. The purpose of VALS 2 is to reveal the viewpoints and motivations of consumers relating to particular products or services.

Statistical Abstract of the United States

U.S. Department of Commerce
14th and Constitution Avenue NW
Washington, DC 20230
Phone: 202-482-2000
Fax: 202-483-6024
http://www.doc.gov

These catalogs provide national information on a wide range of topics, as well as some regional, state, county, and city statistics. Subjects include population, housing, government, transportation, manufacturers, businesses, agriculture, and mineral industries.

The Insider's Guide to Demographic Know-How

Irwin Professional Publishing
1333 Burr Ridge Parkway
Burridge, IL 60521
Phone: 630-789-4000 or 800-776-2871
Fax: 630-789-6933

Listing over 600 federal, state, local, and private sources of demographic information. This book provides an easy approach to analyzing demographic data.

Franchising

Directory of Franchising Organizations and Franchising Investigation and Contract Negotiation

Pilot Books
102 Cooper Street
Babylon, NY 11702
Phone: 516-477-1094 or 800-797-4568
Fax: 516-477-0978

Revised annually, this directory contains over 700 companies in 40 consumer and service fields that offer franchises. Information includes company name, address, investment required, and product or service descriptions.

Franchise Opportunities Handbook

Superintendent of Documents
U.S. Government Printing Office
P.O. Box 371954
Pittsburgh, PA 15250-7954

national business information RESOURCE GUIDE Tab 2-3

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Tab 2

Phone: 202-512-1800
Fax: 202-512-2250
http://www.gpo.gov/su_docs/index.html

This is an annual survey of franchisers on their number of outlets, cost of a franchise, time in business, training procedures, and potential financial assistance available.

Franchising and Business Opportunities: Rules and Guides

Franchise and Business Opportunities Program
Federal Trade Commission
Washington, DC 20580
Phone: 202-326-2258
http://www.ftc.gov

This publication outlines the Federal Trade Commission's disclosure rules regarding franchising and other business entities, in understandable terminology.

Franchise Consultants International Association

5147 N. Angela Road
Memphis, TN 38117
Phone: 901-368-1144
Fax: 901-685-5282

The goal of this organization is to provide standardized information for the franchise industry and to coordinate professional and effective consulting for its members.

International Franchise Association

1350 New York Avenue NW, Suite 900
Washington, DC 20005
Phone: (202)-628-8000 or (800)-543-1038
Fax (202) 628-0812
http://www.franchise.org

Representing firms in 58 countries that utilize the franchise method of distribution for goods and services in all industries, this association publishes the bi-monthly magazine *Franchising World.*

Sourcebook For Franchise Opportunities

BusinessOne Irwin
905 W. 175th Street
Homewood, IL 60430

This annually revised book contains over 1400 franchising opportunities in the U.S. and Canada. Information includes company name, address, phone, service or product, financial data, and background of the company.

Trade Associations

Trade associations are generally organized within specific industries or service areas to address common problems, create negotiating strength as a group, and promote the industry. The vast majority of the membership of most trade associations is small businesspersons. Some of the useful services that associations may provide include:

- information about the industry, including trends in products/services
- "cost of doing business" surveys within the industry
- financial planning guidelines applicable to the industry
- publications relating to industry information
- legislative information that could affect the industry
- access to training and technical assistance
- advice on tax considerations
- networking with other industry businesses

Reference books for finding a trade association within your industry are located in most libraries in the reference section.

The Encyclopedia of Associations

Volume 1—National Organizations of the U.S.
Gale Research, Inc.
835 Penobscot Bldg.
Detroit, MI 48226
Phone: 800-877-4253
Fax: 313-414-5043
http://www.gale.com

This reference offers detailed information including addresses, telephone numbers, and a description of the association's activities.

Tab 2-4 RESOURCE GUIDE national business information

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Fax: 202-512-2250
http://www.gpo.gov/su_docs/index.html

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Direct Marketing Association

11 West 42nd Street
New York, NY 10036
Phone: 212-768-7277
Fax: 212-391-1532
http://www.the-dma.org

DMA has over 3,000 members involved in all aspects of direct marketing. It publishes books on direct marketing techniques including telemarketing, direct mail, designing marketing campaigns, marketing products, and overseas marketing. The association puts on seminars in major cities to educate members on techniques and new developments in the industry and works with small businesses to provide them with members names in their area who provide needed services. DMA is a major compiler of information on the direct marketing industry as a whole and disseminates that information to many other business-related organizations.

Federation of International Trade Associations

11800 Sunrise Valley Drive, Suite 210
Reston, VA 20191
Phone: 703-620-1588 or 800-969-3482
Fax: 703-620-4922
http://www.fita.org

Promoting interest in international trade clubs and trade associations is the main objective of this 300 member organization of world trade clubs and trade associations in the U.S. This group sponsors export seminars developed by the U.S. Department of Commerce and offers several publications on exporting and international trade associations.

National Trade and Professional Associations of the United States

Columbia Books
1212 New York Avenue NW, Suite 330
Washington, DC 20005
Phone: 800-265-0600
Fax: 202-898-0775
http://www.d-net.com/columbia/

This reference book lists over 6,400 national trade associations, labor unions, and professional organizations in alphabetical order.

Organic Trade Association

50 Miles Street
P.O. Box 1078
Greenfield, MA. 01302
Phone: 413-774-7511
Fax: 413-774-6432
http://www.ota.com/

The Organic Trade Association promotes both organic food and non-food products and services in Canada, the United States, and Mexico. Membership services provided are information services, education and training, government liaison, and market development.

State and Regional Associations of the United States

1212 New York Avenue NW, Suite 330
Washington, DC 20005
Phone: 202-898-0662 or 800-265-0600
Fax: 202-898-0775
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Over 7,500 major trade associations, labor organizations, and professional societies with state or regional constituencies are listed in this book in state alphabetical order and by association name.

United Agribusiness League

http://www.ual.org/

The United Agribusiness League is a multi-commodity trade association providing many services and benefits such as information on international agriculture and online chats.

Marketing Resources

Agricultural Marketing Service

http://www.ams.usda.gov/

Assists in the marketing and distribution of agricultural products.

Foresight Food Marketing, Food Dude, Inc.

http://www.fooddude.com

Designed to successfully take products to market and determine the most effective methods of sales management. As Foresight Food Marketing takes you through Food Marketing 101, they will assist you with everything from correct positioning/packaging to investment banking.

national business information RESOURCE GUIDE Tab 2-5

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Designed to successfully take products to market and determine the most effective methods of sales management. As Foresight Food Marketing takes you through Food Marketing 101, they will assist you with everything from correct positioning/packaging to investment banking.

Tab 2

Guerrilla Advertising

Cost-Effective Tactics for Small-Business Success
Jay Conrad Levinson
Houghton Mifflin Co.
215 Park Avenue South
New York, NY 10003
Phone: 212-420-5800 or 800-225-3362
Fax: 212-420-5859
http://www.hmco.com/trade/

This is a step-by-step guide on creating cost-effective advertising for small businesses. Topics include: developing an advertising strategy, designing effective ads and copy, maximizing advertising effectiveness, focusing the audience, polishing your look, adapting tactics to the appropriate media, and budget, budget, budget!

Guerrilla Marketing

Secrets for Making Big Profits from your Small Business
Completely Revised & Updated for the 90's
Jay Conrad Levinson
Houghton Mifflin Co.
215 Park Avenue South - New York, NY 10003
Phone: 212-420-5800 or 800-225-3362
Fax: 212-420-5859
http://www.hmco.com/trade/

One of the most powerful marketing guides written, this book addresses how to reach and keep the fastest-growing markets, targeting prospects, using current technology in your marketing campaign for bigger profits, management lessons for the twenty first century, and many solid marketing tips for the small business with the big ideas and the non-existent budget.

Marketing Sourcebook for Small Business

Jeffrey P. Davidson
John Wiley and Sons, Inc.
605 3rd Avenue
New York, NY 11566
Phone: 908-469-4400 or 800-825-7550
Fax: 212-850-6021

This is a good introductory book for small business owners with excellent definitions of important marketing terms and concepts.

Marketing Without Advertising

Michael Phillips and Salli Rasberry
Nolo Press
950 Parker
Berkeley, CA 94710
Phone: 510-549-1976 or 800-992-6656
Fax: 510-548-5902
http://www.nolo.com

More than an argument against advertising, this book is packed with hundreds of tested and tried marketing secrets that work for small business. The content is designed to help successfully promote your small business without spending money on advertising, which the author believes is 99% ineffective.

North American Farmers' Direct Marketing Association

62 White Loaf Road
Southampton, MA 01073
Phone: 1-888-884-9270
http://www.nafdma.com/

A place to network with other farmers on the profitability of direct marketing.

United States Agricultural Marketing Information Sites

http://agri.gov.ns.ca/ms/amii/usa.htm

Links to the USDA, the National Agriculture Statistics (http://www.usda.gov/nass/) Service, commodity reports, and a variety of other sites.

CAPITAL & FINANCIAL INFORMATION RESOURCES

CAPITAL INFORMATION RESOURCES

Business Capital Sources

International Wealth Success, Inc.
Box 186
Merrick, NY 11566
Phone: 516-766-5850 or 800-323-0548
Fax: 516-766-5919

This directory provides capital financing sources.

Tab 2-6 RESOURCE GUIDE national business information

Guerrilla Advertising
Cost-Effective Tactics for Small-Business Success
Jay Conrad Levinson
Houghton Mifflin Co.
215 Park Avenue South
New York, NY 10003
Phone: 212-420-5800 or 800-225-3362
Fax: 212-420-5859
http://www.hmco.com/trade/
This is a step-by-step guide on creating cost-effective advertising for small businesses. Topics include: developing an advertising strategy, designing effective ads and copy, maximizing advertising effectiveness, focusing the audience, polishing your look, adapting tactics to the appropriate media, and budget, budget, budget!

Guerrilla Marketing
Secrets for Making Big Profits from your Small Business
Completely Revised & Updated for the 90's
Jay Conrad Levinson
Houghton Mifflin Co.
215 Park Avenue South - New York, NY 10003
Phone: 212-420-5800 or 800-225-3362
Fax: 212-420-5859
http://www.hmco.com/trade/
One of the most powerful marketing guides written, this book addresses how to reach and keep the fastest-growing markets, targeting prospects, using current technology in your marketing campaign for bigger profits, management lessons for the twenty first century, and many solid marketing tips for the small business with the big ideas and the non-existent budget.

Marketing Sourcebook for Small Business
Jeffrey P. Davidson
John Wiley and Sons, Inc.
605 3rd Avenue
New York, NY 11566
Phone: 908-469-4400 or 800-825-7550
Fax: 212-850-6021
This is a good introductory book for small business owners with excellent definitions of important marketing terms and concepts.

Marketing Without Advertising
Michael Phillips and Salli Rasberry
Nolo Press
950 Parker
Berkeley, CA 94710
Phone: 510-549-1976 or 800-992-6656
Fax: 510-548-5902
http://www.nolo.com
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Box 186
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Phone: 516-766-5850 or 800-323-0548
Fax: 516-766-5919
This directory provides capital financing sources.

The Entrepreneur's Guide to Capital

Probus Publishing
1333 Burr Ridge Parkway
Burridge, IL 60521
Phone: 630-789-4000 or 800-776-2871
Fax: 630-789-6933

There are over 150 ways to finance new and growing businesses described in this book. Detailed descriptions and characteristics are presented on the various financing techniques.

Guide to Venture Capital Sources

Center for Entrepreneurial Management
180 Varick Street, Penthouse
New York, NY 10014
Phone: 212-633-0060
Fax: 212-633-0063

Venture capital companies are listed by state with investment preferences.

National Association of Investment Companies

Membership Directory
NAIC - 1111 14th Street NW, Suite 700
Washington, DC 20005
Phone: 202-289-4336
Fax: 202-289-4329
Email: info@naichq.org

150 venture capital firms for minority small business are listed in this directory. Arranged geographically, the listing includes the company name, address, phone, president, investment policy, industry preference, and preferred limit of loans and investments.

Financial Information Resources

The Alternative Agricultural Research and Commercialization Corporation

http://www.usda.gov/aarc

AARC invests in companies that produce bio-based industrial products (non-food, non-feed) from agricultural and forestry materials and animal byproducts.

Farm Credit System

http://www.fcredit.com/locate.htm

A nationwide agricultural banking network that provides credit and risk management tools to farmers and ranchers. Locate the office in your area.

Farm Service Agency

http://www.fsa.usda.gov/pas/default.asp

FSA provides a loan program to farmers who are temporarily unable to obtain private, commercial credit. Their web site allows you to locate the nearest FSA office.

Guerrilla Financing—Alternative Techniques to Financing Any Business

Bruce Blechman and Jay Conrad Levinson
Houghton Mifflin Co.
215 Park Avenue South
New York, NY 10003
Phone: 212-420-5800 or 800-225-3362
Fax: 212-420-5859
http://www.hmco.com/trade/

This book presents innovative approaches to evaluating assets, unearthing alternative finance sources, and marketing you and your business.

Key Business Ratios

Dun & Bradstreet, Inc.
1 Diamond Hill Road
Murray Hill, NJ 07974
Phone: 908-665-5000 or 800-333-0505
Fax: 908-665-5803

D & B provides financial ratios for over 125 retailing, wholesaling, manufacturing, and construction lines of business, allowing comparison within industries and trends.

National Financial Services Network

http://www.nfsn.com/

Will help you find the financial products and services for your business from leading companies in all 50 states.

national business information RESOURCE GUIDE Tab 2-7

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Probus Publishing
1333 Burr Ridge Parkway
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Tab 2

Robert Morris Studies

Robert Morris Associates
1650 Market Street, Suite 2300
Philadelphia, PA 19103
Phone: 215-851-9155 or 800-677-7621
Fax: 215-851-9206
http://www.rmahq.org

RMA produces many valuable financial tools, the Robert Morris Studies being among the most popular with bankers. This complete source of industry information provides statistics and financial ratios on every industry. Check with your local bank or library for this excellent resource.

Small Business Innovation Research Solicitations

http://www.acq.osd.mil/sadbu/sbir/001/dod_sbir001.htm

Encourages small companies to explore their technological potential by funding their early stage research and development projects that have potential for commercialization in the private sector and/or the military sector. Small companies eligible are those organized for profit with 500 or fewer employees.

The Small Business Survival Guide: How to Manage Your Cash, Profits and Taxes

Robert E. Fleury
Sourcebooks, Inc.
121 N. Washington
Naperville, IL 60540
Phone: 630-961-2161 or 800-432-7444
Fax: 630-961-2168

This book offers some interesting business basics, including handling previous business failure, three priorities for staying in business (cash management, profit and taxes), and the author's own simplified financial management technique.

Government Financial Resources

The goal of public financing activities is to stimulate private sector investment into long lived physical plant and equipment to increase productivity and create new permanent private sector jobs. Typically, the stimulus is provided by making available long-term, low down payment, reasonably priced financing to healthy and expanding businesses which have the highest probability of successfully creating new jobs and competing in the world marketplace. Public financing entities generally look to participate with other financing sources on a deal, and they try not to compete with banks. In other words, a public financing agency is not likely to do all of the financing on a project.

Federal Resources

Given today's political environment favoring less government intrusion into the private sector, it is difficult to predict how the current programs will be changed by Congress soon and in the future. As of the date of this writing, federal funds for public finance are utilized primarily for debt financing in the form of loan guarantees by the **Small Business Administration** and the **Export-Import Bank (Exim Bank)**. There are extremely limited funds for direct loans to certain "target" groups such as veterans and Native Americans.

Other federal agencies such as the **Department of Housing and Urban Development (HUD), Rural Development**, and the **Economic Development Administration (EDA)** make funds available to state economic development agencies, local boards, and regional development organizations to be loaned to private business. These funds also constitute debt financing to the borrower. There is substantial flexibility for each of these entities to direct a program to those types of businesses, which they most wish to encourage, so rules and priorities differ from place to place.

State Resources

Many states have taken a more direct approach to encouraging the growth of private sector employment by forming organizations that will participate in equity arrangements with private businesses. In addition, all states currently have

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Philadelphia, PA 19103
Phone: 215-851-9155 or 800-677-7621
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http://www.acq.osd.mil/sadbu/sbir/001/dod_sbir001.htm

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agencies that are responsible for the development of science and technology businesses and for encouraging technology transfer and the commercialization of research, especially items available from universities and federal laboratories. Often, these funds can be made to look like "near" equity.

The **Small Business Innovation Research Program (SBIR)** is a competitive federal award system of stimulating commercialization of federal research. Eleven federal agencies participate in this program which is administered by the SBA.

The key to utilizing public financing sources is the concept of building a "package" of different sources of funding-your money and funds from other sources, whether debt or equity. Using public funding is hard work, often complicated, and certainly not free, but it can make the difference in allowing a business to grow and create new jobs if utilized judiciously.

Funding Resource Information on the Net

The following Web Sites may be helpful in finding "non-traditional" funding sources, including grants and federal funding potential.

ASU reSEARCHnet, a semi-weekly briefing on the latest federal and non-federal funding opportunities:
http://researchnet.asu.edu

Grant writing information and available grants:
http://www.uic.edu/depts/ovcr

Information on Federal programs, interest rates, deferments, etc.:
http://www.tgslc.org/

Mini grants, information and freebies:
http://www.learner.org/sami/

Professional Developments Partnerships Project, a group putting together those in need and those who can fill the need:
http://aed.org/

The Foundation Center, a good starting place for foundations and their potential granting/funding capability:
http://www.fdncenter.org

Resources and grant-related links starting point:
http://web.fie.com/cws/sra/resource.htm

U.S. Department of Education's page with grant information:
http://www.ed.gov/pubs/KnowAbtGrants/

Small Business Administration funding, grant and financial education programs:
http://www.sba.gov/financing/

Risk Management

Risk Management Agency

http://www.act.fcic.usda.gov/

RMA provides farmers with risk management tools and resources they need to be successful. Their web site contains publications where you can find such things as a list of crop insurance agencies. Other items of interest are their programs and weather links.

SPECIAL POPULATIONS RESOURCES

Minority-Owned Businesses

African-American Women Business Owners Association

3363 Alden Place, NE
Washington, DC 20019
http://angelfire.com/biz2/aawboa/index.html

This group seeks to assist successful employed women start and stay in business. They stress cooperation rather than competition as being the key to success.

Latin Business Association

5400 E. Olympic Boulevard #130
Los Angeles, CA 90022
Phone: 213-721-4000
Fax: 213-722-5050
http://www.lbausa.com

Helping Latin Business owners and entrepreneurs develop their businesses is the goal of this association. Founded in 1982, this group awards the Latin Business Owners Scholarship annually, publishes a periodic *Latin Business Association Business Directory*, and sends out a monthly *Latin Business Journal* to its members.

national business information RESOURCE GUIDE Tab 2-9

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Tab 2

Market Segment Research

1320 South Dixie Highway, Suite 120
Miami, FL 33146
Phone: 305-669-3900
Fax: 305-669-3901

This group's publication *Ethnic Market Report* is the only source that presents information on Hispanics along side data for whites, blacks, Asians, and the consumer market as a whole. Detailed sections cover these groups' perceptions of social issues, media use, purchase behavior, and consumption of both durable and non-durable goods and services.

Minority Business Development Agency (MBDA)

Department of Commerce
14th St. & Constitution Avenue NW, Rm 6707
Washington, DC 20230
Phone: 202-482-5061
Fax: 202-501-4698
http://www.mbda.gov/

This agency funds Business Development Centers nationwide to help with start-up, expansion and acquisition of minority-owned businesses offering quality goods and services. It provides assistance with bonding, bidding, estimating, financing, procurement, international trade, franchising, acquisitions, mergers, and joint ventures. It is a good "starting point" for finding other helpful agencies to fit specific needs.

Minority Business Development Center

1133 15th Street NW, Suite 1120
Washington, DC 20005
Phone: 202-785-2886
Fax: 202-785-2890

This is the Washington regional office of the MBDA listed above. MBDA centers such as this are operated by private firms, state and local government agencies, nonprofit organizations, Native American tribes, and educational institutions. The centers provide accounting, administrative, planning, construction, and marketing information. They also aid in finding public and private sector sources of financing. To locate the regional office closest to you call (202) 482-1936.

Minority Business Enterprise Legal Defense & Education Fund

900 Second Street NE, Suite 8
Washington, DC 20002
Phone: 202-289-1700
Fax: 202-289-1701

This is a national, nonprofit, public interest law firm and membership advocacy group established for the express purpose of providing legal defense of the class interests of minority business enterprises. It acts as an advocate and legal representative for the minority business community by offering legal aid in matters of national and regional importance.

National Association of Black Women Entrepreneurs

P.O. Box 1375
Detroit, MI 48231
Phone: 313-559-9255

Founded in 1979, this association was formed for black women interested in starting or owning their own businesses. It focuses on professional and technical development through networking and an active speakers' bureau. This group also bestows the Black Women Entrepreneur of the Year award.

National Association of Investment Companies (NAIC)

1111 14th Street NW, Suite 700
Washington, DC 20005
Phone: 202-289-4336
Fax: 202-289-4329
Email: info@naichq.org

NAIC is a trade association for minority enterprise investment companies that invest exclusively in small businesses owned by socially or economically disadvantaged entrepreneurs. The Association provides entrepreneurs with names of investors in their area.

National Association of Minority Contractors (NAMC)

666 11th Street, NW, Suite 520
Washington, DC 20005
Phone: 202-347-8259
Fax: 202-628-1876
http://www.namc.org

NAMC is a trade association designed to lobby for the needs of small contractors. It provides training seminars, education, networking, and information bulletins.

Tab 2-10 RESOURCE GUIDE national business information

Market Segment Research

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National Business League (NBL)

1511 K Street NW, Suite 432
Washington, DC 20005
Phone: 202-737-4430
Fax: 202-737-4432
http://www.thenbl.com/

NBL was established with the goal of achieving economic independence for minority Americans and currently has membership in 37 states with 127 authorized chapters. It is primarily involved with business development among blacks and works to expand minority business participation in franchise ownership, transportation, telecommunications, high tech, and energy-related fields. It provides managerial and technical assistance for black small businesses and educational workshop training through NBL institutes and seminars. It also aids in capital formation issues.

Office of Minority Enterprise Development

Small Business Administration
409 Third Street SW, Suite 800
Washington, DC 20410
Phone: 202-205-6410
Fax: 202-205-7652
http://www.sba.gov

This office serves to foster business ownership by socially and economically disadvantaged individuals and to promote competitive viability of such firms. Services offered include management, technical and federal procurement assistance, bonding assistance, Section 8(a) Business Development Program Certification, and financial assistance through the 8(a) Loan Program. (For more information about the 8(a) program, call the SBA information hotline at (800) 827-5722.)

U.S. Hispanic Chamber of Commerce

1030 15th Street NW, Suite 206
Washington, DC 20005
Phone: 202-842-1212
Fax: 202-842-3221
http://www.ushcc.com

This is the only known Hispanic business association, representing over 400,000 Hispanic-owned firms. It provides network capability with over 200 chambers nationwide, holds an annual convention featuring workshops, a trade fair, and business education. It advocates developing minority business opportunities with major corporations and government.

Women-Owned Businesses

American Business Women's Association

9100 Ward Parkway, P.O. Box 8728
Kansas City, MO 64114
Phone: 816-361-6621
Fax: 816-361-4991
http://www.abwahq.org

With over 90,000 members, this association helps business women help themselves through leadership, education, training, and networking. It offers leadership training, resume service, credit card and member loan programs and travel benefits. There is an annual selection of the top ten Business Women of ABWA and a local Business Woman of the Year Award. The main office has local ABWA chapter listings.

National Association for Female Executives

30 Irvine Place, 5th Floor
New York, NY 10011
Phone: 212-645-0770 or 800-927-6233
Fax: 212-477-8215
http://www.nafe.com

This group offers networking, travel discounts, job information, and workshops to its members. It has some established loan funds available for members and publishes *Executive Female*, a bi-monthly periodical.

National Association of Women Business Owners (NAWBO)

1100 Wayne Avenue, Suite 830
Silver Springs, MD 20910
Phone: 301-608-2590 or 800-608-2595
Fax: 301-608-2596
http://www.nawbo.org

NAWBO is a membership based federation with more than 50 local chapters and over 4,700 members nationwide. It represents women's business interests to government and encourages women business owners to expand their businesses. The association suggests that local chapters provide counseling and technical assistance and hold monthly programs focused on training for the woman business owner.

national business information RESOURCE GUIDE Tab 2-11

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Phone: 202-842-1212
Fax: 202-842-3221
http://www.ushcc.com
This is the only known Hispanic business association, representing over 400,000 Hispanic-owned firms. It provides network capability with over 200 chambers nationwide, holds an annual convention featuring workshops, a trade fair, and business education. It advocates developing minority business opportunities with major corporations and government.

Women-Owned Businesses

American Business Women's Association
9100 Ward Parkway, P.O. Box 8728
Kansas City, MO 64114
Phone: 816-361-6621
Fax: 816-361-4991
http://www.abwahq.org
With over 90,000 members, this association helps business women help themselves through leadership, education, training, and networking. It offers leadership training, resume service, credit card and member loan programs and travel benefits. There is an annual selection of the top ten Business Women of ABWA and a local Business Woman of the Year Award. The main office has local ABWA chapter listings.

National Association for Female Executives
30 Irvine Place, 5th Floor
New York, NY 10011
Phone: 212-645-0770 or 800-927-6233
Fax: 212-477-8215
http://www.nafe.com
This group offers networking, travel discounts, job information, and workshops to its members. It has some established loan funds available for members and publishes Executive Female, a bi-monthly periodical.

National Association of Women Business Owners (NAWBO)
1100 Wayne Avenue, Suite 830
Silver Springs, MD 20910
Phone: 301-608-2590 or 800-608-2595
Fax: 301-608-2596
http://www.nawbo.org
NAWBO is a membership based federation with more than 50 local chapters and over 4,700 members nationwide. It represents women's business interests to government and encourages women business owners to expand their businesses. The association suggests that local chapters provide counseling and technical assistance and hold monthly programs focused on training for the woman business owner.

Tab 2

Office of Women Business Ownership (OWBO)

Small Business Administration
409 Third Street SW
Washington, DC 20416
Phone: 202-205-6670
http://www.sba.gov

This office serves as the primary advocate of women business owners' interests through access to: pre-business workshops, technical, financial and management information, federal government procurement information, access to capital and small loan programs. The office also provides a "Women's Business Ownership Kit" at no charge and has implemented a Women's Network for Entrepreneurial Training.

Home-Based Businesses

American Association of Home-Based Business

P.O. Box 995
Darien, CT 06820
Phone: 203-655-4380 or 800-433-6361
http://www.aahbb.org

Founded in 1986, this membership-based association works to assist entrepreneurs in operating profitable home-based businesses by distributing information on taxes, equipment, and management topics. It offers group health insurance plans, has produced a PC-DOS program on home business management, published a book entitled *Working From Home*, available to members, and publishes a monthly newsletter, *Home Business Line*.

Home Office Association of America

909 3rd Ave., Suite 990
New York, NY 10022
Phone: 800-809-4622
Fax: 212-758-8216
http://www.hoaa.com

Founded in May 1994, this newest of home-based business associations offers member discounts on group health insurance, delivery services, copy services, long-distance services, prescriptions, and dining discounts. A monthly newsletter features trends and business start-up focus. The association can also help with obtaining merchant card authorizations and on-line services.

International Association of Home-Based Businesses

8333 Ralston Road, Suite 4
Arvada, CO 80002
Phone: 800-414-2422

This is a small association that promotes home-based business, especially in the Rocky Mountain Region. It publishes a newsletter, *Home Business Today.*

National Association for the Cottage Industry

P.O. Box 14850
Chicago, IL 60614
Phone: 630-472-8116

This organization supports home-based entrepreneurs with information and resources through its newsletter, *Cottage Connection*, which features new industry trends and techniques.

National Association of Home Based Businesses

P.O. Box 30220
Baltimore, MD 21270
Phone: 410-363-3698
http://usahomebusiness.com/referrals.htm

Supporting 8 regional and 40 state groups, this association works to discover new markets, give mail order services, and provide information on business opportunities to home-based businesses. It offers seminars on starting and marketing home-based businesses and has an annual convention that features a small business trade show, other small business related exhibits, and workshops.

Rocky Mountain Home-Based Business Association

9905 E. Colfax
Aurora, CO 80010-2119
Phone: 303-341-4849
Email: dgardner@newwest.org
http://www.rmhba.org/

This association provides training, networking and conferences for home-based businesses throughout the Rocky Mountain region.

Small and Home-Based Business Links

http://www.ro.com/small_business/homebased.html

A great web site offering reference, franchise, opportunities, news, marketing, and service information links for small and home-based business.

Tab 2-12 RESOURCE GUIDE national business information

Office of Women Business Ownership (OWBO)

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A great web site offering reference, franchise, opportunities, news, marketing, and service information links for small and home-based business.

WAHM—The Newsletter and On-line magazine for Work at Home Moms

http://www.wahm.com

WAHM is dedicated to promoting WAHM businesses, providing information about legitimate home-based opportunities, and providing tips, advice and entertainment for WAHM's.

BUSINESS ASSISTANCE RESOURCES

Management and Technical Assistance

New Farm Options

http://uwex.edu/ces/agmarkets

A new web page from the University of Wisconsin Extension that will assist you in business start up issues such as adding value to your commodity and exploring new markets for your business. Has an excellent discussion group where you can read and post messages about starting your business.

Small Business Development Centers

Located in all fifty states

State by State Information

http://www.sbaonline.sba.gov/SBDC

These Centers are a cooperative program between the U.S. Small Business Administration (SBA) and educational institutions across the nation. The Centers offer counseling and training in management, business planning, marketing, finances, production, and organization.

Small Business Institutes

The Institutes are a cooperative program between the U.S. Small Business Administration (SBA) and educational institutions across the country. They provide small business owners an opportunity to receive intensive management counseling from qualified, college-level business students working under expert faculty guidance.

Business Incubators

Many communities and educational institutions have created business incubators where new businesses can receive counseling and management assistance on site, share the overhead expenses of office personnel and equipment, and receive guidance in growing their business.

Small Business Exchange

http://www6.americanexpress.com/smallbusiness/

Provides information and resources such as day to day management to expanding internationally for small business entrepreneurs.

Labor/Employment

United States Department of Labor (DOL)

200 Constitution Avenue NW

Washington, DC 20210

Phone: 202-219-6666

http://www.dol.gov

The DOL controls labor activities in the U.S. including administering unemployment insurance payments, enforcing laws concerning compensation, occupational health and safety, minimum wages, overtime pay, child labor, pension plans, and non-discrimination in employment. The department can provide information to business owners on how to comply with minimum wage and other labor laws, how to write job descriptions, and how to comply with labor provisions of federal contracts.

Some specific DOL programs or service areas are listed below:

Employment Standards Administration

Phone: 202-219-8743

Fax: 202-219-8740

http://www.dol.gov/dol/esa

Federal contract compliance, minimum wage and overtime standards, affirmative actions issues.

Employment and Training Administration

Phone: 202-219-6871

Fax: 202-273-4793

http://www.doleta.gov

Apprenticeship training, unemployment insurance, special programs and activities for the Disadvantaged, Native Americans, Immigrant Workers, employment and training projects.

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national business information RESOURCE GUIDE Tab 2-13

WAHM—The Newsletter and On-line magazine for Work at Home Moms

http://www.wahm.com

WAHM is dedicated to promoting WAHM businesses, providing information about legitimate home-based opportunities, and providing tips, advice and entertainment for WAHM's.

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Tab 2

Pension and Welfare Benefits Administration

Phone: 202-219-8776
Fax: 202-219-8141
http://www.dol.gov/pwba

Technical assistance and general inquiries.

Women's Employment Policy and Information

Phone: 202-219-6652
Fax: 202-219-5529

Veterans' Employment and Training Service

Phone: 202-219-9116

State Government Labor/Employment Agencies

Most federal and state matters relating to employment, including worker's compensation and unemployment insurance, are actually handled by state offices. State agency offices coordinate with federal agencies to ensure compliance of applicable labor laws. See **State Information** for your specific state offices.

Procurement

Small Business Administration

The Small Business Administration (SBA) offers a wide variety of procurement programs and opportunities. Contact your nearest office to find out more details about these programs.

The **8(a) program** of the Small Business Act works with procurement officials in other federal agencies and serves as the prime contractor for the purchase of goods and services for the federal government. The Agency then subcontracts this work to small firms owned by minority and disadvantaged persons.

Under the **7(j) program**, management and technical assistance is provided to minority and small disadvantaged businesses in four areas: accounting and finance, marketing, proposal/bid preparation and industry specific technical assistance.

The SBA works closely with federal agencies to increase the dollars and percent of total federal procurement going to small business by identifying items which small firms could supply.

The SBA also monitors prime contractors to ensure that small businesses receive a fair share of subcontracting opportunities.

The **Procurement Automated Source System (PASS)** contains a nationwide computerized listing of small firms interested in federal contracts and subcontracting opportunities. Those listings are made available to purchasing officials at many government and industry locations.

Certificates of Competency may be issued by the SBA on behalf of a small business to help them qualify for government contracts they might not otherwise receive.

Small firms may also receive assistance with property sales/leases for timber, royalty oil, minerals and real and personal property.

Surety bond guarantees may be available to assist small businesses in insuring losses incurred under bid, payment, or performance bonds. The contracts may be used for construction, supplies or services provided for government or non-government work.

State Procurement Offices

Many states have their own procurement offices that encourage contract development for small businesses. Contact the state economic development office, department of administration, or department of commerce to identify where this function is housed in your state or locate your state's office on the Federal Procurement web site (http://www.fedmarket.com/).

National Association of Purchasing Management

2055 E. Centennial Circle
P.O. Box 22160
Tempe, AZ 85285-2160
Phone: 602-752-6276 or 800-888-6276
Fax: 602-752-7890
http://www.napm.org

This is the professional organization for purchasing managers in private industry. It is a nationwide organization with chapters in many larger communities. Look for a listing in the phone book.

Tab 2-14 RESOURCE GUIDE national business information

Pension and Welfare Benefits Administration

Phone: 202-219-8776
Fax: 202-219-8141
http://www.dol.gov/pwba

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Patents/Copyrights/Trademarks

Copyright Office

Library of Congress
Washington, DC 20559
Phone: 202-707-3000
http://lcweb.loc.gov/copyright/

Although registration is not necessary to claim copyright in an original literary, musical, dramatic or artistic work, registration does provide certain legal benefits in case of infringement. To order copyright forms, call (202) 707-9100. Publications on copyrights include *Copyright Basics* and *Publications on Copyrights*.

Everyone's Guide to Copyrights, Trademarks and Patents

Running Press
125 S. 22nd
Philadelphia, PA 19103
Phone: 215-567-5080 or 800-345-5359
Fax: 215-568-2919

This is a comprehensive handbook, including 176 pages of sample forms.

U.S. Patent and Trademark Office

U.S. Department of Commerce
Washington, DC 20231
Phone: 1-800-786-9199 or 703-308-4357
http://www.uspto.gov/

A trademark is a unique symbol, name, design, slogan or sound used in trade to distinguish the goods and services of one party from another. While registration is not necessary for trademark protection, it does give the registrant certain legal priority and provides the benefit of being able to use the trademark symbol with the mark. The publication *Basic Facts About Trademarks* is available by calling (703) 557-4636.

Patents give owners the exclusive right to manufacture, use, or sell their invention throughout the United States or the right to exclude others from using or selling it throughout the U.S. or importing into the U.S. products made by that process. Information and patent applications can be ordered by calling the same phone number listed above. The book *General Information About Patents* is available by calling the Government Printing Office at (202) 783-3238.

Tax

Small Business Tax Planner

Research Institute of America
90 5th Avenue
New York, NY 10011
Phone: 212-645-4800 or 800-431-9025

In loose-leaf presentation, this service deals with tax planning strategies for small business.

Small Business Tax Guide

http://wwwintuit.com/turbotax/taxcenter/ttbill1.html

U.S. Department of the Treasury—Internal Revenue Service

1111 Constitution Avenue NW
Washington, DC 20224
Phone: 202-622-6370
http://www.irs.ustreas.gov/

The IRS is responsible for administering and enforcing the internal revenue laws and related statutes. The IRS education department also offers several programs and services such as the Small Business Tax Education Program; and, it offers several programs through selected Small Business Development Centers including small business workshop programs, specific topic seminars and small business tax-kit counseling. There is also a useful publication *Guide to Free Tax Service*, which can be obtained by calling the IRS publications and tax form number (800) 829-3676.

State Departments of Revenue

All states have Revenue Departments that can give you information and assistance regarding your tax liability.

Your Personal Accountant

Every business should have an accountant as part of its infrastructure to provide current advice on tax questions specific to your business operation.

national business information RESOURCE GUIDE Tab 2-15

Patents/Copyrights/Trademarks

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http://lcweb.loc.gov/copyright/

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Small Business Tax Guide

http://wwwintuit.com/turbotax/taxcenter/ttbill1.html

U.S. Department of the Treasury—Internal Revenue Service

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Tab 2

International Trade

The International Business Dictionary and Reference

Lewis A. Presner
John Wiley and Sons, Inc.
One Wiley Drive
Somerset, NJ 08873
Phone: 908-469-4400 or 800-225-5945
Fax: 908-302-2300

This alphabetical listing of business terms and practices includes eight geographic reference guides and listings of international information sources and international organizations.

The Arthur Anderson North American Business Sourcebook

Arthur Anderson & Co. and Triumph Books, Inc.
644 S. Clark Street
Chicago, IL 60605
Phone: 312-939-3330 or 800-335-5323
Fax: 312-663-3557

Comprehensive and authoritative, this reference guide to expanding trade in the North American market will help you track changes in business environments, and identify emerging market opportunities. This type of reference is invaluable for businesses wanting to cross international borders in pursuit of market opportunities.

National Trade Data Bank

U.S. Department of Commerce, Economics and Statistics Administration
HCHB 4885
Washington, DC 20230
Phone: 202-482-1986
Fax: 202-482-2164
http://www.stat-usa.gov

The Department of Commerce operates and maintains the National Trade Data Bank (NTDB), which is the U.S. Government's most comprehensive source of world trade data, consisting of over 130 separate trade and business related programs (databases). Topics on the NTDB include: export opportunities by industry, country and product; foreign companies or exporters looking for specific products; how-to market guides; demographic, political and socio-economic conditions in hundreds of countries; and "one-stop" shopping for trade information from more than twenty federal sources. The NTDB is available in over 1,000 public and university libraries, on CD-ROM and through electronic access on the Internet and other on-line providers.

Export-Import Bank of the United States (EXIM Bank)

Business Development Group
811 Vermont Avenue, NW
Washington, DC 20571-0999
Phone: 800-565-3946
Fax: 202-565-3380
http://www.exim.gov

The Export-Import Bank is the principal government agency responsible for aiding the export of U.S. goods and services through a variety of loan, guarantee, and insurance programs. The Bank offers financial services, briefing programs and seminars to encourage small businesses to sell overseas.

FAS Online

http://www.fas.usda.gov/agexport/finding.html

Provides a variety of online sources such as information on more than 20,000 foreign buyers of food and wood products, information on ordering a book of foreign buyers seeking to purchase U.S. products, and an advertisement service where you can promote your product to foreign buyers in a biweekly newsletter.

International Agribusiness Marketing & Trade

http://agrinet.tamu.edu/centers/intlagmktg/

Provided by the Texas Agricultural Extension Service to assist businesses entering the international market. Links to web sites of government agencies, countries you could be doing business with, NAFTA, GATT, and many more are included.

U.S. Department of Commerce

Trade Information Center
Phone: 800-USA-TRAD
http://www.doc.gov
—OR—

Small Business Administration
Office of International Trade
http://www.sba.gov/OIT

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http://www.doc.gov
—OR—

Small Business Administration
Office of International Trade
http://www.sba.gov/OIT

This "one-stop" source of information on all Federal export assistance programs is operated by the **Trade Promotion Coordinating Committee (TPCC)**, a committee composed of nineteen Federal agencies responsible for international trade and export promotion. The Center provides information on a variety of topics, including: how to get started in exporting, foreign markets, export financing, locating overseas buyers, overseas trade promotion opportunities and information on export assistance programs offered by other organizations involved in international trade, such as state and local economic development organizations, world trade centers and chambers of commerce.

The book *"A Basic Guide to Exporting"* is designed to help U.S. firms learn the costs and risks associated with exporting and develop a strategy for exporting. While it is a publication of the U.S. Department of Commerce, it directs readers to sources of assistance throughout the Federal and state governments as well as the private sector. Contact the Trade Information Center at the number listed above for information about the Guide.

The **International Trade Administration** of the U.S. Department of Commerce has district and regional offices in cities throughout the United States that are staffed with trade and other area specialists. These professionals counsel companies on the steps involved in exporting, aid in evaluating attractive markets and help firms assess their export potential.

World Trade Centers are composed of area business people who represent firms engaged in international trade. These organizations conduct educational programs on international business and organize promotional events to stimulate interest in world trade. Some eighty world trade centers are located in major trading cities throughout the world.

District Export Councils (DEC) are closely affiliated with the U.S. Department of Commerce and provide outreach for export development programs and services. There are fifty councils nationwide, and each is composed of local exporters, service providers, public and private sector trade assistance organizations. Their knowledge of international business provides a source of expertise and advice to companies seeking to expand international sales

AGRICULTURE SPECIFIC RESOURCES

Sustainable/Alternative Agriculture

Appropriate Technology Transfer for Rural Areas (ATTRA)

PO Box 3657
Fayetteville, AR 72702
Phone: 1-800-346-9140
(Information Resource Center)
http://www.attra.org/

Topics addressed by ATTRA are sustainable farming production practices, alternative crop and livestock enterprises, and innovative marketing.

Farming Alternatives –Cornell's Agricultural Development and Diversification Program

http://www.cals.cornell.edu/dept/ruralsoc/fap/fap.html

Sustainable Agriculture Network (SAN) & Sustainable Agriculture and Research Education (SARE)

http://www.sare.org/

SAN provides information on sustainable farming practices, principles and systems. SARE is a program of the USDA-CSREES that works to increase knowledge about sustainable agriculture while assisting farmers and ranchers in adopting sustainable agriculture. SARE also provides an e-mail discussion group, Sanet-mg, where you can ask questions about sustainable agriculture and get a quick answer.

Regional SARE Offices:

Western Region SARE
Room 322 Agricultural Science Building
4865 Old Main Hill Road
Logan, UT 84322-4865
Phone: 435-797-2257
Fax: 435-797-3376

national business information RESOURCE GUIDE Tab 2-17

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Phone: 435-797-2257
Fax: 435-797-3376

Tab 2

Covers the states of Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington & Wyoming.

North Central Region SARE
University of Nebraska
Room 13A Activities Bldg.
PO Box 830840
Lincoln, NE 68583-0840
Phone: 402-472-7081
Fax: 402-472-0280

Covers the states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota & Wisconsin.

Southern Region SARE
1109 Experiment St.
Room 204 Stuckey Bldg.
Univ. of Georgia Ag. Experiment Station
Griffin, GA 30223-1797
Phone: 707-412-4787
Fax: 707-412-4789

Covers the states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, Sough Carolina, Tennessee, Texas & Virginia.

Northeast Region SARE
Hills Building
University of Vermont
Burlington, VT 05405-0082
Phone: 802-656-0471
Fax: 802-656-4656

Covers the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont & West Virginia.

Sustainable Farming Connection

http://metalab.unc.edu/farming-connection/

A site where you can find and share information on various production and marketing topics such as cover crops and high-value farming. Contains a list of contacts ordered by state where you can obtain more information on sustainable farming and related topics. A list of discussion groups is available in which you can subscribe to those of interest to you.

Sustainable Ranching Research and Education—University of California

http://www.foothill.net/~ringram/index.htm

Provides information on sustainable ranching techniques, alternatives to conventional practices and helps ranchers increases the sustainability of their business.

Organic Product Information/ Certification

farmbid.com

http://www.farmbid.com/info/organic/organic.asp

Provides general information about organic farming.

Farmers Research and Development

370 West Anchor Drive
Suite 260
Dakota Dunes, SD 57049
http://www.farmersresearch.org/

A nonprofit organization that promotes Chemical-Free foods by offering a Chemical-Free Certification program.

Farm Verified Organic

RR 1, Box 40a
Courier Address: 5449 45th St SE
Medina, ND 58467
Phone: 701-486-3578
Fax: 701-486-3580
http://tradecorridor.com/fvo/

An internationally recognized organic certification agency providing certification services to the organic industry. (Corporate Certification Program)

Organic Crop Improvement Association

1001 Y Street, Suite B
Lincoln, NE 68508-1172
Phone: 402-477-2323
Fax: 402-477-2325
http://www.ocia.org/index.html

Tab 2-18 RESOURCE GUIDE national business information

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Burlington, VT 05405-0082
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http://www.ocia.org/index.html

U.S. Organic Certification Organization & Local Chapters
http://www.macatawa.org/org/ogm/orgcert.htm

Agricultural Publications

Alternative Farming Systems Information Center
NAL, ARS, USDA
10301 Baltimore Ave., Room 304
Beltsville, MD 20705-2351
Phone: 301-504-6559
Fax: 301-504-6409
http://www.nal.usda.gov/afsic

Missouri Alternatives Center
http://agebb.missouri.edu/mac

North Dakota State University Alternative Agriculture Publications
http://ndsuext.nodak.edu/extpubs/alt-ag.htm

University of Kentucky Extension Publications
http://www.ca.uky.edu/agc/pubs/pubs.htm

University of Florida Institute of Food and Agricultural Sciences
http://edis.ifas.ufl.edu/

University of Nebraska Cooperative Extension
http://www.ianr.unl.edu/ianr/coopext/index.html

University of Missouri Outreach and Extension Publications
http://muextension.missouri.edu/xplor

Small Farm Digest
http://www.reeusda.gov/agsys/sfd/index.htm

USDA National Agroforestry Center
http://www.unl.edu/nac/

Agricultural Listservs & Discussion Groups

http://www.morrisville.edu/~drewwe/njc/discussion/#top

http://www.lib.iastate.edu/agnic/listadd.html

Lists topics of interest, such as swine, poultry, and cattle, in which you can subscribe to listservs. Directions on how to subscribe are included with each listserv address.

FOOD PROCESSING RESOURCES

Safety

Government Food Safety
http://www.foodsafety.gov

USDA Food Safety and Inspection Service
Room 2932-South Building; 1400 Independence Ave. S.W.
Washington, D.C. 20250-3700
Phone: (202) 720-7943
Fax: (202) 720-1843
http://www.fsis.usda.gov/index.htm

The FSIS ensures that the commercial supply of meat, poultry, and egg products is safe. They provide many publications on food safety and general information on the implementation of HACCP.

Food Processing Assistance

Food Net
http://www.foodnet.com/

A place where food professionals can gather industry information and news, find product information, or advertise their new product. They also provide Foodtalk, a chat service for food professionals.

National Food Processors Association
Suite 300
13501 Street, NW
Washington, DC 20005
Phone: 202-639-5900
http://www.nfpa-food.org/

Provides leadership and support to the food processing industry on scientific and public policy issues involving food safety, processing, and health and nutrition issues along with consumer affairs.

University of Nebraska-Lincoln Food Processing Center
http://foodsci.unl.edu/

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U.S. Organic Certification Organization & Local Chapters
http://www.macatawa.org/org/ogm/orgcert.htm

Agricultural Publications

Alternative Farming Systems Information Center
NAL, ARS, USDA
10301 Baltimore Ave., Room 304
Beltsville, MD 20705-2351
Phone: 301-504-6559
Fax: 301-504-6409
http://www.nal.usda.gov/afsic

Missouri Alternatives Center
http://agebb.missouri.edu/mac

North Dakota State University Alternative Agriculture Publications
http://ndsuext.nodak.edu/extpubs/alt-ag.htm

University of Kentucky Extension Publications
http://www.ca.uky.edu/agc/pubs/pubs.htm

University of Florida Institute of Food and Agricultural Sciences
http://edis.ifas.ufl.edu/

University of Nebraska Cooperative Extension
http://www.ianr.unl.edu/ianr/coopext/index.html

University of Missouri Outreach and Extension Publications
http://muextension.missouri.edu/xplor

Small Farm Digest
http://www.reeusda.gov/agsys/sfd/index.htm

USDA National Agroforestry Center
http://www.unl.edu/nac/

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COOPERATIVE RESOURCES

Agricultural and Rural-Related Cooperative Links

http://www.wisc.edu/uwcc/cooplinkscode.html

Canadian and U.S. Food Co-op Directory

http://www.prairienet.org/co-op/directory/

A list of food co-ops arranged by state that small food businesses might sell to or get into co-op warehouses with.

Cooperative Grocer's Information Network

http://www.cgin.org/

Provides information on food co-ops, including articles from *Cooperative Grocer*, and a listserv open to anyone interested in food co-ops.

National Cooperative Business Association (NCBA)

1401 New York Ave. NW
Suite 1100
Washington, DC 20005
http://www.cooperative.org/ncba.cfm

The NCBA is a national cross-industry membership and trade association representing cooperatives before Congress and federal agencies. The NCBA promotes and supports cooperatives through training and technical assistance publications and programs.

National Council of Farmer Cooperatives

http://www.ncfc.org/

The purpose of the NCFC is to serve as an educational tool. It is the only organization to serve exclusively as a national representative and advocate for America's farmer-owned cooperative businesses. This site includes a guide for starting a cooperative and includes a description of what a cooperative business entails.

WEB SITES WHERE YOU CAN LIST YOUR PRODUCTS

The Gourmet Food & Accessory Trade Mart

http://www.gftm.com/

A Trade Mart where you can list your specialty food company's information or even create a web site. It also has a small business resource center where it has links to a variety of helpful organizations.

Market Facilities

http://www.ams.usda.gov/tmd/markets/states.htm

A list by state of addresses and phone numbers for Farmer's Markets.

organichub.com

http://www.organichub.com

An online database where you can find information about organic products, producers, wholesalers, retailers, and organizations. You can also add your business and product to the database.

Organic Farmers Marketing Association

http://web.iquest.net/ofma/

OFMA's Farmer's Market is a virtual marketplace for your organic products, services and information (http://web.iquest.net/ofma/4sale.htm). To inquire about cost or membership email: cvof@iquest.net. OFMA's Web Site also provides information on getting your farm or operation certified. A list of private certifiers or state certification programs is included.

Organic Spot Market

http://www.aureus.com/spot/home.html

Organic Spot Market is a Web Site that connects farmers, distributors, brokers, and retailers of Certified Organic Produce. The option to create a Web Page is also available to promote your product.

Organic Trading and Information Center

http://www.organicfood.com/

An International site where you can list your company information and products for sale.

Tab 2-20 RESOURCE GUIDE national business information

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An International site where you can list your company information and products for sale.

GENERAL BUSINESS INFORMATION RESOURCES

Periodicals

Adweek (http://www.adweek.com/) .... (800) 722-6658

American Demographics Magazine .... (800) 828-1133
(http://www.demographics.com/publications/ad/)

Black Enterprise (http://www.blackenterprise.com/) .... (800) 727-7777

Business @ Home Magazine .... (800) 995-3590
(http://www.homebusinessmag.com/)

Business Week (http://www.businessweek.com/) .... (800) 635-1200

Entrepreneur (http://www.entrepreneurmag.com/) .... (800) 421-2300

Executive Female (http://www.nafe.com/efonline.html) .... (800) 927-6233

Forbes (http://www.forbes.com/) .... (800) 888-9896

Harvard Business Review .... (800) 545-7685
(http://www.hbsp.harvard.edu/products/hbr/index.htm/)

Home Office Computing (http://www.smalloffice.com/) .... (800) 678-0118

INC Magazine (http://www.inc.com/incmagazine/) .... (800) 234-0999

Independent Business (http://www.xtra.co.nz/independent/) (800) 274-6342

Kiplinger Washington Letter (http://www.kiplinger.com/) .... (800) 544-0155

Nation's Business (http://www.nbmag.com/) .... (800) 727-5869

Profit (http://www.profitmag.net/home.html) .... (800) 753-3380

The Business Advocate .... (519) 432-7551
(http://www.theadvocate.com/business/)

Wall Street Journal (http://www.wsj.com/) .... (800) 568-7625

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Wall Street Journal (http://www.wsj.com/) .... (800) 568-7625

Tab 2

Library Resources for Entrepreneurial Companies

U.S. Global Outlook	Background information and trends by industry.
Directory of Associations	Descriptions and addresses of trade groups.
Ayer's Guide to Publications	Directory of newspapers, trade journals, magazines divided by industry.
SRDS Guides	Guides to newspapers, trade publications, radio and television stations and mailing list companies. Gives rates, readership information.
Million Dollar Directory	Lists of businesses by industry and geography. Shows address, telephone number, number of employees, sales figures.
Thomas Register	Directory of manufacturers listed by product or service. Good way to find competitors.
Standard Industrial Classification Code (SIC) Directory	Describes businesses and tells the numeric code assigned by federal government for that industry.
Yellow Pages	Look up your competitors. Notice what categories they advertise in. Note the size of their ads and products.
Statistical Abstract of United States	Includes statistics about business by state, industry and metro area.
Almanac of Financial Ratios	Breaks down financial statements by SIC code to indicate key ratios for your business.
Directory of Corporate Affiliations	Lists parent companies and subsidiaries for U.S. businesses.
State Manufacturers Directory	Detailed listings of manufacturers by state.
Rand McNally Commercial Atlas & Market Guide	Includes maps and buying power by county for every country in U.S.
Handbook of Labor Statistics	Provides employment statistics by state and industry.
Black's Law Dictionary	Guide to simple legal questions.
Annual reports, Form 10-K, Credit Reports	Background information on competitors.
Pfeiffer/Josey Bass books	Pfeiffer and Josey Bass publish books about managing a business by industry.

Tab 2-22 RESOURCE GUIDE national business information

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Almanac of Financial Ratios — Breaks down financial statements by SIC code to indicate key ratios for your business.
Directory of Corporate Affiliations — Lists parent companies and subsidiaries for U.S. businesses.
State Manufacturers Directory — Detailed listings of manufacturers by state.
Rand McNally Commercial Atlas & Market Guide — Includes maps and buying power by county for every country in U.S.
Handbook of Labor Statistics — Provides employment statistics by state and industry.
Black's Law Dictionary — Guide to simple legal questions.
Annual reports, Form 10-K, Credit Reports — Background information on competitors.
Pfeiffer/Josey Bass books — Pfeiffer and Josey Bass publish books about managing a business by industry.

LIBRARY RESOURCES FOR ENTREPRENEURIAL COMPANIES—ON-LINE SERVICES

To access these databases, visit a major library in your county. A librarian will assist you in locating the sources for the material. Dialog and NewsNet are good sources.

Company Intelligence	From the print version of *Ward's Business Directory*, this has private company information for hard-to-find companies.
Cendata	Data from the census and surveys, press releases, product information—all from the Bureau of Census or U.S. Department of Commerce.
Disclosure	In-depth financial information for companies that trade stock on NYSE, AMS, NASDAQ and other markets. (http://primark.com/pfid/)
Public Opinion Online	Information from the Roper Center for Public Opinion Research.
Federal Register	Full text of the daily publication from the U.S. government; information about regulations and legal notices issued by federal government. (http://nara.gov/fedreg)
ABI/Inform	Summaries of articles in 1,000 business journals. (http://lib.utulsa.edu/guides/abinform.htm)
Findex	Describes all available market research reports published by numerous companies and sold commercially.
Trade & Industry Index	Broad international coverage of business topics including companies, industries, products and markets.
American Business Directory	Database of 14 million U.S. businesses including company name, industry, geography, phone, address, fax, credit rating, key executives, sales and employment data.
Forecasts	Statistical abstracts of industry, market, economic forecasts. Good place to look for projections for specific products, aggregate industries, leading indicators, government expenditures and market data.
Magazine Database	Indexes 450 popular national magazines.
National Newspaper Index	Front-to-back indexing of *Christian Science Monitor, Los Angeles Times, The New York Times, The Wall Street Journals and The Washington Post.*
Promt	Multi-industry database with information about companies, products, markets and applied technologies for manufacturing and service industries.
U.S. Forecasts	Abstracts of published forecast data from trade journals, business and financial publications, key newspapers, government reports and special studies.
Frost & Sullivan Marketing Intelligence	Research reports that provide in-depth market studies and industry analyses for technical markets.

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LIBRARY RESOURCES FOR ENTREPRENEURIAL COMPANIES—ON-LINE SERVICES

To access these databases, visit a major library in your county. A librarian will assist you in locating the sources for the material. Dialog and NewsNet are good sources.

Company Intelligence	From the print version of *Ward's Business Directory*, this has private company information for hard-to-find companies.
Cendata	Data from the census and surveys, press releases, product information—all from the Bureau of Census or U.S. Department of Commerce.
Disclosure	In-depth financial information for companies that trade stock on NYSE, AMS, NASDAQ and other markets. (http://primark.com/pfid/)
Public Opinion Online	Information from the Roper Center for Public Opinion Research.
Federal Register	Full text of the daily publication from the U.S. government; information about regulations and legal notices issued by federal government. (http://nara.gov/fedreg)
ABI/Inform	Summaries of articles in 1,000 business journals. (http://lib.utulsa.edu/guides/abinform.htm)
Findex	Describes all available market research reports published by numerous companies and sold commercially.
Trade & Industry Index	Broad international coverage of business topics including companies, industries, products and markets.
American Business Directory	Database of 14 million U.S. businesses including company name, industry, geography, phone, address, fax, credit rating, key executives, sales and employment data.
Forecasts	Statistical abstracts of industry, market, economic forecasts. Good place to look for projections for specific products, aggregate industries, leading indicators, government expenditures and market data.
Magazine Database	Indexes 450 popular national magazines.
National Newspaper Index	Front-to-back indexing of *Christian Science Monitor, Los Angeles Times, The New York Times, The Wall Street Journals and The Washington Post.*
Promt	Multi-industry database with information about companies, products, markets and applied technologies for manufacturing and service industries.
U.S. Forecasts	Abstracts of published forecast data from trade journals, business and financial publications, key newspapers, government reports and special studies.
Frost & Sullivan Marketing Intelligence	Research reports that provide in-depth market studies and industry analyses for technical markets.

Tab 2

Business & Industry	Database covering 600 trade and business publications for a wide variety of industries.
Business Dateline	Full text articles of 350 local and regional business publications.
Datamonitor Market Research	Full text reports on banking, communications, technology, cosmetics, electrical goods, food and drink, health care, industrial, insurance, multi-media, pharmaceutical and telecommunications.
Freedonia Market Research	Reports and market research about chemicals, plastics, advanced materials, packaging, paper, textiles, the environment, health care, construction, household goods, industrial components, security systems and equipment, electronics, communications and transportation.
Moody's Corporate News & Profiles	Descriptive and financial information including business news about publicly traded companies.
Papers	Database of articles in 65 major newspapers.
PAIS International	Index to public policy literature affecting business.
Forecasts	Newsletter about business and demographics.
American Marketplace	Newsletter with new statistical data issued by the Census Bureau and other government agencies.
Industries in Transition	Newsletter that identifies markets in which radical changes are taking place.
People Trends	Newsletter about people management, employment, health and medical benefits, pensions and insurance benefits, training and development and societal and social patterns.

Using the Internet...

Find a search engine such as Yahoo! or Lycos and come up with keywords that are appropriate to your search parameters.

Ask Your Librarian...

For help finding databases of trademarks, copyrights and patents; and specific databases for your industry.

Tab 2-24 RESOURCE GUIDE national business information

Business & Industry	Database covering 600 trade and business publications for a wide variety of industries.
Business Dateline	Full text articles of 350 local and regional business publications.
Datamonitor Market Research	Full text reports on banking, communications, technology, cosmetics, electrical goods, food and drink, health care, industrial, insurance, multi-media, pharmaceutical and telecommunications.
Freedonia Market Research	Reports and market research about chemicals, plastics, advanced materials, packaging, paper, textiles, the environment, health care, construction, household goods, industrial components, security systems and equipment, electronics, communications and transportation.
Moody's Corporate News & Profiles	Descriptive and financial information including business news about publicly traded companies.
Papers	Database of articles in 65 major newspapers.
PAIS International	Index to public policy literature affecting business.
Forecasts	Newsletter about business and demographics.
American Marketplace	Newsletter with new statistical data issued by the Census Bureau and other government agencies.
Industries in Transition	Newsletter that identifies markets in which radical changes are taking place.
People Trends	Newsletter about people management, employment, health and medical benefits, pensions and insurance benefits, training and development and societal and social patterns.

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Ask Your Librarian...

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Selected Business Organizations

American Small Business Association (ASBA)

1800 N. Kent Street, Suite 910
Arlington, VA 22209
Phone: 800-235-3298
http://www.asbaonline.org/

ASBA is primarily organized to support legislation favorable to the small business enterprise, and organizes its members to collectively oppose unfavorable legislation. The organization keeps its 150,000 members informed of upcoming legislation affecting small business. It also conducts business education programs and has a limited scholarship program.

Center for Entrepreneurial Management

180 Varick Street, Penthouse Suite
New York, NY 10014
Phone:212-633-0060
Fax: 212-633-0063

The Center serves as a management resource for entrepreneurial managers and their professional advisors. It makes available publications on developing business plans, organizing the entrepreneurial team, attracting venture capital and other financing sources, obtaining patents, trademarks and copyrights. It disseminates information on business trends, new laws and regulations. The Center also maintains an extensive library of small business and venture capital information.

Center for Family Business

P.O. Box 24219
Cleveland, OH 44124
Phone: 216-442-0800
Fax: 216-442-0178

The members of this association, founded in 1962, are presidents, owner/managers, founders and inheritors of family-owned businesses and/or independent, private or closely held companies. The organization develops educational programs focusing on management succession and business continuity. It provides consulting services, particularly relating to issues of business inheritance and succession, and offers several books and a monthly newsletter relating to family business matters.

National Association for the Self-Employed (NASE)

2121 Precinct Line Road
Dallas, TX 75261
Phone: 800-232-6273
Fax: 800-551-4446
http://www.nase.org

Founded in 1981, NASE boasts 313,000 members who are primarily small business owners with few or no employees. The association helps its members obtain competitive employee benefits (health, accident and disability insurance), discounts on office equipment, telephone service, travel, car and truck leases, and provides a toll-free small business advice hotline.

National Association of Manufacturers (NAM)

1331 Pennsylvania Avenue NW,
Suite 1500 North
Washington, DC 20004
Phone: 202-637-3000 or 800-814-8468
Fax: 202-637-3182
http://www.nam.org

NAM is a membership-based association of over 13,500 manufacturing firms, of which more than 9,000 have fewer than 500 employees. It serves as the Washington voice for the manufacturing community, and offers policy-making positions on 14 policy committees. Members are offered the NAM Member Service Guide which provides names and phone numbers of over 100 subject specialists (legislative, lawyers, communications, public affairs) related to manufacturing issues. Two publications include *Enterprise* and *Competing in the Global Market*.

National Business Association (NBA)

5151 Beltline Road, Suite 1150
Dallas, TX 75248
Phone: 972-991-5381 or 800-456-0440
Fax: 972-960-9149
http://nationalbusiness.org

The NBA membership consists of self-employed owners of small businesses. The association promotes growth and development in the small business environment, and aids its members in obtaining government small business and education loans. It makes available insurance policies, oftware (in conjunction with the SBA) and information on career, educational and scholarship programs. It also makes available printing grants to government agencies involved in small business assistance.

national business information RESOURCE GUIDE Tab 2-25

Selected Business Organizations

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Tab 2

National Federation of Independent Business (NFIB)

53 Century Boulevard, Suite 300
Nashville, TN 37214
Phone: 615-872-5800 or 800-634-2669
Fax: 615-391-5874
http://www.nfib.org

More than 600,000 small and independent businesses are represented by this largest of the small business organizations. NFIB's primary focus is on lobbying efforts at the local, state and federal level; but it also disseminates educational information on free enterprise, entrepreneurship and small business issues. One of the best organizations to provide surveys on economic trends and members' opinions, it sends several bi-monthly publications to its members including *Capitol Coverage, IB Mandate, NFIB Mandate, NFIB Legislative Priorities, How Congress Voted* and *Congressional Action Report.*

National Small Business United (NSBU)

1156 15th Street NW, Suite 1100
Washington, DC 20005
Phone: 202-293-8830 or 800-345-6728
Fax: 202-872-8543
http://www.nsbu.org

Founded in 1937 as the National Small Business Association, the NSBA merged with Small Business United in 1987 to become a membership-based association of business owners that presents small business' points of view to all levels of government and Congress. The NSBU also develops programs of national policy that concern small business, and has several member organizations throughout the country that work on a regional basis.

Service Corps of Retired Executives Association (SCORE) and Active Corps of Executives (ACE)

409 3rd Street SW, 4th Floor
Washington, DC 20024
Phone: 202-205-6762 or 800-634-0245
Fax: 202-205-7636
http://www.score.org

Founded in 1964, this association helps over 450 local groups with a volunteer program sponsored by the U.S. Small Business Administration in which active and retired businessmen and businesswomen provide free management assistance to others who are considering starting a small business, having problems with an existing business or expanding a business. Contact this national association for information about regional, district and local SCORE groups.

Small Business Administration

http://www.sba.gov/

SBA assists you in starting, financing, and expanding your business. A list of offices and information centers in your area are also listed.

U.S. Chamber of Commerce

1615 H Street NW
Washington, DC 20062
Phone: 202-659-6000
Fax: 202-463-5836
http://www.uschamber.org

Representing over 3,000 state and local chambers of commerce, 1,200 trade and professional associations, 69 American Chambers of Commerce abroad and a total of more than 215,000 individual businesses, this organization seeks to act as a watchdog of the federal government on national business interests and to promote general business success by working with local and state chambers. In addition to lobbying efforts, the Chamber offers a wide variety of business-related publications and "how-to" brochures.

Young Entrepreneurs Association

1321 Duke Street, Suite 300
Alexandria, VA 22201
Phone: 703-519-6700
Fax: 703-519-1864
http://www.yeo.org

Exclusively for entrepreneurs under 40 who have founded or own their own firms with an annual gross over $1 million, this association facilitates networking among young entrepreneurs. It hosts small group meetings, educational programs at Universities, and has an active speakers bureau.

Tab 2-26 RESOURCE GUIDE national business information

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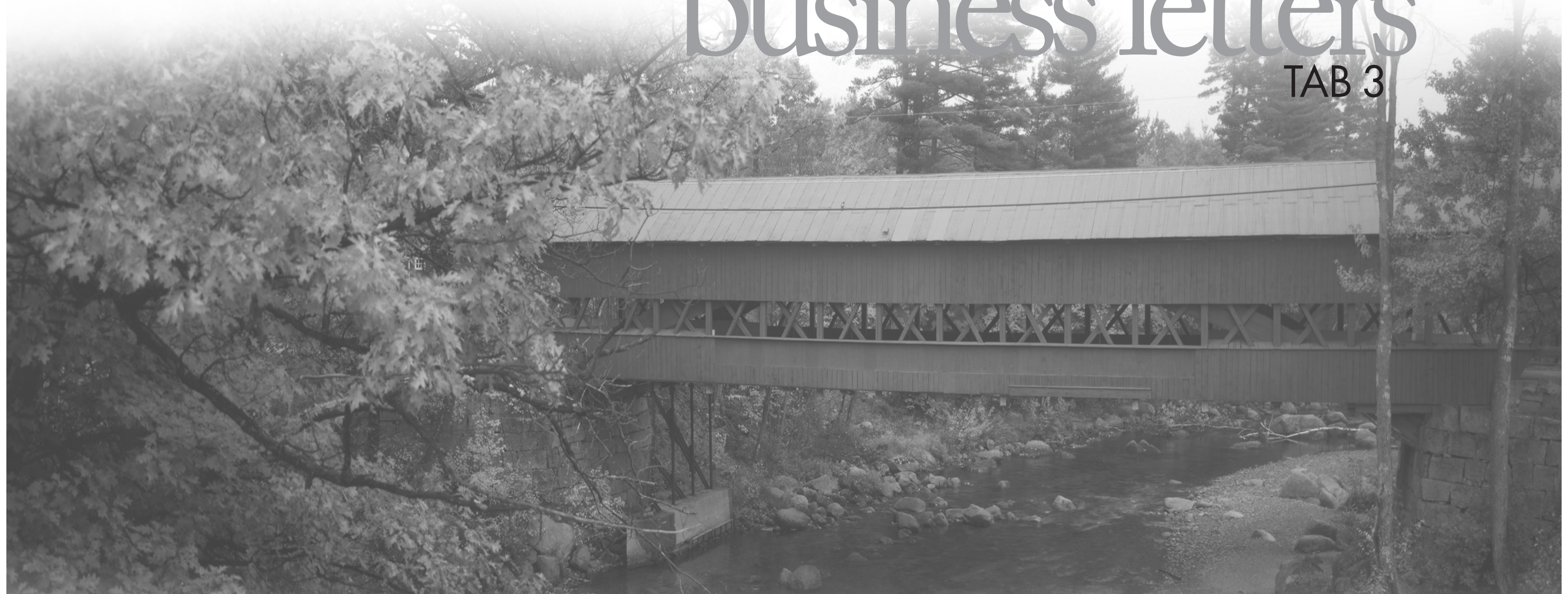
sample business letters

TAB 3



Effective Business Letter Tips

Effective business letters have some common characteristics that make them look and sound professional. Review the following tips before you write any business letter and make sure the basics are in place.

Business Letterhead
Use your business letterhead for all business correspondence, regardless of how brief. It will provide the reader with a professional image, as well as the essential information about your business, including the business name, address and phone number.

Paper Quality
Most business letterhead is 20 pound paper or heavier. A more professional image is communicated with the use of the heavier paper.

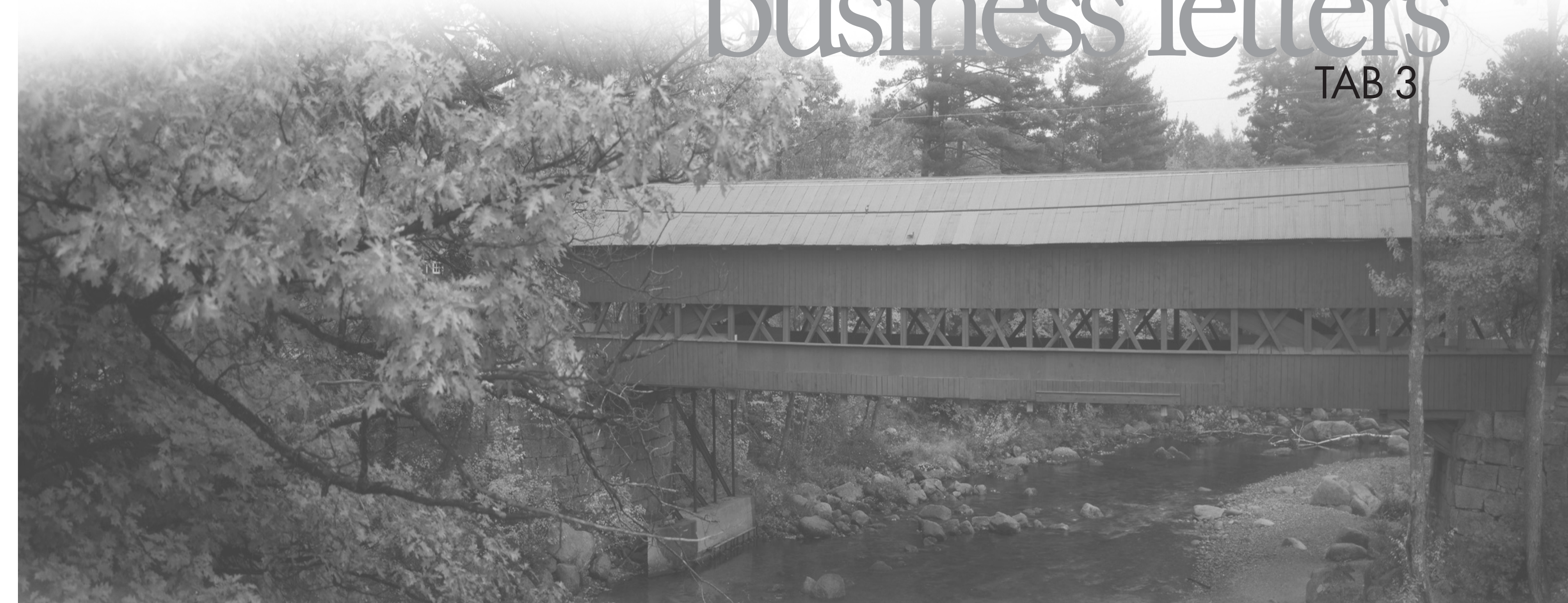
Typed vs. Handwritten
Given today's technology, the more professional letter is definitely typed or word-processed. Save handwritten notes for your personal communications.

Format
There are several acceptable business letter formats, and the choice is up to the writer. Be sure the format is attractive, consistent and easy to read. All letters should contain the date, inside address (complete name and address of the addressee, including title) and proper salutation. Informational correspondence that is considered "memo" should still contain the date and the inside address, with the salutation changed to "To:", followed by the name of whomever the correspondence is to be directed.

Style
All letters and memos should be written in standard English. Write as you talk, but be sure you use complete sentences and correct grammar. Try to be concise and clear in your language, and avoid very long sentences and paragraphs.

sample business letters

TAB 3



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Style
All letters and memos should be written in standard English. Write as you talk, but be sure you use complete sentences and correct grammar. Try to be concise and clear in your language, and avoid very long sentences and paragraphs.

Appropriate Close

Most business letters use the standard "Sincerely," close, which is fine. Avoid overly emotional closes in your business correspondence; but choosing an alternative that more closely fits your style is acceptable.

Signature

Based on the degree of formality, you can decide whether to sign your full name or just your first name. Your full name including titles or degrees earned can be typed, and you can still make the impact less formal by signing only your first name.

Employment Matters

Employment matters take up a tremendous amount of an Entrepreneur's time. Having a few simple letters ready to customize for specific needs can save you wrestling with that "how did I word that last time" syndrome. The following letters should be put on business letterhead, and are simple and straightforward, yet may be customized and lengthened to fit your needs.

First, the **Request for Reference From Prior Employer** can help you get vital information about an applicant you are considering for hire. Often times a written request is more credible than a phone call. If there is more specific information you think you need, add it in—but be aware that most prior employers aren't anxious to take too much time providing anybody with information about someone they no longer employ, so KEEP IT SIMPLE—and short. Including the **Authorization to Release Reference Information** with the Request letter will increase your chances of receiving any information. Have applicants fill out this **Authorization** letter at the time of interview if you are interested in them at all.

While "employment contracts" are being discouraged among many of the small business legal experts, an **Employment Offer** letter can serve as an acknowledgment of the basic parameters under which someone is being hired, and can establish the "at-will" employment relationship. Before adding more details to the letter, check with your legal advisor.

Even though rejection letters aren't the most fun items to receive OR send, as a courtesy to applicants who took their time to interview with you, send a simple note similar to the **Rejection Letter to Unsuccessful Applicants**. Just the fact that you took the time to write to an interviewee is impressive—and, you never know when you may want to reconsider that individual in the future. This simple courtesy could go a long way to keeping doors open that you may need to pass through later.

Recourse for improper termination is becoming a very real issue, even in the *very small business* world. The **Notice of Deficient Work Performance** letter is one that should be used judiciously to document meetings with employees. Hold the meeting, then use this letter to record the meeting contents (both for your and the employee's future reference). Keep a copy of each meeting letter in the employee's file. And insist that the signed "acknowledgment of receipt" copy of the letter be returned to you. Even with "at will" employees, you will have the documentation you need to address potential future issues. You can easily modify this notice to be a "*Final* Notice of Deficient Work Performance," including appropriate consequences of non-corrective action, if the situation warrants.

Tab 3-2 RESOURCE GUIDE sample business letters

Appropriate Close

Most business letters use the standard "Sincerely," close, which is fine. Avoid overly emotional closes in your business correspondence; but choosing an alternative that more closely fits your style is acceptable.

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Request for Reference from Prior Employer

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [employer name]:

We have received an application from one of your [current/former] employees, ___________________, seeking the position of ________________ with our firm.

It would be very helpful if you would provide the following information concerning ___________________:

Dates of employment with your company:

Job description and rate of compensation:

Performance evaluation:

Reason for termination:

Any other pertinent information:

A form authorizing your release of this information by ______________ is enclosed. Please indicate whether your reference information should be kept confidential.

Thank you for your help. Your cooperation is appreciated.

Sincerely,

H.M.Smith

sample business letters RESOURCE GUIDE Tab 3-3

Request for Reference from Prior Employer

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
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Any other pertinent information:

A form authorizing your release of this information by ______________ is enclosed. Please indicate whether your reference information should be kept confidential.

Thank you for your help. Your cooperation is appreciated.

Sincerely,

H.M.Smith

Tab 3

Authorization to Release Reference Information

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

I have been informed that ______________________________ is seeking employment reference information about me.

I, ________________________, authorize _________________________ to release, without limitation, information concerning my employment.

____
Employee

Tab 3-4 RESOURCE GUIDE sample business letters

Authorization to Release Reference Information

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

I have been informed that ______________________________ is seeking employment reference information about me.

I, ________________________, authorize _________________________ to release, without limitation, information concerning my employment.

____
Employee

Employment Offer

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [applicant name],

It is my pleasure to offer you employment in the capacity of ______________ with our firm. The proposed starting date of your employment is ____________________.

Your compensation will be $_______ per [week/month/year]; in addition you will be entitled to the following “employee benefits”:

This offer is for employment AT WILL. It may be terminated either by you or by us for any reason at any time.

Please acknowledge your acceptance of this offer by signing and dating below, and return this letter to me by (date)_______________ at the address above.

Congratulations on your selection.

Sincerely,

H.M. Smith

Agreed and Accepted: ____________________
Date: ____________________

sample business letters RESOURCE GUIDE Tab 3-5

Employment Offer

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

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Congratulations on your selection.

Sincerely,

H.M. Smith

Agreed and Accepted: ____________________
Date: ____________________

Tab 3

Rejection Letter to Unsuccessful Applicants

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [applicant name],

Thank you for meeting with us regarding the position of _________________. We were very fortunate to have you and several other highly qualified applicants interview with us. After extensive consideration, we have selected another candidate, and the offer was accepted.

The very best of luck to you in finding a position that will utilize your skills and talents to the fullest. Again, we thank you for taking the time to visit with us.

Sincerely,

H.M. Smith

Tab 3-6 RESOURCE GUIDE sample business letters

Rejection Letter to Unsuccessful Applicants

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

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Sincerely,

H.M. Smith

Notice of Deficient Work Performance

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

To: [employee name]

This letter confirms our discussion on _______, 20___, at _____________________ concerning unacceptable work performance in the following areas:

It was suggested that you take the following action to improve your performance:

I hope that this constructive information will help you to improve your performance—and thereby return you to good standing within our Company.

A copy of this notice has been attached. Please sign that copy where indicated and return to me promptly.

Sincerely,

H.M. Smith

Receipt Acknowledged: ________________________
Employee

Date: ______________________________________

sample business letters RESOURCE GUIDE Tab 3-7

Notice of Deficient Work Performance

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

To: [employee name]

This letter confirms our discussion on _______, 20___, at _____________________ concerning unacceptable work performance in the following areas:

It was suggested that you take the following action to improve your performance:

I hope that this constructive information will help you to improve your performance—and thereby return you to good standing within our Company.

A copy of this notice has been attached. Please sign that copy where indicated and return to me promptly.

Sincerely,

H.M. Smith

Receipt Acknowledged: ________________________
Employee

Date: ______________________________________

Tab 3

Buying and Selling Goods and Services

The paperwork trail relating to the buying and selling of goods and services can be made much simpler if you have some standard letters and memos to accomplish the various tasks involved, whether you are the seller or the purchaser. All of the following letters should be prepared on your business letterhead. Following the basic format and then customizing to fit the particular circumstances will save you time and effort, particularly in this "buying and selling" area that tends to have a significant number of transactions. Good documentation is essential to the financial realm of your business, allowing you to track credits due, purchases made and the inevitable discrepancies that occur between buyer and seller.

The **Request for Bid** asks your potential supplier for a firm price on goods or services you want to purchase. A formal bid obligates your supplier to the prices quoted through a specified expiration time. While this is not a process you would go through for every order placed, it can be a very useful price and item comparison tool for larger orders. Follow up the process with the courtesy of a **Bid Rejection Notice** to those potential suppliers who took the time to send you a bid—and, of course, a **Bid Award** letter to the successful bidder, with the appropriate purchase order attached.

The **Order Confirmation** letter is a good way to avoid discrepancies pertaining to orders placed over the phone. It confirms the items, quantities, price and terms of the order, as well as providing you and the supplier with the proper paper trail—a purchase order. The **Order Acceptance** letter is the supplier's equivalent of the confirmation letter, again reducing the possibility of misunderstanding of a verbal order.

Placing the order for goods or services is often the easiest step—then you wait for them, receive them, inspect them, accept or reject them in part or in whole! Remember, documenting the steps will help you keep track of your inventory, and therefore your dollars. The **Delivery Receipt** acknowledges that the goods you ordered were received and are acceptable to keep. Make sure you have enough time to properly inspect your order before issuing this receipt.

Back-orders can slow down the shipment of all other items on the order—use the **Cancellation Notice—Back-Orders** letter to cancel items you can't or don't want to wait for so the rest of the order can be shipped. Similarly, waiting for an order for an excessive period of time can damage your cash flow—if you don't have merchandise on the shelf to sell, you can't have any cash "flowing." Monitor your purchase orders, and if a supplier has not shipped within the specified time-frame on your purchase order, find out the reason. If the supplier still cannot ship within a reasonable time, use the **Cancellation Notice—Failure to Deliver** letter to cancel the order, and find a supplier that can meet your needs.

As a buyer, you are not under obligation to keep damaged or non-conforming goods. Use the **Rejection of Shipment Notice**, the **Non-Conforming Goods Notice**, and the **Acceptance of Non-Conforming Goods Notice** to inform the supplier of your intended actions. The Uniform Commercial Code provides the purchaser with the option of rejecting or retaining all or part of damaged or non-conforming goods. If a price adjustment cannot be agreed upon, the purchaser still has the option of rejection. Use these letters to document your intentions—and remember, keeping goods that are not what you want or need takes away from the dollars you could be spending on usable inventory.

Tab 3-8 RESOURCE GUIDE sample business letters

Buying and Selling Goods and Services

The paperwork trail relating to the buying and selling of goods and services can be made much simpler if you have some standard letters and memos to accomplish the various tasks involved, whether you are the seller or the purchaser. All of the following letters should be prepared on your business letterhead. Following the basic format and then customizing to fit the particular circumstances will save you time and effort, particularly in this "buying and selling" area that tends to have a significant number of transactions. Good documentation is essential to the financial realm of your business, allowing you to track credits due, purchases made and the inevitable discrepancies that occur between buyer and seller.

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As a buyer, you are not under obligation to keep damaged or non-conforming goods. Use the Rejection of Shipment Notice, the Non-Conforming Goods Notice, and the Acceptance of Non-Conforming Goods Notice to inform the supplier of your intended actions. The Uniform Commercial Code provides the purchaser with the option of rejecting or retaining all or part of damaged or non-conforming goods. If a price adjustment cannot be agreed upon, the purchaser still has the option of rejection. Use these letters to document your intentions—and remember, keeping goods that are not what you want or need takes away from the dollars you could be spending on usable inventory.

Often, special order items cause a buyer to be more patient than waiting for "normal" inventory. But even special orders should be delivered on a timely basis, particularly if they have been paid for in advance by either the buyer or the end-use (customer). If phone calls just don't seem to get the seller's attention, try the **Demand for Goods** letter. On the other side, the seller might use the **Notification of Non-Shipment** letter, which will at least explain why an order has not been shipped.

The supplier who must stop the shipment of an order needs to notify the shipping company of the required action. Use the **Stop Shipment Order** to inform the transporter not to deliver and to return your goods to you.

Finally, given all of the possible adjustments to orders, including some of those described above, it's no wonder that statements from suppliers often reflect different amounts owed than the seller's records show. Use the **Disputed Balance Letter** to begin the communication of identifying the correct balance.

sample business letters RESOURCE GUIDE Tab 3-9

Often, special order items cause a buyer to be more patient than waiting for "normal" inventory. But even special orders should be delivered on a timely basis, particularly if they have been paid for in advance by either the buyer or the end-use (customer). If phone calls just don't seem to get the seller's attention, try the **Demand for Goods** letter. On the other side, the seller might use the **Notification of Non-Shipment** letter, which will at least explain why an order has not been shipped.

The supplier who must stop the shipment of an order needs to notify the shipping company of the required action. Use the **Stop Shipment Order** to inform the transporter not to deliver and to return your goods to you.

Finally, given all of the possible adjustments to orders, including some of those described above, it's no wonder that statements from suppliers often reflect different amounts owed than the seller's records show. Use the **Disputed Balance Letter** to begin the communication of identifying the correct balance.

Tab 3

Request for Bid

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [potential seller]

Please provide us with a bid on the following items:

Item (Description)	Stock #	Quantity	Unit Price	Total Price
__________________	_______	_______	$______	$________
__________________	_______	_______	$______	$________
__________________	_______	_______	$______	$________
__________________	_______	_______	$______	$________

Please quote your bid delivery to us FOB the following location: __________________.
Please specify the date through which the bid price is effective and firm.

This bid must be returned by _______, 20___.

Thank you,

H.M. Smith
President

Tab 3-10 RESOURCE GUIDE sample business letters

Request for Bid

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [potential seller]

Please provide us with a bid on the following items:

Item (Description) | Stock # | Quantity | Unit Price | Total Price
__________________ | _______ | _______ | $______ | $________
__________________ | _______ | _______ | $______ | $________
__________________ | _______ | _______ | $______ | $________
__________________ | _______ | _______ | $______ | $________

Please quote your bid delivery to us FOB the following location: __________________.
Please specify the date through which the bid price is effective and firm.

This bid must be returned by _______, 20___.

Thank you,

H.M. Smith
President

Bid Rejection Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [potential seller (bidder)]

Thank you for submitting your bid dated _______, 20 ___. We appreciate the time and effort it took to provide us with the information.

Unfortunately, another bidder [it is optional to name the successful bidder] is being awarded the purchase order. Our decision was based on several factors, but [price/quality/other] was the primary determinant.

We would like to continue to include you in future bid opportunities. Again, thank you for your effort.

Sincerely,

H.M. Smith

sample business letters RESOURCE GUIDE Tab 3-11

Bid Rejection Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [potential seller (bidder)]

Thank you for submitting your bid dated _______, 20 ___. We appreciate the time and effort it took to provide us with the information.

Unfortunately, another bidder [it is optional to name the successful bidder] is being awarded the purchase order. Our decision was based on several factors, but [price/quality/other] was the primary determinant.

We would like to continue to include you in future bid opportunities. Again, thank you for your effort.

Sincerely,

H.M. Smith

Tab 3

Bid Award

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [successful bidder]

It is our pleasure to award you the purchase order on the items you bid to us on _______, 20___. A copy of your bid and of our purchase order # _______ for items specified is attached. Please note quantities, specifications, prices, ship dates and FOB point as outlined on the purchase order, and notify us of any discrepancies or questions by _______, 20 ___.

We look forward to doing business with you.

Sincerely,

H.M. Smith

Tab 3-12 RESOURCE GUIDE sample business letters

Bid Award

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [successful bidder]

It is our pleasure to award you the purchase order on the items you bid to us on _______, 20___. A copy of your bid and of our purchase order # _______ for items specified is attached. Please note quantities, specifications, prices, ship dates and FOB point as outlined on the purchase order, and notify us of any discrepancies or questions by _______, 20 ___.

We look forward to doing business with you.

Sincerely,

H.M. Smith

Order Confirmation

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

This letter confirms the order for [products/services] placed with you by telephone on _______, 20___. Purchase order # _______ authorizing the items, quantities, prices and terms we discussed is attached.

If any of the terms of the purchase order are not acceptable to you, please advise me within five (5) days; otherwise, we will anticipate delivery as specified on the order.

Sincerely,

H.M. Smith

sample business letters RESOURCE GUIDE Tab 3-13

Order Confirmation

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

This letter confirms the order for [products/services] placed with you by telephone on _______, 20___. Purchase order # _______ authorizing the items, quantities, prices and terms we discussed is attached.

If any of the terms of the purchase order are not acceptable to you, please advise me within five (5) days; otherwise, we will anticipate delivery as specified on the order.

Sincerely,

H.M. Smith

Tab 3

Order Acceptance

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [purchaser]

We are in receipt of your purchase order # _______. This confirms that your order is accepted with the following exceptions:

[Items would be listed that are out of stock, back-ordered, no longer available, with possible substitutions or notations of cancellation.]

[Service modifications could also be listed.]

Unless we receive written notice from you within _____ days, we will fill the order subject to the exceptions listed above.

Your business is truly appreciated.

Thank you,

H.M. Smith

Tab 3-14 RESOURCE GUIDE sample business letters

Order Acceptance

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [purchaser]

We are in receipt of your purchase order # _______. This confirms that your order is accepted with the following exceptions:

[Items would be listed that are out of stock, back-ordered, no longer available, with possible substitutions or notations of cancellation.]

[Service modifications could also be listed.]

Unless we receive written notice from you within _____ days, we will fill the order subject to the exceptions listed above.

Your business is truly appreciated.

Thank you,

H.M. Smith

Delivery Receipt

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

We acknowledge the receipt of the items listed on the attached invoice or form. We have inspected said goods, and accept them as being complete and without defect.

Sincerely,

H.M. Smith

sample business letters RESOURCE GUIDE Tab 3-15

Delivery Receipt

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

We acknowledge the receipt of the items listed on the attached invoice or form. We have inspected said goods, and accept them as being complete and without defect.

Sincerely,

H.M. Smith

Tab 3

Cancellation Notice—Back-Orders

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

You notified us that the following items on our purchase order #_______, dated _______, 20___, are not in stock and have been back-ordered:
1.
2.
3.

Please cancel [all/the marked] items back-ordered and ship the remainder of the order immediately. Please be sure that the invoice sent with the shipped goods reflects the cancellation of back-ordered items as well.

[NOTE: If only part of the back-ordered items are being canceled, add the following:

Please ship the remainder of the non-canceled back-ordered items as they become available, but prior to _______, 20___. If they are not going to be available until after that specified date, please notify us again.]

Thank you,

H.M. Smith

Tab 3-16 RESOURCE GUIDE sample business letters

Cancellation Notice—Back-Orders

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

You notified us that the following items on our purchase order #_______, dated _______, 20___, are not in stock and have been back-ordered:
1.
2.
3.

Please cancel [all/the marked] items back-ordered and ship the remainder of the order immediately. Please be sure that the invoice sent with the shipped goods reflects the cancellation of back-ordered items as well.

[NOTE: If only part of the back-ordered items are being canceled, add the following:

Please ship the remainder of the non-canceled back-ordered items as they become available, but prior to _______, 20___. If they are not going to be available until after that specified date, please notify us again.]

Thank you,

H.M. Smith

Cancellation Notice—Failure to Deliver

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

Please refer to our purchase order # _______ dated _______, 20___, which specified a delivery date of _______, 20___.

As we have not received these items in a timely manner, we hereby <u>cancel said order in its entirety</u>, pursuant to the specifications in our purchase order.

Sincerely,

H.M. Smith

sample business letters RESOURCE GUIDE Tab 3-17

Cancellation Notice—Failure to Deliver

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

Please refer to our purchase order # _______ dated _______, 20___, which specified a delivery date of _______, 20___.

As we have not received these items in a timely manner, we hereby cancel said order in its entirety, pursuant to the specifications in our purchase order.

Sincerely,

H.M. Smith

Tab 3

Rejection of Shipment Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

On _______, 20___, we received items ordered from you on our purchase order # _______. The items are rejected for the following reason(s):

- Merchandise was delivered in damaged condition (see attached explanation).
- Items delivered are defective (see attached explanation).
- The order was not delivered within acceptable delivery timeframe (see copy of our purchase order # _______ attached).
- Merchandise delivered was not what was specified on purchase order (see attached explanation).
- The prices on your invoice are not in compliance with prices on the purchase order accepted by your firm.
- Backorders are not acceptable—order was to be shipped complete or not at all.
- Other—see attached explanation.

Upon receipt of your shipping instructions, we will return the merchandise at your expense. This rejection does not limit or waive any other legal rights we may have.

Sincerely,

H.M. Smith

Tab 3-18 RESOURCE GUIDE sample business letters

Rejection of Shipment Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

On _______, 20___, we received items ordered from you on our purchase order # _______. The items are rejected for the following reason(s):

- Merchandise was delivered in damaged condition (see attached explanation).
- Items delivered are defective (see attached explanation).
- The order was not delivered within acceptable delivery timeframe (see copy of our purchase order # _______ attached).
- Merchandise delivered was not what was specified on purchase order (see attached explanation).
- The prices on your invoice are not in compliance with prices on the purchase order accepted by your firm.
- Backorders are not acceptable—order was to be shipped complete or not at all.
- Other—see attached explanation.

Upon receipt of your shipping instructions, we will return the merchandise at your expense. This rejection does not limit or waive any other legal rights we may have.

Sincerely,

H.M. Smith

Non-Conforming Goods Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

We are in receipt of merchandise ordered under our purchase order # _______ and shipped on your invoice # _______ on _______, 20___. Some of the merchandise that was shipped does not conform with the specifications on our purchase order, as outlined below:

These non-conforming items are not acceptable. Therefore, we will return them to you at your expense. Please issue a corresponding credit/refund to us promptly.

If you have a preference for the form of shipment to return these goods to us, please notify us within the next 5 days.

Thank you,

H.M. Smith

Tab 3

sample business letters RESOURCE GUIDE Tab 3-19

Non-Conforming Goods Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

We are in receipt of merchandise ordered under our purchase order # _______ and shipped on your invoice # _______ on _______, 20___. Some of the merchandise that was shipped does not conform with the specifications on our purchase order, as outlined below:

These non-conforming items are not acceptable. Therefore, we will return them to you at your expense. Please issue a corresponding credit/refund to us promptly.

If you have a preference for the form of shipment to return these goods to us, please notify us within the next 5 days.

Thank you,

H.M. Smith

Tab 3

Acceptance of Non-Conforming Goods Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

We are in receipt of merchandise ordered under our purchase order # _______ and shipped on your invoice # _______ on _______, 20___. Some of the merchandise that was shipped does not conform to the specifications on our purchase order, or is defective or damaged, as outlined below:

Although the items listed are non-conforming, defective or damaged, we will accept them provided that you allow us a credit in the amount of $_________, as per our conversation. Please issue the appropriate credit, or reissue a new invoice reflecting the appropriate price adjustment.

Sincerely,

H.M. Smith

Tab 3-20 RESOURCE GUIDE sample business letters

Acceptance of Non-Conforming Goods Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

We are in receipt of merchandise ordered under our purchase order # _______ and shipped on your invoice # _______ on _______, 20___. Some of the merchandise that was shipped does not conform to the specifications on our purchase order, or is defective or damaged, as outlined below:

Although the items listed are non-conforming, defective or damaged, we will accept them provided that you allow us a credit in the amount of $_________, as per our conversation. Please issue the appropriate credit, or reissue a new invoice reflecting the appropriate price adjustment.

Sincerely,

H.M. Smith

Demand for Goods

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

We issued our purchase order # _______ to you on _______, 20___ , specifying a shipping date of ___________ (see copy of purchase order attached). You accepted our order [OR—By our check # _____ dated _______, 20___, we paid for this order] in full. To date we have not received the items specified. Demand is hereby made for delivery of said goods.

Sincerely,

H.M. Smith

sample business letters RESOURCE GUIDE Tab 3-21

Demand for Goods

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [seller]

We issued our purchase order # _______ to you on _______, 20___ , specifying a shipping date of ___________ (see copy of purchase order attached). You accepted our order [OR—By our check # _____ dated _______, 20___, we paid for this order] in full. To date we have not received the items specified. Demand is hereby made for delivery of said goods.

Sincerely,

H.M. Smith

Tab 3

Notification of Non-Shipment

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [purchaser]

We are holding shipment of an order received from you on purchase order # _______
dated _______, 20___, for the following reason(s):

- Non-payment.
- No shipping directions were provided—please advise.
- Your account is on credit hold—please contact our Accounts Receivable Dept.
- The following items are on back-order:
  1.
  2.
  3.
- Please notify us if a partial shipment is acceptable—your order indicates "ship complete only".
- Other:

Sincerely,

H.M. Smith

Tab 3-22 RESOURCE GUIDE sample business letters

Notification of Non-Shipment

HS Farms, Inc.
RR 1 Box 80 - Hometown, USA
(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [purchaser]

We are holding shipment of an order received from you on purchase order # _______
dated _______, 20___, for the following reason(s):

- Non-payment.
- No shipping directions were provided—please advise.
- Your account is on credit hold—please contact our Accounts Receivable Dept.
- The following items are on back-order:
  1.
  2.
  3.
- Please notify us if a partial shipment is acceptable—your order indicates "ship complete only".
- Other:

Sincerely,

H.M. Smith

Stop Shipment Order

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [shipping company]

Please refer to the shipping order enclosed. You are in the process of delivering goods for us to the following addressee:

You are hereby directed to *not deliver* items shown on the attached shipping order—return the order to us. We will pay for the shipping charges for the return to us. No transfer of title has occurred. The customer has not been given any bill of lading.

Thank you for your help,

H.M. Smith

Tab 3

sample business letters RESOURCE GUIDE Tab 3-23

Stop Shipment Order

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [shipping company]

Please refer to the shipping order enclosed. You are in the process of delivering goods for us to the following addressee:

You are hereby directed to not deliver items shown on the attached shipping order—return the order to us. We will pay for the shipping charges for the return to us. No transfer of title has occurred. The customer has not been given any bill of lading.

Thank you for your help,

H.M. Smith

Tab 3

Disputed Balance Letter

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [supplier]

We are in receipt of your account statement dated _______, 20___, showing a balance due of $_______. The balance due is incorrect because of the following reason(s):

- Items billed on invoice # _______ have not been received.
- Your statement does not reflect the payment made _______, 20___, in the amount of $ _______ via our check # _______.
- Your statement does not reflect credit for the following items returned:

- Invoice # _______ dated _______, 20___, was priced incorrectly as outlined:

- Other:

Please adjust our account balance appropriately. If there are questions about the items outlined above, don't hesitate to call us.

Thank you,

H.M. Smith

Tab 3-24 RESOURCE GUIDE sample business letters

Disputed Balance Letter

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [supplier]

We are in receipt of your account statement dated _______, 20___, showing a balance due of $_______. The balance due is incorrect because of the following reason(s):

- Items billed on invoice # _______ have not been received.
- Your statement does not reflect the payment made _______, 20___, in the amount of $ _______ via our check # _______.
- Your statement does not reflect credit for the following items returned:

- Invoice # _______ dated _______, 20___, was priced incorrectly as outlined:

- Other:

Please adjust our account balance appropriately. If there are questions about the items outlined above, don't hesitate to call us.

Thank you,

H.M. Smith

Credit and Collection Issues

The current business environment demands that proper attention be paid to collecting monies that are legitimately due, and carefully monitoring to whom and for how much you extend "on account" privileges. The following practical letters may be helpful in this sometimes "sticky" process by providing you with standardized wording for unfortunate, and often uncomfortable, situations regarding customer credit. Documentation of correspondence with those who owe you money is *essential* if you have the need to follow up with legal procedures due to uncollectability. All correspondence should be sent on your business letterhead, with copies kept permanently in your account files.

Not all "bad checks" are written by criminals—and banks even occasionally make a mistake! An appropriate method of notifying and correcting the receipt of an uncollectible check must be utilized, even if it is embarrassing because you know the customer. Often, a phone call will be the most appropriate notification—however, use of the **Bad or Returned Check Letter** format might be more professional, and will provide you with the written documentation you may need in the future.

If you intend to extend credit privileges to your customers, you need the proper tools to monitor the credit and the open accounts. The **Credit References Letter** politely opens the door for your potential customer, while the **Credit Application** (for a business) provides you with the real information you need to evaluate the validity of opening the account. (Please note: there are many standardized credit application forms for businesses and individuals available at stationary or office supplies stores.)

If you are uncomfortable extending credit after reviewing a credit application, you still want to invite potential customers to utilize your goods or services, so politely inform them of their C.O.D. status using the **Notice of C.O.D.** letter. If you are subsequently asked to provide an explanation of your decision, use the **Explanation of Credit Rejection** letter.

Once open accounts are established, careful monitoring of their payment status is critical to cash flow control. Determine your "tolerance" for how overdue you will allow an account to become before using the **Notice of Overdue Account** letter. Use of this letter can actually help set the tone early on that the terms of the open account are expected to be upheld. Generally accepted credit business practices call for "three strikes before you're out"—so use the **Account Past Due—Second Notice** and **Overdue Account—Final Notice** letters to establish your procedures. Please remember, if you *say* you are going to send an account to collection, you must be prepared to *do so*.

Finally, by properly pursuing overdue accounts, you can often work out an agreement that will get you paid, although maybe not all at once. Use the **Installment Agreement to Pay Overdue Accounts** letter to document that there is an agreed amount owed and a plan to repay it.

sample business letters RESOURCE GUIDE Tab 3-25

Credit and Collection Issues

The current business environment demands that proper attention be paid to collecting monies that are legitimately due, and carefully monitoring to whom and for how much you extend "on account" privileges. The following practical letters may be helpful in this sometimes "sticky" process by providing you with standardized wording for unfortunate, and often uncomfortable, situations regarding customer credit. Documentation of correspondence with those who owe you money is *essential* if you have the need to follow up with legal procedures due to uncollectability. All correspondence should be sent on your business letterhead, with copies kept permanently in your account files.

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Once open accounts are established, careful monitoring of their payment status is critical to cash flow control. Determine your "tolerance" for how overdue you will allow an account to become before using the **Notice of Overdue Account** letter. Use of this letter can actually help set the tone early on that the terms of the open account are expected to be upheld. Generally accepted credit business practices call for "three strikes before you're out"—so use the **Account Past Due—Second Notice** and **Overdue Account—Final Notice** letters to establish your procedures. Please remember, if you *say* you are going to send an account to collection, you must be prepared to *do so*.

Finally, by properly pursuing overdue accounts, you can often work out an agreement that will get you paid, although maybe not all at once. Use the **Installment Agreement to Pay Overdue Accounts** letter to document that there is an agreed amount owed and a plan to repay it.

Tab 3

Bad or Returned Check Letter

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [check writer],

Your check #_______ dated _______, 20___, written to us in the amount of $_______ has been returned to us by the bank marked [account closed, non-sufficient funds, etc.]. (See copy of check enclosed).

We realize mistakes happen, and wanted to notify you immediately so that you can appropriately correct the situation with us and with the bank.

Please send a certified bank check or money order in the amount of $_______ , which is the amount of the returned check plus our $_______ returned check charge. You may also stop by to correct the situation, if that is more convenient. We will return the original check to you upon receipt of replacement funds.

Failure to respond to this notice with replacement funds within 10 days will force us to proceed with collection procedures.

Our thanks for your prompt attention to this matter.

Sincerely,

H.M. Smith

encl.: check copy

Tab 3-26 RESOURCE GUIDE sample business letters

Bad or Returned Check Letter

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [check writer],

Your check #_______ dated _______, 20___, written to us in the amount of $_______ has been returned to us by the bank marked [account closed, non-sufficient funds, etc.]. (See copy of check enclosed).

We realize mistakes happen, and wanted to notify you immediately so that you can appropriately correct the situation with us and with the bank.

Please send a certified bank check or money order in the amount of $_______ , which is the amount of the returned check plus our $_______ returned check charge. You may also stop by to correct the situation, if that is more convenient. We will return the original check to you upon receipt of replacement funds.

Failure to respond to this notice with replacement funds within 10 days will force us to proceed with collection procedures.

Our thanks for your prompt attention to this matter.

Sincerely,

H.M. Smith

encl.: check copy

Credit References Letter

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [customer]

Thank you for your recent order #_______, received _______, 20___. As this is your first order with us, we are enclosing an application for credit. Please complete this form and return it to us by mail or to the FAX number listed above. We will promptly review the application to avoid delaying your shipment. This information will be kept strictly confidential for our internal use only.

We thank you for your order, and look forward to a positive working relationship.

Sincerely,

H.M. Smith

encl.: credit application

sample business letters RESOURCE GUIDE Tab 3-27

Credit References Letter

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [customer]

Thank you for your recent order #_______, received _______, 20___. As this is your first order with us, we are enclosing an application for credit. Please complete this form and return it to us by mail or to the FAX number listed above. We will promptly review the application to avoid delaying your shipment. This information will be kept strictly confidential for our internal use only.

We thank you for your order, and look forward to a positive working relationship.

Sincerely,

H.M. Smith

encl.: credit application

Tab 3

Credit Application—for a Business

ABC Toys Import Inc.
300 Main Street
San Francisco, CA 94000
914-327-8907

Credit Application

Date			
General Information			
Name of Business			
Address			
City	State		Zip
Type of Ownership	☐ Prorietorship	☐ Corporation	☐ Partnership
	☐ Other (Please specify):		
Federal ID#		**or Social Security #**	
President/Partner(s)/Owner(s)			
Name			
Address			
City	State		Zip
Business Phone		Home Phone	
Name			
Address			
City	State		Zip
Business Phone		Home Phone	
Date Business Started		**D & B Rating**	
Bank Reference			
Bank Name		Bank Officer	
Address			
City	State		Zip
Phone			
Account(s) #			
Please list three (3) trade references			
Company Name		Contact	
Address			
City	State		Zip
Phone			
Company Name		Contact	
Address			
City	State		Zip
Phone			
Company Name		Contact	
Address			
City	State		Zip
Phone			
The above information is true and correct to the best of my knowledge			
Owner/Fiscal Officer		Date	

Tab 3-28 RESOURCE GUIDE sample business letters

Credit Application—for a Business

ABC Toys Import Inc.
300 Main Street
San Francisco, CA 94000
914-327-8907

Credit Application

Date			
General Information			
Name of Business			
Address			
City	State		Zip
Type of Ownership	☐ Prorietorship	☐ Corporation	☐ Partnership
	☐ Other (Please specify):		
Federal ID#		**or Social Security #**	
President/Partner(s)/Owner(s)			
Name			
Address			
City	State		Zip
Business Phone		Home Phone	
Name			
Address			
City	State		Zip
Business Phone		Home Phone	
Date Business Started		**D & B Rating**	
Bank Reference			
Bank Name		Bank Officer	
Address			
City	State		Zip
Phone			
Account(s) #			
Please list three (3) trade references			
Company Name		Contact	
Address			
City	State		Zip
Phone			
Company Name		Contact	
Address			
City	State		Zip
Phone			
Company Name		Contact	
Address			
City	State		Zip
Phone			
The above information is true and correct to the best of my knowledge			
Owner/Fiscal Officer		Date	

Notice of C.O.D.

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [customer]

Thank you very much for your purchase order #_______, dated _______, 20___ (copy attached). We are unable to extend open account credit to you at this time. We will be happy, however, to process your order for C.O.D. shipment. Please notify us within five days of receipt of this notice if you choose to cancel this order. Otherwise, you may expect a C.O.D. shipment from us in a timely manner and according to your specified ship____ date on your purchase order.

Thank you for choosing to do business with us.

Sincerely,

H.M. Smith

encl.: copy P.O. # _______

sample business letters RESOURCE GUIDE Tab 3-29

Notice of C.O.D.

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [customer]

Thank you very much for your purchase order #_______, dated _______, 20___ (copy attached). We are unable to extend open account credit to you at this time. We will be happy, however, to process your order for C.O.D. shipment. Please notify us within five days of receipt of this notice if you choose to cancel this order. Otherwise, you may expect a C.O.D. shipment from us in a timely manner and according to your specified ship____ date on your purchase order.

Thank you for choosing to do business with us.

Sincerely,

H.M. Smith

encl.: copy P.O. # _______

Tab 3

Explanation of Credit Rejection

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [customer]

We have received your request for an explanation of why your application for credit dated _______, 20___, was refused. Our decision was made based on the following information:

If you feel the information we received is inaccurate, please don't hesitate to contact us. We appreciate your patronage, and look forward to a continued positive business relationship.

Sincerely,

H.M. Smith

Tab 3-30 RESOURCE GUIDE sample business letters

Explanation of Credit Rejection

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

To: [customer]

We have received your request for an explanation of why your application for credit dated _______, 20___, was refused. Our decision was made based on the following information:

If you feel the information we received is inaccurate, please don't hesitate to contact us. We appreciate your patronage, and look forward to a continued positive business relationship.

Sincerely,

H.M. Smith

Notice of Overdue Account

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [customer],

A review of your account shows that a statement was sent to you on _______, 20___, showing a balance due of $_______. To date we have not received any payment on that account, which is now _______ days past due.

If your records show that we are in error and payment was made, please call or drop us a note with the payment information so we can correct our records.

If payment has not been made, we would appreciate a prompt payment response correcting the situation; or call us so we may discuss partial payment options.

Your patronage is appreciated, as is your attention to this matter.

Sincerely,

H.M. Smith

sample business letters RESOURCE GUIDE Tab 3-31

Notice of Overdue Account

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [customer],

A review of your account shows that a statement was sent to you on _______, 20___, showing a balance due of $_______. To date we have not received any payment on that account, which is now _______ days past due.

If your records show that we are in error and payment was made, please call or drop us a note with the payment information so we can correct our records.

If payment has not been made, we would appreciate a prompt payment response correcting the situation; or call us so we may discuss partial payment options.

Your patronage is appreciated, as is your attention to this matter.

Sincerely,

H.M. Smith

Tab 3

Account Past Due—Second Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [customer]:

On _______, 20___, we sent you a notice reminding you of your past due account with us in the amount of $_______. To date, we have not received a payment on your account, nor have we had any correspondence from you.

Once again, we must request immediate action from you. Please remit the amount due on your account in full by _______, 20___. If circumstances prevent you from making immediate payment, or from being able to pay in full, please contact us by phone or by mail so we can attempt to work out the problem with you.

Failure to respond to this notice will leave us no alternative but to pursue collection options, at which point you will be legally obligated for the amount due on your account *plus* any legal or collection fees that may be incurred.

Please let us hear from you upon receipt of this notice.

Thank you,

H.M. Smith

Tab 3-32 RESOURCE GUIDE sample business letters

Account Past Due—Second Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [customer]:

On _______, 20___, we sent you a notice reminding you of your past due account with us in the amount of $_______. To date, we have not received a payment on your account, nor have we had any correspondence from you.

Once again, we must request immediate action from you. Please remit the amount due on your account in full by _______, 20___. If circumstances prevent you from making immediate payment, or from being able to pay in full, please contact us by phone or by mail so we can attempt to work out the problem with you.

Failure to respond to this notice will leave us no alternative but to pursue collection options, at which point you will be legally obligated for the amount due on your account *plus* any legal or collection fees that may be incurred.

Please let us hear from you upon receipt of this notice.

Thank you,

H.M. Smith

Overdue Account—Final Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [customer]:

We have sent you two prior notices dated _______, 20___, and _______, 20___, regarding your past due account with us in the amount of $_______. To date, we have not received payment on this account, nor have you corresponded with us.

We will be turning this account over for collection on _______, 20___. This is your final opportunity to avoid that action. Please contact us immediately so that we can discuss the problem. Failure to respond to this final notice may result in additional costs to you, including the account balance *plus* any legal or collection costs incurred.

Your attention to this matter is essential, and in your best interest.

Sincerely,

H.M. Smith

sample business letters RESOURCE GUIDE Tab 3-33

Overdue Account—Final Notice

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [customer]:

We have sent you two prior notices dated _______, 20___, and _______, 20___, regarding your past due account with us in the amount of $_______. To date, we have not received payment on this account, nor have you corresponded with us.

We will be turning this account over for collection on _______, 20___. This is your final opportunity to avoid that action. Please contact us immediately so that we can discuss the problem. Failure to respond to this final notice may result in additional costs to you, including the account balance *plus* any legal or collection costs incurred.

Your attention to this matter is essential, and in your best interest.

Sincerely,

H.M. Smith

Tab 3

Installment Agreement to Pay Overdue Account

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [customer],

Thank you for responding to our account notice dated _______, 20___ regarding your past due account. We appreciate your attention to this matter.

This letter will confirm our agreement reached on _______, 20___. You acknowledge the overdue amount of $_______ on your account with us. You agree to pay [weekly, bi-monthly, monthly] payments in the amount of $_______ until the account is paid in full. You further agree that the first payment will be made on or before _______, 20___. Until your account is paid in full, you understand that additional charges to your account will not be allowed, and that the account will be reviewed for continued open credit with us once this past due obligation is paid in full.

Please understand that our flexibility is being extended only because we expect complete commitment to this payment schedule. We ask that you sign the enclosed copy of this letter and return it to us with or prior to your first scheduled payment.

Once again, thank you for taking this positive step to correct an unfortunate situation.

Sincerely,

H.M. Smith

Tab 3-34 RESOURCE GUIDE sample business letters

Installment Agreement to Pay Overdue Account

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [customer],

Thank you for responding to our account notice dated _______, 20___ regarding your past due account. We appreciate your attention to this matter.

This letter will confirm our agreement reached on _______, 20___. You acknowledge the overdue amount of $_______ on your account with us. You agree to pay [weekly, bi-monthly, monthly] payments in the amount of $_______ until the account is paid in full. You further agree that the first payment will be made on or before _______, 20___. Until your account is paid in full, you understand that additional charges to your account will not be allowed, and that the account will be reviewed for continued open credit with us once this past due obligation is paid in full.

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Once again, thank you for taking this positive step to correct an unfortunate situation.

Sincerely,

H.M. Smith

General Useful Letters

As a voting citizen and a member of the business community, you have a need and a responsibility to inform local and federal legislators of your concerns and desires. The success of your business could be influenced by the laws passed in your state capital or in Washington, so let your views be known. As a business person, you are highly influential in the election process, so make it a habit to keep your legislators aware of actions you support *and* those about which you have concern.

Your local officials are also employed to work for you, but rarely know who "you" are. Expressing your concerns on a local level can add to their effectiveness, and bring them more in touch with the business attitudes on the street.

Some tips on writing to a legislator or local official include:

- State your position or concern clearly in the first paragraph
- Be brief and specific
- Focus on public interest, rather than on just your personal interests
- Don't attack the *person* if you are disgruntled—express displeasure at the *policy*

sample business letters RESOURCE GUIDE Tab 3-35

General Useful Letters

As a voting citizen and a member of the business community, you have a need and a responsibility to inform local and federal legislators of your concerns and desires. The success of your business could be influenced by the laws passed in your state capital or in Washington, so let your views be known. As a business person, you are highly influential in the election process, so make it a habit to keep your legislators aware of actions you support *and* those about which you have concern.

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- Be brief and specific
- Focus on public interest, rather than on just your personal interests
- Don't attack the *person* if you are disgruntled—express displeasure at the *policy*

Tab 3

Letter to a Legislator—Sample

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear Senator XXX,

I want you to know how pleased I am with your recent backing of the Family Heritage Preservation Act and its related bills.

As a small family business owner, I have great concerns about the future of my business as it relates to my family. More importantly, as a small business owner in Wyoming, I appreciate that your position helps to protect over 50% of our small business population by focusing on the problems involved in passing businesses on to future generations. Your work is not only commendable, but vital to our state.

Please let me know if there is anything I can do to help in assuring the passage of this legislation. I truly extend my appreciation to you for your focused work in the Senate.

Sincerely,

H.M. Smith
President, HS Farms, Inc.

Tab 3-36 RESOURCE GUIDE sample business letters

Letter to a Legislator—Sample

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear Senator XXX,

I want you to know how pleased I am with your recent backing of the Family Heritage Preservation Act and its related bills.

As a small family business owner, I have great concerns about the future of my business as it relates to my family. More importantly, as a small business owner in Wyoming, I appreciate that your position helps to protect over 50% of our small business population by focusing on the problems involved in passing businesses on to future generations. Your work is not only commendable, but vital to our state.

Please let me know if there is anything I can do to help in assuring the passage of this legislation. I truly extend my appreciation to you for your focused work in the Senate.

Sincerely,

H.M. Smith
President, HS Farms, Inc.

Letter to a Local Official—Sample

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [local official's name]:

I would like to express concern about the application for variance on zoning of HIJ Company relating the their proposed building at 111 W. 111 St.

I own a home on the block in question, and have enjoyed a friendly, quiet neighborhood for ten years. All of the surrounding property is residential, and in speaking with other homeowners, we would like to keep our residential area intact.

We are particularly opposed to this variance because the proposed usage of the building is for a high traffic retail operation open from 8 a.m. to midnight. As this is a residential neighborhood, parking and traffic problems would result, jeopardizing the safety of our children and creating security problems.

I believe these are real and significant concerns. I urge you to reject the application for variance for HIJ, and encourage them to locate in a more appropriate commercial area. Preserving the few residential neighborhoods we have left should be important.

Sincerely,

H.M. Smith
President, HS Farms, Inc.

sample business letters RESOURCE GUIDE Tab 3-37

Letter to a Local Official—Sample

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [local official's name]:

I would like to express concern about the application for variance on zoning of HIJ Company relating the their proposed building at 111 W. 111 St.

I own a home on the block in question, and have enjoyed a friendly, quiet neighborhood for ten years. All of the surrounding property is residential, and in speaking with other homeowners, we would like to keep our residential area intact.

We are particularly opposed to this variance because the proposed usage of the building is for a high traffic retail operation open from 8 a.m. to midnight. As this is a residential neighborhood, parking and traffic problems would result, jeopardizing the safety of our children and creating security problems.

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Sincerely,

H.M. Smith
President, HS Farms, Inc.

Tab 3

General Letter of Apology

Every business receives complaints, some legitimate and some not. Right or wrong, the disgruntled customer needs to hear from you—therefore, a general non-committal letter of apology might soothe the malcontent, and give you time to look into the situation as a valid concern.

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear:

Thank you for your recent letter, pointing out that it took three hours to respond to your inquiry about availability of the NRT0001 corn hybrid. We can only improve and learn by responding to constructive critique such as yours.

I apologize if the time delay caused you any problems. In the meantime, I am looking into alternative ways to efficiently answer phone availability questions without giving out hasty, incorrect information to our customers.

Sincerely,

H.M. Smith
President, HS Farms, Inc.

Tab 3-38 RESOURCE GUIDE sample business letters

General Letter of Apology

Every business receives complaints, some legitimate and some not. Right or wrong, the disgruntled customer needs to hear from you—therefore, a general non-committal letter of apology might soothe the malcontent, and give you time to look into the situation as a valid concern.

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear:

Thank you for your recent letter, pointing out that it took three hours to respond to your inquiry about availability of the NRT0001 corn hybrid. We can only improve and learn by responding to constructive critique such as yours.

I apologize if the time delay caused you any problems. In the meantime, I am looking into alternative ways to efficiently answer phone availability questions without giving out hasty, incorrect information to our customers.

Sincerely,

H.M. Smith
President, HS Farms, Inc.

Acknowledgment of a Complaint

Mistakes will be made, even by good companies. Ignoring, covering-up or denying errors will go a long way to ruin good customer relations. Learn to acknowledge complaints with a straightforward letter that assures your customer you are seeking to correct the problem or, at least, are aware of the error and concerned about its effect. and are committed to doing whatever follow-up is appropriate.

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear:

I received your letter dated _______, 20___. Your letter describes an error that was made by my company, and I am currently investigating the cause.

Please know that I will do my best to resolve the situation to our mutual satisfaction, and to prevent such a situation from happening again. I appreciate the fact that you took the time to bring this to my attention—after all, that is truly the only way mistakes can be corrected.

I apologize for any inconvenience this has caused, and will contact you as soon as the situation has been resolved.

Most sincerely,

H.M. Smith
President, HS Farms, Inc.

sample business letters RESOURCE GUIDE Tab 3-39

Acknowledgment of a Complaint

Mistakes will be made, even by good companies. Ignoring, covering-up or denying errors will go a long way to ruin good customer relations. Learn to acknowledge complaints with a straightforward letter that assures your customer you are seeking to correct the problem or, at least, are aware of the error and concerned about its effect. and are committed to doing whatever follow-up is appropriate.

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear:

I received your letter dated _______, 20___. Your letter describes an error that was made by my company, and I am currently investigating the cause.

Please know that I will do my best to resolve the situation to our mutual satisfaction, and to prevent such a situation from happening again. I appreciate the fact that you took the time to bring this to my attention—after all, that is truly the only way mistakes can be corrected.

I apologize for any inconvenience this has caused, and will contact you as soon as the situation has been resolved.

Most sincerely,

H.M. Smith
President, HS Farms, Inc.

Tab 3

Tab 3-40 RESOURCE GUIDE sample business letters

This section of Sample Business Forms and Agreements has been put together with the small to medium-sized entrepreneur in mind who needs to prepare for a variety of common business arrangements that require proper documentation.

Properly used forms and agreements serve many purposes, including:

- **Minimizing the chance for disputes**—if you put it in writing now, you may avoid misunderstandings later, which may help to avoid legal entanglements.
- **Helping to ensure obligations are upheld**—written agreements spell out the rights and responsibilities of the obligated parties.
- **Improving overall business performance**—having formats prepared for you to use as needed will save you time, energy and frustration, rather than waiting until the last minute and having no idea where to begin with the form preparation.
- **Enhancing the entrepreneur's understanding and familiarity with commonly used business forms**—even if you don't need these forms and agreements now, being familiar with the content may help you in the future, particularly in understanding the kinds of situations that should be properly documented.
- **Saving money**—professionals charge for their time. If you can do the initial form preparation yourself, the time spent in the attorney's office for review will be much less than requiring the attorney to start from scratch.

There are five main categories of forms and agreements in this section, including **Employment Matters**, **Intangible Asset Protection**, **Legal and Organizational Matters**, **Leasing** and **General Forms and Agreements**. Each category begins with a description of the forms or agreements included and their potential use, followed by the forms themselves.


sample
business forms
&agreements
TAB 4

This section of Sample Business Forms and Agreements has been put together with the small to medium-sized entrepreneur in mind who needs to prepare for a variety of common business arrangements that require proper documentation.

Properly used forms and agreements serve many purposes, including:

- **Minimizing the chance for disputes**—if you put it in writing now, you may avoid misunderstandings later, which may help to avoid legal entanglements.
- **Helping to ensure obligations are upheld**—written agreements spell out the rights and responsibilities of the obligated parties.
- **Improving overall business performance**—having formats prepared for you to use as needed will save you time, energy and frustration, rather than waiting until the last minute and having no idea where to begin with the form preparation.
- **Enhancing the entrepreneur's understanding and familiarity with commonly used business forms**—even if you don't need these forms and agreements now, being familiar with the content may help you in the future, particularly in understanding the kinds of situations that should be properly documented.
- **Saving money**—professionals charge for their time. If you can do the initial form preparation yourself, the time spent in the attorney's office for review will be much less than requiring the attorney to start from scratch.

There are five main categories of forms and agreements in this section, including **Employment Matters**, **Intangible Asset Protection**, **Legal and Organizational Matters**, **Leasing** and **General Forms and Agreements**. Each category begins with a description of the forms or agreements included and their potential use, followed by the forms themselves.

General Tips on Forms & Agreements

While the forms and agreements in this section have been reviewed for general legal accuracy, it should *not* be assumed that you no longer need legal advice and review, particularly on the contractual agreements and forms. Laws change, and state laws may require specific wording. Use these forms and agreements to get your general thoughts correctly arranged, then have your attorney verify or review your work for compliance. If you are unsure of the meaning of any of the wording of the forms and agreements, consult your attorney. These are *your* forms and agreements—be sure *you* understand their content!

Review the following general tips before preparing and using the forms and agreements in this section.

Basic Formats

The forms and agreements are in basic formats and may be easily modified for your specific situations. Blank lines in the documents are designed for you to fill in your particular information; and, if the intended content of the blank is not obvious, a descriptor of the information that should be filled in is shown in brackets, i.e., **[name]**.

Changes

If changes need to be made to an agreement or form after it has been prepared, such as at the time of signing or on short notice, changes may be handwritten into the form or agreement, and *both* parties must initial acceptance of the changes, either in the margin of that line or immediately above or below the changed area.

Signing

If a signature requires a notary or witness, do not sign the document until you are in the presence of the witnessing or notarizing party.

Always make sure you sign in your official capacity within your agricultural business. If the form or agreement calls for your signature as representing your organization, you must sign in the capacity. For example, if you are an officer of your corporation, you will sign in the capacity of a corporate official, meaning you sign your name followed by your corporate title and as representative for the corporation .

Example:	H.M. Smith, President for HS Farms, Inc.	—OR—	HS Farms, Inc., by H.M. Smith, President

If you sign only your name, you could be held liable personally for the contract or agreement. If you are signing as an individual, or signing for your proprietorship, signing only your name is appropriate.

Keeping Copies

Keep copies of all forms and agreements for a minimum of seven years, even if you don't think you will have a need for them.

Tab 4-2 RESOURCE GUIDE sample business forms & agreements

General Tips on Forms & Agreements

While the forms and agreements in this section have been reviewed for general legal accuracy, it should not be assumed that you no longer need legal advice and review, particularly on the contractual agreements and forms. Laws change, and state laws may require specific wording. Use these forms and agreements to get your general thoughts correctly arranged, then have your attorney verify or review your work for compliance. If you are unsure of the meaning of any of the wording of the forms and agreements, consult your attorney. These are your forms and agreements—be sure you understand their content!

Review the following general tips before preparing and using the forms and agreements in this section.

Basic Formats

The forms and agreements are in basic formats and may be easily modified for your specific situations. Blank lines in the documents are designed for you to fill in your particular information; and, if the intended content of the blank is not obvious, a descriptor of the information that should be filled in is shown in brackets, i.e., [name].

Changes

If changes need to be made to an agreement or form after it has been prepared, such as at the time of signing or on short notice, changes may be handwritten into the form or agreement, and both parties must initial acceptance of the changes, either in the margin of that line or immediately above or below the changed area.

Signing

If a signature requires a notary or witness, do not sign the document until you are in the presence of the witnessing or notarizing party.

Always make sure you sign in your official capacity within your agricultural business. If the form or agreement calls for your signature as representing your organization, you must sign in the capacity. For example, if you are an officer of your corporation, you will sign in the capacity of a corporate official, meaning you sign your name followed by your corporate title and as representative for the corporation .

Example: H.M. Smith, President for HS Farms, Inc. —OR— HS Farms, Inc., by H.M. Smith, President

If you sign only your name, you could be held liable personally for the contract or agreement. If you are signing as an individual, or signing for your proprietorship, signing only your name is appropriate.

Keeping Copies

Keep copies of all forms and agreements for a minimum of seven years, even if you don't think you will have a need for them.

Employment Matters

Employment relationships can often be better defined and mutually protected by using documents which clarify roles, responsibilities and agreements between parties.

The specific terms and conditions of an employment relationship between an employer and a prospective employee can be documented using the first form of this section, the **Employment Agreement**.

The **Non-Disclosure Agreement** and **Employee Secrecy Agreement** are two types of confidentiality agreements that you should require employees to sign if they will be working with, or have exposure and/or access to, any material that should not be disclosed or that you consider secret. Choose the agreement that best describes your concerns, and modify it as needed. The **Non-Disclosure Agreement** tends to more specifically define the responsibilities of the specific parties, whereas the **Secrecy Agreement** is more of a blanket agreement covering all types of proprietary information an employee may be exposed to in his/her normal job performance.

The **Employee Non-Compete Agreement** prohibits an employee from taking clients or working for direct competitors when they leave your employ. This combined version covers the topics of client competition, competitor employment and competing in an identified geographic region all in one form; however, any of those items could be deleted if you choose to have the agreement exclude them.

The **Employee Invention Agreement** assigns all rights to inventions, discoveries, etc., that result from work at the company to the employer. This agreement should be used whenever the technical environment of the company facilitates the possibility of inventions and innovations.

Finally, sub-contracting for work by an independent entity should be documented using the **Independent Contractor Agreement**. There has been extensive questioning and confusion surrounding the "employee" vs. "independent contractor" issue, which this agreement helps to clarify.

sample business forms & agreements **R E S O U R C E G U I D E** Tab 4-3

Employment Matters

Employment relationships can often be better defined and mutually protected by using documents which clarify roles, responsibilities and agreements between parties.

The specific terms and conditions of an employment relationship between an employer and a prospective employee can be documented using the first form of this section, the **Employment Agreement**.

The **Non-Disclosure Agreement** and **Employee Secrecy Agreement** are two types of confidentiality agreements that you should require employees to sign if they will be working with, or have exposure and/or access to, any material that should not be disclosed or that you consider secret. Choose the agreement that best describes your concerns, and modify it as needed. The **Non-Disclosure Agreement** tends to more specifically define the responsibilities of the specific parties, whereas the **Secrecy Agreement** is more of a blanket agreement covering all types of proprietary information an employee may be exposed to in his/her normal job performance.

The **Employee Non-Compete Agreement** prohibits an employee from taking clients or working for direct competitors when they leave your employ. This combined version covers the topics of client competition, competitor employment and competing in an identified geographic region all in one form; however, any of those items could be deleted if you choose to have the agreement exclude them.

The **Employee Invention Agreement** assigns all rights to inventions, discoveries, etc., that result from work at the company to the employer. This agreement should be used whenever the technical environment of the company facilitates the possibility of inventions and innovations.

Finally, sub-contracting for work by an independent entity should be documented using the **Independent Contractor Agreement**. There has been extensive questioning and confusion surrounding the "employee" vs. "independent contractor" issue, which this agreement helps to clarify.

Tab 4

Employment Agreement P.1

Following are the terms and conditions of employment of ____________ [name] by _________________ [company]:

1. The beginning date of employment is ____________________.

2. The employee shall undertake the following duties and responsibilities: The employee shall perform such other duties as may be assigned by the Company.

3. Regular hours of employment will be: _______ AM to _______ PM. Additional hours may be required from time to time as assigned.

4. The employee shall comply with all stated standards of performance, policies, rules, regulations, and manuals, receipt of which by the employee is hereby acknowledged. The employee shall also comply with such future Company rules, regulations, and policies as may be developed and published in the future.

5. The employee's employment under this agreement shall begin on _______, 20___ and shall terminate on _______, 20___, unless terminated earlier for cause.

6. Compensation for employee shall be $ _______ based on ________[rate of pay] per hour, week, bi-weekly, monthly, bi-monthly, annually [choose one], and will include the following "fringe" benefits:

7. This employment contract may be terminated for any of the following reasons: a.) death of the employee; b.) failure of the employee to perform his/her duties satisfactorily after notice or warning thereof; c.) for just cause based upon non-performance of duties by the employee; d.) economic reasons of the Company which may arise during the term of this Agreement and which may be beyond the control of the Company.

8. The employee agrees that he/she will not engage in, or become involved in, directly or indirectly, any competitive or similar business to that of the Company within _______ [geographic area] for a period of _______ years after the termination of employment.

Tab 4-4 RESOURCE GUIDE sample business forms & agreements

Employment Agreement P.1

Following are the terms and conditions of employment of ____________ [name] by _________________ [company]:

1. The beginning date of employment is ____________________.

2. The employee shall undertake the following duties and responsibilities: The employee shall perform such other duties as may be assigned by the Company.

3. Regular hours of employment will be: _______ AM to _______ PM. Additional hours may be required from time to time as assigned.

4. The employee shall comply with all stated standards of performance, policies, rules, regulations, and manuals, receipt of which by the employee is hereby acknowledged. The employee shall also comply with such future Company rules, regulations, and policies as may be developed and published in the future.

5. The employee's employment under this agreement shall begin on _______, 20___ and shall terminate on _______, 20___, unless terminated earlier for cause.

6. Compensation for employee shall be $ _______ based on ________[rate of pay] per hour, week, bi-weekly, monthly, bi-monthly, annually [choose one], and will include the following "fringe" benefits:

7. This employment contract may be terminated for any of the following reasons: a.) death of the employee; b.) failure of the employee to perform his/her duties satisfactorily after notice or warning thereof; c.) for just cause based upon non-performance of duties by the employee; d.) economic reasons of the Company which may arise during the term of this Agreement and which may be beyond the control of the Company.

8. The employee agrees that he/she will not engage in, or become involved in, directly or indirectly, any competitive or similar business to that of the Company within _______ [geographic area] for a period of _______ years after the termination of employment.

Employment Agreement P.2

9. Any dispute under this Agreement shall be required to be resolved by binding arbitration of the parties hereto. Each party shall select one arbitrator and both arbitrators shall select a third. The arbitration shall be governed by the rules of the American Arbitration Association then in force and effect.

10. This Agreement may not be assigned without prior notice by either party, and any such assignment is subject to mutual consent and approval.

11. This Agreement constitutes the complete understanding between the parties, unless amended by a subsequent written instrument signed by both parties.

Employee Signature Date

____

Employer Signature Date

____

sample business forms & agreements RESOURCE GUIDE Tab 4-5

Employment Agreement P.2

9. Any dispute under this Agreement shall be required to be resolved by binding arbitration of the parties hereto. Each party shall select one arbitrator and both arbitrators shall select a third. The arbitration shall be governed by the rules of the American Arbitration Association then in force and effect.

10. This Agreement may not be assigned without prior notice by either party, and any such assignment is subject to mutual consent and approval.

11. This Agreement constitutes the complete understanding between the parties, unless amended by a subsequent written instrument signed by both parties.

Employee Signature Date

Employer Signature Date

Tab 4

Non-Disclosure Agreement

I, ___________________ [full name], do covenant and agree that I will not directly or indirectly, disclose, communicate, divulge, or furnish to or use for the benefit of myself or any other person, firm, or corporation, the information, business plans, ideas, processes, designs, products, technical specifications, discoveries, data, trade secrets, and other proprietary information (collectively, the "Information"), disclosed by _________ which may have been, or may in the future be disclosed to _________.

In return for receiving the information, _________ has agreed to retain such information in confidence and not to publish, make available or otherwise disclose any part or portion of such information to any third party except with the prior express written consent of an authorized representative of _________, unless such information can be shown by documentary evidence to be in the public domain.

_________ has agreed to use its best efforts and all reasonable precautions to assure that such information disclosed to _________ verbally, by written material, by electronic data storage media, or by any other means is properly protected from unauthorized disclosure to any third party. _________ has also agreed not to make copies of such materials that may be given to _________ and to return all copies of such material immediately upon the request of _________. _________ further agrees that all such information is owned by _________ and is confidential, valuable and essential to the ongoing conduct of _________'s business. _________ has further agreed not to use, exploit, and/or commercialize such information for his/her benefit or for the benefit of other third parties. This Agreement shall not be construed as granting any license or other rights to _________.

We agree to be legally bound by the terms of this Agreement and have executed it this _______ day of _______, 20___.

Employee Signature Date

____

Employer Signature Date

____

Tab 4-6 RESOURCE GUIDE sample business forms & agreements

Non-Disclosure Agreement

I, ___________________ [full name], do covenant and agree that I will not directly or indirectly, disclose, communicate, divulge, or furnish to or use for the benefit of myself or any other person, firm, or corporation, the information, business plans, ideas, processes, designs, products, technical specifications, discoveries, data, trade secrets, and other proprietary information (collectively, the "Information"), disclosed by _________ which may have been, or may in the future be disclosed to _________.

In return for receiving the information, _________ has agreed to retain such information in confidence and not to publish, make available or otherwise disclose any part or portion of such information to any third party except with the prior express written consent of an authorized representative of _________, unless such information can be shown by documentary evidence to be in the public domain.

_________ has agreed to use its best efforts and all reasonable precautions to assure that such information disclosed to _________ verbally, by written material, by electronic data storage media, or by any other means is properly protected from unauthorized disclosure to any third party. _________ has also agreed not to make copies of such materials that may be given to _________ and to return all copies of such material immediately upon the request of _________. _________ further agrees that all such information is owned by _________ and is confidential, valuable and essential to the ongoing conduct of _________'s business. _________ has further agreed not to use, exploit, and/or commercialize such information for his/her benefit or for the benefit of other third parties. This Agreement shall not be construed as granting any license or other rights to _________.

We agree to be legally bound by the terms of this Agreement and have executed it this _______ day of _______, 20___.

Employee Signature Date

____

Employer Signature Date

____

Employee Secrecy Agreement

As an employee of __________________ [company] and as part of my duties and responsibilities, I acknowledge that I may have access to information which the Company deems to be confidential or secret, including unpatented inventions, designs, know-how, trade secrets, technical information and data, specifications, blueprints, transparencies, test data and additions, modifications, and improvements thereon which are revealed to me. I agree that all such data and information shall be regarded by me as strictly confidential and that I shall not reveal said data or information to any other person, firm, corporation, company, or entity now or at any time in the future unless the Company instructs me to do so in writing. This secrecy protection will continue even if I am no longer an employee of the Company. I understand that if I reveal any of the data or information to unauthorized persons I personally may be subject to penalties and lawsuits for injunctive relief and money damages as well as possible criminal charges by the Company.

I acknowledge that I have read and understand the contents of this Agreement and freely sign it with the intent to be legally bound hereby.

Employee Signature Date

____

Employer Signature Date

____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-7

Employee Secrecy Agreement

As an employee of __________________ [company] and as part of my duties and responsibilities, I acknowledge that I may have access to information which the Company deems to be confidential or secret, including unpatented inventions, designs, know-how, trade secrets, technical information and data, specifications, blueprints, transparencies, test data and additions, modifications, and improvements thereon which are revealed to me. I agree that all such data and information shall be regarded by me as strictly confidential and that I shall not reveal said data or information to any other person, firm, corporation, company, or entity now or at any time in the future unless the Company instructs me to do so in writing. This secrecy protection will continue even if I am no longer an employee of the Company. I understand that if I reveal any of the data or information to unauthorized persons I personally may be subject to penalties and lawsuits for injunctive relief and money damages as well as possible criminal charges by the Company.

I acknowledge that I have read and understand the contents of this Agreement and freely sign it with the intent to be legally bound hereby.

Employee Signature Date

____

Employer Signature Date

____

Tab 4

Employee Non-Compete Agreement

I, __________________ [full name] agree that I will not enter the employ of or render any service to any person, firm or corporation dealing in products or services which compete with the products or services of _________ [name of company], nor will I engage in any competing business on my own account or become interested therein as director, principal, representative, or any other capacity without the express written approval of _________ [name of company or owner] for a period of _______ years within the territory of _________ [name of region], the state of _________ [name of state]. I further understand that violation of this agreement may subject me to legal action.

Employee Signature Date

____

Employer Signature Date

____

Signature of Notary State Date

____

Notary Seal:

Tab 4-8 RESOURCE GUIDE sample business forms & agreements

Employee Non-Compete Agreement

I, __________________ [full name] agree that I will not enter the employ of or render any service to any person, firm or corporation dealing in products or services which compete with the products or services of _________ [name of company], nor will I engage in any competing business on my own account or become interested therein as director, principal, representative, or any other capacity without the express written approval of _________ [name of company or owner] for a period of _______ years within the territory of _________ [name of region], the state of _________ [name of state]. I further understand that violation of this agreement may subject me to legal action.

Employee Signature Date

____

Employer Signature Date

____

Signature of Notary State Date

____

Notary Seal:

Employee Invention Agreement

In consideration of employment by _________ [company] I, _________ [name] intending to be legally bound by this agreement, do hereby agree and covenant as follows:

1. During the course of employment, _________ [name] shall promptly disclose to the company in writing all inventions, discoveries, improvements, developments, innovations, or refinements for processes or equipment that:
   a. Result from any work performed on behalf of Company, or pursuant to a suggested research project by the Company, or which result from discussions with another Company employee;
   b. Relate in any manner to the existing or contemplated business of the Company, or;
   c. Came about as a result of using the Company's equipment and plant, or on Company time or in conjunction with any other Company employee.
2. The undersigned hereby assigns to the Company, its successors and assigns, all rights, title and interest to said inventions.
3. The undersigned shall, at the Company's request, execute specific assignments to any such invention and execute, acknowledge, and deliver any additional documents required to obtain patents in any jurisdiction and shall, at the Company's request and expense, assist in the defense and prosecution of said patents as may be required by Company. This provision shall survive termination of employment.

Employee Signature   Date

____

Signature of Notary   State   Date

____

Notary Seal:

sample business forms & agreements RESOURCE GUIDE Tab 4-9

Employee Invention Agreement

In consideration of employment by _________ [company] I, _________ [name] intending to be legally bound by this agreement, do hereby agree and covenant as follows:

1. During the course of employment, _________ [name] shall promptly disclose to the company in writing all inventions, discoveries, improvements, developments, innovations, or refinements for processes or equipment that:
   a. Result from any work performed on behalf of Company, or pursuant to a suggested research project by the Company, or which result from discussions with another Company employee;
   b. Relate in any manner to the existing or contemplated business of the Company, or;
   c. Came about as a result of using the Company's equipment and plant, or on Company time or in conjunction with any other Company employee.
2. The undersigned hereby assigns to the Company, its successors and assigns, all rights, title and interest to said inventions.
3. The undersigned shall, at the Company's request, execute specific assignments to any such invention and execute, acknowledge, and deliver any additional documents required to obtain patents in any jurisdiction and shall, at the Company's request and expense, assist in the defense and prosecution of said patents as may be required by Company. This provision shall survive termination of employment.

Employee Signature   Date

____

Signature of Notary   State   Date

____

Notary Seal:

Tab 4

Independent Contractor Agreement P.1

Agreement, dated _______, 20___, between
__________________ (hereinafter the Company) and
__________________ (hereinafter the Contractor).

Now, therefore, the parties agree as follows:

Relationship Between Parties: The Contractor is employed by the Company only for the purposes and to the extent set forth in this Agreement and shall not be considered as having employee status or as being entitled to participate in any plans, arrangements, or distributions by the Company of any insurance, pension, stock, bonus, profit-sharing, or similar benefits for its regular employees. Contractor expressly waives any and all claims for unemployment benefits or workers' compensation benefits and agrees to maintain separate policies of liability, health, and accident insurance as may be necessary or required in connection with the performance of his/her duties. Nothing herein shall be construed to constitute a relationship as employee, agency, partnership, joint venture, or otherwise. Contractor shall have no authority to make any binding agreement or incur any obligations on behalf of the Company without the specific written authorization of the Company.

Duties: Contractor will provide the following services or products to Company:

Tab 4-10 RESOURCE GUIDE sample business forms & agreements

Independent Contractor Agreement P.1

Agreement, dated _______, 20___, between
__________________ (hereinafter the Company) and
__________________ (hereinafter the Contractor).

Now, therefore, the parties agree as follows:

Relationship Between Parties: The Contractor is employed by the Company only for the purposes and to the extent set forth in this Agreement and shall not be considered as having employee status or as being entitled to participate in any plans, arrangements, or distributions by the Company of any insurance, pension, stock, bonus, profit-sharing, or similar benefits for its regular employees. Contractor expressly waives any and all claims for unemployment benefits or workers' compensation benefits and agrees to maintain separate policies of liability, health, and accident insurance as may be necessary or required in connection with the performance of his/her duties. Nothing herein shall be construed to constitute a relationship as employee, agency, partnership, joint venture, or otherwise. Contractor shall have no authority to make any binding agreement or incur any obligations on behalf of the Company without the specific written authorization of the Company.

Duties: Contractor will provide the following services or products to Company:

Independent Contractor Agreement P.2

Term and Extension: The term of this contract shall be: ________________. It may be extended by the written mutual consent of the parties. The contract may be terminated by either party with thirty (30) days written notice to the other party.

Confidentiality: The Contractor agrees to treat the terms of this Agreement and all information received from the Company or developed under this contract as confidential, and said information shall not be divulged to any other person or entity without the express written permission of the Company.

Compensation: Compensation for the Contractor shall be paid on the basis of:
__________________ [consulting fee, hourly rate, monthly, etc.] plus direct expenses approved in advance by the Company. Payment will be made on the same schedule as regular employees upon receipt of invoice documenting time and expenses.

Professional Responsibility: Nothing in this Agreement shall be construed to interfere with or otherwise affect the rendering of services by the Contractor in accordance with his/her independent and professional judgment. The Contractor shall perform his/her services in a good and workmanlike manner and in accordance with generally accepted ________________ practices.

Entire Agreement: This Agreement shall be construed in accordance with __________ [state] law, and shall constitute the entire Agreement between the parties. Amendments to this Agreement may be made by the written agreement of both parties.

Signed Date

____

Signed Date

____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-11

Independent Contractor Agreement P.2

Term and Extension: The term of this contract shall be: ________________. It may be extended by the written mutual consent of the parties. The contract may be terminated by either party with thirty (30) days written notice to the other party.

Confidentiality: The Contractor agrees to treat the terms of this Agreement and all information received from the Company or developed under this contract as confidential, and said information shall not be divulged to any other person or entity without the express written permission of the Company.

Compensation: Compensation for the Contractor shall be paid on the basis of:
__________________ [consulting fee, hourly rate, monthly, etc.] plus direct expenses approved in advance by the Company. Payment will be made on the same schedule as regular employees upon receipt of invoice documenting time and expenses.

Professional Responsibility: Nothing in this Agreement shall be construed to interfere with or otherwise affect the rendering of services by the Contractor in accordance with his/her independent and professional judgment. The Contractor shall perform his/her services in a good and workmanlike manner and in accordance with generally accepted ________________ practices.

Entire Agreement: This Agreement shall be construed in accordance with __________ [state] law, and shall constitute the entire Agreement between the parties. Amendments to this Agreement may be made by the written agreement of both parties.

Signed Date

Signed Date

Tab 4

Intangible Asset Protection

This short section deals with the protection of intangible assets such as copyrights, quotes, pictures or statements which should not be used without obtaining permission or having rights and interests assigned.

The **Assignment of Copyrights** form transfers ownership rights and interests in copyrights. Most state laws require transfers to be in writing. This form provides a good example of the assignment forms, whether you are the assignee or assignor.

You may find occasion to use material from someone else's copyrighted material, or someone else may want to use material you have copyrighted. The **Permission to Use Copyrighted Material** form secures the necessary permission. Note that the form calls for identifying specifically the part of the material for which permission is granted, and also specifies whether or not a credit line is required.

The use of testimonials as a promotional tool has become one of the most popular marketing tactics. Before you can use that testimonial, including a statement, picture, quote or perceived endorsement, you must secure permission. The **Permission to Use Quote or Personal Statement** form accomplishes that purpose. It should be noted here that the sample form does not grant blanket permission, but rather specifies the specific publication (which could be modified to audio or video media as well) for which permission is being granted.

Tab 4-12 RESOURCE GUIDE sample business forms & agreements

Intangible Asset Protection

This short section deals with the protection of intangible assets such as copyrights, quotes, pictures or statements which should not be used without obtaining permission or having rights and interests assigned.

The **Assignment of Copyrights** form transfers ownership rights and interests in copyrights. Most state laws require transfers to be in writing. This form provides a good example of the assignment forms, whether you are the assignee or assignor.

You may find occasion to use material from someone else's copyrighted material, or someone else may want to use material you have copyrighted. The **Permission to Use Copyrighted Material** form secures the necessary permission. Note that the form calls for identifying specifically the part of the material for which permission is granted, and also specifies whether or not a credit line is required.

The use of testimonials as a promotional tool has become one of the most popular marketing tactics. Before you can use that testimonial, including a statement, picture, quote or perceived endorsement, you must secure permission. The **Permission to Use Quote or Personal Statement** form accomplishes that purpose. It should be noted here that the sample form does not grant blanket permission, but rather specifies the specific publication (which could be modified to audio or video media as well) for which permission is being granted.

Assignment of Copyrights

For good and valuable consideration, receipt of which is hereby acknowledged, I/we convey and assign to _________ [Assignee] all my/our ownership rights and interest in the following copyright(s):

The copyright certification is attached as Exhibit "A".

Assignee shall have exclusive right to register the copyright or to dispose of the copyright in any way he/she chooses; seller retains no rights whatsoever.

Seller warrants that he/she has the legal right to grant Assignee the copyright set out in this Agreement and that such assignment does not infringe any third parties' rights.

Seller warrants that there are no pending lawsuits concerning any aspect of the copyright and that the copyright has not been published in such a way as to lose any of its copyright protection.

This Agreement is freely assignable by both parties. This Agreement is binding upon and shall inure to the benefit of the legal successors and assigns of both parties.

Signature Date

____

Signature Date

____

sample business forms & agreements RESOURCE GUIDE Tab 4-13

Assignment of Copyrights

For good and valuable consideration, receipt of which is hereby acknowledged, I/we convey and assign to _________ [Assignee] all my/our ownership rights and interest in the following copyright(s):

The copyright certification is attached as Exhibit "A".

Assignee shall have exclusive right to register the copyright or to dispose of the copyright in any way he/she chooses; seller retains no rights whatsoever.

Seller warrants that he/she has the legal right to grant Assignee the copyright set out in this Agreement and that such assignment does not infringe any third parties' rights.

Seller warrants that there are no pending lawsuits concerning any aspect of the copyright and that the copyright has not been published in such a way as to lose any of its copyright protection.

This Agreement is freely assignable by both parties. This Agreement is binding upon and shall inure to the benefit of the legal successors and assigns of both parties.

Signature Date

____

Signature Date

____

Tab 4

Permission to Use Copyrighted Material

For good and valuable consideration, receipt of which is acknowledged, I irrevocably grant _______________, its successors and assigns, permission to reprint, publish or otherwise utilize for world distribution the following statement, document, or picture _________________________ in a publication titled ______________________ and any subsequent editions of that publication.

A credit line acknowledging the use of the material is ____ is not ____ (check one) required. If required, the credit line shall read as follows:

Signature Date

Signature Date

Tab 4-14 RESOURCE GUIDE sample business forms & agreements

Permission to Use Copyrighted Material

For good and valuable consideration, receipt of which is acknowledged, I irrevocably grant _______________, its successors and assigns, permission to reprint, publish or otherwise utilize for world distribution the following statement, document, or picture _________________________ in a publication titled ______________________ and any subsequent editions of that publication.

A credit line acknowledging the use of the material is ____ is not ____ (check one) required. If required, the credit line shall read as follows:

Signature Date

Signature Date

Permission to Use Quote or Personal Statement

For good and valuable consideration, receipt of which is hereby acknowledged, I irrevocably grant permission to _______________, its successors and assigns , to use, publish or reprint in whole or in part the following statement, picture, endorsement or quotation: [describe or attach]

This authorization shall extend only to a publication titled _______________ and any subsequent editions of that publication, and in connection with the advertising or promotion of that publication or new editions of that publication.

Signature   Date

____

Signature   Date

____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-15

Permission to Use Quote or Personal Statement

For good and valuable consideration, receipt of which is hereby acknowledged, I irrevocably grant permission to _______________, its successors and assigns , to use, publish or reprint in whole or in part the following statement, picture, endorsement or quotation: [describe or attach]

This authorization shall extend only to a publication titled _______________ and any subsequent editions of that publication, and in connection with the advertising or promotion of that publication or new editions of that publication.

Signature   Date

Signature   Date

Tab 4

Legal and Organizational Matters

The forms and agreements in this section relate to a variety of organizational and legal issues, ranging from entrusting someone you trust to carry out legal functions for you to properly recording meeting information. Look through the full range of documents in this section and choose the ones most appropriate to your business.

First, and often overlooked in the small business environment, is the **Power of Attorney.** While most people think of powers of attorney as a tool to be used in relationship to people who become legally incompetent, it is also a tool in the small business world that can facilitate the running of the operation in your absence. If you are on vacation or expect to be away from your business for an extended period of time, consider delegating specific authority to a trusted individual to carry out the vital functions of your business while you are away, especially if people are accustomed to dealing with you directly in your business and may not trust the authority of a substitute without a proper legal document granting that authority. You may take away the power of attorney at any time by using the **Revocation of Power of Attorney** document, making sure that it is properly notarized as indicated.

Next, samples of two useful organizational documents may help you understand partnership and joint venture relationships by the language contained in the agreements. The **Partnership Agreement** contains the key elements that should be agreed upon by partners entering into a business relationship. The **Joint Venture Agreement** spells out the specific understanding between joint venturers.

The next group of documents relates to the corporate environment. These forms demonstrate the appropriate way to record various corporate events including:

Ratification of Organizational Meeting: A document signed by the stockholders ratifying the actions of the organizers at the time of forming a corporation.

Notice of Annual Meeting: The form required annually that notifies stockholders of a regular corporation of the annual meeting.

Notice of Meeting of Directors, Notice of Special Meeting of Directors, and **Notice of Special Meeting of Shareholders**: These are all formalities required in the regular corporation environment that document the fact that regular and special meetings were held so that there can be no question of date, time and place of such meetings.

Minutes of Meeting of Directors and **Minutes of Special Meeting**: Recording the business transacted at Board of Directors' meetings is very important to properly documenting that a corporation is being run in a business-like manner. Use these formats as a guide to recording each meeting's contents. Generally, the minutes are signed by the President and the Secretary of a corporation.

Certificate of Corporate Vote, Certificate of Corporate Resolution, Record of Vote Establishing Salary, and **Record of Vote for Execution of Property Lease:** These forms are all used to document particularly important events at corporate meetings, including corporate resolutions, votes on important issues, votes establishing officers/directors salaries, votes on lease arrangements. Corporations are required to formally document such events. Use these forms as guidelines to establish appropriate content.

Tab 4-16 RESOURCE GUIDE sample business forms & agreements

Legal and Organizational Matters

The forms and agreements in this section relate to a variety of organizational and legal issues, ranging from entrusting someone you trust to carry out legal functions for you to properly recording meeting information. Look through the full range of documents in this section and choose the ones most appropriate to your business.

First, and often overlooked in the small business environment, is the **Power of Attorney.** While most people think of powers of attorney as a tool to be used in relationship to people who become legally incompetent, it is also a tool in the small business world that can facilitate the running of the operation in your absence. If you are on vacation or expect to be away from your business for an extended period of time, consider delegating specific authority to a trusted individual to carry out the vital functions of your business while you are away, especially if people are accustomed to dealing with you directly in your business and may not trust the authority of a substitute without a proper legal document granting that authority. You may take away the power of attorney at any time by using the **Revocation of Power of Attorney** document, making sure that it is properly notarized as indicated.

Next, samples of two useful organizational documents may help you understand partnership and joint venture relationships by the language contained in the agreements. The **Partnership Agreement** contains the key elements that should be agreed upon by partners entering into a business relationship. The **Joint Venture Agreement** spells out the specific understanding between joint venturers.

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Ratification of Organizational Meeting: A document signed by the stockholders ratifying the actions of the organizers at the time of forming a corporation.

Notice of Annual Meeting: The form required annually that notifies stockholders of a regular corporation of the annual meeting.

Notice of Meeting of Directors, Notice of Special Meeting of Directors, and **Notice of Special Meeting of Shareholders**: These are all formalities required in the regular corporation environment that document the fact that regular and special meetings were held so that there can be no question of date, time and place of such meetings.

Minutes of Meeting of Directors and **Minutes of Special Meeting**: Recording the business transacted at Board of Directors' meetings is very important to properly documenting that a corporation is being run in a business-like manner. Use these formats as a guide to recording each meeting's contents. Generally, the minutes are signed by the President and the Secretary of a corporation.

Certificate of Corporate Vote, Certificate of Corporate Resolution, Record of Vote Establishing Salary, and **Record of Vote for Execution of Property Lease:** These forms are all used to document particularly important events at corporate meetings, including corporate resolutions, votes on important issues, votes establishing officers/directors salaries, votes on lease arrangements. Corporations are required to formally document such events. Use these forms as guidelines to establish appropriate content.

Power of Attorney P.1

The undersigned, of _______________ Corporation, have made, constituted and appointed ___________________ [attorney's name], of _________________ [name of law firm], my true and lawful attorney in fact, for me and in my name and stead, and to my use with full authority and power to do everything whatsoever requisite or necessary to be done, as fully as I could or might do if personally present, with full power of substitution and revocation, hereby confirming and ratifying all that said attorney in fact shall lawfully do or cause to be done in the following matters:

1.
2.
3.

Said attorney shall take all steps and remedies necessary and proper for the conduct and management of my business affairs. This instrument shall be construed and interpreted as a general power of attorney. The enumeration of specific items, rights or powers herein shall not limit or restrict, and is not to be construed or interpreted as limiting or restricting, the general powers herein granted to said attorney in fact.

The rights, powers and authority of said attorney in fact granted in this instrument shall commence and be in full force and effect on _______, 20___, and shall remain in effect thereafter until I give notice in writing that such power is terminated.

It is my desire, and I so freely state, that this power of attorney shall not be affected by my subsequent disability or incapacity. Furthermore, upon a finding of incompetence by a court of appropriate jurisdiction, this power of attorney shall be irrevocable until such time as said court determines that I am no longer incompetent.

sample business forms & agreements RESOURCE GUIDE Tab 4-17

Power of Attorney P.1

The undersigned, of _______________ Corporation, have made, constituted and appointed ___________________ [attorney's name], of _________________ [name of law firm], my true and lawful attorney in fact, for me and in my name and stead, and to my use with full authority and power to do everything whatsoever requisite or necessary to be done, as fully as I could or might do if personally present, with full power of substitution and revocation, hereby confirming and ratifying all that said attorney in fact shall lawfully do or cause to be done in the following matters:

1.
2.
3.

Said attorney shall take all steps and remedies necessary and proper for the conduct and management of my business affairs. This instrument shall be construed and interpreted as a general power of attorney. The enumeration of specific items, rights or powers herein shall not limit or restrict, and is not to be construed or interpreted as limiting or restricting, the general powers herein granted to said attorney in fact.

The rights, powers and authority of said attorney in fact granted in this instrument shall commence and be in full force and effect on _______, 20___, and shall remain in effect thereafter until I give notice in writing that such power is terminated.

It is my desire, and I so freely state, that this power of attorney shall not be affected by my subsequent disability or incapacity. Furthermore, upon a finding of incompetence by a court of appropriate jurisdiction, this power of attorney shall be irrevocable until such time as said court determines that I am no longer incompetent.

Tab 4

Power of Attorney P.2

I, ________________ [name], whose name is signed to the foregoing instrument, having been duly qualified according to the law, do hereby acknowledge that I signed and executed this power of attorney; that I am of sound mind; that I am eighteen (18) years of age or older; that I signed it willingly and am under no constraint or undue influence; and that I signed it as my free and voluntary act for the purpose therein expressed.

Signature Date

____

Signature of Notary State Date

____

Notary Seal:

Revocation of Power of Attorney

The undersigned, of ________________ Corporation, in a document dated ________, 20___, did make, constitute and appoint _______________ [attorney's name] of ______________________ [law firm's name] as my attorney in fact.

I now wish to revoke and make void said power of attorney forthwith and all powers of authority conferred thereby are terminated and shall cease as of the date below.

Signature Date

____

Signature of Notary State Date

____

Notary Seal:

Tab 4-18 RESOURCE GUIDE sample business forms & agreements

Power of Attorney P.2

I, ________________ [name], whose name is signed to the foregoing instrument, having been duly qualified according to the law, do hereby acknowledge that I signed and executed this power of attorney; that I am of sound mind; that I am eighteen (18) years of age or older; that I signed it willingly and am under no constraint or undue influence; and that I signed it as my free and voluntary act for the purpose therein expressed.

Signature Date

Signature of Notary State Date

Notary Seal:

Revocation of Power of Attorney

The undersigned, of ________________ Corporation, in a document dated ________, 20___, did make, constitute and appoint _______________ [attorney's name] of ______________________ [law firm's name] as my attorney in fact.

I now wish to revoke and make void said power of attorney forthwith and all powers of authority conferred thereby are terminated and shall cease as of the date below.

Signature Date

Signature of Notary State Date

Notary Seal:

Partnership Agreement P.1

This Agreement is made this _______ day of _______, 20___, by and among _______________ , thereinafter referred to as Partner One, and _______________ , hereinafter referred to as Partner Two.

Whereas, Partner One and Partner Two desire to form a partnership in the state of _________ ; and the parties hereby agree that this partnership agreement shall be construed, interpreted and enforced in accordance with the laws of said state.

Now, therefore, in consideration of the mutual covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Name:** The name of the partnership shall be:
2. **Address:** The original place of business shall be at:
3. **Nature of Business:** The parties hereby form a partnership that will engage in the business of:
4. **Duration:** The partnership shall exist for a period of __________, commencing on _______, 20___ , and shall continue until terminated by mutual consent or dissolution by operation of law. Either party to this partnership agreement may withdraw from the partnership upon six (6) months notice to the remaining party to this partnership agreement.
5. **Capital:** The partners' ownership interest and capital account shall be as follows:
6. **Loans by Partners:** If either partner shall, with the written consent of the other partner, advance any monies to the partnership in excess of the capital contributed as set forth above, the amount of the monies so advanced shall be considered as a loan to the partnership and shall bear interest of ___% until repaid.
7. **Profit and Loss:** The partners shall share the profits and losses of the partnership in relationship to their ownership interest.
8. **Management:** The partners shall have equal rights in the management of the partnership business.

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-19

Partnership Agreement P.1

This Agreement is made this _______ day of _______, 20___, by and among _______________ , thereinafter referred to as Partner One, and _______________ , hereinafter referred to as Partner Two.

Whereas, Partner One and Partner Two desire to form a partnership in the state of _________ ; and the parties hereby agree that this partnership agreement shall be construed, interpreted and enforced in accordance with the laws of said state.

Now, therefore, in consideration of the mutual covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Name: The name of the partnership shall be:
2. Address: The original place of business shall be at:
3. Nature of Business: The parties hereby form a partnership that will engage in the business of:
4. Duration: The partnership shall exist for a period of __________, commencing on _______, 20___ , and shall continue until terminated by mutual consent or dissolution by operation of law. Either party to this partnership agreement may withdraw from the partnership upon six (6) months notice to the remaining party to this partnership agreement.
5. Capital: The partners' ownership interest and capital account shall be as follows:
6. Loans by Partners: If either partner shall, with the written consent of the other partner, advance any monies to the partnership in excess of the capital contributed as set forth above, the amount of the monies so advanced shall be considered as a loan to the partnership and shall bear interest of ___% until repaid.
7. Profit and Loss: The partners shall share the profits and losses of the partnership in relationship to their ownership interest.
8. Management: The partners shall have equal rights in the management of the partnership business.

Tab 4

Partnership Agreement P.2

9. **Duties:** Each partner shall devote his/her full time and best efforts on behalf of the partnership business.

10. **Salaries:** The salaries for each partner shall be by agreement with the remaining partner(s).

11. **Authority:** Neither party shall, without the consent of the other:

    a. Borrow money in the firm name for firm purposes or utilize collateral owned by the partnership as security for such loans.

    b. Assign, transfer, pledge, compromise or release any debts or obligations due the partnership, except upon payment in full.

    c. Enter into any contract, obligation or undertaking of the partnership except within the ordinary course of business.

    d. Make, execute and deliver any insolvency proceeding, confession of judgment, deed, guarantee, lease, bond, or contract to sell all or substantially all the property of the partnership.

    e. Pledge, hypothecate or in any manner transfer his/her interest in the partnership.

12. **Arbitration:** All controversies arising under or in connection with, or relating to any alleged breach of this partnership agreement shall be settled by arbitration in accordance with the rules then obtaining of the American Arbitration Association, and judgment upon any award rendered may be entered in any court having jurisdiction.

13. **Binding on Heirs:** This partnership agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns.

14. **Entire Agreement:** This partnership agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, negotiations and understandings of any nature with respect to the subject matter hereto. No amendment, waiver or discharge of any of the provisions of this agreement shall be effective against any party unless that party shall have consented thereto in writing.

Tab 4-20 RESOURCE GUIDE sample business forms & agreements

Partnership Agreement P.2

9. **Duties:** Each partner shall devote his/her full time and best efforts on behalf of the partnership business.

10. **Salaries:** The salaries for each partner shall be by agreement with the remaining partner(s).

11. **Authority:** Neither party shall, without the consent of the other:

    a. Borrow money in the firm name for firm purposes or utilize collateral owned by the partnership as security for such loans.

    b. Assign, transfer, pledge, compromise or release any debts or obligations due the partnership, except upon payment in full.

    c. Enter into any contract, obligation or undertaking of the partnership except within the ordinary course of business.

    d. Make, execute and deliver any insolvency proceeding, confession of judgment, deed, guarantee, lease, bond, or contract to sell all or substantially all the property of the partnership.

    e. Pledge, hypothecate or in any manner transfer his/her interest in the partnership.

12. **Arbitration:** All controversies arising under or in connection with, or relating to any alleged breach of this partnership agreement shall be settled by arbitration in accordance with the rules then obtaining of the American Arbitration Association, and judgment upon any award rendered may be entered in any court having jurisdiction.

13. **Binding on Heirs:** This partnership agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns.

14. **Entire Agreement:** This partnership agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, negotiations and understandings of any nature with respect to the subject matter hereto. No amendment, waiver or discharge of any of the provisions of this agreement shall be effective against any party unless that party shall have consented thereto in writing.

Partnership Agreement P.3

In witness whereof, Partner One and Partner Two have caused this partnership agreement to be duly executed the day and year set out above.

Partner Signature Date

____

Partner Signature Date

____

Witness Date

____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-21

Partnership Agreement P.3

In witness whereof, Partner One and Partner Two have caused this partnership agreement to be duly executed the day and year set out above.

Partner Signature Date

Partner Signature Date

Witness Date

Tab 4

Joint Venture Agreement P.1

This Agreement is executed by and between the undersigned for the undersigned for the purpose of forming a joint venture. This Agreement is made this _____ day of _____, 20___, among __________________.

The Joint Venturers have agreed to make contributions to a common fund for the purpose of acquiring and holding __________________ , called the business interest.

The business interest will be held through a nominee so as to avoid the necessity of numerous separate agreements, to maintain the legal title to the business interest in a simple and practicable form and to facilitate the collection and distribution of the profits accruing under the business interest. ____________ has agreed to act as nominee of the Joint Venturers with the understanding that he/she is also acquiring a participating interest in this joint venture on his/her own account.

Now, therefore, in consideration of the mutual covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

The purpose of this joint venture is to acquire and hold the business interest in common and to provide the finances required for its acquisition. To the extent set forth in this Agreement, each of the Joint Venturers shall own an undivided fractional part in the business. ____________ shall be appointed as agent for the Joint Venturers. Agent shall hold each of the undivided fractional parts in the business interest for the benefit of and as agent for the respective Joint Venturers.

Agent acknowledges that he/she has received from each of the Joint Venturers, for the purpose of this joint venture, the sum set forth after the name of each Joint Venturer:

Name	Contribution

Tab 4-22 RESOURCE GUIDE sample business forms & agreements

Joint Venture Agreement P.1

This Agreement is executed by and between the undersigned for the undersigned for the purpose of forming a joint venture. This Agreement is made this _____ day of _____, 20___, among __________________.

The Joint Venturers have agreed to make contributions to a common fund for the purpose of acquiring and holding __________________ , called the business interest.

The business interest will be held through a nominee so as to avoid the necessity of numerous separate agreements, to maintain the legal title to the business interest in a simple and practicable form and to facilitate the collection and distribution of the profits accruing under the business interest. ____________ has agreed to act as nominee of the Joint Venturers with the understanding that he/she is also acquiring a participating interest in this joint venture on his/her own account.

Now, therefore, in consideration of the mutual covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

The purpose of this joint venture is to acquire and hold the business interest in common and to provide the finances required for its acquisition. To the extent set forth in this Agreement, each of the Joint Venturers shall own an undivided fractional part in the business. ____________ shall be appointed as agent for the Joint Venturers. Agent shall hold each of the undivided fractional parts in the business interest for the benefit of and as agent for the respective Joint Venturers.

Agent acknowledges that he/she has received from each of the Joint Venturers, for the purpose of this joint venture, the sum set forth after the name of each Joint Venturer:

Name Contribution

Joint Venture Agreement P.2

Agent is authorized to acquire and hold the business interest in his/her own name but on behalf of the Joint Venturers, and to pay $ _______ for it as follows: __________ _________________. Agent is authorized to execute and deliver a note which shall bear interest and prepayment privileges and shall be secured by _______________.

Agent shall hold and distribute the business interest and shall receive the net profits as they accrue for the term of this Agreement or so long as the Joint Venturers are the owners in common of the business interest, for the benefit of the Joint Venturers in the proportion of their contribution above.

All losses and disbursements incurred by the Agent in acquiring, holding and protecting the business interest and the net profits shall, during the period of the venture, be paid by the Joint Venturers in the ratio of their contribution, upon the demand of the Agent.

Agent shall be liable only for his/her own willful misfeasance and bad faith and no one not a party to this Agreement shall have any rights whatsoever under this Agreement against the Agent for any action taken or not taken by him/her.

This Agreement shall terminate and the obligations of the Agent shall be deemed completed on the happening of either of the following events:

a. The receipt and distribution by the Agent of the final net profits accruing under the business interest.

b. Termination by mutual assent of all Joint Venturers.

Signature Date

____

Signature Date

____

Signature Date

____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-23

Joint Venture Agreement P.2

Agent is authorized to acquire and hold the business interest in his/her own name but on behalf of the Joint Venturers, and to pay $ _______ for it as follows: __________ _________________. Agent is authorized to execute and deliver a note which shall bear interest and prepayment privileges and shall be secured by _______________.

Agent shall hold and distribute the business interest and shall receive the net profits as they accrue for the term of this Agreement or so long as the Joint Venturers are the owners in common of the business interest, for the benefit of the Joint Venturers in the proportion of their contribution above.

All losses and disbursements incurred by the Agent in acquiring, holding and protecting the business interest and the net profits shall, during the period of the venture, be paid by the Joint Venturers in the ratio of their contribution, upon the demand of the Agent.

Agent shall be liable only for his/her own willful misfeasance and bad faith and no one not a party to this Agreement shall have any rights whatsoever under this Agreement against the Agent for any action taken or not taken by him/her.

This Agreement shall terminate and the obligations of the Agent shall be deemed completed on the happening of either of the following events:

a. The receipt and distribution by the Agent of the final net profits accruing under the business interest.

b. Termination by mutual assent of all Joint Venturers.

Signature Date

____

Signature Date

____

Signature Date

____

Tab 4

Ratification of Organization Meeting

We, the undersigned stockholders, having read the minutes of the organization meeting of __________________ Corporation held on _______, 20___, do hereby ratify, approve and confirm the actions taken and business transacted at said meeting as reported in the minutes of the meeting.

Stockholder Signature Date

____

Stockholder Signature Date

____

Stockholder Signature Date

____

Notice of Annual Meeting

Notice is hereby given that the annual meeting of _____________________ Corporation will be held on _______, 20___, at ______ AM/PM, at the Corporation office located at _________________________________. The purpose of the meeting will be the transaction of any and all business that may legally come before said meeting.

Secretary Date

____

Tab 4-24 RESOURCE GUIDE sample business forms & agreements

Ratification of Organization Meeting

We, the undersigned stockholders, having read the minutes of the organization meeting of __________________ Corporation held on _______, 20___, do hereby ratify, approve and confirm the actions taken and business transacted at said meeting as reported in the minutes of the meeting.

Stockholder Signature Date

Stockholder Signature Date

Stockholder Signature Date

Notice of Annual Meeting

Notice is hereby given that the annual meeting of _____________________ Corporation will be held on _______, 20___, at ______ AM/PM, at the Corporation office located at _________________________________. The purpose of the meeting will be the transaction of any and all business that may legally come before said meeting.

Secretary Date

Notice of Meeting of Directors

We, the undersigned, being all the members of the Board of Directors of __________________ Corporation, hereby give notice that a duly constituted meeting of the Board of Directors was held on _______, 20___, at _______ AM/PM, at the offices of the Corporation located at __________________. Any and all business which legally came before said meeting was transacted.

Board Member Date
____

Board Member Date
____

Board Member Date
____

Notice of Special Meeting of Directors

We, the undersigned, being all the members of the Board of Directors of __________________ Corporation, hereby give notice that a special meeting of the Board of Directors was held on _______, 20___, at _______ AM/PM, at the offices of the Corporation located at ________________________ . Any and all business which legally came before said meeting was transacted.

Board Member Date
____

Board Member Date
____

Board Member Date
____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-25

Notice of Meeting of Directors

We, the undersigned, being all the members of the Board of Directors of __________________ Corporation, hereby give notice that a duly constituted meeting of the Board of Directors was held on _______, 20___, at _______ AM/PM, at the offices of the Corporation located at __________________. Any and all business which legally came before said meeting was transacted.

Board Member Date
____

Board Member Date
____

Board Member Date
____

Notice of Special Meeting of Directors

We, the undersigned, being all the members of the Board of Directors of __________________ Corporation, hereby give notice that a special meeting of the Board of Directors was held on _______, 20___, at _______ AM/PM, at the offices of the Corporation located at ________________________ . Any and all business which legally came before said meeting was transacted.

Board Member Date
____

Board Member Date
____

Board Member Date
____

Tab 4

Notice of Special Meeting of Shareholders

We, the undersigned, being all of the shareholders of ________________ Corporation, hereby give notice that a special meeting of the shareholders was held on _______, 20___, at _______ AM/PM, at the offices of the Corporation, located at ________________________. Any and all business which legally came before said meeting was transacted.

Shareholder Signature Date

____

Shareholder Signature Date

____

Shareholder Signature Date

____

Minutes of Meeting of Directors

A duly constituted meeting of the Board of Directors of_______________________ Corporation was held at _______ AM/PM, on _______, 20___, at _______________ _______________ [address]. Directors present were: _________________________ _______________. Those absent were:_____________________________.

On a motion duly made and seconded, it was voted to:
1.
2.
3.

There being no further business to come before the meeting at this time, it was voted to adjourn.

Secretary Date

____

Chairperson Date

____

Tab 4-26 RESOURCE GUIDE sample business forms & agreements

Notice of Special Meeting of Shareholders

We, the undersigned, being all of the shareholders of ________________ Corporation, hereby give notice that a special meeting of the shareholders was held on _______, 20___, at _______ AM/PM, at the offices of the Corporation, located at ________________________. Any and all business which legally came before said meeting was transacted.

Shareholder Signature Date

Shareholder Signature Date

Shareholder Signature Date

Minutes of Meeting of Directors

A duly constituted meeting of the Board of Directors of_______________________ Corporation was held at _______ AM/PM, on _______, 20___, at _______________ _______________ [address]. Directors present were: _________________________ _______________. Those absent were:_____________________________.

On a motion duly made and seconded, it was voted to:
1.
2.
3.

There being no further business to come before the meeting at this time, it was voted to adjourn.

Secretary Date

Chairperson Date

Minutes of Special Meeting

A duly constituted special meeting of the Board of Directors of__________________ Corporation was held at _______ AM/PM, on _______, 20___, at ________________ __________________ [address].

On a motion duly made and seconded, it was voted to:
1.
2.
3.

There being no further business to come before the meeting at this time, it was voted to adjourn.

Secretary Date

____

Chairperson Date

____

Certificate of Corporate Vote

This is to certify that at a duly constituted regular [or special] meeting of the Board of Directors of __________________ Corporation held at _______ AM/PM, on _______, 20___, at __________________ [address], with _______ [number] Directors present and voting, it was voted to:
1.
2.
3.

I certify that this is a true copy.

Secretary Date

____

Chairperson Date

____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-27

Minutes of Special Meeting

A duly constituted special meeting of the Board of Directors of__________________ Corporation was held at _______ AM/PM, on _______, 20___, at ________________ __________________ [address].

On a motion duly made and seconded, it was voted to:
1.
2.
3.

There being no further business to come before the meeting at this time, it was voted to adjourn.

Secretary Date

____

Chairperson Date

____

Certificate of Corporate Vote

This is to certify that at a duly constituted regular [or special] meeting of the Board of Directors of __________________ Corporation held at _______ AM/PM, on _______, 20___, at __________________ [address], with _______ [number] Directors present and voting, it was voted to:
1.
2.
3.

I certify that this is a true copy.

Secretary Date

____

Chairperson Date

____

Tab 4

Certificate of Corporate Resolution

I, ___________________, Clerk or Secretary of ___________________ [corporation] do hereby certify that at a duly constituted meeting of the Directors and/or Stockholders of the Corporation held at the office of the Corporation on _______, 20 ___, the following actions were taken upon motions duly made and seconded:

Upon duly made motion and second, _____________________ [individual], in his/her role as _________________ [corporate office] was empowered and directed to execute, deliver and accept any and all documents reasonably required to accomplish this vote on such terms and conditions as he/she in his/her discretion deems to be in the best interests of the Corporation.

I hereby certify that the foregoing votes are in full force without rescission, modification, or amendment.

[Clerk or Secretary] Date

Signature of Notary State Date

Notary Seal:

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Certificate of Corporate Resolution

I, ___________________, Clerk or Secretary of ___________________ [corporation] do hereby certify that at a duly constituted meeting of the Directors and/or Stockholders of the Corporation held at the office of the Corporation on _______, 20 ___, the following actions were taken upon motions duly made and seconded:

Upon duly made motion and second, _____________________ [individual], in his/her role as _________________ [corporate office] was empowered and directed to execute, deliver and accept any and all documents reasonably required to accomplish this vote on such terms and conditions as he/she in his/her discretion deems to be in the best interests of the Corporation.

I hereby certify that the foregoing votes are in full force without rescission, modification, or amendment.

[Clerk or Secretary] Date

Signature of Notary State Date

Notary Seal:

Record of Vote Establishing Salary

At a duly constituted meeting of the Board of Directors of __________________ Corporation on _______, 20___, the salary of __________________ [name] as President of the Corporation was set at $____________, per ________ [month, year] beginning on _______, 20___, and continuing until further action by this Board.

Secretary Date

Chairperson Date

Record of Vote for Execution of Property Lease

At a duly constituted meeting of the Board of Directors of __________________ Corporation on _______, 20___, a proposed lease from _____________, as Lessor, to this Corporation as Lessee was presented for the premises known as___________________ [address]. The terms of the lease are:

Lease will extend for _______ [years], commencing on _______, 20___, at the annual rental of $_______.

By duly made motion and second, the terms of the lease were approved as presented and the President and Secretary were authorized to execute said lease in the name of and on behalf of this corporation and in substantially the form approved at this meeting.

Secretary Date

Chairperson Date

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-29

Record of Vote Establishing Salary

At a duly constituted meeting of the Board of Directors of __________________ Corporation on _______, 20___, the salary of __________________ [name] as President of the Corporation was set at $____________, per ________ [month, year] beginning on _______, 20___, and continuing until further action by this Board.

Secretary Date

Chairperson Date

Record of Vote for Execution of Property Lease

At a duly constituted meeting of the Board of Directors of __________________ Corporation on _______, 20___, a proposed lease from _____________, as Lessor, to this Corporation as Lessee was presented for the premises known as___________________ [address]. The terms of the lease are:

Lease will extend for _______ [years], commencing on _______, 20___, at the annual rental of $_______.

By duly made motion and second, the terms of the lease were approved as presented and the President and Secretary were authorized to execute said lease in the name of and on behalf of this corporation and in substantially the form approved at this meeting.

Secretary Date

Chairperson Date

Tab 4

Leasing

Leasing is a common business occurrence, and this group of forms and agreements provides you usable, practical samples of leasing documents. While these are basic forms, you are reminded that they can be customized to meet your needs. A common myth in the business world is that there is a "*standard lease agreement*." In reality, no lease is "*standard*," meaning that everything is negotiable. Keep this in mind, whether you are the lessor or the lessee.

The **Lease Agreement** form will provide you with the basic language and points that should be covered in a leasing arrangement. The **Lease Amendment** form can be used to modify the original lease agreement, the **Lease Extension** form to extend the lease with or without additional provisions, and the **Agreed Lease Termination** form to amiably terminate a leasing arrangement. You may allow sub-leasing to occur by using the **Assignment of Lease** form. You may be required to give formal notice to a tenant to vacate your premises, in which case you are prepared with the **Notice to Vacate for Cause** form. Should you choose to lease equipment, refer to the **Lease of Personal Property** form for items that should be covered in that agreement.

In the use of all forms and agreements, you are again encouraged to use your legal advisor to review any documents you prepare for compliance and for legality issues relating to your specific situation. You will save time and money by using these examples to prepare for the visit with the attorney—but you are not encouraged to be your own lawyer.

Farm Leases are specifically designed for the various terms and issues related to renting farm land, equipment, and livestock. A written land lease should contain at the minimum a few basic components: Names of parties and description of property, term of the lease, rental rates and arrangements, and signatures. Detailed farm lease agreements are available through the Internet (http://www.extension.iastate.edu/feci/ or in print form at a minimal charge from MidWest Plan Service, 800-562-3618.

Leasing Publications:

- NCF 75 - Fixed and Flexible Cash Rental Arrangements for Your Farm
- NCR 76 - Cash Farm Lease
- NCR 77 - Crop Share or Crop Share-Cash Lease
- NCR 108 - Livestock Share Farm Lease
- NCR 109 - Pasture Lease
- NCR 215 - Farm Machinery, Building or Equipment Lease

Tab 4-30 RESOURCE GUIDE sample business forms & agreements

Leasing

Leasing is a common business occurrence, and this group of forms and agreements provides you usable, practical samples of leasing documents. While these are basic forms, you are reminded that they can be customized to meet your needs. A common myth in the business world is that there is a "*standard lease agreement*." In reality, no lease is "*standard*," meaning that everything is negotiable. Keep this in mind, whether you are the lessor or the lessee.

The **Lease Agreement** form will provide you with the basic language and points that should be covered in a leasing arrangement. The **Lease Amendment** form can be used to modify the original lease agreement, the **Lease Extension** form to extend the lease with or without additional provisions, and the **Agreed Lease Termination** form to amiably terminate a leasing arrangement. You may allow sub-leasing to occur by using the **Assignment of Lease** form. You may be required to give formal notice to a tenant to vacate your premises, in which case you are prepared with the **Notice to Vacate for Cause** form. Should you choose to lease equipment, refer to the **Lease of Personal Property** form for items that should be covered in that agreement.

In the use of all forms and agreements, you are again encouraged to use your legal advisor to review any documents you prepare for compliance and for legality issues relating to your specific situation. You will save time and money by using these examples to prepare for the visit with the attorney—but you are not encouraged to be your own lawyer.

Farm Leases are specifically designed for the various terms and issues related to renting farm land, equipment, and livestock. A written land lease should contain at the minimum a few basic components: Names of parties and description of property, term of the lease, rental rates and arrangements, and signatures. Detailed farm lease agreements are available through the Internet (http://www.extension.iastate.edu/feci/ or in print form at a minimal charge from MidWest Plan Service, 800-562-3618.

Leasing Publications:

- NCF 75 - Fixed and Flexible Cash Rental Arrangements for Your Farm
- NCR 76 - Cash Farm Lease
- NCR 77 - Crop Share or Crop Share-Cash Lease
- NCR 108 - Livestock Share Farm Lease
- NCR 109 - Pasture Lease
- NCR 215 - Farm Machinery, Building or Equipment Lease

Lease Agreement P.1

Lease agreement made this _______ day of _______,20___, between ______________________________________ [name], with an address at ______________________, hereinafter referred to as "Landlord" and ______________________________________ [name], with an address at ___________________________, hereinafter referred to as "Tenant".

For good and valuable consideration it is agreed between the parties as follows:

1. **Premises:** The Landlord shall lease and rent to the Tenant the premises located at: _____________________.
2. **Lease Term:** The term of this lease shall be for a period of ____ years, commencing on _______, 20___, and terminating on _______, 20___. The lease term can be extended only by mutual agreement of the parties hereto.
3. **Rental Amount:** The Tenant shall pay to the Landlord an annual sum of $_______ to lease the property. Rental payments shall be paid in monthly payments, each of which shall be in the amount of $_______, and each of which shall be paid on the _______ day of the month.
4. **Utilities and Services:** Tenant shall at his own expense provide the following utilities and services: [describe]
5. **Option to Renew:** The Tenant shall have an option to renew this lease on the premises for a _______ year period upon the following terms and conditions:

   [describe]

   The Tenant's option to renew must be exercised in writing and be received by the Landlord no less than _____ days before the expiration of this lease or any extensions thereof.

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Lease Agreement P.1

Lease agreement made this _______ day of _______,20___, between ______________________________________ [name], with an address at ______________________, hereinafter referred to as "Landlord" and ______________________________________ [name], with an address at ___________________________, hereinafter referred to as "Tenant".

For good and valuable consideration it is agreed between the parties as follows:

1. **Premises:** The Landlord shall lease and rent to the Tenant the premises located at: _____________________.
2. **Lease Term:** The term of this lease shall be for a period of ____ years, commencing on _______, 20___, and terminating on _______, 20___. The lease term can be extended only by mutual agreement of the parties hereto.
3. **Rental Amount:** The Tenant shall pay to the Landlord an annual sum of $_______ to lease the property. Rental payments shall be paid in monthly payments, each of which shall be in the amount of $_______, and each of which shall be paid on the _______ day of the month.
4. **Utilities and Services:** Tenant shall at his own expense provide the following utilities and services: [describe]
5. **Option to Renew:** The Tenant shall have an option to renew this lease on the premises for a _______ year period upon the following terms and conditions:

   [describe]

   The Tenant's option to renew must be exercised in writing and be received by the Landlord no less than _____ days before the expiration of this lease or any extensions thereof.

Tab 4

Lease Agreement P.2

6. **Tenant further agrees** that:

   a. Upon expiration of the lease it will return possession of the leased premises in its present condition, reasonable wear and tear, and fire casualty excepted. Tenant shall commit no waste to the leased premises.

   b. It shall not assign or sublet or allow any other person to occupy the leased premises without Landlord's prior written consent.

   c. It shall comply with all building, zoning and health codes and other applicable laws for said premises.

   d. It shall not make any material or structural alterations to the leased premises without Landlord's prior written consent.

   e. It shall not conduct a business deemed extra hazardous, a nuisance or requiring an increase in fire insurance premiums. Tenant warrants the leased premises shall be used only for the following type of business:

      [describe]

   f. In the event of any breach of the payment of rent or any other allowed charge, or other breach of this lease, Landlord shall have full rights to terminate this Lease in accordance with state law and re-enter and claim possession of the leased premises, in addition to such other remedies available to Landlord arising from said breach.

7. **Arbitration:** Any controversy or claim arising out of or relating to this lease agreement of the breach thereof shall be settled by arbitration in accordance with the rules of the American Arbitration Association, and judgment upon the award rendered may be entered and enforced in any court having jurisdiction thereof.

8. **Benefit:** This agreement shall be binding upon and inure to the benefit of the parties hereto and their legal representatives, successors and assigns.

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Lease Agreement P.2

6. Tenant further agrees that:

a. Upon expiration of the lease it will return possession of the leased premises in its present condition, reasonable wear and tear, and fire casualty excepted. Tenant shall commit no waste to the leased premises.

b. It shall not assign or sublet or allow any other person to occupy the leased premises without Landlord's prior written consent.

c. It shall comply with all building, zoning and health codes and other applicable laws for said premises.

d. It shall not make any material or structural alterations to the leased premises without Landlord's prior written consent.

e. It shall not conduct a business deemed extra hazardous, a nuisance or requiring an increase in fire insurance premiums. Tenant warrants the leased premises shall be used only for the following type of business:

[describe]

f. In the event of any breach of the payment of rent or any other allowed charge, or other breach of this lease, Landlord shall have full rights to terminate this Lease in accordance with state law and re-enter and claim possession of the leased premises, in addition to such other remedies available to Landlord arising from said breach.

7. Arbitration: Any controversy or claim arising out of or relating to this lease agreement of the breach thereof shall be settled by arbitration in accordance with the rules of the American Arbitration Association, and judgment upon the award rendered may be entered and enforced in any court having jurisdiction thereof.

8. Benefit: This agreement shall be binding upon and inure to the benefit of the parties hereto and their legal representatives, successors and assigns.

Lease Agreement P.3

9. **Notices:** Any notice required or desired to be given under this agreement shall be deemed given if in writing sent by certified mail to the addresses of the parties to this lease agreement as listed above.

10. **Invalid Provisions:** In the event any provision of this Agreement is held to be void, invalid or unenforceable in any respect, then the same shall not affect the remaining provisions hereof, which shall continue in full force and effect.

11. **Entire Agreement:** This Agreement contains the entire understanding of the parties. It may not be changed orally. This Agreement may be amended or modified only in writing that has been executed by both parties hereto.

12. **Interpretation:** This lease Agreement shall be interpreted under the laws of the state of ____________.

Landlord Signature Date

____

Tenant Signature Date

____

Signature of Notary State Date

____

Notary Seal:

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-33

Lease Agreement P.3

9. Notices: Any notice required or desired to be given under this agreement shall be deemed given if in writing sent by certified mail to the addresses of the parties to this lease agreement as listed above.

10. Invalid Provisions: In the event any provision of this Agreement is held to be void, invalid or unenforceable in any respect, then the same shall not affect the remaining provisions hereof, which shall continue in full force and effect.

11. Entire Agreement: This Agreement contains the entire understanding of the parties. It may not be changed orally. This Agreement may be amended or modified only in writing that has been executed by both parties hereto.

12. Interpretation: This lease Agreement shall be interpreted under the laws of the state of ____________.

Landlord Signature Date

Tenant Signature Date

Signature of Notary State Date

Notary Seal:

Tab 4

Lease Amendment

For good consideration it is agreed between
_______________________ [name], hereinafter "Landlord" and
_______________________ [name], hereinafter "Tenant" to amend
this lease on _______, 20___.

Whereas, the Landlord and the Tenant have previously entered into a lease agreement dated _______,20___, and

Whereas, both parties desire to amend the lease;

Now, therefore, intending to be legally bound, both parties agree as follows:
[describe]

In all other respects the lease shall continue in full force and effect without changes.

In witness whereof, the parties have executed this lease amendment the day and year noted above.

Landlord Signature Date

____

Tenant Signature Date

____

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Lease Amendment

For good consideration it is agreed between
_______________________ [name], hereinafter "Landlord" and
_______________________ [name], hereinafter "Tenant" to amend
this lease on _______, 20___.

Whereas, the Landlord and the Tenant have previously entered into a lease agreement dated _______,20___, and

Whereas, both parties desire to amend the lease;

Now, therefore, intending to be legally bound, both parties agree as follows:
[describe]

In all other respects the lease shall continue in full force and effect without changes.

In witness whereof, the parties have executed this lease amendment the day and year noted above.

Landlord Signature Date

____

Tenant Signature Date

____

Lease Extension

For good and valuable consideration, __________________ [name], hereinafter called "Landlord" and __________________ [name], hereinafter called "Tenant" have agreed to this lease extension on this _______ day of _______, 20___.

Whereas, the Landlord and the Tenant previously entered into a lease dated _______, 20___; and

Whereas, said lease will expire on _______, 20___; and

Whereas, both parties desire to extend the lease;

Now, therefore, intending to be legally bound, both parties agree as follows:

1. The Agreement shall be lengthened for an additional term of ___________.
2. For the duration of this extension, the monthly rent shall be $ _______.
3. In all other respects said lease shall continue in full force and effect.

In witness whereof, the parties have executed this Agreement the day and year noted above.

Landlord Signature Date

____

Tenant Signature Date

____

sample business forms & agreements RESOURCE GUIDE Tab 4-35

Lease Extension

For good and valuable consideration, __________________ [name], hereinafter called "Landlord" and __________________ [name], hereinafter called "Tenant" have agreed to this lease extension on this _______ day of _______, 20___.

Whereas, the Landlord and the Tenant previously entered into a lease dated _______, 20___; and

Whereas, said lease will expire on _______, 20___; and

Whereas, both parties desire to extend the lease;

Now, therefore, intending to be legally bound, both parties agree as follows:

1. The Agreement shall be lengthened for an additional term of ___________.
2. For the duration of this extension, the monthly rent shall be $ _______.
3. In all other respects said lease shall continue in full force and effect.

In witness whereof, the parties have executed this Agreement the day and year noted above.

Landlord Signature Date

____

Tenant Signature Date

____

Tab 4

Agreed Lease Termination

For good and valuable mutual consideration, ____________________ [name], hereinafter called "Landlord" , and ____________________ [name], hereinafter called "Tenant", have mutually agreed to terminate the prior lease agreement into which the parties had entered dated _______, 20___.

Intending to be legally bound, the parties agree as follows:

1. Said lease shall cease as of _______, 20___.
2. Both parties agree to release each other from all liability under the lease, except for such obligations that arose prior to the cancellation date set out in Item 1 above.
3. In all other respects, said agreement shall continue in full force and effect.

In witness whereof, the parties have executed this agreement the day and year first noted above.

Landlord Signature Date

____

Tenant Signature Date

____

Tab 4-36 RESOURCE GUIDE sample business forms & agreements

Agreed Lease Termination

For good and valuable mutual consideration, ____________________ [name], hereinafter called "Landlord" , and ____________________ [name], hereinafter called "Tenant", have mutually agreed to terminate the prior lease agreement into which the parties had entered dated _______, 20___.

Intending to be legally bound, the parties agree as follows:

1. Said lease shall cease as of _______, 20___.
2. Both parties agree to release each other from all liability under the lease, except for such obligations that arose prior to the cancellation date set out in Item 1 above.
3. In all other respects, said agreement shall continue in full force and effect.

In witness whereof, the parties have executed this agreement the day and year first noted above.

Landlord Signature Date

____

Tenant Signature Date

____

Assignment of Lease P.1

Assignment of lease by and between
________________________ [Tenant], and ___________________
[Sub-Tenant], and __________________ [Landlord].

For good and valuable consideration it is agreed by and between the parties that:

1. Tenant hereby assigns, transfers, and delivers to Sub-Tenant all of Tenant's rights in and to a certain lease between Tenant and Landlord for certain premises known as: __________________ [address] under a lease dated _______, 20___.

2. Sub-Tenant agrees to accept said Lease, pay all rents and punctually perform all of Tenant's obligations under said Lease accruing on and after the date of delivery of possession to the Sub-Tenant as contained herein. Sub-Tenant further agrees to indemnify and save harmless the Tenant from any breach of Sub-Tenant's obligations hereunder.

3. The parties acknowledge that Tenant shall deliver possession of the leased premises to Sub-Tenant on _______, 20____.

4. Landlord hereby assents to the Lease assignment provided that:

   a. Assent to the assignment shall not discharge Tenant of its obligations under the Lease in the event of breach by Sub-Tenant.

   b. In the event of breach by Sub-Tenant, Landlord shall provide Tenant with written notice of same and Tenant shall have full rights to commence all actions to takeover possession of the leased premises [in the name of the Landlord, if necessary] and retain all rights for the duration of said Lease provided it shall pay all accrued rents and cure any other default.

   c. There shall be no further assignment of lease without prior written consent of Landlord.

5. This agreement shall be interpreted in accordance with the laws of the state of ____________.

Tab 4

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Assignment of Lease P.1

Assignment of lease by and between
________________________ [Tenant], and ___________________
[Sub-Tenant], and __________________ [Landlord].

For good and valuable consideration it is agreed by and between the parties that:

1. Tenant hereby assigns, transfers, and delivers to Sub-Tenant all of Tenant's rights in and to a certain lease between Tenant and Landlord for certain premises known as: __________________ [address] under a lease dated _______, 20___.

2. Sub-Tenant agrees to accept said Lease, pay all rents and punctually perform all of Tenant's obligations under said Lease accruing on and after the date of delivery of possession to the Sub-Tenant as contained herein. Sub-Tenant further agrees to indemnify and save harmless the Tenant from any breach of Sub-Tenant's obligations hereunder.

3. The parties acknowledge that Tenant shall deliver possession of the leased premises to Sub-Tenant on _______, 20____.

4. Landlord hereby assents to the Lease assignment provided that:

   a. Assent to the assignment shall not discharge Tenant of its obligations under the Lease in the event of breach by Sub-Tenant.

   b. In the event of breach by Sub-Tenant, Landlord shall provide Tenant with written notice of same and Tenant shall have full rights to commence all actions to takeover possession of the leased premises [in the name of the Landlord, if necessary] and retain all rights for the duration of said Lease provided it shall pay all accrued rents and cure any other default.

   c. There shall be no further assignment of lease without prior written consent of Landlord.

5. This agreement shall be interpreted in accordance with the laws of the state of ____________.

Tab 4

Assignment of Lease P.2

6. In the event that any provision of this agreement is held to be void, invalid or unenforceable in any respect, then the same shall not affect the remaining provisions or sub-provisions hereof, which shall continue in full force and effect.
7. This agreement shall bind the parties hereto, their legal representatives, successors, and assigns. The Sub-Tenant assumes and undertakes all of the terms and conditions of the Lease as its own obligations.
8. This agreement contains the entire understanding of the parties. It may not be changed orally. This agreement may be amended or modified only with such writing being executed by the parties hereto.

In witness whereof, the parties have caused this agreement to be executed on the date first noted above.

Landlord Signature Date

____

Tenant Signature Date

____

Sub-Tenant Signature Date

____

Tab 4-38 RESOURCE GUIDE sample business forms & agreements

Assignment of Lease P.2

6. In the event that any provision of this agreement is held to be void, invalid or unenforceable in any respect, then the same shall not affect the remaining provisions or sub-provisions hereof, which shall continue in full force and effect.
7. This agreement shall bind the parties hereto, their legal representatives, successors, and assigns. The Sub-Tenant assumes and undertakes all of the terms and conditions of the Lease as its own obligations.
8. This agreement contains the entire understanding of the parties. It may not be changed orally. This agreement may be amended or modified only with such writing being executed by the parties hereto.

In witness whereof, the parties have caused this agreement to be executed on the date first noted above.

Landlord Signature Date

Tenant Signature Date

Sub-Tenant Signature Date

Notice to Vacate for Cause

To: [Tenant]
From: [Landlord]
Date: [Today's Date]
Subject: **Notice to Vacate**

You are the Tenant of premises located at _____________[address], and occupy said premises under a lease dated _______, 20___. The above mentioned lease requires you to: [Describe the violation of the lease, i.e., pay rent in the amount of $_______, not conduct unlawful activities, not allow the premises to become a nuisance, etc.]

Accordingly, you are hereby required to: [Describe action which must be taken and a date for performance, i.e., pay the rent within three (3) days or vacate the premises and turn them over in clean condition.]

Your failure to comply will result in the Landlord commencing eviction proceedings under the statute to recover possession of the premises

Landlord Signature Date

____

Tab 4

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Notice to Vacate for Cause

To: [Tenant]
From: [Landlord]
Date: [Today's Date]
Subject: Notice to Vacate

You are the Tenant of premises located at _____________[address], and occupy said premises under a lease dated _______, 20___. The above mentioned lease requires you to: [Describe the violation of the lease, i.e., pay rent in the amount of $_______, not conduct unlawful activities, not allow the premises to become a nuisance, etc.]

Accordingly, you are hereby required to: [Describe action which must be taken and a date for performance, i.e., pay the rent within three (3) days or vacate the premises and turn them over in clean condition.]

Your failure to comply will result in the Landlord commencing eviction proceedings under the statute to recover possession of the premises

Landlord Signature Date

____

Tab 4

Lease of Personal Property P.1

This agreement dated _______, 20___, between ______________[name] of _____________________________ [company], hereinafter called "Lessor", and __________________ [name], of _______________________ [company], hereinafter called "Lessee", is for the purpose of leasing personal property known and described hereafter as equipment, to have and to hold the same unto Lessee for the period of _______ months commencing on _______, 20___.

Lessor shall deliver said equipment to _________________ [location], freight prepaid. At the end of the lease term, Lessee shall return said equipment freight prepaid to Lessee to the place from which it was originally shipped and in as good condition as existed at the commencement of the lease term, reasonable wear and tear excepted.

Lessee shall pay as rent for the lease the sum of $_______ at the office of Lessor at __________________ [location] in _______ monthly installments of $_______ each, payable in advance on the first day of the month beginning with _______ [month], plus $_______ to be paid as the last payment.

Said equipment and all its constituent parts shall retain its character as personal property with the title vested with Lessor unless a purchase of said equipment is made and until full payment and all interest which may be due thereon is made in cash to the Lessor.

If Lessee shall sell, assign or attempt to sell or assign, equipment or any interest therein, or if Lessee defaults in any of the covenants, conditions or provisions of this Lease, it is agreed that Lessor may immediately and without notice take possession of equipment wheresoever found and remove and keep or dispose of the same and any unpaid rentals shall at once become due and payable.

Lessee shall use equipment only in ______________ [city, state] and shall not at any time remove said equipment except to return it to Lessor or with Lessor's prior written approval.

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Lease of Personal Property P.1

This agreement dated _______, 20___, between ______________[name] of _____________________________ [company], hereinafter called "Lessor", and __________________ [name], of _______________________ [company], hereinafter called "Lessee", is for the purpose of leasing personal property known and described hereafter as equipment, to have and to hold the same unto Lessee for the period of _______ months commencing on _______, 20___.

Lessor shall deliver said equipment to _________________ [location], freight prepaid. At the end of the lease term, Lessee shall return said equipment freight prepaid to Lessee to the place from which it was originally shipped and in as good condition as existed at the commencement of the lease term, reasonable wear and tear excepted.

Lessee shall pay as rent for the lease the sum of $_______ at the office of Lessor at __________________ [location] in _______ monthly installments of $_______ each, payable in advance on the first day of the month beginning with _______ [month], plus $_______ to be paid as the last payment.

Said equipment and all its constituent parts shall retain its character as personal property with the title vested with Lessor unless a purchase of said equipment is made and until full payment and all interest which may be due thereon is made in cash to the Lessor.

If Lessee shall sell, assign or attempt to sell or assign, equipment or any interest therein, or if Lessee defaults in any of the covenants, conditions or provisions of this Lease, it is agreed that Lessor may immediately and without notice take possession of equipment wheresoever found and remove and keep or dispose of the same and any unpaid rentals shall at once become due and payable.

Lessee shall use equipment only in ______________ [city, state] and shall not at any time remove said equipment except to return it to Lessor or with Lessor's prior written approval.

Lease of Personal Property P.2

Lessee shall and does hereby agree to protect and save Lessor harm against any and all losses or damage to equipment by fire, flood, explosion, tornado or theft and Lessee shall and does hereby assume all liability to any person whomsoever arising from the location, condition or use of equipment, and shall indemnify Lessor of and from all liability, claim and demand in operation or not, and growing out of any cause, and from every other liability, claim and demand whatsoever during the term of this Lease or arising while equipment is in the possession of Lessee. Lessee also agrees to promptly reimburse Lessor, in cash, for any and all personal property taxes levied against equipment and paid by Lessor.

Neither this Lease and agreement nor any right or interest thereunder shall be assigned by Lessee in any respect whatsoever.

This Lease and agreement shall be deemed to have been executed and entered into in the State of ____________ and shall be construed, enforced and performed in accordance with the laws thereof.

This Lease contains all of the agreements of the parties. No oral or other statements shall be binding on either of the parties hereto.

All parts of this equipment are guaranteed against defective parts of workmanship for a period of ninety (90) days from date of delivery and any parts returned to factory freight prepaid will be replaced free of charge if found defective.

Signature of Lessor Date

____

Signature of Lessee Date

____

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Lease of Personal Property P.2

Lessee shall and does hereby agree to protect and save Lessor harm against any and all losses or damage to equipment by fire, flood, explosion, tornado or theft and Lessee shall and does hereby assume all liability to any person whomsoever arising from the location, condition or use of equipment, and shall indemnify Lessor of and from all liability, claim and demand in operation or not, and growing out of any cause, and from every other liability, claim and demand whatsoever during the term of this Lease or arising while equipment is in the possession of Lessee. Lessee also agrees to promptly reimburse Lessor, in cash, for any and all personal property taxes levied against equipment and paid by Lessor.

Neither this Lease and agreement nor any right or interest thereunder shall be assigned by Lessee in any respect whatsoever.

This Lease and agreement shall be deemed to have been executed and entered into in the State of ____________ and shall be construed, enforced and performed in accordance with the laws thereof.

This Lease contains all of the agreements of the parties. No oral or other statements shall be binding on either of the parties hereto.

All parts of this equipment are guaranteed against defective parts of workmanship for a period of ninety (90) days from date of delivery and any parts returned to factory freight prepaid will be replaced free of charge if found defective.

Signature of Lessor Date

____

Signature of Lessee Date

____

Tab 4

General Forms and Agreements

This last section of forms and agreements provides you with a variety of samples of documents used in the small business environment. The **Bill of Sale** gives you an example of a general sales agreement that can be modified to fit your needs depending on the nature of the item(s) being sold.

The next group is designed to help you protect yourself when entering into loan arrangements. As a lender or a borrower, you need to be familiar with the basic documents requiring payment in different forms. The **Promissory Note** is an example of a short form providing for installment payments. The **Single Installment Note** is also a promissory note, but can be used when the entire loan will be repaid in one payment that is scheduled to be made on a specified date; it also shows you how to include a provision for guaranteeing payment in the **Guaranty** paragraph. The **Demand Note** is open ended, providing for payment on demand. This is generally a more risky note for the borrower, since the lender can call the note at any time. The **Payment in Full** form shows how to simply document the paying-off of a loan agreement by referring to the amount being paid and the original note being paid off. Finally, in the unfortunate case of the borrower not paying on time, use the **Notice of Default on Promissory Note** to notify the borrower that they are in default. This document also serves as a "demand note," and notifies the borrower that legal action will be the next recourse if payment is not made.

The rest of the documents were chosen for inclusion in this section because they are often needed by the entrepreneur, and often forgotten as part of the standard repertoire of forms available. The **Consignment Agreement** should be used for consignment sales and sets out the basic terms of the transaction. The **Sales Agency Agreement** is a good example of the kind of formalized agreement that should be developed when using outside selling groups, rather than allowing a loose verbal agreement to exist, as so often happens. The next two forms remind the entrepreneur that contracts *can* be modified and even terminated, as long as the proper negotiation takes place beforehand and parties can come to agreement. Use the **Contract Modification** form to clarify the agreement reached regarding an existing contract, and require a signed return copy as indicated from the other party. Use the **Contract Termination** form to document the agreed upon desire of the parties involved to terminate an existing contract or agreement.

Some of these forms must be recorded in your local filing office to be effective. Watch for this notation on the bottom of form samples, and check with your local resources for other local filing requirements.

Tab 4-42 RESOURCE GUIDE sample business forms & agreements

General Forms and Agreements

This last section of forms and agreements provides you with a variety of samples of documents used in the small business environment. The **Bill of Sale** gives you an example of a general sales agreement that can be modified to fit your needs depending on the nature of the item(s) being sold.

The next group is designed to help you protect yourself when entering into loan arrangements. As a lender or a borrower, you need to be familiar with the basic documents requiring payment in different forms. The **Promissory Note** is an example of a short form providing for installment payments. The **Single Installment Note** is also a promissory note, but can be used when the entire loan will be repaid in one payment that is scheduled to be made on a specified date; it also shows you how to include a provision for guaranteeing payment in the **Guaranty** paragraph. The **Demand Note** is open ended, providing for payment on demand. This is generally a more risky note for the borrower, since the lender can call the note at any time. The **Payment in Full** form shows how to simply document the paying-off of a loan agreement by referring to the amount being paid and the original note being paid off. Finally, in the unfortunate case of the borrower not paying on time, use the **Notice of Default on Promissory Note** to notify the borrower that they are in default. This document also serves as a "demand note," and notifies the borrower that legal action will be the next recourse if payment is not made.

The rest of the documents were chosen for inclusion in this section because they are often needed by the entrepreneur, and often forgotten as part of the standard repertoire of forms available. The **Consignment Agreement** should be used for consignment sales and sets out the basic terms of the transaction. The **Sales Agency Agreement** is a good example of the kind of formalized agreement that should be developed when using outside selling groups, rather than allowing a loose verbal agreement to exist, as so often happens. The next two forms remind the entrepreneur that contracts *can* be modified and even terminated, as long as the proper negotiation takes place beforehand and parties can come to agreement. Use the **Contract Modification** form to clarify the agreement reached regarding an existing contract, and require a signed return copy as indicated from the other party. Use the **Contract Termination** form to document the agreed upon desire of the parties involved to terminate an existing contract or agreement.

Some of these forms must be recorded in your local filing office to be effective. Watch for this notation on the bottom of form samples, and check with your local resources for other local filing requirements.

Bill of Sale

Agreement made this _______ day of _______, 20___, by and between __________________ [name], hereinafter "Seller" and ____________ [name], hereinafter "Buyer".

Intending to be legally bound, the Buyer and the Seller agree as follows:

1. Seller will sell to the Buyer and the Buyer will purchase the items listed on **Schedule A** (attached). [Attach listing of item(s).]
2. The purchase price shall be:
   Price:
   Sales Tax:
   Finance Charges:
   Shipping Charges:
   Total Price:
3. The purchase price shall be paid with a down payment of $_______ and the remaining amount in equal installments of $ _______, payable on the _____ day of the month.
4. This is a conditional sale agreement; title will not pass to the Buyer until payment in full has been received by the Seller.
5. Seller warrants it has good title to said property, free and clear of all encumbrances, and has full authority to assign and transfer the same, and warrants that it will defend and indemnify the Buyer from any and all claims to said property.
6. Seller [choose one] a.) disclaims any warranty of merchantability of fitness for a particular purpose, said goods being sold in their present condition "as is" and "where is" OR b.) warrants the merchantability of said goods and their fitness for the purpose for which they are intended.
7. Seller retains the right to repossess the items sold, subject to any apportionment for payments received, should the Buyer fail or refuse to make all necessary payments.

Buyer Signature Date

____

Seller Signature Date

____

[This form must be recorded in your local filing office or it will not be effective against subsequent lenders.]

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Bill of Sale

Agreement made this _______ day of _______, 20___, by and between __________________ [name], hereinafter "Seller" and ____________ [name], hereinafter "Buyer".

Intending to be legally bound, the Buyer and the Seller agree as follows:

1. Seller will sell to the Buyer and the Buyer will purchase the items listed on **Schedule A** (attached). [Attach listing of item(s).]
2. The purchase price shall be:
   Price:
   Sales Tax:
   Finance Charges:
   Shipping Charges:
   Total Price:
3. The purchase price shall be paid with a down payment of $_______ and the remaining amount in equal installments of $ _______, payable on the _____ day of the month.
4. This is a conditional sale agreement; title will not pass to the Buyer until payment in full has been received by the Seller.
5. Seller warrants it has good title to said property, free and clear of all encumbrances, and has full authority to assign and transfer the same, and warrants that it will defend and indemnify the Buyer from any and all claims to said property.
6. Seller [choose one] a.) disclaims any warranty of merchantability of fitness for a particular purpose, said goods being sold in their present condition "as is" and "where is" OR b.) warrants the merchantability of said goods and their fitness for the purpose for which they are intended.
7. Seller retains the right to repossess the items sold, subject to any apportionment for payments received, should the Buyer fail or refuse to make all necessary payments.

Buyer Signature Date

____

Seller Signature Date

____

[This form must be recorded in your local filing office or it will not be effective against subsequent lenders.]

Tab 4

Promissory Note

For value received I/We, hereinafter referred to as "Makers", promise to pay to the order of __________________ [name], hereinafter referred to as "Payee", the sum of $ _______, together with the interest thereon at the rate of ___ % per annum on the unpaid balance.

Said principle and interest shall be payable as follows: [describe terms]
Length of note:
Method of figuring interest; i.e., compounded monthly:
Total amount due:
Time of monthly payment:
Place and method of payment (by mail, in person):

The Makers hereby have the right to prepay the principle due on this note at any time without penalty. In the event any payment due hereunder is not paid when due, the entire balance shall be immediately due and payable upon demand of the Payee. Upon default, the Maker shall pay all reasonable attorney fees and costs necessary for the collection of this note. Default shall be defined as the Makers being more than one (1) month in arrears on the payments due under this note.

This note acknowledges that an outstanding account balance exists with the Payee. This note is additional security and not a separate debt.

Maker's Signature Date

____

Maker's Signature Date

____

Witness Date

____

Tab 4-44 RESOURCE GUIDE sample business forms & agreements

Promissory Note

For value received I/We, hereinafter referred to as "Makers", promise to pay to the order of __________________ [name], hereinafter referred to as "Payee", the sum of $ _______, together with the interest thereon at the rate of ___ % per annum on the unpaid balance.

Said principle and interest shall be payable as follows: [describe terms]
Length of note:
Method of figuring interest; i.e., compounded monthly:
Total amount due:
Time of monthly payment:
Place and method of payment (by mail, in person):

The Makers hereby have the right to prepay the principle due on this note at any time without penalty. In the event any payment due hereunder is not paid when due, the entire balance shall be immediately due and payable upon demand of the Payee. Upon default, the Maker shall pay all reasonable attorney fees and costs necessary for the collection of this note. Default shall be defined as the Makers being more than one (1) month in arrears on the payments due under this note.

This note acknowledges that an outstanding account balance exists with the Payee. This note is additional security and not a separate debt.

Maker's Signature Date

____

Maker's Signature Date

____

Witness Date

____

Single Installment Note

For value received, _________________ [name], hereinafter referred to as "Borrower", residing at _____________________ [address], who has executed this note below, shall pay to ________________[name], hereinafter referred to as "Lender", the principal amount of $ _______ plus interest calculated at ___ % per annum on the outstanding balance. The entire amount, principal and interest, shall be due and payable on or before _______, 20___, at ___________________ [address].

Failure to make a payment when due shall constitute a default of the loan. Should a default exist for more than _____ days, the Borrower agrees to pay the Lender reasonable costs of collection including attorney's fees.

Borrower's Signature Date

____

Guaranty

For valuable consideration received, ___________________ [name], hereinafter referred to as "Guarantor", guarantees full payment of the above amount and shall remain liable until the note is fully satisfied and paid in full.

Guarantor's Signature Date

____

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Single Installment Note

For value received, _________________ [name], hereinafter referred to as "Borrower", residing at _____________________ [address], who has executed this note below, shall pay to ________________[name], hereinafter referred to as "Lender", the principal amount of $ _______ plus interest calculated at ___ % per annum on the outstanding balance. The entire amount, principal and interest, shall be due and payable on or before _______, 20___, at ___________________ [address].

Failure to make a payment when due shall constitute a default of the loan. Should a default exist for more than _____ days, the Borrower agrees to pay the Lender reasonable costs of collection including attorney's fees.

Borrower's Signature Date

____

Guaranty

For valuable consideration received, ___________________ [name], hereinafter referred to as "Guarantor", guarantees full payment of the above amount and shall remain liable until the note is fully satisfied and paid in full.

Guarantor's Signature Date

____

Tab 4

Demand Note

For value received, __________________ [name], hereinafter referred to as "Borrower", residing at __________________ [address], who has executed this note below, shall pay to __________________ [name], hereinafter referred to as "Lender" the principal amount of $ _______ plus interest figured at ___ % per annum on the outstanding balance. The entire amount, principal and interest, shall be due and payable ON DEMAND by Lender.

Failure to make a payment when due shall constitute default of the loan. Should a default exist for more than _____ days, Borrower agrees to pay Lender reasonable costs of collection including attorney's fees.

Borrower's Signature Date

____

Payment in Full

This document acknowledges receipt of $ ______ dollars and is accepted as complete payment in fulfillment of the outstanding claim from ___________________ [name], the Debtor, for the following obligation:

[describe]

Creditor's Signature Date

____

Tab 4-46 RESOURCE GUIDE sample business forms & agreements

Demand Note

For value received, __________________ [name], hereinafter referred to as "Borrower", residing at __________________ [address], who has executed this note below, shall pay to __________________ [name], hereinafter referred to as "Lender" the principal amount of $ _______ plus interest figured at ___ % per annum on the outstanding balance. The entire amount, principal and interest, shall be due and payable ON DEMAND by Lender.

Failure to make a payment when due shall constitute default of the loan. Should a default exist for more than _____ days, Borrower agrees to pay Lender reasonable costs of collection including attorney's fees.

Borrower's Signature Date

____

Payment in Full

This document acknowledges receipt of $ ______ dollars and is accepted as complete payment in fulfillment of the outstanding claim from ___________________ [name], the Debtor, for the following obligation:

[describe]

Creditor's Signature Date

____

Notice of Default on Promissory Note

Pursuant to the terms of a certain promissory note dated _______, 20___, you have failed to make the required payment. Failure to pay in accordance with the terms of the note constitutes a default of the note.

Pursuant to the note, the entire amount of $ _______, including interest, is now due and payable. Should you fail to correct the default or pay the entire outstanding balance within _______ days from the date of this Notice, this matter will be forwarded to our attorney for appropriate collection actions.

Lender's Signature Date

____

sample business forms & agreements RESOURCE GUIDE Tab 4-47

Notice of Default on Promissory Note

Pursuant to the terms of a certain promissory note dated _______, 20___, you have failed to make the required payment. Failure to pay in accordance with the terms of the note constitutes a default of the note.

Pursuant to the note, the entire amount of $ _______, including interest, is now due and payable. Should you fail to correct the default or pay the entire outstanding balance within _______ days from the date of this Notice, this matter will be forwarded to our attorney for appropriate collection actions.

Lender's Signature Date

____

Tab 4

Consignment Agreement

This consignment agreement is made this _____ day of _____, 20___, by and between _________________ [name], hereinafter "Consignor", and _______________[name], hereinafter "Consignee".

Intending to be legally bound, the parties agree as follows:

1. The property delivered to the Consignee, as identified in the attached schedule, shall remain the property of the Consignor.
2. The Consignee will display at its business location the items delivered.
3. The Consignee will return on demand any property of the Consignor prior to its sale, and the Consignee promises to return said property in good and marketable condition.
4. The Consignee will use its best business efforts to sell said items on behalf of the Consignor, at a minimum price as established by the Consignor.
5. The Consignee will remit the proceeds of the sale to the Consignor within _______ days of sale, said funds to be segregated from the accounts of the Consignee.
6. The Consignee agrees to accept as full payment a commission of ___ % of the gross sales price exclusive of any sales tax.
7. The Consignee will permit and allow the Consignor to inspect and audit the books and records of the Consignee with respect to the property of the Consignor.
8. The Consignee agrees to permit the Consignor to enter the premises at reasonable times to examine and inspect the articles.
9. The Consignee agrees to issue such financing statements for public filing as may reasonably be required by Consignor.

Consignee's Signature Date

____

Consignor's Signature Date

____

Signature of Notary State Date

____

Notary Seal:

[This form must be recorded with your local filing office or it will not be effective against subsequent lenders.]

Tab 4-48 RESOURCE GUIDE sample business forms & agreements

Consignment Agreement

This consignment agreement is made this _____ day of _____, 20___, by and between _________________ [name], hereinafter "Consignor", and _______________[name], hereinafter "Consignee".

Intending to be legally bound, the parties agree as follows:

1. The property delivered to the Consignee, as identified in the attached schedule, shall remain the property of the Consignor.
2. The Consignee will display at its business location the items delivered.
3. The Consignee will return on demand any property of the Consignor prior to its sale, and the Consignee promises to return said property in good and marketable condition.
4. The Consignee will use its best business efforts to sell said items on behalf of the Consignor, at a minimum price as established by the Consignor.
5. The Consignee will remit the proceeds of the sale to the Consignor within _______ days of sale, said funds to be segregated from the accounts of the Consignee.
6. The Consignee agrees to accept as full payment a commission of ___ % of the gross sales price exclusive of any sales tax.
7. The Consignee will permit and allow the Consignor to inspect and audit the books and records of the Consignee with respect to the property of the Consignor.
8. The Consignee agrees to permit the Consignor to enter the premises at reasonable times to examine and inspect the articles.
9. The Consignee agrees to issue such financing statements for public filing as may reasonably be required by Consignor.

Consignee's Signature Date

Consignor's Signature Date

Signature of Notary State Date

Notary Seal:

[This form must be recorded with your local filing office or it will not be effective against subsequent lenders.]

Sales Agency Agreement

For good and valuable consideration, __________________ [name], hereinafter referred to as "Principal" and __________________ [name], hereinafter referred to as "Agency", agree as follows:

1. Principal is the owner and operator of a business known as ____________[name] which is engaged in the business of__________________.
2. Principal wishes to employ Agent for, and Agent is willing to act for the Principal in selling __________________.
3. Principal shall employ Agent as his/her ______ [choose one: Sole and exclusive, or Non-exclusive] Agent to solicit orders for the sale of __________ [product] at the price(s) and on such other terms and conditions established by Principal in the geographic area of _______________.
4. Agent agrees to accept this appointment and to devote his/her best efforts to solicit orders but shall have no authority, right or power to accept any order, or to assume or create any obligation on behalf of Principal.
5. The Agent shall not engage in the selling of ____________ [product] for any competitor of Principal.
6. Principal shall pay Agent ___ % of the sales price of all sales of _____ [product] by Agent during the term of this Agency. Said commission shall constitute the full compensation of Agent and shall be paid _______ [weekly, monthly].
7. This agency agreement shall begin on _______, 20___, and terminate on _______, 20___, unless earlier terminated by Principal for just cause of by the mutual agreement of Principal and Agent.
8. This agency agreement is personal and Agent shall not sell, assign, convey or otherwise transfer his/her rights hereunder.

Principal's Signature Date

____

Agent's Signature Date

____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-49

Sales Agency Agreement

For good and valuable consideration, __________________ [name], hereinafter referred to as "Principal" and __________________ [name], hereinafter referred to as "Agency", agree as follows:

1. Principal is the owner and operator of a business known as ____________[name] which is engaged in the business of__________________.
2. Principal wishes to employ Agent for, and Agent is willing to act for the Principal in selling __________________.
3. Principal shall employ Agent as his/her ______ [choose one: Sole and exclusive, or Non-exclusive] Agent to solicit orders for the sale of __________ [product] at the price(s) and on such other terms and conditions established by Principal in the geographic area of _______________.
4. Agent agrees to accept this appointment and to devote his/her best efforts to solicit orders but shall have no authority, right or power to accept any order, or to assume or create any obligation on behalf of Principal.
5. The Agent shall not engage in the selling of ____________ [product] for any competitor of Principal.
6. Principal shall pay Agent ___ % of the sales price of all sales of _____ [product] by Agent during the term of this Agency. Said commission shall constitute the full compensation of Agent and shall be paid _______ [weekly, monthly].
7. This agency agreement shall begin on _______, 20___, and terminate on _______, 20___, unless earlier terminated by Principal for just cause of by the mutual agreement of Principal and Agent.
8. This agency agreement is personal and Agent shall not sell, assign, convey or otherwise transfer his/her rights hereunder.

Principal's Signature Date

Agent's Signature Date

Tab 4

Contract Modification

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [name]:

The purpose of this letter is to outline the modification of our existing contract dated _______, 20___. The contract revision is as follows:

1.
2.
3.

If the above is consistent with your understanding of our agreement to modify our contract, please sign below under the words "Agreed to and Accepted" and return a signed copy of this letter to us at the address shown above.

Sincerely,

____

Agreed to and Accepted: Date

____

Tab 4-50 RESOURCE GUIDE sample business forms & agreements

Contract Modification

HS Farms, Inc.

RR 1 Box 80 - Hometown, USA

(111) 555-1111

[Date]

[AddresseeXX
XXXXXXXXXXX
Theirtown, USA]

Dear [name]:

The purpose of this letter is to outline the modification of our existing contract dated _______, 20___. The contract revision is as follows:

1.
2.
3.

If the above is consistent with your understanding of our agreement to modify our contract, please sign below under the words "Agreed to and Accepted" and return a signed copy of this letter to us at the address shown above.

Sincerely,

____

Agreed to and Accepted: Date

____

Contract Termination

For good consideration exchanged between the parties, __________________ [name] and __________________ [name], who have previously entered into a contractual agreement dated _______, 20___, and now wish to terminate said agreement.

Intending to be legally bound, the parties agree as follows:

1. The agreement shall cease as of _______, 20___.
2. Both parties agree to release each other of liability.
3. In all other respects, said agreement shall continue in full force and effect.

In witness whereof, the parties have executed this agreement the day and year noted below.

Signature Date

____

Signature Date

____

Witness Date

____

Tab 4

sample business forms & agreements RESOURCE GUIDE Tab 4-51

Contract Termination

For good consideration exchanged between the parties, __________________ [name] and __________________ [name], who have previously entered into a contractual agreement dated _______, 20___, and now wish to terminate said agreement.

Intending to be legally bound, the parties agree as follows:

1. The agreement shall cease as of _______, 20___.
2. Both parties agree to release each other of liability.
3. In all other respects, said agreement shall continue in full force and effect.

In witness whereof, the parties have executed this agreement the day and year noted below.

Signature Date

____

Signature Date

____

Witness Date

____

Tab 4

Tab 4-52 RESOURCE GUIDE sample business forms & agreements