

# “tilling the soil of opportunity...”

NXLEVEL™ GUIDE  
FOR AGRICULTURAL ENTREPRENEURS

## First Edition

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*“Helping Entrepreneurs Reach the Next Level of Success...”*



## 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>

## First Edition

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

# table of contents

## *"tilling the soil of opportunity..."*

### **COURSE OVERVIEW & PARTICIPANT OUTLINES**

#### **TEXT & WORKSHEETS**

- Session 1. Take Stock of Your Resources
- Session 2. Basic Equipment Required: Planning & 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 & Financial Statements
- Session 9. Cultivate Your Money Resources
- Session 10. Harvest Your Future

#### **GLOSSARY OF TERMS**

#### **INDEX**

#### **RESOURCE GUIDE**

- Tab 1. Using the Guide
- Tab 2. National Business Information
- Tab 3. Sample Business Letters
- Tab 4. Sample Business Forms & Agreements

*Additional state resource information is available for download in Adobe.pdf format from [www.nxlevel.org](http://www.nxlevel.org). Go to the participant resource section, enter password, and click on "Ag." (Contact your course instructor for password information.)*

## Foreword

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

NxLevel<sup>™</sup> 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<sup>™</sup> 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<sup>™</sup>'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<sup>™</sup> Business Start-ups

Program and the NxLevel™ Entrepreneurs Program. The materials are easy to use, conveniently packaged and reflect the practical applications sought and tested by over 20,000 participants.

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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*"Tilling the Soil of Opportunity..." NxLevel™ Guide for Agricultural Entrepreneurs* textbook is a compilation of efforts from many individuals with business and agricultural backgrounds who have shared their educational and practical experiences. The material for the text is based on the work of more than 20 authors who contributed to the original NxLevel™ Business Start-up and Entrepreneur textbooks. Primary authors for this text are listed here:

### Primary Authors

**Cameron Wold** has extensive experience in economic community development, including welfare transition programs, business incubators and shared-use commercial kitchens, and community agriculture. As NxLevel™ project manager at the University of Colorado at Denver, he was instrumental in developing the NxLevel™ curriculum. A graduate of Amherst College, he holds an MBA from the University of Southern California.

**Helen Sumner** has an extensive entrepreneurial and training background and holds degrees in Business Accounting and Speech & Communications. Her current Wyoming-based business, Professional Advisory & Strategy Services, Inc., focuses on helping entrepreneurs in project implementation, management, and employee training. Helen is a certified entrepreneurial and management master trainer, ASTD member and serves as the National Instructor Training Director for NxLevel™ programs. An experienced facilitator, Helen teaches NxLevel™ in her own community and was instrumental in developing the NxLevel™ Instructor's Manual and Students' Worksheets.

**Marilyn Schlake** serves as the State Program Coordinator for the Nebraska Edge program located at the University of Nebraska, Institute of Agricultural and Natural Resources. For the past 5 year, Marilyn has provided rural, community-based entrepreneurial training programs throughout Nebraska and currently serves on the Executive Committee for the Nebraska Microenterprise Opportunity Network, a trade organization for microenterprise programs. Marilyn also works with the Nebraska Rural Development Commission as a Project Consultant. Marilyn holds a degree in business management and has nearly decade of experience working in the field of agricultural leadership.

**J. Philip Gottwals** is the Managing Director of Agricultural Development Associates, a specialized consulting firm providing agricultural marketing as well as business and economic development services. In addition, Philip is a founding board member of Agricultural and Community Development Services, a not-for-profit corporation that conducts education and training in the field of agricultural entrepreneurship.

### Contributing Authors

**Dr. Bryan Madison** is a retired Ph. D. Analytical Chemist involved in a cluster of projects designed to help others to make a living at "alternative agriculture." Their family farm, Madison's Ridge View Farm, is certified organic and produces vegetables, berries, maple syrup and operates the largest oak log shiitake mushroom production in Ohio. Bryan is

currently assisting the City of Cincinnati's Economic Development Department and Cincinnati Business Incubator in managing an initiative called the Food Venture Center at Findlay Market, a commercial shared-use kitchen.

**Kathryn Hayes** serves as the Project Manager for entrepreneurial training projects developed and operated by the University of Massachusetts Donahue Institute on behalf of the Pioneer Valley Enterprise Program in Western Massachusetts. Kathryn brings more than twelve years experience in microenterprise development to the Institute. Her work includes helping to organize the Western Massachusetts Enterprise Fund, a regional microloan program, and serving as its first director. She also helped to establish community-based loan funds in post-communist Poland.

**Wyatt Fraas** leads the Family Farm Sustainable Agriculture Project at the Center for Rural Affairs, a private, non-profit organization in Nebraska. Wyatt develops educational activities and advises on policies to support alternative crops, production practices, and marketing for small to moderate sized farmers and ranchers. Wyatt has worked agriculture and resource conservation for 25 years in Wisconsin, Nebraska, and in the Rocky Mountain states for public, private, and non-profit organizations. Wyatt's education is in range management, wildlife conservation, and Holistic Management.

## Acknowledgements

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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.

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.

"Consumers are becoming environmentally sensitive and are demanding more natural ingredients and environmentally sound growing practices.

**Opportunities abound for the producers!"**

"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.

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.

chemical  
& residue  
& free

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.



# “tilling the soil of opportunity...”

NXLEVEL™ GUIDE  
FOR AGRICULTURAL ENTREPRENEURS

## participant material

### *course overview*

- |                |            |   |
|----------------|------------|---|
| <b>Session</b> | <b>1.</b>  | Take Stock of Your Resources                      |
| <b>Session</b> | <b>2.</b>  | Basic Equipment Required: Planning and Research   |
| <b>Session</b> | <b>3.</b>  | The Legal Terrain                                 |
| <b>Session</b> | <b>4.</b>  | Manage from the Ground Up                         |
| <b>Session</b> | <b>5.</b>  | Plant It, Grow It, MARKET It!                     |
| <b>Session</b> | <b>6.</b>  | Reap the Benefits—Marketing Strategies            |
| <b>Session</b> | <b>7.</b>  | Get Your Budgets In Line                          |
| <b>Session</b> | <b>8.</b>  | Analyze THESE: Cash Flow and Financial Statements |
| <b>Session</b> | <b>9.</b>  | Cultivate Your Money Resources                    |
| <b>Session</b> | <b>10.</b> | 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:

<b>TEXT</b>	<b>READ</b> all of the TEXT material in Introduction to Session I, and Session I: Take Stock of Your Resources. <b>READ</b> the TEXT material for Session 2: Basic Equipment Required—Planning and Research
<b>WORKSHEETS</b>	Read and Complete Session 1 WORKSHEETS
<b>WRITE</b>	Using the <i>Writing Your Plan</i> page at the end of the WORKSHEETS section for Session One as your guide, write <b>Section II. Business Concept, Mission &amp; Goals</b> of your NxLevel™ Agricultural Business Plan

### 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



text



take stock of your resources  
*session one*



take stock of your resources

*session one*



# 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.

**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.

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

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.

**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.

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?

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.

### 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

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

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.

creativity.

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

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.

self  
confidence.

### 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

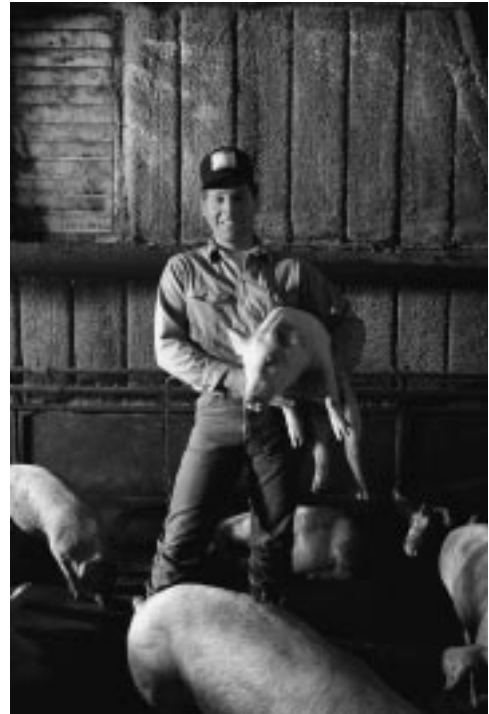
Much is written about entrepreneurs as risk takers, but in fact they are neither low nor high-risk takers. Rather, they are willing to accept challenges where they can influence the outcome. Some refer to this as "calculated risk taking." Entrepreneurs seldom act until they have assessed the risk. A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

"Entrepreneurs are willing to accept challenges where they can influence the outcome..."

### 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.



## 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!

## 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

independence  
money  
fun!

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.

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,

&  
aspirations  
goals.

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.

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.



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

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

### PERSONAL AND FAMILY INTEREST, EXPERIENCE & AVAILABILITY

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?

## 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.

## 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

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

"Your personal mission statement is unique to you..."

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.

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.

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.*

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

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

- *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

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

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





\$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.

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.

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

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.

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## 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.

**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.





# worksheets



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.

## 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:



# business plan *outline*

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

# business plan *outline—continued*

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

## 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.



# 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

General Growth Plan Description

Preview of Resources Available

Personal and Business Mission Statement

Goals and Objectives

Section III. Background Information

Section IV. Organizational Matters

Section V. The Marketing Plan

Section VI. The Financial Plan

Appendix Section

## 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.

## Entrepreneurial Traits Assessment Worksheet

TRAIT	Yes	Sometimes / Not Really	No	Don't Know
<b>1. Passion</b>				
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.				
<b>2. Persistence</b>				
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.				
<b>3. Good Health/Energy</b>				
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.				
<b>4. Creativity/Innovation</b>				
I adapt well to changes.				
I enjoy doing things differently.				
I often think of innovative ways to solve problems.				
<b>5. Independence/Self-reliance</b>				
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.				
<b>6. Intuition</b>				
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.				
<b>7. Self-confidence</b>				
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.				
<b>8. Market Awareness</b>				
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.				
<b>9. Lack of Need for Status</b>				
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.				
<b>10. Ability to Accept Challenges</b>				
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.				
<b>11. "Hard Work" Ethics</b>				
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.				

## 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 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.				

## 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?

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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?

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### *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)?

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### *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?

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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.

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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.

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### *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.

<u>Name</u>	<u>Skills/Expertise</u>	<u>Availability</u>

### *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?

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## 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?

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

## 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.

## Physical (Land, Buildings and Equipment) Resources Inventory Worksheet

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

## 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?**  

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

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- 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?**  

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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.

## 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.

<b>Name:</b>		<b>Prepared as of:</b>	
<b>ASSETS</b>		<b>LIABILITIES</b>	
Cash on hand (In checking accounts)		Current household bills	
Cash (In savings accounts)		Credit/Charge cards (specify):	
Certificates of deposit			
Notes, accounts 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	
<b>(A) Total Assets</b> (current + non-current)		<b>(B) Total Liabilities</b> (current + non-current)	
		<b>(A - B) NET WORTH:</b>	

## 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?**

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## 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?**

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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?**

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## Agricultural Business Concept Description—continued

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

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

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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.)

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### ***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.

## 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:

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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?

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### *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?

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## 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?**

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### ***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:

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## 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.

## 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

## 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.



text

basic equipment required:  
planning & research  
*session two*



basic equipment required:  
planning and research

*session two*





# required basic equipment planning & research

## SESSION TWO

### Session

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

## 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

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.

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

prepare.

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.

### 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.

### 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

the  
future.

“Planning helps you find out what is important...”



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

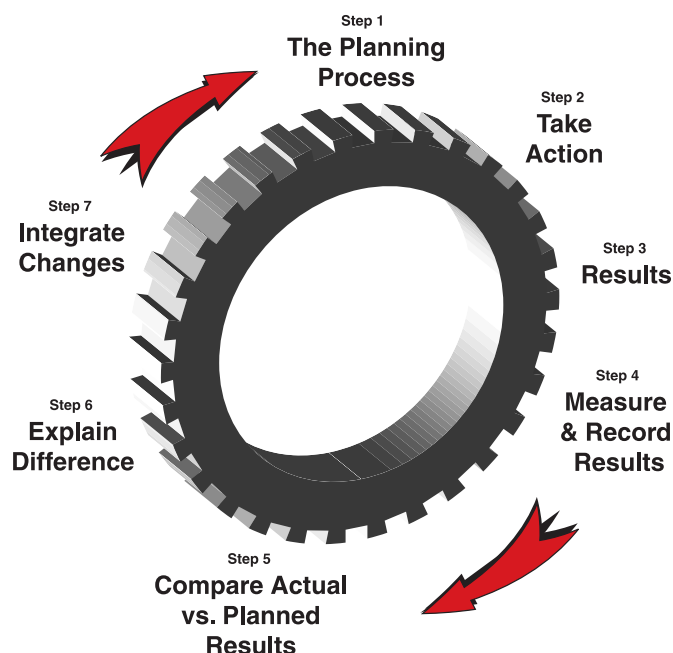
Planning is a proactive process to help you reach your goals and objectives. Planning often starts as a reaction to some key event such as seeking financing or buying a business. This is not sufficient to successfully start and grow a business. Planning needs to be integrated into the ongoing management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



- **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.
- **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.

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

## 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

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

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.

Business plans are written for three major audiences:

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

## 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

## 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.



## 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?

"The **Background**

**Information** section

presents the industry in which your business operates..."

## 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 you will 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?

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



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.

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?

### ***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?

weakness  
strength.

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

- Products/Services Description
- Market Analysis
- Marketing Strategy

General pricing information is also introduced in this section and greater discussed in the following sections. What will you charge for your product or service? How have you calculated your costs and your profitability? How will your price position you in the market? Will you offer any special discounts to entice new business?

### 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.

#### ***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.”



“The **Financial Plan** is usually the longest and most critical section of the business plan...”

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.

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.

### **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?

"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..."

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

"The **Appendices** section presents a timetable for action and any supporting documents the business is using to enhance its business plan..."

### Appendices

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?



*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.

#### 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.

"Don't forget to utilize the NxLevel™

Website at: [www.nxlevel.org](http://www.nxlevel.org) for up-to-date resources..."



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.

### 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.



- 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. 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

“You gain an understanding of your industry and your customers by means of information...”



- 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.

### Contacting Information Sources

- 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.

#### ***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.



“An interview, in its simplest form, is nothing more than asking questions...”

### ***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

- 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?

- 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..."



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

<b>Easy entry</b>	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.	
<b>Level of Competition</b>	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.	
<b>Availability of Substitutes</b>	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.	
<b>Buyer Leverage</b>	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.	
<b>Supplier Leverage</b>	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.	

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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## 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.

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

**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.

**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.





# worksheets

basic equipment required:  
planning & research  
*session two*



basic equipment required:  
planning and research

*session two*

# 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**

## 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.)**

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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.**

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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.

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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.
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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.**
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## 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.
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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.
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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.

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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.

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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.

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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.

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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.

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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.

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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?

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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?

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### 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?

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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?

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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?

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

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## 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.



[illegible]

## Writing Your Plan

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:

### Section III. Background Information

#### 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.*



text

the legal terrain  
*session three*



the legal terrain  
*session three*

## this Session

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

### 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.

## OWNERSHIP STRATEGIES

### SELECTION OF THE BUSINESS ENTITY

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

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.*



“A **Sole Proprietorship** is run by an individual, often under a state-registered trade name...”

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.

## 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.

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.

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.

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

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

passing  
through.

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

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.

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.

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

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),

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

corporate  
shield.

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



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.

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.

### 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.

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



"The **Limited Liability**

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

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

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.

“Types of cooperatives can be grouped into ‘open membership’ and ‘limited membership’ organizations...”

**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.

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

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.

Congress is influenced through the legal activity of “lobbying.” Many small business owners find it beneficial to join a national business support organization such as the National Association of Independent Businesses.

federal  
state  
county  
city

# the law.

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

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.

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.

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.

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.

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

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

## 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.

### 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



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.



## **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

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

regulations &  
responsibility

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

- 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

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

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.



### ***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

migrant  
workers.

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:

- 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.



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

- 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.

"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..."

### **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.

### *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.

### ***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

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 properly 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

clean  
air.

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

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.

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



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

wetland areas. The regulations go far beyond those “riparian” areas which lay along streams and lakes. They also extend to areas that are seasonally inundated with ground water. There is an exemption from permit requirements for normal farming and ranching activity on farmed wetlands, but because of inconsistent local interpretations, you should consult with local regulators before you start in a cut or fill project.

### 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

## 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.

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

"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..."



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 Statute 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.

### 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?

### 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.

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

### 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.

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

### 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 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

fitness  
for purpose.

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.

## 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?



- 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.

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## 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

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.

“A good practice is to always put your agreements in writing and do not sign any agreement until you are completely comfortable with it...”

**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.



# worksheets

the legal terrain  
*session three*



the legal terrain  
*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

Appendix Section

## 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.

## Forms of Doing Business

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?**

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

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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?

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

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## Government Regulations—continued

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

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### 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		\$

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

## 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:				

- 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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## 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.*