

A Guide to Starting a New Farm Enterprise



Ministry of Agriculture,
Food and Fisheries

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2. Outline
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1. Introduction

Congratulations on choosing farming for your new business enterprise. Agriculture is the foundation of all civilizations and can provide many rewards, both financial and cultural. Your choice to be part of the farming community helps strengthen the agriculture base, and contributes to the economic well being of the province.

Agriculture in B.C. is very diversified with more than 200 different commodities produced and sold commercially. In 1995 farm gate sales from these products was roughly \$1.5 billion with producers reporting \$180 million in profits for an average return on sales of 12 percent. **To ensure that you meet or beat the average return it is critical to select the right commodity/s that you can sell, that match your interests and that can be grown successfully on your farm.**

This guide will help you make the right choice. Once you have identified the best product(s), it will take you through a step-by-step process of developing a farm-enterprise plan. This plan will help you plan for the success of your new farm enterprise.

The guide is arranged in four sections:

1. Self assessment
2. What can I sell and produce?
3. Developing a farm enterprise plan
4. Support material (Appendix)

If you have already determined what product you want to produce and how you are going to sell it, you may wish to go directly to the section on developing a farm enterprise plan.

The support material includes additional helpful information for farmers, including regulations affecting agriculture, contacts for government and private-sector expertise, Ministry of Agriculture, Food and Fisheries information, journals and Internet links.

Good luck and welcome to the farming community.

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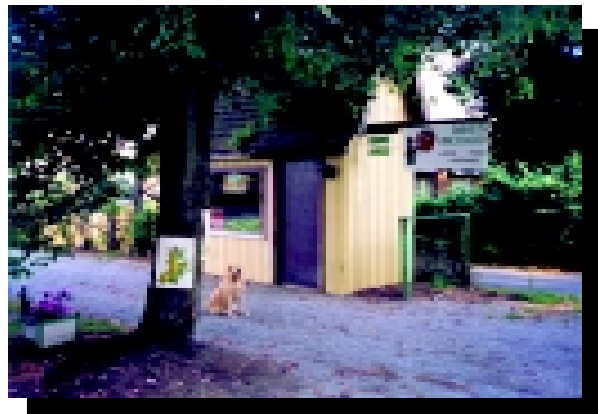
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Personal Interests and Resources

Before deciding what and how much to produce, it is important to think about what you want from your farm enterprise and what you are prepared to put into it.

Farming is not a get-rich quick scheme but can provide good financial and personal rewards, as long as you design the enterprise to fit your personal needs and financial resources.

Successful farming usually requires active involvement in the operation; to be successful you need to enjoy what you are going. Do the activities you enjoy and plan to hire or delegate those you don't enjoy as much to someone who does. For example, if you like growing things but don't like dealing with customers at a roadside stand, hire someone to do your selling. If you love to deal with people at the stand, hire some extra help on the growing side. Include these considerations in your financial plan.

To identify the general type of farm enterprise that best suits you, or whether farming is really what you want to do, answer the following questions objectively.

- 1) How much of my time (human resources) do I wish to make available for the farm enterprise?
- 2) What types of work do I prefer?
- 3) How much in financial resources (equity or loans) am I prepared to invest in the farm enterprise?
- 4) Given the above, what scale of operation best suits my needs and interests?

In more detail:

Human Resources

Different commodities require differing levels of labour, over different periods. Some need a little input each day (livestock) and some need a lot of labour at specific times during the season (field crops).

What level of human resources (labour) do you wish to devote to the enterprise? How much of the farm labour can you do yourself? Do you have an extended family that can help at harvest? Is your time restricted to weekends and holidays? Do you like the winter months off? Do you have easy access to other sources of labour?

Work Preferences

Producing and marketing agriculture products involves many different types of work, for example: mechanical work on farm equipment, field work with field and nursery crops, working with animals, working with people, etc. It is important to keep this in mind when searching for the type of products you wish to produce and sell.

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An Entrepreneurial Skills Self Test is included in Appendix A. It will help you better understand your strengths and weaknesses as you embark on your new farm enterprise.

Financial Resources

Large-scale commercial farms can cost millions of dollars to set up while smaller land based enterprises can be started with only a few thousand in initial capital.

- How much do you wish to invest in the enterprise?
- Are you prepared to borrow money to purchase equipment and develop the farm?
- Are there neighbours you can share assets with?
- Is there a farm contractor or custom operator close by that can do some of the work on a fee for service basis?

Livestock and greenhouse operations often require more fixed assets in terms of buildings and livestock. Some crop production does not require as large an investment.

Scale of operation

Do you want your farm enterprise to provide your primary income or to supplement your existing off-farm income ? If it will supplement your existing income, do you wish to maximize your income on the property or to simply maximize your income within the specific time you are prepared to allocate to the farm enterprise?

Summary

I want my farm enterprise to provide me with.....

I am prepared to contribute
of my time and up toin financial
support to achieve it.

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4.1 What Can I Sell?

(Identifying a Market Opportunity)

At the end of this section you will have an idea of

- *a number of products that you might best be able to sell*
- *the types of marketing channels used to sell those products*
- *the competitive advantage you have in those products*

4.1.a) Traditional Agriculture Marketing Channels

(How Agriculture Products Are Sold)

The general approaches to marketing agriculture products are as follows:

- Formal marketing arrangements/regulated marketing
- Contractual arrangements with marketing agencies or associations
- Traditional auction markets (particularly livestock)
- Direct marketing by the producer into traditional or niche markets

Large-scale commercial farms typically produce a product that is similar to their fellow producers and sell the product through a formalized marketing system; for example, egg producers. Smaller operations may also utilize the formalized marketing systems, but many choose to differentiate some or all of their product and market directly to their customers from the farm gate or through farmers' markets. Direct marketing will typically command a higher price but may also have higher associated marketing costs.

Direct marketing can be achieved through well-established markets like restaurants, local-produce stores or road-side stands, or into new market niches that have not been well served in the past. Selling your apples through an ad in the local newspaper would be considered direct marketing to an established market where growing edible flowers for the restaurant trade would be considered niche marketing.

This section will discuss formalized marketing schemes, direct marketing and niche marketing. Section 5.2 will guide you through developing a detailed marketing plan.

Formalized Marketing Schemes

The *B.C. Natural Products Marketing Act* provides the legislative authority for a variety of commodities to set up marketing arrangements. It details a range of rights and responsibilities on the marketing of specific agriculture commodities. Formalized marketing schemes may involve the whole province (e.g. dairy or eggs) or just specific regions (tree fruits or mushrooms). The commodities that are currently under marketing schemes include:

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Livestock	Fruits & Vegetables (check by region)
dairy	greenhouse tomatoes & cucumbers
broiler (chickens)	strawberries (processing)
eggs	cole crops
turkey	mushrooms
broiler hatching eggs	cranberries
hogs	tree fruits
wool	grapes
	others

* BC Vegetable Marketing Commission 1-800-663-1461 or www.bcveg.com

The following section discusses the types of formal marketing schemes based on the level of control exerted by the marketing body:

Supply Managed Commodities (dairy, eggs, turkeys, broilers and broiler hatching eggs)

Marketing boards in the above commodities strictly control the production and marketing of these products. They issue rights to ship (quota) and establish/negotiate the market price and the returns to the grower. The ability to purchase quota and the issuance of new quota varies from commodity to commodity. (Contacts for each commodity are in Appendix E.)

Supply-managed commodities are characterized by higher-than-average capital cost to enter, lower risk and lower-than-average return on equity. Marketing outside of the board is generally prohibited by law, however some poultry marketing boards have set maximum flock sizes that can operate legally outside the marketing scheme.

Approved Marketing Agencies and Associations (as of August 1998)

Marketing arrangements that have less control on supply mean products must flow through an approved marketing association or commission. This includes hogs, mushrooms, and some vegetables and fruits. Over time, in some commodities such as lettuce, strawberries, and cole crops, a number of marketing associations have evolved; while in others, such as hogs and mushrooms, there is effectively only one marketing agency.

Marketing associations essentially work as a 'central selling desk' that does not restrict supply and tries to get the best possible price for the product. Selling costs are then shared by the producers. In some cases, however, the associations have limited 'membership' to the association and, in doing so, may limit new producers. This is the case with mushrooms and cranberries.

For more information, contact the [B.C. Marketing Board](http://www.bcmktg.com) (250) 356-8945.

Producer Associations

With some commodities, producers have recognized the value of pooling their product and selling as a larger group. These associations or co-ops operate under a variety of structures with the general purpose of getting the best price for the producers; that is, they have no authority under the *Natural Products Marketing Act*. Examples include United Flower Growers, Abbotsford Growers Co-op (raspberries/strawberries), B.C. Tree Fruits, etc.

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When dealing with a marketing cooperative, always check on their reputation and financial stability before committing to ship your product to them.

Direct Marketing

Direct marketing is when the producer of the product sells directly to the user of the product – no resellers in between.

This can involve:

- road side stands
- farmers markets
- pick-your-own
- direct sales to foodservice / small retail markets
- phone-in orders
- direct sales through local advertisement
- community-supported agriculture arrangements
- distance mail-order arrangements

The margins for direct-marketed products are usually higher than traditional marketing schemes because:

- there are no fees for resellers,
- direct-marketed products often sell for a premium because of some positive advantage they have over the similar product sold through the traditional marketing systems, for example:
 - freshness
 - different production methods
 - unique varieties
 - better service/convenience

Direct marketing can also be done in conjunction with selling to more formalized marketing agencies. If you choose to direct market it is important to know, understand and develop your market. The guide to developing a marketing plan will help you do this.

Direct Marketing Into a Niche Market

Niche marketing is providing a new or highly unique product to a market that is not well served or not served, at all, by current producers. Products that satisfy a niche market sell at a premium price that more than covers the additional costs of marketing.

By definition, a niche market is not well known or clearly defined. The challenge, therefore, is to identify the product characteristics the market wants and then the ultimate size of the market. Producers supplying niche markets should have good interpersonal and marketing skills. **Niche markets will only be able to accommodate a few suppliers, so to be successful, you must do a good job supplying the market.**

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Direct Marketing – Additional Regulations

If you are selling food products directly to the public, you require approval from the local office of the Ministry of Health. Dairy products and meat products have specific legislation that regulate their sale – the *Milk Products Act* and the *Meat Inspection Act*. With other products, the requirements are up to the discretion of the local health officer. Generally the more a food product is processed, and the more susceptible it is to spoilage, the more concerned the health officer will be. For example, if you were selling apples in a box the health officer may not be concerned. However, if you were to sell apple pies, the health officer would likely need to approve your cooking and holding facilities. Check with your local health office for more information.

There are also regulations surrounding which types of foods can be sold and how certain foods must be sold at farmers markets. If you are considering marketing through a farmers market, check with your local market on any specific requirements for your product.

Different municipalities may have different rules regarding signage and roadside stands, so it is important to check with your municipal office before designing your roadside stand.

These issues are dealt with in greater detail in the 'Direct Marketing Handbook for Producers' available at Ministry of Agriculture, Food and Fisheries offices.

Summary

Farm products can be sold through formal channels or by direct marketing into traditional or niche markets or a combination of all three.

If you have already decided to become involved in a large scale operation selling through an established marketing channel then you should skip to the 'Building a Farm Enterprise Plan' section and contact the marketing association directly. Contacts numbers are in Appendix E. More detailed planning packages for large-scale farms are available from Ministry of Agriculture, Food and Fisheries offices and on the internet at <http://fbminet.ca/bc>.

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4.1.b) Product Differentiation and Competitive Advantage

Generally, there are only two ways to compete – being different or having the lowest price. Only one supplier can have the lowest price, and it is usually the one that is biggest and has the least expensive source of supply. Few, if any, farms in B.C. are in this situation.

So farms must compete by providing a product that is different in a way that the consumer values and, as a consequence, will pay a higher price. This difference or **product differentiation** can be very small. The simple fact of knowing where a product is grown may be of great value to some customers. Different varieties, different production techniques, location, ambiance, etc. can **differentiate** your product from others. This difference creates a **competitive advantage** for which you can charge a premium over the low price provider.

Identifying your competitive advantage, enhancing it and promoting it is the key to success for most agriculture enterprises in B.C.

If you plan to direct market some or all of your product, the next section on identifying a marketing opportunity and determining if the marketing opportunity is a business opportunity will be helpful. Your land is likely capable of growing a wide variety of products; however, if you cannot sell these products at a profitable price, then the farm will not be successful.

Without some kind of competitive advantage based on product differentiation there is little economic reason to direct market. Your farm will be forced to compete strictly on price and unless you dominate the market you will have to sell your product at the lowest price in the market.

4.1.c) Identifying Direct Market Opportunities

Your competitive advantage can be large (you are the only supplier of vine ripened tomatoes in your small community), or very small, (you can deliver your vine-ripened tomatoes daily compared to your competitor that delivers every other day).

The next section guides you through the process of identifying a market opportunity where you have a competitive advantage. By definition, a competitive advantage is something you have or can do that others don't have or can't do. You are the one that must evaluate your skills and resources and the characteristics of your farm and community.

This section will guide you through an analysis of your skills, your farm's characteristics and the community characteristics to help you identify the competitive advantage. A long list of products and services that are currently produced and sold in B.C. is also provided.

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Skills and Resources Analysis - Question - *What skills and resources do I have that may give me a competitive advantage?*

Human resources were addressed briefly in the opening section. Here you are encouraged to look at your personal preferences. The farm operation can involve many different activities from working with machinery to dealing directly with people, from throwing bales of hay to putting the finishing touches on a value-added product.

At the end of this section you should have an inventory of the skills and abilities of the people involved in the farm enterprise that you can match with potential market opportunities identified in the following sections.

There is a self-analysis exercise in Appendix A that will help you identify the special skills that may provide you with a competitive advantage.

Competitive advantages I have from my personal skills and preferences are:

Farm Analysis -Question - *What types of products might be uniquely suited to be produced on my farm property?*

(If you do not own or lease land, check Section 4.3)

There will be some similarities between your farm and the ones around you but also some differences. These differences may provide some market opportunities. Consider:

- Location
 - direct marketing (busy street vs a quiet street)
 - selling farm services to others
 - utilizing farm services from others
- Water sources
- Drainage
- Frost-free days / early warming soils
- Slope - relative to light intensity
- History of production

Competitive advantages I have based on my farm characteristics are:

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Community analysis – Question – *What types of products and services might be in demand in my community?*

Direct and niche-market opportunities often exist in your community. Use the following chart as a guide to analyzing opportunities in the community. All communities are different, so to identify a real market opportunity will require work and thought on your part. The best market opportunities will likely not be on the list below but ones you identify through your own research. Community characteristics to keep in mind are demographics (characteristics of the residents), geography, culture, location relative to significant landmarks or activities and tourist attractions.

Competitive advantages I have from my community situation are:

Summary of the types of opportunities that exist for my farm and personal situation:

Business type	Does it exist? yes/no	Is there a business opportunity?	What would my competitive advantage be?
Market gardens			
Farm tours			
Organic products			
Cultural products			
Other			
Other			
Agriculture Services			

General Review of Products Commercially Produced or Offered in B.C.

The following is a list of some of the more common products and services produced or supplied by farms in B.C. There is a further list of agriculture products in Appendix F.

The key question you must ask when going through this list is ‘What is my **competitive advantage** in either producing or marketing the product?’

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Market Opportunity	What is my Competitive Advantage?
LIVESTOCK	
Dairy	
Cattle - weaning calves	
- yearlings	
- finished cattle	
- direct market	
Hogs - marketing commission	
- direct market	
- auction market	
Lamb - custom grown	
Sheep - dairy	
Goats - dairy	
- meat	
Eggs - traditional	
- free range / organic	
Broiler - traditional	
- free range/organic	
Turkey - traditional	
- free range/organic	
Horses - breeding	
Horses - boarding	
Horses - training/lessons	
EXOTICS	
- Ostrich	
- Emu	
- Llama	
- Alpaca	
- Fallow Deer	
- Reindeer	
- Bison	
Fur Bearing - Mink	
- Chinchilla	
- Fox	

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GREENHOUSE	
- Lettuce	
- Tomatoes	
- Peppers	
- Cucumbers	
- Herbs	
- Flowers - cut, potted	
- Others	
FIELD CROPS (ANNUAL)	
- Asparagus	
- Beans	
- Carrots	
- Cole Crops/ Broccoli, Cauliflower, Brussels Sprouts	
- Lettuce/Romaine	
- Peas	
- Pumpkins	
- Corn	
- Alternative crops (Appendix E)	
FORAGES/GRAINS	
- Hay/square bales/round bales	
- Corn	
- Alfalfa	
- Straw	
- Canola	
- Barley	
- Oats	
- Wheat	
NURSERY CROPS	
- Broadleaf Evergreen	
- Spreading Evergreen	
- Upright Evergreen	
- Deciduous Shrubs	
- Deciduous and Flowering Trees	
- Fruit Trees	
- Herbaceous Perennials	

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- Button	
- Exotics	
CHRISTMAS TREES	
FRUITS	
- Tree Fruits - apples/peaches/ cherries/pears	
- Strawberries	
- Raspberries	
- Cranberries	
- Blueberries	
- Logan/Saskatoon/Blackberries	
GINSENG	
ORGANIC FRUITS AND VEGETABLES	
ALTERNATE CROPS	
- Medicinal Herbs	
- Herbs	
- Artichoke	
- Garlic	
AGRICULTURE TOURISM	
- farm tours	
- bed and breakfast	
FARM SERVICES	
- custom tractor	
- contract baling	
- contract spraying	

Summary of Market Opportunities

I have a market opportunity in the following products: (make the list as long as possible – from this point on the list will only be reduced)

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

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4.1.d) Evaluating The Market Opportunity as a Business Opportunity

In this section you will better define your competitive advantage, evaluate how secure it is and estimate the market size.

What is your Competitive Advantage?

Before moving on to estimating the market size, it is important to clearly identify what products you plan to sell and what your competitive advantage is.

To further define your competitive advantage you may wish to ask the question:

‘Why would a consumer reject what they are currently buying, and choose what I have to offer?’

By answering the question above you can identify your competitive advantage as:

- Higher Quality ----
- Taste ----
- Freshness ----
- Better Service ----
- Variety ----
- Delivery ----
- Guarantees ----
- Unique Product ----
- Other
-
-

How Secure is Your Competitive Position?

It is not enough to know what your competitive advantage is but also how secure it is.

There are four main aspects in evaluating the security of your competitive position:

- 1) Are there close **substitutes** to your product and how stable are their prices?
- 2) If your competitive advantage is **technology**-based, how secure is that technology and what is its life expectancy?
- 3) Is it easy for competitors to copy you (**ease of entry**)?
- 4) Is the resale value of your capital investment low – preventing you from changing to another product if the market changes (**ease of exit**)?

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Substitutes. Most agriculture products have close substitutes. When you walk down the produce counter of your supermarket you make choices that substitute one product for another based on your choice of quality, price and other criteria. Your market opportunity is very sensitive to the activity of its closest substitute. If your closest substitute has a rigid price and a standard quality level your competitive position is stronger. If it has a flexible price and level of quality, it may be easy for it to shift its product to compete directly with you.

Technology. If your competitive advantage is technology-based, say, the rights to a new tomato that grows bigger and tastes better, then your competitive advantage only lasts as long as the technology, or until the next new variety comes out.

Ease of Entry. The easier it is to get into producing your product the faster other competitors will compete with you and drive the price down. Christmas trees and hedging cedars are a good example of this. The market is very easy to get into and many that have entered the market lately have found the prices for Christmas trees and hedging cedars are much lower than they anticipated.

If other competitors can easily change to produce your product you should consider how you can differentiate your product. Some Christmas-tree farms have differentiated by offering extra services like sleigh rides and hot chocolate.

Ease of Exit. If your competitive position is lost in some way you couldn't anticipate, you may wish to change to another product. If the capital investment in producing your product is high and has a low resale value it is very expensive to change - you may be locked into operating at a much lower profitability than you planned.

How big is the market?

This is a very important question and must be answered without the emotion that is often attached to a specific product. Be objective. The exercise in this section will tie directly into the financial and budgeting sections of your enterprise plan.

To estimate the potential size of the market for your product you need to answer three key questions:

- 1) How big is the target market in the area I wish to serve?
- 2) What portion of that market can I capture?
- 3) What price can I sell my product for?

How big is the target market?

Determining the size of the target market can be very easy and, in some cases, it is very difficult. If you plan to sell a highly differentiated product, the market may be as big as you can make it.

For a traditional commodity — suppose you wish to know the market for gourmet tomatoes in a community of 10,000 people — you may start by identifying the per capita consumption of tomatoes in your area. If, for example, it was 5 lb/yr then the total market for tomatoes would be 50,000

** Note: In B.C. greenhouse tomatoes are a regulated product.*

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lbs/yr. (10,000 people X 5 lbs/yr). To estimate the breakdown between traditional and gourmet tomatoes you can go to your local supermarket and compare the shelf space allocated to the different types of tomatoes. If 10% of the tomato space is allocated to gourmet tomatoes, this provides a rough estimate of the breakdown. In this case, the market for gourmet tomatoes in the community would be approximately 5,000 lbs/yr. Your resulting market size would depend on what portion of the 5,000 lbs/yr you could capture.

If you were to become the only local supplier and were able to give better service and fresher product you may capture it all. If a small operator had been supplying the market for 10 years and also supplied the local supermarkets with gourmet cucumbers and peppers you may not be able to capture any of the market, no matter what your price.

For another example, suppose you were interested in supplying grain-finished lamb to the local market through direct order. In this case, per capita consumption figures are of little value as few households would buy more than one lamb per year. You need to estimate the number of households that would consider buying lamb directly and, given your planned capacity, could you sell your product?

This calls for some market research. It could be as simple as asking your neighbours and friends if they would be interested. If you work off the farm then inquire at your workplace. You could also place an ad in the local newspaper and check the response. **Keep in mind that expressions of interest and actual sales can be very different.**

Another example: You live on a fairly busy street and are thinking of growing pumpkins for the Halloween market and selling them at a road side stand. How many could you sell? You may wish to make a rough estimate by multiplying the number of households that purchase pumpkins times the estimated number of cars driving by your home. This would give you an estimate of the pumpkin market driving by your home. Your quality and price would determine what share of that market you might be able to capture.

Statistics Canada is a good source for per capita consumption and also production levels of traditional agriculture products. Local libraries usually have this information.

What Portion Can You Capture?

It is relatively easy to find the market size for existing commodities. The most common error in projecting your potential sales is overestimating what share of that market you can capture. (This will be addressed in more detail in the section on developing a marketing plan.) It is often a good idea to establish a best-case and worse-case scenario. *If I do a great job what is the maximum I can sell? If everything that can go wrong does go wrong what would I sell?*

What Price Will You Charge for Your Product?

This is a difficult question as it relates to the competition and the budget aspects of the business. If you drop the price you may sell more but have lower margins. On the other hand, your competitor may drop the price to meet yours and you will sell the same and have low margins. There are three general approaches to pricing:

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- 1. If you are competing on price you must have the lowest price for a given grade or quality. There are few, if any, commodities produced in B.C. that can compete on price alone.
- 2. If you are selling a unique product you can charge what the market will pay to consume all that you produce.
- 3. If you have a differentiated product, you need to price the product at slightly less than what the market values the difference between your product and your competitors so customers will move from their existing supplier to you.

For example, in the gourmet tomato case, if you were to be the only local supplier and your quality was similar to the out-of-town supplier you may be able to sell for slightly less than the out-of-town supplier because of the savings in transport cost. If, on the other hand, your product was also better, you may be able to capture the market by pricing at the same price or even slightly higher.

You should now be able to estimate your potential market opportunity as follows:

Product	My Share of Market (Market X % Share)	Price	Sales
Total Potential Sales			

Is the Market Opportunity a Business Opportunity?

A very simplistic approach to evaluating the quality of the business opportunity is defined by the “rule of 5”; that is, the operating profit should be 1/5 of sales and the operating profit should be able to pay off the capital expenditures in five years.

If the estimated annual sales for any product does not cover the incremental capital costs of producing that product then you should be very cautious in including it in your enterprise.*

** The exception to this is if the product serves to add other benefits to your farm or other products*

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4.2 What Can I Produce?

At the end of this section you will have identified a product or products that you can both sell and produce on your land and have a production plan (including materials and labour) for each.

From the last section you have identified several products you feel you have a competitive advantage in selling. In this section you will evaluate whether you can produce them competitively on your land. In essence, you will match your land capability with your wish list of potential products. This involves four key steps:

- 1) Assessing Your Land Capability
- 2) Matching Land Characteristics to Production Requirements
- 3) Identifying any Regulatory Restrictions
- 4) Collecting Commodity Specific Production Information

1) Assessing your land capability involves:

i) Identifying what soil type or types exist

- Which commodities does it eliminate?
- Which management practices will be required?

Note: Management practices can overcome many soil problems but they may add to your cost of production.

ii) Determining topographical restrictions (hills or flat?)

- Slopes are harder to crop but may be well suited for livestock
- Do slopes face north or south? Light intensity is greater on south facing slopes and thus affects growing potential.

iii) Identifying any drainage or irrigation needs (is water a problem?)

- Are there poorly drained spots?
- Is there a source of water for irrigation?

e.g. Raspberries are very susceptible to poor drainage where blueberries are more tolerant to poor drainage.

iv) Identifying any environmental constraints.

- Agriculture operations cannot cause pollution to watercourses or groundwater
- If you are close to a stream/watercourse or get your drinking water from a well, your farm operation needs to be organized to ensure it does not cause pollution.
- The Ministry of Agriculture, Food and Fisheries has developed 'environmental guidelines' for many types of agriculture production. These are available from ministry offices and on the ministry web page

<http://www.agf.gov.bc.ca/resmgmt/fppa/pubs/environ/envguide.htm> .

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2) Matching the land characteristics with the production requirements of the products you have selected

- i) Canada Land Inventory (CLI), Land Capability for Agriculture and soil maps are available at most district offices of the Ministry of Agriculture, Food and Fisheries and provide a general guide as to which commodities are suited for your soil type.

The soil class will tell you if you can grow the crop you have chosen and the detailed analysis will tell you what fertilizer or soil-management practices will maximize the production of the crop. For example, some sandy soils are well suited to raspberries and can be modified to produce a wide range of crops with lower production risks than many valley bottom soils subject to high water tables or flooding. The Soil Management Handbooks for the lower Fraser Valley, Okanagan Valley and Similkameen Valley are available at Ministry of Agriculture, Food and Fisheries offices.

Before tracking down the CLI it is probably worth asking a neighbour if he or she knows what the general soil type is.

Detailed soil analysis, done at independent laboratories, provide more specific information on the available levels of key nutrients required by the crop you wish to grow. Contact numbers for some independent labs in the province are:

Griffin Labs	Kelowna	(250) 765-3399
Inovatech Labs	Abbotsford	(604) 857-0695 or 1-800-665-3447
JR Laboratories	Burnaby	(604) 432-9311
Norwest Labs	Langley	(604) 530-4344

- ii) The topography of your land may restrict certain products or add to the management practices required to grow the product successfully. A south-facing slope will receive more heat and light than a north-facing slope.

Cropping hilly land adds costs and management constraints. Hilly portions of your land may be more suited to forage production, grazing livestock, or some horticulture products.

- iii) Poorly drained soils reduce the productivity of many crops. Surface drainage and air drainage generally improve with sloped land and can contribute significantly to a site's suitability to a specific crop. If your soils are poorly drained (have wet spots in the winter and take a long time to dry out after a heavy rain), you may need to install some drainage to maximize your production.

Almost all areas of B.C. require some additional water during the growing season for maximum growth of field crops. Forages, hay and grain, can be grown in many areas without summer irrigation.

If the crop you wish to produce needs summer irrigation, do you have access to sufficient water?

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iv) Now that you have done a quick survey of your land capability try to match it with your market opportunities (p. 18):

Market Opportunity	Land Suitable? yes/no

3) Identifying regulatory restrictions.

The Farm Practices Protection (Right to Farm) Act (FPPA) provides that, if you are following normal farm practices, which includes complying with other federal and provincial acts, you can farm within the Agriculture Land Reserve without the threat of nuisance complaints. A list of normal farm practices is available at district offices of the Ministry of Agriculture, Food and Fisheries. The FPPA does, however, permit local governments to put some restrictions on agriculture in highly sensitive areas, provided they get the support of the Minister of Agriculture, Food and Fisheries. Your municipality will identify these restrictions when you apply for your building permit.

The main provincial legislation that affects agriculture are:

- Waste Management Act
- Pesticide Control Act
- Health Act
- Fisheries Protection Act (1997)
- Water Act

The main federal legislation that affects farming are:

- Fisheries Act
- Health of Animals Act
- Food and Drugs Act

To insure there are no regulatory restrictions to producing your product you should:

- check with your municipality (building department) to insure there are no restrictions on what you plan to do.

(Note: local governments can only refuse a building permit based on non-compliance with national building codes or local zoning bylaws. Local building inspectors may ask you to do things that exceed the building code and zoning bylaw requirement; e.g. an environmental assessment or buffering requirements or wildlife setasides. If you chose not to meet the extra requirements the building inspector has no legal grounds to refuse your building permit.)

- get a copy of the environmental guidelines for your commodity or a similar commodity, available at Ministry of Agriculture, Food and Fisheries regional offices, or on the ministry web page:
<http://www.agf.gov.bc.ca/resmgmt/fppa/pubs/environ/envguide.htm>

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- check the legislation that relates to farming to make certain there are none that affect your operation (See Appendix B).

4) Production Information

There are a number of sources of information:

- i) Books, journals
- ii) Industry associations
- iii) Internet
- iv) Government staff
- v) Government publications
- vi) Private consultants

i) Books and journals are available for most of the common commodities. These can be found at local libraries or libraries at the University of British Columbia, Simon Fraser University, and the community colleges with agriculture programs.

ii) Common commodities usually have an industry association – see the list in Appendix D for contact numbers. Your local feed or farm store may also have books on basic production techniques.

iii) The internet is full of sites dedicated to farming. One important caution: – ***any information taken from the internet must be checked for credibility and may need to be modified to meet the B.C. growing and regulatory conditions.*** See Appendix I for more details.

iv) The Ministry of Agriculture, Food and Fisheries has production specialists and discipline specialists (plant diseases, weed control, etc.) in a number of areas. Specialists work on an industry wide basis, usually with the industry associations, to develop and transfer the latest information on the commodity. The specialists are not available for site specific consultation (see point E below) but produce factsheets and information sheets on production related topics that involve the broad-based industry. See list in Appendix A.

v) See Appendix A for a summary of Ministry of Agriculture, Food and Fisheries publications.

vi) Agriculture business and private individuals are available for consultation on a farm specific basis. Seed, fertilizer and farm-supply stores often have ‘*field personnel*’ that may visit your farm to answer site-specific questions. Some agrologists are also available as farm consultants to help you address site specific issues. Contact your local Ministry office consultants. (Appendix A)

<p>I plan to produce _____,</p> <p>_____ on my farm.</p>
--

After matching your market opportunities to your land capabilities and identifying your needs relative to producing the product it is now time to develop a comprehensive farm enterprise plan that will consider your financial plan, marketing plan and production plan.

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4.3 Buying or leasing farmland

4.3a) Buying farmland

If you are planning to start a farm enterprise and do not have land then your work so far in this guide will provide you with the type of information you need to choose an appropriate property. Once you have chosen the product you wish to produce and the method by which you plan to sell it you can begin your search for land knowing:

- what soil type is best suited to grow the crop
- specific requirements for drainage or irrigation
- potential benefits or constraints from topography (north slope or south slope)
- proximity to market
- requirements for minimal environmental impact
- financial limitations
- any other commodity specific requirements

It is unlikely you will find the perfect piece of land. However, a good knowledge of your requirements will enable you to choose a property that is well suited for producing your product.

4.3b) Leasing farmland

Leasing is becoming a popular way for new farmers to get started and for established farmers to expand. As in Section 4.3a, the information developed so far will help in identifying the appropriate land to lease.

Lease arrangements vary a lot depending on the length of the lease, the market value of the land, the agricultural value of the land and the potential benefits/cost to the lessee.

In farming areas around urban centers some rural residents are happy to have someone keep their land/ pasture in good shape and/or qualify their land for farm classification and will lease for a very nominal sum.

It is more difficult to lease land for capital intensive agriculture as lessors may be unwilling to commit to a long enough lease to justify the capital investment.

For more information on leasing refer to the Ministry of Agriculture, Food and Fisheries publication, *Legal Aspects of Private Farm Leases*, or contact the Ministry of Agriculture, Food and Fisheries agronomist or farm management specialist in your area.

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5.1 Introduction to a Farm Enterprise Plan

At this point in the process you should know:

- what you want out of your farm enterprise
- what you are prepared to put into the enterprise
- what product or products to produce
- how you are going to market them, and
- how you are going to produce them.

It is now time to put all this information together, along with a financial plan to produce an Enterprise Plan.

It's often said that if you don't know where you are going any road will take you there. An enterprise plan is about where you want to go and choosing the best road to get there.

The Ministry of Agriculture, Food and Fisheries has detailed business plan guides for a number of major commodities. See Enterprise Budgets at <http://fbminet.ca/bc> for details. If you are interested in any of these commodities, it would be worthwhile obtaining a copy from your nearest ministry office or from the web site noted above.

The ministry also has 'planning for profit' budget sheets for a large number of commodities in a variety of geographic locations. The list is in Appendix A. under Enterprise Budgets at <http://fbminet.ca/bc>.

At the end of this section, you should have a clear idea of how your farm will operate during its first few years of operation. By piecing together the information requested in the boxes you will have the basics for promoting your enterprise to a lender or to a potential buyer of your product.

The basic components of an enterprise plan are:

- Goals of the enterprise
- Marketing Plan
- Production Plan (materials and labour)
- Financial Plan
- Follow-up Plan

Depending on the nature of your operation, you may wish to expand or contract various components. If you are selling to a marketing association you may wish to have a smaller marketing section – one that deals more with trends and their impact on price. If you are in a more labour intensive operation such as a nursery, greenhouse or high volume direct marketing outlet you may wish to add human resources to the plan.

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5.2 Developing a Marketing Plan

At the end of this exercise you will have answered the following questions:

- *How do I promote my product?*
- *How do I estimate my potential sales?*
- *How can I maintain my competitive advantage?*

If you have chosen to market your products through a marketing association these questions will be answered in the association's marketing plan. You will also likely have some specific quantity of product you are permitted to ship. (skip to Section 3C - Developing a Production Plan)

If you are direct marketing then you need to develop a marketing plan. In Section 2 you did a major part of your marketing plan by identifying the products where you have a competitive advantage and by doing a rough estimate of the market available to you.

Your marketing plan will have the following main headings:

- Product Description and Competitive Advantage
- Promotion and marketing plan
- Sales forecasts
- Maintaining your competitive position

This section will prompt you to summarize the four points that will be used in your business plan. We will use a fictitious operation 'New Venture Farm'

Product Description

You have done this in section 4 (p. 18, p. 27). To recap:

New Venture farm will*describe products and sales methods*

New Venture farms competitive advantage
describe competitive advantage

a) Promotional Plan

In section 4 you identified your market. Here we will describe it in further detail and then develop a plan to promote New Venture Farm's products in that market.

The customers most likely to buy your product are termed your *target market*. These are the people that would value your competitive advantage the most. For example if you could produce a very uniform, fresh product, delivered daily, the restaurant trade may value your product more than the supermarkets. (this would be the case in farm salmon compared to wild salmon).

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It is important to ensure you have identified the specific target market and not a more general market. Advertising and promotion can be costly and time consuming, so you ought to make certain it is directed at your key customers.

New Venture Farm will target its marketing effort at

.....
describe the target market in as much detail as possible

Promoting your product

If you are doing your own marketing, you probably won't be able to afford the more expensive and broader medium of TV and radio. Local TV stations, however, may offer some opportunities to promote local events and features.

More common vehicles for promoting your farm products will be:

Advertising

- brochures
- local papers
- local radio
- magazines

Local farm marketing associations

- publications
- promotional events

Signage

- road side signs (check municipal regulations)
- vehicle signs

Coupons

Farm days / farm events

- fall fairs
- special events – Halloween, harvest day
- school tours

Word of mouth

If your product is a unique, niche-market product, your promotion costs will likely be higher and you may need to do more person-to-person promotion in the start-up phase of your enterprise.

There is no formula for how much you will need to spend on promotion. It is enterprise-specific and you will have to evaluate your own situation. Promotion cost is often neglected so it is better to err on the side of too much promotion rather than too little.

New Venture Farm will promote it's product by/through

..... *describe in detail how you plan to promote the products*

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b) Estimating Sales

In Section 2 you identified the size of your market and guessed at roughly what share you might be able to capture. This was more to eliminate opportunities than to develop a set of sales forecasts that could be used in financial planning. In this section you will develop a more detailed sales forecast that will be used directly in the financial planning section.

The more research you do, the better your estimates will be!

If you plan to have a roadside stand you can easily estimate the traffic by your stand by observing a competitor's stand nearby. In any estimate of sales, you must always keep in mind that sales will vary:

- throughout the day
- throughout the week
- from season to season

Estimates must consider variations in the day, and/or week, and most products have a seasonal component.

If you plan to sell to a food-service or retail outlet, a survey of several in your area will give you an idea of what their demand is and how it varies throughout the week and the season. If you plan to market directly to individuals, you could put an advertisement in the local paper and check the response.

As you are researching your market in greater detail it is important to estimate a best- and worst-case scenario. If you are producing breeding stock for the livestock market, your best-case scenario may be selling all offspring for breeding and your worst-case scenario may be selling all offspring into the slaughter market. If you are producing a crop, your best-case scenario would be selling a high yield into a strong market while your worst-case scenario would be selling a low yield into a soft market.

Use the following work sheet to estimate your annual sales.

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ANNUAL SALES FORECAST

Product				Best Case	Worst Case
High Yield	X	High Price	=		
Low Yield	X	Low Price	=		

Product				Best Case	Worst Case
High Yield	X	High Price	=		
Low Yield	X	Low Price	=		

Product				Best Case	Worst Case
High Yield	X	High Price	=		
Low Yield	X	Low Price	=		
TOTAL					

It is also important to estimate your sales on a month-by-month basis. Use the following chart for each product (B = best-case scenario, W=worst-case scenario) to estimate when your sales will occur during the year.

Month	% Sales	Product _____	
		B - Sales	W - Sales
Jan	_____	_____	_____
Feb	_____	_____	_____
March	_____	_____	_____
April	_____	_____	_____
May	_____	_____	_____
June	_____	_____	_____
July	_____	_____	_____
August	_____	_____	_____
Sept	_____	_____	_____
Oct	_____	_____	_____
Nov	_____	_____	_____
Dec	_____	_____	_____
Total	100%		

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Diversification

Any financial planner would tell you not to put all your savings into a single investment but rather to diversify your investments between some high-risk, high return investments and some low-risk, low-return investments. This applies to farming as well. If you can diversify into more than one product, where the products cycles are likely to be different, then it will reduce your risk of having a bad year and even out your revenues over the long term. On a large scale, dairy and cattle producers often sell extra forage to the local livestock market, poultry producers may grow berries or forage on their land. On a small scale, if you plan to grow Christmas trees you may also consider growing some other nursery crops. Diversification will provide more stability for your farming operation.

c) Maintaining an edge

After over-optimistic sales and market projections, one of the biggest reasons for poor success is lack of follow-up on your competitive position. Tastes and preferences change rapidly. To ensure that your products maintain their competitive advantage and that you identify new opportunities your plan must include a program to regularly monitor your customers.

Getting feed-back from your existing customers is a good start. Surveys, feed-back sheets or simply talking to them about your product can provide you with good information.

A full review of your competitive advantage should be done on a regular basis (every 6 - 12 months) to identify any new opportunities.

<p>Our competitive position will be monitored by</p> <p>..... New opportunities will be explored</p> <p>.....</p>

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5.3 Developing a Production Plan

At the end of this section you will have:

- * *a month by month plan of your production activities*
- * *a month by month estimate of any labour requirements*
- * *a month by month summary of operating costs*

The goal of this section is to outline the labour and production input requirements for the full year. This will help you plan your production activities, labour recruitment (if necessary) and your cash flow.

The basic tool for the production plan is the chart on the following page. If you have another form or a one year calendar, that will work as well.

Production inputs vary so much from commodity to commodity that you will have to take the production information you have obtained for each commodity and transfer the activities onto the chart on the next page. For many common commodities the Ministry of Agriculture, Food and Fisheries or industry associations have production guide information and planning for profit sheets that are useful for this exercise.

The best way to explain how to use the production plan is with an example. The example below is for New Venture Farm's three acres of mature raspberries that it plans to sell by direct market.

Production Plan Example

Step 1. Collect a sharp pencil, an eraser and all the production and cost information you have on the commodity. This example uses the ministry Planning for Profit sheet for 'hand harvested raspberries – Fraser Valley 1996' and the Berry Production Guide.

Step 2. Identify the major labour component of the activities involved in producing your commodity. For raspberries these include:

- tying and pruning the canes in late fall or early spring
- pickers for harvest
- plant and soil management activities such as applying fertilizer and disease control agents, rototilling and others.

Allocate the time and cost of each activity to the month when it is done. Estimate the cost and allocate to those months. Tying and pruning is done by the end of February, so is included in February and the cost per acre of \$675 (planning for profit sheet) means the total cost is \$2,025. Harvest is spread over June and July with approximately 1/3 in June and 2/3 in July.

From the Planning for Profit sheet the estimated production is 12,000 lbs per acre at a picking cost of \$.35 per pound. For a cost per acre of \$4,200. Of the total cost of \$12,600, \$4,200 was allocated to June and \$8,400 to July.

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Other work on the raspberry planting include old cane disposal (March), applying fertilizer (April and May), rototilling (March/April), setting and moving irrigation, (June - Sept) cleaning up after harvest and applying disease-control agents. These can be done by the farmer operator, if he or she has the appropriate equipment, or by outside contractors. Include the appropriate cost of outside contractors or leave the cost blank if done by the proprietor. In our example, to be consistent with the planning for profit sheet, we will assume the farmer does these chores.

Step 3. Identify the major production inputs. These will include:

- fertilizer inputs
- disease control inputs
- machinery fuel and maintenance
- marketing requirements

Raspberries can require up to three applications of fertilizer; manure (often poultry) in late March or early April, a side dressing of fertilizer to match the plants needs for the growing season (April) and if required an application of liquid fertilizer in May. In most fields, the lush, early new cane growth is *burned* back. If a disease or pest is causing loss, disease control agents may need to be applied. The key disease concerns in raspberries are fruit rot, cane disease (particularly root rot), insect damage and nematodes.

Machinery expenses (repair and fuel), irrigation expenses (power), pollination expenses (bee hives) and marketing expenses (advertising and packaging) must also be considered. A cover crop to protect the soil over winter is recommended for raspberries.

The above mentioned items have been included in the production inputs section of our example. Costs, consistent with the planning for profit sheet, have been included.

Step 4. Summary

Add cost figures across and down to give you a month by month and an annual cost for your labour and production inputs.

The production plan gives you a picture of your farming activities over the year and provides the operating cost information for the next step in planning, the financial plan.



PLANNING FOR PROFIT



BRITISH COLUMBIA Ministry of Agriculture,
Fisheries and Food

Raspberries - Full Production Hand Harvested, Fraser Valley 1996

Agdex 237 - 810

Introduction

The planning process provides producers with the opportunity to look at their operation as a group of distinct enterprises. Alternative enterprises should be evaluated on the basis of **Contribution Margin**, taking into consideration resource constraints, market opportunity, risk and uncertainty.

The **Contribution Margin** must provide funds for interest, overhead and other indirect expenses as well as a return for living expenses, loan repayment and investment. These items should be included in the overall farm plan which will include a **Projected Income Statement** and **Projected Cash Flow Statement**.

Key Factors Affecting Profit

	Target
Quantity	12,000 lbs/acre
Price	\$0.70 - \$ 0.90/lb

Price affects profitability and influences the decision on whether to hand or machine harvest. Hand harvesting is the preferred method when prices are high but machine harvesting is chosen as prices fall since labour costs are not affected by berry price.

Harvested yield is affected by soil type, variety grown, cultural management including fertilization, insect, disease and weed control, primocane management.

Marketing Alternatives

Raspberries can be marketed through the grower owned co-operatives, any of the privately owned processors or sold on a contract basis to commercial processors.

Cash Flow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc						5	30	10	5	5	5	
%Exp	5	10	5	5	15	40	20					

The above information indicates the timing of monthly flow of funds included in the **Contribution Margin** only. A completed **Projected Cash Flow** should include indirect expenses, capital sales and purchases, loans, and personal expenses. The majority of payment is made the same calendar year but the remainder is often paid during the following year.

Rules of Thumb

Investment	\$4,500 - \$5,500/acre
Picking Labour	\$0.35/lb
Direct Expense % of Income	80% - 90%

The above indicators are provided for comparison purposes. They are set out as potential targets for raspberry production.

Contact: **BILL PETERS, P.Ag.**
Provincial Berry Specialist
Abbotsford
LORNE OWEN, P.Ag.
Provincial Management Specialist
Abbotsford

Prepared by: **ANDREA GUNNER, P.Ag.**

RASPBERRIES

Target Yield - 12,000 lbs/acre

Contribution Margin 1 Acre of Raspberries Full Production Fraser Valley

Total Income				
	Yield	Price	Unit	Income
Ready Picked	12,000	\$0.75	lb	\$9,000

Direct Expenses				
	Quantity	Price	Unit	Expense

<u>Plant Nutrients</u>				
10 - 16 - 18	270	\$0.43	kg	\$116
Manure	20	2.00	yd	40

<u>Pest Control</u>				
Goal	0.75	50.30	litre	38
Princep 9T	0.44	13.23	kg	6
Captan (4X)	0.54	13.62	kg	29
Diazinon 500	0.40	13.87	litre	6
Ridomil	2.20	76.00	litre	167
Vydate L (.5X)	1.90	26.60	litre	25

Fuel, Oil & Lubrication				93
Machinery R & M				68

<u>Contract Labour</u>				
Prune & Tie	90	7.50	hour	675
Picking	12,000	0.35	lb	4,200
Picking Supervisor				450

Cartons	12,000	0.16	lb	1,920
Hive Rental	0.5	45	hive	23
Outhouse Rental				23

Irrigation Power & Water				60
--------------------------	--	--	--	----

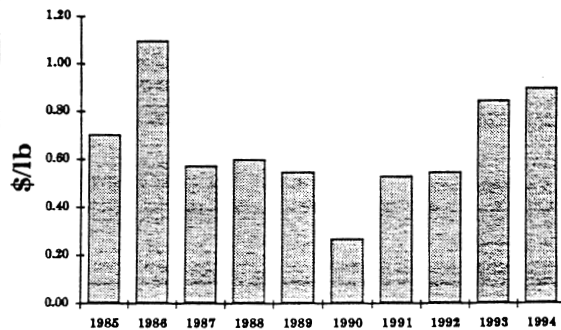
Total Direct Expenses				\$7,938
------------------------------	--	--	--	----------------

Contribution Margin				\$1,062
----------------------------	--	--	--	----------------

Buildings and Machinery Replacement Cost Total Farm Size - 40 Acres

Buildings	\$ 20,000
Posts & Wires	45,000
Power Machinery	20,000
Field Machinery	31,000
Irrigation	20,000
Hand Tools & Misc.	6,500
Vehicles	45,000
Total	\$187,500

Raspberry Prices



Contribution Margin - Sensitivity Analysis

The table below lists the changes to contribution margin as quantity of yield changes and price received varies.

PRICE \$/lb	Yield lbs Per Acre			
	6,000	9,000	12,000	15,000
0.55	(1,578)	(1,458)	(1,338)	(1,218)
0.65	(978)	(558)	(138)	282
0.75	(378)	342	1,062	1,782
0.95	222	1,242	2,262	3,282

This information is provided as a guideline only. Target yield indicates above average production. An individual crop plan should be developed by each producer. Planning forms may be obtained from your local office of the BC Ministry of Agriculture, Fisheries and Food.

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Sheet1

PRODUCTION PLAN
Year _____

Farm Name _____
Commodity _____

	January	February	March	April	May	June	July	August	September	October	November	December	Year Total
Labour Activities	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity
Production Inputs	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity	Activity
Summary of Costs	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
* Labour Costs													
* Production Costs													

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PRODUCTION PLAN

Year 1998

Farm Name DEED URBINE FARM

Commodity APPLES PEACHES RAISINS

Month	January	February	March	April	May	June	July	August	September	October	November	December	Year Total
Apple Production													200
Peach Production													1200
Raisin Production													100
Other Activities													100
Income													100
Expenses													100
Net Income													100

Summary of Costs
Production Costs

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5.4 Developing a Preliminary Financial Plan

The key elements of a financial plan are:

- a projected income statement
- a projected balance sheet
- a cash flow analysis
- a source and use of funds analysis

Establishing a major enterprise also involves consideration of:

- The business structure
- Estate planning for the farm family
- Tax planning
- Others

If you are planning a major farm enterprise the Ministry of Agriculture, Food and Fisheries has more comprehensive guides to developing a financial plan. These can be obtained from your nearest ministry office. More comprehensive financial planning information is available from ministry offices or on the “Farm Business Management web page at <http://fbminet.ca/bc>.

The financial planning exercise in this guide is designed to give you a rough idea of whether your enterprise is likely to succeed and what financial resources you will require.

If you choose to proceed, it is strongly recommended that you do a in-depth financial plan, involving your personal accountant in setting up the enterprise to best compliment your situation.

Income Statement

The projected income statement is done much the same way you do your personal budget at home. In a personal budget you find out how much money you have coming in, subtract your normal living expenses and find out how much is left for spending.

For a business enterprise, you start with projected sales then subtract all the costs to find out how much is left for profit. Business costs are usually broken down into those costs that vary with production (fertilizer, labour, disease control) called variable costs, and those that don't change with production (depreciation, interest), called fixed costs.

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When doing a projected income statement, it is always helpful to do one for the best- and worse-case market scenario.

Starting with the form on the next page, enter your estimated annual sales from all commodities you produce in the sales column (from your analysis on page 31). Sum up your best- and worse-case scenario's separately and enter in box [1] and box[2]. For New Venture Farms direct market raspberry operation we used \$.60 as a worse case scenario and \$1.00 as a best case scenario.

Under variable costs use the items from your production plan. Enter these as cost categories and add the annual costs from all the commodities you plan to produce (i.e. if you have fertilizer in the production plan for two different commodities add them together on the income statement). Add up all your variable costs and enter in box [3].

Costs that don't vary with production, such as interest, depreciation on equipment, office expenses and others, are termed fixed costs.

Items such as major equipment may require a large amount of cash initially but add benefit to the enterprise over a long period of time. For example, if you buy a tractor it may cost \$15,000 but be useful over a long period of time. To allocate the cost of the tractor expense over its useful life we 'depreciate' its value a little each month. For New Venture Farm the planning for profit sheet indicates that \$187,500 is needed for a 40 acre farm. We will estimate that only \$30,000 is needed for 3 acres and that it has a useful life of 15 years. This means that even though the \$30,000 had to be paid before the farm started, its value is spread over 15 years. Under fixed costs in our example we have added \$2,000 for depreciation ($\$30,000/15$).

If money is borrowed to buy equipment, the cost of borrowing (interest) is also an expense. We will assume that New Venture Farm took out a loan for \$20,000 at 8%. The interest expense will drop over the 10 years but for the first year it will be close to \$1,600.

The other area of fixed costs relates to what might be called office expenses or business expenses. Costs such as bank charges, telephone, stationery, accounting fees and other costs do not vary with production but are tied to the annual cost of operating a business. In your enterprise you may wish to itemize these separately but in the example we will identify bank charges of \$12/month and group the rest as office expense at \$40/month.

Total all the fixed costs and enter in box [4]. Add the variable costs [3] and fixed costs [4] to get the total costs and enter in box [5]. The costs are the same for both market scenarios.

Subtract your total costs [5] from your total revenue in the best case [2] and worst case [1] scenarios to get your income in the best [7] and worst [6] case scenarios.

PROJECTED INCOME STATEMENT

Farm Name _____

Year _____

REVENUES

Commodity Sales

1 _____

2 _____

3 _____

Total

Worst Case

[1]

Best Case

[2]

COSTS

Variable Costs (vary with level of products)

Labour

Seed

Fertilizer

Disease control

Livestock Feed

Vet Expenses

Machinery R & M

Building R & M

Fuel

Total

[3]

Fixed Costs (independent of level of production)

Interest Expense

Bank Charges

Office Expense

Depreciation

Total

[4]

TOTAL COSTS

[5]

[5]

NET INCOME

[6]

[7]

PROJECTED INCOME STATEMENT

Farm Name NEW VENTURE FARM

Year 1998

REVENUES

Commodity Sales

1 RASPBERRIES (D.M.)

2 _____

3 _____

Total

Worst Case

21,600

21,600 [1]

Best Case

36,000

36,000 [2]

COSTS

Variable Costs (vary with level of products)

Labour 15,225

Seed _____

Fertilizer 520

Disease control 955

POLLINATION 100

COVER CROP 200

Livestock Feed _____

Vet Expenses _____

Machinery R & M 425

Building R & M _____

Fuel 300

Total 23,725 [3]

Fixed Costs (independent of level of production)

Interest Expense 1600

Bank Charges 144

Office Expense 480

Depreciation 2,000

Total 4250 [4]

TOTAL COSTS

27,975 [5]

27,975 [5]

NET INCOME

<6,375> [6]

8,025 [7]

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Cash Flow Analysis

The cash-flow analysis differs from the income statement in that it only deals with cash in and cash out as opposed to revenues and expenses. For many items, when you make a sale you get the cash and when you make a purchase you must pay for it directly. For other items, you may receive payment after delivery or pay for an input well after receiving it. For example, if you are dealing with a cooperative for marketing your product, payment may be spread over several months. Some cooperatives will also extend credit on input costs like fertilizer and disease-control agents and charge them against your revenues.

This means that, even though you are making money, there will likely be times when more money is flowing out than flowing in. The cash-flow analysis is designed to identify these times so you can make arrangements to deal with them.

Use the cash-flow analysis form on the next page. Cash-flow analysis is done on a monthly basis rather than an annual basis. The first step is to determine when you will receive cash for the sale of your product. New Venture Farm is direct marketing, so the cash will come in the same time as harvest. If New Venture Farm was selling to XYZ Fruit Co-op then the cash for its product would not likely come in at time of harvest but over a period up to six months.

You may wish to do a cash flow analysis for your best- and worst-case market conditions.

For New Venture Farm we will use the average market price of \$.80, and with direct marketing, the cash is received at the same time as harvest.

The Production Plan includes a month-by-month estimate of your production and associated production costs. Transfer these items to the cash-flow sheet under production costs and enter the appropriate costs numbers under the relevant months of the year.

Add the fixed costs that must be paid monthly (does not include depreciation), identified on the income statement, to the fixed cost section — these by definition will be the same each month. Interest expense is grouped with the loan payment.

Interest expense is included with the loan payment in the cash-flow analysis. Though principle repayment is not an expense, it does require cash so the full loan repayment fee is considered in the cash-flow statement. If you plan on borrowing money for your farm enterprise, enter the loan repayment amount where indicated. Add the production costs, fixed costs and loan payment to get your total cash out. Subtract your total cash out from your total cash in to get your cash flow.

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		CASH FLOW ANALYSIS												
		Year 1998												
		Farm Name NEW VENTURE FARM												
		January	February	March	April	May	June	July	August	September	October	November	December	Year Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
CASH IN														
Revenues														
1/	KASPERNY (D.N)						9,600	19,200						28,800
2/														
3/														
4/														
	Total Cash In						9,600	19,200						28,800
CASH OUT														
Production Costs														
-	LABOR		2025	300	200	200	4,200	8,400	300					15,225
-	FERTILIZER			170	120									520
-	SAFETY EQUIP													120
-	DISINFESTANT					55	30		150		600			835
-	ROLLWATER					100								100
-	CONTRACTOR						2,000	4,000	200					6,000
-	MACHINERY			425										425
-	MACHINERY RENT			25	50	50	20	20	40	20	25			250
-	FIXED COSTS													
-	BANK CHARGES	12	12	12	12	12	12	12	12	12	12	12	12	144
-	OFFICE EXP	40	40	40	40	40	40	40	40	40	40	40	40	480
-	Loan Payment	250	250	250	250	250	250	250	250	250	250	250	250	3,000
	Total Cash Out	302	2327	1172	672	707	6552	12722	992	322	927	302	302	27297
	CASH FLOW	-302	-2327	-1172	-672	-707	+3048	+6478	-992	-322	-927	-302	-302	+1501

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CASH FLOW ANALYSIS

Year _____
Farm Name _____

	January	February	March	April	May	June	July	August	September	October	November	December	Year Total
CASH IN													
_Revenues													
1													
2													
3													
4													
Total Cash In													
CASH OUT													
_Production Costs													
1													
2													
3													
4													
5													
6													
7													
8													
Fixed Costs													
1													
2													
3													
Loan Payment													
1													
2													
Total Cash Out													
CASH FLOW													

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5.4.a) Farm Taxes

There are several tax considerations related to your farming enterprise. This section is at the end of the guide for a reason. Tax considerations should not drive your decision to farm but should be part of planning your new enterprise.

1) Farmland Classification

The B.C. Assessment Authority classifies land as farm land if it produces a certain level of agriculture production (sales). The minimum amount is \$2,500 and the figure rises as the amount of land in a farm unit rises. To have your farm classified as farm land you need to apply to your local Assessment office (see Blue Pages) and have a farm plan in place by October 31 of the year prior to the first year of farm classification. For more information see Appendix B or visit B.C. Assessment's home page (at www.bcasessment.bc.ca)

Having your land classified as farm land is an important step, as it is the measure by which you gain exemption from provincial sales tax on some items and by which you are included under the Farm Practices Protection (Right to Farm) Act. In essence it makes you a 'bona fide' farmer.

- 2) Farmers are exempted from paying provincial sales tax on a specific list of 'inputs' to the farm. This list is available from the [Consumer Taxation Branch](#) included in Appendix B. It is important to note here that if you pay PST on exempt items in the process of developing your farm you can claim a rebate after your land has been classified farm. If you have a farm vehicle you can apply for a farm decal that will enable you to purchase fuel without provincial sales tax.
- 3) Though many farm products are GST exempt, many farm inputs are not. Farms that produce a food product usually pay more in GST on inputs than they collect in GST on sales. The farm enterprise can claim back the GST paid on inputs if it registers with the tax branch. Small businesses have the option of setting their reporting period to every three months or once a year if their activity level is low — the administrative burden is low and the potential benefit is quite high.
- 4) A farm enterprise is like any small business and should be reported as such. Check with your accountant on the most advantageous way to structure your farm business. In most farming areas there are accounting firms that specialize in farm businesses.

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5.5 Keeping it Going

You have now put together all the pieces of an enterprise plan — the goals, the marketing plan, the production plan and the preliminary financial plan. These are the key elements in any presentation to a banker or potential partner.

The good news is that this plan will act as a guide to the successful operation of your enterprise. The bad news is it will be out of date tomorrow. Your enterprise is based on opportunities in your community today. Tomorrow they may change. For the long term success of your enterprise it is important to regularly update your enterprise plan.

The simplest follow-up is to review and revise both your marketing plan and your financial plan at the end of the fiscal year. If you are operating a market garden, nursery, cut flowers or other similar operation where trends change quickly you may wish to monitor prices and trends on a more regular basis. Most commodities have a journal or web site that reports on the latest trends. Some are noted in Appendix H.

I will review my marketing plan every..... and review my financial plan everymonth, quarter, *year*.....

Good Luck!
and
Enjoy Your Farming Experience

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Appendices

Appendix A. – Key Contacts

Ministry of Agriculture & Food	<u>http://www.agf.gov.bc.ca/</u>
Ministry Offices	<u>http://www.agf.gov.bc.ca/ministry/who.htm</u> - call your local office for contacts with farm consultants
Ministry Publications	<u>http://fbminet.ca/bc/publicdb.htm</u>
Ministry Publications – Adobe	<u>http://www.agf.gov.bc.ca/publicat/publications.htm</u>
Crop Industry Specialists	<u>http://www.agf.gov.bc.ca/croplive/cropprot/staff.htm</u>
Enterprise Budgets	<u>http://fbminet.ca/bc/</u>
USDA	<u>http://www.usda.gov/</u>
Entrepreneurial Self Assessment	

Appendix B. – Rules and Regulations

Legislation Affecting Farming	
Federal	<u>http://www.agf.gov.bc.ca/resmgmt/fppa/r_efguide/appendix1.htm</u>
Provincial	<u>http://www.agf.gov.bc.ca/resmgmt/fppa/r_efguide/appendix2.htm</u>
Statutes of B.C.	<u>http://www.qp.gov.bc.ca/bcstats/</u>
B.C. Agriculture Land Commission	<u>http://www.landcommission.gov.bc.ca/</u>
B.C. Assessment Authority	<u>http://bcassessment.gov.bc.ca/0_main.html</u>
Ministry of Environment	<u>http://www.env.gov.bc.ca/</u>
Farm Practices Protection Act	<u>http://www.qp.gov.bc.ca/bcstats/96131_01.htm</u>
Environmental Guidelines	<u>http://www.agf.gov.bc.ca/resmgmt/fppa/pubs/envir_on/envguide.htm</u>
Consumer Taxation Branch	<u>http://www.fin.gov.bc.ca/ctb/farmers.htm</u>

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Appendix C. – Farming Contacts

Industry Opportunity Profiles	<u>http://fbminet.ca/bc/</u>
Direct Farm Marketing	<u>http://fbminet.ca/bc/</u>
B.C Soils Information	<u>http://www.bcsoils.gov.bc.ca/</u>
Climate Maps	
Frost Free Days	<u>http://www.agf.gov.bc.ca/resplan/maps/frostfre.jpg</u>
Temperatures	<u>http://www.agf.gov.bc.ca/resplan/maps/acumtemp.jpg</u>
Other Maps	<u>http://www.agf.gov.bc.ca/resplan/maplist.htm</u>
B.C. Farm Products	<u>http://www.agf.gov.bc.ca/aboutind/products/index.htm</u>
Poultry Fact Sheets	<u>http://fbminet.ca/bc/</u>
Nursery & Floriculture Production	<u>http://www.agf.gov.bc.ca/publicat/publications.htm</u>
B.C. Crop Production Guides	<u>http://www.agf.gov.bc.ca/croplive/cropprot/pr odguide.htm</u>
Organic Production	<u>http://www.agf.gov.bc.ca/foodind/organic/orgtoc.htm</u>
Farm Management on-line	<u>http://infoseek.go.com/?win=search&sv=M6&ud9=IE5&qt=Canada+Farm+Business+Management&oq=women+-+farming&url=http%3A//www.cfbmc.com/eng/&ti=Canadian+Farm+Business+Management+Council&top=</u>
California Rare Fruit Growers	<u>http://www.crfg.org/</u>
Global Agribusiness Information Network – Production Guides	<u>http://infoseek.go.com/?win=search&sv=M6&ud9=IE5&qt=global+agribusiness+Information+Network&oq=Alberta+Agriculture+Horse&url=http%3A//www.fintrac.com/gain/links/&ti=Global+Agribusiness+Information+Network+-+GAIN+Select+Award+(Links)&top=420</u>
Universities & Extension Agencies	
Ohio State University Extension	<u>http://www.ag.ohio-state.edu/</u>
University of Cal Davis	<u>http://www.sfc.ucdavis.edu/</u>
College of Ag Sciences – Penn St	<u>http://www.cas.psu.edu/</u>
Ag and Rural Development – Iowa	<u>http://www.card.iastate.edu/</u>
Alternative Farming Systems	<u>http://www.nal.usda.gov/afsic/</u>
Preparing a Business Plan	<u>http://fbminet.ca/bc/bpguide/plan7.htm</u>

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Appendix D. – Other Interesting Sites

AgriGator -

http://www.ifas.ufl.edu/WWW/A_GATOR/HTM/A_G.HTM

Farmbid.com

<http://www.farmbid.com/>

Small Farm Center

<http://infoseek.go.com/>

<http://www.sfc.ucdavis.edu/?win=search&sv=M6&ud9=IE5&qt=small+farm+center&oq=Small+Farm+News&url=http%3A/www.sfc.ucdavis.edu/&ti=Small+Farm+Center+Homepage&top=>

[http%3A/www.sfc.ucdavis.edu/&ti=Small+Farm+Center+Homepage&top=](http://www.sfc.ucdavis.edu/&ti=Small+Farm+Center+Homepage&top=)

Appendix E. – Industry and Marketing Agencies

B.C. Marketing Boards

<http://www.agf.gov.bc.ca/ministry/bcmb.htm>

Farm Practices Board

<http://www.agf.gov.bc.ca/ministry/fpb.htm>

B.C. Agriculture Council

<http://infoseek.go.com/?win=search&sv=M6&lk=noframes&nh=10&ud9=IE5&qt=B.+C.+Agriculture+Council&oq=&url=http%3A/www.bcac.bc.ca/index.html&ti=British+Columbia+Agriculture+Council&top=>

[http%3A/www.bcac.bc.ca/index.html&ti=British+Columbia+Agriculture+Council&top=](http://www.bcac.bc.ca/index.html&ti=British+Columbia+Agriculture+Council&top=)

[index.html&ti=British+Columbia+Agriculture+Council&top=](http://www.bcac.bc.ca/index.html&ti=British+Columbia+Agriculture+Council&top=)

Partnership Committee on Agriculture and the Environment

<http://infoseek.go.com/>

<http://www.bcac.bc.ca/?win=search&sv=M6&lk=noframes&nh=10&ud9=IE5&qt=B.+C.+Agriculture+Council&oq=&url=http%3A/www.bcac.bc.ca/index.html&ti=British+Columbia+Agriculture+Council&top=>

[http%3A/www.bcac.bc.ca/index.html&ti=British+Columbia+Agriculture+Council&top=](http://www.bcac.bc.ca/index.html&ti=British+Columbia+Agriculture+Council&top=)

[index.html&ti=British+Columbia+Agriculture+Council&top=](http://www.bcac.bc.ca/index.html&ti=British+Columbia+Agriculture+Council&top=)

B.C. Cattleman's Association

<http://infoseek.go.com/>

<http://www.cattlemen.bc.ca/beefbc/july99/?win=search&sv=M6&lk=noframes&nh=10&ud9=IE5&qt=B.+C.+Agriculture+Council&oq=&url=http%3A/www.cattlemen.bc.ca/beefbc/july99/UMBIA+CATTLEMEN'S+ASSOCIATION&top=>

[http%3A/www.cattlemen.bc.ca/beefbc/july99/UMBIA+CATTLEMEN'S+ASSOCIATION&top=](http://www.cattlemen.bc.ca/beefbc/july99/UMBIA+CATTLEMEN'S+ASSOCIATION&top=)

[UMBIA+CATTLEMEN'S+ASSOCIATION&top=](http://www.cattlemen.bc.ca/beefbc/july99/UMBIA+CATTLEMEN'S+ASSOCIATION&top=)

B.C. Vegetable Marketing Commission

<http://www.bcveg.com/>

B.C. Hot House

<http://www.bchothouse.com/>

Crop Industry Associations

<http://www.agf.gov.bc.ca/croplive/plant/horticult/hortasso.htm>