

# Virginia Whole Farm Planning: An Educational Program for Farm Startup and Development

Whole Farm Business Management and Planning



# Virginia Whole Farm Planning:

## An Educational Program for Farm Startup and Development



## Preface

Welcome to the Beginning Farmer and Rancher Coalition Program's Whole Farm Planning curriculum!

## How to Use This Workbook

This material is organized into five modules that may be used as stand-alone resources to address specific areas of whole farm planning. However, we suggest that the modules may be most beneficial to beginning farmers and ranchers if they are used as a series of educational sessions designed to encourage reflection, goal setting, and steps to organize a new farming enterprise.

## Advice for Beginning Farmers

We encourage you to begin by exploring the Introduction to Whole Farm Planning module. This resource will offer you the opportunity to examine your personal and business goals and priorities. Once you have completed this introductory module, you are welcome to explore the other resources in a sequence that best addresses your questions and ideas for your farming enterprise.

## Advice for Service Providers

Thank you for choosing to use our curriculum in your whole farm planning educational program. As an experienced education service provider, you are encouraged to adapt these resources to best serve the needs of people you work with. The materials are intended to be used as stand-alone pieces or in various combinations of instructional formats, as needed by your program participants.

## Modules

Each module is organized at the introductory to intermediate stage of farming knowledge and experience. At the end of each module, additional resources and Virginia service provider contact information are available to help continue the farm planning process.

- **Module I. Introduction to Whole Farm Planning** – The purpose of the first module is to help beginning farmers and ranchers in Virginia make informed farm planning decisions by introducing them to the whole farm planning process.
- **Module II. Marketing** – The marketing module is designed to help beginning farmers and ranchers develop and implement their goals for market analysis, product establishment, and development of viable marketing channels.
- **Module III. Whole Farm Business Management and Planning** – In this module, you will develop and implement early financial and resource management goals as part of the whole farm plan.
- **Module IV. Land Acquisition and Tenure** – This module will help beginning farmers and ranchers develop and implement farm tenure and transfer goals as part of the whole farm plan. Established farmers who are planning for the transfer of their farm may also find this module useful.
- **Module V. Sustainable Farming Practices** – The last module is designed to help beginning farmers and ranchers develop and hone their skills and knowledge in the fundamental production practices associated with establishing and growing a wide range of plants and animals.

## Why This Curriculum? The Beginning Farmer Situation

Emerging trends in U.S. agriculture suggest that in order to enhance our agricultural resource base, we need to establish, sustain, and preserve our farms, farmers, and farmland. A growing number of nongovernmental groups, cooperative extension services, and U.S. Department of Agriculture agencies are working to improve the viability of new farms and the economic, social, and environmental fabric in which they are entrenched (Niewolny and Lillard 2010). These initiatives are responding to the overwhelming concern about the steady decline in the number of individuals entering agricultural careers, coupled with an increase in the number of exiting farmers and ranchers (Ruhf 2001).

The current population of beginning farmers and ranchers is diverse and varies by location across the nation (Ahearn and Newton 2009). On average, beginning farmers operate smaller farms — in size and gross dollars — compared to established farmers (Ahearn, Yee, and Korb 2005). While beginning farmers tend to be younger than established farmers, about a third of beginning farmers are at least 55 years of age or older (Ahearn and Newton 2009). Beginning farmers, along with limited-resource and socially disadvantaged farmers, make up at least 40 percent of all U.S. farms (Nickerson and Hand 2009).

The Bureau of Labor Statistics (U.S. Department of Labor 2009) recently reported a large job decline for farmers and ranchers and projects an 8 percent decrease in the number of farmers and ranchers between 2008 and 2018. The age distribution of today's farmers and ranchers is also a critical issue. According to the "2007 Census of Agriculture" (USDA-NASS 2009a), the average age of a principal farmer is 57 years old. More than 63 percent of all established farms in 2007 were headed by a principal farmer age 55 or older; only 5 percent of all principal farmers were 35 or younger (Ahearn and Newton 2009). The aging population of U.S. farmers and ranchers is expected to increase in the next census while the number of young farmers is likely to decline.

The 2007 Virginia census also illustrates a significant need to establish and retain beginning farmers and ranchers based on the economic structuring of the industry. Agriculture provides \$55 billion in income per year and about 357,000 jobs, making it an important industry for the commonwealth. Of the 47,383 farms in Virginia, 92 percent reported less than \$100,000 in sales, while 8 percent of the total farms accounted for 85 percent of total farm sales (USDA-NASS 2009b).

Virginia is also among the most expensive states for farmland, making it difficult for aspiring agriculturists to purchase suitable acreage. The average farm comprises 171 acres, while 77 percent of the total farms in Virginia operate on fewer than 180 acres (USDA-NASS 2009b).

Little is known about the 13,206 principal farmers in Virginia who have been on their current farms or ranches for nine or fewer years. The majority of all farmers in Virginia are white males, though the number of minority farmers such as women and African Americans is on the rise (USDA-NASS 2009b). Production crops and practices differ regionally and culturally, especially between rural and urban centers. Consumer demand for local and regional food, however, is growing throughout Virginia.

## Background on the USDA Beginning Farmer and Rancher Development Program

Beginning farmer education for adult and young audiences in the United States can be generally traced back to the advent of the 1862 and 1890 Morrill Land Grant acts. But for the first time, the Food, Conservation, and Energy Act of 2008 (the 2008 Farm Bill), appropriated \$75 million for fiscal years 2009 to 2012 to develop and offer education, training, outreach, and mentoring programs to enhance the sustainability of the next generation of farmers.

The reasons for the renewed interest in beginning farmer and rancher programs are:

- The rising average age of U.S. farmers.
- The 8 percent projected decrease in the number of farmers and ranchers between 2008 and 2018.
- The growing recognition that new programs are needed to address the needs of the next generation of beginning farmers and ranchers.

According to the 2008 Farm Bill, a beginning farm is considered one that is operated by one or more operators who have 10 or fewer years of experience operating a farm or ranch. In 2007, approximately 21 percent of family farms met that definition.

Since its inception, BFRDP has funded many projects to train, educate, and provide outreach and technical assistance to beginning farmers on one or more of the following topics:

- Production and management strategies to enhance land stewardship.
- Business management and decision support strategies that enhance financial viability.
- Marketing strategies that enhance competitiveness.
- Legal strategies that assist with farm or land acquisition and transfer.
- Other priority topics to enhance competitiveness and sustainability of beginning farmers and ranchers for the next generation.

## Background on the Virginia Beginning Farmer and Rancher Coalition Program

The Virginia Beginning Farmer and Rancher Coalition Program aims to improve opportunities for beginning farmers and ranchers to establish and sustain viable agricultural operations in Virginia through the development and enhancement of whole farm planning programs, online resources, and farmer mentoring networks.

### Beginning Farmer Audience

This curriculum is aimed at addressing the needs of the spectrum of beginning farmers and ranchers in Virginia. We recognize a diversity of farming experiences, backgrounds, and aims held by Virginia's beginning farmers and ranchers. Many groups find it useful to look at the stages of commitment, decision-making, and skills that farmers pass through as they begin a career in farming. Drawing on the work of Sheils (2004), the following categories provide a helpful guide to understanding this pathway.

**Prospective or explorer farmers** – Individuals interested in starting a farm or ranch. This includes next-generation farm family members as well as those who do not come from a farming background.

**Startup farmers** – Individuals who are in the early stages of their agricultural operation, often within the first one to three years of farming or ranching.

**Re-strategizing farmers** – Farmers who are making changes to their operations after farming for approximately four to seven years. These individuals usually have increased decision-making responsibility and commitment to farming.

**Establishing farmers** – Farmers who are expanding, diversifying, and stabilizing within years eight to 10 of the beginning farmer period.

**Transitioning farmers** – Individuals who are family farm members who have decision-making roles on the farm without having primary farm operator status.

These categories of farmers are a modification of those referred to by the New England Small Farm Institute. For the full reference, see "What Does the Term 'Farmer' Mean?" (Sheils 2004).

Preface written by Kim Niewolny and Matt Benson, Department of Agricultural and Extension Education, Virginia Tech.

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## Module III.

# Whole Farm Business Management and Planning

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# Module III. Whole Farm Business Management and Planning

## Introduction

The purpose of the Whole Farm Business Management and Planning module is to help beginning farmers and ranchers in Virginia make informed business decisions by introducing them to the business management process.

This module includes key concepts, worksheets, and examples to provide the framework and inspiration you will need to manage your business.

Four additional modules will guide you in developing the whole farm plan by focusing on the following areas:

**Module I.** Introduction to Whole Farm Planning

**Module II.** Marketing

**Module IV.** Land Acquisition and Tenure

**Module V.** Sustainable Farming Practices

Each module is organized at the introductory to intermediate stage of farming knowledge and experience. At the end of each module, lists of additional resources and Virginia service provider contact information are available to help continue the farm planning process.

In preparation for the planning activities used in this module, we recommend that participants who have land contact their local U.S. Department of Agriculture Natural Resources Conservation Service office (office locations available at <http://offices.sc.egov.usda.gov/locator/app?agency=nrcs>) to acquire maps of the farmland under consideration for a new enterprise.

## **VIRGINIA** Beginning Farmer & Rancher COALITION PROGRAM

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[www.vabeginningfarmer.org](http://www.vabeginningfarmer.org)



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## Teaching and Learning Tools

## Resources

This module is supported by several key resources that are designed to prepare beginning farmers to begin developing their business for short- and long-term farming success. Several resources that provide essential material are listed here. Full references for these resources are listed at the end of this module.

- “Agricultural Labor Management,” The University of Vermont website. [www.uvm.edu/extension/agriculture/facccp/?Page=aglabor.html&SM=labor-menu.html](http://www.uvm.edu/extension/agriculture/facccp/?Page=aglabor.html&SM=labor-menu.html)
- “Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses” (DiGiacomo, King, and Nordquist 2003).
- “Planning the Future of Your Farm: A Workbook Supporting Farm Transfer Decisions,” Virginia Cooperative Extension publication 446-610 (AAEC-37; Branam 2012).
- “Question and Answer Guide for Starting and Growing Your Small Business,” Virginia Cooperative Extension publication 310-100 (VCE 2009).

## Additional Resource

Following is an additional resource you may consider using in the module as supportive material. It is not required in order to complete the module, but it is helpful if you require further reading and assessment. This resource is referenced where appropriate and fully listed in the reference section.

- Consider purchasing a copy of the most recent version of Quicken Home and Business (small business finance software). With this package, you will be able to track as well as categorize your personal spending and business expenses automatically while you organize your personal and business finances in one place. Visit the following website for more information: [www.quicken.com/personal-finance/home-business-2015?t=1&priorityCode=1327500000&zna=7&znz=4&cid=pc\\_gg\\_b\\_stan\\_402-5275504-4671746](http://www.quicken.com/personal-finance/home-business-2015?t=1&priorityCode=1327500000&zna=7&znz=4&cid=pc_gg_b_stan_402-5275504-4671746).

## Objectives of Module

The Whole Farm Business Management and Planning module is designed to help beginning farmers and ranchers develop and implement informed business decisions by introducing them to the business management process.

The module includes concepts, worksheets, and examples to help you assess your resources and preferences for successful business planning.

### Participants will:

- Develop a vision for the business.
- Establish a mission and set realistic, attainable goals and objectives.
- Assess where they are in terms of financial stability or instability.
- Reflect on responses to discussion during the Introduction to Whole Farm Planning module (Module I). We strongly recommend the completion of Module I prior to beginning this module.
- Assess where they want to be financially.
- Construct a business plan to match strategic plan.
- Understand family dynamics and develop skills to manage conflict.

### Portfolio Pieces Developed in This Module

We recommend that participants keep copies of the completed worksheets in this module to use as part of their whole farm planning portfolio that can be used when talking to financial agencies or land owners to illustrate their business plans.

## Unit 1. What Do You Need to Get There? What Do You Need to Know?

The first step in starting a farm business is an in-depth analysis of the family's resources that can be utilized by the business. Checking the cost in family resources will influence enterprise selection.

### Physical

- Acreage – Hillside or bottom land; well-cared-for or low-fertility?
- Equipment on hand.
- Facilities – Barns, water, fencing, etc.

### Agricultural Infrastructure in the Area

- Supply stores, service/repair centers, equipment sales.
- Lenders.
- Processors, transportation.

### Financial

- Savings or borrowed capital for start-up costs and operating capital.

### Labor

- Who will be working on the farm?

### Teaching and Learning Tools

### Resources

**Read:** Beginning Farmers at <http://www.beginningfarmers.org/>

## Teaching and Learning Tools

- One or both spouses?
- Children?
- Has the family sat down and talked about the hours each week that each family member will work in the business?
- Hired labor.

### Time

- Seasonal.
- Year-round.

### Human Relations Skills

- Enjoy working with the public, which is necessary for direct marketing.
- Energetic and comfortable leading and managing employees.
- Like to work alone with minimal contact with the public.

The beginning farmer's access to different resources will have a major impact on the selection of enterprises. Does the farmer own land or have the ability to rent land to start a farm? What financial resources does that farmer have that can be used to start a farm? Savings, stocks, bonds? Likewise, does the farmer have the ability to borrow funds to start a business (e.g., Farm Service Agency, Farm Credit, etc.)?

The amount of available labor is sometimes underestimated when starting a farm. If the farmer is the sole source of labor on the farm, will he or she work full-time or part-time on the farm? **Farmers should not assume that their spouses and children will work on the farm!** Farmers need to ask spouses and children if they are willing to work in the business. How much time do they plan to work in the business? The amount of labor that children are willing to work on a farm can change drastically when they reach 16 years of age and get their driver's licenses!

Are the labor requirements for the farm seasonal or year-round? Growing crops and even some livestock operations can be seasonal enterprises. Planting and harvesting seasons can sometimes be times of peak labor requirements. Does the farmer have the time to complete the necessary tasks during the times of peak labor requirements in a timely fashion? If the answer is no, does the farmer have access to labor (family members or hired labor) who have the skill sets to perform the required tasks?

In contrast, livestock and some crops can have year-round labor requirements. Animals have to be fed each day. If animals are raised, can the farmer hire or have family members care for the animals when the farmer is not on the farm (e.g., vacations, attending off-farm activities, etc.)? Do the caretakers have the ability to determine if an animal is

sick and how to treat the sick animal? When does the caretaker make the decision to call the veterinarian to come and examine the animal? Thus, the person feeding and monitoring the animals must have an understanding of animal health. Otherwise, sick animals can die within 12 to 24 hours of becoming ill.

The farmer's human relations skills and personality are key components in enterprise selection. Some farmers enjoy interacting with the public, which is key to selling products by direct marketing or at farmers markets. On the other hand, some people enjoy working by themselves. Every person is different. What type of work environment is the farmer happiest working in?

Many farmers have the interpersonal skills and are comfortable leading and managing employees. Due to economies of scale, many farms are required to hire labor in order to create and maintain viable businesses. If beginning farmers do not like to supervise and manage employees, then they should select enterprises that require minimal hired labor.

Privacy issues are another important part of the farmer's enterprise selection. Numerous farmers enjoy working with the public and are comfortable having the public come onto their farms (e.g., direct marketing, U-pick, and horse boarding operations). On the other hand, some farmers are not comfortable working with the public and having them visit the farm on a regular basis.

After an inventory of family resources has been completed, prospective farmers should ask themselves whether they would like to work with animals or plants. Then the farmer can make a list of potential enterprises that they would be interested in working in.

**A key factor in selecting enterprises is the beginning farmer's expectations regarding the amount of net income they wish to generate from their farm.** Will the farm pay all the farm expenses, service debt, replace capital items (e.g., equipment, buildings, etc.), and provide all the family's living expenses or will the farm supplement family income? **The expectations of the projected amount of net income the farm will generate will determine the type of enterprises the farm will be engaged in.**

Before the farmer has selected the enterprises that will be conducted, the farmer must determine who is going to buy the products, where they live, and what will they pay for the products that the farm produces. This is one of the most time-consuming parts of the business planning process.

Product pricing is an area that many beginning farmers spend little time analyzing. They are often caught up in the idea that they want to farm and assume there will always be people who will purchase their products. They need to consider the following concepts in pricing their products.

## Teaching and Learning Tools

## Teaching and Learning Tools

Market research – What are the traits of your customers: male/female, age, income levels, where do they live, what are the values of your typical customer, e.g., health-conscious customers who desire a local food supply, customers who value quality products or organic products?

Marketing goals – How much product do you plan to produce? Will the product be consistent in quality, consistent in quantity? Determine a sale price to generate a profit? How much money do you want to make?

Strategies to reach goals – Sell wholesale and produce volume or sell retail with higher markups and lower volume?

When conducting market research about producing a specific crop, many beginning farmers observe the relatively high retail prices that a crop can generate in the market place. They forget that it may take years to garner a spot at high-end farmers markets or directly sell to restaurants. It can take several years to gain a reputation for consistently producing high quality products. Reputation, word-of-mouth advertising and testimonials from customers and fellow farmers are the primary ways that farmers are able to directly sell to exclusive restaurants or sell at high-end farmers markets in large urban areas. Therefore, in the first three to five years of farming, the farmer may be forced to sell at local farmers markets where prices are likely lower than in wealthy, urban areas.

It takes time to develop a clientele/customer basis. Remember, margin is the name of the game. Profit per unit of production pays the bills. How many units (pounds, tons, bushels, etc.) must be sold at retail or wholesale prices to pay farm expenses and provide part or all of a family's living expenses? Thus, a farmer may be forced to sell products at wholesale prices in order to generate cash flow.

After the producer has determined sale prices for the potential enterprises, enterprise budgets should be created for each enterprise the farmer is thinking about engaging in. It is suggested that conservative yields be used in budgets because there is a learning curve with all new enterprises. It may take several years to reach maximum production. Updated input costs should be included in the budgets. Historically producers have underestimated the value of their labor in enterprise and whole farm budgets. To learn more about enterprise budgets, visit <https://pubs.ext.vt.edu/category/enterprise-budgets.html>.

There is an "opportunity cost" for a farmer's labor. If the farmer was not working on the farm, what salary or hourly wage would the farmer be able to earn in nonfarm employment? To determine a starting point for an hourly rate, compare the wage a person could earn working at a local enterprise (select an example from the local community).

Furthermore, time that will be spent marketing products should be included in the budgets.

Marketing expense is another area that many beginning farmers routinely underestimate. Although selling in the retail market usually generates higher prices, the amount of labor required to market the product increases. Thus, time spent traveling to markets and selling products should be included in the farm budgets.

Likewise, producers should keep track of the mileage driven to and from markets or costs to operate vehicles. Eventually, vehicles depreciate in value/wear out and must be replaced. Thus, producers must generate higher net profits that will enable them to cover maintenance and replacement costs for the vehicle used in marketing farm products. Otherwise, the business may not be viable in the long term if sufficient profits have not been generated to purchase another vehicle.

In order to develop a viable business, the farmer must conduct research and find enterprises that meet the following basic criteria.

1. The enterprise generates sufficient revenue to pay farm expenses and have funds left over that can be used to service debt, replace capital items (equipment, buildings) and pay all or part of the family living expenses.
2. The enterprise must have a viable potential market.
3. The enterprise selected should be one the farmer enjoys working in.

**Remember: Net profit pays the bills!** If the business does not survive in the short term, the owner will never know what would have happened in the long run.

## Teaching and Learning Tools



## Teaching and Learning Tools

### Unit 2 Financial Needs Assessment

#### Resources

**Read:** “Planning the Future of Your Farm” (PFYF) pages 14-16 (Branan 2012).

**Complete:** PFYF Worksheet 1.1, page 17.

**Read:** PFYF pages 22-23.

**Read/Review:** “Building a Sustainable Business” (BASB) pages 38-50 (DiGiacomo, King, and Nordquist 2003).

**Draw:** A farm map as recommended on page 39 of BASB.

**Read:** BASB pages 28-37 and complete corresponding worksheets on pages 67-69.

**Read:** BASB pages 51-63.

**Complete:** PFYF pages 40-50.

**Complete:** PFYF Worksheet 2.1, Part V, page 50.

**Complete:** BASB Worksheets 2.3-2.10, pages 70-77.

**Complete:** PFYF Worksheet 2.1, Part I, page 41.

**Note:** Livestock producers may want to refer to beef or dairy sustainability checklists at <https://attra.ncat.org/attra-pub/livestock/livestock.html>.

**Read:** “Question and Answer Guide for Starting and Growing Your Small Business,” pages 6-10 (VCE 2009).

## Unit 2. Financial Needs Assessment (Capital, Equipment, Labor, Land, Resources, and Credit)

### Overview of Financial Understanding

Evaluate what you have. A balance sheet is a good way to do this. It is a snapshot of the current value of your financial holdings. Keep in mind that the market value of your assets can change and that is why it is recommended to update your balance sheet at least annually.

- Prepare and complete a balance sheet, also known as a net worth statement.
  1. List and total all your assets (what you own).
  2. List and total all your liabilities (what you owe).
  3. Subtract your total liabilities from your total assets, which gives you your net worth:

Total assets – total liabilities = net worth.

- What land resources do you currently own, have access to, or are considering using in some way?
- List your tangible working assets.
- List any institutional considerations for your business (see example in “Building a Sustainable Business” [DiGiacomo, King, and Nordquist 2003], figure 10, page 41]).
- Develop a description of the current or planned crop and/or livestock production system. It is recommended that each participant complete a description for each major crop (groups of crops) and each major livestock enterprise they are considering for their enterprise.
- Those individuals planning to produce both crops and livestock may want to complete a matrix of tasks associated with each enterprise to determine if there are conflicts.
- This list should be turned into a balance sheet.
- Determine what you lack. Participants should take the time to develop a working list of additional resources they will need to successfully implement their farming enterprise, including estimated costs to buy or lease land.

## Unit 3. Farm Records and Information Management

### Financial Records

- Income records.
- Expense records.
- Assets/inventory.
- Liabilities.
- Employee records.
- Importance of record keeping.

### Accounting Systems

- Balance sheet.
  - Assets – Current, intermediate, long-term (cash, equipment, land) inventory.
  - Liabilities – Current, intermediate, long-term (open accounts, credit cards, equipment, land). Payment terms: invoicing, extending credit, cash flow.
- Income statement.
  - Projected income and expenses.
  - Bank statements.
  - Draw from enterprise budgets.
- Cash flow.
  - Where is one needed?
  - Developing cash flow.
- Production records.
  - Livestock.
  - Crops.
  - Land.
  - Machinery, equipment, building.

### Teaching and Learning Tools

#### Unit 3. Farm Records and Information Management

#### Resources

**Read:** “Building a Sustainable Business” (BASB) chapter 4, pages 103-185 (DiGiacomo, King, and Nordquist 2003).

**Review:** Oklahoma manual: Quicken for Farm Financial Records –[www.agecon.okstate.edu/quicken/download.asp](http://www.agecon.okstate.edu/quicken/download.asp).

**Complete:** BASB Worksheets 4.10-4.17, pages 197-206.

**Read:** BASB figure 80, pages 160-161.

**Read:** BASB figures 81 and 82, page 162.

## Teaching and Learning Tools

### Resources

**Read:** Financial Performance Analysis Tools at <http://www.agmrc.org/business-development/business-workbench/analysis-worksheets-and-calculators/financial-performance-analysis-tools/>

**Read:** Resources found at <http://www.agmrc.org/business-development/operating-a-business/budgeting/budgeting/>

**Read:** Financing Your Business at <http://www.agmrc.org/business-development/starting-a-business/raising-money/financing-your-business/>

**Read:** USDA Farm Service Agency loan programs at <http://www.fsa.usda.gov/programs-and-services/farm-loan-programs/flp-connects/index>

## Integrated Analysis (Financial and Production)

- Annual.
- Trend multiyear.
- Benchmark – Industry measures.

## Decision and Support Tools

- Budgets.
- Partial budgets.
- Breakeven analysis.
- Sensitivity analysis.

## Financing Options

- Financing capital needs

## Government Programs

- Options for beginning farmers



## Unit 4: Marketing and Risk Management

### Overview of Commodity and Niche Markets

#### Commodity Markets

- Diversification.
- Vertical integration.
- Size and scale efficiencies.
- Contracts.
- Futures and options.

#### Niche Markets

- Diversification.
- Use of market windows.
- Local trends and demand.
- Pricing.
- Farmers markets.
- Customer relations.
- Advertising.
- Transportation.
- Processing.
- Direct sales – Internet and on-farm.

#### Food Safety Issues

- Policy.
- Certification.

#### Teaching and Learning Tools

### Unit 4. Marketing and Risk Management

#### Resources

**View:** Farmer's Tax Guide, IRS publication 225 (2015) – [www.irs.gov/publications/p225/index.html](http://www.irs.gov/publications/p225/index.html).

**Complete:** BASB Worksheets 4.29-4.37, pages 219-228.

**Special note:** If the marketing module (Module II) has not been completed, consider referring to those resources in addition to those identified here.

**Read:** On-Farm Food Safety Project at <http://onfarmfoodsafety.org/>

## Teaching and Learning Tools

### Unit 5. Farm Business Structure and Arrangements

#### Resources

**Complete:** BASB  
Worksheets 4.25-4.28,  
pages 215-218.

**Read:** “Life Insurance:  
The Different Types of  
Policies,” VCE publication  
354-143 - [http://pubs.ext.vt.edu/354/354-143/354-143\\_pdf.pdf](http://pubs.ext.vt.edu/354/354-143/354-143_pdf.pdf) (Smith and Hayhoe 2005).

**Read:** “Planning the Future  
of Your Farm” (PFYF), page  
64 (Branan 2012).

**Complete:** PFYF Worksheet  
3.1, pages 65-67.

**Complete:** BASB  
Worksheets 3.2-3.4, pages  
76-79.

### Unit 5.2. Liability

#### Resources

**Read:** Ins and Outs of  
Insurance for Farm Business  
(University of Vermont) -  
[www.uvm.edu/newfarmer/business/insurance-for-farm-businesses.pdf](http://www.uvm.edu/newfarmer/business/insurance-for-farm-businesses.pdf).

**Read:** “VCE Managing Legal  
Liability Series: How Much  
Liability Insurance Should  
I Have?” - <http://pubs.ext.vt.edu/CV/CV-17/CV-17->

## Unit 5. Farm Business Structure and Arrangements

### 5.1. Defining the Type of Business Structure Most Appropriate for Your Farming Enterprise

There are many options to choose from when determining which business structure is right for you. These include:

- Sole proprietorship.
- Partnership.
  - General partnership.
  - Limited partnership.
  - Limited liability partnership.
  - Family limited partnership.
- Limited liability company.
- Corporations.
  - Subchapter C corporations.
  - Subchapter S corporations.
  - Professional corporations.
  - Nonprofit corporations.
- Cooperatives.

Estate planning, which may include the use of trusts, is also important when determining your business arrangement.

### 5.2 Liability

Understanding and limiting liability will reflect on your current financial position and become an important tool in determining how to structure and/or restructure payments.

- Understanding and limiting liabilities in insurance (life, disability, liability, health).
- Understanding and limiting liabilities in lease agreements (building, equipment, land).
- Understanding and limiting liabilities from land and business operations.
- Why you need a business license and how to get one.

## Unit 6. Human Resource Management/ Employment of Others

Participants should develop a description of the human resources currently available for their farming operation. This description should include information on worker experience, abilities, strengths and weaknesses, their personal goals, and the current or future method of payment for each individual.

Specifically, the contrasts between farming and nonfarming operations include:

- Communicating with family and nonfamily employees.
- Job descriptions.
- Hiring process.
- Employee handbook.
- Wages and other compensation (incentives).
- Unpaid interns.
- Payroll taxes.
- Licensing.
- Employee retention.
- Training, growth, promotion, retention.
- Evaluation (dismissal).
- Legal.
- Seasonal labor.
- Contrasts between corporate systems and agricultural enterprises.

### Teaching and Learning Tools

#### Unit 6. Human Resource Management

##### Resources

**Read:** “Building a Sustainable Business” (BASB), pages 145-154 (DiGiacomo, King, and Nordquist 2003).

**Complete:** BASB Worksheets 4.18-4.23, pages 207-213.

**Review:** “Evaluating Performance and Providing Feedback to Employees” – [www.extension.org/pages/17552/evaluating-performance-and-providing-feedback-to-employees#](http://www.extension.org/pages/17552/evaluating-performance-and-providing-feedback-to-employees#).

**Read:** Pro-Dairy Program, Cornell University materials for family-owned operations – [www.ansci.cornell.edu/prodairy/mfs/mfspage1.html](http://www.ansci.cornell.edu/prodairy/mfs/mfspage1.html).

**Refer to:** BASB pages 51-65.

**Complete:** BASB Worksheets 2.11-2.16, pages 78-84.

## Teaching and Learning Tools

### Unit 7. Taxes

#### Resources

**Complete:** BASB  
Worksheets 2.2-2.7, pages  
68-74.

**Read:** BASB pages 106-133.

**Complete:** BASB  
Worksheets 4.1-4.7, pages  
186-193.

**Visit:** “Regulatory Services,”  
Virginia Department of  
Agriculture and Consumer  
Services website – [www.vdacs.virginia.gov/fdsafety/index.shtml](http://www.vdacs.virginia.gov/fdsafety/index.shtml).

**Review:** Farmer’s Tax  
Guide, IRS publication  
225 (2015) – [www.irs.gov/publications/p225/index.html](http://www.irs.gov/publications/p225/index.html).

**Invited specialist:** Consult  
with a local tax specialist is  
recommended.

## Unit 7. Taxes

- Federal income tax.
- Virginia income tax.
- Virginia sales tax.
- Federal and state self-employment taxes.
- Employee and employer responsibilities.
  - State and federal withholdings.
  - Contractors – 1099s.
  - Workers’ compensation.
  - Health and retirement benefits.



## Unit 8. Strategic Planning

Strategic planning is necessary to ensure the longevity and prosperity of your business.

Following are the components of a strategic plan:

- Vision – An enterprise that wishes to become successful and maintain that success must have a well-conceived vision. This should define what your business stands for or why it exists and the future as you envision it, i.e., where do we want to be?
- Mission.
- Description of business.
  - Business model.
  - Ownership structure.
- Short-term objectives – This should be a tactical plan. Short-term objectives are smaller, intermediary milestones to achieve while moving toward an important goal. Ask yourself, how do I get there?
  - What are the most pressing goals you have or problems that need to be resolved?
- Long-term vision.
  - Where do you want your business to be one year from now? Five years from now? Ten years from now?
- Environmental assessment – Policy, economics, social, technology, competition.
  - Identify those items external to the organization and/or industry that will influence the way an organization must operate to achieve its strategic objectives.
  - With objectives and SWOT, forms the basis for identifying and prioritizing strategic issues.
  - Economics – Growth, financing, inflation, population, tax policy, etc.
  - Social – Consumer preferences, special issues (e.g., animal rights), diet preferences, environmental, etc.
  - Political – Regulatory, industrial policy, intellectual property, seed laws, food safety, etc.
  - Technology – Green revolution, biotechnology, food processing, breeding methods, etc.

### Teaching and Learning Tools

#### Unit 8: Strategic Planning

#### Resources

**Read:** Strategic Planning: What Is the Process? – [www.agecon.purdue.edu/extension/sbpcp/resources/StrategicPlanning.pdf](http://www.agecon.purdue.edu/extension/sbpcp/resources/StrategicPlanning.pdf).

**Visit:** “Managing Risk in Farming: Concepts, Research, and Analysis,” USDA Economic Research Service website – [www.ers.usda.gov/Publications/AER774/](http://www.ers.usda.gov/Publications/AER774/).

**Read:** “Building a Sustainable Business” (BASB) pages 233-244 (DiGiacomo, King, and Nordquist 2003).

**Complete:** BASB Worksheets 5.1-5.3, pages 245-247.

#### Additional Resource

“Strategic Management for Farm Businesses,” Iowa State University Extension and Outreach website – [www.extension.iastate.edu/agdm/wholefarm/html/c6-41.html](http://www.extension.iastate.edu/agdm/wholefarm/html/c6-41.html).

## Teaching and Learning Tools

- Competition – Who/what are your direct and indirect competitors?
- International (if appropriate), domestic, and industry-specific issues.
- SWOT analysis – **S**trengths, **W**eaknesses, **O**pportunities, **T**hreats.
  - Outline the strengths and weaknesses of your business.
  - Look for opportunities to grow, expand, and/or improve.
  - Describe any potential threats.
- Strategic issues.
  - Issues that, if not resolved, will hinder your ability to make your business a success.
  - Developed from objectives, environmental assessment, and SWOT analysis.
  - Things to consider:
    - Financial planning.
    - Technology adoption.
    - Marketing strategy.
    - Growth management – Where, when, what, how fast?
- Action plan.
  - How are you going to accomplish your objectives and address your strategic issues?
  - Be specific. This is a roadmap to success.
  - Who, what, where, when, and **how**.

Planning must have a feedback loop to be a true strategic plan.

## Unit 9. Conclusion/Summary

- Revisit farm business goals to determine if they will be met with the planning that has occurred during the planning activities associated with this module.
- Reflecting on your responses, does your previous discussion of the business component of your plan still accurately represent your whole farm plan?
- Consider changes to the farm business goals to align with financial plans.
- Farm owners/potential owners seeking funding from the Farm Service Agency will need to complete a borrower assessment. The assessment addresses the type of operation, goals, adequacy of real estate, adequacy of chattels, farm organization and key personnel, historical performance, and training plan (identified by looking at strengths and weaknesses). The materials developed in this module may be helpful in this assessment. For more information, see [www.fsa.usda](http://www.fsa.usda).

## Teaching and Learning Tools



## Glossary

**Asset** – Something of value that is owned, such as property, money, or goodwill.

**Balance sheet** – A statement showing assets, liabilities, and net worth of a person, household, or firm on a specified date. Assets include cash, inventory, accounts receivable, and fixed assets, such as land, buildings, equipment, and investments. Liabilities include unpaid bills, notes, loans, and mortgages. Net worth shows the amount by which total assets exceed total liabilities and represents owner equity.

**Capital** – One of the three factors of production in addition to land and labor; the net worth of a business or household; the fund or sum of money that one is willing to or already has invested.

**Cash flow** – An accounting statement of all cash receipts and payments. It is frequently used to assess liquidity problems of a firm or business.

**Commodity** – A convenience product such as sugar or potatoes that is bought often and consumed routinely. Commodities often offer little differentiation between producers and are sold primarily on the basis of price driven by supply and demand. Commodities may also be called staple goods.

**Cooperative** – Organizations that operate for the purpose of rendering an economic service for the benefit of their owners or members. Cooperatives operate under specific conditions or cooperative principles, including open and voluntary membership, democratic control, limited interest on shares, return of surplus to members, cooperative education, and cooperation among members. Credit unions are cooperatives in which the members pool their savings for lending to other members and sometimes to nonmembers.

**Corporation** – A type of organizational structure that is an artificial entity — invisible, intangible, and existing only in contemplation of the law.

**Enterprise budget** – A budget that lists all of the revenues and expenses related to an aspect of a business.

**Estate** – The whole of one's possessions, especially all the property and debts.

**Futures markets** – The process of trading futures contracts and operating the facilities that market many agricultural products. When creating a futures contract, a constant is set by an exchange; when multiplied by the futures price, it gives the dollar value of a stock index futures contract.

**Income statement** – Also called a profit and loss statement, shows the revenues from business operations, expenses of operating the business, and the resulting net profit or loss of a company over a specific period of time. In assessing the overall financial condition of a company, look at the income statement and the balance sheet together because the income statement captures the company's operating performance and the balance sheet shows its net worth.

**Liability** – An obligation owed by an individual, firm, or organization to pay an amount of money for a good or service received.

**Proprietorship** – Ownership of a business.

**Trusts** – Funds designated for a specific purpose, not to be used for any other purpose.

**Vertical integration** – Combining under one business or management the various stages or steps in the process of production, starting with input supplies and ending with output sales.

## Resources

### Resource Contacts

#### **Peter Callan**

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pubs.ext.vt.edu/news/farm-business-management-  
update.html (newsletter)  
www.extension.agecon.vt.edu/

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### Resources Listed in Module

Beef and dairy sustainability checksheets. National Sustainable Agriculture Information Service. <https://attra.ncat.org/attra-pub/livestock/livestock.html>

“Beginning Farmer & Rancher.” Center for Rural Affairs website. [www.cfra.org/beginning-farmer-rancher](http://www.cfra.org/beginning-farmer-rancher)

*Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses*, by G. DiGiacomo, R. King, and D. Nordquist, 2003. Minnesota Institute for Sustainable Agriculture. [www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business](http://www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business)

“Evaluating Performance and Providing Feedback to Employees.” eXtension website. [www.extension.org/pages/17552/evaluating-performance-and-providing-feedback-to-employees#](http://www.extension.org/pages/17552/evaluating-performance-and-providing-feedback-to-employees#).

Farmer’s Tax Guide. IRS publication 225 (2015). [www.irs.gov/publications/p225/index.html](http://www.irs.gov/publications/p225/index.html)

*Getting Started With Whole Farm Planning Using the Holistic Management Framework*, by J. M. Gerber. University of Massachusetts-Amherst. Farm Transition Planning Notebook from the Department of Agricultural and Applied Economics, Virginia Tech (in final review and soon to be published; draft version available at [www.spiralridgepermaculture.com/wp-content/.../thewholeshebang.doc](http://www.spiralridgepermaculture.com/wp-content/.../thewholeshebang.doc))

“Insuring Your Farm,” by Kevin Bourdon, Co-op Insurance Companies. PowerPoint presentation. [www.uvm.edu/newfarmer/business/insurance-for-farm-businesses.pdf](http://www.uvm.edu/newfarmer/business/insurance-for-farm-businesses.pdf)

*Life Insurance: The Different Types of Policies*, by M. Smith and C. R. Hayhoe. VCE publication 354-143. [http://pubs.ext.vt.edu/354/354-143/354-143\\_pdf.pdf](http://pubs.ext.vt.edu/354/354-143/354-143_pdf.pdf)

*Managing Liability Legal Liability Series: How Much Liability Insurance Coverage Should I Have?* by J. Richardson. Virginia Cooperative Extension publication CV-17. <http://pubs.ext.vt.edu/CV/CV-17/CV-17-PDF.pdf>

“Managing Risk in Farming: Concepts, Research, and Analysis.” USDA Economic Research Service website. [www.ers.usda.gov/Publications/AER774/](http://www.ers.usda.gov/Publications/AER774/).

“Quicken for Farm Financial Records.” Agricultural Economics Extension website, Oklahoma State University. [www.agecon.okstate.edu/quicken/index.asp?type=faqs](http://www.agecon.okstate.edu/quicken/index.asp?type=faqs)

“Regulatory Services.” Virginia Department of Agriculture and Consumer Services website. [www.vdacs.virginia.gov/fdsafety/index.shtml](http://www.vdacs.virginia.gov/fdsafety/index.shtml)

“Strategic Management for Farm Businesses,” Iowa State University Extension and Outreach website. [www.extension.iastate.edu/agdm/wholefarm/html/c6-41.html](http://www.extension.iastate.edu/agdm/wholefarm/html/c6-41.html)

## Additional Resources

*Holistic Whole Farm Planning: Healthy Land, Sustainable Future.* Holistic Management International publication. <http://holisticmanagement.org/free-downloads/>

*How to Establish Goals: A Group Project for Farmers and Their Families,* by J. Lamb and the Whole Farm Planning Interdisciplinary Team at the Minnesota Institute for Sustainable Agriculture, 1998. The Minnesota Project and the Minnesota Institute for Sustainable Agriculture. [www.mnproject.org/publications/wfpbook2.PDF](http://www.mnproject.org/publications/wfpbook2.PDF)

*Whole Farm Plan Guide,* by B. Joughin, 2009. Community Farms Program. Land Conservancy of British Columbia. [www.farmfolkcityfolk.ca/PDFs\\_&\\_Docs/CFPdocs/wfp\\_final.pdf](http://www.farmfolkcityfolk.ca/PDFs_&_Docs/CFPdocs/wfp_final.pdf)

“Whole Farm Planning” website. Department of Environment and Primary Industries, State Government of Victoria, Australia. [www.dpi.vic.gov.au/agriculture/farming-management/business-management/whole-farm-planning](http://www.dpi.vic.gov.au/agriculture/farming-management/business-management/whole-farm-planning)

*Whole Farm Planning at Work: Success Stories of Ten Farms,* by J. MacKenzie and L. Kemp, 1999. The Minnesota Project. [www.mnproject.org/publications/studies.PDF](http://www.mnproject.org/publications/studies.PDF)

## References

Branan, R. 2012. *Planning the Future of Your Farm: A Workbook Supporting Farm Transfer Decisions* (PFYF). Virginia Cooperative Extension. Publication 446-610 (AAEC-37). <http://pubs.ext.vt.edu/446/446-610/446-610.html>.

DiGiacomo, G., R. King, and D. Nordquist. 2003. *Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses.* Minnesota Institute for Sustainable Agriculture. College Park, MD: Sustainable Agricultural Research and Education. [www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business](http://www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business).

University of Vermont. “Agricultural Labor Management.” University of Vermont website. [www.uvm.edu/extension/agriculture/faccp/?Page=aglabor.html&SM=labor-menu.html](http://www.uvm.edu/extension/agriculture/faccp/?Page=aglabor.html&SM=labor-menu.html).

VCE (Virginia Cooperative Extension). 2009. *Question and Answer Guide for Starting and Growing Your Small Business.* Publication 310-100. [http://pubs.ext.vt.edu/310/310-100/310-100\\_pdf.pdf](http://pubs.ext.vt.edu/310/310-100/310-100_pdf.pdf).

