



Welcome to the
**Tennessee Value-Added Beef
 Webinar Series**


Made Possible By:






Today's Topics & Presenters

- Pencil Out Your Potential and Plan for Success: Conducting Financial Analysis and Developing a Business Plan



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Session Overview

- Evaluating Attributes, Skills and Resources
- Identifying Values
- Defining and Describing a Business Plan
- Components of a Business Plan
- Financial Analysis Examples
- Break-even Analysis

Session Objectives

- Increase understanding of the importance of business planning and financial analysis
 - Decrease financial risk

A great product or service alone is not enough to make a successful business!

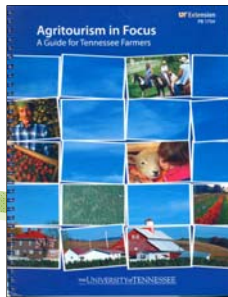


Characteristics of Successful Entrepreneurs

- Common Personal Attributes

Self-Confident	Goal-Oriented
Strong Leaders	Resourceful
Determined	Effective Communicators
Risk Takers	Creative
Highly Organized	Efficient
Competitive	Patient
Lifetime Learners	Proactive

Personal Evaluation Exercise



Personal Evaluation Exercise

- Consider the following list of questions adapted from *Agritourism in Focus* and evaluate how you compare to successful entrepreneurs:
- 1. I am a self starter.
- 2. I relate well with others.
- 3. I enjoy being around and responsible for a large number of customers.
- 4. I look forward to meeting people and sharing my vision for producing cattle and selling meat from my farm to the public.

Personal Evaluation Exercise

- 5. I am an effective leader.
- 6. I am responsible and enjoy being responsible.
- 7. I have effective organizational skills and abilities.
- 8. I have a strong work ethic.
- 9. I am comfortable making important decisions.
- 10. I am honest even if the truth is not what people want to hear.
- 11. If I make up mind to do something, I do not let anything stop me.
- 12. I am in good health, have plenty of energy and rarely get sick.

Personal Evaluation Exercise

- 13. I am patient.
- 14. My family is 100 percent committed to starting and operating this value-added beef business.
- 15. I am courteous and understanding.
- 16. I have a strong desire to succeed.
- 17. I have experience in managing and operating a business.
- 18. I am an effective communicator.
- 19. I enjoy learning new things.
- 20. I am competitive in nature.

Personal Evaluation Exercise

- 21. I am effective at setting and meeting deadlines to accomplish tasks.
- 22. I adapt well to change.
- 23. I am willing to risk losing an investment.
- 24. I will be able to survive financially if a new enterprise does not generate a profit for a few years.
- 25. I am prepared to invest substantial time in planning and operating a new enterprise.

Agree	4 points
Somewhat Agree	3 points
Somewhat Disagree	2 points
Disagree	1 point

Personal Evaluation Exercise

- Results will fall into three categories:
 - **90-100** Your personality and skills are similar to individuals who have succeeded as entrepreneurs.
 - **75-89** You have some characteristics similar to individuals who have succeeded as entrepreneurs.
 - **0-74** You do not have characteristics similar to individuals who have succeeded as entrepreneurs, and you should reconsider.



- ### Assumptions
- Land is available and suitable for beef, forage and crop production
 - Past cropping history doesn't interfere with intended use of property
 - Soil maps and soil tests have been obtained
 - Cattle finishing production system in place
 - Profitable cattle producer with experience

- ### Evaluating Attributes, Skills & Resources
- Is there anything about the location that would restrict your selection of a value-added beef enterprise?
 - Are there restrictions on activities that can be carried out on your property?
 - Are buildings on the property that could be used or adapted?
 - Do you own farm machinery or a vehicle that could be used in this business?

- ### Evaluating Attributes, Skills & Resources
- When do you intend to start this enterprise?
 - Have you visited a farm that is retailing meat?
 - Do you have experience supervising employees?
 - Do you have any experience operating, maintaining and repairing farm equipment?
-

- ### Evaluating Attributes, Skills & Resources
- How much labor can be supplied by you and your family?
 - Is your family supportive?
 - Have you considered the potential quality of life, labor and financial implications this could have on your family?
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- ### Evaluating Attributes, Skills & Resources
- Have you managed perishable products?
 - Are you considering specialized resources that have limited alternative uses?
 - What are the distances to processors and markets?
 - Are you willing and able to approach knowledgeable people for advice?
 - Have you identified sources of potential production risk?
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Identify Values

- Values represent an individual's highest priorities and influence business objectives
- Ask:
 - What type of life do I want to lead? (personal)
 - What do I consider financially important? (economic)
 - What role does the environment play in my life? (environmental)
 - How do I define community and why is it important? (community)
 - What value do you place on creating jobs that enable family to stay on the farm?

Identify Values

- Identify and develop values and priorities that are:
 - Clear and concise
 - Shared and supported by those on your team
 - The foundation for developing goals

Identify Values

- How will your business value:
 - Employees?
 - Customers?
 - Suppliers?
 - Local Community?



- Once defined, values impact every aspect of your organization.

Key Concepts for Developing a Business Plan

- Definition of Business Plan
- Why You Need a Business Plan
- Where to Start
- Components of a Business Plan
- Mistakes to Avoid

What is a Business Plan?

- A document that defines the values, goals, challenges and strategies for your business.
- It provides an opportunity to see if your idea will work on paper.
- It will evolve as goals and objectives change.

A Business Plan Shows:

<p><u>Where You Are Going &...</u></p> 	<p><u>How You Will Get There</u></p> <ul style="list-style-type: none"> • Knowledge & Skills Needed • Marketing • Budgets • Financial Resources • Labor • Management • Why This Idea Will Work
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Why You Need a Business Plan

- It provides direction as you make decisions
- It helps sell your idea to bankers and business partners
- It provides an opportunity for constructive criticism



Where To Start

- Define your mission
- Establish goals and objectives
- Assess the on-farm environment
- Assess the off-farm environment
- Identify opportunities and threats
- Develop alternative strategies
- Evaluate and select strategies

As you develop your business plan, plan to answer these questions:

- What product does your business provide and what needs does it fill?
- Who are the potential customers for your product and why will they purchase it from you?
- How will you reach your potential customers?
- Where will you get the financial resources to start and maintain your business?

Components of a Business Plan

- Executive Summary
- Mission Statement
- Goals and Objectives
- Situational Analysis
- Marketing Strategy
- Financial Strategy
- Management Needs & History
- Contingency Strategy



Financial Analysis

We will consider two examples. Example A will sell meat both on the farm and at local farmers markets. Example B will sell only at local farmers markets.



Assumptions

- Finish, slaughter, process, package and sell meat from 40 head per year
- Meat stored in 3 upright freezers
- Meat transported in 2 chest freezers
- Sell at Farmers Markets 4 days per week
- Farmers Markets and processor located 30 miles from farm
- Start-up Costs amortized over 7 years, 5% int

- Note that all the numbers used in this presentation are examples for educational purposes only. You should conduct an analysis with numbers specific to your situation.

Example A (Market at On-Farm Retail Store & Farmers Markets)

Start-up Costs

• Building (30'x18') @ \$70/sq ft	\$37,800
• Store furnishings	2,500
• Office Supplies	750
• Scales & Printer	0
• Freezers (storage) 3 upright (@20.5 cu ft)	2,300
• Freezers (transport) 2 chest (@24.9 cu ft)	1,300
• Closed cargo trailer 6'x12'	2,600

Example A (Market at On-Farm Retail Store & Farmers Markets)

Start-up Costs

• Signs	\$ 3,000
• Local building permit	350
• Permits, licenses	175
• Graphic design, logo	1,200
• Total On-Farm Retail Store Start-up	\$51,975

Example B (Market only at Farmers Markets)

Annual Operating Costs (40 hd)

• Animal—production, weaning, conditioning, backgrounding, finished on corn & soybean meal. Live wt. @ 1,000 lbs Cost of animal @ \$1,260/hd	\$50,400
• Delivery of animals to processor	1,332
• Slaughter, process & packaging 600 lbs carcass @ \$.65=\$390/hd	15,600
• Pick up meat from processor	1,332
• Total Animal Operating Costs	\$68,664
• Per Head Animal Operating Costs	\$ 1,716.60

Example A (Market at On-Farm Retail Store & Farmers Markets)

Farmers Market Costs

• Vehicle-to farmers market 4 days/wk	\$6,926
• Vendor permits	2,270
• Total Farmers Market Costs	\$9,196

Example A (Market at On-Farm Retail Store & Farmers Markets)

Other Operating Costs

• Payment on Start-up Costs (7 yrs, 5%)	\$8,982
• Marketing/Promo Materials	2,420
• Website	300
• Credit Card Transaction Fees	1,400
• Utilities	600
• Labels (5-10,000)	300
• Labor (On-farm retail, farmers mkts)	36,400

Example A (Market at On-Farm Retail Store & Farmers Markets)

Other Operating Costs

- Accountant \$ 650
- Bookkeeping 2,400
- Lawyer 650
- Insurance 2,000
- Taxes—registration, franchise, excise 400

- Total Other Operating Costs \$56,502

Example A (Market at On-Farm Retail Store & Farmers Markets)

• Revenue (Low Price)

	Average Price	Lbs per Head	85% of Lbs per Hd	Revenue
• Steak	\$11.00/lb	140 lbs	119 lbs	\$1,309
• Roast	\$ 5.50/lb	140 lbs	119 lbs	654
• Ground	\$ 4.50/lb	140 lbs	119 lbs	536

- Total Revenue per Head \$2,499

Break-even Analysis

- Calculation of Break-even Level of Production
- At a given selling price and known costs, how many head must be slaughtered, processed, packaged and sold to cover all the costs?
- Break-even Level of Production = $\text{Fixed Cost} \div (\text{Unit Price} - \text{Unit Variable Cost})$

Example A (Market at On-Farm Retail Store & Farmers Markets)

- Calculation of Break-even Level of Production (Low Price)

• Break-even (Number of Head) = $\text{Fixed Cost} \div (\text{Unit Price} - \text{Unit Var Cost})$

$$\$65,699 \div (\$2,499 - \$1,717) = \mathbf{84}$$

Number of Head
Must Sell to
Break Even

Example A (Market at On-Farm Retail Store & Farmers Markets)

- What is the break-even calculation if the following higher prices are received?
- Steak @ \$15.00/lb
- Roast @ \$7.00/lb
- Ground @ \$6.00/lb

Example A (Market at On-Farm Retail Store & Farmers Markets)

• Revenue (High Price)

	Average Price	Lbs per Head	85% of Lbs per Hd	Revenue
• Steak	\$15.00/lb	140 lbs	119 lbs	\$1,785
• Roast	\$ 7.00/lb	140 lbs	119 lbs	833
• Ground	\$ 6.00/lb	140 lbs	119 lbs	714

- Total Revenue per Head \$3,332

Example A (Market at On-Farm Retail Store & Farmers Markets)

- Calculation of Break-even Level of Production (High Price)

- Break-even (Number of Head) =

$$\text{Fixed Cost} \div (\text{Unit Price} - \text{Unit Var Cost}) =$$

$$\$65,699 \div (\$3,332 - \$1,717) = \mathbf{41}$$

Number of Head
Must Sell to
Break Even

Consider another example where the meat is sold entirely at Farmers Markets. There is no On-Farm Retail Market in this example.



Example B (Market only at Farmers Markets)

Start-up Costs

• Furnishings-Computer, cash register	\$2,500
• Office Supplies	750
• Scales & Printer	0
• Freezers (storage) 3 upright (@20.5 cu ft)	2,300
• Freezers (transport) 2 chest (@24.9 cu ft)	1,300
• Closed cargo trailer 6'x12'	2,600

Example B (Market only at Farmers Markets)

Start-up Costs

• Signs	\$ 500
• Local building permit	0
• Permits, licenses	175
• Graphic design, logo	1,200
• Total On-Farm Retail Store Start-up	\$11,325

Example B (Market only at Farmers Markets)

Annual Operating Costs (40 hd) (no change)

• Animal—production, weaning, conditioning, backgrounding, finished on corn & soybean meal. Live wt. @ 1,000 lbs Cost of animal @ \$1,260/hd	\$50,400
• Delivery of animals to processor	1,332
• Slaughter, process & packaging 600 lbs carcass @ \$.65=\$390/hd	15,600
• Pick up meat from processor	1,332
• Total Animal Operating Costs	\$68,664
• Per Head Animal Operating Costs	\$ 1,716.60

Example B (Market only at Farmers Markets)

Farmers Market Costs (no change)

• Vehicle-to farmers market 4 days/wk	\$6,926
• Vendor permits	2,270
• Total Farmers Market Costs	\$9,196

Example B (Market only at Farmers Markets)

Other Operating Costs

- Payment on Start-up Costs (7 yrs, 5%) \$1,957
- Marketing/Promo Materials 2,420
- Website 300
- Credit Card Transaction Fees 1,400
- Utilities 600
- Labels (5-10,000) 300
- Labor (farmers mkts) 31,200

Example B (Market only at Farmers Markets)

Other Operating Costs

- Accountant \$ 650
- Bookkeeping 2,400
- Lawyer 650
- Insurance 2,000
- Taxes—registration, franchise, excise 400
- Total Other Operating Costs \$44,277

Example B (Market only at Farmers Markets)

- Calculation of Break-even Level of Production (Low Price)
- Break-even (Number of Head) =

$$\text{Fixed Cost} \div (\text{Unit Price} - \text{Unit Var Cost})$$

$$\$53,474 \div (\$2,499 - \$1,717) = \underline{68}$$

Number of Head
Must Sell to
Break Even

Example B (Market only at Farmers Markets)

- Calculation of Break-even Level of Production (High Price)
- Break-even (Number of Head) =

$$\text{Fixed Cost} \div (\text{Unit Price} - \text{Unit Var Cost})$$

$$\$53,474 \div (\$3,332 - \$1,717) = \underline{33}$$

Number of Head
Must Sell to
Break Even

Sensitivity Table

	No. of Head Must Sell to Break Even at Low Price	No. of Head Must Sell to Break Even at High Price
Market at On-Farm Retail Store and Farmers Markets	84	41
Market only at Farmers Markets	68	33

- ### Mistakes to Avoid in Developing a Business Plan
- Overestimating sales projections (volume and price)
 - Underestimating expenses
 - Underestimating time that will be needed
 - Over optimism and over confidence
 - Making the business plan too technical
 - Failing to create a business plan

Mistakes to Avoid in Developing a Business Plan

- Inadequate market research
- Making unrecognized assumptions
- Providing irrelevant information
- Skipping steps of the development of the business

Take Home Messages

- Your Business Plan is an important analytical tool at the beginning and throughout the life of your business.
- Invest the time to complete a well thought-out Business Plan.
- Get good advice and input from trusted professionals and stakeholders.

Additional Resources

- **AgPlan**, a free website designed by the Center for Farm Financial Management to help rural businesses develop a business plan.
<http://www.cffm.umn.edu/products/AgPlan.aspx>
- **Agribusiness Planning: Providing Direction for Agricultural Firms.** Jeffrey Hyde, Sarah Roch. UA371. University Park: Penn State University Cooperative Extension, 2002.
<http://pubs.cas.psu.edu/freepubs/pdfs/ua371.pdf>

Additional Resources

- **Agricultural Business Planning Templates and Resources**, developed by the National Sustainable Agriculture Information Service, contains a list of general agricultural enterprise business planning resources. The document is available online at http://attra.ncat.org/attra-pub/PDF/agriculture_planning.pdf.
- **Agritourism in Focus: A Guide for Tennessee Farmers**, developed by University of Tennessee, is a resource to help farmers and agri-entrepreneurs evaluate agritourism enterprise opportunities. It is available online at <http://utextension.tennessee.edu/publications/Documents/PB1754.pdf>

Additional Resources

- The **Agricultural Marketing Resource Center** web site at <http://www.agmrc.org> has a section on business development with tools and examples useful for business planning.
- **Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses**, developed by the Minnesota Institute for Sustainable Agriculture, followed Cedar Summit Farm owners Dave and Florence Minar and their family throughout their planning process. The guide is available online at <http://www.sare.org/Learning-Center/Books/Building-a-Sustainable-Business>.

Additional Resources

- **Farm Business Plan Worksheet: Balance Sheet.** FAS2037. Washington, DC: U.S. Department of Agriculture, Farm Service Agency, 2005.
http://forms.sc.egov.usda.gov/efcommon/eFileServices/Forms/FSA2037_050118V01.pdf
- **Farm Business Plan Worksheet: Projected/Actual Income and Expense.** FSA2038. Washington, DC: U.S. Department of Agriculture, Farm Service Agency, 2005.
http://forms.sc.egov.usda.gov/efcommon/eFileServices/Forms/FSA2038_050118V02.pdf

Additional Resources

- **How to Write a Business Plan.**
- <http://app1.sba.gov/training/sbabbp/index.htm>
- <http://www.bizplanit.com/resources/virtual-business-plan-template.html>
- **James J. Hill Reference Library.** Free online information resources for entrepreneurs and small businesses to help them grow.
- http://www.jhill.org/business_stages/

Additional Resources

- **My Own Business Online Course.**
http://www.myownbusiness.org/certcourse/download_s%20non.html
- **Samples of Business Plans.**
<http://www.bplans.com/samples/sba.cfm>
- **Small Business Planner.** Washington DC: U.S. Small Business Administration.
<http://www.sba.gov/smallbusinessplanner/plan/index.html>

Additional Resources

- **Tennessee Small Business Development Centers** offer assistance to entrepreneurs wishing to start businesses or expand existing businesses. The centers offer one-on-one assistance and group training on many topics including business planning. Learn more about TSFDCs at <http://www.tsbdc.org>.

Evaluate Today's Webinar

- Please take a few minutes to complete the short online survey at

<http://www.surveymonkey.com/s/P8LT9JN>

Special thanks again to our funding partners:



Additional Resources Online Discussion Forum

- TN Value-Added Beef Google Group
– To join, send e-mail to...

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Join Us for the Next Webinar

- Tuesday, December 11, 2012
- 6:30 pm Central/ 7:30 pm Eastern
- Managing the Legal Risk of Direct Marketing Beef
- Speakers: Rusty Rumley, Megan Bruch, Hal Pepper
- Slides and archived versions of all webinars will be made available on <http://cpa.utk.edu>

