“Farm Business Planning & Budgeting”

Part 2: Budgeting & Financial Planning

Presented by:

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RI Small Business Development Center
• No-cost, confidential business counseling and assistance (full-time and part-time staff)
• Statewide reach, part of a national network of SBDCs
• Any industry (almost)
• Startups and existing businesses
• Various issues/topics: start-up, funding and financing, (digital) marketing, HR, cash flow/financial management, business planning/financial projections, etc

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QUICK REVIEW
One-page, visual tool to map:

• Production/Operations (creating value)

• Sales & Marketing (delivering value)

• Financials (capturing value)

• Remember – FOCUS – Financial, Operational, Customer, US (team)

For current and future plans.
**Mission:** The mission for your business guides everything that you do. Keep it simple by finding the lowest common denominator.

**Objectives:**
Objectives are general directions for your business. They outline what you want the business to look like in the future. Stay focused on your Mission Statement.

<table>
<thead>
<tr>
<th>Objective 1:</th>
<th>Objective 2:</th>
<th>Objective 3:</th>
<th>Objective 4:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Operations</td>
<td>Customer</td>
<td>Team</td>
</tr>
</tbody>
</table>

**SMART Goals:** Remember, a goal without a deadline is just a dream!

|----------------|----------------|----------------|----------------|

**SMART Goal b):**

**Action Plan:**

- i.
- ii.
- iii.

- iv.

**Action Plans:** Every goal must have action plans that explain how that goal will be accomplished. Explain who will do what, where, when, how, and how often.
I – Framing

II – Tool: One-Page Budget/Financial Plan
Business planning is about:

- Doing your homework/knowing your stuff
- Getting FOCUS
  - Financial, Operational, Customer, US (team)
- Guiding action

Notes about (business planning) tools:

- Only as good as they’re useful
- What doesn’t work, adapt it or forget it
- Translate jargon or ditch it
ONE- PAGE BUDGET
One-Page Budget/Financial Plan

1 – Start with last year’s records

2 – Calculate five-line income statement

3 – Create a budget – from the bottom up – and determine break-even

4 – Take a step back and review
1 – Start with last year’s records

• If you’re starting new, SBDC can help with templates.
• You may need to take stock of how good your record-keeping is (complete, detailed, easily at hand…)
• You may want to compare to the industry. (SBDC can help.)
• For instance, advertising spend (industry average) is 0.26% of sales for vegetable farming.
2 – Calculate five-line income statement

Sales
- Cost of Goods
= Gross Margin
- Overhead
= Net Income
2 – Calculate five-line income statement

Sales
- Cost of Goods
  = Gross Margin
- Overhead
  = Net Income

**COGS** = any expense that helps produce one more unit of output.
- Seed, soil, fertilizer, labor, etc.

**Overhead** = any expense you incur regardless of production levels
- Salaries, repairs, supplies, marketing, utilities, insurance, Interest, taxes, depreciation

What’s not included? Capital/equipment expenditures
2 – Calculate five-line income statement

<table>
<thead>
<tr>
<th>Description</th>
<th>Dollars</th>
<th>% of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$200,000</td>
<td>100%</td>
</tr>
<tr>
<td>- Cost of Goods</td>
<td>$100,000</td>
<td>50%</td>
</tr>
<tr>
<td>= Gross Margin</td>
<td>$100,000</td>
<td>50%</td>
</tr>
<tr>
<td>- Overhead</td>
<td>$ 80,000</td>
<td>40%</td>
</tr>
<tr>
<td>= Net Income</td>
<td>$ 20,000</td>
<td>10%</td>
</tr>
</tbody>
</table>
With different revenue streams and COGS for each?

<table>
<thead>
<tr>
<th></th>
<th>Sales</th>
<th>Cost of Goods</th>
<th>Gross Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$200,000</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Farmer’s Mkt</td>
<td>$ 20,000</td>
<td>$ 10,000</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>CSA</td>
<td>$ 30,000</td>
<td>$ 10,000</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>Restaurant</td>
<td>$ 50,000</td>
<td>$ 20,000</td>
<td>$ 20,000</td>
</tr>
<tr>
<td>Institutional</td>
<td>$100,000</td>
<td>$ 60,000</td>
<td>$ 40,000</td>
</tr>
</tbody>
</table>

Total: $200,000 (100%)  $100,000 (50%)  $100,000 (50%)
QUESTIONS & COMMENTS
3 – Create a budget – from the bottom up

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired Owner’s Draw</td>
<td>$</td>
<td>(A)</td>
</tr>
<tr>
<td>(include income tax)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank principal payments required</td>
<td>$</td>
<td>(B)</td>
</tr>
<tr>
<td>TOTAL REQUIRED NET INCOME (A+B)</td>
<td>$</td>
<td>(C)</td>
</tr>
<tr>
<td>Overhead</td>
<td>$</td>
<td>(D)</td>
</tr>
<tr>
<td>REQUIRED GROSS MARGIN (C+D)</td>
<td>$</td>
<td>(E)</td>
</tr>
<tr>
<td>Divide Gross Margin by Percentage</td>
<td>%</td>
<td>(F)</td>
</tr>
<tr>
<td>REQUIRED SALES VOLUME</td>
<td>$</td>
<td>(G)</td>
</tr>
<tr>
<td>(E divided by F as % of historical sales)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### One-Page Budget/Financial Plan

#### 3 – Create a budget – from the bottom up – and determine break-even (in dollars)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired Owner’s Draw</td>
<td>$100,000</td>
<td>(A) - What do you want/need?</td>
</tr>
<tr>
<td>(include income tax)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank principal payments required</td>
<td>$20,000</td>
<td>(B) - What’s due the coming year?</td>
</tr>
<tr>
<td>TOTAL REQUIRED NET INCOME (A+B)</td>
<td>$120,000</td>
<td>(C)</td>
</tr>
<tr>
<td>Overhead</td>
<td>$80,000</td>
<td>(D) - Usually, stays like historical unless significant expansion/change</td>
</tr>
<tr>
<td>REQUIRED GROSS MARGIN (C+D)</td>
<td>$200,000</td>
<td>(E)</td>
</tr>
<tr>
<td>Divide Gross Margin by % (from historical)</td>
<td>50%</td>
<td>(F) - Remember: divide by %, not multiply</td>
</tr>
<tr>
<td>REQUIRED SALES VOLUME</td>
<td>$400,000</td>
<td>(G) - Line E divided by Line F</td>
</tr>
</tbody>
</table>
QUESTIONS & COMMENTS
5 – Take a Step Back and Review

• Is the projected sales volume reasonable?
• Can you grow/raise enough on your acreage? Can you get the same prices at scale?
• Would you need to expand/change your operations significantly?
• If so, what would that cost? What’s your expansion and financing plan/timeline?
• Either way, develop a marketing/action plan to reach the desired sales level.
• This isn’t the entire picture of your financials – cash flow, balance sheet, ratios, etc.
More on cash flow, balance sheet, and financial ratios

Cash flow has to do with the timing of cash coming in and going out – as important as $ amounts!
• When/how often/how quickly are you getting paid vs when you have to make payments
• Diff business model choices impact – e.g. customer pays more but takes longer vs smaller and faster

Balance sheet is a point in time snapshot of your financial position.
• Assets (what you own) = Liabilities (what you owe) + Equity (the value of ownership)
• Certain things show on your balance sheet (e.g. value of land, equipment, etc) that don’t show on P&L

Financial ratios can help you analyze and compare performance of your business (historical, industry)
• Profitability (how well you’re doing making a profit) – profit margin (net income/net sales), ROE, ROA
• Solvency (covering debt) – e.g. debt-to-equity, etc
• Efficiency (using assets, equity, etc to make money) – e.g. asset turnover, receivables turnover, etc
• Liquidity (what your cash looks like) – e.g. current ratio (current assets/current liabilities)
Key Takeaways from the One-Page Budget and Financial Plan

- The better (more accurate, detailed, etc.) your records, the easier budgeting and financial planning will be.
  - What actions can you take this year to improve your financial record-keeping?

- Check your plan and especially your assumptions with trusted advisors.
  - Are you being overly optimistic? Accounting for all costs? How do you look relative to the industry and market?

- Connect this to your business model and one-page business plan.
  - What is your strategy and what are your SMART goals?
REMEMBER

- Business planning is about:
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  - Guiding **action**

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Thank You!

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