

# “Farm Business Planning & Budgeting”

## Part 2: Budgeting & Financial Planning

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THE  
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EXTENSION





- 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

# Business Model Canvas

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.

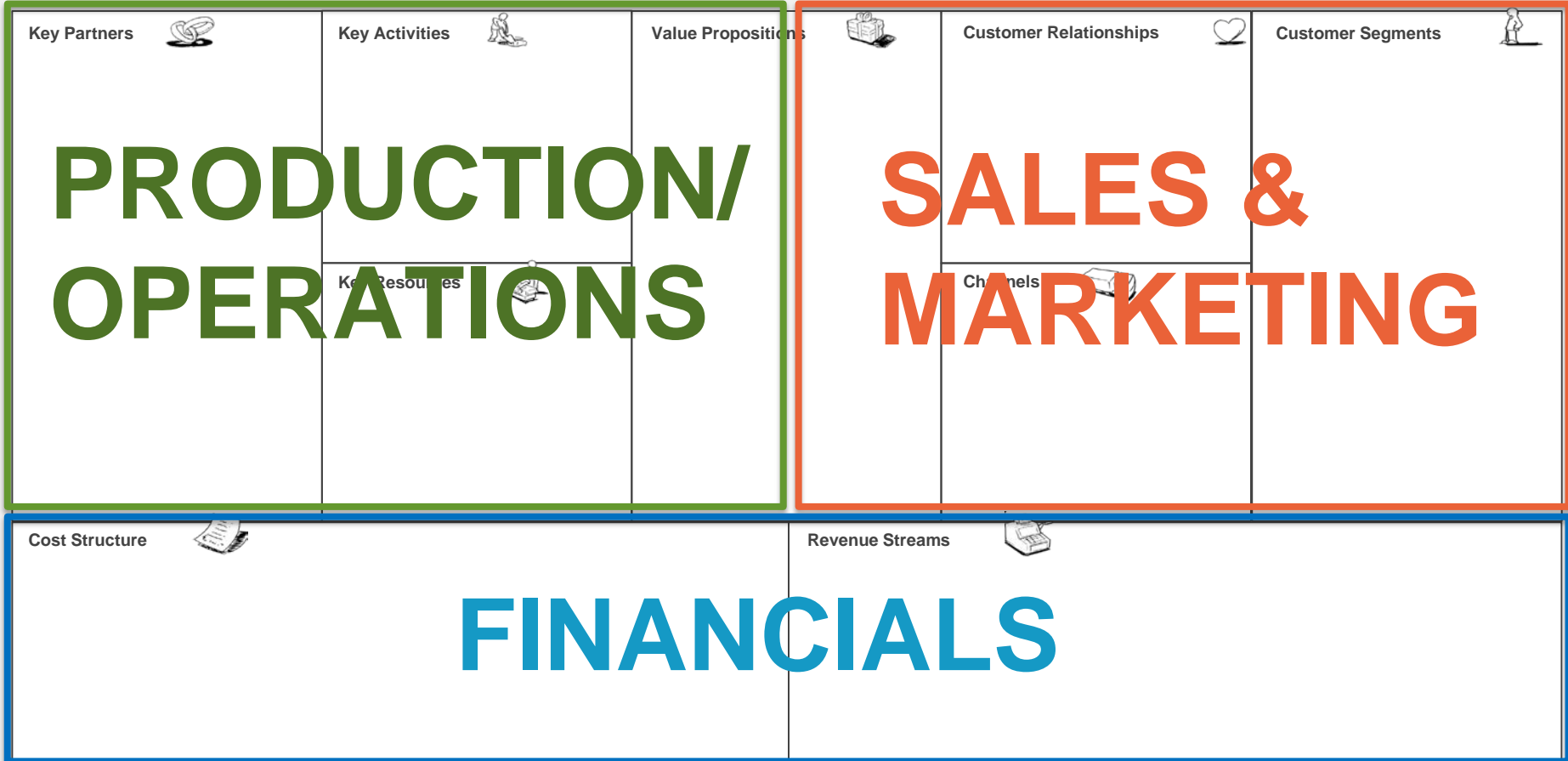
# Business Model Canvas

Designed for:

Designed by:

Date:

Version:



# Plan to Succeed

The One Page Business Plan  FARM CREDIT

**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.

**Objective 1:**

Financial

**Objective 2:**

Operations

**Objective 3:**

Customer

**Objective 4:**

Team

**SMART Goals:** Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

**SMART Goal a):**

**Action Plan:**

i.

**SMART Goal a):**

**Action Plan:**

i.

**SMART Goal a):**

**Action Plan:**

i.  
ii.  
iii.

**SMART Goal a):**

**Action Plan:**

i.  
ii.

**SMART Goal b):**

**Action Plan:**

i.  
ii.  
iii.

**SMART Goal b):**

**Action Plan:**

i.  
ii.  
iii.

**SMART Goal b):**

**Action Plan:**

i.  
ii.

**SMART Goal b):**

**Action Plan:**

i.  
ii.

**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.

# Agenda

I – Framing

II – Tool: One-Page Budget/Financial Plan



# FRAMING

- 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**

# One- Page Budget/Financial Plan

## **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.

# One- Page Budget/Financial Plan

## 2 – Calculate five-line income statement

**Sales**

**- Cost of Goods**

**= Gross Margin**

**- Overhead**

**= Net Income**

# One-Page Budget/Financial Plan

## 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.

Can you break it down per unit?

**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

# One- Page Budget/Financial Plan

## 2 – Calculate five-line income statement

|                               | Dollars                 | % of Sales        |
|-------------------------------|-------------------------|-------------------|
| <b>Sales</b>                  | <b>\$200,000</b>        | <b>100%</b>       |
| <b><u>- Cost of Goods</u></b> | <b><u>\$100,000</u></b> | <b><u>50%</u></b> |
| <b>= Gross Margin</b>         | <b>\$100,000</b>        | <b>50%</b>        |
| <b><u>- Overhead</u></b>      | <b><u>\$ 80,000</u></b> | <b><u>40%</u></b> |
| <b>= Net Income</b>           | <b>\$ 20,000</b>        | <b>10%</b>        |

# One- Page Budget/Financial Plan

With different revenue streams and COGS for each?

|                        |                  |             |
|------------------------|------------------|-------------|
| <b>Sales</b>           | <b>\$200,000</b> | <b>100%</b> |
| Farmer's Mkt           | \$ 20,000        | 20%         |
| CSA                    | \$ 30,000        | 15%         |
| Restaurant             | \$ 50,000        | 25%         |
| Institutional          | \$100,000        | 50%         |
| <br>                   |                  |             |
| <b>- Cost of Goods</b> | <b>\$100,000</b> | <b>50%</b>  |
| Farmer's Mkt           | \$ 10,000        | 50%         |
| CSA                    | \$ 10,000        | 33%         |
| Restaurant             | \$ 20,000        | 40%         |
| Institutional          | \$ 60,000        | 60%         |
| <br>                   |                  |             |
| <b>= Gross Margin</b>  | <b>\$100,000</b> | <b>50%</b>  |



QUESTIONS & COMMENTS

# One- Page Budget/Financial Plan

## 3 – Create a budget – from the bottom up

|  |    |     |
|--|----|-----|
| Desired Owner's Draw<br>(include income tax)                       | \$ | (A) |
| Bank principal payments required                                   | \$ | (B) |
| TOTAL REQUIRED NET INCOME (A+B)                                    | \$ | (C) |
| Overhead   | \$ | (D) |
| REQUIRED GROSS MARGIN (C+D)  | \$ | (E) |
| Divide Gross Margin by Percentage                                  | %  | (F) |
| REQUIRED SALES VOLUME<br>(E divided by F as % of historical sales) | \$ | (G) |

# One- Page Budget/Financial Plan

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

|  |           |     |  |
|--|-----------|-----|--|
| Desired Owner's Draw<br>(include income tax) | \$100,000 | (A) | - What do you want/need?   |
| Bank principal payments required             | \$ 20,000 | (B) | - What's due the coming year?  |
| TOTAL REQUIRED NET INCOME (A+B)              | \$120,000 | (C) |  |
| Overhead                                     | \$ 80,000 | (D) | - Usually, stays like historical <u>unless</u><br>significant expansion/change |
| REQUIRED GROSS MARGIN (C+D)                  | \$200,000 | (E) |  |
| Divide Gross Margin by % (from historical)   | 50%       | (F) | - Remember: divide by %, not multiply  |
| REQUIRED SALES VOLUME                        | \$400,000 | (G) | - Line E divided by Line F   |

QUESTIONS & COMMENTS

# One- Page Budget/Financial Plan

## 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.

# One- Page Budget/Financial Plan

## 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:
  - Doing your homework/knowing your stuff
  - Getting FOCUS
    - Financial, Operational, Customer, US (team)
  - Guiding action
- Notes about (business planning) tools:
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QUESTIONS & COMMENTS

# Thank You!

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