



COMPEER
FINANCIAL™

MAJOR CHALLENGES NEW FARMERS FACE...HOW TO MANAGE THEM

Some Thoughts on Overcoming Financial Challenges

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**FIRST, DEVELOP A VERY
SIMPLE BUSINESS PLAN**

WHAT IS THE PURPOSE OF YOUR BUSINESS PLAN?

- A place to consolidate and give structure to your ideas
- A guide to follow from great idea, to feasibility analysis, through startup and expansion
- A vehicle to attract investment of debt and/or equity



STRUCTURE OF A BUSINESS PLAN

- 1) Executive Summary
- 2) Business Description
- 3) Operations
- 4) Marketing Plan
- 5) Management and Organization
- 6) Financial Plan



1) EXECUTIVE SUMMARY

- Appears first but should be written last
- Brief summary of the whole plan
- Think of it as a cover letter for your plan
- No more than one page
- Be sure to include a summary of your financing request



2) BUSINESS DESCRIPTION

- An overview of your business
- Where is it located?
- What are the facilities like?
- What is the history of the business?
- What is the ownership structure?
- Don't go too deep or too far into the weeds



3) OPERATIONS

- What products or services do you offer?
- What is your production system? How is it unique?
- How do you maintain high standards of quality and customer service?
- How do you manage inventory?
- What licenses, permits, patents do you hold?
- What are the risks in your business and how do you manage them?
- What gives your business a moat to thwart competition?
- What are your plans for business growth & expansion?
- What is the timeline for implementation of your business plan?

4) MARKETING PLAN

- What are the market trends in your business?
- What are your target markets and who are your customers?
- How do you price your products?
- How do you promote and distribute your products?
- Include brief historic and projected sales data.
- Describe any strategic partners or contracts that give you an edge over your competition.



5) MANAGEMENT AND ORGANIZATION

- Who are the members of the management team? What knowledge, skills, and abilities do they have that enhance the business' success?
- Do you have a board of directors or advisory team? If so, describe how they add value to your business.
- How is the business structured?
- Who provides professional services such as tax, accounting, legal work?



6) FINANCIAL PLAN

- Balance sheets – current, historical, and projected
- Cash flow projections – month-by-month for at least one year, then annual projections for at least two more years
- Sources and uses of cash
- Projected income statements
- Detailed assumptions to back up the projections
- Financing request – think like a lender
 - Need cash flow to support loan payments
 - Need collateral to back the loan





**SECOND, DIVE INTO THE
CASH FLOW**

How much can you earn from your farm?

A common mistake...

Gross income per acre

\$36,667

Seed/plants

\$1,667

Fertilizer/calcium/compost

\$1,000

Other supplies (plastic mulch, etc)

\$1,000

Hired labor

\$10,000

Utilities

\$233

Marketing & other expenses

\$1,650

Fuel & oil

\$133

\$15,683

Land charge

\$200

Repairs, insurance

\$833

Other overhead costs

\$2,104

\$3,137

TOTAL COSTS

\$18,820

NET RETURN/ACRE

\$17,847

**\$17,847 x 3 acres =
\$53,541**
Please don't stop here!

ANNUAL CASH FLOW PROJECTION													
	January	February	March	April	May	June	July	August	September	October	November	December	TOTALS
BEGINNING CASH	\$10,000	\$3,327	(\$5,166)	\$32,341	\$68,248	\$56,125	\$45,452	\$39,384	\$33,336	\$28,313	\$25,490	\$20,867	
CASH IN-FLOW													
Livestock income													0
Crop income			45,000	45,000		2,000	5,000	5,000	5,000	3,000			110,000
Government payments													0
Crop insurance proceeds													0
Custom work income													0
Sales of capital assets													0
Proceeds from new loans													0
Off-farm income													0
Other income													0
TOTAL CASH IN	\$0	\$0	\$45,000	\$45,000	\$0	\$2,000	\$5,000	\$5,000	\$5,000	\$3,000	\$0	\$0	\$110,000
CASH OUT-FLOW													
Livestock purchases													0
Car and truck expenses	100	100	100	100	100	200	300	300	300	200	100	50	1,950
Chemicals													0
Custom hire													0
Feed													0
Fertilizer & lime				3,000									3,000
Fuel & oil					400								400
Insurance	250					250							500
Labor hired				1,000	5,000	6,000	6,000	6,000	5,000	1,000			30,000
Rent of machinery & equipment													0
Land rent													0
Repairs & maintenance	300	300	300	100	100	200	200	200	200	100			2,000
Seeds & plants		2,000	1,000		2,000								5,000
Supplies		1,500	1,500										3,000
Property taxes	1,500					1,500							3,000
Utilities	30	100	100	100	30	30	75	55	30	30	30	90	700
Vet & breeding													0
Professional fees				300									300
other expenses	250	250	250	250	250	250	250	250	250	250	250	250	3,000
OPERATING OUT-FLOW	2,430	4,250	3,250	4,850	7,880	8,430	6,825	6,805	5,780	1,580	380	390	52,850
Capital purchases													0
Principal and Interest payments	1,743	1,743	1,743	1,743	1,743	1,743	1,743	1,743	1,743	1,743	1,743	1,743	20,916
Family living draw	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
TOTAL CASH OUT	6,673	8,493	7,493	9,093	12,123	12,673	11,068	11,048	10,023	5,823	4,623	4,633	103,766
ENDING CASH	\$3,327	(\$5,166)	\$32,341	\$68,248	\$56,125	\$45,452	\$39,384	\$33,336	\$28,313	\$25,490	\$20,867	\$16,234	

Cash flow for our CSA farm



FINALLY, SOME RULES OF THUMB IN THE EARLY YEARS



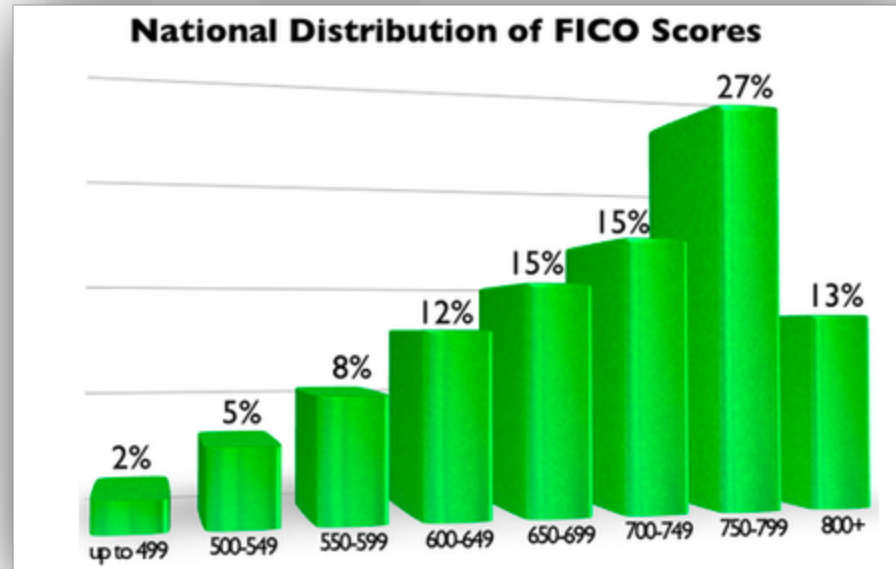
RULE #1: GET IN THE HABIT OF UPDATING YOUR BALANCE SHEET EVERY JANUARY

- Documents the value of business assets at a point in time
- Shows progress you are making in the business even if cash flow seems tight
- Aligns with your federal tax return, which makes financial analysis easy

Balance Sheet			1/1/2017
Assets			
Current Farm Assets			
Cash and checking	10000	★Accrued interest	
★ Prepaid expenses		★Accounts payable	
★ Growing crops		Principal due term loans	4087
★ Accounts receivable		Machinery \$	
Hedging accounts		Mortgage \$4,087	
★ Crop and feed inventories			
Crop under govt loan			
★ Market livestock			
Other current assets			
Total Current Assets	\$10,000	Total Current Liabilities	\$4,087
Intermediate Farm Assets			
★ Breeding livestock		Intermediate Liabilities	
Machinery and equipment	25000	Machinery & truck	
Other intermediate assets			
Total Intermediate Assets	\$25,000	Total Intermediate Liabilities	\$0
Long Term Farm Assets			
Land	160000	Long Term Liabilities	
Buildings & improvements	40000	Mortgage	138413
Other long term assets			
Total Long Term Assets	\$200,000	Total Long Term Liabilities	\$138,413
Total Farm Assets	\$235,000	Total Farm Liabilities	\$142,500
Non-farm Assets	150000	Nonfarm Liabilities	107500
Total Assets	\$385,000	Total Liabilities	\$250,000
		Net Worth	\$135,000
House is 43% of the value of the farm real estate.			

Items with a star need to be "accrual adjusted" on the Income Statement

RULE #2: BUILD AND MAINTAIN A STRONG CREDIT BUREAU SCORE IF YOU PLAN TO SEEK LOANS



HOW TO BUILD YOUR CREDIT SCORE

- **Payment history carries the most weight. Always pay all bills when due** (including utilities, cell, medical)
- **Use no more than 30% of available credit, and keep credit card debt low**
- **Build long-term credit relationships**
- **Use various types of credit (not just credit cards)**
- **Be cautious about applying for new credit, particularly when you need a major loan**

RULE #3: DON'T USE CREDIT CARDS AS YOUR SOURCE OF OPERATING CAPITAL

- Approximately 58% of new firms financed operations with credit cards in their first year.

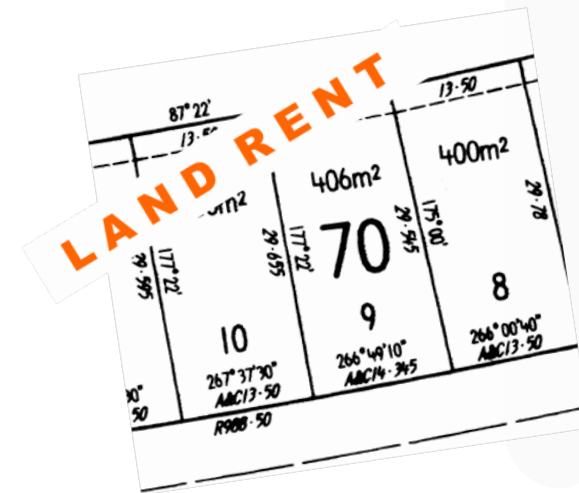
Every \$1,000 increase in credit card debt increased the probability of failure by 2.2%



Source: The Use of Credit Card Debt by New Firms, The Kauffman Firm Study. [kfs_credit_card_debt_report.pdf](#), 2009.

RULE #4: KEEP CAPITAL INVESTMENT AS LOW AS POSSIBLE

- Capital investment can significantly reduce flexibility
- Overhead costs can create an unbearable burden for a new business
- Don't be afraid to rent rather than own machinery, land or facilities, or to contract for services



RULE #5: INVESTMENTS YOU MAKE ON YOUR OWN FARM MAY NOT ADD VALUE TO YOUR BALANCE SHEET

- Investment must be recouped through cash flow
- Could still be a great investment even if balance sheet value is zero
- May take a long time to generate enough cash flow to give you a good return on your investment
- One of the “D” events may derail your plans along the way



RULE #6: IT CAN MAKE GOOD SENSE TO MAKE CAPITAL INVESTMENTS ON A RENTED FARM

Scenario: Renting 40 acres of pasture for \$50/acre/year with a five-year lease. Expect to net \$100/acre/year in cash flow, or \$4,000 for the whole pasture.

Need to invest \$10,000 upfront in fencing, watering system, etc to make the pasture usable. Won't get anything back at the end of Year Five if the lease isn't renewed.



Term in years	Expenses			Income				Cash flows
	Pasture improvement	Other costs	Total	Money saved by project	Annual net cash flow	Equipment sales	Total	
0	\$10,000	\$0	\$10,000	\$0	\$0	\$0	\$0	\$10,000
1	0	0	0	0	4,000		4,000	4,000
2	0	0	0	0	4,000		4,000	4,000
3	0	0	0	0	4,000		4,000	4,000
4	0	0	0	0	4,000		4,000	4,000
5	0	0	0	0	4,000		4,000	4,000
6	0	0	0	0		0	0	0
7			0			0	0	0
8			0				0	0
9			0				0	0
10			0				0	0
				Net Cash Flow =				\$10,000.00
				IRR =				28.65%

Return to grazier from \$10,000 investment in pasture improvements: 28.65%

A stylized graphic of a house outline in a light teal color. Inside the house, there is a bar chart with four vertical bars of increasing height from left to right. A horizontal line is drawn across the top of the bars, extending from the left edge of the house to the right edge of the fourth bar. The text 'THANK YOU!' is written in white, bold, uppercase letters across the middle of the house, positioned above the horizontal line.

THANK YOU!