

June 2004

EB 2004-08

# Starting an Ag-Business? *A Pre-Planning Guide*



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**Agricultural Business Planning Basics:  
Evaluating agricultural business alternatives**

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Publication Price per Copy: \$15

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**Acknowledgements**

The author would like to thank Monika Roth, Wen-fei Uva, Wayne Knoblauch, Joan Petzen, Bruce Dehm, and Karin Jantz for their input into this document. However, any errors or omissions are the sole responsibility of the author.

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# Introduction: Who is this book for?

Business planning can be a long and tedious process, but it doesn't have to be. The process of business planning can be much more streamlined and rewarding if the potential business operator takes time beforehand to focus their thoughts and ideas. This book is intended to help agricultural business operators (and future business operators) decide which enterprise is best for them to pursue with a full fledged business plan. Specifically, this guide is for:

- ❑ **People who would like to decide what kind of farming they want to go into.** If you are in this category, the sky is the limit. Not only do you have the option of deciding what agricultural business enterprise you wish to pursue, but you have the ability to decide the location of your agricultural business. If you fall into this category, this book will be extremely helpful in narrowing down all the possibilities that are open to you.
- ❑ **People who want to know what is involved with a career in farming.** If you have never farmed on your own before, this book can help you assess what skills you will need to become a successful farmer and a successful manager. In addition, this book should provide you with a realistic picture of what it takes to grow and manage an agricultural business.
- ❑ **People who have a farm and want to know what is best to produce on it.** Maybe you have already purchased a farm and are having trouble deciding what business you would like to start? Or, maybe you have already been farming and you would like to know what other options or enterprises you would like to pursue? If you fit into either of these categories, this book will help you narrow down the enterprises that are possible at the location you have already chosen. Another book that might be helpful for those already in farming is the “Farming Alternatives” workbook available through NRAES (NRAES publication #32) by calling 607-255-7654.
- ❑ **People who are looking to purchase a farm and start a farm enterprise.** If you are looking to bite off the whole thing all at once, this book can help you focus your thoughts on what enterprise you would like to start, what the best location for your enterprise might be, and what type of farm/farmland would be best to obtain for your new enterprise.
- ❑ **People who are having trouble starting the business planning process.** Sometimes it takes momentum to get through the business planning process. This booklet can help provide that momentum by clarifying your vision for your agricultural enterprise. This new-found excitement for your agricultural business idea can help propel you through the planning process.
- ❑ **People who want to farm full time, part time, or as a hobby.** This book will help you determine what the size and income of the farm operation will have to be in order to support a hobby, a part time job, or your entire family budget.

### **First things first: what agricultural enterprises are you thinking about starting?**

If you don't already know, take a look at the next few pages and get some ideas. During this exercise, don't think about money, in fact, don't think about anything except what agricultural enterprise you think that you would enjoy! There will be plenty of opportunities in the remainder of this book to think about money. Plus, most farmers do not start an agricultural enterprise simply for money—most do it because they enjoy it as well!

#### **Commodity production**

On the next two pages is a list of the top commodities grown in New York State. This list was compiled from the USDA National Agricultural Statistics Service in 2003. This list is not comprehensive, but commodities found on this list would most likely receive more support in New York (expertise and allied industries).

**Livestock Production** - Dairy and animal production in New York provided nearly \$1.87 billion to farmers in 2002. That accounts for nearly 60 percent of all cash receipts.

**Dairy Products** - Milk is New York's leading agricultural product and is produced all across the state. **Milk** sales account for over one-half of total agricultural receipts. Production in 2002 was 12.2 billion pounds with a value of \$1.56 billion.

**Meat Production** - New York livestock producers marketed 211 million pounds of meat animals during 2002 bringing in \$116 million in cash receipts. Sales from **cattle and calves** accounted for \$108 million of the total, **hogs and pigs** returned \$6.4 million and **sheep and lambs** provided \$2.0 million.

**Poultry Production** - The value of New York eggs, broilers and turkeys plus the value of sales for other chickens totaled \$64.6 million for 2002. **Eggs** made up \$44.8 million of the total followed by **ducks** at \$10.9 million.

**Fruits** - New York's fruit crops were valued at \$179 million in 2002. Apples and Grapes lead New York fruit crops in value. **Apples** - New York ranks 2nd nationally with a crop worth about \$102 million in 2002. Three general areas produce most of the apples: along the southern Lake Ontario shore, along the Hudson Valley, and along the upper Lake Champlain Valley. New York's leading varieties are McIntosh, Empire, Rome, Idared and Red Delicious.

**Grapes** - Wine and juice grape production place New York 3rd behind California and Washington. The crop was worth \$43.3 million in 2002. Two-thirds of the production was for **juice** and one-third went into **wines**. The four major producing areas are: Lake Erie area, the Finger Lakes, the Hudson Valley and the eastern end of Long Island.

**Tart Cherries** - Production in New York ranks 3rd in the Nation. Tart cherry production totaled 12.7 million pounds with a value of \$6.42 million.

**Pears** - production ranked 4th in the nation with 9,850 tons and had a value of \$3.68 million.

**Strawberries** - are the 3rd most valuable fruit in New York and places New York 7th in national production. About 6.30 million pounds were harvested in 2002 and returned \$8.82 million to growers.

**Vegetables** - The value of vegetables totaled \$476 million in 2002. Fresh market vegetables rank 6th and processing vegetables are 9th among all states. Leading crops in New York are cabbage, sweet corn and onions. **Cabbage** - The nation's leader in production, cabbage is principally grown south of Lake Ontario in Monroe, Genesee, Orleans, Ontario and Niagara counties. New York cabbage is typically stored for sale as fresh during winter months. Value of the crop in 2002 totaled \$48.6 million. **Sweet Corn** - Produced statewide, fresh market sweet corn had a value of \$89.8 million. Concentrations are found in the Lower Hudson Valley and around the Genesee Valley. The 2002 fresh market crop, worth \$83.6 million, placed 3rd nationally and the processing crop valued at \$6.21 million ranked 6th. **Onions** - An important crop worth \$33.8 million in 2002. Onions are grown in New York's muck soils in Orange, Orleans, Oswego, Madison and Wayne counties. The state ranked 8th in production for 2002 with 258 million pounds. **Snap Beans** - Grown in the Central and Western regions for fresh and processing. The 2002 crop was valued at \$48.9 million. Fresh production accounted for 31 percent of the total and puts New York 2nd across the nation. Processing sales of \$11.1 million rank New York 3rd.

**Other Vegetables** - **Tomatoes** (\$24.0 million - 8th nationally), **Pumpkins** (\$23.8 million - 1st nationally), **Cucumbers** (\$22.5 million - 4th nationally), **Squash** (\$18.8 million - 5th nationally), **Green Peas** for processing (\$8.13 million - 4th nationally), **Cauliflower** (\$3.97 million - 3rd nationally).

**Field Crops** - New York produces a variety of field crops largely in support of its dairy industry. Corn, oats and wheat are most widely grown with soybeans steadily increasing importance. New York ranks 3rd in corn silage, valued at \$194 million. Production of **grain corn** ranked 21st with a value of \$124 million. **Soybeans** were valued at \$24.5 million. The state placed 9th in **oat** production, 31st in **wheat** and 20th for soybeans. **Hay** production put New York 17th and was valued at \$374 million in 2002. Most hay is used on farms and its value is realized through sale of milk and livestock. **Potatoes** reached a value of \$64.4 million in 2002 and made New York the 12th leading producer.

**Maple Syrup** - At \$6.84 million, New York ranks 2nd behind Vermont in value but was 3rd with 210,000 gallons produced behind Vermont and Maine in 2003

**Floriculture Crops** - In 2002, New York floriculture products were valued at \$185 million. Bedding and garden plants top the list of commodities. New York's floriculture output ranks 6th nationally. A variety of crops are produced in 25 million square feet of covered area and in 1,034 acres of open ground.

**Christmas Trees** provide about \$18 million of sales and made New York the 11th leading producer in 2001.

## **“Alternative” agricultural products**

If commodity production does not sound like it is what you would like to do, then perhaps you are more interested in an “alternative” agricultural product—alternative meaning that it is an alternative to conventional commodity production. The list below was compiled by the Cornell Farming Alternatives program and has been edited since that time. This list is by no means complete, but perhaps you will find something that interests you.

### **Biotech Products and Products for Scientific Use**

Animals raised for medical use

Animals raised for medical products

#### **Field Crops**

Aduki beans

Amaranth grain for food and feed

Barley, waxy hull-less

Bird seed (sunflowers, millet, canary, etc.)

Buckwheat

Canola for oil

Comfrey

Corn snack foods

Crambe

Field peas (food and feed)

Fresh or stone ground flours, arid grains

Fuel crops (ethanol generation, etc.)

Garbanzo beans

Indian corn, miniature or regular sized

Kenaf

Lentils

Lupines, Sweet (as cash grain and for feed)

Malting barley

Medics

Mustard

Organically grown grains of all types

Popcorn, white arid colored

Seed production

Natto soybeans

Soybeans for human consumption

Soybeans processed into tofu, tempeh food products

Sunflower for oil and birdseed

Value added seed production (Registered and Certified Seed)

Wild rice

#### **Fish and Game**

Beefalo (hybrid of buffalo and beef)

Buffalo (American Bison)

Deer farming

Fallow deer, Red deer, white tailed deer

Elk (Wapiti)

Fish bait-worms, minnows

Game farms for tourists

Guinea fowl

Mallard duck for meat  
Peacocks for feathers  
Pheasant rearing for release/restocking programs and for meat  
Rabbits for meat  
Rabbits (Angora) for hair  
Salmon, Trout

**Forest Products**

Apple tree firewood  
Christmas trees  
Firewood  
Furniture, e.g. outdoor chairs, picnic tables  
Nuts  
Sawlogs  
Tree seed collection  
Toys from wood

**Fruits**

Apples, Applesauce  
Berry products, jams, jellies, wines, juices, pie fillings  
Blackberries  
Blueberries, highbush cultivated and low bush foraged  
Cider  
Cranberries, Currants, Dried fruit  
Elderberries, elderberry wine  
Fresh white and pink grape juice  
Gooseberries  
Grape pie filling  
Homemade jams, jellies  
Mixed berry juices  
Melons  
Pick-your-own products  
Raspberries, red, black, purple, and yellow  
Raspberries, chocolate covered  
Rhubarb products  
Strawberries, day neutral types  
Table grapes, seeded and seedless  
Wine grapes for home brewing market

**Horticultural/Nursery**

Annual flowers sold as potted plants  
Dried flowers, cultivated and wild  
Field grown cut flowers  
Field grown mums  
Greenhouse production  
Herb bedding plants  
Herbs for culinary purposes  
Herbs for potpourri and dried arrangements  
Ornamental shrubs and perennial flowers  
Organically raised bedding plants and fruit trees  
Potted annuals  
Specialty bedding plants  
Vegetable transplant/bedding plant production



Wild flowers and seeds

**Livestock and Animals**

Beef, conventional and organic or "chemical free" buffalo

Donkeys, miniature

Elk, meat processing, jerky

Fox, red, silver, and blue

Goats for milk (fresh and cheese) and meat

Goats (Angora) for hair

Honey and beeswax products

Horses, trail rides, draft horse breeding, caval, miniatures, exotic

Llama for pack animals, hair, and pets

Mink

Mules, donkeys

Rabbits for meat and lab animals

Rabbits (Angora) for hair

Sheep for lamb and mutton, wool, milk (for cheese)

Sheep wool for home spinning market

Sheepskin leather products

Veal, conventional and "FACT" certified

**Poultry**

Balut (duck eggs partially incubated)

Chicken eggs partially developed for oriental markets

Chicken processed into patties for wholesale markets

Duck for meat

Ducks for liver pate

Free range poultry of all types

Geese

Organically raised poultry of all types

Turkey, fresh, frozen or cooked

**Services and Recreation**

Antique shop

Barn dances

Bed and breakfast inn

Boat storage

Campground

Child care in country setting

Chuck wagon

Composting of municipal wastes

Confections and candles

Entertainment agriculture

Subscription farming

Crafts

Antique restoration

Custom machinery work

Custom planting and care of window boxes and container annuals

Custom planting and care of vegetable gardens

Custom slaughter

Farm sitting

Gift shops

Hunting, fishing, and nature hike guides

Lectures on herbs, gardening at farm  
 Museum of old farm equipment on working farm  
 Pet motels for large as well as small animals  
 Petting zoo  
 Religious services held on farm, e.g. sunrise Easter services, weddings  
 Restaurant  
 Seed and supplies distributor  
 Sleigh rides with work horses  
 Small engine repair  
 Taxidermy, mammal and bird  
 Tours for public, school children, bus tours of farm, winery, etc.  
 Trail rides  
 Vacations on farm  
 Wagon trains  
**Vegetables**  
 Asparagus, Baby vegetables  
 Cabbage  
 Carrots  
 Celery  
 Cole crops (broccoli, cauliflower, brussel sprouts, kohlrabi)  
 Corn, miniature  
 Garlic  
 Gourds, ornamental  
 Gourmet vegetables  
 Horseradish  
 Hydroponically produced crops, out of season  
 Indian corn, regular, strawberry type, and mini-multicolored  
 Mushrooms, bisporous, shiitake, etc.  
 Onions (diversification, e.g. transplants, shallots, sweet, early)  
 Organic vegetables of all types  
 Oriental vegetables  
 Peppers, green and specialty types (purple, hot, etc.)  
 Pumpkins  
 Red beets  
 Sprouts (Alfalfa, bean, etc.)  
 Squash  
 Sweet corn  
 Sweet potatoes  
 Tomatoes, little yellow types

**What if my idea isn't on either list?**

No need to be discouraged—in fact, you should be encouraged! You may have thought of something that is new and improved that no one else is currently producing!



## Getting the most use out of this pre-business planning guide

Narrowing down your new business options can be tricky, especially if you have a lot of good ideas! The checklist below will help you weed out the good ideas from the not-so-good ideas by asking you pointed questions. Five chapters of the pre-business guide are dedicated to helping you answer these questions. The yellow yield signs will point out what decisions you need to make along the way and the red stop signs will point you to worksheets that need to be filled out. The following procedure will make this guide more useful to your business planning:

1. **Answer all of the questions** in the checklist for each business idea. Read through this booklet to help you think through your answers. For right now, you just need a sentence or two to describe each answer.
2. **Rate your answers** for each of the questions on a scale from 1-3, with 1 being “not likely” or “not thought out completely” or “no-way” and 3 being “very likely” or “thoroughly thought out” or “definitely yes!”
3. **Review your checklist** with your family, friends, and trusted advisors. Have them rank your ideas with the same checklist.
4. **Compare your checklist** with those responses gathered from others. Are your responses similar or drastically different? The idea of starting your own business can carry a lot of positive emotions with it. Don’t be blinded by your desires to a point where you aren’t logically thinking through your business idea.
5. **Total up your rankings.** Did you end up with a total score of less than 25? Did you end up with a lot of answers with a 2 rank? How can you improve on your business idea? Remember, as you change the answer to one question, you often change the answer to another question as well!

## Pre-business planning checklist

Use a pencil! You may change your answers and ranking frequently. There are also additional copies of this checklist in the back of the workbook. Fill out this checklist for each of your business ideas according to the procedure explained above and see how you rank yourself. If you need help answering one of the questions, read the corresponding chapter in this workbook.

Pre-Business Planning Checklist	For Help, Read:	Your Rank
Is it something that I like to do? (And do you have the necessary expertise?)	Chapter 1	
How much time will I spend doing it? (Part time, Full Time, or Hobby?)	Chapter 1	
How much money do I want to make? (Supplement or provide entire income?)	Chapter 1	
Who is going to buy my product and where do they live? (Target the customer)	Chapter 2	
How much will people pay for my product? (What price will you receive?)	Chapter 2	
How will I sell my product to the customer? (Distribution and promotion methods)	Chapter 2	
How am I going to produce it? (equipment and facilities requirements)	Chapter 3	
Where am I going to produce it? (Land characteristics)	Chapter 3	
How much will it cost to start up and run? (Capital Costs and Fixed Costs)	Chapter 4	
Will I make a sustainable profit with this business? (Operating Costs & Margins)	Chapter 5	
<b>Total Score</b>		

## Example: The “Spice Caravan”

I had a business idea when I was living in Columbus, Ohio. This business was to buy in large volumes of spices and repackage them into smaller amounts (more adequate for the ordinary consumer). I felt I could mark-up these small containers of spice at least 100%. The store would be located in a strip mall in an upscale neighborhood, where I felt that the clientele who would buy spices would be more likely to live.

While I didn’t have a Pre-Business Planning checklist at that time, I did do something similar. I first asked myself these same questions and noted the areas where my plan was weakest: notably the costs of start-up and operation and the prices I might receive for a 1 ounce bottle of spices. I still felt that after some careful analysis and sales projections, I could overcome these stumbling blocks. I then passed my business plan by those people whose advice I trusted.

### Pre-business planning checklist for “Spice Caravan”

Pre-Business Planning Checklist	For Help, Read:	Your Rank
<b>Is it something that I like to do?</b> (And do you have the necessary expertise?)	Chapter 1	
<i>Yes, I used to have a job testing spices at a food processing plant.</i>		3
<b>How much time will I spend doing it?</b> (Part time, Full Time, or Hobby?)	Chapter 1	
<i>I would like this venture to be a full time job.</i>		2
<b>How much money do I want to make?</b> (Supplement or provide entire income?)	Chapter 1	
<i>I would like this venture to pay for all my family living needs.</i>		2
<b>Who is going to buy my product and where do they live?</b> (Target the customer)	Chapter 2	
<i>Customers in Columbus, Ohio who like to cook and want better spices.</i>		3
<b>How much will people pay for my product?</b> (What price will you receive?)	Chapter 2	
<i>I am hoping that consumers will pay \$2 for 1 ounce of spice/spice blends.</i>		2
<b>How will I sell my product to the customer?</b> (Distribution and promotion methods)	Chapter 2	
<i>I am going to open a store front in a strip mall in an upscale neighborhood</i>		2
<b>How am I going to produce it?</b> (equipment and facilities requirements)	Chapter 3	
<i>I am going to buy in large volumes of spices and repackage them.</i>		3
<b>Where am I going to produce it?</b> (Land characteristics)	Chapter 3	
<i>Not applicable. I will not produce any of the spices myself.</i>		3
<b>How much will it cost to start up and run?</b> (Capital Costs and Fixed Costs)	Chapter 4	
<i>I am not sure. Can't be that much, right?</i>		1
<b>Will I make a sustainable profit with this business?</b> (Operating Costs & Margins)	Chapter 5	
<i>I buy the raw spices for \$1 an ounce, that's 100% markup--sounds great, right?</i>		1
<b>Total Score</b>		<b>22</b>

### What really sank this business idea?

It wasn’t until I passed my business idea by my brother that I found the real flaw in my business plan. When I asked him if he would shop at this store, he simply said, “Sure, I would go there at least.....one or two times a year.” My brother had pointed out that, while the business idea was attractive and possibly viable, the amount of customers going through the store would have to be immense! Think about your own spice buying habits—don’t you have a bottle of spice in your cabinet that is at least 2 or 3 years old? If repeat customers only came to the store once or twice a year, I would have to be one of the only suppliers of spices in the entire area to generate enough customer traffic to keep my store in business (and this certainly wasn’t the case).

### Lessons learned

Most business ideas, once opened up to close scrutiny by yourself and those that you trust, can perish before they get to the more intense planning and start up stages. If you can use this checklist to narrow down your ideas first, you can save yourself a lot of time.

# Chapter 1: What are your goals for this business?

First, this chapter will help you decide if a farm business is what you want to pursue. Second, do you want to farm part time, full time, or as a hobby? And third, how much money do you want to make from the farm enterprise? In addition, if you aren't sure what agricultural enterprise you want to pursue, then this chapter will help you narrow down your ideas from the many agricultural business possibilities.



## Choosing a farm business that you like

It is best to realize that there are some realities that make farming a challenging business. Think about these things (*and if you have a family, talk with them*) and what you are willing to “put up with” if you decide on a farm based business. Make two lists: What is positive about an agricultural business? What are the pitfalls that you may run into in the future? Are you (and your family) willing to struggle through the possible pitfalls of operating a farm business?

Farm Business	
Benefits	Pitfalls



## Choosing a business venture that fits your skills

Nobody likes to do something that they are terrible at! Before you start a farm business, you need to rate your expertise in managing that business. In what areas of business are you strongest? In what areas do you have weaknesses? Do you know how to produce and sell farm products? Do you know how to manage people? Can you manage finances?

Business Skills	
Strengths	Weaknesses



### How much time do you want to spend doing it?

Do you want this venture to be part time, full time, or just a hobby? Do you or your spouse need to maintain an off-farm job? Realistically analyze how much of your time you want to commit to this business enterprise. Your spouse and/or your children may have other ideas about what their future on the farm will be like.

How many hours a week do you want to commit to this business enterprise? \_\_\_\_\_

How many hours a week does your family want to commit to this business? \_\_\_\_\_



### How much money do you want to make?

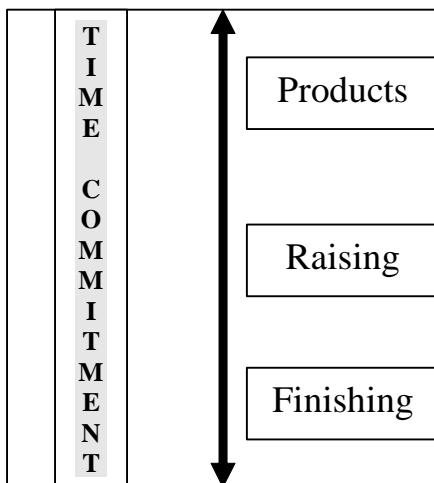
What income do you need to support your lifestyle? Do you want to provide a supplemental income for your family? Do you want to provide the entire income for your family? Think in terms of 1-5 years: how much income do you want to make from this business in dollars?

I would like to make \$\_\_\_\_\_ per year with this farming operation. I expect this amount will provide \_\_\_\_\_% of my family's living needs.



### Reality check: comparing enterprise ideas with personal goals

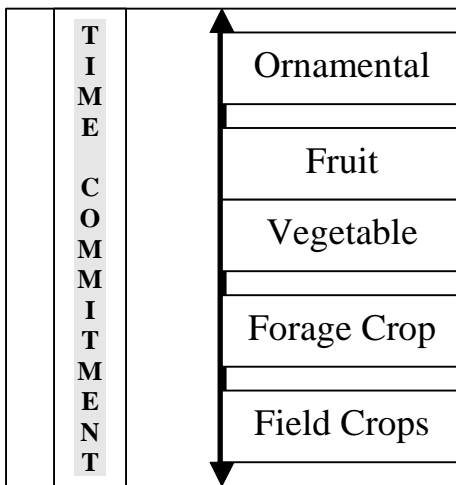
The pointed questions below are designed to help you narrow down your options. What do you enjoy and what don't you enjoy? Be honest. If this venture is to consume a large portion of your life, you need to really *want* to do it! Also, it is designed to help those who haven't farmed before separate farming realities from the idea of farming.



#### I am interested in raising animals or animal products

Do you like animals? How much do you like animals?  
Do you want to care for them 24 hours/day, 7 days/week?  
Raising meat animals? Will you be able slaughter them?

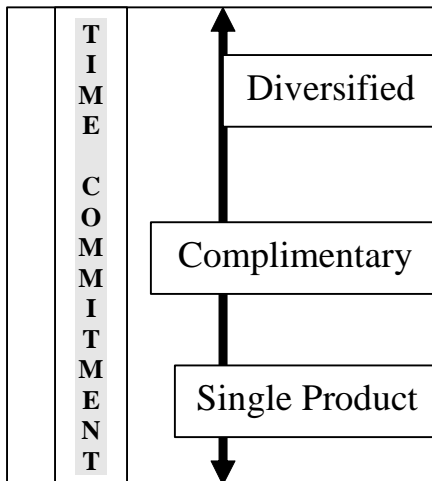
*The Box to the left shows that there are varying levels of commitment to animal operations, but in general the time commitment for livestock operations is high. For example purposes, let's examine a beef/dairy livestock operation; Milking is an example of raising animal products, cow/calf is an example of raising animals from start to finish, and fattening steers for market is an example of finishing.*



**I am interested in raising plants**

What kind of plants do you want to grow?  
 How intensive are the cultivation practices?  
 What scale of operation are you thinking of?

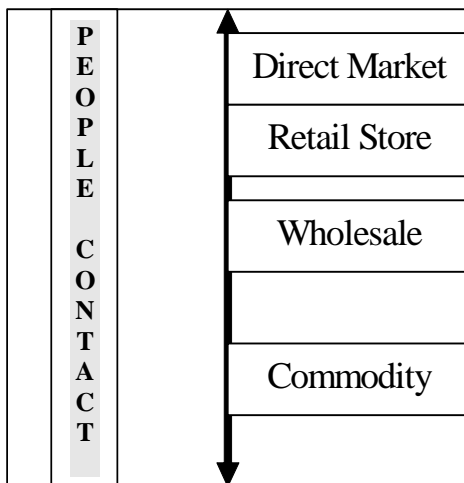
*While all plant production takes a lot of skill, certain types take more annual time than others. Certainly, the scale of the operation has a lot to do with the time spent, but all other factors being equal, the time commitment varies from ornamental (greenhouse & nursery) to non-irrigated field crops.*



**Diversification versus concentration?**

How many different products do you want to produce?  
 Will these products have different raising/planting and harvesting times? Will their separate schedules mesh?  
 Can you juggle more than two projects at a time?

*Diversification reduces risk of production and market losses and can provide for a more steady cash flow. However, it is possible to become too diversified. Managing products that are complimentary (similar) will take less time than those that are completely different. You will want to stay away from producing “a little bit of this and a little bit of that” without an apparent plan.*



**I am interested in value-added production**

Are you good at selling things?  
 Do you like contact with people?  
 How are your customer service skills?  
 How are your employee management skills?

*There is no way to be completely isolated from other people. However, if you want to direct market or retail your farm products, you will have to have strong interpersonal skills, as you will be dealing more with people than your wholesale or commodity producing counterparts.*

T I M E	↑	<b>Produce, Process, and Market</b>
	↓	<b>Produce and Process</b>
	↓	<b>Production Only</b>
	↓	

**I am interested in value-added production**

Will you have to process the product yourself?  
 Will you grow it *and* process it *and* market it?  
 What scale of production will you be able to sustain?

*Producing, processing, and marketing agricultural products is one strategy to glean the most income from a product. However, this has ramifications for what scale you wish to operate at. The time commitments of following the product through the entire value-added chain may limit how much product you can produce. You may wish to explore options in which someone else produces, processes, or markets your product.*



**Write down your list toppers**

In the spaces below, write down what you consider to be the “top” of your list of products that you would like your agricultural business to produce. No need to put them in order of how much you like them, just write them down. Try to narrow these ideas down to 5 products.


**Recap: What are your goals for this new enterprise?**

**Time spent on business**

My family and I want to spend \_\_\_\_\_ hours a week on this enterprise

**Income earned from business**

My family and I want this enterprise to supply \_\_\_\_\_ percent of our family income



## Chapter 2: What is the likelihood that you can sell it?

If you are going to produce a commodity product, then this chapter may be an easy one for you to breeze through. However, the pointed questions in this chapter may be the most important questions in the whole workbook. After this chapter, you will have done most of your work in narrowing down your product options. This entire chapter can be summarized in the worksheet that you will fill out for your top 5 products. If you have multiple answers to each question, you may have to fill this worksheet out many different times; for instance, describing the different means of selling the product, who will buy the product, and where the customers are located. An additional copy of this worksheet is in the back of this workbook. Also see the example worksheet for “Fingerlakes Brandy.”



### **Row 1: Describe your product or service**

Simply describe what your product is and what its attributes and benefits might be. Be as descriptive as possible. The answers to this question should directly relate to the answers to the next question.



### **Row 2: Who is most likely to buy your product?**

What type of person would be the most likely customer for your product? Describe your customer with specific traits, such as: male/female, young/old, married/single, kids/no kids, college degree/no college degree, high income/middle income/low income? Try to describe your typical customer with as much detail as possible: including what types of values your typical customer might have (i.e. health conscious, environmentally minded, desires a local food supply, values quality food products, etc.).



### **Row 3: How are you going to reach your customer?**

Specify what geographical location contains the highest percentage of your likely customers. Imagine you are a telescope zooming in on your “target” customer—start from large and move to small. What state do they live in? What region of that state? What township? What village or city? What part of the village or city? How many likely customers does this geographical area include? You may find that your customers are widely dispersed (organic grains, for instance) or that most people demand your product in one way or another (milk, for instance).

Determine the best method to reach the consumers of your product. This may depend upon what you are producing, your proximity to where your final customers live, and by what price you will receive through either wholesale or retail. If you are going to sell directly to the final customer, then you are going to retail the product. If you are going to produce a commodity or rely on someone else to sell your product to the final consumer, then you are going to wholesale the product. If you are going to wholesale, it may help to list where the wholesale outlets for your product are located. If you are retailing, list those product outlets that are likely to be near your customers. If you are intending to have your retail outlet located in front of your farm, you will have to assess if your customer is both: likely to drive by and likely to stop in front of your farm.



**Row 4: How will you make sure that your consumer knows about your product?**

Great! You have an idea for an excellent product that your customer is dying for! How are you going to let your customer know that you have this excellent product for sale? Are you going to advertise in the local paper, drive around shouting through a bull horn, hang an “open” flag in front of your farm, or wait for “word of mouth” to eventually reach your customer? If you are going to sell wholesale, have you even contacted the wholesaler to see if they would be willing to carry your product? Also, how much of your product will they carry? What kind of contract do they offer in exchange for your product?



**Row 5: What prices would your customer be willing to pay?**

In this slot, you want to write down how much your potential customers would pay for your product. Write down a range of prices (a minimum price and a maximum price) and the units that are in quantities that the customers would most likely buy. For instance: “between \$8 and \$19 a bushel” is OK for wholesaling, but “\$.25 to \$.57/pound” would be the units that most retail customers are used to dealing with.

If you are going to retail a food product, you could see what prices are being charged for similar products in grocery stores, farmers markets, and restaurants. If you are going to ship your products through a wholesaler, ask the wholesaler what price they pay for the product. Also ask the wholesaler if there are premiums offered for quality, reliability, and/or volume. If your product is not currently offered, try to find something as similar as possible. The key to this exercise is to determine what range of prices are being received in the market for your type of product. If possible, try to determine the reason for the prices at the high and low ends of the scale.



**Row 6: What makes your product special (versus the competition)?**

If this product is already available through another producer or supplier, why would your customer pick your product over someone else’s? List those traits of your product which will differentiate it from the products produced by “the competition.” Try to describe these traits in measurable quantities; instead of writing something like “better quality pears”, try to explain this detail further with something like “larger, fresher, less blemished pears than are available in the grocery store.” Be realistic as well—can you produce a differentiated product on a consistent basis at the volume demanded by your consumer? If you are selling wholesale, list the attributes of your wholesaler: what do they want from you: quality, volume, reliability, low price, or all of the above? How will you achieve this at a higher rate than other suppliers to the wholesaler?

**Example: Fingerlakes Brandy.** Upon moving to New York State, I had another business idea. This one passed my initial Pre-Business planning checklist and was on its way to a full-fledged business plan. The basic idea was this: wineries in the fingerlakes region were having problems with contamination caused by the Asian lady beetle (which caused off flavors in some batches of wine). My idea was to take this low value or un-saleable wine and distill it into brandy...ridding the final product of the off flavor and adding value to the wine. I figured that each individual winery would not invest the capital needed to install a still, as the amount of low value wine from each was small. However, my business would pool low value wine from several wineries and capitalize on economies of scale with one distillery. I would then wholesale this product back to the wineries. My goals were to have this be a part time job to supplement family income. Follow the examples throughout the next three chapters to find out how this idea turned out.



**Worksheet #1: Use this worksheet for up to 5 different products/product strategies**

<b>Marketing Worksheet</b>	<b>#1</b>	<b>#2</b>	<b>#3</b>	<b>#4</b>	<b>#5</b>
<b>Business Idea</b>					
<b>1. Describe your product or service. What are its attributes, its benefits?</b>					
<b>2. Who is likely to buy this product or service? What are characteristics of this customer?</b>					
<b>3. How are you going to reach your customer? Wholesale? Retail? How many potential customers are nearby?</b>					
<b>4. How will your customer find out about you and the products you offer?</b>					
<b>5. What is your expected range of prices that you will receive?</b>					
<b>6. Who is the competition and what do they offer? What makes your product better than those that they offer?</b>					

**Example: Fingerlakes Brandy**

Marketing Worksheet	#1	#2	#3	#4	#5
<b>Business Idea</b>	<b>Fingerlakes Brandy</b>				
<b>1. Describe your product or service. What are its attributes, its benefits?</b>	Un-aged brandy made from New York wine. The benefit is that low value wine could be turned into high value brandy.				
<b>2. Who is likely to buy this product or service? What are characteristics of this customer?</b>	Wineries in the New York fingerlakes region who have unsaleable or low value wine which is hindering their profitability.				
<b>3. How are you going to reach your customer? Wholesale? Retail? How many potential customers are nearby?</b>	Would pick up the wine and drop off the brandy. All sales would be on a wholesale basis. Retail might be a possible future venture.				
<b>4. How will your customer find out about you and the products you offer?</b>	I would make cold calls to the winery owners and pitch this service to them.				
<b>5. What is your expected range of prices that you will receive?</b>	The range of prices for brandy in the liquor store is between \$10 and \$20 a bottle for un-aged brandy.				
<b>6. Who is the competition and what do they offer? What makes your product better than those that they offer?</b>	National and local producers of brandy. My product would allow individual wineries to compete by offering their own label brandy.				

## Narrowing down your ideas further

Now that you have the data in the worksheet in front of you, it is time to start narrowing down your product ideas further. Ask yourself some realistic questions about your product ideas and how well you were able to answer the marketing worksheet questions. Below are some common reasons for business ideas failing to pass muster. If you find that one or more of your product ideas suffer from one of the faults listed below, you may be able to weed that idea out now. If not, further analysis during your full business plan will subject these product ideas to even greater scrutiny to see if your ideas are commercially viable.

- 1. Not enough potential customers for your product**
  - a. Location of your farm is not near your likely customer
  - b. Not enough likely consumers visiting your farm/retail outlet.
  - c. Your wholesale distributor does not serve your likely customer
- 2. Your location (if you already have one) is too far from retail/wholesale outlets**
  - a. Locations of farmers' markets are too distant from where you live
  - b. Wholesale outlets are too distant from where you live
  - c. Location of other retail/wholesale outlets are too far from you
- 3. Market saturation/lack of sufficient differentiation: too many other people had the same idea or similar ideas**
  - a. Wholesaler is not accepting any more product of that particular type
  - b. Too many other road side stands offering similar products
  - c. Too many other vendors at farmers' market offering similar products
  - d. Your product is not significantly different from similar products
- 4. You will have problems promoting your product to your likely customer**
  - a. You cannot think of an appropriate promotion mechanism to reach your customer
  - b. Promoting your product to your likely customer would be too expensive
  - c. You would have to "educate" your customer before they would be willing to try your product or pay more for your product.
- 5. Your product will not command the price you hoped that it would**
  - a. Due to the reasons (#1 to #4) listed above.
  - b. The customer just isn't willing to pay extra for your product, regardless of how different it is from similar products.
  - c. The wholesale market price range is much lower than you expected.



### **Do some homework on your product ideas and your marketing strategies**

One of the simplest ways to do some preliminary market research is to talk about your product ideas and research the products you are thinking about growing, processing, or selling. Some examples:

- Ask your friends and family what they think about your ideas—do they think that the product will sell? Would they buy it? Would their friends buy it? How much would they buy and how frequently would they buy it?
- Visit people in a different part of the state who are growing, processing, or selling similar products. Many farm businesses are quite open and friendly to visitors. In some cases, these businesses are willing to help get you started with some good advice on what to do & what not to do.
- Contact your local extension office or specialist. Interview them about their experiences with farm businesses that are producing similar products. Ask them about meetings and industry groups that might be pertinent for you to attend.
- If you are going to wholesale your product, visit the wholesaler! Have the wholesaler tell you what they want—maybe it is something different than what you had in mind.
- Remember that you will have to test these ideas further when you prepare your full business plan.

## Chapter 3: How and where will I produce it?

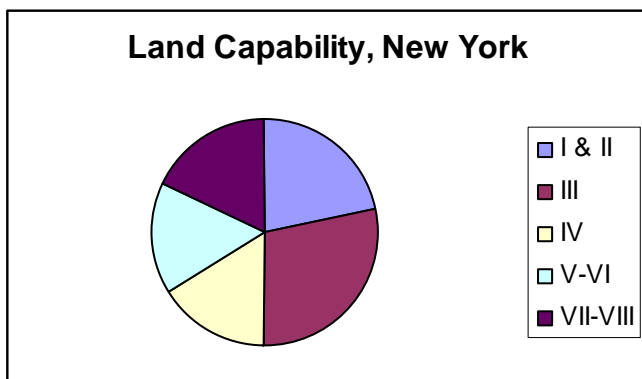
This chapter is designed to help you to do some preliminary research on the costs and returns of producing your product for market. In order to figure out the costs, you will have to decide what your production strategy is: what land, buildings, facilities, and equipment are necessary.

### Worksheet 2: Land characteristics.

What are the characteristics of the land you have or the land you need? If you already own, rent, or have access to a certain parcel of land, then you will be filling in this part of the worksheet with actual observable traits. If you are looking for land to rent or own, then you should fill in this part of the worksheet with the ideal land traits that you would like to find.



**Row 1: Land capability.** Not everything can be grown on every type of land. “Dirt is *not* just dirt,” it can range in its suitability to agricultural production and its suitability to certain types of crops. The United States Department of Agriculture (USDA) Natural Resource Conservation Service (NRCS) has done extensive work surveying all of the soils in the United States. The results of this survey can be used to determine farm land capability by classing the soils from I-VIII; I being the best soils for agricultural production and VIII being off limits. Soils classes I-II are those most likely to be used for agricultural production, as soils III-VII have severe to uncorrectable limitations. In New York State, the land capability classes are as follows:



Classes I & II: 22% of total land  
Class III: 28% of total land  
Class IV: 16% of total land  
Class V-VI: 16% of total land  
Class VII-VIII: 18% of total land

In general, if you are going to grow some sort of cultivated crop, then soil classes I and II would be the desired soils. These soils are not necessarily found in all areas of the state. In addition, where they are found, they are usually in high demand. If you are going to raise livestock on pastureland, then soils III through V may suffice; depending upon the type of livestock operation (those animals that need higher quality forages would need higher quality pastures and soil capability). There are other measures of soil capabilities and productivity indexes which may be useful to consult as well. What you want to write down in Row 1 is the land capability range that is necessary to support growing your product without amelioration. If you already own or rent land, write down what capability classes you have on your farm and how many acres of each class is available on your property or property close by (in case you were to rent some land from a neighbor). If you have trouble identifying the soils on your farm or a prospective farm, then you should contact your local extension crop specialist to help you do some soil testing and to find your parcels on an NRCS soil survey.

Soil amelioration is another option, depending on what the land capability limitations are. Organic matter, fertilizers, drainage, irrigation, adjusting pH, and adaptive production practices are just a few things that can be done to “make-up” for soils in classes III-IV. If

you have to do some amelioration, you may wish to write some notes underneath your soil capability range in row 1. If you own or rent land already, write down those techniques that you are/will be using to ameliorate the soils (if you have classes below II).



**Row 2: Land location.** Do you know where you would like your farm business to reside? Family goals may dictate that you want to be close to a certain city or to certain family members. If you want to direct market, the location of the farm should be close to your markets—especially if your retailing will occur on your farm! In this row, write down the regional locations that you would consider good locations for farm land. If you own the land, describe the location in geographic terms.



**Row 3: Other land characteristics.** Are there any other characteristics that you would like to place on your land choices? Write down such things that may be important to you. Is water availability important? Do you need road frontage? Do you need a building site for new construction (with electricity, telephone, and sewage)? What about being in an agricultural district or having an easement on the deed to your property? Write as many other factors that may help you make your decision. If you already own or rent the land, write down the characteristics of the property are important to your future business.



**Row 4: Buying or renting land.** What land tenure options are you open to exploring? Maybe you already own your land. If not, there are advantages and disadvantages to both buying and renting.

Buying Land		Renting Land	
Advantages	Disadvantages	Advantages	Disadvantages
The feeling of ownership!	You are tied to that location	You can make your location flexible	You can't always do what you want
You can do almost whatever you want	You may have to take on debt	Cheaper than buying land in many cases	Your lease could expire or the owner could sell the land
You have something for the future	You have to pay high property taxes	May not have to take out debt to start your business	If you have to improve the leased land, are you going to be compensated for it?
It may provide a good investment	Land is not always a good investment	May be less risky	

Write down which options you would be open to exploring and the costs of each. If you already own or rent the land, write “already own” or “already rent” down in this row.



**Worksheet #2: Describe the land characteristics that you will need or that are available for your agricultural enterprises**

Land Characteristics	#1	#2	#3	#4	#5
<b>Product</b>					
<b>1. Land Capability</b> (Crop growing factors) (Soil class needed) (Soil amelioration?)					
<b>2. Location Factors</b> (Personal preference) (Marketing factors) (Zoning restrictions?)					
<b>3. Other Factors</b> (water availability?) (building sites?) (Utilities/services?) (access to inputs and service providers?)					
<b>4. Buy or Rent?</b> (Options?) (Cost of each?)					

**Example: Fingerlakes Brandy**

The brandy distillery would not need to grow anything on site, nor would it have to be concerned with land capability. The location of the distillery was to be right next to my house (personal preference of not wanting to drive to my part time business). Zoning restrictions would have to be examined to be sure that this type of structure wasn't prohibited where I live. Other factors to be concerned about would be the costs of hooking up utilities to the site and how to handle all of the waste water generated by distillation--the fingerlakes watershed has more regulations than many other parts of the state.



### Worksheet 3: Buildings and facilities characteristics

Some of your product ideas may require special buildings or facilities. For instance, if you are going to process your farm grown products, you will need processing buildings and facilities to accomplish this. Buildings and facilities are often a stumbling block to those who want to start processing their own food products.



**Row 1: What housing is needed?** If you desire to live on the farm, what are your expectations for the type of housing that should be available?



**Row 2: What buildings and facilities are needed?** Under each product idea, write what buildings and facilities will be needed for these enterprises. Keep in mind that equipment, supplies, and finished products need storage areas. If you are unsure of what buildings and facilities are needed, check the more information section at the end of this chapter for resources to help you.



**Row 3: Will you build, renovate, or rent buildings and facilities?** The buildings and facilities that you may need for your enterprise don't necessarily need to be installed on the farm you rent or own. What are the other options that you have? Could you rent storage space? Could you rent processing facilities? Keep an open mind before you decide you need to spend money to accomplish your production goals.



**Row 4: Estimate the cost.** How much do you estimate the buildings and facilities cost for each product idea. Write down some estimates of what it would take to buy, rent, renovate, refurbish, etc.

Worksheet #3: Describe the buildings and facilities that you will need for your agricultural enterprise

Building & Facilities	#1	#2	#3	#4	#5
Product					
1. What type of housing is desired?					
2. What buildings & facilities are required?					
3. Build, renovate, or rent the building & facilities?					
4. Cost of each option?					

**Example: Fingerlakes Brandy**

<b>Buildings &amp; Facilities</b>	<b>#1</b>	<b>#2</b>	<b>#3</b>	<b>#4</b>	<b>#5</b>
<b>Product</b>	<b>Fingerlakes Brandy</b>				
<b>1. What type of housing is desired?</b>	Already have a house on premises.				
<b>2. What buildings &amp; facilities are required?</b>	Class C food processor Bathrooms needed Washdown walls Storage for wine/brandy Separate (larger) septic system needed.				
<b>3. Build, renovate, or rent the building &amp; facilities?</b>	Renovate/add on to buildings on property.				
<b>4. Cost of each option?</b>	Expand Roof: \$1500 Plumbing: \$1500 Septic System: \$8500 Cement Floor: \$3000 Interior Work: \$3000 Total: \$17,500				

### Worksheet #4: Equipment that may be needed

Do you have the necessary equipment to start producing your product? What special equipment is needed to produce your product? Equipment expenses are one of the top three expenses in any type of farming and are often underestimated by those new to the occupation.



**Row 1: What equipment is needed?** Simply list the equipment that you think is necessary for your farm operation. If you aren't sure, check with other farmers and agricultural service providers on what their opinion is. Some further resources are available at the end of this chapter.



**Row 2: Will you buy, rent, lease, or custom hire your equipment needs?** Try to estimate the costs of buying, renting, or custom hiring your equipment needs before you make your decision. The more money that you can save on your equipment needs, the better off you may be. Also factor in your skills at maintaining equipment—if you aren't good at this, perhaps renting or hiring out your equipment needs might be beneficial.

**Row 3: Estimate the cost of the equipment.** What is your estimate of the costs of equipment.



### Worksheet #4: Describe the equipment that you will need for your agricultural enterprise

Equipment Worksheet	#1	#2	#3	#4	#5
Product					
1. What equipment is needed?					
2. Buy, rent, or custom hire your equipment?					
3. Estimate the cost of the equipment					

**Example: Fingerlakes Brandy**

Equipment Worksheet	#1	#2	#3	#4	#5
Product					
<b>1. What equipment is needed?</b>	Distillery Equipment Cont. Process Tanks Storage Tanks Pipes, parts, supplies				
<b>2. Buy, rent, or custom hire your equipment?</b>	Buy				
<b>3. Estimate the cost of the equipment</b>	Distillery Equip \$5000 Tanks \$5,300 Storage \$3200 Pipes & Parts: \$1500 Installation: \$2000 Total Costs: \$17,000				

# Chapter 4: What is it going to cost?

Agricultural and commercial lenders say that one of the top reasons that business plans fail is that the financial statements contained within the plan are amateurish. This is easily avoided by knowing ahead of time how to format your financial statements. The first step is separating out the costs of starting and running a business: start up costs and operating costs.

**Start up costs:** These are the costs that are incurred before the first product or service is produced and sold. These can be initial capital costs (i.e. money spent on land, buildings, machinery and equipment), sunk costs (i.e. money spent on permits, licenses, fees, and taxes), and costs to “turn on the lights” (even though these are technically operating costs, you need to plan on cash flowing the expenses incurred by operations before your first product is sold—which can be anywhere from 1 month to over a year!).

**Operating costs:** Operating costs come in two categories: Cost of goods sold and overhead costs. Cost of goods sold are those expenses that can be directly assigned to a particular product and occur only if you are producing that product. Examples include raw materials and hourly labor. Overhead costs are those expenses that cannot be assigned to a particular product and occur whether or not you produce anything at all. Some examples are rent, interest, insurance, repairs, and property taxes.

## Start up (capital) costs: Land, buildings, facilities, and equipment

If you don't already have the land, buildings, facilities, and equipment that you need for this project, then you have an advantage in the fact that you have some choices. Each of these choices has many alternatives—choosing the alternative that best fits your business ideas and your pocket book is usually the best strategy.



**Worksheet #5: Fill in with costs estimated in worksheets 2-4:** These are your capital start up costs: the amount of capital needed in order to get your operation going. While these estimates may be rough at this point, at least you have a ball park figure to use. Bankers, agricultural professionals, and others experienced with the start up costs of agricultural businesses can help you review these figures for accuracy before you start working on your full business plan.

## Worksheet #5: Capital Start-up costs

What are the total costs for those items that you are BUYING (write down a range):

Land Costs:	From	\$ _____	To \$ _____	(Total cost)
Buildings and Facilities:	From	\$ _____	To \$ _____	(Total cost)
Equipment	From	\$ _____	To \$ _____	(Total cost)

*Note: If you are renting, leasing, or hiring someone else to do some of these things, do not write these costs in this worksheet, as these will be listed as operating costs in another worksheet.*

## Example: Fingerlakes Brandy Capital Start-up costs

What are the total costs for those items that you are BUYING (write down a range):

Land Costs:	From	\$ <b>0</b>	To \$ <b>0</b>	(Total cost)
Buildings and Facilities:	From	\$ <b>17,500</b>	To \$ <b>35,000</b>	(Total cost)
Equipment	From	\$ <b>17,000</b>	To \$ <b>20,000</b>	(Total cost)



### Worksheet #6: Start up (sunk) costs: Permits, licenses, and fees

You may be surprised at how much these costs turn out to be! The good news is that many agricultural businesses do not need as many permits and licenses as conventional businesses do (the fingerlakes brandy example is one where a lot of licenses and permits are needed). In Chapter 6, the permits and licenses needed to start operating certain types of businesses is outlined. Each of these permits and licenses carries a fee of some sort.

#### Worksheet #6: Sunk costs for permits, licenses, and fees

Estimate the costs of permits, licenses, and fees to start your new enterprise:

Required permits: _____	Costing \$ _____
Required licenses: _____	Costing \$ _____
Other fees: _____	Costing \$ _____
Total Cost \$ _____	

#### Example: Fingerlakes Brandy Sunk costs for permits, licenses, and fees

Estimate the costs of permits, licenses, and fees to start your new enterprise:

Required permits: 20-C food processing permit	Costing \$ <b>70</b>
Required licenses: Distiller's license,	Costing <b>\$620</b>
Other fees: filing fees (distiller's), LLC filing fee, surety bond	Costing <b>\$810</b>
Total Cost <b>\$1500</b>	



### Worksheet #7: Start up ("turn on the lights") costs

We are getting a little bit ahead of ourselves here because you will have to estimate your operating costs (which is the next topic in this chapter). If you want, you can come back to this section after you have read the entire chapter. As described above, you will want to estimate how many months of operating costs you will need to finance before you make your first sale.

#### Worksheet #7: Costs to "turn on the lights"

Estimate the costs of operation that are incurred before the first sale of product:

Monthly operating cost:	\$ _____
Months before 1 <sup>st</sup> sale:	_____
Total Cost:	\$ _____

#### Example: Fingerlakes Brandy costs to "turn on the lights"

Estimate the costs of operation that are incurred before the first sale of product:

Monthly operating cost:	<b>\$1750</b> (utilities, payroll, bank payments, etc.)
Months before 1 <sup>st</sup> sale:	<b>8 months</b> (would be even longer if producing an aged product!)
Total Cost:	<b>\$14,000</b> of expenses incurred before first sale



### Total up your start up costs

From worksheets #5-#7, total up all the start up costs that you will incur with your business ideas. You may have a range of costs if you have multiple business ideas.

Total Start up costs will range from \$\_\_\_\_\_ to \$\_\_\_\_\_

Example: Fingerlakes Brandy start up costs

**Total Start up costs range from \$50,000 to \$70,500**



### How will you finance your start up costs?

To cover these costs, you will to use your own money or someone else's money. Using your own money (or bringing in financial partners) is often called "equity financing" and using someone else's (namely, the bank) money is called "debt financing." For the purposes of this workbook, we are only going to cover debt financing\*.

How much of the start up costs will be financed with debt? \$\_\_\_\_\_

What are the terms of the debt? Length of loan: \_\_\_\_\_ Interest rate: \_\_\_\_\_

What will the payments be per month?	\$_____	Principal
	\$_____	Interest
	\$_____	Total Payment/month

What are the payments per year?	\$_____	Principal
	\$_____	Interest
	\$_____	Total Payment/year

### Example: Fingerlakes Brandy start up cost financing

How much of the start up costs will be financed with debt? **\$ 16,500**

What are the terms of the debt? Length of loan: **5 years** Interest rate: **8.5%**

What will the payments be per month?	<b>\$233.33</b>	Principal
	<b>\$108.34</b>	Interest
	<b>\$341.67</b>	Total Payment/month

What are the payments be per year?	<b>\$2800</b>	Principal
	<b>\$1300</b>	Interest
	<b>\$4100.00</b>	Total Payment/year

\* If you are considering bringing in equity partners to your business, you should request a copy of "Doing Business Together: A Joint Business Agreement Guide" (\$12) from NY FarmLink 1-800-547-3276. This will help you structure the right business agreement.





**Example #1: Cost of goods sold for Fingerlakes Brandy (2400 bottles produced)**

Fingerlakes Brandy (FLB) is considering four different scenarios with differing production volume. Notice that the variable costs are listed as per bottle figures.

Idea #1: Wineries give FLB the wine (\$0) and buy the brandy back in bulk, 2400 bottle volume

Idea #2: Wineries give FLB the wine (\$0) and buy the brandy back in a bottle, 2400 bottle volume

Idea #3: Wineries sell FLB the wine and buy the brandy back in bulk, 2400 bottle volume

Idea #4: Wineries sell FLB the wine and buy the brandy back in a bottle, 2400 bottle volume

Idea #1: Brandy Opt 1		Idea #2: Brandy Opt 2		Idea #3: Brandy Opt 3		Idea #4: Brandy Opt 4	
Unit: Per Bottle		Unit: Per Bottle		Unit: Per Bottle		Unit: Per Bottle	
Cost of goods sold	\$	Cost of goods sold	\$	Cost of goods sold	\$	Cost of goods sold	\$
Wine	\$ -	Wine	\$ -	Wine	\$ 3.78	Wine	\$ 3.78
Propane	\$ 0.76	Propane	\$ 0.76	Propane	\$ 0.76	Propane	\$ 0.76
Labor	\$ 3.64	Labor	\$ 3.64	Labor	\$ 3.64	Labor	\$ 3.64
Oak Barrels	\$ 0.76	Oak Barrels	\$ 0.76	Oak Barrels	\$ 0.76	Oak Barrels	\$ 0.76
Bottles	\$ -	Bottles	\$ 0.50	Bottles	\$ -	Bottles	\$ 0.50
Bottling	\$ -	Bottling	\$ 0.76	Bottling	\$ -	Bottling	\$ 0.76
<b>Total</b>	<b>\$ 5.16</b>	<b>Total</b>	<b>\$ 6.42</b>	<b>Total</b>	<b>\$ 8.94</b>	<b>Total</b>	<b>\$ 10.20</b>

*Notice that the variable costs read kind of like a recipe—everything that can be identified as being part of the product is included in variable costs. In this example, everything that was directly included in the production of brandy is listed here. Bottling is listed separately from labor, as it includes rent of \$100/hour for a bottling line.*

**Example #2: Variable costs of production for Fingerlakes Brandy (3600 bottles produced)**

Fingerlakes Brandy (FLB) is considering four different scenarios with differing production volume. Notice the per bottle figures didn't change when the volume produced went up? This is due to the fact we are using per unit (bottle) figures. Sometimes, you can get volume discounts from suppliers, which could reduce your unit cost of goods sold, but most of the time these will stay the same.

Idea #1: Wineries give FLB the wine (\$0) and buy the brandy back in bulk, 3600 bottle volume

Idea #2: Wineries give FLB the wine (\$0) and buy the brandy back in a bottle, 3600 bottle volume

Idea #3: Wineries sell FLB the wine and buy the brandy back in bulk, 3600 bottle volume

Idea #4: Wineries sell FLB the wine and buy the brandy back in a bottle, 3600 bottle volume

Idea #1: Brandy Opt 1		Idea #2: Brandy Opt 2		Idea #3: Brandy Opt 3		Idea #4: Brandy Opt 4	
Unit: Per Bottle		Unit: Per Bottle		Unit: Per Bottle		Unit: Per Bottle	
Cost of goods sold	\$	Cost of goods sold	\$	Cost of goods sold	\$	Cost of goods sold	\$
Wine	\$ -	Wine	\$ -	Wine	\$ 3.78	Wine	\$ 3.78
Propane	\$ 0.76	Propane	\$ 0.76	Propane	\$ 0.76	Propane	\$ 0.76
Labor	\$ 3.64	Labor	\$ 3.64	Labor	\$ 3.64	Labor	\$ 3.64
Oak Barrels	\$ 0.76	Oak Barrels	\$ 0.76	Oak Barrels	\$ 0.76	Oak Barrels	\$ 0.76
Bottles	\$ -	Bottles	\$ 0.50	Bottles	\$ -	Bottles	\$ 0.50
Bottling	\$ -	Bottling	\$ 0.76	Bottling	\$ -	Bottling	\$ 0.76
<b>Total</b>	<b>\$ 5.16</b>	<b>Total</b>	<b>\$ 6.42</b>	<b>Total</b>	<b>\$ 8.94</b>	<b>Total</b>	<b>\$ 10.20</b>

**Worksheet #9: Determine your overhead costs**

You could think about overhead costs as being all those other costs that aren't directly assignable to one product idea or another. Typical overhead costs are as follows:

**Interest** (from your worksheets earlier in this chapter)

**Insurance**

**Property Taxes**

**Office Supplies**

**Professional Services** (tax accounting, legal fees, consulting, etc.)

**Miscellaneous** (someone always has something that doesn't fit on the list)

**Office/Management Salaries** (if spread out over all enterprises)

**Building Repairs** (if building is used by all enterprises)

**Equipment Repairs/Vehicle Expense** (if equipment is shared across all enterprises)

**Lease/Rental/Custom** (if a rented piece of equipment is shared across all enterprises)

**Land Rent** (if the rented land is shared across all enterprises)

For your product ideas, list the annual overhead costs involved. Be sure *not* to list your total capital costs as overhead expenses! Be sure not to double count any variable costs as fixed costs: they will either be one or another, but not both.



**Worksheet #9:  
Overhead Costs**

Overhead Costs	\$
Interest	
Office/Management Salaries	
Insurance	
Repairs, Building	
Equipment Repairs/Vehicle Expense	
Property Taxes	
Lease/Rental/Custom	
Land Rent	
Office Supplies	
Professional Services	
Miscellaneous/Other	
<b>TOTAL FIXED COSTS</b>	

**Example: Overhead costs for Fingerlakes Brandy**

These are the fixed costs for Fingerlakes Brandy. Notice how the interest amount of \$1300 is from the debt financing of the start up costs. Don't include any amount for the principal portion of the bank payments at this point.

Overhead Costs (annual)	\$
Interest	1300
Office/Management Salaries	3900
Insurance	500
Repairs, Building	500
Equipment Repairs/Vehicle Expense	0
Property Taxes	1000
Lease/Rental/Custom	0
Land Rent	0
Office Supplies	350
Professional Services	1750
Miscellaneous/Other	
<b>TOTAL FIXED COSTS</b>	<b>9300</b>

**Planning for profit**

Profit is the amount of revenue left over after the cost of goods sold and overhead expenses have been paid. You may have noticed that some expenses were left off of worksheets #8 and #9. These are expenses that typically come out of a business' profit:

Family living expenses: those expenses not accounted for in items such as office salary.

Bank principal payments: the total debt payments less interest payments (Chapter 4).

Income taxes: personal income taxes or taxes owed on profits of the business.

Retained earnings: money left to reinvest in the company



**Worksheet #10: Determining what profit your business needs**

The worksheet below lets you add in those amounts that your profit must cover. The bank principal payments are those you calculated in last chapter. The family living expense should come your family's living budget. Remember, family living needs drawn from a business are the same as if you are getting paid a salary, so income taxes need to be accounted for. Retained earnings are profits set aside to help the business finance ongoing activities (instead of bank financing) or future changes that might be necessary.

What must profit include?	\$
Family living expenses	
Bank principal payments	
Income taxes	
Retained Earnings	
Other	
<b>DESIRED PROFIT:</b>	

**Example: Fingerlakes Brandy: what profits must include**

The bank principal payments are taken from the examples provided in the last chapter. The family living expenses are meant to supplement living needs. Other than that, no provisions for income tax or retained earnings have been made.

What must profit include?	\$
Family living expenses	10000
Bank principal payments	2800
Income taxes	0
Retained Earnings	0
Other	0
<b>DESIRED PROFIT:</b>	12800



**Take the results from worksheets #8, #9, and #10 and write them in the blanks below**

Idea #1: \_\_\_\_\_ Total Cost of goods sold: \$ \_\_\_\_\_  
 Idea #2: \_\_\_\_\_ Total Cost of goods sold: \$ \_\_\_\_\_  
 Idea #3: \_\_\_\_\_ Total Cost of goods sold: \$ \_\_\_\_\_  
 Idea #4: \_\_\_\_\_ Total Cost of goods sold: \$ \_\_\_\_\_

Total Annual Fixed Costs (all ideas): \$ \_\_\_\_\_  
 Total Annual Profit: \$ \_\_\_\_\_

**Example: Fingerlakes Brandy**

Idea #1: Brandy, option 1	Total Cost of goods sold:	<b>\$5.16</b>
Idea #2: Brandy, option 2	Total Cost of goods sold:	<b>\$6.42</b>
Idea #3: Brandy, option 3	Total Cost of goods sold:	<b>\$8.94</b>
Idea #4: Brandy, option 4	Total Cost of goods sold:	<b>\$10.20</b>
Total Annual Fixed Costs (all ideas):		<b>\$9300.00</b>
Total Annual Profit:		<b>\$12800.00</b>

## Chapter 5: Is your business feasible?

Business plans are often based on assumptions. The closer your assumptions match reality, the better the business plan. This chapter will test your assumptions to see if they are feasible. You will be the final judge of feasibility, but if you cannot pass the muster of this chapter, then you will need to go back to the drawing board!



### Determine your margin

Margin, for the purposes of this workbook, is the overhead cost plus the desired profit. Using the formula below and the results from last chapter, determine what your margin needs to be. This margin will be the same for all your product ideas.

Margin	=	Overhead cost	+	Desired Profit
\$ _____	=	\$ _____	+	\$ _____

### Example: The Margin for Fingerlakes Brandy

Margin	=	Overhead cost	+	Desired Profit
<b>\$22,100</b>	=	<b>\$9,300.00</b>	+	<b>\$12,800.00</b>



### Determine what production volume you can produce and market

The amount of product that you can sell will be limited by either your production capacity or what the market can bear. Which is the most constraining? Can you sell all that you are able to produce? Can you produce more than you can sell?

The marketing chapter (Chapter 2) can give you ideas on how to assess the size of the market. As for production capacity of farm businesses, many of these are known already (there is only so much you can grow on an acre, milk you can get from a cow, etc). Picking a number that is realistic is very important at this stage of the process. You can vary this number to see the results of highest possible volume (you can produce) or the lowest necessary volume (to break even). *Use the same units that you used when you figured out the cost of good sold per unit.*

### Volume of product produced and sold

<u>Product/Service</u>		<u>Range of production volume</u>
Idea #1: _____	Volume of product:	_____ to _____
Idea #2: _____	Volume of product:	_____ to _____
Idea #3: _____	Volume of product:	_____ to _____
Idea #4: _____	Volume of product:	_____ to _____

### Example: Volume of product produced and sold by Fingerlakes Brandy

<u>Product/Service</u>		<u>Range of production volume</u>
Idea #1: <b>Brandy, option 1</b>	Volume of product:	<b>2400 bottles to 3600 bottles</b>
Idea #2: <b>Brandy, option 2</b>	Volume of product:	<b>2400 bottles to 3600 bottles</b>
Idea #3: <b>Brandy, option 3</b>	Volume of product:	<b>2400 bottles to 3600 bottles</b>
Idea #4: <b>Brandy, option 4</b>	Volume of product:	<b>2400 bottles to 3600 bottles</b>









**The big question: Can you produce and sell the product at the price and volume needed to have a sustainable business?**

Look at the breakeven price that you have calculated for your products and compare this with the prices you estimated in the marketing chapter of this workbook (Chapter 2).

- ✓ Are you in the same range of prices that you think the market will pay for your product?
- ✓ Are you at the high or low end of the range?
- ✓ What about the volume of production needed in order to meet the breakeven price for your product? Can you produce at this volume?
- ✓ If you can produce this amount of product, can you actually sell that much product as well?
- ✓ Are there any other factors that you have failed to consider up to this point?

**Final Example: What ever happened to Fingerlakes Brandy?**

**Are you in the same range of prices that you think the market will pay for your product?**

In chapter 2, I mentioned that the retail price of brandy was between \$10 and \$20 a bottle. At first glance, it looks like FLB is right on the mark for a breakeven price for all the different production options. Keep in mind that Fingerlakes Brandy was meant to be a wholesaler of brandy to wineries. The break even prices calculated in each example are wholesale prices, not retail prices. The retailer will want to add in their markup before selling to the final consumer. Using a ballpark markup figure of 35% (this markup would be different for each business, as it is really the margin that they need to achieve to cover their fixed costs and profit—just like you calculated earlier for your business ideas), this knocks all the options out of the water except for Brandy Options #1 and #2 at the 3600 bottle production.

**Are you at the high or low end of the range?**

Brandy Options #1 and #2 are at the high end of the range of retail prices for brandy (if you use a 35% markup, you arrive at \$17.37/bottle and \$19.30/bottle respectively). Not so good to be at the high end of the range of prices that you think the market will bear. In both of these options (Options #1 and #2, it was assumed that the wineries would give the wine (free) to the distillery. Is this likely to occur? This is a very important unanswered question...its possible that these options aren't even viable.

**What about the volume of production needed in order to meet the breakeven price for your product? Can you produce at this volume?** While it would be possible to produce at this volume (3600 bottles), it would mean that I would have to work every evening after work and on every weekend to make the required amount. This went against my personal goals of only spending ½ of my free time with this venture. Remember, if your business idea changes into something that conflicts with your personal goals—you need to seriously think if you want to pursue this venture.

**If you can produce this amount of product, can you actually sell that much product as well?**

It's amazing how the 10 questions presented by the pre-business planning checklist can be a powerful tool for deciding which business might have the best chance for sustainability. When I was discussing the idea of distilling brandy with my family, my grandmother stated, "nobody drinks brandy anymore." While I excused this comment at first, I thought about it again when I was asking myself about the probability of selling 3600 bottles of brandy. I suddenly was not so sure that this was possible.

**Are there any other factors that you have failed to consider up to this point?**

What really nixed the idea was the fact that I had made a bad assumption from the start: I had assumed that wineries, as individuals, would not want to invest the amount of money necessary to have a distillery—that the amount of investment would not make sense for the volume that the winery would produce. However, I didn't realize that they had the same overhead costs with or without the brandy distillery and that by adding on this product line, they could produce the product even cheaper than I could. Needless to say, I did not pursue this venture for the many reasons listed in this example. Today, many wineries in the fingerlakes region have purchased distilleries, leaving me to believe that this market niche is on its way to being filled.

If your answer to the big question is “yes, I can produce and sell this product(s) at the price and volume needed to have a sustainable business,” then you are ready for the next step! Chapter 6 will give you some more information about the fees, permits, taxes, and other items that are necessary to start a business in New York. You should also create a full business plan.

## Chapter 6: OK, you're serious. What's next?

Upon arriving at this chapter, you should know the following about your plans to start an agricultural business:

- ❑ Know what type(s) of agricultural business(s) you are interested in starting
- ❑ Know what kind of farmland is desirable for your product ideas (if not already owned)
- ❑ Know ball-park start up and growing costs of each product idea
- ❑ Know what kind of managerial and production skills are needed

### Now that you know what you want to do, what's next?

Now that you are pretty sure what you want to do, you will have to create a business plan and organize all the permits and forms you will need to fill out in order to get started.

#### A business plan

This book was intended to help focus your thoughts on what is needed to make a good business plan; however, it was not designed to help you create a full business plan. For help with a full business plan, there are other resources available by calling NY FarmLink at 1-800-547-3276 or your local Cornell Cooperative Extension Educator. One thing you will want to keep in mind when you are doing a business plan is who is this plan really for? The business plan should first be for you as a written guide for your business to follow. Second, if you need investors or a bank loan, your business plan must also meet the needs of your banker or investor.

#### A business loan

Most likely, you will need some sort of operating or start up money for your business. Now is the time to start thinking about how the banker views your business. Below are the 6 C's of credit and they may make or break your business plans.

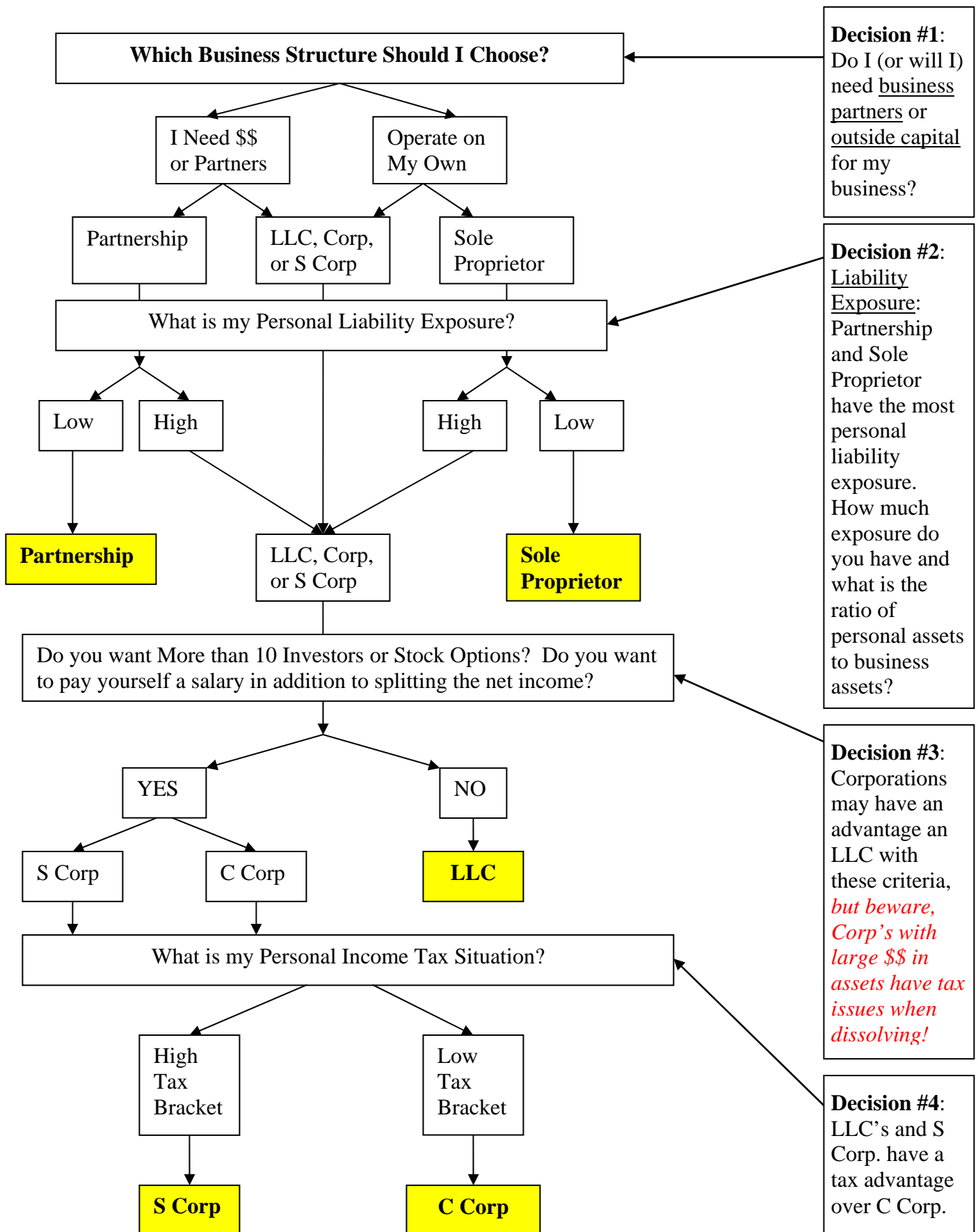
1. **Character:** Who you are (your farm resume) and does the bank trust you with their money?
2. **Capability:** How capable are you of running an agricultural enterprise—how likely are you to repay the money from the bank?
3. **Conduct:** What is your past credit history? Have you had problems, do you need to clean up your credit report?
4. **Capital:** How much equity are you putting down on the deal? The less equity you put down, the higher the risk you appear to the bank.
5. **Collateral:** What other equity items can the bank attach a lien to? Do you have a car, a house, a retirement account, or other items that the bank can draw upon if you default on your loan payments?
6. **Capacity:** Are your profitability projections believable and will there be sufficient cash flow to make all the bank payments?

#### Forms and permits

Today's business environment is heavily regulated. This is not a cause for alarm, but you will be filling out a small hill of paperwork before you can get started. Finding out which forms and permits you need ahead of time will save you time, trouble, and money down the road. The rest of this chapter outlines the different business forms and permits which might be necessary for your new business idea.

**Which Business structure/business entity is best for your business?**

How you structure your business can have an effect on what legal and financial options are available to you. The structures to choose from are: Sole Proprietorship, Partnership, LLC, C Corporation, and S Corporation. Take a look at the flowchart on the next page to help you decide. The decision factors between each business are listed on the right hand side.



## **Business structure forms and permits**

If you plan to conduct business under a name other than your own, you must register the name. Keep in mind that registering is NOT permission to conduct business. The following is a list of the most common business structures and the forms necessary to file with NY State.

### Sole Proprietorship

**Form:** A Certificate of Conducting Business as a Sole Proprietor. Purchase this form from a legal stationery store in New York or through Blumberg Forms at 800-529-6278 or through their website at [www.blumberglegalforms.com](http://www.blumberglegalforms.com). Complete and notarize the form and then file it with the county clerk in each county where the business is located. You usually need three copies: the original for the county clerk, one for the bank, and one for the business.

**Fee:** \$25 plus \$4-\$5 for each certified copy. (The filing fee in the five counties comprising New York City is \$100; certified copies are \$10.)

### Partnership

**Form:** A Certificate of Conducting Business as Partners. This form can be purchased from a legal stationery store in New York or through Blumberg Forms at 800-529-6278 or through their website [www.blumberglegalforms.com](http://www.blumberglegalforms.com). Complete and notarize the form then file it with the county clerk in each county where the business is located. You usually need three copies: the original for the county clerk, one for the bank, and one for the business.

**Fees:** \$25 plus \$4-\$5 for each certified copy. (The filing fee in the five counties comprising New York City is \$100; certified copies are \$10.)

### A Limited Liability Company

**Form:** The New York State Department of State requires the filing of Articles of Organization. (See Corporations for contact information). An LLC must publish a notice in two newspapers in the county where the business is located each week for six successive weeks specifying the details of the limited liability company within 120 days after filing.

**Fees:** \$5 for each name search, \$20 for reservation of name, \$200 for Articles of Organization, \$25 each for affidavits of publication. Annual fees for an LLC are \$100 per member with a minimum fee of \$500.

**Tax Information:** The NYS Department of Taxation and Finance's Publication 16, "New York Tax Status of Limited Liability Companies and Limited Liability Partnerships," explains tax requirements for annual filing fees and how to conform to New York personal income tax and corporation franchise tax. This publication is available online.

### C Corporations in NY State

**Form:** A Certificate of Incorporation. Obtain this form from the NYS New York State Department of State, purchase it from a legal stationary store, or have it prepared by an attorney.

**Fees:** \$5 for each name search, \$20 for reservation of name, \$125 for Certificate of Incorporation.

**Tax Information:** Corporations must file a franchise tax report and pay a franchise tax for all or part of each calendar/fiscal year the corporation exists. Corporations are required to file federal tax returns.

S Corporations in NY State:

**Form:** Under Section 1362 of the Internal Revenue Code, certain small business corporations may report income on personal tax returns. Individual shareholders who wish to obtain this option must file *federal Form 2553*. Once the Internal Revenue Service grants approval, you must file *Election Form CT-6* with the NYS Department of Taxation and Finance.

For more information on S and C Corporations, contact:  
New York State Department of State Division of Corporations  
41 State Street,  
Albany, NY 12231-0001  
518-473-2492  
<http://www.dos.state.ny.us>  
Email: [corporations@dos.state.ny.us](mailto:corporations@dos.state.ny.us)

## What Other Permits Do I Need?

State Licenses or Permits

Some businesses require specific New York State permits. The Governor's Office of Regulatory Reform defines a permit as any required license, registration, or similar form of authorization required by New York State. Examples of businesses that require a permit are: motor vehicle repair shops, beauty salons, food establishments, real estate sales, and child day care centers. For assistance in identifying New York State permit requirements contact:

Governor's Office of Regulatory Reform  
P.O. Box 2107  
Albany, New York 12220-0107  
800-342-3464 or 518-474-8275  
[www.gorr.state.ny.us](http://www.gorr.state.ny.us)  
Email: [permits@gorr.state.ny.us](mailto:permits@gorr.state.ny.us)  
Permit Database: [www.nys-opal.com](http://www.nys-opal.com)

Agricultural business permits

Some agricultural businesses need permits and some don't. Below is a list obtained from the New York State Department of Agriculture and Markets, which regulates food, food products, and food handling in New York State. Contact information is below:

New York State Department of  
Agriculture & Markets  
1 Winners Circle  
Albany, NY 12235  
1.800.554.4501  
email: [info@agmkt.state.ny.us](mailto:info@agmkt.state.ny.us)  
[www.agmkt.state.ny.us/](http://www.agmkt.state.ny.us/)

Permits granted through NYS Department of Agriculture and Markets:

Controlled Atmosphere Registration Number  
Disposal Plant License  
Food Processing Establishment License  
Food Processing Establishments - Chain Stores  
Food Salvager License  
Refrigerated Warehouse and/or Locker Plant License  
Refrigerated Warehouse and/or Locker Plant License - Fresh Fruits and/or Vegetables  
Transportation Services License  
Commercial Feed Tonnage Report  
Pet Food and Specialty Pet Food Registration  
Farm Products Dealer Licensing (food products wholesaler)  
Certification as a Nursery Dealer  
Certification as a Plant Grower (Greenhouses)  
Pet Dealers

Organic Agriculture

If you want to label your produce “organic” and plan on selling more than \$5,000 worth of organic products, then you need to certify with an organic certifying agency in New York State. The largest certifier of New York organic products can be found at:

NOFA -- New York LLC  
840 Upper Front St.  
Binghamton , NY 13905  
Contact: Carol A. King/Lisa Engelbert  
607-724-9851  
E-mail: [certifiedorganic@nofany.org](mailto:certifiedorganic@nofany.org)  
[www.nofany.org](http://www.nofany.org)

Other permits through cooperatives or wholesalers

For those selling their products through a wholesaler or cooperative, there may be some sort of inspection or permitting process in addition to the NY State permits. Milk production and inspection, for instance, is regulated through the individual cooperative. You will want to check with the particular cooperative or wholesaler for your products to see if any permits or inspections are necessary.

## **Tax Obligations**

New York State Taxes: The NYS Department of Taxation & Finance's Publication 20, "New York State Tax Guide for New Businesses," provides basic information about New York Tax Law and regulations. This publication outlines the procedures to follow and forms to file with the NYS Department of Taxation and Finance to fulfill your tax obligations. To obtain a copy, contact:

NYS Department of Taxation & Finance  
Sales Tax Registration  
W. Averill Harriman Campus, Albany, NY 12227  
Forms: 800-462-8100 or 518-485-6800  
Information: 800-225-5829 or 518-485-6800  
Nationwide : 800-972-1233  
[www.tax.state.ny.us](http://www.tax.state.ny.us)



Sales and Use Taxes: If your business will sell tangible personal property or provide specific services in New York, the business is required to collect and remit NYS sales and local tax to the NYS Department of Taxation and Finance, usually on a quarterly basis. If you have a farm which sells produce, you may not have to collect sales tax. Publication 750, "A Guide to Sales Tax in New York State," has more information regarding your possible sales tax obligations and how to obtain a "Certificate of Authority," which grants you ability to collect sales taxes. The NYS Department of Taxation and Finance recommends filing for authority at least 20 days before providing taxable sales or services. You can apply online for a Certificate of Authority at: [www.nys-opal.com](http://www.nys-opal.com).

Federal: For federal tax requirements contact the Internal Revenue Service for "The Small Business Resource Guide." This guide contains general information on your federal tax obligations such as estimated taxes and self-employment tax, as well as various publications for starting a business. For information contact:

1-800-829-1040 or 866-816-2065

[www.irs.gov](http://www.irs.gov)

To apply online:

[www.irs.gov/business/small](http://www.irs.gov/business/small)

#### Federal (Employer) Identification Number

An Employer Identification Number (EIN), also known as a federal tax identification number, identifies a business entity. Generally, all businesses need a federal tax identification number. An EIN is a nine-digit number that the Internal Reserve Service assigns to a business. The IRS uses the number to identify taxpayers that are required to file various business tax returns such as those for alcohol, tobacco, or firearms. Employers, sole proprietorships, partnerships, limited liability companies, and corporations (including "S" corporations and not-for-profit organizations) as well as other business entities use EINs. You can apply for an EIN with form **SS-4: Application for Employer Identification Number**, or over the phone by contacting the IRS at: 1-800-829-1040 or 866-816-2065.

#### Federal Income Tax Hobby Rules (from [www.nolo.com](http://www.nolo.com))

If you consistently use your business as a tax shelter, deducting your losses from your other income year after year, you'll likely catch the attention of the IRS. Unsurprisingly, you're not allowed to deduct expenses from your favorite activities -- only expenses of a legitimate, profit-motivated business. So before you start claiming deductions for the costs of your favorite art projects or toy car collections, make sure your venture will pass IRS scrutiny as a real business in case you're ever audited.

The deciding factor in determining whether a business is legitimate is whether the activity is engaged in for profit. In other words, you need only prove to the IRS that you're trying - - not necessarily succeeding -- to make a profit with your venture. The IRS uses a few different criteria for deciding whether or not your business truly has a profit motive.

The main test for a profit motive is called the "3-of-5" test. If your business makes a profit in any three out of five consecutive years, it is presumed to have a profit motive. While the IRS gives a lot of weight to the 3-of-5 test, it is not conclusive. In other words, if you flunk the 3-of-5 test, you still may be able to prove that your business is motivated by profit. You can use virtually any kind of evidence to illustrate your efforts to conduct your

activity as a business in pursuit of profits. Business cards, a well-maintained set of books, a separate business bank account, current business licenses and permits and advertising or other marketing efforts will all help to persuade an IRS auditor that your activity is in fact a business.

## **Forms to Fill Out if you Have Employees**

### Federal employer tax guidelines

The Federal government requires all employers to have their employees fill out Form I-9 and Form W-4. The IRS' Publication 15, "Circular E, Employer's Tax Guide," explains Federal tax responsibilities as an employer.

**Form I-9**, Employment Eligibility Verification. Obtain this form from the Immigration and Naturalization Service at 800-357-2099 or [www.bcis.gov](http://www.bcis.gov).

**Form W-4**, Employee's Withholding Allowance Certificate. Obtain this form from the Internal Revenue Service. Call FORMS/PUBLICATIONS: 800-829-3676 or INFORMATION: 800-829-1040 or visit [www.irs.gov](http://www.irs.gov) to download the form.

**Federal employment taxes** required are: Federal Income Tax Withholding, Social Security and Medicare Taxes (FICA), and Federal Unemployment Tax (FUTA).

### New York State Guidelines

New York State requires all employers to provide: Unemployment, Workers' Compensation, and Disability insurances as well as comply with wage reporting and withholding tax requirements.

**Unemployment Insurance:** An employer who begins hiring employees in New York State is required to notify the NYS Department of Labor promptly to determine their appropriate tax status. The conditions for liability differ among not-for-profits, government, household/domestic, agricultural, and all other employees.

For information contact:  
NYS Department of Labor  
Unemployment Insurance Division  
State Campus, Building 12,  
Albany, NY 12240  
518-457-5807  
[www.labor.state.ny.us](http://www.labor.state.ny.us)

**Workers' Compensation Insurance:** Provides protection to the employer from liability in the event of an on-the-job injury resulting in employee disability or death and to provide monetary relief and medical benefits to the injured worker. This insurance is available through a private insurance carrier or the New York State Insurance Fund at 212-312-9000 or [www.nysif.com](http://www.nysif.com).

**Disability Insurance:** Provides for the payment of cash benefits to employees who become disabled because of injuries or sickness that have no connection to their employment, and for disabilities arising from pregnancies. Employers and employees may pay for this insurance jointly or solely by the employer. This insurance is available

through a private insurance carrier or the New York State Insurance Fund at 866-697-4332 or apply online at: [www.nysif.com](http://www.nysif.com)

**NYS Tax Withholding:** The NYS Department of Taxation and Finance's Publication NYS-50, "Employer's Guide to Unemployment Insurance, Wage Reporting, and Withholding Tax," explains NYS tax responsibilities as an employer.

NYS Department of Taxation & Finance  
W. Averill Harriman Campus, Albany, NY 12227  
Forms: 800-462-8100 or 518-485-6800  
Information: 800-225-5829 or 518-485-6800  
[www.tax.state.ny.us](http://www.tax.state.ny.us)  
To apply online: [www.nys-opal.com](http://www.nys-opal.com)

#### Agricultural Employers—special forms

Agricultural employers do have special forms for some types of work. In addition, agricultural employers may be eligible for some labor law exemptions not available to other employers. For more information about these exemptions, contact your local Cornell Cooperative Extension office.

#### Tax breaks: School, property, sales tax on purchases

Below are some general rules of thumb on tax incentives (breaks) for farming. If you need assistance with any of these exemptions, contact your local assessor (property and school tax issues) or the NYS Department of Taxation (sales tax issues).

1. Ag property value assessment (have your house and land appraised as agricultural rather than residential, saves some \$\$). Need to have at least 7 acres and \$10,000 in gross income.
2. Sales tax exemption on supplies purchased for farming. Usually the same rules of thumb as the ag property value assessment.
3. Farmers' School Tax Credit: Have up to 250 acres of your land qualify for a complete rebate on all school taxes. Need to have 2/3 of your family income coming from the operation to qualify. I think around \$20,000 can be deducted from your spouse's income to help qualify for the 2/3 rule.

#### Other sources of help for business forms and permits

Your Business, A Guide to Owning and Operating a Small Business in New York State is available for \$5

Empire State Development

Business Assistance Hotline: 800-782-8369

Division of Minority and Women's Business Development : 518-292-5250

[www.empire.state.ny.us/serv\\_help.html](http://www.empire.state.ny.us/serv_help.html)

New York State Small Business Development Center

41 State Street—7th Floor

Albany, NY 12246

800-732-7232 (SBDC)

National Federation of Independent Business (NFIB)

New York State NFIB  
One Commerce Plaza, Suite 1119  
Albany, NY 12260  
Phone: 518-434-1262  
Fax: 518-426-8799  
Mark Alesse, State Director

### **Other Agricultural Business Planning Resources**

(This is not a complete listing, there are many resources on this topic, this is a sample of what is available).

#### **Ag Innovation Center @ Cornell University**

<http://agviability.edu> (online June 2004)

- Information on the AIC project located at Cornell University. A project focused on helping New York's farm businesses evaluate the feasibility and develop business plans for making value-added business changes leading to improved profitability.

#### **Agricultural Utilization Research Institute**

<http://www.auri.org/news/aginnews.htm>

- A newsletter published to information related to new developments in ag-based products.

#### **Agricultural Marketing Resource Center (AgMRC)**

<http://www.agmrc.org/>

- A national USDA funded center dedicated to assisting producers involved in value-added agriculture.

#### **Bplans.com**

[www.bplans.com](http://www.bplans.com)

- Information on writing a business plan and sample business plans – including agricultural examples.

#### **BizPlanIt**

<http://bixplanit.com>

- Site has a virtual guide to the various components of a business plan.

#### **Business Plans for New York Agriculture**

<http://www.agrisk.cornell.edu/business.htm>

- A series of 9 modules on various business planning topics by Cornell Department of Applied Economics and Management faculty.

#### **Cornell Cooperative Enterprise Program**

<http://cooperatives.aem.cornell.edu/>

- Site provides information on the program that focuses on enhancing the performance of existing cooperative businesses and facilitating the development of new cooperative enterprises.

## **Cornell Entrepreneurship Education and Outreach Program**

### **Business Planning for Ag and Food Based Businesses**

<http://eeo.aem.cornell.edu/ag%20food%20series/index.htm>

- Site includes 12 business planning sections to help entrepreneurs understand and work on a business plan. Provides advice, steps, questions to answer and further resources.

## **Cornell Horticultural Business Management and Marketing Program**

[http://aem.cornell.edu/special\\_programs/hortmgt/index.htm](http://aem.cornell.edu/special_programs/hortmgt/index.htm)

- Site includes resources for vegetable, fruit and horticultural businesses with a focus on marketing, business and risk management.

## **Northeast Center for Food Entrepreneurship**

<http://www.nysaes.cornell.edu/necfe/>

- Site includes information on the Center that provides assistance to beginning and established food entrepreneurs. The Center offers services, outreach and research development in four areas: business and product process development, product safety, process/product technology transfer and product commercialization.

## **Small Business Administration**

<http://www.sba.gov>

- A comprehensive source of materials, worksheets and resources related to business planning. Not agricultural focused.

## **Tilling the Soil of Opportunities**

<http://www.nxlevel.org/pages/ag.html>

- A course for agricultural entrepreneurs aimed at individuals who have started or are thinking about starting an agricultural based business.

## **Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses**

Published by the Minnesota Institute for Sustainable Agriculture, 2003. A 280 page, 5 chapter step by step guide on developing a business plan with a focus on agricultural enterprises. Includes worksheets and farmer profiles/testimonials. Available at Sustainable Agricultural Publications 802-656-0484, \$14.00 each

## **Exploring the Small Farm Dream: Is Starting an Agricultural Business Right for You?**

Published by The New England Small Farm Institute, 2003. An 86 page, 5 chapter workbook designed to help individuals who are exploring the possibility and decision of starting a small farm as a commercial agricultural business. Targeted to explorers – those exploring the idea of farming at some commercial level. Available at New England Small Farm Institute 413-323-4531, \$22.00 each

## **Harvesting Change: A Planning Workbook for Apple Growers**

Published by NY FarmNet @ Cornell University, February 2004. A 5 chapter, 180 page color workbook with worksheets to assist apple growers in analyses of industry trends and impact at the farm level, performing a business assessment, identifying changes and business planning. Includes a business planning section and worksheets. Targeted to established apple growers looking to make business changes. Available at NY FarmNet 1-800-547-3276, free to NY growers, or \$50 to out of state producers.

## **Market Planning for Value-Added Agricultural Products**

Published by University of New Hampshire, January 2000. A workbook for agricultural producers considering marketing changes, new product development and marketing, those who want to do market analysis and conducting marketing research. Available at University of New Hampshire 603-862-2346

**Writing a Business Plan: An example for a Small Premium Winery and Writing a Business Plan: A Guide for Small Premium Wineries** Published by Department of Applied Economics and Management @ Cornell University, June 2002. Two booklets one that is a business plan example and the other a business planning guide. The guide takes the reader through the steps of creating a business plan for a small premium winery, with an emphasis on marketing at a higher price point by focusing on premium quality wines. Targeted to planners (those planning to start a small premium winery) and established winery owners looking to add premium wines to their retail outlet and/or to establish a relationship with a grower to grow premium wine grape varieties for wine production and sales. Order at <http://aem.cornell.edu/outreach/extensionpdf/eb0206.pdf>

## Appendix: Additional copies of worksheets

<b>Pre-Business Planning Checklist</b>	<b>For Help, Read:</b>	<b>Your Rank</b>
Is it something that I like to do? (And do you have the necessary expertise?)	Chapter 1	
How much time will I spend doing it? (Part time, Full Time, or Hobby?)	Chapter 1	
How much money do I want to make? (Supplement or provide entire income?)	Chapter 1	
Who is going to buy my product and where do they live? (Target the customer)	Chapter 2	
How much will people pay for my product? (What price will you receive?)	Chapter 2	
How will I sell my product to the customer? (Distribution and promotion methods)	Chapter 2	
How am I going to produce it? (equipment and facilities requirements)	Chapter 3	
Where am I going to produce it? (Land characteristics)	Chapter 3	
How much will it cost to start up and run? (Capital Costs and Fixed Costs)	Chapter 4	
Will I make a sustainable profit with this business? (Operating Costs & Margins)	Chapter 5	
<b>Total Score</b>		

<b>Pre-Business Planning Checklist</b>	<b>For Help, Read:</b>	<b>Your Rank</b>
Is it something that I like to do? (And do you have the necessary expertise?)	Chapter 1	
How much time will I spend doing it? (Part time, Full Time, or Hobby?)	Chapter 1	
How much money do I want to make? (Supplement or provide entire income?)	Chapter 1	
Who is going to buy my product and where do they live? (Target the customer)	Chapter 2	
How much will people pay for my product? (What price will you receive?)	Chapter 2	
How will I sell my product to the customer? (Distribution and promotion methods)	Chapter 2	
How am I going to produce it? (equipment and facilities requirements)	Chapter 3	
Where am I going to produce it? (Land characteristics)	Chapter 3	
How much will it cost to start up and run? (Capital Costs and Fixed Costs)	Chapter 4	
Will I make a sustainable profit with this business? (Operating Costs & Margins)	Chapter 5	
<b>Total Score</b>		

**Worksheet #1: Use this worksheet for up to 5 different products/product strategies**

Marketing Worksheet	#1	#2	#3	#4	#5
Business Idea					
1. Describe your product or service. What are its attributes, its benefits?					
2. Who is likely to buy this product or service? What are characteristics of this customer?					
3. How are you going to reach your customer? Wholesale? Retail? How many potential customers are nearby?					
4. How will your customer find out about you and the products you offer?					
5. What is your expected range of prices that you will receive?					
6. Who is the competition and what do they offer? What makes your product better than those that they offer?					



**Worksheet #2: Describe the land characteristics that you will need or that are available for your agricultural enterprises**

Land Characteristics	#1	#2	#3	#4	#5
<b>Product</b>					
<b>1. Land Capability</b> (Crop growing factors) (Soil class needed) (Soil amelioration?)					
<b>2. Location Factors</b> (Personal preference) (Marketing factors) (Zoning restrictions?)					
<b>3. Other Factors</b> (water availability?) (building sites?) (Utilities/services?) (access to inputs and service providers?)					
<b>4. Buy or Rent?</b> (Options?) (Cost of each?)					

**Worksheet #3: Describe the buildings and facilities that you will need for your agricultural enterprise**

<b>Building &amp; Facilities</b>	<b>#1</b>	<b>#2</b>	<b>#3</b>	<b>#4</b>	<b>#5</b>
<b>Product</b>					
<b>1. What type of housing is desired?</b>					
<b>2. What buildings &amp; facilities are required?</b>					
<b>3. Build, renovate, or rent the building &amp; facilities?</b>					
<b>4. Cost of each option?</b>					

**Worksheet #4: Describe the equipment that you will need for your agricultural enterprise**

Equipment Worksheet	#1	#2	#3	#4	#5
Product					
1. What equipment is needed?					
2. Buy, rent, or custom hire your equipment?					
3. Estimate the cost of the equipment					

### Worksheet #5: Capital Start-up costs

What are the total costs for those items that you are BUYING (write down a range):

Land Costs:	From	\$ _____	To	\$ _____	(Total cost)
Buildings and Facilities:	From	\$ _____	To	\$ _____	(Total cost)
Equipment	From	\$ _____	To	\$ _____	(Total cost)

### Worksheet #6: Sunk costs for permits, licenses, and fees

Estimate the costs of permits, licenses, and fees to start your new enterprise:

Required permits:	_____	Costing \$ _____
Required licenses:	_____	Costing \$ _____
Other fees:	_____	Costing \$ _____
		Total Cost \$ _____

### Worksheet #7: Costs to “turn on the lights”

Estimate the costs of operation that are incurred before the first sale of product:

Monthly operating cost:	\$ _____
Months before 1 <sup>st</sup> sale:	_____
Total Cost:	\$ _____



### Total up your start up costs

From worksheets #5-#7, total up all the start up costs that you will incur with your business ideas. You may have a range of costs if you have multiple business ideas.

Total Start up costs will range from \$ \_\_\_\_\_ to \$ \_\_\_\_\_

### How will you finance your start up costs?

To cover these costs, you will to use your own money or someone else’s money. Using your own money (or bringing in financial partners) is often called “equity financing” and using someone else’s (namely, the bank) money is called “debt financing.” For the purposes of this workbook, we are only going to cover debt financing\*.

How much of the start up costs will be financed with debt? \$ \_\_\_\_\_

What are the terms of the debt? Length of loan: \_\_\_\_\_ Interest rate: \_\_\_\_\_

What will the payments be per month?	\$ _____	Principal
	\$ _____	Interest
	\$ _____	Total Payment/month

What are the payments per year?	\$ _____	Principal
	\$ _____	Interest
	\$ _____	Total Payment/year

\* If you are considering bringing in equity partners to your business, you should request a copy of “Doing Business Together: A Joint Business Agreement Guide” (\$12) from NY FarmLink 1-800-547-3276. This will help you structure the right business agreement.



**Worksheet #9: Determining your overhead costs**

Overhead Costs	\$
Interest	
Office/Management Salaries	
Insurance	
Repairs, Building	
Equipment Repairs/Vehicle Expense	
Property Taxes	
Lease/Rental/Custom	
Land Rent	
Office Supplies	
Professional Services	
Miscellaneous/Other	
<b>TOTAL FIXED COSTS</b>	

**Worksheet #10: Determining your necessary profit**

What must profit include?	\$
Family living expenses	
Bank principal payments	
Income taxes	
Retained Earnings	
Other	
<b>DESIRED PROFIT:</b>	

**Summarize Worksheets #8-#10**

Take the results from worksheets #8, #9, and #10 and write them in the blanks below

Idea #1: \_\_\_\_\_ Total Cost of goods sold: \$ \_\_\_\_\_

Idea #2: \_\_\_\_\_ Total Cost of goods sold: \$ \_\_\_\_\_

Idea #3: \_\_\_\_\_ Total Cost of goods sold: \$ \_\_\_\_\_

Idea #4: \_\_\_\_\_ Total Cost of goods sold: \$ \_\_\_\_\_

Total Annual Fixed Costs (all ideas): \$ \_\_\_\_\_

Total Annual Profit: \$ \_\_\_\_\_

**Determine your margin**

Margin	=	Overhead cost	+	Desired Profit
\$ _____	=	\$ _____	+	\$ _____

**Determine how much product can be produced and sold**

<u>Product/Service</u>	<u>Range of production volume</u>
Idea #1: _____	Volume of product: _____ to _____
Idea #2: _____	Volume of product: _____ to _____
Idea #3: _____	Volume of product: _____ to _____
Idea #4: _____	Volume of product: _____ to _____

**Calculating your per unit margin**

<u>Product/Service</u>	<u>Margin\Volume</u>	<u>Per Unit Margin</u>
Idea #1: _____	_____ \ _____	= \$ _____
Idea #2: _____	_____ \ _____	= \$ _____
Idea #3: _____	_____ \ _____	= \$ _____
Idea #4: _____	_____ \ _____	= \$ _____

