

BUSINESS REINVESTMENT

By Caroline Potter

Planning for your future

Many factors drive change on a dairy, including increasing variability in profit, changes in the cost of inputs and outputs, changes in management focus and managing family expectations. Developing a business plan, asking the hard questions now, before implementing your plan, will help navigate the road to a successful future.

The business plan does not need to be complicated, but it does take time. It should provide an understanding of your business, the direction you are headed, and the goals you expect to achieve. If you are using the plan to secure a loan, it is intended to give the lending institution confidence in the management of your business. While the details of a business plan may differ depending on your focus, key elements answer the questions of what should be done, the order it should be done and what needs to be done to complete it. These elements, as referenced in “Business Planning for the Agricultural Sector – A Guide to Business Plan Development for Start-up to Mid-size Operations” by Jeffrey Perry and Richard Overton, include:

1) **Executive summary** is typically written at the end of the process when the plan is complete. It summarizes the key points of your business plan and provides a positive, professional picture of your business. It should entice the reader to read the rest of the plan. If you are applying for a loan, state how much you are requesting, and

“They always say time changes things, but you actually have to change them yourself.”

Andy Warhol

how this will contribute to the success of your business.

2) **Current business description** describes the business, including the mission and goals, both short and long-term. It should also identify the key stakeholders on the farm, their roles, what changes are being considered, and why.

3) **Historical performance** describes just that. To plan for the future you need a solid grasp of past performance. How many years have you been in business? Who were the previous owners and what were the number of employees? What are your successes and failures? What lessons have you learned? Can you highlight your reputation in the community? And, finally, provide accurate historical financial data.

4) **Capital costs with formal bids** details in numbers where you will spend the funds. This is where you take time to research, perhaps by visiting other farms with similar projects and contacting contractors to obtain bids, so you have solid cost estimates for your project(s).

5) **Transition year budgets** take into account the period of time between the start, implementation and completion of your plan. It describes in numbers the money needed to fund operations while you are making the changes.

6) **Budgets when fully implemented** describe the business revenue and costs after the change has been implemented and answers the question – What do the earnings look like after the change is made? By developing these budgets the business can answer the following questions:

- Is the change in earnings worth the risk associated with the change?
- What are the key assumptions that, if wrong, make the decision less favorable?
- What areas does management need to focus on to help ensure that the key assumptions are met?



A Dairy Acceleration Project at Silver Meadows Farm included construction of a new barn. Photo credit: Russ Klein.

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4) What maintenance and improvements are needed? While maintenance and capital improvements are normal and should always be expected, the magnitude of associated costs is an additional factor to consider in making your decision. If the equipment or machinery will need servicing, can it be done in a reasonable amount of time at a reasonable cost? If the land you just purchased needs tiling or any other improvements, are the resources and time available sufficient? Maintenance may be especially problematic when you are considering purchasing something that uses old, new and/or uncommon technology. What is the cost, both in terms of dollars and time spent, along with disruption of operations, if a breakdown occurs?

5) Is now the best time to make this decision? While investment decisions will always be difficult and shouldn't be avoided for that reason, you may be in a better position to make the decision next year. Occasionally, events over the next year may put you in a much better position to decide on a particular investment. A general rule of thumb is that the expected changes over the next year would bring substantial changes to your operation and strongly influence your current investment decisions. For example, does the change you made to your reproductive program increase the internal herd growth that you can generate? If so, with more animals, the decision

to build a new barn may be easier to make. In such cases, you may be in a much better position to make investment decisions next year.

After examining your motivation; considering the alternatives; taking into account new skills required as well as any costs of improvements and maintenance; and deciding whether or not there is a compelling reason to delay your decision until next year, are you still interested in making a capital investment?

Now the hard work begins! You'll want to be sure that this new investment will contribute to the long-term profitability of your farm. You'll have to make difficult decisions about how much debt to take on, and will want to be comfortable with your ability to make loan payments in good and bad years. For large investments, it's especially important to reflect on your objectives for your farm over both the medium and long-term. For example, is this a period where you need to aggressively grow your operation or do you want to facilitate transition to new ownership in five years? Given the multitude of risks farmers face, it pays to make well-informed decisions about capital investments. □

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7) Sensitivity analysis shows how the financial picture changes for your business with changes to income and expenses. It can help identify which changes have the greatest impact on the profitability of the business. For example, how does the financial picture change with changes in milk price, milk per cow and milk production?

8) Supporting documents are referenced in the body of the business plan and provide more relevant detail. For example, you may want to include past tax returns or positive press clippings about your farm.

9) Summary is a synopsis of the plan and supports the general objective of the plan.

The effort put into the plan now will reap dividends in the future and help turn your dreams into reality.

Resources

Further details on developing a business plan are at:

- www.dyson.cornell.edu, and
- www.NYFarmnet.org.

Information and eligibility to apply for funds to engage the services of a business planning consultant are on the Dairy Acceleration Program webpage at:

- www.pro dairy.cals.cornell.edu/dairy-acceleration/. □

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