Business Planning & Budgeting

Beef 101

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Sponsored by:
New York Beef Producers
Business Planning

- Why
- What
- How
Why put a plan on paper?

- Do I feel comfortable?
- Can I convince another family member or business partner?
- Can I convince my creditor?
Why?

- Think through the financial details
- Used as an operational guide
- Helps in obtaining funding
- Business vs Hobby
Mission

- What does the business want to be known for?
- What is the internal and external purpose of the business?
- What are our values, management philosophies and future vision?
- What are some key words or phrases that describe them?
Goals Address Mission

- Is there a goal to “make” money?
- Finances are used in management to quantify goals
- Need to know your goal before you know if got there
- Missions and Goals motivate people
WHAT?

- INTRODUCTION
- THE BUSINESS DESCRIPTION
- MARKETING
- FINANCES
- SUPPORTING DOCUMENTS
INTRODUCTION

- COVER SHEET
  - NAME, ADDRESS, PHONE NUMBER, EMAIL
- STATEMENT OF PURPOSE
- TABLE OF CONTENTS
THE BUSINESS

- DESCRIPTION OF THE BUSINESS
- LOCATION
- MANAGEMENT
- PERSONNEL
- ASSETS NEEDED
- INSURANCE
MARKETING

- METHOD
- WHO WILL BE YOUR PRIMARY CUSTOMERS
- MAJOR COMPETITORS
- TRENDS IN THE MARKET
- EXPECTED SALES
- SERVICES NEEDED
FINANCES

- SOURCES OF FUNDS
- PROFIT AND LOSS STATEMENTS
- BALANCE SHEETS
- CASH FLOW STATEMENTS
- BUDGETS
Need All Four

- Cash Flow
- Balance Sheet
- Profitability
- Budget
Profitability

- Income Statement
  - The return to the business/owner as a result of operation of assets, work and decisions.
- Value of production
  - Cost of production
  - Profit

NOT WHOLE ANSWER
Profit = Value of Production minus Cost of Production

Value of Production

Cash Farm Receipts

Appreciation

Change in Inventory

Change in Accounts Receivable

Cost of Production

Cash Farm Expenses

Farm Business

Changes in Inventory

Change in Accounts Payable
Measuring Profit

- Start with Cash Flow
- Keep the best records you can
- Measure everything
- Time everything
- Look at impact of non-cash items
- Watch where the money comes from and goes to
Measuring Profits

- Add values for non-cash items
  - Change in Accounts Receivable or Payable
  - Changes in Inventory
  - Appreciation or Depreciation
  - Interest on equity
  - Unpaid Labor
  - Value of Manager
Measuring Profit con’t

- Record and categorize receipts and expenses into groups that make sense for your business.
- Sort by fixed and variable
- Sort by enterprise if possible
- Include Family Living expenses
Balance Sheet - What is it?

- Everything the business OWNS minus everything it OWES = Net Worth
- Assets You Manage - What you Owe = Your Ownership
- Assets - Liability = Equity
- A snap shot of the business finances

• NOT THE WHOLE ANSWER
Balance Sheet - What does it tell us?

- Primary function is to measure risk bearing ability or financial solvency.

- Solvency is the ability of the business to cover its debt if all assets were sold.
Cash Flow

- Can I pay my bills in a timely manner? *Money in your pocket*
- Crucial to staying in business
- Varies at different times of year

- NOT THE WHOLE ANSWER
Cash Flow vs. Profit

- Good Cash Flow, but Low Profit?
  - Living off of inventories
  - Outside Income
  - Borrow Money
  - Inc. in Accounts Payable
  - Low withdrawals -family living expense
  - Living off depreciation
  - Low debt payments
Cash Flow vs. Profit

- Good Profit, but Low Cash Flow?
  - Growing business
  - High withdrawals ex college, support others
  - Paying down debt rapidly
  - Buying assets to use next year ex. fertilizer
  - Increase in Accounts Receivable
The **Cash Flow Reservoir**

- Cash Farm Receipts
- Money Borrowed
- Asset Sales
- Non-Farm Income

Cash Balances

- Cash Farm Expenses
- Principal Payments
- Capital Purchases
- Family Living
Projecting Receipts and Expenses

- Best to start with numbers from your own farm
- If don’t have then can use modified statewide numbers
- Use best guesses to start and better numbers come with time and effort
<table>
<thead>
<tr>
<th>Your farm</th>
<th>lb.</th>
<th>lb.</th>
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<tbody>
<tr>
<td>Production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steers .48 x 500 lb</td>
<td>240</td>
<td>6000</td>
</tr>
<tr>
<td>Heifers .28 x 450 lb</td>
<td>126</td>
<td>3150</td>
</tr>
<tr>
<td>Cull replacement heifer .04 x 800 lb</td>
<td>32</td>
<td>800</td>
</tr>
<tr>
<td>Cull cow .08 x 1250 lb</td>
<td>100</td>
<td>2500</td>
</tr>
<tr>
<td>Total weight/beef cow unit</td>
<td>498</td>
<td>12450</td>
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<table>
<thead>
<tr>
<th>Direct Expense</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hay, 65 ton @ $65/ton</td>
<td>169</td>
<td>4225</td>
</tr>
<tr>
<td>Pasture, 53 acres @ $15/acre</td>
<td>32</td>
<td>795</td>
</tr>
<tr>
<td>Grain @ $160/ton</td>
<td>12</td>
<td>300</td>
</tr>
<tr>
<td>Salt and minerals</td>
<td>8</td>
<td>200</td>
</tr>
<tr>
<td>Vet and medicine</td>
<td>18</td>
<td>450</td>
</tr>
<tr>
<td>Breeding fees</td>
<td>15</td>
<td>375</td>
</tr>
<tr>
<td>Machinery &amp; equipment, fuel &amp; repairs</td>
<td>20</td>
<td>500</td>
</tr>
<tr>
<td>Building/fence repair</td>
<td>15</td>
<td>380</td>
</tr>
<tr>
<td>Phone &amp; electric</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Hired labor</td>
<td>12</td>
<td>300</td>
</tr>
<tr>
<td>Farm supplies</td>
<td>9</td>
<td>225</td>
</tr>
<tr>
<td>Marketing</td>
<td>8</td>
<td>210</td>
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<tr>
<td>Interest on operating capital</td>
<td>8</td>
<td>197</td>
</tr>
<tr>
<td>Total Direct Expense</td>
<td>328</td>
<td>8197</td>
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<table>
<thead>
<tr>
<th>Overhead Expense</th>
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</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>7</td>
<td>180</td>
</tr>
<tr>
<td>Taxes</td>
<td>34</td>
<td>850</td>
</tr>
<tr>
<td>Machinery &amp; building depreciation</td>
<td>32</td>
<td>794</td>
</tr>
<tr>
<td>Interest</td>
<td>51</td>
<td>1275</td>
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<tr>
<td>Total Overhead Expense</td>
<td>124</td>
<td>3099</td>
</tr>
</tbody>
</table>

Total Direct and Overhead  
452 11296
Receipts
Steers .48 x 500 lb x $.85/lb 204 5100 _______
Heifers .28 x 450 lb x $.80/lb 101 2520 _______
Cull replacement heifer, .04 x 800 lb x $.625 20 500 _______
Cull cow, .08 x 1250 lb x $.45 45 1125 _______
Total receipts 370 9245 _______

Return to Direct (cash) Expense $ 42 $ 1,048 _______
Return to Direct and Overhead Expense $ (82) $(2,051) _______
Assumptions:
1250 lb cow, weaning 500 lb steer or 450 lb heifer
96% weaning rate
5 replacement heifers retained
Animals sold:
12 feeder steers
7 feeder heifers
1 culled replacement heifer
2 culled cows
85 acres land (53 a. pasture + 32 a. meadow)
All forage produced on farm by custom operator
Unpaid Labor

- If you have help from your spouse or children, you need to be able to pay them fairly or at least have their efforts acknowledged.
- If they leave, you need to know your farm could survive.
- A simple charge is made for hours of unpaid labor @ $10/hr
Depreciation

- Economic Depreciation
- VS. Income Tax Depreciation
- Both important, but not equal
How to measure depreciation?

- Purchase cost plus value of trade-in
- Subtract lost capital
- Subtract salvage value
- Estimate useful life expectancy
- Charge annual expense to wear, tear and obsolescence.
Ownership Costs

- DIRTI
  - D - Depreciation
  - I - Interest (on loan or equity)
  - R - Repairs
  - T - Taxes
  - I - Insurance
SUPPORTING DOCUMENTATION

- PERSONAL RESUMES
- PERSONAL FINANCIAL STATEMENTS
- LETTERS OF REFERENCE
- CREDIT REPORTS
- PRODUCT LITERATURE
- PHOTOS
- LEASES, CONTRACTS, LETTERS OF INTENT
Bench Marking

- Once you have production and profitability numbers you can compare yourself with others
- Find areas for improvement
- Find areas where you are strong
- Need to do accrual accounting to compare to others - on even footing
Benchmarking

- CCE and others have benchmarks for comparing yourself
  Good to find others to compare
- Be sure their records are “good”
Decision Making

- Does It make sense to do?
- Are there better alternatives
- Will it fit with other factors beyond profitability?
  - Goals
  - Time
  - Family
HOW?

- Business plans/budget templates
- Work with Consultant/CCE Educators
If You Can’t Measure it, You Can’t Manage it!

- Numbers, Numbers, Numbers!
- Count, measure, quantify, allocate!
- Establish controls, set GOALS!
- Productivity must be quantifiable!
- Only way to measure productivity!
THANK YOU!

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