

Natural Resource Enterprises

Advanced Workshop Series

Business Plan Development



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Section 1

Business Plan Development: Worksheets for Group Activity and Presentations

Directions for Business Plan Development Group Activity

- 1) Workshop attendees will be split into three groups to develop a business plan using the written land and business scenario provided to each group.
- 2) Scenarios include aspects such as land-type, size of property, equipment on site, dwellings on site, and other information for use in developing your business plan as a group activity.
- 3) Each group should choose a representative to present their proposed NRE plan using ***Outline for Group Presentations in Section 1*** to report proposed operation, services, starting costs, revenues, and expenditures for your given NRE scenario.
- 4) Start-up costs, profit prediction, and feasibility of the proposed NRE will be evaluated by subtracting total annual expenses from potential revenues to indicate net profit per year for your group scenario. Use ***Calculating Start-up Costs and Projected Profit and Feasibility in Section 1*** to project your success from business Year 1 – Year 3.
- 5) Section 2 contains reference tables for figuring expenses and revenue generation for your given scenario. A price chart of expected expenses and a price listing for current prices of activities offered by enterprises currently operating in the Southeast are included. Please use these tables, or the landowner expert assigned to your group as needed when budgeting for your group's NRE. Calculators will be supplied to each group to make budgeting easier.
- 6) Section 3 contains optional worksheets which are a compilation of questions to focus your business plan (Worksheet #1-14 in Section 3) and help you gather your thoughts. You are not required to complete all worksheets for the purposes of this group activity. These optional worksheets may be more valuable as an “at home” source to think about your personal NRE plans.
- 7) Landowner professionals, Federal Land Bank and Southern AgCredit staff, and NRE Program staff are on-hand to answer questions of any kind. Please do not hesitate to flag someone down if you have a question.
- 8) Other references with respect to business plan development may be found in Section 4 and used as needed by the group. These publications may also be of more use as an “at home” source of considerations when starting your own NRE.
- 9) Please designate a group leader to present your NRE plan to other groups. Have fun and good luck on the grand opening of your virtual NRE!
- 10) Presentations will be given by group leaders at the end of the allotted time period of the group activity. Thank you for your participation!

Outline for Group Presentations of Business Plan

Please use this sheet as an outline for presenting your virtual NRE to other groups. Answer questions and provide concise expense data in table below for group presentation. Use your provided calculator and ***Calculating Start-up Costs and Projected Profit and Feasibility in Section 1*** to project your success from business Year 1 – Year 3 and report starting costs (Year 1), revenues, expenditures and net profit in the chart below. Your group will need to include the answers to questions below and report expenditures and revenues generated in presentations.

1) What type of NRE will you be operating as a group and what is the name of the NRE?

2) What land cover types and other resources including, equipment and structures were present on the property in your given scenario?

3) What are your present needs in starting your NRE? (i.e., construction, renovations, equipment purchases, and etc.)

4) What services will you provide to customers? (i.e., hunting, corn-maze, bird-watching)

5) Who are your customers and how do you plan on marketing your NRE?

\$\$\$\$	YEAR 1	YEAR 2	YEAR 3
Starting costs	\$	-----	-----
Revenues	\$	\$	\$
Expenditures	\$	\$	\$
Net profit	\$	\$	\$

*** Note: Only report starting costs for Year 1. Other expenditures may be necessary in Year 2 and Year 3. An estimate of Year 2 and Year 3 expenditures will suffice for the purposes of this activity.**

Section 2

Expenses and Revenues: Reference Tables for Budgeting and Feasibility Assessment

Table 1. Expenses associated with equipment, services and supplies for operating a natural resource enterprise for use in budgeting.

ITEM	ESTIMATED COST
Barn construction (per 1000 sq. ft.)	\$18,500
Bird-watching guide services (1 guide per day)	\$125
Canoe (2-person)	\$300
Construction of permanent bathroom facilities (1 women, 1 men)	\$15,000
Dwelling/cabin/lodge construction (per 1000 sq. ft.)	\$45,000
Food -meals (4 people for 3 meals per day)	\$80
Hunting guide services (1 guide/day)	\$250
Insurance (Agritourism - annually)	ASK EXPERT
Insurance (Hunting operation - annually)	ASK EXPERT
Insurance (Nature-based - annually)	ASK EXPERT
Labor (1 person/hour)	\$10
Lease of wooded property (per 100 acres)	\$2,500
Legal fees (setting up LLC, waivers, other agreements)	\$1,500
Maintenance of 1 acre of crop (herbicide and harvesting needs)	\$25
Management of habitat for wildlife species (burning, thinning, etc. per 100 acres)	\$5,000
Marketing (billboards and radio - monthly)	\$1,200
Marketing (fliers and newspaper ads - monthly)	\$250
Marketing (website and social media - monthly)	\$500
Paintball equipment (1 gun/safety gear for 1 person/560 paintballs)	\$100
Playground accessories (durable and large swing set with slides)	\$1,000
Pond/lake management and maintenance (per acre annually)	\$150
Portable toilet rental (1 per month)	\$250
Primitive camping area maintenance (per acre annually)	\$15
Roof repairs (per 1000 sq. ft.)	\$6,500
Seed for planting 1 acre of crop (vegetables and fruit)	\$215
Sporting clays (100 rounds)	\$10
Tractor (used in great condition)	\$12,000
Trail construction (per acre)	\$2,000
Trail maintenance (per acre annually)	\$100
Trailer for carrying customers (Tour trailer)	\$11,000
Trap thrower (automatic for sporting clays)	\$3,000
Truck (heavy-duty four-wheel drive capable of pulling trailer/equipment)	\$35,000
Wildlife food plot establishment (per acre)	\$500

Table 2. Recreational revenue potential from different types of NRE operations, including agritourism, fee-hunting, and nature-based tourism.

Name of Business	Location	URL	Services	Cost	Lodging/Meals
Hunting/Fishing					
White River Outfitters and Game Birds	Tygh Valley, Oregon	http://huntingandfishingoregon.com/	Guided Pheasant Hunts	Day hunt: \$299 per person (7 pheasants released per person per day) Overnight hunt: \$375* per person	<i>Hunting, lodging*, food and beverages</i>
			Guided Chukar Hunts	Day hunt: \$299 per person (12 Chukars released per person per day) Overnight hunt: \$375 per person*	<i>Hunting, lodging*, food and beverages</i>
			Non-Guided Pheasant or Chukar Hunts	Day hunt: \$30 per Pheasant, \$20 per Chukar	<i>Lunch available upon request.</i>
			Mule and Blacktail Deer Hunts	\$1700 (fully guided up to 3 days) additional days: \$300 per day	
			Fly Fishing	\$150 per person (catch and release only)	

			Turkey Hunting	\$250 per person/per day
			Bobcat and Raccoon Hunts	\$250 per day
			Waterfowl Hunting	\$250 per day
Clover Creek Ranch	Ashwood, Oregon	http://clovercreekranch.net/	Sheep and Ram	\$600.00 – 1500.00 (1, 2 and 3 day hunts)
			Goats	\$600.00 – 1500.00 (1, 2 and 3 day hunts)
			Hogs	\$600.00 – 1500.00 (1, 2 and 3 day hunts)
			Bison	\$3990.00-15000.00 (1, 2 and 3 day hunts)
			Watusi	\$3500.00-7500.00 (1, 2 and 3 day hunts)
			Yak	\$3500.00-7500.00 (1, 2 and 3 day hunts)
			Turkey	\$250.00
			Water Buffalo	\$1990.00-7500.00 * (Live Stock Purchase only. Rifle slaughter only for Water Buffalo after purchase of live animal.)
Luckiamute Valley Pheasants	Monmouth, Oregon	http://www.lvpheasants.com/	Cock Pheasants	\$190 per hunter

Noble Ridge Hunting Preserve		http://www.nobleridgehuntingpr eserve.com/	Rooster Hunt	\$150.00	<i>Free RV Parking. Apartment rental per guest per night: \$25.00. with \$50.00 minimum</i>
			Hen Hunt	\$125.00	<i>Lodging and meals included.</i>
			Chukar Hunt	\$125.00	<i>Lodging and meals included.</i>
Honker Inn Lodge	New Pine Creek, Oregon	http://www.honkerinnlodge.com	Goose and Duck	\$350.00	<i>Lodging and meals included.</i>
			Quail Hunt	\$200.00	<i>Lodging and meals included.</i>
			Grouse Hunt (CA only)	\$200.00	<i>Lodging and meals included.</i>
			Dove Hunt	\$150.00	<i>Lodging and meals included.</i>
			Antelope Hunt	\$275.00	<i>Lodging and meals included.</i>
			Deer Hunt	\$200.00	<i>Lodging and meals included.</i>
			Spring Ground Squirrel Hunt	\$200.00	<i>Lodging and meals included.</i>
G&G Pheasant Shoot	Gazelle, CA	http://www.gandgpheasantshoot. com		10 Pheasant for \$230 20 Pheasant for \$460 15 Chukar for \$202.5 25 Chukar for \$337.5 10 Hen Pheasant \$190	
Double Barrel Upland Bird Ranch	Rockford, Washington	http://www.uplandbirdranch.co m/	Guided Hunt 5 Pheasant released per	\$200 per Gun (Minimum 2 guns per	

			person or 8 Chukar hunt)
			Guided Hunt \$288 per Gun 8 Pheasant released per (Minimum 2 guns per person or 13 Chukar hunt)
			Non-Guided Hunt \$150 per Gun 5 Pheasant released per (Minimum 2 guns per person or 8 Chukar hunt)
			Non-Guided Hunt \$224 per Gun 8 Pheasant released per person or 13 Chukar
			Turkey Hunt \$600 per gun
			Youth Turkey Hunt \$450 per gun
Limits Game Farm	Mesa, WA	http://limitsgamefarmllc.sports.office.live.com/default.aspx	Pheasant Hunts 1/2 day hunt- \$80 Chukars Hunts 1/2 day hunt- \$80
Sporting Clays			
Rogue Valley Sporting Clays	Grants Pass, Oregon	http://www.roguevalleysportingclays.org/index.html	Sporting Clays Non-Member = \$35/100 birds Non-Member = \$18/50 birds Non-Member = \$30/100 2nd round/day. Junior Non-Member=\$25/100 birds Junior Non-Member=\$15/50 birds Extra Birds are \$.24/each

Sun Valley Shooting Park	Moxee, WA	http://sunvalleyshootingpark.blogspot.com/	Skeet/round \$5 5 Stand skeet/round \$7 Trap/round \$5 (1 round = 25 clay pigeons)
Hillsboro Trap and Skeet	Hillsboro, OR	http://www.hillsborotrapandskeet.com/	Trap and Skeet \$4.75- 1 round, non members
Horseback Riding			
C&M Stables	Florence, Oregon	http://oregonhorsebackriding.com/	Ocean View Dune Trail Ride 1 hour \$45.00 per person
			Ocean View Dune Trail 1 1/2 hour \$55.00 per person
			1 1/2 hour Beach Ride \$55.00 per person
			2 hour Beach Ride \$65.00 per person
			2 hour Morning Adventure Ride \$100.00 per person
			2 hour Sunset Dinner Ride NO MEAL \$65.00 per person
			2 hour Sunset Dinner Ride WITH MEAL \$95.00 per person
			Beach & Dune Combo Rides 3-4 hours \$150.00 per person
Black Butte Stables	Black Butte	http://www.blackbuttstables.com/	“Little Loop” - 2 Mile \$33 per person

	Ranch, OR	m/Black_Butte_Stables/Home.ht ml	Ride (30+ mins)	
			“Big Loop” - 3.3 Mile Ride (approx. 1 hr)	\$43 per person
			“Gobbler’s Knob”- 5.5 Mile Ride (approx. 1.5 hr)	\$53 per person
			“Whole in the Wall Gang” - 7 Mile (approx. 2 hr)	\$63 per person
			“Reata Trail” - Half Day, Backcountry Experience	\$120 per person
			“Black Butte Posse” - All Day, Wilderness Version	\$195 per person
Ropes Courses/Zip Lines				
Out'n'About Treehouse Treesort LLC & Treehouse Institute	Takilma, Oregon	http://www.treehouses.com/treehouseziplines.com/index.cfm		\$25-\$120
Tree to Tree Ariel Adventure Course	Gaston, OR	http://www.treetotreadventurepark.com/		\$25-\$275
Mt. Hood Adventure Park at Skibowl	Government Camp, Oregon	http://www.skibowl.com/summer/500-foot-long-zip-line/		\$30-\$69
Canoeing/Kayaking				
Columbia River Kayaking	Skamokawa, WA	http://www.columbiariverkayaking.com/		\$65-\$150
eNRG Kyaking	Oregon City, Oregon	http://www.enrgkayaking.com/#		\$89-\$1100.00

U-Pick			
DD Ranch	Terrebonne, OR	http://www.ddranch.net/	Potatoes (Yukon Gold, Red, Blue, Russets and Fingerlings) \$1 per pound
Haven Riverside Blueberry	Umpqua, OR	http://www.thehavenfarm.com/	Blueberries (u-pick) \$1 per pound
			Blueberries (pre-picked) \$2 per pound
Agritourism			
Wooden Shoe Tulip Farm	Woodburn, OR	http://www.woodenshoe.com/	Tulips Bulbs \$6.99-\$12.99
			Daffodils Bulbs \$7.99-\$14.99
			Various Bulbs \$4.99-\$12.99
			Greenhouse Tulips \$7.00 (10 stems)
			Field Tulips \$5.00 (10 stems)
			Potted Tulips \$8.00 (8 bulbs)
			Field Daffodils \$2.00 (10 stems)
Northern Lights Christmas Tree Farm		www.northernlightschristmastreefarm.com	Christmas Trees Scotch Pine: \$3 per foot Douglas Fir: \$4 per foot Grand Fir: \$5 per foot Canaan Fir: \$6 per foot Noble, Fraser and

			Nordmann Fir: \$7 per foot
Camping			
Beverly Beach State Park	Newport, OR	http://www.oregonstateparks.org/park_227.php	Camping fishing outdoor recreation Full rate: \$22 Electrical/Water hookup: \$23 Tent site: \$17 Special: \$1 cable Hiker/Biker (per person/per night): \$6 Yurt: \$40 Extra vehicle: \$5 Group (tent): \$55
Cape Blanco State Park	Cape Blanco, OR	http://www.oregonstateparks.org/park_62.php	Camping Fishing Horse Trails Electrical/Water hookup: \$16 Hiker/Biker (per person/per night): \$5 Horse camp: \$13 Rustic cabin: \$39 Extra vehicle: \$5 Group (tent): \$51, and \$3 per person after 25
Cape Lookout State Park	Cape Lookout, OR	http://www.oregonstateparks.org/park_186.php	Camping Fishing Beach access Full rate: \$20 Electrical/Water hookup: \$20 Tent site: \$15 Hiker/Biker (per person/per night): \$5 Yurt: \$36 Deluxe cabin: \$56 Extra vehicle: \$5 Daily day use: \$5

			Yearly day use: \$30 .Group (tent): \$51
Cascadia State Park	Cascadia, OR http://www.oregonstateparks.org/park_210.php	Camping Fishing Bird Watching	Tent site: \$17 Hiker/Biker (per person/per night): \$5 Extra vehicle: \$5 Group (tent): \$71, \$3 per person after 25.
Champoeg State Heritage Area	Champoeg, OR http://www.oregonstateparks.org/park_113.php	Camping Fishing Terrestrial Mammal Watching	Full rate: \$20 Electrical/Water hookup: \$20 Tent site: \$15 Hiker/Biker (per person/per night): \$5 Yurt: \$36 Rustic cabin: \$39 Extra vehicle: \$5 Daily day use: \$5 Yearly day use: \$30 Group (tent): \$51 Group (RV): \$101, add \$10 per RV after 10 units
Deschutes River State Recreation Area	Deschutes, OR http://www.oregonstateparks.org/park_37.php	Camping Fishing Canyons Hiking	Electrical/Water hookup: \$16 Primitive: \$5 - Primitive only Extra vehicle: \$5 Group (tent): \$40
Bed and Breakfast			
Rose Hill Farm	Thorp, Washington http://rosehillfarmbb.com/	Bed and Breakfast	Ensuites with soaking tubs \$145/night Standard Rooms \$135/night

		Riverbend Cottage	\$225/night
		The Studio	\$125/night
The Compass Rose	Port Oregon, Oregon	http://www.compassroseportorford.com/index.html	\$120-\$165/night
The SeaQuest Inn	Yachats, Oregon	http://www.seaquestinn.com/home.html	\$130-\$225/night
Chehalem Ridge Bed and Breakfast	Newberg, Oregon	http://chehalemridge.com/	\$120-\$180/night
Juniper Acres Bed & Breakfast	Bend, Oregon	http://www.juniperacres.com/	\$89-\$119/night
Grandview Bed & Breakfast	Astoria, Oregon	http://www.grandviewbedandbreakfast.com/	\$66-\$188/night

Section 3

Business Plan Development: Optional Worksheets

Note: The following worksheets contained in Section 3 are intended to help you gather your thoughts on starting and operating your NRE. You are not required to answer all questions on the following worksheets during the time allotted for the group activity. Please use these as needed. Optional worksheets may be more valuable as an “at home” source to think more in depth about your personal NRE plans after the workshop.

Business Plan Development Worksheet #1 – Starting your NRE

List names and titles of group members partnering in NRE:

Proposed name of NRE:

Mission statement of proposed NRE:

Proposed location of NRE (city, county, state, region):

Miles to nearest large city or metropolitan area:

Resident or non-resident landowner - Are you going to live on land while operating enterprise?

Other introductory comments concerning this specific NRE operation:

Business Plan Development Worksheet #2 – Personal Goals

Personal Goals

Questions to consider:

What are your long-term goals for this business?

Why are you considering an NRE on your land?

How much time are you willing to set aside to run this business?

Do you have experience or knowledge about the enterprise(s) you are planning to run?

Other comments concerning personal goals:

Business Plan Development Worksheet #3 – Physical Resources

Physical Resources

Questions to consider:

How many acres in forested, crop land, pasture/hay land and water sources exist on the property supporting this enterprise?

Does the property already have out-buildings, dwellings, barns, and/or equipment shed, and in what condition are these structures?

Are electricity and running water available and is there fencing around the property?

Is land adjacent to property compatible with a natural resource enterprise?

Is there a population of wildlife species present, and particularly, which species do you intend to feature? Is habitat management needed?

What types of equipment do you own and in what condition is this equipment?

Will the proposed NRE compliment or interfere with existing land uses? Explain the compliment or interference.

Business Plan Development Worksheet #4 – Labor Resources

Labor Resources

Questions to consider:

How many employees are required to operate the natural resource enterprise?

What kinds of employees (skilled and unskilled) are needed (i.e. manual labor, cooks, housekeeping, hunting/wildlife-watching guides, managerial, clerical, and bookkeeping)?

What is the labor supply in the area where the business will operate?

What other businesses in the area may compete for the labor supply and what is the competitive rate of pay including benefits in the designated area?

How much of your own time and labor as well as that of family members are involved in running your NRE?

Other comments concerning labor resources:

Business Plan Development Worksheet #5 – Financial Resources

Financial Resources

Questions to consider:

What is the NRE envisioned on the property (i.e., hunting and fishing; corn maze and pumpkin patch; trail riding and camping)?

Identify activities which seem more profitable and calculate risks involved (i.e. hunting and grazing livestock, ATV use and landowner liability, etc.).

What will be the cost to start the new business?

Approximately, how much will it cost to run the business per year after start-up year one?

What sources have you considered to finance this NRE if necessary, and are you planning on investing any personal money?

Business Plan Development Worksheet #6 – Business Model

Business Model

Questions to consider:

When are you planning on launching your new business?

What type of business and what activities are you offering clients (i.e., all products, all services, and etc.)?

Will the enterprise run on a seasonal or year-round basis?

What kind of price structure will be in place (i.e., per person, per lb, per day, per year, per season, and etc.)?

What is your target market? How will these customers learn about your NRE?

Describe the process that you plan to use to bring your product/service to market or methods of advertising your land access or services/activities offered.

What are your long-term operating goals with this NRE (i.e., supplemental income, improve land quality, retain my land, pay taxes on land, and etc.)?

Business Plan Development Worksheet #7 – Industry Analysis

Industry Analysis

Note: The Internet is a great resource to use in acquiring this information. You do not need to answer these questions as part of the group activity.

Questions to consider:

What is the economic impact and number of visitors to the industry annually at the national, regional, state, and/or local levels? Is this a growing industry?

Is technology changing in this industry and is the Internet driving sales?

List trends in spending, demographics, and location with regard to the industry.

Where in the United States are the enterprises in this industry mainly located (i.e., in what states, rural and/or urban areas)?

Other comments concerning industry analysis:

Business Plan Development Worksheet #8 – Market Analysis

Market Analysis

Note: The Internet is a great resource to use in acquiring this information. You do not need to answer these questions as part of the group activity.

Questions to consider:

Is there a certain clientele characteristic unique to this NRE market?

What are the population demographics (i.e., age, gender, income-level, profession, location) of the potential clientele in the area of the business?

What are the main intrinsic characteristics (i.e., values, beliefs, attitudes, social status) of your targeted customer base?

Is this market mainly local, regional or national?

What do you believe will be your share of the overall market? What will be market share of the clientele present in your area?

Are there many new market entrants in your specific area and how do you feel about this competition (direct or indirect)?

Business Plan Development Worksheet #9 – Business Management

Business Management

Questions to consider:

Who will be running the day-to-day operation of the business? What are their titles and job descriptions?

Who is actually an investor and what returns are expected from this NRE (i.e., 5%, 10%, and etc.)?

Do you need to acquire a loan for any business operations and do you have a banking relationship?

Which business structure are you considering for your enterprise (i.e., LLC, S-Corp., etc.) and why?

What is your method of hiring motivated employees (i.e., reward or bonus system, key advisor positions)?

Business Plan Development Worksheet #10 – Marketing Strategy: Products and Services

Marketing Strategy: Products and Services

Questions to consider:

List all of your different NRE activities, services, and/or products generated for sale.

What other NRE activities, services and/or products may be offered to clients in the future as a way to build the business and are these seasonal offerings?

What are your major liability concerns and ways to protect yourself?

Do you need to stock inventory and who will be your supplier?

Are adequate facilities in place to support this NRE? Will you buy new equipment or build new facilities in the future?

List any anticipated government regulation requirements, licensing, and/or approval from government entities to run your NRE (i.e., health inspection involved with food preparation, local building permits, and etc.).

Business Plan Development Worksheet #11 – Marketing Strategy: Location Analysis

Marketing Strategy: Location Analysis

Questions to consider:

Is the local population-base large enough to support the NRE and will your neighbors and the local population view your NRE positively or negatively?

What is unique about your location or site of operation?

Do any other attractions or amenities exist in the area of the NRE which may attract more visitors to the area? Is it possible to partner with these businesses?

What are the demographics of the neighborhood surrounding the location of the NRE? How will this affect the success of your business? How do you fit in to the neighborhood as a new enterprise?

Business Plan Development Worksheet #12 – Marketing Strategy: Sales/Promotion

Marketing Strategy: Sales/Promotion

Questions to consider:

Develop a concise plan to advertise and promote your business.

Depending on your target customer, what is your pricing strategy (i.e., individual pricing, children/adult/senior pricing, group/family pricing, and or a combination of strategies)? How will you determine price (i.e., costs plus percent increase, break-even sales point, and etc.)?

Which promotion strategy, if any, will you use (i.e., coupons, discount days, couple deals, tell-a-friend promotions)?

How much money in sales do you expect to generate in the first year and what is your break-even sales point?

Business Plan Development Worksheet #13 – Marketing Strategy: Competition

Marketing Strategy: Competition

Questions to consider:

Who are your competitors and what do they offer that is similar and/or different to your NRE?

Are there any potential competitors nearby and how close in proximity are they to the location of your NRE?

What is the price structure of the competition and how does it differ from yours?

Are sales going up or down for the competition?

What are promotion strategies of the competition and how do these differ from your promotion methods?

Business Plan Development Worksheet #14 – Marketing Strategy: Market Penetration

Marketing Strategy: Market Penetration

Questions to consider:

Do you plan to team up with regional transportation companies, local hotels/motels, gas stations, restaurants, and other appropriate businesses in the community to attract customers?

What package plans, if any, do you plan on creating to attract first-time customers?

Are you using state tourism and economic development agencies to help penetrate the market? List all possibilities:

What advertising media will you choose to market your services and/or products (i.e., brochures/fliers, website (URL), local newspapers, billboards, and etc.)?

Other comments concerning marketing strategy: sales/promotion:

Section 4

NRE Business Plan Development: Publications for Reference

BASIC SECTIONS OF THE GENERAL BUSINESS PLAN (Shank 2011)

The basic parts of a business plan are pretty similar from plan to plan.

1. COVER – want to catch the intended audiences’ attention; spice up cover page

2. EXECUTIVE SUMMARY -

This is the one page masterpiece that tugs at the reader's interest. Include important contact information, as well as the nature of the loan/investment.

3. TABLE OF CONTENTS

Most people would not consider this a real part of a business plan, but it is. Without it, the plan looks very amateurish.

4. INFORMATION ON THE COMPANY ITSELF

There is a bunch of factual information that needs to be included, such as

- When was it formed?
- What kind of company is it?
- If it is a corporation, how many shares are issued? To whom?
- If it is a partnership, who is involved?
- Who formed the company?
- If you are not the founder, how did it come to be yours?
- Who is presently involved? What is the nature of their involvement?

There is also information that is not really "factual", but it does need to be included. That is “The Story of the Company.” Why was it founded? What are the dreams of the owners for this company? Why do the owners want to devote their lives to this business rather than to any other business in the world?

It is The Story that will grab the lender. Lenders see facts and figures all day long. Rarely do they hear a compelling story. Make yours good. Make it real – MaryAnn Shank.

5. INFORMATION ON THE INDUSTRY

Here is where a good statistical source is worth its weight in gold.

- Show how the industry is growing.
- Show how your company fits into the industry.
- Include charts to visually show strength of industry.
- Include demographic information.

Bankers and lenders like figures and statistics. It is easy for them to compare and analyze. It is a whole lot harder to analyze your character.

So give them solid figures. They will see these stats whether you include them or

not. They have got their own sources. So include them. And show them off in a manner that benefits you.

6. BIOGRAPHICAL INFORMATION ON PRINCIPALS

This section is to give the lender an idea of whom they are talking. Most business plan writers tell you to write a paragraph on each officer including specific accomplishments of each.

7. MARKETING PLAN

So what makes you think you can promote this idea or product or service? How will you go about it? What will it cost? What are others doing, and how can you compete with them?

If you have a history of successes, this is the place to shout about them.

8. FINANCIAL DOCUMENTS

For existing companies, the rule of thumb is that you summarize by year the past 5 - 10 years, depending on your industry. Then project as for new companies. For new companies, project quarterly for the first year or two, then annually until the loan is comfortably paid back, or the investment has made a profit.

The more you can put into charts for easy reference, the better.

Then make it unique. All the parts of a business plan need to look sharp, appear concise, and provide all pertinent information. Putting all of that together in a convincing presentation is what separates one business plan from another.

Information provided by MaryAnn Shank, founder and President of Business Plan Master. Mrs. Shank has helped literally thousands of businesses get business financing, from SBA loans to venture capital to angel investors and corporate financing.

Using Enterprise Budgets To Make Decisions about Your Farm

Richard Carkner

A Pacific Northwest Extension Publication
Washington • Oregon • Idaho

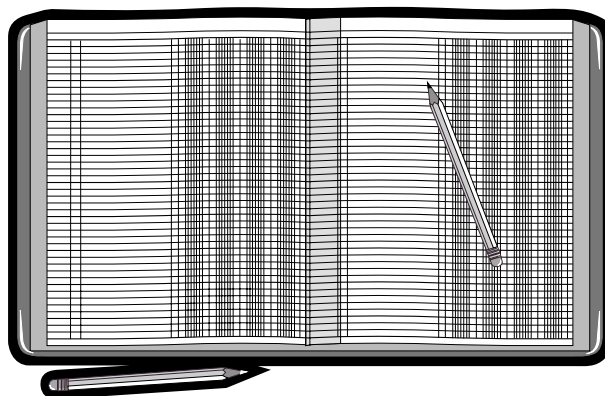
Enterprise budgets are important decision making tools. They can help individual producers determine the most profitable crops to grow, develop marketing strategies, obtain financing necessary to implement production plans, and make other farm business decisions.

The purpose of this publication is to describe how to develop and use an enterprise budget. The information herein defines the enterprise budget, outlines basic cost concepts, and presents a sample budget to illustrate the concepts. Instructions for adjusting costs in published budgets, doing a break-even analysis, and making decisions with enterprise budgets are also explained.

Enterprise Budgets and Related Concepts

An enterprise budget is a physical and financial plan for raising and selling a particular crop or livestock commodity. It is a physical plan because it indicates the type and quantity of production inputs and the output, or yield, per unit. It is also a financial plan, because it assigns costs to all the inputs used in producing the commodity.

Budgets are calculated in units of one acre to facilitate budgeting for different enterprise sizes and to simplify calculations. For planning purposes, costs are divided into **variable**, **fixed**, and **joint costs**. The following section





describes these costs and related enterprise budget concepts.

Variable Costs

Variable costs are the out-of-pocket costs for inputs such as seed, fertilizer, fuel, and repairs; they are always included in a budget. Variable costs

change directly with business volume (e.g., number of acres planted, number of animals or plants raised).

Fixed Costs

Fixed costs are the costs associated with building and equipment investment; they are prorated over a number of years. Fixed costs occur regardless of the crops or livestock produced or the volume of production in a given year. For instance, ownership costs are fixed costs that include interest, hazard insurance, property taxes, housing, and depreciation. Depreciation is the decrease in an asset's value due to wear, obsolescence, or deterioration.

Annual depreciation is calculated by subtracting the salvage value (the value remaining at the end of the depreciation period) from the initial investment and dividing by the number of years of useful life. For example, if you invested \$5,000 in a piece of machinery with a useful life of 10 years, assuming a salvage value of \$500, the machinery would have an annual depreciation of \$450:

$$\begin{array}{rcl} \$5,000 & - & \$500 & = & \$4,500 \\ \text{investment} & - & \text{salvage value} & = & \text{total depreciation} \end{array}$$

$$\begin{array}{rcl} \$4,500 & \div & 10 \text{ years} & = & \$450/\text{year} \\ \text{total} & \div & \text{years of} & = & \text{annual depreciation} \\ \text{depreciation} & & \text{useful life} & & \end{array}$$

If this piece of machinery were used over 10 acres, the per-acre-depreciation would be \$45 per acre:

$$\begin{array}{rcl} \$450 & \div & 10 \text{ acres} & = & \$45/\text{acre} \\ \text{annual depreciation} & \div & \text{area in acres} & = & \text{per-acre depreciation} \end{array}$$

This depreciation is the straight-line method and is suitable for developing budgets. Other depreciation methods may be more appropriate for tax management.

Interest is another major component of annual ownership costs; it is calculated by determining the average investment and multiplying by an appropriate rate of interest. The average investment is simply the initial investment plus an estimated salvage value, divided by 2. The annual interest for a \$5,000 investment with a \$500 salvage value at 10 percent interest would be \$275:

$$\begin{array}{rcl} (\$5,000 & + & \$500) & \div & 2 & \times & 0.10 & = & \$275 \\ (\text{investment} & + & \text{salvage value}) & \div & 2 & \times & \text{interest} & = & \text{annual} \\ & & & & & & & & \text{interest} \end{array}$$

Using the 10-acre example, the per-acre interest component of the annual ownership costs would be \$27.50:

$$\begin{array}{rcl} \$275 & \div & 10 \text{ acres} & = & \$27.50/\text{acre} \\ \text{annual interest} & \div & \text{area in acres} & = & \text{per-acre interest} \end{array}$$

Interest is an ownership charge, whether or not debt-financing is used. If equipment is not debt-financed, there is still an opportunity cost associated with having the money tied up in machinery. In other words, the money could be earning interest elsewhere if it were not invested in machinery or equipment. If machinery is debt-financed, interest is a cash expense rather than an opportunity cost.

Joint Costs

A *joint cost*, usually a fixed cost, is common to more than one crop or enterprise. Examples include depreciation for equipment used on more than one crop or property taxes that cannot be assigned to an individual enterprise.

Total Costs

Total costs are the summations of fixed, variable, and joint costs. It is sometimes difficult to allocate joint costs to an individual enterprise and determine total costs for a particular crop or product. In these cases, estimates for allocating costs need to be made; the point is to account for all costs.

A Hypothetical Budget

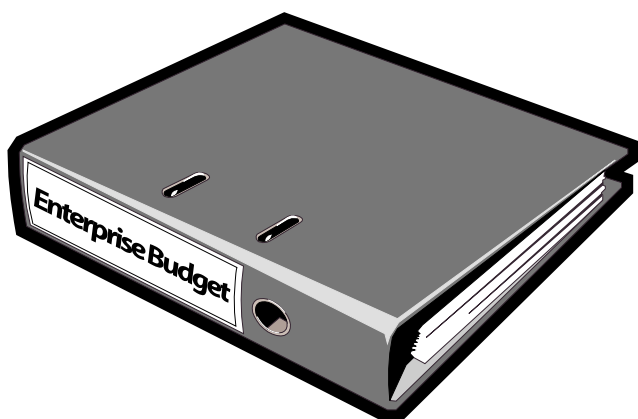
To illustrate the concepts of fixed and variable costs, I have developed a hypothetical budget for a crop I'll call "tribbles." Tribbles is an annual vegetable crop especially suited for Washington's climate—a highly nutritious vegetable that yields about 3,000 pounds per acre. Table 1 presents the production costs for tribbles.

Variable Costs for Tribbles

Typical out-of-pocket, or variable, costs include fertilizer, seed, compost, hired labor, and tractor fuel and oil. To facilitate budget revisions for when you adopt published budgets to your situation, both price and quantity are included for each input.

Notice that interest on operating capital is included under variable costs. It is included as a cost even if all operating costs are financed by the grower for the same reason that interest on machinery investments is included as a fixed cost—because of opportunity cost. If the money was not tied up in machinery or crop production costs, it could be earning interest in the bank or elsewhere.

In calculating interest on operating capital, all pre-harvest cash costs are totaled, multiplied by the fraction of a year they are outstanding, and multiplied by the cost of money. For example, if the period between planting and harvest was six months, cash production costs would be tied up in the crop for 6/12, or 1/2, of the year. Multiplying the preharvest variable costs by 1/2 and then multiplying that amount by the cost of money (interest rate) would yield the charge for interest on operating capital.



Fixed Costs for Tribbles

Fixed costs in the budget include interest and depreciation on machinery, equipment, and utility costs used to produce tribbles. To simplify our discussion, the tribbles' budget assumes that the entire farm is devoted to tribbles production. In practice, one farm usually produces several commodities with the same set of machinery, and budget construction requires an allocation of machinery use to each crop.

Land rent, or land charge, can be calculated in a number of ways. In this budget, an interest charge is assigned to the approximate market value of the land. With a \$4,000 market value for the land and an 8 percent interest rate, the land charge would be \$320 for each acre of tribbles produced:

$$\begin{array}{rcl} \$4,000 & \times & 0.08 & = & \$320 \\ \text{market value of land} & \times & \text{interest rate} & = & \text{land charge} \end{array}$$

A refinement to the land charge estimate would be estimated market value less sale costs and any capital gains tax due. The resulting amount would be the residual amount that could be earning interest if the land was sold.

If you are a part-time farmer who has no alternative uses for owned land, it may not be appropriate to assign a land charge to an enterprise. However, if you want an estimate of the total costs of production, a land charge is necessary.

Adjusting Costs in Published Budgets

Why use a hypothetical budget to talk about production costs? The primary reason is to focus on concepts that apply to all crop and livestock production. Washington State University Cooperative Extension has developed a number of budgets for fruit, vegetable, grain, and livestock production. Some producers choose to start with these published budgets and adjust them for their own enterprises.

Please remember, budgets are only as good as their assumptions. With the geographical differences and the wide variation in possible cultural and manage-

ment practices, it is very important to adjust published budgets to make them relevant for individual farm decisions. For this purpose, all WSU budgets have a space for individual farm adjustments.

Assume for a moment you need to decide whether or not to produce tribbles and you have obtained a budget from your county extension office. Is this tribbles' budget appropriate for your farm? Start with the variable costs in Table 1. As you go down the list, notice that both units and the price per unit are specified for each item. Can you buy nitrogen for 18¢ per pound? If not, how much can you buy it for? Enter that amount in the last column. Line by line, the variable costs are relatively easy to evaluate for appropriateness.

The largest variable cost for tribbles' production is preharvest labor. Thirty hours per acre are required, and labor is priced at \$7.50 per hour. If you're unfamiliar with tribbles' production, you may have no basis for changing labor hours, but the wage rate can be evaluated. Is unskilled harvest labor available for \$7.50 per hour? If family labor is available, the \$225 labor charge could be an opportunity to retain some production costs within the family unit. It also might mean that family payments could be deferred until after harvest, reducing cash flow problems.

Fixed costs are a little more difficult to evaluate from the information in the tribbles' budget (Table 1). Interest and depreciation for machinery and equipment are listed. However, the equipment complement and the replacement cost for each item are not included. The number of acres over which the machinery is used is also unknown. Is it used only for tribble production, or is it also used to produce other commodities? These assumptions, usually supplied with the budget in a narrative, need to be analyzed to determine whether machinery costs are appropriate and whether you will need to invest more in machinery.

Break-even Analysis

A break-even analysis identifies the price or production level necessary to cover all identified costs. If

you already own all the machinery and equipment, and if you have decision making authority over the land, what budget information will help you determine whether or not to raise tribbles?

What if tribbles could be sold for 80¢ per pound and the average yield of an established producer was 3,000 pounds per acre (Table 1)? Notice that the break-even price to cover variable costs is 38¢ per pound. This value results from dividing total variable costs, \$1,155, by 3,000 pounds. The difference between 38¢ and the market price of 80¢, or 42¢, is money available to cover fixed costs and provide a return to management and unpaid family labor. Notice that the break-even price to cover total costs is 54¢ per pound; again, this value is calculated by dividing total costs by production units per acre:

$$\begin{array}{rcl} \$1,613 & \times & 3,000 \text{ pounds per acre} = 54¢/\text{lb/acre} \\ \text{total costs} \times \text{yield per acre} & & = \text{break-even point} \\ & & \text{for total costs} \end{array}$$

The difference between total costs and total revenue (production units multiplied by market price) is net profit. Net profit is the return for risk and management. In our example, total costs per pound are 54¢ and total revenue is 80¢; the difference, 26¢, is the net profit per pound.

Decision Making with Enterprise Budgets

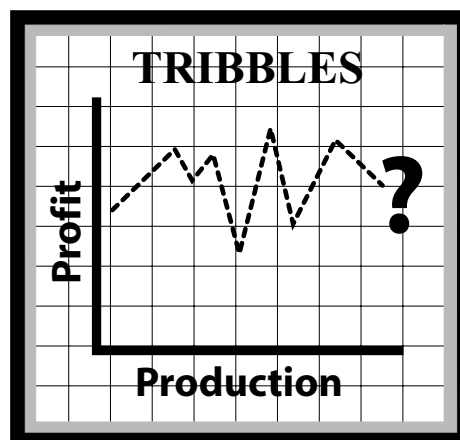
Enterprise budgets can be used as decision making aids. What would you do if, at harvest, the highest price you could receive for your tribbles crop was 35¢ per pound? Would you plow down the crop, or would you harvest it? In order to make the best decision, you need to evaluate the appropriate costs. The rule is, if expected returns exceed additional variable costs, proceed with production (harvest, in this case). All fixed costs may not be covered, but as long as variable costs are more than covered, some contribution toward fixed costs will result.

At harvest, all production costs committed up to that point are fixed. The seed, compost, and the preharvest labor have become just as fixed as land rent and machin-

ery ownership costs. The relevant costs at this point are the variable costs of harvesting. By dividing the estimated hand-labor harvest plus container costs by 3,000 pounds, you calculate the harvest cost at approximately 6¢ per pound. When comparing this value with the crop price of 35¢ per pound, you decide you will be better off by 29¢ per pound if you harvest. Even though this 35¢ price will not cover even the variable costs, it does cover the additional harvest costs and contributes something toward what has already been spent.

Enterprise budgets can also be used to support other decisions. Selecting the most profitable crop mix is one such use. You can use variable production costs and market prices to array crop alternatives in order of their contributions to overhead or contribution toward covering fixed costs. The process is called gross margins analysis. Another use for budget information is developing market strategies. Budget information is necessary to establish market prices that will cover all production costs plus provide a

return to management and capital (profit). Lenders also rely on enterprise budgets to evaluate the relative credit worthiness of various enterprises. For more information on farm records, an important source of budget information, please see another Farming West of the Cascades publication, *Farm Business Records: An Introduction*.



Additional Resources

Castle, E.N., Becker, M.H., Nelson, A.G. Farm business management: The decision making process. Third Edition, Macmillan Publishers, 1987.

Plan for Profit, Tip #7. SARE Farming for profit, stewardship, and community.
<http://www.sare.org/san/tipsheet/tipt.htm>

Total resource budgeting of LISA (SARE) farm enterprises contact panel. Patterson, Paul, University of Idaho, 1776 Science Center Drive, Idaho Falls, ID 83402. 208-629-8376.

WSDA Farm Management: How to achieve your farm business goals. 1989 Year Book of Agriculture.

Table 1. Enterprise Budget for Tribbles

Item	Unit	Price or Cost Per Unit (\$)	Quantity	Value or Cost (\$)	Your Farm
Variable Costs					
Bacillus thuringensis	lb	0.75	13.33	10.00	
Compost	yd	12.00	15	180.00	
Containers	ea	2.00	50	100.00	
Custom hire (tilling, compost spreading)	acre	350.00	10	350.00	
Fuel and lubrication	acre	25.00	1.0	25.00	
Harvest labor	hr	7.50	10	75.00	
Insecticidal soap	qt	13.00	3	39.00	
Interest on operating capital	\$	10%	550.00*	55.00	
Lime	ton	120.00	0.5	60.00	
Pre- harvest hand labor	hr	7.50	30	225.00	
Seed	lb	18.00	2	36.00	
Total Variable Costs				1,155.00	
Break-even variable cost				0.38	
*Total variable costs ÷ 2 at 10% (assumed costs outstanding for 6 months)					
Fixed Costs					
Equipment interest and depreciation	acre	20.00	1.0	20.00	
Land rent	acre	320.00	1.0	320.00	
Machinery interest and depreciation	acre	25.00	1.0	18.00	
Utilities	acre	1.00	1.0	100.00	
Total Fixed Costs				458.00	
Break-even total cost				0.54	
Total Cost				1,613.00	

About the Author

Richard Carkner, Ph.D., is an agricultural economist at WSU-Puyallup. He specializes in farm management and applied research on the economic dimensions of agricultural industries. He is interested in alternative agriculture methods, practices and profitability, and the food system models that directly connect consumers and farmers.

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