Business Basics for Beginning Farmers

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People often get into farming because they enjoy working on the land. However, in order to ensure long-term success, farmers need to make a profit. A sound business plan is a good place to start. If you want to start farming, this article has some advice about how to start developing your business plan immediately.

Once you have developed a very short list of potential crops or livestock, then work on the business plan can begin. The first step is to learn about the consumers that will buy your product. How much of your product people are willing to buy and how much they are willing to pay for it will determine your total sales. Without sales, you can make no profits. The final consumers of your product may not buy it directly from you so you should identify all the intermediate consumers who will handle your product in the marketing channel as it moves to the final consumer.

The name of every business you expect will handle your product and what the business will do to help move your product is needed. By knowing what services businesses provide in marketing your product, you will have information to help you decide if you want to provide these services yourself. Or, you can use the information to help you look for other service providers.

Record the sales price for the same or very similar products in the markets where your final consumer shops and the prices that businesses in the marketing channel charge for your product when they sell it. For example, the retail price in a supermarket or farmers market is what the final consumer pays, and the wholesale price is what a wholesaler in the marketing channel will charge.

This price information helps you estimate the cost of services that are added to the selling price for your product. For example, the difference between the wholesaler’s price and the retailer’s price is the cost of the services provided by the retailer. For agricultural products, marketing costs may account for as much as two thirds of what the consumer pays. You may feel that it makes economic sense to provide these services yourself.

The price information tells you how these prices vary over time. Plotting a price on a graph will show you what how the seasons affect market price and if the price is changing generally over time. Since you will spend time and money producing before you know
exactly what your product will sell for, market price is a source of risk. Understanding this risk is important.

Next, detail each step of the production process so that you can calculate your cost of production. Initially, you should make a monthly cash flow budget in which you estimate expected costs for the planting during the upcoming year, plus your start-up costs. Since your cash flow budget should account for all spending during the year, it will serve as a summary of your plans for your first year of business.

A cash flow budget can be assembled in a spreadsheet program such as Excel or the spreadsheets on Google documents. These are nice because they add and subtract for you. Or, you can just make a budget using a pencil and paper. As you make the cash flow budget, all the information you used to decide the monthly costs is then part of your business plan.

With the cash flow budget, you have the costs and amount of production estimated. With the price information, you can now estimate sales. This then is a very simple business plan that can be improved. As each month goes by, you can make changes based on what really happened. Your cash flow budget is the centerpiece of your business plan.

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