Canadian
Farm Business
Management
Council

Conseil canadien
de la gestion
d'entreprise
agricole

So You Want to be a Farmer

Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

Canada

Canadian Farm Business Management Council (CFBMC)

Mission

As a champion for farm business management, CFBMC supports Canadian farm managers through building partnerships and facilitating the development and sharing of innovative business ideas.

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Introduction

1.0 INTRODUCTION

Agriculture in Atlantic Canada is a large and diversified industry. According to Statistics Canada there are over 10,800 farms in the Atlantic Provinces. Seven percent of these are in Newfoundland, 21 per cent in Prince Edward Island, 32 per cent in New Brunswick and Nova Scotia has the remaining 40 per cent. Average farm size varies from province to province, from 146 acres in NF to 296 acres in PEI.

The industry consists of a wide variety of farming enterprises. The major sectors are dairy, potatoes and cattle. These are produced in all four provinces. Other traditional sectors include grain, hogs, vegetables, poultry, blueberries, sheep, strawberries and tree fruits. Tree fruits, such as apples and plums, are primarily grown in the Annapolis Valley in Nova Scotia and the Saint John River valley in New Brunswick.

Recently there has been increasing interest in non-traditional farming, such as crops (ginseng), ratites (ostriches and emus), herbs and spices, exotic breeds of cattle and deer farming to name a few. Many of these new commodities are seen as an opportunity to enter the industry by reaching niche markets which tend to provide higher prices. New farming practices, such as organic farming, have also been on the increase as niches open in the marketplace.

Farming is an exciting and rewarding career choice. It gives you an opportunity to be your own boss, to live and work in a rural environment, to be close to nature and to join the largest and most important industry in the world. Whatever your reasons are for wanting to farm, however, it is a business and must be managed as a business to ensure success.

This booklet is designed to help you learn about the business of farming, address the main factors to consider in starting a farm business and to provide you with sources of information and suggestions for successfully entering this dynamic industry. Read on and GOOD FARMING!!

Are You Ready to Run a Farm Business?

2.0 ARE YOU READY TO RUN A FARM BUSINESS?

The prospect of having and operating your own farm business is very exciting. It is easy to become carried away with the emotion of the idea without properly doing your homework. Before going any further toward your dream of becoming a farmer take an honest look within yourself and ask if you are ready to run a farm business.

Farmers are the original entrepreneurs. In their 1994 book *Essentials of Entrepreneurship and Small Business Management*, Zimmer and Scarborough define an entrepreneur as someone who creates a new business in the face of risk and uncertainty for the purposes of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalize on them. Successful entrepreneurs have a number of consistent traits although there is no “magic recipe” for success. Look at the following list to see if you have any traits in common with other small business owners.

Successful entrepreneurs tend to ...

- *Have high confidence.* You must be highly confident in yourself and your abilities to run a successful farm business. There may be plenty of people offering you help and advice but the final decisions are yours.
- *Be very persistent.* The old saying “persistence pays off” is generally true in business. It is unusual for all your plans to come together when you expect – problems occur and others may not share your views, this can hold you up.
- *Desire achievement.* As a farmer you are responsible for achieving your own business success. Your success is also important to others, such as your family and employees.
- *Be innovative.* Few people outside of farming really appreciate how dynamic a business it really is. You must be creative and innovative to successfully compete for a share of today’s marketplace.

- *Be risk-takers.* Farming can be a risky business. Many factors (such as weather) that will help determine your ultimate success are outside of your control. To be a farmer you must be willing and able to accept (some say relish) a certain amount of risk. These are calculated risks not wild and crazy risk-taking.
- *Be leaders.* As a farmer you are a leader to your employees, your family, your suppliers and to other farmers, and generally within the rural community as well.
- *Be well organized.* Farming involves a seemingly infinite number of tasks that must be accomplished. Priorities must be set and time must be properly managed.
- *Think in the long term.* There is never enough time to do all the day-to-day jobs competing for your attention. It is easy to get caught up in these 'mini-crises'. Farm business entrepreneurs need time to think and plan for the future too. This should include making detailed strategic plans for the growth of the business over the next five to 10 years.

Many feel that being an entrepreneur is not the same as being a manager. The entrepreneur gets the business up and running and the manager keeps it going. Farmers need to do both.

Successful business managers tend to[1]:

- *Know their business.* Farmers must be aware not only of their own farm but the industry as a whole. They must monitor trends in the economy, technology, government and competitors that could create challenges or opportunities in the future.
- *Know the basics of business management.* Farmers cannot afford to specialize and concentrate on only one or two business areas. They need to know about all aspects of business. This can be learned formally by taking courses, by experience and by observation.
- *Have the proper attitude.* It is important to enjoy what you are doing for a career. If you do not then you may not be inclined to put forth the effort needed to succeed.

1 Adapted from Dun and Bradstreet 1997, *Ten Challenges of Managing a Small Business*

- *Have adequate capital.* One of the leading causes of business failure is insufficient capital to properly get the business up and running. Don't underestimate the financial cost of establishing your business.
- *Manage finances effectively.* Farmers handle a great deal of money in their businesses. Cash flow must be managed effectively to ensure that funds are available for expenses, improvements and growth.
- *Manage time efficiently.* Farmers must juggle a number of demands for their time from both the business and family.
- *Manage people effectively.* Farmers must be able to motivate workers at various skill levels in order to be successful.
- *Satisfy customers by providing high quality.* No matter if your customer is a processor, wholesaler or the final consumer – quality is a key factor in developing and maintaining good relationships.
- *Know how to compete.* Farming has not always been an industry where competition is important. This is changing rapidly as countries like Canada push for freer trade around the world.
- *Cope with regulations and paperwork.* All businesses deal with large amounts of government regulation that require substantial paperwork and record-keeping.

THE DOWN-SIDE CONSIDERATIONS

One of the biggest mistakes people make when dreaming about their new business is thinking only about the positive and exciting things that will happen. All too often people do not give careful consideration to the problems that could arise and therefore, are unprepared to handle them when they do.

Before going any further, think seriously about each of the items in the following list[2] and decide if you are prepared for some of the mishaps along the way:

2 Adapted from Zimmer and Scarborough 1994

- *Uncertainty of income.* In business there are no guarantees. Nobody owes you a profit. It is often necessary to live on other savings or other sources of income in the early stages of a new business. Remember, the owner gets paid last.
- *Risk of losing your entire investment.* Obviously planning at this stage will lower the risk of entering your business, but there is always a risk that your farm could fail. Consider how likely this is to happen. What is your contingency plan and what you can do now to lower this risk.
- *Long hours and hard work.* Farming is not a 9 to 5 job. In addition, farming is a seasonal occupation where the types of work and the demands on your time vary significantly from one season to the next. Especially during the start-up phase of your business you will have time for little else – including family.
- *Lower initial quality of life.* Your long-term goals will include some vision of the life-style you wish to attain but this does not happen overnight. During the first few years of your new farm business you must be willing to accept a lower quality.
- *High levels of stress.* Starting and running a new farm business can be incredibly rewarding but can also be highly stressful. You are likely investing all your assets into this business, planning to borrow large sums of money and perhaps giving up a steady job. Careful planning and execution can help lower stress but not eliminate it.
- *Complete responsibility.* This is your business. It is great to be your own boss but everything rests on your shoulders. In agriculture there are a number of agencies and organizations that provide advice and assistance but the final decisions are yours and yours alone.

This section has encouraged you to look at yourself. What are your goals? What are your abilities? Have you considered all the possibilities as you prepare to go forward with your dream to be a farmer?

3.0 WHERE CAN YOU GET HELP?

In starting and operating a farm business there is a well developed infrastructure in Atlantic Canada to help you make the most of your ideas and initiative. Public and private sector organizations are there to provide you with technical and business assistance, limited amounts of funding and a willing ear to bounce ideas off.

Government

Agriculture is a responsibility of both the federal and provincial governments. Numerous services and programs exist to assist farmers directly or indirectly with their farm businesses.

Government of Canada

Agriculture and Agri-Food Canada's (AAFC) mandate is to promote and support, in a sustainable manner, a growing, competitive, market oriented agriculture and agri-food industry and to promote rural community economic development. AAFC has offices in every region of Canada representing its three operational branches. These are the Market and Industry Services Branch, Research Branch and Policy Branch. In addition, AAFC is responsible for the Canadian Food Inspection Agency, the Canadian Dairy Commission and the Canadian Grains Commission.

Some of the federal government programs of particular interest to new entrants to farming include:

Agri-Food Industry Marketing Strategies – AIMS

An interdepartmental initiative to encourage Canadian agri-food industries to increase exports by the development and implementation of market responsive strategies.

Agricultural Products – Markets Information Program – MIP

Provides daily, weekly, monthly and annual commodity markets information on a national basis to the agri-food sector.

Business Planning for Agri-Ventures – BPAV

Helps pay the cost of preparing comprehensive business plans.

Farm Credit Corporation – FCC

Provides financial services to Canadian farmers and agri-businesses and assists in delivering federal programs that meet the unique needs of agriculture.

Farm Improvement and Marketing Cooperatives Loans Act – FIMCLA

Loan guarantee program, operated through private lenders, which facilitates the availability of credit to producers to a maximum of $250,000 and farmer-owned cooperatives to a maximum of $3 million.

Venture Capital

Through the Venture Capital Division of the Business Development Bank of Canada, provides equity financing to promising small businesses within a distinct market niche.

Provincial Governments

The *New Brunswick Department of Agriculture and Rural Development's (NBDARD)* mandate is to increase the level of economic activity in the agri-food industry and promote entrepreneurship and economic growth in rural New Brunswick. The Department has offices throughout the province and is divided into three divisions: Management with responsibility for communications and planning development; Production including branches dealing with land resources, livestock and feed, potato and horticulture and regional services; and Marketing and Rural Development which includes branches focussed on farm business and risk management, rural development, marketing and business development and the Farm Products Marketing Commission.

Selected programs for new farm entrants are included in this kit.

The *Newfoundland and Labrador Department of Forest Resources and Agrifoods* has responsibility to undertake developmental initiatives in the production, processing and marketing sectors of the agri-food industry, to provide advice for the management and development of the agriculture sector and to develop production and marketing plans for the industry. The Agrifoods Branch has offices in eight locations in the province. The Branch includes divisions in farm business and evaluation, soil and land management, animal health, production and marketing, and extension services.

Selected programs for new farm entrants are included in this kit.

The *Nova Scotia Department of Agriculture and Marketing's (NSDAM)* mission is to encourage the development of a viable and sustainable agriculture and food industry for the betterment of Nova Scotians. NSDAM maintains offices in most counties throughout the province. The Department is divided into seven divisions: agricultural development, marketing and food industry development, policy, production technology, quality evaluation, resource stewardship and rural leadership.

Selected programs for new farm entrants are included in this kit.

The *Prince Edward Island Department of Agriculture and Forestry* is responsible for the delivery of all agricultural programs and services. Offices are located throughout the Island with divisions in Planning and Development; Advisory Services which include the Agricultural Resources Team and the Farm Business Management Team; Laboratory Services and Research; Regulatory Services; Finance and Income Support and Policy and Planning.

The Agriculture Resource Team (ART) provides services relating to crops for new enterprises. The Farm Business Management Team offers various services such as one-on-one counselling and farm business management courses on a regular basis.

The programs and services included in this kit give you some idea of the scope of assistance available to the farm community in your province.

Farm Organizations

The new farming entrant should also become familiar with the various farm organizations that exist in the province where he/she intends to go into business. Some of these organizations lobby government on behalf of farmers. Some serve to educate farmers on the production of particular commodities, farming practices and technologies. Others are primarily concerned with joint marketing programs.

All provinces have Federations of Agriculture which represent farmers across regions and commodity groups. Contact points for Atlantic region federations are listed in Appendix A. Their missions are aimed at ensuring a competitive and sustainable future for agriculture. This is implemented by reviewing and commenting on all legislative and regulatory issues that can potentially impact on the competitiveness and general well-being of the agricultural industry. The Provincial Federations belong to the Atlantic Farmers Council, who are concerned with Atlantic region farm issues and the Canadian Federation of Agriculture who lobbies the federal government on national farm issues and who belong to the International Federation of Agricultural Producers. This international body takes a global look at issues affecting the farming community.

The National Farmers Union is a national farm organization that represents all commodities produced in Canada and promotes the family farm as the most appropriate and efficient means of agricultural production. The Union works with farm families to achieve agricultural policies that will ensure dignity and security of income for farm families while enhancing the land for future generations.

Many other farmer organizations exist in Atlantic Canada, most are organized on commodity lines. Participation in these groups can be of real value to the new farmer as it gives you the opportunity to benefit from the experience of colleagues who have been active in the industry for many years. In addition many groups have active marketing and production enhancement programs which can help you make your business a success. Contact your provincial department of agriculture or Federation of Agriculture for a list of active groups in your area.

4.0 SHOULD YOU BUY AN EXISTING FARM OR BUILD FROM SCRATCH?

If you are not inheriting a farm, you must decide early in your planning process if it is better to buy an existing farm business or build one from scratch. This section will discuss the many issues associated with both buying and building.

Advantages of Building

Building a farm business from scratch is an option used by many people to break into farming gradually. It is more affordable for most to start out small and grow over time as experience and finances allow. This works very well for some types of farming such as vegetables and beef where few barriers to entry and expansion exist. For dairy and poultry, however, it is more difficult due to the quotas or licences required to sell output. Starting a business from scratch has several other advantages. It allows some flexibility in locating your new farm where you would most like to live (subject to land being offered for sale) and subject to the land and climate being suitable for the kind of farming you intend to go into. You are able to set up the farm and its facilities to your own specifications including the quality of construction, equipment and livestock. In addition you know the condition of these assets from day one, especially the breeding livestock and state of repairs to equipment and buildings. Finally, depending on the size of your operation, you will have more freedom to chose suitable employees and train them yourself about the way you wish the farm business to operate.

Advantages of Buying

On the other hand, buying an existing business also has a number of advantages. If you are new to farming it may be preferable to buy a ‘going concern’ because it is already set-up and running. The farm will have an existing market and cash flow to pay for operating expenses. If it has been successful in the past then there is a higher likelihood that you can continue that success – especially if the former owner is willing to work with you and give you some early advice. This reduces your risk substantially. It is also cheaper (usually) to buy an existing farm – of comparable size – because you are able to acquire assets for less than their replacement cost. That is, you are buying second hand equipment and existing buildings whose value will no doubt be less than they would cost new.

The farming industry in Atlantic Canada is really very close-knit so any serious farm buyer has several avenues in trying to identify farms for sale. It is important to have patience at this stage since you may have to wait awhile for the 'right' farm to come on the market. Successful buyers in the past made a practice of keeping in regular contact with several of the sources listed below during their search period.

Once the farm is found – What do you look for?

Many new farmers have been put in serious financial jeopardy by not properly checking out what they are buying. Do not be too eager to close the deal until you have considered the following additional factors. Once it is seen that you are serious about buying, the seller should cooperate fully with you unless he/she is trying to hide something.

Why is the owner selling?

If the reasons for selling are retirement or other business interests you still need to carefully check the condition of assets because people planning to sell often do not re-invest the usual amount of money back into the business for repairs and maintenance. They may also not have been diligent in ensuring livestock is bred on time. If the true reasons for selling are related to poor management and/or financial distress, the owner may not be willing to admit this but you can usually figure it out indirectly by talking to neighbours, lenders and analyzing the farm's records.

What is the farm's history?

This is more than just a casual question. It is important to appreciate how the farm grew and developed including when buildings were constructed, land cleared or tile-drained and if any disastrous setbacks occurred.

What is the financial condition?

You must ask the farmer for full financial statements for at least the past three to five years of operation (be extremely cautious if these are not available). You may wish to get professional help with the analysis of the financials. Look at the statements for trends in profitability, key expense ratios such as labour and feed, liquidity, solvency and productivity. Remember it is unlikely that you will be able to do as well as the former owner in your first year and you will probably finance the purchase differently than the previous owner.

What is the condition of assets?

Physically check the assets and ask for any repair and maintenance records the farmer may have kept. How old is equipment? When will it have to be replaced? Do the buildings need any major repair work in the near future? Is feed and other inventory in good condition? Again, it is a good idea to bring an expert along to help.

What assets are included in the sale?

Find out exactly what is included in the sale. It is very common for farmers to keep some property out of the deal. This is only a concern if it is an integral part of the farm's past operating success. It is also common for some equipment to be leased and for a portion of the farm land to be rented or leased. You want to either ensure that the leases and rental agreements can be transferred to you or that the assets can be easily replaced.

What about personnel on the farm?

You will want to enquire about any employees on the farm. Are they planning to leave when the farm is sold or do they wish to stay? If they are leaving find out what their key roles and responsibilities were in case you decide to hire replacements. If they wish to stay, interview these perspective employees and ask the seller about their performance. In the event that formal performance evaluations were kept, you should have access to them. A good employee who knows the operation of the farm could be very valuable to you.

What are the conditions of the land and soils?

What is the condition of the fields? What is the suitability of the land for crop production? Are the soils degraded to the extent that they need much and costly renovation? How much land am I buying which is not suitable for farming?

Are there any environmental issues?

Environmental laws and regulations have tightened considerably in the past few years and many older farms may not be in complete compliance. You will become responsible for any environmental concerns – even if they pre-date your ownership. Cleaning or fixing up environmental hazards such as underground gas tanks and improper manure storages can be very costly and could cripple a new owner. Ask about these hidden risks and include the owner's guarantee in the sales agreement. Also become familiar with environmental regulations for farms. You should also take a walk around the property and buildings.

How much should I pay?

This is not the time to let down your guard! Determining a price for the farm is a complex matter where you may once again prefer to seek professional advice from registered business appraisers. Obviously you and the seller are pursuing different objectives. The seller would like to get as much as possible from the sale and you would like to spend the least amount possible. The trick is to reach a reasonable compromise for both of you. However, remember that a deal does not have to happen. It is the seller's prerogative to ask whatever price he/she wishes (even a seemingly unreasonable one) – you can always walk away from the table!

The appropriate price for the farm business is called the *Fair Market Value (FMV)*. This is the price at which an unrelated buyer and seller agree to transact business, a so-called "arms-length transaction". There are three primary approaches to valuing a farm business: Market Comparison, Asset Valuation, and Income Valuation.

Market Comparison

Perhaps the best method for determining *fair market value* is to seek out recent sales of other farm businesses that compare closely in size, location, age of assets, types of production and types of soil and climatic conditions with the farm you wish to buy. The prices paid should be a very good approximation of market value. This is a popular method used successfully in the housing market where a number of recent sales of similar houses in similar neighbourhoods are readily available. Unfortunately, there are two major drawbacks with this method which severely restrict its usefulness for businesses. First of all each farm business tends to be unique making it difficult to find reasonably similar farms to make comparisons. Secondly, arms-length sales of farms in the Atlantic Provinces are not plentiful, limiting the number of possible comparisons.

Asset Valuation

Probably the most intuitively pleasing method of valuing a farm business is to add up the total value of all the assets. Although apparently easy the first question that arises in using this method is – what value of assets to use? There are two choices, net book value and estimated market value.

If the business has an accountant prepared balance sheet your work is done because the assets will be listed at net book value. But what does this mean? Unfortunately it means very little as a means to arrive at fair market value because according to generally accepted accounting principles land will be valued at its original purchase price (even if it were purchased 25 years ago). Buildings and equipment will be valued at the original purchase price less an estimated amount of depreciation. Therefore, its very unlikely adding these values will result in a price anywhere near FMV. Estimating current market value is a good method but difficult to accomplish since this requires a FMV for each individual asset. There are, however, published guides for the valuation of used farm equipment and land prices available.

An additional problem with asset valuation is that there is an implicit assumption that the sum of the parts equals the whole. This may be true but it does ignore the possible value of managing these assets as a single unit in production. You will also want to be cautious in using this method for farms with government controlled quota. Often due to the value of quota, the sum of the assets is much greater than the true value of the operating business.

Income Valuation

The third method is to value the business based on its earning potential. This is more difficult than the other two methods but makes a lot of sense. The basis for this method is that the ability of the business (and its assets) to earn money to repay debts and to provide a reasonable return on the owner's investment reflects the true value of the business, regardless of the individual value of the assets used in this process.

The best approach for this calculation uses discounted future cash flows. This recognizes the time-value of money (i.e. a dollar today is worth more than a dollar next year because today's dollar can be invested in the meantime) and also recognizes return on investment and risk through an appropriate discounting rate. Estimated future cash flows from the business operation are brought to present value which equals the maximum price a buyer should pay for the business today.

It is recommended that you use a combination of these methods in determining the price at which you are willing to make a deal. It is a good negotiating tactic to establish ahead of time the opening bid and the absolute maximum you are willing to pay to avoid getting caught up in the negotiating process and offering a higher price than you intended. Again, it is recommended that you seek advice from financial services and legal professionals.

How much can I afford to pay?

Even if the farm you have your eye on is available at a reasonable price relative to similar properties on the market, you still have to make a determination as to whether or not you can afford to buy it. This is a difficult question to answer and depends very much on your own personal financial situation. The amount of equity you bring to the table, the cost of servicing loans and the potential for the farm to generate cash flow are all critical to determining whether or not you can afford to buy the farm. Unless you have an extensive business or financial background your best approach to answering this question is to sit down with a professional (e.g. banker, credit union loan officer, accountant) who knows your financial background and the farming industry. This person can provide you with objective advice on whether or not you can make a go of a particular farm business given the resources you bring to it.

The concept of leasing machinery and equipment as well as leasing property or land should also be a consideration when considering purchasing that farm.

5.0 HOW SHOULD YOUR BUSINESS BE ORGANIZED?

Are you going to have partners? What level of liability protection is required? Are there income tax implications? The laws of Canada and the provinces provide for four major types of business. Before you start your farm business it is important to decide which legal form of business organization is best for you. The proper form depends on your future goals for the business but this is a good time to get some advice from an accountant or lawyer.

The four types of business are sole proprietorship, partnership, corporation and cooperative.

Sole Proprietorship

The most common form of business in Canada is sole proprietorship. Perhaps this is because it is also the simplest and easiest to organize. Sole proprietorships are one-owner businesses requiring only the registration of the business name (and any required licences) to be in business.

A sole proprietorship is really an extension of its owner. It is not a separate legal entity so all the debts and obligations of the business are also personal debts and obligations of the owner (unlimited liability). Profits from the business are added to the owner's personal taxable income and income tax is paid at the individual rate. Many people prefer this form of business, especially for smaller farm businesses because they are truly their own bosses. All decisions are theirs and all profits are theirs as well. Of course this benefit gets turned around if things go bad since there is nobody to share the losses with either!

Partnership

Partnerships are businesses with two or more owners. The biggest advantage of a partnership over a sole proprietorship is that there are more people in the business to contribute capital and talent. Of course partners will also share in profits and losses.

Partners are each personally liable for the partnership debts and obligations. It is suggested that the business be organized so at least two partners must sign cheques and other legal obligations undertaken by the partnership. Partners must also determine an equitable sharing of profits and losses. There is no rule but usually this reflects the amount of capital each partner contributes and the division of responsibilities of the partners in managing and operating the business. Income tax is paid at the individual rate on each partner's share of income.

Setting up the partnership is no more complicated than a sole proprietorship. The partnership name and list of partners need only be registered with the provincial companies registry. Although there is no law requiring a written partnership agreement, this is highly recommended. The partnership agreement is best prepared with the help of a lawyer and should include the sharing of profits and losses, expectations for each partner's role in operating and managing the business and, most importantly, how the partnership is to be dissolved if one or more partners die or wish to leave the partnership.

A special form of partnership is a limited partnership which is very useful for purchasing farm businesses. This provides limited liability for one or more partners who are just interested in the business as an investment. These 'silent partners' have no involvement in the day-to-day running of the business.

Corporation

A limited or incorporated company is a separate legal entity responsible for its own debts, assets and other obligations. It is the most formal and complex of all the legal forms of business and is owned by one or more shareholders. Corporations provide limited liability to their owners as designated by the word "Limited" or letters "Ltd." or "Inc." at the end of the name. This means that normally the owners are only liable to the extent of their investment in the business – although laws are changing regarding the personal legal responsibilities of the Board of Directors. In practice this limited liability does not extend very far in small corporations such as most farms because banks and other lenders will require personal guarantees secured with personal assets for loans to the company.

As separate legal entities, corporations pay their own income tax. For net incomes less than $200,000 companies qualify for the 'Small Business Tax Rate' which can be significantly less than the individual rate. You may also want to seek the advice of your accountant or lawyer about the advantages companies have for succession of the farm to family members or others.

Corporations have a few disadvantages too! This is the most costly form of business to start and operate. Usually with the assistance of a lawyer, a farm business is established using a memorandum of association in Nova Scotia and Newfoundland or by letters of patent in Prince Edward Island and New Brunswick. It is possible to register a company federally as well, but there is little advantage to this for most farm businesses unless they plan to do business outside their province of residence. Corporations must also file full financial statements and other forms to the provincial companies registry on an annual basis.

Two other tax related issues are important to corporations. Salaries of owner-operators may be claimed as expenses against corporate income (and as personal income by the owners). The owners may also receive money from the company in the form of dividends which are paid from after-tax income of the business – these payments are taxed again when claimed as personal income. Secondly, the Canadian tax system allows sole proprietors and partners to claim a portion of business losses (very common in the start-up phase of farm businesses) against other personal income. This is not allowed for owners of corporations.

Cooperatives

Cooperatives (coops) are businesses incorporated under the *Cooperatives Association Act*. Owner-members enjoy many of the benefits of a limited company. Cooperatives are owned by their members (shareholders) but do not pay a return on investment. Instead members receive rebates based on their level of patronage of the coop's services. Incorporation costs are low and each province has an Inspector of Coops who assists with the start-up and ongoing management of the business.

Although cooperatives are very popular in the agri-food industry in Atlantic Canada for processing and marketing of farm products, they are not a common form of business for farms.

Marketing Your Products

6.0 MARKETING YOUR PRODUCTS

For today's farmer, a solid understanding of marketing is equally if not more important than knowing when to plant a crop. The distribution and sale of agricultural products has become a complex business involving the farmer, wholesalers and distributors, retailers and, for supply managed products, the government and the marketing boards appointed to run the supply managed system. Finally, there is the consumer. In today's fast paced, internationally competitive environment knowledge of what the consumer is looking for is key to success as a farmer. Today's farms need to be market driven to ensure success.

Supply Managed Products

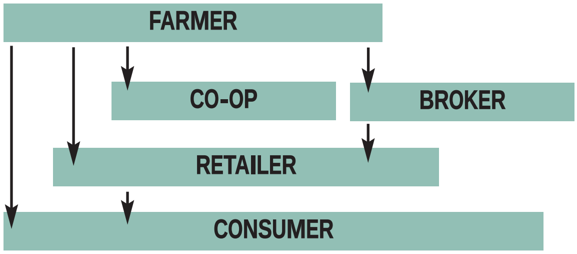
Let's deal with some of the issues surrounding the marketing of supply managed commodities first. Since 1972 the National Farm Products Marketing Council has supervised the production and marketing of products such as milk, poultry and eggs. The goal of the Council and its associated marketing boards is to promote an efficient and competitive industry for the products concerned. This is done through a system known as supply management. This system requires farmers interested in producing one of these commodities to obtain a quota from their provincial marketing board to do so. Quotas are allocated on a national and provincial basis to ensure that the Canadian supply for the product is equal to the demand from Canadian, and to a limited extent, export consumers. Prices are regulated by the marketing boards to ensure farmers receive a fair return and consumers a competitive price. If you choose to produce a supply managed product and are able to obtain quota, you will not need to become involved in the nuts and bolts of business marketing. Because supply of the commodity is limited you will have a ready buyer for your product and price will be set by the marketing board. As long as you ensure you produce a high quality product, marketing and distribution should not be a significant issue. You should be aware of that Canada is a signatory to trade agreements with other countries, most notably, the United States and Mexico.

Farmers, however, still have an important marketing role in the supply managed system. Marketing boards make constant efforts to find out what the consumer wants and what new trends are hitting the marketplace. As the producer of a commodity it is important for farmers to be involved in the activities of their marketing boards and remain in close touch with the end consumer. Often a change in how the commodity is produced has important effects for the consumer.

Agricultural Marketing

If your farm will not be producing a supply managed product you have a more challenging, and potentially more rewarding, marketing task ahead of you. Marketing traditionally looks at the four Ps, product, promotion, price and place (distribution). The marketing of agricultural products is no different. The consumer expects you to deliver a great product at the right price in the retail outlet they want to buy in and you have to tell them about it using media that your consumer pays attention to.

In Atlantic Canada typical marketing channels for agricultural products look something like this:



Farmers may sell directly to the consumer through on farm retail outlets, roadside stands or farmers' markets. Alternatively they may be a member of a co-op and sell through their outlets. Many farmers sell to brokers who then reach the consumer via a retail chain, such as your local grocery store, and some sell directly to the retail chains. No matter which channel you choose, it is important for you to know the role of the players at each stage of the chain and what they want from your product.

The basis of good marketing is market research. You need to learn as much as you possibly can about the overall marketplace and your potential customers and competition. Let's look at the big picture first. Before you begin producing a product find out what is happening in that area. Ask yourself the following questions. If you don't know the answers you need to do some research:

- How big is the market for this product?
- Is demand for this product growing, stagnant or shrinking?
- What are the consumer trends in this product area? What product characteristics are the end consumer looking for? Is that changing? What are their buying habits?
- Is the competition local, foreign or a combination of both? Will imports into the region increase in the next few years?

If the overall outlook for the product is good get a little more specific and ask some questions about how it's sold in the region:

- Who buys this product in Atlantic Canada? Is it sold via brokers, direct to retailers, direct to the consumer or a combination of the above?
- What key issues are the buyers looking at? Is it price, quality, delivery, after sales service or some other feature that will make your product unique?
- Who is the competition? What do they offer that makes them successful selling this product?
- What will be my competitive advantage? Can I sell the product more cheaply? Will I provide unbeatable quality? Will my packaging give me a leg up?

How do you get the answers to these questions? Market research for today's small businessperson is much less difficult than it was 10 years ago. Someone with an Internet connection, for example, can seek out information from governments, research agencies and the private sector around the world at the click of a computer mouse and at very reasonable cost. Some other sources of market information that might be of interest to you could include:

- Federal and provincial departments of agriculture go to great lengths to ensure that farmers have the latest information on market trends. This can be accessed via the Internet, fax information services and in hard copy;
- Federations of Agriculture, marketing boards and commodity groups also keep close contact with the marketplace and can provide a wealth of information to farmers;

- Financial institutions such as banks and credit unions also do a lot of market research and can help you in that area as well as with tips on business and market planning;
- Trade magazines, such as *Canadian Grocer* and *Food in Canada*, offer important information to the farm community at minimal cost;
- Statistics Canada collects and distributes enormous amounts of information on the food and agricultural industries which may be useful to you;
- University, college and municipal libraries are sources of business periodicals and market research that has been commissioned and paid for by others; and
- The business or marketing departments at colleges and universities will often have students, closely supervised by their professors, do market research for small firms or individuals seeking to start a business. Normally this is done at minimal or no cost.

The bottom line is simple, in today's competitive market you must have a clear understanding of how the marketplace works and your place in it. If you don't know what the end consumer wants and how to get it to them most effectively, your farm business will not be a success.

7.0 PRODUCTION, WHAT'S IMPORTANT IN PRODUCING AN AGRICULTURAL PRODUCT?

Production is largely a technical process. If you copy the production practices of the best farmers and keep abreast of changes in technology, chances are you will also be a good producer. There are many questions to ask, however, before you get started. Listed below are just a few.

- What type of farm do you want to own?
- What do you know about growing those crops or raising that type of livestock?
- What is the production cycle?
- What are the key management factors in producing high yielding, high quality results?
- How is production success measured against other farmers in the industry?
- What level of technology should you use?
- What specific government programs provide assistance to farmers in this type of farming?

Nothing takes the place of real, practical experience. If you have no experience with the type of farming you wish to undertake, go work for a farmer for a period of time. Farmers are often looking for good and interested workers. Find one who is willing to share some management secrets with you as well. Even if you must volunteer your time it is well worth the investment to gain this level of experience. Many lenders will not consider your loan application seriously if you cannot demonstrate at least some practical background.

You can also learn a lot from talking to farmers and asking questions of the specialists with the various provincial departments of agriculture. In addition a list of formal training sources is provided in a later section of this booklet.

7.0 Production, What's Important in Producing an Agricultural Product

All provincial departments of agriculture have a variety of commodity fact sheets providing information on production issues. If a fact sheet is not available for the commodity you are interested in, a specialist with the department is normally available to assist you in your research.

8.0 FINANCES

Record Keeping

If a group of farmers were asked what particular task they dislike the most in their business, most of them would probably say: “Doing the bookkeeping!”. Unfortunately you will not find any advice here that will make this chore fun, but it is absolutely essential to achieving the highest potential for your business.

Many small business people keep only enough information to satisfy Revenue Canada requirements which for farming sole proprietorships and partnerships is simply an annual cash statement of income and expenses. This practice completely ignores the value of good, timely financial and production records for helping you manage your farm better. How will you know that feed expenses are rising higher than they should be? How will you know if you can afford to buy that new tractor? How will you know if you are making money?

Using a Record Keeping system designed for your business needs will help you identify problems and fix them before they become unmanageable. These systems do not have to be complicated or expensive – in fact a notebook with different pages for each of your income and expense accounts may be all you need. More likely, however, you will want to have a system that also keeps track of your production assets, liabilities and ownership investment too. There are many bookkeeping/accounting software packages on the market that make this task easy and allow you to receive the management reports necessary for making good decisions.

Do not hesitate to ask for help from an accountant or bookkeeper especially when setting up your system. They have a wealth of experience and advice which can save you time and money in the long run. Do not scrimp here. You should consider this an investment in the business which is every bit as important as that new barn.

Budgeting

Farming is a business with plenty of uncertainties and unknowns. How will the weather affect the crops? What will interest rates be next year? Will the prices for my product be higher or lower than last year? Despite these questions and regardless of the size of your farm, budgeting is an important tool to successfully manage the business. Budgeting is estimating your business activities for the future. Most businesses now like to have a five year budget to plan long term expenditures for equipment, land and buildings. The first year of this budget is very detailed and is used to control expenditures and identify financing requirements. While keeping this in mind you have more important questions to answer before getting into farming.

Can you afford to buy or start a farm? How much money will you need to borrow for the farm and its first few years of operation? What size farm will you need to provide the income you wish to have? The most honest answer right now to these and many other financial questions is: “I don’t know!” It is necessary to develop projected financial statements. These include balance sheets, cash flows and income and expense statements. Depending on the type of farm business you plan to have, the projected statements should be five or more years into the future. For example an apple farm starting from scratch requires statements for eight to 10 years since it takes four to five years before a new orchard is producing.

Balance Sheet

A Balance Sheet is a summary at a point in time of what your business owns (assets) and how those items were financed (liabilities and equity). It is ‘balanced’ because assets = liabilities + equity. The format of a typical balance sheet is presented below and demonstrates the types of items included.

A.D. Farmer

Balance Sheet

on January 1, 2000

ASSETS		LIABILITIES	
Current Assets		**Current Liabilities**	
Cash in Bank		Accounts Payable	
Accounts Receivable		Short Term Loans	
Inventory		Other Payments Due Within One Year	
Total Current Assets		**Total Current Liabilities**	
Fixed Assets		**Long Term Liabilities**	
Land		Long Term Loans	
Buildings (Less Depreciation)		Farm Mortgages	
Machinery (Less Depreciation)		Total Long Term Liabilities	
Total Fixed Assets		**OWNER'S EQUITY**	
TOTAL ASSETS		**TOTAL LIABILITIES & EQUITY**	

The first balance sheet you prepare should represent your financial state on the first day of business. At the end of each projected year of business another balance sheet should be prepared based on the cash flow and income statements of each of those time periods.

Cash Flow Statement

The cash flow statement is simply a projection of the timing and amount of cash flowing into the business from all sources, including loans, sales, government grants and owner's contributions, and the timing and amount of cash flowing out of the business due to operating expenses, capital purchases, loan payments and withdrawals for living costs. These projected statements are prepared for each year divided into weekly, monthly (most common) or quarterly time periods. Many farmers will project cash flow out to five years in the future. These projections are necessary to determine if sufficient cash will be generated and available from the business to cover expenditures when they are due to be paid. The time and amount of cash deficits can thus be measured and you can then negotiate an operating line of credit at the bank or other lending institution well ahead of time.

The cash flow also provides information on cash balance, operating loan and equity adjustments for the projected balance sheets.

A typical cash flow statement format is presented below to give you a basis for preparing your own. (This simplified format is provided solely for illustration purposes.)

A.D. Farmer

Cash Flow Projection
January 1, 2000 to December 31, 2000

CASH TRANSACTION	**MONTH**											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Beginning Cash												
Add Receipts:												
Sales												
Loan Proceeds												
Contributions												
Total Receipts												
Total Cash Flow												
Less Disbursements:												
Labour												
Feed												
Fertilizer & Chem												
Seed												
Utilities												
Interest on loans												
Gas and oil												
Repairs												
Cattle Purchases												
Advertising												
Loan payment												
Capital purchases												
Living Expenses												
Total Disbursements												
Total Cash Outflow												
Net Cash Flow												

Income and Expense Statement

The final statement needed to complete the trio of financial statements used to project the business into the future is the Income and Expense Statement (more commonly called the Income Statement). This provides a projection of the net income for each year of the business. Although many of the items in this statement are included in the cash flow it is important to recognize that the calculation of net income includes some non-cash items, such as depreciation on buildings and equipment, and excludes some cash items, such as principal payments on loans, capital purchases and sales and owner's withdrawals.

There are two formats for preparing the Income Statement. The method recommended for farms and the more useful for management purposes uses the contribution format which is presented below:

A.D. Farmer*

Income and Expense Statement

Contribution Format

January 1, 2000 to December 31, 2000

INCOME	**Total**	**Percentage of Total Income**
Sales	450,000	
Total Income	450,000	100 per cent
VARIABLE EXPENSES		
Wages	50,000	11 per cent
Feed	125,000	28 per cent
Crop Expenses	45,000	10 per cent
Gas and Oil	23,000	5 per cent
Maintenance	6,000	1 per cent
Total Variable Expenses	249,000	55 per cent
CONTRIBUTION MARGIN	**201,000**	**45 per cent**
FIXED EXPENSES		
Depreciation	35,000	
Insurance	4,000	
Rent	55,000	
Property tax	3,000	
Interest	44,000	
Total Fixed Expenses	141,000	
NET INCOME	**60,000**	

** This information is provided solely to illustrate the contribution format. It does not demonstrate expected returns to farming or the differences in accounting for various legal forms of business.*

You will note that the contribution format lists expenses according to behaviour, either variable or fixed. A fixed cost is one that does not change because of changes in the level of production while variable costs vary directly with the level of production activity. You may find it easier to differentiate between fixed and variable by considering the costs that will still have to be paid if the farm temporarily shutdown all production activity – these are fixed costs.

This format makes forecasting very easy since the fixed cost will not likely change until you expand. The variable cost will increase as production activity increases. Therefore, once you have determined the forecasted level of sales and the resulting production activity for each year, the projected income statements can easily be prepared.

Breakeven Analysis

A powerful use of the contribution format income statement is the breakeven analysis. As the name implies this calculation can help determine the production level required to earn enough money to cover all your costs. A simple formula is to divide total fixed costs by the contribution margin percentage. Using the sample income statement above it is easy to discover that if sales were only $280,900 the net income would be $0.

	Total Fixed Costs		**$141,000**
	Contribution per cent		**.502**
=	**Breakeven level of sales**	**=**	**$280,900**

This equation is much more useful that just calculating breakeven. Suppose you needed to ensure the business was large enough to provide you with a living allowance of $25,000 per year. By simply treating this amount as a 'fixed cost' you can quickly calculate that the level of sales needs to be $331,000. You can also use this equation to identify the effects of changes in prices and variable costs.

Sensitivity Analysis

Another useful tool that works easily with the contribution format income statement is sensitivity analysis. Remember these statements are all projections requiring you to give an educated guess about future selling prices and costs. Some of these will be key to your ultimate success or failure so why not prepare a number of scenarios that use different estimates just to get a feel for the effects on the business if your first estimates turn out to be incorrect.

Although there is no limit to the number of scenarios it is common practice to prepare at least three representing a most likely scenario, worse case scenario and best case scenario. Another method of sensitivity analysis which is easy if you use a computer spreadsheet is to change one variable (e.g. selling price) at a time using as a guide the historic trend for that variable. You may want to use last year's price and the past high and low prices.

Financial Analysis

Simply preparing the projected series of statements is not enough. You need to perform some analyses of the results to ensure that you are keeping within reasonable parameters in progressing toward your goals for the business. Once you are in business these same techniques are useful to analyze past performance too.

The three most important areas for analysis are liquidity, solvency and profitability.

- *Liquidity* measures the farm's ability to meet short term obligations as they arise throughout the coming year. It is determined by the amount of working capital that is available which considers the difference between current assets and current liabilities. The current ratio is current assets divided by current liabilities. The standard rule-of-thumb suggests that this ratio should be at least 1, although this depends very much on the quality of current assets and the type of farm you have. Quality of assets refers to the amount of confidence you have that the current asset in question will be easily converted to cash. For example if inventory consists of feeder hogs almost ready for market you would have a higher level of confidence of your estimated value being realized than if your inventory consisted of two year old corn seed. Turnover of inventory is also important. For example a cow-calf operation would need a higher level of working capital than a dairy farm because of the longer time needed to realize sales on a beef farm.

- *Solvency* measures the ability of the farm to meet its financial obligations in the long-term. It is determined by comparing the level of total debt (amount of loans outstanding) with the level of equity (amount of investment by the owners). The standard rule-of -thumb is that debt should not be any more than two or three times the amount of equity. Typically the debt/equity ratio is much higher than this during start-up of a farm business but it is important to be able to demonstrate that sufficient cash flow exists to cover obligations and that the ratio is reducing over time.
- *Profitability* measures the financial success of the business over time. Of course, net income is the most obvious indicator but remember you have also likely invested some of your own money into the farm. You had other options for using that money to earn income, even if they were investing in mutual funds. Therefore, you should expect the farm business to provide you with a return on that investment too. The return on investment is calculated by dividing net income by your equity and multiplying by 100 per cent. This result should be compared with other opportunities you might have had to invest – adjusted for risk. Many farmers subtract the value of their management and labour (i.e. what they might have made in salary if available to work for someone else) from net income before calculating return-on-investment to arrive at a truer measure.

Paying for Your Farm Business

9.0 PAYING FOR YOUR FARM BUSINESS

Perhaps you have all the money you need to start your new farm business. If so, good luck!! If not, then you will have to raise the money required. There are two types of financing available for your business, equity and debt, and if you continue reading you'll discover that both types will likely be needed.

Equity Financing

Equity is the money that you (and your partners or shareholders) invest directly into the business to get it started or to help keep it going. A certain amount of equity will be necessary since it is unlikely that any lenders will loan you all the money needed to get the business up and running. Usually banks and other lenders will want you to share a significant portion of the risk to demonstrate your personal commitment to the business – in good times and in bad. A rule of thumb debt-to-equity ratio is two or three to one.

This is not the only reason, though, to finance a portion of your business with your own savings. Increasing equity reduces the risk in your business because it does not have to be repaid. In fact, you do not even have to pay dividends if the business is experiencing tight cash flow. In addition, increasing equity in the business makes it possible to leverage more debt capital to help finance expansions.

If you receive equity capital from other sources, however, your investors will want a say in the management of the business and a share of the profits. You give up some autonomy for the benefits. In the long-term, equity financing can also be more expensive than debt. The eventual dividend payments to investors are not tax deductible but interest paid on loans is. This means that if both debt and equity can be attracted for the expected cost of 10 per cent, with a marginal tax rate of 50 per cent, the effective, after-tax cost of debt is five per cent while the cost of equity is 10 per cent. There may be equity tax credits, however, that even out the equation somewhat.

Sources of equity financing start with your savings account and include venture capital companies and agencies, friends, employees, relatives and government grants.

Debt Financing

Using borrowed funds to finance the business is referred to as debt financing. These loans must be repaid, with interest, according to the contractual agreement made at the time of borrowing. This represents a legal obligation on the business and therefore increases the risk. In borrowing money you do not give up any ownership control of the business except the lender may insist on certain conditions for the loan.

When determining your borrowing needs it is important to remember these rules:

- *Do not borrow more than you need:* this is an expensive and unnecessary charge on your business's profitability.
- *Do not borrow less than you need:* this may simply get you in trouble if you must return to the lender for more funds under unfavourable conditions where the lender may decline to provide additional loans.
- *Match the term of the loan with the life expectancy of the asset being purchased:* anyone who has had to buy a new car before the loan on the last car has been paid off needs no further explanation of this rule.
- *Shop around for the best deal:* lending is a competitive business so do not assume that all lenders will offer you the same loan deal.

Sources of debt financing for farmers are numerous. Governments provide specialized lending for farmers in several provinces. The Farm Credit Corporation lends money to farmers and agri-businesses throughout Canada and provincial lenders in Atlantic Canada include Enterprise PEI, the Nova Scotia Farm Loan Board and the Farm Development Loan Board in Newfoundland. In addition banks, credit unions, trust companies and finance companies all provide debt capital to farmers. Most farm supply companies also provide credit to their customers for the purchase of feed, seed, fertilizers and pesticides. This special category of operating loan is usually interest free for 30 days and may provide discounts if paid earlier.

There are two major categories of loans available: operating loans and term loans.

Operating loans (also called line-of-credit, revolving credit, demand loan) are used by farmers to provide cash to the business during the year to help plant crops, buy feed, or pay for other operating expenses until cash from sales is received. These loans are usually secured by current assets such as accounts receivable and inventory. Normally interest is floating so it changes as the bank prime interest rate moves up and down. Interest is charged daily and paid monthly while the principal portion has no set repayment schedule. The expectation, however, is that the loan will be fully repaid by the end of the business cycle, normally one year, and then re-negotiated for the next year.

Term loans are used to buy equipment, build or renovate buildings and buy breeding stock, quota or land. Term loans are normally secured by the asset being purchased. There are a large variety of payment options under term loans. Some have fixed interest for the term of the loan and require a regular payment on principal and interest. Some have variable interest rates like an operating loan but still require regular payment of principal. Still others may have a variable interest rate as well as variable principal payments. All have a set term for repayment – although this can sometimes be periodically negotiated. The best option to pick depends on the purpose of the loan and the economic conditions that prevail at the time. Term loans are normally paid back over a period of one to 25 years but can be even longer, depending on what the money is used to purchase. For example, a new truck for the farm might be financed over five years while a new barn could attract a 20 year mortgage.

Lender Relationships

You will know many farmers and business people who only talk to their lender when it is absolutely necessary and tell the lender only what is specifically requested (and sometimes not even that). This is a very poor attitude for a long-term relationship. The same way that it is important to have a strong relationship with your partners and shareholders, you must cultivate an honest and informed relationship with your debt capital lender. Why? The lender who is most knowledgeable about you and your farm business will be most supportive of you when it really counts – when times are tough. Talk regularly to your lender and let him/her know of developments immediately, even if the news is bad. The lender will find out eventually anyway.

You may find it useful to understand the considerations that most lenders use when determining your suitability for a business loan. These are sometimes referred to as the 5 Cs of credit.

- *Character*: Are you the type of person who takes commitments seriously? What is your past experience with debt repayment? Are you honest? Do you have the knowledge and ability to run a successful business?
- *Capacity*: Is your business idea a sensible one? Have you investigated the proposed farm business adequately? Will it work?
- *Capital*: How much of your own money are you willing to invest in this farm business? Are there other partners or shareholders?
- *Collateral*: What is being offered to the lender to secure the loans in case the business is unsuccessful? Is it enough to mitigate the lender's risk?
- *Conditions*: What is happening in this particular farming sector? Are prices trending upward? Are there any marketing concerns? Are there any pending government policies to consider? What effect has new technology had in this sector? Are conditions right?

How do you choose the lender that's right for you? Two characteristics are important. First, find someone who is knowledgeable about farming. No matter how well intentioned, a lender that spends 95 per cent of their time on new car loans will have difficulty addressing the specific needs of farming. Most banks, credit unions, the Farm Credit Corporation and provincial lenders have people dedicated to farm lending who have the background to properly assess farm loans. Second, find someone who is willing to spend the time to develop a relationship with you and really get to know your operation. Someone who knows you and your abilities and the ups and downs of your particular farm business, will be much more likely to support you in the difficult times virtually all farmers periodically face.

10.0 FARM BUSINESS PLANNING

Other sections of this brochure have touched on the importance of planning in starting a successful farm business. To tie these together each prospective new farmer should sit down and prepare a business plan. This should not be a 400 page book useful only in propping open a door. It should be a relatively brief document that can be used on an ongoing basis to channel and direct your efforts toward a series of clear goals. Don't save business planning until your banker or government funding agency demands you prepare one. Use it as an ongoing management tool. You may even want to consult a professional to assist you in preparing your business plan.

An outline of a business plan, adapted from a brochure produced by the Canadian Farm Business Management Council, is as follows:

Business Overview

- Mission statement
- Business history
- Business organization

Marketing Plan

- Description of the industry, where the operation fits
- Market sales
- Trends
- Political/legal aspects of marketing
- Competition
- Customer analysis
- Sales goals
- Pricing
- Promotion
- Distribution

Human Resources Plan

- Organizational chart
- Employee plan
- Compensation and benefits
- Training goals
- Employee goals

Production Plan

- Land, buildings and facilities
- Equipment
- Materials and supplies
- Production strategies
- Construction/production schedule
- Environmental assessment
- Political and legal aspects of production

Financial Plan

- Income statement
- Cash flow summary
- Balance sheet
- Capital sales and purchases
- Loans
- Financial performance indicators
- Risk assessment
- Potential liabilities

Goals

- Short term (2 years)
- Long term (3-10 years)
- Constraints to business goals
- Family goals

Not all business plans need to include each of the elements noted above and the plan for a new farm will have some missing elements. Look at each area, however, and try to fit in what you know about your own planned operation. The bottom line is contained in an old saying which is probably more true today than when it was coined: If you fail to plan, plan to fail.

Maybe You're Not Quite Ready, Where Do You Go to Bring Yourself Up to Speed?

11.0 MAYBE YOU'RE NOT QUITE READY, WHERE DO YOU GO TO BRING YOURSELF UP TO SPEED?

Farming today is a complicated business. Not only must farmers be up to date with the latest production technologies but they must also be effective small business managers. In fact, today's farmers are one of the best educated groups of people in Canada.

If you feel there are some gaps in your background, there are many organizations in Atlantic Canada that can offer you training. Generally speaking the types of programs can be broken down into three areas:

- university level degrees
- college level diplomas
- continuing and distance education opportunities

Each of these types of training programs are discussed below and addresses and contact points for some of the programs mentioned are in Appendix B.

Degree Programs

In Atlantic Canada the Nova Scotia Agricultural College (NSAC) and DalTech offer degree programs in agriculture. At the NSAC you can earn a B.Sc. (Agr.) in a wide variety of disciplines including agricultural business, plant, animal or soil science, agricultural economics, agricultural mechanization and aquaculture. These are four-year, full time programs that are probably most suited to young people planning to enter farming on completion of their education. Some of the courses that make up these programs are available through distance education.

DalTech (formerly the Technical University of Nova Scotia) offers a B.Eng. program with a major in agricultural engineering. This is, again, a four year program most suited to those who sees themselves becoming a farmer after completing their formal education. DalTech offers its program in association with other universities. Students interested in the agricultural engineering program, for example, can complete their first two years at the NSAC and transfer to DalTech for the remainder of their program.

Diploma Programs

A wide variety of diploma programs are available to potential new farmers interested in upgrading their skills. Community colleges and universities across the country offer full and part time programs of varying durations. In Atlantic Canada, the NSAC offers full time two and three year programs in areas such as agricultural business, plant and animal science, farming technology (this program includes seven months of on farm training), animal health technology and landscape horticulture. Students interested in these programs must be high school graduates, generally with credits in biology, chemistry, English and mathematics.

The Woodstock and Edmundston campuses of the New Brunswick Community College offer an Agriculture Technician program with courses in animal and plant science, agricultural engineering and farm management. The program can take either 70 or 85 weeks to complete, depending on whether the student does a 22 week on farm practicum.

Holland College on Prince Edward Island offers two agriculture-related programs, a nine month Aquaculture Technology Course and a one year Farm Machinery Mechanic course.

In addition to regional resources, many colleges across the country offer agricultural training. Programs range from agricultural business at the University of Manitoba and Ridgetown College (Ontario) and Horticulture at the University of Guelph and Humber College (Ontario) through Agriculture Technology at McGill University and the University of Saskatchewan. Many of these programs are offered by some form of distance education and can be accessed by potential students in Atlantic Canada.

Continuing and Distance Education

Training opportunities have multiplied dramatically in the last few years as the result of new technology in education. Gone are the days when most students sat in a classroom and listened to lectures from teachers. While this form of learning still has its merit, technology now offers a much wider range of options. Internet-based courses, video conferencing, audiographics and interactive computer based CD-ROMS all have their place in agricultural training. For those who wish to upgrade their skills and knowledge, continuing and distance education offers a remarkable choice of programs.

At the NSAC, continuing and distance education takes the form of courses in such diverse areas as weed and pest management, livestock agriculture, machinery and equipment, computer applications and management and professional development. Courses can range from a single day of instruction to several weeks. While many courses are offered at the Truro, N.S. campus an increasing number are offered at remote sites throughout Atlantic Canada. In addition the College has developed audiographics and “Smart Room” videoconferencing facilities that will allow farmers around the region to take courses at sites close to home.

Each of the provincial departments of agriculture have a staff of production and farm business management specialists. In addition to the ongoing counselling work offered by these people they also organize more formal training opportunities for farmers. In Newfoundland, for example, the Department of Forest Resources and Agrifoods offers short courses in bookkeeping and record keeping, farm business analysis and farm business planning. On Prince Edward Island, the Agricultural Human Resources Council, in cooperation with the Department of Agriculture and Forestry, identifies the training and development needs of farmers and develops programs to benefit the farm community.

Institutions outside the region also offer training available to Atlantic Canada’s farmers. The Alberta Department of Agriculture, Food and Rural Development offers an extensive home study program that features courses in financial and business planning and livestock and crop production. Course materials normally include a binder of well illustrated course material, learning objectives, suggestions for study strategies and worksheets to help you apply learning. The Ontario Agricultural College at the University of Guelph offers a similar program through its Independent Study Program.

Many private sector and commodity organizations in your province offer training opportunities. Commodity groups, Federations of Agriculture, marketing boards and industry associations, such as the Atlantic Canada Export Club, all sponsor short courses or provide self learning materials which can help you better manage your farm. Scan your local newspaper for events in your area or contact these organizations for information on upcoming programs.

Finally, the Canadian Farm Business Management Council (CFMBC) has been particularly active in producing a range of materials to assist farm business managers. Their publication "Canadian Framework for Effective Farm Business Management Practices", which outlines eight key skill categories for successful farm managers, is an example of the high quality materials available to assist you as you start your new farm.

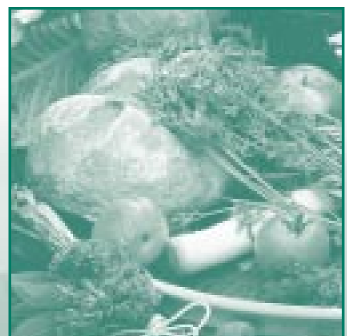
Overall there are a wide variety of resources available to you as you become a more proficient farmer.

12.0 CONCLUSION

This booklet has given you a brief look at some of the issues and tools involved in starting a new farm business. By now you are probably thinking this is a lot more complex than you thought it was. You're right to some extent. Remember, however, the more effort and planning you put into the front end of any new business the more likely you are to be successful. As well, remember that there is lots of help out there to get you started and guide you through the process. If you can show you are committed to being a successful farmer you will find plenty of assistance from farm organizations, government and your colleagues in the industry.

Good luck and good farming!

Appendices



Appendix A

Federations of Agriculture in Atlantic Canada

- Fédération des agriculteurs et agricultrices francophones du Nouveau-Brunswick, 88 rue Prospect ouest, Fredericton, N.-B., E3B 2T8, TEL: (506) 395-3814, FAX: (506) 395-1188
- New Brunswick Federation of Agriculture, Suite 206, 1115 Regent Street, Fredericton, N.B., E3B 3Z2, Tel. (506) 452-8101, Fax. (506) 452-1085
- Newfoundland and Labrador Federation of Agriculture, P.O. Box 1045, Mount Pearl, Newfoundland, A1N 3C9, Tel. (709) 747-4874, Fax. (709) 747-8827, http://www.netfx.ca/nlfa/
  e-mail: fed.agric@nf.sympatico.ca
- Nova Scotia Federation of Agriculture, 339 Willow Street, Truro, N.S., B2N 5A6, Tel. (902) 893-2293, Fax. (902) 893-7063
- Prince Edward Island Federation of Agriculture, 420 University Avenue, Charlottetown, PEI, C1A 7Z5, Tel. (902) 368-7289, Fax. (902) 368-7204, http://www.virtuo.com/peifa/
  e-mail: cmcdonald@auracom.com

For more information on specific commodities and a complete list of commodity organizations in your province, please contact the Federation of Agriculture or the Provincial Department of Agriculture located in your province.

Appendix B

Provincial Departments of Agriculture in Atlantic Canada

- New Brunswick Department of Agriculture and Rural Development, 850 Lincoln Road, Fredericton, New Brunswick, E3B 5H1, agrit@gov.nb.ca
- Newfoundland and Labrador Department of Forest Resources & Agrifoods, P.O. Box 8700, Brookfield Road, St. John's, Newfoundland, A1B 4J6, http://www.gov.nf.ca/agric
- Nova Scotia Department of Agriculture & Marketing, P.O. Box 550, Truro, Nova Scotia, B2N 5E3, NSDAM_info@.nsac.ns.ca
- PEI Department of Agriculture and Forestry, 440 University Avenue, Charlottetown, PEI, C1A 7N3, http://www.gov.pe.ca

Appendix C

Selected Training Contacts

- Admissions, Holland College, 140 Weymouth Street, Charlottetown, PEI, C1A 1A1, Tel. 1-800-446-5265 (press 2), Fax. (902) 629-4239, Online http://www.cc.hollandc.pe.ca
- College Admission Services, New Brunswick Community College System, 6 Arran Street, Campbellton, N.B., E3N 3G3, Tel. (506) 789-2404, Fax. (506) 789-2430, Online http://www.gov.nb.ca/ael/nbcc/english
- Continuing Education, DalTech, Maritime Centre (13N), Halifax, N.S., B3H 3J5, Tel. (902) 494-6079, Fax. (902) 423-9859, Online http://www.ced.tuns.ca
- Home Study Program, Alberta Agriculture, Food and Rural Development, Room 201, J.G. O'Donoghue Building, 7000-113 Street, Edmonton, Alberta, T6H 5T6, Tel. (403) 427-2171, Fax. (403) 422-7755
- Independent Study, University of Guelph, Guelph, Ontario, N1G 2W1, Tel. (519) 767-5050, Fax. (519) 824-9813
- Office of the Registrar, Nova Scotia Agricultural College, P.O. Box 550, Truro, N.S., B2N 5E3, Tel. (902) 893-6722, Fax. (902) 895-5529, e-mail reg_info@www.nsac.ns.ca, Online http://www.nsac.ns.ca
- Prince Edward Island Agricultural Human Resource Development Council, 420 University Avenue, Charlottetown, PEI, C1A 7ZE, (902) 892-2591, Fax. (902) 892-1091
- Registrar, Athabasca University, 1 University Drive, Athabasca, Alberta, T9S 1A1, Tel. 1-800-788-9041, Fax. (403) 675-6174

Appendix D

CFBMC Related Products

Canadian Framework for Effective Farm Business Management Practices (14-page booklet; $12, available in both official languages). This report identifies all of the skill necessary to be a successful farm manager into the 21st century. Eight key skill categories are detailed: entrepreneurship; information management; business development; marketing management; production management; human resources; financial management; and operations management practices.

Other products which may be of interest are available from the CFBMC at 1-888-23CFBMC or at www.cfbmc.com