

## **A BUSINESS PLAN IS IMPORTANT WHEN WORKING WITH A LENDER**

**Y**ou don't have to borrow money to expand a business and make your dreams come true, but borrowing money can make those dreams come true sooner than if you wait to save all the necessary cash.

That means you have to have a good, working relationship with your banker or other agricultural lender. After all, when you borrow money, the lender becomes your partner and has a vested interest in your business. As your partner, the lender will want to know as much about your business as possible. He'll have a lot of questions and may even play the devil's advocate—just to make sure you have a well-conceived business or marketing plan.

Gary Kirking is a rural enterprise specialist at the Western Wisconsin Technical College (WWTC) in La Crosse, Wisconsin. Among the many skills Kirking brings to the college is his ability to help enterprising farmers and growers organize and start new businesses. He says the first step usually involves borrowing money.

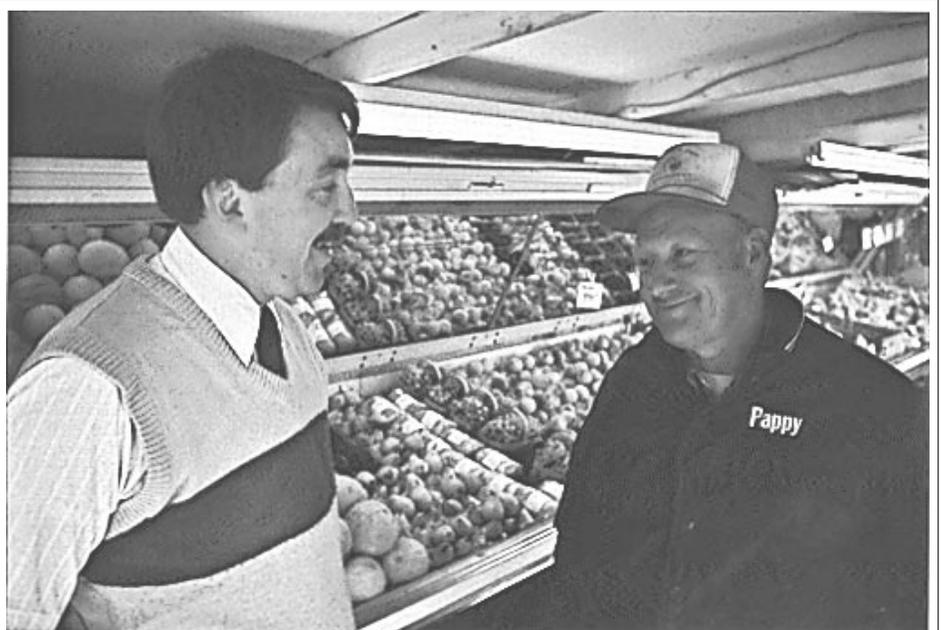
Working with lenders is an area Kirking understands. Prior to joining the WWTC staff, he worked as a lending officer for 12 years, including 10 years with Farm Credit Services. His experience includes working with dairy, beef, fruit and vegetable and fish farm-

ers. If a grower in the Mississippi River Valley and surrounding coulee country near La Crosse has a question about loans, Kirking can tell them how growers and lenders can pool their objectives and work as a team in rural enterprise financing. Kirking can give advice on on-site evaluations, loan analysis, budgeting discussions and business and marketing plan reviews.

Kirking says open lines of communication between borrowers and lenders are important to a successful loan relationship.

"Loan applicants have to realize that today there is strong competition, for available money," Kirking says. "Loan officers can generate fast returns from car loans, and in some cases, agricultural loans may not be as popular with bankers as other small business loans."

But don't let that hinder your plans for securing a loan. Kirking says lending



*John Jolivet (right) and Gary Kirking say that growers who want to expand should be prepared to talk about their businesses when they meet with a lender. A lender actually becomes a partner who wants to know as much as possible about your production and marketing plans.*



*School tours are a major attraction at Jolivettes' farm market. Every October more than 9,000 school-age children are invited to the farm. The children receive a small pumpkin as a giveaway item.*

agencies are in business to make money, and they recognize that a viable agricultural loan is likely to generate further business for the lender.

"Remember, the lender wants your business to succeed," Kirking says. "And there are five major factors a lender will consider when reviewing a loan application."

According to Kirking, the lender will consider the human factor, the financial history of the business, how the loan will be repaid, what collateral is available to secure the loan, and the purpose of the loan.

"The human factor' is a major consideration for most lenders," Kirking

says. "Each lender will have a different set of criteria for each type of loan, but the borrower should be willing and able to communicate pride in the business, enthusiasm for the business plan and confidence in his or her management abilities."

"In direct marketing enterprises and other rural businesses, the lender may also strongly consider the role of other family members in the business. The lender may want to know who will keep the books, what labor inputs will be made by children, or if the business plans have the emotional support of other family members."

### **Strong Family Commitment**

John Jolivette, a fruit and vegetable grower from West Salem, Wisconsin, about 15 miles east of La Crosse, agrees that a strong commitment by family members is

important not only for the success of his business, but it's also a factor that his lenders have brought up.

John and Joan Jolivette and four of their six children grow and market strawberries, peas, beans, sweet corn, cantaloupes, cucumbers, peppers, potatoes, tomatoes, squash, pumpkins and zucchini on 270 acres of cropland. They also rent an additional 100 acres and grow soybeans and corn.

From early May to late December, the Jolivettes market directly to consumers. The family operates a greenhouse and sells bedding plants to kick off the growing season. It's hard to miss their market from U.S. Highway 16 because the Jolivettes fill large balloons with helium and anchor them to their market. The Jolivettes are known for their strawberries and pumpkins, and for their tours that bring in thousands of school children each year.

The Jolivettes' direct marketing enterprise didn't happen overnight. John started his farming career with 40 acres and 10 milk cows. He was a full-time factory worker and a part-time farmer. After expanding the dairy herd and then selling out a few years later, John decided to try direct marketing fruits and vegetables. His father and grandfather operated a large truck farm on French Island, which is just up the Mississippi River from La Crosse, many years ago. So this business wasn't new to John.

John and Joan purchased his cousin's farm along the western edge of West Salem. From that base, the Jolivettes developed their fruit and vegetable farm and farm market. In addition to selling all of their fruits and vegetables at the market, they also handle some wholesale produce and other add-on sales merchandise, such as jams, jellies, honey and crafts.

John says that the ideal situation is to handle most operational expenses with revenue from the farm market business.

However, when it comes to buildings and improvements, he relies on local lenders.

The Jolivettes live in an area where dairy farms are predominant. Consequently, John has explained his business to many a lender. Direct marketing enterprises that deal in fruits and vegetables are not the most common form of agriculture in the area. For example, John has outlined how a strawberry planter is valid collateral and how a proper insulation job may cost more than the expense of the original building.



*John Jolivette's farm market is located on a major highway in west central Wisconsin. Strawberries and pumpkins are the market's specialties, but he sells a wide variety of homegrown crops.*

### **Financial Planning History**

John says there is no substitute for a sound financial history of the business when seeking money for expansion. The Jolivettes recently hired an accountant to back up and double-check the recordkeeping system handled by his wife and daughter. John's lender also receives an annual report from the accountant.

"I know our lender keeps a current copy of our financial spreadsheet on file," John says. "We also plan to install a computer system to improve our recordkeeping and to provide more accurate figures to our financial advisors."

A sound financial history will also help the lender determine a loan repayment plan. Kirking says lenders want to know if the business will generate enough cash flow to pay bills, pay off the loans, buy capital items, provide for family needs and turn a profit.

"Lenders like to see a two-to-one asset-to-liabilities ratio," says Kirking. "This can be outlined in the net worth statement a borrower provides for the lender."

John says that in a seasonal business like his, lenders have to understand when loan payments can be made. "We do

about 50% of our annual business in the first three months of the growing season," he says. "Our first major payment comes at the end of June. The next payment is in late November—after field crops have been harvested."

John says borrowers ought to ask about fluctuating interest rates as well as flexible repayment schedules. He says some lenders are open to renegotiating interest rates if the relationship between the borrower and the lender has been positive. "It doesn't cost anything to ask," he says.

### **Explaining Your Business**

Kirking says borrowers should be prepared to explain collateral fully. The better a lender understands a borrower's collateral, the more likely they are to make a loan.

"No one plans on failure, but in reality a percentage of businesses do fail," Kirking says. "Even if only one out of 90 fails, the lender has to see enough value in the business to cover the loan if the business plans don't work out. You have to



*John Jolivet and an employee check produce before it is placed in the farm market's bin. High-quality produce brings customers back, says John.*

make the lender feel comfortable about lending you the money, and your collateral is the lender's only security blanket."

When explaining to the lender why a loan is needed, a well-conceived marketing plan is essential. Kirking says the lender will want to know how, when and where the loan money will be used. The lender also wants to know what the borrower's response will be if the market changes and there is a problem repaying the loan.

John admits he tries not to make too many long-range promises when it comes to crop farming because in any given season, at least one of his specialty crops could fail. He counts on his proven ability to make adjustments to reassure the lender.

John also reassures his lender by investing in a strong insurance program. He says that's important in today's lawsuit-happy environment. The Jolivettes are also considering incorporating the business to obtain better insurance cov-

erage and to protect the personal interests of other family members involved in the business.

### **Helpful Loan Hints**

Kirking says that good business management is best demonstrated in the products you sell and the quality of service you provide. These factors are also instrumental in making a lender feel more comfortable doing business with you.

"It has been said that 'If I hear, I may forget. If I see, I will understand, and I will remember,'" says Kirking. "It is important for the lender to get a good understanding of the business that will be using the loan."

John agrees that lenders who visit his operation ask more intelligent questions and learn what it takes to make the operation successful. He has found most lenders are anxious to visit his farm and farm market to look at the business up close. The key is that John asks the lenders to visit his operation.

Kirking says there are a number of mistakes borrowers can make in seeking loans. Borrowers may not present themselves or their business in a confident manner. For example, they may not be familiar with their own marketing or business plan. Or, they show a general lack of planning. They also may not ask the questions which could get them better interest rates or a more favorable repayment schedule.

"If a borrower doesn't get his loan, he or she should find out why and make improvements on the presentation," Kirking says. "Be sure to keep up-to-date on lending practices and the current economy. Timing a loan application to a lender's availability of funding can make a big difference. Also, don't ask for seasonal operating loans in May."

Kirking also suggests that borrowers be assertive in seeking assistance and advice. Local and county state extension offices and technical colleges offer a variety of courses and valuable brochures.

*Editor's note: For more information, you can contact Gary Kirking at Western Wisconsin Technical College, 304 North Sixth Street, La Crosse, WI 54602. John Jolivette can be contacted at Jolivette's Berry Farm, Route 2, West Salem, WI 54669.*

*You can also order the following sources for additional information: Publications #1003 and #1004— Understanding and Evaluating Money Sources, which are available from your area Small Business Administration office; Direct Marketing Brochure, available from the Wisconsin Department of Ag, Trade and Consumer Protection, 801 W. Badger Rd., PO. Box 8911, Madison, WI 53708 or call (608) 266-1531; or NCR 54—Credit Management for Business Firms, available from the UW Extension Office, Ag Bulletins, Room 245 30 North Murray St., Madison, WI 53715 or call (608) 262-3346.*

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