

Write a brief history describing the important events and decisions in your life and operation. Why did you make the choices you did? What have been the most important outcomes resulting from the interaction of your own choices and external circumstances? What key lessons have you learned? Include planning team members in this review. Use whatever time frame (one, five, ten years) best describes why and how you've arrived at your current business situation.

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**TASK**

**2**

# Worksheet 2.2 Current Market Assessment

Complete this worksheet for each of your major products or services. Be as specific as you can and, where relevant, include numeric facts and figures. These will be the basis for projections you'll make later on for the strategies that you consider.

**Product/Service:** \_\_\_\_\_

### Markets Served: Geographic/Customer Segments

Answer the following questions for each major market segment (geographic and/or customer type) you serve. Use additional sheets if this product has more than three major market segments.

Segment	1. _____	2. _____	3. _____
Potential Number of Customers	a. _____	a. _____	a. _____
Current Number of Customers	b. _____	b. _____	b. _____
Current Sales Volume	c. _____	c. _____	c. _____
Current Sales per Customer (c / b)	d. _____	d. _____	d. _____
Potential Sales Volume (a x d)	e. _____	e. _____	e. _____

### Unique Characteristics

What are the unique features that distinguish this product or service? For which customer segments are they important? How easily can they be imitated by competitors?

**Characteristic 1:** \_\_\_\_\_

Appeals to which segments? \_\_\_\_\_

Easy for competitors to imitate?  Yes  No

**Characteristic 2:** \_\_\_\_\_

Appeals to which segments? \_\_\_\_\_

Easy for competitors to imitate?  Yes  No

### Distribution

Describe the current distribution channels for this product.

**Logistics:** \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**Market Locations:** \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**Market Intermediaries:** \_\_\_\_\_

\_\_\_\_\_

**Marketing Costs (transportation, labor, spoilage, price discounts for intermediaries):**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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**Pricing**

What price do you receive for this product or service, and how does it compare to the price of a typical competitor? How much power do you have to set the price for this product or service? How sensitive is demand to price changes?

**Typical Price and Price Range:**

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**Price Relative to Competitor:**

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**Our Power to Set Prices:** \_\_\_\_ Low \_\_\_\_ Some \_\_\_\_ High

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**Demand Sensitivity to Price Changes:** \_\_\_\_ Low \_\_\_\_ Some \_\_\_\_ High

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**Promotions**

Describe the strategies you use to promote consumer awareness of this product or service. How effective are they in reaching your most important potential customers? How costly are they?

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**Changing Market Conditions**

Describe important trends of the supply and demand side of the market for this product or service. Are there important new competitors or competing products? Is demand expanding?

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**Worksheet 2.3 Tangible Working Assets**

Use this worksheet to describe the non-land physical assets used in your current farm operation. Be as specific as you can be about size, capacity and condition.

**ITEM    SI ZE    CAPACITY    CONDIT ION    VALUE**

**Buildings/Permanent Structures**

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**Machinery and Equipment**

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**Livestock Equipment**

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**Breeding Livestock**

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**TASK  
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Describe institutional factors that currently affect your ability to use and manage physical resources. Include any long-term leasing arrangements, conservation easements, permit requirements, legal restrictions, production or marketing contracts.

**Long-term Leasing Arrangements for Real Estate**

(specify whether items are leased in for your use or leased out for the use of others)

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TASK

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**Long-term Agreements and Easements**

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**Permit and Legal Restrictions**

(specify the agency responsible for issuing permits, conditions and compliance factors, fees, and your ability to meet these conditions)

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**Long-term Production Contracts and Marketing Agreements**

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Complete this worksheet for each major crop enterprise. Be as specific and accurate as you can be, since this information will be the basis for projections you'll make later for the strategies that you consider.

Crop Enterprise: \_\_\_\_\_

Current Acreage: \_\_\_\_\_

Month	Machinery Operations		Item	Operating Input		Labor				
	Operation	Hrs/Acre		Machine	Machine	Quantity/Acre	Units	Price/Unit	Hrs/Acre	Type
			1	2						

Complete this worksheet for each major livestock enterprise. Be as specific and accurate as you can be, since this information will be the basis for projections you'll make later for the strategies that you consider. Specify diets on a separate sheet if appropriate.

Livestock/Poultry Production System: \_\_\_\_\_

Current Number of Units: \_\_\_\_\_

Month or Period	Facility Space Req.	Labor		Feed Required	Vet & Medications Items & Amounts	Machinery & Equipment Req.	Other Inputs
		Hours	Type				







Use this worksheet to describe the experience, skills and goals of each member of your workforce. Then estimate your average cost for this person and consider where this person ideally fits into your operation.

**Name and Current Position:**

**1. What is the person's background-experience and education?**

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**2. What particular abilities does this person have?**

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**3. What are this person's strengths and weaknesses?**

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**4. What are the person's interests? What motivates them?**

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**5. What are the person's own personal goals in life?**

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**6. What are we currently paying this person (\$/hour)?**

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**7. Conclusion: Where might this person best fit in meeting our human resource needs?**

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Use this worksheet to describe likely changes in your human resources situation over the next year, five years or ten years.

**Current Workforce:** Will anyone who currently works in our operation be leaving for other work or for personal reasons? What activities/enterprises will this affect?

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**Future Workforce:** Will any new people be joining our operation? What new knowledge and skills will they bring? Do we have enough physical and financial resources for them to be fully employed and appropriately paid?

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**Future Management:** Do we foresee a change in the allocation of decision-making and management responsibilities?

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Use this worksheet as a guide for estimating your annual family living expenses and necessary income contribution from the farm business.

**Family Living Expenses (\$/year)**

- Food and meals \_\_\_\_\_
- Medical care and health insurance \_\_\_\_\_
- Cash donations \_\_\_\_\_
- Household supplies \_\_\_\_\_
- Clothing \_\_\_\_\_
- Personal care \_\_\_\_\_
- Child / dependent care \_\_\_\_\_
- Gifts \_\_\_\_\_
- Education \_\_\_\_\_
- Recreation \_\_\_\_\_
- Utilities (household share) \_\_\_\_\_
- Nonfarm vehicle operating expense \_\_\_\_\_
- Household real estate taxes \_\_\_\_\_
- Dwelling rent \_\_\_\_\_
- Household repairs \_\_\_\_\_
- Nonfarm interest \_\_\_\_\_
- Life insurance payments \_\_\_\_\_
- Other \_\_\_\_\_

**Total cash family living expense** \_\_\_\_\_

Family living from the farm \_\_\_\_\_

**Total family living expenses (a)** \_\_\_\_\_

**Other Nonfarm Expenditures**

- Income taxes \_\_\_\_\_
- Furnishings & appliances \_\_\_\_\_
- Nonfarm vehicle purchases \_\_\_\_\_
- Nonfarm real estate purchases \_\_\_\_\_
- Other nonfarm capital purchases \_\_\_\_\_
- Nonfarm savings & investments \_\_\_\_\_

**Total other nonfarm expenditures (b)** \_\_\_\_\_

**Total cash family living investment & nonfarm capital purchases (c) = (a + b)** \_\_\_\_\_

**Nonfarm income (d)** \_\_\_\_\_

**Necessary contribution from farm business (net farm income) (c) - (d)** \_\_\_\_\_

TASK

2

**Worksheet 2.12 Income Statement**

Use this worksheet as a guide for constructing income statements for the past several years. Where possible, include itemized revenue and expense details. Suggested crop and livestock expense categories are listed in worksheets 2.5 and 2.6. You may want to use a computerized package such as FINPACK to collect and process the information needed for your income statement.

**For the period beginning** \_\_\_\_\_  
**and ending** \_\_\_\_\_

**Gross farm income** \_\_\_\_\_

**Total cash operating expenses** - \_\_\_\_\_

**Inventory changes**

**Crops and feed (ending – beginning)** +/- \_\_\_\_\_

**Market livestock (ending – beginning)** +/- \_\_\_\_\_

**Accounts receivable (ending – beginning)** +/- \_\_\_\_\_

**Prepaid expenses and supplies (ending – beginning)** +/- \_\_\_\_\_

**Accounts payable (beginning – ending)** +/- \_\_\_\_\_

**Accrued interest (beginning - ending)** +/- \_\_\_\_\_

**Total inventory change** +/- \_\_\_\_\_

**Depreciation** - \_\_\_\_\_

**Net farm income from operations** = \_\_\_\_\_

TASK

2

Construct your current and historical balance sheets. Where possible, include itemized details under each asset and liability category. You may want to use a computerized package, such as FINPACK (see "Resources"), to collect and process the information needed for your Balance Sheet.

Balance Sheet Date \_\_\_\_\_

TASK  
2

Assets (in dollars)	Market Value	Cost Value	Liabilities (in dollars)	Market Value	Cost Value
<b>Current Farm Assets</b>			<b>Current Farm Liabilities</b>		
Cash and checking balance	_____	_____	Accrued interest	_____	_____
Prepaid expenses & supplies	_____	_____	Accounts payable & accrued expense	_____	_____
Growing crops	_____	_____	Current farm loans	_____	_____
Accounts receivable	_____	_____	Principal on CCC loans	_____	_____
Hedging accounts	_____	_____	Principal due on term loans	_____	_____
Crops and feed	_____	_____	<b>Total Current Farm Liabilities (g)</b>	_____	_____
Crops under government loan	_____	_____	<b>Intermediate Farm Liabilities (h)</b>	_____	_____
Market livestock	_____	_____	<b>Long-term Farm Liabilities (i)</b>	_____	_____
Other current assets	_____	_____	<b>Total Farm Liabilities (j) = (g+h+i)</b>	_____	_____
<b>Total Current Assets (a)</b>	_____	_____	<b>Nonfarm Liabilities (k)</b>	_____	_____
<b>Intermediate Farm Assets</b>	_____	_____	<b>Total Liabilities (l) = (j+k)</b>	_____	_____
Breeding livestock	_____	_____	<b>Retained Earnings (m) = (f<sub>2</sub> - l)</b>	_____	_____
Machinery and equipment	_____	_____	<b>Net Worth (n) = (f<sub>1</sub> - l)</b>	_____	_____
Other intermediate assets	_____	_____	<b>Market Valuation Equity (o) = (n - m)</b>	_____	_____
<b>Total Intermediate Assets (b)</b>	_____	_____			
<b>Long-term Farm Assets</b>	_____	_____			
Farm land	_____	_____			
Buildings and improvements	_____	_____			
Other long-term assets	_____	_____			
<b>Total Long-term Assets (c)</b>	_____	_____			
<b>Total Farm Assets (d) = (a+b+c)</b>	_____	_____			
<b>Nonfarm Assets (e)</b>	_____	_____			
<b>Total Assets (f) = (d+e)</b>	_____	_____			

**f<sub>1</sub> = Market Value of Total Assets**  
**f<sub>2</sub> = Cost Value of Total Assets**

Use this worksheet to calculate your overall change in wealth earned from farm and nonfarm income after adjusting for living expenses and partner withdrawals.

For the period beginning \_\_\_\_\_ and ending \_\_\_\_\_

<b>Net Farm Income</b>		_____
<b>Nonfarm Income</b>	+	_____
<b>Family Living/Partner Withdrawals</b>	-	_____
<b>Income Taxes</b>	-	_____
<b>Earned Net Worth Change</b>	=	_____

Use information from your balance sheet and income statement to calculate the following ratios that measure liquidity, solvency, profitability, repayment capacity and efficiency.

**Current Ratio:**

This is a primary measure of liquidity used by most businesses.

Current Assets (Balance Sheet)		_____
Current Liabilities (Balance Sheet)	÷	_____
Current Ratio	=	_____

A current ratio of 2:1, with two dollars of current assets for every dollar of current debt, is usually considered adequate. If your current ratio approaches 1:1, your ability to sustain your business during a financial downturn may be limited.

**Debt to Asset Ratio:**

This solvency measure is sometimes referred to as your percent in debt.

Total Liabilities (Balance Sheet)		_____
Total Assets (Balance Sheet)	÷	_____
Debt to Asset Ratio	=	_____

When calculated based on the market value of your assets, a debt to asset ratio under 40% is usually considered comfortable; over 60% is usually considered vulnerable.

**Rate of Return on Assets:**

This profitability measure can be interpreted as the average interest rate being earned on the financial resources invested by you and lenders in your business. Adjust net farm income for the estimated opportunity cost of unpaid family labor to make your figures comparable to those for businesses that hire labor and management

Net Farm Income (Income Statement)		_____
Interest Expense (Income Statement)	+	_____
Opportunity Cost for Family Labor and Management (estimated)	-	_____
Return on Assets	=	_____
Total Farm Assets (Balance Sheet)	÷	_____
Rate of Return on Assets	=	_____

The amount you deduct for labor and management depends on your goals for how much income you feel you need from the farm. Since farming has not historically been a high return business, a rate of return greater than 5% (when assets are valued at market value) is usually considered adequate. Remember, though, if you are earning only 5% and paying interest at 10%, you may be headed for problems. You may be able to maintain this if your debt to asset ratio is low. But if you have substantial debt, you will need to set your profitability goals a bit higher.

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**Term Debt Coverage Ratio:**

This measure of repayment capacity indicates whether your business is generating enough income to make principal and interest payments on intermediate and long term debt.

Gross Farm Income (Income Statement)		_____
Cash Operating Expenses (Income Statement)	-	_____
Scheduled Interest Payments on Intermediate and Long-term Debt (Income Statement)	+	_____
Family Living Expenses and Taxes (from the Earned Net Worth Change Worksheet)	-	_____
Funds Available for Debt Payments	=	_____
Intermediate and Long-term Debt Payments	÷	_____
Term Debt Coverage Ratio	=	_____

A term debt coverage ratio of over 150%, meaning that you are producing \$1.50 of income that is available for debt repayment for each \$1.00 of scheduled debt repayment, is usually considered adequate.

**Operating Expense Ratio:**

This measure of overall efficiency indicates the percentage of business revenues that are available for family living expenses, debt repayment and new investments.

Cash Operating Expenses (Income Statement)		_____
Interest Expense (Income Statement)	-	_____
Gross Farm Income (Income Statement)	÷	_____
Operating Expense Ratio	=	_____

While thumb rules for the ratios listed above can be used across farm types and across industries, operating expenses will vary substantially from business to business and industry to industry. As a general guideline, most farm businesses strive to keep operating expenses under 70% of gross revenues. If you are operating a small farm that employs sustainable practices, your financial success probably depends on operating efficiency. In that case, you should probably strive to keep operating expenses below 60% of revenues. If you are involved in a retail business, sales volume might be more important to your bottom line than operating expense levels if cost of goods sold is included. In that case, a much higher operating expense ratio might be expected. So, this ratio is useful for internal tracking of your business, but not very useful for comparisons with other businesses.

Use the table below as a guide for doing a trend analysis for important measures of physical resources, operating efficiency, financial position and financial performance.

**Year**

_____	_____	_____	_____	_____
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**Physical Resources**

Number of acres

_____	_____	_____	_____	_____
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Number of cows

_____	_____	_____	_____	_____
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**Operating Efficiency**

Hay yield (tons/acre)

_____	_____	_____	_____	_____
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Milk per cow (lbs/year)

_____	_____	_____	_____	_____
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**Financial Position**

Ending net worth

_____	_____	_____	_____	_____
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Current ratio

_____	_____	_____	_____	_____
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Debt to asset ratio

_____	_____	_____	_____	_____
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Term debt coverage ratio

_____	_____	_____	_____	_____
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**Financial Performance**

Net farm income

_____	_____	_____	_____	_____
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Rate of return on assets

_____	_____	_____	_____	_____
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Labor and management earnings

_____	_____	_____	_____	_____
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Operating expense ratio

_____	_____	_____	_____	_____
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TASK

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Briefly rank your business' exposure to production, environmental, market, contract, and personal risk. Then briefly describe how you currently manage for risk.

**Market Risk**

Exposure to risk: \_\_\_\_\_ Low \_\_\_\_\_ Medium \_\_\_\_\_ High

Type of risk: \_\_\_\_\_

Tools for minimizing risk: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Production Risk**

Exposure to risk: \_\_\_\_\_ Low \_\_\_\_\_ Medium \_\_\_\_\_ High

Type of risk: \_\_\_\_\_

Tools to minimize risk: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Contract Risk**

Exposure to risk: \_\_\_\_\_ Low \_\_\_\_\_ Medium \_\_\_\_\_ High

Type of risk: \_\_\_\_\_

Tools to minimize risk: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Financial Risk**

Exposure to risk: \_\_\_\_\_ Low \_\_\_\_\_ Medium \_\_\_\_\_ High

Type of risk: \_\_\_\_\_

Tools for minimizing risk \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Personal Risk**

Exposure to risk: \_\_\_\_\_ Low \_\_\_\_\_ Medium \_\_\_\_\_ High

Type of risk: \_\_\_\_\_

Tools for minimizing risk: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Summarize the internal strengths and weaknesses and the external opportunities and threats for your business as it exists today. Consider all aspects of your business—marketing, operations, human resources and finances—as well as the links among these aspects.

**Internal Factors**

**External Factors**

**Strengths:**

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**Opportunities:**

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**Weaknesses:**

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**Threats:**

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