

# New Entrants to Farming

# Business Planning & Financial Management



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The European Agricultural Fund  
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Europe investing in rural areas



Scottish Government  
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## Introduction

The use of business planning is valuable for both farmers and lenders to help structure business decisions. It can document the financial viability of existing and projected business performance. A business plan helps critical analysis of current performance, provides a baseline for realistic forward budgets, set goals, and projects the impact of future farming policy.

The financial section of a business plan should adequately document current and expected income and expenses, along with the ability to repay debt. It should clearly tackle factors of efficiency (profitability), liquidity (cash flow) and solvency (equity position).

A good business plan demonstrates that the farmer has taken the time to think through the proposal, to make the business succeed. A comprehensive plan will also describe how the other aspects of the business will operate. The owner/investor or lender should be able to quickly evaluate how well the operator/farmer has considered the operational, personnel, skills, marketing and financial aspects required to successfully implement a future plan, such as proposed expansion or start-up. This includes, for example, operational procedures, skills development, and management responsibilities of family members.

### Two common reasons to create a business plan:

1. Business start-up and
2. Expansions

New entrants or even well established farmers proposing a new enterprise or significant investment will find preparing and presenting a business plan beneficial. Lenders increasingly demand the farmer has firstly gone through this disciplined process to evaluate viability.

Farmers now face the commercial reality of having to sell their produce into a market place linked into world supply and demand trends. This has shifted risk and potential reward onto farmers, who must now ensure they are producing a product the consumer wants and be able to negotiate a price above their cost of production, in order to secure a successful future.

Uncertainty will always be a feature of business; there are many factors out-with our control. This does not mean that we have to ignore them. Far from it, we need to try to quantify them, to give ourselves best case and worst case scenarios. If we do not attempt this, we lose the initiative and merely become reactive to the events around us. Management should be pro-active.

Business planning an important and increasingly common active management tool to support better business decision making.

## Business Plan Structure

A business plan should contain the following:-

Business objectives	Include measurable short and long term objectives with timescales.
Current financial performance (if relevant)	Analysis of recent financial performance can help set the context and realistic expectations for the financial forecasts.
Financial forecasts	Typically, a 3-year cash flow forecast with projected profit & loss accounts and farmers balance sheet.
Marketing and sales strategy	Include details of the target market, sales volumes and timing throughout the year.
Management team and staffing information	This should include details of family members, responsibilities, individuals skills and experience.
Operations plan	Description of the farm, land, cropping, livestock, as well as details of environmental or conservation features.

## Reviewing and Updating the Business Plan

Even if your current farm business plan is successful, you should always consider reviewing it for possible growth opportunities and improvements to farming operations.

Things to think about:-

- Your goals, for example, do you want to increase your profits?
- What changes you want to make to your business
- How to best make these changes to your farm
- How you will carry out this change
- Any financial implications of this change, e.g. demands on cash flow
- How long the changes will take to implement
- Potential risks (financial or otherwise) to your business

In order to be financially viable, the business plan should demonstrate that the business can generate sufficient profits to cover:-

- personal drawings;
- income tax;
- capital for reinvestment and major repairs;
- repayments on borrowing.

## Assessing the Options

An accurately prepared forward budget can assist a farmer to make decisions between a whole range of options that exist for management of the farm and its resources.

By looking ahead, it is possible to anticipate the likely outcome of decisions that need to be made today, and how they will impact on the future profit potential of the farm.

Assessing different scenarios, allows the business to identify the factors that are most important to future profitability, and to highlight where changes could be made that may improve the overall trading position of the farm.

## Financial Control

This is important to keep your business on target for success in today's difficult and rapidly changing economic conditions.

Knowing your costs, and margins, and preparing a regular budget, allows you to make informed decisions about what to change.

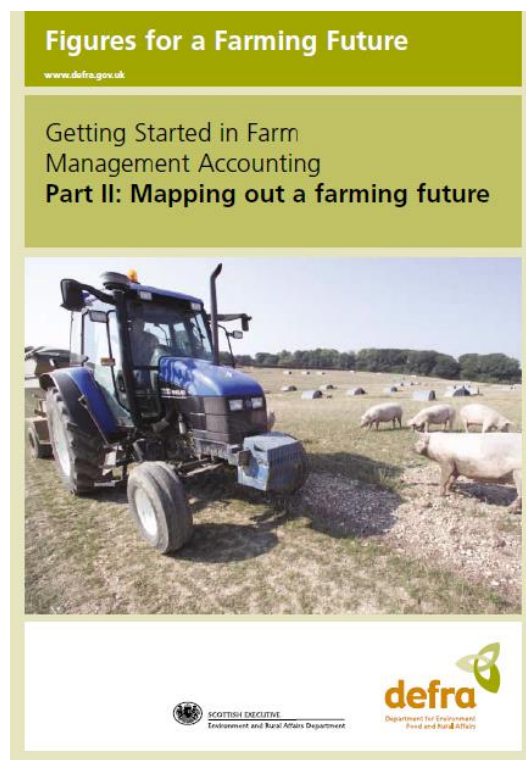
A whole farm budget (cashflow, profit & loss account, balance sheet) is an invaluable and underestimated tool. It allows you to work out rapidly the implications of change in prices over time and acts as a model of the business, which can be used to investigate changes in policy.

The budget helps you understand how your costs and revenues are generated. By monitoring actual income/expenditure against budget during the year, this provides an early warning system, and allows you to make informed decisions as the year progresses. Remedial action can be taken, when problems are identified early, and this helps to avoid future problems.

**Monitoring and planning the business are essential components of good business management and should be viewed as a high yield piece of paperwork.**

## Further Guidance

There are numerous guides and business plan templates available on-line. The Scottish Government and Department for Environment and Rural Affairs collaborated to produce:-



'Part II: Mapping out a Farming Future' publication (see left), which is part of a series of documents on farm business management available at [www.gov.uk/farm-business-and-financial-planning](http://www.gov.uk/farm-business-and-financial-planning).

Financial assistance is potentially available for farmers in Scotland who engage accredited consultants to help review and plan their business under the Farm Advisory Service Integrated Land Management Plan, see <https://www.fas.scot/integrated-land-management-plans-ilmps/>.