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# Six Key Components of a Farm or Ranch Business Plan

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# Cornhusker Economics

## Six Key Components of a Farm or Ranch Business Plan

Market Report	Year Ago	4 Wks Ago	12-14-18
<b>Livestock and Products.</b>			
<b>Weekly Average</b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . .	*	114.00	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . .	177.37	169.61	170.02
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . . .	162.67	154.36	154.14
Choice Boxed Beef, 600-750 lb. Carcass. . . . .	203.00	217.37	213.11
Western Corn Belt Base Hog Price Carcass, Negotiated . . . . .	55.42	51.07	45.74
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. . . . .	76.81	70.34	71.01
Slaughter Lambs, woolled and shorn, 135-165 lb. National. . . . .	132.24	135.43	132.55
National Carcass Lamb Cutout FOB. . . . .	380.49	380.22	380.67
<b>Crops.</b>			
<b>Daily Spot Prices</b>			
Wheat, No. 1, H.W. Imperial, bu. . . . .	3.24	4.43	4.72
Corn, No. 2, Yellow <b>Columbus</b> , bu. . . . .	3.12	3.40	3.52
Soybeans, No. 1, Yellow <b>Columbus</b> , bu. . . . .	8.76	7.79	8.07
Grain Sorghum, No.2, Yellow Dorchester, cwt. . . . .	5.57	5.48	5.70
Oats, No. 2, Heavy Minneapolis, Mn, bu. . . . .	2.79	3.18	3.35
<b>Feed</b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . .	162.50	*	*
Alfalfa, Large Rounds, Good Platte Valley, ton. . . . .	87.50	110.00	110.00
Grass Hay, Large Rounds, Good Nebraska, ton. . . . .	82.50	87.50	87.50
Dried Distillers Grains, 10% Moisture Nebraska Average. . . . .	150.50	137.50	160.00
Wet Distillers Grains, 65-70% Moisture Nebraska Average. . . . .	45.00	49.00	50.50
<b>* No Market</b>			

Developing a good farm or ranch business plan can have many benefits. In an earlier *Cornhusker Economics* article, I outlined six good reasons to develop a business plan (Parsons 2015). It helps to get your business organized and moving in the right direction. It lets your lender know you have a plan to succeed, which opens up your access to capital. It also helps you organize your thoughts, clarifying the goals and objectives you wish to achieve. In summary, putting together a written business plan increases the likelihood of your business achieving success (Scarborough 2011).

This is a great time of year to get started on putting together a written business plan for your farm or ranch operation. However, getting started on it can seem like a daunting task. While there is business planning software out there, much of it isn't well suited for putting together a complete farm or ranch business plan and starting with a blank sheet of paper can be intimidating. So, my goal with this article is to get you started by providing six key components to include in your farm or ranch business plan. Make these six components your headings and start filling in the details as described below. Before long, you will find yourself with a good business plan taking shape and a document you can share with your lender as well as use on a day-to-day basis to help guide your farm or ranch in the direction you want it to go.

## 1. Introduction

A good introduction contains several key subcomponents of information that summarizes what your business is all about. Even though you may finish writing it last, you should start your document with an executive summary paragraph or two that captures the essence of your business. Provide brief information on the key products or services producing revenue, the qualifications of the people involved in the operation, the land resources and any competitive edge built up over the years. Follow this summary with a mission statement for your operation that captures why you are in the farming or ranching business. The introduction section should also provide an overview of the history of the operation and three to five goals you wish to accomplish in the next five years.

## 2. Land Resource Management.

Farmers and ranchers rely on the land to make a living. This section should describe the land resources involved in the operation, including maps if you have them available. If livestock and perennial pastures are involved in the operation, a grazing management plan would fit into this section. Farmers may want to describe their cropping rotations on various properties and why they use them. Land monitoring practices and plans for mitigating soil erosion or noxious weeds are among the many important elements that can be added to this section over time. Having pages of this section readily available to print out and show potential landlords or new employees is a great resource for those communications.

## 3. Equipment and Animal Management

Equipment resources and animal resources are the tools that turn land resources into profits. This section should provide an inventory of equipment resources along with a general overview of maintenance plans and replacement decisions. For livestock operations, an inventory of animals would be included here. Details regarding genetics, breeding plans, nutrition plans, animal handling protocol, and animal health plans including vaccination schedules should be added. Like the land resource management section, this is a section where having pages ready to print out and share with employees is a great communication resource. It can also

make it easy to share information with your veterinarian or nutritionist to get his or her feedback on the management plans you have in place for your livestock.

## 4. Marketing Plan

A good marketing plan can take some time to build but starting one is easy. It starts with identifying the products or services you intend to sell to generate revenue and the goals you wish to accomplish with your marketing plan. You then need to complete the marketing plan by answering several key questions. When will you be selling the products and/or services? To whom will you be selling? Where will these transactions be taking place? How will you get these products and/or services to the customer? What are the tools available to help you get what you want out of these sales transactions and how do you intend to use those tools? Marketing plans don't have to be complicated to be effective, but there are a lot of things to consider that can be added to this section over time. If you are not marketing a commodity, it is important to identify what sets your products or services apart from your competitors and to clearly identify the size of the market you intend to be selling into. Your banker will want to know that your sales forecasts are realistic and so should you.

## 5. Human Resources

Personnel management can sometimes be overlooked on a small farm or ranch operation. However, if you want to attract and keep good employees (including relatives) you need to have a plan in place to do it. This section should describe the people involved in ownership as well as the people managing the operation on a day-to-day basis, including their roles and responsibilities. What other personnel are involved in the business and who is responsible for managing them? How do new people get trained within the business? Having a plan in place describing how they will grow in knowledge and ability and who will help them do it is a great motivator for any employee or family member involved in the farm or ranch.

This can include a brief overview of succession plans, too, if you have those available.

## 6. Financial

The financial section of your business plan includes balance sheets, income statements, projected cash flows, loan schedules, depreciation schedules, and descriptions of contingency or financial risk management plans. Obviously, this section is important. It depends upon having good financial records and discipline in pulling them together into meaningful information on a regular basis. Whereas other sections of your business plan may not need to be updated more than every few years, this section needs updating on a regular basis. This section will be the section your lender will be most interested in seeing, but that doesn't diminish the importance of the other five sections preceding it.

Business planning is an ongoing process. Business plans need regular updating after they are developed and are never really done. If you don't have a business plan, now is the time to start one. Use these basic sections to help define your farm or ranch business. Populate each of them with some information now and then build in more detail as you go focusing on a few sections at a time. Enlist the help of others. Business plans are best done as a team as it helps get the best ideas into written form, speeds up the process of getting them done, and helps create buy-ins from everyone to follow through with the plan once it is developed. Getting a business plan down in writing gets you moving in the right direction toward reaping the full benefits of running a successful farm or ranch business.

### References:

- Parsons, J. 2015. "Why Develop a Business Plan?" University of Nebraska-Lincoln, *Cornhusker Economics*, February 18, 2015.
- Scarborough, N. M. 2011. *Essentials of Entrepreneurship and Small Business Management*. 6<sup>th</sup> Edition. Boston: Prentice Hall.

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