Business Planning for your agroforestry venture
Cultivating Sustainable Agroforestry
September 29, 2012 Vancouver, BC

Today

- Business Plan Overview
- Focus on Elements of Interest
  - Finance
  - Marketing
    - Considerations & Tools for assessment
What is a Business Plan?

- Map of where you are now, where you are going, and when and how you'll get there.

- Plan that integrates written goals with marketing, production, human resources and financial targets

Elements

A business plan includes

1. Business Description
2. Marketing Plan
3. Production Plan
4. Human Resources Plan
5. Financial Plan
the issues

**BC AgroForestry Report 2009**

- Strongest motivations ...profit and to benefit future generations.
- Barriers identified .market conditions and production costs.

the balance

- Goals
- Current Production
- Current Finance
- Human Resource Limits

Finance

Marketing
Finance

1. Define agroforestry options for your operation.
   - Products for sale - Forest Farming Ex: hazelnuts, cedar buffers, cultured huckleberries, medicinal plants, mushrooms, ginger, saskatoons, herbs, health products, floral greenery, essential oils

   - Practices to complement current practices ex: shelter belts, silvopasture, hedgerows, outdoor living barns

2. Define the establishment costs & financing

3. Review money potential

**Characteristics of agroforestry**
- Both, enhance or combined with primary production
2. Define the establishment (up front) costs & financing

Characteristics of agroforestry
- Range of typical capital: trees, equipment
- Site preparation required and costs
- Destruction of existing vegetation
- Irrigation possible
- Increased use of current capital & land
- Ecological capital–environmental effects, less wind- and water-caused soil erosion, multistory crops on same land

- Example: silvopasture
  - trees, forage, and livestock
  - Each has up front costs and these can be large..
Example

<table>
<thead>
<tr>
<th>Required Capital Investment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tractor 50HP</td>
<td>$4,500</td>
</tr>
<tr>
<td>Rear &amp; Front Forks</td>
<td>$8,350</td>
</tr>
<tr>
<td>Mower - Flail Chopper</td>
<td>$6,750</td>
</tr>
<tr>
<td>Weed Sprayer, 100 Gal.</td>
<td>$4,550</td>
</tr>
<tr>
<td>Fertilizer Spreader</td>
<td>$2,300</td>
</tr>
<tr>
<td>Sprayer - 100 Gal</td>
<td>$8,300</td>
</tr>
<tr>
<td>Rotorator</td>
<td>$6,800</td>
</tr>
<tr>
<td>Bird Alarma/Control Mach</td>
<td>$1,925</td>
</tr>
<tr>
<td>Pick-Up 1/2 Ton (used)</td>
<td>$12,000</td>
</tr>
<tr>
<td>Irrigation System (Solid Set)</td>
<td>$25,000</td>
</tr>
<tr>
<td>Small Tools</td>
<td>$3,200</td>
</tr>
<tr>
<td>Storage shed</td>
<td>$10,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$125,475</td>
</tr>
</tbody>
</table>

3 Review money potential

Characteristics of agroforestry
- Long planning horizons
- Irregular cost and revenue occurrences
- Low interim and lag in income
- Poorly recognition of term “agroforestry”
- New markets

Ex: Black walnut - timber and nut tree, requires a good site and eighty years before timber harvest can begin

versus
Ex: Cedar buffers – floral in 2 years
**ENTERPRISE BUDGET**

<table>
<thead>
<tr>
<th>Revenue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td></td>
</tr>
</tbody>
</table>

Reveals Profitability. Does this venture make enough revenue to cover costs?

**CASH FLOW**

<table>
<thead>
<tr>
<th>Money into</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Money out</td>
<td></td>
</tr>
</tbody>
</table>

Reveals Liquidity. Can meet obligations to pay as they come due – monthly?

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**Agroforestry Crop**

**Enterprise Budget**

**Time Period Covered**

**Revenue**: Price times Quantity

Less

**Variable Expense**

**Fixed Expenses**

Equals

**Profit**
Enterprise Budget: Thing to note:

- Timing - do a budget for a range of years..
  - Pre planning
  - Establishment
  - Planting
  - Year 1, Year 2 ... Full production

- List all sources of revenue for your agroforestry practice

- Use per unit basis - acre or sq ft, hectare

- List all variable costs: associated with production
  - Marketing: Advertisement, Transportation
  - Harvesting: Nut harvest, Timber harvest
  - Establishment: Site prep, Seedlings, Staking
  - Maintenance: Fertilize, Pest, Disease, Thinning, Pruning
- List all fixed costs ownership focus
  - Ex: property taxes, insurance, interest on debt, leases, rent, depreciation

- If costs are shared then other production then what ???
  - Alley cropping practice with tree enterprise, hay and livestock

- Be sure you include your work time & non-cash cost family
Look at different scenarios

<table>
<thead>
<tr>
<th>Price</th>
<th>Yield</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>+20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-20%</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>YEAR 2</th>
<th>FIRST YIELD</th>
<th>YEAR 3</th>
<th>SECOND YIELD</th>
<th>YEAR 4</th>
<th>THIRD YIELD</th>
<th>YEAR 5</th>
<th>AVERAGE FULL PRODUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield ($/ton)</td>
<td>1.00</td>
<td>2.50</td>
<td>3.90</td>
<td>4.80</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price ($/ton)</td>
<td>1,700.00</td>
<td>1,700.00</td>
<td>1,700.00</td>
<td>1,700.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL REVENUE</td>
<td>$1,700.00</td>
<td>$4,350.00</td>
<td>$6,630.00</td>
<td>$6,160.00</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>DIRECT COSTS</th>
<th>Replanting</th>
<th>Plant Nutrients</th>
<th>Crop Protection</th>
<th>Machinery - fuel/oil</th>
<th>R &amp; M</th>
<th>Hire Labour</th>
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</thead>
<tbody>
<tr>
<td>YEAR 2</td>
<td>133.37</td>
<td>150.00</td>
<td>80.96</td>
<td>226.68</td>
<td>233.96</td>
<td>1,994.03</td>
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<tr>
<td>YEAR 3</td>
<td></td>
<td>150.00</td>
<td>80.96</td>
<td>214.48</td>
<td>283.43</td>
<td>2,480.16</td>
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<tr>
<td>YEAR 4</td>
<td></td>
<td></td>
<td>80.96</td>
<td>207.88</td>
<td>407.78</td>
<td>2,783.74</td>
</tr>
<tr>
<td>YEAR 5</td>
<td></td>
<td></td>
<td></td>
<td>217.78</td>
<td></td>
<td>2,912.28</td>
</tr>
</tbody>
</table>
- **Cash Flow. Thing to note:**

- Focus is on timing and amount of cash inflow and outflow

- Can you meet obligations as they come due? Six years, Payments, annually after full production.

- Include all operating, investment and finance cash inflow and outflow

- Use cash flows to assess need for line of credit or production loans
Review the money potential as follows..

- **Enterprise budget**
  - When do you make profit?
  - How much profit and for how long?

- **Cash flow budget**
  - How frequent are negative cash flows?
  - How long do negative cash flows last?
  - How big are positive and negative cash flows?

> What can you afford .. large net income in the future combined with lots of small net losses in the early years.

- **What do Banks Look at?**
  - Risk
  - Return
  - Repayment

- And so should you!!!
Now you have an idea of ...

1. agroforestry options for your operation.
2. establishment costs & financing
3. money potential

Marketing

1. Review marketing alternatives available/possible
2. Review potential in terms of prices and sales quantity
Characteristics of agroforestry

- Location and transport are key consideration
- Fits Consumer Interest. hi conservation & social standards.
- Fits with Local Markets and Food Systems
- Lack of awareness re: definition of agroforestry
- Potential of Export Markets. High quality, niche products to Pacific Rim.
- Lack of market coordination and information

Marketing alternative

- maximize the probability that your products are sold at the highest possible price year after year.
  
i. Diversity versus Specialization
  ii. Direct Marketing
  iii. Cooperative Alliance Marketing
  iv. Value Added Marketing
  v. Niche Market
i. Diversity versus Specialization
Should you produce 2 crops or 5

Depends on management requirements, efficiencies gained, cost of production, marketing efforts/channel, and investment

ii. Direct Marketing
Farmers market, roadside stands, pick-your-own

Done by those producers located in regions with access to a large metropolitan customer base
“metrofarmers” “tightly focused on producing for a metropolitan marketplace”
Direct Marketing continued
Profitable or not? Very specific to the area..
Concerns with growing competition among farmers at particular markets and between farmer markets, low profit margins for products sold at the markets, and the intermittent operation of the markets.

iii. Cooperative & Alliance Marketing
- Business structure work together in a cooperative effort to add value to agricultural products or decrease costs
- increase bargaining power to increase prices
- increase supply to allow entry into higher-volume markets
Create alliance or partnerships – geographic, sector, product

Ex: BC Herb Growers Association, Kootenay Rockies Artisans Certified Organic Associations of BC, and BC Association of Farmers’ Markets

Alliance could support opportunities to brand ..
iv. Value Added Marketing

- Convert your current products into higher-valued processed food products to add more profit to farm business

- Careful though value added marketing can increase investment costs, management efforts and requires analysis of a new and different market

Value added categories

- **food** (e.g., mushrooms, berries and nuts)
- **botanicals** (e.g., herbs, goldenseal, ginseng, medicinal)
- **decorative** (e.g., floral greenery, mosses, ferns, cedars)
- **handicrafts** (e.g., aromatic oils - pine, baskets and wood products)
v. Niche Market
Where?
- Asian markets
- Health food stores
- day spas
- Coffee shops
- Gourmet restaurants
- Ethnic markets

- Need to have a unique product ---\(\rightarrow\) translates to less competition and higher, more sustainable prices

  - How long will you keep this>> it depends..

- Challenge here is marketing and connection
2. Review potential of these marketing alternatives in terms of cost to develop, prices and sales quantity

Talk to people
Look at historical prices
Look at the market in terms of trends in production and consumption
Look at the competition

Now you have an idea of ....
Bring together the finance and marketing

Marketing - Alternatives & Range of costs, prices and sales quantity
Finance - Options, Establishment Costs and Money Potential
What if scenarios ...

Sources

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  - http://www.agroforestry.info/2012_07_01_archive.html

- British Columbia Agroforestry Industry Strategic Plan 2009 – 2013

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  - http://www.extension.umn.edu/distribution/naturalresources/DD7407.html

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  - http://www.extension.umn.edu/distribution/naturalresources/00095.html

- ATTRA: Agroforestry Overview

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  - http://nac.unl.edu/

- USDA: Profitable Farms and Woodlands: A Practical Guide to Agroforestry for Landowners, Farmers and Ranchers
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