

New Farmer Series

Enterprise budgets

One of the more common frustrations new farmers face is coming up with reliable numbers to use in their financial projections. Without a prior history of commercial production where do you get figures and how do you know whether they are trustworthy?

In recent years there has been an explosion of enterprise budgets available on the internet. Several of them come with spreadsheet templates that allow users to input their own numbers to get a custom enterprise budget for their situation.

While the availability of these enterprise budgets is a good thing it is important to understand a bit about the information they provide, to be aware of their limitations, and to be able to evaluate their usefulness to a particular situation.

What is an enterprise budget?

An enterprise budget is a detailed accounting of revenues and expenses related to a profit center within a business. Enterprise budgets are important tools in determining profitability of individual ventures. For example, if a farm is producing maple syrup, free-range poultry, Christmas trees, and cut flowers they have four separate enterprises which should have separate budgets. In this way the owners can determine which of these enterprises are most profitable and which, if any, are not profitable. The farmer may decide after reviewing these budgets to let go of one or more of the enterprises and focus more time and resources on the more profitable ventures. The point is that the budgets provide information that can be a good decision-making tool.

Generally, enterprise budgets include all the possible sources of revenue (e.g. things that will be sold) and all of the associated costs, both fixed and variable. Some budgets are more detailed than others but it is the quality and accuracy of the numbers rather than the design of the budget that is most important. Look for enterprise budgets that list the quantities of things sold and used, the prices and costs per pound change, the quantities sold and used are very important.



Evaluating an enterprise budget

Given the number of enterprise budgets readily available on the internet how can a farmer determine which one is the 'best' one to use as a starter budget for your own operation? There are several things to look for that are common to the best sample budgets.

Is the author and contact information clearly identified? Most reputable enterprise budgets are developed by university re-



searchers working with farmers or at agricultural organizations. It is important that the authors be identified and that contact information be provided because there are times when you might need to contact them with a specific question.

Are the assumptions clearly outlined? Every budget is developed with a set of operating assumptions in mind. Without

reviewing these assumptions it will not be possible to know whether this budget was developed under conditions similar to yours.

Are there notes and instructions attached? It is the notes and instructions (in addition to the assumptions) that will help you tailor the budget to your situation. If the notes are missing or unclear you will not end up with results that you can defend.

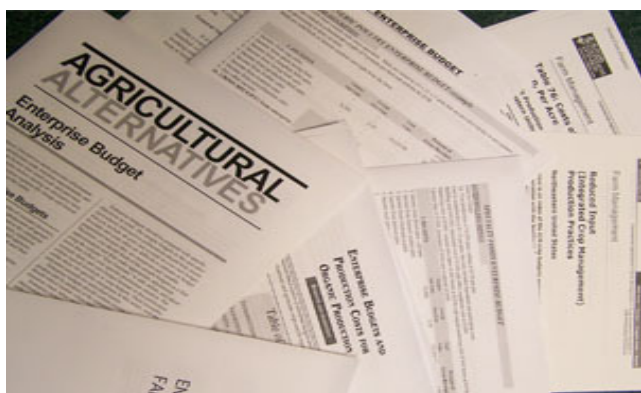
Is the enterprise conducted in a growing environment similar to yours? If you have a budget for growing sunflowers that was developed in the Pacific Northwest and you live in the northeast you are going to be looking at some adjustments. All other things being equal, the budget developed closest to your growing conditions will yield the best results.

When was the budget prepared? While an older budget may still be a useful tool you should whenever possible seek out the most recent budget(s) that you can find. Both revenues and costs tend to change over time but not necessarily at the same rates so you should not try to adjust an older budget by just increasing every line by the same factor.

Personalizing an enterprise budget

No matter how closely an enterprise budget matches your situation there are still likely to be some changes necessary before the budget really represents your enterprise.

The first thing you should do is evaluate the budget in terms of the criteria listed in the previous section. Make note of potential problem areas such as, “the budget was done for a different growing season”, “the budget is 10 years old”, “I’m not sure where the original numbers came from”. When you have completed that exercise you’ll need to determine whether the budget is worth adjusting. Remember, the goal is to end the process with numbers that you have confidence in and can defend to others.



Once you have decided that the budget is worth modifying you should do a line-by-line assessment of the budget. If some of the assumptions are not true for your situation then change them first. Be sure to pay particular attention to the primary sources of revenue and the expenses that are the largest. Spend your time on the largest items in all categories first since that is where any errors will be most significant to the bottom line.

Check the line items in the variable expenses against your other financial statements or against the budgets of similar businesses just to be sure that all major expense categories are covered. Finally, go line by line through the budget looking over the numbers and make any adjustments that will bring the budget into alignment with your situation.

Even after all of this you should be prepared to monitor your budget carefully the first year and continue to make adjustments as you learn new things about your business.

Using enterprise budgets is a smart idea in the development of a business plan. There are many existing budgets for a variety of enterprises and it is likely that you will find budgets that could provide you a good place to start. You should never however just drop an enterprise budget into your business plan without making a careful assessment of how accurately the budget suits your situation.

Where to find enterprise budgets

The following is a partial listing of sites that include enterprise budgets.

- University of Wisconsin Center for Integrated Agricultural Systems offers enterprise budgets in poultry, dairy goats, dairy sheep, and specialty foods. The budgets feature spreadsheet templates allowing the user to customize the budgets for individual situations. Go to <http://www.cias.wisc.edu> and follow the Farm Finance links.
- The University of Georgia Cooperative Extension Service offers interactive enterprise budgets for many common crops and livestock. Go to <http://www.ces.uga.edu/Agriculture/agecon/interactive.htm>
- Oregon Agricultural Enterprise Budgets at http://oregonstate.edu/dept/EconInfo/ent_budget/. This site is intended to be a resource for the dissemination of Enterprise Budget Sheets and additional agriculture-related materials. Enterprise Budget Sheets are available in both .pdf and downloadable spreadsheet formats.
- Iowa State University Sustainable Ag Extension Program at <http://extension.agron.iastate.edu/sustag/enterprisebudgets/default.htm> offers budgets in the following categories: vegetables, field crops, aquaculture, forestry, fruits and berries and livestock.
- Rutgers Cooperative Extension offers a large selection of enterprise budgets for Organic, Conventional and Integrated Crop Management systems at: <http://aesop.rutgers.edu/%7Efarmmgmt/ne-budgets/nebudgets.html>.
- North Carolina State University at <http://www.ag-econ.ncsu.edu/AgBudgets/vegetable.htm> offers budgets for 22 different vegetable crops under different production situations.
- Penn State Cooperative Extension, through the Agricultural Alternatives program offers enterprise budgets in for many crops and livestock at <http://agalternatives.aers.psu.edu/crops/Crops.html> and <http://agalternatives.aers.psu.edu/livestock/Livestock.html>. Several of these budgets are appropriate for small-scale producers.
- South Dakota State University offers a budget to help producers calculate the costs of producing goats for the meat goat market at <http://econ.sdstate.edu/Extension/otherlinks.htm>