

# Business & Financial Planning



Wooden Shoe Tulip Farm, Woodburn, OR

**T**his chapter walks you through the essential steps of starting or expanding an agritourism business. It describes how to navigate some of the numerous taxes and regulations that may be involved, with links to many of the relevant laws and resources.

*Many of the regulations covered here are complex, and it is impossible to cover every regulation that might affect an agritourism operation. You should consider contacting a tax consultant, attorney or other appropriate professional when starting or expanding your business.*

## What Is a Business Plan?

A business plan clarifies the values, goals, challenges, and strategies of your agritourism enterprise, allowing

you to work through business decisions before committing resources. It is vital to your success because it provides a clear understanding of your agritourism enterprise to help guide and focus your financial and management decisions.

A business plan also may be helpful in securing financing by providing lenders a look at your financial situation and expectations. The business plan should be a dynamic document: it should be kept up-to-date and reevaluated periodically to reflect changes in your values, goals, challenges, and strategies.

## Selecting Your Business Entity

Selecting the right type of legal business structure for your farm is important if you are just starting out, looking to transfer assets to the next generation, or assessing your exposure to liability. There are several types to choose from, and you may need professional help from a lawyer or accountant to determine

## A Business Plan's 10 Major Components

1. Executive summary
2. Mission statement
3. Business concept or idea
4. Measurable goals, expected outcomes, objectives, and action steps
5. Background information (industry research and market analysis)
6. Management needs and history
7. Marketing strategy
8. Financial strategy (including projections of capital costs, income, and expenses for the first three years of operation)
9. Exit strategy
10. Appendix

which one is right for you. Choosing the appropriate legal structure can be one step in mitigating your liability exposure; however, a good insurance policy and conscious management are essential as well. Possible entities are outlined in the table below.

## Setting Realistic Income Goals

Spend time identifying what your income goals are. These might include:

- Break even or turn a profit in the first year.
- Provide supplemental income while holding a full-time job off the farm.
- Earn all of your (your household's) income from farming (within a specified time frame).
- Meet current and long-term family income needs (college tuition, health insurance, retirement).
- Expand farm income enough to allow your children to become partners in the farm business.

## Types of Business Entities

Type of Entity	Does This Limit Liability?	How Are Profits Taxed?	What Is Transferred Most Easily?	Does It Support Raising Capital?
<b>Sole Proprietorship</b>	No	Taxed as an individual	Individual assets	Less appropriate
<b>General Partnership</b>	No, but may elect to become a limited liability partnership	Partnership taxation	Capital interest	Appropriate when structured as a limited partnership
<b>Limited Liability Company (LLC)</b>	Yes	May choose to be taxed as a partnership or as a corporation. Single-member LLC is a "disregarded entity"	Units	Yes
<b>Corporation</b>	Yes	May choose to be taxed as a Partnership (S Corp) or as a Corporation (C Corp)	Shares	Yes
<b>Nonprofit</b>	Limited liability for members and uncompensated board members	Tax exempt	Transfer of assets to other than nonprofit is prohibited	Yes
<b>Cooperatives</b>	Limited liability for members	Taxed as a cooperative	Transfer restricted to other eligible cooperative members (farmers)	Yes

SOURCE: A Legal Guide to the Business of Farming in Vermont, University of Vermont, 2006

## Budgeting

Consider using a partial budgeting tool to begin comparing the costs and benefits of expanding or changing a farming business. Partial budgeting only examines changes in farm finances specifically attributed to an alternative enterprise.

**“ Sound financial analysis is no longer an option, but a necessity for survival.”**

— Rod Sharp, Colorado State University

For example, consider a producer of 300 acres of corn that is contemplating the construction of a 5-acre corn maze. A partial budget reflects only the income and expense differences directly due to the corn maze (design and maintenance costs, added insurance and labor, and ticket revenues).

To develop the partial budgeting framework:

- Define the potential enterprise change
- List the added returns
- List the reduced costs
- List the reduced returns
- List the added costs
- Summarize the net effects

Carefully think through potential new or expanded budget expenses such as:

- Buildings (new construction or improvements)
- Increased utilities costs
- Fencing
- Legal/accounting costs
- New equipment
- Permits
- Land
- Taxes
- Signage
- ADA compliance
- Restroom facilities
- Hand-washing stations
- Marketing

Potential income sources for agritourism:

- Admission fee
- Tour fee
- Sales of fresh farm products
- Sales of processed or value-added products
- Craft/souvenir sales
- Activity fee
- Tasting fee
- Facility rental
- Show fee (e.g., equine competition)
- Farm lodging
- Food service

**“ A person involved in any other line of business would think it ludicrous that many farmers don’t keep track of where the money comes from and where it goes. Every year, farmers may handle large sums of money — \$50,000, \$100,000, \$200,000 or more — yet only have \$20,000 net income in a good year, and break even or even lose money in a bad year. And that’s with working your tail off! Why? Do you think the auto parts store or shoe store runs a business without knowing the numbers?”**

— Richard Wiswall, Cate Farm, East Montpelier, VT. *The Organic Farmer’s Business Handbook*

## Pricing

It is critical to set an appropriate price point for each product or service. Your time is a limited resource and must be valued at an appropriate price. There are several tools to help you. One of the most useful is a break-even analysis.

### BREAK-EVEN ANALYSIS

A break-even analysis can help you determine either the minimum number of product units you need to sell to break even, or the minimum price you need

to set for each unit to break even. Both formulas are based on two variables: your fixed costs and your variable costs.

**Fixed Costs (FC)** do not vary with the number of guests entertained or units of a product sold.

**EXAMPLES:** *construction/repairs; taxes and insurance; marketing; depreciation*

**Variable Costs (VC)** will vary with the number of guests or units of a product sold.

**EXAMPLES:** *employee wages; fuel; cost of food*

## Sample Break-Even POINT Analysis

**Your Question:** How many workshops do you need to offer at a given ticket price to break even?

### 1. Start with what you know:

- You will need to fix the parking area, purchase a table, and add lighting to your barn, so **your fixed costs will be \$1,500.**
- Each unit (workshop) will cost about \$60 in labor to organize, and \$18 in refreshments for your guests. **Your variable costs per unit is \$78.**
- The going rate for comparable workshops is \$25/person, and you're confident you can get at least 8 registrants, so **your unit price is \$200.**

### 2. Break-Even POINT Formula:

**Total Fixed Costs / (Unit Price - Variable Costs) = Break-Even Point**

$$\$1,500 / (\$200 - \$78) = 12.29.$$

So, with 8 registrants per workshop at your \$25 ticket price, you will have to offer over 12 workshops in order to break even. That's one per month!

## Sample Break-Even PRICE Analysis

**Your Question:** How much money do you need to bring in at each workshop (unit) in order to break even?

### 1. Start with what you know:

- Based on previous example, **your fixed costs will be \$1,500.**
- Based on previous example, **your variable costs per unit is \$78.**
- You know you have capacity to organize no more than 5 workshops a year, so **you have 5 units (workshops).**

### 2. Break-Even PRICE Formula:

**(Total Fixed Costs / Number of Units to be Sold) + Variable Costs = Break-Even Price**

$$(\$1,500 / 5) + \$78 = \$378$$

Based on this unit price and your expected enrollment, you can now determine your break-even ticket price. You think you can attract 12 registrants, so your single ticket price should be no less than  $\$378 / 12 = \$31.50$ .

## ADDITIONAL PRICING CONSIDERATIONS

**Perceived Buyer Value:** You identify the segment of the market that will value your product or service most. This will require research (e.g., survey potential/current users; follow-up with current customers).

**Type of Buyer:** You may have various prices, options, and bundles depending on the group of buyers to whom you are marketing (e.g., frequent customers, bulk orders).

**Price as Indicator of Quality:** Based on competitors and/or the uniqueness of your product(s), you charge more based on price = quality and higher price = higher quality.

Know your intended customers and what influences them. Be realistic about who you *want* to attract and who you *can* attract. Be sure to price high enough to cover costs and make a profit! Evaluate your prices often and make adjustments as needed!

“ If you don't have some customers thinking you charge too much, then you aren't charging enough!”

— Dawn Thilmany McFadden, Colorado State University

## PRICING STRATEGIES FOR NEW PRODUCTS/SERVICES

**Skimming:** You charge a high price for a new product or service. As competitors enter the market, you lower the price to reach more buyers. This strategy works best when your customers are early adopters or less sensitive to price.

**Penetration Pricing:** The opposite of skimming. You charge a low price initially to penetrate the market quickly. As you gain market share, you increase the price. This strategy works best when your customers are more sensitive to price.

## Keeping Good Records

Records allow producers to:

- Analyze progress
- Identify areas of good (poor) performance
- Plan for the future
- Demonstrate ability to lenders

Records do not have to be detailed or complex to be useful. It is suggested that you keep and review the following records on a regular basis: balance sheet, income statement, cash-flow statement, and budget.

## Knowing When to Quit

An essential part of a good financial plan is knowing when to quit and having an exit strategy that specifies situations in which the business or parts of the business would close.

The economic viability or desirability of certain farm activities will change over time, and parts of the business may become less profitable; sometimes even a good idea simply runs its course. A successful agritourism business will adapt and be responsive to evolving market opportunities.



Bread and Butter Farm, Shelburne, VT

## Financing

Not surprisingly, when farmers are asked what the largest hurdle is to starting or expanding their agritourism businesses, they say financing. This answer is borne out in numerous recent surveys, but it may be possible to attract public and private investments, apart from obtaining a loan from your local bank. One funding opportunity to be aware of is the USDA Rural Development Value Added Producer Grants. Several farms have taken advantage of this to advance their value-added and agritourism operations. Read their stories in the Appendix.

## Permits, Regulations, and Licenses

Agritourism is affected by licenses, permits, and regulations defined by elected officials at all levels of government, including members of local select boards, state legislatures, and U.S. Congress. Specifically, regulations may apply to equipment used in retail farm sales, such as refrigerators, freezers, and scales. Depending on the activities offered,

**“ I never thought about doing ‘agritourism,’ I just wanted people to come see the farm, see the plants and the animals, and engage with us, the farmers. I didn’t see it as tourism, but real life! I wish I had known how tricky it would be to make sure we are doing everything right from a town and state standpoint. It isn’t as easy as just opening up your farm to visitors!”**

— Corie Pierce, Bread and Butter Farm, Shelburne, VT

commercial catering, food processing, and liquor licenses may also apply. Finally, there will likely be regulations for packaging of milk, meat, and poultry products. It is important to investigate all regulations applicable to your agritourism enterprise in order to avoid penalties, fines, or interruptions to your business. Requirements also may change from time to time, so it is wise to contact your town clerk or administrator and your state’s department of taxes, the Agency of Agriculture, Department of Health, U.S. Department of Agriculture, U.S. Food and Drug Administration, and others for the latest information and requirements.

### Green Eggs & Ham Farm

Green Eggs and Ham Farm is a fictional place in a rural part of Any Town, Vermont. It’s a successful and diversified business that sells milk, meat, vegetables, and bakery products. Some of the items produced on the farm are sold wholesale and can be found in local stores.

Now the owners of the Green Eggs and Ham Farm are expanding their business to include a variety of activities, including social, entertainment, and educational events. In recent years, the farm has sponsored live performances, weekly food fairs in the warmer months, and summer camps for children.

Although the farm has always been considered a valuable community asset, its growth is raising

concerns about increased traffic and parking, its use of temporary signs, and whether it still conforms to local and state regulations.

In order to head off any future conflicts and to improve their standing with local lenders, the owners worked with the town’s planning commission to amend rural area zoning bylaws to include more options for farmers interested in pursuing agritourism.

With new town regulations in hand, the owners of Green Eggs and Ham now have peace of mind that the activities they want to offer on their farm to enhance their profitability are allowed.

SOURCE: Dean Pierce, Director of Planning and Zoning, Shelburne, VT.

## NAVIGATING LOCAL LAND USE REGULATIONS

Land use and zoning bylaws are handled by municipal government, typically administrative officers and local zoning commissions or development review boards. You can contact these individuals and entities to determine which ordinances may be in place in your area. The nature of zoning ordinances and the ability to obtain zoning variances or waivers will vary greatly with each locality. A use can be “permitted” or “conditional” and requires a quasi-judicial review board or planning commission review. All local regulatory decisions may be appealed, although this can be a time-consuming process and may require hiring consultants, engineers, or lawyers.

Examples of agritourism enterprises that often have associated land use regulations include:

- Bed-and-breakfasts
- Tasting rooms
- Eating/drinking establishments (even if temporary)
- Events held on farm land
- Classes on topics such as food preparation, fiber arts, general cooking, and cheese making

Some zoning requirements that are considered hurdles for beginning agritourism businesses:

- Limiting or prohibiting specific commercial recreational activities in an area
- Requiring flush toilets and other facilities for sanitation
- Prohibiting attractions, restaurants, or bed-and-breakfasts in certain areas

**“ Yes, regulations can be complicated. But understanding them and getting appropriate permits—since not all activities on the farm might be exempt—is like having an insurance policy; it will protect you down the road.”**

— Dean Pierce, Director of Planning and Zoning Shelburne, VT

### How to Amend Local Zoning

It is possible to amend your town’s zoning bylaws or ordinances by following these steps:

- Meet with your planning commission or development review board with your ideas for change.
- Look for supportive language in your town plan; if it’s not there, help amend the plan.
- Be prepared to get petition signatures if your town requires them.



Silloway Maple, Randolph, VT. Photo: Dig In Vermont

## Sample Cash Flow Projection for a Farm Stand

<b>Name: My Farm</b>		
<b>For the period of:</b> January 1 – December 31		
<b>Cash Receipts</b>		
Farm Stand	\$26,000	(approximately \$2,000/month, \$500/week)
<b>Cash Expenses (-)</b>		
<b>Variable Expenses</b>		
Cost of Goods Sold	\$10,000	(cost of material inputs and labor used to produce food)
Farm Stand Labor	\$2,912	Staffed one afternoon per week. Other times are self-serve. 208 hours of staff time at \$14/hour.
Licenses and Permits	\$15	Meat retail license: \$15
Marketing, Advertising, Promotion	\$694	\$5/week Facebook advertising, \$48/week transactional ad in print newspaper 8 weeks, \$50 for business cards
Office Supplies	\$60	ink cartridge
Packaging Supplies	\$85	paper bags
Bags, Jars, Boxes, Labels, etc	\$40	labels with farm logo
Pest Control	\$40	mouse and rat traps, fly paper
Processing Services	\$0	
Repairs and Maintenance	\$18	replacement floorboard
Supplies	\$142	hanging scale (\$69), mulch (\$45), annuals potted flowers (\$28)
Training	\$0	only one employee, training did not cost anything
Other		
<b>Total Variable Expenses</b>	\$14,006	
<b>Fixed Expenses</b>		
Interest	\$0	
Insurance	\$75	Whole farm policy is ~\$500, so attribute 15% of that to farm stand.
Lease – Machinery, Equipment	\$0	
Lease – Land	\$0	
Property Tax	\$0	Accounted for in cost of goods sold, building exempt under “current use”
Utilities – heat	\$600	Rinai heater
Utilities – electric	\$420	\$35/month
Utilities – water	\$0	
Telephone	\$0	
Website/Internet Expense	\$580	Web – \$100/year, Internet ½ of \$60/month bill (\$480)
Other		
<b>Total Fixed Expenses</b>	\$1,675	
<b>TOTAL CASH EXPENSES</b>	\$15,681	
<b>RECEIPTS MINUS EXPENSES</b>	\$10,319	\$26,000 – \$15,681

<b>Capital Contributions (+)</b>		
Loan	\$0	
Grant	\$0	(SARE grant received in previous years for season extension research.)
Sale of Capital Assets	\$0	
Other	\$0	
<b>Capital Expenditures (-)</b>		
Construction Materials (walls, roof, shelving, insulation, bathroom, display stands, etc.)	\$550	Self-closing screen door (\$250); display stand (\$80); handmade shelving from salvaged wood (\$120); Port-O-Let rental (\$100)
Foundation/Site Prep	\$170	Driveway grading (\$85/hour, 2 hours)
Plumbing, Electrical	\$0	None needed
Design/Architect	\$0	DIY
General Contractor	\$0	DIY
Equipment (cash registers, refrigerators, coolers, freezers)	\$3,721	Thermometers for freezers and fridge (\$24.99x2); Ipad and Square app for cash register (\$219); padlocked cash box for self-serve (\$12); glass case fridge (\$1,900); glass display freezer, refurbished (\$1,500); shelving (\$40)
Other		
<b>Debt Service (-)</b>	\$0	
<b>NET RETAINED CASH EARNINGS (Deficit)</b>	\$5,878	\$10,319 - \$4,441 = \$5,878
<b>Capital Reserve (what you set aside for depreciation and reinvestment in the business)</b>	\$500	
<b>NET AFTER CAPITAL RESERVE ALLOCATION</b>	\$5,378	\$5,878 - \$500 = \$5,378

SOURCE: Vermont Farm Viability Enhancement Program, adapted by Rose Wilson Business Development Services.

### ■ Regulating location and size of structures

Because a site plan review also may be required for even permitted commercial uses, the town planning commission or zoning administrator also might need to review parking, lighting, traffic, vehicle access, and signs associated with the proposed use and other impacts on the town and the public.

In some cases, permits may be required for constructing or modifying the potable water supply or wastewater system for new or existing buildings or structures or for changing the use of existing buildings or structures.

Some municipalities do not have zoning. For these communities, town plans can contain clear community standards about the desire to protect farmlands from encroaching development or to protect contiguous forest lands and thereby reinforce the consideration of these factors in Act 250 decisions on proposed large development projects.

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## KEY LAND USE QUESTIONS

- Is the use of your land for agritourism activities permissible? Have you talked to your local planning board or commission?
- What renovations will be needed on the property, if any?
- Have you talked to your neighbors about your plans? Are they receptive and supportive, or irritated? Do you have a plan to overcome negative feedback?
- Is there adequate parking for large groups? Do you have turn-around areas for school buses?
- Are there land, water, or wildlife issues that might affect your plans?

*This brief introduction to business and financial planning and the taxes and regulations that could affect your agritourism enterprise is intended to help you identify the issues that need to be included in your farm's business plan, and to help you become a better informed consumer of legal, financial, or farm viability services.*

*The regulations that are relevant to you will vary greatly depending upon the type, location, and details of your enterprise. This document is not a complete listing of all such regulations and is not intended as legal advice. It is very important that you take the time to investigate applicable laws and regulations in order to avoid penalties, fines, or obstacles that could interrupt your business.*

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## Also in this series:

### How To...

- Host Weddings on Your Farm
- Host Dinners on Your Farm
- Host Summer Camp on Your Farm
- Develop a Farm Stand
- Develop a Farm Stay
- Develop a Farm Tour
- Develop a Pick-Your-Own Business

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### Assessing Your Farm for Agritourism

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### Business & Financial Planning

REFERENCES: “What Is a Business Plan?” from “Agritourism in Focus: A Guide for Tennessee Farmers,” University of Tennessee Extension, Center for Profitable Agriculture. “Choice of Business Entities” and “General Regulations” from “A Legal Guide to the Business of Farming in Vermont,” University of Vermont Extension and Annette Higby Esq., 2006. “Budgeting” from Roth and J.A. Hyde. “Partial Budgeting for Agricultural Businesses,” G.W. Penn State Agricultural Research and Cooperative Extension, 2002. “Navigating Local Land Use Regulations” from Agricultural Marketing Resources Center, 1111 NSRIC, Iowa State University. THIS CHAPTER was based on the Rutgers Extension training module, “Financial Management: Budgeting and Pricing for Agritourism.” It was adapted in 2014 by Barbara Noyes Pulling, Rutland Regional Planning Commission. Land use content was written by Barbara Noyes Pulling, Rutland Regional Planning Commission, with support from Stephanie Smith, Vermont Agency of Agriculture. Reviewed by John Ryan, Vermont Sustainable Jobs Fund and Sam Smith, Intervale Center. Chris Granstrom, Lincoln Peak Winery; Jordan Von Trapp, Bliss Ridge Farm; Peg Elmer, Community Resilience and Chairperson of Farm to Plate Agricultural Land Use Planning Task Force; Dean Pierce, Director of Planning and Zoning, Shelburne, VT; and Lisa Chase, University of Vermont Extension.

### Offering High-Quality On-Farm Experiences

REFERENCES: “Strong Customer Service” from “Agritourism in Focus: A Guide for Tennessee Farmers,” University of Tennessee Extension. THIS CHAPTER was based on: “Best Management Practices in Agritourism,” by Lisa Chase and Varna M. Ramaswamy, University of Vermont Extension; Steven W. Burr and Jascha Zeitlin, Utah State University Extension; Gary P. Green and Michael Dougherty, University of Wisconsin; Vermont Farms! Association. Marketing Resource Center, 2007 Adapted in 2014 by Vera Simon Nobes, Vermont Farms! Association. Reviewed by Lisa Chase, University of Vermont Extension; Kim Goodling, Vermont Grand View Farm.

### Safety & Risk Management

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