



CHAPTER 1

Introduction— Why Bother

How's business?

If you're like most farmers, you'd answer with a recount of the recent rains, the arugula harvest or the flea beetle you're battling. It wouldn't be an overview of your profitability.

After all, you decided to become a farmer because you love being outside, working the land and making a difference in the way we eat and farm. Of course, you want to earn a decent living to support yourself and your family.

When you decided to become a farmer, you also became an entrepreneur and a business person. In order to be ecologically *and* financially sustainable, you must understand the basics of accounting and bookkeeping. Good bookkeeping can give you the information you need to improve your profitability, make good investment decisions and manage your debt. And you will have what you need to write a business plan, which you may have to do every once in a while. In other words, good business management helps you make money.

Really?! Yes, really.

Let's face it, accounting is not sexy, and most people dread it more than the dentist. Every so often, I have a client who discovers the power of bookkeeping and the story that numbers can tell about a business. This happened for Laura Meister of Farm Girl Farm. I was curious, what sparked her interest and how could her story inspire other farmers to see the value in numbers? I asked her, "Why Bother?" Her response was pretty powerful!

How Much for How Much?*by Laura Meister*

When I started growing vegetables ten years ago, it was all I could do to keep up with the start-up math: how many square feet in an acre again? How many CSA¹ members do we think we can sign up in our first season? How much food do they expect in a box? How many weeks are we serving them? So, then, how much do we grow? How much can we grow? And how many seeds does that mean? And when I finally had all those numbers banged out, I was nearly done in by the Fedco catalog—now I've got to convert ounces to grams? Are you kidding me?

Once all that was more or less behind me and the arrival of spring forced my attention to the real playing field—the actual field—I abandoned my desk entirely. I thought I'd made my plans well enough, and if I now rode the rollercoaster with my white knuckles gripping the bar until Thanksgiving, I'd surely have some money in my pocket to show for all this sweat.

I worked hard. Really hard. Really goddamned hard. You know how hard I worked because you work that way too. I barely slept. I lost my business partner because it turned out this kind of hard work was not what she'd had in mind. Although I made every rookie mistake in the book, I managed to wrestle some produce from the ground and feed my 40 CSA members. I even had some surplus so I started calling scary chefs who turned out to be less scary than I thought and wanted to buy what I was selling. So when the snow finally flew that fall, I thought I'd had a pretty successful season.

But I had no money in the bank and a giant credit card bill from start-up expenses that I'd never repaid. So I got a job stocking produce at our local Co-op and worked until late spring the following season. Thank god for that job, but I thought I'd be able to use the winter months to plan the next season and go to a few yoga classes to heal my back. I started Season Two behind the eight ball, as my mother says.

One thing was clear to me—my farming days were numbered. I could not afford to work another season of blood, sweat and tears, only to find myself perhaps deeper in debt than after Season One. I knew I had to do something, and I knew I couldn't possibly work

harder, so I was going to have to work differently. In my neighborhood, an organization to support farmers called Berkshire Grown sponsored a business class, Tilling the Soil of Opportunity, a 10-week course designed for new farm operators. I signed up.

We were invited to bring our financial records from previous seasons. I had none. Not a receipt, not an invoice. The last thing I'd written down was where I was going to plant the tomatoes. So I started from scratch. "It's ok," my instructor said. "Guess." With his coaching, I guessed at every single expense for the coming season, by month, and potential revenue from all my potential customers and income sources. Tedious does not begin to describe the process. But at the end, I had a cash flow plan. I used that plan like a roadmap for Season Two. Whenever a decision came at me, instead of wavering, hemming and hawing, I simply looked at my plan—a friend wanted to come work for me for the season, could I afford her? (No.) Should I buy the tractor that sounds exactly like the one I need? (Not now.) How many tomato stakes can I buy this week, and how many if I wait until next week? (100 now and 100 next week). The cash flow plan was my North Star.

At first I thought it was an amazing coincidence that my real numbers turned out to be so close to what I'd guessed. Later I realized the enormous impact of having a plan—I didn't go wildly over my projected expenses because I consulted the plan before I spent money. If my income wasn't adding up to the projections, I made a couple of more phone calls, and sold a few more turnips until I was where I was supposed to be.

There have been good seasons and bad seasons since those first two—some years I had a solid plan, some years I had tomato blight or a hurricane. After those disasters, I was very resistant to face my numbers and make a good plan for the following season; it was just too depressing. And after a few years of avoiding the numbers, I was back in a hole of debt. This past winter, I faced my fears, rolled up my sleeves and got way down and dirty with the details.

I know now that ignoring the numbers and expecting to be able to continue to do the work I love is tantamount to not eating and expecting to be able to work through the day. If I don't take care of the numbers, I will be back at that produce-stocking job in a heartbeat.

Believe it or not, I now look forward to my time with the numbers. I used to think they were black and white and boring, but they are magical and powerful teachers, and they are the keys to the kingdom. Here's to our calculators and a successful growing season!

At a very base level, you need to manage your books so that you can file your taxes at the end of the year. If you need a loan to purchase a new tractor, the bank will want a profit and loss (P&L) statement, a balance sheet and a statement of cash flows. And if you're applying for a grant, you'll need a business plan.

Beyond that, good bookkeeping can actually help you reduce costs (even if you hire a bookkeeper) and keep you out of trouble. There's so much richness in the numbers that you do yourself a disservice to ignore them.

Understand What Makes You Money (and Why)

Do you know which farmers market is most profitable for you? Do you know if you're making money on your chickens? You probably have a gut instinct. But how bummed would you be if you realized that you were actually losing money on the meat birds? While you may be tracking that more money is coming into your business than is leaving (i.e., you are running a profitable business), it could be that some of your products are losing money. If you don't track your revenues and expenses effectively, then you don't know for sure.

Brett Grohsgal of Even' Star Organic Farm in Southern Maryland launched his business in 1997, thinking he would be the "Tomato Man," and grew 60 varieties that were truly vine ripened. After four years in business, things were going well; he started diversifying his crops and selling through a CSA model, but he knew he could do better. In February 2005, as he plotted his crop plan, we sat down with his books. We went through every expense and every sale as it related to each crop. We figured how much time he spent propagating seeds, sowing, weeding, harvesting and sorting. We calculated the cost to produce a case of tomatoes that he sold for \$30. When he factored in all the labor and production costs, he was netting only 12 cents a case!² Cucumbers, okra and sweet potatoes, on the other hand, were cash cows. He knew that no amount of tomato sales would be sufficient to run a

profitable farm; if he wanted to stay in business, he needed to further diversify his vegetable offerings and limit tomato production.³

By understanding what makes you money, you can focus your current operations to maximize profitability and develop strategies for growth.

Invest in Your Business

Can you afford a greenhouse, or to hire employees? Is that tractor in your budget?

Hannah and Ben Wolbach of Skinny Dip Farm were overworked and understaffed. They barely hired any help because they “had no confidence in their ability to forecast for even one season ahead.” They weren’t sure if they could afford the added expense.

By creating a cash flow budget, they had the confidence to grow their business and hire staff because they could project the impact of payroll expense on their profitability.

Plan for Growth

What’s the best way to grow your business? Should you expand current operations, or diversify your offerings? Can you afford the loan that will help finance your plans?

Wingate Farm in New Hampshire wanted to devise a strategy to grow its business. It was raising meat birds, laying birds and vegetables. After their first year, owners Susan and Olivia had an \$8,000 profit. They were pleased to have earned a modest profit, but also knew they needed to do better to grow a sustainable business. They questioned where to focus their attention. Similar to the analysis Brett did, Susan and Olivia combed through their detailed record keeping and discovered that, after accounting for labor, they were earning only 10 cents a bird! Meanwhile, the eggs were netting \$1.15 a dozen. These facts informed their strategy—both in terms of focusing on egg production and reconfiguring the meat-bird operation to be more profitable.

Wingate Farms demonstrates how effective bookkeeping and understanding your numbers can be in helping you develop a growth strategy—by providing information about the profitability of specific products.

Good bookkeeping can also help you understand whether a new opportunity makes sense and if you can afford the loans that may be needed. Will that new tractor improve efficiencies enough to increase profitability even

after you repay the loan that's required? Does it make sense to restore an old cider press?

With a growth strategy in mind, you need a plan to get there. What investments do you need to make, and how will you finance them?

Kate Stillman of Stillman's Quality Meats wanted to build her own meat processing facility. There's no question that having the capability to slaughter and butcher her own chickens, as well as butcher her own quadrupeds, would improve the quality of her product, increase efficiencies and help differentiate her product from an increasingly competitive local-meat landscape. The real question was, could she afford it? If she took out a loan to build the facility, could she generate enough profit to pay off the debt? Would the improved efficiencies of the processing facility actually reduce her costs?

By using sound financial forecasting, she decided the answers to these questions were yes, yes and yes. And instead of trying to save enough to finance the processing facility, she opted for bank loans and a USDA grant. The banks and USDA wanted to see the numbers and the story behind the numbers (that is, the business plan). With her books in good shape, she had what she needed to apply for the financing.

Plan for Slow Periods

Do you know how to plan for the inevitable ebbs and flows of business and cash? During slow periods (like August or January), cash can be tight. If you don't plan properly, and cash is tight, a few things can happen:

- You charge things to your credit card or take out short-term loans; both incur interest.
- You take unnecessary loans or even high-interest rate loans.
- You fall behind on paying your vendors, and they apply finance charges, demand payments in advance of delivery and/or refuse doing business with you altogether.

The unnecessary interest and finance charges can be avoided with proper planning.

A few summers ago, I visited a client, Roberta. She farms outside Washington, DC, and sells primarily to the DC market. During her peak production in August, her customers abandon the city for vacation destinations,

and her wholesale restaurant clients decrease their order sizes. Therefore, in August, she has to be especially careful about cash flow. During our visit, I overheard her asking a worker to wait a few days to cash his paycheck. Given that she knows August will be slow, she can plan for it by understanding her cash shortfall, and budgeting for it.

Avoid Out-of-control Debt

I started working with Laura Meister from Farm Girl Farm not because she wanted to learn bookkeeping and budgeting, but because debt overwhelmed her. She hadn't budgeted properly for a couple of years, borrowed more than she could afford to pay back and got herself in trouble. In order to figure out the right strategy for Laura, we first had to determine the cause of the mounting debt. Was her business financially sustainable outside the burden of debt? If not, then the increase in debt was resulting from poorly managed operations or a business model that could not succeed. Good accounting records can help her figure out which.

If her base operations were solid, then we needed to dig deeper still. The increasing debt could be because she wasn't generating enough cash to pay it down. Or, that she paid debt too aggressively when she had cash, and then got herself in trouble again during the slow months.

We were able to get her books in order so that we could see:

- Her base operations were profitable.
- The amount she could afford to pay down and when.
- Where she could trim expenses to improve profitability (thereby improving her cash position).

Armed with this knowledge, she could create a plan to streamline operations and pay down debt without compromising her cash flow.

Keep Your Eye on the Prize

For many, the end goal in running a successful farm business is to feed the local food system and enjoy a sustainable lifestyle. To get there, you must understand what makes you money, have an understanding of the best way to grow and have a sound plan before taking on debt. It's about understanding the nature of your business with all its seasonal variances.

As Susan from Wingate Farm describes it:

So much of farming on a smaller scale is about reacting to situations that require immediate attention. It's easy to spend all day running around putting out fires. Amidst all that chaos, it's very easy to lose sight of the bigger picture. Taking the time to think through the big picture when you actually have the brain space/energy is the only way to farm with intention. Then you have a map for your farm and your business plan guides you through the chaos. It allows you to be proactive, instead of reactive.

The goal of this book is to give you the tools to be proactive in how you launch, grow and manage your business. And should you get yourself in trouble and into a cash crisis, you'll have the skills to evaluate your business and correct your course. This book will cover:

- The three primary financial statements (income statement, balance sheet and statement of cash flows)
- The underlying principles of the three financial statements
- How to use the numbers and information in the financial statements to better manage and grow your business
- How to set up your bookkeeping system so you can get the information you need
- Writing a business plan and creating financial projections for a loan or grant
- The underlying growth strategies of the business plan
- How to navigate a cash crisis.

I know business management, accounting and numbers can feel scary. But we'll chunk it down and go step by step. After weaving your own experiences with the concepts in this book, you'll be able to manage both your fields and your office.

Ready? Let's go!

Notes

1. Community Supported Agriculture (CSA) is a business model built upon the relationship between farmer and consumer. CSA farms receive customer payment in advance of the harvest in exchange for weekly distributions of produce during the growing season. This provides the farmer with much-needed

cash at the beginning of the season and offers the customers a connection with the farmer and the assurance of fresh local produce.

2. Nanni, Alfred J., Pachamano, Dessislava and Shanks, Julia, Even' Star Organic Farm (July 27, 2007). AAA 2008 MAS Meeting Paper. Available at SSRN: ssrn.com/abstract=1003386
3. He still grew tomatoes as it was a way to lure customers to his farm. He also knew that selling only cucumbers, okra and sweet potatoes was not a viable option from a marketing perspective.