



Business Planning using Cash Flow Analysis

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Looking to the Future

- **What are your skills?**
- **What is your tolerance for risk?**
- **What is your capacity to deal with ambiguity?**
- **What is your capacity to lead others?**
- **What is your capacity for self-discipline?**



What is your capacity to gather information?

define success

acres

tractors

cows

gross sales

yield/acre

net profit

define success

**enough net profit to meet your goals
for your family and your business**

know your business

- **Plan to succeed, plan to be happy**
- **Tell your story in a business plan**
- **A budget is a plan in numbers**
- **Plan for contingencies**

manage your business

Three basic business skills:

- 1. Financial**
- 2. Production**
- 3. Marketing**

***If you are lucky you have two of these skills.
Partner with or hire the skill you don't have.***

Plan to Succeed

Mission: The mission for your business guides everything that you do. Keep it simple by finding the lowest common denominator.

Objectives:

Objectives are general directions for your business. They outline what you want the business to look like in the future. Stay focused on your Mission Statement.

Objective 1:

Objective 2:

Objective 3:

Objective 4:

SMART Goals: Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

SMART Goal a):

SMART Goal a):

SMART Goal a):

SMART Goal a):

Action Plan:

i.

Action Plan:

i.

Action Plan:

i.
ii.
iii.

Action Plan:

i.
ii.

SMART Goal b):

SMART Goal b):

SMART Goal b):

SMART Goal b):

Action Plan:

i.
ii.
iii.

Action Plan:

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Action Plan:

i.
ii.

Action Plans: Every goal must have action plans that explain how that goal will be accomplished. Explain who will do what, where, when, how, and how often.

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Objective 1:	Objective 2:	Objective 3:	Objective 4:
PEOPLE	FINANCIAL	PRODUCTION	MARKETING

SMART Goals: Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

Objective 1: PEOPLE	Objective 2: FINANCIAL	Objective 3: PRODUCTION	Objective 4: MARKETING
<p>SMART Goal a):</p>	<p>SMART Goal a):</p>	<p>SMART Goal a):</p>	<p>SMART Goal a):</p>
<p>Action Plan:</p> <ul style="list-style-type: none"> i. 	<p>Action Plan:</p> <ul style="list-style-type: none"> i. 	<p>Action Plan:</p> <ul style="list-style-type: none"> i. ii. iii. 	<p>Action Plan:</p> <ul style="list-style-type: none"> i. ii.
<p>SMART Goal b):</p>	<p>SMART Goal b):</p>	<p>SMART Goal b):</p>	<p>SMART Goal b):</p>
<p>Action Plan:</p> <ul style="list-style-type: none"> i. ii. iii. 	<p>Action Plan:</p> <ul style="list-style-type: none"> i. ii. iii. 	<p>Action Plan:</p> <ul style="list-style-type: none"> i. ii. 	<p>Action Plan:</p> <ul style="list-style-type: none"> i. ii.

Action Plans: Every goal must have action plans that explain how that goal will be accomplished. Explain who will do what, where, when, how, and how often.

Plan to Succeed

Mission: The mission for your business guides everything that you do. Keep it simple by finding the lowest common denominator.

The mission of Brice's Pastured Pork is to grow good pork, make good money and be good people.

Objectives:

Objectives are general directions for your business. They outline what you want the business to look like in the future. Stay focused on your Mission Statement.

Objective 1:

Achieve an appropriate balance of work and home life

Objective 2:

Make enough money to pay myself, the bank and reinvest in the farm

Objective 3:

Increase efficiency

Objective 4:

Increase communication with retail customers

SMART Goals: Remember, a goal without a deadline is just a dream! **S** — Specific **M** — Measurable **A** — Attainable **R** — Rewarding **T** — Timed

SMART Goal a):
Take Sundays off

Action Plan:

- i. Train Charlie for Sunday tasks, give him #'s to call
- ii. Measure his performance

SMART Goal a):
Make a net profit (including draw) of \$30,000 this operating cycle

Action Plan:

- i. Compare cash flow budget to P&L and bank accounts monthly, adjust as needed

SMART Goal a):
Increase average weight gain per animal per month

Action Plan:

- i. Measure pounds gained per month

SMART Goal a):
Start and maintain a blog to show customers progress on farm

Action Plan:

- i. Research platforms
- ii. Block off 1 hour each week to write post/ edit pics

SMART Goal b):

Action Plan:

- i.
- ii.
- iii.

SMART Goal b):

Action Plan:

- i.
- ii.
- iii.

SMART Goal b):
Test soil in pastures to find out nutrient and lime needs

Action Plan:

- i. Rotate pastures to assure best use of feed and avoid nutrient runoff/waste

SMART Goal b):
Invite customers to participate in barbeque contest, %of proceeds to be donated to local 4-H sale

Action Plan:

- i. Pick date and venue
- ii. Send out e-mail blast with invitation to 4-H sale day

Action Plans: Every goal must have an action plan that explains how that goal will be accomplished. Explain who will do what, where, when, how, and how often.



Develop a budget to ensure you are valued.



- 1) Use last year's records as a starting point for your five-line income statement. If you're starting a new operation, plenty of information is available!
For example:

- <http://agalternatives.aers.psu.edu/>
- <http://cdp.wisc.edu/Budgets,%20Spead%20&%20Programs.htm>
- <http://www.ces.uga.edu/Agriculture/agecon/printedbudgets.htm>

Make sure you take regional cost differences into account (land rent is a good example of this.)

- 2) Calculate your five-line income statement.

COGS = any expense that helps produce one more unit of output.

Production labor and associated payroll expenses, including workman's compensation, unemployment taxes, FICA, Medicare, health insurance
Crop or livestock inputs – seed, fertilizer, soils, chemicals, feed

Overhead = any expense that you incur no matter how much production you actually have.

The main ones are the "**DIRTI**" Five:

Depreciation, Interest, Repairs, Taxes, Insurance

Don't forget to include Managers' and Bookkeepers' wages/salaries, marketing, and utilities.

- 3) Calculate the percent of sales for each line.

(Divide the dollars for each line by the total sales.)

Historical	Dollars	% of Sales
Sales:	\$	100%
- Cost of Goods Sold:	\$	%
= Gross Margin:	\$	%
- Overhead	\$	%
= Profit (Net Income)	\$	%

- 4) Create your budget—from the bottom up. Start with your desired draw (the amount you and your family need to take from the operation to live on, plus income taxes). Add the principal portion of any loan payments you need to make in 2011 to get the total profit needed from the operation.

- 5) Add your overhead expenses to the required profit to figure the gross margin the operation will need to yield. Your overhead expenses shouldn't change much from the previous year, unless you've undergone a significant expansion or other major change.

- 6) Determine the breakeven sales needed in your operation to support the overhead obligations and profit required. Do this by dividing the gross margin (E) by the gross margin as a percent of sales (taken from your records, calculated in step 3).

- 7) Step back and see if this budget makes sense. Is this sales volume reasonable for this year, especially if it's your first year in business? Is it possible for the acreage you raise and the market prices of your products? If it is, great! Develop a marketing plan (action plan) to achieve that level of sales. If not, that's okay. Rework until you have a plan that is sound. If this is a building year, how will you achieve your goal (and finance the operation in the meantime)? Address these questions early in the year to ensure you have a complete plan.

BUDGET		
Owner Draw Desired (include income taxes):	\$	(A)
Bank principal payments required:	\$	(B)
TOTAL PROFIT REQUIRED: (A+B)	\$	(C)
Overhead expenses	\$	(D)
GROSS MARGIN REQUIRED: (C+D)	\$	(E)
Divide by Gross Margin percentage	\$	(F)
SALES VOLUME REQUIRED: \$ (E/[F as % of sales—from historical])		(G)

more instructions at www.foodshedguide.org

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- 3) Calculate the percent of sales for each line.

(Divide the dollars for each line by the total sales.)

Historical	Dollars	% of Sales
Sales (<i>total income</i>)	\$113,400	100%
- Cost of Goods Sold: (<i>variable costs</i>)	\$87,585	77%
= Gross Margin:	\$25,815	23%
- Overhead (<i>fixed costs</i>)	\$15,034	13%
= Profit (Net Margin)	\$10,780	10%

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BUDGET	
Owner Draw Desired (include income taxes):	\$30,000 (A)
Bank principal payments required:	\$20,000 (B)
TOTAL PROFIT REQUIRED: (A+B)	\$50,000 (C)
Overhead expenses	\$15,000 (D)
GROSS MARGIN REQUIRED: (C+D)	\$65,000 (E)
Divide by Gross Margin percentage	$1 \div .77 = .23$ (23%) (F)
SALES VOLUME REQUIRED: (E/F as % of sales—from historical])	\$282,608 (G)

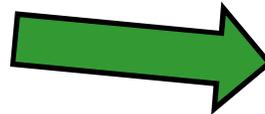
Showing Annual Business Results

The 5-Line Income Statement

Historical	Dollars	% of Sales
Sales <i>(total income)</i>	\$113,400	100%
- Cost of Goods Sold: <i>(variable costs)</i>	\$87,585	77%
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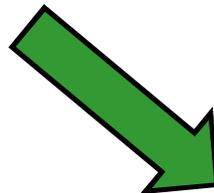
Showing Annual Business Results

This 5-Line
Income Statement



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Becomes the basis
of this Cash Flow
Analysis
Spreadsheet



		As % Total Sales
GROSS SALES PER 40 HEAD of SOWS:	\$ 113,400.00	100%
	<u>Annual</u>	
	\$ -	
TOTAL VARIABLE COSTS <i>also called Cost of Goods Sold or COGS</i>	\$ 87,585.00	77%
GROSS MARGIN (Total Sales-Variable Costs=Gross Margin)	\$25,815	23%
TOTAL FIXED COSTS <i>or Overhead:</i>	\$ 15,034.32	13%
NET MARGIN (Sales-Variable Costs-Fixed Costs=Net Return) <i>or net profit</i>	\$10,780.68	10%

The Concept of Cash Flow Budgeting

JANUARY	FEBRUARY	MARCH
TOTAL INCOME (TI)	TOTAL INCOME (TI)	TOTAL INCOME (TI)
VARIABLE COSTS (VC)	VARIABLE COSTS (VC)	VARIABLE COSTS (VC)
GROSS MARGIN (TI-VC)	GROSS MARGIN (TI-VC)	GROSS MARGIN (TI-VC)
FIXED COSTS (FC)	FIXED COSTS (FC)	FIXED COSTS (FC)
NET MARGIN (TI-VC-FC)	NET MARGIN (TI-VC-FC)	NET MARGIN (TI-VC-FC)
BEGINNING CASH	BEGINNING CASH	BEGINNING CASH
MONTHLY CASH FLOW	MONTHLY CASH FLOW	MONTHLY CASH FLOW
ENDING CASH	ENDING CASH	ENDING CASH

The diagram illustrates the relationship between net margin and cash flow. Red arrows show that the ending cash of one month becomes the beginning cash of the next. Additionally, red arrows point from the 'ENDING CASH' row of each month to the 'MONTHLY CASH FLOW' row of the same month, indicating that the net margin for that month is converted into cash flow.



Pastured Pork Cash Flow Analysis

Summary of Annual Results from Spreadsheet (the 5-Line Income Statement)

		As % Total Sales
GROSS SALES PER 40 HEAD of SOWS:	\$ 113,400.00	100%
	<u>Annual</u>	
	\$ -	
TOTAL VARIABLE COSTS <i>also called Cost of Goods Sold or COGS</i>	\$ 87,585.00	77%
GROSS MARGIN (Total Sales-Variable Costs=Gross Margin)	\$25,815	23%
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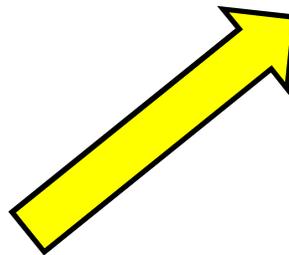
Pastured Pork Cash Flow Analysis

Monthly Results Spreadsheet

														As % Total Sales
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Annual	
GROSS SALES PER 40 HEAD of SOWS:	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 113,400.00	100%
A. TOTAL VARIABLE COSTS	\$ 7,227.95	\$ 6,877.95	\$ 7,727.95	\$ 6,727.95	\$ 6,877.95	\$ 6,727.95	\$ 8,102.95	\$ 6,877.95	\$ 6,727.95	\$ 8,102.95	\$ 7,877.95	\$ 7,727.95	\$ 87,585.80	77%
GROSS MARGIN (Total Sales-Variab. Costs=Gross Margin) This is based on results from previous year of operation, or it is estimated from a benchmark														23%
B. TOTAL FIXED COSTS or Overhead	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 13,240.20	11%
NET MARGIN (Sales-Variab. Costs-Fixed Costs=Net Return) Also called net profit or net income in dollars, or net profit margin when described as a percentage														10%
E. MONTHLY CASH FLOW (D-C)	\$ 1,118.70	\$ 1,468.70	\$ 618.70	\$ 1,618.70	\$ 1,468.70	\$ 1,618.70	\$ 1,403.70	\$ 1,468.70	\$ 1,618.70	\$ 1,403.70	\$ 468.70	\$ 1,368.70	\$ 15,824.80	
G. Beginning Cash (Checking Account)	\$25,000.00	\$26,118.70	\$27,587.40	\$28,206.10	\$29,674.80	\$31,293.50	\$32,912.20	\$34,480.90	\$35,874.60	\$37,493.30	\$38,962.00	\$39,455.70		
H. Ending Cash (Checking Account)	\$26,118.70	\$27,587.40	\$28,206.10	\$29,674.80	\$31,293.50	\$32,912.20	\$34,480.90	\$35,874.60	\$37,493.30	\$38,962.00	\$39,455.70	\$40,824.40		

Brica's Pastured Pork 40 sows

Cash flows are highlighted in yellow



Pastured Pork Monthly Cash Flow Analysis

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Annual	As % Total Sales	
GROSS RETURNS PER 40 HEAD OF SOWS:	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 113,400.00	100%	
Head Sold	50	50	50	50	50	50	50	50	50	50	50	50	600		
Price Per CWT	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00	\$ 90.00		
Price Per Head (280 lb @ 75% yield)	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00	\$ 189.00		
VARIABLE COSTS PER 40 SOWS:															
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Annual		
Replacement Breeding Stock Purchased							\$1,375.00			\$1,375.00			\$ 2,750.00		
Semen Cost		\$150.00			\$150.00			\$150.00			\$150.00		\$ 600.00		
Pasture Rent	\$500.00												\$ 500.00		
Feed Cost (total ration)	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$5,487.81	\$ 65,973.72		
Bedding Cost	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$514.15	\$ 6,169.80		
Farrowing Hut Repair												\$1,000.00	\$ 1,000.00		
Hired Labor	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$ 2,400.00		
Veterinary & Supplies	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$ 960.00		
Utilities, Fuel, Oil	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$ 2,400.00		
Manure Hauling			\$1,000.00									\$1,000.00	\$ 2,000.00		
Pork Checkoff	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$98.55	\$ 1,182.60		
Death Loss	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$137.44	\$ 1,649.28		
													\$ -		
													\$ -		
A. TOTAL VARIABLE COSTS	also \$ 7,227.95	\$ 6,877.95	\$ 7,727.95	\$ 6,727.95	\$ 6,877.95	\$ 6,727.95	\$ 8,102.95	\$ 6,877.95	\$ 6,727.95	\$ 8,102.95	\$ 7,877.95	\$ 7,727.95	\$ 87,585.40	77%	
GROSS MARGIN (Total Sales-Variable Costs=Gross Margin) <i>This is based on results from previous year of operation, or it is estimated from a benchmark</i>														23%	
FIXED COSTS PER 40 SOWS:															
Skid Loader Lease	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	\$ 212.01	2544.12	
Hoop Building Lease	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	\$ 353.35	4,240.20	
Breeding Stock Lease	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	8,250.00	
													\$ -		
B. TOTAL FIXED COSTS or Overhead:	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 1,103.35	\$ 353.35	\$ 15,034.32	13%
NET MARGIN (Sales-Variable Costs-Fixed Costs=Net Return) <i>Also called net profit or net income in dollars, or net profit margin when described as a percentage</i>													\$10,780.28	10%	
C. TOTAL COSTS PER 40 HEAD OF SOWS: (A+B)	\$ 8,331.30	\$ 7,981.30	\$ 8,831.30	\$ 7,831.30	\$ 7,981.30	\$ 7,831.30	\$ 9,206.30	\$ 7,981.30	\$ 7,831.30	\$ 9,206.30	\$ 8,981.30	\$ 8,081.30	\$ 100,075.60		
GROSS RETURNS PER 40 HEAD OF SOWS:	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total		
Fat Hog Sales	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00		
Cull Sow Sales							\$ 1,250.00			\$ 1,250.00					
D. GROSS RETURNS (Sales):	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 9,450.00	\$ 10,700.00	\$ 9,450.00	\$ 9,450.00	\$ 10,700.00	\$ 9,450.00	\$ 9,450.00	\$ 115,900.00		
E. MONTHLY CASH FLOW (D-C)	\$ 1,118.70	\$ 1,468.70	\$ 618.70	\$ 1,618.70	\$ 1,468.70	\$ 1,618.70	\$ 1,493.70	\$ 1,468.70	\$ 1,618.70	\$ 1,493.70	\$ 468.70	\$ 1,368.70	\$ 15,824.40		
G. Beginning Cash (Checking Account)	\$25,000.00	\$26,118.70	\$27,587.40	\$28,206.10	\$29,824.80	\$31,293.50	\$32,912.20	\$34,405.90	\$35,874.60	\$37,493.30	\$38,987.00	\$39,455.70			
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how quickly can you make money?

- **Goal of producing cash in 6 months**
- **Budget to accomplish goal**
- **Pay your bills**
- **Family living expenses**

plan your business

- **Record keeping is required for taxes**
- **Ultimate goal is to manage from records**
- **Need up-to-date and accurate records**
- **Create budget with expectations and measurable results**

starting in the beef business

Like any small business:

income

expenses

cash flow

things to do before starting

- **Save money**
- **Protect credit rating**
- **Gain experience**
- **Network**
- **Plan**



www.annualcreditreport.com



Grass Fed Beef

5-Line Income Statement

Historical	Dollars	% of Sales
Sales <i>(total income)</i>	\$367,200	100%
- Cost of Goods Sold: <i>(variable costs)</i>	\$312,600	85%
= Gross Margin:	\$54,600	15%
- Overhead <i>(fixed costs)</i>	\$7,800	2%
= Profit (Net Margin)	\$46,800	13%



Direct-to-Retail Vegetables 5-Line Income Statement

Historical	Dollars	% of Sales
Sales <i>(total income)</i>	\$134,400	100%
- Cost of Goods Sold: <i>(variable costs)</i>	\$80,096	60%
= Gross Margin:	\$54,304	40%
- Overhead <i>(fixed costs)</i>	\$10,472	8%
= Profit (Net Margin)	\$43,832	33%