

ORGANIC TRANSITION

A BUSINESS PLANNER FOR
FARMERS, RANCHERS AND
FOOD ENTREPRENEURS

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SARE 12 **HANDBOOK**
Sustainable Agriculture
Research & Education

Gigi DiGiacomo
Robert P. King
Dale Nordquist

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A BUSINESS PLANNER FOR
FARMERS, RANCHERS AND
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SARE handbook series 12

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About the Planner

The Tools for Transition Project

The Tools for Transition (TFT) Project is a four-year research program designed to yield new insights about the economics of organic transition; create unique data resources for farmers, other agricultural professionals and lenders; and inform policymakers of the potential economic barriers to organic certification. TFT outreach materials include farm transition profiles, whole-farm and enterprise financial analyses, and business planning materials. They were developed through the analysis of initial farm data, participant surveys and interviews with transitioning farmers. Resources are available for download at <http://eorganic.info/toolsfortransition>. The Tools for Transition Project received a four-year grant (2010-2014) from the USDA's National Institute of Food and Agriculture (award No. 2010-51300-21401).

Minnesota Institute for Sustainable Agriculture (MISA)

Minnesota Institute for Sustainable Agriculture (MISA) is a partnership between University of Minnesota Extension, the College of Food, Agricultural and Natural Resource Sciences, and the Sustainers' Coalition, a group of individuals and community-based nonprofit organizations. The purpose of MISA is to bring together the diverse interests of the agricultural community with interests from across the University community in a cooperative effort to develop and promote sustainable agriculture in Minnesota and beyond.

Sustainable Agriculture Research and Education (SARE)

SARE is a national grants and outreach program working to advance sustainable innovations to the whole of American agriculture. SARE is part of USDA's National Institute of Food and Agriculture (NIFA). See pages 5-6 for SARE grant opportunities and educational materials (books, bulletins, videos and online tools) related to the transition to organic agriculture. For more information, contact: SARE Outreach, 1122 Patapsco Building, University of Maryland, College Park, MD 20742-6715; phone (301) 405-7955; fax (301) 405-7711; info@sare.org; www.sare.org.

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Commonly Used Acronyms

BJF - Bubbly Jen's Farm; the organic processing business created by Vitaly Brukman

CRP - Conservation Reserve Program (USDA)

FSA - Farm Service Agency (USDA)

GMO - Genetically modified organism

MISA - Minnesota Institute for Sustainable Agriculture

NOP - National Organic Program

OSP - Organic System Plan

OSPH - Organic System Plan for Handlers

SARE - Sustainable Agriculture Research and Education

SWOT - Strengths, Weaknesses, Opportunities and Threats

SUSTAINABLE AGRICULTURE RESEARCH AND EDUCATION (SARE)

Opportunities for Organic Farmers and Ag Professionals

Whether it is controlling weeds or pursuing price premiums, making the switch to an organic farming system often presents both new challenges and rewarding opportunities. Over the years, hundreds of farmers, ranchers, educators and researchers have used SARE grants to improve the profitability and ecological management of organic systems by testing new ideas in the areas of production, management and marketing. The USDA's Sustainable Agriculture Research and Education (SARE) program was the first federal program to fund research in organic agriculture and, since 1988, has invested in hundreds of organic research and education projects.

As you use the Planner to map out your transition to organic—or if you are a service provider interested in helping producers transition—consider whether the following opportunities through SARE are right for you. Visit www.sare.org to learn more.

SARE Grant Opportunities

SARE offers several types of competitive grants to support the innovative applied research and outreach efforts of key stakeholders in U.S. agriculture, including:

- **Farmer/Rancher Grants**—these grants help farmers and ranchers test innovative ideas in the field.
- **Research and Education Grants**—for interdisciplinary, in-depth exploration of critical sustainable agriculture issues.
- **Professional Development Program Grants**—fund training programs on sustainable agriculture for Cooperative Extension staff and other educators.
- **Partnership Grants**—for ag professionals who are collaborating with producers to conduct on-farm research and education projects.

Grant programs are administered by four regional offices. For detailed information, deadlines and application instructions visit www.sare.org/grants/apply-for-a-grant.

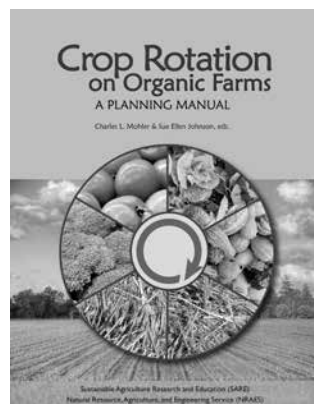
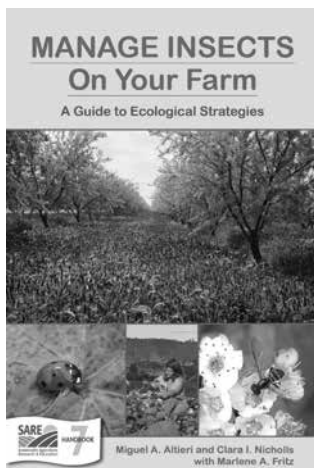
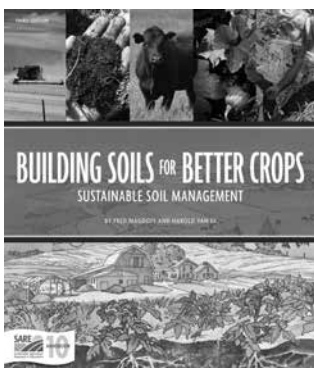
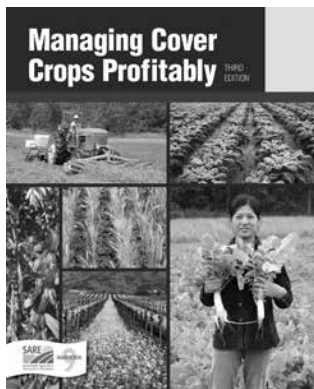
Examples of Funded Projects on Organic Systems

SARE grants are available for research and education projects. Here are just a few examples of how producers, educators and researchers have used SARE grants to improve organic farming systems:

- Dick Grotberg and his partners wanted to turn a 400-acre conventional farm in North Dakota into a diversified organic operation that integrates crops and livestock. They received a SARE grant to monitor how organic management practices changed soil health, which provided valuable baseline data they continue to use as they improve the sustainability of their farm.
- In Washington, Gary Miller and Amy Plant wanted to do more to improve the soils on their organic vegetable farm, so they used a SARE grant to test no-till while growing

Since 1988, SARE has invested \$64.7 million in more than 1,660 research and education projects that address organic systems. Explore your questions by searching through thousands of research reports in SARE's database of projects: www.sare.org/projects.





carrots and leafy greens. After two years, they saw higher sales from no-till beds than tilled beds due to earlier planting dates and lower pest pressure.

- To bolster the organic dairy industry in the Southeast, Extension specialists from North Carolina and Arkansas used a SARE grant to hold conferences and tours for farmers and service providers. Participants discussed how to improve the efficiency and productivity of organic dairies, particularly during the transition period.
- Pennsylvania farmers and Rodale Institute specialists used SARE grants to conduct early research on the roller crimper, an increasingly popular implement that allows farmers to control weeds and add natural inputs, such as compost, without soil-eroding tillage.
- Large-scale vegetable growers in California's Salinas Valley successfully converted to organic, thanks to a SARE-funded research project at the University of California. The researchers monitored fields and provided feedback to the growers, who, in turn, modified their strategies to suit their cropping systems.

Visit SARE's database of projects to explore the entire portfolio of organic research and education projects: www.sare.org/projects.

The SARE Learning Center

In addition to offering competitive grants, SARE maintains a wealth of educational materials in its online Learning Center—a library of practical books, bulletins, grantee-produced information products and other materials—available at www.sare.org/learning-center.

Examples of materials related to organic agriculture include:

- *Transitioning to Organic Production*. This 32-page bulletin describes many promising conversion strategies, covering typical organic production practices, innovative marketing ideas and federal standards for certified organic crop production.
- *A Transition Guide to Certified Organic Crop Management*. This manual outlines National Organic Program standards and guides readers step-by-step through the certification process.
- *Crop Rotation on Organic Farms*. This book provides an in-depth review of crop rotation, including its role in improving soil quality and managing pests.
- *Building Soils for Better Crops*. This book is an in-depth, practical guide to ecological soil management.
- *Managing Cover Crops Profitably*. This book explores how to integrate cover crops—an indispensable tool for organic farmers—into any cropping system.
- *Manage Insects on Your Farm*. This book highlights ecological strategies that improve your farm's natural defenses and encourage beneficial insects.
- *Steel in the Field*. This book shows how today's implements and techniques can control weeds while reducing—or eliminating—herbicides.
- *Resource Guide for Organic Insect and Disease Management*. This 200-page guide, for Northeastern producers, includes information on plant resistance, habitats for beneficial insects, trap cropping and more.
- *Organic Horticulture Training in the Southeast*. This online resources provides teaching modules on various topics for educators who want to conduct organic trainings.

Preface

Are you considering making a transition to organic production or processing? If so, you may be wondering if the price premiums and other potential benefits associated with going organic will outweigh the known production and marketing challenges. You are not alone. Many farmers and food entrepreneurs ask the same question. In truth, there is no way to know for sure. Ultimately, your success as an organic business owner will depend on your goals, your situation heading into transition, the strategies that you put in place when making the switch and your ability to manage unexpected challenges as they arise.

TEXT BOX PT.1

WHAT IS ORGANIC?

“Organic is a labeling term for food or other agricultural products that have been produced according to the USDA organic regulations. ... Producers and handlers must meet these standards to use the word ‘organic’ or the USDA organic seal on food, feed or fiber. Organic operations must show that they protect natural resources, conserve biodiversity and use only approved substances.”

From “Is Organic an Option for Me?” USDA. August 2012.

You can improve your chances of success by writing a business plan to guide your transition to organic. Generally, a business plan describes future intentions and strategies related to operations, marketing, human resources and financial management. It also identifies the resources you will need to achieve your goals—outlining how to use existing resources and how to acquire needed resources. A business plan can be likened to a roadmap that describes where you want to take the business (i.e., organic certification), how you will get there (i.e., transition) and when you will begin the journey. For example, after working through the business planning process you may decide that transitioning to organic management is a good idea but, due to cash flow or other constraints, it makes sense to wait a while before doing so. Or you may decide that the best time to transition is now!

In many ways, a business plan is similar to the Organic System Plan (OSP) or Organic System Plan for Handlers (OSPH) used to document production and processing practices for certification. Like an OSP and OSPH, a business plan is forward looking and comprehensive. And, just as the OSP and OSPH require you to look at your farm as an integrated whole, a business plan requires you to plan for all aspects of farm management that you need to become sustainable: operations, marketing, human resources and finances.

Before writing a business plan, we recommend developing and testing long-term farm business strategies that will help you make it through transition. Just as OSP and OSPH development can help you avoid wasting resources and time on a certification application that may not succeed, business planning can help you explore and test whole-farm strategies before deciding whether to invest time and resources in business ideas that may not succeed. You will benefit from simply putting ideas on paper and testing their feasibility. Moreover, a written business plan can improve your chances of securing financing when working with a lender, investor or business partner.

THE DIFFERENCE BETWEEN PLANNING AND A PLAN

Business planning. Business planning is the process of identifying, exploring and testing operational, marketing, human resource and financial strategies aimed at achieving farm business and personal goals.

Business plan. A business plan is the document that formulates and communicates goals and how the farm business will reach these goals through tested production, marketing, human resource and finance-related strategies. A business plan documents *where you want to go and how you plan to get there.*

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Using the *Organic Transition Business Planner*

This publication, referred to as the Planner, is a specialized guide to assist farmers, ranchers and food business owners (new or experienced, small- or large-scale) interested in exploring transition strategies prior to becoming certified organic. The Planner will prove most useful if applied before beginning transition. However, you will certainly benefit from using the Planner if you are in the midst of transitioning or have already become certified. The Planner addresses organic certification requirements as they pertain to or affect business planning; however, the Planner is not a comprehensive guide to becoming certified organic.

If you are new to organic management, we suggest you do the following before beginning to plan:

- review the organic management basics listed in *Text Box IT.1: The National Organic Program and Certification Basics*
- take a tour of the National Organic Program (NOP) website (www.ams.usda.gov/AMSV1.0/nop)
- listen to the “USDA Organic 101” training module, which provides an overview of organic farming principles, USDA labeling and USDA resources (<http://apps.ams.usda.gov/organic/101/>)
- explore the Cooperative Extension Service’s organic resource site, called eOrganic (<http://eorganic.info>).

You will also benefit from additional research and conversations with certified farmers, ranchers, certifiers and educators about what it means to become certified.

The Planner can be used alone or in conjunction with the more comprehensive business planning publication *Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses* (referred to as the Guide and available for download at www.misa.umn.edu/Publications/BuildingaSustainableBusiness/index.htm or www.sare.org/business.)¹

Like the Guide, the Planner is divided into five planning tasks:

- Planning Task One: Values
- Planning Task Two: History and Current Situation
- Planning Task Three: Vision, Mission and Goals
- Planning Task Four: Strategic Planning and Evaluation
- Planning Task Five: Presenting, Implementing and Monitoring Your Plan

To facilitate easy movement between publications, the planning tasks used in this Planner correspond to planning tasks outlined in the Guide.

Each planning task begins with an introduction to key business planning concepts, such as mission statements or strategic planning. Four management areas—operations, marketing,

¹ The *Organic Transition* business planner draws heavily on content and worksheets found in *Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses*. There may be some duplication.

THE NATIONAL ORGANIC PROGRAM AND CERTIFICATION BASICS

The following overview of certification requirements comes from *What Is Organic Food and Why Should I Care?*. See the Resources section at the end of this introduction for more information, including USDA publications outlining NOP rules.

Organic is a labeling term regulated by the USDA National Organic Program that “indicates that the food or other agricultural product has been produced through approved methods that integrate cultural, biological, and mechanical practices that foster cycling of resources, promote ecological balance, and conserve biodiversity.”

In simplified terms, the NOP regulations for **crops** allow or require:

- Three years (36 months) with no application of prohibited materials (no synthetic fertilizers, pesticides or genetically engineered organisms) prior to the first harvest of organic crops
- Buffer zones to prevent contamination from adjoining land uses
- Implementation of an Organic System Plan, including proactive management systems to conserve and enhance biodiversity, build soil health and ensure environmentally sound fertility-, weed-, disease- and insect-management practices
- Use of natural inputs or approved synthetic substances on the National List of Allowed and Prohibited Substances only when proactive measures are insufficient
- No use of genetically engineered organisms (GMOs), sewage sludge or irradiation
- Use of organic seeds and planting stock when commercially available (must not use seeds treated with prohibited synthetic materials, such as fungicides) and use of organic seedlings for annual crops
- Use of raw manure and compost must follow specific guidelines to safeguard human and environmental health
- Use of practices, such as crop rotations, to maintain or improve the physical, chemical and biological condition of the soil, and minimize soil erosion
- Fertility management that does not contaminate crops, soil or water with plant nutrients, pathogens, heavy metals or prohibited substances
- No field burning to dispose of crop residues (may only burn to suppress disease, stimulate seed germination or control weeds)

NOP regulations for **livestock** allow or require:

- Use of 100 percent organic feed for all organic animals
- Organic management from last third of gestation for slaughter livestock or second day after hatching for poultry
- One year of organic management for dairy cows prior to the production of organic milk
- Mandatory outdoor access for all species when weather is suitable
- Mandatory grazing on pastures for ruminants at least 120 days per year
- No use of antibiotics, growth hormones, GMOs or feeding of animal by-products
- Implementation of preventative health care practices (vaccines are allowed)
- Parasiticides prohibited for slaughter stock and tightly regulated for dairy and breeder stock
- No withholding of treatment in order to preserve an animal's organic status
- Management of manure to prevent contamination of crops, water and soil, and to optimize recycling of nutrients

NOP regulations for **processing operations** allow or require:

- Use of mechanical or biological processing methods
- No commingling or contamination of organic products during processing or storage
- No use of GMOs, irradiation, artificial dyes, solvents or preservatives
- Use of proactive sanitation and facility pest management practices to prevent pest infestations
- Must take steps to protect organic products and packaging from contamination

Farmers and ranchers seeking organic certification must prepare an Organic System Plan (OSP) annually. The OSP is reviewed by third party certifiers for compliance with NOP regulations. For more information about the National Organic Program, regulations and certification, visit the USDA website: www.ams.usda.gov/AMSv1.0/nop.

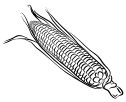
human resources and finances—are discussed, and we provide references to NOP regulations specific to each area. The Planner is not a guide to organic certification. However, NOP rules are referenced throughout as they impact your business strategies, decisions and planning.

Worksheets are included at the end of each planning task to help you explore concepts by answering important business questions. The worksheets are intended to help you develop and test your ideas through the planning process, before you finalize them as part of a business plan.

Material in each planning task is augmented with real-life examples and excerpts from worksheets completed by transitioning and recently certified farmers. You can read about these farmers—a dairy producer, a grain producer and a beginning vegetable processor—in *Text Box IT.2: Meet the Farmers*. Examples from their plans are offset as “story panels” throughout the text. A symbol representing each of their operations accompanies each story panel, making it easy to follow the same farmer throughout the Planner:



A cow represents excerpts from Minnesota dairy farmers Nate and Angie Walter.



A corn stalk represents excerpts from Minnesota grain producers Bryan and Theresa Kerkaert.



A jar of pickles represents excerpts from New Jersey processor Vitaly Brukman.

These farmers’ complete business plans also are included in the Appendix.

Most worksheets in the Planner should be completed individually by you and, in some cases, by other planning team members (i.e., those involved in your business’ brainstorming and decision-making—see *Organize a Planning Team* in the following section). Blank worksheets are provided at the end of each planning task. We recommend photocopying enough worksheets for each member of your planning team before beginning to use them, or visit www.misa.umn.edu/Publications/OrganicTransitionPlanner to obtain fillable PDF worksheets. Electronic spreadsheets are also provided to assist with some of the financial worksheets and can be found on the same MISA website.

A section called *Dig Deeper* follows the discussion of questions, activities and worksheets in some planning tasks. This section includes suggestions for further planning should you find yourself wanting to explore a particular concept in more detail. Additional worksheets from the Guide are referenced in the *Dig Deeper* section, so it is a good idea to have that publication on hand as you begin your business planning.

Each task in the Planner also includes a section called *Put it in Writing*. This section summarizes information that should be included in your business plan and provides tips for using the recommended software, *AgPlan* (available online at www.cffm.umn.edu/products/AgPlan.aspx). *AgPlan*, designed to be used like a word processing program, is a simple tool for drafting your business plan either at the end of planning or as you work through ideas. *AgPlan* contains an organic transition outline that corresponds to the text

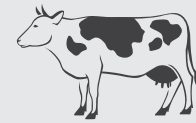
WORKSHEETS ARE NOW AVAILABLE ONLINE

Visit www.misa.umn.edu/Publications/OrganicTransitionPlanner to obtain fillable PDF worksheets and electronic spreadsheets.



TEXT BOX IT.2

MEET THE FARMERS: NATE AND ANGIE WALTER TRANSITIONING DAIRY, MINNESOTA



Walter family (from left to right): Lauren, Angie, Nate and Levi. (Angie Walter)



(Angie Walter)

Nate and Angie Walter operate a 100-cow dairy in Villard, Minn. They have two young children whom they hope will take over the farm someday or join the business with new enterprises. Nate grew up on the Villard farm but left after high school to work off-farm. He returned home in 2002 after marrying Angie and purchased the farm business at full market value from his father: 160 acres of pasture/cropland, 80 cows, 80 young stock, equipment and buildings. Assets were financed through a long-term loan guaranteed by the USDA Farm Service Agency.

Decision to Transition. Nate and Angie had been considering organic certification for five years prior to making the decision to switch in October 2010. “We went to an organic field day in 2005,” recalls Angie. “I was really excited about it but Nate wasn’t so sure.” So they waited until 2009 when their farm business management instructor ran some numbers showing them that the farm would have grossed another \$180,000 that year if they had been organic. That extra money would have helped the Walters reach their goal of becoming debt free. Going organic “was a way for us to remain a family farm,” says Angie. “Otherwise we were considering growing the farm [conventionally]; getting bigger in hopes of paying off our debt,” explains Nate. “We knew that might be a losing proposition.”

Transition Strategies. The Walters began transitioning all of their land in spring 2011. At that time they added 20 cows and another 80 acres to support forage needs for the herd. They began transitioning their cows in fall 2012 with an October 2013 target date for certifying their land and animals. Since transitioning, the Walters have not had to make many changes in the way they manage, particularly when it comes to the dairy enterprise. “We were always doing 85 percent of the organic work and just not getting paid for it,” explains Angie. “We’ve never believed in hormones and had rarely used antibiotics.”

Transition Challenges. In March 2012 the Walters grew approximately 60 percent of the herd’s feed. They supplemented with additional grain, protein and straw purchased nearby. The need to purchase inputs posed one of the Walters’ greatest transition challenges. “We’re nervous about having to buy all this organic feed [during transition],” said Nate at the time, echoing the concerns of many transitioning farmers. Organic corn and soybean prices per bushel averaged \$10.72 and \$21.63, respectively, in 2011 compared to \$5.67 and \$11.41 per bushel for conventional corn and soybeans, according to the Minnesota Farm Business Management Program annual financial reports.

Business Planning Need. The Walters drafted a business plan during their second year of transition when realizing that organic feed costs exceeded their income from conventional milk sales. Their business plan was written primarily to support their request for a short-term loan that would help pay for organic feed required during the transition, bedding and new equipment. With a loan in hand to bridge cash-flow shortfalls, the Walters will be able to make it through transition to certification, when income from organic premiums will allow them to comfortably afford needed inputs.

MEET THE FARMERS: BRYAN AND THERESA KERKAERT TRANSITIONING GRAINS, MINNESOTA



Kerkaert family (from left to right): Bryan, Josh and Theresa. (Margaret Wiegelt)



Organic grain bin. (Gigi DiGiacomo)

It is hard to find a more enterprising, determined couple than Bryan and Theresa Kerkaert. They have been giving organics everything they've got since beginning to farm row crops in 2007 on a collection of scattered parcels. By 2013 Bryan and Theresa were transitioning approximately 500 acres of rented land. Much of the land was former Conservation Reserve Program (CRP) acreage, while other parcels were what Bryan calls "low- to no-input" organic ground. All of the Kerkaert's rented acreage is located up to 20 miles away from their seven-acre farmstead and varies by soil type and topography. Bryan and Theresa find themselves regularly needing to fine-tune land management strategies as they continue to learn about farming and organic crop production. They also are forced to simultaneously rework cash flow plans as lease arrangements and market prices fluctuate.

Decision to Transition. When asked why they decided to go organic, Bryan responds, "Organic opens up opportunities. When we farm conventionally, our opportunities are the same as that for 99 percent of the other farmers. But we're in the one-percent category when we grow organically and that opens up a lot more opportunities." In 2007 Bryan signed his first rental agreement, borrowed equipment from a friend and began farming organically.

Transition Strategies. By fall 2013 Bryan and Theresa had transitioned approximately 40 percent of the land they farmed (parcels under long-term lease). While he would love to farm everything organically, Bryan explained that he is unable to plan crop rotations on land under 12-month leases. "I don't know if I'll have that land next year, let alone five years from now," Bryan says.

Transition Challenges. The Kerkaerts have overcome several finance- and production-related challenges, including the management of widely dispersed rental acreage. Their greatest challenge, however, has been the cost and uncertainty associated with renting land. Land prices in their area have gone up by 25 percent annually over the past few years. This has become a significant cash-flow issue for the Kerkaerts. Their solution: negotiate long-term leases and eventually find a farm of their own to purchase.

Business Planning Need. The Kerkaerts fully intend to continue farming organically but say this will only be feasible under long-term lease agreements or, ideally, on farm land of their own. "Five years ago, we had to learn the agronomics of how to farm organically," says Bryan. "Now we need some land security. We'd like to buy a farm and pay for it before we retire." The Kerkaerts developed a business plan to secure stable, continuous access to land in 2016 through a five-year lease with the right of first refusal to purchase the land at the end of the lease. Their plan is written for a potential landlord to demonstrate that they have the knowledge, skills and equipment to successfully transition and farm more than 500 acres of land.

TEXT BOX IT.2

MEET THE FARMERS: VITALY BRUKHMAN ORGANIC PROCESSING, NEW JERSEY



(Photos courtesy Vitaly Brukman)

Vitaly Brukman embodies the spirit of a true entrepreneur—full of energy, ideas and enthusiasm for his start-up organic processing business called Bubbly Jen's Farm, or BJF (named after his daughter). Brukman's goal is to develop a line of naturally fermented, locally produced, organic foods and specialty beverages targeted at ethnic consumer markets. His passion for organic food stems from a bout with thyroid cancer. His desire to master natural fermentation originates from the recipes he enjoyed as a child growing up in Moldova. His affinity for all things local comes from the New Jersey countryside, where he lives in a recently purchased century-old farmhouse.

Brukman left his information technology job in 2012 to grow and market organic fruits and vegetables on the two acres of land adjoining his farmhouse. His long-term goal was to process the produce that he grew into naturally fermented products. Since 2012, however, his ideas have evolved, as has his knowledge of organic production. In 2013 Brukman graduated from a beginning farmer program sponsored by the National Organic Farming Association. In 2014 he participated in several online courses through the Organic Processing Institute and met with two dozen restaurant chefs, retail grocers, processors, farmers and potential consumers to network and learn as much as he could.

Decision to Transition. Brukman anticipated that the transition to organic would be fairly easy, since the land he purchased had not been farmed for several years. He planted his first crop of radishes, garlic and mustard greens in 2013. When meeting with a certifier in 2014, however, Brukman was told that he had violated several organic rules—because he had planted conventional garlic—and therefore his land no longer qualified for immediate certification; he would have to make the three-year transition. “At that point, I decided that I might be better off purchasing organic crops to process while transitioning my own land,” Brukman says. The processing idea was moved to the front burner.

Transition Strategies. During the winter of 2014-2015, Brukman planned to continue honing his processing skills and recipes by renting kitchen space, and completing the Food Safety Manager Program (required for food handling). He then plans to purchase needed inputs and distribute the products for taste testing and sampling to potential buyers. By spring of 2015, Brukman hopes to have secured organic kitchen space and organic handler certification. If all goes well, he expects to begin processing naturally fermented sauerkraut, pickles and tomatoes by fall 2015 and secure marketing agreements for up to 2,500 pints.

Transition Challenges. Most beginning processors find it a bit daunting to navigate required paperwork and food safety training. Brukman, however, is comfortable keeping records and learning new skills. It is the access to capital—needed to launch and grow the business—that he finds challenging.

Business Planning Need. Brukman developed his business plan for BJF to explore opportunities for financial investment and business growth. A former IT colleague has expressed interest in investing in BJF. The business plan will help Brukman determine if the business can support the financial goals of both owner and investor.

FIGURE IT.1: BUSINESS PLANNING PROCESS

Business planning is a multi-step process that can require you to revise your strategies as you go. *Gigi DiGiacomo*

and worksheets provided in the Planner. The software also includes a built-in tool that allows you to easily share your plan with others (e.g., advisors, business partners and lenders) and obtain their feedback as you test strategies. Note that if you decide to draft a plan gradually—upon completion of each planning task—you may find the writing sequence is different than what is outlined in the AgPlan software. For example, though the *Executive Summary* appears first in the AgPlan outline, it is one of the last pieces that you will write if you follow the Planner. There is nothing wrong with this—just be aware that you will likely need to skip sections in AgPlan and return to them when ready. At the end of each planning task is a list of additional resources that may help with plan development.

As you begin, remember that business planning is a fluid process, as shown in *Figure IT.1: Business Planning Process*. It involves brainstorming, analysis and monitoring. For example, you may need to revise strategies you identified during the brainstorming phase after you have done some analysis to test their feasibility. Your plan, too, will be a dynamic roadmap changing over time as new challenges or opportunities appear. Business planning can be done anytime, but it can be particularly useful when completed *before beginning transition*. It is a process that can help you decide whether and when to transition your farm business. Business planning can be helpful at other times—when working through a significant challenge, exploring an opportunity or testing an alternative idea when business or personal goals change.

BEFORE YOU BEGIN: WHAT IS YOUR PLANNING ISSUE?

Planning usually begins with a problem or an opportunity, or both. Transition may require that you make significant changes in the way you farm, but it also brings the promise of marketing opportunities and potential health, conservation or financial rewards.

Identify Your Planning Issue and Motivation for Transitioning

Given the challenges associated with organic transition, it is important to carefully consider why you are transitioning—to be clear about your reasoning. Nate and Angie Walter, for example, are transitioning to improve long-term farm profitability and consequently to generate income for family and hired labor. See the story panel from Nate and Angie Walter.



WHY TRANSITION?

- Make our farm more profitable and have all of our family involved in the farm.
- Have the freedom to market and sell products on our farm.
- Not to have to work off the farm.
- Have more family time by going organic and being able to hire employees.

It is also important to identify other structural changes that you would like to make to the farm business as you plan your transition to organic, such as changes in labor and management or the addition or elimination of enterprises. We call these motivators “critical planning issues.” Use **Worksheet IT.1: Why Transition?** to briefly document your critical planning issues, your reason(s) for making the transition to organic production and other changes that you would like to make to the farm business. Begin by asking yourself why it is important to you to farm organically.

Organize a Planning Team

A planning team is an advisory board of sorts—a group of trusted individuals who can help guide you through major changes, such as the transition from conventional to organic production. Planning teams often include family members, business partners, farmer mentors, entrepreneurs, potential buyers and others who can help you brainstorm strategies, identify challenges, network and generally provide feedback as you work through ideas. See what transitioning dairy farmers Nate and Angie Walter have to say about the value of team building in the story panel.

In many cases, planning team members may serve as more than advisors—they may represent the key decision-makers for your business (e.g., a spouse). If this is the case, encourage them to complete worksheets with you. You can do this together or independently when recommended. For example, try posing questions from **Worksheet IT.1: Why Transition?** to family members or business partners. Then share your ideas before moving to Planning Task One. You may be surprised to identify differences in your planning objectives!

Contact a Certifier

We encourage you to meet with a certifier early in the transition process or even before beginning transition. Certifiers can help you identify resources, answer compliance questions and, in some cases, provide a starter packet.

There are approximately 50 accredited certifying agencies (ACAs) in the United States and another 35 or so agencies located outside the country that are authorized to issue USDA organic certificates and other internationally recognized certificates. When exploring certifiers, consider:

- certification fees
- certification fee structures
- agency location
- educational services or resources offered
- national versus international recognition if exporting

For a complete list of certifiers, visit the USDA NOP website: www.ams.usda.gov/AMSV1.0/nop. Most certification agencies will mail a starter pack to help you navigate re-

IMPORTANCE OF TEAM BUILDING

We rely heavily on our Farm Business Management instructor to guide us through alternative strategies and to identify information sources. Farm Business Management has been the center spoke for all of our networking. Others who have helped include dairy consultants, experienced organic farmers and Farm Service Agency staff. They all serve as an informal planning team. We could not make the transition without the advice and help of so many people.



quirements and plan for certification. The Midwest Organic and Sustainable Education Service (MOSES) also offers a packet for free via download or by contacting the MOSES office. See the Resources section for more information. Another good way to connect with certifiers is to visit them at local organic conferences and trade shows. The Organic Trade Association (www.OTA.com) provides information on conferences and other events nationally.

Consider How Your Business Plan Will Be Used

Ultimately, the way you intend to use your plan will affect how you write and present it as a document. Will your business plan be used internally—among family—as a tool to guide discussions and make key decisions? Will it serve to communicate about working assets, experience and a long-range vision to lenders when applying for new financing? If you only intend to use your business plan internally, it may not be necessary to formally document your farm history, to describe the people involved in your farm business, or to outline repayment capacity. However, if you will be taking your plan to potential business partners or lenders, you will need a more formal plan to properly introduce readers to your farm, the people involved, the skills they offer and the assets available. See *Text Box IT.3: Transition Business Plan Outline* for an outline that can be adapted for almost any farm business.

TEXT BOX IT.3

TRANSITION BUSINESS PLAN OUTLINE

Executive Summary

1. Business overview
2. Mission statement
3. Goals
4. Transition plan summary
5. Capital request

Business Description

1. Farm business history
2. Land and other resources
3. Ownership structure

Operations

1. Current operations
2. Production opportunities
3. Operations strategy
4. Licenses and organic certification
5. Resource needs and acquisition
6. Operations risk management

Marketing

1. Current marketing
2. Marketing opportunities
3. Marketing strategy
4. Licenses and organic certification
5. Marketing risk management

Human Resources

1. Current HR
2. HR opportunities
3. Planning and management team
4. Workforce
5. Licenses and safety regulations
6. HR strategy
7. HR risk management

Finances

1. Current financial position
2. Historical financial performance
3. Financial opportunities
4. Financial projections
5. Financial strategy
6. Capital request
7. Financial risk management

Appendices

1. Implementation to-do list
2. Monitoring checkpoints
3. OSP and/or OSPH summary
4. Marketing contracts
5. Tax returns

WORKSHEETS ARE NOW AVAILABLE ONLINE

Visit www.misa.umn.edu/Publications/OrganicTransitionPlanner to obtain fillable PDF worksheets and electronic spreadsheets.



Thinking now about how you will use your business plan can help focus your research and documentation when you begin the planning process. Do not be afraid to skip some of the worksheets in the Planner if they do not seem necessary for the type of plan you are writing.

**DIG DEEPER**

If you are interested in learning more about identifying business stakeholders or about how to create a planning team, see pages 14-17 in the Guide. A worksheet sample, completed by Dave and Florence Minar of Cedar Summit Farm in Minnesota, is included in this section.

**PUT IT IN WRITING!**

Briefly describe your reasons for transitioning. This will serve as the beginning of your transition plan summary as outlined in AgPlan under *Executive Summary*. Next, list members of your planning team (advisory board) and a board of directors if you have one (often created when incorporating). Briefly note the skills or experience offered by each member of your advisory board. If using AgPlan software, record your advisory board description under *Planning and Management Team*.

RESOURCES

- *Accredited Certifying Agents*. USDA-AMS. Visit www.ams.usda.gov and search “accredited certifying agents.”
- *Documentation Forms for Organic Crop and Livestock Producers*. March 2011. Baier, A. USDA and ATTRA. <https://attra.ncat.org/organic.html>.
- *Do I Need to Be Certified Organic?* June 2012. National Organic Program, USDA - Agricultural Marketing Service. www.ams.usda.gov/services/organic-certification/need-be-certified.
- *How to Choose an Organic Certification Agency and the Organic Certification Process*. 2012. Midwest Organic and Sustainable Education Service (MOSES). <http://mosesorganic.org/publications/organic-fact-sheets>.
- *Is Organic an Option for Me?* April 2015. USDA - Agricultural Marketing Service. Visit www.ams.usda.gov and search “is organic an option for me.”
- National Organic Program website. USDA - Agricultural Marketing Service. www.ams.usda.gov/AMSV1.0/nop.
- *National Organic Program Handbook*. National Organic Program, USDA - Agricultural Marketing Service. www.ams.usda.gov/AMSV1.0/nopprogramhandbook.
- *Organic Certification Guidebook, 6th Ed*. August 2012. Behar, H., J. Padgham, and A. Sullivan. Midwest Organic and Sustainable Education Service (MOSES). <http://mosesorganic.org/publications/guidebook-for-certification>.
- *The United States Regional Guide*. Organic Trade Association. www.howtogoorganic.com/index.php?page=united-states.
- *What Is Organic Food and Why Should I Care?* 2010. Riddle, J. and B. Markhart. http://swroc.cfans.umn.edu/prod/groups/cfans/@pub/@cfans/@swroc/documents/asset/cfans_asset_292359.pdf.

DOWNLOAD THE PDF
 Worksheet IT.1: Why Transition?
 (<http://misadocuments.info/IT.1WhyTransition.pdf>)

WHY TRANSITION?

Use the space below to describe why you are thinking about making the transition to organic production or processing. Is it for financial, environmental, health or other reasons? If you are having trouble answering this question, try describing how your business may change after transition. Then identify your critical planning issue, or the one factor that must be addressed by your business strategy in order for the transition to be worthwhile. Next, list specific challenges that you expect to face during transition and identify people (your planning team) who will be able to help you work through these challenges and can assist with brainstorming, providing feedback and identifying resources. Lastly, note how you will use your business plan: for internal (family only) or external (e.g., lenders, business partners) planning purposes.

1. Why are you interested in transitioning to organic management?

2. What is your critical planning issue?


3. What are your biggest challenges in transitioning from conventional to organic production, or in becoming certified?

4. Who would you like to include on your planning team?


5. How will you use your business plan? Will it be for internal planning or for communicating to a lender, business partner or buyer, or both?

TASK 1

LOOK FOR THESE STORY PANEL ICONS

 A cow represents excerpts from Minnesota dairy farmers Nate and Angie Walter.

 A corn stalk represents excerpts from Minnesota grain producers Bryan and Theresa Kerkaert.

 A jar of pickles represents excerpts from New Jersey processor Vitaly Brukman.

PLANNING TASK ONE: Values

In this planning task you will explore personal and business-related values. Well-defined values will help you develop goals that all members of the family and business support. You may choose not to include values in your written business plan—this will depend on your audience and how you intend to use the business plan. However, your values will serve as an important point of reference—you will use them to test strategies in Planning Task Four: Strategic Planning, so it is important to record them.

Values can be defined as the standards, beliefs or qualities that you consider worth upholding or pursuing. They become critical when planning collectively with other business stakeholders, including family members. We suggest taking some time now to think about and explore your personal values. Begin by asking yourself and your planning team members what it means to be successful. See the story panels for examples of values.

Next, read over the values identified by the Beyer family in *Text Box 1T.1: Beyer Family's Shared Community Values*. All three members of the family, Richard, Sharon and Rory, take pride in producing good food on their Rollingstone, Minn., dairy farm. They also value community to one degree or another. Sharon's community values are the most active; she says that she wants to "be of help" and "make someone else's life better." Likewise, Richard hopes to help others but sees himself doing so by "set[ting] an example as an organic farmer." As they develop their organic business, it will be important for the Beyers to discuss the importance of one another's values and to think about how best to honor all values when making decisions about where in their community to invest, how much to invest and when to invest. Can you begin to see how the Beyer family's values might be used to inform their long-term farm-business goals and strategies?

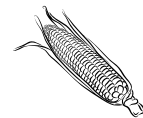
Use **Worksheet 1T.1: My Values**, reproduced from the Guide, to explore personal, economic, environmental and community values.

VALUES

Hard work, honesty, family structure/tradition, growing without stepping on neighbors, giving animals a natural life. We also value family time (it is important to take time away from the farm), saving for the future and creating a place for the next generation to grow.



We value fiscal responsibility, honesty, relationships, community and the environment. It is important to us to travel; to learn new things by experiencing other cultures and ideas. Above all, we believe in treating others and the earth with respect.



I take responsibility for everything that happens to me. Money is a useful resource and a tool, but not the ultimate goal. Respect everything that helps us sustain ourselves. A successful enterprise should share with its community.



BEYER FAMILY'S SHARED COMMUNITY VALUES

Richard Beyer: “To set an example as an organic farmer; to produce food without chemicals and drugs.”

Sharon Beyer: “To connect with the community where you can be of help and are comfortable doing so; to give; to make someone else's life better and in doing so, yours will be better. In organics this means sharing your knowledge and experience to help young farmers (or not so young) be successful in a very challenging environment.”

Rory Beyer: “I define community as the family and friends that I want to associate with and help. Also, I value producing good-quality food for the people who purchase our products.”



DIG DEEPER

For further discussion on values, refer to pages 19-23 in the Guide. Many farm families have found the Guide's **Worksheet 1.2: Common Values** (page 25) helpful, particularly when the operation involves many people or when planning for a major change such as transition. First, ask everyone involved in the farm business to complete **Worksheet 1T.1: My Values**. Then, share your values with one another and use **Worksheet 1.2: Common Values** from the Guide to identify those values that you share and those that you do not hold in common. It will be important to be aware of any significant differences as you move forward in planning, as values underpin most decision-making. **Worksheet 1.2: Common Values** can be downloaded at: www.misa.umn.edu/Publications/BuildingaSustainableBusiness/index.htm.

Finally, if you are having trouble getting started on personal values—or simply enjoyed the values exercise—take a look at **Worksheet 1T.2: Personal Qualities** at the end of this planning task to view a list of personal qualities and values identified as important by Minnesota organic farmers. Bryan and Theresa Kerkaert completed this worksheet independently then compared answers. Some of the Kerkaerts' answers are shown in *Text Box 1T.2: Personal Qualities*. Like the Kerkaerts, you can use the worksheet to identify personal strengths and weaknesses. You may want to incorporate positive personal qualities in your final plan as part of the business overview.



PUT IT IN WRITING!

Much of the work you have done in this planning task will serve simply as a compass to guide you when brainstorming strategies and testing ideas in Planning Task Four: Strategic Planning. If you would like to include some of your values in the business plan, consider adding them in your business overview or as part of the mission statement that you draft in Planning Task Three: Vision, Mission and Goals. Alternatively, if you choose not to include values directly in your plan, keep them close at hand to remind you and your planning team what is important when making critical business decisions in the future.

TASK 1

TEXT BOX IT.2

PERSONAL QUALITIES

Example provided by Bryan and Theresa Kerkaert, organic grain farmers, Minnesota

1 = Rarely; 2 = Sometimes; 3 = Most of the time; 4 = Almost always

Bryan Theresa

<u>4</u>	<u>3</u>	I have a strong work ethic.
<u>4</u>	<u>2</u>	I pay attention to detail.
<u>3</u>	<u>2</u>	It is important to me to do things on time.
<u>4</u>	<u>3</u>	I am persistent—I finish what I start.
<u>4</u>	<u>3</u>	I am interested in learning new ideas or ways of doing things.
<u>3</u>	<u>4</u>	I am flexible and willing to make changes when necessary.
<u>3</u>	<u>4</u>	I have good working relationships with others (e.g., neighbors, hired labor).
<u>4</u>	<u>3</u>	I communicate directly; I listen to others and am not afraid to ask questions or say what I think.
<u>4</u>	<u>4</u>	I am willing to consider others' advice and opinions.
<u>4</u>	<u>3</u>	I seek out relationships with other organic farmers I look up to and can turn to for advice.
<u>3</u>	<u>1</u>	I keep up on organic market trends.
<u>3</u>	<u>2</u>	I enjoy farming and the challenges of farming organically.
<u>3</u>	<u>4</u>	I have a supportive spouse, family members, and/or farm partner(s).

WORKSHEETS ARE NOW AVAILABLE ONLINE

Visit www.misa.umn.edu/Publications/OrganicTransitionPlanner to obtain fillable PDF worksheets and electronic spreadsheets.



RESOURCES

- *Do I Need to Be Certified Organic?*. June 2012. National Organic Program, USDA - Agricultural Marketing Service. www.ams.usda.gov/services/organic-certification/need-be-certified.
- *Is Organic an Option for Me?* April 2015. USDA - Agricultural Marketing Service. Visit www.ams.usda.gov and search “is organic an option for me.”
- *National Organic Program Handbook*. National Organic Program, USDA - Agricultural Marketing Service. www.ams.usda.gov/AMSV1.0/nopprogramhandbook.
- *What Is Organic Food and Why Should I Care?* 2010. Riddle, J. and B. Markhart. http://swroc.cfans.umn.edu/prod/groups/cfans/@pub/@cfans/@swroc/documents/asset/cfans_asset_292359.pdf.

MY VALUES

Think about your values and list them in the space below. Consider what it means for you to be successful in farming, or try distinguishing between personal, financial, environmental and community values. If you are having trouble putting values onto paper, recall a critical turning point in your life when you were faced with a serious tradeoff. What values guided your decision-making? Or take a peek at **Worksheet 1T.2: Personal Qualities** to explore personal strengths or qualities.

Personal Values:

Financial Values:

Environmental Values:

Community Values:

DOWNLOAD THE PDF

Worksheet 1T.2: Personal Qualities (<http://misadocuments.info/1T.2PersonalQualities.pdf>)

PERSONAL QUALITIES

If you are having trouble identifying values, try using the following list to identify personal strengths or qualities that you think are important to work toward. Remember, nobody is good at everything!

Personal Qualities

1 = Rarely; 2 = Sometimes; 3 = Most of the time; 4 = Almost always

- _____ I have a strong work ethic.
- _____ I pay attention to detail.
- _____ It is important to me to do things on time.
- _____ I am persistent—I finish what I start.
- _____ I am interested in learning new ideas or ways of doing things.
- _____ I am flexible and willing to make changes when necessary.
- _____ I have good working relationships with others (e.g., neighbors, hired labor).
- _____ I communicate directly—I listen to others and am not afraid to ask questions or say what I think.
- _____ I am willing to consider others' advice and opinions.
- _____ I am careful about the advice I take.
- _____ I seek out relationships with organic farmers I look up to and can turn to for advice.
- _____ I keep up on organic market trends.
- _____ I enjoy farming and its challenges.
- _____ I have a supportive spouse, family members and farm partner(s).
- _____ I stay involved in a community or farm organization.
- _____ There are things in my life besides the farm (I am not "all work and no play").
- _____ I seek help when I need it.
- _____ I take responsibility for the decisions I make.
- _____ Everyone on the farm is working toward the same goals as a team.
- _____ I enjoy recordkeeping and accounting.

(Reproduced with minor modifications from the Minnesota Department of Agriculture's management skills assessment, Organic Farmers: Steps to Success.)

PLANNING TASK TWO: History and Current Situation

In this task, you will begin exploring your readiness for transition by taking stock of past experiences and by preparing an inventory of current resources. The farm history and current situation summaries that you develop here will help you communicate to family members, other business partners and lenders that you have the experience and resources needed to make a successful transition. After completing this planning task you will be ready to write the following sections of your business plan:

- Business Overview
- Farm Business History
- Land and Other Resources
- Current Operations
- Current Marketing
- Current Human Resources
- Current Financial Position
- Historical Financial Performance

Using the worksheets in this planning task, you will begin by briefly documenting your farm and business history—recording business strategies that have been successful, describing how you have managed risk during difficult times or how you have responded when plans did not unfold as expected. You also will document resources (including people skills) that will be available to the business as you transition, and prepare financial documents that will help when assessing the feasibility of transition strategies. Let's begin!

Farm Business History

You have several options for documenting your farm's history: photos, a timeline and text. However you approach this, do so with the intention of communicating to someone who is unfamiliar with your farm business. Begin documenting your farm business history by reflecting on past successes (and, yes, perhaps some challenges or failures too). What would you want someone to know about the farm and your management practices, past productivity and marketing of crops, livestock, or products and services? Has the farm changed in size or in management since you acquired the land that you now farm? How have you managed risk? In other words, what has led you to this point? Be sure to describe successes and lessons learned over the years.

FARM HISTORY

In 1935, Nathan's grandparents moved to this farm with six Guernsey cows. They raised 14 children and farmed through many ups and downs. Nathan and his father, Fred, farmed together until Nathan and Angie purchased the farm in 2002. "We milked 80 cows in a stanchion barn, switching one time. There were 40 stanchions and 40 free-stalls. ... In 2011 we began transitioning our farm to organics. We have never used [the growth hormone] BST and rarely have used antibiotics, so we felt that organic was a good choice for us. We are on track to be shipping organic milk to Organic Valley in the fall of 2013."



LOOK FOR THESE STORY PANEL ICONS



A cow represents excerpts from Minnesota dairy farmers Nate and Angie Walter.



A corn stalk represents excerpts from Minnesota grain producers Bryan and Theresa Kerkaert.



A jar of pickles represents excerpts from New Jersey processor Vitaly Brukman.

TASK 2

If you are new to farming, try thinking of this as a meet and greet, where you have the opportunity to introduce yourself to someone. Describe your skills, the experience that you bring to the table and the history of the new land you will manage.

Do not worry about polishing your story or getting every detail just right. Instead, take 10-15 minutes to chronicle your past using **Worksheet 2T.1: Farm History**, reproduced from the Guide. See the story panels for examples of farm histories.



(Stephen Kirkpatrick, USDA NRCS)

Current Situation

Next, take time to document your current operational, marketing, human resource and financial situation. This can be a time-consuming task, but it is critical when mapping out strategies to get you from here (pre-transition) to there (certification). Your resource inventory should include marketing resources (infrastructure, contracts, competitiveness), physical resources (buildings, equipment, fields, livestock), human resources (labor, knowledge, skills) and financial resources (income, cash flow, working capital, financing). We will get you started with worksheets for each area.

OPERATIONS

It is important to document current physical resources and management practices. Doing so will make it easier to identify available operational assets and resources needed to make a successful transition. Physical resources include land, buildings and other structures, as well as machinery, equipment, water supplies, breeding livestock and poultry. The quantity and quality of tangible assets that you control can significantly affect future opportunities.

Begin documenting your current resources by drawing a map or obtaining an aerial photograph of your fields and buildings. Record your map using **Worksheet 2T.2: Current Farm or Facilities Map**. (Google Earth, available on the Internet at no cost, has built-in tools that allow you to map fields from aerial photographs. See the Resources section for more information on where to go for more traditional aerial maps.) For land, depict or write in crop rotations or grazing patterns for the previous one to three years. Also indicate the locations of perennial crops, conservation easements, buffer strips, water supplies, buildings and non-tillable acreage. This information will provide the basis for planning crop planting, rotation and harvest schedules as well as livestock housing, feeding and grazing schedules during transition and beyond. Your mapping inventory should also

FARM HISTORY

I am new to farming but have experience as an entrepreneur and have operated a successful computer business for the past several years. In 2012, I purchased a small farmstead with 1.75 acres to begin cultivating my agricultural production skills. During 2013-2014 I acquired hands-on experience growing radishes and mustard greens while completing a beginning farmer program with the National Organic Farming Association of New Jersey. Most recently, I participated in four courses as part of the Organic Processing Institute's School for Organic Processing Entrepreneurs to gain a better understanding of organic processing and handling requirements.



FIGURE 2T.1: CURRENT FARM OR FACILITIES MAP

Creating a detailed farm map that includes information about crop rotations and grazing patterns helps you plan land-use strategies during transition. This map, based on a Google Earth image, depicts the pre-transition farm of Nate and Angie Walter. (*Gigi DiGiacomo*)

include notes about land type, soil class and soil quality for each field. Certifiers and other organic production specialists recommend having your soil tested to determine nutrient availability before establishing future crop and livestock rotations. *Figure 2T.1: Current Farm or Facilities Map* shows a farm map from a transitioning crop farmer who rents fields at various locations.

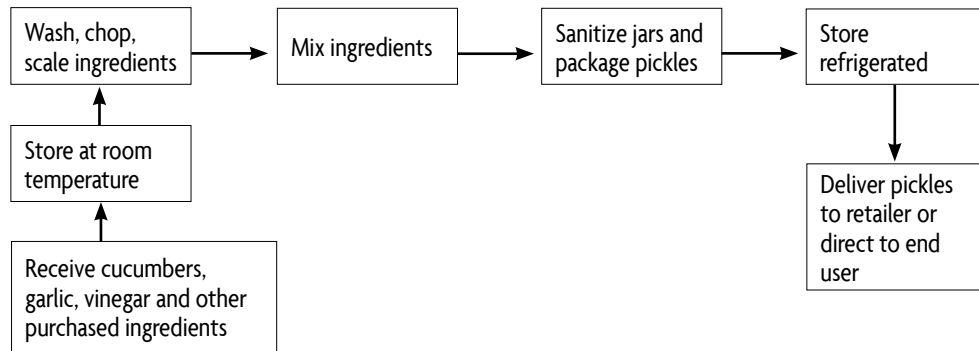
If you process (e.g., wash, cook, preserve, dry, cure, ferment), create a facility map or diagram showing the size of the building(s) and what type of equipment you own or rent (e.g., sinks, boilers, freezers, ovens). We also recommend developing a flow chart depicting steps, stations and activities performed when processing. See *Figure 2T.2: Processing Flow Chart, Pickles* for an example.

After creating a farm or processing map, use **Worksheet 2T.3: Current Operations** to summarize the products and services that you produce and to briefly describe how you produce them. When doing so, be sure to record:

- types of products/services produced
- volume produced
- custom hire work performed
- inventory management and quality control
- rental/lease agreements
- seasonal considerations

Much of the information that you record on this worksheet can be included in your business plan and in your OSP or OSPH. It also will provide the information needed to do effective strategic planning in Planning Task Four: Strategic Planning. Be sure to check out

FIGURE 2T.2: PROCESSING FLOW CHART, PICKLES



the Dig Deeper section at the end of this planning task for suggestions on where to go in the Guide for worksheets that will assist you with more detailed operations planning.

Next, take a few minutes and use the worksheets provided (**Worksheets 2T.4-2T.6**) to briefly answer the question, *How close am I to farming or processing organically?* If you are unfamiliar with the differences between conventional and organic management, check out *Table 2T.1: Comparison of Organic and Conventional Agriculture*. If you are new to farming or are unable to answer some of the questions, leave the worksheets blank. These worksheets are provided simply as a way to help you narrow down what will be most important or needed when developing strategies in Planning Task Four: Strategic Planning.

TABLE 2T.1: COMPARISON OF ORGANIC AND CONVENTIONAL AGRICULTURE

	ORGANIC AGRICULTURE	CONVENTIONAL AGRICULTURE
Fertility	Non-synthetic amendments like manure, compost and green manures; legumes in rotation	Primarily synthetic fertilizers
Weed Control	Multiple strategies are employed, including: diverse rotations, mechanical weed control, cultural methods	Primarily synthetic herbicides, GMO crops
Insect Control	Diverse rotations, some non-synthetic insecticides, biological control	Primarily synthetic insecticides, GMO crops
Crops	Non-GMO only	Either GMO or traditionally bred
Rotations	Diverse rotations that include other crops in addition to corn and soybeans	Often includes just corn and soybeans; continuous cropping is possible
Profits	Comparable to conventional	Comparable to organic
Inputs	Fewer inputs	More inputs
Buffers	Buffers are necessary to protect organic crops from GMO contamination, pesticides	Buffers are not required
Time in Field	Depending on the crop, more time may be spent in the field	Depending on the crop, less time may be spent in the field
Yields	Corn and soybean yields have the potential to be lower but small grains and forages can have similar yields	Can be higher depending on crop fertilization, chemical weed control

Source: Moncada, Kristine M. and Craig C. Sheaffer, Eds. 2010. *Tools for Managing Pest and Environmental Risks to Organic Crops in the Upper Midwest*. University of Minnesota. 2010.

MARKETING

Use **Worksheet 2T.7: Current Marketing** to document commodities, products and services that you currently market, as well as the volume of product sold last year. Be sure to record average or contracted market prices, or both. If you use marketing contracts to sell forward, you should describe the contract terms in this section. See the story panels for examples of marketing practices. Next, describe current market trends, including anticipated changes in conventional markets and opportunities to market organically. Opportunities may be formal (e.g., the opportunity to contract with a processor or retailer) or informal (e.g., the opportunity to sell to a neighbor). Use **Worksheet 2T.8: Current Enterprise Sales** to calculate your revenue from crop, livestock and processed product enterprises. This information will provide the basis for organic marketing strategies that you develop in Planning Task Four: Strategic Planning.

CURRENT MARKETING PRACTICES

We currently market all of our milk to the local creamery. Conventional milk prices have varied from \$13 per hundredweight to \$20 per hundredweight over the past five years.



We obtain forward contracts at profitable prices to help lock in our current-year cash flow and to assure the bank of the value of the products we produce. We are in regular contact with eight wholesale commodity brokers to research and finalize our contracts.



HUMAN RESOURCES

You have looked at operations and marketing. Now it is time to document your current human resources situation, to describe the people that keep your farm going and help make your business successful. Later, in Planning Task Four: Strategic Planning, you will have the opportunity to identify labor needs based on your transition goals and explore strategies for filling any gaps. For now, however, list the people involved in your business—family, partners, hired labor, consultants and interns—using **Worksheet 2T.9: Current Human Resources**. Then describe each person's role on the farm, identifying managers, full-time workers and part-time workers as well as the activities that they perform. This worksheet will provide a snapshot of the types of jobs that exist on your farm and the workload of each person currently employed.

As you inventory physical and human resources, keep in mind that *you* may be the most important resource to consider. We have all heard it said that the learning curve can be steep when transitioning from conventional to organic management. Organic apple growers, for example, must learn to use complex—often experimental—pest management strategies to control over two dozen arthropod pests that affect tree health, fruit quality and fruit yield.² Every farmer who has made the transition, no matter what they produce, will tell you to expect new challenges and to be prepared to learn new skills. So, the big question is, are you ready?

² Krawczyk, G. and J. Travis. 2009. *Pennsylvania Regional Organic Fruit Industry Transition*. Project funded by USDA Sustainable Agriculture Research and Education (SARE). To access, visit www.sare.org/project-reports and search by project number LNE06-248.

Use the management assessment **Worksheet 2T.10: Are You Ready to Manage Organically?** to find out just how ready you are to face some of the challenges and risks associated with organic farming. If you find yourself answering yes to many questions on the list, be sure to document these qualities in your business plan. These can help demonstrate to a lender, certifier, buyer or future business partner that you are ready to farm organically.

Finally, recordkeeping will be a critical human resource when transitioning and once certified. Recordkeeping tools include calendars, notebooks, preprinted forms and computer software. Many farmers have developed their own spreadsheets to track input purchases and applications, labor and machinery hours, productivity (yields, animal output), and sales. Use **Worksheet 2T.11: How Good Are Your Records?** to document current recordkeeping practices.

If you already maintain detailed production, marketing and financial records, be sure to mention this in your business plan. If, on the other hand, you are not used to keeping records or your system is akin to keeping receipts in a shoebox, be aware of what lies ahead! Good records are essential for obtaining certification and for documenting marketing contract compliance. Also, they are useful when evaluating business successes and failures; most farmers find them to be indispensable management tools. You will have a chance in Planning Task Four: Strategic Planning to explore recordkeeping options and choose a system that works best for your business while satisfying OSP and OSPH requirements.

FINANCES

Knowing your financial status is critical when planning for transition. This is especially true if you expect to lease land, hire labor, purchase certified organic feed or acquire new equipment. Why? Knowing your financial situation before making a major change in operations allows you to explore options on paper before investing. This exercise will also prepare you for meetings with lenders and potential investors. As National Center for Appropriate Technology Agricultural Specialist Hannah Lewis puts it, “If you are comfortable answering questions about your financial situation for yourself, you will be able to answer the same questions for a lender.”³ Most importantly, the work you do here to document your financial situation will provide a baseline for strategic planning later on; it will help you determine if certification goals are financially feasible.

Begin by estimating family living expenses and income needs. If you do not have a personal budget, now is a time to prepare one. Use **Worksheet 2T.12: Current Family Living Expenses** or the “Living Expenses” spreadsheet (available at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx) to estimate current spending. The information you provide here will be very useful when budgeting for expenses during the transition period.

Next, record current farm expenses using **Worksheet 2T.13: Current Farm Expenses**. See *Text Box 2T.1: Sample List of Farm Operating Expenses* for a list of typical farm expenses that you may want to include when calculating total cash operating expenses for your income statement. If you are new to farming, you can skip this worksheet or use it to prepare your first expense budget.

³ Lewis, H. 2012. *Basic Accounting: Guidance for Beginning Farmers*. ATTRA. Visit <https://attra.ncat.org> and search “basic accounting.”

Finally, we suggest preparing a current income statement, cash flow and balance sheet for your farm business using **Worksheet 2T.14: Current Income Statement**, **Worksheet 2T.15: Current Cash Flow**, and **Worksheet 2T.17: Current Balance Sheet**. *Text Box 2T.2: Calculating Depreciation* describes how to calculate depreciation, which is also needed for your income statement. You can use **Worksheet 2T.16: Calculating Depreciation and Inventory Changes** for this purpose. Later, in Planning Task Four: Strategic Planning, you will compare your current financials to projected income, expenses, cash flow and net worth to determine how the transition to organic management may impact finances.

TEXT BOX 2T.1

SAMPLE LIST OF FARM OPERATING EXPENSES**Crops/Livestock****Crops**

- Seed
- Fertilizers (e.g., manure)
- Irrigation energy
- Cleaning and drying
- Storage
- Other

Livestock

- Feeder livestock expenses
- Feed and forages
- Pasture expenses
- Breeding fees
- Breeding livestock
- Veterinary
- Other

Equipment/machinery

- Lease
- Repairs and maintenance
- Fuel and oil

Buildings

- Rent
- Repairs and maintenance
- Utilities

Land

- Rent

Miscellaneous

- Labor
- Office supplies
- Other

Processing**Materials**

- Ingredients
- Processing aids
- Containers
- Labels
- Other

Equipment/machinery

- Lease
- Repairs and maintenance
- Other

Buildings

- Rent
- Repairs and maintenance
- Utilities
- Rent and leases
- Other

Miscellaneous

- Storage
- Labor
- Office supplies

TEXT BOX 2T.2

CALCULATING DEPRECIATION

Depreciation is defined by the Internal Revenue Service as “an annual allowance for the wear and tear, deterioration or obsolescence of the property.” Most types of tangible property are depreciable, such as buildings, machinery, vehicles and equipment, but land is not. When estimating depreciation, the Center for Farm Financial Management suggests using 10 percent per year of the purchase price of machinery and equipment, 15 percent per year of the purchase price of titled vehicles, and 5 percent per year of the purchase price of buildings and other improvements. A spreadsheet is available to assist with these calculations at http://misadocuments.info/Organic-TransitionPlanner_spreadsheets.xlsx.

If you need help preparing current financial documents, consider contacting a farm business management instructor, enrolling in a farm finance course or hiring a farm accountant. Electronic spreadsheets, found at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx, are also available to help make recording and calculating income, expenses, cash flow and net worth a bit easier. The Resources section includes other useful farm finance publications and websites.

Finally, it is a good idea to look at your farm business’ overall competitive situation—to document the current internal strengths of the business as well as opportunities that exist in the marketplace or elsewhere outside of your business. Explore your current competitive situation using **Worksheet 2T.18: Current Whole-Farm SWOT**. You also may use this worksheet to identify current internal weaknesses and external threats to the farm business. SWOT statements (“Strengths, Weaknesses, Opportunities and Threats”) are classic business planning assessments. Your SWOT statement may also address less tangible, visionary ideas. Newly certified organic dairy farmer Kent Hoehne from Frazee, Minn., for example, included the following opportunity in his SWOT:

“I’m excited about [organic] crop farming because as an organic farmer, you are ‘farming.’ You are learning about rotations and the viability of the soil. If I am excited, maybe I can pull some other kid along with me. I think organic farming is an opportunity to change the future of agriculture in my community.”

It is a good idea to address the four business characteristics (operations, marketing, human resources and finances) when describing your SWOT, if applicable. While you may not include a discussion of your farm’s weaknesses and threats in the final business plan, it will be useful for all planning team members to be aware of these conditions as you move forward to develop transition strategies. Also, the information from your SWOT can be useful when developing contingency statements in Planning Task Five: Implementation and Monitoring.

**DIG DEEPER**

For more information, ideas and examples about how to document your history and current situation refer to pages 27-66 in the Guide. You may also want to complete **Worksheets 2.15-2.18** in the Guide. These financial worksheets will provide further operational and financial baselines for your farm business. The answers that you provide on these worksheets will be valuable as you build strategies and communicate with others, such as

business partners, lenders, buyers and certifiers. Other worksheets from the Guide that we recommend when digging deeper are:

Worksheet 2.3: Tangible Working Assets. When completing this worksheet, be certain to note the current or potential certification status of leased or rented land. This worksheet will give you a good start on the problem-solving required in Planning Task Four: Strategic Planning. For example, after using it to identify needed resources, you will be ready to think critically about how best to fill any resource gaps.

Worksheet 2.4: Institutional Considerations. This worksheet provides space for you to document current access to rental acreage or leased land. Be sure to note the conditions and terms of your current agreements, making special note of the length of these agreements and whether your landlord is on board for the transition. It may also be worth asking about rental rates during and after transition. In some cases, landlords are willing to offer a variable rental rate, where prices are reduced during transition to help offset cash flow bottlenecks and then are increased after certification to offset the discounted rate you had been receiving.

Worksheets 2.9-2.10. These worksheets will be important to review if you have a large number of people involved in business operations or if human resource issues are among the main drivers behind your decision to develop a business plan.

Worksheet 2.17: Risk Management. This worksheet asks you to rank your farm business' exposure to risk in marketing, operational, financial and personal areas. In Planning Task Four: Strategic Planning, you will compare current risks to potential transition-related risks. This will be an important part of feasibility testing when evaluating your final transition strategy.



PUT IT IN WRITING!

Record a brief statement about your farm history in AgPlan in the *Farm Business History* section or using your own word processing program. If you have compiled a page or more describing your farm business history, consider condensing it for the business plan. This is the place to be brief; one to two paragraphs, or even a few sentences, will do. After writing your farm business history, identify current resources and comment on your readiness to go organic.

If using AgPlan or the outline suggested on page 19, complete the following additional sections:

- Business Overview
- Current Operations
- Land and Other Resources
- Current Marketing
- Current Human Resources
- Current Financial Position

As with the *Farm Business History* section, we suggest that you be brief when completing these AgPlan sections. Two or three paragraphs will suffice. For example, rather than listing under *Current Operations* all of the organic management practices that you currently employ, simply summarize the information reported on **Worksheets 2T.4-2T.6 How Close Am I to Farming Organically?**

TASK 2

WORKSHEETS ARE NOW AVAILABLE ONLINE

Visit www.misa.umn.edu/Publications/OrganicTransitionPlanner to obtain fillable PDF worksheets and electronic spreadsheets.



RESOURCES

- *Documentation Forms for Organic Crop and Livestock Producers*. March 2011. Baier, A. USDA and ATTRA. <https://attra.ncat.org/organic.html>.
- *Farmers' Guide to Organic Contracts*. August 2012. Heyman, A. N. Farmers' Legal Action Group. www.flaginc.org/publication/farmers-guide-to-organic-contracts.
- *Guide for Organic Processors*. November 2012. Coleman, P. ATTRA and USDA Agricultural Marketing Service. <https://attra.ncat.org/organic.html>.
- *Illustrated Guide to Soil Taxonomy*. 2015. Soil Survey Staff. USDA - Natural Resources Conservation Service. National Soil Survey Center. www.nrcs.usda.gov.
- *Major Land Uses: Glossary*. February 2014. Borchers, A. USDA - Economic Research Service. Visit www.ers.usda.gov and search "major land uses: glossary."
- *OMRI Products List*. 2015. Organic Materials Review Institute. Updated annually. www.omri.org/about-products-list.
- *Organic Cost Share Program*. 2015. USDA - Agricultural Marketing Service. Visit www.ams.usda.gov and search "organic cost share program."
- *Organic Farming Manual: A Comprehensive Guide to Starting and Running a Certified Organic Farm*. 2010. Hansen, A. L. Storey Publishing. www.storey.com.
- *Tools for Managing Pest and Environmental Risks to Organic Crops in the Upper Midwest*. 2010. Moncada, K. M. and C. C. Sheaffer, Eds. University of Minnesota. www.organicriskmanagement.umn.edu.
- *Understanding Net Worth*. December 2009. Hofstrand, D. Iowa State University. Visit www.extension.iastate.edu and search "C3-19."
- *Writing Your Family/Business History*. 1997. Agriculture and Agri-Food Canada. In *The Multi-Generational Family Farm*. <http://eruralfamilies.uwagec.org/ERFLibrary/DEFAULT.htm>.

TASK 2

WORKSHEET 2T.2

DOWNLOAD THE PDF

Worksheet 2T.2: Current Farm or Facilities Map (<http://misadocuments.info/2T.2CurrentMap.pdf>)

CURRENT FARM OR FACILITIES MAP

Use the space below to draw or insert a map depicting your current farm layout. Note fields and acreage, fencing, buildings and sizes, etc. If you process, include a detailed facilities map or floor plan (with dimensions) showing processing stations, equipment, storage, bathroom(s), etc.

CURRENT OPERATIONS

Use the space below to describe current resources: land, animals, buildings and equipment. Next, briefly identify custom services that you hire out each year (including trucking) and long-term lease agreements (or other contracted agreements, including conservation easements). Finally, make note of any farm programs and insurance options that you use.

Farm location (note proximity to markets, if applicable):

Land:

Cropland (number of acres owned, rented) _____

Grazing land (number of acres) _____

Other land (number of acres, describe) _____

Annual crop production _____

Perennial crop/orchard production _____

Soil type/quality (describe) _____

Water features (describe) _____

Livestock:

Milking cows (number of animals) _____

Breeding livestock (number of animals) _____

Replacements (number of animals) _____

Meat or stock animals (number of animals) _____

Other livestock (specify type and number) _____

Equipment and buildings (list):

continued →

TASK 2

Inputs used (list products, where and when applied):

Product transport and storage (how it is accomplished):

Custom hire (services you use):

Long-term agreements (contracts, conservation easements, etc.):

Farm program participation (list programs and annual value):

Insurance (types, coverage, cost):

DOWNLOAD THE PDF

Worksheet 2T.4: How Close Am I to Farming Organically, Crops? (<http://misadocuments.info/2T.4HowCloseToOrganicCrops.pdf>)

HOW CLOSE AM I TO FARMING ORGANICALLY, CROPS?

Complete this worksheet for your current crop rotation. Check the appropriate box to indicate if you are generally using conventional or organic management for each cropping system practice. Use the notes section to identify specific practices, inputs and equipment that you need to make the transition from conventional to organic management for each practice. Next, answer the cropping questions listed. This worksheet is meant to provide a general snapshot of your current management status; the more check marks you have in the organic management column, the less you will need to change to become certified.

Crop Production Practice Areas	Manage/Source Conventionally	Manage/Source Organically	Notes
Soil fertility			
Water management			
Weed management			
Insect management			
Disease management			
Seed			
Other inputs			
Storage			

continued →

TASK 2

1. Do you have a soil-building rotation for all fields? Please explain:

2. Do you have adequate buffers in place for all fields that adjoin land not under your control?

3. Do you maintain production records for all fields and enterprises?

4. Date of last application of a prohibited substance not allowed under organic certification (e.g., non-approved pesticides or synthetic fertilizers):

NEED HELP ANSWERING THESE QUESTIONS?

Check out the following publications:

Documentation Forms for Organic Crop and Livestock Producers. March 2011. Baier, A. USDA and ATTRA.

<https://attra.ncat.org/organic.html>.

The Organic Farming Manual: A Comprehensive Guide to Starting and Running a Certified Organic Farm. March 2010.

Hansen, A. L. Storey Publishing. www.storey.com.

DOWNLOAD THE PDF

Worksheet 2T.5: How Close Am I to Farming Organically, Livestock? (<http://misadocuments.info/2T.5HowCloseToOrganicLivestock.pdf>)

HOW CLOSE AM I TO FARMING ORGANICALLY, LIVESTOCK?

Complete this worksheet for each significant livestock enterprise in your current operation. Check the appropriate box to indicate if you are generally using conventional or organic management for each livestock system practice. Use the notes section to identify specific practices, inputs and equipment that you need to make the transition from conventional to organic management for each practice. Next, answer the livestock management questions listed. This is meant to provide a general snapshot of your current management status; the more check marks you have in the organic management column, the closer you are to becoming certified.

Livestock System Practice Area	Manage/Source Conventionally	Manage/Source Organically	Notes
Source of animals (e.g., young stock, replacements)			
Management of young stock			
Feed (Consider: Do you have farm-raised organic feed?)			
Feed supplements			
Outdoor access (non-ruminants)			
Pasture access (ruminants)			
Veterinary inputs			
Herd health (e.g., therapeutic versus sub-therapeutic use of antibiotics, hormones, dry-cow treatments, parasiticides)			
Fly control			
Housing			
Bedding			
Animal welfare (e.g., physical alterations such as tail docking)			

continued →

TASK 2

1. Do you have enough pasture to satisfy NOP rules for a minimum of 120 days grazing and 30 percent dry matter intake during the grazing season?
-

2. Do you maintain production records for this enterprise?
-

3. Date of last application of a prohibited substance not allowed under organic certification (e.g., non-approved pesticides or synthetic fertilizers) or non-organic feed:
-

NEED HELP ANSWERING THESE QUESTIONS?

Check out the following publications:

Documentation Forms for Organic Crop and Livestock Producers. March 2011. Baier, A. USDA and ATTRA.
<https://attra.ncat.org/organic.html>.

The Organic Farming Manual: A Comprehensive Guide to Starting and Running a Certified Organic Farm. March 2010.
Hansen, A. L. Storey Publishing. www.storey.com.

DOWNLOAD THE PDF

Worksheet 2T.6: How Close Am I to Processing Organically? (<http://misadocuments.info/2T.6HowCloseToOrganicProcessing.pdf>)

HOW CLOSE AM I TO PROCESSING ORGANICALLY?

Complete this worksheet for each product that you process. (Processing refers to livestock slaughter, cooking, baking, heating, curing, canning, drying, mixing, grinding, churning, separating, extracting, cutting, fermenting, distilling, preserving, dehydrating, freezing and the repackaging of bulk foods into smaller containers for resale.) Check the appropriate box to indicate if you are generally using conventional or organic management for each processing practice. Use the notes section to identify specific practices, inputs and equipment that you need to become certified organic; also identify suppliers for NOP-approved inputs. Next, answer the processing questions listed. This is meant to provide a general snapshot of your current processing status; the more check marks you have in the organic management column, the closer you are to becoming certified.

Processing Practice Area	Manage/Source Conventionally	Manage/Source Organically	Notes
Source of raw inputs and ingredients			
Transportation and storage of inputs and ingredients			
Cleaning and sanitation			
Processing facility			
Pest management			

continued →

TASK 2

1. Do you have access to a processing facility that is equipped for processing your product?

2. If you use water as an ingredient or to wash inputs and equipment, have you verified that the water meets Safe Drinking Water Act standards?

3. Do you obtain organic certificates from each input supplier if you are already sourcing organic ingredients? These are required for certification.

4. Do you have a product flow chart that tracks the movement of all ingredients and products?

5. Do you have a plan for proper labeling of finished products (e.g., “100 percent organic,” “organic,” “made with organic ingredients”)?

NEED HELP ANSWERING THESE QUESTIONS?

Check out the following publication:

Coleman, P. November 2012. Guide for Organic Processors. ATTRA and USDA - Agricultural Marketing Service.

<https://attra.ncat.org/organic.html>.

CURRENT MARKETING

Use the space below to list each major commodity or product marketed and stored for future sale. Be sure to include custom hire services that you perform in the list of marketed products. Record the sales volume and the average price(s) earned for your most recent harvest or processing run. Conclude by describing current marketing trends, opportunities and challenges. When doing so, think about your proximity to markets, transportation and storage, and ease of sale. Copy this worksheet if more space is needed.

Year: _____

Crops	Sales volume (amount sold, retained)	Average price (value per unit)
_____	_____	_____
_____	_____	_____
_____	_____	_____

Animals and livestock products

_____	_____	_____
_____	_____	_____
_____	_____	_____

Processed products

_____	_____	_____
_____	_____	_____
_____	_____	_____

Custom hire (services you perform)

_____	_____	_____
_____	_____	_____
_____	_____	_____

Marketing trends: _____

Marketing opportunities: _____

Marketing challenges: _____

DOWNLOAD THE PDF

Worksheet 2T.8: Current Enterprise Sales
 (<http://misadocuments.info/2T.8CurrentEnterpriseSales.pdf>)

CURRENT ENTERPRISE SALES

Use the space below to estimate sales revenue for crop, livestock and processed product enterprises. Calculate revenue for those products that you sold or plan to sell. Do not include revenue for products that are utilized on the farm, such as livestock feed. Add the revenue from each field or enterprise to arrive at total enterprise sales. If needed, make additional copies of this worksheet to capture income from all enterprises. An electronic spreadsheet is available to help with these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

Field/enterprise _____

(a) Output for sale (units _____) _____

(b) Price per unit _____

(c₁) Revenue (a*b) _____

Field/enterprise _____

(a) Output for sale (units _____) _____

(b) Price per unit _____

(c₂) Revenue (a*b) _____

Field/enterprise _____

(a) Output for sale (units _____) _____

(b) Price per unit _____

(c₃) Revenue (a*b) _____

Total enterprise sales (c₁+c₂+c₃) _____

DOWNLOAD THE PDF

Worksheet 2T.10: Are You Ready to Manage Organically? (<http://misadocuments.info/2T.10AreYouReady.pdf>)

ARE YOU READY TO MANAGE ORGANICALLY?

*(Adapted from the Minnesota Department of Agriculture's management skills assessment, *Organic Farmers: Steps to Success.*)*

1 = Rarely; 2 = Sometimes; 3 = Most of the time; 4 = Almost always

- _____ I have specific short- and long-term goals for the farm.
- _____ I write these goals down and refer to them periodically.
- _____ I keep accurate financial records.
- _____ I use the financial records to help make farm decisions.
- _____ I keep detailed input and production records.
- _____ I create (and use) a monthly cash flow plan.
- _____ I know the true cost of production for each enterprise on the farm.
- _____ I have a manageable debt load.
- _____ I make good spending decisions (buying versus repairing equipment; purchased inputs, etc.).
- _____ I maintain equipment, buildings and other farm assets.
- _____ I do a good job of prioritizing farm work and getting it done on a timely basis.
- _____ I have enough labor to keep up with the work to be done.
- _____ I do a good job managing employees (hiring, training, termination).
- _____ I use strategies to help manage risk (diversified production, diversified markets, insurance, etc.).
- _____ I am already meeting some or all organic standards.
- _____ I read publications and attend events to learn new ideas.
- _____ I take pride in my farm's appearance.

DOWNLOAD THE PDF

Worksheet 2T.11: How Good Are Your Records? (<http://misadocuments.info/2T.11HowGoodAreRecords.pdf>)

HOW GOOD ARE YOUR RECORDS?

Use the space below to document current recordkeeping practices by management area and to consider what, if anything, needs to change during transition. For example, describe whether you use a calendar, notebook or computer software to maintain records. Use the line after each records title to identify the person(s) responsible for recordkeeping. Next, consider what new recordkeeping practices will be required for an OSP or OSPH. Recordkeeping forms are available through ATTRA (<https://attra.ncat.org/organic.html>), or check out COG Pro for online recordkeeping (<https://cog-pro.com>).

Production records (person responsible): _____

a. Crop recordkeeping practices: _____

b. Livestock recordkeeping practices: _____

c. Processing recordkeeping practices: _____

Marketing records (person responsible): _____

a. Crop recordkeeping practices: _____

b. Livestock recordkeeping practices: _____

c. Processing recordkeeping practices: _____

Human resource records (person responsible): _____

a. Labor (hourly, salaried) recordkeeping practices: _____

b. Tax and workers compensation recordkeeping practices: _____

Financial records (person responsible): _____

a. Expense recordkeeping practices: _____

b. Income recordkeeping practices: _____

Will current recordkeeping practices satisfy OSP or OSPH requirements? (Visit the National Organic Program website to learn about organic recordkeeping regulations: www.ams.usda.gov/nop.)

DOWNLOAD THE PDF

Worksheet 2T.12: Current Family Living Expenses
<http://misadocuments.info/2T.12CurrentFamilyLivingExpenses.pdf>

CURRENT FAMILY LIVING EXPENSES

Use this worksheet to estimate your current annual family living expenses (based on last year's expenses) and your necessary income contribution from the farm business. An electronic spreadsheet is available to help with these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

FAMILY LIVING EXPENSES	\$/YEAR
Food and meals	_____
Medical care and health insurance	_____
Cash donations	_____
Household supplies	_____
Clothing	_____
Personal care	_____
Child/dependent care	_____
Gifts	_____
Education	_____
Recreation	_____
Utilities (household share)	_____
Nonfarm vehicle operating expense	_____
Household real estate taxes	_____
Dwelling rent	_____
Household repairs	_____
Nonfarm interest	_____
Life insurance payments	_____
Other	_____
Total family living expenses (sum of all above)	_____
Farm assets used for personal/family consumption	_____
Total family living expenses (a)	_____
OTHER NONFARM EXPENSES	
Income taxes	_____
Furnishings and appliances	_____
Nonfarm vehicle purchases	_____
Nonfarm real estate purchases	_____
Other nonfarm capital purchases	_____
Nonfarm savings and investments	_____
Other nonfarm expenditures	_____
Total other nonfarm expenditures (b)	_____
Total cash family living investment and nonfarm capital purchases (c) = (a)+(b)	_____
Nonfarm income (d)	_____
Necessary contribution from farm business (c)-(d)	_____

DOWNLOAD THE PDF

Worksheet 2T.13: Current Farm Expenses
 (<http://misadocuments.info/2T.13Current-FarmExpenses.pdf>)

CURRENT FARM EXPENSES

Use this worksheet to record direct and overhead expenses for the most recent production year. (Many of these numbers can be found on your Schedule F Tax Statement.) Be sure to estimate and include annual ownership costs of machinery, equipment and buildings (i.e., depreciation, interest, repairs, taxes and insurance). See page 34 for tips on how to calculate depreciation or use **Worksheet 2T.16: Calculating Depreciation and Inventory Changes**. An electronic spreadsheet is available to help with current farm expense calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

DIRECT EXPENSES	\$/YEAR
Seed	_____
Fertilizer	_____
Chemicals	_____
Irrigation energy	_____
Other direct crop expenses	_____
Feeder livestock	_____
Feed and forages	_____
Pasture	_____
Breeding	_____
Veterinary	_____
Other direct livestock expenses	_____
Crop insurance	_____
Custom hire	_____
Fuel and oil	_____
Repairs and maintenance	_____
Storage	_____
Processing	_____
Certification fees	_____
Professional fees	_____
Education	_____
Office supplies	_____
Marketing	_____
Seasonal labor	_____
Interest on operating loan(s)	_____
Sales taxes	_____
Other operating expenses	_____
Total direct expenses (a)	_____
OVERHEAD EXPENSES	
Utilities	_____
Rent and leases	_____
Hired labor	_____
Owner wages	_____
Depreciation	_____
Farm insurance	_____
Taxes (property, payroll)	_____
Interest on intermediate loan(s)	_____
Interest on long-term debt	_____
Other overhead expenses	_____
Total overhead expenses (b)	_____
Total farm expenses (a)+(b)	_____

TASK 2

WORKSHEET 2T.14

DOWNLOAD THE PDF

Worksheet 2T.14: Current Income Statement (<http://misadocuments.info/2T.14CurrentIncomeStatement.pdf>)

CURRENT INCOME STATEMENT

Use this worksheet to calculate current net farm income for the past year (or several years). Enterprise sales and farm expense data can come from your Schedule F statement or from **Worksheet 2T.8: Current Enterprise Sales** and **Worksheet 2T.13: Current Farm Expenses**. **Worksheet 2T.16: Calculating Depreciation and Inventory Changes** will help you with depreciation and inventory estimates. An electronic spreadsheet is available to help with all of these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

For the period beginning (date) and ending (date)	_____
Enterprise sales	+ _____
Cooperative distributions	+ _____
Government payments	+ _____
Crop insurance proceeds	+ _____
Custom hire income	+ _____
Other income	+ _____
Farm expenses	- _____
Inventory change	+/- _____
Net Farm Income	= _____

DOWNLOAD THE PDF

Worksheet 2T.15: Current Cash Flow
 (<http://misadocuments.info/2T.15CurrentCashFlow.pdf>)

CURRENT CASH FLOW

Use the space below to record cash flow for your most recent production year (reflecting your current, pre-transition operations). Begin by tallying annual cash inflows and annual cash outflows. Then subtract outflows from the inflows. If the projected net cash flow is positive, then you should have had enough cash on hand to cover expenses and make debt payments on time. (Keep in mind that month-to-month cash flow may still have been an issue.) If, on the other hand, net cash flow is negative, the farm business may have had trouble repaying short-term debt. An electronic version of this worksheet is available at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

YEAR

CASH INFLOWS

Gross cash farm income (a)

Nonfarm income (b)

Capital sales (c)

New borrowings (d)

Grants (e)

Total Cash Inflows (f) = (a+b+c+d+e)

CASH OUTFLOWS

Total farm expenses (g)

Depreciation (h)

Total cash farm expenses (i) = (g-h)

Living expenses (j)

Taxes (income, social sec.) (k)

Capital purchases (l)

Principal payments (m)

Total Cash Outflows (n) = (i+j+k+l+m)

Net Cash Flow (f-n)

TASK 2

WORKSHEET 2T.16

DOWNLOAD THE PDF

Worksheet 2T.16: Calculating Depreciation and Inventory Changes (<http://misadocuments.info/2T.16CalculatingDepreciationandInventory.pdf>)

CALCULATING DEPRECIATION AND INVENTORY CHANGES

Calculating Depreciation

Depreciation is defined by the Internal Revenue Service as “an annual allowance for the wear and tear, deterioration or obsolescence of the property.” Most types of tangible property are depreciable, such as buildings, machinery, vehicles and equipment, but land is not. When estimating depreciation, the Center for Farm Financial Management suggests using 10 percent per year of the purchase price of machinery and equipment, 15 percent per year of the purchase price of titled vehicles, and 5 percent per year of the purchase price of buildings and other improvements. Use the table below to estimate the total value of depreciation for your farm assets. You will use this information when compiling farm expenses. A spreadsheet is available to assist with these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

	Beginning \$	Purchases \$	Sales \$	Ending Value \$	Depreciation %	Depreciation Expense \$
	+	+	-	=	*	=
Machinery (a)					10% (0.1)	
Vehicles (b)					15% (0.15)	
Buildings (c)					5% (0.05)	
Breeding livestock replacements (d)						
Total Depreciation = (a+b+c+d)						

Calculating Inventory Changes

Inventory changes affect net farm income and should be accounted for each year. Use the space below to record the value of inventory at the beginning of the year and at the end of the year. Subtract the ending inventory value from the beginning inventory value. You will be asked to add or subtract the final change in inventory when calculating net farm income on **Worksheet 2T.14:**

Current Income Statement.

	Beginning Inventory \$	Ending Inventory \$	Ending–Beginning Inventory \$
Crops and feed (a)			
Livestock held for sale (b)			
Accounts receivable (c)			
Hedging accounts (d)			
Other inventory (e)			
Prepaid expenses and supplies (f)			
Growing crops (g)			
Inventory change (h) = (a+b+c+d+e+f+g)			
Accounts payable (i)			
Accrued interest (j)			
Inventory change (k) = (i+j)			
TOTAL INVENTORY CHANGE = (h-k)			

DOWNLOAD THE PDF

Worksheet 2T.17: Current Balance Sheet
 (<http://misadocuments.info/2T.17CurrentBalanceSheet.pdf>)

CURRENT BALANCE SHEET

Construct your current and historical balance sheets using this worksheet. Where possible, include itemized details under each asset and liability category. A spreadsheet is available to assist with these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

ASSETS

Current Farm Assets

Cash and checking	_____
Prepaid expenses and supplies	_____
Growing crops	_____
Accounts receivable	_____
Hedging accounts	_____
Crops and feed in storage	_____
Crops under government loan	_____
Market livestock	_____
Other current assets	_____
Total current assets (a)	_____

Intermediate Farm Assets

Breeding livestock	_____
Machinery and equipment	_____
Other intermediate assets	_____
Total intermediate assets (b)	_____

Long-Term Farm Assets

Farmland	_____
Buildings and improvements	_____
Other long-term assets	_____
Total long-term assets (c)	_____

Total Farm Assets (d) = (a+b+c) _____

Nonfarm Assets (e) _____

Total Assets (f) = (d+e) _____

continued →

TASK 2

LIABILITIES

Current Farm Liabilities

Accrued interest _____

Accounts payable _____

Current farm loans _____

Principal on CCC loans _____

Principal on term loans _____

Total Current Farm Liabilities (g) _____

Intermediate Farm Liabilities (h) _____

Long-Term Farm Liabilities (i) _____

Total Farm Liabilities (j) = (g+h+i) _____

Nonfarm Liabilities (k) _____

Total Liabilities (l) = (j+k) _____

Net Worth = (f-l) _____

DOWNLOAD THE PDF

Worksheet 2T.18: Current Whole-Farm SWOT (<http://misadocuments.info/2T.18CurrentSWOT.pdf>)

CURRENT WHOLE-FARM SWOT

Summarize the internal strengths and weaknesses as well as the external opportunities and threats for your business as it exists today. Consider all aspects of your business marketing, operations, human resources and finances.

INTERNAL FACTORS

Strengths

Weaknesses

EXTERNAL FACTORS

Opportunities

Threats

TASK 3

LOOK FOR THESE STORY PANEL ICONS



A cow represents excerpts from Minnesota dairy farmers Nate and Angie Walter.



A corn stalk represents excerpts from Minnesota grain producers Bryan and Theresa Kerkaert.



A jar of pickles represents excerpts from New Jersey processor Vitaly Brukman.

PLANNING TASK THREE: Vision, Mission and Goals

This planning task is, perhaps, the most enjoyable of those included in the Planner. It offers an opportunity to dream—to imagine your future and develop goals for the farm business. The work you do in this planning task will help you complete the business overview, mission statement and goals sections of your business plan.



Nate Walter with calves. (Angie Walter)

FUTURE VISION

Begin crafting your future vision by describing what going organic means to you. Try answering these fundamental questions:

- Why are we transitioning?
- What will our farm or farm business look like during transition?
- When will we become certified and for which fields?
- What crops will we include in our rotation or what will we process?
- Who will be doing which tasks?
- What will we be doing after certification; will the farm look different?
- Where will we market certified organic crops, livestock and other products?
- What kind of debt will we carry during transition? How will this change after certification?

Use **Worksheet 3T.1: Preparing a Future Vision** to begin envisioning your future. See the story panels for examples of future visions from the Walters and Kerkaerts. If you prefer pictures to words, use the work space provided to draw a map of your farm as it looks now, during transition and after certification. If you choose to use visuals, depict buffers and describe which conservation practices might benefit your farm. This map can be useful when preparing an OSP or OSPH.

FUTURE VISION

It is the year 2035. Walter Dairy is one hundred years old and run by Levi with his father, Nate, helping out wherever needed. There are 120 cows and more than 400 acres. The new tractor purchased in 2015 has 8,000 hours on it. Levi is considering building a 240-cow barn with robots and purchasing 320 acres across the road. Angie and Laureen enjoy running the farm store—first opened in 2014. Laureen's husband drives some tractors for us. Our grandkids enjoy helping feed the calves. We can finally say, "We did it. Let's take a two-day vacation!"



FUTURE VISION

In five years Kerkaert Organic Farm will have obtained long-term leases for all rental land with an option to buy approximately 480 acres. In 15 years we will own/farm enough land to start incorporating our three sons into the operation, if they desire.

**MISSION STATEMENT**

Next, begin drafting a mission statement for your certified organic farm business. A mission statement “describes the fundamental purpose of your business, what you do, why you do it, and for whom you do it. It identifies your products, services and customers.” (*Agriculture Business Plan Workbook*, p.4.) Your mission statement might be personal in nature—intended to guide your own management—or a more formal statement to future customers. See the story panels for mission statement examples.

Use **Worksheet 3T.2: Farm Business Mission Statement** to record your mission statement.

MISSION STATEMENT

I believe I was born to farm. I will do what is in my power to see that this dairy farm fulfills another generation’s dreams; to show that a family farm can still exist and that plenty of food can be grown using organic methods.



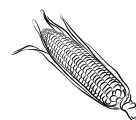
The mission of Bubbly Jen’s Farm is to serve a community of people living in the NJ/NY region who are interested in eating diverse, nutritious, organically grown/prepared food to improve their health and quality of life.

**GOALS**

Finally, wrap up Planning Task Three: Vision, Mission and Goals by drafting goals for your farm business. Goals are statements that reflect the “what” and “who” pieces of your future vision; they describe what your farm will look like after transition and who will be involved in the day-to-day operations. Goals do not describe the “how” components of your future business—you will address these in Planning Task Four: Strategic Planning. See the story panel for an example of a goal statement.

GOALS

Our long-term goal is to own enough tillable acres to have a self-sustaining farm operation that will be a source of retirement income for us and a resource to pass down to our children for their financial security.



TASK 3

As you draft short- and long-term goals for the farm business using **Worksheet 3T.3: Goals**, it is a good idea to include supporting documentation for your goals. For example, if your goal is to market organic beef, it would not hurt to include a few statements explaining why you are excited and optimistic about this goal: “Organic beef sales have been up 15 percent at grocery stores in our region over the past two years. Based on reports from farm publications, we expect demand for organic beef to keep growing, and therefore we see organic beef as a good opportunity. We see ourselves adding this enterprise to the farm mix within three years.”



DIG DEEPER

You identified personal and farm business goals in this planning task. It is also a good idea to ask other members of your planning team to do the same. Ask family and other planning team members to set short- and long-term goals for the farm business. Then sit down and compare notes! Do you share the same goals? Would you prioritize your goals differently? **Worksheet 3.5: Prioritizing Goals** is available on page 95 in the Guide to help with this task.



PUT IT IN WRITING!

When ready, record brief vision, mission and goal statements in the sections provided in the *Executive Summary* of AgPlan or using a word processing program. The executive summary should communicate to lenders, business partners or other readers (including your family) where you are headed with the farm business and what it will look like in the short term (during transition) and long term (after certification). You may find it necessary to revisit and revise your mission statement or goals after finishing your business strategies in Planning Task Four: Strategic Planning.

RESOURCES

- *AgPlan*. 2010. Center for Farm Financial Management, Regents of the University of Minnesota. <https://agplan.umn.edu>.
- *Goal Setting for Farm and Ranch Families*. 2004. Doye, D. Oklahoma Cooperative Extension Service. Visit www.oces.okstate.edu and search “goal setting for farm and ranch families.”
- *Holistic Management: A New Framework for Decision Making, 2nd Edition*. 1999. Savory, A. and J. Butterfield. Island Press. www.islandpress.org.
- *How to Establish Goals: A Group Project for Farmers and Their Families*. September 1998. Lamb, J., Minnesota Project, the Whole-Farm Planning Interdisciplinary Team, and the Minnesota Institute for Sustainable Agriculture. www.misa.umn.edu/Publications/index.htm#business.

WORKSHEETS ARE NOW AVAILABLE ONLINE

Visit www.misa.umn.edu/Publications/OrganicTransitionPlanner to obtain fillable PDF worksheets and electronic spreadsheets.



DOWNLOAD THE PDF

Worksheet 3T.2: Farm Business Mission Statement (<http://misadocuments.info/3T.2MissionStatement.pdf>)

FARM BUSINESS MISSION STATEMENT

Use the questions below to begin sketching a brief mission statement that communicates your values, management philosophy and future vision. Have each member of your planning team complete this worksheet, then share your statements and discuss any similarities and differences. Going through this process as a team will generate more ideas and will result in a common mission statement that all planning team members support. Remember to write your final statement in present tense and keep it positive.

What business are we in? What products or services do we provide?

I would like our business to be known for the following in the future (e.g., What purpose? What qualities?):

Our business mission statement will communicate to (lenders? customers?):

Based on the answers above, our mission statement is:

GOALS

Use the space below to record your short-, intermediate-, and long-term goals. These can be personal as well as business goals. We recommend that each person on your planning team completes this worksheet. When finished, discuss and prioritize goals with your planning team members. You might begin by identifying goals that you all share. In the space provided, list your top three to five goals by priority.

Short-term goals (the next three years):

Intermediate goals (four to five years):

Long-term goals (beyond five years):

Priorities (top three to five goals):

1.

2.

3.

4.

5.

TASK 4

LOOK FOR THESE STORY PANEL ICONS



A cow represents excerpts from Minnesota dairy farmers Nate and Angie Walter.



A corn stalk represents excerpts from Minnesota grain producers Bryan and Theresa Kerkaert.



A jar of pickles represents excerpts from New Jersey processor Vitaly Brukman.

PLANNING TASK FOUR: Strategic Planning and Evaluation

In this task, you will create business strategies for transitioning and certifying your farm. Strategies form the core of your business plan and address questions about how you will get from here (pre-transition) to there (organic certification). We will provide strategy examples throughout this planning task, but remember that the strategies you develop should be unique to your own resources, goals and mission.

Planning Task Four addresses the following sections of your business plan:

Operations

- Production opportunities
- Operations strategy
- Licenses and organic certification
- Resource needs and acquisition
- Operations risk management

Marketing

- Marketing opportunities
- Marketing strategy
- Licenses and organic certification
- Marketing risk management

Human Resources

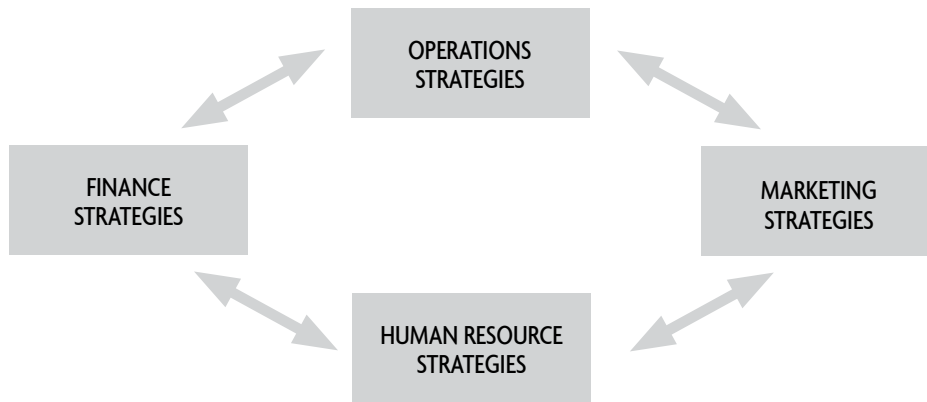
- Human resource opportunities
- Planning and management team
- Licenses and safety regulations
- Human resource strategy
- Human resource risk management

Finances

- Financial opportunities
- Financial strategy
- Financial projections
- Capital requests
- Financial risk management

You may find that as you complete research and develop strategies for one section of your plan, marketing for example, it may impact or necessitate changes to strategies in other sections of the plan, for example operations. Strategy development is an iterative process calling for you to revisit and refine as you go. See *Figure 4T.1: Strategy Development Process*.

FIGURE 4T.1: STRATEGY DEVELOPMENT PROCESS



Strategy development is an iterative process, where decisions in one area can cause you to revisit other areas. *(Gigi DiGiacomo)*

OPERATIONS

We suggest that you begin this planning task by developing one or two big picture, or whole-farm, strategies. Whole-farm strategies serve as a good reminder of how you intend to accomplish goals and can be used as a starting point from which to generate specific operations, marketing, human resource and finance strategies. They also serve as a communicator for your business overview in the written plan—describing how and when you will transition as well as your rationale for doing so. Use **Worksheet 4T.1: Whole-Farm Strategies** to record your whole-farm strategy. Examples of whole-farm strategies are provided in the story panels.

WHOLE-FARM STRATEGY

Gradually transition land, then transition cows in third year. Strategy Rationale: Work through organic learning curve, supply feed needs from farm and gradually identify management opportunities for son.



Purchase organic vegetables for processing into naturally fermented, ethnic products targeted at Russian-speaking communities while transitioning land and developing production capacity. Strategy Rationale: Develop recipes and markets using purchased inputs while learning to grow my own organic vegetables for processing.



OPERATIONS - Production Opportunities

It is important to identify production opportunities, as they can steer your strategy decisions and help convince partners and investors that your idea is grounded in real prospects.

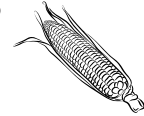
Brainstorm short- and long-term production opportunities that may be unique to your operation or are characteristic of changes in the agriculture sector as a whole. The most compelling opportunities will be those that are unique to your farm business. Some of the

OPERATIONAL OPPORTUNITIES



My neighbor has offered to sell me organic feed during transition at a discounted price. This will allow me to meet livestock feed needs while showing a positive cash flow. I will have to repay my neighbor for the difference between the discounted rate and going organic rate once I am certified.

This plan focuses on the opportunity to gain stable, continuous access to land in 2016 through a five-year lease with a right of first refusal to purchase the land at the end of the lease. We assume the land we rent will have been in conventional production through 2015 and so will need to be transitioned.



BJF has many production opportunities in the coming year. These include the short-term use of Rutgers Commercial Kitchen lab to experiment with recipes and processing; use of one neighbor's greenhouse to start seedlings; and rental of two acres of another neighbor's certifiable land. A longer-term production opportunity is the expansion of BJF to include 30 acres of nearby land that is expected to come up for sale within the next few years, if needed.



opportunities recorded by farmers participating in the Tools for Organic Transition Project included the option of renting certified land from a neighbor, the ability to grow a particular commodity due to soil type and the availability of a certified dairy herd. Additional examples of operational opportunities are depicted in the story panels.

Space is provided on **Worksheet 4T.2: Operations Strategy Summary** to draft concise, positive statements describing production opportunities. Support any opportunities with research and written commitments if possible.

OPERATIONS - Operations Strategy

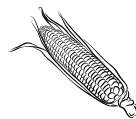
You have dreamed about the future, outlined goals, inventoried resources and explored opportunities associated with going organic. Now, it is time to develop your operations strategy; to identify how you will make it all happen. Your operations strategy should briefly address the following items (many of which can be used for your OSP or OSPH):

1. Crop and livestock production activities
2. Value-added processing
3. Land, facilities, equipment and other input needs
4. Feed requirements
5. Production estimates
6. Inventory management and quality control

Begin your operations strategy development by reviewing the basics of organic production management. See *Text Box IT.1: The National Organic Program and Certification Basics* on page 12. If you are still feeling a bit uncertain about what the organic transition might mean for you, check out the Rodale Institute's online *Organic Transition Course* (<http://rodaleinstitute.org/farm/organic-transition-course/>) or ATTRA's organic farming website (<https://attra.ncat.org/organic.html>) to learn more about production basics.

OPERATIONS STRATEGY

This plan assumes that in 2015 we will initiate transition on 82 acres currently under conventional production and rent an additional 20 acres of adjacent land coming out of CRP that can be certified immediately. In 2016 we will rent a farm with 480 acres of tillable land that has been under conventional management.



Once you are ready, brainstorm short-term (transition, the first three years) and long-term (post-certification, years four and five) operations and processing strategies.

A common strategy is to run a split operation in which a portion of the farm or processing is managed organically and the remainder is managed conventionally. Some farmers and educators advocate initially transitioning only a small amount of farm acreage—that with the best soil quality, moisture levels and pest control—while managing the remainder of the farm conventionally. Once the initial parcel of land is certified and market premiums are available, then you would transition the remainder of your farmland.⁵ This strategy has benefits, such as the ability to learn as you go on limited acreage. However, this strategy also will require that you invest time and, sometimes, money in services and equipment to prevent commingling and contamination of crops and products at all stages, from planting to the final sale.

Or, like the Kerkaerts, your plan might include transitioning land under long-term lease as you build skills and assets before purchasing your own land that you will certify. See their operations strategy in the story panel.

Processors, too, often use a split-operation strategy. They will dedicate one day per week or the first processing run of the day to certified organic products. They then process several runs or batches as conventional, and clean out all equipment before switching to the next organic run.

Another management strategy is to transition everything at once—all of your land, livestock or processing. This “all in” strategy can make planning, management and record-keeping simpler. The drawback to this strategy, however, is that it exposes you to greater yield and price risk by forcing you to experiment with everything at once.

Record your operations strategy ideas on **Worksheet 4T.2: Operations Strategy Summary** in the strategy description section at the top of the worksheet. You will complete the remainder of the worksheet later.

Regardless of whether you transition all or some of your land, carefully consider the timing of planned operations. For example, if you currently produce field crops or fruits and vegetables, time your input applications (seed, pesticide and fertilizer) so that it is possible to certify in the third year just before harvest. This will allow you to capture market premiums in the third year of transition rather than having to wait until your fourth-year harvest. Likewise, if you are a livestock producer with field crops, consider transitioning your cropland for two years before beginning to transition animals. This will allow you to certify land and animals simultaneously. If you were to transition animals first, before your land was certified, you would be required to purchase expensive organic feed and obtain access to certified pasture. See *Figure 4T.2: National Organic Program Livestock Standards* for more information about feed requirements.

⁵ Menalled, F., C. Jones, D. Bushena, and P. Miller. March 2012. *From Conventional to Organic Cropping: What to Expect During the Transition Years*. Montana State University Extension. <http://msuextension.org/store>.

TASK 4



CROP ROTATION STRATEGY

Our standard rotation is blue corn followed by oats under-seeded with alfalfa, followed by alfalfa. In some situations we substitute wheat or flax for oats, and we have the flexibility to extend our rotation to four years if the alfalfa is in good condition.

FIGURE 4T.2: NATIONAL ORGANIC PROGRAM LIVESTOCK STANDARDS

National Organic Program Livestock Standards (NOP § 205.237 and § 205.240)

Ruminant animals must be grazed throughout the entire grazing season for the geographical region, which shall be not less than 120 days per calendar year. Due to weather, season, and/or climate, the grazing season may or may not be continuous. ... All ruminants under the organic system plan [must be provided] with an average of not less than 30 percent of their dry matter intake from grazing throughout the grazing season.

See the Resources section for additional strategy ideas or to learn more about NOP management requirements; it includes listings for print information, online transition courses and certifiers (see Accredited Certifying Agents). Check out the Organic Trade Association's Regional Guide. It is searchable by location and lists events, organizations, publications and people with expertise on organic management. Field days, conferences and other events are excellent opportunities to learn about strategies that other farmers are using and have found successful.

Crop and Livestock Activities

After settling on one or more general production strategies, brainstorm crop and livestock enterprises to include in your rotation as well as any conditions that might affect rotation plans (such as livestock feed requirements). Be sure to review the NOP regulations on crop rotation presented in *Figure 4T.3: National Organic Program Crop Rotation Standards* and check out the story panel to see the Kerkaerts' crop rotation strategy. When ready, record your crop production plans for transition and certification on **Worksheet 4T.3: Crop and Livestock Enterprises**.

Next, using the list of potential enterprises, create multi-year field maps reflecting crop rotations or grazing schedules. This exercise is similar to the one you did in Planning Task Two: Current Situation, only now you are mapping the future. Use **Worksheet 4T.4: Transitional Farm Map** or a blank piece of paper to create a map for each year in your rotation, if you are growing crops. For transitional cropping maps, depict buffers, conservation acreage, permanent vegetation, orchards, woodlands and buildings. If your operation includes livestock, note your fencing, watering lines, housing and grazing schedules. You should also include field notes about soil types as well as pest, weed and disease management practices, which you can base on soil tests and the inventory work that you did in Planning Task Two: Current Situation. Also, include any expected changes in herd size and

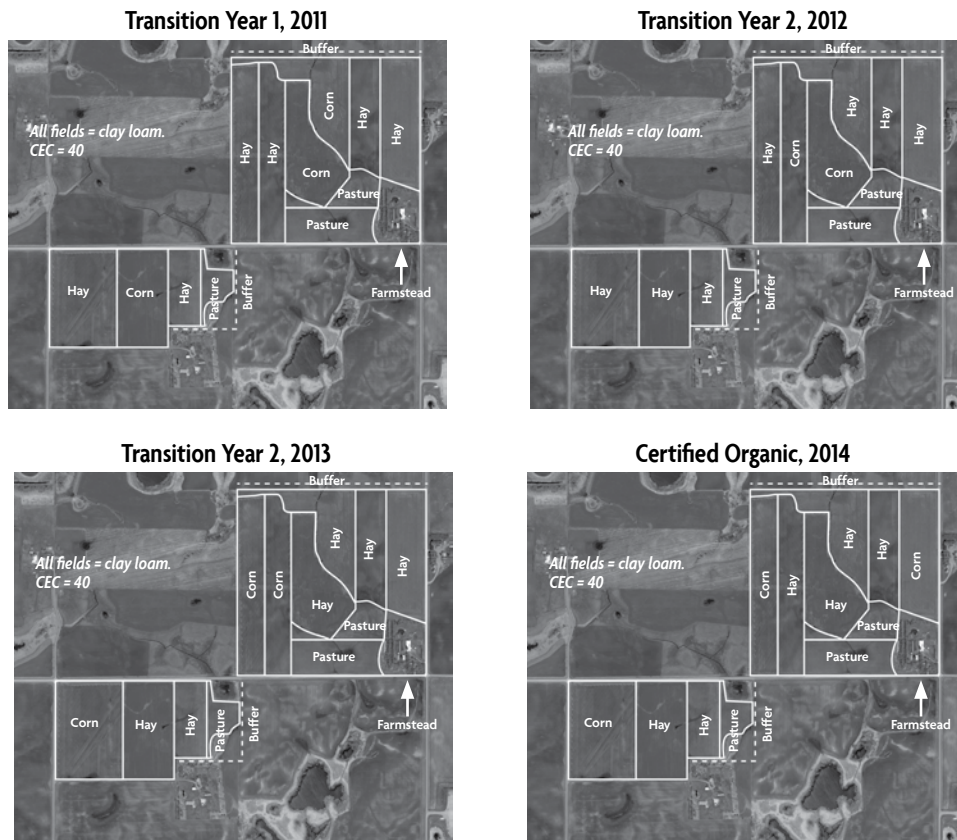
FIGURE 4T.3: NATIONAL ORGANIC PROGRAM CROP ROTATION STANDARDS

National Organic Program Crop Rotation Practice Standards (§ 205.205)

The producer must implement a crop rotation including but not limited to sod, cover crops, green manure crops and catch crops that provide the following functions that are applicable to the operation:

- (a) Maintain or improve soil organic matter content;
- (b) Provide for pest management in annual and perennial crops;
- (c) Manage deficient or excess plant nutrients; and
- (d) Provide erosion control.

FIGURE 4T.4: TRANSITION AND CERTIFICATION FARM MAPS, WALTER, 2011-2014



pasture management. If you are growing fruits and vegetables that allow for succession planting, we suggest that you create seasonal rather than yearly maps. All of the information that you record here can be used in your OSP. Look at *Figure 4T.4: Transition and Certification Farm Maps, Walter, 2011-2014* to see how the Walter family plotted their crop rotation when planning their transition.

Processed Products and Services

If you plan to offer services or add value through any type of processing (see *Text Box 4T.1: Processing Defined* for the USDA’s definition of processing), you have more planning and mapping to do!

For example, processed products that are intended for sale as certified organic must be handled in a certified facility (NOP § 205.100 and § 205.101) and are subject to packaging and labeling requirements



TEXT BOX 4T.1

PROCESSING DEFINED

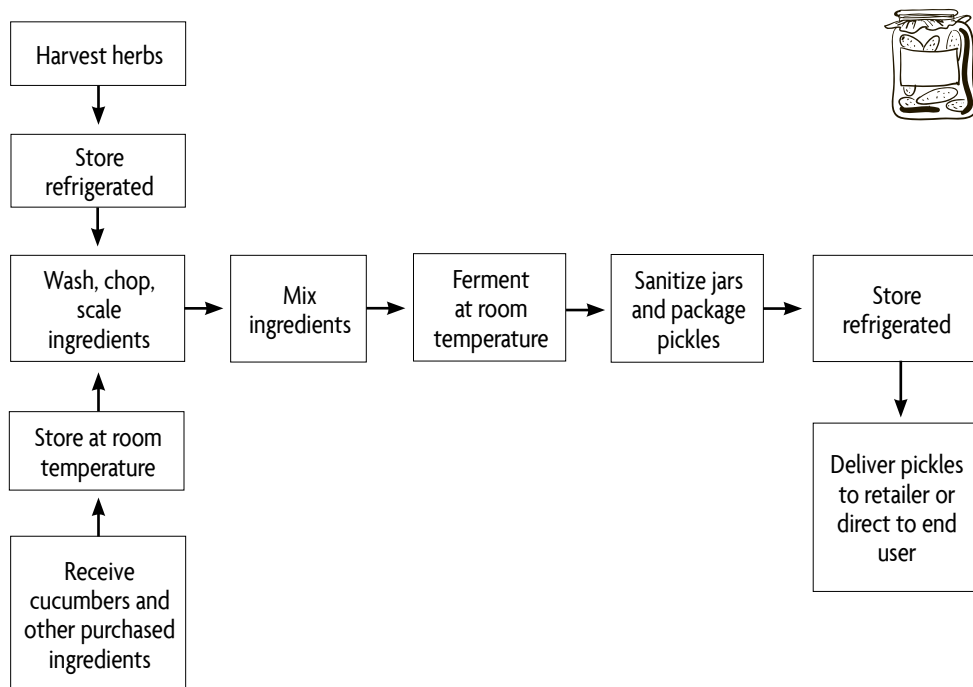
Processing is defined by the USDA as: cooking, baking, curing, heating, drying, mixing, grinding, churning, separating, extracting, slaughtering, cutting, fermenting, distilling, eviscerating, preserving, dehydrating, freezing, chilling or otherwise manufacturing, and includes packaging, canning, jarring or otherwise enclosing food in a container.

Source: *Do I Need To Be Certified Organic?* June 2012. National Organic Program, Agricultural Marketing Service, USDA.

(NOP §§ 205.300-305 and §§ 205.605-606). We will get you started here, but strongly recommend reading the *Guide for Organic Processors* by Pamela Coleman. This publication, listed in the Resources section, is a great place to begin your strategy research if you plan to process and certify organic.

One of the first things you will need to consider when developing a processing strategy is how you will process. Use **Worksheet 4T.5: Organic Processing Map** to create a processing flow chart and facility map. These are much like field maps in that they visually describe where you will process and how you will process. Flow charts and facility maps are required for an OSPH and typically include building dimensions, processing stations

FIGURE 4T.5: BJF FLOW CHART



PROCESSED PRODUCTS

BJF will eventually process and sell a range of naturally fermented foods and drinks as well as jams, sauces, dressings and frozen soups. We will begin with the following naturally fermented products:



- | | |
|---------------|--------------------------|
| 1. Pickles | 5. Kombucha |
| 2. Sauerkraut | 6. Ginger ale |
| 3. Tomatoes | 7. Pickle juice |
| 4. Kvass | 8. Stinging nettle juice |

All of these products can be processed using much of the same inputs, equipment and facilities, so it will be fairly easy to add any of the above foods and drinks to the BJF product line as business grows.

(e.g., washing, cutting, cooking, packing, etc.), equipment, bathroom(s), and storage and distribution areas. See the BJF flow chart in *Figure 4T.5: BJF Flow Chart* for an example and note that it is a bit rudimentary. Like BJF owner Vitaly Brukhman, you can add more detail as you continue to explore processing strategies.

Next, use **Worksheet 4T.6: Processed Products and Services** to list products and services that you would like to produce and certify. Use the same worksheet to describe the type of processing required for each value-added product or service (e.g., dehydration, fermentation, baking). If known, record the location of processing facilities and options for establishing processing and service-related infrastructure on the farm. For an example, see Vitaly Brukhman's story panel on processed products.

Land, Facilities, Equipment and Inputs

When beginning to transition, 72 percent of farmers purchased new equipment, 28 percent hired custom service providers and 24 percent purchased new land, according to surveys from the *Tools for Organic Transition Project*.⁶

Consider how your overall transition strategy (e.g., split-crop operation versus whole-farm transition) and specific management plans will affect your need for land, facilities, equipment, breeding livestock, storage and production inputs. Begin by drafting a list of short-term (transition) and long-term (post-certification) needs related to your facilities, equipment and inputs. Space is provided for this on **Worksheet 4T.3: Crop and Livestock Enterprises** and **Worksheet 4T.6: Processed Products and Services**. Then, compare this list to your current inventory of available resources to identify gaps.

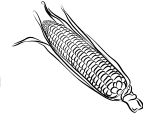
Once you have a good feel for short- and long-term resource gaps, begin identifying strategies for how you will fill land, facility, equipment and input needs. These strategies might include purchasing new or used equipment, contracting services or developing strategic partnerships to access feed, equipment or processing facilities.

Strategic partners are important to any business—they may allow you to take advantage of opportunities, inform a new idea or finance needed investments. See the story panel on strategic partners from the Kerkaerts' business plan.

⁶ Tools for Transition Project. *Tools for Transition: Intake Survey Results*. Updated 2012. eOrganic. <http://eorganic.info/tools-fortransition/reports>.

STRATEGIC PARTNERS

We formed an alliance with an established organic farmer who supplied equipment in exchange for manure spreading. (We own a manure hauling/spreading business.) This strategic alliance allowed us to experiment with organic transition without having to make substantial investments in new equipment until we were ready.



Reflect on your operations strategy. Does it make sense to fill any equipment gaps through strategic alliances? What are the advantages and disadvantages of entering into a formal or informal agreement? Would it make more sense to finance inputs, equipment and other capital assets? We discuss capital financing in the Finances strategy section.

If you remain uncertain about how best to address resource needs, see pages 138-142 in the Guide to identify additional strategy alternatives for accessing land, equipment and inputs. All of the strategies mentioned are viable options when transitioning. One possible exception concerns land rental. Renting and transitioning acreage can be risky unless you are able to sign longer-term leases where returns on investments can eventually be captured.

Use **Worksheet 4T.2: Operations Strategy Summary** to document land, facility, equipment, breeding livestock and input needs, and acquisition strategies. As you do so, be sure to check that inputs are approved by the NOP. The Organic Materials Review Institute (OMRI) maintains a comprehensive directory of materials and allowable inputs for organic production that are compatible with the NOP National List of Allowed and Prohibited Substances. The *Non-GMO Sourcebook* is another excellent resource listing suppliers of non-GMO products and services that are particularly helpful during transition. See the Resources section for more on the *OMRI Products List* and the *Non-GMO Sourcebook*.

Inventory Management and Quality Control

Certification and, ultimately, income will be determined by how well you manage inventory and control quality to protect the organic integrity of your crop, livestock and processed products. Inventory management begins in the field and ends when products are loaded on a truck for delivery to buyers.

As with conventional crop and livestock products, you need to have a plan for storing products and protecting quality. Storage containers, packaging materials and pest control practices for transitional and organic products are regulated by NOP, so be sure to check the rules for allowable materials and practices (NOP § 205.271 and § 205.272).

Additionally, if marketing a specialty transitional crop where premiums are dependent on the load being “clean” (GMO-free) or if maintaining a split operation after certification, you will need to take extra steps to safeguard product quality. You will need to prevent commingling with non-organic (or GMO) products, protect organic products from coming into contact with prohibited substances, and create the traceable audit trail required by certifiers and many buyers. We discuss audit trails in the Human Resource strategy section under recordkeeping.

After becoming certified, if you are maintaining a split operation and expect to store crop and livestock products, it is common to dedicate separate equipment and storage for conventional, transitional and organic use. As explained by Mary-Howell Martens of Lakev-

iew Organic Grain in New York: “If you are not using dedicated organic harvesting and handling equipment, your certifier will expect you to maintain a cleanout log, showing that equipment was thoroughly cleaned and purged of conventional grain before any organic grain was introduced.”⁷

These same rules apply when co-packing, renting processing equipment and using custom hire services for combining, cleaning, trucking and storing grain. Carolyn Lane, vice president of Nature’s Organic Grist in Minnesota, warns that custom service providers often do not take responsibility for proper cleanout when moving from conventional to organic operations. Therefore, she suggests working with a trusted service operator or hiring a certified organic farmer to provide needed services.

For more information about how to maintain product quality and prevent commingling, check out the NOP guidance sheets *Commingling and Contamination Prevention in Organic Production and Handling* and *Can GMOs Be Used in Organic Products?*. Both articles are listed in the Resources section.

Production Estimates

Next, use **Worksheet 4T.7: Production Estimates, Crops** and **Worksheet 4T.8: Production Estimates, Livestock** to record your expected yields or livestock production during the short-term transition period (the first three years) and during the long-term, post-certification period (years four and five).

Crop yield and livestock output estimates come from your own records and from published research. If this is your first time transitioning, be aware that yields and output have been shown to decline when making the switch to organic management, due primarily to an increase in weed populations. See *Table 4T.1: Organic Yield Penalties* for a look at yields observed in seven studies comparing conventional and organic row crops.

TABLE 4T.1: ORGANIC YIELD PENALTIES

Organic Yield Penalties from Selected Transition Studies, 1986-2008 (all values are percent)				
	Corn	Soybeans	Wheat	Hay/Alfalfa
Delate and Cambardella	8.2	0.4	—	—
Porter et al. (No. 1)	9	19	—	8
Porter et al. (No. 2)	7	16	—	0
Creamer et al.	—	—	11.2	—
Hanson et al.	28.9	0	23.1	22.2
Dabbert and Madden	20	20	20	20
McBride and Greene	—	34	—	—
Average	14.6	14.9	18.1	12.6

Source: Clark, S. and C. Alexander. February 2010. *The Profitability of Transitioning to Organic Grain Crops in Indiana*. Purdue Agricultural Economics Report. Purdue University.

Panel A in *Figure 4T.6: Conventional Versus Organic Enterprise Observations in Minnesota, Corn* and *Figure 4T.7 Conventional Versus Organic Enterprise Observations in Minnesota, Dairy* depict more recent corn yield and dairy productivity data as reported by Minnesota farmers and their farm business management instructors.⁸ This data suggests more substantial yield penalties than those reported in *Table 4T.1: Organic Yield Penal-*

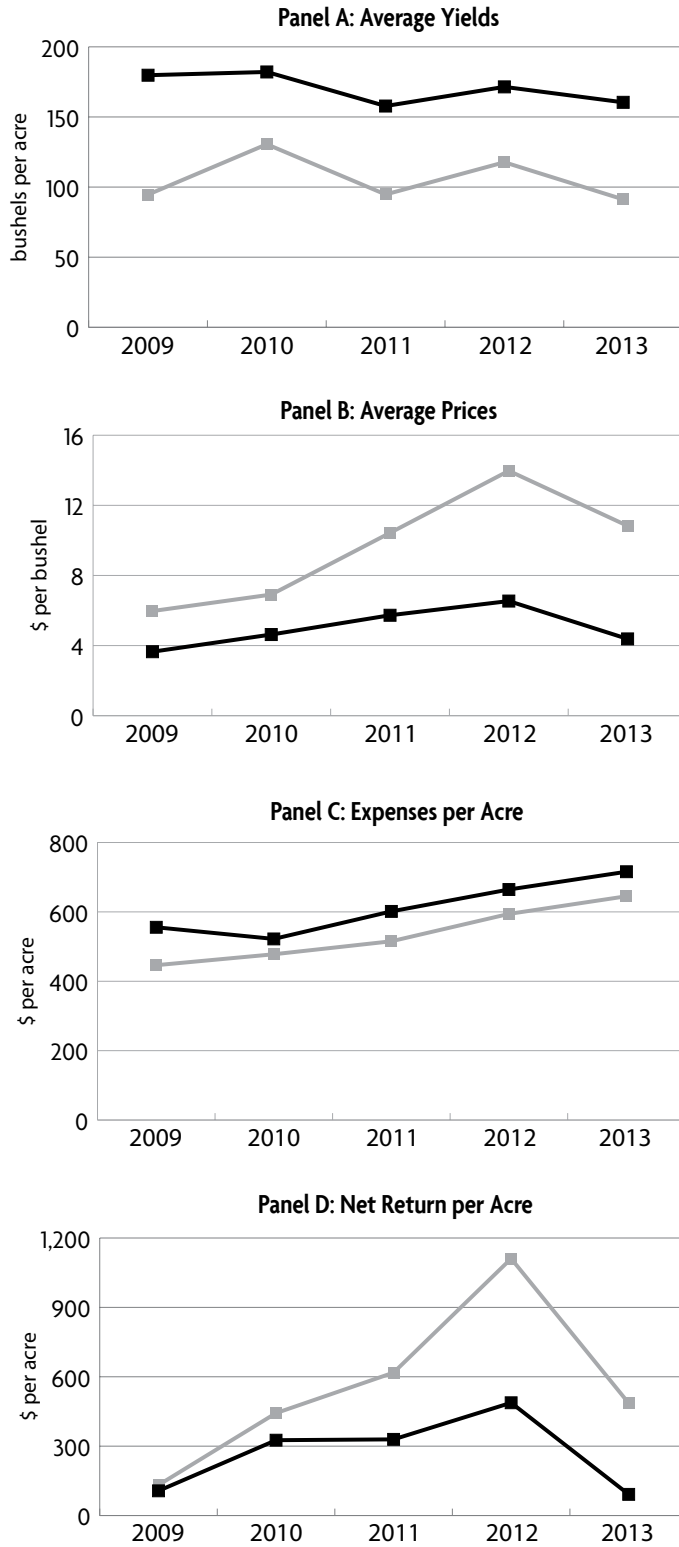
7 Martens, M. H. September 28, 2004. *Smoothing the Path to a Profitable Harvest Home*. Rodale Institute. www.rodaleinstitute.org.

8 FINBIN Farm Financial Database. Center for Farm Financial Management, University of Minnesota. www.finbin.umn.edu.

TASK 4

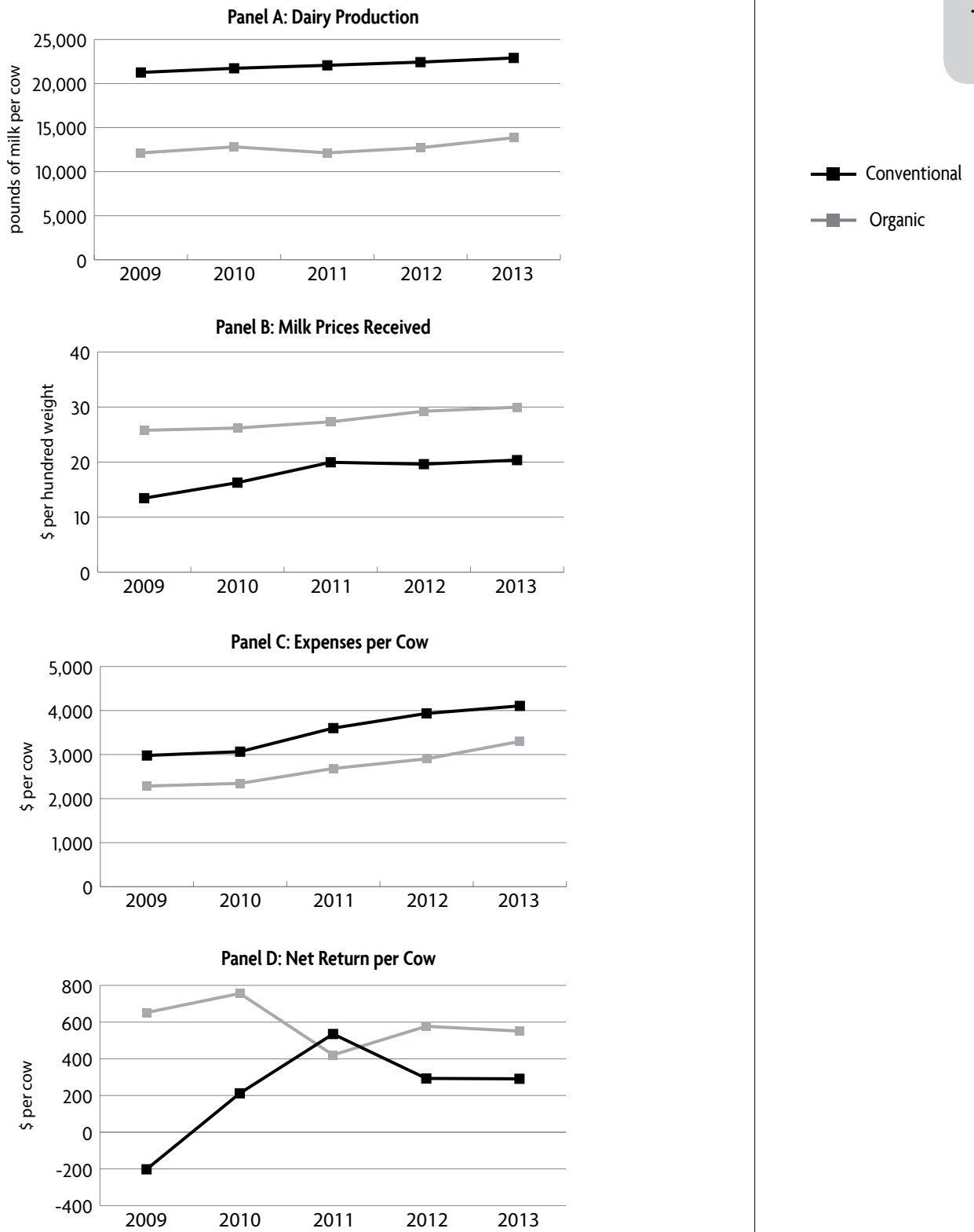
- Conventional
- Organic

FIGURE 4T.6: CONVENTIONAL VERSUS ORGANIC ENTERPRISE OBSERVATIONS IN MINNESOTA, CORN



Source: FINBIN Database. Center for Farm Financial Management. www.cffm.umn.edu. Data come from Minnesota farms enrolled in the Farm Business Management Education Program. Individual farms enrolled in the program (observations) vary each year.

FIGURE 4T.7: CONVENTIONAL VERSUS ORGANIC ENTERPRISE OBSERVATIONS IN MINNESOTA, DAIRY



Source: FINBIN Database. Center for Farm Financial Management. www.cffm.umn.edu. Data come from Minnesota farms enrolled in the Farm Business Management Education Program. Individual farms enrolled in the program (observations) vary each year.

ties. Organic corn yields, for example, averaged 53-72 percent of conventional corn yields during 2009-2013. Cow productivity compared similarly. Organic milk production per cow measured 55-60 percent of conventional milk production during 2009-2013.

However, research and data from side-by-side, long-term field trials at the Minnesota Southwest Research and Experiment Station in Lamberton, Minn., suggest that four-year organic rotations for corn and soybeans can compete with conventional, two-year rotations on a yield basis.⁹

We have listed a few yield-related data sources in the Resources section. If you do not find what you are looking for there, we suggest talking with farmers in your area or visiting with a certifier to explore output expectations for transitional and organic crop yields and livestock performance for your county. Experienced farmers may be able to suggest reasonable yield penalty or transition effect multipliers for your own crop or animal output histories.¹⁰

If processing, we suggest doing some marketing homework first. Unlike bulk commodities, which have a guaranteed market in the conventional sector if you are unable to market organically, processed products—organic or conventional—require greater investments, carry more regulatory risk and may not have an alternative market outlet. It is a good idea to talk with buyers (described in the Marketing section of Planning Task Four) to determine sales before finalizing processing production estimates. When ready, use **Worksheet 4T.9: Production Estimates, Processed Products** to record the volume of product that you expect to process.

Your production estimates for processed products will likely change over time as you develop recipes, source ingredients and refine processing methods. It is not uncommon to begin by processing conventionally—for practice, so to speak—before applying for organic handling certification. See ATTRA's *Guide for Organic Processors* for more ideas on how best to develop a plan for processing (listed in the Resources section).

OPERATIONS - Licenses and Organic Certification

Most farmers are familiar with county, state and federal licenses and permits required for conventional management (e.g., those related to buildings, waste handling and disposal, health and safety, processing, etc.). Many of these same rules and regulations will apply when going organic. Additionally, however, there are a host of license and permit obligations that you should be aware of as a transitioning organic producer or processor. These are outlined in the NOP standards under NOP §§ 205.202-205.240 (see the Resources section).

NOP standards apply to all farmers, ranchers, processors and food business owners who use the organic claim, but certification is only required if you do one of the following:

- sell more than \$5,000 of organic products annually (gross sales)
- handle more than \$5,000 worth of bulk, unpackaged organic products (gross sales)
- process more than \$5,000 worth of organic products (unless all products contain less than 70 percent organic ingredients)
- handle (e.g., package) and sell organic products online (but not in stores) or transport organic products

⁹ Coulter, J. A., T. A. Delbridge., R. P. King, D. L. Allen, and C. C. Sheaffer. June 13, 2014. *Productivity, Economics, and Soil Quality in the Minnesota Variable-input Cropping Systems Trial*. Proceedings from the USDA Organic Farming Systems Research Conference. www.crops.org/publications/cm.

¹⁰ Delbridge, T. A., G. DiGiacomo, and R. P. King. January 10, 2015. *Research Findings: Who's Transitioning and How in MN*. Presentation at the Minnesota Organic Conference in St. Cloud, Minn. <http://eorganic.info/toolsfortransition/reports>.

For more information about whether you should certify or need to develop an OSP, check out the USDA fact sheet *Do I Need to Be Certified?*, listed in the Resources section. Moreover, if you plan to process raw products, you will need to create an OSPH that describes your:

- handling
- ingredient purchases
- transportation of raw ingredients
- storage
- cleaning and sanitation
- processing flow chart and facility map
- pest management
- sales
- recordkeeping

Explore certifier options now if you have not already done so. See page 18 in the Introduction for a discussion of certification agencies. Certification applications typically are mailed at the beginning of your third year of transition; however, it is possible to request a certification packet or meet with a certifier before beginning transition, during transition or prior to processing. Reviewing your operations strategies with a certifier or organic consultant for compliance with NOP rules will help you determine any records, licenses or permits that you may need when implementing your strategic plan.

If early certifier meetings are unavailable or are cost prohibitive, consider attending conferences, webinars and field days to learn more about NOP compliance. The Organic Trade Association's *Regional Guide* (listed in the Resources section) chronicles events by location. Additionally, be sure to check out the series of ATTRA publications that provide documentation forms:

- *Organic Field Crops Documentation Forms*
- *Organic Livestock Documentation Forms*
- *Organic Market Farm Documentation Forms*
- *Organic Orchard, Vineyard, and Berry Crop Documentation Forms*
- *Guide for Organic Processors*

These ATTRA publications, as well as others, are listed in the Resources section.

Use **Worksheet 4T.10: Licenses and Certification** to document those regulations, licenses and certification standards that will apply to your business, your strategy for meeting them, and any outstanding questions that require follow up.

OPERATIONS - Risk Management

Take time now to briefly reflect on your overall production system plans, strategies for obtaining land, equipment and inputs, and your inventory management and quality control strategy. What type of risks will you face? Which of these risks are unconnected to your transition (e.g., weather) and which risks are unique to organic transition and certification (e.g., drift of prohibited substances, change in farm program and crop insurance benefits)?

According to *Tools for Managing Pest and Environmental Risks to Organic Crops in the Upper Midwest*, it is commonly accepted that, "Organic agriculture is inherently riskier than conventional agriculture because of the complexity of dealing with crop management issues such as fertility, weed control and pest control. These challenges are especially evident during transitioning from conventional to organic."¹¹

¹¹ Moncada, K. M., M. P. Brakke, and C. M. Fernholz. 2010. Transitioning. In *Tools for Managing Pest and Environmental Risks to Organic Crops in the Upper Midwest*, ed. K. M. Moncada and C. C. Sheaffer. University of Minnesota. www.organicriskmanagement.umn.edu.

TASK 4

Talk with certified organic farmers, Extension educators, crop insurance agents and other specialists to explore transition-related risks, particularly if you are new to farming or organic management. Once you have a good feel for potential risks, use **Worksheet 4T.11: Operations Risk Management** to brainstorm strategies that can help you prevent or mitigate them.

The relationships that you develop with representatives of accredited certifying agencies (ACAs), Extension agencies, conservation district offices and regional organic or sustainable farming associations will become valuable risk management strategies in themselves. For example, agency and association representatives can help you determine:

- what to do if you experience chemical drift
- how to address livestock illness
- where to go for approved input sources
- how to obtain organic cost-share
- what type of records are needed for certification

As an organic farmer, your risk-fighting strategies will look different from those of a conventional producer. You will rely on rotation, tillage alternatives and varietal or breed selection rather than pesticides, herbicides and antibiotics.

You may also consider using multi-peril crop insurance, available for transitioning and certified crops. USDA's Risk Management Agency (RMA), responsible for establishing insurance guidelines, revised organic-friendly, multi-peril insurance policies in April 2014. The revised policies provide coverage for:

- certified organic acreage
- transitional acreage
- buffer zone acreage

Chemical drift is a risk management issue unique to organic farming, and one you may need to account for. (Jerry DeWitt)



Multi-peril coverage extends to basic weather-related damage (e.g., drought, hail) as well as yield losses resulting from insect damage, weeds and crop disease in the event that recognized organic farming practices fail to protect against such problems. In order to qualify for transitioning or organic coverage, you must provide the insurance agent with a certificate or written documentation indicating that an organic plan is in effect. We recommend meeting with your insurance agent and certifier prior to beginning transition so that coverage options and required documentation can be reviewed. Current transitional and organic insurance guidelines are outlined in the RMA Program Aid publication No. 1912, *Organic Farming Practices* (see the Resources section).

If you plan to process, we strongly suggest that you explore food safety regulations by contacting your state department of agriculture, and adopt liability insurance. We do not discuss food safety regulations in great detail here because they are complex, evolving and apply equally to all producers, both conventional and organic. However, you should be aware that most buyers—conventional and organic—require that on-farm processing facilities maintain food safety plans, that farmers follow good handling practices (GHP) as outlined by the Food and Drug Administration and USDA, and farmers keep records related to previous land

use, water tests, worker hygiene, herd health, wild animals, soil amendments and manure applications, harvest sanitation, and crisis management. See *Food Safety and Liability Insurance: Emerging Issues for Farmers and Institutions* as well as the *On-Farm Food Safety Project* website, listed in the Resources section, for more information.

You might also consider developing what University of Minnesota scientist George Nelson calls “exit strategies,” or action plans for abandoning your organic transition in the event of a catastrophic crop loss, food-borne illness outbreak or the failure of other risk management strategies. We label these “recovery strategies” on **Worksheet 4T.11: Operations Risk Management**.



OPERATIONS - DIG DEEPER

You should feel fairly comfortable with your transition strategy for operations before moving forward to explore marketing, human resources and finances. However, if you would like to do a little more exploring to determine optimal production capacity, equipment sizes and management practices, there are excellent resources available to help you do so. Another option is to review pages 143-144 in the Guide (including **Worksheet 4.16: Estimating Output and Capacity**) where you can explore the impact of different yield and production output scenarios. If you are new to farming or still unsure about what to include in your transitional rotation, do not worry too much about getting things just right at this point. You can always return to your operations strategy after talking with buyers, reviewing labor options and running a cash flow.



OPERATIONS - PUT IT IN WRITING!

Head to the *Operations* section in AgPlan or to your business plan word document. Begin documenting your transition strategy by listing production opportunities. Next, include a description of your overall operations management strategy. If you are considering more than one strategy, copy this worksheet and complete it for each strategy.

Describe changes in your current operation that will be necessary for your transition strategy to be successful, specifically noting land, facilities, equipment and inputs that you may need in the *Resource Needs and Acquisition* section. If you plan to process, include a flow chart depicting product flow and processing methods, recipes, and a list of needed investments. In other words, summarize information that will help a lender or investor understand your plan. Next, complete the *Licenses and Organic Certification* section of your business plan (there is space provided in AgPlan). Finally, outline potential risks and your risk management strategy using information from your risk management worksheet. Space is provided for this purpose in the AgPlan outline under *Operations Risk Management*.

Do not let this strategy summary get too long and do not spend much time polishing your language, as you will likely return to it and make changes after you have explored marketing, human resource and finance strategies. If using a word processing program, you might find it easiest to simply turn the information recorded on **Worksheet 4T.2: Operations Strategy Summary** into relevant strategy statements for your business plan.

At this point, we also encourage you to take a step back and ask yourself: *Is this new operations strategy worth pursuing further?* In other words, have you encountered anything unexpected when researching transition options that might change your mind? Are you

better off sticking with your current management plans or does the transition strategy look promising? If your transition strategy compares favorably to your current management situation, then move right on to marketing! However, if you are not entirely convinced, you might want to review your goals and explore alternative production strategies before going too much further with your proposed transition plan.

MARKETING

Marketing, more than other aspects of your farm business, will require you to develop a two-pronged strategy—one strategy for the three-year transition period that is needed for most farmland and another strategy that kicks in once your land and animals are certified.

You have many marketing options, including sales to other farmers, forward contracting with processors, membership and sales through natural foods cooperatives, and direct sales to retailers and wholesalers. Regardless of which general strategy you adopt, you will need to make decisions about how to price, handle, label and distribute organic products in compliance with NOP regulations (§§ 205.300-205.311). We will discuss all of these topics in this section.

MARKETING - Marketing Opportunities

As you did in the Operations section, take some time now, preferably with planning team members, to identify immediate (i.e., transitional) and longer-term (i.e., organic) marketing opportunities. You might do this by talking with commodity buyers, visiting retailers or farmers' markets, attending a trade show or searching the Internet. You can use the

MARKETING OPPORTUNITIES

Members of Organic Valley Cooperative receive a \$2 per hundredweight premium for transitional milk and approximately \$28 per hundredweight for organic milk.

This member price is fairly steady and guaranteed for the volume of milk we can deliver. Marketing to Organic Valley Cooperative will provide us with a stable income and access to better prices than those afforded in the conventional market.



I have been invited by the manager of the Princeton Farmers' Market to sell naturally fermented products such as pickles, tomatoes and cabbage. This opportunity only applies to my fermented products—he is not interested in raw vegetables or herbs. The Princeton market is exclusive and currently has 23 vendors, only one of whom sells pickles that are processed using vinegar.



Market trends have been consistently positive for organic crops compared to conventional crops. The demand for organic products has grown significantly over the past 20 years, and it continues to grow at a double-digit rate. USDA reporting suggests that the conversion of land to organic production has slowed over the past few years, especially for the field crops we produce. We believe there will continue to be significant organic price premiums in the future as supply continues to lag behind demand.



space provided on **Worksheet 4T.12: Marketing Strategy Summary** to document general market trends that support your future vision, goals and operations strategies.

Next, outline unique marketing opportunities. These might relate to your proximity to urban areas—think direct marketing, farm dinners, homesteading classes—or to livestock producers in need of certified organic feed. Other examples of marketing opportunities are depicted in the story panels. The possibilities are endless. Keep in mind that the more unique the opportunity, the more promising it may be for your business.

MARKETING - Marketing Strategy

You are now ready to begin developing a marketing strategy for your transitional and certified organic commodities, products and services. Your marketing strategy should address:

- products and services
- buyers and sales
- pricing
- post-harvest handling, processing, packaging, labeling and distribution
- sales revenue

Products and Services

Begin by first recalling what you will have available to market during transition based on the rotation schedule and production estimates you developed on **Worksheet 4T.7: Production Estimates, Crops**, **Worksheet 4T.8: Production Estimates, Livestock** and **Worksheet 4T.9: Production Estimates, Processed Products**. It is always best to research market demand prior to planting, but in this publication we assume that you will develop your operations strategy and rotation schedule first. Next, identify the competitive advantages—or unique characteristics—associated with each product or service.

Your business' overall chances of success improve with competitive advantages. We define a competitive advantage as anything that enables you to generate more sales and earn a greater profit (e.g., by differentiating your product or producing at a lower cost than competitors). Think about what type of competitive advantages your marketing and operations strategies will generate. See the story panel on competitive advantages from Vitaly Brukman. Then, record your ideas on **Worksheet 4T.12: Marketing Strategy**



Farm dinners can be a strong marketing opportunity when you go organic, especially if you are near an urban area. (Rachel Olsen Photography)

COMPETITIVE ADVANTAGES

There are 13 producers of fermented products who sell at BJJF-targeted farmers' markets and retail stores. All competitor products are either produced outside the state of New Jersey, are not certified organic and/or are not naturally fermented. There is no one in the BJJF target market offering organically certified, naturally fermented, locally produced pickles, sauerkraut, tomatoes and specialty beverages. Nor is any one company specifically targeting these products to ethnic communities.



Summary and be sure to include these ideas in your business plan—lenders, investors and business stakeholders will pay close attention to this information.

Buyers and Sales

Organic markets operate quite differently from conventional markets, owing to reduced volume and price transparency. If you currently market conventional crops, for example, you may be used to selling on the spot to a local elevator post-harvest. You can still do this during transition, unless you are seeking a premium for non-GMO or transitional grains. (If interested in marketing transitional crops for a premium, contact buyers to find out which varieties they seek, their purchasing capacity and other sales criteria, such as written contract terms.)

After becoming certified, however, you will need to identify buyers and explore alternative marketing strategies, such as direct sales to other farmers or forward contracting with a broker or organic handler (e.g., processor), since traditional cash markets do not exist for certified organic commodities. You may even want to consider niche markets for low-gluten grains, specialty beans, processed products, international exports (often requiring country-specific certification) and services.

Written marketing contracts for both transitional and certified products can provide a greater sense of stability and allow for more accurate business planning.¹² In fact, your lender may require a written contract as a guarantee of the going organic market price.

Nationally in 2007 (latest available data), 46 percent of all organic transactions were conducted using written contracts.¹³ Check out the *Farmers' Guide to Organic Contracts* (listed in the Resources section) even if you are already familiar with marketing contracts for traditional commodities. You will need to be aware of how contract terms can affect organic management practices and NOP compliance. See *Text Box 4T.2: Checklist for Organic Contracts* for questions to review when signing an organic contract.

The bottom line is, once certified, you will have a bit more legwork to do to find a buyer and arrange the sale. You can use **Worksheet 4T.12: Marketing Strategy Summary** to document buyer requests, estimated purchasing capacity, market trends and your own competitive advantages. There are many opportunities in the organic marketplace! If, after talking with buyers, you decide to make adjustments to your short- or long-term rotation schedules and livestock numbers, capture those changes on **Worksheet 4T.7: Production Estimates, Crops; Worksheet 4T.8: Production Estimates, Livestock;** and **Worksheet 4T.9: Production Estimates, Processed Products.**

Pricing

Your pricing strategy, like your overall marketing strategy, will likely be different during the short-term transition (the first three years) and upon certification (the fourth and fifth years). During transition you will be able to market products conventionally, accepting bulk commodity prices. You also may have the option of pursuing modest premiums for what buyers call “identity preserved” or specialty products that include, but are not limited to, grass-fed and humanely raised for livestock, non-GMO, integrated pest management and chemical-free for grains and oilseeds, and transitional for feed grains.

Once certified, your pricing options become more diverse and more promising. Minnesota organic corn prices, for example, averaged 149 percent to 247 percent of conventional corn prices during 2009-2013 (see Panel B, *Figure 4T.6: Conventional Versus Organic*

¹² Heyman, A. N. August 2012. *Farmers' Guide to Organic Contracts*. Farmers' Legal Action Group. www.flaginc.org/publication/farmers-guide-to-organic-contracts.

¹³ Dimitri, C., L. Oberholtzer, and M. Wittenberger. December 2010. *The Role of Contracts in the Organic Supply Chain: 2004 and 2007*. USDA - Economic Research Service. Visit www.ers.usda.gov and search for “contracts in the organic supply chain.”

CHECKLIST FOR ORGANIC CONTRACTS

Contract Interaction with NOP Regulations:

- How does the contract address certification and enforcement?
- How does the contract handle pesticide residues and prohibited substances?
- How does the contract handle GMOs?
- Does the contract set out specific isolation buffer or anti-contamination requirements?
- Does the contract address access to pasture or the outdoors for livestock or poultry?
- How are organic seed rules handled?
- Must the farmer plant a particular type of seed, such as buyer-provided seed?
- Does the contract place restrictions on the farmer's use of buyer-provided seed, or the resulting crop?
- Does the contract give the buyer access to organic records (or certifier records)?
- Does the contract address "split operations," or non-organic crops or animals?
- Does the contract provide support for transitioning to organic production?

Contract Stipulations Beyond Organic:

- Does the contract require practices above and beyond NOP regulations?
- Must the farmer satisfy marketing claims in addition to certified organic?
- Must the farm look "pleasing?"
- Are unspecified "best management practices" required?
- Can the buyer inspect the farm?
- Does the contract incorporate separate buyer-created policies? Or laws?
- Does the contract address food safety practices?

Source: Excerpted from Heyman, A.N. August 2012. *Farmers' Guide to Organic Contracts*. Farmers' Legal Action Group. www.flaginc.org/publication/farmers-guide-to-organic-contracts.

Enterprise Observations in Minnesota, Corn on page 76). Similarly, Minnesota organic milk prices averaged 137 percent to 192 percent of conventional milk prices over the same five-year period (see Panel B, *Figure 4T.7: Conventional Versus Organic Enterprise Observations in Minnesota, Dairy* on page 77).

Contact buyers to learn more about pricing options. It is also a good idea to review available price histories, since the information that you obtain from buyers only reflects current conditions, thus representing a snapshot in time. Organic grain price histories, though limited, are compiled and reported twice monthly by the USDA's Agricultural Market News in the *National Organic Price Report*. This and other pricing tools, available for a variety of commodities, including some fruits and vegetables, are listed in the Resources section. (See the Rodale Institute's *Organic Price Index* and the Mercaris *Ceres Pricing Tool*.) Once you are aware of price histories and pricing options, determine which strategy or combination of strategies make sense for you given available storage, access to transportation and your interest in marketing.

If you plan to market a value-added organic product or are considering selling direct to retailers and consumers, be sure to check out pages 106-133 in the Guide. Direct market pricing strategies are discussed there in detail.

Finally, after talking with organic buyers and learning more about available prices, you may decide that it makes sense to revise your rotation schedule to take advantage of

high-value crops during your first year of certification, or to plan for feed needs during the third year of livestock transition. If this is the case, return now to the operations strategy worksheets and make the necessary revisions before continuing.

Post-Harvest Handling, Processing, Packaging, Labeling and Distribution

In addition to production practices, organic regulations address handling, packaging, labeling and distribution of crops and livestock products. Therefore, your business plan should include a well-thought-out strategy to address these critical issues.

If you plan to sell into conventional markets while transitioning, you will not need to create specialized handling and distribution strategies for the short term. However, if your marketing strategy hinges on the sale of specialty products during transition, such as non-GMO grain, you will need to develop handling and distribution plans similar to those required for the movement of certified organic products.

The same issues discussed in the Operations Strategy section under Inventory Management and Quality Control apply to handling and distribution of transitional and certified organic commodities and processed products. It will be your responsibility to ensure that crops, livestock products and other items for sale are not contaminated or commingled with non-organic or GMO products when marketing as transitional and certified organic (NOP § 205.272).

Finally, when labeling processed products or other items for retail, USDA permits the use of three terms for certified organic products:

- 100 percent organic
- organic (i.e., at least 95 percent of ingredients are certified organic)
- made with organic ingredients (i.e., at least 70 percent of ingredients are certified organic)



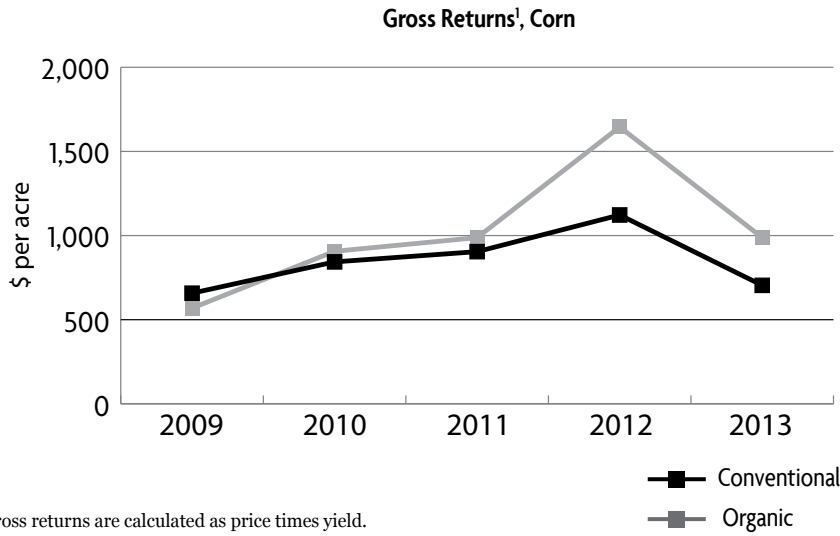
Organic labeling rules are complicated and should be reviewed carefully when planning and budgeting for your marketing strategy. See Marketing - Licenses and Certification on page 88 for more information.

Sales Revenue/Gross Income

At this point, you should have a good idea of what you will have available to sell (products and services), how much you will have to sell (yield and output), who your buyers are, how much they may purchase, and what price they are willing to pay for your products and services. Using this information, complete **Worksheet 4T.13: Projected Enterprise Sales**. Sales estimates in combination with cost estimates will help you determine projected income and cash flow later on in this planning task, and will allow you to evaluate the trade-off between potential yield or output reductions and potential price premiums. *Figure 4T.8: Conventional Gross Returns Versus Organic Gross Returns, Corn* depicts the gains for organic farms from corn sales throughout the Midwest. It shows that despite organic corn yields measuring 55-75 percent of conventional yields (Panel A in *Figure 4T.6* on page 76), price premiums of approximately \$1.50-\$2.50 per bushel (Panel B in *Figure 4T.6* on page 76) lead to higher overall gross farm revenue.

Organic dairy premiums, on the other hand, do not completely outweigh the effect of lower milk production during all years measured (*Figure 4T.9: Conventional Gross Returns Versus Organic Gross Returns, Dairy*). In the Finances section of this planning task, we will look at what happens to profitability when expenses are considered.

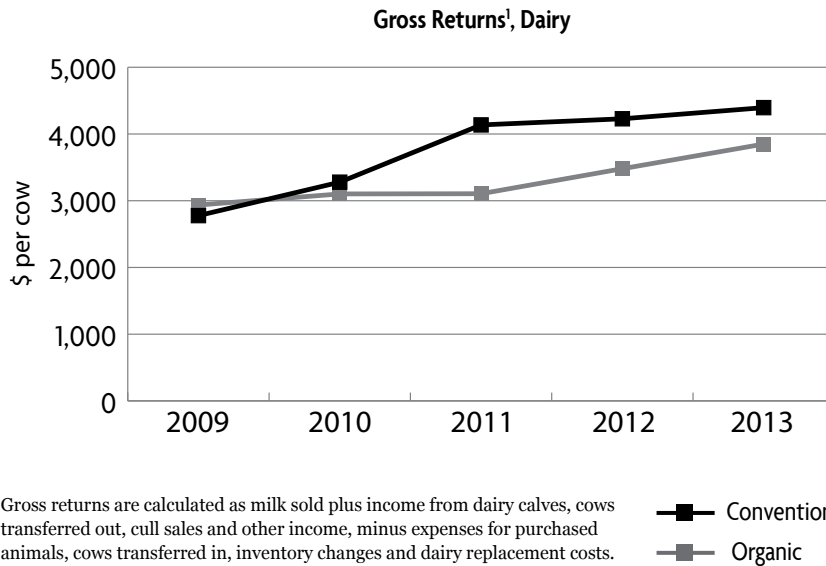
FIGURE 4T.8: CONVENTIONAL GROSS RETURNS VERSUS ORGANIC GROSS RETURNS, CORN



¹ Gross returns are calculated as price times yield.

Source: FINBIN Database. Center for Farm Financial Management. www.cffm.umn.edu. Data come from Minnesota farms enrolled in the Farm Business Management Education Program. Individual farms enrolled in the program (observations) vary each year.

FIGURE 4T.9: CONVENTIONAL GROSS RETURNS VERSUS ORGANIC GROSS RETURNS, DAIRY



¹ Gross returns are calculated as milk sold plus income from dairy calves, cows transferred out, cull sales and other income, minus expenses for purchased animals, cows transferred in, inventory changes and dairy replacement costs.

Source: FINBIN Database. Center for Farm Financial Management. www.cffm.umn.edu. Data come from Minnesota farms enrolled in the Farm Business Management Education Program. Individual farms enrolled in the program (observations) vary each year.

MARKETING - Licenses And Certification

Whether you raise commodities or plan to process, you will have to do a fair amount of research into required marketing-related licenses and certification.

Organic commodity buyers, for example, often require sellers to provide a “clean truck affidavit” proving that the vehicle used to transport grain and other commodities was properly cleaned before hauling specialty or organic loads. In addition to the clean truck affidavit (copies are available from certifiers and buyers), most buyers will expect you to provide the following with each delivered load or immediately after arrival:¹⁴

- Copy of current organic certificate, if delivering an organic crop
- Product listing, or an addendum to certificate showing crop(s) or product(s) produced
- Bill of lading listing farmer, buyer, product and lot number. This is your proof of shipment. Your certifier or buyer can provide a blank bill of lading if you need one.
- Transaction certificate (TC), if delivering a certified organic product. This is issued by your certifier to verify the sale for auditing. The TC contains a serial number and “documents the details of a transfer of ownership of a certified organic product, such as the date, the parties involved in the trade, the commodity traded, the quantity, the lot number of the product, and the organic certificate number under which the operation was certified.”¹⁵ A TC is not required by all buyers.

If you plan to process products and market them as certified organic you will need to develop an OSPH and apply for additional certification through an approved certifier. Handling regulations are similar in intent to production regulations. They stipulate that processing, packaging and distribution procedures present no risk of contamination from non-organic products, synthetic fungicides, preservatives or fumigants.

Finally, labeling requirements are complicated and are treated in NOP regulations §§ 205.300-205.311. We recommend that you very carefully review organic labeling and handling regulations with a certifier. Certifiers are required to review and approve any packaging and labels before they can be sold at the retail level. It will be important to plan for these as part of your marketing strategy. See the Resources section for USDA handling and labeling guidelines and fact sheets as well as the *Organic Handler Certification Support Package* from the California Certified Organic Farmers organization and the *Guide for Organic Processors* from ATTRA.

Marketing Risk Management

If you are an experienced conventional producer, you likely are familiar with market volatility and the price risk that comes with it. There are many strategies available to minimize price risk, including the use of contracts to lock in returns and storage to ride out market volatility. As an organic producer you can use most of these same tools. You have the option of contracting based on price, field or yield. In addition, as a milk or specialty grain producer, you may have the option of joining a cooperative that offers purchasing and pricing guarantees. Likewise, you can store grain in anticipation of price movement.

You also may face some unfamiliar risks having to do with product quality, handling, packaging, processing and labeling. For more information, review the NOP sales-related regulations § 205.300-205.311. Finally, if you are planning to contract grain or other products, be sure to review the organic contract checklist in *Text Box 4T.2: Checklist for Organic Contracts*. Contracts do offer an opportunity to manage risk by locking in or

¹⁴ Based on telephone interview with Carolyn Lane, Vice President of Operations, Nature's Organic Grist, June 27, 2013.

¹⁵ Riddle, J. and L. Gulbranson. February 2011. *Minnesota Guide to Organic Certification*. Minnesota Institute for Sustainable Agriculture and University of Minnesota Extension. www.misa.umn.edu/Publications/MNGuidetoOrganicCertification.

securing a price. However, contracts also bring with them delivery obligations and NOP compliance risks, also outlined in *Text Box 4T.2*. See *Farmers' Guide to Organic Contracts* in the Resources section for more information.

Use **Worksheet 4T.14: Marketing Risk Management** to identify price and NOP compliance risks. Then brainstorm measures to prevent or address risks once they occur. Do not forget about strategic alliances discussed earlier—these are often one of the best tools for managing risk!

Clearly, there is a lot to consider. Ask questions, visit with other farmers, attend trade shows where buyers are present and visit with certifiers. Moreover, talk things over with your planning team. These are great ways to refine your marketing strategy. Then use **Worksheet 4T.12: Marketing Strategy Summary** to sketch out a plan for each major commodity or enterprise that you expect to sell during transition and during your first two years of certification. Do not overlook the Business Plan Input section at the end of the worksheet. Summarizing your marketing plans for each product or service here will make your work in AgPlan much easier when you are ready to begin writing.



MARKETING - DIG DEEPER

Planning to direct market? If so, you will need to do a lot more work to identify your customers and the products that they may be interested in buying. Pages 106-131 in the Guide address direct-market issues such as customer preferences, competition, distribution, packaging, pricing and promotion. It will be critical to explore questions related to these topics if you intend to sell directly to retailers or customers.



MARKETING - PUT IT IN WRITING!

Use AgPlan or a word processing program to record your marketing strategies. Use information from each of the marketing worksheets in Planning Task Four to complete the following sections of your marketing plan:

- Marketing Opportunities
- Marketing Strategy
- Licenses and Organic Certification
- Marketing Risk Management

Alternatively, you can choose to draft your own outline or simply summarize key ideas that describe your overall marketing strategy in the appropriate marketing sections of AgPlan—there are lots of options! Take a look at the completed transition plans in the Appendix for more ideas on how to prepare the marketing strategy section on your business plan.

Eventually, we suggest including copies of marketing contracts or other written sales agreements as appendices in your business plan, because most lenders will expect to see them. For this purpose, AgPlan allows you to easily import Word, Excel and FINBIN documents. Once complete, carefully review your written marketing strategy and supporting documents. Is it compatible with the operations strategy that you developed earlier? For example, are there viable markets for the crops in your rotation? Or are there opportunities to market alternative crops? If so, does your rotation and planting schedule need tweaking? Recall that strategy development is an iterative process. It is not unusual to adjust as you go.



(Mandy Rodrigues)

HUMAN RESOURCES

Organic farming is management intensive. Field trials, national and local surveys, as well as anecdotal feedback from farmers suggest that organic farming requires more field work, more recordkeeping and more time on the phone (e.g., tracking down input suppliers and buyers). In fact, 32 percent of all *Tools for Transition Project* survey respondents who converted from conventional production reported hiring additional labor when transitioning to organic.¹⁶ For these reasons, it is worth taking this next assignment seriously.

HUMAN RESOURCES - Human Resource Opportunities

Do you have the opportunity to shadow another farmer or processor? Does a family member possess unique skills that can be applied to your plans to market a processed product? Do you know someone who is looking for an organic farm internship? Or do you have a child who is graduating from college and wants to farm? Or, perhaps, like Bryan and Theresa Kerkaert, you have

an excess capacity of labor due to external changes in rental contracts. See the human resources story panels for examples.

HUMAN RESOURCE OPPORTUNITIES

Loss of a significant portion of our rented land represents a significant challenge and opportunity for our farm business. We currently have excess labor and management capacity. Acquisition of more land through a long-term lease with an option to buy will give us an opportunity to better use our labor and management resources.



Human resource opportunities may make all the difference in your farm business' successful transition to organic production and marketing. Take time now to document the unique skills offered by family members and to brainstorm other human resource opportunities that will lend your business a competitive advantage. You can record your ideas on **Worksheet 4T.15: Human Resource Strategy Summary**.

HUMAN RESOURCES - Management, Planning and Workforce

If you are an experienced farmer or business owner, you already have a wealth of information and knowledge under your belt. It is important to capture this information in your business plan. Use **Worksheet 4T.16: Acquired Knowledge** to document your organic management knowledge or experience. If you are not sure what to include, return to **Worksheet 2T.10: Are You Ready to Manage Organically?** for a few ideas. If you are new to farming, document business expertise and other experiences that exemplify management skills. Additionally, experienced or not, you might want to use **Worksheet**

¹⁶ Tools for Transition Project. *Tools for Transition: Intake Survey Results*. Updated 2012. eOrganic. <http://eorganic.info/toolsfortransition/reports>.

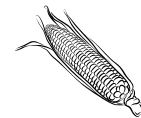
ACQUIRED KNOWLEDGE

BJF will be managed by owner Vitaly Brukhman. While new to farming, Brukhman has experience as an entrepreneur and has operated a successful IT consulting business. In 2013-2014, Brukhman began cultivating his agricultural production skills, acquiring hands-on experience growing radishes and mustard greens on a half-acre while completing a beginning farmer education program with NOFA-NJ. During the spring/summer of 2014, Brukhman participated in four courses as part of the Organic Processing Institute's School for Organic Processing Entrepreneurs to gain a better understanding of organic processing and handling requirements. During that same time, he conducted food product research and began small-batch production for taste testing and marketing. In the fall of 2014, Brukhman continued skill-building coursework: farming-related classes and on-farm consultation with NOFA-NJ, a class on food and drink entrepreneurship with the Samuel Adams *Brew the American Dream* series, and microbiome and nutrition studies through a variety of online sources.

Additionally, Brukhman plans to enroll in the food safety manager program offered electronically by ServSafe, a nationally recognized training program. This course satisfies the Middlesex County food safety training requirements needed to obtain a New Jersey food service sanitation certificate. Training is valid for five years from date of completion.

4T.16: Acquired Knowledge to describe needed skills and how you plan to acquire them. For example, you might list organic workshops, webinars and field days that you anticipate attending. Check out the story panel on acquired knowledge from beginning farmer Vitaly Brukhman.

Next, take another look at your planning team and board of directors. Collectively, do they have the expertise to guide you through transition, certification and any other significant changes that you plan to make? If not, consider adding new members who can provide honest and informed feedback about proposed short-term transition strategies and long-term organic management strategies. These new members might include certifiers, handlers, organic consultants, financial planners and experienced farmers. They will become a very important part of your management team. See the planning team story panels.

PLANNING TEAM

In addition to Bryan and Theresa, the management team for Kerkaert Organic Farm includes:

- Paul L., Farm Business Management advisor
- Dale P., bank loan officer
- Rod D., Farm Service Agency loan officer
- Central Crop Consultants
- Minnesota Crop Improvement Association, organic certifier
- Jon O., organic farmer, friend, mentor

We have all been working together for several years and believe we will continue to be a strong team as we grow our business.

HUMAN RESOURCES - Human Resource Strategy

Tasks and Recordkeeping

Use **Worksheet 4T.17: Management and Workforce Responsibilities** to identify farm business tasks associated with production, marketing and overall management. Most of the new responsibilities or tasks will be fairly easy to identify.

Recordkeeping, however, is one of those management tasks that can be overlooked or underestimated when exploring organic certification for the first time. Of all the new tasks that you will perform as an organic farmer, recordkeeping is, perhaps, the most time consuming.

Many conventional farmers use production, marketing and financial records to help them manage more efficiently. Records are equally helpful for organic management but also are required for NOP certification. NOP regulations state that farmers must keep records that “are adapted to the operation ... disclose all activities and transactions ... [are] maintained for not less than five years ... and [are] sufficient to demonstrate compliance.”¹⁷ (NOP § 205.103) As already discussed in the operations and marketing sections, you will require records to document:

- production
- harvesting
- post-harvest handling
- storage and transport
- processing
- packaging and labeling
- sales

These records help form the production audit trail, verifying that farm products have been produced, harvested and handled in accordance with NOP rules. As a farmer, you are responsible for maintaining an audit trail as long as you own the product. Unique lot numbers, developed by you, are used to trace products through the audit trail. A lot number generally indicates the type of crop, field number or storage unit, and year of production.¹⁸ See the *Minnesota Guide to Organic Certification* for an excellent discussion on how to establish an audit trail and create lot numbers for your farm. The publication also includes recordkeeping templates useful for establishing an audit trail. The comprehensive ATTRA publication *Documenting Forms for Organic Crop and Livestock Producers* walks readers through records needed for certification and provides sample templates for recordkeeping use. Both publications are listed in the Resources section. Also consider visiting with a certifier, attending workshops and talking with certified farmers to learn more about recordkeeping options.

You can use **Worksheet 4T.18: Recordkeeping Strategy** to outline your approach to recordkeeping. A short discussion of your recordkeeping strategy within the business plan will provide your lender or other business partners with confidence that the transition will be a success.

It is never too early to start! Keeping good records before implementing major changes will establish a baseline against which you can measure progress as you transition and implement new business strategies.

¹⁷ Documentation Forms for Organic Crop and Livestock Producers. March 2011. Baier, A. USDA and ATTRA. <https://attra.ncat.org/organic.html>.

¹⁸ Riddle, J. and L. Gulbranson. February 2011. Minnesota Guide to Organic Certification. Minnesota Institute for Sustainable Agriculture and University of Minnesota Extension. www.misa.umn.edu/Publications/MNGuidetoOrganicCertification.

EXAMPLES OF RECORDS NEEDED FOR ORGANIC CERTIFICATION

- Previous land use record
- Soil tests
- Production activity log
- Planting and rotation records
- Input material records
- Marketing contracts
- Harvest records
- Storage/inventory logs
- Sales transactions
- Prevention of commingling and contamination records
- Clean transport affidavit
- Equipment cleaning log
- Complaint log

Workforce and Professional Services

Once you have identified new tasks to be performed, brainstorm short- and long-term strategies for accomplishing this work. Think about who will manage the farm business as well as how and where you will source labor to accomplish each new task. Remember, labor may be seasonal or year-round, part-time or full-time, family or non-family, and may come from custom service providers or other farmers who are interested in partnering to share equipment and tasks.

Use **Worksheet 4T.17: Management and Workforce Responsibilities** to describe your plans for filling specific management and labor tasks throughout the transition and during the first few years of certification. See *Figure 4T.10* for a sample outline of management and labor responsibilities.

Next, think about how these tasks will change for each member of your farm business during the transition period and after certification. You can use this worksheet to document each person's key responsibilities during transition and after certification—pairing their responsibilities with their known skills. It will be important to note when they will be most busy and least busy, which will help you identify any bottlenecks that may occur under your new transition plan.

Finally, return to **Worksheet 4T.15: Human Resource Strategy Summary** to summarize your human resource strategy. Be sure to address plans for complying with NOP record-keeping requirements.



FIGURE 4T.10: MANAGEMENT AND WORKFORCE RESPONSIBILITIES, EXAMPLE

You can map out your team's responsibilities in any number of ways, an exercise that will help you anticipate potential labor bottlenecks. For example a simple list will do, as on **Worksheet 4T.17**, or you can use a grid, as you did on **Worksheet 2T.9: Current Human Resources**.

Person	Key Responsibilities	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Jim	Cropping, grain drying, transport	Available	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy
Lois	Grain marketing, input purchases	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy
Ann	Recordkeeping, taxes	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy	Moderately busy

Very busy
 Moderately busy
 Available

HUMAN RESOURCES - Human Resource Risk Management

Human resources represent one of the greatest and most unpredictable risks that your farm business will face. It is nearly impossible to know when someone will be injured, whether circumstances will force a change in off-farm employment or if unforeseen health issues will arise. So, while you cannot plan the business around unknowns, it is good to ask “What if?” as part of your strategy development. We suggest exploring common human resource risks associated with acquiring seasonal labor, securing buy-in from all family members on a new idea or filling knowledge gaps. Use **Worksheet 4T.19: Human Resource Risk Management** to identify labor and management-related risks and to explore strategies for addressing and minimizing them.



HUMAN RESOURCES - DIG DEEPER

Does your transition strategy rely on hired labor? If so, you will want to dig a little deeper to explore hiring and compensation as well as good communication practices. These are discussed on pages 152-153 in the Guide. Be sure to include your hiring and compensation strategy under *Human Resource Strategy* if using AgPlan or the human resources section of your business plan.



HUMAN RESOURCES - PUT IT IN WRITING!

Put your human resource strategies down on paper using a word processing program or the following sections in AgPlan: *Human Resource Opportunities, Planning and Management Team, Licenses and Safety Regulations* and *Human Resource Strategy*. If you completed **Worksheet 4T.16: Human Resource Strategy Summary** and **Worksheet 4T.18: Recordkeeping Strategy** this exercise should be relatively simple. Take a look at the completed transition plans in the Appendix for more ideas on preparing your human resources strategy section on the business plan.

FINANCES

A sound financial strategy is a critical element of any business plan. This is where the rubber hits the road, so to speak—when you identify whether concepts and ideas are financially feasible. If your strategies do not generate earnings or meet other basic financial goals, then some revision will be in order.

When developing a financial strategy, begin by reviewing your current financial position: Look at your current balance sheet, income statement and annual cash flow. You prepared some of these in Planning Task Two: History and Current Situation. Next, we suggest that you take another look at your recently developed operational, marketing and human resource strategies to study how proposed changes will affect your farm's current financial picture. For example, how will changes in expected crop and livestock input expenses, output and prices affect your current cash flow and year-end profitability? How will anticipated equipment purchases and financing needs affect net worth?

Your transition will have a greater chance of success if you go into it knowing the numbers and having identified strategic alternatives to address any cash flow issues and capital needs. Many farmers who participated in the *Tools for Transition Project* told us that the third year of transition was the most difficult financially, but that knowing what was on the other side—namely, the boost in farm income from organic premiums—made it possible to get through challenging times.

FINANCES - Financial Opportunities

Take some time to identify and explore financial opportunities (e.g., low interest rates, potential investors). Some growers are fortunate enough to have “angel investors,” or financial partners who provide capital on loan with flexible terms. These investors might be people you know, formal business partners, family members, other business owners or members of the community. See the financial opportunities story panel for an example from Vitaly Brukhman's business plan. Then, use **Worksheet 4T.21: Financial Strategy Summary** to identify financial opportunities available to you and your farm business.

FINANCIAL OPPORTUNITIES

BJF has been approached by a private investor who believes in the BJF mission and who is interested in loaning our farm business enough money to cover all start-up expenses. We consider this an extraordinary financial opportunity!



FINANCES - Financial Projections

A financial strategy, just like your operations, marketing and human resource strategies, should be forward looking; it should be based on projections of enterprise sales, net farm income and asset growth over the next five years or more. However, because you are likely managing a family farm, the business will also need to cover some, if not all, family living expenses.

Begin by reviewing how much money will be needed to pay for annual family living expenses using **Worksheet 4T.20: Projected Family Living Expenses**. This will

set the bar for farm income requirements during transition and upon certification. You will need to generate the equivalent of family living expenses plus other projected financial needs (e.g., college tuition, retirement, loan repayment) from farm income, plus any off-farm income that you or your partner expects to earn. If you do not anticipate living expenses changing much from their current level, you can skip this worksheet and use the one you prepared in Planning Task Two (**Worksheet 2T.12: Family Living Expenses**) to establish a baseline.

After recording family living expenses, turn to farm business expenses. Use **Worksheet 4T.22: Projected Farm Expenses** to outline direct and overhead expenses for the whole farm. The worksheet provides typical farm expenses as well as those unique to organic production (e.g., certification fees).

If you are unfamiliar with organic input costs, you will need to do some homework to develop expense estimates for transition and certification years. Input expense data are available for a variety of grain, oilseed, fruit, vegetable and livestock enterprises from the following sources:

- *Organic and Transition Crop Production Budgets* for FINBIN database (for row crops and livestock enterprises), Center for Farm Financial Management, www.finbin.umn.edu
- *Current Costs and Return Studies* (for fruits and vegetables in California), Agricultural and Resource Economics, University of California Davis, <http://coststudies.ucdavis.edu/current.php>
- *Organic Crop Production Enterprise Budgets* (for row crops), Iowa State University, www.extension.iastate.edu/agdm/crops/html/a1-18.html
- *Organic Enterprise Budgets* (for fruits and vegetables), Carolina Farm Stewardship Association, www.carolinafarmstewards.org/enterprise-budgets/

See the Resources section for other expense budgets and research data. Note, however, that on-farm expenses vary considerably by region, farm size, supplier, market conditions and management practice. You will benefit from talking locally with other farmers, lenders and input suppliers to verify costs and to develop appropriate expense estimates for your farm business and transition strategy.

There is space on **Worksheet 4T.22: Projected Farm Expenses** for one whole-farm transition strategy that you are considering. If, at this point in the planning process, you are still considering more than one whole-farm strategy, make copies of this worksheet and complete for each strategy under consideration.

Electronic spreadsheets are available for projected family living expenses and projected farm expenses at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

With enterprise sales and farm expense projections in hand, you are ready to develop a five-year projected income statement using **Worksheet 4T.23: Projected Income Statement**. This is where everything comes together—productivity, prices and input expenses. You may be surprised at some of the results. Returning to the Midwest corn and dairy data discussed earlier in this planning task, you will note that even though the organic farms reported reduced yields or production, net farm income was significantly higher than that for the conventional farms. This was due to organic price premiums (see Panel B in *Figure 4T.6* and Panel B in *Figure 4T.7* on pages 76-77) and reduced input expenses (see *Figure 4T.8* and *Figure 4T.9* on page 87).

Once you have estimated and recorded your farm's projected farm income over the five-year planning period (three years of transition and two years of certification), use **Worksheet 4T.24: Projected Cash Flow** to develop a five-year cash flow statement. As the authors of AgPlan note, "a projected cash flow will help you determine if your plan can meet expenses, make debt payments and make it through the transition period." It is not uncommon to encounter cash shortfalls during transition, for example when experiencing reduced yields or production losses prior to receiving organic price premiums. Although it may not happen to you, it is very important to plan for the possibility that it will. The *Twelve Steps to Cash Flow Budgeting* web page by William Edwards is a good resource to help with cash flow planning (see the Resources section). It includes cash flow tips and an Excel spreadsheet you can use to calculate a detailed cash flow for corn, soybeans, livestock and other enterprises.

Finally, use **Worksheet 4T.25: Projected Balance Sheet** to estimate net worth-related gains or losses during the transition period and in year five (i.e., two years after certification). The balance sheet is a good indicator of whether or not your farm business is building assets over time; it depicts "everything you own, everything you owe and what would be left if the farm had to be sold."¹⁹

FINANCES - Financial Strategy

You are ready now to develop a financial strategy—one that builds on information captured in your financial projections. Financial strategies outline how your whole-farm plan will be financially successful and includes your ideas for business organization, asset acquisition and capital requests.

Business Organization

It is unlikely that your farm organization status will change as a result of transition unless your strategy involves forming new partnerships. Regardless, take a moment now to document as part of your business plan how the farm is or will be legally organized.

Ownership options include a simple sole proprietorship, a limited liability company (LLC) or a corporation. The business structure that you choose ultimately will affect your liability and tax responsibilities. Most farms are organized as a sole proprietorship or LLC. Each form of organization has its advantages and disadvantages. We suggest that you explore these by consulting your accountant or attorney as well as other resources, such as those available from your state's secretary of state office and from groups such as Farm Commons (see the Resources section). If you decide on an LLC or corporation, you may need to create an operating agreement, depending on your state laws. This can be a simple document or statement in your business plan describing the farm business owners, profit distribution and contributions made by each owner to the business.

As a new farmer, you may also want to apply for a farm tax identification number, which will allow you to qualify for deferred estate taxes, conservation easements and, most importantly, tax exemptions on equipment purchases. Qualification criteria vary by state, but generally anyone who sells products off-farm (i.e., does not produce exclusively for home consumption) is eligible for a state farm tax identification number. For more information, contact your state department of agriculture or the Internal Revenue Service.

FINANCIAL SPREADSHEETS ARE AVAILABLE ONLINE

Electronic spreadsheets are available to assist with a projected net farm income, cash flow and balance sheet at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.



¹⁹ Padgham, J., ed. February 2014. *Fearless Farm Finances: Farm Financial Management Demystified*. Midwest Organic and Sustainable Education Service (MOSES). <http://mose-sorganic.org>.

ASSET ACQUISITION AND CAPITAL REQUESTS

The key element of this plan is to identify and secure long-term access to a parcel of land that can be a stable basis for continuation of our farming operation. ... When we have identified a specific parcel of land for the new farm we will explore the possibility of negotiating a lower land rent for the transition years of 2016 and 2017. In addition, this plan is addressed to our lender, Farm Credit Services, as a request for a line of credit that will be adequate to ensure access to capital during the difficult 2015 and 2016 transition crop years.



Use **Worksheet 4T.21: Financial Strategy Summary** to document whether you have qualified for a farm tax identification number and to show how you plan to legally organize the business.

Asset Acquisition and Capital Requests

After compiling expense, income and cash flow projections, you may find that, in the long run, your financial outlook is bright. In order to get there, however, you may need to finance operating expenses, purchase equipment or even purchase additional land during the transition years.

Return to **Worksheet 4T.2: Operations Strategy Summary** to review input, equipment and other long-term operating needs. Next, identify capital needed to finance one-time start-up expenses, such as pasture fencing, as well as annual operating expenses, new equipment purchases and infrastructure improvements. Think about how you will meet any capital shortfalls. Options include financing, a business partner, an angel investor and cash reserves, among other possibilities. See the story panel to learn the Kerkaerts' strategy for purchasing land and accessing additional capital.

Use **Worksheet 4T.26: Financial Needs and Capital Requests** to record finance needs and capital requests. It is helpful to be familiar with this finance information and to have it in front of you when approaching lenders.

Many traditional lenders are familiar with organic management and, depending on your situation, may be able to assist with short-term, intermediate and long-term loans. They may be able to offer advice on consolidation of debt or a line of credit that will help provide financial breathing room during the transition years.

Another financing option is the USDA's Farm Service Agency (FSA). The FSA, among other institutions, may be able to assist you with a micro loan or an operating loan during transition. FSA loans usually are available for the purchase of land, livestock, equipment, feed, seed and supplies needed to construct buildings or make improvements. Another option is to contact the USDA's Natural Resources Conservation Service (NRCS) regarding targeted financial and technical assistance that, at the time of this writing, is available for the development of transitional and organic Conservation Activity Plans (CAPs) through the Environmental Quality Incentives Program (EQIP). Information about CAP practices and plan development can be found under NRCS, EQIP CAP Activity Code 138. See the Resources section for FSA and NRCS contact information.

FINANCIAL RISK MANAGEMENT

Our cash flow projections point to difficult years in 2015 and 2016 for our farm business. Our most important tool for managing these challenges and other risks associated with the plan is the additional income we receive from our manure hauling and hog nursery businesses. This income is not included in the cash flow projections presented here. The right of first refusal to purchase the land we rent in Lyon County is also a form of risk management, since this will give us the right, but not the obligation, to purchase the land after the 2020 crop year. If our farming operation has been successful and that success is projected to continue given land prices and profitability expectations, we will purchase the land. If our farming operation has not been as successful as expected and/or if the outlook for future profitability is unfavorable, we will not be committed to continue farming that land.



FINANCES - Financial Risk Management

You have likely already addressed some of the financial risks associated with yield and price fluctuations earlier in Planning Task Four. Now is a good time, however, to explore specific short- and long-term finance-related risks as well as strategies for overcoming and mitigating them. A change in corn and soybean base acres—for example, due to the inclusion of small grains in transitional and organic crop rotations—can affect:

- FSA loans
- crop insurance
- government program payments

Other potential financial risks include fluctuations in interest rates, input costs and inadequate cash flow. Use **Worksheet 4T.27: Financial Risk Management** to identify risk for your farm business.

With risks on the table, begin brainstorming risk management options. For example, can you build up reserves in advance of an anticipated cash flow shortfall? Or will you explore finance options, such as short-term lines of credit or intermediate loans available through a local banker, the FSA or another lending institution? You may not be able to answer these questions or address financial risks until after meeting with a lender and presenting your business plan. However, it is good to be aware of potential risks before meeting with your lender and other potential investors or business partners.

See the financial risk management story panel for a look at how the Kerkaerts plan to buffer themselves against two significant financial risks: 1) the risk of a cash flow shortfall during transition, and 2) the risk of transitioning rented land.



FINANCES - DIG DEEPER

If you are considering purchasing or renting additional farmland, we recommend turning to **Worksheet 4.26: Farmland Affordability** in the Guide to determine how much land you can afford and at what price. We also encourage you to read the profile (see page 15) and business plan prepared by Bryan and Theresa Kerkaert in the Appendix to learn more about the challenges of transitioning land under a short-term lease.



FINANCES - PUT IT IN WRITING!

The finances section of your business plan is critical. Write a brief financial strategy summary under the *Finances* heading if using AgPlan or in your own outline if using a word processing program. Address specific financial opportunities as well as strategies for business organization and capital requests. Space is provided in AgPlan for each of these topics. Next, use the AgPlan attachment tool to import projected balance sheets, cash flow and income statements. (AgPlan will accept Word, Excel and FINBIN documents.) Lenders and other business partners or investors will expect to see these documents.

Carefully review your written financial strategy and supporting documents. Is your whole-farm strategy financially viable? Does your operation generate earnings, for example, during transition? If not, do you have a financial plan for bridging the gap? If your whole-farm strategy is showing signs of financial trouble during this planning phase, you are strongly encouraged to return to those operations, marketing and human resource strategies already developed and to revise them as needed. Remember, strategy development is an iterative process—it is not unusual to tweak as you go!

SWOT ANALYSIS FOR STRATEGY ALTERNATIVES

Before finalizing your whole-farm transition strategy, return to the SWOT analysis tool introduced in Planning Task Two: History and Current Situation (see **Worksheet 2T.18: Current Whole-Farm SWOT**). Ask yourself, *When I have completed my transition, how will I describe my farm business strengths, weaknesses, opportunities and threats?* This will take a bit of imagination, but it is a useful exercise and serves as one final check point when developing a robust transition strategy. For example, a farmer considering a split operation might develop the following whole-farm SWOT to anticipate their situation after having certified some of their land:

- *Strengths:* In addition to the strengths that I brought to transition, I have demonstrated that I can successfully produce and market organic grains. My operation is now more diversified by including organic and conventional acreage.
- *Weaknesses:* We will be using more resources (storage, labor) than otherwise necessary to manage production, segregate product and market both conventional and organic crops. I have not reached an organic volume that allows me to take full advantage of organic marketing opportunities.
- *Opportunities:* We will be able to take advantage of prices in both conventional and organic markets; we will be diversifying to reduce production and marketing risks. Conventional prices are currently strong, so I can get a good return on these crops and finance the transition of additional land.
- *Threats:* By waiting to transition all of our cropland, we may miss out on opportunities to transition livestock and sign long-term contracts; organic milk contracts may no longer be offered by the time we get there.

Use **Worksheet 4T.28: Whole-Farm SWOT for Certified Operations** to compare your anticipated post-certification SWOT analysis to the SWOT you prepared in Planning Task Two: History and Current Situation (**Worksheet 2T.18: Current Whole-Farm SWOT**). How do the new, proposed strategies compare with what you are already doing? Will your current operations (i.e., you keep doing what you are doing) look different in five years? Will strengths and opportunities have changed?



TEST AND FINALIZE STRATEGIES

Now that you have some solid strategies on the table, it is time to test them for compatibility with your goals and for overall feasibility.

You may have identified potential variations in your strategic operations, marketing, human resource and financial plans throughout the planning process. In some cases, these alternative strategies will be compatible or inter-related. Or, some strategies you identified may compete with one another. Return to **Worksheet 4T.1: Whole-Farm Strategies**. You have learned a lot since first answering these questions. Has anything fundamental changed since you first jotted down your whole-farm strategy description and rationale? Have any of your ideas changed based on the operations, marketing, human resource and finance research that you have completed during this planning task? You may have refined your whole-farm strategies already as you worked through Planning Task Four. If not, do so now if necessary.

Next, test your whole-farm transition strategy (or strategies) by scoring it using the “best fit” descriptors outlined in *Figure 4T.11: Best Fit Tests* and repeated on **Worksheet 4T.29: Scoring and Deciding on a Final Transition Strategy**. Begin by scoring your current or “base plan.” Next, score each whole-farm transition strategy that you are considering. This worksheet is particularly useful when planning as a team or with family. By having each member of your planning team complete **Worksheet 4T.29: Scoring and Deciding on a Final Transition Strategy** independently, you will be able to identify any potential conflicts among family early on, before moving forward. Your transition plan should be something that everyone—you, family members and partners—generally support.

FIGURE 4T.11: BEST FIT TESTS

STRATEGY “BEST FIT” TESTS

Vision Consistency Test. How well does the proposed strategy fit with your whole-farm and personal vision? If the strategy does not lead toward your personal and business vision or embrace the core values of your planning team, it should be rejected. Success and enthusiasm will be low and the plan is unlikely to succeed.

Goodness of Fit Test. How well does the proposed strategy fit with your external analysis of the industry and internal analysis of your farm? Does the proposed strategy explain how it will build on your business' current strengths and opportunities while managing for weaknesses and threats? Recall your SWOT analyses in Planning Task Two and Planning Task Four.

Building for the Future Test. How well does the proposed strategy build for the future and satisfy your goals? Does your strategy generate resources, such as soil quality and financial equity, that will be available to the next generation? If a strategy uses but does not generate or protect resources, it should receive a low score for this test.

Feasibility and Resource Test. How realistic are your transition and long-term resource needs (identified on **Worksheet 4T.26: Financial Needs and Capital Requests**)? In other words, are resources available to implement your whole-farm strategy? For example, is your soil type appropriate for the crops in your planned rotation? Can people be hired to fill labor gaps? Will the operation generate earnings during transition? Can financing be obtained if needed? Ask yourself, *Can the business survive the transition period?*

Importance Test. How well does the proposed strategy address the important or critical planning issues that you identified on **Worksheet 4T.1: Why Transition?** Does your strategy focus on these important issues? If not, then it should be rejected.

Confidence Test. How high is the confidence of your planning team in the success of your transition strategy? How high is the risk that conditions will change for the worse, making it more difficult for your plan to succeed?

Source: Olson, K. 2001. *A Strategic Management Primer for Farmers*. No. 13524, Staff Papers. Department of Applied Economics, University of Minnesota.

**PUT IT IN WRITING!**

You are almost there! Summarize the transition strategy that best fits your critical planning issue, vision and goals in the *Transition Plan Summary* section of AgPlan or a word processing program. Another option is to summarize strategies in the individual *Operations*, *Marketing*, *Human Resources* and *Finances* sections of AgPlan. Most of this information can come directly from your completed strategy summary worksheets. Carefully describe your anticipated financial position throughout transition and during the first few years of certification, summarizing information from **Worksheet 4T.23: Projected Income Statement**, **Worksheet 4T.24: Projected Cash Flow**, **Worksheet 4T.25: Projected Balance Sheet** and **Worksheet 4T.26: Financial Needs and Capital Requests**. Finally, cite examples from your current- and transition-related SWOT analyses (**Worksheet 2T.18** and **Worksheet 4T.28**, respectively) that support your strategic plan of action.

As you put pen to paper, try to describe your strategy (or strategies) as a compelling, inspiring and believable story about how the future can unfold on your farm. There will be challenges ahead, so you should be excited and confident about making the change. This should come across in your written plan.

RESOURCES

- *Agriculture Business Plan Workbook*. 2012. AgPlan. Center for Farm Financial Management, University of Minnesota. <https://agplan.umn.edu>. For print copies, contact the Center for Farm Financial Management at (612) 625-1964 ext. 0 or cffm@umn.edu.
- *Basic Accounting: Guidance for Beginning Farmers*. 2012. Lewis, H. ATTRA. Visit <https://attra.ncat.org> and search “basic accounting.”
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- *FAQ: Conservation Planning with Transitioning to Organic Producers*. November 2012. USDA - Natural Resources Conservation Service. Visit www.nrcs.usda.gov and search “transitioning to organic producers.”
- FINPACK software website. Center for Farm Financial Management. www.cffm.umn.edu/FINPACK/producers.aspx.
- *FY 2013 EQIP Conservation Activity Plan (CAP)*. 2013. USDA - Natural Resources Conservation Service. Visit www.nrcs.usda.gov and search “EQIP conservation activity plan.”
- Farm Business Management Program website. Minnesota Colleges and Universities. www.fbm.mnscu.edu.
- Farm Service Agency website. United States Department of Agriculture. www.fsa.usda.gov.
- *Farmers’ Guide to Organic Contracts*. August 2012. Heyman, A. N. Farmers’ Legal Action Group. www.flaginc.org/publication/farmers-guide-to-organic-contracts.
- *Guidance: Commingling and Contamination Prevention in Organic Production and Handling*. May 9, 2011. National Organic Program, USDA - Agricultural Marketing Service. Visit www.ams.usda.gov and search “commingling and contamination prevention.”
- *Guide for Organic Processors*. November 2012. Coleman, P. ATTRA and USDA Agricultural Marketing Service. <https://attra.ncat.org/organic.html>.

WORKSHEETS ARE NOW AVAILABLE ONLINE

Visit www.misa.umn.edu/Publications/OrganicTransitionPlanner to obtain fillable PDF worksheets and electronic spreadsheets.



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- *Minnesota Guide to Organic Certification*. February 2011. Riddle, J. and L. Gulbranson. Minnesota Institute for Sustainable Agriculture and University of Minnesota Extension. www.misa.umn.edu/Publications/MNGuidetoOrganicCertification.
- *National List of Allowed and Prohibited Substances*. USDA - Agricultural Marketing Service. Visit www.ams.usda.gov and search “national list of allowed and prohibited substances.”
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DOWNLOAD THE PDF

Worksheet 4T.1: Whole-Farm Strategies (<http://misadocuments.info/4T.1WholeFarmStrategies.pdf>)

WHOLE-FARM STRATEGIES

Use the space below to articulate one or two whole-farm strategies that you may be considering (e.g., transitioning gradually versus transitioning all at once). We have provided space for two whole-farm strategies, but you may have more than two alternatives in mind. Think of these short descriptions as something you would share with someone who asks, *What are you thinking of doing?* Next, describe the rationale behind each whole-farm transition strategy. Reflect on your current situation, goals and future vision. Recall conversations that you have had with your planning team and review the SWOT analysis that you created on **Worksheet 2T.12: Current Whole-Farm SWOT Analysis**. Keep this information in front of you when exploring specific operations, marketing, human resource and finance strategies in Planning Task Four: Strategic Planning.

Strategy name: _____

Strategy description (What are you thinking of doing?):

Strategy rationale (Why are you thinking of doing it?):

Strategy name: _____

Strategy description (What are you thinking of doing?):

Strategy rationale (Why are you thinking of doing it?):

DOWNLOAD THE PDF

Worksheet 4T.2: Operations Strategy Summary (<http://misadocuments.info/4T.2OperationsStrategySummary.pdf>)

OPERATIONS STRATEGY SUMMARY

Complete this operations worksheet for your preferred whole-farm transition strategy whether you plan to grow commodities, raise livestock or process products. Begin with a brief description of production opportunities. If you are uncertain about what to write here, try asking yourself, *Why is this a particularly good time to transition?* Next, describe your three- to five-year operations strategy. When doing so, summarize information about your crop rotation, grazing schedule and processing plans as well as associated resource needs during the first five years. Next, describe resource needs and how you will fill any resource gaps—identify acquisition strategies for needed land, buildings, machinery, equipment, breeding livestock and inputs. Afterward, explain your plans for certifying the farm. List which certifier(s) you plan to contact as well as any other special permits and licenses that may be needed to implement your operational strategy.

If your operations strategy appears viable at this stage in planning, summarize all of the information from this worksheet in two to three paragraphs under “Business Plan Input.” This information can be transferred to AgPlan in the *Operations* section when ready. If you are not convinced of this proposed transition strategy, this may be a good time to put on the brakes and review your goals and explore alternative strategies.

Opportunities (List industry-wide opportunities and those that are unique to your farm):

Strategy Description (Describe how you will transition your land, animals or processing operations):

Resource Needs and Acquisition Strategies (How will you fill gaps or access needed inputs?):

Legal Obligations (e.g., organic certification, licenses, permits needed):

continued →

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Worksheet 4T.3: Crop and Livestock Enterprises (<http://misadocuments.info/4T.3CropandLivestockEnterprises.pdf>)

CROP AND LIVESTOCK ENTERPRISES

Use the space below to brainstorm which crop and livestock enterprises you would like to include in your organic rotation as well as any production conditions or needs that might influence your ability to include them in rotation plans. Next, list new buildings, equipment and other inputs that will be required to manage these crop and livestock enterprises according to organic certification requirements as well as any anticipated new skills that will be necessary to learn or to address through hired help, consultants, etc.

Enterprise	New Production Needs	New Skills
1. _____ _____ _____	_____ _____ _____	_____ _____ _____
2. _____ _____ _____	_____ _____ _____	_____ _____ _____
3. _____ _____ _____	_____ _____ _____	_____ _____ _____
4. _____ _____ _____	_____ _____ _____	_____ _____ _____
5. _____ _____ _____	_____ _____ _____	_____ _____ _____
6. _____ _____ _____	_____ _____ _____	_____ _____ _____

Identify areas where you need to learn new skills to manage new enterprises using organic methods:

TASK 4

WORKSHEET 4T.4

DOWNLOAD THE PDF

Worksheet 4T.4: Transitional Farm Map (<http://misadocuments.info/4T.4TransitionalFarmMap.pdf>)

TRANSITIONAL FARM MAP

Use the space below to create a map for each year in your rotation and grazing schedule so that you have a sequence of maps representing your three years of transition plus the first two years of certification. This exercise is similar to the one you did in Planning Task Two: Current Situation, only now you are mapping the future. Depict field rotations, buffers, conservation measures and erosion practices. If your operation includes livestock, be sure to note fencing, watering lines, housing and grazing schedules. You may also want to include field notes on your map about soil types as well as pest, weed and disease management practices (e.g., tillage and cultivation practices), and expected changes in herd size and pasture practices. More than one worksheet or sheet of paper may be needed.

DOWNLOAD THE PDF

Worksheet 4T.5: Organic Processing Map (<http://misadocuments.info/4T.5OrganicProcessingMap.pdf>)

ORGANIC PROCESSING MAP

Use the space below or a separate piece of paper to create a processing flow chart and facility map. These diagrams are much like field maps in that they visually describe where you will process and how you will process. Flow charts and facility maps are required for an OSPH and typically include building dimensions, processing stations (e.g., washing, cutting, cooking, packing, etc.), equipment notes, bathroom locations, and storage and distribution areas. At this point in your research, your facility map and processing flow chart may be a bit rudimentary. Do not worry. You can refine your maps by adding more detail as you continue to develop your processing strategy.

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Worksheet 4T.6: Processed Products and Services (<http://misadocuments.info/4T.6ProcessedProductsServices.pdf>)

PROCESSED PRODUCTS AND SERVICES

List value-added products and services that you plan to process (e.g., organic bread). Next, in the second column, describe the type of processing required for each value-added product or service (e.g., dehydration, fermentation, baking). In the third column, list processing needs such as equipment and the type of facilities that will be required to complete all processing tasks. Finally, if known, record the location of existing processing facilities or options for establishing processing and service-related infrastructure for your farm.

Products/Services	Type of Processing (equipment, facilities)	Needed for Processing
1. _____ _____ _____	_____ _____ _____	_____ _____ _____
2. _____ _____ _____	_____ _____ _____	_____ _____ _____
3. _____ _____ _____	_____ _____ _____	_____ _____ _____
4. _____ _____ _____	_____ _____ _____	_____ _____ _____
5. _____ _____ _____	_____ _____ _____	_____ _____ _____
6. _____ _____ _____	_____ _____ _____	_____ _____ _____

Record the location and distance of existing processing facilities if processing off-site or describe your on-farm facilities:

TASK 4

WORKSHEET 4T.8

DOWNLOAD THE PDF

Worksheet 4T.8: Production Estimates, Livestock (<http://misadocuments.info/4T.8ProductionEstimates,Livestock.pdf>)

PRODUCTION ESTIMATES, LIVESTOCK

Use the space below to record changes in your estimated livestock output for each enterprise over the five-year planning period. Create additional copies of this worksheet as needed. Summarize your livestock production plans in three to four sentences for the "Business Plan Output Summary" below.

	← TRANSITION →			← CERTIFIED →	
	Year 1	Year 2	Year 3	Year 4	Year 5
Enterprise	_____	_____	_____	_____	_____
No. of animals	_____	_____	_____	_____	_____
Avg. output/animal	_____	_____	_____	_____	_____
Total output	_____	_____	_____	_____	_____

	Year 1	Year 2	Year 3	Year 4	Year 5
Enterprise	_____	_____	_____	_____	_____
No. of animals	_____	_____	_____	_____	_____
Avg. output/animal	_____	_____	_____	_____	_____
Total output	_____	_____	_____	_____	_____

	Year 1	Year 2	Year 3	Year 4	Year 5
Enterprise	_____	_____	_____	_____	_____
No. of animals	_____	_____	_____	_____	_____
Avg. output/animal	_____	_____	_____	_____	_____
Total output	_____	_____	_____	_____	_____

	Year 1	Year 2	Year 3	Year 4	Year 5
Enterprise	_____	_____	_____	_____	_____
No. of animals	_____	_____	_____	_____	_____
Avg. output/animal	_____	_____	_____	_____	_____
Total output	_____	_____	_____	_____	_____

Business Plan Output Summary:

DOWNLOAD THE PDF

Worksheet 4T.9: Production Estimates, Processed Products (<http://misadocuments.info/4T.9ProductionEstimatesProcessedProducts.pdf>)

PRODUCTION ESTIMATES, PROCESSED PRODUCTS

Use the space below to record your maximum processing capacity for each product over the five-year planning period. There is enough room on this worksheet for three products. Processing capacity, or the number of processed units, is dependent on availability of raw products, other inputs, machinery, facilities, labor and market demand. "Raw input needed" refers to the primary ingredient(s) needed for each processed product, including the quantity needed per unit of product. We have provided room for three raw inputs for each product. If more room is needed, use a blank sheet of paper. Calculate the total number of units of each raw input you need to reach your maximum processing capacity.

If this is your first time putting estimates to paper, provide your best guess. You can return to this worksheet later after conducting further production, marketing, human resource and financial research to make revisions. When ready, summarize your processing plans in three to four sentences for the "Business Plan Output Summary" below.

	← TRANSITION →			← CERTIFIED →	
	Year 1	Year 2	Year 3	Year 4	Year 5
PRODUCT NAME	_____	_____	_____	_____	_____
Units	_____	_____	_____	_____	_____
(a) Processing capacity (No. of units)	_____	_____	_____	_____	_____
(b) Quantity of raw input needed/unit	_____	_____	_____	_____	_____
Total raw input (a*b)	_____	_____	_____	_____	_____
(c) Quantity of raw input needed/unit	_____	_____	_____	_____	_____
Total raw input (a*c)	_____	_____	_____	_____	_____
(d) Quantity of raw input needed/unit	_____	_____	_____	_____	_____
Total raw input (a*d)	_____	_____	_____	_____	_____

continued →

TASK 4

← TRANSITION → ← CERTIFIED →

Year 1 Year 2 Year 3 Year 4 Year 5

PRODUCT NAME					
Units					
(a) Processing capacity (No. of units)					
(b) Quantity of raw input needed/unit					
Total raw input (a*b)					
(c) Quantity of raw input needed/unit					
Total raw input (a*c)					
(d) Quantity of raw input needed/unit					
Total raw input (a*d)					
PRODUCT NAME					
Units					
(a) Processing capacity (No. of units)					
(b) Quantity of raw input needed/unit					
Total raw input (a*b)					
(c) Quantity of raw input needed/unit					
Total raw input (a*c)					
(d) Quantity of raw input needed/unit					
Total raw input (a*d)					

Business Plan Output Summary:

DOWNLOAD THE PDF

Worksheet 4T.10: Licenses and Certification
 (<http://misadocuments.info/4T.10LicensesCertification.pdf>)

LICENSES AND CERTIFICATION

List county, state and federal regulations that affect your farm business, then record any licenses and certifications needed to satisfy these regulations. Requirements may be different for transition and for certification. Space has been provided for each. Finally, describe your plans for addressing the regulations and note any outstanding questions or follow-up required. Be sure to include all relevant regulations related to production, handling and processing, and your timeline for meeting them.

Regulatory issue	Regulations	TRANSITION	CERTIFIED ORGANIC	Strategy for addressing regulations
		Licenses, conditions and fees	Licenses, conditions and fees	
Planning				
Zoning				
Waste management				
Health and safety				
Buildings				
Environmental				
Crop production				
Livestock production				
Processing				
Handling and storage				

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Worksheet 4T.11: Operations Risk Management (<http://misadocuments.info/4T.11OperationsRiskManagement.pdf>)

OPERATIONS RISK MANAGEMENT

Use the space below to identify production risks for each enterprise during transition. Examples might include weather, cross contamination from non-organic fields, yield penalties, weeds, etc. Next, brainstorm risk management strategies that can be used to avoid or mitigate each risk. In some cases, you may not have a risk management solution. Leave these spaces blank and return to them later. Blank spaces will be a reminder of where strategy holes may exist or of issues that may need a little research. Ask experienced organic farmers about any uncertainties or visit with a certifier to begin exploring risk management options. Finally, develop some recovery strategies in the space provided to address anticipated worst-case scenarios.

Enterprise: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Enterprise: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Enterprise: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Do any of the risks and risk management strategies identified here alter your operations strategy? If so, how? (Revise your operations strategy summary on **Worksheet 4T.2: Operations Strategy Summary** and in AgPlan if applicable.)

DOWNLOAD THE PDF

Worksheet 4T.12: Marketing Strategy Summary (<http://misadocuments.info/4T.12MarketingStrategySummary.pdf>)

MARKETING STRATEGY SUMMARY

Use the space below to describe your marketing strategy for crops, livestock products and processed products or services. If your strategy varies by crop or product—as it likely will—make a copy of this worksheet and complete one for crops and one for products and services.

Begin by summarizing marketing trends and opportunities. Provide information from your research (e.g., information obtained during conversations with buyers and others). Next, in three to four sentences, describe your buyers and your plans for accessing markets. List your competitive advantage in each market and then briefly describe your whole-farm marketing strategy for crops and products. If using AgPlan, include this information in the *Marketing Strategy* section.

Opportunities (List industry-wide opportunities and those that are unique to your business):

Strategy Description:

Buyers and Terms of Sale:

How will you gain access to buyers or markets?

continued →

TASK 4

Competitive Advantages:

Legal Obligations (Will you require an OSPH?):

Feasibility (Does your marketing strategy seem viable?): _____ (If “yes,” prepare your business plan input statements below. If “no,” list the problems or hurdles below, then revise your marketing strategy accordingly. If there are significant problems, you may want to return to the strategy alternative(s) listed on **Worksheet 4T.1: Whole-Farm Strategies** and begin again.)

Business Plan Input - Marketing Strategy Summary: (Summarize operations opportunities, your strategy and how it addresses opportunities, resource needs, resource acquisition plans and legal obligations. Record in AgPlan when ready.)

Does this strategy still look like the best option, or should you consider an alternative?

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Worksheet 4T.13: Projected Enterprise Sales (<http://misadocuments.info/4T.13ProjectedEnterpriseSales.pdf>)

PROJECTED ENTERPRISE SALES

Use the space below to estimate sales revenue for each field or enterprise. Total output numbers come from production estimates developed earlier (**Worksheets 4T.7-4T.9**). Calculate revenue only for products that you plan to sell. Do not include revenue for products that will be utilized on the farm, such as livestock feed. Prices come from your own market research, price reports (see the Resources section) and contracts. Add the revenue from each enterprise to arrive at total projected enterprise sales. Make additional copies of this worksheet, if needed, to capture income from all enterprises. An electronic spreadsheet is available to help with these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

	← TRANSITION →			← CERTIFIED →	
	Year 1	Year 2	Year 3	Year 4	Year 5
Field/enterprise	_____	_____	_____	_____	_____
(a) Output for sale	_____	_____	_____	_____	_____
(b) Price per unit	_____	_____	_____	_____	_____
(c₁) Revenue (a*b)	_____	_____	_____	_____	_____
Field/enterprise	_____	_____	_____	_____	_____
(a) Output for sale	_____	_____	_____	_____	_____
(b) Price per unit	_____	_____	_____	_____	_____
(c₂) Revenue (a*b)	_____	_____	_____	_____	_____
Field/enterprise	_____	_____	_____	_____	_____
(a) Output for sale	_____	_____	_____	_____	_____
(b) Price per unit	_____	_____	_____	_____	_____
(c₃) Revenue (a*b)	_____	_____	_____	_____	_____
Total projected enterprise sales	_____	_____	_____	_____	_____
= (c₁+c₂+c₃)					

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Worksheet 4T.14: Marketing Risk Management (<http://misadocuments.info/4T.14MarketingRiskManagement.pdf>)

MARKETING RISK MANAGEMENT

Use the space below to identify marketing risks for each enterprise during transition. Next, brainstorm risk management strategies that can be used to avoid or mitigate each risk. In some cases, you may not have a risk management solution. Leave these spaces blank and return to them later. Blank spaces will be a reminder of where strategy holes may exist or of issues that may need a little research. Ask experienced organic farmers about any uncertainties or visit with a certifier to begin exploring risk management options. Finally, develop some recovery strategies in the space provided to address anticipated worst case scenarios.

Enterprise: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Enterprise: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Enterprise: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Do any of the risks and risk management strategies identified here alter your marketing strategy? If so, how? (Revise your marketing strategy summary on **Worksheet 4T.12: Marketing Strategy Summary** and in AgPlan if applicable.)

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Worksheet 4T.15: Human Resource Strategy Summary (<http://misadocuments.info/4T.15HRStrategySummary.pdf>)

HUMAN RESOURCE STRATEGY SUMMARY

Use the space below to describe human resource opportunities (e.g., a family member wants to join the business) and your human resource strategy. Next, list your management and labor needs during the five-year planning period and summarize general strategies that you will use to fill these human resource needs. For example, will your labor come from family, hired seasonal help or custom-hire service providers? Pay specific attention to management experience, training and qualifications that will help you address human resource needs. Next, list human resource-related expenses in the space provided. Examples of human resource expenses include wages, salaries, benefits, taxes, insurance and training. You will use this information when estimating projected cash flow and profitability for the whole farm. Finally, summarize your whole-farm human resource strategy under “Business Plan Input.” Enter your summary under *Human Resources* in AgPlan, if you are using it.

Human Resource Opportunities: _____

Strategy Description: _____

Human Resource Needs: _____

Management Experience and Qualifications: _____

Human Resource Expenses: _____

Business Plan Input—Human Resource Strategy Summary: _____

Does this strategy still look like the best option, or should you consider an alternative? _____

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Worksheet 4T.16: Acquired Knowledge
 (<http://misadocuments.info/4T.16AcquiredKnowledge.pdf>)

ACQUIRED KNOWLEDGE

What knowledge, skills or experience do you bring to the farm business? Answer this question in the space below by describing your farming experience, efforts you have already made to learn about organic management, and anything else that feels relevant. Next, document how you or others involved in the business intend to fill knowledge gaps in production, marketing and other areas of management. Will you develop new management skills by attending events such as field days, conferences, workshops or networking groups, or through on-farm experience as hired labor, an intern or a volunteer? This exercise will give you and your lender confidence in your management strategies and overall business plan. Include this information on your human resource strategy summary (**Worksheet 4T.15: Human Resource Strategy Summary**) or in the management section of your business plan.

Farming Experience: _____

Efforts Made to Learn About Organic Management: _____

Plans to Fill Knowledge Gaps: _____

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Worksheet 4T.18: Recordkeeping Strategy
 (<http://misadocuments.info/4T.18Record-keepingStrategy.pdf>)

RECORDKEEPING STRATEGY

Briefly describe the type of records needed for organic certification, handling and marketing. (See *Text Box 4T.3: Examples of Records Needed for Organic Certification*.) This may vary depending on whether you will maintain a split operation or plan to custom hire some of the activities. Be sure to note who will be responsible for recordkeeping tasks! Finally, summarize your recordkeeping strategy under “Business Plan Input.” This can be added to the *Management and Organization* section of AgPlan.

Records needed: _____

Research you have done to learn about organic recordkeeping, audit trails and lot numbers: _____

System you intend to use for recordkeeping (e.g., computer software, three-ring binder, shoe box): _____

Person(s) responsible for recordkeeping: _____

Business Plan Input - Recordkeeping Strategy Summary: _____

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Worksheet 4T.19: Human Resource Risk Management (<http://misadocuments.info/4T.19HRRiskManagement.pdf>)

HUMAN RESOURCE RISK MANAGEMENT

Use the space below to identify human resource risks for each major task or job during transition (e.g., field work, calving, marketing, recordkeeping). Next, brainstorm risk management strategies that can be used to avoid or mitigate each risk. In some cases, you may not have a risk management solution. Leave these spaces blank and return to them later. Blank spaces will be a reminder of where strategy holes may exist or of issues that may need a little research. Ask experienced organic farmers about any uncertainties or visit with a certifier to begin exploring risk management options. Finally, develop some recovery strategies in the space provided to address anticipated worst case scenarios.

Task: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Task: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Task: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Do any of the risks and risk management strategies identified here alter your human resource strategy? If so, how? (Revise your human resource strategy on **Worksheet 4T.15: Human Resource Strategy Summary** and in AgPlan if applicable.)

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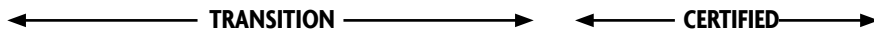
Worksheet 4T.20: Projected Family Living Expenses (<http://misadocuments.info/4T.20ProjectedFamilyLivingExpenses.pdf>)

PROJECTED FAMILY LIVING EXPENSES

Use this worksheet to estimate future family living expenses and your necessary income contribution from the farm business. Space has been provided to allow for expense estimates during transition and the first two years of certification, if you anticipate annual changes in family living expenses (e.g., college). If you expect family living expenses to remain unchanged from your current expense estimates, you can skip this worksheet. An electronic spreadsheet is available to help with these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

FAMILY LIVING EXPENSE (\$/year)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Food and meals	_____	_____	_____	_____	_____
Medical care and health insurance	_____	_____	_____	_____	_____
Cash donations	_____	_____	_____	_____	_____
Household supplies	_____	_____	_____	_____	_____
Clothing	_____	_____	_____	_____	_____
Personal care	_____	_____	_____	_____	_____
Child/dependent care	_____	_____	_____	_____	_____
Gifts	_____	_____	_____	_____	_____
Education	_____	_____	_____	_____	_____
Recreation	_____	_____	_____	_____	_____
Utilities (household share)	_____	_____	_____	_____	_____
Nonfarm vehicle operating expense	_____	_____	_____	_____	_____
Household real estate taxes	_____	_____	_____	_____	_____
Dwelling rent	_____	_____	_____	_____	_____
Household repairs	_____	_____	_____	_____	_____
Nonfarm interest	_____	_____	_____	_____	_____
Life insurance payments	_____	_____	_____	_____	_____
Other	_____	_____	_____	_____	_____
Total cash family living expenses	_____	_____	_____	_____	_____
Farm assets used for personal/ family consumption	_____	_____	_____	_____	_____
Total family living expenses (sum of all above) (a)	_____	_____	_____	_____	_____
OTHER NONFARM EXPENSES					
Income taxes	_____	_____	_____	_____	_____
Furnishings and appliances	_____	_____	_____	_____	_____
Nonfarm vehicle purchases	_____	_____	_____	_____	_____
Nonfarm real estate purchases	_____	_____	_____	_____	_____
Other nonfarm capital purchases	_____	_____	_____	_____	_____
Nonfarm savings and investments	_____	_____	_____	_____	_____
Other nonfarm expenditures	_____	_____	_____	_____	_____
Total other nonfarm expenditures (b)	_____	_____	_____	_____	_____
Total cash family living investment and nonfarm capital purchases (c) = (a+b)	_____	_____	_____	_____	_____
Nonfarm income (d)	_____	_____	_____	_____	_____
Necessary contribution from farm business (c)-(d)	_____	_____	_____	_____	_____

TASK 4



	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Projected Income	_____	_____	_____	_____	_____
Projected Cash Flow	_____	_____	_____	_____	_____
Projected Total Assets	_____	_____	_____	_____	_____
Capital Requests	_____	_____	_____	_____	_____
Capital Source	_____	_____	_____	_____	_____

Business Organization: _____

Business Plan Input—Financial Strategy Summary: _____

Does this strategy still look like the best option, or should you consider an alternative? _____

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Worksheet 4T.22: Projected Farm Expenses (<http://misadocuments.info/4T.22ProjectedFarmExpenses.pdf>)

PROJECTED FARM EXPENSES

Estimate direct and overhead expenses for transition and the first two years after certification. If you are considering more than one whole-farm strategy, copy this worksheet or download a blank copy from the MISA website. Be sure to estimate and include: 1) annual ownership costs of machinery, equipment and buildings (i.e., depreciation, interest, repairs, taxes and insurance); and 2) start-up costs as either one-time cash expenses or as part of annual debt or lease payments (depending on how you decide to finance these costs). Note that we have included a line for “chemicals” to be consistent with other worksheets, but this expense item will likely remain empty during transition and upon certification. If you prefer, an electronic spreadsheet is available to help you with these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

DIRECT EXPENSES	← TRANSITION →			← CERTIFIED →	
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Seed	_____	_____	_____	_____	_____
Fertilization	_____	_____	_____	_____	_____
Chemicals	_____	_____	_____	_____	_____
Irrigation energy	_____	_____	_____	_____	_____
Other direct crop expenses	_____	_____	_____	_____	_____
Feeder livestock expenses	_____	_____	_____	_____	_____
Feed and forages	_____	_____	_____	_____	_____
Pasture	_____	_____	_____	_____	_____
Breeding	_____	_____	_____	_____	_____
Veterinary	_____	_____	_____	_____	_____
Other direct livestock expenses	_____	_____	_____	_____	_____
Crop insurance	_____	_____	_____	_____	_____
Custom hire	_____	_____	_____	_____	_____
Fuel and oil	_____	_____	_____	_____	_____
Repairs and maintenance	_____	_____	_____	_____	_____
Storage	_____	_____	_____	_____	_____
Processing	_____	_____	_____	_____	_____
Certification fees	_____	_____	_____	_____	_____
Professional fees	_____	_____	_____	_____	_____
Education	_____	_____	_____	_____	_____
Office supplies	_____	_____	_____	_____	_____
Marketing	_____	_____	_____	_____	_____
Seasonal labor	_____	_____	_____	_____	_____
Interest on operating loan(s)	_____	_____	_____	_____	_____
Sales taxes	_____	_____	_____	_____	_____
Other operating expenses	_____	_____	_____	_____	_____
Total Direct Expenses (a)	_____	_____	_____	_____	_____

continued →

TASK 4

	← TRANSITION →			← CERTIFIED →	
OVERHEAD EXPENSES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Utilities	_____	_____	_____	_____	_____
Rent and leases	_____	_____	_____	_____	_____
Hired labor	_____	_____	_____	_____	_____
Owner wages	_____	_____	_____	_____	_____
Depreciation	_____	_____	_____	_____	_____
Farm insurance	_____	_____	_____	_____	_____
Taxes (property, payroll taxes)	_____	_____	_____	_____	_____
Interest on intermediate loan(s)	_____	_____	_____	_____	_____
Interest on long-term debt	_____	_____	_____	_____	_____
Other overhead expenses	_____	_____	_____	_____	_____
Total Overhead Expenses (b)	_____	_____	_____	_____	_____
Total Farm Expenses = (a+b)	_____	_____	_____	_____	_____

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Worksheet 4T.23: Projected Income Statement (<http://misadocuments.info/4T.23ProjectedIncomeStatement.pdf>)

PROJECTED INCOME STATEMENT

Use the space below to record projected farm income and expenses for the first five years of your whole-farm strategy. These numbers come from your projected enterprise sales (**Worksheet 4T.13**) and projected farm expenses (**Worksheet 4T.22**). Then calculate the net farm income for the strategy being considered by subtracting total expenses from total revenue and adding in any inventory changes (you can use **Worksheet 2T.16: Calculating Depreciation and Inventory Changes** to estimate these numbers). How does projected net farm income under your transition and organic certification strategy compare to your current farm income (**Worksheet 2T.14**)? Note that if you are considering more than one strategy, you should copy this worksheet and complete it for each strategy, or download additional copies from the MISA website. Electronic spreadsheets are also available to assist with these calculations at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

	← TRANSITION →			← CERTIFIED →	
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Enterprise sales (a)	_____	_____	_____	_____	_____
Cooperative distributions (b)	_____	_____	_____	_____	_____
Government payments (c)	_____	_____	_____	_____	_____
Crop insurance proceeds (d)	_____	_____	_____	_____	_____
Custom hire income (e)	_____	_____	_____	_____	_____
Other income (f)	_____	_____	_____	_____	_____
Gross cash farm income	_____	_____	_____	_____	_____
(g) = (a+b+c+d+e+f)					
Farm expenses (h)	_____	_____	_____	_____	_____
Inventory change (i)	_____	_____	_____	_____	_____
Net farm income	_____	_____	_____	_____	_____
(j) = (g-h) +/- (i)					

How do your farm income projections compare to your current farm income (found on **Worksheet 2T.14: Current Income Statement**)? _____

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Worksheet 4T.24: Projected Cash Flow
<http://misadocuments.info/4T.24ProjectedCashFlow.pdf>

PROJECTED CASH FLOW

Use the space below to calculate cash flow during transition and your first two years of certification. If you are exploring more than one transition strategy, make a copy of this worksheet and complete it for each. Begin by estimating total cash inflows and outflows. Then subtract outflows from the inflows. If the projected net cash flow is positive, then you should have enough cash on hand to cover expenses each year; you will be able to make debt payments on time. (Keep in mind that month-to-month cash flow may still be an issue.) If, on the other hand, net cash flow is negative, the farm business will have trouble repaying short-term debt. Compare this transitional cash flow plan to your current cash flow plan (found on **Worksheet 2T.15: Current Cash Flow**). An electronic version of this worksheet is available at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx.

	← TRANSITION →			← CERTIFIED →	
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CASH INFLOWS					
Gross cash farm income (a) (g) from Worksheet 4T.23	_____	_____	_____	_____	_____
Nonfarm income (b)	_____	_____	_____	_____	_____
Capital sales (c)	_____	_____	_____	_____	_____
New borrowings (d)	_____	_____	_____	_____	_____
Grants (e)	_____	_____	_____	_____	_____
Total cash inflows (f) = (a+b+c+d+e)	_____	_____	_____	_____	_____
CASH OUTFLOWS					
Total farm expenses (g)	_____	_____	_____	_____	_____
Depreciation (h)	_____	_____	_____	_____	_____
Total cash farm expenses (i) = (g-h)	_____	_____	_____	_____	_____
Living expenses (j)	_____	_____	_____	_____	_____
Taxes (income, social sec.) (k)	_____	_____	_____	_____	_____
Capital purchases (l)	_____	_____	_____	_____	_____
Principal payments (m)	_____	_____	_____	_____	_____
Total cash outflows (n) = (i+j+k+l+m)	_____	_____	_____	_____	_____
Net cash flow (f-n)	_____	_____	_____	_____	_____
Cumulative net cash flow (current year + previous years)	_____	_____	_____	_____	_____

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Worksheet 4T.25: Projected Balance Sheet
 (<http://misadocuments.info/4T.25ProjectedBalanceSheet.pdf>)

PROJECTED BALANCE SHEET

Construct a projected balance sheet for your transition strategy. Then, calculate your overall change in wealth earned from farm and nonfarm income after adjusting for living expenses and owner withdrawals. Compare the change in wealth (total assets) after certification is complete to current wealth (calculated on **Worksheet 2T.17: Current Balance Sheet**). If you prefer, use the spreadsheets found at http://misadocuments.info/OrganicTransitionPlanner_spreadsheets.xlsx to process the information needed for your balance sheet.

	← TRANSITION →			← CERTIFIED →	
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
ASSETS					
Current Farm Assets					
Cash and checking	_____	_____	_____	_____	_____
Prepaid expenses and supplies	_____	_____	_____	_____	_____
Growing crops	_____	_____	_____	_____	_____
Accounts receivable	_____	_____	_____	_____	_____
Hedging accounts	_____	_____	_____	_____	_____
Crops and feed in storage	_____	_____	_____	_____	_____
Crops under government loan	_____	_____	_____	_____	_____
Market livestock	_____	_____	_____	_____	_____
Other current assets	_____	_____	_____	_____	_____
Total current assets (a)	_____	_____	_____	_____	_____
Intermediate Farm Assets					
Breeding livestock	_____	_____	_____	_____	_____
Machinery and equipment	_____	_____	_____	_____	_____
Other intermediate assets	_____	_____	_____	_____	_____
Total intermediate assets (b)	_____	_____	_____	_____	_____
Long-Term Farm Assets					
Farmland	_____	_____	_____	_____	_____
Buildings and improvements	_____	_____	_____	_____	_____
Other long-term assets	_____	_____	_____	_____	_____
Total long-term assets (c)	_____	_____	_____	_____	_____
Total farm assets (d) = (a+b+c)	_____	_____	_____	_____	_____
Nonfarm assets (e)	_____	_____	_____	_____	_____
Total assets (f) = (d+e)	_____	_____	_____	_____	_____

continued →

TASK 4

	← TRANSITION →			← CERTIFIED →	
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
LIABILITIES					
Current Farm Liabilities					
Accrued interest	_____	_____	_____	_____	_____
Accounts payable	_____	_____	_____	_____	_____
Current farm loans	_____	_____	_____	_____	_____
Principal on CCC loans	_____	_____	_____	_____	_____
Principal on term loans	_____	_____	_____	_____	_____
Total current farm liabilities (g)	_____	_____	_____	_____	_____
Intermediate farm liabilities (h)	_____	_____	_____	_____	_____
Long-term farm liabilities (i)	_____	_____	_____	_____	_____
Total farm liabilities (j) = (g+h+i)	_____	_____	_____	_____	_____
Nonfarm liabilities (k)	_____	_____	_____	_____	_____
Total liabilities (l) = (j+k)	_____	_____	_____	_____	_____
Net worth = (f-l)	_____	_____	_____	_____	_____

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Worksheet 4T.26: Financial Needs and Capital Requests (<http://misadocuments.info/4T.26FinancialNeedsandCapitalRequests.pdf>)

FINANCIAL NEEDS AND CAPITAL REQUESTS

Use the space below to identify and develop a plan for all finance needs associated with your transition strategy. Begin by listing finance needs such as one-time start-up costs, annual operating expenses, and longer-term capital and real estate borrowings. Next list the approximate value of these needs and your strategy for financing them. Finance strategies might include savings, a private investor, grants, contract for deed, or credit.

	Finance Needs	\$ Needed	Finance Strategy
One-time start-up needs	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
Transitional needs (1-3 years)	_____	_____	_____
	_____	_____	_____
Intermediate needs (4-6 years)	_____	_____	_____
	_____	_____	_____
Long-term needs (7-10 years)	_____	_____	_____
	_____	_____	_____
Real estate needs	_____	_____	_____
	_____	_____	_____

Finance Options. If you plan to seek outside financing (including government cost share payments), research the interest rates and other financing conditions from up to three sources for each need identified. Record your findings here. Once complete, we suggest talking with a lender, accountant or Extension educator to evaluate finance alternatives that best fit your personal criteria and transition needs.

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Worksheet 4T.27: Financial Risk Management
 (<http://misadocuments.info/4T.27Financial-RiskManagement.pdf>)

FINANCIAL RISK MANAGEMENT

Use the space below to identify different types of financial risk during transition (e.g., profitability risks, liquidity risks, solvency risks). Next, brainstorm risk management strategies that can be used to avoid or mitigate each risk. In some cases, you may not have a risk management solution. Leave these spaces blank and return to them later. Blank spaces will be a reminder of where strategy holes may exist or of issues that may need a little research. Ask experienced organic farmers about any uncertainties or visit with a certifier to begin exploring risk management options. Finally, develop some recovery strategies in the space provided to address anticipated worst case scenarios.

Type: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Type: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Type: _____

Transition Risks: _____

Risk Management Strategies: _____

Recovery Strategies: _____

Do any of the risks and risk management strategies identified here alter your financial strategy? If so, how? (Revise your financial strategy summary on **Worksheet 4T.21: Financial Strategy Summary** and in AgPlan if applicable.)

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Worksheet 4T.29: Scoring and Deciding on a Final Transition Strategy (<http://misadocuments.info/4T.29ScoringandDeciding.pdf>)

SCORING AND DECIDING ON A FINAL TRANSITION STRATEGY

Assess your whole-farm transition strategy by comparing it to your current situation. You can do this by giving the transition strategy and current plan a grade, so to speak.

Rate your current plan and new strategy using a score from one to five, with five being the highest. Refer to the strategy tests on page 102 (*Figure 4T.11: Best Fit Tests*) for a description of the scoring criteria. Once your transition strategy and current plan are scored, add the scores. It is natural to look for the strategy with the highest score, and this will be important to consider. However, realize that the total score is based on the assumption that all tests are weighted equally (i.e., of equal importance to you). You and your planning team should look at score sums as well as scores for individual tests when making a final decision about which direction to take the farm business.

	CURRENT SITUATION	TRANSITION STRATEGY
Proposed Strategy	_____	_____
STRATEGY TESTS	5 = highest score; 1 = lowest score	
Vision Consistency	_____	_____
Goodness of Fit	_____	_____
Building for Future	_____	_____
Importance	_____	_____
Feasibility	_____	_____
Resources	_____	_____
Confidence	_____	_____
Total Score	_____	_____

Based on the scores and discussion with your planning team, how does your whole-farm transition strategy compare with your current plan? Are you ready to implement the new strategy?

PLANNING TASK FIVE: Present, Implement and Monitor Your Business Plan

You are almost there! You have made it through the toughest task—strategic planning—and are now ready to pull your ideas together into a written document. In this planning task, you will:

- begin or complete your written business plan
- define a recordkeeping system
- create monitoring checkpoints
- draft an implementation to-do list

BEGIN OR COMPLETE YOUR WRITTEN BUSINESS PLAN

If you have been drafting a plan all along—recording your ideas in AgPlan or elsewhere—this task will be simple. However, if you have not captured your current situation, goals or transition strategies on paper, this task will take a bit of time. We will assume here that you are armed with completed worksheets and tested strategies but have not yet begun to draft a business plan. If you have begun to draft your plan, keep the suggestions made here in mind as you complete, review and revise it.

AUDIENCE

When starting from the beginning, first think about who will read your business plan. Will you present the plan to a lender in hopes of securing financing for needed improvements? Will you share the plan with your family or other planning team members who will become involved with the business? In other words, who is your audience? It may be only you!

While there is no single format that must be used when writing a business plan, certain audiences will expect to see certain critical pieces of information. That is why it is important to consider your audience when writing a business plan.

For example, a lender will expect to learn about your historical operating performance, marketing contracts, financial position, cash flow projections and capital request. Your family or business partners may be interested in this information too, but they may be equally interested in your history, current operations, long-term goals, marketing plan, projected workload and management strategies. It will be up to you to decide which elements to include in your business plan.

AgPlan provides a built-in business plan outline. This formal outline is well suited for any external audience (e.g., lenders, business partners, board of directors). You may choose to modify this outline when using your plan only to communicate internally with family or other planning team members.

LOOK FOR THESE STORY PANEL ICONS



A cow represents excerpts from Minnesota dairy farmers Nate and Angie Walter.



A corn stalk represents excerpts from Minnesota grain producers Bryan and Theresa Kerkaert.



A jar of pickles represents excerpts from New Jersey processor Vitaly Brukhman.

TASK 5

PRESENTATION

Regardless of your audience, the business plan should clearly convey your production, marketing, human resource and financial strategies for transition and beyond. Your plan should include information that supports and justifies your strategies; it should convince readers of your plan's feasibility and identify well-thought-out management plans to address risks should internal or external conditions change. At the same time, do not overdo it. Too much detail can overwhelm your readers or compromise the real message.

All readers will expect your plan to be typed; you can use a word processing program or AgPlan for this task. Graphics and photos also are appropriate so long as they illustrate ideas. You may even want to include a photo of your farm or of those involved in the farm business. Be aware that too many graphics will likely be ignored.

Avoid technical language or jargon that may be unfamiliar to your audience. As Troy Wilson and David Kohl point out in *Business Planning—A Roadmap for Success*, “Your reader will be more impressed if s/he understands the plan.”²⁰

Sample business plans for the Walters' transitioning dairy, the Kerkaerts' transitioning grain farm, and Brukman's start-up organic processing business are presented in the Appendix. You will notice that the plans differ in style, length and content. However, all three plans contain information pertinent to their business goals, strategies, planning team and investors.

ONGOING RECORDKEEPING

Recordkeeping is a critical component of any business, but even more so when your business plan is dependent on organic certification. We talked about the importance of recordkeeping for certification purposes in Planning Task Four: Strategic Planning. (You also may wish to read the NOP regulations regarding OSP recordkeeping and monitoring: § 205.103(c) and § 205.201.) Recordkeeping also is critical for monitoring the overall success of your new business plan.

In addition to those production- and marketing-related records required for certification, such as input expenses, product handling and sales, and livestock husbandry, it helps to track the following:

- labor (e.g., hours per person per enterprise per month)
- management (e.g., hours per month)
- equipment use (e.g., hours per enterprise per month)

Depending on your goals, you also may decide to track the effects of new conservation practices or other less quantitative activities. In such cases, try developing your own measures. For example, if one of your goals for the farm is to improve wildlife habitat, perhaps you can observe and record bird counts in spring. Be creative and keep it simple.

It is a good idea to identify someone, even yourself, to be responsible for ongoing recordkeeping and to designate time for this task. The information collected and preserved in your records will only be meaningful if maintained and put to use. Just as you are required to document your recordkeeping procedures in the OSP and OSPH, it is a good idea to include a brief description in your business plan of your intended business recordkeeping

²⁰ Wilson, T. and D. Kohl. August 1997. *Business Planning – A Roadmap for Success*. Virginia Cooperative Extension. www.ext.vt.edu.

practices and the person or people responsible for this job. Do this now if you have not already done so in Planning Task Four: Strategic Planning.

MONITORING

The records described above can be used in combination with your goals, identified in Planning Task Three: Vision, Mission and Goals, to monitor your business successes and to track progress toward your long-term vision. In other words, put your records to good use; do not let them sit on the shelf collecting dust. Just as records must be maintained regularly, they also should be reviewed often and discussed with your planning team.

One of the most effective ways to utilize your records is to pair them with monitoring checkpoints. Monitoring checkpoints, also called critical success factors, are key events, targets or accomplishments that must occur for your farm business to succeed. Monitoring checkpoints are measurable; they can help you assess progress while acting as early warning signals that alert you to when, where and how your goals may need to change. After all, no business plan ever goes exactly as intended—you should expect to make adjustments along the way.

MONITORING CHECKPOINTS

This plan will be set in motion over the next year. In the fall of 2014 we will negotiate the long-term lease for the 102 acres of conventionally farmed and CRP land in Deuel County, South Dakota. We will initiate transition on this land in 2015 and have it certified in August or September 2017. During 2015 we will identify a larger parcel of land in or close to Lyon County, Minnesota, and we will negotiate a five-year lease with a right of first refusal to purchase the land at the end of the lease. We will initiate transition on this land in 2016 and have it certified in August or September 2018. All land and crops will be certified organic for the 2019 crop year, and we will reach the decision point on land purchase at the end of the 2020 crop year.



The following are key monitoring checkpoints for our plan:

- December 2014: Have long-term lease for 102 acres in Deuel County, South Dakota in place.
- March 2015: Identify a parcel of land in Lyon County (approximately 480 acres) and initiate negotiations for a long-term lease with a right of first refusal to purchase.
- April/May 2015: Initiate transition on the 82 acres of previously conventionally farmed Deuel County land by planting oats under-seeded with alfalfa. Certify the additional 20 acres coming out of CRP and plant oats under-seeded with alfalfa.
- November 2015: Finalize long-term lease for the Lyon County land.
- April/May 2016: Initiate transition on the Lyon County land by planting oats under-seeded with alfalfa on the entire parcel.
- August/September 2017: Certify 82 acres of Deuel County land.
- January 2018: Report positive net cash flow and net farm income for 2017.
- August/September 2018: Certify Lyon County land.
- January 2019: Report positive net cash flow and net farm income for 2018.
- January 2020: Report positive net cash flow and net farm income for 2019.
- December 2020: Decide on purchase of Lyon County land.

Monitoring checkpoints are more detailed than goals but broader than to-do items. They represent milestones that occur within a defined time period. See the monitoring checkpoints story panel from the Kerkaerts.

By contrast, an implementation to-do list for the Kerkaerts might be organized by each major monitoring checkpoint and include the name of each person responsible for completing the task.

Use **Worksheet 5T.1: Monitoring** and **Worksheet 5T.2: Implementation To-Do List** to record your monitoring checkpoints and to-do list for farm operations, marketing, human resources and finances. You can include both of these items as appendices in your business plan.

REVIEW AND USE YOUR PLAN!

Your business plan should be thought of as a dynamic document. Business planning never stops; it is a fluid process that is modified over time as your goals evolve and as internal and external conditions change (see *Figure IT.1: Business Planning Process* on page 17). If reviewed and adjusted as needed, future decision-making will be easier. As Minnesota organic dairy farmer Florence Minar explains, “There are times when [our family] comes up with new [business] ideas. And then someone says, ‘Does this follow our values? Is this going to help us reach our goals?’ And we go to the business plan to see. It’s all in there.”²¹

Arrange a time—once per month, season or year—when you and your planning team can sit down together and review the business plan. When meeting, ask the difficult question: *Have we been successful?* Use your goals, monitoring checkpoints and financial projections when answering. If you were unsuccessful in some areas, try to understand why. Review whether external events have changed within the market or industry. Explore how internal circumstances may have changed within the family. Use both your successes and failures to learn and improve your business.

Next, review your financial projections. Organic production is said to have a steep learning curve, and we all know that time brings experience. This means that yield or price estimates originally included in your projections may not have been accurate. If this is the case, take time to adjust your projected output, income and cash flow based on knowledge you acquire each year.

Finally, re-evaluate your business plan. You have come full circle in the planning process and it does not hurt to take stock of your goals and make other adjustments based on current resource availability and the competitive environment. If you are feeling overwhelmed, remember that planning will become easier with experience and time.



If you would like to read a bit more about how best to organize your business plan, see pages 223-242 in the Guide. Also, consult professional service providers—such as financial advisors, certification consultants and conservation planners—when establishing your recordkeeping system. While we recommend doing much of the recordkeeping on your own, it is a very good idea to meet with professional service providers when getting started to review your recordkeeping plans and get some advice on how best to track information.

²¹ DiGiacomo, G. and B. Nelson. 2003. *Building a Sustainable Business: Cedar Summit Farm*. Minnesota Institute for Sustainable Agriculture and Center for Farm Financial Management. Visit www.agrisk.umn.edu and search “building a sustainable business video.”

Moreover, farm financial advisors can be of great help when developing financial projections. See the Resources section for some ideas on where to go for advisors.



PUT IT IN WRITING!

Use AgPlan or a word processing program to draft your business plan. AgPlan will automatically generate a business plan outline based on the sections that you have completed. Next, draft your plan according to the outline.

Develop checkpoints using **Worksheet 5T.1: Monitoring**. Follow this up by creating an implementation to-do list using **Worksheet 5T.2: Implementation To-Do List**. Your monitoring checkpoints might be included in the *Transition Plan Summary* in AgPlan, although it is not necessary. Likewise, your to-do list can be filed with your business plan, but generally it is not included in the plan itself.

WORKSHEETS ARE NOW AVAILABLE ONLINE

Visit www.misa.umn.edu/Publications/OrganicTransitionPlanner to obtain fillable PDF worksheets and electronic spreadsheets.



DOWNLOAD THE PDF

Worksheet 5T.1: Monitoring
 (<http://misadocuments.info/5T.1Monitoring.pdf>)

MONITORING

Briefly describe your plans for checking in with your planning team to track and evaluate business progress. Then, list monitoring checkpoints for the business as a whole and for each functional business area (operations, marketing, human resources and finances). You can include this monitoring plan in the *Management and Organization* section of your business plan if you are using AgPlan, or simply hang on to it as an informal reminder.

Planning team check-in schedule (e.g., monthly, quarterly, annually?): _____

Whole-farm checkpoints: _____

Operations checkpoints: _____

Marketing checkpoints: _____

Human resources checkpoints: _____

Finance checkpoints: _____

NOTE: Some financial figures have been removed for confidentiality.

APPENDIX: FARMER BUSINESS PLANS

BUSINESS PLAN: NATE AND ANGIE WALTER **Transitioning Dairy, Minnesota** *(Prepared spring 2013)*

EXECUTIVE SUMMARY

Walter Dairy is located in Villard, Minn., on 240 acres of good grazing and cropping land. We are entering our final year of transition for crops and livestock. Our dairy herd of 103 cows has been grazed since 2002 when we purchased the farm from family. This has made our transition to organic a fairly easy one. We are on track to begin shipping milk to Organic Valley in the fall of 2013. Financial projections indicated that we will be able to substantially improve our net worth and increase net farm income once we become certified and begin receiving organic milk prices. Our business plan includes a capital request of \$150,000 to finance feed and equipment purchases.

Mission Statement

Our mission at Walter Dairy is to produce and promote organic food while retaining our family values, honoring our history and generating a sustainable profit so that this farm can be viable for generations to come.

Goals

Our short-term goals for the farm business are to:

1. Locate organic feed suppliers by October 2012
2. Hire one part-time helper by 2013
3. Secure an Organic Valley Cooperative contract by 2013
4. Continue to learn about and develop organic crop management, especially fertility
5. Purchase grain mixing/grinding equipment in 2013
6. Raise replacement heifers to sell or expand the herd by 2014
7. Increase milk production average and components by 2015

Our intermediate goals for the farm are to:

1. Buy a new tractor
2. Improve perimeter fencing
3. Tile land
4. Purchase additional land to eventually supply all feed needs on-farm

Our long-term goals for the farm are to:

1. Help our kids transition into the farm
2. Acquire more land and expand the herd to support all family members

Transition Plan Summary

We are in our second year of organic transition for cropland and will begin our transition of the dairy herd this fall. We expect cropland and livestock to be certified organic in October 2013. Our transition plan is to feed all crops to the herd (supplying approximately 60 percent of feed needs through grazing) and to supplement with purchased organic feed. Once becoming members of Organic Valley Cooperative, where we plan to market our milk, we will receive a slight transition premium while transitioning the herd. This premium, however, will not be enough to offset the cost of purchased organic feed. Therefore, our transition strategy is dependent on borrowing enough money during our third year of transition to pay for the needed feed and other items outlined in our transition capital request.

Transition Capital Request

We are requesting a total of \$150,000 in 2012 from Farm Service Agency (FSA) to pay off existing debt (at a lower interest rate), purchase needed equipment and establish a line of credit for organic feed purchases.

Organic feed is required during livestock transition, according to National Organic Program rules. As we do not have enough land to supply all of our feed needs, we will need to purchase 3,000 bushels of organic corn at \$10 per bushel (\$30,000) and 2,000 bushels of organic peas/barley at \$12 per bushel (\$24,000). Certified organic feed suppliers have already been lined up. Along with the organic feed, we will need to purchase 200 bales of straw at \$35 per bale (\$7,000). We would like to finance these items through a direct line of credit.

Additionally, we are requesting an intermediate loan to purchase a grinder/mixer at an approximate price of \$10,000. Currently, we have our grain custom ground but can save some money by grinding and mixing our own ration on the farm. We also are going to need to purchase a bale shredder at an approximate cost of \$10,000. This will save on future straw costs and reduce manure hauling.

Farm History

In 1935, Nathan's grandparents moved to this farm with six Guernsey cows. They also had pigs, chickens and horses. They raised 14 children and farmed through many ups and downs.

Nathan was born in 1975. His grandpa died in the field in August of that year. Nathan's father, Fred, took over the farm and built a new barn in November. Nathan and Fred farmed together until 2002, when we purchased the farm at fair market value. At that time the farm consisted of 160 acres with two houses. We milked 80 cows in the stanchion barn and switched the cows from the free stalls to stanchions during milking. There were 40 stanchions and 40 free stalls. The feeding was all done with wheelbarrows in the barn and a skid loader in the free stall area. The situation required two people in the barn during milking.

Since then, we have gradually made improvements through new buildings, equipment and production management. In 2005, the barn was remodeled and a swing 10 New Zealand-style parlor was put in, allowing much of the labor to be done alone by Nate (Angie's time was limited as she cared for our daughter, born in 2004). We also started housing the cattle outside year-round in 2005 because of the cost associated with building a bigger barn and because we believed it was better for the general health of the animals. The

cows were fed using a total mixed ration instead of wheelbarrows. In 2006, we installed a manure pit and a drive-by feeding system. During this time, the herd was expanded to 100 cows. In 2007, Levi was born. In 2010, we bought 80 additional acres, bringing our total land base to 240 acres.

Land and Other Resources

Land: The main farm consists of 160 acres, of which 141 acres are tillable. There is also an adjacent 78 acres, of which 72 acres are tillable.

Dairy facilities: The barn was built in 1975 with an addition built in 2000. It is 55 feet by 148 feet. In 2005, a swing 10 New Zealand-style parlor and a holding area for the cattle were put in. There is also a breeding and calving pen in the barn. In 2011, a 2,700 gallon bulk tank and new milk house were installed. There is a 1.1 million gallon manure lagoon and 400 feet of drive-by feeding. There are two calf sheds and a machine shed.

Houses: The farm has two houses on the property. Each is on its own one-acre parcel. The main dwelling is 24 feet by 48 feet. The other house is 28 feet by 28 feet.

Land and buildings are valued at \$XXX,XXX (removed for confidentiality) as of Jan. 1, 2012.

Ownership Structure

Walter Dairy is owned and operated by Nate and Angie Walter. This business is operated as a sole proprietorship. In the future, we plan to structure the business as a limited liability corporation (LLC).

OPERATIONS

Current Operations

We currently milk 103 cows. We have been breeding all of our replacements, using a three-way cross (Norwegian Red, Guernsey and Red Holstein) to create genetics suitable for grazing.

We averaged 15,658 pounds of milk per cow in 2011, which is fairly consistent with our five-year historical average (Table 1).

TABLE 1: MILK PRODUCTION HISTORY, 2007-2011

	2007	2008	2009	2010	2011
Number of cows	103	102	98	105	103
Milk pounds per cow	15,981	16,605	16,775	15,439	15,658

Cows are fed and grazed on 140 acres of corn silage, hay alfalfa and pasture. Corn silage yields have been variable throughout 2007-2011 while hay/alfalfa yields have been improving (Table 2). Additional conventional livestock feed is purchased to supplement what is needed. Feed is custom ground and mixed off farm.

TABLE 2: CROP PRODUCTION HISTORY, 2007-2011¹

	2007	2008	2009	2010	2011
Corn, ear (bushels per acre)	-	-	153	174	-
Corn, silage	62	46	35	41	64
Barley silage yield	16	27	-	-	-
Hay/alfalfa yield	3.0	3.6	3.6	4.1	-

¹ Values in tons per acre unless otherwise noted.

As part of our organic transition plan, we implemented a five-year rotation beginning in spring 2012 that includes two years of corn followed by hay and small grains. We use a 12-row cultivator and flame burner for organic weed control. We have been able to rent out this equipment to other farmers to partially cover ownership costs.

Production Opportunities

We have an opportunity to purchase organic feed and hay from a neighboring farmer in fall 2012, which will allow us to transition our dairy herd and qualify for certification in October 2013.

Operations Strategy

Overall, our operations strategy is to certify organic land and animals by October 2013. We already satisfy most of the National Organic Program livestock rules; it will take very little for us to become certified since we already supply more than 30 percent of our animals' feed needs through grazing. We also are well practiced in natural veterinary care and have never used the growth hormone BST.

Licenses and Organic Certification

When ready, we will certify our land and animals with the Midwest Organic Services Association, Inc. (MOSA). We have already been in contact with MOSA to obtain a certification packet and to review NOP guideline compliance.

Resource Needs and Acquisition

As stated in our capital request, our strategy relies on the purchase of organic feed during our third year of transition, as well as a grinder/mixer and bale shredder. Once certified, we will continue to purchase organic feed, as we do not have enough land to produce the feed needed for our herd, but we will be in a better financial position to do so by 2014 when receiving organic prices for our milk.

We will need the grinder/mixer to create our grain ration for the dairy cattle. We do not own this equipment because we currently have our grain custom ground. The bale shredder will save on future straw costs and reduce manure hauling, freeing up needed labor for organic crop production (which we have found to be more demanding than conventional crop production).

Operations Risk Management

Our greatest operational risks include weather and chemical drift from neighboring farms. We have taken steps to address both risks through the purchase of multi-peril crop insurance and neighbor notification, respectively. In addition, we have marked our fields with "Do Not Spray" signs.

MARKETING

Current Marketing

We market all of our milk to the local creamery. Conventional milk prices have varied from approximately \$13 per hundredweight to \$20 per hundredweight over the past five years and have been consistent with average milk prices received by other similarly sized Minnesota dairies (Table 3).

TABLE 3: HISTORIC AVERAGE MILK PRICE, 2007-2011¹

	2007	2008	2009	2010	2011
Walter milk price	\$18.15	\$20.03	\$13.39	\$16.42	\$20.49
Minnesota milk price ²	\$18.92	\$19.43	\$13.05	\$16.06	\$20.12

¹ Values are per hundredweight.

² Average milk price reported in the FINBIN database for Minnesota dairies with 100 to 200 cows.

Marketing Opportunities

Organic Valley Cooperative offers a \$2 per hundredweight premium to members for transitional milk and approximately \$28 per hundredweight for certified organic milk. This member price is fairly steady and guaranteed for the volume of milk we can deliver. Marketing to Organic Valley will allow us to capture a higher price for milk and generate a stable income.

Marketing Strategy

Our marketing strategy includes becoming members of Organic Valley in 2013. Membership is achieved through the purchase of shares. As members, we will market transitional milk for a \$2 per hundredweight premium above conventional milk prices during our last year of transition. In October 2013, once certified, we will begin shipping organic milk to Organic Valley at the membership rate of approximately \$28 per hundredweight. We have confirmed that our farm is located on the Organic Valley milk pick-up route and expect to market 1,612,775 pounds of milk in 2014 (based on an average production of 15,658 pounds per cow).

HUMAN RESOURCES

Current Human Resources

We (Nate and Angie) provide almost 100 percent of the farm labor and management. Nate is responsible for all cropping enterprises, pasture management, herd management, some milking and marketing. Angie manages all calving, some milking and accounting. In addition, Walter Dairy employs one part-time person to assist with milking and other chores. While we are managing with this small group, we would like to hire another part-time person to assist with cropping and feeding activities.

Planning and Management Team

In addition to some part-time help, we also rely on assistance from advisors representing the following organizations:

1. Farm Business Management Program, Alexandria Technical College
2. Dairy Initiatives Program, Department of Animal Science, University of Minnesota
3. FSA
4. Midwest Organic Services Association

Human Resources Strategy

Our human resource strategy is to identify and hire an additional part-time assistant as soon as possible. We anticipate that this will cost \$10,150 per year (\$6.50 per hour for 30 hours). Ideally we would like to find someone who has organic dairy or cropping experience, or both. We will also consider payment in kind to someone who may be interested in building their own herd. Recruitment options include word-of-mouth, advertising through our advisory team member organizations and placing announcements in local organic conference programs.

We will also continue to build our own knowledge of organic management by attending the Minnesota Organic Conference in St. Cloud annually. We have participated in this conference for the past two years and have found the certification, recordkeeping and management workshops valuable. The conference also gives us the opportunity to meet other organic and transitioning farmers who have been helpful in identifying input suppliers and equipment resources.

Human Resources Risk Management

Our number one human resource risk is injury or illness. If Nate were to become injured or ill for a prolonged period, we would have a difficult time managing the land and animals. A full-time assistant, trained in all of Nate's responsibilities, will help ease the current workload and, more importantly, be able to temporarily fill in for Nate if needed.

FINANCES

Net worth, income and cash flow information have been removed for confidentiality.

Financial Position

Our net farm income is projected at \$XXX,XXX (removed for confidentiality) in 2012. This projection assumes average crop and livestock productivity, financing for the new mixer/grinder and chopper as well as refinancing of our current long-term loans through the FSA beginning in July 2012. The 2012 net farm income projection also assumes that we will defer payment on our proposed feed loan by one year. Our income statement, capital purchases and loan payments are outlined in the 2012 FINPACK statement (removed for confidentiality).

Historical Performance

Walter Dairy has been slowly but steadily improving its net worth over the five-year period of 2007-2011 (Table 4, removed for confidentiality). In 2007, five years after purchasing the farm, our net worth was at \$XXX,XXX (removed for confidentiality). By 2011 we showed an average gain of 10 percent per year.

Financial Strategy

Walter Dairy will not be able to complete its transition without a line of credit to finance necessary feed purchases in 2012. Without this financing, a negative cash flow is projected.

Our financial strategy relies on obtaining financing for organic feed and other capital purchases through the FSA at reduced interest rates and deferred financing. We have established a good credit relationship with FSA over the years. Once certified, our cash flow projections indicate that we will be able to comfortably repay loans.

Financial Projections

Financial projections indicate that we will be able to substantially improve our net worth (Table 5, removed for confidentiality), improve cash flow (Table 6, removed for confidentiality), and increase net farm income (Table 7, removed for confidentiality) once we become certified in the fall of 2012 and begin receiving organic milk prices. More information about these figures and accompanying farm financial standards measures are found in the 2012 FINPACK analysis (Appendix A, not included in this publication).

BUSINESS PLAN: BRYAN AND THERESA KERKAERT

Recently Certified Organic Grains, Minnesota

(Prepared spring 2014)

EXECUTIVE SUMMARY

Business Overview

The Kerkaert Organic Farm is managed by Bryan and Theresa Kerkaert. We currently own a seven-acre farm site and manage 527 acres of crops (445 acres certified organic) on rented land at several sites in southwestern Minnesota and eastern South Dakota. In addition, we own and manage a manure hauling and pumping business as well as a nursery pig barn.

This is a critical point in the history of our farming operation. In 2016 the lease will terminate on 134 acres of certified organic land. If we are not able to secure long-term access to good farmland that can be certified organic, we may not be able to continue farming. Reduction in acreage makes it difficult to cover overhead expenses for machinery ownership. The loss of leases has also disrupted the balance in our crop rotations, which results in large year-to-year swings in cash flows.

Mission Statement

Kerkaert Organic Farm will grow healthy organic grains and feed for health conscious consumers, while preserving the natural state of soils and waters. The farm will provide income to support our family and to give a competitive wage to our employees.

Goals

Our long-term goal is to own enough tillable acres to have a self-sustaining farm operation that will be a source of retirement income for us and a resource to pass down to our children for their financial security.

Transition Plan Summary

This plan focuses on the opportunity to gain stable, continuous access to land in 2016 through a five-year lease with a right of first refusal to purchase the land at the end of the lease. We assume the land we rent will have been in conventional production through 2015 and so will need to be transitioned. We have significant experience in managing certified land and in transitioning land from conventional to organic production.

By 2019 we plan to be farming 893 acres of certified organic land. After difficult early transition years in 2015 and 2016, our financial position will strengthen in 2017 through 2019, and we expect to be in a position to purchase the newly rented parcel after the 2020 crop year.

Capital and Resource Request

The key element of this plan is to identify and secure long-term access to a parcel of land that can be a stable basis for continuation of our farming operation. This plan is written for a potential landlord to demonstrate that we have the knowledge, skills, experience and equipment to successfully transition and farm more than 400 additional acres. When we have identified a specific parcel of land for the new farm, we will explore possibilities for negotiating a lower land-rental rate for the transition years of 2016 and 2017. In addition, this plan is addressed to our lender, Farm Credit Services, as a request for a line of credit that will be adequate to ensure access to capital during the difficult 2015 and 2016 crop years.

NOTE: Some financial figures have been removed for confidentiality.

BUSINESS DESCRIPTION

The Kerkaert Organic Farm is managed by Bryan and Theresa Kerkaert. We currently own a seven-acre farm site and manage 527 acres of crops on rented land at several sites in southwestern Minnesota and eastern South Dakota. In addition, we own and manage a manure hauling and pumping business as well as a nursery pig barn. We have four sons, ages 13 to 20.

Farm Business History

Bryan grew up farming, raising crops, cattle and hogs with his grandpa and uncle. After graduating from college, Bryan went to work for his uncle full time, managing the crops. In 1997, we built a hog nursery on our own farm site and began to raise nursery pigs on contract. In 2001, Bryan resigned his position with his uncle and we bought the custom manure hauling business. Theresa became a stay-at-home mom, taking care of the hog nursery and managing books for the pumping business.

We began farming organically in the fall of 2007 when a manure pumping customer approached us about renting his 170 acres of certified land under the condition that Bryan continue to farm it organically. At the same time, we learned about another nearby farmer who was interested in renting his 300-acre farm. We felt these rental opportunities would allow us to begin farming and to gain organic management experience.

During our first year as organic managers we entered into a partnership with an experienced organic grower. This gave us an opportunity to pool knowledge, equipment and other resources. Our first year farming was a struggle as the rented land had high weed pressure and low fertility, but we managed and learned a lot in the process. In the years that followed, we picked up another 700 acres of certified organic cropland, much of it coming out of the Conservation Reserve Program (CRP). This brought our total rental acreage to approximately 1,200 acres. Eventually, our organic partner decided to end the partnership and focus his time on his own organic farm.

Our crop acreage remained nearly stable—between 1,100 and 1,200 acres—through 2013. Hail hit one site hard in 2010 and bad weather prevented planting on another field in 2011. In 2012, due to increasing rents on short-term leases, we shifted 626 acres out of organic production to help manage financial risks. In 2014 we suffered a major setback when we lost leases on 732 acres—mostly land that was under conventional management. Of the remaining acreage that we currently manage, 445 acres are certified organic and 82 acres are under conventional management.

Bryan has operated the custom manure hauling business continuously since 2001, and it has proved to be highly complementary with the farming operation. Theresa continues to manage and operate the hog nursery on the home farm.

This is a critical point in the history of our farming operation. In 2016 the lease will terminate on 134 acres of certified organic land. If we are not able to secure long-term access to good farmland that can be certified organic, we may not be able to continue farming. Reduction in acreage makes it difficult to cover overhead expenses for machinery ownership. The loss of leases has also disrupted the balance in our crop rotations, which results in large year-to-year swings in cash flows.

Land and Other Resources

Our seven-acre home farm site is located in Clifton Township, in Lyon County, Minnesota. In 2014 we are farming 170 certified organic acres in Lincoln County, Minnesota; 134 certified organic acres in Brookings County, South Dakota; and 143 certified organic acres and 82 conventional acres in Deuel County, South Dakota. All of this land is rented. Our lease on the Brookings County land will terminate after the 2015 crop year. We have a hog nursery building on our home farm. We also own 28,000 bushels of bin storage capacity and buildings to house farm equipment. Our farm buildings have a market value of \$XXX,XXX (removed for confidentiality).

Our equipment includes:

- 16-row 22-inch John Deere vacuum planter
- 28-foot 6200 International grain drill with 6-inch spacing
- 30-foot Kovar drag, 30-foot John Deere rotary hoe
- 16-row 22-inch row cultivator, a 7920 John Deere tractor
- STX 425 CIH 4x4 tractor
- 44-foot feed cultivator
- 12 bottom plow
- 730 DMI
- 2188 CIH combine
- 1022 corn head
- 30-foot bean head
- 40-foot summers super coulter
- 60-foot flamer
- 4440 John Deere tractor

Our machinery and equipment has a market value of \$XXX,XXX (removed for confidentiality).

Ownership Structure

Kerkaert Organic Farm is a sole proprietorship owned by Bryan and Theresa Kerkaert.

OPERATIONS

Current Operations

Our standard organic rotation is corn, then oats or flax under-seeded with alfalfa, then alfalfa for another one or two years. The longevity of the alfalfa is dependent upon the stand and winter kill. The conventional rotation is corn on corn followed by soybeans. We purchase certified organic hybrid seed corn for our organic corn and certified organic seed for our alfalfa and brown flax. We use seed from the prior year's organic production for oats. For the conventional corn on corn we use triple-stacked GMO seed corn.

Table 1 shows crops, acreages and yields for 2012 and 2013, as well as planted acreage and projected yields for 2014. In 2012 all our hay was in the establishment year and was under-seeded in oats. We failed to harvest oats or alfalfa on one 38-acre field that is included in the 184-acre total. In 2013 we under-seeded alfalfa in 103 acres of oats and 71 acres of brown flax. We did not harvest any alfalfa on those establishment fields.

Before planting we dig all of the fields twice, then plant the crop. Three to five days after planting organic corn we drag the field, then seven days later we rotary hoe the corn. We

cultivate the corn about three weeks after planting, and at the five-leaf stage or larger we flame it. We do a final cultivation pass two days after flaming. We use RTK auto steer for all planting and cultivating, which helps for accuracy. For conventional corn we hire the co-op to do the spraying and fertilizer applications. For the oat and flax crops we walk for weeds after planting and after harvest; it is under-seeded with alfalfa so we do not do any fall tillage. We sell alfalfa under contract, and it is custom harvested.

Production Opportunities

This plan focuses on the opportunity to gain stable, continuous access to land in 2016 through a five-year lease with a right of first refusal to purchase the land at the end of the lease. We assume the land we rent will have been in conventional production through 2015 and so will need to be transitioned. We have significant experience in managing certified land and in transitioning land from conventional to organic production.

TABLE 1. CROPS, ACREAGES AND YIELDS, 2012–2014¹

Crop	2012		2013		2014	
	Acres	Yield	Acres	Yield	Acres	Yield ²
Organic corn	316	113.9				
Organic blue corn	312	87.6	73	53.4	311	80
Organic oats	184	48.9	103	84		
Organic brown flax			71	15.8		
Organic alfalfa hay (establishment)	184	2.9 tons	174	0 tons		
Organic alfalfa hay (established)			180	2.4 tons	134	3.5 tons
Conventional corn	82	178.8	540	146.3		
Conventional soybean					82	40
Land rented out	170	NA				

¹Yield values in bushels unless otherwise noted.
²Yields for 2014 are projections.

Operations Strategy

This plan assumes that in 2015 we will initiate transition on the 82 acres currently under conventional production and rent an additional 20 acres of adjacent land that is coming out of CRP and can be certified immediately. In 2016 we will rent a farm with 480 acres of tillable land that has been under conventional management. Also in 2016, our lease on 134 acres of certified organic land that we have farmed for several years will terminate.

a. Production System. Our standard organic rotation is blue corn, followed by oats under-seeded with alfalfa, followed by alfalfa. In some situations we will substitute wheat or flax for oats, and we have the flexibility to extend the rotation to four years if the alfalfa stand is in good condition.

In 2015 we will sign a long-term lease for the 82 acres that we currently manage conventionally plus an additional 20 acres that will be coming out of CRP. We will start transition on the 82 acres in 2015 and will be able to certify the 20 acres immediately. The 82 acres will certify in August or September 2017. We will plant oats under-seeded with alfalfa on all this land in 2015, leave it in alfalfa in 2016 and plant the entire 102 acres in organic blue corn in 2017.

We plan to initiate transition on the new farm immediately, in 2016, and we should be certified in August or September of 2018. We plan to harvest an organic blue corn crop in 2018, but oats and hay harvested that year will be sold as conventional. We will divide the new farm into three approximately equal-sized blocks. In 2016 all the land will be planted in oats under-seeded with alfalfa. In 2017 all this land will be kept in hay in order to reduce weed pressure and build soil fertility. In 2018 the block (160 acres) with the least weed pressure will be planted in blue corn and the other two blocks (320 acres) will be left in hay; the blue corn will be harvested after certification and so will be certified organic. In 2019 all land will be certified. The land previously in blue corn will be planted to oats under-seeded with alfalfa. One of the blocks previously in hay will be planted to corn, and the other block will be left in hay. This establishes the rotation for subsequent years.

- b. Resource Needs and Acquisition.** We are assuming that the rent on the new farm will be \$200 per acre. This is currently a competitive rate for good farmland in Lyon County. With recent declines in conventional commodity prices, land rental rates could decline. Having a long-term lease with an option to purchase the land at the end of the lease is important enough to justify a relatively high rental rate. We have adequate machinery and equipment to farm the new parcel along with the land we currently rent.
- c. Production Estimates.** Table 2 presents planning assumptions for crop yields, acreage and total production over the next five years under the assumption that we are able to retain all our rented organic acreage and the new 480-acre farm. The organic corn is food grade blue corn grown under contract. Note that both oats and alfalfa are planted in years when oats are under-seeded with alfalfa, but we assume no alfalfa production in that first year.
- d. Inventory Management and Quality Control.** We own 28,000 bushels of certified organic bin storage and we can rent up to an additional 50,000 bushels of storage. Having farmed organically since 2007, we have demonstrated experience with the management practices and record keeping procedures required for organic certification.

Licenses, Permits and Certification

Our organic certifier is the Minnesota Crop Improvement Association (MCIA). We have a good working relationship with them. As we currently have on our rented organic land, we will establish 50-foot buffer strips around the outer borders of fields on the purchased land in order to reduce the risk of cross contamination with neighboring non-organic fields. Crops harvested from the buffer strips will be sold as conventional commodities at the local elevator.

Operations Risk Management

We will continue to insure all crops except alfalfa hay with crop insurance purchased through Farm Credit. We currently take out revenue insurance for corn at the 75 percent level and will continue to do so if it makes sense. We currently take out production insurance at the 65 percent level for small grain.

MARKETING

Current Marketing

We obtain forward contracts at profitable prices to help lock in our current year cash flow and to assure the bank of the value of the products we produce. We are in regular contact with eight wholesale commodity brokers to research and finalize our contracts.

Marketing Opportunities

Market trends have been consistently positive for organic crops compared to conventional crops. The demand for organic products has grown significantly over the past 20 years, and it continues to grow at a double-digit rate. USDA reporting suggests that the conversion of land to organic production has slowed over the past few years, especially for the field crops we produce. We believe there will continue to be significant organic price premiums in the future as supply continues to lag behind demand. Nevertheless, we assume some reductions in organic prices in the coming years.

TABLE 2. CROP YIELD, ACREAGE AND OUTPUT PROJECTIONS 2015-2019

Crop	Projected yield per acre	2015		2016		2017		2018		2019	
		Acres	Output ¹	Acres	Output	Acres	Output	Acres	Output	Acres	Output
Previously Certified											
Corn-O ²	80 bu	134	10,720	155	12,400	156	12,480			155	12,400
Oat-O	70 bu	311	21,770			155	10,850	156	10,920		
Hay-O-e	0 ton	331	0			155	0	156	0		
Hay-O	3.5 ton			156	546			155	542.5	176	616
Nearby 102 Acres											
Oat-T	70 bu	82	5,740								
Hay-T-e	0 ton	82	0								
Hay-T	3.5 ton			82	287						
Corn-O	80 bu					102	8,160				
Oat-O	70 bu	20	1,400					102	7,140		
Hay-O-e	0 ton	20	0					102	0		
Hay-O	3.5 ton			20	70					102	357
New Farm											
Oat-T	70 bu			480	33,600						
Hay-T-e	0 ton			480	0						
Hay-T	5 ton					480	2,400	320	1,600		
Corn-O	80 bu							160	12,800	160	12,800
Oat-O	70 bu									160	11,200
Hay-O-e	0 ton									160	0
Hay-O	5 ton									160	800

¹ Output figures are projected yield per acre times the number of acres.

²O = organic, T = transitional, e = established.

Marketing Strategy

We will continue to market our organic crops under forward contract arrangements. This gives us access to attractive pricing opportunities and reduces price risk. The blue corn contracts are based on acres of production rather than on a specific quantity. The contracting company will purchase everything we produce at the agreed upon price.

a. Pricing. For planning purposes we assume prices of \$14.50 per bushel for organic blue corn, \$6.50 per bushel for organic oats and \$240 per ton for organic alfalfa hay in 2014. We reduce planning prices for organic blue corn to \$13 per bushel in 2015 and to \$12.50 per bushel thereafter. The planning price of organic oats falls to \$6 per bushel in 2015 and \$5.50 per bushel thereafter, and the planning price for organic hay is set at \$200 per ton starting in 2015. Planning prices for transition oats and hay are \$3 per bushel and \$150 per ton, respectively. Finally, we assume one ton of straw production per acre of organic and transition oats, with a value of \$100 per ton. These are conservative price estimates relative to prices received in 2012 and 2013.

b. Sales Revenue Projections. Table 3 presents annual revenue projections based on the production estimates in Table 2 and the planning prices just presented. Note that revenue declines significantly during the initial transition years of 2015 and 2016. Revenue increases to above the 2014 revenue level in 2017-2019 as newly transitioned land is certified.

Table 3. Sales Revenue Projections 2015-2019

Removed for confidentiality

Marketing Risk Management

As already noted, our marketing risk management strategy is based on forward contracting. This helps us maintain stable, long-term relationships with key customers and allows us to project revenues, subject to yield uncertainty. In the future, as the market for organic commodities grows and becomes more liquid, we may explore the use of revenue insurance products, which are just being made available for organic crops.

HUMAN RESOURCES

Current Human Resources

We have been farming organically since 2007. In addition, Bryan has managed a successful manure hauling business since 2001 and Theresa has raised contract nursery pigs since 1997. In our current farming operation, Bryan provides some labor for crop production activities and supervises five other employees who provide labor for both the farming operation and the manure hauling business. Bryan also does marketing and monitors financial performance of the farm business. Theresa maintains production and financial records for the business and advises Bryan on management decisions in addition to providing the labor and management for the nursery pig operation.

Human Resource Opportunities

Loss of a significant portion of our rented land represents a significant challenge and an opportunity for our farm business. We currently have excess labor and management capacity. Acquisition of more land through a long-term lease with an option to buy will give us an opportunity to better use our labor and management resources. Even with the added

land, we will be farming fewer acres than we farmed from 2007 through 2013. This means we will be able to more intensively manage the land we will have.

Planning and Management Team

In addition to Bryan and Theresa, the management team for Kerkaert Organic Farm includes:

- Paul Lanoue, Farm Business Management advisor
- Dale Paluch, bank loan officer
- Rod DeGraff, FSA loan officer
- Centrol Crop Consultants
- MCIA, organic certifier
- Jon Olson, organic farmer, friend and mentor

We have all been working together for several years and believe we will continue to be a strong team as we grow our business.

Human Resource Strategy

Our human resource strategy will remain unchanged as we expand our farming operation through a land purchase. We have already demonstrated the ability to manage a large, complex cropping operation that conforms to organic standards. The complementarity between our manure hauling business and our farm operation has been and will continue to be one of our keys to success. Required skills for employees are similar in the two businesses and, with effective management, the combination of the two businesses makes it possible for us to more fully use our employees' skills. We also plan to continue using the planning and management advisory team we have formed over the past several years.

Human Resource Risk Management

Bryan and Theresa both make essential contributions to the success of the business. We have life insurance policies for both that will cover liabilities in case either of us passes away.

FINANCES

Current Financial Position and Historical Performance

Table 4 summarizes historical balance sheet data for our farm operation for 2012-2014, and Table 5 summarizes historical income statement data for 2012 and 2013. These report data for the years we have been enrolled in the Farm Business Management program. More detailed statements are included in Appendix 1 (removed for confidentiality).

As the income statement data show, 2013 was a difficult year for us. As reported in Appendix 1, we had land rent expenses of more than \$206,000. We also had low yields, especially for alfalfa hay, due to dry weather conditions for much of the growing season. Finally, conventional corn prices dropped significantly, from over \$6.40 per bushel in 2012 to less than \$4.15 per bushel in 2013. Nevertheless, our net worth remained relatively stable, falling by less than 10 percent despite a net farm income loss of \$XX,XXX (removed for confidentiality).

Table 4. Historical Balance Sheet Data, 2012-2014 (Market Valuation of Assets)
(Removed for confidentiality)

Table 5. Historical Income Statement Data, 2012 and 2013
(Removed for confidentiality)

Transition/Certification Strategy

FINPACK financial projections are presented in Appendix 2 (removed for confidentiality) for our farming operation under the assumption that we transition the 82 acres we currently farm conventionally and certify an added 20 acres of land coming out of CRP. We project a positive net farm income and net cash flow for 2014, but cash flows are consistently negative in the years that follow. This is not sustainable.

FINPACK financial projections are presented in Appendix 3 (removed for confidentiality) for our farming operation under the assumption that we rent 480 acres of land in Lyon County starting in 2016 with a five-year lease and a right of first refusal on land purchase at the end of the lease. The assumed rent is \$200 per acre. As noted earlier, we will initiate transition to organic production in 2016 and will have all the land certified in August or September 2018. We will continue to farm rented land in Deuel County, South Dakota and Lincoln County, Minnesota.

a. Asset Management. Under this plan our total crop acreage will increase to 893 acres in 2016. We have adequate machinery to farm this much land and we do not expect to make any major capital purchases through the 2020 crop year. The newly rented 480 acres will be available for purchase at the end of the 2020 crop year.

b. Financial Projections. Key financial indicators from the more comprehensive financial projections in Appendix 3 (removed for confidentiality) are presented in Table 6. The early transition years of 2015 and 2016 will be challenging, with negative cash flows, net farm income near zero and significant declines in net worth. However, working capital remains above \$XXX,XXX (removed for confidentiality) even in these difficult years. Performance recovers quickly in 2017 and by 2019 we will have built up working capital to more than \$XXX,XXX (removed for confidentiality) and increased our term debt coverage ratio to 2.17. With another strong year expected in 2020, which is beyond our planning horizon, we should be in a strong financial position to make a land purchase.

Capital and Resource Request

The key element of this plan is to identify and secure long-term access to a parcel of land that can be a stable basis for continuation of our farming operation. This plan is written for a potential landlord to demonstrate that we have the knowledge, skills, experience and equipment to successfully transition and farm more than 400 additional acres. When we have identified a specific parcel of land for the new farm, we will explore possibilities for negotiating a lower land rental rate for the transition years of 2016 and 2017. In addition, this plan is addressed to our lender, Farm Credit Services, as a request for a line of credit that will be adequate to ensure access to capital during the difficult 2015 and 2016 crop years.

Risk Management

Our cash flow projections point to difficult years in 2015 and 2016 for our farm business. Our most important tool for managing these challenges and other risks associated with the plan is the additional income we receive from our manure hauling and hog nursery businesses. This income is not included in the cash flow projections presented here. The right of first refusal to purchase the land we rent in Lyon County is also a form of risk manage-

ment, since this will give us the right but not the obligation to purchase the land after the 2020 crop year. If our farming operation has been successful and that success is projected to continue given land prices and profitability expectations, we will purchase the land. If our farming operation has not been as successful as expected or if the outlook for future profitability is unfavorable, we will not be committed to continue farming that land.

BUSINESS PLAN: VITALY BRUKHMAN

Beginning Organic Processor, New Jersey

(Prepared fall 2014)

BUSINESS DESCRIPTION

Bubbly Jen’s Farm (BJF) is a small, start-up agricultural business that plans to produce naturally fermented, certified organic, ethnic foods such as sauerkraut, pickles, tomatoes and specialty beverages. BJF is located in Middlesex County, New Jersey on 1.75 acres and is owned and operated by Vitaly Brukman, a Moldovan-American first-generation immigrant. BJF will launch its commercial processing enterprise in 2015 and gradually scale up production as demand grows and capital becomes available.

NOTE: Some financial figures have been removed for confidentiality.

MISSION

The BJF mission is to serve people living in the New York/New Jersey region who are interested in eating diverse, nutritious, organically grown and prepared foods to improve their health and quality of life.

GOALS

BJF goals are modest to begin with, but grow significantly by year six. Short-term goals include the development and testing of recipes, the identification of a cost-efficient processing facility, the certification of the home farm and neighboring acreage, and breaking even on processed products. Longer-term goals include the acquisition of more land for vegetable production, expansion of the processing enterprise and the generation of income to exceed all living expenses from the farm and processing business.

OPERATIONS

BJF is a micro-farm of 1.75 acres located in Middlesex county New Jersey (the larger rectangle in Figure 1). Adjacent to BJF is another half-acre of neighboring land available to rent (the smaller rectangle in Figure 1).

FIGURE 1: BJF SITE



Production and Transition Opportunities

The half-acre of neighboring land has been idle for the past 12 years and might qualify immediately for organic certification per informal consultation with a staff member from the Northeast Organic Farming Association (NOFA) who visited the site in the spring of 2014. This is a tremendous opportunity, potentially allowing BJJ to immediately begin growing herbs needed for processing while transitioning its own fields for future use in vegetable and herb production. The owners of the neighboring land have given BJJ verbal approval to farm the half-acre parcel in 2015.

Additional growing facilities are available at another location—up to 9,000 square feet of heated greenhouse space and up to 6,700 square feet of non-heated hoop house space. Both facilities are about 10 miles away from the BJJ farmstead and offer future opportunities to extend the growing and processing seasons. The terms of use associated with these additional facilities are currently under discussion with the owner.

Operations Strategy

BJJ will start small, growing high-value organic herbs on rented land in years one and two while transitioning 1.75 acres of owned land and, eventually, at leased facilities. With the exception of home-grown herbs, BJJ will purchase all remaining inputs needed to initially process three naturally fermented products: sauerkraut, pickled cucumbers and tomatoes. Natural fermentation is one of the oldest forms of preserving food.²² It is a method of preservation that produces lactic acids in sour foods through the cultivation of desirable microorganisms. Fermentation is also a method used for pickling vegetables and other foods.

Years 1-2	Years 3-5	Years 6+
Transition home farm and raise high-value certified organic herbs on neighboring land. Process fermented sauerkraut, dill pickles and tomatoes.	Certify 1.75-acre home farm, begin produce production and scale up processing.	Expand product offerings and continue to scale up processing.

Processing begins with the purchase of raw ingredients and ends with the distribution or sale of final products.

Over time, as BJJ owner Vitaly Brukman hones his production skills on transitioning land, he hopes to become competitive with other commercial produce growers and process organic produce from his own fields. In the meantime, BJJ does not anticipate any difficulty sourcing organic produce locally. According to the National Organic Program website, New Jersey has 62 organic produce growers.

Processing will occur in a certified commercial kitchen. There are several commercial kitchens in New Jersey available for hourly and daily rental. Most of the available commercial kitchens, however, are not certified organic. The closest certified organic commercial kitchen, The Food Innovation Center North, is located about 10 miles away in Piscataway, N.J., and is currently cost prohibitive. Therefore, during years one and two (2015-2016), BJJ will develop hands-on processing skills and sample product at a restaurant kitchen. A temporary lease agreement has been negotiated with Tre Piani Restaurant in Princeton, N.J., for weekly use of their space. At the same time, BJJ will explore the construction of

²² *Microbiology in Food Systems*: Teacher Information Sheet. Institute of Food Technologists. Visit www.ift.org and search “microbiology in food systems.”

an on-farm cold-storage facility to minimize dependency on external facilities for storing final products. By year three, BJF hopes to either have identified a long-term, budget-friendly processing solution within 10 miles of the farm through strategic partnerships or to have acquired a mobile, certified kitchen-truck.

Processing, based on sales potential, will begin with 2,200 pints of product per year in 2015 and grow to 10,000 pints by 2020 (Table 1: Estimated Processing Capacity).

Year	Units of Pickled Vegetables
1	2,200
2	2,200
3	3,200
4	4,200
5	5,500
6+	10,000

Processing will occur 20 weeks per year during the produce harvest and post-harvest seasons (July-November). BJF will use one person to process one day per week, 10 hours per day during years one and two. Processing capacity will grow in subsequent years through an increase in the number of days or processing staff, or both.

Licenses and Organic Certification

BJF will require several licenses and forms of certification related to production and processing of fermented organic products (handling and retailing licenses are discussed in the marketing section of this plan).

Organic certification (regulated by the USDA) is required for the rented and owned land on which herbs will be grown. The rented land is not currently certified but Brukhman has been in touch with the New Jersey Department of Agriculture and NOFA New Jersey (NOFA-NJ) to explore certification potential and to develop an organic plan for owned land.

In addition to organic certification for the rented land, BJF will pursue organic certification for the value-added processing enterprise with a New Jersey certifier and the New Jersey Department of Agriculture. Also, BJF will explore the need for a wholesale food processor license (available through the Middlesex County Department of Health) and handling licenses (available from township health departments) required by the farmers’ markets where BJF intends to sell its processed products.

BJF is not required to register the business with FDA unless initial test batches indicate a pH level above 4.6 or recipes include the addition of acid, in which case those BJF products will be subject to the acidified foods regulations.²³ Initial product development results suggest that BJF products will all have a pH level well under 4.0. Most of the products have shown a pH level of 3.2-3.8.

Operations Risk Management

Our business will face three significant risks:

a. Success as an organic produce grower. We are beginning farmers and expect our learning curve to be steep during the first few years. We have done our best to educate

²³ *Draft Guidance for Industry: Acidified Foods*. September 2010. US Department for Health and Human Services - FDA. Visit www.fda.gov and search “guidance for industry: acidified foods.”

ourselves on produce growing practices (see Human Resources), but realize that nothing substitutes for hands-on experience.

b. Access to certified kitchen space. Perhaps our greatest challenge/risk will be the identification of a certified organic commercial kitchen within close proximity to the farm for long-term use. We are confident that cost-effective processing opportunities will emerge, as there has been a surge in the creation of shared-use and commercial kitchens over the past few years. We do not require specialized equipment for processing—simply a stove, space to pack and store jars during fermentation, and space for cold-storage of the final packed product (which could occur at BJF if available).

c. Quality control and food safety. Only the freshest ingredients will be purchased for processing, and will be inspected before processing to ensure that they are free of rot and mold. Once processed, all products will be tested for safe consumption (pH levels not to exceed those recommended by the US Department of Health and Human Services Center for Food Safety and Applied Nutrition) and inspected for signs of spoilage. Spoilage most commonly occurs during the initial ferment and during cold storage. Spoilage guidelines are available for fermented products. If spoilage is detected, BJF will review and document any known causes and adjust its quality control procedures as appropriate.

MARKETING

BJF products will be marketed at culturally well-matched farmers' markets, farm stores, food cooperatives, small specialty retailers and via e-commerce websites. BJF will target educated, health-conscious consumers over the age of 20 living in the Northeast region (and businesses who supply them), with a special emphasis on the estimated 17,000 Russian-speaking and Japanese-speaking households who are traditional consumers of fermented products and who, according to U.S. Census data, report significantly higher annual incomes than average New Jersey consumers.²⁴

Marketing Opportunities

BJF is located near a densely populated area exhibiting strong demand for good food purveyors and opportunities to market local, organic, naturally-fermented ethnic products. Our research suggests that demand for these types of products has been growing. Nationally, 79 percent of consumers would like to buy more local food and, when buying, almost six in 10 consumers say that it is important that their food be locally sourced, grown or made.²⁵ The National Restaurant Association's *2014 Culinary Forecast* lists locally grown and organic produce, farm/estate branded products, fermented products, pickled vegetables and regional ethnic cuisine on their "Top Trends" list.²⁶ Regionally, Real Pickles (a leading producer in the Northeast market) states in their annual report: "For several years now, demand for our products has continued to increase year-to-year beyond our expectations. Raw fermented pickles have long been an obscure category even in natural foods markets, but now it seems that they're really starting to catch on!"

Marketing Strategy

BJF has a three-pronged marketing strategy that parallels its production strategy.

Naturally fermented product samples—processed in a commercial restaurant kitchen—will be provided at no cost to neighbors, friends and church/synagogue groups through taste tests. The purpose of the taste tests is to generate feedback on recipes and to test our mar-

24 *United States 2010 Census.* US Census Bureau. www.census.gov/2010census.

25 *A Fresh Look at Organic and Local.* 2012. Sullivan Higdon & Sink FoodThink. <http://shs-foodthink.com/white-papers>.

26 *What's Hot: 2014 Culinary Forecast.* 2014. National Restaurant Association. Visit www.restaurant.org and search "2014 culinary forecast."

keting message: “Sharing naturally fermented goodness with the people of Central Jersey, their neighbors, and guests!” Planned taste test events include:

- a. *Friends and family BBQ.* Four-pint jars of product will be provided to each family, couple or individual. Everyone who receives samples will be asked to complete a questionnaire about product taste and price. They will also be asked to share several of the gifted jars and surveys with friends (to expand the taste test circle).
- b. *Retail manager sampling.* We will present one to three jars of product(s) and questionnaires to decision-makers at retail stores, including farm stores, food cooperatives and specialty stores.
- c. *County fair taste test.* We will taste test BJF products at county fair events, collecting direct feedback on recipes from fair goers. There are four county fairs within Middlesex County and Monmouth, Mercer and Bergen counties.

Beginning in 2015, BJF will begin marketing up to 2,200 pints to neighbors, friends, church/synagogue groups, farmers’ market and fair goers, and independent specialty/ethnic retailers. BJF will identify one to three farmers’ markets that are open throughout the winter, allowing year-round income generation. There are seven such farmers’ markets in Middlesex County—six of which are located within 20 miles of BJF.

Years 1-2	Years 3-5	Years 6+
Begin taste testing products processed in a commercial restaurant kitchen immediately. Sell at various direct-to-consumer markets in 2015.	Scale up marketing to reach retailers within 50 miles of farm.	Expand product offerings according to customer demand and perceived opportunities.

Eventually, in years three through six, BJF will expand its customer base to include larger retailers such as food cooperatives and restaurants in addition to the specialty stores. There are many opportunities for expansion. New Jersey is home to 11 food cooperatives, 21 specialty food stores and 19 restaurants representing Japanese or Eastern European and American cuisine. BJF will also target Russian- and Japanese-speaking consumers who live in Middlesex, Mercer and Monmouth counties (approximately 15,400 people) via community websites, ethnic food stores and ethnic, third-party yellow pages websites.

Processed products can be priced profitably at \$7 retail and \$4 wholesale. Market research suggests that these prices are very competitive. Table 2 lists BJF prices by market channel (retail versus wholesale) alongside a range of current prices for fermented products. Prices represent products with a variety of quality attributes, which explains the large spread in value. Some products, for example, are naturally fermented, some are certified organic and some are fermented using vinegar (lowest quality). BJF products will be differentiated from these products and perceived as a high-quality, gourmet product.

TABLE 2: PRICES FOR FERMENTED PRODUCTS

Fermented product	BJF price (\$)	Market price – low	Market price – high
Pint (16 oz) – retail	\$7	\$2	\$8.29
Pint (16 oz) – wholesale	\$4	\$1.25	\$4
Beverages (16 oz) – retail	\$2.50		
Beverages (16 oz) – wholesale	\$2		

Using the prices in Table 2, BJF estimates that wholesale and retail sales from its three main product lines—sauerkraut, pickles and tomatoes—will generate \$10,540 during the first year. By year six, BJF modestly projects gross sales of \$47,500.

BJF will also consider product expansion beyond year six (introducing Kvass and other naturally fermented beverages) as well as services such as canning courses, food-truck packaged lunch sales and farm dinners, depending on customer feedback and perceived opportunities. These product expansion opportunities have not been factored into the sales estimates above.

Competitive Advantages

There are 13 producers of fermented products who sell at BJF-targeted farmers markets and retail stores. All competitor products are either produced outside the state of New Jersey, are not organic or are not naturally fermented. There is no one in the BJF target market offering organically certified AND naturally fermented AND locally produced pickles, sauerkraut, tomatoes and specialty beverages, nor is there any other business specifically catering organic naturally fermented craft foods and drinks to the large local Russian and Japanese ethnic markets.

Licenses and Organic Certification

As noted, BJF will need to obtain organic certification for our land. In addition to this certification, BJF will need to:

- a. Hire or undergo training to become a certified food manager and obtain a New Jersey food service sanitation certificate. These are required to sell processed products according to the New Jersey Department of Health Food and Drug Safety Program. Training options are discussed in Human Resources Strategy.
- b. Register for a retail food handler license with the State of New Jersey and explore the need for a retail mobile food handler license (depending on inspector review and target markets).
- c. Apply at targeted farmers’ market(s) for stall space.

BJF products will not require additional food safety inspections according to the New Jersey Department of Agriculture, which lists naturally fermented products as “safe.” Nor will BJF require a Hazardous Analysis Critical Control Point plan (HACCP) under federal regulations due to BJF business size (less than 10 employees) and projected sales volume (less than 10,000 units of each product).

Marketing Risk Management

BJF has three general marketing risks:

- a. Difficulty reaching target customers and educating consumers who are unfamiliar with natural fermentation. We will work hard to establish our brand with Russian and Japanese communities through the methods outlined in our Marketing Strategy.
- b. Inability to scale up during years 3-6 to satisfy retailers who will have specific product volume and delivery expectations. BJF will develop superior service and communication to anticipate and address these issues should they arise. At the same time, BJF will brand itself as a gourmet, specialty product with limited distribution.
- c. Food safety. As described, a HACCP plan is not required for our business due to our size and scale, according to FDA regulations. However, BJF will participate in food safety training (see Human Resources Strategy), develop a plan for monitoring food safety (see Marketing Strategy) and will plan to purchase product liability insurance to protect itself against any consumer claims associated with food safety.

HUMAN RESOURCES

BJF is a small, family-run business with a strong support network of advisors and consultants. BJF will rely primarily on family labor during the first two years. Gradually, as the business grows and sales mature, BJF will offer year-round, part-time employment as well as seasonal, part-time internships.

Management and Skills

BJF will be managed by owner Vitaly Brukman. While new to farming, Brukman has experience as an entrepreneur and has operated a successful IT consulting business. In 2013-2014, Brukman began cultivating his agricultural production skills, acquiring hands-on experience growing radishes and mustard greens on a half-acre while completing a beginning farmer education program with NOFA-NJ. During the spring/summer of 2014, Brukman participated in four courses as part of the Organic Processing Institute's School for Organic Processing Entrepreneurs to gain a better understanding of organic processing and handling requirements. During that same time, he conducted food product research and began small-batch production for taste testing and marketing. In the fall of 2014, Brukman continued skill-building coursework: farming-related classes and on-farm consultation with NOFA-NJ, a class on food and drink entrepreneurship with the Samuel Adams *Brew the American Dream* series, and microbiome and nutrition studies through a variety of online sources.

Additionally, Brukman plans to enroll in the food safety manager program offered electronically by ServSafe, a nationally recognized training program. This course satisfies the Middlesex County food safety training requirements needed to obtain a New Jersey food service sanitation certificate. Training is valid for five years from date of completion.

Advisory Committee

A committed group of educators, entrepreneurs, farmers and friends have volunteered to serve and/or act as advisors to BJF. Brukman will meet with BJF Advisory Committee members semi-annually to review progress, troubleshoot problems and identify new opportunities. BJF's advisory committee includes:

Spouse, Katrin K.
Daughter, Jennifer B.
Potential Investor, Dennis P.
Farming Educator, Justine C.
Organic, Non-GMO Movement Activist, Theresa L.
Food Entrepreneur, Michael S.
Restaurant Operator, Jim W.
Experienced Organic Produce Grower, Serguei E.
Food Processing Professional and Educator, Paul T.
Wild Food Foraging, Herbal Medicine and Nutritionist, Dan F.
Fermentation Revivalist, Sandor K.
Herbal Medicine Practitioner, Virginia A.
Japanese Culture/Natural Sciences Educator, Seth D.
Permaculture Educator, Wanda K.
Business Accounting Professional, Robert S.

Human Resource Strategy

BJF will operate full-time during the New Jersey vegetable harvest and post-harvest seasons (July-November). During this time, BJF will purchase and process a year's worth of product. During the BJF start-up phase, marketing will occur on a part-time basis year-round and will gradually progress to a full-time job by year six. Dill production, land transition and, eventually, organic produce production will be managed on a part-time, seasonal basis. BJF has prepared a calendar of activities and estimated labor needs (removed for confidentiality).

As BJF owner/operator, Brukhman will perform all management, marketing, processing and production activities in years one and two. BJF will hire part-time labor and interns (from a community group interested in organic production) to assist with processing, marketing and produce production during years 3-5. Additional hired labor will be needed beginning in year five during the processing period as BJF expands its activities.

BJF will recruit part-time help through farm listservs, student groups and word-of-mouth. When hiring, BJF will seek individuals with an interest in organic management and food preparation.

Licenses and Insurance

BJF will purchase a worker's compensation policy for hired employees to protect against liability should a staff member become ill or injured at work, as well as a commercial insurance policy. The commercial policy will include endorsements for liability related to direct-marketing sales through food services, farmers' markets, roadside stands and on-farm tours.

Human Resource Risk Management

The greatest risk to BJF's success will be illness or injury that prevents Brukhman from doing the work. Brukhman has adequate health insurance and plans to explore disability insurance. Upon hiring an assistant, BJF will train that person to take over marketing and processing responsibilities in the event of illness or injury to any staff member, especially Brukhman.

FINANCES

BJF’s short-term financial goal is to generate approximately one-quarter of family living expenses from product sales. Financial projections suggest that this is feasible by year three. In the meantime, BJF will require financing to cover expenses and start-up investments.

Financial Opportunities

BJF has been approached by a private investor who believes in the BJF mission and who is interested in supporting BJF during its start-up phase. (Loan amount and terms removed for confidentiality.)

Financial Strategies

BJF will show a positive cash flow and a sustainable profit equal to one-quarter of its operator’s living expenses within three years of start-up. In the meantime, BJF will require an infusion of capital (in addition to the private investment) to finance management salary, overhead costs and start-up expenses associated supplies, equipment, labor and management.

Years 1-2	Years 3-5	Years 6+
Finance salary, overhead costs, and start-up expenses through private savings, investor financing and lender financing.	Continue to finance direct and overhead expenses through investor and lender financing.	Pay down loans. Generate profit equal to annual living expenses from farm and processing business.

Capital Request

BJF is requesting a revolving line of credit and an intermediate loan to finance its start-up and growth (values removed for confidentiality). The direct line of credit will be used to finance the majority of start-up needs in years one and two:

- a. Seeds
- b. Growing supplies
- c. Fermentation starter cultures
- d. Electronic pH meter (approximately \$100)
- e. Certification fees
- f. Harvesting tools and crates
- g. Washing equipment
- h. Coolers and bags for transporting produce
- i. Boxes for transporting jars

In years 3-5, BJF anticipates needing to finance:

- a. Direct expenses listed above as well as processing fees related to commercial kitchen rent and hired labor
- b. A hoop house for equipment and product storage

The following items have been calculated and removed for confidentiality:

- a. Projected costs
- b. Projected net income
- c. Projected cash flow

Licenses and Insurance

BJF will require several food processing and handling licenses as already noted. In addition, BJF will register as a business with the State of New Jersey and apply for the following:

- a. New Jersey tax identification number
- b. Property insurance to protect against theft of products and equipment stored at the commercial kitchen, etc.

Financial Risk Management

BJF has carefully researched and calculated expenses related to cost of production and processing, sales potential and income. Estimates have been reviewed by a financial advisor for accuracy and adjusted to present the most conservative financial scenario.

BJF will meet regularly with advisors to closely monitor its cost estimates, among other things, during its first three years to determine if longer-term projections are accurate. We fully expect that BJF will be able to reach its long-term financial goals but are willing to abandon our plan or modify it if the first three years do not go as anticipated. A contingency plan has been developed for investor and lender repayment should the processing business fail. (Plan removed for confidentiality.)

GLOSSARY

Assets. Resources owned by or owed to the business. Current assets are cash and other assets that can be easily converted to cash, such as accounts receivable, crop inventories and livestock inventories. Non-current assets are those that are more difficult to convert to cash and which are used to generate long-term profits. Examples of non-current assets include breeding livestock, machinery, equipment, buildings and land.

Balance sheet. A financial statement summarizing assets, liabilities and net worth indicating the financial condition of the business at a specific point in time (e.g., January 1).

Bill of lading. A document issued by the person responsible for transport of products, which details the merchandise being shipped and gives title of that shipment to a specified party (i.e., the buyer).

Buffer zone. An area located between a certified production operation or portion of a production operation and an adjacent area that is not maintained under organic management.

Cash flow statement. An estimate of all cash receipts and all cash expenditures that are expected to occur during a certain period of time (e.g., month, quarter, year). A cash flow statement allows a business to identify when and if money will be needed and where it will come from to avoid short-term shortages of cash.

Clean truck affidavit. Document required of producers and handlers who are responsible for the transport of organic products, declaring that the transport vehicle was found to be clean from foreign odors, residues, conventional products and other substances that would compromise organic integrity.

Critical planning issue. The primary reason or driver for making a change in a business.

Enterprise budget. An estimate of all income and expenses associated with a particular enterprise. The enterprise budget is used to estimate the profitability of the enterprise and to compare the profitability of various enterprises.

Depreciation. Used to account for a reduction in the value of an asset (machinery, buildings) with the passage of time, due in particular to wear and tear.

Fixed costs. Expenses that do not vary with changes in output for the production period under consideration. Examples include real estate taxes, depreciation and interest on land.

Genetically modified organisms (GMOs). An organism produced through genetic engineering in which genetic material (genes) of living cells have been moved or modified. The use of GMOs is prohibited at all stages of organic production and processing, and organic farmers and processors must show that their products are protected against GMO contamination at all times.

Gross farm revenue or gross farm income. The total income, both cash and non-cash, received from an enterprise or business before any expenses are paid.

Income statement. A summary of income, expenses and profit or loss from farming operations during the calendar year.

Liabilities. Debts owed by the business. Current liabilities are debts that will come due within one year. Non-current liabilities are debts that come due in a time period longer than one year.

Liquidity. The ability of a business to generate sufficient cash to meet total cash demands without disturbing the ongoing operation of the business. Liquidity is examined by comparing current assets to current liabilities.

“Made with” organic label. At least 70 percent of the product must consist of certified organic ingredients (excluding salt and water). Any remaining agricultural ingredients are not required to be organically produced but must be produced without excluded methods (e.g., genetic engineering, ionizing radiation or sewage sludge). Non-agricultural products must be specifically allowed according to the National List. Product labels must state the name of the certifying agent on the information panel and cannot include the USDA organic seal anywhere on packaging. The ingredient panel must identify organic ingredients with an asterisk or other mark.

Mission statement. Describes the fundamental purpose of the business in a couple of sentences. Most mission statements briefly describe products and services offered and often include business owner values or beliefs.

Monitoring checkpoint. Also called critical success factors. Key events, targets or accomplishments that must occur for your farm business to succeed. Monitoring checkpoints are measurable to help a business owner assess progress toward goals while acting as early warning signals that business strategies may not be successful.

National List of Allowed and Prohibited Substances (“National List”). List of substances that may and may not be used in organic crop and livestock production, as well as processed organic products. The USDA National Organic Standards Board must review every substance on the list every five years.

Net farm income. Gross farm income from operations plus the gain (or minus the loss) from the sale of capital assets and change in base values of breeding livestock. Net farm income represents a return to operator’s labor, management and equity.

Net return. Gross farm income minus farm expenses plus any changes in inventory.

“100 percent organic” label. All ingredients must be certified organic. All processing aids must be organic. Product labels must state the name of the certifying agent on the information panel. May include the USDA organic logo and the “100 percent organic” claim. Must identify organic ingredients with an asterisk or other mark.

“Organic” label. All ingredients must be certified organic except where specified on the National List. Up to five percent of non-organic ingredients (excluding water and salt) from the National List are allowed. Product labels must state the name of the certifying agent on the information panel. May include the USDA organic logo and “organic” claim. Must identify organic ingredients with an asterisk or other mark.

Organic System Plan (OSP). An Organic System Plan is required annually by certification agencies to demonstrate compliance with National Organic Program rules. An OSP documents past management practices as well as current practices, including those related to input/ingredient purchases, transportation of raw ingredients, storage, cleaning and sanitation, processing, pest management, sales and recordkeeping.

Organic System Plan for Handlers (OSPH). An Organic System Plan for Handlers is required annually under National Organic Program rules when processing or packing organic products that you intend to label and market as organic. Processing includes livestock slaughter, cooking, baking, heating, curing, canning, drying, mixing, grinding, churning, separating, extracting, cutting, fermenting, distilling, preserving, dehydrating, freezing and the repackaging of bulk foods into smaller containers for resale. The OSPH is similar to the OSP in requiring you to describe the type of handling that you practice and to document current ingredient purchases, transportation of raw ingredients, storage, cleaning and sanitation, processing, pest management, sales and recordkeeping.

Overhead costs. Costs that are connected to your business but are not directly related to the type and quantity of products produced, like office supplies and utilities. A type of fixed cost.

Profitability. A measure of business health. Profitability is calculated by subtracting all farm business expenses from the total income your farm business generates.

Solvency. A measure of business health. A business is solvent if total assets are greater than total liabilities, and is insolvent if liabilities exceed assets.

Split operation. An operation that manages some enterprises or fields organically and others conventionally.

Transaction certificate (TC). A document issued to the buyer by a certifier to verify the origin and organic status of products sold by organic operations. The TC is the proof that the product sold/purchased was grown in accordance with organic standards. A TC is also sent to the seller to include with their audit trail documents.

Variable costs. Expenses that vary with output for the production period under consideration. Examples include hired labor, seed, fuel, feed, herbicide, insecticide and fertilizer.

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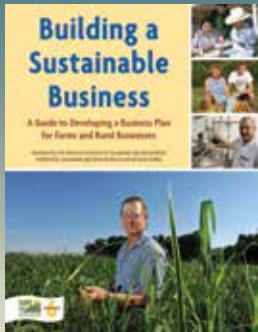
ORGANIC TRANSITION

A BUSINESS PLANNER FOR FARMERS, RANCHERS AND FOOD ENTREPRENEURS

Organic food is a booming business. The profit potential—along with other rewards—has farmers, ranchers and food business owners across the country considering the switch to organic production. But successfully managing your business through the multi-year transition process requires careful planning. What are your long-term business goals? What organic market opportunities are you in a position to exploit? How will you acquire the resources you need to make the transition? How will you anticipate and deal

with challenges as they arise? These are just a few of the critical questions you should be thinking about as you plan, and *Organic Transition: A Business Planner for Farmers, Ranchers and Food Entrepreneurs* can help.

While not a comprehensive guide to becoming certified, the *Organic Transition Planner* will help you explore organic transition strategies and decide whether going organic makes sense for your farm or business. The *Organic Transition Planner* contains explanations of key concepts, real-life examples from transitioning farmers and detailed worksheets covering farm operations, marketing, human resources and finances. After working through the *Organic Transition Planner* you will be ready to develop an actionable business plan suitable for yourself, your management team or a lender.



The *Organic Transition Planner* can be used alone or in conjunction with the more comprehensive business planning publication *Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses*, available through SARE at www.sare.org/business.

