



CALIFORNIA
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Business Plan Essentials for Farmers, Ranchers and Fishers

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Partners in Tax Education

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About the Instructor

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She began her career as a California CPA, and later worked for the USDA.

She holds a Juris Doctor with a certificate in Food and Agricultural Law from Drake University Law School, and a BS in Agricultural Economics from the University of California at Davis.

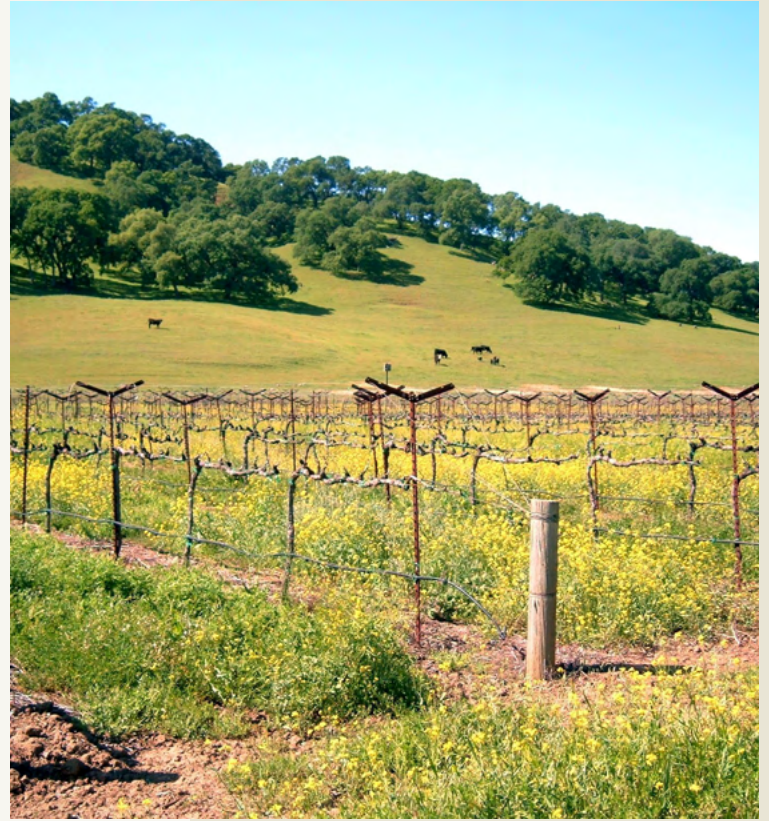


Overview

1. Who Needs a Business Plan?
2. Business Plan Essentials
3. Profit Motive and Business Model



Who Needs a Business Plan?



Who Needs a Business Plan?

You might not need your business plan in writing in order for ***you*** to understand your business, but a lender will need to see at least a basic written business plan so ***they*** can understand your business.

- You may not think you need credit, or plan to apply for credit - but credit is an essential part of most businesses - at the very least to help recover from unexpected setbacks.
- **Creating a business plan today helps you be more prepared for an uncertain future.**



Who Needs a Business Plan?

Creating a business plan today helps you be more prepared for an uncertain future.

- It helps you to think through what you intend to do, and what might go wrong, and how to mitigate those risks.
- It makes you more prepared to access credit (and other resources) quickly if you need to.



Who Needs a Business Plan?

You may also need a business plan to apply for grants, educational programs, or high quality land tenure opportunities.

- Some Farm Credit lenders make grants to beginning farmers based on their business plans.
- Other nonprofits and educational programs may also offer opportunities based on a business plan.



Who Needs a Business Plan?

When land trusts, parks, and other land holders make lease or purchase opportunities available to farmers and ranchers they typically require a detailed written business plan as part of the **competitive application process**.

- Your business plan becomes a make-or-break document - it is how you are evaluated over others who want the same opportunity.



Business Plan Essentials



What is a business plan?

A summary of:

1. Business ownership structure
2. How key assets (capital) are acquired and used in the business
3. Production and marketing activities
4. An overall management plan including risk management plans



A business plan answers these questions:

1. **Ownership:** Who owns the business?
2. **Capital**
 - a. On what lands do or will you operate, and are the lands leased or owned?
 - b. What are the big assets you will need, how much will they cost, and how will you pay for them?
3. **Production and Marketing**
 - a. What will you produce, and what is your production budget, including labor?
 - b. Where and how will you sell what you produce, and what is your expected revenue and cost to sell?
4. **Management:** What is your plan for management including keeping financial, labor, tax and other records and purchasing adequate insurances, and what is your budget for this?

Answer all key questions and be concise

You should be able to summarize your plan in one page or less.

- 1. Ownership:** I am the only owner. I am an ALBA program graduate. I invested \$1,000 and a truck to start. I will invest \$5,000 more for field prep. I have other income so I do not need to take draws.
- 2. Capital:** I rent 2 acres and equipment as needed from ALBA. I need a loan of \$10k to cover labor and inputs from planting through harvest.
- 3. Production and marketing plans:** I grow mixed greens and I have a contract to sell to Coke Farms. I employ seasonal labor.
- 4. Business management plans:** My daughter is my bookkeeper and H&R Block prepares my taxes. ADP is my payroll service. I have property and liability insurance from State Farm. ALBA helps me with food safety and other regulatory requirements.

Answer all key questions and be concise

More words is not the same as more detail.

Be specific, avoid superlatives.

Good: *I will grow red and green kale in winter and jalapeños and anaheim's in summer. (15 words, tells the reader what they need to know to evaluate the budget and other plans.)*

Annoying and not helpful: *I will grow a variety of delicious and nutritious vegetables to delight my customers and teach them about the importance of eating fresh healthy food from local farmers who use only the best and most ecologically sound growing practices. (39 words. The reader has no idea what this person is going to grow.)*

Words and Numbers Should Support Each Other

Words Describe Production	Numbers Calculate Production
Describe number of acres, slope and soil types, climate and microclimate, water sources.	Fractional acres for each crop Expected yield per crop
Describe plans to harvest, pack and transport to intended markets.	Packed quantities X Price/marketable unit <u>Less: Cost of packed and transported unit</u> = Expected profit/unit

Words and Numbers Should Support Each Other

Words describe a marketing plan	Numbers calculate sales by outlet and cost of sales in different markets
Describe a specific marketing plan	Marketing Budget: <ul style="list-style-type: none">● Labor● Consultants, graphics and certifications● Travel including meals & lodging● Equipment needs if any Anticipated Sales: <p>Price, quantity, and month of purchase by customer or market outlet = anticipated revenue per month</p>

Words and Numbers Should Support Each Other

Words describe purpose	Numbers show cost and source of funds
Describe infrastructure and equipment needs and the specific uses for each.	Estimated cost and source of estimate.
Describe your ability to self-finance and the amount of credit you reasonably expect to be able to access.	Dollars you will contribute <u>Plus dollars you will borrow</u> Equals initial dollars available <u>Less: Infrastructure & equipment cost</u> Equals dollars available to cover expenses before income from sales

Words and Numbers Should Support Each Other

Words describe	Numbers demonstrate
<p data-bbox="92 317 581 423">Describe specifics of management plan:</p> <ul data-bbox="112 463 803 798" style="list-style-type: none"><li data-bbox="112 463 687 511">● Bookkeeping software<li data-bbox="112 519 726 620">● Bookkeeper in-house or hired<li data-bbox="112 634 803 682">● CPA and attorney identified<li data-bbox="112 691 653 798">● Insurance needs and provider identified	<p data-bbox="846 317 1402 365">Administrative Budget:</p> <ul data-bbox="865 401 1760 678" style="list-style-type: none"><li data-bbox="865 401 1470 449">● Wages of in-house staff<li data-bbox="865 463 1760 511">● Bookkeeping and source of estimate<li data-bbox="865 519 1721 567">● Accounting and source of estimate<li data-bbox="865 576 1586 624">● Legal and source of estimate<li data-bbox="865 637 1760 685">● Insurances and sources of estimates

Demonstrating A Profit Motive with a Business Plan



What is a Profit Motive?

1. Intention to have annual sales in excess of annual expenses, or
2. Intention to create a business asset with a long term value in excess of the costs incurred in creating and improving the asset, or
3. Both.



What is a Profit Motive?

Examples of activities **without** a profit motive include:

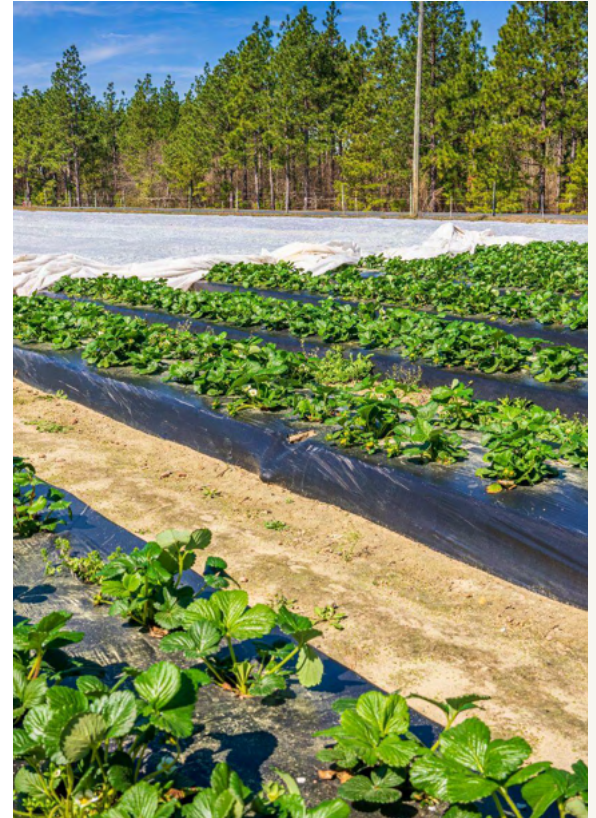
- Growing for community or personal well being
- Offering services without charging
- Giving product away
- Developing a property for ecological or esthetic values
- Creating opportunities for learning, engagement or participating in traditional cultural practices without charging, or without any plan to ensure that revenues exceed costs



Your Theory of Profit or Basic Business Model

There are several tests to determine if you have a genuine profit motive - but first you need to be able to make a simple statement about how you plan to make a profit.

- Your theory of profit or business model is your idea about how to have revenue in excess of expenses, or how to create a business asset with long term value in excess of total costs to create.
- A theory is an unproven idea. It has to be reasonable; it does not have to be correct.



Demonstrating a Profit Motive

A business plan demonstrates a profit motive by summarizing the business model:

- The goods or services that will be offered
- The markets or customers who will purchase the goods or services, and expected prices or fees
- The cost of offering the goods or services
- When revenue is expected to exceed cost and generate profit. (If the business will not be profitable within the year the plan must show how the business will be financed before becoming profitable.)

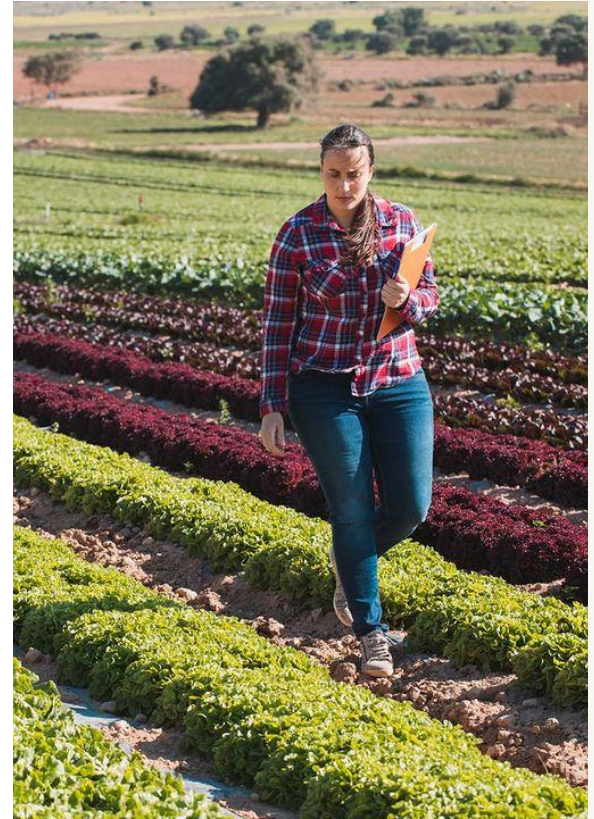


Statements That Describe A Business Model

“Most years I will be able to sell strawberries for more than the cost of production.”

“Within five years I will have a breeding herd sufficient to produce feeder calves and steers for market.”

“If I sell mixed vegetables at the farmers market for 2-3 years I will break even and develop a more profitable customer base in restaurants and for a CSA. By then my fruit trees will also be in production and I will be able to sell fruit and mixed vegetables at a price greater than the cost of production.”



No Business Model = No Business

"I grow apples and give them away to promote good health."*

"I am restoring biodiversity and soil health on my land."

"I will host community events."

These statements do not say how money will come in to the business, so they do not describe a business model.

***From a tax court case the taxpayer lost.** A dentist took business losses from growing apples. He had no plan to sell his apples, instead he gave them to his patients to promote good health. The IRS disallowed the losses because the dentist had no profit motive in growing apples, therefore had no apple business, therefore had no business loss.

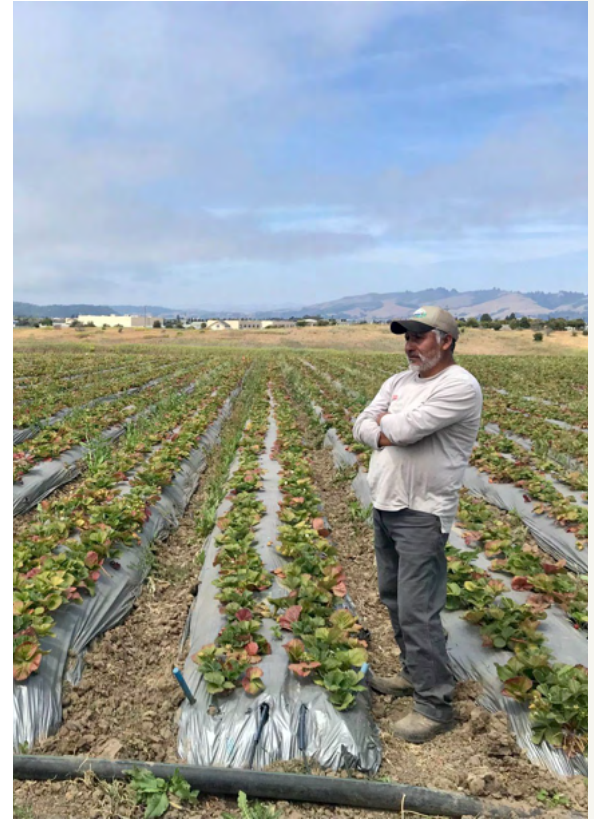
Owning and Investing in a Business



What does it mean to own a business?

A business owner has invested capital and is entitled to receive a share of profits.

- An investment is a commitment of capital with the expectation (but not the certainty) of a future return of capital plus profit (interest or other profit).
- Some owners are also entitled to **direct the activities of the business**.
- Some owners are expressly denied the right to direct business activities.



What does it mean to invest in a business?

An investor is not necessarily an owner. A lender may invest in a business by making a loan.

- A lender has rights to receive the loan back with interest, but does not become an owner with rights to share in profits.
- Lenders may influence management decisions but have no legal rights to direct operations (except for some instances of loan default).

A business owner may also lend money to the business separate from and in addition to their ownership investment in the business.



What distinguishes investing from gambling?

Risk is an essential element of an investment. So how is an investment different from a bet? How is investing different from gambling?

- An investment is **managed with the intent to preserve and grow the original investment and earn profits.**
- A bet pays out or is lost **depending entirely on circumstances beyond the control of the gambler.**

A business owner (who is not a gambler) manages the business to earn profits and minimize the risk of loss.

- *Owning a business without managing risk of loss means many things which could be managed are left to chance - like gambling.*

A Business Plan Is A Risk Management Plan

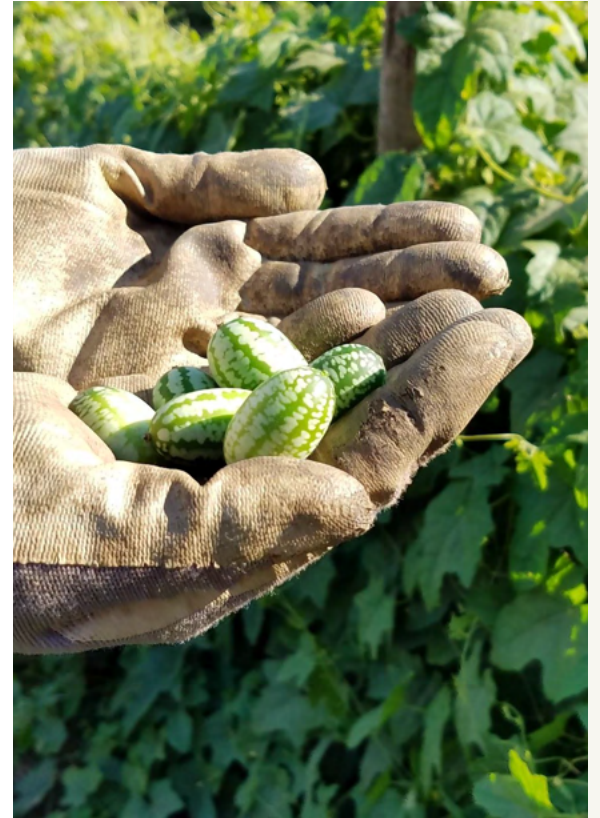
A business plan identifies the elements of a business that can be managed, and strategies for managing for profit and to minimize risk of loss.

- Central to a business plan is the plan for the legal form of ownership and the amount of investment the owners make in the business.
 - Some forms of ownership limit the risk of loss to the owners.
 - Choosing the legal form of ownership for a business is one of the first steps to managing risk.

The Legal Form of Business Ownership

- Sole Proprietorship (does not limit risk)
- General Partnership (does not limit risk)
- Limited Partnership (limits risk)
- Limited Liability Company (limits risk)
- Corporations (limit risk)

Lesson 2 - **Owning and Protecting A Farm, Ranch or Fishery** discusses each of these.





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Questions?





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Thank you!

