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Planning for Assets

A business plan identifies the key assets needed for the business and identifies when and how those assets will be acquired. Agriculture and fishing rely on natural resources and other specialized assets. A lender who understands your industry expects a business plan to discuss key assets. A lender who does not understand your industry is even more in need of a discussion of key assets.

Many assets are substitutes for labor. Labor is an expense - you pay as you go. Assets are an investment, you pay up front, they save you expenses month to month, and then eventually they need to be replaced. But if you finance asset purchase or acquisition, you pay month to month - so it may be just as affordable as labor if you qualify for fairly priced credit.

Assets versus labor is one of the most important decisions you will make as a farm owner, and you will make it over and over again.

- Your own labor or hired labor?
- Your own labor or equipment?
- Hired labor + more labor or more equipment?
- Cheaper land & more drive time or more expensive land and less drive time?

Land is the main driver of and constraint on profitability:

- Location
- Distance to market / Quality of market
- Distance to services and inputs / Quality of available services
- Distance from workforce / Quality of workforce
- Local government - attitudes, support, hindrances
- Housing availability
- Neighbors
- Productive capacity (soils, acres, water access)
- Climate and micro-climate(s)

Depending on your business operations plan, you may also need valuable infrastructure including:

- Buildings
 - Packing and Cooling
 - Storage for equipment and supplies
 - Office

- Other needs?
- Equipment
 - Planting, weeding, harvesting
 - Packing, and transportation
 - Selling (market stand, etc)
- Permanent Crops
 - Orchards
 - Vineyards
- Land Improvements
 - Wells, ponds
 - Hedges, wind breaks
 - Irrigation
 - Roads
 - Fences
 - Septic
 - Electric

Asset Acquisition Plan

For each asset that you need in your business, consider the direct contribution each asset makes to your theory of profitability, and when the asset is needed. If the asset does not contribute directly or immediately, is it still necessary, and/or when will it be needed?

Cash or Credit?

It is relatively easy to get a loan for an asset because the loan is secured by the asset. It is relatively difficult to get an operating loan because even though the lender takes a lien on the crop - the lender does not want the crop. One of the biggest mistakes beginning farmers make is using cash on assets and then coming up short on operating cash. If you are short on operating cash and have to get a loan, it may be too late in the season to get a loan from a lender focused on agriculture, and loans from other lenders offer fewer protections, less expert guidance, and may have higher rates. Some people end up using credit cards with 20% interest rates - it's an expensive mistake!

Planning for Maintenance and Replacement of Assets

Your plan should consider the regular maintenance needs for each significant asset, the true estimated useful life of the asset. Consider when and how the asset might wear out, if the technology might change, and how you will research and finance the replacement.