Preparing a Business Plan

A Guide for Agricultural Producers

Wholesale Nursery Example

B.C.Nursery Trades Association

Province of British Columbia

Ministry of Agriculture Fisheries and Food

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Prepared By: Pat Davidson, Extension Education Consultant.

Layout By: Holmes Productions

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PREFACE

Managing an agriculture business in the 1990s and beyond will be more complex with good planning skills becoming increasingly important. As farming becomes more capital intensive, margins narrow and the adoption of rapidly changing technology becomes the norm, planning techniques which are used in other businesses must be applied to agriculture. One of these planning techniques is preparing a formal business plan. A formal business plan integrates written goals with marketing, production and financial targets into a management strategy for the business along with identifying human resource requirements. Other factors such as increased environmental awareness and the globalization of agriculture emphasize the need for effective planning at the farm level.

The purpose of this publication is to provide farmers with business planning information and a format for developing a business plan for his or her farm business. While information and sample business plans are available for non-farm businesses, examples of business plans for farms are hard to find. Each farm business is unique in terms of physical characteristics, income level and people involved in owning and operating the farm. This publication will provide a good starting point to assist farm managers to prepare formal business plans for their own operation.

Terry Peterson, Director
Farm Management Branch
Ministry of Agriculture, Fisheries and Food

DISCLAIMER

In no way does this guide presume to forecast the future of nursery prices and/or advise expansion as a strategy for nursery operators. Examples used are "what if" scenarios to try to envision the impacts of various prices, interest rates, and effects on items such as cash flow or debt repayment. The emphasis is on outlining the method and the skills which may be employed in doing a business plan.

INTRODUCTION

Preparing a Business Plan has been prepared as a guide for wholesale nurseries in British Columbia. It will help you to create your own Business Plan using a step-by-step process. It also provides relevant background information on the British Columbia nursery industry.

The importance of planning in business and agriculture cannot be overestimated. By developing a sound, carefully thought-out business plan, you can take the most important step toward reaching your goal - a business that is alive and profitable.

The examples used in this manual are aimed at the small to medium sized nursery, which is planning to improve its management techniques and become more profitable. The principles are however, generic, and can be applied to any sized nursery, from a new entrant to a multi-million dollar concern.

How to Use This Manual

The manual provides you with generic information concerning the wholesale nursery industry in British Columbia. It then leads you through the various steps necessary to complete your own business plan.

The manual gives you the necessary information to prepare your own business plan. Throughout the manual, we first describe what should go into each section of your business plan and this is followed immediately by an example. Working through the manual will aid you in completing your own business plan. A glossary is included to explain the financial terms used in the manual.

In order to complete your own business plan, you will need to research and identify all those factors, unique to your commodity, which you feel are critical to the success of your venture. Our example gives you a framework; you must supply the details which apply to your own operation. Remember, each business plan is unique. The value of a plan is as much in the preparation and research involved as in the final document.

If You Need More Information

If you need more information, contact your nearest B.C. Ministry of Agriculture, Fisheries and Food (BCMAFF) district office, Ministry commodity specialists or the Farm Management Branch.

A more detailed business planning document and computer software is available in a document produced by J. Jarvis and Associates titled "Preparing a Business Plan for Wholesale Nurseries." This document and software is available from the BC Nursery Trades Association.

What Is A Business Plan ?

It is important to recognize that a business plan is NOT a document. The plan may be presented through a planning document, but the plan itself should be a set of management decisions about what a business will be doing to be successful. So, in its most basic form, business planning is the process of deciding what you have to do to make your business successful, or at least economically viable, and how to go about it.

A business plan is an operating tool; it is not a purely financial document. It should be used and updated continually, not prepared and put on the shelf. Although a final document is often necessary, it is the process of preparation and monitoring that is important and really useful.

Who Needs It ?

Every business engages in some form of planning. Often it is ad hoc, "seat of the pants" planning, with decisions being made based on gut feelings and in response to crisis situations. Most of us recognize that we should really spend some more time planning, but can never find the time.

It is generally accepted that firms which analyse their situation and go through a systematic planning process achieve significantly better results than those that do not.

So the question is not, *Do I need to plan?*, but rather, *What form should my planning take?*

What Is The Purpose Of A Business Plan ?

A business plan is necessary to provide a logical and rational sense of direction for a firm. It can have several benefits:

> It can improve performance by identifying both strengths and weaknesses of operation, and potential problem areas.
>
> It can provide a solid basis for measuring performance.
>
> It establishes a framework for making key decisions in ongoing management, and in evaluating new opportunities.
>
> The plan and the process can be used to educate and motivate employees.

A business plan is also useful in communicating information about the business to outsiders. These could be lending institutions or current or potential shareholders.

What Form Should It Take ?

The final business plan should be formalized in a planning document, if only to bring closure to the process. It also provides a tangible framework for evaluating subsequent activities, accomplishments and opportunities.

Preparing the business plan document is a writing, not a creative, exercise. The document should simply and concisely present the analyses and decisions that have been made during the planning process. In general, the longer the document is, the more it tends to reflect decisions that have not been made, rather than those that have. This is not to say that the document should not be comprehensive, but it is to emphasize that it is the completion of the planning process, not writing the document, that is the major undertaking.

The document should be organized according to the major strategies outlined in the next section. It should also include a brief assessment of the nursery's market position and business outlook.

Organize your material as clearly as possible so people who haven't helped write it can readily follow your logic.

Your formal business plan should:

- be double spaced
- have adequate margins for added notes
- include a title page giving business name, date and the period the plan covers
- have a detailed table of contents
- be comprehensive but not complicated
- avoid using jargon
- use lots of headings and subheadings
- be simple and easy to read. Don't overwhelm your reader with too much detail. They'll ask for more information if they need it. If you have detailed information that you want to include, putting it in an appendix might work best. Place the most essential information where it is easy to find - probably close to the front of the plan.

Asking an outsider you respect to read your final draft document can help identify any gaps or ways that your document could be improved. Doing this early in the process ensures you are focusing on the right information.

Extra touches that can help include charts, tables, resumes, supplementary reports, studies, and catalogues. Whatever aids you use, be sure to include them in such a way that the result will look and read like a business plan - not a scrapbook. Much of this information can be included in appendices.

A specific outline for a business planning document is included as part of this package, and can also be seen in the example provided.

COMPONENTS OF A BUSINESS PLAN

What Should It Include ?

A complete business plan will include a Title Page, Table of Contents, Business Profile and Summary, as well as sections outlining the Marketing, Human Resources, Production, and Financial plans. Your business plan may look different from the examples used in this book. You should emphasize those sections which best reflect the nature of your business.

Every business plan should address the four basic strategies: marketing and sales strategy, human resource strategy, production strategy, and financial strategy. Each strategy is highly interrelated with the other strategies, and must be consistent with them.

Marketing and sales strategy

A marketing and sales strategy addresses the critical issues of:

1. Who are or will be the target customers of the firm?
2. What products will the firm sell to them?
3. What will be the firm's policies regarding pricing, advertising and promotion, sales and distribution?

By developing a marketing strategy, a nursery will be able to prepare estimates of revenues and selling costs - but not production costs - for its products. There are several important analyses that underlie the development of a market strategy. These include:

1. Market trends.
2. Degree of competition for target customers and products.
3. Customers requirements - preferences, timing and volume.

This analysis should enable you to develop realistic estimates of what can be sold to whom, when, in what quantities and at what price, given what levels of promotion, sales and distribution effort.

The development of realistic estimates of sales and revenues is critical to the success of the entire business planning process, since sales tend to drive production.

Human resource strategy

The human resource strategy addresses four critical issues:

1. The functions that must be performed, and who will be responsible for performing them.
2. The organization chart.
3. The compensation and benefits employees will be offered.
4. Labour and training goals.

Once again there are important analyses that underlie the development of this strategy:

1. Evaluation of management attitudes towards treatment, compensation and motivation of employees.
2. Historic strengths and weaknesses in the structure, organization and management of the nursery.
3. Availability and cost of required staff.

Production strategy

A production strategy addresses the critical issues of:

1. The production system and technologies you intend to use.
2. The requirements for materials, equipment and facilities - size and location.
3. The production schedule required to support the sales goals.

The production strategy answers the question: What will it cost to produce the level of product required to achieve the sales goals?

As with the marketing and sales strategy, there are several important analyses that underlie the development of a production strategy. These analyses include:

1. Identification of both the fixed and variable production costs for each product.
2. Evaluation of lead times for acquiring seedlings and materials.
3. Evaluation of production yields and quality.

These analyses are important to ensure a meshing between the sales objectives and the production capability of the nursery. If sales goals exceed productive capacity, the goals must be adjusted down, or additional investments made to increase production. If revenues do not cover production and operating costs, then either sales or revenues must be increased, or production costs cut back.

Consequently, reconciling the marketing and production strategies may require repeated analyses.

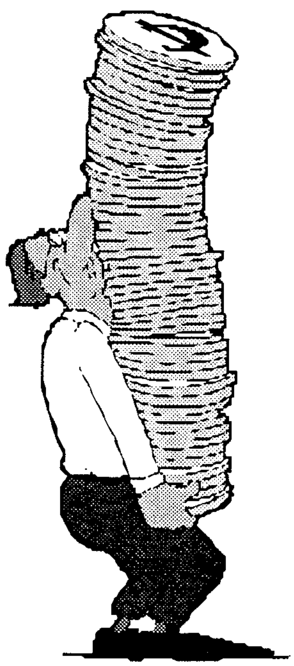
Financial strategy

The financial strategy is a reality test for the other strategies in the business plan. It answers such questions as:

1. Does the planned level of operations generate sufficient profits to make the venture worthwhile?
2. Does the business generate adequate cash flow to sustain operations?

As with the other strategies, a number of analyses underlie the development of a financial strategy. These analyses include:

1. Historic information regarding timing of receipts and payments - i.e. cash-flow.
2. Historic performance of the nursery on key financial indicators.
3. Value and current usefulness of assets.
4. Cost and availability of funds from external sources.



BUSINESS PLAN FORMAT

I Title page
- A. Name of nursery
- B. Time period covered by plan
- C. Date of preparation

II Table of contents

III Business profile and summary
- A. The firm and its environment
- B. Current position and outlook
- C. Goals
- D. Strategies

IV Marketing plan
- A. Industry and market trends
- B. Customer analysis
- C. Monthly sales and revenue goals
- D. Setting prices
- E. Marketing and sales expenses

V Human resource plan
- A. Staffing structure
- B. Compensation
- C. Training and development

VI Production plan
- A. Production schedule
- B. Production costs
- C. Facilities
- D. Capital expenditures

VII Financial plan
- A. Financial statements
- B. Loan summary and financial performance indicators

VIII Long-range plan

TITLE PAGE

The title page helps your business plan look professional. Remember that first impressions are very important, especially to lenders, who see many plans. The title page should state the name of the nursery, the time period covered or addressed by the plan, and the date of final preparation of the document.

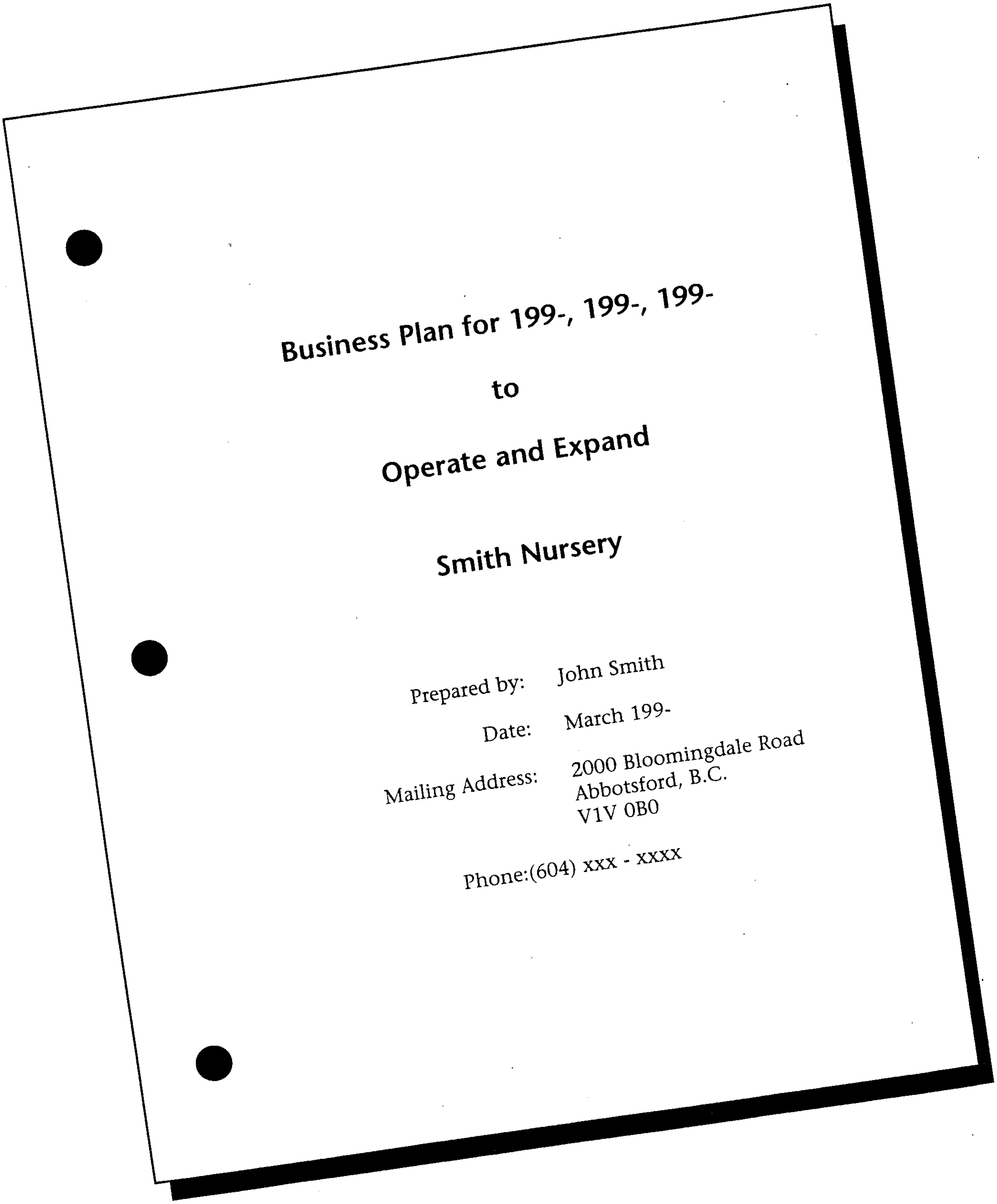
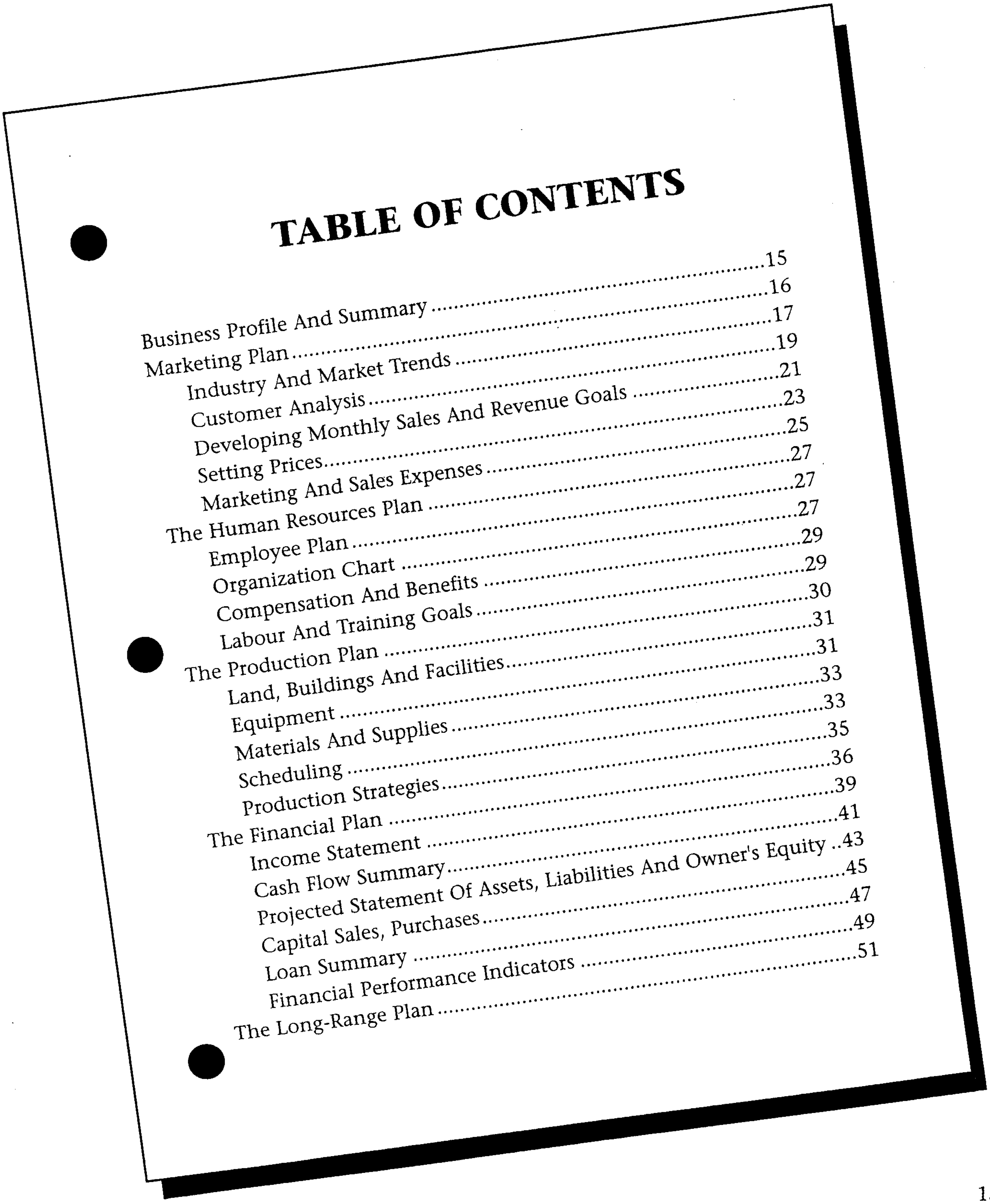


TABLE OF CONTENTS

A table of contents follows the title page, identifying each major section of the plan and the page number on which that section begins. If appropriate a brief list of exhibits should also be included in the table of contents.



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BUSINESS PROFILE AND SUMMARY

In general the business profile and summary presents an overview of the nursery and the highlights of the completed business plan. Specifically, the summary should include the following sections:

- The firm and its environment: A brief description of the nursery, its purpose in the marketplace (in terms of the products it is providing for whom), its general product lines, and the factors that affect its operation and success.
- Current position and outlook: An assessment of the nursery's current market position and its potential for growth and improvement. This section should be a condensed description of the results of a situational analysis. The description should address the nursery's strengths and weaknesses and the perceived outlook in terms of threats and opportunities.
- Goals: A list and brief explanation of the improvement goals and objectives that the nursery has established for the period covered by the plan.
- Strategies: Brief descriptions of the major thrusts and improvement actions to be taken in each of the components of the plan - marketing and sales, human resource, production, and finance.

The purpose of the business profile and summary is to present highlights and a brief, but informative, overview of what the nursery is and where it is going.

BUSINESS PROFILE AND SUMMARY EXAMPLE

Purpose of the Plan

This plan outlines the proposal to automate and expand the current nursery business to include production of broadleaved evergreens, in particular #1 pot azaleas. The intention is to purchase an automatic potting machine and to build state-of-the-art greenhouses to overwinter the plants.

The Firm and Its Environment

This 10-acre nursery has been in operation for 12 years. During this time, there has never been a coherent marketing or production strategy. This plan is designed to remedy that situation. Over most of the years of operation, the nursery has marketed approximately 50% of its products in Ontario, 25% on the Prairies and the remainder in the local market. The recession and stronger competition from local Ontario growers has eroded the Ontario market. Sales to the Prairies have remained static and there seems little room for growth. The nursery grows a wide variety of trees, shrubs, ground covers and some field stock. Very large nurseries operate in Oregon and California and ship large quantities into the local B.C. market. The quality of nursery stock, particularly azaleas, is good.

Current Position and Outlook

This nursery sees the need to increase sales in the local market. As a result of a high exchange rate on the US dollar and of transporation costs, the price of azaleas being shipped in from US nurseries is higher than product which is produced locally. By moving into the azalea market with a high quality product, a strong local demand could be established.

Goals

This nursery plans to purchase automated potting equipment with the intention of reducing labour costs and increasing production to 4,000 #1 pots per day from the current output of 3,200 pots per day. Also required is the construction of heated greenhouses to safely overwinter the azaleas. The greenhouses must be large enough to allow the azaleas to be properly spaced and must provide good ventilation. Production of other nursery products will remain at the current level. The goal for azalea production is the sale of 50,000 per year.

Strategies

Marketing: Target the local market with good quality product and attractive labelling at competitive price.
Human Resources: Reduce labour costs by purchasing automated potting equipment. Staff can be reduced to 6 people from the current potting crew of 8.
Production: Target potting 4,000 #1 pots per day. Total annual production: 50,000 azaleas. Maintain current production levels of other products.
Financial: Primary goal is to retire debt arising from term loans and line of credit used to finance operating costs.

MARKETING PLAN

The marketing plan identifies industry and market trends, planned sales in terms of both units and revenue, and outlines the basic marketing and sales strategy for achieving the planned sales level. The projected sales and prices must be based on both the historical trends in the industry and for the company, present and future actions of competitors and the sales and promotion efforts of the company.

It is recommended for the nursery industry that sales projections be based on units of product sold and that this be converted into projected dollar sales on a monthly and yearly basis.

To be a useful management tool, the marketing plan should describe the assumptions that underlie the marketing and sales objectives and decisions. The description of the marketing plan should include the following information:

1. A description of industry market and trends.
2. An analysis of who your customers are or will be.
3. A schedule of monthly and annual sales and revenue targets, differentiated by product.
4. A price schedule for each of the products you plan to sell.
5. A budget for marketing and promotion.

Any major additions or changes in plants being produced should be noted here.

Industry and Market Trends

In this section, identify the major trends affecting the industry or business. This should include information on:

- style, varieties and consumer tastes in target markets
- industry structure and size of operations
- forces in the market that affect the demand for product

You can find out about these trends by reading industry journals and discussing with customers and suppliers what changes they think will occur. Once you have identified the major trends, you need to decide how your business will accommodate them. Our example discusses the market forces that determine the demand for nursery product produced by growers in British Columbia. These forces are a key component in the development of a business plan, as they ultimately control the ability to sell any product that is produced, and the price that is obtained for that product.

INDUSTRY AND MARKET TRENDS EXAMPLE

The key "external" market forces that determine the demand for product are:

- The construction of new homes and multifamily dwellings in B.C.
- The state of the economy in Central Canada where approximately 13% of B.C. product is sold.
- The state of the prairie economy where approximately 18% of B.C. product is sold.
- The relative position of the Canadian dollar vs. the US dollar.

New home construction in B.C.

Recent studies have shown that the number of building starts in the B.C. economy is a major driving force for the sales of plant material. A recent Alberta study indicated that an average of $4,200 was spent on landscaping new homes.[1] Of this approximately 25% or $1,050 was spent on plant material. With 65% of all B.C. grown plant material being sold within the province this is a primary driver for sales by companies specializing in the supply of plant material to the landscape industry. Overall sales in the landscape sector can be approximated by determining the number of building permits issued 12 months prior to the prediction date. In general it has been found that plant sales lag building permits by 12 to 18 months.[2]

Central Canada and Prairie Economy

Over the last 10 years there has been an increase in the number of companies exporting to the Ontario market. A strong market in Ontario reduces the supply of plants from a number of larger nurseries in B.C. thus reducing the competition in the local market and strengthening prices. A poor economy in Ontario as has been seen in recent years increases the number of nurseries and the quantity of plant material on the local market, thus reducing local prices.

Position of the Canadian Dollar vs. the US Dollar

B.C. produces only 1.2% of the total nursery stock in the North American market. Compared to the nearest US states that are major growers of nursery stock, B.C. represents only:

- 14.4% of California production
- 22.5% of Oregon production
- 60.6% of Washington production[3]

One large producer based in California and Oregon has production nearly equivalent to the entire sales of the B.C. nursery industry. With such large volumes of production south of the border and very capable competitors, the fluctuations in the Canadian dollar play a major role in the ability of B.C. nurseries to compete with their US counter parts. The present low Canadian dollar gives a significant pricing advantage to local B.C. producers. The low dollar also increases the ability of B.C. producers to export into the Pacific Northwest market place.

[1] McTavish B., 1993 Alberta Ornamental Horticulture Industry Profile, pub. Landscape Alberta Nursery Trades Association. Edmonton, Alta.
[2] McTavish B., 1990, Skilled Labour Supply and Horticultural Education Policy in British Columbia. MBA Thesis, Simon Fraser University.
[3] Don Ference & Associates., 1991, Profile of the BC Nursery Industry, pub. BC Nursery Trades Asasociation

Customer Analysis

In this section, you will examine the major criteria you think your customers use to buy products you are selling. Identify the factors that influence the purchase of nursery stock.

It is also helpful to identify the market share that each of these potential customers has.

Know as much as you can about your potential customers: be aware of demographics such as age, gender, marital status, and level of education.

A recent study by Basford and Associates[4] outlines the key demographic trends in the general public purchasing of nursery product. Their study found that the single largest segment of the general public purchasing nursery stock is what they defined as "Novices" with a limited knowledge of gardening. This segment was defined as:

- 50% of the total sample
- 65% were female and 89% were or had been married
- 82% had been gardening for more than 5 years and 64% for more than 10 years
- 56% were between 35 and 54 years old
- 41% have lived in their current home for less then 5 years
- 65% have technical school or high school education
- 41% earn $55,000 or more per year (median income was $50,000/year)

The Basford and Associates study indicated that there is a shift in the buying patterns of consumers, particularly expert gardeners who are looking for newer and unusual plants. The key target segment (beginners and novices) are beginning to experiment with new varieties for colour and shape. Blossom colour is consistently rated as extremely important criteria for the choice of plant material.

Buying patterns for the Basford study indicated the following percentage of purchase by the general public:

Species	% purchased in last 3 years
Rhododendron	44%
Azalea	28%
Rose	19%
Juniper	9%
Cedar Hedging	8%
Lilac	7%
Camellia	6%
Hydrangea	5%

[4] Richard Basford & Associates., Aug. 1992, Marketing Reccomendations for the BC Nursery Trades Association

CUSTOMER ANALYSIS EXAMPLE

Customer	% of total sales for BC growers	Key criteria in their purchasing decision	Other comments
Retail garden centres	approximately 37%	• Quality of plant • Price • Health of the leaves and foliage • Service	Excellent labelling required. Labels should give: • Sun/shade requirements • Blossom or leaf colours when pertinent represented by a picture • Size and height at maturity • Planting and basic care instructions • Common name of plant
Mass merchandisers	approximately 11%	• On time regular scheduled deliveries • Bar coded price tags • Plant quality	Tremendous expansion in the number of mass merchants entering the retail supply of garden products in past 5 years. This has opened a new, albeit difficult, channel of distribution of plants from B.C. growers.
Landscapers	approximately 26%	• Correctness of the order fulfillment (no substitutions) • Prompt assembly and delivery • A reliable return policy • Speedy quotes	One of the biggest criticism from the landscape sector and landscape architects is the substitution of plant material from original quotes. The ability to fulfill orders as specfied is one area of potential advantage in the supply to the local landscape market.
Other bodies such as municipalities and golf courses	approximately 7%		
Other growers	approximately 16%	• Colour of flowers/ foliage • Look in the garden • Ease of care • Grown specifically for B.C. Climate	

DEVELOPING MONTHLY SALES AND REVENUE GOALS

Since sales in the nursery industry are very cyclical, i.e. the majority of sales take place in the spring, from February to May, it is important to forecast sales monthly rather than yearly. The cyclical nature of any given company will of course depend on the channels of distribution (sales to garden centres, landscapers, eastern markets, mass merchandisers etc.).

Any projections based on historical sales trends will need to be analyzed and adjusted based on possible changes in the following:

1) **Introduction of new products.** For example if a nursery introduced new plant varieties that have summer blooming periods such as hydrangeas, this will extend the normal revenue generation period of the nursery.
2) **External developments** can have a major impact on projected sales. For example significant increase in the value of the Canadian $ vs. the US $ will increase the competition from the US. If a new competitor enters the market carrying similar product lines this can impact both sales and price.
3) **Expanded sales and advertising** efforts can have a significant impact on sales of an individual firm. This is often a short run impact until key competitors can match your sales and advertising efforts to regain lost market share.
4) **Price changes** can have either a positive or negative impact on revenue.

The actual development of the sales objectives should be initially based on the number of individual units of each product sold and the forecasts should be stated in terms of units rather than dollars. The reasons for this are:

1) Sales do not really occur in dollar terms but in units. From a marketing, shipping and production perspective, they are handling units of plants not dollars. Therefore from the organizational perspective the initially important criteria is how many units must be sold and how they are moved to market.
2) Customer demand is primarily based on the number of units consumed, with the price paid for the units being a secondary consideration. For example your retail garden centre customer knows that it can sell 150 five-gallon red rhododendrons per week when they are in bloom. This is their primary consideration; the secondary consideration is what they have to pay for the product.
3) If forecasts are based on units, it is much easier to adjust to other impacts on the organization. The changes in units sold, not the dollars received are what ultimately impacts production, advertising, shipping and space requirements.

Since the sales and revenue projections have such a significant impact on all other operations of the company, you may want to develop several different alternatives to be evaluated based on ability to finance, provide human resources, etc. Typically firms develop three scenarios: worst case, average and best case. In general, management should have at least 95% confidence that the scenario picked is what will actually happen.

DEVELOPING MONTHLY SALES AND REVENUES EXAMPLE

Product:	Pinus mugo #5 pot		
	March	**April**	**May**
1991	120	180	45
1992	112	200	50
1993	150	160	48
1994	145	165	50
Forecast	**150**	**170**	**50**

(Similar tables could be prepared for all species/varieties sold.)

Forecasting monthly sales by $

Sale of #5 pots:

	MONTH											
	1	2	3	4	5	6	7	8	9	10	11	12
Units (A)	0	100	250	700	600	150	50	20	100	300	20	0
Avg. Unit price (B)	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Revenue A*B = C	0	1150	2875	8050	6900	1725	575	230	1150	3450	230	0

TOTAL SALES FOR YEAR = SUM OF ALL MONTHS = $26,335

SETTING PRICES

Prices are generally set based on market conditions; however it is important to ensure that your prices are covering your costs. These costs include your production as well as your overhead costs. The information needed to complete this section is derived from the production and human resource and organization plans. This section will therefore need to be completed after those sections have been finished.

Costing your inventory

The cost of the products you sell can be broken down into three components: direct costs, variable overhead costs, and fixed overhead costs. For the purpose of this planning process, the following applications of these costs will be used.

Direct Costs:	Any costs of raw materials which are directly related to the final product on a one for one basis, for example, liners, containers, media.
Variable Overhead:	Any production costs which will vary depending on the level of production, e.g., potting costs.
Fixed Overhead:	All other fixed costs of operation which have to be covered for the nursery to operate. This will include salaries, administrative costs, depreciation, financing charges etc.

The variable costs (direct plus variable overhead), will therefore have a direct relationship to unit production. The fixed costs are by nature independent of production, but have to be covered for the nursery to show a profit. The amount of fixed overhead allocated to each inventory item will vary depending on the anticipated annual volume. Since the amount to be allocated is fixed, the greater the production volume, the lesser the overhead burden per item.

The "full cost" of an inventory item includes all direct, variable and fixed overhead allocation.

Setting a selling price

Ideally the selling price should exceed the full cost of each product. This means that each item is covering both its variable cost and its contribution towards the fixed overheads. In some cases market conditions may be such that it is not possible to recover all the costs of a particular item. It may still be appropriate to sell the item at a loss if there are compensating factors - such as need to carry a full product line and ensure sales of other more profitable products.

If a selling price is not covering its direct and variable costs, then it means that for every item sold, you are losing money. It is costing more than you are getting back. The more you sell, the more you lose. Obviously this should not be allowed to happen, unless there are some very good marketing or promotional reasons.

SETTING PRICES EXAMPLE

Product costing and margins

	Prod./Sales	Cost	Selling Price	Gross Margin (before OH & sales costs)
Deciduous shrubs - #1 pots	18,000	$1.85	#3.50	$1.65
Deciduous shrubs - #2 pots	10,000	$2.65	$6.25	$3.60
Conifers - #1 pots	10,000	$1.55	$3.25	$1.70
Conifers - #2 pots	15,000	$3.00	$7.25	$4.25
Deciduous - #5 pots	10,000	$5.75	$12.50	$6.75

Note: The gross margin must cover all over head costs, sales and shipping costs and desired profit.

MARKETING AND SALES EXPENSES

Marketing and sales expenses can be broken down into:

1. Fixed expenses. These tend to be stable no matter what the volume sold. Examples of these are minimum sales force, catalogue production and normal advertising or marketing (e.g. trade shows).

2. Variable expenses, which change in direct relation to the sales volume. Examples are shipping costs to markets, increase size of sales force.

3. One time expenses, which are special expenses such as a special one time promotion effort or a special trip to investigate and or set up new markets.

For preparation of the business plan, the promotional costs necessary to meet the sales targets need to be consistent with those targets. Typically, those costs include catalogue production, trade shows, advertising and any special promotions.

SALES AND MARKETING EXPENSES EXAMPLE

Factor	Year 1	Year 2	Year 3	Year 4
Sales volume (total Units) *(A)*	30,000	35,000	37,000	40,000
Shipping costs *(B)*	$32,000	$35,500	$36,000	$39,000
Salesman *(C)*	$30,000	$35,000	$37,000	$40,000
Catalogue *(D)*	$2,000	$2,200	$5,000	$5,000
Trade show *(E)*	$0.00	$1,500	$2,500	$2,000
Tags *(F)*	$3,000	$4,000	$6,000	$6,000
Total *(G)* *=B+C+D+E+F*	$67,000.00	$78,200.00	$86,500.00	$92,000.00
Sales & mkt on a unit basis *(G/A)*	$2.23	$2.23	$2.34	$2.30

Note: Shipping costs are normally recovered by charging freight to customer

THE HUMAN RESOURCES PLAN

The human resources plan describes your expected labour requirements over the next three years. The areas of responsibilities, training and experience requirements for each staff position, organizational chart as well as compensation and benefits should be summarized. Also, review the labour management programs that you plan to initiate and the goals you wish to achieve.

The human resources plan is often included as a subsection in the production portion of a business plan because of the close relationship between forecast production levels and staff required to meet those levels. But given the increasing importance of labour management, you may choose to highlight your labour management plan as a separate section.

Human resources management requires thinking about how you will recruit, screen, motivate, train and discipline the staff you work with. The British Columbia Ministry of Agriculture, Fisheries and Food provides a series of five publications called *B.C. Farm Employers' Handbook* and a series of Labour Management videos. Copies are available from the Farm Management Branch or your closest district office.

Employee Plan

In your employee plan, show the positions that exist or will be required in your operation and describe the job each employee is expected to do.

Note: If your business plan will be used to obtain financing, you should include resumes for the managers. An outside lender will base his or her decision on the management skills and experience available. The resumes should show the name, education and experience for the manager and skilled workers in your firm.

Organization Chart

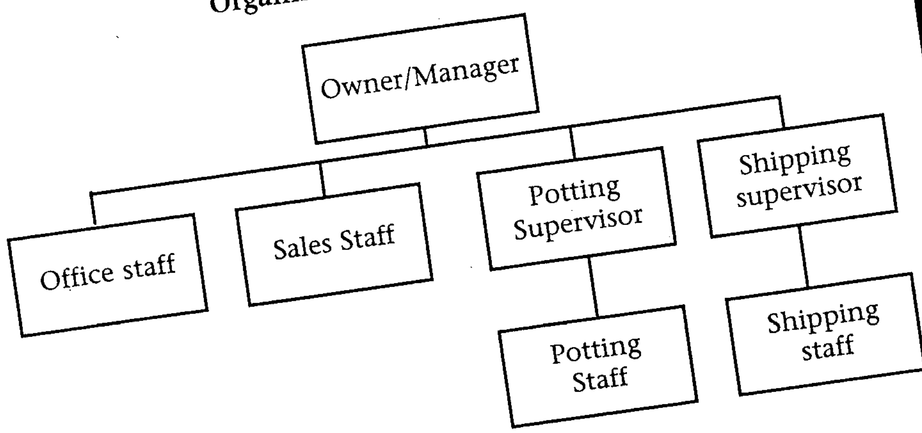
Once you have prepared your employee plan, complete an organization chart as well to illustrate how your staff members are organized and to whom they report. This is important for two reasons. Firstly, readers outside your firm will want to see evidence that you have thought through and organized the staff and management needs of your business. Secondly, your own employees will want to know how their firm is organized.

If major organizational changes are required because of changes in your operation during the period covered by the plan, these should be noted.

EMPLOYEE PLAN EXAMPLE

Job Title	Functions
Owner/Manager	Production and business management; supervising staff, repair and maintenance; upgrading and developing facilities
Office staff	Office receptionist duties; filing; bookkeeping; correspondence and recordkeeping
Sales staff	Responsible for all sales; regular visits to retail garden centres
Potting supervisor	Supervision of potting line, both equipment and staff
Potting staff - temporary	Potting of plant material; day-to-day operation of potting equipment
Shipping supervisor	Oversees all shipping operations; supervises shipping staff
Shipping staff	Transports potted plants from potting area and prepares for shipping to customers; ability to operate moving equipment such as tractors, wagons, front-end loaders

Organizational Chart Example



COMPENSATION AND BENEFITS

Another step in preparing your Human Resources Plan is to complete the compensation and benefits chart. There are a number of potential sources of information for items such as likely salary and wages levels. Statistics Canada produces a number of summary reports showing compensation by various groups. Or, local growers or government organizations (such as employment offices) may be able to help you estimate the various compensation levels for which you will need to plan. Bonuses paid to employees are often linked to the yield produced by the crop.

If you anticipate changes in wages or compensation during the period covered by the plan, these should be noted.

Labour and Training Goals

Successful recruiting, motivation and discipline procedures are keys to the growth and success of your business. Your labour plan should show how you plan to promote and maintain good labour relations, strong morale and high quality/high output per worker.

Your labour targets and planned programs can be summarized on a form similar to the one in the example.

THE PRODUCTION PLAN

The development of a production plan for a nursery must flow directly from a well developed marketing plan. The marketing plan will be the determining force in the quantity, variety and size of the plant material produced. The long term sales plan will also be used to determine the targeted levels of ending inventory for each size and variety of plant. i.e. the inventory that must be held back from immediate sales for potting field planting.

The production plan should contain the following components:

- A description of land, buildings and facilities
- Equipment planning
- Material and supplies and what these will cost
- Scheduling
- Production strategies

Land, Buildings and Facilities

In this section, describe the land, buildings and facilities you currently have. If changes are planned, include this in your business plan. The buildings and improvements are detailed to illustrate the kind of thinking you need to do up front when planning or expanding your facilities. Although not shown in the example used here, a key part of your facilities planning should be a layout, drawn to scale. This will help ensure that you have chosen the right facility and will help you in estimating any facility improvements that may be required.

Equipment

Planning around equipment involves a consideration of purchase price and maintenance costs. It is recommended that a simple fixed asset register be maintained. This will enable you to track machinery and equipment, and consider replacement when maintenance costs become too high, or the machine reaches a certain age.

If additional equipment is being considered, the date of proposed date of purchase should be noted, as this will have an impact on the cash flow projections. If financing is available, this should also be recorded.

When obtaining cost information, be sure freight, installation, warranty service and taxes are included or excluded from the prices you are quoted. Also check on lead times for delivery once you have placed your order. Start researching your equipment well in advance of the time you will need it to allow enough time to select equipment and suppliers and to place orders.

COMPENSATION AND BENEFITS EXAMPLE

Position	Salary and Benefits
Owner/Manager	$55,000
Office staff - receptionist (full-time)	$20,000 plus 5% benefits
- bookkeeper (part-time)	$15,000
Sales staff	10% commission
Potting supervisor	$26,000 plus 5% benefits
Potting staff - temporary (5)	$7.75 /hr (includes CPP, UI)
Shipping supervisor	$26,000 plus 5% benefits
Shipping staff (2)	$7.75 /hr (includes CPP, UI)

Labour and Training Goals Example

Target	Barrier	Planned Response	Measurement
Employee safety - an accident-free workplace	Knowledge; working conditions; cleanliness	Training; employee manual; regular clean-up; awareness and supervision	100 accident-free days
High productivity	Work habits; lack of knowledge and/or experience	Attention to employee concerns; regular performance reviews; training opportunities; workplace design including purchase of automated potting machine; management style	4,000 one gallon pots per day
Low staff turnover	Demand for skilled workers by other firms; repetitiveness of labour operations	Attention to employee concerns; regular performance reviews; training opportunities; job rotation; profit sharing incentives	Tenure of greater than 2 years

LAND, BUILDINGS AND FACILITIES & EQUIPMENT EXAMPLE

Location:	Fraser Valley
Description:	Wholesale nursery operation, growing large variety of trees, shrubs, ground covers and some field stock
Size:	10 acres: 5 acres in field stock; 5 acres in containers including 30,000 sq. ft. poly house space
Owned or leased	Owned
Buildings and improvments	10 older wooden greenhouses - 30′ x 100′ Assortment of out buildings

Description	Cost	Estimate of Maintenance and Repairs Over Next Year
10 Greenhouses	$50,000	$500
4 Tractors	$60,000	$3,500
20 Trailers	$30,000	$1000
1 Bobcat	$27,000	$1,500
1 Tractor mounted sprayer	$5,000	$500
1 5-Ton truck	$40,000	$2,000
Irrigation equipment	$5,000	$1,000

MATERIALS AND SUPPLIES

You will need to research your material requirements by preparing a detailed list for the products you plan to grow or produce and then calculating the inputs you will need. The raw material purchasing plan must take the following into consideration:

- Specific quantities of each product needed to support the monthly production plan.
- The average price of each product.
- Lead-time needed to obtain each product.

Key to the most prudent economic production planning is the planning of inventory levels of raw materials. To determine the economic strategy of inventorying raw materials the following must be considered:

- Volume discounts vs. cost of financing larger purchases
- Potential changes in supplier prices
- Cost of running out of key supplies in the middle of production
- Realistic delivery times from the time of order

Based on these criteria, the maximum and minimum levels of raw material inventory should be set. The production levels are based on the sales requirements in future years. It can be assumed in most cases that the production required in year 1 should be equal to the sales in year 2. (The lag time may be longer if you are using 5 gallon pots, but the process is the same). The production figures must therefore be tied back to sales for future periods.

Scheduling

A production schedule must be produced that provides the needed product on the time line as defined by the sales objectives. This is especially critical in the nursery industry with its narrow windows of sales opportunity (major sales in the spring of each year) and the long production cycles and inventory carrying costs. Good production scheduling takes the following factors into consideration:

- Costs associated with producing and maintaining an inventory that is not immediately translated into sales.
- Cost associated with lost sales due to unavailability of inventory for sale.
- Ability to purchase needed inventory from other sources to meet production or sales shortages.

The production plan should set the minimum and maximum levels of inventory acceptable for each product and size. The minimum should be set based on the confidence put in the sales figures with the need to hold inventory for potting on to larger sizes. If there is a high degree of uncertainty in the sales figures the nursery must consider its financial status to be able to hold higher then desired levels of inventory over the winter vs. its potential for lost sales due to lack of inventory.

MATERIALS, SUPPLIES AND SCHEDULING EXAMPLE

This example outlines the production planning process for one gallon nursery stock, assuming a four month production period.

		Feb	March	April	May
Production level	(A)	10,000	40,000	40,000	15,000
Liners-in house	(B)	5,000	20,000	20,000	10,000
Liners-purchased	(C)	5,000	20,000	20,000	5,000
Pot inventory - beg. month	(D)	20,000	10,000	0	0
Pot usage	(A)	10,000	40,000	40,000	15,000
Pot inventory - end of month	(E=D-A)	10,000	0	0	0
Pot requirements	(F=A-E)	0	30,000	40,0000	15,000
Soil inventory M^3 (Yd) - opening	(G)	50	21	0	0
Soil use pots M^3 (Yd) (based on pot)	(H)	350	350	350	350
Total soil usage	(I=A/H)	29	114	114	43
Soil inventory - end of month	(J=G-I)	21	0	0	0
Soil requirements	(K=I-G)	0	93	114	43

Note: The calculation of soil requirements is based on the volume of the pot. This is calculated by:

1. calculate the volume of the pot $\pi(r^2)h$
2. change volume of cm^3 to m^3
3. divide 1 m^3 by the volume of one pot. This gives the number of pots per m^3
4. since many people are still working in Imperial units, the calculations are often done in y^3 rather than metric.

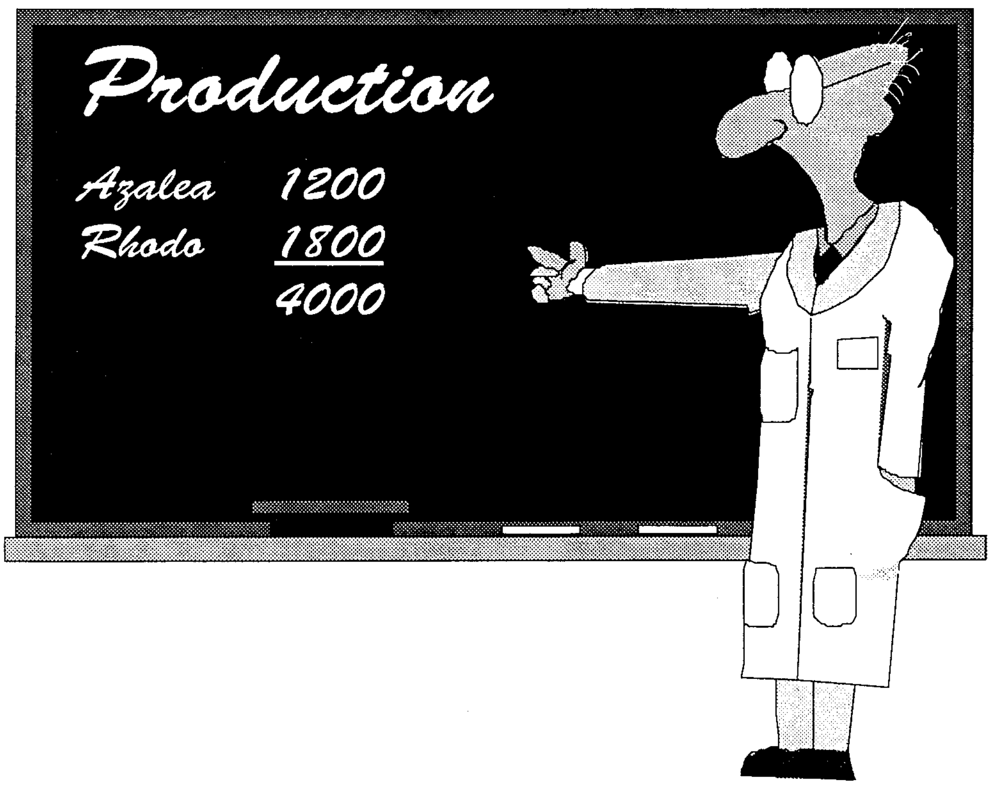
The following example is for #1 (one gallon pots)

pot size	=	15cm x 18cm	=	$3179cm^3$
volume	=	$3.14(7.5^2)(18)$	=	$.003m^3$
volume in m^3	=	3179/1,000,000	=	333 per m^3
pots per m^3	=	1/.003	=	300 #1 pots per m^3
less spillage and other losses approx. 10%				

PRODUCTION STRATEGIES

You will need to carefully research and thoroughly understand the crop you are planning to grow, the production system you will be using as well as how to avoid potential problems. Keep abreast of innovations and research and incorporate new technology in your production system to improve efficiency. This information can then be used to develop plans to optimize yields, grades and profits through appropriate production and labour management activities.

Our example of a production strategy shows the thinking behind a nursery operation that wants to move into major azalea production.



PRODUCTION STRATEGIES EXAMPLE

Description	Target Yields	Barriers	Response
#1 pot azaleas	4,000/day 50,000/year	• lack of automated potting equipment • lack of reliable overwintering facilities	• purchase automated potting equipment • construct heated polyhouses

THE FINANCIAL PLAN

The financial plan will help you (and any potential lender) estimate how much cash will be needed and when in order to start and maintain a profitable business. You'll also be able to estimate how much profit you can generate, given the level of capital you are able (or willing) to invest.

The process of creating financial projections for your business's income, cash flow and financial position will force you to think through the financial transactions you plan to complete at a fairly high level of detail. Through this process, any discrepancies, gaps or unrealistic assumptions will more than likely come to light.

The information you will need to pull the financial projections together will, for the most part, already have been created when you completed the marketing, operating and human resources plans in earlier sections. Since much of the information you'll be working with is subject to uncertainty, you'll be wise to create three sets of projections:

- a "pessimistic" scenario;
- a "most likely" scenario; and
- an "optimistic" scenario.

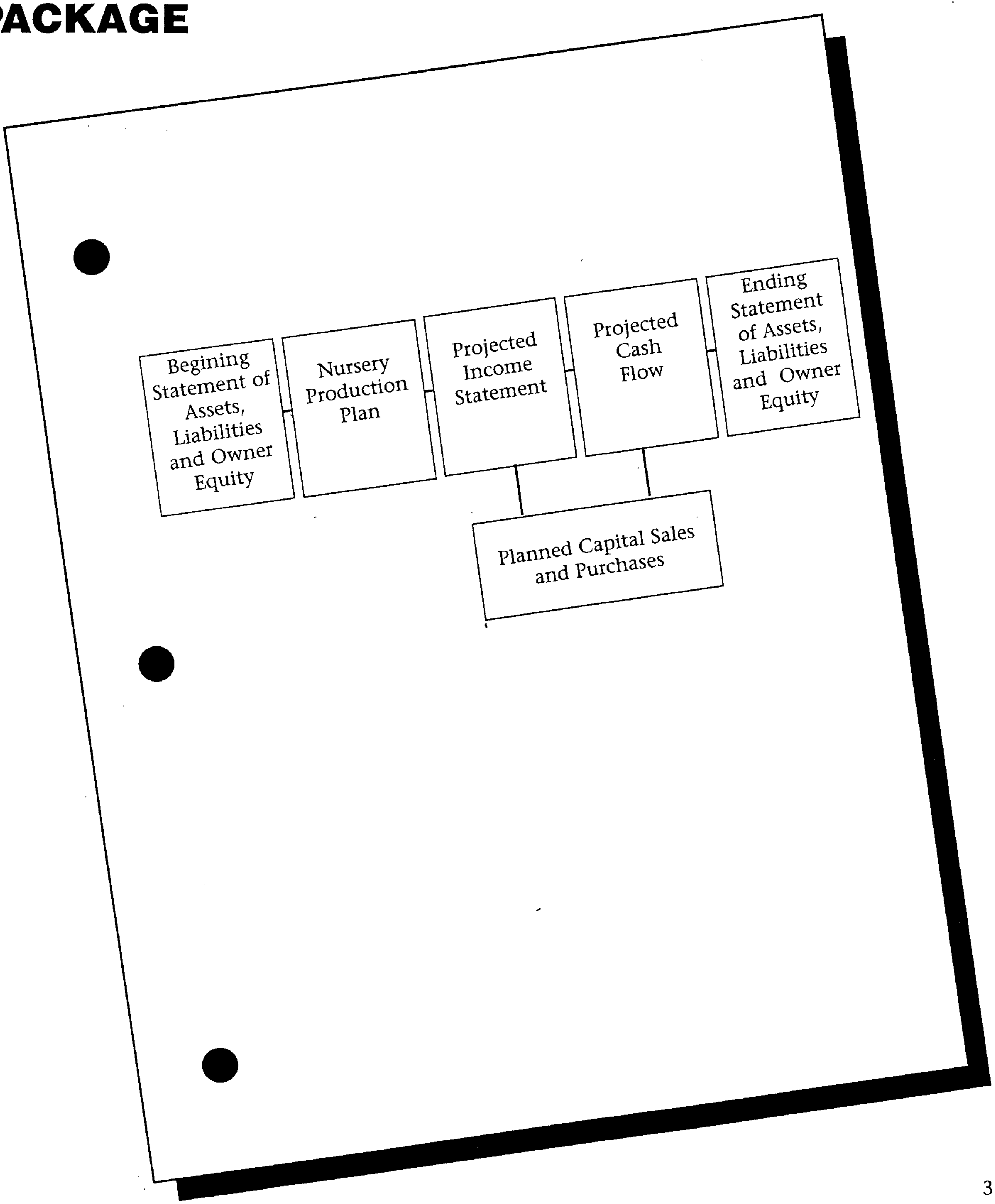
The change in profits and cash requirements from one scenario to another will indicate to you the degree of risk you're likely to be facing.

When preparing a financial plan for an existing business, statements for the past two or three years should be included. This gives some comparison between projections and what actually happened in previous years. In particular it allows you to see if there are any major changes in key financial ratios between the historic numbers and the projected numbers.

When the business plan is being used to acquire financing, detailed lists of inventories, accounts receivable, accounts payable, insurance coverage, copies of legal agreements, orders, letters of intent, appraisals, personal net worth statements and references may also be required.

The British Columbia Ministry of Agriculture, Fisheries and Food has Planning Packages available to producers to assist them in their planning process. The following schematic illustrates how the financial planning package can be used when developing a financial plan. Copies are available from the Farm Management Branch or your closest district office.

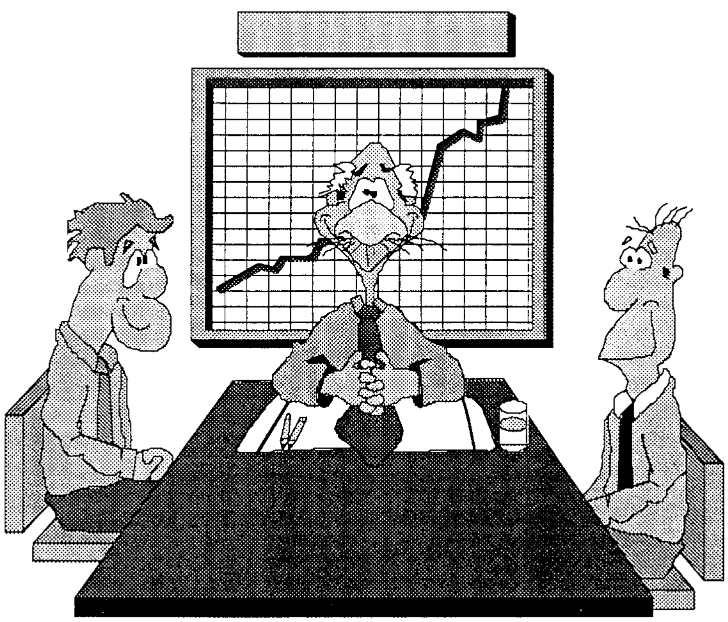
NURSERY PLANNING PACKAGE



INCOME STATEMENT

Prepare a schedule showing projected income from sales for the next two years. For an existing business, include information from the last two or three years. The figures used in the example form are shown only as an illustration; you should not, therefore, use the figures in preparing your own projections. These numbers follow the example of the nursery operator who wishes to increase his sales by adding a new line of product. This new line of product is one gallon azaleas.

Note that the operation incurs a very large increase in production costs in 1995 to achieve the increase in sales in 1996. This results in a loss showing on the income statement in 1995. There is however a corresponding increase in assets (via inventory increase) which shows up on the balance sheet. This inventory increase ensures that there is still equity in the company. On a cash flow basis, this becomes a cash deficit that must be made up with either borrowed money or increased cash investment by the owner or other outside investors.



INCOME STATEMENT EXAMPLE

INCOME STATEMENT

	1992	1993	1994	1995
REVENUE				
Dec Shrubs-#1	$100,00	$63,000	$63,000	$63,000
Dec Shrubs -#2	75,000	62,500	62,500	62,500
Conifers #1	130,000	40,750	40,750	40,750
Conifers #2	120,000	108,750	108,750	108,750
Deciduous #5	125,000	100,000	100,000	100,00
Azaleas	-	-	-	-
	$550,000	**$375,000**	**$375,000**	**$375,000**
EXPENSES				
Plant material	140,000	95,000	97,000	180,525
Fertilizer	4,500	4,000	3,800	9,500
Chemicals	3,800	2,555	2,455	8,700
Irrigation & Maint.	10,230	9,000	9,400	10,000
Equip. operation	7,800	7,500	8,250	9,000
Other	22,000	12,500	14,500	12,000
	$188,330	**$130,555**	**$135,405**	**$229,725**
Man. wages & sala.	65,000	55,000	55,000	55,000
Staff wages & sala.	154,000	144,000	105,000	152,000
Advertising	2,000	2,000	1,500	6,000
Acct & Legal	5,500	5,500	6,000	7,000
Depreciation	38,000	30,000	24,000	20,000
Interest	8,900	12,500	10,700	37,474
Other	40,200	36,500	37,500	38,000
	$313,600	**$285,500**	**$239,700**	**$315,474**
TOTAL EXPENSES	**$501,930**	**$416,055**	**$375,105**	**$545,199**
NET INCOME	**$48,070**	**-$41,055**	**-$105**	**-$170,000**

CASH FLOW SUMMARY

Accurate cash flow planning is essential. Inadequate working capital is a common cause of small business failure, especially during the first three to five years.

When cash flow is tight, you may want to evaluate the benefits of leasing rather than purchasing capital assets.

Identify the cash inflows and outflows for your business operation over three years of operations. Remember that cash may not be received until one or more months after the sale is made. In the nursery industry it is not uncommon to be paid 90 days after invoice. It is critical when doing cash flow planning to develop realistic assumptions on the time lag for payments. Similarly, some expenses, such as insurance, are paid all in one payment, creating peaks and valleys in cash flows. The surplus or deficit at the bottom of the statement will show the increase or decrease of any bank loan which you will require during the year.

For proper monitoring of business operations and for most financial institutions, monthly summaries are required for the upcoming year. Any projections past one year are usually done on a yearly or quarterly basis. The example provided below follows the example of the nursery operator who wishes to increase his production and sales by 50,000 one gallon azaleas.

In this example you can see that even though the end of year cash position is only negative $118,432, the lowest point in cash comes in April with negative $429,227. The nursery operator will have to have financing available to cover this. If monthly cash flows are not done there is no way of predicting that the cash flow will hit this low of a figure. Yearly or quarterly projections will not pick this up.

CASH FLOW SUMMARY EXAMPLE

See Appendix 1
page 59

PROJECTED STATEMENT OF ASSETS, LIABILITIES AND OWNER'S EQUITY

Prepare a schedule showing a projected statement of assets and liabilities at the end of each year for the next three years. For an existing business, include information for the last two or three years. This statement shows how the nursery's assets and liabilities are building over the period covered by the statement. It can be useful as well for determining whether there is security available for any loans that might be required.

PROJECTED STATEMENT OF ASSETS, LIABILITIES AND OWNER'S EQUITY EXAMPLE

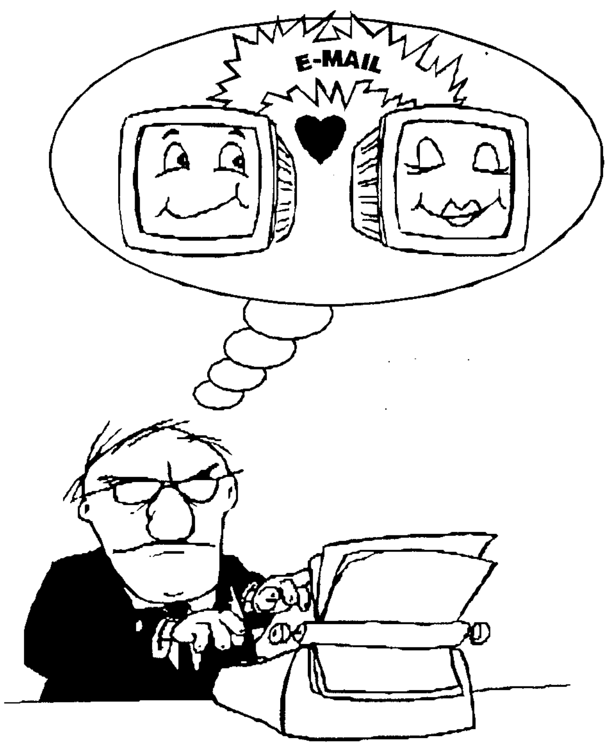
BALANCE SHEET @ DECEMBER 31, 1995

		1995
ASSETS		
Current Assets		
Cash		$165,000
Accounts Receivable		42,000
Inventory		189,200
Plant	176,000	
Other	12,600	
Other		6,500
		$72,700
Fixed Assets		
Land		100,000
Buildings		23,000
Equipment		77,000
		200,000
Other Assets		-
TOTAL ASSETS		**$272,700**
LIABILITIES & EQUITY		
Current Liabilities		
Accounts Payable		22,500
Other Liabilities		-
		22,500
Non Current Liabilities		100,000
Equity		
Capital & Retained Earnings		150,200
TOTAL LIABILITIES AND EQUITY		**$272,700**

CAPITAL SALES, PURCHASES

Investors and lenders will require detailed information on the capital purchases that are anticipated during the planning period as well as information on how these assets are to be financed, and the expected useful life of the asset. For a new business, detailed information itemizing the cost of land, buildings and equipment would be required. An established or expanding business would detail just the changes anticipated.

Leasing assets and contracting services should be considered where they can be employed as a feasible way to increase profitability or reduce risk.



CAPITAL SALES, PURCHASES EXAMPLE

CAPITAL SALES & PURCHASES, 1996

Item	Sales Trade-in	Purchases	Cash Down	Required Financing	Monthly Payments	CCA Rate
Intermediate Assets						
Bob Cat	0	27,000	6,000	21,000[5]	628.45	
5 Ton Truck	0	40,000	10,000	30,000[6]	820.66	
Total Immediate		67,000	16,000	51,000	1449.11	
Long term Assets						
Greenhouses	0	5,0000	0	50,000[7]	1037.03	
TOTAL		117,000	16,000	101,000	2,487.03	

5 Dealer financing at 4.9%
6 Bank financing at 8.5%
7 Bank financing at 9.0%

LOAN SUMMARY

Information on existing loans is required for both existing loans and new loans. Loan information should outline the interest rate being paid, frequency of payments, security given, type of loan, i.e. amortized (where annual payments remain the same over the life of the loan) or non-amortized and outstanding balance, the amount of new loans and outstanding balance, and financial institution for existing loans.

LOAN SUMMARY EXAMPLE

Item	Loan #1	Loan #2	Loan #3
1. Date incurred	July 1, 1995	July 1, 1995	
2. Original amount	21,000	40,000	
3. Purpose	Skidsteer loader	5 ton truck	
4. Amount owing	21,000	40,000	
5. Interest rate	4.9%	9.0%	
6. Payment frequency	monthly	monthly	
7. Annual payment	7541.40	9847.67	
8. Principal	21,000	40,000	
9. Interest	1624.07	9239.67	
10. Source/lender	Dealer	Dealer	
11. Security provided	6,000 down	10,000 down	
12. Term	36 month	60 month	
13. Amortized/ non amortized (A/N)			

The above table gives an example of the two dealer loans showing the interest rate, yearly payment, total interest paid over the life of the loan etc.

FINANCIAL PERFORMANCE INDICATORS

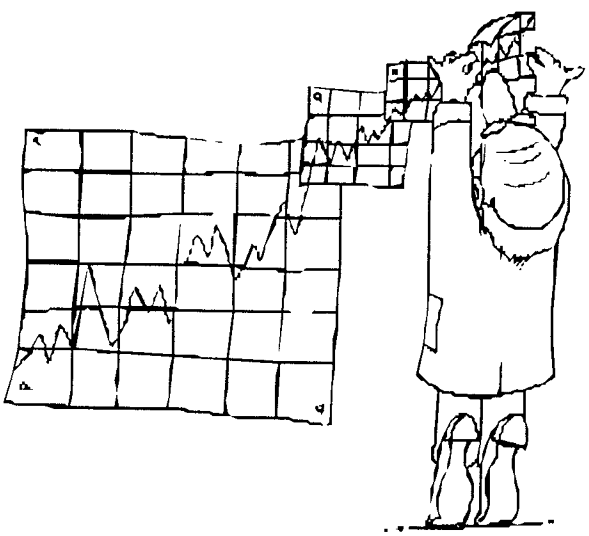
In this section, calculate profit, risk and growth ratios for your business. These ratios are calculated from information on the financial statements and provide guidelines to measure the progress of your business and alert you to problems.

Profitability ratios including Return on Equity and Return on Investment indicate how efficiently your capital is being used.

Risk ratios including the Current Ratio, the Debt Servicing Ratio, and Debt to Equity Ratio indicate the ability of your business to carry on when unexpected problems arise.

Growth ratios including the Sales Growth Ratio and the Equity Growth Ratio can be used to track financial progress.

Future ratios should be based on the "most likely" sales forecast. For more information and examples of how to calculate these ratios, refer to the British Columbia Ministry of Agriculture, Fisheries and Food Factsheet 1990-07, *Financial Analysis Using Financial Ratios*.



FINANCIAL PERFORMANCE INDICATORS EXAMPLE

You can use the financial information provided to calculate the appropriate numbers for the table below. Bench-marks are given where the industry data is available.

Financial Ratios (Formula)	1995	1996	1997	Bench-mark[8]
Profitability Ratios				
Return on Equity (%) net income x 100 / total equity				10.3%
Return on Investment (%) net income + paid interest x 100 / total investment				5.1%
Liquidity (Risk) Ratios				
Current Ratio current assets / current liabilities				3.34
Quick Ratio current assets - inventory / current liabilities				1.25
Debt to Equity Ratio total liabilities / total equity				50.9%
Interest Coverage Ratios net income + interest / interest expense				
Debt Servicing Ratio (%) annual payments x 100 / total revenue				
Growth Ratios				
Sales Growth (%) sales increase x 100 / previous sales				
Equity Growth (%) equity increase x 100 / previous years equity				

[8] Don Ference & Associates., 1991, Profile of the BC Nursery Industry, pub. BC Nursery Trades Association

THE LONG-RANGE PLAN

The long-range plan (covering the next 5 to 10 years) helps to keep your business progressing toward goals which are consistent with your long-range goals and objectives. Answers to questions such as "where would I like the business to be in 10 years?" and "what will the business look like?" will form the backbone of your long-range plan. When you've defined the goals and objectives, you can then anticipate the major steps or milestones which must be reached over the next five years in order to achieve the longer term objectives.

Reaching these milestones will likely require additional management, production and/or marketing skills. You can begin to think about what these needs are now and formulate plans to acquire them.

THE LONG-RANGE PLANNING EXAMPLE

Business Goals and Objectives

- maintain a profitable business with a postive net income
- maintain production goals set out in this plan
- implement production and labour practices which will optimize yields
- develop a reputation as a producer of fine quality nursery stock, especially Azaleas

Major Milestones

- get out "from under the bank" within 10 years

Additional Production, Financial and Labour Management, or Marketing Skills Required

- attend conferences and workshops on management skills
- read to keep abreast of new developments in the industry

GLOSSARY OF BUSINESS TERMS

ACCOUNTS PAYABLE

An amount owing to a creditor (i.e. an amount owed someone else), usually arising from the purchase of goods or services, that is due to be paid within a 12 month period or within the normal operating cycle (where the cycle is longer than a year). Examples include amounts owed for property taxes and interest and amounts owed to a supplier on account for fertilizer, fuel, etc. These amounts owing are often relatively short term, where payment is normally required in full within a one or two month period.

ACCOUNTS RECEIVABLE

An amount owed to the business usually arising from the sale of goods or services. (Examples include uncollected receipts for plant sales).

ACCRUAL BASIS OF ACCOUNTING/REPORTING

A method of accounting/reporting by which revenue and expenses are recorded in the period when they are earned or incurred regardless of when the cash transaction took place. Unlike the cash basis of accounting, revenues and expenses include changes to inventory, accounts receivable and accounts payable.

AMORTIZATION

This term refers to the scheduled or systematic reduction of a balance in an account over an appropriate period. Most often this term applies to long-term liabilities and intangible assets. (See also the definition of depreciation and depletion).

ASSETS

Tangible and intangible items of value owned by the business. (Examples include cash, accounts receivable, inventory, productive assets, equipment, buildings and land).

CURRENT ASSETS

Unrestricted cash and other assets that in the normal course of operations are expected to be converted into cash or consumed in the production process within one year or within the normal operating cycle (where the cycle is longer than a year). (Examples include cash, accounts receivable, fertilizer and other supply inventories, and prepaid expenses).

FIXED ASSETS

Tangible assets which are usually involved in the production of goods and services rather than held for resale. These assets represent relatively long-term investments that are used for more than one year. (Examples include land, buildings and equipment).

INTANGIBLE ASSETS

Assets that lack physical substance but like all other assets benefit or add value to the business. (Examples include goodwill, trademarks, leaseholds, mineral rights).

LIQUID ASSETS

Cash and temporary investments that can be readily converted into cash without disrupting normal operations.

LONG-TERM ASSETS

Assets that have a useful life greater than one year. These assets are not usually purchased for resale, but are to be used over time to produce saleable products. Long-term assets are also referred to as capital assets (Examples include land, buildings, equipment, productive assets such as stock plants and investments).

BALANCE SHEET

A statement of financial position showing the assets, liabilities and equity of a business at a specific date.

CAPITAL

The total assets available to a business.

CAPITAL GAIN

This term is used for income tax purposes to define, in most cases, the amount of proceeds on the disposition of a long-term asset in excess of the asset's original cost.

CAPITAL LOSS

This term is used for income tax purposes to define, in most cases, the deficiency between the amount of the proceeds on the disposition of a long-term, non-depreciable asset and its original cost.

CASH BASIS OF ACCOUNTING/REPORTING

A method of accounting/reporting by which revenues and expenses are recorded when cash is actually received or paid regardless of when the agreement to sell or purchase may have taken place. Unlike the accrual basis of accounting, revenues and expenses do not include changes to inventory, accounts receivable or accounts payable.

CHANGE IN INVENTORY

The term used on the Statement of Income to define the adjustment to the inventory account on the balance sheet that reflects the amount of the increase or decrease in the total value of inventory from one reporting period to another.

CONTINGENT LIABILITY

A potential liability that is, at the date of reporting, not certain as to amount or likelihood of existence. The realization of these potential liabilities will depend upon a future event occurring or, alternatively, depend upon a future event failing to occur. (An example would include the instance where a business guarantees the loan of a third party. This guarantee would be considered a contingent liability to the guarantor).

CONTRIBUTION MARGIN

This is the excess of total revenue minus variable costs that directly relate to the business operation.

COST

This term refers to the purchase price for goods or services consumed in the business.

FIXED COST

Costs that remain relatively unchanged regardless of the volume of production or activity within a range of volume. (Examples include building insurance and property taxes).

VARIABLE COST

Costs that vary directly with the volume of production or activity. If no production or activity takes place, variable costs are zero. (Examples include fertilizer and growing medium).

CURRENT DEBT

A debt, or a portion of a debt, due within the current year or within the normal operating cycle (where the cycle is longer than a year). (An example includes the portion of long-term debt (principal only) due in the upcoming fiscal period).

LONG-TERM DEBT

Debts with a maturity date beyond one year from the date of the balance sheet or beyond the normal operating cycle (where the cycle is longer than one year). Long-term debt excludes that portion of the debt principal due within one year.

DEBT CAPITAL

The total financial resources provided by lenders (usually restricted to long-term debt) for the use of the business.

DEFERRED INCOME TAXES

The accumulated amount by which income tax expenses reported on the statement of income has been increased or decreased as a result of timing differences. Timing differences referred to here are the difference between accounting and taxable income that arises as a result of including revenues or expenses in one period in determining net income for accounting purposes, but including them in another period for determining taxable income. (For example, reporting depreciation on the financial statements at an amount different from the capital cost allowance recorded in the tax return would give rise to deferred income taxes).

DEPRECIATION

A non-cash expense charged periodically to allocate or distribute the cost of a long-term asset over its estimated useful life.

DIVIDENDS

An amount of retained earnings declared by the board of directors of a corporation for distribution to its shareholders in proportion to their relative shareholdings.

EQUITY CAPITAL

The interest of the owner in the assets of a business. This interest is represented by the excess of the total assets over the total liabilities.

EXPENSE

A cost generally identifiable with the business operations during a fiscal period or with revenues earned during that period. (Examples include regular operating costs such as interest and wages as well as depreciation and amortization).

FINANCIAL ACCOUNTING

The development of accounting information in conformity with established accounting principles in order to summarize the financial position and operating results of a business.

FISCAL YEAR

A one year period of time for which financial statements are usually prepared for a business.

GAIN

An increase in equity as a result of a transaction other than an increase that results from revenues or equity contributions. For example, an amount equal to the excess of the sale proceeds over the net book value of a fixed asset would be termed a gain.

GOING CONCERN CONCEPT

The concept that a business will continue in operation indefinitely and that assets are therefore valued on the basis of their continued use as distinct from their market or liquidation value.

GOODWILL

Goodwill is an intangible asset, the value of which is related to the value of a business in excess of the sum of the fair market value of the net assets. Goodwill is generated from such things as high community standing, good strategic location, superior management, etc.

GROSS MARGIN

Gross margin is the excess of total revenue minus cost of goods sold. Indicates funds available to cover unallocated fixed costs, returns to operator and family labour and returns to owners'/shareholders' equity. The term gross margin is often used synonymously with the term gross profit.

HISTORICAL COST

The total expenditures made by the business to acquire title to or develop an asset (including any installation or alteration costs incurred to put the asset into service).

INVENTORY

Items of tangible property which are held for sale in the ordinary course of business, or are in the process of production for such sale, or are to be directly consumed in the production of goods or services. (Examples include fertilizer, seed, and supplies).

LEASE

An agreement whereby the owner of an asset (lessor) conveys the right to use this asset to someone else (lessee) usually for a specified period of time, in return for some form of consideration.

CAPITAL LEASE

A lease that, from the point of view of the lessee, transfers substantially all of the benefits and risks incident to ownership of property to the lessee. The term of the lease is usually in excess of one year and the lease contract may provide for transfer of ownership of the asset at the end of the lease term.

OPERATING LEASE

A lease in which the lessor retains substantially all the benefits and risks incidental to ownership of the asset.

LEVERAGE

The relationship between the total liabilities and the equity of a business. The higher the ratio of debt to equity, the greater is the leverage.

LIABILITIES

Liabilities are obligations of a business arising from past transactions that are to be paid in the future (including the delivery of goods and services in the future for which consideration has already been received). Examples include accounts payable, long-term debt, etc.

CURRENT LIABILITIES

Liabilities that will be payable within the current year or within the normal operating cycle (where the cycle is longer than a year). (Examples include accounts and notes payable within the year, and the principal portion of long-term debt due within one year).

LONG-TERM LIABILITIES

Liabilities with a maturity beyond one year from the date of the balance sheet, or beyond the normal operating cycle (where the cycle is longer than one year). Long-term liabilities exclude that portion of the debt principal and any other liabilities due within one year. (Examples include mortgages and equipment loans).

LIQUIDITY

Liquidity is often measured by the ability of the business to convert assets into cash or to obtain cash to meet short term liabilities and other commitments.

DEMAND LOAN

A debt for which payment in full could be demanded at any time upon lender's notification pursuant to the terms of the loan contract.

OPERATING LOAN

Cash advanced to a business to pay for operating costs. These loans usually provide for repayment within one year of the normal operating cycle (where the cycle is longer than a year). (Examples include loans to purchase seeds, pots and supplies).

MARKET VALUE

Market value is the value which one expects a willing buyer will pay a willing seller for an asset given an appropriate length of time to sell the asset (including the costs of disposition). This value is often based upon comparison to the latest sales date of similar assets under similar selling conditions.

MORTGAGE

A conveyance of a legal interest in property from one person to another as a security for the payment of a debt or the discharge of some other obligation. The security is redeemable on the payment or discharge of such debt or obligation.

NET BOOK VALUE

The value of an asset that is determined by subtracting the accumulated depreciation (or amortization) from the historical cost of the asset.

NET INCOME/LOSS
The excess of revenues over expenses for a given period of time. If expenses exceed revenue, the difference is called net loss.

NET WORTH
The difference between the market value of the assets and the market value of the liabilities. Net worth represents an estimate of what cash the owner would receive if all the owner's assets were disposed of and all the liabilities were discharged.

NET WORTH STATEMENT
A statement summarizing the net worth of an individual and the individual's business at a point in time. Assets are valued at estimated fair market value and liabilities are subtracted from the asset values to provide an estimate of net worth.

NOTE PAYABLE
A liability in the form of a promissory note which is a formal written promise by the borrower to pay a certain amount on demand or at a certain future date. Generally used to distinguish certain liabilities such as a note payable from other liabilities such as accounts payable.

NOTE RECEIVABLE
An asset in the form of a promissory note which is a formal written promise to be paid a certain amount on demand or at a certain future date. Generally used to distinguish certain assets such as a promissory note from other assets such as accounts receivable.

OWNER'S EQUITY
This term refers to the ownership interest in the business. Owner's equity equals assets minus liabilities and could be considered to be the owner's claim against the assets of the business. Owner's equity is increased by the owner's net contribution of assets to the business and the accumulated net income of the business.

PREPAID EXPENSE
An operating expenditure other than an outlay for inventory which is expected to yield its benefits in the future and in the meantime is carried on the balance sheet as an asset to be charged to expenses when utilized. (Examples include the unexpired portion of building insurance premiums and property taxes).

PROJECTED CASH FLOW STATEMENT
This statement shows expected future sources of cash from operations, capital sales, owner contribution and borrowing. It also shows anticipated cash utilization for business expenses, loan payments, capital purchases and owner withdrawals from the business.

SHARE CAPITAL
The ownership interest in an incorporated company that is represented by the shares of that corporation.

SHAREHOLDERS' EQUITY
The excess of the net book value of the assets of an incorporated company over the value of its liabilities.

STATEMENT OF CHANGES IN FINANCIAL POSITION

This statement shows sources of cash from business operations, asset sales, owner contributions and borrowings over the past fiscal year. It also shows cash utilization for business operations, loan payments, asset purchases and owner withdrawals from the business over the same period.

STATEMENT OF INCOME

A financial statement summarizing the revenue, the expenses, and indicating the net income (or net loss) for a defined accounting period, usually the fiscal year of a business.

APPENDIX 1

	1996	1997	1996 Detail.......... Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
CASH RECEIPTS														
Sales	464,750	601,750	-	21,000	21,000	-	-	-	-	114,188	211,375	97,188	-	-
Loans	100,000	-	-	-	-	-	50,000	50,000	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	564,750	601,750	-	21,000	21,000	-	50,000	50,000	-	114,188	211,375	97,188	-	-
CASH EXPENDITURES														
Opening A/P	22,500	-	22,500	-	-	-	-	-	-	-	-	-	-	-
Plant Material	164,300	164,300	-	-	82,150	82,150	-	-	-	-	-	-	-	-
Fertilizer	3,667	4,000	-	333	333	333	333	333	333	333	333	333	333	333
Chemicals	2,750	3,000	-	250	250	250	250	250	250	250	250	250	250	250
Irrigation	10,000	10,000	-	-	1,000	1,000	1,500	1,500	2,000	2,000	500	500	-	-
Equip Costs	8,250	9,000	-	750	750	750	750	750	750	750	750	750	750	750
Other Prod.	11,000	12,000	-	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Man Wages	85,000	85,000	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083
Staff Wages	152,000	152,000	10,000	10,000	20,000	20,000	20,000	15,000	10,000	10,000	10,000	9,000	9,000	9,000
Advertising	5,500	6,000	-	500	500	500	500	500	500	500	500	500	500	500
Prof Fees	7,000	7,000	-	-	-	7,000	-	-	-	-	-	-	-	-
Land	1	1	-	1	-	-	-	-	-	-	-	-	-	-
Buildings	1	1	-	1	-	-	-	-	-	-	-	-	-	-
Equipment	1	1	-	1	-	-	-	-	-	-	-	-	-	-
Loans repaid	-	25,000	-	-	-	-	-	-	-	-	-	-	-	-
Loan Interest	11,438	17,813	750	750	750	750	938	1,125	1,125	1,125	1,125	938	938	1,125
Bank Interest	23,775	5,910	1,386	1,550	1,916	2,739	3,153	3,033	3,066	2,841	1,816	838	638	799
Miscellaneous	11,000	12,000	-	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	518,182	513,025	41,719	23,220	116,733	124,556	36,507	31,575	27,107	26,883	24,358	22,192	21,492	21,841
Movement	46,568	88,725	- 41,719	- 2,220	- 95,733	- 124,556	13,493	18,425	- 27,107	87,305	187,017	74,996	- 21,492	- 21,841
Opening Cash	-165000	-118432	-165000	-206719	-208939	-304672	-429227	-415735	-397310	-424417	-337112	-150095	-75099	-96592
Closing Cash	-118432	-29708	-206719	-208939	-304672	-429227	-415735	-397310	-424417	-337112	-150095	-75099	-96592	-118432

NOTES