TABLE OF CONTENTS

This workbook was authored and organized by:

Dr. Robin Brumfield, Farm Management Specialist

Dr. Carey Williams, Equine Extension Specialist

Laura Gladney, Program Associate in Animal Science

April Lippet, Program Associate in Agricultural Economics and Marketing

Special thanks to our collaborators:

Sandy Denarski, Retired Finance Executive

Bix DiMeo, Showplace Farms

Ann Dorsett, Dorsett Arabians

Ryck Suydam, Suydam Insurance Agency

€

Funding for the work reported here was provided by the USDA Sustainable Agriculture and Education Program (CNE 12-101) and Rutgers Equine Science Center.

INTRODUCTION

This workbook is designed to help a horse business owner write a business plan. It is divided into the major sections of a business plan, then each component of each section is discussed in detail with equine-specific examples. Throughout each section, you will find questions to ask yourself in a green box and spaces to answer the questions and take notes. At the end of each section is a blank page to begin outlining the section for your business plan.

For additional help and ideas, a sample business plan was created, covering each of the sections in this workbook. The example business is a 30-acre boarding, lesson, and training horse farm called Silver Snaffle Farm. Portions of the sample plan are inserted into this workbook in the appropriate sections.

This type of business was chosen for the example because it reflects a common horse business in New Jersey. However, the workbook is designed to be useful for other types of equine businesses too, such as feed and supply stores, farriers and other equine service providers, hay growers, and producers of goods. Examples are provided to explain how each component of the business plan can be applied to any type of business. Some components will be more important to some business types than others, and some may not have any relevence at all. Customize your plan to fit your business.

This workbook is by no means all-inclusive. It is highly recommended that each equine business owner research these topics, sometimes with the help of a professional. There are several websites dedicated to providing business-related information for horse businesses, which are listed in the Bibliography and provided on the CD.

BUSINESS PLANNING

It has been said that managers who fail to plan, plan to fail. A plan is necessary for management to be effective. An effective manager guides others in following that plan. Management is not just about getting from point A to point B. It is about combining your business resources and operating environment. The operating environment consists of things like the economy and federal, state, and county regulations as well as local ordinances. The results of the business plan determine how effectively its objectives were met and also forms the basis for the next planning stage. Managing a horse business is a continuing cycle of evaluating, planning and putting the plans into action.

Success in a horse business requires both technical and business management skills. Managers who are evaluating whether or not to adopt a new grazing system, bedding type, or training technique must evaluate not only the impact on the technical aspects (horse health, fly control, client satisfaction, etc.) but also the effects these have on the bottom line. Some equine businesses who had good *technical* managers have failed because of poor *business* management, and other businesses have failed because they had good *business* managers but did not have good *technical* managers. The planning should reflect upon and analyze a range of issues relating to the owner, the industry, and the business itself *(Figure 1).*

The owner	Personal motivations and priorities
	Skills and abilities
	Financial resources
The industry	Statistical data
	History, trends, and future directions
	Industry strengths, weaknesses, opportunities and threats
The business	Business description
	Business SWOT
	Business objectives
	Strategies
	Methods of operation

Considerations When Planning

Figure 1

What Is a Business Plan?

A business plan is a systematic evaluation of a venture's possibility for success. It is a written summary of the proposed business venture, its operational and financial details, marketing opportunities and strategy, as well as the skills and abilities of the manager and employees. A business plan is a reflection of its creator. **The real value is in the process of creating it.** It may help the creator to realize that a business *idea* alone just will not work. For the business idea to succeed, it must have a plan that will work. If a profitable plan cannot be developed for an idea, then it is unlikely that a profitable business will follow. While a business plan does not guarantee success, it does increase the chances of succeeding in business. It is a road map or GPS for managing a business successfully.

Two Essential Functions of a Business Plan

1. It is the guide for the business. It charts its future course, defines the strategy for building it, and helps the business stay focused on its objectives.
2. It can be used to obtain capital from lenders and investors. It helps define the potential returns relative to the costs and risks.

What Should Be in a Business Plan?

A business plan should include a description and definition of who is involved, what consumer needs will be met, what the saleable product(s) or service(s) are, and the marketing environment in which the business operates. It should contain an analysis and plan for how the product(s) or service(s) will be produced and marketed. It is also important to create a a list of what resources are needed to achieve the plan, when they are needed, and a summary of anticipated results.

EXECUTIVE SUMMARY

The executive summary appears at the beginning of the business plan, but *it should be written last*. The focus of the executive summary depends on the purpose of the plan. If the business plan is being presented to lenders or investors, it should include highlights that will encourage them to consider financing the business. It should briefly describe what the manager plans to do, for example expansion plans, market opportunities, plus financial trends and projections. If the plan is primarily for internal management, then the executive summary should summarize the plan and communicate with family members (or board members if it is a corporation) and employees where the business is going. The executive summary should be no more than two pages and should summarize the big points from each of the following sections: Strategic Plan, Production and Operations Plan, Marketing Plan, Management and Personnel Plan, and Financial Plan. The plan should match the business's mission or vision. The executive summary is the *elevator pitch*. An elevator pitch is a short summary to briefly and simply describe a product and/or service and its value proposition (promise of a value to be delivered and the customer's belief that this value will be experienced). It should be clear, complete, and precise and convey that the manager believes in the future of the business. The goal of an executive summary is for anyone to be able to understand the entire business concept and the company's competitive advantage.

ASK YOURSELF

- What is the current status of the business?
- What products or services will it provide? Are they unique or different?
- How large is the market and who are the customers who will be buying the product or service?
- Why will they buy this particular product or service? What is its competitive advantage?
- Who is on the management team? Do they have experience, motivation, relevant intellectual capital, and a proven track record?
- What key assets are in place?
- What are the market share and financial projections for the next three to five years?
- What does the venture need to accomplish these projections?

NOTES:

Silver Snaffle Farm Executive Summary

Silver Snaffle Farm, LLC is a boarding, training, and lesson stable located in Cream Ridge, New Jersey. My husband Steven and I (Sally Stirrup) own the farm and business and have been operating it for ten years. We specialize in low-pressure but high-quality instruction and care for all horses and riders, with a proven track record including my own competition accomplishments and those of my students. Our location is dense with horse activity and general interest in horse sport is rising, putting us in a prime position to grow the business. However, we are currently at capacity with boarders in our stalls, so will look into other options to grow the business.

The business is highly safeguarded through the use of precise record-keeping and a thorough risk management plan. We work closely with an attorney for legal protection and rely on Steven's full-time job as an engineer for personal benefits. The business is fully insured and we are covered under Right-to-Farm protection.

I currently handle all managerial functions and I employ two part-time workers to handle horse care and farm maintenance. I have worked within the horse industry for my entire 30-year career, successfully competing several mounts through the 'A'-level hunter/jumper circuits and earning multiple championships. Several of my students have also worked up to this level. Jane Johnson retired early from a corporate job and has experience caring for horses. She performs most barn work. Jerry Jimson is a handyman who performs my farm and pasture maintenance. I work with an accountant to ensure that my finances are in order and to file my year-end taxes.

Future plans include expanding the business to include a sales component. I will purchase promising youngstock and train them to competition level before selling them at a price which will cover the added expense of keeping them for 2-3 years. The youngstock will be pasture boarded in the available space I have in my well-maintained pastures, which will save me money on bedding and feed. Our current financial situation is well-documented through an enterprise budget, income statement, balance sheet, and cash flow statement. Next, we will run the numbers in a partial budget to determine the profitability of this venture.

BUSINESS DESCRIPTION

The business description introduces the company and helps people who are unfamiliar with the business understand what the farm or company provides or produces, the size of the operation, and how the services or products are marketed. It should include the business type and size; the history, current status of the business, and plans for the future; the location; the facilities; and the ownership structure.

Business Type and Size

The *business type* defines the primary business of the company. Examples are lesson farms specializing in intermediate-to-advanced students, Thoroughbred breeding and training farms, horse rentals for trail riding, horse treat sales to mass merchandisers, farrier services for sport and pleasure horses, custom saddle-making services, high quality equine hay and straw sales, et cetera. It is important to be specific.

ASK YOURSELF

- What services or products will the equine business produce and sell?
- What is the size of the business in terms of the number of acres owned, acres rented, area in production, size of the barns, and size of facilities?
- What services will be offered? Examples include boarding; nightly horse checks; blanket repair; broodmare and foal care; layups; training services; hoof trimming and shoeing; online ordering; product information through Web sites, blogs, Facebook, Twitter; and/or toll-free phone numbers.

NOTES:

History, Current Status, and Plans for the Future

This section of the business plan briefly describes when the business started, how it started, how long the current owner has owned or managed it, and important events and changes. If this is a business still in the planning stages, the business plan should describe the business the owner envisions.

ASK YOURSELF

- What is the uniqueness of the business and its products and services?
- Who are the owners and key personnel?
- What are the financial capabilities?
- Are there any special business relationships?
- What are the key strengths to build upon, and weaknesses to correct or overcome?
- Are there any plans for expansion or changes in size, sales, and profitability?
- What are the future plans, timetables, resources and personnel required, or technical gaps to be filled?
- What major challenges will the business face over the next five years?

NOTES:

Location and Facilities

The business description should include the *location* of the business and why that location was chosen. If there are multiple locations or sales outlets, they should be described here. It can include a legal description of the land, and if it is rented, it should list the parcels, the acres, and the landlords. It should also describe the size, type, and quality of the *facilities* and any retailing or other activities that require significant infrastructure details.

Ownership Structure

The legal organization chosen for a business has risk, finance, tax, and estate planning ramifications. Horse business owners should consult an attorney and an accountant to select or change to a legal structure that best suits their needs. The description of ownership structure should explain who owns the business, what proportion each owns if there is more than one owner, and how the profits are shared. It should include the proposed business name and indicate if it is registered. The advantages and disadvantages of various legal business arrangements are described below in Figure 2.

SIX BUSINESS STRUCTURES
1. SOLE PROPRIETORSHIP
In a sole proprietorship, the business is owned and controlled by one person. The primary advantage of a sole proprietorship organization is that the owner is independent and free to make all business decisions without an obligation to partners or shareholders. The disadvantage of a sole proprietorship is that the owner is personally liable for any debt, taxes, or other financial and regulatory charges.
2. PARTNERSHIP
Partnerships may be formed between two or more family members or third parties. Each partner is liable for all partnership obligations. One of the primary advantages of a partnership may be the infusion of business capital and other assets by one or more partners. For example, one partner may be good at finances and marketing, and the other may be good at teaching lessons and managing the physical facility. Each partner pays taxes individually based on his or her share of income, capital gains, and losses. There are two types of partnership: general partnerships and limited partnerships. In a general partnership, one or more partners are jointly responsible or liable for the debts of the partnership.
3. CORPORATION
Corporations are owned by one or more shareholders and are managed by elected directors. A corporation must be established in compliance with statutory requirements of the state of incorporation. The corporation, not its shareholders, is responsible for corporate debts and other obligations. One disadvantage of corporate organization is that owners are considered employees of the business and are therefore subject to labor laws and taxes. For many corporations, the most important tax decision hinges on whether or not to elect to be treated under the provisions of subchapter S of the Internal Revenue Code. In general, S corporations do not pay any federal income taxes. Instead, the corporation's income or losses are divided among and passed through to its shareholders. The shareholders must then report the income or loss on their own individual income tax returns. This concept is called single taxation. If the corporation is taxed as a C corporation, it faces double taxation, meaning both the corporation's profits and the shareholders' dividends are taxed.
4. LIMITED LIABILITY COMPANY
This organizational form offers owners limited liability like a corporation—investors are liable only for their investment in the business—but it may be classified as a partnership for tax purposes. Two or more business partners may form an LLC.

SIX BUSINESSES STRUCTURES (cont.)
5. LAND TRUST
A land trust is a legal entity that allows a land owner to transfer property to a trustee. While the trustee is the legal owner of the property, the beneficiaries are given possession and management of the land. This type of legal organization can be beneficial for estate planning purposes as it allows the beneficiaries to avoid probate upon death of the owner.
6. COOPERATIVE
A cooperative is a legally incorporated business entity capitalized by its member patrons or owners. Dividends are paid out to its patrons. A cooperative is taxed on income at corporate rates, but patronage refunds are often tax-deductible to the cooperative. Some producers use cooperative organization to acquire and provide machinery and equipment maintenance, as well as marketing and advisory services.

Adapted from Minnesota Institute for Sustainable Agriculture (MISA) (2010).

Figure 2

Silver Snaffle Farm Business Description

Silver Snaffle Farm, LLC is a 30-acre horse farm in Cream Ridge, New Jersey specializing in quality boarding, training, and teaching lessons to adult riders. I stall board 13 horses, pasture board 4, and train 3. Lessons are offered to boarders and they average 10 per week. My business is known for its quality training and instruction. I would like to expand the business and my client base so that I can make the business profitable and eventually quit my part time job.

The facilities include 25 acres of pasture, which is split into 5 fields (each with a run-in shed and automatic waterer) and is rotationally grazed; a 16-stall barn with a tack room/office, two wash stalls, and restroom; an outdoor arena with jumps; and an indoor arena. Owned equipment includes a 4-horse trailer and pickup truck used primarily for hauling horses, an old farm truck only for on-farm use, as well as a tractor with a front end loader attachment, mower, and drag, and a small manure spreader.

The business is owned by me, Sally Stirrup and my husband, Steven Stirrup. I manage the barn and lesson program. I have worked and boarded at several show barns before opening this business, and I have experience training and showing horses in hunter/jumpers. When I had my own horses, I was well-known on the East Coast hunter/jumper show circuit. We have two part-time employees for barn work and farm maintenance, and bookkeeping. We hire an accountant to do our year-end taxes.

<u>Outline Your Business Description Section</u>

STRATEGIC PLAN

BUSINESS AND INDUSTRY PROFILES

Strategic planning is a tool that looks at the big picture. Each business possesses a unique bundle of resources. Strategic planning helps determine how to use these resources to develop basic and core competences that will give the business a competitive advantage. It considers future competitive forces in the industry. It describes where the owner wants the business to go and how he or she plans to get there over the next 5 to 10 years. Typical components of a strategic plan include (1) mission statement, (2) goals and objectives of the business, (3) industry analysis/situation (external opportunities and threats), (4) the business's competitive position (internal strengths and weaknesses), (5) business strategy, and (6) implementation plan.

Vision and Mission Statements

To set goals and standards, a business needs to create vision and mission statements. The **vision statement** looks at the future and asks *what kind of business do I want to own*? It is a source of inspiration and provides clear decision-making criteria.

ASK YOURSELF: Vision Statement

- What values do I hold that I will not compromise?
- What characteristics do I want to portray to people?
- What principles do I stand for?
- How do I want to be seen or thought of when I interact with people?
- What do I want in life?

My Vision Statement:

Silver Snaffle Farm Vision Statement

Silver Snaffle Farm strives to provide top-notch instruction and training under low pressure conditions. The horse's well-being always comes first, and all people are treated with dignity and respect.

A **mission statement** identifies the company's products, services, and customers. It should focus less on what activities happen in the barn and more on what the business will accomplish for its customers, employees, and owners. In a market-driven economy, a good mission statement describes *what consumer need will be filled*. The customer value proposition is how the business's products and services will do this better than the competition. This market-driven approach to business is different from the production-driven approach taken by many managers who focus more on products than customers' needs. In the past, when times were less competitive, farmers could produce high quality products and then find a market for them. Now, farmers must **first identify a market need** and then produce products or services that satisfy that need, at a price customers are willing to pay while still returning a profit to the business. A well written mission statement should not only explain what product or service the farm produces, but also why consumers would want to buy that product or service, i.e., "What is the farm's value proposition?"

A mission statement should be short enough so people can easily remember it. The mission statement is the mechanism for making clear to everyone the company touches the answers to the following questions: "Why am I here?" "Where am I going?" and "How can we beat or avoid competition?" A mission statement can be used to unify the people involved in the business around a common direction and understanding of the purpose. It can be used as a foundation or measuring stick for making decisions.

ASK YOURSELF: Mission Statement

- Why does the business exist?
- What is its purpose?
- What does the business do?
- Why does it do it?
- For whom does it do it?

***My Mission Statement*:**

Silver Snaffle Farm Mission Statement

Silver Snaffle Farm is a friendly, low-pressure place to learn classical horsemanship and riding. Students and horses are brought along slowly and correctly to instill confidence and ensure success. At Silver Snaffle Farm, we ride for the love of the sport and the animal.

Goals and Objectives

Goals and objectives help define what the business will become. While goals can be broad or general in nature, objectives should be clear and concise. Goals should give the business a future target. Objectives should be SMART (Specific, Measurable, Attainable, Relevant, and Time-bound). Because the strategic plan should be frequently monitored and corrected, goals may need to change to reflect a new and revised strategy.

Goals can be defined by discussing questions such as the following among family members and business partners.

ASK YOURSELF: Goals

- Why are we in business?
- What do we want to accomplish in our lives and business?
- What level of profits do we need?
- Are we purely profit motivated, or do we also make investments for community status or other reasons?
- How large should the business become?
- How will we provide employment and financial security for family members?
- How will we increase our family's wealth?
- Do we enjoy working with horses and their owners?
- Are we people oriented or horse oriented?

NOTES:

Objectives are usually expressed in financial terms. Managers should try to think of objectives for each of the following functions: financial, marketing (product, price, place, and promotion), profit, personnel, production, sales, customer and public relations, advertising, accounting, collection, purchasing and inventory control, legal, and security objectives. Many of these functions cannot be clearly separated from each other and will overlap. When developing objectives, managers should consider how they will impact the long-term profitability of the business.

Some examples of specific objectives that are measurable with a specific time period are listed on the next page.

Examples of Objectives

- Increase return on investment 20 percent within the next three years.
- Increase sales by 50 percent over the next five years.
- Reduce labor costs by 20 percent over the next five years.
- Provide two weeks of paid vacation per year for all employees within five years.
- Increase production by 25 percent within two years.
- Grow the business to a size that will, in the long term, provide cash flow for three families at $40,000 per family.
- Reduce debt by $25,000 per year.
- Be in a position to transfer full ownership to my children when I retire within ten years.

NOTES:

Silver Snaffle Farm Goals and Objectives

The primary goal of Silver Snaffle Farm is to maintain its reputation as a high-quality lesson, training, and boarding farm. Another goal is to make the business support itself and create income so that I do not have to work a part-time job.

Objectives include increasing income by 15% over the next five years, opening a Roth IRA account within six months to save for my semi-retirement, and expanding our business to purchase young horses, train them, and sell them within 2-3 years.

SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats)

Businesses face external opportunities and threats that are beyond their control. Shifting economics, changing government regulations, and new technology are some of the reasons it is more difficult to make a profit in the horse industry today than in the past. Businesses also have strengths and weaknesses that are internal to their businesses, such as location, skills of key employees, and cash flow position. Building a successful business requires magnifying strengths and overcoming weaknesses. Managers can identify competitive advantages by matching internal strengths of the business to external opportunities. They can try to overcome internal weakness and external threats by converting them into strengths or opportunities. An example of a conversion strategy is to find new markets. For example, a boarding barn may offer some stalls or fields as layup if there are racetracks nearby. If the threats or weaknesses cannot be converted, successful managers try to minimize or avoid them.

Competitive Position: Internal Strengths and Weaknesses**.** Building a successful business plan requires magnifying strengths and overcoming weaknesses. For example, a manager who has skills in the technical aspects of the business but is weak in the business aspects may be able to hire someone to help evaluate the economic impact of his or her decisions. Likewise, a good business manager who does not know the technical aspects of the business may want to hire someone who has those missing skills.

To assess the company's competitive position, managers should consider strengths that can be utilized and weaknesses that must be overcome to compete in a global environment and/or with other businesses in their local area.

ASK YOURSELF

- What production levels do you have now or do you want to achieve?
- How much land do you own? Can you rent or purchase other land for expansion?
- What equipment and facilities do you have and the age and condition of each? Can they be better used? Should you sell off excess and unused equipment?
- What is your financial condition?
- What is the cash position of your firm?
- What are the skills and limitations of the owner/manager?
- Does your strategic plan require greater competence or resources than the firm currently possesses?
- Does the proposed plan exploit marketing and production opportunities?
- Do your personal preferences or sense of social responsibility limit the alternatives? (For example, do you not want to work on Sundays, a possibly high volume day for lessons or sales?)
- Can you form alliances or partnerships with other businesses that could complement yours, such as veterinary practices or tack shops?
- How many employees does your business have and what skills and talents do they possess?
- What family members will be involved in the business and what are their unique talents and interests?
- Who will be the next generation of management?
- How does the layout of the farm impact labor efficiency?

NOTES:

Silver Snaffle Farm Internal Strengths and Weaknesses

Strengths: We already have a farm and have an established business with clients. I have a good reputation here as a skilled rider and trainer. Our facilities and equipment are relatively new and sufficient for our current level of activity. Due to Steven's job, we do not need to rely on the business income for our own day-to-day expenses. The farm is located in an area with plenty of equine activity and right outside a wealthy suburban district, which means more potential clients with plenty of discretionary income. Steven fully supports me in the farm business and would like for me to be able to stop working my part-time job.

Weaknesses: Over the long run, the facilities will depreciate and need repairs. The barn is currently at capacity, so there is no opportunity to expand by taking more boarders. My riding and teaching skills are limited to the hunter/jumper discipline, so we cannot take on clients who are interested in learning other disciplines. I plan on teaching and managing the facility well past retirement age, but I do not have anyone lined up to take over the business when I do fully retire. My barn is currently at capacity, so I cannot increase income by filling more stalls. No one in the business has legal or accounting skills, so we need to contract those tasks.

Industry Analysis: External Opportunities and Threats. We truly live in a world economy today where the market is constantly changing. External factors drive these changes or trends. Many of these changes pose threats to horse businesses. Market saturation of quality horses for sale can make it difficult for a breeder or trainer to compete. Oil prices are volatile and impact input costs such as fuel. Government regulations are increasing, pushing up costs and consuming management's time. On the other hand, external changes or trends also offer new market opportunities. The increase of two-income couples, for example, means these consumers may have little time for horse care but have disposable income to spend on full board. The explosion of Web sites and social networking sites such as Facebook and Twitter gives businesses new ways to compete, but also takes time and effort. Business owners who adjust to the change early take the most risk, but often also reap the most benefits.

Producers should identify trends (driving forces) in the marketplace that will impact the equine industry. Areas to consider are technological innovations, legislation and political changes, government regulations, globalization, cultural and demographic trends, labor availability, or changes to input suppliers and markets. A basic part of strategic planning is to understand these trends. A successful manager will structure the business to take advantage of opportunities to meet the company's objectives and prepare for threats that might inhibit the company's ability to achieve its objectives.

Perhaps the biggest advantage of Northeastern horse businesses is that it they are located near densely populated consumer markets of high-income consumers in a region with a thriving horse industry. Compared to neighboring states, New Jersey equine sales make up a larger proportion of total agricultural sales. Some state programs that can potentially benefit New Jersey horse farm owners include farmland assessment, right-to-farm protection, and farmland preservation. Each of these programs has its own eligibility critera, summarized in Rutgers Fact Sheet E301, "Treatment of Equine Facilities in State Programs Designed to Protect Agriculture," (Gottlieb 2005).

Threats for Northeast equine businesses include high costs for land, labor, and other inputs. The weakening of the New Jersey racing industry threatens every aspect of the the overall equine industry. For more information on this issue, see "What does New Jersey stand to lose if there is no horse racing in the state?" (Malinowski 2010) and many other articles on this issue on the Rutgers Equine Science Center website (http://esc.rutgers.edu). To overcome these economic weaknesses, businesses must find ways to reduce costs, focus on their strengths, or a combination of both.

ASK YOURSELF

- Can current or emerging market trends become business threats or missed opportunities if you don't include them in your strategy?
- Will government regulations force you to adopt new systems?
- How can you offer service, convenience, and value for today's busy and cost-conscious consumer?
- What is happening to your particular market channel locally, regionally, nationally, and internationally? What opportunity does this open up for your business? What threats or challenges does it create for your business?
- What changes are equine businesses similar to yours making?
- Have others made positive changes that might work for your business or bad decisions that you know you want to avoid?

NOTES:

Silver Snaffle Farm External Threats and Opportunities

Opportunities: Consumer interest in the horse industry is growing as people learn more about it. A recent news story and the Olympics have introduced many people to the sport of dressage. The increase of two-income couples means less time to care for "backyard horses" and more money to spend on full board at a facility like mine. New Jersey's dense population means that mansions are being built right next to existing farms; this could be an opportunity to attract wealthy clients who see the horses and want to learn how to ride. I can also appeal to budget-conscious clients by offering cheaper pasture board and self-care board.

Threats: Offering discount board options may attract a number of clients who take up stalls that would be more profitable at the regular board rate. Clients looking for discount board also may not be able to afford regular lessons. On a larger scale, the equine industry in New Jersey is in danger as the racing industry shrinks due to regulations that provide less incentive for trainers to race at New Jersey tracks. If the racing industry moves out of New Jersey, some feed/hay/equipment suppliers may lose their biggest customers and disappear, leaving fewer businesses to service the non-racing industry. In relation to New Jersey's high population density, the construction of large homes next to existing farms means that we are under more scrutiny by uninformed observers and in danger of unwarranted complaints.

Environmental regulations are increasing in the state as well, which can require management changes that may cost money. Taxation on horse farms in the state of NJ is getting higher, such as the stall tax, which is causing some clients to look for pasture board or cheaper places without indoor riding rings or other unnecessary facilities. Fuel prices are increasing, which makes trailering more difficult and increases prices for many supplies such as hay and feed. Horseback riding is considered a luxury, so it is at the whim of economic downturn.

Outline Your SWOT Analysis

Business Strategy

After gathering all of the information in the previous steps, managers are in the position to develop and evaluate alternative strategies that will attain the objectives of the business. To develop a business strategy, a manager can begin by answering questions like, “What do you want your business to be in the next 5, 10, and 20 years?” and “Will your strategy help you do the right things to succeed in the future of your industry?”

Develop Strategic Alternatives. An analysis of external opportunities and threats and internal strengths and weaknesses can lead to identifying strategic niche markets that the business is best able to fill by capitalizing on strengths. This strategy is much more likely to be profitable than competing strictly on price with large businessess in the industry. However, in this highly competitive business climate, reducing costs is an important consideration no matter what type of competitive strategy the business chooses. The key is to identify ways to give the business a competitive advantage.

Producers in a purely competitive market are price takers (i.e., they must “take” the market price). To increase profits, price takers are limited to competitive strategies that reduce costs or increase sales, since they do not have the ability to raise prices if they expect to remain in business. They will want to evaluate alternatives that reduce costs, and therefore increase profits.

TEN STRATEGIES THAT PRICE TAKERS CAN CONSIDER
1. REDUCE COSTS
Equine businesses can increase profits by reducing the costs of inputs while keeping prices constant. This strategy can include using good quality pasture as a major feed source, planning purchases to take advantage of volume discounts (possibly by ordering jointly with another farm) and prompt-payment discounts, and more intensively managing the entire operation.
2. EXPAND THE OPERATION
This is usually done to increase sales, and assumes that there will be economies of scale or that fixed costs per unit will not increase. Expansion should be considered only after increasing the efficiencies of existing facilities. Expansion should also carefully fit into the business's mission and goals. If expanding to offer more lessons and services, there must be adequate personnel to perform them without overworking valuable employees. Bigger is not always better!
3. REPLICATE
This is another way of expanding. Add another location or retail outlet when land nearby is not available for expansion, or if a second location better serves the business mission.
4. SPECIALIZE
Focus on one or only a few products or activities. Examples include focusing on trail rides for the non-horse public, training in a certain discipline, technologically advanced shoeing for high-level performance horses, and so forth. This concentrated focus allows for production efficiency and lower costs of production.
5. DIVERSIFY
Add new enterprises or products (the opposite of specializing). For example, a riding lesson business could hire more trainers to teach different disciplines, or a tack shop could expand to sell hay and feed.
6. INTEGRATE HORIZONTALLY
Add more products or services to more fully utilize fixed inputs, thus spreading the fixed costs over more units of output. This could include adding pony parties and summer camps or unmounted clinics to a riding lesson business.
7. INTEGRATE VERTICALLY
By going higher or lower in the marketing chain. One example for businesses producing equine goods is to buy a retail space to reach the final consumer. Another option is to go toward the input part of the marketing chain. Options include producing inputs, such as hay and straw, or adding a dealership to sell inputs such as jump standards.
8. PRICING STRATEGIES
Use pricing strategies to increase sales such as multi-unit pricing (giving discounts to customers who buy larger volumes to encourage larger purchases).
9. NETWORK
Network with other horse business owners to produce, purchase inputs, or market.
10. DOWNSIZING PLAN
Develop an exit strategy or downsizing plan for the business.

Figure 3

Before horse businesses begin to consider these options, they should focus on the current operation and look at cost-reducing options. If problems exist in the current operation, expanding will only make things worse. A better approach is to focus on the system and improve the profitability at the current level of production before considering getting bigger.

ASK YOURSELF

What management strategies do I need to consider?

- What is the time period over which changes to the business will be made?
- Will they be done in increments or all at one time?
- What is the expected impact on the profitability, production levels, required labor, and markets if the plan is implemented?

List Alternative Strategies:

<u>Silver Snaffle Farm Alternative Strategies</u>

<u>Alternative A</u>: Buy youngstock and train them to be sold at 3-5 years of age

While our barn is currently at capacity, our stocking rate for our 25 acres of pasture is not. I can purchase promising yearlings or two-year-olds and let them live outside to grow up for a year or two, then start them under saddle correctly. I will need to enter them in competitions and prove their potential as show horses to sell them for a price that would turn a profit.

Pros: These horses do not need stalls while maturing in the fields. Our pastures are already equipped with spacious run-in sheds that will be sufficient. I would not be taking up stalls that would otherwise provide board income. I can control costs by staggering horse purchases, so that down the road, I will have 1-2 horses for sale yearly.

Cons: These sale horses will not make any money in their first 1-2 years on the farm. They will add costs such as veterinarian, farrier, equine insurance, and show fees. The horse buying market is currently not at its peak, so they may take longer to sell than I would prefer or the prices might be lower for a few years before the market starts to take a up-swing.

<u>Alternative B</u>: Open a feed business on premises

The extra space on the farm could be used to build a small feed sales outlet. I could open a franchise for certain feed companies and sell bagged feed to local farms and backyard horse owners. If we are already selling feed, we could cut some of our pastures for hay and sell that as well. Alternatively, we could try to find some land to rent nearby to grow hay.

Pros: This alternative complements the current business activities and opens up an entirely new market. It would also decrease the farm's bagged feed cost and allow me to quit my part time job and use the time to manage the small feed business instead.

Cons: I am not a nutritionist, so if customers have questions I may not be able to answer them. I would need to hire at least one person to run the outlet and keep inventory so that I do not have to stop selling feed when I am out in the arena giving lessons. For growing hay, I have no farming experience other than my pastures and would need to hire a farmer to harvest the crop. It would be costly to build a retail space and a very time-consuming business.

Select a Basic Strategy. Once alternative strategies have been selected, they need to be evaluated. This is the stage when managers should do some kind of financial analysis. They will want to follow three basic investment criteria: (1) Larger benefits are preferred to smaller ones. (2) Early benefits are preferred to later ones. This takes into account the time value of money, that is, a dollar today is worth more than a dollar tomorrow. (3) Safety is preferred to risk.

In addition to financial analysis, managers will also want to analyze how these alternatives address the business's other objectives.

ASK YOURSELF

Which alternatives clarify other objectives for my horse business?

- Which alternative will best enable the business to reach its desired objectives?
- Which alternative offers the greatest financial returns?
- Which alternative best matches the business' skills and resources (financial, technical, personnel, etc.)
- Which alternative best meets the owner's personal preferences or sense of social responsibility?
- Which alternative minimizes the creation of new problems?

NOTES:

At this step, the manager and other members of the management team need to determine if the alternative strategies are consistent with the business's mission and objectives. If they are not, they may want to develop a new mission statement or objectives at this point and follow the steps in the strategic planning process again. Or they will want to eliminate or modify that alternative so that it is consistent with the business's mission and objectives.

It is important to include the employees in the planning and evaluation process. Employees are often closer to problems than owners or managers. They often can contribute to recommendations and solutions to problems. Knowing that their opinion is valued can improve their job satisfaction and productivity as well.

After evaluating various strategies, the management team should select a basic strategy that is consistent with the business's objectives. The basic strategy should include marketing, production, financial, and personnel plans. The *production plan* tells if the system is technically feasible. The *financial plan* tells if the system is profitable. The *personnel plan* tells if the right people can be found to make the system work. A *marketing plan* is the centerpiece of the business plan and is the engine that drives the entire business. The marketing plan is the complete assessment of all the factors surrounding the consumer needs that the business will fill.

Selecting the final strategy may involve trade-offs among various objectives. One alternative may offer the greatest financial returns, but it may be inconsistent with other objectives. At this point, the manager must make a decision as to which objectives are most important. The final strategy may be a combination of more than one alternative strategy.

Silver Snaffle Farm Business Strategy

Alternative A: Buy youngstock and train them to be sold at 3-5 years of age. This alternative makes the best use of my resources and expertise. It allows me to keep the farm's focus on adult riders and cater to their needs rather than diversifying and compromising the business vision.

Implement the Plan

Once a strategy has been selected, the next step is to implement it. The strategy describes "Where do I want to be?" The next step is "How do I get there?" The business needs to identify who is going to do what by when for whom and for how much.

If the chosen strategy requires making major changes in the business, the implementation plan should describe what will happen during the transition period. If it involves expanding or changing the business, the plan may include a description of new facilities or land, a timeline for construction or purchases, a list of permits required and how to obtain them, a general overview of how the changes will be financed, and the impact on production levels during and after the changes. Many expansions do not meet their timelines, which results in increased financing needs. The implementation plan can include a timeline and a contingency plan for the possiblity that deadlines may not be met.

Silver Snaffle Farm Implementation Plan

I will start pricing yearlings and researching sires within the next three months. Within one year, I will purchase two yearlings or two-year-olds so that they can live together. At age two, I will train them on the ground and take them to in-hand shows. At age three, I will begin working them under saddle and doing some light showing. At four, I will begin jumping and actively advertising them for sale. They will continue to compete until they are sold so that their value continues to increase.

Outline Your Strategic Planning Section

PRODUCTION AND OPERATIONS PLAN

The production and operations plan includes a description of what the business will produce, how it will produce, and what technology and equipment will be used. Other business activities that may be related to the horse business should be enumerated. These may include activities such as growing one's own hay, consulting on clients' horse purchases, hauling horses, et cetera.

ASK YOURSELF
What will your horse farm produce? Consider all products and services.

NOTES:

Farm Record-Keeping

Equine operations require a great deal of record-keeping to be successful and able to duplicate successes year after year. Whether the farm is breeding horses, offering lessons, or growing hay, several sets of records are needed. Before growing a crop (hay, straw, and even well-maintained pasture), one should decide which records to keep. One set will be financial, including costs of items such as seed, fertilizers, lime, labor, and utilities. Another set of records is cultural in nature, and even more records will document the day-to-day farm activities.

<u>Cultural Records for Hay, Straw and Pasture.</u> Cultural records are maintained for the purposes of (1) providing a plan for duplicating successful crops and (2) giving an account from which the cause of errors in the culture of the crop can be determined and then corrected in the next crop.

Long before a crop is planted, a cultural schedule should be written, listing dates and labor budgets for operations such as soil testing, liming, fertilization, pesticide application, mowing, dragging, resting fields, harvesting, and cleaning up. This cultural schedule should be maintained in the farm manager's office. The cultural schedule record sheet serves as a daily reminder to the farm manager as to the various operations that must be performed.

Production Records. When growing hay, straw, or high-quality pasture, an additional set of production records is needed. These records are gathered throughout the growth period of the crop. The farm manager should assess the condition of each crop and weather conditions weekly and enter this assessment into the production record. Visual observations also should be recorded, including such factors as species composition, height, maturity, and any disease conditions.

These types of information allow for comparison of the present crop with previous crops. By looking at a poor crop in retrospect, the grower can identify the stage of growth when trouble first occurred. The production record should also include the number of bales harvested, the date, and the hay or straw quality. These records are needed for cost accounting and are used in the same manner as the growth measurements described earlier. Similar records can be used for the production of horses as well if the farm has young horses they are raising and training.

Veterinary and Health Records. For businesses that care for horses, veterinary records are of the utmost importance. While many veterinary practices will maintain their own sets of records, the horse owner can create a more complete health record for each horse. Include dates and products used for all health activities, including deworming, dental care, hoof care, vaccinations, veterinary visits, and even first aid. Even if it does not warrant a veterinarian visit, keep notes on lamenesses, wounds, poor eating, and other health concerns. Take and record horses' vital signs, weight, and body condition score regularly so that you know when something is off. This monitoring can help pinpoint an issue before it becomes a major problem.

Breeding Records. The breeding of horses takes health record-keeping to a new level. In addition to the health records required for each horse, breeding health and breeding behavior should be noted. All genetic testing results should be recorded, as well as production records from the past.

The daily farm log should show all teasing attempted, behavior noted, ovulation moniotoring as possible, exposure and finally results. Each mare and/or stallion record should show the summary of efforts to get in foal, gestation issues and length, and outcome. Once a pregnancy is verified, a new foal record should be started to capture any information that might assist in the healthy delivery and development of the foal. Once the foal is growing, the breeding records transition slightly to more of a production record.

Sales Records. Sales records can pertain to the sale of horses or products. Plans for selling each horse should be initated at the beginning of the selling year. Veterinary exams, soundness and Coggins results should be recorded in a buyer's folder for each horse offered. Any remedial treatment should be recorded and resolved before listing. Prospective buyers should be made aware of all reports, especially any unresolved issues, before purchase. Training level and any other asset should be verified. Pricing should be based on cost of production calculations and market demand. On occasion, farm planning may require a horse be sold for less than cost for the greater benefit to the program.

Lesson Records. When running a riding lesson or horse rental business, it can be useful to keep records of the lesson program. This can include horse use to ensure that horses are not overworked, especially when multiple trainers use the same horses. Other types of records to consider are client attendance records or incident records (signed by clients) to document falls or other situations that could have legal ramifications. Always keep emergency contact information on file for clients.

ASK YOURSELF
What records will I need to keep?

NOTES:

Silver Snaffle Farm Record-Keeping Plan

I will keep cultural and production records for my pastures to ensure that they are providing a substantial portion of my horses' nutrition during the growing season. I will also develop a better system for keeping veterinary and health records for my horses, and implement lesson records for my clients. Once I start purchasing young horses for sale I will start keeping production records to monitor their growth, dietary changes and training progress.

Gantt Charts: Planning and Scheduling for Labor Needs

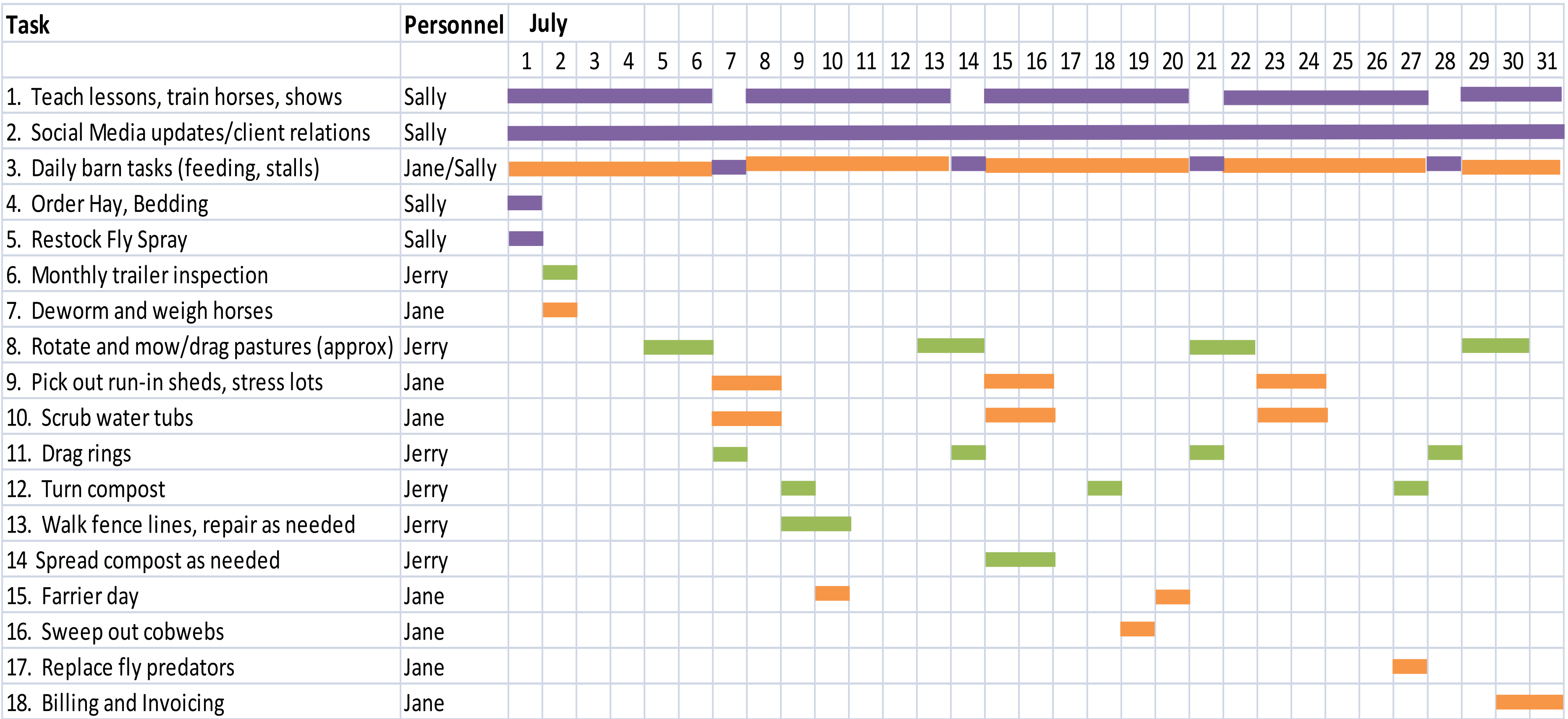
Gantt charts can help managers work out the order in which tasks need to be carried out and identify the resources needed to successfully run a horse business, along with the times when these resources will be needed. The labor may be needed to grow a crop, or keep up with foaling or show season. It can be used for any business application where the need for labor varies seasonally. The Gantt chart shown as an example depicts one month's production schedule, showing the tasks required, the personnel in charge, and the dates for each task. Bars are color-coded to easily track when an employee is Templates for Gantt charts can be found online or created in an Excel spreadsheet.

To use a Gantt chart, follow these steps:

List all of the tasks that need to be completed for a certain period of time. This can include requirements to produce and sell a crop or during foaling/show season. For each task, show the earliest start date, how long the task will take, and who is responsible for each task.

1. Make a chart for the month/year and schedule the labor activities. Plot each task on a yearly or monthly calendar, showing it starting on the earliest possible date.
2. Make a chart for each of your other activities for the year and schedule the activities.
3. Make a master Gantt chart. You may want to start by writing down how many employees you think are needed, then how many hours of that labor will you have.
4. Make a budget for each activity or crop to match the hours of labor you expect to have. This will allow you to look at the big picture to see how much labor you anticipate needing in each month. Can you modify work schedules or crops and other activities to utilize available labor in slack months?

Silver Snaffle Farm Gantt Chart for July



Risk Management Plan

Any business involving horses comes with many risks. In this scary economy, horse business owners are looking for ways to reduce both business and personal risks. They are reviewing their life, disability, health, crop, fire, wind, hail, and liability insurance. Crop insurance is available for hay seeding and production as long as the crop contains a certain percentage of legumes.

Equine businesses should implement financial management practices that can cut costs and improve the profitability at the current size before getting bigger. Managers can consider ways to eliminate debt or restructure it. They should evaluate cash flow and their line of credit.

Managers should also review their estate plans. Most do not plan to retire, but they do want to plan for an income stream in their later years. Rutgers Cooperative Extension's Later Life Farming Web site (http://laterlifefarming.rutgers.edu/) helps producers deal with producing income in retirement or in later years as they cut back on some activities and turn the business over to others.

Many states, including New Jersey, have programs in place to link retiring farmers with new farmers looking for land. The Farm Link program (http://www.nj.gov/agriculture/sadc/farmlink/) is run by the New Jersey Department of Agriculture's State Agricultural Development Committee. Both farm owners and farm seekers must fill out a form, and then they can browse the available opportunities online. The website also includes resources for new and retiring farmers.

Natural disasters can strike at any time; it is important to be familiar with the types of disasters that your area commonly experiences. Once you have this information, it is essential to plan for the worst and be prepared. The American Association of Equine Practitioners has developed guidelines on creating a disaster preparedness plan, available online and listed in the Bibliography section.

ASK YOURSELF

How will I develop my risk management plan?

- Do we have fire, wind, crop, and liability insurance coverage?
- Do we have health, disability, and life insurance on ourselves and auto insurance on farm vehicles?
- Do we have medical and mortality coverage on our horses?
- What will happen if me or my partner were to pass away unexpectedly?
- Do we have a plan for evacuation and somewhere to take the animals in case of an emergency? What is the plan if power goes out and we are left without water? What is the plan for a barn fire? What is the plan for a heavy snowfall?
- Do we have alliances or networking arrangements with other farm owners, suppliers, or companies?
- Are there other on-site issues? How do we manage fuel and manure storage or concerns from neighbors?
- How are we addressing environmental issues? Are we complying with animal waste management regulations?

<u>NOTES</u>:

Silver Snaffle Farm Risk Management Plan

The major risks impacting Silver Snaffle Farm include major weather events, liability, horse sickness and mortality, the owners' health, and the economy. Steven and I both have life insurance and health insurance through his job. I will purchase a disability insurance policy in case I am injured and cannot continue teaching lessons. We each have a will to protect the other person and the business. The farm truck is fully insured and our trailer is routinely inspected.

We have liability insurance to cover injury to any person on the property. We also have equine liability signs posted prominently at the entrance of the premises, and each client signs a liability release form before mounting any horse on our property. We use a contract with our boarders that requires 30 days notice of leaving and a deposit.

All of the farm structures (barn, sheds) are insured to protect ourselves in case of a natural disaster. We are also insured for care, custody and control and we have an umbrella policy as an added precaution. We have a practiced fire drill to get horses out of the barn if we are present during a fire and it is safe to enter. There are two additional ways to exit the farm with a horse trailer in case the main entrance becomes blocked. In the event of a heavy snow fall, we will use our tractor with a front end loader to clear driveways and important walkways. We have salt on hand to minimize the risk of horses and people slipping on ice. In the event of a power outage where water is unavailable for extended periods of time, we have four large barrels that we fill with fresh water before a storm, and we have contacted the fire department to indicate our location and potential need during an emergency.

In the event of an evacuation due to hurricane, flooding, forest fire, or other natural disaster, we have a 4-horse trailer and several boarders' trailers on the property. Our county fairground has agreed to house our clients' horses if evacuation becomes necessary. We require our boarders to prepare an emergency kit with containers for grain, extra halter and lead rope, and copies of veterinary records and registration papers. We keep pictures of all horses on file.

New Jersey animal waste regulations require that we have a self-certified animal waste management plan and adhere to five general requirements. Since our property is not located near any waters of the state, we did not need to change anything to comply. We have completed our plan and have it on file, and brought the declaration page to our county Extension office.

Outline Your Production and Operations Planning Section

MARKET ANALYSIS

MARKETING PLAN

Without clients and customers, the business does not exist. A marketing strategy or plan is about defining the customer or target market and tailoring the product, pricing, distribution, and promotion strategies to satisfy that target market. Horse businesses that are **product- or service-oriented instead of customer oriented**—those that try to sell what they can most easily offer and produce without first looking at customers' needs—risk producing goods or offering services that are unwanted or will not sell at a price that will produce a profit. Instead, most successful horse businesses are **customer-oriented**—they design marketing strategies around the needs of their customers.

A marketing plan is the engine that drives the business. A marketing plan describes what the business will market and how it is unique (product); how and when the business will market the product (distribution and packaging); what distribution channel will be used (place); to whom (target customers), and for how much (price) the business will sell its products; and how and what the business will communicate to the customers (promotion). Where do buyers look for your product or service? This includes what has been called the four Ps of marketing: *product*, *price*, *place* (distribution), and *promotion*. Businesses which are service-oriented (boarding barns, farrier services, massage therapy, etc.) must begin to think of their services as a "product" when developing a marketing plan.

ASK YOURSELF

How will I develop my marketing plan for products and/or services?

- **Markets:** Who are the target customers and what do they value?
- **Product:** What product will be offered and how is it unique?
- **Place:** Where do buyers look for your product or service? Our own farm? Online? How can we access the right distribution channels? Do we need to use a sales force? Or attend trade fairs? What do our competitors do, and how can we learn from that and/or differentiate?
- **Competition:** Who are our competitors and how will we position ourselves to compete? Are there threats from new entrants?
- **Prices:** How will we price our product or service? What is the perceived value of our product or service to the consumer? Is our price in line with the market's perceived value?
- **Promotion:** How and what will we communicate with buyers or customers? Do we have a marketing strategy with appropriate promotional, advertising, and branding strategies in place?
- **Distribution:** How and when will we move our product to market? What market channel will we use?
- **Packaging:** How will we present the product to the customer?

NOTES:

Markets: Who are the Target Customers and What Do They Value?

To fully define the target market and corresponding marketing strategy, the business will need to identify the target market segment (who the customers are and what they value) and sales potential (how much customers are willing to buy). Target markets are most commonly characterized as either individual households (*direct marketing*) or businesses (*wholesale marketing*). Most equine businesses rely on direct marketing, as their products do not often lend themselves to wholesale marketing. However, businesses which sell products to tack stores, feed stores, etc. may use wholesale marketing. Developing *customer profiles* or segmenting the market can help determine if a market segment is large enough to be profitable. By identifying and targeting specific market segments, a business can also develop more effective packaging, price, and promotion strategies.

Market Segments

Markets can be segmented in a variety of ways. The most common form of segmentation is by demographics (age, gender, income, race, ethnicity, disabilities, mobility [in terms of travel time to work or number of vehicles available], education, home ownership, and employment status). A market can also be segmented geographically, for example, various neighborhoods where consumers live or location of different stores owned by wholesale buyers. Another common way of segmenting markets is by psychographic characteristics (attributes relating to personality, values, attitudes, interests, hobbies, or lifestyles). Another important question to ask is, "What are the customers' needs?" Do they need convenience? Customizable service packages? More availability? Delivery? Unique products? High-value products?

One important way to segment the market is by age. Especially when considering promotional strategies, it is important to realize that different generations communicate differently. The younger generations can (and sometimes prefers to) be reached on the Internet- through social media, email, even ads on websites. Other generations may be more receptive to mailings, phone calls, and ads in magazines. Consider the values and priorities of each generation that you are trying to reach, and adjust your marketing plan to appeal to each one. These guidelines can be followed for differentiating other market segments. There is no "one-size fits all" marketing plan that will appeal to each of your possible customers.

Size of the Market

To begin a business, producers need to ask, "How many potential customers are there? How often and how much will they buy? What is the total size of the market? Is the market emerging, growing, or shrinking? Will this market yield a high-enough volume of sales?"

Analyzing USDA statistics, visiting potential buyers, and attending industry and university educational meetings to learn and network are good places to start answering these questions, no matter which market channel is selected. Wholesale deliveries are usually kept to a distance that a truck can deliver and return in one day, or about 200 miles. New producers of equine goods will want to visit potential customers (usually another business) to find out how much product they would be willing to buy. When approaching wholesale buyers, you should be knowledgeable about the market, have a price sheet or website prepared, project a professional image, work out the details of the sale with the buyer, and keep in touch with the buyer.

It has been said that 75 percent of direct market customers of a business will live within 20 miles of the business. Using this rule of thumb, a simple way to project direct market sales potential is to locate the business on a county map and draw 25- and 50-mile-radius circles around it. The manager can count how many towns or cities fall within the circles and add up the number of potential households in the nearby cities. These households represent the core potential customers. Then, with a feel for the number of potential customers, the manager can estimate the potential value of sales per household. This is the *sales potential.* Many businesses find it useful to hire a marketing consultant to develop surveys, lead focus groups, or conduct telephone interviews. The local Extension service or state Department of Agriculture may be able to assist in locating qualitative and quantitative information for a customer profile. They may have already done some studies that could be helpful. The Small Business Administration may also provide assistance.

Silver Snaffle Farm's Marketing Plan

For Silver Snaffle Farm's marketing plan, our services will be considered our "product."

While my business is open to any potential clients, I am aware that the amateur rider market in New Jersey is predominantly female and comfortable financially. My customers are likely to have a full-time or part-time job and a family. This means that I need to offer them convenience and make their time at the barn worthwhile. They need flexibility to get to the barn late on weeknights and during the weekend. Therefore my barn must be open full time.

The market is large in my area; average household income is high and the horse industry is well established here. There are many other horse farms in the area, including backyard barns that could benefit from my lesson and training services; competing board and lesson barns; and large show barns that cater to very wealthy clients.

Product: What Product Will Be Offered and How Is It Unique?

The products and services that the business will offer should be described in terms of the value they will bring to the customers. What is it that customers are actually buying? What exactly does the product or service do for the consumer? What is the life cycle of the product? How will consumers use this product? Will special knowledge or service be required?

Any farm business that brings customers onto its property needs to remember that a distinct part of their "product" is the experience. Many people these days are far removed from farming, and everything on your farm will be new to them. Taking the time to explain to a new lesson customer, for example, what is going on around the farm will add to the richness of the new experience. Make sure employees understand that they are also part of the experience, and that their attitude and helpfulness can make the difference between a repeat customer and a one-time visit. Don't forget that poor experiences can be broadcast via social media and other online avenues.

ASK YOURSELF

What makes my product unique?

- What are the unique benefits the customer will receive from using this product?
- What is the real value versus perceived value to the consumer?
- Why would customers prefer this product or service to one produced or offered by the competition? How does it compare in terms of quality, value, appearance, performance, price, versatility, durability, speed of installation, consistency, ease of use, ease of maintenance, knowledge required, and so forth?
- Why would customers prefer this product or service to some other way to spend their money?
- Can it appeal to the environmentally conscious?
- Are there opportunities to add value through processing, packaging, and customer service?
- How might the product line or service package change over time?

NOTES:

Silver Snaffle Farm's Product

The most important value that I feel I can offer my customers is a relaxed, low-pressure atmosphere at my farm coupled with professional quality care and training. In this area, quality care and training is often associated with upscale competition barns, and farms with relaxed atmospheres can often have "relaxed" standards of care and training.

I offer two board packages that fit the needs of different clients, including a full board package that covers blanket changes/repairs and horse holding (veterinarian/farrier) for my busier clients, or more of a "do-it-yourself" field board package for those clients who would rather spend extra time bonding with their horses. My barn is open to boarders until 10pm every day of the week, though I only offer lessons in the late afternoons/evenings on weekdays and all day on Saturday to accommodate my own job. I offer expertise in all aspects of horsemanship, and I enjoy helping my clients with non-riding related questions as well. I encourage asking questions and never make anyone feel dumb, so my barn is well-suited to intermediate horsemen and women.

Horse riders or owners have a lot of options in this area. My business is not right for all of them, including those who want discount lessons and board or those who want to compete in Florida every winter. For others, however, my barn strikes a good balance. I want to keep existing clients and a good reputation, so I need to remember the importance of good appearance; the barn must be kept organized and clean, the exterior must be maintained, and pastures should be well-managed to remain green and productive.

Competitors: Who Is Doing What Nearby?

Especially in horse-dense areas where there may be many other local businesses performing similar services, it is important to know how you can differentiate your business from others. Finding out what your competitors are offering and how they offer it can help you to find your niche in the market.

A trip to the nearest show barn, tack shop, training center, or even a bit of time on the Internet to research what the competition is offering may help to answer these questions. The idea is to find out everything possible about the competitors' business or their buyers. One option is talk to current and potential competitors and their customers.

ASK YOURSELF

Who are my competitors?

- Who are the competitors and what do they offer customers?
- Where are they located?
- What is their market share?
- Who are the key "minor players"?

NOTES:

Silver Snaffle Farm's Competitors

There are five other horse farm businesses within a ten-mile radius of my farm. One of them is a large equestrian center with over 40 horses and numerous riding rings which hosts large shows regularly in various riding disciplines. This is less of a competitor for me and more of an opportunity for my clients to compete, as their board price is higher than mine. The show barn's clients are wealthier, but I do not consider them potential clients of mine unless they are unhappy with the pressure to compete that is prevalent at that facility. Two of the other barns are similar to mine, but they only offer board and have no dedicated riding facilities, only a few trails. The last two are direct competitors, as they offer board and lessons/training in the hunter/jumper disciplines for adults and children. I have visited their barns and chatted with the owners, and found that one of them does not have the well-kept appearance that my farm does, and the other one charges lower rates but has high turnover among clients. I feel that we are in a good position among our competitors.

ASK YOURSELF

What share of the market can my product or service realistically capture?

- What share of the market can the new product realistically capture?
- Where does the new product have an advantage over existing products?
- Can the new product be produced with a new twist?
- Does the firm business have access to markets that competitors cannot reach?
- Is the business better at working with people—at attracting and keeping customers/clients?
- Does the business have better business skills?
- What competitors' weaknesses can be capitalized on? In other words, is there a niche?
- How much market share will the new product take away from competitors? How will competitors respond to the new product? Will they respond by changing price? Will they change their product?

NOTES:

Considerations for Product-Oriented Businesses: Distribution and Packaging

Distribution refers to how and when to move the product from the business to the customer's home, store display, or wholesaler. Distribution strategies typically describe scope, market channel, packaging, and scheduling/handling. The scope defines how widely will the product be distributed? Will the distribution strategy be intensive, selective, or exclusive? **Intensive** product distribution typically involves widespread placement of the product at low prices. The aim is to saturate the entire market with the product. This strategy can be expensive and very competitive. Large-scale producers who market nationally or internationally often employ this method. **Selective** product distribution involves selecting a small number of intermediaries, usually retailers, to handle the product. If the product is large, the business owner may want to be selective about the stores that stock it and choose only upscale retailers, or even retail directly out of the business's location. Selective distribution offers the advantages of lower marketing costs and the ability to establish better working relationships with customers and intermediaries. **Exclusive** distribution is an extreme version of selective distribution. In this case, the producer agrees not to sell to another buyer. In exchange, the buyer may agree to buy that product only from the producer. The producer works closely with a retailer to set market prices, develop promotion strategies, and establish delivery schedules. Exclusive distribution carries promotional advantages, such as the creation of a prestigious image for your product, and often involves reduced marketing costs. On the other hand, exclusive distribution may mean sacrificing some market share for the product.

Product packaging can be both functional and promotional—serving to preserve the product for shipment and to advertise and differentiate the product. Wholesale buyers may require certain packaging as well as bar codes. Direct market producers will have more flexibility in packaging and point-of-purchase advertising materials. This can be a daunting yet exciting task. Producers should begin their research by visiting retail outlets where competing products are sold. They should make note of how products similar to theirs are packaged and labeled. Producers should think about what the customers will see, hear, and smell when visiting the greenhouse or retail outlet or communicating with the owner and staff. Customer needs, such as convenience, and intermediary requirements are important.

Pricing: How Is Product Price Determined?

Prices charged will always have an important effect on sales programs. The pricing strategy depends on the market channel. In some markets (especially wholesale markets), producers will be price takers. In other words, the market, rather than the seller, sets the price. In other markets, producers can set their own prices. Even price takers can still *do things to obtain a higher price*. To have more control over pricing, producers will need to differentiate their product.

In general, prices are set by determining how much it costs to produce the product or provide the service and adding a fair price for the benefits that the customer will enjoy. The cost of production/operation becomes the price floor, that is, the lowest price. The price ceiling is the value consumers place on the product, that is, how much they are reasonably willing to pay for the product. Most customers will be willing to pay a price somewhere between the price floor and the price ceiling. To stay in business for the long run, the price has to cover costs. A place to begin developing a pricing strategy is to calculate the cost to produce the product or provide the service. The costs include all the fixed and variable costs—including production, marketing, and promotion—as well as a return for the owner's time and investment. Examining what others are charging for similar products will give an indication of the price customers are willing to pay.

With prevailing market prices and costs of production in hand, managers are ready to begin developing a pricing strategy. Common pricing strategies for differentiated products are discussed below. Each has advantages and disadvantages. Depending on the business goals, vision, target market, and product strategy, the business may want to consider more than one pricing strategy. While pricing will be determined in part by the competitor's price, a small or mid-sized producer selling in a local market should not place too much emphasis on price competition. Competing on price can be intense, and larger businesses will probably have lower costs. Instead, it will probably be easier to find ways to differentiate the product from the competition and compete on quality, value, and service. Still, price is an important consideration. In choosing a pricing strategy, managers should think through their rationale. Are they trying to undermine the competition by offering a lower price? Do they want to set a high price that reflects an image of quality? Are they simply looking to cover costs and reduce volatility?

EIGHT PRODUCT PRICING STRATEGIES
1. COMPETITIVE PRICING
Competitive pricing strategies are common among large companies and are aimed at undermining competition. Predatory pricing, where a company sets its price below cost to force its competitors out of the market, is a typical competitive pricing strategy. Although these strategies may work well for large commercial companies, they are not recommended for small-scale, independent businesses. Price wars are not easily won.
2. COST-ORIENTED PRICING
The cost-oriented pricing strategy is probably the most straightforward. Based on production costs, the manager makes a subjective decision about whether to price the product at 10 percent, 50 percent, or 100 percent above current costs. Of course, marketing research should be done to determine whether or not customers are willing to pay the cost-plus price that is established.
3. FLEXIBLE OR VARIABLE PRICING
Flexible pricing strategies involve setting a range of prices for the product. Flexible pricing is common when individual bargaining takes place. Prices may vary according to the individual buyer, time of year, or time of day. For instance, growers who sell at farmers' markets often establish one price for their products in early morning and by day-end are willing to lower their prices to move any excess product.
4. PENETRATION OR PROMOTIONAL PRICING
A penetration pricing strategy involves initially setting the product price below the intended long-term price to help secure the market. The advantage of penetration pricing is that it will not attract competition. Before pursuing a penetration pricing strategy, producers should thoroughly research prevailing market prices and calculate their costs to determine just how long they can sustain a below-cost, penetration price.
5. PRODUCTION LINE PRICING
A line of products may be marketed within a limited range of prices for all of the products in that line. For instance, a line of products may be promoted and priced as "affordable" while another line may be a premium line with higher prices.
6. RELATIVE PRICING
Relative pricing strategies involve setting the price above, below, or at the prevailing market price.
7. PRICE SKIMMING
The price skimming strategy is based on setting a high market-entry price to recover costs quickly (to skim the cream off the top) before lowering the price to the long-term price. This pricing strategy is possible only when there are few or no competitors. The primary disadvantage of the skimming strategy is that it attracts competition if prices remain too high for too long. Once competitors enter the market, producers may be forced to match their lower prices.
8. CONTRACT PRICING
Contracts are arrangements between the buyer and the seller in advance and usually include the price, payment conditions, grower responsibilities, storage, and shipping arrangements. The advantage of pricing on contract is that the producer knows in advance what price will be paid for the product.

Figure 4

FIVE COMMON PRICING MISTAKES
1. *Pricing too high relative to customers' existing value perceptions.* If customers think the horse is worth $2,000 and the price is $6,000, they simply will not buy it. Producers must be aware of the value consumers place on the product.
2. *Failing to adjust prices from one area to another based upon fluctuating costs and the customer's willingness and ability to pay from one market to another.* If your business has multiple locations or sells to several distinct markets, it may be necessary to analyze each market individually. A pricing strategy for one area may not be appropriate for a different area.
3. *Attempting to compete on price alone.* Most equestrian consumers realize that a higher price often equates to better service or products. By dropping prices lower than a similar quality competitor, potential clients may wonder what your business lacks to account for the lower price.
4. *Setting prices too low with the intention of raising the prices later.* Businesses with this strategy will struggle from the outset just to cover costs. It positions the company as lower in quality versus most of the competitors (whether or not it is true), and makes it difficult to raise prices later.
5. *Discounting prices.* This communicates that price is overinflated. It is much better to couple any price discounts with an equal reduction in services or product offered, in quantity purchased, or in payment terms. For example, service providers can offer discounts for clients with multiple horses. Or producers can reduce the price, but make all sales final (remove the 100 percent guarantee on the discounted product). This way, they have shown flexibility in meeting the needs of their clients, yet have maintained their pricing integrity.

Figure 5

Silver Snaffle Farm Pricing Strategy

My pricing strategy is to charge for the high quality of service that I provide. I have one of the nicest facilities in the area and offer high quality care. I do not allow my boarders to buy their own feed/bedding for reduced board, but I will make reasonable efforts to use the feed that they prefer. I currently have four pasture boarders whose horses live in pastures with large run-in sheds.

I have set lesson prices based on my costs and my competition. My prices are less than those at the show barn and higher than the other two nearby lesson facilities. The price of my lessons reflects my experience and success in the show ring and that of prior students who have been successful. Pricing for training horses is based on the cost of boarding the horse plus the cost of private lessons for two rides per week.

Promotion: How and What Will We Communicate to Our Buyers or Customers?

Promotion is a must to gain product recognition among customers. Promotional strategies should be built around a message or the business's unique product value proposition. The image the business wants to send to buyers should be incorporated into everything the business does. This image should be clear on business cards, invoices, landscaping, building design, signage, brochures, Web sites, social media contacts, and vehicles.

A business may use a brand or logo to identify the products of the business and to distinguish them from those of competitors. Although the establishment of a brand can be expensive, particularly for small businesses, many direct equine businesses are concentrating their promotional efforts on image advertising. The best approach to advertising is to think of it in terms of media and which media will be most effective in reaching the target market. Then an advertising budget can be allocated to each medium. The advertising budget should include not only the cost of the advertising but also projections about how much business the advertising will bring in. Advertising media options include the Internet—Web sites, blogs, Facebook, YouTube, and Twitter; television; radio; newspapers; magazines; telephone books/directories; billboards; bench/bus/subway ads; direct mail; newsletters; and cooperative advertising with wholesalers, retailers, or other businesses.

Some low cost product promotion alternatives are point-of-purchase displays, demonstrations, coupons, rebates, frequent-buyer clubs, publicity, and samples. Every business should also include some marketing material such as business cards, brochures, and pamphlets. Another avenue for promotion is free publicity, such as press releases, product launches, special events, including community involvement, articles, and use of testimonials. Trade shows can be an incredibly effective promotion and sales opportunity—if a business attends the show that attracts its target customers and the promotion plan is in place.

Promotional activities are limited only by the imagination. Teaching a course, sponsoring a community event, or conducting an e-mail campaign can all fit into an advertising and promotion plan. Sporadic, unconnected attempts to promote the product or service are bound to fail; the goal is to plan and carry out a sequence of focused promotion activities that will communicate the unique product value proposition to potential customers. No business is too small to have a marketing plan. After all, no business is too small for customers. And a business that has customers needs to communicate to those customers about its products and/or services.

Silver Snaffle Farm Promotional Plan

Since I have not wanted to increase the scope of my business, I have not done much promotion or advertising lately. The horse industry often works best through word of mouth, so most often my clients recommend me to others. However, boarders occasionally move their horses, leaving me with an empty stall, so I must continue to promote my business. Especially when I begin to sell young horses, promotion will become extremely important.

The first thing I can do is to create an online presence for my business using social media. We already have a website, which will need to be updated and spruced up with testimonials and photos. I will create a Facebook page within one month and use it to communicate with my current clients more than I do currently and share news. It will also be a great way to showcase photos of my farm and horses since they make a strong first impression.

When it is time to sell my sale horses, I will design eye-catching flyers and post them in nearby tack shops, supply stores, and at horse shows. There are several online forums and horse selling websites, as well as print magazines which feature horses for sale. I will post the horses on Facebook and ask followers to share. I will send an email to my current e-mail list and request to cross-post the email to other lists; there are quite a few for different organizations in New Jersey. I will also make sure to mention the horses to professionals such as veterinarians and farriers who may reach potential buyers that I cannot.

Marketing Strategy

Price takers have very little control of the market price. Price takers can reduce business risk through product diversification and by adding new customers or markets, and they can use pricing strategies to increase sales, such as offering lower boarding rates to customers with more than one horse. To differentiate their products and receive a higher price, producers can find a market niche that local competitors are not serving, adapt to changes in consumer tastes and preferences, add service to the product, or if it is possible, choose an ideal location.

<u>Outline Your Market Analysis Section</u>

MANAGEMENT AND PERSONNEL PLAN

Most equine businesses start small with the founder making all of the key decisions, and most communication is done by one-on-one conversations. This centralized control is particularly useful for a new business as it enables the founder to control growth and development. As the business grows, the owner must delegate more and more responsibilities to others. This is often a difficult transition because the founder of a business often feels that no one else can run the business as well as he or she can. While this may be true, if the business is to grow, the manager will have to learn to divide the responsibilities of running the business into various tasks and delegate these tasks to others. As the business grows, an organizational structure can allocate responsibilities for different functions to different individuals, departments, teams, or divisions.

Management Team

The size of the management team can range from one person in a small business to hundreds or thousands of managers in multinational companies. In large businesses (think Smartpak, Dover Saddlery, Ariat, etc), the board of directors develops the company objectives and the chief executive officer (CEO) manages the business's resources to meet those objectives. Some business analysts and lenders consider the quality and experience of the managers when evaluating a company's worth.

Silver Snaffle Farm Management Team

The management team currently consists of me, Sally Stirrup, and my husband Steven. I am the general manager, overseeing daily functioning, marketing activities, and future planning. Functions include horse care and training, pasture management, hoof care/dental care/veterinary care oversight, facilities management, and all marketing activities. Steven supports me and provides funds and some business advice for the business when needed. My employees include Jane Johnson, who does barn work and book-keeping, and Jerry Jimson, who maintains the farm. This allows me to focus my attention on my lesson and training activities once I arrive home from my job. I hire an accountant to do my year-end taxes, and I consult with a lawyer for items such as reviewing liability waivers, wills, and estate planning.

Labor Management

The verb *manage* comes from the Latin *manu agere*, "to lead by the hand." Skilled managers can accomplish much more through leading others than they can through their own single efforts. This means that labor is one of the most valuable resources in the business. And hiring and motivating employees is a critical management function.

Management functions are not limited to managers and supervisors. Every member of the business has some management and reporting responsibilities. Successful managers listen to employee feedback and incorporate it into their plans. Leading producers know that a satisfied employee needs to feel that he or she is part of the team. The strongest investment a company can make is in its employees. This is especially important since labor is one of the largest costs of production, accounting for about 33 percent of sales. Listening to employees and implementing their ideas shows how much they are valued; reduces turnover, absenteeism, and sick days; lowers labor costs; and can lead to innovation and competitive advantages for the greenhouse.

To set goals and standard organization needs, employees need to know the company's vision which tells them what kind of business you want to be and the company's mission that tells them why the company exists (the purpose).

ASK YOURSELF
Who is on my management team and what are their roles?

NOTES:

SEVEN ESSENTIAL STEPS TO ENCOURAGE TOP EMPLOYEE PERFORMANCE
1. ***Set clear standards and goals.*** Establish desired behaviors and set goals to be rewarded.
2. ***Expect the best.*** If standards and expectations are high, yet achievable, people will strive to meet them. If they are low, people will meet that level of performance too.
3. ***Pay attention.*** Catch people doing things right and reward them—immediately. People want attention and like being told exactly what they are doing well. Managers who pay attention and reward behavior will get more good performance.
4. ***Personalize recognition and rewards.*** Different things are important to different people. Make your rewards meaningful to the person receiving it. If you don't know—ask!
5. ***Tell the story of success.*** Turn good examples into stories. Share the stories with other employees and off-farm individuals. People like hearing stories about themselves.
6. ***Celebrate.*** Recognize and reward people publicly. Host pizza parties or lunch or dinner. Invite industry people in to hear you boast about employees. Celebrate in some way even small team successes or goals accomplished.
7. ***Set the example.*** Walk the talk. Make recognition part of your job. Don't delegate recognition! Don't assume people know their efforts are appreciated. If you are positive and upbeat and appreciative, others will be too.

Figure 6

Four Key Leadership Traits

1. *Vision*: Leaders have a sense of what is important.
2. *Energy*: Leaders are exciting and enjoyable to be around.
3. *Power Source*: This can come from their position, the task, personal power, relationship power, or from knowledge and how to use it.
4. *Direction*: Leaders have a plan. A vision without a plan is just a dream.

ASK YOURSELF

What is my governing philosopy?

- What do I want people to say about me when I am gone?
- What values do I hold that I will not compromise?
- What characteristics do I want to portray to people?
- What principles do I stand for?
- How do I want to be seen or thought of when I interact with people?
- What do I want in life?

NOTES:

Managers need to convey a sense of shared vision. A vision is a force in peoples' hearts, a force of impressive power. A shared vision answers the question, "What do we want to create?" It emerges from personal visions: The business will not have a vision until individuals have visions. Personal visions derive power from caring for the vision; shared visions derive power from the common caring. Truly shared visions take time to emerge. Managers must create a culture where each individual can create his or her own vision.

Figure 8 depicts the steps in performance management of employees. It begins with the company's governing ideas, which come from the company's vision and mission. Then goals help the company achieve its mission. To meet these goals, managers develop performance expectations. They provide coaching and feedback to help employees meet these expectations. They evaluate employees' performance, and adjust the performance expectations if necessary.

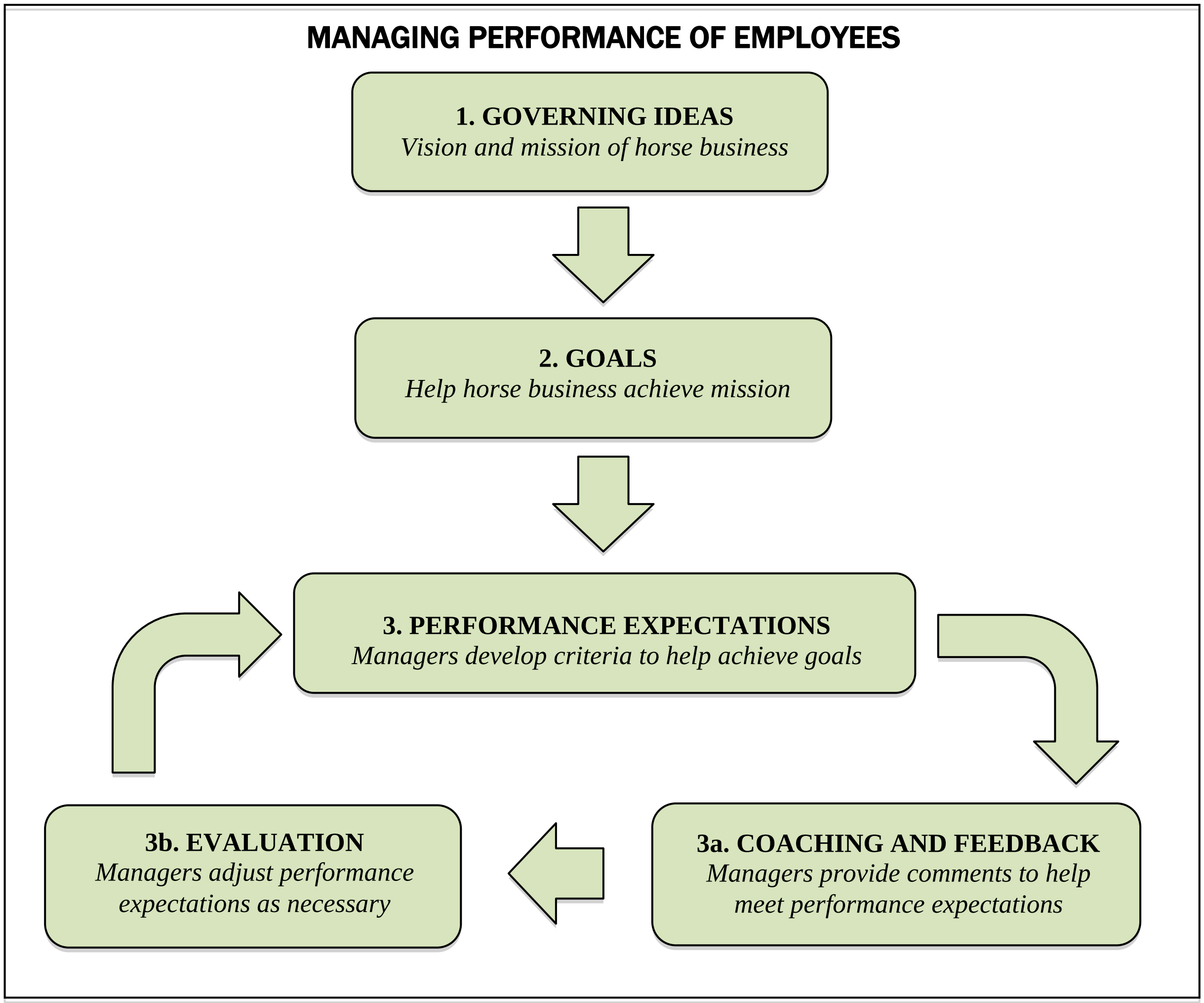


Figure 7

Performance expectations are defined as conditions of satisfactory work. They should be discussed with employees and agreed upon before the work begins. They should be consistent with the mission, objectives, and goals of the organization. Performance expectations should be attainable and measurable, have available resources and be done when they are expected.

The keys to being a good manager are

- Like what you do.
- Be self-motivated.
- Look ahead to what needs to be done.
- Prioritize.
- Get along with people.

To motivate people to perform

- Develop a standard operating procedure (SOP) and encourage suggestions for improvement.
- Provide regular, constructive feedback on employee performance with regard to the SOP.
- Minimize employee turnover.
- Encourage employees to be part of the team.

Five Stages of Team Building and Reducing Turnover

1. Recruit and hire the right people.
2. Give the proper orientation and training starting from day one.
3. Provide appropriate ongoing training.
4. Develop individuals to successfully take on higher and higher levels of responsibility.
5. Motivate employees and yourself to continue in spite of occasional setbacks.

Once the right people are in place, take the following steps to get them to perform: (1) Tell them what to do. (2) Show them what to do. (3) Let them try. (4) Observe performance. (5) Praise progress or redirect. To increase efficiency, make sure the right people are in place who are willing to learn new skills, will work as part of a team, and perform to his or her ability. Managers need to make sure that employees have the right tools and are doing the right jobs. Managers need to match the employee's stage of learning with a particular leadership style *(Table 1).*

Stage of Employee Growth	Employee Skill Level	Leadership Style Needed	Manager's Role
Beginning	Are excited and enthused.	**Directive**	Tell what, when, where, and how to do it.
	The job seems easier than it really is.		
Some Experience	Have little knowledge or skill.	**Coaching**	Give direction and support.
	Have not mastered the task.		
	Need to know *why*.		
More proficient	Have technical capabilities to perform at a high level.	**Supportive**	Encourage, but give little direction.
	Lack confidence.		Say "You have what it takes to get the job done."
Proficient and Self-confident	Have mastered the knowledge or skill.	**Delegating**	Turn responsibility over to the employee.
	Have confidence to perform consistently and proficiently.		
	Have confidence to perform consistently and proficiently.		

Stages of Learning and Leadership Styles to Use with Employees at Each Stage

Figure 8

An increasingly popular tool for business managers is an employee handbook. This handbook provides direction for managers to be fair and balanced in their dealings with employees.

Tips on Developing an Employee Handbook

Some company policies need to be in writing—for example, policies on sexual harassment and discipline—so that employees know what is expected of them. The following can form the basis of an employee handbook**.**

1. The manager should draft the employee handbook with input from others in the business.
2. The employee handbook should be reviewed and fine-tuned by a lawyer.
3. The employee handbook should include a disclaimer stating clearly that the manual is in no way a legal contract.
4. The Small Business Administration's Web site, at http://www.sba.gov (search for "employee handbook"), has a template of what to include in a handbook as well as several relevant articles on creating an effective employee handbook and human resources management program.
5. Every employee should receive a copy of the handbook and sign a statement saying that he or she has read it.
6. Management should review it every six months or so and update it as needed.

NOTES:

Working Conditions

Working conditions are as important as the manager–employee relationship for encouraging good performance. Consider your own feelings when walking through an immaculate, well-organized barn (or shop) compared to a messy one with broken equipment and unkempt grounds. Which one instills more pride in the work environment? At the same time, working conditions at a service-oriented facility such as a boarding barn will influence potential and current clients' decision to use your business.

Facilities. The barns, storage areas, restrooms, and surroundings should be orderly and clean. This is an important part of insect and disease control. It is also important to proper management. A harmonious environment suggests a state of finesse, which can be achieved with a little encouragement by the manager.

A job is not finished until it is cleaned up. Tools, empty cartons, etc. should always be in their proper places. Barn aisles, the tack room, feed room, office, and areas around the barn should be clear. A swept aisle goes a long way in presentation. Aside from the negative messages that messes impart, they also present hazards and a physical barrier to efficient operation.

A program of preventive maintenance should be in place for all equipment to ensure that jobs will always be done on schedule. Whether it's keeping tack clean or regular oil changes on all vehicles or having trailers inspected, these steps prevent problems from arising that could impact your operation.

Each human has an internal rhythm. When the pace of his or her work is geared to this rhythm, efforts are minimized and productivity is maximized. Disruptions in the form of ambiguous orders, undue changes in orders, and equipment breakdown break the work momentum. This is fatiguing and depressing to the employee.

Work facilities should be respectable. Human dignity dictates that bathroom facilities be provided. If the very being of an individual does not command respect, why should his or her productivity be any different? A pleasant area for eating and taking breaks should also be provided. A brief repose at mid-morning, noon, and mid-afternoon benefits the business as well as the employee. A tired employee is not productive.

Many other aspects of the physical facilities warrant attention. Worthwhile improvements are those that prevent needless fatigue and facilitate work efficiency. Rubber mats on the floor and, under some circumstances, chairs are an asset to progress. Convenient centralization of tools and supplies also increases efficiency. The layout as a whole should be formulated with efficiency in mind. For example, some farms are situated such that a series of gates and laneways allow for horse turnout without walking large distances. Conveniently located water lines and hoses can eliminate the need for employees to carry heavy water buckets. Some large properties require the use of a golf cart or truck for feeding.

Product Quality. The demand for low-quality products is small. The profitability of such production is low at best. Aside from market price, product quality is important to personnel management. It affects the same principle of the employee relating to the business. When a person knows that he or she is part of a quality production scheme, the incentive exists to try to meet these standards in his or her own work.

Education**.** Most people take pleasure in learning. It is flattering to an employee when the business thinks enough of him or her to provide an education along with the job. Actually, there is a mutual advantage, since employees who understand the why and what of their tasks have the potential to be better workers. They are in a position to reason out better ways of doing the job and solving a problem when the job is not proceeding smoothly.

Education in a small business need not consist of anything more than the manager talking with employees as they work. It is easy to teach an employee how to perform a task, but sharing the reason for the task will allow the employee to learn and perhaps do it without prompting next time. Why do you use a certain bedding? Why do you use a certain dewormer at different times of the year? Why do you wrap horses' legs? Worthwhile employees welcome such knowledge and use it to better themselves within the business and to assist the manager in meeting his or her responsibilities. In fact, some farms take on "working students" for a mutually beneficial business relationship.

Larger businesses, in addition to the procedure just discussed, sometimes use training sessions, workshops, or clinics for their employees. These may be held on the premises of the business and be conducted by management within the business or by instructors hired from outside. Outside services are available for topics such as management and marketing. Practical topics such as equine nutrition, first aid, saddle fitting, hoof care, and so forth could be offered to both employees and clients.

Numerous educational meetings and workshops are sponsored each year by state and national breed associations, state universities, local county extension services, and even local equine businesses. These meetings are an excellent educational opportunity for the owner and his or her key employees.

Many equine magazines and newsletters contain educational articles and advice. Subscribe to these publications and leave them in an accessible location, such as the tack room or office for employees to read at lunchtime or after work. Offer to loan books, DVDs, or other educational materials to interested employees. A worker who educates him or herself is quite an asset.

NOTES:

Silver Snaffle Farm Management Style

My personal management style is very straightforward and laid back. I aim to be as clear as possible in my directions. If mistakes are made, I do not lose my cool but find out what went wrong and discuss it with the worker. I set very high standards for my employees. Tasks are performed well and thoroughly, equipment is cleaned after each use and returned to its original place, the barn is swept after chores and by each boarder if their horses make a mess when they come to ride. Each client understands that the barn is to be left in the same condition it was when they arrived, and they appreciate the organization. Every item has its place, and labels alert people to proper places. I plan to be more generous with praise towards the people who help me keep the farm running and clean. I want my employees to look up to me as knowledgeable and approachable.

Sometimes I am not present when clients are at the farm working with their horses or doing barn chores. For this, I am going to develop a "Barn Handbook" to refer to in case of a problem. It will contain important phone numbers, locations of important items and equipment, and my rules and guidelines for the farm. It will also contain a "how-to" section for easily remedied problems such as first aid for small scrapes and cuts or what to do if you see a horse with certain symptoms. Each client and employee will receive a copy to read, and a copy will be kept in the office.

In addition, I will subscribe to a few more equine magazines and leaves copies in the office for my clients and employees. I will move my library of training and horsemanship books out to the barn as well. I plan to ask my clients for some topics that they would like more information on and have some informal educational sessions. Lastly, I will join my County Cooperative Extension e-mail list to find out when classes and seminars will be offered through the University, make the information available to my clients and offer to take clients and workers with me.

Management Plan

Many people go into the equine business because they like working with horses. They often prefer to focus on the labor tasks of keeping or training horses rather than the management tasks that lead to a profitable business. The owner of a small business often finds it necessary to be a laborer as well as a manager. Indeed, working alongside employees and performing some of the labor tasks can be a valuable tool to build esprit de corps. It can motivate employees to pull together in pursuit of the common purpose of accomplishing the business's goals effectively and efficiently. However, farm managers should never lose sight of the need to manage and must guard against spending too much time performing labor tasks rather than managing.

To develop the management plan, a business needs to do the following:

1. Define the business operational areas by function. Figure 10 shows an organizational chart depicting the different business operations or managers required to manage a generic business and their functions. In smaller businesses, one person will perform the duties in more than one of these business operations.
2. Determine what skills, education, and experience are necessary for each key position on the management team.
3. Describe the experience, skills, education, goals, interests, and wages or salary of each person currently in the workforce.
4. Identify key persons for each management position and briefly describe their management role and their qualifications.
5. Identify areas where skills are lacking and those that depend on one person. Identify people in the business who could be trained as the primary person or as a backup.
6. If additional part-time and/or full-time employees are needed, determine how these personnel will be recruited, hired, compensated, motivated, and retained.
7. Give job descriptions for managers and employees, compensation plans, incentive plans, information on employee handbooks, and training procedures.
8. List expertise that is not available among the owners or the current employees. The business may want to hire a consultant for specific tasks, such as a business consultant to help develop the business plan, an accountant to prepare income tax teturns, or a lawyer to prepare releases, wills, and documents to esblish a partnership or corporation. It may also contract specific tasks such as pasture management.
9. Describe any changes in the labor situation expected in the near future either because someone is leaving or because changes in the operation will require more people or different skills.
10. Describe any long-term transitions plans that may be required for transferring management responsibilities to the next generation, a partner, or an employee.

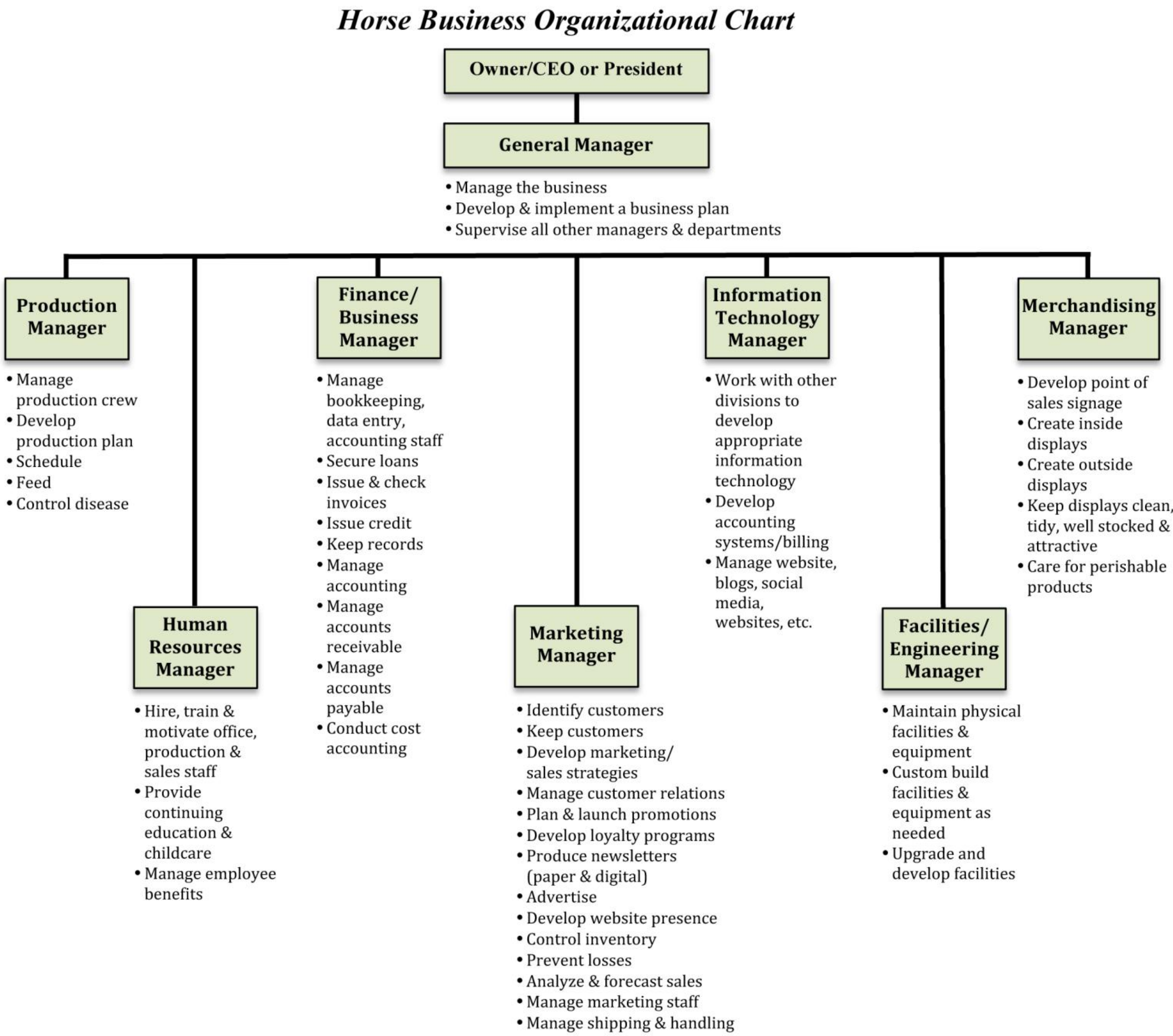

Horse Business Organizational Chart
Owner/CEO or President
General Manager
• Manage the business
• Develop & implement a business plan
• Supervise all other managers & departments
Production Manager
• Manage production crew
• Develop production plan
• Schedule
• Feed
• Control disease
Human Resources Manager
• Hire, train & motivate office, production & sales staff
• Provide continuing education & childcare
• Manage employee benefits
Finance/ Business Manager
• Manage bookkeeping, data entry, accounting staff
• Secure loans
• Issue & check invoices
• Issue credit
• Keep records
• Manage accounting
• Manage accounts receivable
• Manage accounts payable
• Conduct cost accounting
Marketing Manager
• Identify customers
• Keep customers
• Develop marketing/ sales strategies
• Manage customer relations
• Plan & launch promotions
• Develop loyalty programs
• Produce newsletters (paper & digital)
• Advertise
• Develop website presence
• Control inventory
• Prevent losses
• Analyze & forecast sales
• Manage marketing staff
• Manage shipping & handling
Information Technology Manager
• Work with other divisions to develop appropriate information technology
• Develop accounting systems/billing
• Manage website, blogs, social media, websites, etc.
Facilities/ Engineering Manager
• Maintain physical facilities & equipment
• Custom build facilities & equipment as needed
• Upgrade and develop facilities
Merchandising Manager
• Develop point of sales signage
• Create inside displays
• Create outside displays
• Keep displays clean, tidy, well stocked & attractive
• Care for perishable products

Figure 9

Silver Snaffle Farm Management Plan

Operational areas for my business include production, human resources, finances, marketing, information technology, and facilities.

Production functions include managing day to day operation of the farm, such as developing feed systems and farrier schedules, overseeing pasture maintenance, and ensuring that the horses are receiving the highest quality care. I perform these duties, with Jane Johnson executing the tasks.

Human resources functions include recruiting and hiring employees, and ensuring that employees feel comfortable in their work environment. I am solely responsible for these duties.

Finance functions include bookkeeping, data entry, invoicing, record-keeping, and accounting. While I oversee this area, Jane Johnson performs all of the tasks, as she has prior experience as an accountant. She is paid $12/hour. For large jobs such as year-end taxes, I hire an outside accountant.

Marketing functions include finding and attracting clients, keeping clients happy, developing a marketing plan, advertising, and maintaining and active web presence. I am responsible for all of these activities.

Information technology functions include managing the web site, and ensuring that all technology on the farm is in working condition. My husband Steven performs these tasks, though I am responsible for web content.

Facilities functions include maintaining and upgrading facilities and equipment as needed. I oversee this area and Jerry Jimson performs the tasks. He is paid $12/hour, as he is skilled with the equipment and reliable.

Occasionally I need legal advice, and our team lacks that skill, so I hire an attorney to help us with contracts and releases.

In the event that Jane or Jerry must leave my employment, I will need to find and train new employees. I have asked Jane and Jerry to give me adequate notice of their leave so that they can train a new employee.

In terms of my own work, I plan to continue teaching and managing the farm well into retirement age. When I decide to fully retire from this line of work, I hope to sell the farm to an aspiring young trainer through Farm Link. If I find the right trainer before retiring, I may consider selling the business; however I will most likely close it instead.

Outline Your Management and Personnel Planning Section

FINANCIAL PLAN

Financial analysis and planning is an important part of describing the business to someone else. Financial projections give some indication of where the business is headed in the next few years and describe the financial ramifications of changes that are implemented in the future. It helps the business evaluate alternative business investments. The financial section should also describe the assumptions used in making financial projections. These assumptions might include projected prices that will be received in the future, input costs, or production levels. These projections should be kept and compared against actual business performance. When developing and analyzing financial documents, it is important to work with an accountant who is familiar with the equine industry.

Financial Projections

- The **enterprise budget** provides the framework for determining what profit the business can expect to obtain and the expected fixed and variable expenses at the projected level of sales.
- The **income and expense projection (income statement)** documents profitability over a set period of time and compares budgeted versus actual income and expenses.
- The **balance sheet** presents the company's financial position including assets, liabilities, and net worth.
- The **cash flow statement** indicates how much to borrow and when.
- **Breakeven analysis** and **financial ratio analysis** compare the projections with industry norms and establish return-on-investment requirements.
- **Benchmarks** are used to monitor and evaluate progress in meeting established goals.

Enterprise Budget

The enterprise budget can be used to estimate the business's profitability. This budget should be developed for both new and established businesses. Once the business owner has estimated projected costs, he or she can determine what level of income is needed to be profitable and set prices accordingly. Business owners can also use the enterprise budget, or a partial budget, to evaluate the profitability of an alternative strategy. New business owners should plan on spending time researching local prices.

Profitability is the measure of how much income the business is making in relation to the resources used to produce that income. Net income is one measure used to quantify profitability. Net income is the revenue minus the expenses including depreciation. Profitability should usually be the major factor considered when making most financial decisions. Over time, profits generally drive the solvency and liquidity of a business.

The costs incurred in the equine business can be grouped into two categories: variable costs and overhead costs. *Variable costs* are costs that vary with the level of production. Examples of variable costs are the costs of bedding and hay; both relate specifically to the number of animals at the farm. Variable costs for a non-farm equine business may include materials necessary to make a product, packaging, etc. *Overhead* or *fixed costs* are those costs that are incurred regardless of the level of production. These costs include depreciation of the facilities, equipment, and other costs such as interest, repairs, insurance, taxes, and salaries of overhead personnel (i.e., the manager, salespeople, secretaries, bookkeepers, etc.). The total cost of production is the sum of variable and overhead costs.

It can be useful to divide income and expenses on a per unit basis (either per horse or per unit of production, depending on the type of business). This can show exactly how much the business earns per unit, and how much each unit costs to produce. For businesses with several different enterprises, the profitability per unit can be compared.

Silver Snaffle Farm Enterprise Budget

Note: These spreadsheets are <u>included on the CD</u> with comments and explanations for easier reading and to use as a template. Please consult with an accountant as you develop your business's financial documents. This spreadsheet was adapted from Commer and Downes, University of Maryland Fact Sheet 657.

Farm Enterprise Budget				
Assuming Property was Purchased 10 years ago - with Mortgage				
Total Horses	20			
Item	**Unit**	**Cost per Unit**	**Quantity per Year**	**Value or Cost**
Gross Income				
Boarding- full	head/mo	$ 900.00	156	$ 140,400
Boarding- pasture	head/mo	$ 400.00	48	$ 19,200
Training	head/mo	$ 1,420.00	36	$ 51,120
Lessons- private	per lesson	$ 65.00	480	$ 31,200
Hauling	mile	$ 1.00	8000	$ 8,000
			Total Income	$ 249,920
			Income after Vacancy Loss	$ 239,923
Variable Costs				
Hay	bale	$ 7.00	3700	$ 25,900
Grain Concentrates	bag	$ 15.00	584	$ 8,760
Supplements	$		0	$ -
Bedding (Straw)	bale	$ 5.00	1800	$ 9,000
Veterinary	head		0	$ -
Farrier	head		0	$ -
Equine Dental	head		0	$ -
Equipment (Barn and Tack)	month	$ 300.00	12	$ 3,600
Equipment Maintenance	month	$ 250.00	12	$ 3,000
Barn and Fence Repair	month	$ 250.00	12	$ 3,000
Labor-outside	Hour	$ 12.00	3120	$ 37,440
Labor- owner	Hour	$ 12.00	1560	$ 18,720
Worker's Compensation				$ 6,178
Payroll Taxes				$ 4,072
Pasture Maintenance	acre	$ 15.00	25	$ 375
Truck and Trailer repair	$	$ 3,500.00	1	$ 3,500
Gas for farm equipment and truck	gallons	$ 3.50	800	$ 2,800
Gas	month	$ 500.00	12	$ 6,000
Electric	month	$ 500.00	12	$ 6,000
Trash and Manure Disposal	$			$ -
Professional	$	$ 250.00		$ 250
Horse insurance	$		0	$ -
Advertising	$		0	$ 3,000
Miscellaneous Expenses	$	$ 1,500.00	1	$ 1,500
Bookkeeping Costs	$	$ 100.00	12	$ 1,200
Accounting	$			$ 3,000
			Total Variable Costs	$ 147,294
			Income above variable costs	$ 92,629
Fixed Costs				
Mortgage				$ 50,000
Less Principal Payment				$ 17,800
Net Deductable Mortgage				$ 32,200
Depreciation				$ 27,500
Property Taxes				$ 8,000
Facility insurance				$ 6,000
			Total Fixed Costs	$ 73,700
			Total Costs	$ 220,994
			Income Before Tax	**$ 18,929**
			Income Tax	**$ 4,732**
			Net Income After Taxes	$ 14,197

Silver Snaffle Farm Cost Per Horse

Note: These spreadsheets are <u>included on the CD</u> with comments and explanations for easier reading and to use as a template. Please consult with an accountant as you develop your business's financial documents.

Cost Per Horse				
Total Horses	20			
Budget			**Income/ Cost Per Horse**	
Item		**Value or Cost**	Annual	Month
Gross Income				
Boarding- full		$ 140,400	$ 10,800	$ 900
Boarding- pasture		$ 19,200	$ 4,800	$ 400
Training		$ 51,120	$ 17,040	$ 1,420
Lessons- private		$ 31,200	$ 1,560	$ 130
Hauling		$ 8,000	$ 400	$ 33
Total Gross Income		$ 249,920	$ 12,496	$ 1,041
After Vacancy		$ 239,923	$ 11,996	$ 1,000
Variable Costs			Annual	Month
Hay		$ 25,900	$ 1,295	$ 108
Grain Concentrates		$ 8,760	$ 438	$ 37
Supplements		$ -	$ -	$ -
Bedding (Straw)		$ 9,000	$ 450	$ 38
Veterinary		$ -	$ -	$ -
Farrier		$ -	$ -	$ -
Equine Dental		$ -	$ -	$ -
Equipment (Barn and Tack)		$ 3,600	$ 180	$ 15
Equipment Maintenance		$ 3,000	$ 150	$ 13
Barn and Fence Repair		$ 3,000	$ 150	$ 13
Labor-outside		$ 37,440	$ 1,872	$ 156
Labor- owner		$ 18,720	$ 936	$ 78
Worker's Compensation		$ 6,178	$ 309	$ 26
Payroll Taxes		$ 4,072	$ 204	$ 17
Pasture Maintenance		$ 375	$ 19	$ 2
Truck and Trailer repair		$ 3,500	$ 175	$ 15
Gas for farm equipment and truck		$ 2,800	$ 140	$ 12
Gas		$ 6,000	$ 300	$ 25
Electric		$ 6,000	$ 300	$ 25
Trash and Manure Disposal		$ -	$ -	$ -
Professional		$ 250	$ 13	$ 1
Horse insurance		$ -	$ -	$ -
Advertising		$ 3,000	$ 150	$ 13
Miscellaneous Expenses		$ 1,500	$ 75	$ 6
Bookkeeping Costs		$ 1,200	$ 60	$ 5
Accounting		$ 3,000	$ 150	$ 13
Total Variable Costs		$ 147,294	$ 7,365	$ 614
Income Above Variable Costs		$ 92,629	$ 4,631	$ 386
Fixed Costs				
Mortgage cash basis		$ 32,200	$ 1,610	$ 134
Depreciation		$ 27,500	$ 1,375	$ 115
Property Taxes		$ 8,000	$ 400	$ 33
Facility insurance		$ 6,000	$ 300	$ 25
Total Fixed		$ 73,700	$ 3,685	$ 307
Total Expenses		$ 220,994	$ 11,050	$ 921
Income Before tax		**$ 18,929**	$ 946	$ 79
Tax		**$ 4,732**	$ 237	$ 20
Net Income		$ 14,197	$ 710	$ 59

Projected Production and Sales. This is based on the business's financial condition during the past few years. It is effective if a few financial indicators or measures are used to describe the business's situation. It should include projected sales for each of the products the business plans to produce. As the business grows, it will also have its own historical data. A new business will not have any data for the historical trend (unless the business was purchased), and the manager must attempt to project sales.

It is important to note that as production and sales increase, there will likely be an increase in expenses as well. In evaluating the profitability of a potential new endeavor such as horse sales, the farm owner should complete an Enterprise Budget with all estimated new expenses as well as income. In the Silver Stirrup example, Sally will find that she may lose some income for the first one to two years when she has new expenses for the young horses (plus purchase cost) but no income from them. She must make sure that she sells them for a price that will cover their added expenses in order for the endeavor to be profitable. It is very important to run the numbers before beginning a new endeavor, even within an established business.

Silver Snaffle Farm Projected Sales

Note: These spreadsheets are included on the CD with comments and explanations for easier reading and to use as a template. Please consult with an accountant as you develop your business's financial documents.

Projected Sales				
Item	**2013**	**2014**	**2015**	**2016**
Boarding- full	$ 140,400.00	$ 141,960.00	$ 143,520.00	$ 145,080.00
Boarding- pasture	$ 19,200.00	$ 19,440.00	$ 19,680.00	$ 19,920.00
Training	$ 51,120.00	$ 51,480.00	$ 51,840.00	$ 52,200.00
Lessons- private	$ 31,200.00	$ 31,200.00	$ 31,200.00	$ 31,200.00
Hauling	$ 8,000.00	$ 6,000.00	$ 6,000.00	$ 6,000.00
Horse Sales	$ -	$ -	$ 25,000.00	$ 40,000.00
Gross Income	$ 249,920.00	$ 250,080.00	$ 277,240.00	$ 294,400.00
Note: This chart reflects Projected Sales only, based on yearly board increases and the sale of one young horse per year. It does not reflect the added expenses of buying and caring for the young horses.				

Income Statement

An *income statement* (also called profit and loss statement, P&L statement, or operating statement) documents the business's profitability. The income statement covers a set period of time, whether it is one month, one year, or five years. It covers much of the same information as the enterprise budget, but it can be used to compare estimated versus actual income and expenses. This allows owners to observe trends and adjust budgets accordingly for future years.

Some tips for budgets and income statements:

- For a boarding barn, do not assume 100% occupancy throughout the year. While many times the vacancy has nothing to do with the service provided (e.g. young adults moving for college), it is important to budget for the vacancy. The spreadsheets included assume a 96% occupancy rate throughout the year for an established business. A beginning business may want to consider a lower occupancy rate.
- Don't forget to pay yourself. This is frequently overlooked when starting out because money is tight. However, the first few years of being in business often are not profitable, and the owner needs some source of income. It is recommended to pay yourself based on what you could make if you were paying someone else to operate this business.
- Don't forget to budget for retirement. At some point, the owner will no longer want to or be able to continue to operate the business. As with any other retirement plan, start saving as early as possible.
- Owners also need health insurance, and should consider disability insurance in case an injury prevents you from working as well as life insurance if others are depending on your income.
- If you lack skills in certain areas, budget to hire consultants so that all jobs are done right. Examples include accountants, lawyers, bookkeepers, marketing specialists, and agronomists (for pasture and hay production). Look for professionals who have had experience with the equine industry.
- Some more topics to discuss with your accountant that pertain to many equine businesses include hobby losses, depreciation, travel expenses, barter and like-kind exchange, farm empoyee compensation, and investment analysis.

Silver Snaffle Farm Income Statement

Note: These spreadsheets are <u>included on the CD</u> with comments and explanations for easier reading and to use as a template. Please consult with an accountant as you develop your business's financial documents.

Income Statement						
Actual Vs Budget		For Total Year 2012				
		Actual	% to Income	Budget	% to Income	Favorable (Unfavorable)
Income						
	Boarding- full	$ 135,000		$ 140,400		$ (5,400)
	Boarding- pasture	$ 18,000		$ 19,200		$ (1,200)
	Training	$ 47,000		$ 51,120		$ (4,120)
	Lessons- private	$ 29,000		$ 31,200		$ (2,200)
	Hauling	$ 8,000		$ 8,000		$ -
	Total Income	**$ 237,000**		**$ 249,920**		$ (12,920)
	Income after Vacancy Loss	NA		$ 239,923		$ (2,923)
	Vacancy	-5.2%		-4.0%		-1.2%
Expenses						
Fixed	Mortgage	$ 32,200	13.6%	$ 32,200	13.4%	$ -
	Depreciation	$ 27,500	11.6%	$ 27,500	11.5%	$ -
	Property Taxes	$ 8,400	3.5%	$ 8,000	3.3%	$ (400)
	Facility insurance	$ 6,000	2.5%	$ 6,000	2.5%	$ -
	Total Fixed Costs	$ 74,100	31.3%	$ 73,700	30.7%	$ (400)
Variable	Hay	$ 24,000	10.1%	$ 25,900	10.8%	$ 1,900
	Grain Concentrates	$ 8,400	3.5%	$ 8,760	3.7%	$ 360
	Bedding (Straw)	$ 9,300	3.9%	$ 9,000	3.8%	$ (300)
	Equipment (Barn and Tack)	$ 3,400	1.4%	$ 3,600	1.5%	$ 200
	Equipment Maintenance	$ 2,500	1.1%	$ 3,000	1.3%	$ 500
	Barn and Fence Repair	$ 2,100	0.9%	$ 3,000	1.3%	$ 900
	Labor-outside	$ 37,440	15.8%	$ 37,440	15.6%	$ -
	Labor- owner	$ 18,720	7.9%	$ 18,720	7.8%	$ -
	Worker's Compensation	$ 6,178	2.6%	$ 6,178	2.6%	$ (0)
	Payroll Taxes	$ 4,072	1.7%	$ 4,072	1.7%	$ (0)
	Pasture Maintenance	$ 800	0.3%	$ 375	0.2%	$ (425)
	Truck and Trailer repair	$ 3,100	1.3%	$ 3,500	1.5%	$ 400
	Gas for farm equipment and truck	$ 4,000	1.7%	$ 2,800	1.2%	$ (1,200)
	Gas	$ 8,000	3.4%	$ 6,000	2.5%	$ (2,000)
	Electric	$ 7,000	3.0%	$ 6,000	2.5%	$ (1,000)
	Professional	$ 200	0.1%	$ 250	0.1%	$ 50
	Advertising	$ 2,000	0.8%	$ 3,000	1.3%	$ 1,000
	Miscellaneous Expenses	$ 4,200	1.8%	$ 1,500	0.6%	$ (2,700)
	Bookkeeping Costs	$ 1,200	0.5%	$ 1,200	0.5%	$ -
	Accounting	$ 3,000	1.3%	$ 3,000	1.3%	$ -
	Total Variable Costs	$ 149,610	63.1%	$ 147,294	61.4%	$ (2,316)
	Total Costs	$ 223,710	94.4%	$ 220,994	92.1%	$ (2,716)
	Income Before Tax	$ 13,290	5.6%	$ 18,929	7.9%	**$ (5,639)**
	Income Tax	$ 3,323	1.4%	$ 4,732	2.0%	$ (1,410)
	Net Income After Taxes	$ 9,968	4.2%	$ 14,197	5.9%	**$ (4,229)**
	Owner Salary	$ 18,720				
	Owner Labor after 25% tax	$ 14,040				
	Total Owner Income (Salary + Income)	$ 24,008				

← **Please Note Important Point**

However does not include health insurance, retirement savings

Balance Sheet

A balance sheet indicates the amount of equity the owner has in the business and the structure of assets and liabilities. It shows how funds are invested in the business (assets) and the financing methods used (liabilities and owner's equity). Unlike the income statement, which represents a period of time, the balance sheet represents a single moment in time. It is used to help understand the business's financial situation, especially solvency or net worth.

Net worth indicates the equity position of the business (assets minus liabilities). Net worth is important in evaluating the risk position of the business and in considering future borrowing capacity. Net worth growth is usually one of the major goals of a business.

A balance sheet is included in the business plan if the plan is being developed to be shown to lenders, potential investors, or partners. A balance sheet will probably not be included in the plan if it is being developed to communicate the direction of the business to those employees to whom the owner wishes not to disclose the entire financial situation.

Sales and Use Tax. In the state of New Jersey, boarders who rent stalls are responsible for collecting 7% Sales and Use tax. This money should be collected by the owner in addition to board and remitted to the State of New Jersey. It does not go in the Enterprise Budget or Income Statement, as it is neither an income nor expense. For Balance Sheet purposes, unremitted Sales and Use tax should go in the "Cash" category in Assets and the "Taxes Payable" category in Liabilities.

The New Jersey Department of Agriculture has developed an informational guide on this topic, called "Horse-Keeping Businesses and New Jersey Sales & Use Tax" and a link is listed in the Bibliography.

Silver Snaffle Farm Balance Sheet

Note: These spreadsheets are included on the CD with comments and explanations for easier reading and to use as a template. Please consult with an accountant as you develop your business's financial documents. This spreadsheet was adapted from Commer and Downes, University of Maryland Fact Sheet 658.

Balance Sheet			
15-May-13			
	Assets		
Current Assets			
	Cash	$ 33,408	
	Accounts Receivable	$ 6,139	
	Prepaid Expenses	$ 700	
	Other		
	Total Current Assets		$ 40,247
Long-Term Assets			
	Horses	$ -	
	Land	$ 350,000	
	Buildings/Improvements	$ 550,000	
	Equipment	$ 150,000	
	Tack	$ 3,000	
	Subtotal Long-Term Assets		$ 1,053,000
	Less accumulated depreciation	$ 387,500	
	Total Long-Term Assets		$ 665,500
Total Assets			**$ 705,747**
	Liabilities		
Current Liabilities			
	Accounts Payable	$ 4,000	
	Notes Payable	$ 10,000	
	Taxes Payable	$ 15,408	
	Wages Payable	$ 500	
	Total Current Liabilities		$ 29,908
Long-Term Liabilities			
	Mortgages	$ 626,000	
	Other	$ 3,000	
	Total Long-Term Liabilities		$ 629,000
Total Liabilities			$ 658,908
Net Worth			
	Initial Downpaymnet Mortgage	$ 130,000	
	Initial Cash Investment	$ 70,000	
	Total Initial Investment	$ 200,000	
	Retained Earnings	$ (153,161)	
Net Worth			$ 46,839

Cash Flow

Financial liquidity is usually evaluated using a cash flow plan. Cash flow planning is a projection of all sources and uses of cash during a specified planning period. Cash flow plans are an important tool for evaluating the liquidity of a farm business, the annual operating loan needs, and the ability of the business to repay loans. A cash flow projection should also indicate potential financial problems and alert the manager and lenders to possible changes that might be made. Profitable businesses can still fail because of cash flow problems. It is important to know when the major inputs and outputs of cash will take place and be prepared for them. Lenders usually want to evaluate the projected cash flow when making loan decisions, and owners will want to have a line of credit or operating loan to cover short falls.

Silver Snaffle Farm Cash Flow

Note: These spreadsheets are <u>included on the CD</u> with comments and explanations for easier reading and to use as a template. Please consult with an accountant as you develop your business's financial documents. This spreadsheet was adapted from Hofstrand, Iowa State University Extension.

Name:	**Total Time Period:**
Silver Snaffle Farm	12 months

	Individual Time Periods												Total for
CASH INFLOWS	January	February	March	April	May	June	July	August	September	October	November	December	All Periods
Boarding- full	$11,700	$11,700	$11,700	$11,700	$10,000	$10,000	$9,000	$11,700	$11,700	$11,700	$11,700	$11,700	$140,400
Boarding- pasture	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	$19,200
Training	3,500	3,500	4,260	4,260	4,260	4,260	4,260	4,260	4,260	4,260	4,260	4,260	$51,120
Lessons- private	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	$31,200
Hauling	0	0	0	667	667	667	667	667	667	667	667	300	$8,000
Sales Tax Collected	1,064	1,064	1,142	1,142	998	998	928	1,117	1,117	1,117	1,117	1,117	$12,921
Total Cash Inflows	**$19,400**	**$19,400**	**$20,160**	**$20,827**	**$19,127**	**$19,127**	**$18,127**	**$20,827**	**$20,827**	**$20,827**	**$20,827**	**$20,460**	$239,934

	Individual Time Periods												Total for
CASH OUTFLOWS	January	February	March	April	May	June	July	August	September	October	November	December	All Periods
Hay	$6,475			$6,475			$6,475			$6,475			$25,900
Grain Concentrates		2,917			2,917						2,926		$8,760
Supplements													$0
Bedding (Straw)	2,250			2,250			2,250			2,250			$9,000
Veterinary													$0
Farrier													$0
Equine Dental													$0
Equipment (Barn and Tack)				1,800						1,800			$3,600
Equipment Maintenance					1,500						1,500		$3,000
Barn and Fence Repair			3,000										$3,000
Labor-outside	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	3,120	$37,440
Labor- owner	1,560	1,560	1,560	1,560	1,560	1,560	1,560	1,560	1,560	1,560	1,560	1,560	$18,720
Worker's Compensation	515	515	515	515	515	515	515	515	515	515	515	515	$6,178
Payroll Taxes	339	339	339	339	339	339	339	339	339	339	339	339	$4,072
Pasture Maintenance			375										$375
Truck and Trailer repair			2,000							1,500			$3,500
Gas for farm equipment and truck	0	0	1,000	0	0	1,000	0	0	0	800	0		$2,800
Gas	800	800	600	500	400	300	300	300	300	500	500	700	$6,000
Electric	800	800	600	500	400	300	300	300	300	500	500	700	$6,000
Trash and Manure Disposal													$0
Professional	250												$250
Horse insurance													$0
Advertising				1,500						1,500			$3,000
Miscellaneous Expenses				750						750			$1,500
Bookkeeping Costs	100	100	100	100	100	100	100	100	100	100	100	100	$1,200
Accounting		1,500							1,500				$3,000
Sales Tax Remitted	1,064	1,064	1,142	1,142	998	998	928	1,117	1,117	1,117	1,117	1,117	$12,921
Total Variable Costs	16,209	11,651	13,209	19,409	10,851	7,234	14,959	6,234	7,734	21,709	11,060	7,034	$147,294
Fixed Costs													
Mortgage	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	$50,000
Depreciation	Not a cash outflow!!!!												$0
Property Taxes		2,000			2,000			2,000			2,000		$8,000
Facility insurance		2,000			2,000			1,000			1,000		$6,000
													$0
Total Fixed Costs	4,167	8,167	4,167	4,167	8,167	4,167	4,167	7,167	4,167	4,167	7,167	4,167	$64,000
Partial Payment of Note Payable								5,000					$5,000
Income Taxes			4,732										$4,732
Late Payments Customers	2,139	1,000	4,000	(2,000)	(1,000)	(2,000)	1,000	1,000	1,000	(3,000)	1,000	3,000	$6,139
Total Cash Outflows	**$22,515**	**$20,818**	**$26,108**	**$21,576**	**$18,018**	**$9,401**	**$20,126**	**$19,401**	**$12,901**	**$22,876**	**$19,227**	**$14,201**	$227,166

	Individual Time Periods												Total for
SUMMARY	January	February	March	April	May	June	July	August	September	October	November	December	All Periods
Net Cash Flow	**($3,115)**	**($1,418)**	**($5,948)**	**($749)**	**$1,109**	**$9,726**	**($1,999)**	**$1,426**	**$7,926**	**($2,049)**	**$1,600**	**$6,259**	**$12,768**
Beginning cash balance	$7,232												$7,232
Cumulative Net Cash Flow	**$4,117**	**$2,699**	**($3,249)**	**($3,998)**	**($2,889)**	**$6,837**	**$4,838**	**$6,264**	**$14,190**	**$12,141**	**$13,741**	**$20,000**	**$20,000**

Ratio Analysis

One method of assessing the financial health of a business is using financial ratios. Ratios are calculated using numbers from the balance sheet and income statement. The ratios fall into four categories: profitability, financial efficiency, liquidity, and solvency.

4 RATIO ANALYSES
1. PROFITABILITY RATIOS
Profitability ratios measure the ability of the business to earn a good profit and generate a satisfactory return on investment. These ratios are typically a good indicator of management's overall effectiveness. The *net profit margin* is the most common. It is a measure of the operating efficiency of the business. It measures how effectively the business is controlling expenses relative to its value of output. A high profit margin indicates good cost control. The net profit margin is the profit per dollar of sales after paying the owner's salary and accounting for opportunity cost of capital invested. Common problems with profit margin are the wrong pricing system, prices that have not been increased as costs have increased, costs that are too high relative to size of business, not enough sales for the resources allocated, high overhead costs, wasteful spending on inputs, and poor production. It is important to keep in mind that every dollar saved by cost control equals a dollar of *profit*. The return on assets (ROA) ratio measures the profit-generating capacity of total assets of the business. It measures the business's effectiveness in using all of the available total capital—both debt and equity. Return on assests shows how well the business is using its assets to generate a profit.
2. EFFICIENCY RATIOS
Efficiency ratios help explain why the business is making or losing money. While financial efficiency is related to profitability, it is quite different. The profit margin shows the return or loss for a given year. Financial efficiency seeks to understand the components of sales and determine if an operation is spending excessive amounts on operating expenses, interest, depreciation, and so forth. Therefore, it is important not only to understand the components that come together to determine profitability but also to understand why a business is or is not profitable. Financial efficiency ratios tell you how well the business employs its assets.
3. LIQUIDITY RATIOS
Liquidity ratios measure the capacity of the business to meet its short-term liabilities, either by using cash or by converting current assets into cash. Creditors and other lenders favor liquidity ratios that tend to reveal financial strength or weakness. The current ratio has long been the primary test for creditworthiness. It measures the ability to satisfy current debts with current assets. The higher the ratio, the greater the protection for short-term creditors. A ratio of less than 1 or a declining trend can signal problems in liquidity.
4. SOLVENCY RATIOS
Solvency ratios measure the extent to which a business is financed by debt and the business's ability to meet loan payments. Lenders of long-term funds and equity investors have an interest in solvency ratios. The debt-to-asset ratio is a way of evaluating the degree of asset financing creditors provide. It measures the percentage of the business's total assets to which creditors have claims. A higher ratio indicates greater financial risk and lower borrowing capacity. A ratio of less than 30 percent is considered strong.

Figure 10

	Measure	Recommendation	Formula	Explanation
Profitability: The Ability to Earn a Good Profit and Generate Satisfactory Return on Investment				
1	Net income (profit)	>$50,000 per family	Sales – Total costs	What remains after subtracting all the costs (including depreciation, interest, salaries, and taxes) from your sales. Also called bottom line, net earnings, net profit.
2	Gross margin	30–40%	(Sales – Total direct costs)/Sales	The amount of contribution to the business enterprise, after paying direct costs.
3	Profit margin	10–15%	Net income/Sales	Profit per dollar of sales after paying the owner's salary and accounting for opportunity cost of capital invested.
4	Return on equity	>10%	Net income/Net worth	Measures how effectively you are using your reserves to produce income.
5	Return on assets	>10%	Net income/Total assets	Measures how you employ your assets to obtain sales revenue.
Financial Efficiency: How Well You Employ Your Assets				
6	Financial efficiency ratio	<65%	(Total expenses – interest – depreciation)/Sales	Measures how you employ your assets to obtain sales revenue.
7	Asset turnover ratio	>25–30%	Sales/Total assets	How you are in utilizing your assets in generation of sales revenue. Higher is better. If low, it indicates the current level of investment needs to be used more efficiently or maybe some capital can be sold without adversely affecting operating efficiency.
8	Operating expense ratio	<65%	(Operating expense – Depreciation)/Sales	For every dollar you took in, how much did you need to spend?
9	Depreciation expense ratio	< 15%	Depreciation expense/Sales	Provides a measure of the capital costs incurred by the business.
10	Interest expense ratio	< 15%	Interest expense/Sales	Shows percent of your income needed to pay interest.

	Measure	Recommendation	Formula	Explanation
Liquidity: The Ability of the Business to Meet Its Current Obligations Without Disrupting Normal Business Operations				
11	Current ratio	>1.5	Total current assets/Current liability	Measures the ability to satisfy current debts with current assets.
12	Working capital	Positive, stable	Total current assets – Total current liabilities	Approximates the amount of funds available from within the business to purchase crop inputs and equipment necessary to produce products. In general, a lot of working capital = more success since you can expand and improve operations.
Solvency: The Ability to Meet Loan Payments				
13	Debt/asset ratio	<30%	Total liabilities/Total assets	Measures the percentage of the your total assets to which creditors have claims. Measures financial risk with debt financing. If = 0, the business is out of debt.
14	Equity/asset ratio	<60%	Total equity/Total assets	What portion of the business *you* own.
15	Debt/equity ratio	<150%	Total liabilities/Net worth	What portion of the business *your lenders* own.
16	Working capital ratio	>50%	(Current assets – Current liabilities)/Total expenses	Measures the return on your assets without regard to how the business is financed.
17	Leverage factor	5	Total assets/Net worth	A measure of the business's riskiness. It is the ratio of your assets to your net worth.

Seventeen Key Ratios, the Formula for Each, an Explanation of Each, and a Recommended Level for Each Ratio

Figure 11

When working with ratios, the following rules are important:

1. Ratio trends calculated consistently over time will provide better information.
2. Differing accounting policies, overall business size, and maturity of the business impact ratios.
3. Ratios supplement but do not replace sound business judgment. Ratios can be very useful in identifying areas of strengths and weaknesses, but because they are summary level in nature, many facts can remain buried if you don't take the analysis further.
4. Individual business ratios can be compared to industry statistics and trends.

Benchmarks

Managers can learn about the strengths and weaknesses of their business by benchmarking them against similar equine businesses in their region and across the country. Benchmarking means comparing the business's financial and production performance measures against averages for the industry. One challenge with benchmarking is determining what the critical success factors are. Which measures will really make a difference to the business's profitability? The second challenge is finding industry data to benchmark against. Places to look are cooperative extension publications, Web sites, and industry groups. If there is no industry data, you can benchmark against your own farm's average numbers. In fact, your own data are your best benchmarks.

Capital Required

The most common reason for developing a business plan is to be able to present the business's ideas for a new or expanded business to investors or lenders. After investors or lenders see the plan, they will want to know how much money is needed and how the money will be used.

Managers should think about what financial resources are needed for the following list: (1) equipment and facilities; (2) lease versus purchase; (3) suppliers: delivery schedules, beginning inventories, economic order quantities, cost of storage, and lead times for delivery, (4) start-up costs: overhead components, incidental costs, initial advertising and promotions, utilities installation costs, renovations, working capital start-up, timing and source of investment, insurance, licensing, and accounting fees; (5) typical annual and monthly estimates, and (6) desired mix of financing: equity, long-term loans, short-term or working capital loans, equipment or facilities loans, leases or rentals.

Managers should describe how they will acquire and manage capital assets. Do they purchase, lease, or custom-hire to meet equipment needs? If they plan to rent land or buildings, they should describe the lease arrangements. They may want to include a summary of retirement or savings investments. If major changes are planned, they must describe how these assets will be managed.

Outline Your Financial Planning Section

OTHER CONSIDERATIONS

Supporting Documentation

An appendix to the business plan should include other supporting documentation. Resumes of key people could be included. If the business was purchased from someone else, it should include any financial data that he or she has provided as well as a history of the business.

Reviewing Business Plans

A well-prepared plan is the road map to the future of the business. Business owners need to make the document work for them. They should skip sections that are not relevant, and add others if their business requires them. A business plan must pass three tests (Marshall, 2004):

1. The *reality test* proves that a market really exists for the products or services, and the business can actually build it for the costs estimated in the plan.
2. The *competitive test* evaluates the business's position relative to its key competitors and management's ability to create a business that will gain an edge over its rivals.
3. The *value test* proves investors or lenders will receive an attractive rate of return or a high probability of repayment.

A periodic review is imperative for the business plan to measure the business's progress toward meeting its financial, marketing, and other goals. Business managers tend to be overly optimistic, underestimating costs and overestimating returns. A review of the plan will help identify deviations from the plan early before they become serious problems. Early reviews will allow for modifications if needed. Several tools are available to determine the profitability of alternative strategies. However, profits may not be the only objective of the business. Other questions to ask are as follows: Is our current strategy consistent with the business and strategic plan? If it is not, should it be rejected, or should the plan be reevaluated?

After a business has decided who its customers are, what consumer needs it will fill, how other business forces will affect the industry, and how the business's individual strengths and weaknesses will be used and improved for business success, it has to implement the strategy. Having a strategic plan will help the business to be proactive and to anticipate and take advantage of business trends. The business will also want to continue to stay informed about its customers' needs and desires. The management team should keep focus on the strategic plan and share the mission and objectives with employees and customers. It is also a good idea to periodically review the business's mission, goals, and objectives and change or modify them as external and internal situations change. However, management should also be sure that the direction in which the business is moving is consistent with the current mission and strategic vision of the business.

Bibliography and Additional Resources

Note: This section is included as a separate document on the included CD so that you can click on links instead of typing the URL into your browser.
Note: Some resources link to private businesses because of educational material included on the website. Inclusion on this list does not imply endorsement by SARE or the Rutgers Equine Science Center.

American Association of Equine Practitioners. 2013. Emergency preparedness: being prepared during times of disaster. Important tips for horse owners. *http://www.aaep.org/health_articles_view.php?id=251*

Business USA. *http://business.usa.gov*

Cash Flow Budgeting Tools. Agricultural Marketing Resource Center. Iowa State University. *http://www.agmrc.org/business_development/business_workbench/business_worksheets_and_calculators/cash-flow-budgeting-tools/*

Commer, M. and J.M. Downes. Financial Control Aids for Equine Enthusiasts: Balance Sheets, Income and Expense Statements, and Cash Flow Budgets. Fact Sheet 658. University of Maryland Cooperative Extension.

Commer, M. and J.M. Downes. Financial Planning for Equine Enthusiasts: Enterprise and Partial Budgets. Fact Sheet 657. University of Maryland Cooperative Extension.

Equestrian Professional. *http://www.equestrianprofessional.com/*

Equine Business Network. *http://www.extension.org/pages/66269/equine-business-network-information-and-webcast-recordings*

Equine Law and Horsemanship Safety. University of Vermont. *http://asci.uvm.edu/equine/law/index.html*

Equine Legal Solutions. *http://www.equinelegalsolutions.com/index.html*

eXtension – Horses. *http://www.extension.org/horses*

Farm Link. New Jersey Department of Agriculture. *http://www.nj.gov/agriculture/sadc/farmlink/*

Fogleman, S. 2001. How to be the kind of employer you would want to work for. Presentation at Kansas State University's Risk and Profit Conference, August 16–17, 2001. *http://www.agmanager.info/hr/management/how_to_be.pdf*

Gibson, E. 1994. Sell what you sow: grower guide to production. Placerville, CA: New World Publishing.

Giddens, Nancy. 2010. Conducting a competitive analysis—is there room for your business? Agric. Decision Maker. Iowa State University Extension File C5-29. *www.extension.iastate.edu/agdm/wholefarm/html/c5-29.html.*

Gottlieb, P. and A. Cristelli. 2005. Treatment of Equine Facilities in State Programs Designed to Protect Agriculture. Rutgers Cooperative Extension Factsheet E301. *https://njaes.rutgers.edu/pubs/publication.asp?pid=E301*

Hayes, K., E. Toensmeier, and M. Wiggins. 2009. Exploring the small farm dream: is starting in an agricultural business right for you? Second Edition. New England Small Farm Institute, Belchertown, Massachusetts.

Horse Biz Blog. *http://blogs.extension.org/horsebiz/*

Malinowski, K. 2010. What does New Jersey stand to lose if there is no horse racing in the state?

Response to the Report of the Governor's Advisory Commission on New Jersey Gaming, Sports and Entertainment. *http://www.esc.rutgers.edu/downloads/Response%20to%20Hanson%20report.pdf*

Minnesota Institute for Sustainable Agriculture. 2010. Building a sustainable business: a guide to developing a business plan for farms and rural businesses. *http://www.sare.org/publications/business/business.pdf*

My Horse University – Equine Business. *http://www.myhorseuniversity.com/ebn/*

New Jersey Department of Agriculture. 2008. Horse-Keeping Businesses and New Jersey Sales & Use Tax. In Cooperation with & Approved By: New Jersey Department of the Treasury Division of Taxation. *http://www.esc.rutgers.edu/downloads/Horse_Keeping_Businesses_pdf.8-13-08_%282%29.pdf*

New Jersey Horse Industry, Rutgers Equine Science Center. *http://www.esc.rutgers.edu/HorseRacing_NJ.htm*

O'Neill, B., Stephen Komar, R. G. Brumfield, and R. C. Mickel. 2013. Later Life Farming. Rutgers Cooperative Extension. *http://laterlifefarming.rutgers.edu/*

Rutgers Equine Science Center. 2007. The New Jersey Equine Industry 2007, Economic Impact. Rutgers New Jersey Agricultural Experiment Station. New Brunswick, NJ. *http://www.esc.rutgers.edu/news_more/PDF_Files/2007_Equine_Economic_Impact_Study_Report.pdf*

Schuck, N. G., W. Knoblauch, J. Green, and M. Saylor. 1991. Farming alternatives. Northeast Regional Agricultural Engineering Service. NRAES-32.

University of Minnesota. 2013. AgPlan: An on-line tool for developing a business plan. *https://www.agplan.umn.edu/*

U.S. Dept. of the Treasury, Internal Revenue Service. 2013. Farmer's tax guide. Publication 225 *http://www.irs.gov/pub/irs-pdf/p225.pdf*

U.S. Dept. of the Treasury, Internal Revenue Service. 2013. Retirement plans for small businesses (SEP, SIMPLE, and Qualified Plans). Publication 560. *http://www.irs.gov/pub/irs-pdf/p560.pdf*

U.S. Small Business Administration. *http://www.sba.gov*

Zimmel, D. 2013. Disaster planning for horse farms. American Association of Equine Practitioners. *http://www.aaep.org/health_articles_view.php?id=263*