

How Much Money Do I Need?

Funding Your Agricultural Business: Step 1

Funding Your Agricultural Business is a series of three factsheets designed to help you understand the type of funding you need, where the funding is available and the steps needed to secure the money for your new agriculture or rural-based business.

You have an idea for a new agricultural business, or you may be thinking of expanding an existing business. Perhaps you have created a business plan and know how you will market your product.

Before you get too far down the road, however, you will need to figure out how much money your new venture will require, the type of funding that will best fit your situation and where that money will come from. Beyond your personal resources, many options are available for producers and processors seeking loans, grants and other funding to help establish or grow a business.

This three-part series of factsheets *Funding Your Agricultural Business* will help you secure the money you need for your new venture. Topics include the following:

1. how to calculate how much money you need for your new venture
2. sources of financing, grants and other investment opportunities available in Alberta
3. helpful tips on how to approach a lender or investor

How to calculate what you need

Whether you need to build a retail space on the farm or require more land to take your business idea to the next level, your best funding option often depends on the overall cost of the business venture.

To calculate how much money you need, three things are important:

- having a realistic look at your current resources and possible future demands on those resources
- making sure you know *all* the costs involved for your business venture going forward
- calculating your net worth to demonstrate you have sufficient resources to develop a sustainable business

When assessing what you need or the value of your existing resources (land, equipment, raw materials, business services and more), it is advisable to have a balanced approach. Be liberal with your anticipated costs and be conservative with your assumption of sales or the value of your existing assets.

Creating your resource wish list

Included with this factsheet is a worksheet to help you investigate the resources that might be needed for your business idea.

Your first step will be to determine the funds you need for your new venture

The worksheet *Determining Your Business's Financial Needs* identifies some of the more common expenses that may be incurred to get your new venture up and running. Since each business is unique, there is also a space for you to add any specialized equipment or needs.

The worksheet includes these three categories of resources:

- current personal resources
- physical/capital resources
- operating costs

Current personal resources

Why is it important to look at what you already have when determining what you will need? A lender or funder will likely want to scrutinize not only your business idea, but your past financial successes (or setbacks). This information speaks to your ability to pay back money you receive.

Often, entrepreneurs are expected to contribute some of their own financial resources (either in terms of cash or collateral/assets) to prove they are also willing to take on the risk of the start-up company or new business venture.

A funder will likely assess your overall personal financial strength. Be prepared to present an indication of any previous business financial history, credit and revenue statements, personal credit scores, a net worth statement and/or your equity contributions to show you are a viable borrower.

Finally, some funders may also want to see your estate plans, what kind of insurance you carry, and whether your family will be facing major financial milestones (like university tuition or housing an aging parent) that could affect your earning potential or financial obligations.

Physical/capital resources

The “physical/capital resources” part of the worksheet will walk you through the physical assets you will need for your new venture. Perhaps you have a lot of these resources already, or maybe you are starting from the ground up. Working through this part of the worksheet may require you to approach outsiders for accurate estimates about the cost of building new infrastructure or purchasing additional equipment or land.

Operating costs

Many business ideas can be executed with just a small staff, or the farm family itself, while other business ventures will require increasing your labour supply and/or hiring outside services.

This is a good time to have a realistic look at your labour requirements: whether you need contract employees, seasonal workers, office staff or full-time help. Do not forget to also include any employment-related costs that may be needed to compete for labour in your market. These costs could include paying employees' Canada Pension Plan contributions (CPP), Workers Compensation (WCB), staff benefits or other amenities offered to employees, like room and board.

At times, others may be needed to keep the business running effectively. Factor in potential costs for service providers like lawyers, accountants, crop or marketing consultants and other advisors you may need to hire as your business grows. Include other operating costs such as transportation or distribution fees, equipment maintenance, utilities or production costs related to your business.

Calculating your net worth

A net worth statement (sometimes called a balance sheet) may be one of the documents required by funders or investors, but it is also a simple and valuable tool for the business. Comparing net worth statements from year to year can help you measure the growth of the business.

A net worth statement is used to provide a snapshot of your financial standing. The statement includes a list of business assets and business liabilities on a certain date. Net worth is then calculated by subtracting the business's total liabilities from its total assets.

Usually for business purposes, you only list the business assets and liabilities. You can also include personal assets and debts in the net worth statement too. Just be consistent in what you include from year to year.

To create a net worth statement, go the Alberta Agriculture and Forestry website (agriculture.alberta.ca) and search for: “Understand Financial Statements and Identify Sources of Farm Financial Risk.”

Worksheet: Determining Your Business's Financial Needs

Use the items listed in your net worth calculation to fill out this worksheet. You may also find this process uncovers items you may not have thought of initially. Download a fillable PDF of this form at <https://cfr.forms.gov.ab.ca/Form/MES11288.pdf>.

Current Personal Resources

Calculate current financial resources available to you to decide if you are in a position of strength going into the new venture.

TYPE	MONTHLY	YEARLY ESTIMATE
Savings		
cash in the bank		
stocks and bonds		
savings accounts		
liquid assets/investments		
other		
Off-farm income		
employment		
income from other farm enterprise or business		
other		
Credit (available to you)		
family		
commercial (credit line)		
other		
Personal assets (list all)		Estimated Value
house		
land		
vehicles or equipment		
farm inventory		
other		
TOTAL: Value of Current Resources Available to Business		\$ 00,000.00

Physical/Capital Resources

Calculate the infrastructure needs for your new venture. List items you have, and for those you need, indicate the cost.

TYPE	HAVE	NEED	YEARLY ESTIMATE
Buildings (renovations/new build)			
farm buildings			
public infrastructure like washrooms or store			
storage			
other			
Land (mortgage, lease, purchase)			
pasture			
tillable			
processing/retail			
other			
Machinery/equipment (list all – loan, lease, purchase)			
farm machinery			
vehicles			
processing equipment			
other			

Physical/Capital Resources (continued)

TYPE	HAVE	NEED	YEARLY ESTIMATE
Roads, fences and services (if needed for a farm gate or tour operation)			
road frontage			
parking lot			
septic systems			
fencing			
signage			
other			
Total physical/capital resources			

Operating Costs

Calculate operating costs for your new venture.

TYPE	MONTHLY	YEARLY ESTIMATE
Staff (include family and hired labourers)		
your time/salary		
paid family labour		
seasonal workers		
special staffing needs (e.g. contractors)		
Benefits (costs you pay on behalf of your employees)		
health insurance		
WCB		
CPP/payroll taxes		
other		
Other labour costs		
training		
room and board		
other		
Business services		
accounting		
legal		
insurance		
permits and licences		
memberships		
other		
General repairs and maintenance		
buildings		
equipment		
other		
Utilities		
phone (land and cell)		
gas		
electrical		
other		

Operating Costs (continued next page)

Operating Costs (continued)

TYPE	MONTHLY	YEARLY ESTIMATE
Water		
irrigation		
processing facility		
other		
Raw materials		
food ingredients		
crop seed		
livestock		
other		
Processing/production costs		
co-packing		
packaging and labelling supplies		
custom farming		
other		
Transportation and distribution		
products to processor		
products to market/customers		
bringing in supplies		
broker fees and commission		
warehousing costs		
other		
Marketing		
promotional materials		
advertising and social media		
design fees		
website fees		
other		
Total operating costs		
TOTAL: Proposed Resources Needed (physical/capital resources + operating costs)		\$00,000.00

Compare the amount of resources you have to put towards your new venture with the costs of starting the venture. This comparison will help you determine if you are financially able to proceed.

Next Steps

Now that you have determined how much money you need, it is time to move onto the next step, *Funding your Agriculture Business – Step 2: Where Can I Get the Money?* Agdex 832-4.

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