



Provided by Kitchen Table
Consultants and CHIP's
Farm to Institution Center

**SAN DIEGO
FARMING 4 PROFIT
WORKSHOP #2**

July 29, 2019





SELF ASSESSMENT

5 minute paper form
Please use your name
Will be kept private



TODAY'S AGENDA

- Module 1: 10 step budgeting toolkit
- Module 2: benchmarking
- Lunch
- Module 3: buyer panel Q&A





BUILDING A BUDGET FROM SCRATCH

In under 1 hour!

+10 step toolkit to your monthly budget



CHART OF ACCOUNTS

The Basic Theory



Seven Numbers

- Income
- Cost of Goods Sold (COGS)
- Labor
- General and Admin (G+A)
- Operating Expenses
- Fixed Expenses
- One-Time Expenses



CHART OF ACCOUNTS

Format Review



- Income
- Cost of Goods Sold (COGS)
➔ Gross Profit
- Operating Expenses
- Labor
- General + Administrative
- Fixed Expenses
- One-Time Expenses
➔ Net Profit

You don't need a category for everything. What you DO need to see is TRENDS.

CHART OF ACCOUNTS

Check in with
the "why"



- Budget accuracy and Benchmarking
- Consistency for month to month comparisons to identify trends
- Decision making for how to spend - what can change vs what can't



SENSITIVITY ANALYSIS

What happens if we do better? or worse?



- Built in system to experiment with high and low sales scenarios and outcomes
- When variable costs are tied to sales, we can quickly play with the numbers
- Fixed costs don't change with growth or shrink
- Some costs may be discretionary, or "budgeted".



BUDGETING

Wouldn't you rather
have a guide to your
spending?



- Planning
- Mid-season decision making and course correction
- Accountability for all
- Simple building block of historical P+L
- Let's walk through a 10-step build-a-budget demo!





What are the two most important things you need to know as an entrepreneur?

"How to use Excel and plunge a toilet."

Ted LeBow | Co-Founder + Principal | Kitchen Table Consultants



BUDGET ASSUMPTIONS



- Existing vegetable farm
- Operates a 200-member
- CSA, farmers' markets, and
- a group of wholesale
- account (mostly retailers
- and 1 university)

- They use QuickBooks Online

- They have already updated
- their Chart of Accounts for
- the year



STARTING STEPS



Step 1a:

Go to QuickBooks and make sure your Chart of Accounts for the last two years are normalized and set up correctly.

Step 1b:

Export the P&L from QuickBooks through the end of the most recent month

Step 1c:

Use the Chart of Accounts as the base of the budget

*Let's talk about Excel & Wave users



BUT FIRST...

Excel tips and tricks



Excel basic functions
and formatting

- Sum
- Copying
- Sensitivity
- Absolute and relative
- Formatting
- Version control
- Basic formulas
- PMT function



BUDGET SETUP



Step 2:

Format your document to put year 1 on the left.

Step 3:

Follow the instructions to program trends.

- We want to understand Income, OpEx as % of sales.
- Other lines should show us % change from prior year.

Step 4:

Label each line by it's driver - is it fixed, variable, budgeted or based on prior year's sales?



CRITICAL THINKING STEPS



Step 5:

Make assumptions and projections for each account line, based on the trend and driver.

You may need a separate brainstorming spreadsheet for sales projections by customer or enterprise.

You may also benefit from a staffing chart to back up your labor estimate.



APPLY YOUR FORMULAS



Step 6:
Enter the appropriate calculations for the driver type in the budget column. This will give you the budget numbers!

Step 7:
Copy and paste the subtotal formulas from your P&L to the budget. Now we can see results!

Step 8:
Set up the sensitivity analysis feature, using our formula. Review it and then copy/paste.



BUILD OUT YOUR YEAR & MONTHLY



Step 9:

Walk down your budget line by line and make sure all of the values are calculating. Take a moment to review each one and make sure they make sense. Challenge your assumptions.

Step 10:

Break down your budget by month. This step is tedious but this is the magic step! Now you have monthly benchmarks to compare to your P&L and make course corrections each month or quarter.



NEXT STEPS

- Reconcile your accounts if you haven't yet, so you know your numbers are accurate
- Generate your P&L 2 year export, or build it by hand from Excel or Wave
- Get ready to build your budget! Don't forget to sign up for August & September coaching support.



BENCHMARKING REPORTS



BENCHMARKING "EXTRAS"



- How has cleaning up your books helped your business?
- How has being a part of a group pushed you to get things done?
- You have a checkpoint for clarity halfway through the year
- Look at last year vs this year
- How can we do better than last year?



SALES PER EMPLOYEE & SALES PER ACRE



- Good ratios don't necessarily mean healthy business - remember to look at scale and financial sustainability for the long term



MARKETING

- What are you doing for marketing?
- Everyone has very low or no cost marketing!
- What metrics are we using to determine that the marketing is working?
- What could we be doing or want to learn more about doing?



FIXED COSTS



- Are you running without insurance? Why is this a bad idea?
- If you're on your own land that you or family own, should you consider charging a rent fee?
- Consider rent vs tax benefits of mortgage interest. You can't double dip!



LABOR



- What is a healthy range for labor as a percentage of sales?
- When you hit 40%+ you probably have a cause for concern.
- If you build your budget around paying yourself "labor" at more than 40% of sales, you will probably not achieve that goal long term. How does that relate to budgeting?
- What does indirect labor mean? Who's doing that work for you? What should you expect as your farm grows?



NET PROFIT

- What is a good goal?
- What is sustainable?
- Why do some of you show a pretty high net profit comparatively? Tell us what you are doing!



SALES PER \$ OF ASSETS OR DEBT



- What makes these ratios "healthy"?
- Measure of how well your debts or assets are working for you. ROI.
- Let's look at another example





LUNCH & NETWORKING



Panel Discussion--Wholesale Buyers

Bob Harrington - Specialty Produce

Janis Garcia - Daily Harvest Express

Carissa Iwamoto - Fallbrook UESD

Jessica Waite - Wrench & Rodent

Seabasstropub



NEXT STEPS



1. Schedule your August session to work on your budget.
2. Mark your calendar for the next workshop - Monday, October 21st.
3. If you didn't do this round of benchmarking, please do it, and we'll do the next one in early October.
4. Mark some time on your calendar for week 1 October to do your benchmarking.





REMINDER

Turn in your self assessment
survey to Dane before you
leave



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