APPENDIX 2:

Business Planning for Christmas Tree Growers: A Strategic Approach to Financial Management

Business Planning

The time it takes to grow and care for Christmas trees can take several years of patient planning. Over those years, careful consideration is so important and critical to a final profitable end product that places an appropriate value on your time as that is a key input in the process. Anecdotally we know that on average it takes approximately one hour of labour to produce a marketable tree, so you need to find a way to sell each tree for more than what you think an hour of your time is worth plus all of the other input costs. Risks must be weighed and with careful attention to detail these can be mitigated. Marketing those trees and the various opportunities available requires much planning along the way.

Business planning is like following a road map. Sometimes the road can be fairly straight with no obstacles to interfere with ones travel plans, while other times it can be rough and seem to have lots of bump, turns, twists and many hills and valleys. We all like to think all roads are paved with good intentions. Unfortunately business can have rough patches, but with careful business planning, one can overcome these issues and get back on track.

Business owners who implement a business plan along with strategic planning can overcome and react to any changes in production, operating costs and market conditions much quicker than those without a plan.

Getting Started with Business and Strategic Planning

Business planning is about creating a strategy. It starts with an idea that you want to expand into a reality. With Christmas trees, there are so many wonderful examples of how people have turned their passion of growing and marketing Christmas trees into various successful business models.

Business planning tells a story, starting with a small idea and explains the Who and What of the business. Strategic planning outlines the How and When of a business and lays out a very specific course of action with timelines.

It is important to have a solid understanding of any business. Unlike some businesses, where products are created within a few days and then sold to the consumer, there is considerable care and attention over a number of years. This planning is very critical.

Sometimes, many are often unsure of where to start. It is important to recognize one's strengths and weaknesses. Many online resources including those of Farm Management Canada can provide a significant amount of guidance.

In the Christmas tree and greenery business there are a wide variety of different models that can be used. For instance, if you have access to a lot of land and your strengths lie with production but not marketing, you can focus on growing trees and sell them to a broker/exporter who will look after the next steps for you, but it is important to understand that this comes with a cost, so you need to be able to produce a large volume of trees efficiently to be successful.

For others whose strengths lie with marketing and you don't want to produce large volumes of trees or do not have access to much land, perhaps a Choose and Cut operation with some precut trees being brought in would better suit your strengths.

Business Planning Components: A Process Leading to Profitability

Step 1: Executive summary

This section of the business plan is going to contain information about the farm, as an overall summary. Starting with farm name and location. Moving on to what the farm specializes in and the current stage of development. The target market needs to be discussed along with how these products are sold and which services are provided for customers. A brief overview of the role of the operator, what the day to day of the business looks like and a very brief financial summary should be included.

Step 2: Business overview

The business overview section only needs to be 1-2 paragraphs. It must outline the main business objectives. It also should contain a general history of the business as well as the management practices past and present.

Step 3: Marketing and sales plan

Marketing and sales are often thought to be the same thing, but in fact they are separate. Most marketing techniques involves a much longer process than the sales part.

Marketing is the process of developing a strategic plan to help generate interest in your product or service. Sales is the part where you work directly with those interested in your product or service. Many businesses continuously work to convince buyers to purchase from their business.

Marketing involves researching the needs of buyers, followed by developing products and then advertising to increase awareness of your business and the types of products you have to offer. Once these steps are completed, business owners (in this case Christmas tree growers) then set pricing to maximize the gross margins and ultimately a positive net return.

Sales involves converting the many prospective markets into reality. Where marketing reaches out to a mass audience, sales is more focused on a smaller group of the most serious group of buyers.

For many Christmas tree growers, marketing campaigns are important but are often led by the Christmas Tree Council of Nova Scotia, regional associations or the Christmas Tree Promotion Board in the United States. These campaigns will need to be supported and enhanced locally as growers need to keep all avenues open in case certain sales do not transpire. Marketing and sales go hand in hand.

Every year, Nova Scotia produces approximately 1 million trees and roughly 90% of those are exported out of Nova Scotia. These trees are exported across Canada, into the United States, Caribbean and beyond. **There are essentially 3 streams of marketing: whole trees, brush and value added greenery (i.e. wreaths and arrangements).**

Some operators will market their trees and brush through a broker/exporter to be resold to retailers and distributors who then sell directly to the final consumer. These growers often can move a larger volume at a pre-determined market price and often have lower cost of goods sold on single tree basis.

A second group of growers sell directly to retail outlets, garden centres, charity groups, etc. who then resell directly to end consumers. The advantage these growers have is they may command a slightly higher price than wholesale, but often have a few additional variable costs per tree. In some cases, growers operate with a "pay-by-scan" contract meaning that only those trees that are purchased by the end consumer will be paid for, so any damaged or surplus trees will not be paid for. Although the price per purchased tree is high, growers need to be aware of the risks and have a way to manage the merchandising and care of the trees beyond their farm gate.

A third group of growers are those that set up Christmas tree lots and sell directly to the end consumer. These growers often sell less trees than the above two groups, but often command the highest price, as they bypass wholesalers and retailers. This group also often have higher Cost of Goods Sold than the above two groups, as they have a few more variable costs per tree. As a grower selling directly to consumers, this group runs the risk of unsold trees which must be factored into the final net return.

A fourth group exists as those who operate Choose and Cut Christmas tree farms. These growers sell directly to consumers and avoid some of the costs and have the added benefit of unsold trees being left to grow taller for the following year. Care must be taken to ensure you have the appropriate insurance to welcome visitors onto your farm.

As with any commodity, growers continue to look for new marketing opportunities in the area of Value Added. This is considered the Fifth business opportunity. Some of these efforts include wreaths and various evergreen arrangements. The pricing of these opportunities require a careful review of the variable costs to ensure a reasonable cost of goods sold are kept in check to ensure a decent Gross Margin results in positive results.

To measure how these various marketing and sales approaches impact a grower's business it is important to understand cost of production factors including both variable and fixed costs. These will be further explained in more detail of the financial plan. Marketing and sales plans should not be done in isolation, but rather integrated with a full financial review.

The completion of a **SWOT** (**S**trengths, **W**eaknesses, **O**pportunities and **T**hreats) analysis is an important part of any marketing and sales plan. It is essential to be honest and realistic about the above 4 categories. A competitor analysis should be completed to completely understand how each part will play out for your business. You will want to evaluate what your competitors are doing and what are they doing differently and how your business will stand out from the competition. It could be possible that your competitors could also compliment your business as the more businesses in a particular area could be beneficial by bringing more consumer awareness and attention to your products

Lastly, sales targets need to be analysed. Be honest with yourself and try to learn as much about your customers. Try not to over or under project sales so the final plan stays on track.

Step 4: Production and operational planning

Production and understanding the capabilities of your farm property is vital. There are many attributes that makes every property unique. Where it is located is an important consideration when it comes to the business stream you intend to focus.

If your business is primarily focused on Choose and Cut Christmas trees, access for customers is critical to attracting buyers. Woodlot roads and topography are vital regardless of your business stream. Easy access keeps operational costs low and leads to increased profitability for all Christmas tree growers.

Buildings and equipment are important considerations. Buildings well suited for value added product assembly makes work streamlined for employees keeping costs down. Well maintained buildings and equipment will pay off down the road. These repairs should be factored into the farms fixed cost of operations.

Understanding the cost of inventory factors into any production plan. If there are certain inventory carryovers, these can be costly to any business. Keeping a list of inventory falls within the production plan. Inventory items would include any supplies required to generate revenue in a particular production year such as crop inputs, twine, materials required for making and packaging greenery arrangements etc.

Identify how many trees will be harvested each year from each block if you own various parcels of land. Record the total number and maturity of trees per acre or block.

Knowing your operational and fixed costs are vital to any production plan. Once you begin tracking production and the associated costs you will be able to better understand how your production compliments your financial plan. Tracking these production costs will be very helpful when you compare them to benchmark cost of production data when it becomes available.

Acknowledge the distribution of work on the farm. It is important to keep track of the responsibilities of employees and family as it relates to production and the operational plan.

Step 5: Contingency plan

The "what if's" of business is where a well prepared Contingency Plan becomes a vital tool for any business to survive unexpected shifts in production, marketing or financial situations. Christmas tree growers need to be prepared for the unknown.

Production challenges need to be addressed. For example, the June freeze of 2018 had a negative impact on almost every Christmas tree grower in the quality of trees available for the 2018 market and beyond. This freeze was said to be a "once in a generation" event, but as the climate continues to change, growers will need to be aware of the risks and take appropriate steps to manage them to the extent possible.

Growers need to be strategic and think ahead to expect the unknown. Market issues are a good example as large swings with supply and demand can have an impact in so many ways.

Financial changes are something a farmer can plan for, interest rate changes for example can impact growers as can exchange rates for those in the export market.

Changes in the labour market are important considerations.

It is important to be prepared and have a plan "B" (and perhaps "C" and "D") in case of an unexpected event.

Step 6: Risk Analysis

Identifying and overcoming risks is a key part of any business plan. Below are some potential risk examples that growers may face:

- Functional (includes things like pests, weather and technology)
- Financial (includes exchange rates, interest rates, land and equipment prices)
- Business development (items such as contracts and markets are examples)
- Human resources (available labour when it is most needed is so critical)
- Legal (this may include such things as what is included in written contracts)
- Environmental (weather conditions and climate change risk can play a role)
- Public (a change in International trade policies can impact exports)
- Personal (this would include illness and communication with buyers)
- Decision making (avoiding or delaying a decision can have negative impacts)
- Planning (having a Succession Plan is a solid way to ensure business continuity)

Step 7: Strategic plan

The strategic plan is an overview of "Projected Business Growth Targets" over a specific period of time for a complete business cycle. For Christmas tree farms this Strategic Plan may be set out over a period of 8–10 years. Essentially the time it takes to grow a full size marketable tree, unless the grower is focused on smaller, table-top or apartment-sized trees, in which case the plan could be for as few as 5 years. This plan could be set out in a table format and include columns for various headings.

A prime example of a growth target could include the number of trees expected to be harvested each year. Each year could be further broken down by height and grade for each block of land.

Another example of a growth target could be the number of trees purchased by a wholesaler, sold direct to retail, sold direct to customers etc. by year.

Following the growth target there should be an "Action" column which would briefly outline how the target would be attained. This could then be followed by a series of columns as to who would be responsible for the action(s). This could be labeled as the "Human Resource Responsibility" part.

To help see the overall picture the anticipated "Gross Income" and "Anticipated Capital and Operating Cost" could be included in separate columns.

The final part of the Strategic Plan would be the "Anticipated start and completion dates" for each Business Growth Target.

Step 8: Financial plan

This section is the most extensive. Historical financials or benchmark figures are important to help business owners understand the financial aspect of any business. Projected cashflows, income statements and balance sheets are needed to help show where the business is heading. Financial analysis of these projections is critical to understanding key indicators of business success.

Cashflow management is an important step in understanding where business revenue is directed. There are three general areas of where revenue is directed from business and is helpful in understanding how much debt a business can carry.

Business owners get into business for one primary reason. That is to draw a living. For every dollar of revenue, owners should decide how much of that dollar they will require to draw to meet their yearly living expenses. Once that is determined, they need to understand how much of that dollar of revenue is need to cover their annual business costs. Following that, providing there are remaining funds, they can then determine how much of that dollar of revenue is left to service debt.

When it comes to servicing debt, loan amortization periods should not exceed the usefulness of the asset to be financed. One loan package with one amortization period may seem simple and straight forward but doing so may not be in the best interest of the business. Real Estate generally holds its value and is generally financed over a longer amortization period of 15-25 years, while equipment depending on its age and condition should not be financed beyond 7-8 years. Normal operating costs of a seasonal business may need to be financed with an Operating Line of Credit as there will be costs throughout the year and generally sales will take place around the end of the year, but don't be afraid to ask for a down-payment, especially when the markets are strong. Secured assets generally attract the best interest rates.

Fixed interest rates can help mitigate risk of future unforeseen hikes, while variable rates may leave business owners vulnerable if there are changes in rates.

Other key lending points include the following:

- Match financing terms with actual or realistic income streams
- Never maximize your debt service capabilities, leave room for the unexpected
- Make Pre-Payment when extra cash is available

An important consideration for Christmas tree growers to understand is how Gross Margins play out in determining a breakeven point in terms of the number of trees needed to be sold each year by factoring a set fixed cost for the entire operation. A further step in this analysis is to determine how many trees a grower would need to produce to breakeven depending on the draw they expect the business to provide to them each year.

For example, if a grower were selling trees in a particular market for $20.00 per tree and they determined their Cost of Goods sold (the variable costs, including direct labour to produce that tree) to be $15.00 per tree, the Gross Margin would be $5.00 or 25%. If the grower determined their total farm's fixed costs to be $20,000 for a particular year they would need to produce and sell 4,000 trees to breakeven.

If that same grower's Cost of Goods sold rose by $2.00 per tree to $17.00 per tree, their Gross Margin would be $3.00 or 15%. If their annual fixed costs rose to $30,000, they would need to produce and sell 10,000 trees to breakeven.

The above scenario clearly shows how important it is to control operating costs and carefully consider the impact of rising fixed costs when making any expansion decisions.

To take the above scenario a step further, if the same grower decided they wanted to draw $15,000 from the business they would need to produce and sell 7,000 trees in order to breakeven in the above first example and 15,000 trees in order to breakeven in the second example.

The following Table (Table "A") helps illustrate this analysis. Producers, (if their accountants are not already doing so) should ask their accountants to breakdown their variable and fixed costs so they can calculate their own breakeven analysis. With the proposed Cost of Production and Feasibility Study underway through the Christmas Tree Council of Nova Scotia, producers can then use that analysis as an industry benchmark and have a greater understanding of where they stand compared to others in the sector.

Table "A"—Breakeven Analysis—Financial Review

Analysis Heading	Sample Input	Producer
Selling Price per Tree	$20.00	
Cost of Goods Sold (Variable Costs per tree)	($15.00)	
Gross Profit Margin	$5.00	
Gross Profit Margin % (Gross Margin/Selling Price)	25%	
Total Farm Fixed Costs	$20,000	
Breakeven Point (Fixed Costs/Gross Margin): Number of trees needed to be sold to breakeven	4,000 Trees	
Ownership drawings per year	$15,000	
Breakeven Point (Fixed costs + Drawings)/ Gross Margin: Number of trees needed to be sold to breakeven	7,000 Trees	

Another possible solution would be to raise your price per tree, or change your sales mix. For growers considering change in marketing strategies, a partial budget is a great way to measure changes in marketing avenues.

A grower wishing to explore an opportunity to move from selling brush towards making wreaths and Christmas arrangements should consider evaluating changes in revenue and expenses for both ventures, as well as their capacity to do so.

It will be necessary to prepare two columns. One column will include the increase in revenue from the new venture of making wreaths and Christmas arrangements plus the reduced costs associated with the brush. The total of these two activities will be the "Increase in Income" (known as "A"). The second column will be the additional costs associated with making wreaths and Christmas arrangements plus the reduced income from selling brush. The total of these two activities will be the "Decrease in Income" (known as "B"). If "A" less "B" is positive, the change will be worth considering. If "A" less "B" is negative the change is not worth considering and should be avoided or re-evaluate the selling price of the new venture. A sample partial budget is shown in Table "B".

Table "B"—Partial Budget

Description of Analysis: Switching from the sale of Balsam fir brush to making wreaths and greenery arrangements (greenery)

INCOME INCREASES ("A") *Added Income as a result of the change*		**INCOME DECREASES ("B")** *Added costs as a result of the change*	
Sale of wreaths	$10,000	Labour & Supplies: Greenery	$4,000
Sale of Arrangements	$ 5,000	Marketing : Greenery	$2,000
Total Increase	**$15,000**	**Total Increase**	**$6,000**
Reduced Costs as a result of change		*Reduced Income as a result of change*	
Bundling of Brush	$3,000	Sale of Brush	$4,000
Trucking of Brush	$1,000		
Total Decrease	**$4,000**	**Total Decrease**	**$4,000**
Income Increase	***$11,000***	***Income Decrease***	***$10,000***
INCOME CHANGE (A - B)	**$1,000**		

In the above example, a positive income change of $1,000.00 is the result of adding value to balsam fir brush. If the income change results in a negative income change, the making wreaths and greenery arrangements should either be abandoned or find ways to increase the revenue of this new venture or reduce the associated costs. One could equally argue there are other ways to explore alternative income sources and expenses.

A careful review of financial records in conjunction with feasibility analysis can provide producers with valuable business information as they move forward with their business plans.

Step 9: Insurance, Risk Mitigation, Financial Reporting, Provincial & Agency Support

There are various forms of Insurance, all of which is designed to mitigate risk.

Growers need to consider all insurance to cover loss of property, liability, business interruption, export, life and critical illness. Growers are encouraged to discuss their insurance needs with an agent who is licensed to provide the best possible advice and protection.

There are income protection insurance available to farmers who file their farming activities with Canada Revenue Agency. Agri-Invest provides protection against minor drops in farm income, while Agri-Stability covers more dramatic drops in business incomes. Please refer to the links below for reporting Farm Income and Expenses or speak with your accountant.

Links for Financial Reporting Farming Activities to Canada Revenue Agency

For those not enrolled in AgriInvest and AgriStability:

For those Christmas Tree Growing operators operating as a sole proprietor or partnership:
Guide T4002 (E) Rev.19 - Self Employed Business, Professional, Commission, Farming and Fishing Income
https://www.canada.ca/content/dam/cra-arc/formspubs/pub/t4002/t4002-19e.pdf

Form T2042 Statement of Farming Activities
https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t2042.html

For those operating as a corporation:

Guide- RC4088 General Index of Financial information (GIFI)
https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4088.html

Guide – T4012, T2 Corporation Income Tax Guide
https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4012.html

Schedule 125- reporting income and expenses
https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/t2sch125/t2sch125-08e.pdf

Partnership guide:
https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4068.html

For those enrolled in AgriInvest and/or AgriStability:

Guide
https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4408.html

Form T1273 Statement A Harmonized Statement of Farming Activities
https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t1273.html

The Nova Scotia Department of Agriculture offers variety of financial services and support in a number of areas of business development. Throughout Nova Scotia, regional offices of the Nova Scotia Department of Agriculture acts as an information resource for producers. Perennia Food and Agriculture Inc. is another source of valuable information for new and existing producers. Links to these services are found below.

Credit risk is also a consideration for growers, and it is extremely important that you know who you are dealing with, and their ability to pay. Given the strong demand for trees that is now being experienced, many growers are asking their customers to pay for their trees in part or in full prior to them being shipped off the farm. If your customer is unwilling to do this, then perhaps that is a red flag and you should consider finding a new buyer for those trees so that you don't spend the winter chasing money that you are owed.

For those growers selling outside of Canada, it will also be important to be aware of the foreign exchange risks which can have a dramatic impact on your revenues.

Links to Nova Scotia Department of Agriculture Programs, Support, Regional Offices and Perennia

The Nova Scotia Department of Agriculture offers a variety of Financial Services and funding programs Assistance Programs for agricultural producers. These programs are often updated periodically and can be found at the following link:
https://novascotia.ca/agri/programs-and-services/financial-funding/

As agricultural producers seek to understand business development opportunities, The Nova Scotia Government provides guidance for Business Development. The link for these services can be found at:
https://novascotia.ca/agri/programs-and-services/business-development/

The Nova Scotia Department of Agriculture offers services from Six Regional offices throughout the province. A link to these offices and what they offer can be found at:
https://novascotia.ca/agri/programs-and-services/regional-services/

Perennia Food and Agriculture Inc. is a provincial developmental agency that supports the agricultural sector in the areas of growth, transformation and economic development. The link to their agency can be found at: https://www.perennia.ca/

Conclusion—The 5 R's of Post Business Plan

After each business year, it is important to look back and contemplate the 5 R's of a post Business Plan to ensure you are on track for future years.

- Review activities of the past year and compare it to your actual plan.
- Reflect on both positives and negatives of the past business year
- React with possible solutions and opportunities
- Reconsider and think of new solutions
- Remedy any issues with a new or modified plan of action

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