

# Growing Your Lavender Into A Business

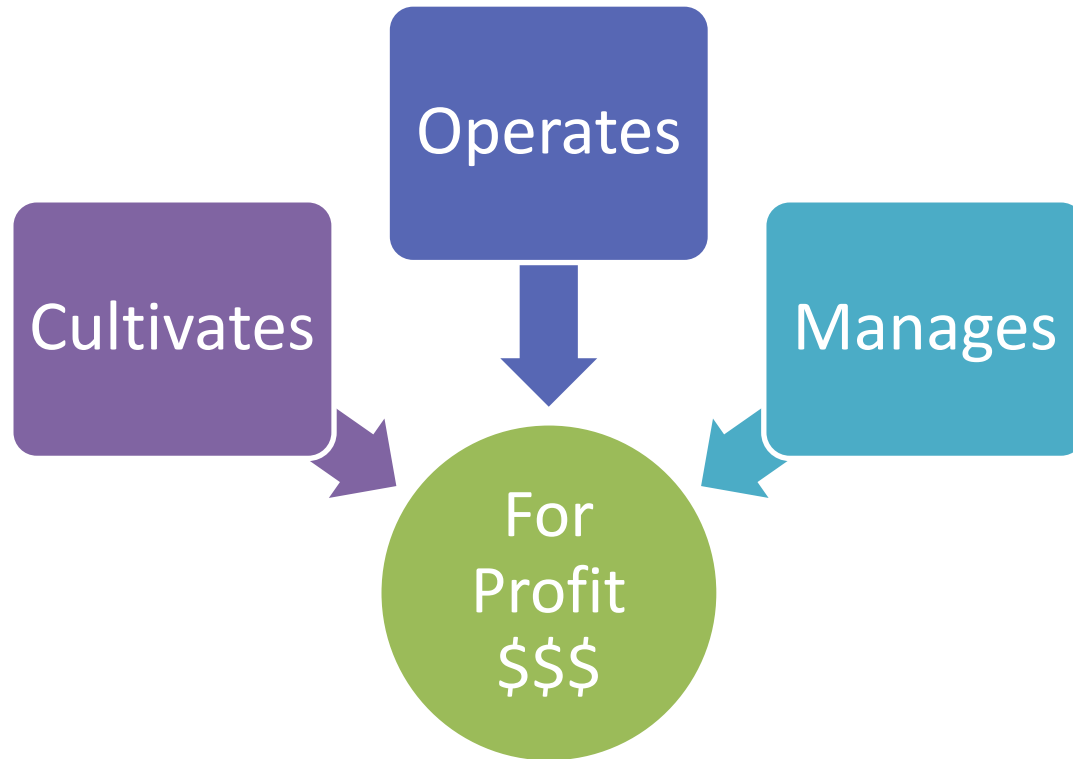
Jon LaPorte


MSU Extension Farm Business Management Team



# Business vs. Hobby

IRS Definition: A farm is a business if it...





**Publication 225**  
Cat. No. 11049L

## Farmer's Tax Guide

For use in preparing  
**2022** Returns

Acknowledgment: The valuable advice and assistance given us each year by the National Farm Income Tax Extension Committee is gratefully acknowledged.

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### Introduction

You are in the business of farming if you cultivate, operate, or manage a farm for profit, either as owner or tenant. A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges, and orchards and groves.

This publication explains how the federal tax laws apply to farming. Use this publication as a guide to figure your taxes and complete your farm tax return. If you need more information on a subject, get the specific IRS tax publication covering that subject. We refer to many of these free publications throughout this publication. See [chapter 16](#) for information on ordering these publications.

The explanations and examples in this publication reflect the IRS's interpretation of tax laws enacted by Congress, Treasury regulations, and court decisions. However, the information given does not cover every situation and is not intended to replace the law or change its



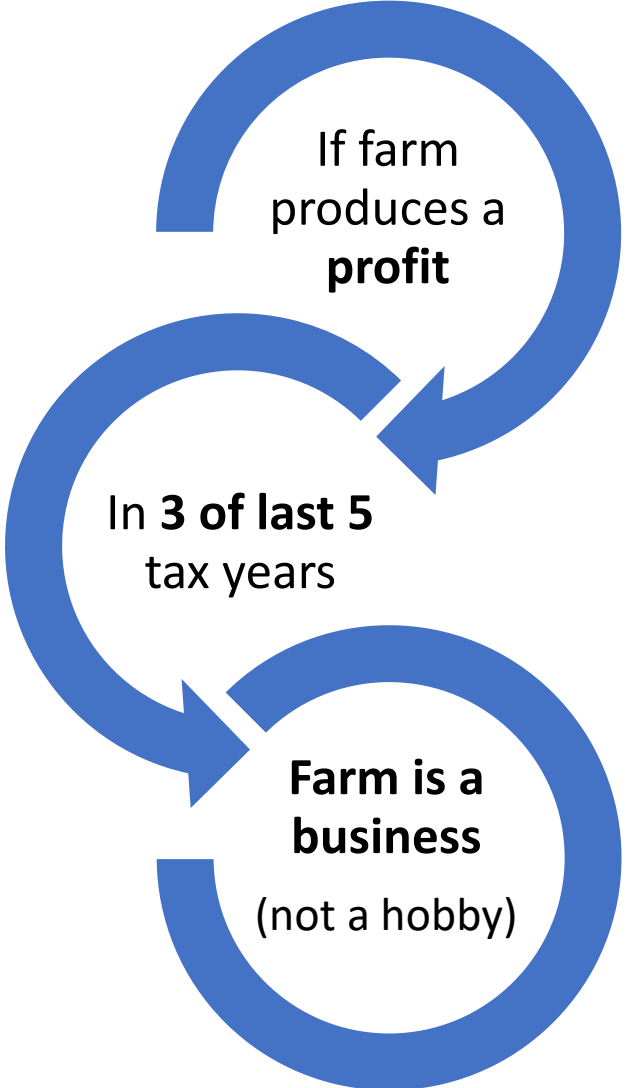
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Oct 14, 2022

# Business vs. Hobby

Presumption of Profit:



Department of the Treasury Internal Revenue Service

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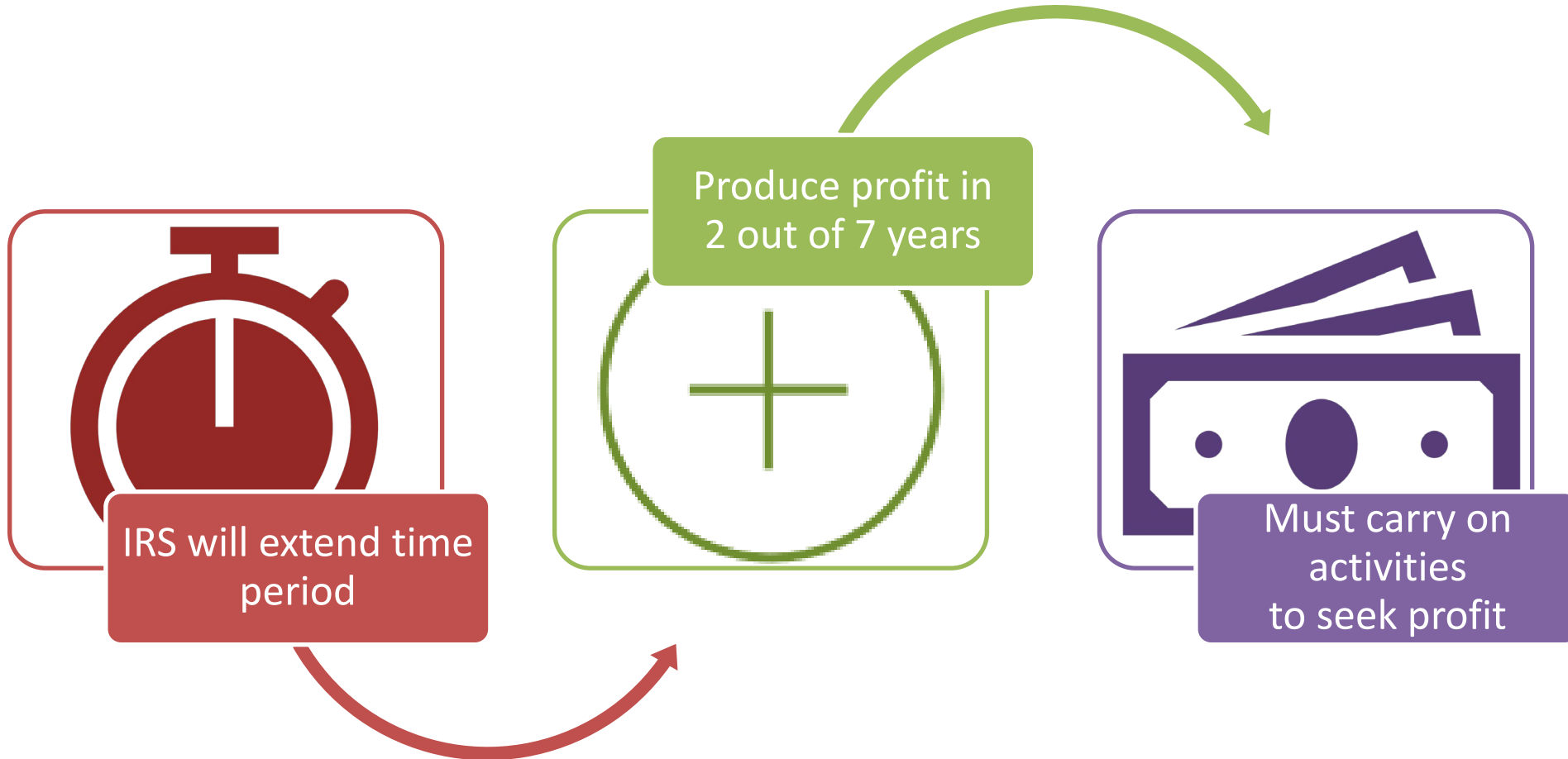
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# What If There Are No Profits?



# Does A Farm Need To Become A Business?

Choice rests with farm owners

Does tracking expenses or “for profit” activities take away from farm enjoyment?

Is raising lavender more for recreation or added family income?

Hobby farms must still report any income to IRS (Even if only sold to neighbors)



# How To Get Started

## Develop a Business Plan

- Blueprint of how your business starts
- Guidebook of how business intends to grow



# How To Get Started

What are your passions about raising lavender?



Do they translate into a business?

What goals do you want to achieve?



# Passion & Goals Help Define Your Business

- Who are you?
- What do you do?
- Where are you located?
- Who are the farm owners?
- What business structure is your farm?

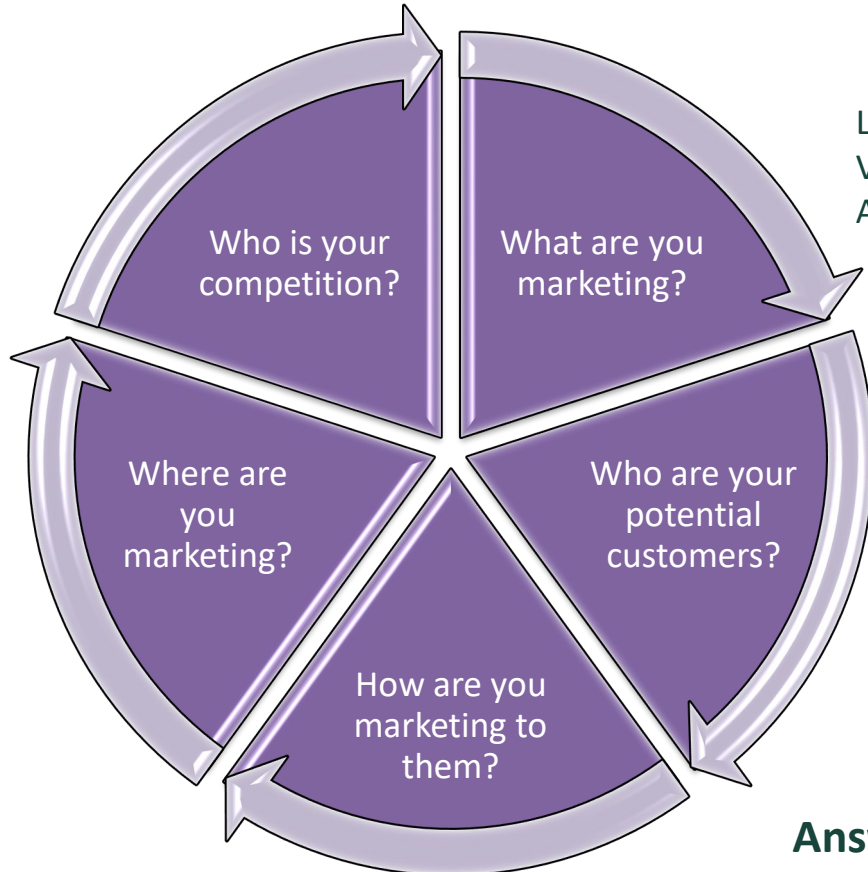




# Your Business Strategy Starts With A Marketing Plan

Farm businesses must have products consumers are willing to buy

## Markets and Market Strategies



Lavender?  
Value-Added Products?  
An Experience?

## 4 Ps of Marketing



Answers & Strategies May Change As You Explore New Market Opportunities





# How Have You Explored Market Opportunities Near You?



# Business Planning Check with SWOT

## SWOT Analysis (*active*)

- Identify internal and external factors that are helpful and harmful to achieving farm goals
- Don't simply ask "what is?"
- Focus on "What do you do about it?"

	Helpful	Harmful
Internal	<b>STRENGTHS</b> <i>What do we do best?</i>	<b>WEAKNESSES</b> <i>In what ways can we get better or improve?</i>
External	<b>OPPORTUNITIES</b> <i>What opportunities are available to you?</i>	<b>THREATS</b> <i>What trends, conditions, or competitors pose a threat to us?</i>



	Helpful	Harmful
Internal	<b>STRENGTHS</b> <i>How can we leverage our strengths?</i>	<b>WEAKNESSES</b> <i>How can we mitigate our weaknesses?</i>
External	<b>OPPORTUNITIES</b> <i>How do we exploit the opportunities available to us?</i>	<b>THREATS</b> <i>How can we dissolve the threats we face?</i>



# Management and Organization

- Who is involved in business?
- How are tasks being divided?
- How are employees managed?
- What professional services are part of your management team?
  - (i.e., accountant, tax professional, loan officer, market broker, Extension agent)



# Operations

- What do you produce?
- What methods are used to produce it?
- How are methods managed?
- What risks are you exposed to and how are they managed?



# What Will You Produce and What Is It Worth? - Handout

## # plants per acre

- 1) 2400 (30 rows of 80 plants),
- 2) 2500,
- 3) 2720,
- 4) 4000

average =2900 for the calculations per plan



## Fresh flowers per plant or acre

- 1) 4-7 bundles (average of 5.5 bundles/plant) of 125 stems
- 2) 2.5 at 2-inch bundle
- 3) 8000-16000 bundles per acre
- 4) 4000 pounds lavandin fresh flowers( used .5 pound per bundle for calculation below)
- 5) 3500-4500 pounds lavandin fresh flowers
- 6) 300-1800 pounds angustifolia fresh flowers ( used .5 pound per bundle for calculation below)

Per plant average 5.5, 2.5, 4.1, 2.75, 2.75, 1 added together and averaged = 3 bundles per plant

## Buds per plant or acre

- 1) 12-15 bundles = 1 pound of dried buds (assume 3 bundles per plant or about 1/4 pound per plant)
- 2) 1/4 to 1/2 pound dried buds per plant
- 3) 1200 pounds per acre at 4<sup>th</sup> year (assume 2900 plants this would += .4 pounds per plant)
- 4) Angustifolia average 700-800 pounds, Lavandins around 2500 pounds ( assume 2900 plants, Aungustifolia= 1/4 pound per plant, Lavandin= .86 pounds per plant)
- 5) Angustifolia 17 gms/plant, (1/32 pound), lavandins 29 gms/plant(1/16 pound) ( I suspect this was a young plant)
- 6) Angustifolia 300 to 1800 pounds per acre, Lavandin 3500 to 4500 pounds per acre (assume 2900 plants Angustifolia = .36 pounds per plant and Lavandin =1.4 pounds per plant)
- 7) 1000 to 1500 pounds of lavandin per acre ( assume 2900 plants per acre this would say Lavandin .43 pounds per acre)

Angustifoia- 1/4 to 1/3 pound dry buds per plant

Lavandin- .4 to 1.4 pounds per plant, average around .6 pounds per plant

## Oil Per plant or acre

Angustifolia-

- 1) 3-15 quarts (5 to 25 pounds, avg 15 pounds per acre)
- 2) 12 pounds per acre
- 3) 17 pounds per acre
- 4) get 1.5 to 3.5 mls per bush (assume 3000 bushes per acre this would = 5 to 11 quarts= 9 to 21 pounds per acre)
- 5) 12-15 pounds (average 13.5)
- 6) 7-26 pounds per acre (avg 16.5 pounds per acre)
- 7) 30-120 mls per 20-25 pounds of fresh flowers which is around 4 gallons average or around 28 pounds per acre).
- 8) 2.6 gallons essential oil /acre (18 pounds per acre)

Average 15, 12, 17, 15, 13.5, 16.5, 28, 18 for an average of around 17 pounds or 2 1/2 gallons or around 9000 mls. ( note if I calculate oil from dry buds average I get around 24 pounds of oil)



Handout courtesy of Kim Benz



# Business Planning Finishes With → Financial Planning

Does our lavender business make financial sense?

Financial Statements help answer that question

Balance Sheet:

- What do I own?
- What do I owe?

Difference is Value of Business

Income Statement:

Did business make or lose money last year?

Cash Flow Statement:

- Where cash came from?
- Where cash went?

Farms starting out may not have a lot to put on these statements



Product	# of Plants mature plants	Yield (unit per plant)	Total units available	% Assume Sell of theoretical units	# plants used	Total units Available	price per unit		
<b>Angustifolia</b>									
<b>Fresh Flower Bundles</b>	1000	4	4,000	5%	50	200			have to sell ____ bundles in 3 weeks
Sell Retail						200	\$12	\$2,400	
Sell Wholesale						0	\$7	\$0	
<b>Lavender Buds(pounds)</b>	1000	0.25	250	70%	700	175			
sell retail						75	\$180	\$13,500	need to sell ____ packs of culinary lavender
sell wholesale						75	\$50	\$3,750	or ____ pounds wholesale
<b>Dried Flower bundles</b>	1000	4	4,000	25%	245	980			need to dry and sell ____ bundles
sell retail						500	\$7	\$3,500	
sell wholesale						480	\$5	\$2,400	
<b>Total</b>				100%	995			\$25,550	Total Angustifolia



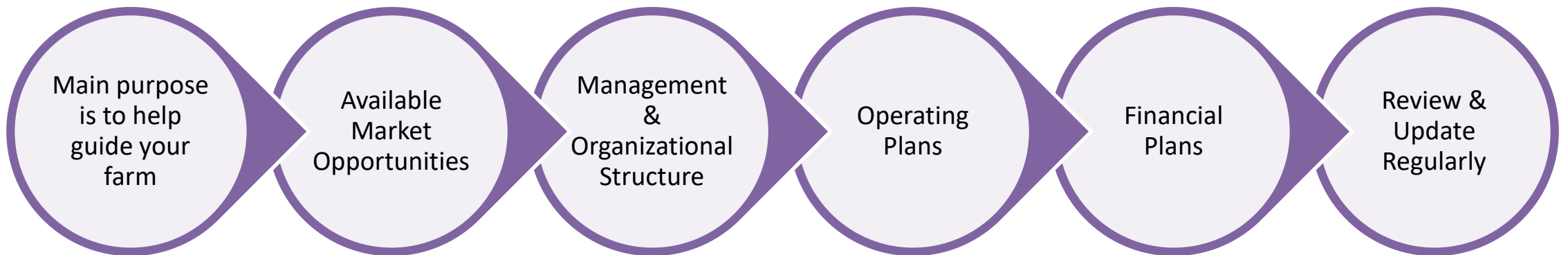
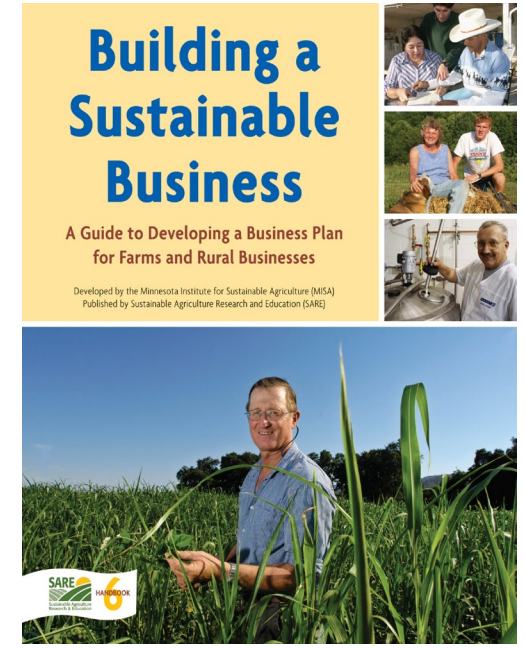
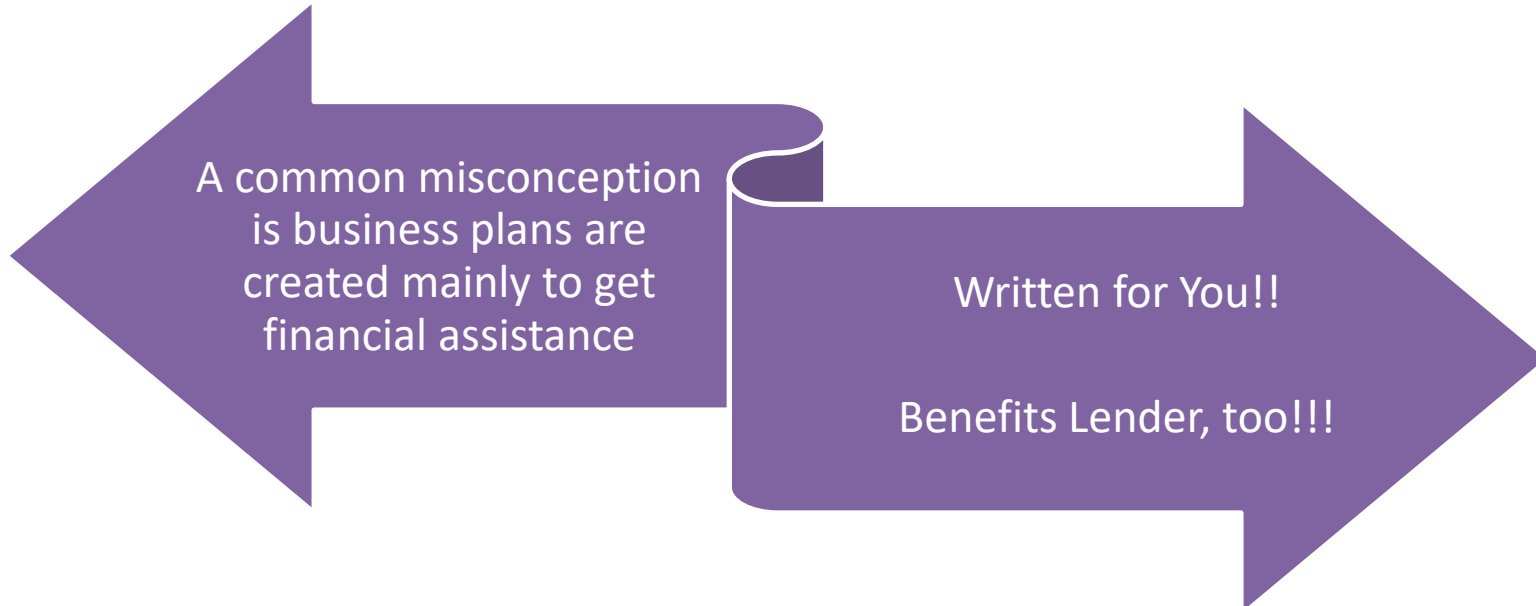


**Crop Budget Estimator**

(Enter Crop Name) →	Fresh Bundles		Buds		Essential Oils	
INCOME	(Enter Below) \$0.00	(Enter Unit Below) Bundles	(Enter Below) \$0.00	(Enter Unit Below) Lbs.	(Enter Below) \$0.00	(Enter Unit Below) Quarts
Cash Price	0		0		0	
Expected Yield (i.e. bushels, cwt, tons, etc.)	0	Acres	0	Acres	0	Acres
Government Payments	\$ -		\$ -		\$ -	
Other Income	\$ -		\$ -		\$ -	
<b>Total Gross Revenue</b>	<b>\$ -</b>	<b>Total Acres</b>	<b>\$ -</b>	<b>Total Acres</b>	<b>\$ -</b>	<b>Total Acres</b>
	\$ -		\$ -		\$ -	
EXPENSE	(Enter Below)		(Enter Below)		(Enter Below)	
Variable Costs	Per Acre	Total Acres	Per Acre	Total Acres	Per Acre	Total Acres
Seed	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fertilizer						
Nitrogen	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Phosphorus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Potassium (Potash)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sulfur	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Limestone	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Fertilizer (i.e. micronutrients, etc.)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Crop Chemicals						
Herbicides	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fungicides	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Insecticides	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Crop Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Crop Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gas/Fuel						
Equipment Fuel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Drying Propane	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Repairs & Maintenance						
Repair, Machinery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Repair, Buildings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Custom Hire						
Driver & Equipment Hire	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equipment Hire	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Custom Application	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Freight & Trucking	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Irrigation						
Repairs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fuel/Electricity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hired Labor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest (Operating)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Variable Costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Return Over Variable Costs</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
(Gross Revenue - Variable Costs)						
Fixed Costs	Per Acre	Total Acres	Per Acre	Total Acres	Per Acre	Total Acres
Farm Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land Rent	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest (Term)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation (Economic not Taxable)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Fixed Costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Variable &amp; Fixed Costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Farm Income</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
(Gross Revenue - Variable & Fixed Costs)						
Cash Flow						
Financing	Per Acre	Total Acres	Per Acre	Total Acres	Per Acre	Total Acres
Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Owner Withdrawal (Family Living)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Principal Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Financing</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Variable, Fixed, and Financing</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Cash Flow</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
(Net Farm Income - Financing + Depreciation)						
Break-Even Calculations						
<b>Net Returns (Variable &amp; Fixed)</b>						
Break-even \$\$/unit	\$0.00		\$0.00		\$0.00	
Break-even Yield/Acre	0.00		0.00		0.00	
<b>Repayment Capacity (Cash Flow)</b>						
Break-even \$\$/unit	\$0.00		\$0.00		\$0.00	
Break-even Yield/Acre	0.00		0.00		0.00	



# Beware the “Business Plan Trap!”



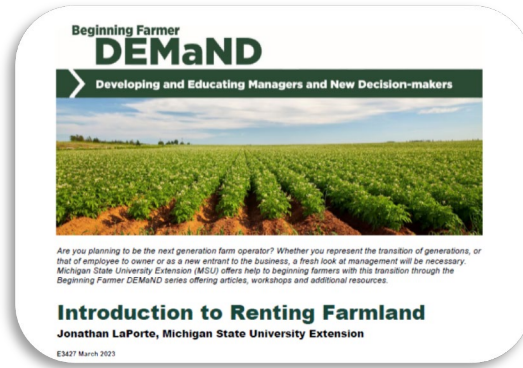
# Beginning Farmer DEMaND

Developing and Educating Managers and New Decision-makers

Topics Covered			
Ag Policy & Local Government	Farm Organization	Land Access	Marketing
Cost of Production	Insurance	Loans & Credit	Recordkeeping & Financial Statements



Articles



Bulletins

16 in English,  
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