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Building Farmers in the West Factsheet

Developing a Business Plan for Alternative, Specialty and Entrepreneurial Agriculture

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Based on materials originally developed by Colorado State University, Penn State University and Kansas State University

An important part of starting a new venture is developing a business plan. A business plan is a road map to guide the future development of the business or venture. Using the class material, worksheets, AgPlan (www.agplan.umn.edu) and the discussion in this document, you will have guidance on how to create your own business plan.

Use this opportunity to reflect as a management team (or sole proprietor) on the core values, activities and business strategies that will best suit your enterprise. Business plans are traditionally developed and written by the owner with input from partners or family members. Business plans are living documents that should be reviewed and updated at least every year. Periodic evaluation helps you determine if the business is in need of change and if it is meeting your expectations.

Using the Proper Format

The presentation of the plan should be as professional as possible to portray your business in a positive manner. When dealing with a lender or possible investor, the plan will be reviewed for accuracy and suggestions for changes to the plan may be offered. Often investors, loan officers or those providing technical assistance will not know a great deal about the proposed venture, but they will know the correct structure of a business plan. For this reason, a professional format is necessary. This course recommends AgPlan as a resource and example for a good business plan structure.

Those reviewing your business plan will primarily focus on the Executive Summary and projected financial statements to make judgments about the plan and the business. Also, marketing strategies need to be well-targeted, especially for most specialty, consumer-oriented agriculture. Because of this, these portions of the plan need to be the strongest and must be based on sound, in-depth research and analysis.

The Audience for the Business Plan

The business plan is a written summary of what the organization intends to accomplish and how it plans to organize resources to achieve its goals. New business



Funded by the USDA Beginning Farmer and Rancher Development Program (grant award number 2009-49400-05877).

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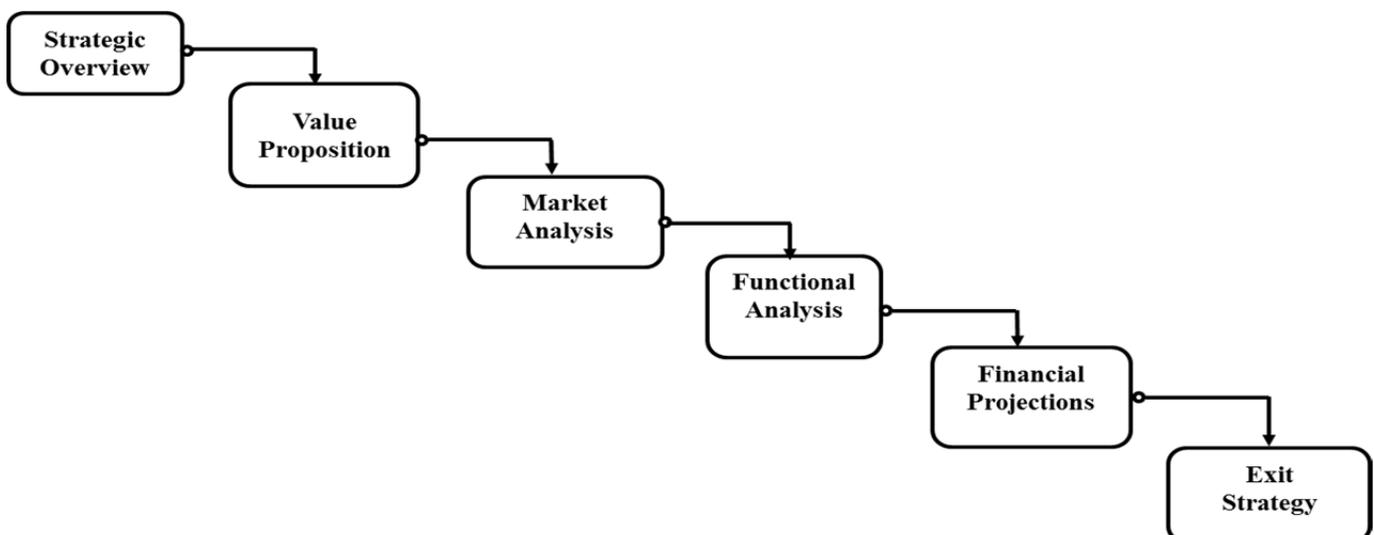
ventures usually have three categories of stakeholders interested in its business plan: investors, bankers, and management. While the interests of these stakeholders all center on the venture's ability to succeed, they each have a different emphasis on the indicators of success. For now, you may have less interest in securing resources from outside investors or bankers, but you should begin developing enough structure to your business so these resources, as well as technical assistance from universities and government agencies, can be used when needed.

Managers, as the people who are going to transform the ideas of the business into reality for its owners, are interested in the minute details of the business plan. Does the business have what it needs to succeed assuming the appropriate level of human energy and creativity are brought to it? Therefore, managers are interested in the details of the strategic direction. They are also interested in the definition and timelines for financial and non-financial expectations as well as the venture's functional goals and objectives.

You should take a step-by-step approach to developing a strategic business plan. Use a cascading approach for the development of the business. Figure 1 (below) illustrates how the activities at each step of planning provide the anchor point for the next step. Note that the process for developing the business plan is not the same as the actual structure of the plan document, which is described later.

The cascade begins with the **strategic overview** of the business. For a start-up venture, this initial step defines the vision, the mission and the core values that will guide the organization's people – employees, directors and officers. It also describes the governance, management and organizational structure. For established businesses, it revisits these broad strategic directions and assesses how the new business initiative fits into them. The strategic overview provides a framework for management to nurture the organization's culture and build its reputation.

Figure 1: Cascading Approach to Business Plan Development



Ag Plan

www.agplan.umn.edu

The purpose of AgPlan is to help rural businesses develop business plans. It is free of charge for anyone to use on independently or as part of an educational program. AgPlan is designed to provide customized assistance to different types of rural businesses, including:

- Ag - Commodity
- Ag - Value-Added
- Rural Small Business
- Commercial Fishing

There is an outline designed specifically for each type of business, tips or questions to help you develop each section of the plan, sample business plans, and links to additional resources for each section of your plan.

AgPlan is designed to help business owners work with an educator or consultant while developing a business plan. You can give access to your business plan to the reviewers of your choice and AgPlan will facilitate interaction with them.

The second step in developing the business plan is the **value proposition**: a clear and compelling case is made demonstrating that the business will be profitable *and* that it will support the organization's core values and lead to the realization of its vision. The third step is the **market analysis**, which describes the competitive environment and presents an analysis of the market – competitors, their cultures and their principal strategies, potential allies and rationale for alliances, size of market and overall profitability, and so on. The market analysis provides the basis for the **functional analysis**: in this portion of the plan, functional strategies (generally production plans and the like) are developed and described.

The functional analysis leads directly to a presentation of the **financial projections**. It is important to clearly specify the assumptions leading to each financial estimate presented. During the development of the business plan, it is important to discuss the plan with peers and experts who can challenge or validate the underlying assumptions regarding profitability.

Lastly, the **exit strategy** describes what will happen to the business, its assets and liabilities should the business cease to exist (because the owner decides to no longer operate or goes bankrupt) or should the business need to be transferred to a new owner (retirement or other transition). Note that, where a family farm or ranch business is involved, estate planning should also discuss the exit strategy for any associated businesses.

The Sections of the Business Plan

A business plan can follow a variety of formats, but common elements found in any plan (and available to enter in AgPlan) include:

- a. Executive summary
- b. Vision statement
- c. Business mission statement, goals, and objectives
- d. Background information
- e. Organizational matters
- f. Marketing plan
- g. Financial plan
- h. For food production, detailed production plans, including a calendar of tasks and cash flows may also be important

Although AgPlan does not specifically mention exit strategies, you could mention yours under the management and organization section, and also within the financial plan.

A. Executive Summary

The Executive Summary is placed at the front of the business plan, but it should be the last part you write. The summary describes the new business (or proposed changes to the existing business), and the industry of which the business is a part. All challenges facing the existing business or proposed venture should also be discussed in this section. If the business plan is addressed to potential investors the investment being solicited should be described.

B. Vision Statement

The vision articulates what the organization wants to be recognized for. We may think about the vision as answering the following question: “*What will your organization’s reputation, image or culture be in ten years (or sooner)?*” The organizational vision must be shared by all involved and associated with the business organization – employees, officers, and directors. In this sense, the vision is bigger than the individual objectives such as profitability, sustainability, or employment, which are held by the organization or its people.

The vision statement is concise, clear, timeless and broad enough for people associated with the organization now and in the future to find a personal connection to it. *Building a Sustainable Business* (SARE) provides some guiding questions on page 88:

Begin the visioning process with some brainstorming. Ask what your farm or business will look like in five, ten, or twenty-five years.

- For example, what product(s) and services will you produce?
 - Will you be working with animals or crops?
 - What will the landscape and community look like?
 - What role will you play in the business?
 - Will you be working alongside family?
 - Will you earn all of your income from the farm?
 - Will there be time for regular vacations?
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Whole Foods Market[®], the Austin, Texas-based organic and natural food retailer, states its vision as “Whole Foods, Whole People, Whole Planet.” This is an example of communicating a clear vision for a business. This vision includes communities, as well as the world and tells us that Whole Foods is concerned with how its products impact customers and the environment. This type of vision helps company management and employees work with a complementary set of values in mind.

Building a Sustainable Business (SARE) also notes that small, family-owned businesses may need to spend more time discussing the role of **values** in the planned enterprise. Values are the standards, beliefs or qualities that you consider worth upholding or pursuing. Values are not goals, but instead can be thought of as

something that reflects your view of life and business or a judgment about what you find important.

Your values will directly shape your business strategy and all your farm management choices. In a broader sense, an organization's core values specify minimum value or standards that will guide actions and behavior of the organization's people. For Family Tradition Foods, Inc., a Wheatley, Ontario-based vegetable processing company, the employees used the first letters of the company's core values to form an acronym that helps them to not only remember their values but to identify and challenge behavior deviating from them: Respect IRIS, where IRIS represents Innovation, Responsibility, Integrity and common Sense.

C. Mission, Goals, and Objectives

This section has three separate portions. It begins with a brief, general description of the existing or planned business. The overview is followed by the mission statement of the business. Note that many companies do not distinguish between the vision and the mission statements.

One way to make this distinction is that a mission statement defines *what we do*. The vision may be defined as an articulation of *the kind of business we want* and even *the kind of world we want*. The mission statement should be a maximum of three sentences and include the key ideas about why the business exists. It should also identify the hurdles and milestones that need to be overcome in order to advance toward the timeless target expressed by the vision. There are several good examples in *Building a Sustainable Business* (SARE), the class program and AgPlan.

The last task in this section of the plan is to develop the business's goals and objectives. Be warned that there are at least two schools of thought about goals and objectives. One is that the goals are the means of achieving the objectives, and the other is exactly the opposite—that the objectives are the means of achieving the goals.

Goals (or objectives) should follow the acronym SMART, which stands for: **S**pecific, **M**easurable, **A**ttainable, **R**easonable, and **T**imed. Goals (or objectives) should follow this format to allow for evaluation of the entire process and provide valuable feedback along the way. The business owner should continually evaluate the outcomes of decisions and practices to determine if the goals (or objectives) are being met, and then make modifications when needed. These are key components to future evaluation. For example, if one goal for a beef production enterprise is to generate net annual cash revenue of \$50,000 by year 3 of the operation in order to invest in a processing plant, then management can easily evaluate how well the business is progressing in meeting this goal. If the business is only generating \$10,000 net cash by year 2, then management knows it needs to revise its investment time horizon, or alter its production plan or financial management to generate greater revenues.

One way of determining the mission and appropriate goals may be to conduct a SWOT analysis to better understand the context in which the business operates. The acronym SWOT stands for **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats.

Strengths are considered mostly internal and may include aspects like experience in the business. Previous sales or marketing experience would be an area of strength for a retail farm market. Weaknesses are also mostly internal and may include aspects such as limited resources. Opportunities are both internal and external by definition. If you see a strong food system developing in your area, you may have a greater opportunity to secure capital resources, customers or access to technical support. Threats are mostly external and may include aspects like other businesses offering the same product in close proximity to your business.

D. Background Information

Background information should come from the research conducted during the writing process. Depending on the scope of the plan and the intended audience for the plan (for example, the plan is being used to solicit financial investment from a lender versus using the plan to align management values and practices), this portion might include information on the history of the industry, its current state, and information from reputable sources concerning the future of the industry. The business plan should take all relevant aspects of the industry and business into account, particularly at the regional and local levels. What are trends, opportunities and significant competitors in the industry? In writing this portion of the plan, information may be obtained from your local public library, periodicals, industry personnel, and publications such as *Extension* in your own state as well as other states.).

E. Organizational Matters

This section of the plan describes the business structure, the management team, and risk management strategies. There are several forms of business structure to choose from including sole-proprietorship, partnership, corporations (both subchapter S and subchapter C), cooperative, and limited liability corporations and partnerships (LLCs and LLPs). This program will not teach the nuances of business structure; rather it will introduce you to local resources who can advise you on legal and contractual issues.

The business structure should fit the management skills and styles of the owner(s). For example, if there is more than one owner or multiple investors, a sole-proprietorship is not an option since more than one person has invested time and/or money into the business. In this case a partnership, cooperative, corporation, LLC, or LLP would be the proper choice.

The organizational matters section should describe the management team, including all parties involved in key decisions and activities of the business along with their respective strengths and backgrounds to highlight the positive aspects of the team. Investors place a great deal of importance on evaluating the management team, and if you have weaknesses or gaps in your management team, you need to identify them and describe what skills sets must be added to the existing ones to make the business viable.

Regardless of the business structure, all businesses should also have an external management support team. This external management support team should consist of the business's lawyer, accountant, insurance agent or broker, and potentially one or more mentors or other advisors who have a good deal of experience in your type of business.

The risk management portion of the business plan provides a description of how the business will handle unexpected or unusual events. For example, if the business engages in agricultural production, will the business purchase crop insurance? Does the business have adequate liability insurance? Is the business diversified to protect against putting all its eggs in one basket? If the business has employees, does the business carry adequate workers' compensation insurance? All of these questions should be answered in the risk management portion of the business plan.

F. Marketing Plan

The marketing plan specifies how your products will be made known to potential customers; what sales channels you will use; what sort of advertising and information you will make use of; how you will utilize your web site; etc.

Consumers buy products based on brand name, price, quality, and for many personal reasons. In the case of specialty and direct-marketed foods, market planning is crucial since there is a critical need to target customers and to find (or create) channels to sell through, especially if food retail venues are too large or not well suited to your product. Also, pricing is an important decision in any marketing plan and likewise an important component of the financial plan.

In order to make sense, the marketing plan (which addresses the demand side of the business) must coincide with the production plan (the supply side). The marketing plan must fit the production capabilities or the capability to obtain products from other sources.

Other variables to consider are sales location(s), market location(s), promotion and advertising, pricing, staff, and the costs associated with all of these. All of these aspects of the marketing plan will take time to develop and should not be taken lightly.

A complete marketing plan should identify target customers, including where they live, work, and purchase the product or service you are providing. Products may be sold directly to the consumer (retail) or through another business (wholesale accounts). Identifying a niche market will be of great value to your business, even if wholesale accounts are planned, since you need to explain the value you bring to any customer in the marketplace.

G. Financial Plan

One of the foremost reasons new businesses fail is inadequate financial planning, which can lead to a shortage of start-up capital or failure to anticipate the ordinary obstacles facing any new enterprise. Having a well-developed financial plan is a key to success and is also a valuable management tool once your business is operating.

The first section of the financial plan is a sort of mini-executive summary and summarizes key financial data in a short section or table, including:

- Revenue
- Expenses
- Initial capital requirements
- How much of that capital you already have
- If and when additional capital will be required

Your personal financial contributions to the business should be included, along with all other funding sources, both committed and potential. If loans are involved, the amount of money and repayment terms should be included. One common mistake many new businesses make is under-funding at start-up. Owners too often do not carefully evaluate all areas of expenses and realize the amount of capital needed to see a new business through the development stages. One important purpose of preparing the financial plan is to help you avoid that problem.

Next, the financial plan summarizes your assumptions and puts dollar figures to the aspects of the business you have addressed in the narrative portions of the plan, including sales projections, costs for staffing, marketing, production, and other operational costs. Capital investment requirements (equipment, buildings, land) and their estimated costs should be listed separately.

Next, the financial plan presents detailed financial projections including an income statement, balance sheet, and cash flow. These should be presented by month for at least the first two years, and by quarter for the third year. (If you are seeking a large amount of outside financing, you should prepare financial projections for five years.) Naturally, in agricultural businesses five-year projections are sometimes difficult to make because of the variability in prices, weather, and other aspects affecting production. One way to illustrate these risks is to develop several scenarios covering a range of production assumptions. A set of projections should be included for each scenario. This is an indirect method to address risk issues in your business plan.

These documents should be prepared in a format that lending institutions are used to seeing, which adds credibility to any application you make. Your financial record-keeping should present your actual results in this manner, so you can compare your projections with your actuals.

The **income statement** (also known as a profit and loss statement) is a summary of the income (revenue) and expenses for each accounting cycle (month, quarter, or year). Income statements are one way to clearly show how the farm is making progress from one year to the next.

The **balance sheet** is a snapshot of a business's assets, liabilities, and owner's equity at specific points in time. *Assets* are anything owned by or owed to the business, including cash and checking account balance, accounts receivable (money owed to the business), inventory (any crops or supplies that the business has stored on farm), land, equipment, and buildings. *Liabilities* are what the business owes, and include current liabilities (accounts payable, short-term notes, operating loans, and the current portion of long-term debt), and noncurrent liabilities (mortgages and other obligations extending more than one year). *Owner's equity* is the net worth of the business, and includes owner(s) investments and profits retained in the business.

A **cash flow statement** is the predicted flow of cash into and out of a business over a year and often uses the same categories as the income statement plus additional categories to cover debt payments and borrowing. The bottom line of the cash flow statement tells the owner(s) how much net cash comes into the business or is used by the business in any given period. And the cumulative amount of cash flow for the first year or two represents the bulk of the capital the business will require. Therefore, detailed and accurate cash flow projections are key to understanding your capital requirements.

After these financial analyses are completed, the business plan writer will have an accurate picture of how the business is expected to perform. With this information, the readers of the business plan will be able to evaluate the viability of the business and will begin to have a detailed understanding of the business, so they can evaluate the implications of growth, changes and decisions that may be made.

Summary

Once the business plan is completed, you will have a document that helps you to analyze your business, anticipate critical decision points, and help guide your decision making. In addition, your potential investors and your management team will have an invaluable tool as they learn about and work with your business.

If the business planning process shows that your proposal is not viable, you will have time to make the necessary changes, secure more appropriate resources or delay further investments in the enterprise. Although concerns about viability may be discouraging, it will keep you from investing large amounts of money and time that could possibly be lost.

A business plan is a road map that will guide the future of your business. In addition, a good business plan is a living document that will change over time. You should expect to re-visit your plan at least annually and update it based on changes in market developments, your experience, the business environment and changes to the enterprise's resource base (access to capital, land use, labor and management changes).

Remember the old saying: If you fail to plan, plan to fail.

For More Information

Web Sites

AgPlan (University of Minnesota) – AgPlan helps rural business owners develop a business plan. agplan.umn.edu

BizPlanit – Download a Virtual Business Plan template which that mirrors the major sections of a business plan and provides insight into the fundamentals of writing an effective plan for your company. bizplanit.com

Small Business Administration – the section on starting and managing a small business provides information on many aspects of starting a business, plus answers and information you may need to start up. sba.gov

SCORE – Volunteer business assistance. www.score.org

Farm Business from Pennsylvania State University Extension – Emerging industry issues for ag entrepreneurs and tools for growing successful businesses. extension.psu.edu/farm-business

Publication

Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses – this workbook published by SARE brings the business planning process alive to help today's alternative and sustainable agriculture entrepreneurs transform farm-grown inspiration into profitable enterprises. www.sare.org

This publication is an updated version of a similar publication by the Agricultural Alternatives Small-scale and Part-time Farming Project at Penn State (agalternatives.aers.psu.edu) with support from the Risk Management Agency of the United States Department of Agriculture and the Pennsylvania Department of Agriculture. It also incorporates materials from Colorado State University Extension and Dr. Amanor-Boadu at Kansas State University.