Business Plan Overview

From FinPack
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Executive Summary

The Executive Summary is the first page of your business plan, but it should be the last section you write. Summarize the key points that you have written in your business plan in the Executive Summary including a brief statement regarding your farm description, strategic plan, operations plan, marketing plan, personnel plan, and financial plan. The Executive Summary is the doorway to the rest of the plan. Write it well and keep it short so your readers will want to go further.

The content of the Executive Summary depends on the purpose of your plan. If you are presenting your business plan to lenders or investors, then you should include highlights that will encourage them to consider financing your business. You should briefly describe what you plan to do including expansion plans, market opportunities, and financial trends and projections. If your plan is primarily for internal purposes, family members and employees, then the Executive Summary should summarize the plan and communicate where the business is going. Try to match your plan to your purpose.

This brings us to an important point - limit the writing in your business plan to what will help you move the business ahead. The value of the plan is how well it helps you map the future of your business, not the tonnage of printed output.

The value of information is limited by its impact on decisions. If more information is not going to help you do something better, then don't bother writing it. This means you can and should skip sections that aren't relevant to your business or that don't help you develop a roadmap for your business.
Farm Description

Use this section and the following subsections to write a brief description of your farm business. If you want a very brief business plan, write a description in this main heading section and skip the subsections under this topic. You may choose to write a summary statement in this section and provide detail in the subsections.

Business Type and Size

Describe the primary business of your farm. What crops, livestock, or other products do you sell? What is the size of your business in terms of the number of acres owned, acres rented, number of head of livestock, and size of facilities?

Location

Where is your farm business located? Do you have multiple farms or farmsites? You may want to enter the legal description of your land. If you rent land, list the parcels, the acres, and the landlords.

Facilities

Describe the size, type, and quality of your facilities. Do you have livestock, grain storage, fruit or vegetable handling, value-added activities, processing, or other activities that require significant facilities?

Farm History

Describe the history of your business, when it started, how it started, how long you have owned or managed it, and important events and changes. Describe how your farm business has changed in size, sales, and profitability since you started managing it. Describe major highlights and the biggest challenges over the past five years. Have you made major changes, added facilities, land, enterprises, or partners in the past five to ten years?

Ownership Structure

Describe the ownership and legal structure of the farm business. Is it a sole proprietorship, partnership, corporation, limited liability partnership, or cooperative? Explain who owns the business and, if there is more than one owner, what proportion is owned by each.
**Strategic Plan**

Use this section and the following subsections to write a brief description about your strategic plan for your farm. A strategic helps describe where you want the business to go and how you plan to get it there. A good strategic plan includes an analysis of the opportunities and threats that the industry poses to your business. It also includes an analysis of your competitive strengths and weaknesses. If you want a very brief business plan write a description in this main heading section and skip the subsections under this topic. You may choose to write a summary statement in this section and provide detail in the subsections.

**Mission Statement**

A mission statement describes the fundamental purpose of your business, what you do, why you do it, and for whom you do it. It identifies your products, services, and customers. A good mission statement can be used to define your business both internally and externally to employees, partners, shareholders, customers, and lenders. A mission statement can be used to unify the people involved in the business around a common direction and understanding of the purpose. It can be used as a foundation or measuring stick for making decisions. A mission statement should help you focus less on what activities you do on your farm and more on what your business will accomplish for its customers, employees, and owners. A mission statement should be short enough so people can easily remember.

**Goals**

Goals help you describe what you want from your business. They should be specific, measurable, and attainable. Everyone has goals, although sometimes you need to think awhile to identify them. What do you want to accomplish in your life and business?

**Industry Analysis/Situation**

What is happening to your particular sector of agriculture locally, regionally, and nationally? What opportunities does this open up for your business? What threats or challenges does it create for your farm? You may want to think about impacts on your industry in terms of technological innovations, legislation and political changes, regulations, globalization, cultural and demographic trends, labor availability, or changes to your input suppliers and to your markets. What changes are farms similar to yours making? Have others made changes that might work for you or that you know you want to avoid?

**Competitive Position**

What are the unique strengths and weaknesses of your business? What strengths can you capitalize on and what weaknesses do you need to address? Agricultural production is a very competitive business. Why will you succeed while competing in a global environment and competing with other producers in your local area? Consider your production levels, location, land, machinery, facilities, financial condition, alliances, partnerships, marketing channels, employees, management, family, next generation of management, operational efficiencies, and your strategic plan.

**Business Strategy**

Answer the question, where do you want to be? What do you want your farm business to be in the next five, ten, and twenty years? Why do you want to make these changes? Will your strategy help you "do the
rights things" to succeed in the future of your industry? Some of the changes you may be considering are listed below:

1. Expand the operation
2. Further specialize or concentrate on producing one or several products
3. Diversify by adding new enterprises or products (the opposite of specializing)
4. Vertically integrate the business through value-added marketing or adding a dealership on the input side
5. Network with other farmers in terms of production, input purchases, or marketing
6. Replicate the business at an additional site
7. Develop an exit strategy or downsizing plan for the business

What is the time period over which you will implement changes to your farm business? Will they be done in increments or all at one time? What is the expected impact on your profitability, production levels, required labor, and markets if you implement them?

Implementation Plan

You've described your strategy - where you want to be? Now describe how you will get to where you want to be with your business? If strategy is deciding how to "do the right things," then implementation is determining "how to do things right." If you are making major changes in the farm business, describe what will happen during the transition period. If you are expanding or changing your business, this section may include:

1. Description of new facilities or land.
2. Timeline for construction or purchases.
3. List of permits required and how you will obtain them.
4. General overview of how you will finance the changes.
5. Impact on production levels during and after the changes.

Many expansions don't meet their timelines, which results in increased financing needs. You may want to explain why you expect to meet your timelines or your contingency plan if you don't meet them.
Production and Operations Plan

Use this section and the following subsections to write a brief description about your production and operations plan for your farm. The Production and Operations Plan includes a description of what you produce, how you produce it, what technology you use, and a description of your machinery and equipment.

If you want a very brief business plan write a description in this main heading section and skip the subsections under this topic. You may choose to write a summary statement in this section and provide detail in the subsections.

Crop System

Describe your current and future crop plan including crops produced, acreages, and average yields. You should also explain the production technologies you use including tillage and planting systems, your weed control plan, a general description of your machinery line and whether you:

1. Hire or do crop scouting
2. Plant GMO or non-GMO varieties
3. Use precision technologies
4. Plant identity preserved varieties
5. Utilize integrated pest management

Depending on your situation you may also need to describe your irrigation system or your field drainage system.

Livestock System

Describe your current and future livestock plan including type of livestock produced, number of head or quantities, and average production levels in terms of number sold, or products produced. You should also briefly describe your livestock production methods including facilities, technologies, genetics and reproduction, health and veterinary care, feed storage, handling, and sources. If animal flow is significant for your livestock plan you should describe how you will maintain animal flow, particularly if you are expanding your livestock numbers. For breeding livestock enterprises, a chart describing cow or pig flow might be included.

Other Enterprises

Use this section to describe any other business activities that may be related to your farm. These may include activities such as trucking, custom work, seed dealerships, or on-farm processing. You may choose to use this section to describe specialty or niche products that are different from your typical crop or livestock production.

Risk Management Plan

There are many risks associated with farming. In this section describe how you use some of the more common risk management tools. Describe your farm fire, wind, and liability insurance coverage. Do you have crop insurance and, if so, what type? What yield and price coverage levels have you purchased? Do you have production contracts for your livestock or crop production? Explain whom the production
contracts are with and the general contract terms. Describe any production alliances or networking arrangements you may have with other producers, cooperatives, suppliers, or companies.

**Environmental Considerations**

Environmental concerns and regulations are an increasingly important part of managing a farm business. In this section describe how well you are addressing the environmental issues associated with your farm operation. Be honest.

If you have livestock, discuss your manure management plan. Describe your manure storage, utilization, distribution, and permitting needs. Describe other farmsite issues including how you manage pesticide and fertilizer storage and mixing, fuel storage, and silage effluent. Identify whether you have a conservation plan for highly erodible land.

Use this section to tell others how you are doing a good job addressing environmental issues or what concerns you have on your farm and how you plan to address them.

**Quality Control Systems**

Describe how you are addressing food safety concerns. This is particularly relevant for livestock, fruit, and vegetable farmers. Do you have treatment protocols established and how do you communicate them with your employees? Do you use a record keeping system or software that helps you track and manage treatments? How do you manage withholding animals or products from the market for the prescribed time after chemical use?
Marketing Plan

A standard marketing plan includes an analysis of the market, determining your position in the market, targeting customers, pricing strategy, promotion and advertising, and distribution plans. In agricultural marketing you should first determine what kind of product you are marketing. Commodities are marketed differently from farm products that are sold directly to the end user. An agricultural marketing plan describes what you are marketing, how you will market your products, when you will market your products, and to whom you will sell your products.

Marketing Strategy

Start by defining your product. Are you marketing basic commodities or products with more identifiable traits, such as identity preserved, organic, genetic lines, or branded products?

You probably have more than one market for your products, whether it is different elevators, processors, or targeting pick-your-own fruit customers versus customers at a farmers market. In this section describe your potential markets or customers and then identify which ones are your target markets.

What's your most important current market? Are there other markets that could become your most important market? You may plan to sell a portion of what you produce using production or value-added contracts or you may have a relationship with a local market such as a grocery store or a feedlot.

If you plan to target new markets, describe your current markets and the portion of your production you market through each channel; then describe potential new markets and how you plan to gain access to them.

Your pricing strategy depends on the market channels you are using. If you are marketing crop or livestock commodities, your pricing strategy may utilize forward contracts, options, futures, or cash sales. You may also price a portion or most of your production on direct contracts with processors.

If your marketing strategy is to capture some of potential added value of your farm production, your pricing strategy may involve contracts with a value-added cooperative. If you are processing your product on the farm you may need to describe how you set prices for retail customers or to distribution partners such as grocery stores.

If you are marketing directly to customers, pricing may be determined in part by your competitor's price. Are there ways that your products can be differentiated from the competition and priced differently?

Marketing Resources

Describe the resources you use to help market your products?
Do you have a marketing advisor or service?
Do you have a written marketing plan? You may want to discuss your sources of market information?
Do you belong to a marketing club or cooperative?
Do you have marketing alliances with other producers?
Promotion and Distribution

Many agricultural producers don't need to think about promotion and distribution if they are primarily selling commodities. If this is your situation you can skip this section.

However, if you are selling directly to customers or to a wholesaler/processor who will use your products or if you are selling to niche markets, this is an important topic for you to address. Promotion is how you spread the word about your product to your customers. It may include advertising, events, direct mail, and sales literature. Describe how you will inform your current and potential customers about your products.

Distribution describes how customers can order products from you and how you will deliver your products to your customers. Distribution can vary widely and includes retail, wholesale, mail order, internet, and many other creative niches and ways that producers use to get their products to their customers.

Inventory and Storage Management

Some agricultural products can be stored for long periods while others can only be stored for a few days. Describe the storage system for your products. How do you maintain the quality of product while in storage? Inventory management can have two aspects in a farming business. You may need to maintain an inventory for your customers, but for many farmers inventory management relates more to input supplies, such as feed. Whichever situation you are in, if you need to control inventory, describe your management plan in this section.
Personnel Plan

If your business is a sole proprietorship and you run it by yourself, just write that down here and skip the rest of this section. If you have employees or consultants, then you will probably want to describe your personnel plan in the following sections.

Management Team

List the members of your management team and briefly describe their management role and their qualifications. If you have a plan in place for transferring management responsibilities to the next generation, a partner, or employee, describe the transition plan here also.

Family and Hired Labor

List the family members and employees who work on the farm and briefly describe their responsibilities. If you are making major changes to the business identify new positions that will be created and how you plan to fill these positions. You may want to describe both the full-time and part-time positions and describe how you will find employees to fill these positions.

Consultants

Today's farm businesses have complex management issues and many managers hire consultants to help fill the gaps so the managers can focus on their strengths. If you hire consultants to help you with some aspects of the business, list them here and describe their functions.

You may want to identify strengths and weaknesses of your management team and list the areas where you would like to hire a consultant to help in the future.

Personnel Management

You've already listed your employees and their major responsibilities in the Family and Hired Labor section. Use this section to describe how you manage employees. Do you have job descriptions, compensation plans, incentive plans, employee handbooks, training procedures? You may want to describe what you do to attract and retain good employees.
Financial Plan

Balance Sheet

A Balance Sheet indicates the amount of equity the owner has in the business and the structure of assets and liabilities. It shows how funds are invested in the business (assets), and the financing methods used (liabilities and owner's equity) at a given point in time. It is used to help understand your financial situation, especially your solvency or net worth.

Net worth indicates the equity position of the farm (assets minus liabilities). Net worth is important in evaluating the risk position of the farm and in considering future borrowing capacity. Net worth growth is usually one of the major goals of farm families.

Include key values from your balance sheet in this section of your business plan, including total assets, liabilities, and net worth.

Attach your balance sheet to your business plan if you are developing it to show your lender, potential investors, or partners. There may be situations where you won't want to include a balance sheet in your plan. For example, if you are developing a business plan to communicate the direction of the business with employees you may not want to show them your entire financial situation.

Asset Management

Describe how you acquire and manage capital assets. Do you purchase, lease, or custom hire to meet your equipment needs? If you rent land or buildings, describe your lease arrangements. You may want to include a summary of retirement or savings investments. If you are planning major changes to the business, will you change how you manage these assets?

Consider how well your machinery line is matched to the size of your business. Good management of major assets has a large impact on profitability. Machinery and equipment are large expenditures that are motivating some producers to become more creative with alternative means of gaining access to assets.

Projected Profitability

Profitability is the measure of how much income the business is making in relation to the resources used to produce that income. An Income Statement documents the farm business' profitability. Profitability should usually be the major factor considered when making most farm financial decisions. Over time, profits generally drive the solvency and liquidity of a farm business.

In the Projected Profitability section of your business plan, describe your projected farm income for the next few years. Take into consideration major changes you may be planning for the business. Generally you should paste in an income statement and highlight information such as net farm income, rate of return on assets, and rate of return on equity. Past income statements should be included in the Historical Trends sections.
Cash Flow

Financial liquidity is usually evaluated using a cash flow plan. Cash flow planning is a projection of all sources and uses of cash during a specified planning period. Cash flow plans are an important tool for evaluating the liquidity of a farm business, the annual operating loan needs, and the ability of the business to repay loans. A cash flow projection should also indicate potential financial problems and alert the manager and lenders to possible changes that might be made. Lenders usually want to evaluate the projected cash flow when making loan decisions. Attach a cash flow statement from other sources to your business plan or describe your farm's liquidity in this section.

Long Range Projections

Long range financial projections give an indication of where your business is headed in the next few years and help you evaluate alternative business investments. You can use this section to describe the financial ramifications of changes you plan to make in your business.

You should also describe the assumptions you are using to make your financial projections. These assumptions might include projected prices that will be received in the future, input costs, or production levels.

Historical Trends

In this section, describe your farm's financial condition during the past few years. We recommend using a few financial indicators or measures to describe your farm's situation. If you are starting a new business, just skip this section.

Following are some of the measures we recommend you include here. Ideally you might include information from the past five years, but enter what you have available if you don't have five years of data.

1. Profitability
2. Net Farm Income
3. Rate of Return on Farm Assets
4. Liquidity
5. Current Ratio
6. Term Debt Coverage Ratio
7. Solvency
8. Debt to Asset Ratio
9. Net Worth

Capital Required

The most common reason for developing a business plan is to be able to present your ideas for a new or expanded business to investors or lenders. After you've described your plan, they will want to know how much money you need and what you need it for.

Use this section to communicate your capital requirements along with the major purposes for which the funds will be used.