



Agricultural Marketing Resource Center
Value-added Agriculture Profile
Iowa State University

November 2007

Lesson 10: Developing a Business Plan for Value-Added Agriculture

Funding was provided by the Agricultural Marketing Resource Center.

OBJECTIVES:

After completion of this unit, the students will be able to:

1. Identify the components of a business plan.
2. Describe how to develop a business plan.
3. Critique a business plan case study to determine the value-added business's potential for success.
4. Compare a business plan to a feasibility study for a value-added agriculture business.

MATERIALS/REFERENCES NEEDED:

Developing a Business Plan for Value-Added Agricultural Products. Rodney B. Holcomb, Glenn Muske & Phil Kenkel. Oklahoma Extension Publication F-909.

<http://osueextra.okstate.edu/pdfs/F-909web.pdf>

VISUAL MASTERS (VM):

See V-A Lesson 10.ppt.

INTEREST APPROACH:

Ask the participants if they have developed a business plan. Ask them to discuss the problems they faced in the process. Also ask what they feel is the value of a business plan?

Note: The teacher must decide how much time to spend on developing the business plan. Perhaps the students can spend some initial time getting started and then complete the plan while other classes are taught. In this case, the plans could be discussed at a later time.

QUESTIONS:**1. What is a business plan?**

Answer: A business plan represents the roadmap for successfully developing or expanding a business. A complete business plan includes short-term and intermediate goals, time tables for achieving these goals, and estimated start-up costs. It serves as a feasibility plan, a marketing plan, and an operating plan. A business plan also is a tool for attracting potential investors and can be used to successfully negotiate start-up loans with lending institutions.

A sound business plan leads to a sound business structure. The business plan requires the owners to examine the various types of business organizations to select the best one for the owner's needs.

2. How does a business plan help small value added businesses?

Answer: Each year in the United States, thousands of individuals try to realize their dream of owning their own business.

Many of these small business fail. Why?

- Many fail because they didn't plan carefully before opening the business.
- A business plan on paper is like a road map.
- A business plan gets you where you want to go via a well planned, organized route.

A business plan produces a marketing plan.

- The marketing plan identifies the typical customers and tells how to attract and keep them.
- It is vital to the success of the business.
- Thinking through every aspect of the marketing strategy in advance will help one to decide how the new business can be superior to the competition

A business plan clarifies financial needs.

- The business plan clarifies the financial needs of the business.
- It will receive a careful review by bankers, lending agencies or individuals who ought make money available to start the business.
- The plan includes an estimate of the dollars needed to open the business and to sustain it for a year.
- The annual and monthly flow of cash must be projected for the first year of operation.
- The sales volume required to produce the anticipated cash must be calculated.

A business plan identifies management pathways.

- The plan helps identify the management needs and provides a path to follow while the business is young.
- Actually, the first year of operation is the heart of the business plan.
- You will include plans for organizing the business, supervising employees, controlling finances, conforming to government regulations, and assuming the role of owner-manager in the business.

A business plan serves as a communication tool.

3. What information should a business plan include?

Answer: A business plan should include a cover/title page and a table of contents. It should also include the following:

- Executive Summary
- Introduction
- Situational Analysis (Internal Assessment and External Assessment)
- Business Proposition
- Action Plan
- Financial Analysis
- Evaluation and Measurement
- Contingency Plan

Note: For specific details on each of these components, see Oklahoma State University (OSU)'s Extension Publication "Developing a Business Plan for Value-Added Agricultural Products."

4. What is an Executive Summary of a business plan?

Answer: One crucial, but commonly overlooked, segment of a business plan is the executive summary. The executive summary is the "Reader's Digest" version of the entire business plan, complete with projected market shares and profits/losses over a three to five-year span. A potential investor or lender may be too busy to read an entire business plan before meeting with an entrepreneur, so the executive summary must adequately cover the major points of the business plan in one or two pages.

5. What questions should be answered in a business plan?

Answer: Select those questions found in the OSU Extension Publication (see **MATERIALS/REFERENCES NEEDED**) relevant to your audiences value added business under the following categories and topics.

A. Internal Assessment

Operational structure

Technology

Access to inputs

Available (entrepreneur's) resources

Marketing and distribution skills/network

B. External Assessment

Legal and regulatory analysis

Consumer analysis.

Competitive analysis.

Opportunity analysis.

6. How are business plans evaluated? Who can legitimately evaluate business plans?

Answer: After outlining the proposed business venture, assessing the operating environment, stating goals, laying out the four “P’s” of marketing and evaluating the profitability of the venture, plans must be made to monitor the company’s success. How will the attainment of goals be measured? What criteria will be used to evaluate the level of the company’s success? What are the boundaries for these criteria, i.e., how close to ideal business conditions will be considered “acceptable”? These evaluation and measurement items should be coordinated with short- and intermediate-term business goals.

7. What other plans or analyses are formulated when developing a business plan?

Answer:

Business Proposition

The business proposition of the business plan is basically laying out the company’s goals and objectives for the next few years. What are the sales goals? Will the business gain a certain market share within the next five years; reach a specified quantity of annual sales or expand into another market(s) by a certain date? What are the financial objectives? Will the company reach a specific level of return on investment by the end of a certain year; maintain a specified level of gross profits over a given span of time; or maintain an acceptable return on investment, while retiring start-up debt early?

Action Plan

This is the portion of the business plan where the four “P’s” of marketing are defined—product, pricing, place, and promotion. Exactly how will the product be manufactured and packaged? Will pricing be based on production and marketing costs plus a certain percentage profit, on competitors’ prices, or some other pricing method? Where will the product be sold? What promotion concepts will be incorporated to successfully sell the product?

Financial Analysis

The most difficult part of business planning is forecasting the financial well-being of the business over a few (typically three to five) years. Pro forma (forecasted) financial statements (balance sheets, income statements, cash flow statements) are meant to give some prediction of how the business will fare financially over a given time span. To make such forecasts, one must have complete and accurate production cost information, a good idea of the costs associated with meeting regulatory and licensing requirements (both start-up and periodic renewals), marketing

costs, and a good estimate of predicted sales volume. Using this information, cash flow, profitability, and solvency of a business can be estimated.

Contingency Plans

If the evaluation and measurement criteria indicate that the financial and marketing goals of the company are not being met, it may be necessary to make changes. These may be alterations in production practices to trim costs, switching marketing methods to better promote the company's products, additional training for the company's sales staff, or juggling the company's debt servicing arrangements to free up cash. These alterations may cause changes in the company's goals and objectives, as well as changes in the evaluation and measurement tools.

One contingency plan no one likes to consider is shutting down the business. While no business owner wants to contemplate failure, he needs to understand the term "sunk costs." "Sunk costs" refer to the money that has been put into a venture and cannot be recovered, such as this month's building rent or the costs of operating permits, which may represent a considerable sum. A wise business owner never considers sunk costs when making operational decisions for a non-profitable venture. If all business evaluations indicate that failure is eminent and no other contingencies are available, shutting down a business may be the best and cheapest long-run alternative.

CONCLUSION

Ask students: What are the benefits of business plan?

The benefits of having a business plan include:

- Helping you to clarify your vision and deciding whether to forge ahead with the idea.
- Determining if your product and/or service has a sufficient market to support it and whether it will be profitable.
- Providing an estimate of your start-up costs and how much you'll need to invest or finance.
- Convincing investors and lenders to fund your business.
- Defining your target market (who your customers are or will be) and how to best reach them through strategic marketing actions or expanding market coverage or reach.
- Establishing or reevaluating your competitive position within the marketplace, by conducting a thorough analysis of the competition (finding out where your competitor's weaknesses are and how you can take advantage of them).
- Defining corporate objectives and programs to achieve those objectives.
- Helping your business make money from the start by developing effective operational strategies.

- Understanding the risks involved and anticipating potential problems so you that can solve them before they become disasters.
- Setting a value on a business for sale or for legal purposes.

Source: WikiAnswers,

http://wiki.answers.com/Q/What_are_the_benefits_of_writing_a_business_plan