

Developing a Business Plan for Value-Added Agricultural Products



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Planning a new business is like planning a vacation. Before leaving home for a family vacation, one or more family members typically pull out a roadmap and determine the best route to reach a final destination. In addition to realizing a final destination, points of interest and places to visit along the way are marked on the map. Travel arrangements and scheduled stops are worked into a time table and the expected costs of the vacation are determined. Contingency plans also are made, in case bad weather or car problems prevent the vacation from going as planned. With distances, times, and expenses laid out, the family members see exactly what they can and can't do, based on time and budget constraints. Following these steps helps the family be prepared to get all that they can from their vacation.

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. Although no one likes to think about things that could go wrong with a new business, a good business plan will also include contingency plans for counteracting probable pitfalls.

This fact sheet provides information on the contents of a typical business plan, especially as it relates to food and agricultural products businesses. The business plan format utilized for this fact sheet obviously is not the only format, but it does represent a fairly standard business plan outline. A business plan should include a cover/title page and a table of contents. It should also include the following:

1. Executive Summary
2. Introduction
3. Situational Analysis (Internal Assessment and External Assessment)
4. Business Proposition
5. Action Plan
6. Financial Analysis
7. Evaluation and Measurement
8. Contingency Plan

Executive Summary

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.

Introduction

A proper introduction for a business plan should include a brief history of the company's operations (or the entrepreneur's activities, as the case may be) and information on current business activities. Without going into extreme detail, give basic information on the company's beginning, expansion, and present endeavors. Describing the company's activities also means describing the company's product(s). This information provides a potential lender or investor with an idea of the company's track record and growth potential.

The introduction is also where one would want to provide the company's mission and vision statements. These statements represent the business philosophy of a company, i.e. what the company wants to offer its customers and its future goals. Just as a person may write his/her personal motto or goals on paper and hang them on the refrigerator or a bathroom mirror, including mission and vision statements in the business plan provides both the plan's writer(s) and readers with a written statement of the company's promises to its owners, employees, and customers.

The introduction also should include a general description of the proposed business venture and the steps already being taken to get the venture started. Whether this new venture entails the production of a new product or plans to market an existing product to a different target market, the introduction should explain the reasons behind the company's decision to enter the venture.

Situational Analysis

The Situational Analysis generally is the largest part of a business plan. A complete Situational Analysis is basically a rundown of the advantages a company has for entering a new venture, what needs to be developed or reorganized to accommodate a new venture, and considerations for factors beyond the direct control of the business. Typically, a Situational Analysis can be divided into two categories: internal assessment and external assessment.

Internal Assessment

An internal assessment looks at a company's assets and liabilities as they relate to its ability to enter a new venture. Examples of factors to consider in an internal assessment include, but are not limited to:

- 1. Operational structure.** What is the intended business structure (e.g. sole proprietorship, limited partnership, corporation, etc.)? What is the managerial hierarchy for the company? What will be the operating policies and procedures of the business? What will be the record keeping and account policies for the company?
- 2. Technology.** Does the business have (or have access to) the technological requirements to enter this venture? Does the business have (or have access to) new technology that offers a competitive advantage for manufacturing a product or providing a service? Will the business be making use of this technology, or will the business have products made through contractual agreements with companies that have this technology?
- 3. Access to inputs.** Besides technology, does the business have access to adequate quantities of quality raw materials (ingredients) and utilities? How will raw materials be obtained? Is the business located near an adequate supply of skilled labor?
- 4. Available (entrepreneur's) resources.** Something that should never be overlooked is the amount of resources (e.g. financial backing, land, equipment, labor skills and knowledge, etc.) an entrepreneur can provide on his/her own. An entrepreneur has to ask himself/herself "How much money can I afford to put into the business right now, still keep a roof over my family's head and food on the table, and not be financially devastated in case of the business' failure?" Additionally, how will the owner be compensated for his/her time and resource investments?
- 5. Marketing and distribution skills/network.** The phrase "If you build it, they will come..." may sound good in a movie, but a business has to have some plan for moving products from the production point to the market (customer) centers. The marketing skills of the business' owner(s) can be an important asset (or liability) for a venture. Does the business owner/manager have the experience and ability to market the product?

External Assessment

While a business and its owners can (for the most part) control the factors mentioned above, several factors remain which the company cannot influence. These exogenous or external factors may have critical impacts on a business' ability to thrive. A few key external factors include:

- 1. Industry/market conditions.** Do current and forecasted industry conditions (local, regional, national, and/or inter-

national) indicate a "friendly" environment for developing a new business or entering a specific market? How are these conditions affecting raw inputs and labor availability? How are they affecting product sales for similar products? Will tax changes greatly affect operating costs and profitability? What is happening with interest rates and how will that affect debt servicing for a new venture? These and other economic/market considerations may have strong impacts on businesses in general or on specific industries.

- 2. Legal and regulatory analysis.** Does the business (and its products) have a registered/protected name? Do each of the company's products have a Universal Product Code (UPC), and will the products' labels require nutritional analysis and labeling? Does the company comply with local, state, and federal health and manufacturing regulations? Does the company have the required manufacturing, health, and sales permits? What contractual arrangements have been made with input suppliers, co-packers (if used), and distributors/brokers (if necessary)?
- 3. Consumer analysis.** How is the market for a product segmented, i.e., can a profile be developed that identifies primary and secondary customer groups for a product? By performing a little library research, it is possible to define customers in terms of location, gender, ethnicity, income level, age, education, or other factors affecting the demand for a given product. With this information, it is possible to target the customer group(s) with the greatest market potential. The increasing size of a given consumer group, the tendency of a given consumer group to purchase similar products, or possibly the lack of competitors to supply products to meet the needs of that group, may determine market potential.
- 4. Competitive analysis.** With whom will the products/services of this new business be competing? Will competition be based upon quality standards/attributes or upon price? What advantages/disadvantages do competitors have? What business and marketing strategies do they employ? What resources do they have available? What would give the new venture a competitive advantage?
- 5. Opportunity analysis.** After reviewing the market, regulatory, customer, and competitive aspects of an industry, what unique opportunities are apparent for this new business? How do the risks of potential problems weigh against the forecasted gains of opportunities? Given certain internal and external factors, which opportunities rank highest? In other words, what business options seem to provide a path to success with minimal risk?

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

Probably 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.

Assets and liabilities at the beginning of the venture are listed on the balance sheet. The projected sales and expenses for the upcoming year are outlined in the pro forma income statement. The yearly projected debt payments and depreciation of assets from the income statement result in adjustments to values of both liabilities and assets listed in the pro forma balance sheet for the end of that year. Additionally, profits either go to further service debts, purchase equipment, or are retained as cash. These also will result in adjustments to year’s end pro forma balance sheets.

Pro forma cash flow statements for each month of the upcoming year forecast the cash incomes and outlays throughout the year. They define times when cash surpluses may exist and times when the business may experience cash shortages. Determining the highs and lows of a venture’s cash position will help the manager determine when to use extra cash to service debts, when to hold on to cash for expected future cash shortages, and when to consider short-term loans to meet cash shortages. The (year’s forecasted) ending pro forma balance sheet then depicts the assets and liabilities of the business for the beginning of the next year, when the forecasting process repeats itself.

Evaluation and Measurement

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 “accept-

able”? These evaluation and measurement items should be coordinated with short- and intermediate-term business goals.

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.

Information Sources for Business Planning

Evaluating market potential and consumer criterion requires considerable research in these areas. In many cases, it is beneficial to utilize sources of secondary data, i.e. data that has already been compiled by governmental agencies, industry groups, or professional associations. Most of the sources listed below can be found in local public libraries and through the Internet.

Manufacturing, Wholesale, and Retail Activities

The U.S. Department of Commerce, Bureau of the Census is an excellent source of information for most forms of business activities. Publications provide information on the number of establishments, number of employees, wages/salaries, values of shipments, and the amount of value added in operations. This information is typically sorted by industry classifications and geographic regions. Some of these publications include:

- Census of Manufactures
- Census of Wholesale Trade
- Census of Retail Trade
- Annual Survey of Manufactures
- County Business Patterns

Marketing/Consumer Information

While the publications mentioned above provide information on business activities, the following provide information on market demographics, consumer profiles, and purchasing patterns:

- Survey of Buying Power*
- Simmons Market Research Bureau*
- Lifestyle Market Analysis*

American Demographics (one of many publications from the American Marketing Association)
Census of Population and Housing (U.S. Dept. of Commerce, Bureau of the Census)

Other Information Sources and Assistance

Additional information sources related to market and consumer information, financial analysis, regulatory concerns, tax laws, and product development include:

Oklahoma Cooperative Extension Service (county offices and OSU)
Oklahoma State Department of Health (local and state offices)
Oklahoma Tax Commission
Oklahoma Small Business Development Centers (regional locations)
Oklahoma Department of Agriculture
Oklahoma Department of Commerce
Central Office for Home-Based Entrepreneurship (OSU)
Oklahoma Food and Agricultural Products Research and Technology Center (OSU)

Conclusions

Starting a value-added business, especially one related to food production and distribution, requires considerable planning. Carefully designing a plan for the business, keeping in mind regulatory and business environment conditions, will

drastically increase the chances of business success and longevity. Just as a well-planned vacation allows a family to avoid unpleasant surprises and expenses, a well-planned business start-up guard against legal problems and financial stress.

Additional OSU Extension Facts related to business planning and marketing include:

- F-169 The Role of a Manager
- F-170 Evaluating Financial Performance Using Ratio Analysis
- F-172 Principles of Agribusiness Marketing Management
- F-173 Choosing a Form of Organization for Agribusinesses
- F-174 Effective Time Management Helps Avoid Crisis Situations
- F-175 Legal Considerations in Organizing a Business in Oklahoma
- F-176 Legal Considerations for Employers in Oklahoma
- F-229 Should Your Agribusiness be Organized as a Cooperative or Investor-Owned Firm
- F-533 Strategic Marketing Management for Agribusiness and Food Marketing Firms
- F-753 Developing an Income Statement
- F-768 Self Employment and Farm Income Tax Management
- F-835 Feasibility Guidelines for Agribusiness Firms
- F-870 Small Business Innovation Research Programs: An Opportunity for Small Business in Oklahoma
- F-898 Total Quality Management for Oklahoma Food Processors and Agribusinesses
- F-905 Small Business Incubators: Potential Local Economic Development Tools

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