

PLANNING FOR ON-FARM SUCCESS

*A Workbook for Montana's Beginning
Farmers and Ranchers*



Appendix: The Business Plan



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This workbook draws heavily from the following publication, which can be viewed online at misa.umn.edu:

Minnesota Institute for Sustainable Agriculture. *Building a Sustainable Business: a guide to developing a business plan for farms and rural businesses*. College Park, MD: Sustainable Agriculture Research and Education (SARE), 2003.



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Appendix: The Business Plan

Finally! You are ready to pull all of your work together into a written business plan. All along you have probably been asking: What should I include in my business plan? What should my plan look like? How should I organize my plan? Your business plan should be organized in a way that is most useful for you. It should be organized in a way that meets your internal and external planning purposes and effectively communicates with your intended audience.

There is no single format that should be used for written business plans. That said, a grand strategy that is poorly communicated will be difficult to implement. There are some critical pieces of information that can help you stay on track and that your lender, shareholders or partners will expect to see. As you discuss which business plan formats to use with your planning team, think again about how you ultimately intend to use the plan—for internal organizing or for communicating externally to a lender or potential shareholders.

If you will present your plan to others outside the business (lenders, potential clients or investors, family or other planning team members), it should convince them of the feasibility of your strategy. Therefore it should clearly convey ideas, supporting research, financial evaluation, and a contingency plan. Documentation will be critical. You will need to justify your strategy with information from your research, particularly if you intend to seek financing, solicit funds from outside investors, or to offer stock. When discussing your pricing strategy, for instance, justify why your prices are set higher, lower or even with competitive products. State under what circumstances you might change the pricing structure for each product and service to gain a stronger position in the marketplace.

On the other hand, if your plan is strictly for internal organizing, you may want to emphasize your goals, vision, mission and the overall operating plan. Know that different audiences will want different things so allow your business plan to be a work-in-progress. You may want a one-page summary for sharing with initial contacts, a 3-5 page business plan for simpler conversations, and a 10-15 page business plan for major lenders. The best way to know what they want is to ask!

Regardless of your audience, the following are some components that you will want to include:

- I. Cover page with your business name and contact info
- II. Executive summary
 - A. Synthesis of your business plan – can be brief - one paragraph to one page.
 - B. Should make a deeply compelling argument for your business, articulating your vision, your product, a proven market need and how you'll access it, signs of profitability, and your funding needs.
 - C. Write this last!
- III. Table of Contents – necessary if your document is over 5 pages and may still be helpful if your plan is fewer than 5 pages – use at your discretion
- IV. Mission & Vision Statements (Reference: Module 1)
 - A. Like the Executive Summary, these should be high-energy, yet professional. Get the reader excited!
 - B. No longer than a half page – shorter is better
 - C. Avoid using too much jargon – remember your audience
- V. Management Team/Goals & Personal History (Reference: Module 1)
 - A. This section should make the reader trust you and your partner(s) – use it to inform the reader about your experience, education, values, and goals.
 - B. Demonstrate that you have the personal qualities, expertise, and perseverance to succeed!

- C. If there are skills you are currently lacking that are critical to the business's success, you can note those here, along with a clear plan for how and when you will gain those skills.

VI. Operations Plan (Reference: Module 1)

- A. This plan can come before or after your market sections and provides an opportunity to better explain how your company works.
- B. Remember, again, that your reader may not know much about farm businesses. Like the market analysis, in this section, you want to give them a lay of the land on your farm. Paint them a picture. Are there employees? Do they live on the farm? What's the day-to-day? What are the crops/livestock enterprises and what times of year show greater income or costs?
- C. This section will also help them to interpret your cash flow statements. For example, if your cash flow shows a large influx of cash in March and April (when no crops are being harvested), you can explain here how CSAs work and that customers pay for a whole season's harvest in those spring months.
- D. Does your plan require equipment purchases or building? Explain those costs here and why they are integral to the success of your proposal.

VII. Market Analysis (Reference: Module 2)

- A. Remember that the reader may not know your industry well. Give them a lay of the land and describe your position in it. How can your business be successful given the trends and health of the industry?
- B. Who are your competitors? Can they replicate your product? How will you provide a better or different product? Note that having no competitors is not always seen as a good thing – oftentimes it makes lenders concerned that you're selling something with no market. If you don't have any competitors, talk about similar businesses in similar regions and what they have done to be successful. How can you imitate these businesses to replicate their success in your market?
- C. Finally, you want to demonstrate to the reader that this is a product with a real customer – not just a great product that may sit on a shelf. The investor wants to see proof that customers want your product and are willing and able to pay for it. Who are the customers? What market research have you done to better understand them?

VIII. Marketing Plan (Reference: Module 3)

- A. Your marketing plan should describe how you plan to reach the customers you identified in your market analysis. Discuss your product selection, pricing, and promotion strategies here.
- B. This is your chance to clearly and convincingly convey your competitive advantage and one of the pieces that the reader will spend the most time and focus on. Demonstrate the research you've done and make a compelling case for your ability to sell your product!

IX. Financial Analysis (Reference: Modules 4 and 5)

- A. The financial section should go through the basic financial statements from Module 4. What are your startup costs? At what point does the business break even?
- B. As a start-up, you will be making many assumptions (about how many carrots you'll sell, the prices you'll sell them for, etc.). Justify your numbers and explain any and all assumptions you're making and point out any issues around profitability.
- C. Demonstrate when you'll be profitable and how you'll grow over the first three to five years. Show that you understand the financial realities of your business from the bottom up. It can be helpful to work with established farmers when finalizing your financials to get feedback on your expectations.
- D. Expect that your financials will raise several "what if" questions and scenarios, so when you go to meet with a lender or potential partner, be sure to clearly understand your best case, worst case, and most likely case scenarios. You may want to include these in your financial analysis as well.

X. Financing Plan (Reference: Module 6)

- A. This section demonstrates to the reader how the funding stream will play out over the first few years – what are the milestones you’ll hit and what funding goals will you need to grow?
- B. Show sources and uses of funds and explain any current requests or investments you’ve already made.
- C. This section will lay the groundwork for many of your discussions with funders so be clear and realistic about your funding needs and reasoning.

XI. Risk Analysis (Reference: Module 7)

- A. Every reader should understand that any business faces risks. Use this section to be honest about any risks you foresee and how you are prepared to weather the potential storms.
- B. This is also a great place to demonstrate how well you’ve thought through many of your risks. Discuss insurance and whether or not you will utilize various options. Talk about food safety and land access and frankly discuss the risks of the options you’re pursuing and your reasoning for the choices you’re making. Even if you’re preparing this plan for your own personal use, having this section will remind you of your plan and your reasoning when a storm does hit!
- C. You can also include here a contingency plan. At the start of a business, the future is bright and hopeful! However, the reality is that sometimes, businesses fail, partners want to leave, landowners change their minds, and other major challenges are encountered. How will you deal with these challenges? Do you have an exit strategy? Will you plan for mediation so that when interpersonal challenges arise you can face them head on? Again, this is a particularly useful section to prepare in advance of any problems so that if a storm does hit, you can remind yourself of your strategy and be comforted by having a plan!

Googling “farm business plan sample” will yield many examples of basic to extensive business plans. Feel free to use these to help you build a great plan!

Common Presentation Pitfalls

Too much detail. There is a fine line between too little and too much detail in a business plan. Minute or trivial items that dilute or mask the critical aspects of the plan should be avoided.

Graphics without substance. With the sophisticated computer software available to the average user today, it is easy to over-emphasize aesthetics while compromising substance. Graphics should be a complement to, not a substitute for, logic and reasoning.

Inability to communicate plan. The business plan should clearly outline the proposal in understandable terms. Monumental ideas are worthless if they cannot be communicated.

Infatuation with product or service. Although a business plan should clearly explain the attributes of the business’ key product or service, it should focus on the marketing plan. An entrepreneur can often become so intrigued by his or her ideas that he or she forgets about the big picture.

Focusing on production estimates. When making projections, the focus needs to be on sales estimates, not production estimates. Production is irrelevant if there are no buyers.

Unrealistic financial projections. Potential investors are interested in profitability so that they earn a return on investment. However, unrealistic financial projections can cause a plan to lose credibility in the eyes of investors.

Technical language or jargon. Technical language, acronyms and jargon that would be unfamiliar to a person without experience in a particular industry should be avoided. The reader will be more impressed if he or she understands the plan.

Lack of commitment. The entrepreneur must show commitment to his or her business if he or she expects a commitment from others. Commitment is exhibited by timeliness and following up on all professional appointments. Investment of personal money is looked upon favorably because it shows that the owner is willing to make a financial commitment.