

AGRICULTURE BUSINESS PLANNING

Chapter 13

Agriculture Development Business Potential

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Lecture Overview

- Business Plan for Farms and Rural Business
- Planning Task

Introduction to this chapter:

Agricultural practices should be managed in a modern way. The role of agriculture in supporting human life to provide food and industrial raw materials makes this agricultural sector an activity that must be developed. One of the trends in agricultural management that occurs in developing countries such as Indonesia is the absence of clear management. To ensure that agricultural activities have clear management, at this time, agriculture needs to adopt a business model.

Business Plan for Farms¹

Business planning is an important part of owning and managing a farm. Producers traditionally go through the business planning process to:

- Evaluate production alternatives;
- Identify new market opportunities; and
- Communicate their ideas to lenders, business partners and family.

As agricultural entrepreneurs define and create themselves away from more “conventional” farming models, business planning has become more important than ever.

Producers considering innovative management practices and immature markets use business plans to map out strategies for taking advantage of new opportunities such as organic farming, on-farm processing, direct marketing and rural tourism. A business plan helps producers demonstrate that they have fully researched their proposed alternative; they know how to produce their product, how to sell what they produce, and how to manage financial risk.

Regardless of whether you are a beginning entrepreneur who has recently inherited a business, an experienced farmer who is considering on-farm processing, or a retiring business owner who is looking to pass on the farm, business planning is important. It is an ongoing process that begins with the identification of values and ends with a strategic plan to address critical management functions.

Like many rural entrepreneurs, you may have a strong sense of the values that drew you to the land or inspired you to begin a business. You may also have a clear set of personal and business goals that you would like to pursue “when the time is right.” But, if you’re like most farmers and rural business owners, you run into problems when trying to incorporate values and goals into day-to-day business decisions. How can you build a balanced and sustainable business—one that reflects your values and is successful—in the long run?

Before You Begin: Why Develop a Business Plan and Who Should Be Involved in the Planning Process?

New and experienced business owners, regardless of history or current situation, can benefit from business planning.

As an experienced producer, you may develop a business plan to: map out a transition from conventional to organic production management; expand your operation; incorporate more family members or partners into your business; transfer or sell the business; add value to your existing operation through product processing, direct sales or cooperative marketing.

It’s never too late to begin planning! If you are a first-time rural land owner or beginning farmer who may be considering the establishment of a bed and breakfast or community-supported agriculture (CSA) enterprise, business planning can help you identify management tasks and financing options that are compatible with your long-term personal, environmental, economic, and community values.

Business planning is an on-going, problem-solving process that can identify business challenges and opportunities that apply to your marketing, operations, human resources and finances, and develop strategic objectives to move your business beyond its current situation toward your future business vision. Once developed, your business plan can be used as a long-term, internal organizing tool or to communicate your plans to others outside your business. Use your business plan to:

- Make regular or seasonal marketing, operations, human resources and finance decisions.
- Pursue long-term personal, economic, environmental and community goals.
- Develop a business profile for communicating within or outside your family to potential business partners, lenders and customers.

Before you begin working through this Guide, take a few moments to consider where you are in the business life cycle and why you are developing a business plan. Are you just beginning? Ready for growth? Planning to consolidate and transfer out of the business?

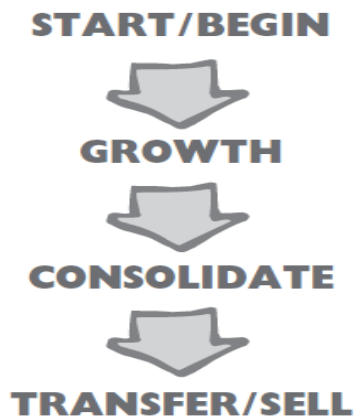


Figure 1. The Business Life Cycle

Based on your position in the business life cycle (Figure 1):

- what do you want to accomplish?
- Do you need to explore a critical finance- or operations-related challenge that you currently face?

- Research a perceived marketing opportunity?
- Prepare for an anticipated internal change in human resources?

Most likely you have several, interdependent planning motives.

This Guide is designed to help you work through many of them. Be aware, however, that retirement and farm transfer issues are not treated directly in the text or Worksheets. If retirement and business transfer are your critical planning issues, you may benefit by working through the first few tasks (identifying values, reviewing your history and current situation, and identifying your vision and goals), before talking with an attorney or financial consultant to help you develop specific business liquidation or transfer strategies.

Once you've identified why you're developing a business plan, **you need to decide who will be involved in developing your plan.** Your planning should ideally be done as a team—this will not only enrich brainstorming, but will also secure support for your plan by those who are involved in the operation. Your planning team can be thought of as business “stakeholders”—those people who play a key role in your operation or who will be involved in business and personal decisions. Stakeholders often include family members, employees, partners, renters, other producers, landlords, customers, resource organizations, input dealers, lenders, community members, and veterinarians or other technical experts. These critical stakeholders should be considered your “planning team.”

Once you've identified the critical planning issues that you would like to address with your plan, **think about how your plan will be used.**

- If you intend to use the plan as a guide to seasonal operations, you will want to focus on the practical aspects of implementation.
- If your primary planning objective is to attract a potential business partner or financing, you will need to devote more time and space to fleshing out your business vision, its financial feasibility, and a marketing description of your final product or service.

Planninb Task

1. Identify Values– What’s Important to You?

Your values are critical to the business planning process. They will guide you through business management choices and personal decisions as you dream a future vision, set goals, consider strategic alternatives, and develop monitoring checkpoints.

- Discuss values: What are they and how do they affect business planning and management decisions?
- Identify your own values.
- Identify common values among your planning team.
- Prepare the Values section of your Business Plan.

2. Farm History and Current Situation- What Have You Got?

- Prepare a brief history of your family, farm and business
- 4 Assess your current situation in:
 - 1. Marketing:**
 - Product
 - Customers
 - Unique Features
 - Distribution
 - Pricing
 - Promotion
 - Anticipated Marketing/Industry Changes
 - 2. Operations:**
 - Physical Resources
 - Production Systems
 - Management Systems
 - 3. Human Resources:**
 - Work Force
 - Unique Skills
 - Anticipated Changes in Work Force
 - 4. Finances:**
 - Needs
 - Performance
 - Risk
 - Financial Environment and Anticipated Changes
- Conduct a whole farm SWOT analysis
- Prepare the History and Current Situation section of your Business Plan

3. Vision, Mission and Goals-Where Do You Want to Go?

All of us do it—we dream. Whether from the seat of a tractor, while walking our pastures, or talking with family over coffee, we envision the future. This dreaming or visioning is critical to the business planning process. Visioning will help you identify the mission of your business—why it exists—and goals that will eventually form the basis of your business’ strategic plan. These three components—vision, mission and goals—make up Planning Task Three.

- ✓ Dream a vision for the future.
- ✓ Develop a mission statement.
- ✓ Set and prioritize goals.
- ✓ Prepare the Vision, Mission and Goals section of your Business Plan.
- ✓

4. Strategic Planning and Evaluation—What Routes Can You Take to Get Where You Want to Go?

Strategy is defined as a “careful plan or method for achieving an end.” That’s your challenge in this Planning Task. You’ve envisioned your future, based on your goals and values, so you know what you want the “end” to look like. Now you need to take the time to carefully think through the steps you can take to get there.

- ✓ Develop a business strategy

Marketing Strategy

- Markets
- Product
- Competition
- Distribution and Packaging
- Pricing
- Promotion
- Inventory and Management
- Develop a Strategic Marketing Plan

Operations Strategy

- Production Management
- Regulations and Policy
- Resource Needs
- Resource Gaps
- Size and Capacity
- Develop a Strategic Operations Plan

Human Resources Strategy

- Labor Needs
- Labor Gaps
- Compensation

- Management and Communications
- Develop a Strategic Human Resources Plan
- Financial Strategy**
- Risk
- Organizational Structure
- Finance
- Develop a Strategic
- Financial Plan
- Whole Farm Strategy**
- ✓ Evaluate Strategic Alternatives:
 - Long Term Evaluation**
 - Profitability
 - Liquidity
 - Solvency
 - Risk
 - Transition Period Evaluation**
- ✓ Choose the best whole farm strategy
- ✓ Develop contingency plans
- ✓ Develop the Strategic Planning section of your Business Plan

5. Present, Implement and Monitor Your Business Plan—Which Route Will You Take, and How Will You Check Your Progress Along the Way?

This final Planning Task is what you've no doubt been waiting for—writing up your business plan and implementing your new strategy.

- ✓ Organize and write your 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.

Reference

All the content for this chapter adopted from:

Valdez, C. D. (2011). Building a Sustainable Business Plan. In *ProQuest Dissertations and Theses*. Minnesota Institute for Sustainable Agriculture. SARE.