
AGRICULTURAL ALTERNATIVES

Developing a Business Plan

An important task in starting a new venture is to develop a business plan. As the phrase suggests, a business plan is a “road map” to guide the future of the business or venture. The elements of the business plan will have an impact on daily decisions and provide direction for expansion, diversification, and future evaluation of the business.

This publication will assist in drafting your own business plan. It includes a discussion of the makeup of the plan and the information you need to develop a business plan. Business plans are traditionally developed and written by the owner with input from family members and the members of the business team. Business plans are “living” documents that should be reviewed and updated every year or if an opportunity for change presents itself. Reviews reinforce the thoughts and plans of the owner and the business, and aid in the evaluation process. For an established venture, evaluation determines if the business is in need of change or if it is meeting the expectations of the owners.

Using the Proper Format

The presentation of the plan should be as professional as possible to portray your business in a positive manner. When dealing with a lender or possible investor, the plan will be reviewed for accuracy and suggestions for changes to the plan may be offered. The decision to recommend the loan to the appropriate committee or reject the proposal will be largely based on your business plan. Often loan officers will not know a great deal about the proposed venture, but they will know the correct structure of a business plan. Investors will make their decision based on the plan and the integrity of the owner. For this reason, it is necessary to use a profes-

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sional format. After loan officers complete their evaluations, the loan committee will further review the business plan and make a decision. The committee members will often spend limited time reviewing the document, focusing on the message of the executive summary and financial statements to make their determination. Because of this, these portions need to be the strongest parts of the plan and based on sound in-depth research and analysis.

Sections of the Business Plan

A business plan should be structured like a book with the title or cover page first, followed by a table of contents. Following these two pages, the main parts of the plan normally appear in this order: executive summary, business mission statement, goals and objectives, background information, organizational matters, marketing plan, and financial plan.

Executive Summary

The executive summary is placed at the front of the business plan, but it should be the last part written. The summary describes the proposed business or changes to the existing business and the sector of which the business is (or will be) a part. Research findings and recommendations should be summarized concisely to provide the reader with the information required to make any decisions. The summary outlines the direction and future plans or goals of the business, as well as the methods that will be used to achieve these goals.

The summary should include adequate background information to support these recommendations. The final financial analysis and the assumptions used are also a part of the executive summary. The analysis should show how proposed changes will ensure the sustainability of the current or proposed business. All challenges facing the existing business or proposed venture should also be discussed in this section. Identifying such challenges shows the reader that you have explored and taken into account all considerations during the research process.

Mission, Goals, and Objectives

This section has three separate portions. It begins with a brief, general description of the existing or planned business. The overview is followed by the mission statement of the business. You should try to limit the mission statement to three sentences if possible and include only the key ideas about why the business exists. An example of a mission statement for a produce farm might be: “The mission of XYZ Produce is to provide fresh, healthy produce to our customers, and to provide a safe, friendly working environment for our employees.” If you have more than three sentences, be as concise as possible.

The third (and final) portion sets the business’s goals and objectives. There are at least two schools of thought about goals and objectives. One is that the goals are the means of achieving the objectives, and the other is exactly the opposite—that the objectives are the means of achieving the goals. Whichever school you follow, this is a very important part of the business plan. These goals and objectives should show the reader what the business wishes to accomplish and the steps needed to obtain the desired results. Goals or objectives should follow the acronym SMART, which stands for **S**pecific, **M**easurable, **A**ttainable, **R**easonable, and **T**imed, to allow for evaluation of the entire process and provide valuable feedback along the way. The business owner should continually evaluate the outcomes of decisions and practices to determine if the goals or objectives are being met and make modifications when needed.

Background Information

Background information should come from the research conducted during the writing process. This portion should include information regarding the history of the industry, the current state of the industry, and information from reputable

sources concerning the future of the industry. This portion of the business plan requires the most investment of time by the writer, with information gathered from multiple sources to prevent bias or undue optimism. The writer should take all aspects of the industry (past, present, and future) and business into account. If there are concerns or questions about the viability of the industry or business, these must be addressed. In writing this portion of the plan, information may be obtained from your local public library, periodicals, industry personnel, trusted sources on the Internet, and publications such as the *Agricultural Alternatives* series. Industry periodicals are another excellent source of up-to-date information. The more varied the sources, the better the evaluation of the industry and the business, and the greater the opportunity to have an accurate plan.

The business owner must first choose an appropriate legal structure for the business. The business structure will have an impact on the future, including potential expansion and exit from the business. If the proper legal structure is not chosen, the business may be negatively impacted down the road. Only after the decision is made about the type of business can the detailed planning begin.

Organizational Matters

This section of the plan describes the current or planned business structure, the management team, and risk management strategies. There are several forms of business structure to choose from, including sole proprietorship, partnership, corporations (subchapter S or subchapter C), cooperative, and limited liability corporation or partnership (LLC or LLP). These business structures are discussed in *Agricultural Alternatives: Starting or Diversifying an Agricultural Business*.

The type of business structure is an important decision and often requires the advice of an attorney (and an accountant). The business structure should fit the management skills and style(s) of the owner (or owners) and take into account the risk management needs (both liability and financial) of the business. For example, if there is more than one owner (or multiple investors), a sole proprietorship is not an option because more than one person has invested time and/or money into the business. In this case, a partnership, cooperative, corporation, LLC, or LLP would be the proper choice.

If the business is not a sole proprietorship, the management team should be described in the business plan. The management team should consist of all parties involved in the decisions and activities of the business. The strengths and backgrounds of management team members should be discussed to highlight the positive aspects of the team. Even if the business is a sole proprietorship, usually more than one person (often a spouse, child, relative, or other trusted person) will have input into the decisions and therefore should be included as team member(s).

Regardless of the business structure, all businesses should also have an external management support team. This external management support team should consist of the business’s lawyer, accountant, insurance agent or

broker, and possibly a mentor. These external members are an integral part of the management team. Many large businesses have these experts on staff. For small businesses, the external management team replaces full-time experts; the business owner(s) should consult with this external team on a regular basis (at least once a year) to determine if the business is complying with all rules and regulations. Listing the management team in the business plan allows the reader to know that the business owner has developed a network of experts to provide advice.

The risk management portion of the business plan provides a description of how the business will handle unexpected or unusual events. For example, if the business engages in agricultural production, will the business purchase crop insurance? Does the business have adequate liability insurance? Is the business diversified to protect against the unexpected, rather than “putting all its eggs in one basket”? If the business has employees, does the business carry adequate workers’ compensation insurance? All of these questions should be answered in the risk management portion of the business plan. More information how liability can affect your business and on the use of insurance as a risk management tool can be found in *Agricultural Alternatives: Agricultural Business Insurance* and *Agricultural Alternatives: Understanding Agricultural Liability*. The business structure will also determine a portion of the risk management strategy since the way that a business is structured carries varying levels of risk to the owner and/or owners. All marketing strategies (or objectives) carry a degree of risk and must be evaluated, and mitigation strategies should be included in this portion of the plan.

Marketing Plan

Every purchase decision that a consumer makes is influenced by the marketing strategy or plan of the company selling the product or service. Products are usually purchased based on consumer preferences, including brand name, price, and perceived quality attributes. Consumer preferences develop (and change) over time, and an effective marketing plan takes these preferences into account. This makes the marketing plan an important part of the overall business plan.

In order to be viable, the marketing plan must coincide with production activities. The marketing plan must address consumer desires and needs. For example, if a perishable or seasonal crop (such as strawberries) will be produced, the marketing plan should not include sales of locally grown berries in January if the business is in the northeastern United States. If the business plans to purchase berries in the off-season from other sources to market, this information needs to be included. In this way, the marketing plan must fit the production capabilities (or the capability to obtain products from other sources).

A complete marketing plan should identify target customers, including where they live, work, and purchase the product or service you are providing. Products may be sold directly to the consumer (retail) or through another business

(wholesale). Whichever marketing avenue you choose, if you are starting a new enterprise or expanding on an existing one, you will need to decide if the market can bear more of what you plan to produce. Your industry research will assist in this determination. The plan must also address the challenges of the marketing strategy proposed. This portion of the plan contains a description of the characteristics and advantages of your product or service. Identifying a “niche” market will be of great value to your business.

Other variables to consider are sales location, market location, promotion and advertising, pricing, staffing, and the costs associated with all of these. All of these aspects of the marketing plan will take time to develop and should not be taken lightly. Further discussion on marketing fruits and vegetables can be found in *Agricultural Alternatives: Fruit and Vegetable Marketing for Small-scale and Part-time Growers*.

An adequate way of determining the answers to business and marketing issues is to conduct a SWOT analysis. The acronym SWOT stands for **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats. Strengths represent internal attributes and may include aspects like previous experience in the business. Experience in sales or marketing would be an area of strength for a retail farm market. Weaknesses are also internal and may include aspects such as the time, cost, and effort needed to introduce a new product or service to the marketplace. Opportunities are external aspects that will help your business take off and be sustained. If no one is offering identical products or services in your immediate area, you may have the opportunity to capture the market. Threats are external and may include aspects like other businesses offering the same product in close proximity to your business or government regulations impacting business practices and costs.

Financial Plan

The financial plan and assumptions are crucial to the success of the business and should be included in the business plan. One of the foremost reasons new businesses fail is not having enough startup capital or inadequate planning to cover all expenses and be profitable. The scope of your business will be determined by the financial resources you can acquire. Because of this, you will need to develop a financial plan and create the supporting documents to substantiate it.

The financial plan has its basis in historical data (for an existing business) or from projections (for a proposed business). The first issue to address is recordkeeping. You should indicate who will keep the necessary records and how these records will be used. Internal controls, such as who will sign checks and handle any funds, should also be addressed in this section. A good rule to follow for businesses other than sole proprietorships is having at least two people sign all checks.

The next portion of the financial plan should be assumptions concerning the source of financing. This includes if (and when) the business will need additional capital, how much capital will be needed, and how these funds will be

obtained. If startup capital is needed, this information should be included in this portion. Personal contributions should be included along with other funding sources. The amount of money and repayment terms should be listed. One common mistake affecting many new businesses is underfunding at startup. Owners too often do not carefully evaluate all areas of expense and underestimate the amount of capital needed to see a new business through the development stages (including living expenses, if off-farm income is not available).

Typically, a balance sheet, income statement, cash flow statement, and partial budget or enterprise budgets are included in a business plan. More information on agricultural budgets can be found in *Agricultural Alternatives: Budgeting for Agricultural Decision Making*. These documents will display the financial information in a form that lending institutions are used to seeing. If these are not prepared by an accountant, having one review them will ensure that the proper format has been used.

Financial projections should be completed for at least two years and, ideally, for five years. In agricultural businesses, five-year projections are sometimes difficult to make because of variability in prices, weather, and other aspects affecting production. One way to illustrate these risks is to develop several scenarios covering a range of production assumptions. This attention to detail will often result in a positive experience with lenders because they realize that the plan covers several possible circumstances and provides insight into how the business plans to manage risk. More information on financing agricultural businesses can be found in the publication *Agricultural Alternatives: Financing Small-scale and Part-time Farms*.

Financial Statements

Balance Sheet

A balance sheet is a snapshot of a business's assets and liabilities and its owner's equity at a specific point in time. A balance sheet can be prepared at any time but is usually done at the end of the fiscal year (for many businesses, this is the end of the calendar year). Evaluating the business by using the balance sheet requires several years of balance sheets to tell the true story of the business's progress over time. A balance sheet is typically constructed by listing assets on the left and liabilities and owner's equity on the right. The difference between the assets and liabilities of the business is called the "owner's equity" and provides an estimate of how much of the business is owned outright. Owner's equity provides the "balance" in a balance sheet.

Assets are anything owned by or owed to the business. These include cash (and checking account balances), accounts receivable (money owed to the business), inventory (any crops or supplies that the business has stored on farm), land, equipment, and buildings. This may also include machinery, breeding stock, small fruit bushes or canes, and fruit trees. Sometimes assets are listed as current (those easily converted to cash) and fixed (those that are required

for the business to continue). Assets are basically anything of value to the business.

Balance sheets may use a market basis or a cost basis to calculate the value of assets. A market-basis balance sheet better reflects the current economic conditions because it relies on current or market value for the assets rather than what those assets originally cost. Market values are more difficult to obtain because of the difficulty in finding accurate current prices of assets and often results in the inflation of the value of assets. Cost-basis balance sheets are more conservative because the values are often from prior years. For example, a cost-basis balance sheet would use the original purchase price of land rather than what selling that land would bring today. Because purchase records are easily obtained, constructing a cost-basis balance sheet is easier. Depreciable assets, such as buildings, tractors, and equipment, are listed on the cost-basis balance sheet at purchase price less accumulated depreciation. Most accountants use the cost-basis balance sheet method. Whether you choose to use market basis or cost basis, it is critical that you remain consistent over the years to allow for accurate comparison.

Liabilities are what the business owes on the date the balance sheet is prepared. Liabilities include both current liabilities (accounts payable, any account the business has with a supplier, short-term notes, operating loans, and the current portion of long-term debt, which are payable within the current year) and noncurrent liabilities (mortgages and loans with a term that extends over one year).

Owner's equity is what remains after all liabilities have been subtracted from all assets. It represents money that the owner has invested in the business, profits that are retained in the business, and changes caused by fluctuating market values (on a market-basis balance sheet). Owner's equity will be affected whenever changes in capital contributed to the business or there are retained earnings; so, if your practice is to use all earnings as your "paycheck" rather than reinvesting them in the business, your owner's equity will be impacted. On the balance sheet, owner's equity plus liabilities equals assets. Or, stated another way, all of the assets less the amount owed (liabilities) equals the owner's equity (sometimes referred to as "net worth").

Income Statement

The income statement is a summary of the income (revenue) and expenses for a given accounting cycle. If the balance sheet is a "snapshot" of the financial health of the business, the income statement is a "motion picture" of the financial health of the business over a specific time period. An income statement is constructed by listing the income (or revenue) at the top of the page and the expenses (and the resulting profit or loss) at the bottom of the page.

Revenue is any income realized by the sale of crops or livestock, government payments, and any other income the business may have (including such items as fuel tax refunds, patronage dividends, and custom work). Other items affecting revenues are changes in inventory and accounts receiv-

able between the start of the time period and the end, even if these changes are negative. Expenses include any expense the business has incurred from the production of the products sold. Examples of expenses include feed, fertilizer, pesticides, fuel, labor, maintenance and repairs, insurance, taxes, and any changes in accounts payable. Depreciation, which is calculated wear and tear on assets (excluding land), is included as an expense for accounting purposes. Interest is considered an expense, but any principal payments related to loans are not an expense.

As the income statement is created, the desired outcome is to have more income than expenses, so the income statement shows a profit. If not, the final number is shown in parentheses (signifying a negative number). Another name for this financial record is a “profit and loss statement.” Income statements are one way to clearly show how the farm is making progress from one year to the next and may provide a much more optimistic view of sustainability than can be seen by looking at a single year’s balance sheet.

Cash Flow Statement

A cash flow statement is the predicted flow of cash into and out of a business over a year. Cash flow statements are prepared by showing the total amounts predicted for each item of income or expense. This total is then broken down by month to show when surpluses and shortfalls in cash will occur. In this way, the cash flow statement can be used to predict when additional cash is needed and when the business will have a surplus to pay back any debt. This monthly prediction allows the owner(s) to better evaluate the cash needs of the business, taking out applicable loans and repaying outstanding debts. The cash flow statement often uses the same categories as the income statement plus additional categories to cover debt payments and borrowing.

After these financial statements are completed, the business plan writer will have an accurate picture of how the business has performed and can project how the business will perform in the coming year(s). With such information, the owner—and any readers of the business plan—will be able to evaluate the viability of the business and have an accurate understanding of actions and activities that will contribute to its sustainability. This understanding will enable the owner(s) to make better informed decisions regarding loans or investments in the business.

Putting It All Together

After the mission, background information, organization, and marketing and financial plans are complete, an executive summary can then be prepared. Armed with the research results and information from the other sections, the business will come alive through this section. The next step is to share this plan with others whose opinions you respect. Have them ask you the hard questions, making you defend an opinion you have expressed or challenging you to describe what you plan to do in more detail. Often people

are hesitant to share what they have written with their families or friends because they fear the plan will not be taken seriously. However, it is much better to receive constructive criticism from family and friends (and gain the opportunity to strengthen your plan) than it is to take it immediately to the lender, only to have any problems pointed out and receive a rejection.

Summary

Once all parts of the business plan have been written, you will have a document that will enable you to analyze your business and determine which, if any, changes need to be made. Changes on paper take time and effort but are not as expensive as changing a business practice only to find that the chosen method is not viable. For a proposed venture, if the written plan points to the business not being viable, large sums of money have not been invested and possibly lost. In short, challenges are better faced on paper than with investment capital.

Remember, a business plan is a “road map” that will guide the future of the business. The best business plan is a document in continual change, reacting to the influence of the outside world on the business. Having the basis of a written plan will give you confidence to consider changes in the business to remain competitive. Once the plan is in place, the business will have a better chance of future success.

For More Information

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Periodicals

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Fortune
www.fortune.com

Kiplinger's Personal Finance
www.kiplingers-personal-finance-magazine.com-sub.biz

Money
<https://subscription.money.com/storefront/subscribe-to-money/site>

Websites

BizPlanit (Virtual Business Plan)
www.bizplanit.com

A Guide to Farming in Pennsylvania
extension.psu.edu/business/farm/guide

Penn State Extension Farm Management
extension.psu.edu/business/farm

SCORE (Volunteer Business Assistance)
www.score.org

Small Business Administration
www.sbaonline.gov/starting_business/planning/basic.html

Small Business Learning Guide
for Entrepreneurs with a Disability
www.cornerstoneondemand.com/small-business-learning-guide-entrepreneurs-disability

Your Future in Focus: Penn State Extension's Business Planning Curriculum
yifonline.com

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