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AGRIBUSINESS MANAGEMENT

PREPARING AN AGRIBUSINESS PLAN

While I have altered the names/location to provide some semblance of confidentiality, I call your attention to the following article extracted from a regional newspaper:

"For the past 70 years, the Asterberg Grain Co. has purchased grain from area farmers. With five elevator locations, annual sales of \$11 million and 21 fulltime employees, the family-owned company is one of the region's largest.

"Despite its success, beginning in 1989, Asterberg found it difficult to secure adequate lines of credit for its operations. Asterberg announced yesterday that its \$2 million credit line, covered by warehouse receipts has been threatened. One of its correspondent commercial banks had notified Asterberg of its desire to terminate its participation, citing as its reason for withdrawal Asterberg's failure to prepare and submit a satisfactory business plan."

Reading the article I began to wonder how many Northwest agribusiness firms prepare regularly updated and complete "annual business plans"? How many firms are asked to produce such plans in support of their ongoing financial arrangements? How many such firms know what a business plan entails, and how many have even attempted to prepare such a document?

The purpose of this paper is to review the contents of an acceptable business plan. I hope to convey to agribusiness managers the general procedure for preparing and

updating this plan, be it for internal use, or in response to requests from those who financially support your ongoing operation.

General Format

Unfortunately, we must begin by admitting that there exists no hard-and-fast format requirements for an adequate business plan. The general length, depth, and content will often vary depending on such factors as the firm's maturity, the nature and complexity of its business functions, and the market (or markets) it attempts to serve. Some general components are common, however, and we will attempt to develop them within an agribusiness setting. Those basic components are:

1. Executive Summary
2. Agribusiness History, Organizational Structure, and Background
3. The Agribusiness Product/Service Mix
4. The Market Served
5. Competitive Factors
6. Marketing Goals/Objectives
7. Manufacturing, Processing, or Operational Characteristics
8. Management Features
9. Financial Projections and Related Parameters

The preparation of any business plan must include the active participation of management. While it is quite possible to contract for outside consulting services to assist in the plan's preparation, management must be involved in every aspect of the plan's development. Any plan prepared exclusively by outside hired services will unlikely reflect management's total insight or perspective. It

will also lack the full support of management in that vested interests have not been taken fully into account. A satisfactory business plan, therefore, cannot bypass direct and continuous management involvement. The following discussions will deal with each of the basic components noted above.

The Executive Summary

This summary should address the key elements of the business plan and provide a management overview intended principally to capture the attention of the firm's directors and/or those interests of the firm's financial supporters. In many cases, the executive summary is about all that some investors will bother to read. Therefore, it must capture their attention and position the firm accurately in their minds. Such an executive summary will serve to distinguish your firm from others with which it competes for market or financial support. Minimally, agribusiness managers should attempt to address the following issues in the preparation of this important summary.

First, provide a concise description of your business and the market for its products or services. This description should distinguish your product or service from its competition and stress the market functions it fulfills or wishes to provide. Don't forget to state whether your agribusiness firm competes in a large pre-existing market or wishes to create a new market. Finally, it must include why your specific firm will succeed in a competitive environment. Remember, this discussion must be both concise and persuasive.

Second, include a description of your firm's management team, emphasizing the relevant experience and their special skills. If notable management weaknesses exist, cite them accurately and discuss how and when you will address those deficiencies.

Third, include a summary of key financial projections for the next three to five years. Rely heavily on your finance personnel for assistance and reference budgeting activities which have already been undertaken. Financial projections must specifically address the impacts and results of planned operational changes.

Fourth, if the purpose of the business plan is to secure, expand, or supplement financial support, develop a time-series format by which the flow of funds can be easily identified.

Agribusiness History, Organizational Structure, and Background

If you are preparing a business plan for internal use alone, you can largely ignore this section. Information describing the firm's history, structure, and background is obviously intended primarily for prospective investors and/or lenders. Before such interests can evaluate where a business is likely to go, they need to know something about its history and origins. Therefore, this section must contain references to the following:

First, tell when the business was founded, its progress to date and give a brief description of the founding environment. Support the firm's creation as a corporation, cooperative, or partnership with a narrative describing the general circumstances which first inspired its creation. The roles played by key individuals, their business experience, and historical accounts of the business are important.

Second, review the organizational form of the business as it impacts the distribution of equity and the payment of corporate proceeds. If the firm operates as a corporation, this section must address the company's capitalization, its classes of stock, shares outstanding, and other

relevant data. If the firm operates as a cooperative, the nature and extent of its capitalization is even more important, as is the established system by which patronage earnings are distributed.

Third, *review and document past loans or investments in the firm by outside parties.* If firm management retains investments in the firm, acknowledge this explicitly. Include a detailed description of outstanding stock options, warrants, royalty obligations, price concessions, leases, and/or other financial commitments of historical origin.

Fourth, *review those products and/or services which the company has developed or marketed since its inception.* Be sure to include a discussion of the successes experienced as a result of each such development.

Fifth, *remember that if you have reason to believe the firm's past or historical performance is not a true and reliable indicator of its potential,* it would be appropriate here to cite those reasons and then prepare to discuss them more thoroughly elsewhere in the plan's text.

The Agribusiness Product/Service Mix

The basic purpose of this section of a business plan is to define what it is your firm intends to provide and/or market. It would seem a little superfluous to address this issue as it relates to an agribusiness firm which has been in business for many years. However, this is not really the case as most businesses benefit from a regular reevaluation of their product/service mix. If new products or services are being contemplated, this section is even more important.

The length and complexity of this section will vary depending on the number and variety of products or services that you plan to market. If you are using the business plan as a means

for attracting additional investment capital, this section should be written with this perspective in mind; i.e., it should be written in simple language that can be easily understood by a layperson that is not necessarily familiar with your firm.

Although a subsequent section of the business plan will deal directly with the competitive environment, it would be appropriate to identify in this section the distinct benefits of individual products or services planned; e.g., their lower cost, unique benefits, and other characteristics which differentiate them from those offered by competitors. This section might also include a discussion of any legal protection for which the firm retains or has applied. For example, if your products/services attach to patents, copyrights, trademarks, etc., they should be so identified. Most agribusiness firms operate in a "commodity" environment, but they often fail to realize that their "private label" products have a value to prospective lenders or investors. If your firm is involved in a highly complex technical process, that process may be described here in summary form, making reference to more technical documents which are otherwise available for review. If the process is judged "proprietary" in nature, you need only refer to the patent or copyright under which that process is protected.

Often overlooked by agribusiness firms are the many government approvals or clearances required in support of that firm's operations. Licenses, inspections, permits, etc., are very important to many agribusiness firms. If, for example, your firm intends to export a large portion of its products, it is important to acknowledge that you have applied for, or received, export authorizations. If your firm's products or services require regulatory approval, e.g., Food and Drug Administration clearance, you need to state here whether you have been granted those approvals.

The Market or Markets Served

Perhaps nothing is more important to the business plan than a comprehensive description of your firm's current market and/or market opportunities. If your product or service is generically new, some reference to the market research effort undertaken would be appropriate. This section should describe those market research results and the means by which your firm intends to capitalize on those findings.

If your product or service represents an improvement on what is currently available, some market description may already be available. Keep in mind, however, that those reading your business plan may not be thoroughly familiar with that market. Attempt to describe the market in quantitative dimensions. Summarize those dimensions, use historical data to describe that market, and include reliable forecasts from industry sources or governmental sources. As important parts to any description of the market, you should include some reference to each of the following factors:

Who are your customers? In this case you might want to acknowledge whether or not your customers are generally described as manufacturers, institutions, governmental agencies, consumers, or other market intermediaries.

What is the market's historical status? Referring to the past five years and using any forecasts generally available, describe the market's rate of growth and future potential.

Where are your present and future markets? At this point attempt to define the dimensions of your market as being regional, national, or international, and provide the market share expected within each geographical dimension.

How will you sell to each market? In this segment you should attempt to outline the vehicles through which you intend to reach those markets described above; i.e., will your product/service be distributed through agents or representatives, through an internal sales force, through external brokers, through direct sale to distributors, or through some multiple-outlet distribution network?

At what *level* does your firm make its marketing decisions? Try to describe the decision-making process relating to marketing; i.e., are such decisions made by senior management, operating personnel, technical staff, sales agents, or other entities within your firm.

How do you sell your products/services? Does your agribusiness firm sell its product or service through a process of competitive bids, via an annual or long-term contract, through unit purchases, or by some other means?

What characteristics are most critical to the successful sale of your firm's products or services? Review the preferences of *your* customers and make a determination as to whether performance, reliability, durability, availability, price, taste, or other factors are most important to their successful sale.

Does the market have distinctive characteristics? In so many cases, the agribusiness industry operates in an environment that is quite different from that found elsewhere in our economy. What are the characteristics *that* best describe your particular market? Are you unique with regard to seasonality, cyclical aspects, perishability, or other factors?

If the demands of this segment extend beyond the skills of internal management, outside specialists may be employed to compose this comprehensive market analysis.

Just remember, management must remain directly involved throughout the process.

Competitive Factors

For those firms with a long loan operating history, a description of their competitors is not that difficult. For an emerging firm, however, competitive factors may be more difficult to describe and/or measure. The business plan should identify competitors and indicate their special strengths, weaknesses, and market share.

If possible, the business plan should also indicate the share of market which your firm has attained, or hopes to attain in the next few years. You may wish to describe from which competitors you expect to draw customers -- and why? At this point *it is important to describe the market niche you expect to fill and attempt to summarize the strategy you intend to employ to gain your share of an existing market.*

The purpose here is not just to identify your competitors. If possible, you should also cite the principal competitive factors operating in the market place; e.g., product performance, reliability, durability, styling, delivery, service, price, or other factors. In the agribusiness industry, markets are often in a constant state of change where the characteristics noted above take on different degrees of importance as time passes. It is important, therefore, to identify trends and indicate how your firm might best react to them. Keep in mind that a prospective lender or investor will want to know your views on how competitors are likely to react to your competitive strategies.

Many business planners elect to focus on existing competition and ignore prospective new competitors as the business plans are developed. This may be a costly oversight, particularly if your firm is operating in a volatile market where new entrants can have a drastic impact.

Try to avoid overstating your competitive position. There is a natural tendency to concentrate on your own marketing strengths, while understating others'. Try to keep your assessment of your own marketing skills within what seems to be realistic. Lenders and investors will not view kindly a competitive analysis that appears speculative or unrealistic.

Marketing Goals/Objectives

Regardless of whether your business is a start-up enterprise or one with a lengthy operating history, *your marketing personnel will need to develop a comprehensive marketing plan to deal with the firm's short- and long-run future.* The marketing goals/objectives segment of the business plan will prove invaluable to those seeking to invest capital in your firm. In seeking financing, you will likely find it helpful to show the lender both your overall business plan, and your detailed marketing plan. As noted earlier, some of your marketing information is confidential so you will need to take precautions to protect that, which should not fall into the hands of your competitors.

Some of the most important features of the marketing plan follow:

Channels of distribution -- Does your agribusiness plan depend on a company sales force, outside brokers, manufacturer's representatives, or some other channel to get your product or service to the desired market? In selecting your preferred marketing channel, how does that channel match up with the peculiar characteristics of the industry, the product, or the service?

Sales compensation plan -- How do you intend to compensate your sales force? Do you typically operate on a base salary, commission, or some combination of both? If bonuses or some other form of sales

incentive are used, explain the logic for this method.

Pricing strategy -- How do you plan to price your product or service? How does this pricing strategy compare with the existing price structure in the market? Will you offer special customer incentives such as warranties and how do you expect your customers to react to your choice of pricing strategy?

Promotional concepts -- Our agribusiness industry is extremely competitive. As a result, few products or services can succeed in such a competitive environment without some form of promotion, advertising, or public relations effort. A prospective lender or investor will be interested in the general plan you plan to follow with regard to generating a product or service awareness among your customers.

Distribution plan -- In some cases, agribusiness firms have been in business so long that they have developed narrow and well-defined markets. Such markets may have served them well in the past and the firm may have grown comfortable with this concept. In other cases, it may be necessary for the firm to re-think their general distribution plan. For example, if a new product is involved, some thought must be given to the timing and manner in which that new product will be introduced to your customers, distributors, etc. This section of your business plan should also outline how you intend to monitor the marketplace on a continuing basis and assess the impact of changing competitive conditions. It should also describe your plan to conduct any necessary product evaluations, pricing comparisons, or market-share analyses.

Manufacturing, Processing, or Operational Characteristics

Efficient manufacturing, processing, packaging, etc., are critical factors in any

firm's operations. This section of your business plan should *summarize the nature, quality and extent of your manufacturing or processing activities*. It should define your firm's special strengths and specific limitations. In particular, note the timing, cost, and importance of any expansion plans. Quantitative information describing manufacturing space, production capacities, projected operational costs, and expected efficiencies over the next one to five years would be most helpful to lenders or investors. If it is your firm's intent to subcontract a portion of the manufacturing or processing process, the plan should address these intentions. How do you select your subcontractors? Are they selected on the basis of proximity, speed of delivery, competitive bids, or other factors?

If there are any materials or procedures which are judged "critical" to your production operations, the plan should discuss alternative sources of supply and other contingency plans.

Management Features

Most agribusiness lenders and/or investors feel strongly that the presence of a first-class management team is the single most important criterion by which to judge a firm. This section of the business plan should keep this in mind as it *addresses the experience and competence of that management team*.

If it is one of the goals of the business plan to expand or improve the management team, describe this in some detail. Outline the current management structure, provide job descriptions for the important positions, and stipulate the minimum qualifications for each position. You might also provide information on the level of compensation for each open position and indicate when and how your firm expects to fill each.

While your internal business plan need not include detailed information on the positions

currently filled, it will interest prospective lenders or investors because they wish to be assured that the management team is well qualified and capable of implementing the overall business plan.

Financial Projections and Related Parameters

In this final section of the business plan, you must put to a numerical test all of the assumptions and quantitative data presented elsewhere in the plan. In other words, *bring together all of the firm's sales, market, and cost projections in a summary financial format that can be easily interpreted.* The financial projections will serve to both guide your management team and to inform prospective investors/lenders. You can include financial statements, budget projections, pro forma operating statements and other detailed information in an appendix or simply indicate that such data are available on request.

Minimally, the financial segment of the business plan should include:

1. The firm's past financial statements for at least three years.
2. Current financial statements.
3. Projected balance sheet information on an accrual basis for the next three to five years.
4. Profit and loss projections and cash flow projections on a monthly or quarterly basis, if possible, for the next two years, and annually for the three subsequent years.

Be sure that your financial segment includes a detailed description of all major assumptions underlying your financial projections and a discussion of the more important or critical ones. At the very least, these should provide a description of your:

1. Accounting principles.
2. Sales and market share assumptions.
3. Assumptions impacting cash flow, such as collection period for accounts

receivable, bad debt allowances, interest expense, facility costs, payroll expense, costs of materials, and federal and/or state taxes.

Your financial projections must be realistic and if they represent a major change of direction from your firm's past experience, these deviations should be justified. Otherwise, your forecasts will generate skepticism within your own management team as well as among prospective lenders or investors.

Finally, make sure that the financial projections have been checked with your firm's own internal financial personnel. Consult these people and seek the advice of independent public accountants if there is some question about the financial data.

CONCLUSIONS

As noted above, the preparation of an agribusiness plan is not something to take lightly. The long-term future of your business may well depend on its ability to attract the interest of lenders and/or investors. Such a comprehensive plan involves both dedication and competency. Management should be deeply involved in every aspect of its preparation. Each segment of the business plan fulfills an important role and cannot be overlooked. If your agribusiness firm has not already prepared such a comprehensive plan, it is very likely that it will have to do so in the near future. I hope this discussion will provide you with some help in determining the contents of such a plan.

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