

# Business Plan Components



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Welcome to our Farm Business Management educational series, and the first video in the Business Planning module or section of that series. What I want to do here is give a brief overview of what bus planning is, and a brief introduction to the various components that make up a comprehensive bus plan.

# Introduction - Business Planning

- The “game plan”
  - The issue is not where profits are now
  - The issue is where profits will be in the future
  - In a competitive industry continuous improvement is necessary
  - Low cost production is imperative for growth and prosperity



“Business Planning” means different things to different people, however, as a general statement the meaning is much broader than just thinking about financial projections (which is a common mis-conception about business planning that I hear a lot. Today, the term really implies deeply thinking about all aspects of your business, what it takes to succeed, and what your business brings to the table that will help it succeed. It’s a very future oriented process because the issue is not so much what it takes to be successful today, if you are currently in business you probably have that figured out. Rather, the issue is what will it take to be successful in the future. We operate in a competitive industry, and so the competition is always getting better and we must stay ahead of the curve. For most of us in Agriculture that mean being a efficient, low cost producer.

## Benefits of Formal Planning (Developing a Written Plan)

- Stimulate thinking about the future
- Provide structure to decision making
- Better understand the business, and the changes it is facing
- Provide benchmarks
- Prioritize and clarify goals
- Test ideas on paper
- Facilitate communication, and coordinate decisions



There are several well documented “benefits” associated with formalizing the business planning thought process, even going to the level of developing a comprehensive written business plan. The various modules and exercises found here in the OSU Farm Business Management Curriculum provide all the necessary pieces to begin formulating a comprehensive business plan. Working through that process will help the business management team to -----

I would argue that the most important, and rewarding aspect of the business planning process is the facilitation of communication and better coordination of decisions. The planning process cannot move forward without input from all stakeholders (who are they?), and as such the process will force more open and honest business communication, and that is a good thing.

## Benefits of Formal Planning (cont).

- Answer questions posed by others (family members, lenders, etc.)
- Document your ability to manage, plan, and communicate in a proactive manner
- Development of a more precise thought process (make better decisions) (the plan is not as important as the planning process)
- Help focus on the business “**Competitive Advantage**”



More tangible benefits include assembling information in one easy to find format so that answers to questions can quickly be found.

A formal business plan is an impressive piece of work, sends a signal of professionalism

Not just doing it for “others”. There is significant benefit in going through the planning process, as that in and of itself will hone decision making skills.

Ultimate goal is to zero in on what it is you do well, and how can you maintain that competitive advantage.

## Possible Components of a Formal Business Plan

- 1. Executive Summary
- 2. Business Description
- 3. Products and Operations Plan
- 4. Sales and Marketing Plan
- 5. Management Org. & Staffing Plan
- 6. Financial Plan
- 7. Other



Here is an example “broad outline” of the things that should be addressed in a comprehensive business plan. There are many sub-components, most of which are covered in some component of this educational series. There are other “outlines” available as well, but this example is broad enough that the specific details that are needed will pretty well fit in one of the broad categories consisting of. ....

Let’s look at these components in just a little more detail, with the caveat that a comprehensive exploration would take much more time that we are devoting in this video, and this whole educational series is really about filling in a lot of these details.

# 1. Executive Summary

- May Be The Most Important Component
- Discuss the “People”
- The Opportunity
- Succinctly describe why the business will succeed
- The Context
- Overview of Risks and Rewards
- Think “Shark Tank” Presentation



This is the concise summary of the whole plan, and since it could be the first (and in some cases the only) component that some audiences will read or process, it is often considered the most important component. However, if you are thinking that you can just put together an executive summary and skip the rest of the planning process you are kidding yourself, because the details must be put together before the summary can be written. Think of it as the “shark tank” presentation of your business. Very quickly explain to the audience why you think this business will survive and thrive in the competitive world we operate in (we all know the failure rate statistics for small businesses).

Who are we, why are we special. What need are we filling. What business environment are we operating in. What is the size and scope of the business, and if we are needing to change what kind of money are we talking about and how will we manage the risk-reward tradeoff.

## 2. Description

- Type of Business, Products, Services
- Business History
- Who Are The Current “Stakeholders”
- What Resources Do We Have To Work With
- Physical Resource Emergency Plan



How did the business get to where it is today. What products or services do we provide, and why. Who is involved.

Provide a detailed discussion of the resources (currently managed, needed for future plans, etc.) Don't just list the assets and their values (that will be done later in the financial section), but rather talk about what makes the resource valuable to the business, how does it fit with what we are doing. What resources do we need to acquire in order to move forward, and why do we think we need them. Need to make a good argument here before spending any money.

Do we have backup plans for key physical resources. What if the primary tractor breaks down??? Cattle feeding, crop planting, etc.

### 3. Production and Operations Plan

- Product, Production Process, and Production Scheduling Plan
  - Commodity vs differentiated
- Production Quality Control Plan
- Environmental Stewardship Plan
- Regulations and Licensing Issues
- Production Risk Management and Emergency Plan



Talk about the products, and the production process. Anything unique? Are we producing a commodity (like wheat or corn or commodity beef cattle) or are we involved in something a little unique that we can charge a higher price for? Do we have the scheduling plan clearly spelled out.

How do we assure quality of the production process (injection sites for cattle, feed additives, controlling weeds so we don't have a foreign matter problem in our wheat, etc.

Nutrient management plans, animal waste control plans, all can be consolidated and discussed here. Are we subject to special licensing (like pesticide applicator licensing, etc.) and how do we plan to maintain currency.

What if things go wrong (from a production standpoint). Drought, disease, etc. can all create production shortfalls. Have we thought about what could cause disruptions and what we would do to address them.



## 4. Sales and Marketing

- Marketing the product or service
- Marketing Risk Management Plan
- Marketing yourself and the business in general
  - Landlords
  - Lenders
  - Employees
  - Community
- Quality Control
- Inventory Management



Nearly everyone you talk to will have a differing perception regarding what a commodity marketing plan involves, and how successful time spent developing specific marketing strategies will be. More thoughts on that are included in both the crops and livestock marketing modules. At a very least, in the sales and marketing component of the business plan there should be a discussion of individual marketing philosophy and what tools may be used to manage market risk. Of course for non commodities, the concept of a product marketing plan takes on an entirely different meaning, trying to develop a pricing strategy, promotion strategy, etc.

The important point I want to make here is that for most agricultural businesses, marketing the business itself is crucial. Being seen as the “tenant of choice”, the “borrower of choice” the “employer of choice” or just being perceived in the community as a “good community citizen” can be critical to the success of an ag business. These are components of the marketing plan that are most difficult, but perhaps the most critical.

Marketing also pertains to product quality control. We talked earlier about production process quality. Related, there may be some things that can be done on the marketing side to make sure that market premiums are being obtained, or at least discounts avoided.

Are there storage or inventory management issues that could be spelled out in the business plan such as an evaluation of a proposed on farm grain storage facility?

## 5. Mgmt. Organization and Staffing Plan

- Legal Structure
- Organizational Structure
- Human Resource Inventory and Staffing Assessment
- Human Resource Risk Management and Emergency Plan



The Management, organization, and staffing component of the business plan consists of many components. There are three distinct, yet related types of “structure” that need to be addressed in the overall business plan. One of those, “financial structure” will be addressed in detail in various modules, and warrants a section of it’s own in the business plan. Second, Legal structure (entity choice) is an important consideration for business operation and management. Choices range from Sole proprietorships and General partnerships, to various types of Limited Partnerships, to Corporate type structure and LLC’s. Each have advantages and disadvantages relative to important criteria such as access to capital, liability protection, management flexibility and control, facilitation of business continuity over time, taxation, and legal filing requirements. Business stakeholders need to carefully consider what is most important to them, and find the appropriate mix of legal structures to address those issues. Finally, the term Organizational structure refers to how decisions are made within the organization, and how lines of authority and responsibility are established. The business plan should clearly outline an organizational chart that establishes lines of authority and responsibility, but more importantly provides a framework for how that organizational structure might change over time as the business evolves. Is one person in charge of everything and that’s the way it will always be, or is decision making delegated among various stakeholders? Also included in this section of the business plan is a detailed inventory of the current people involved in the business, what their skills and strengths are and how much time they can commit to the business and for how long. Along with this is an assessment of how human resource gaps need to be filled, now and in the

future. Finally, a plan for dealing with human resource emergencies should be clearly spelled out. (what happens if someone is unable, or unwilling to do their job)

## Three Important “Structures”

- Organizational/Management Structure
- Legal Form
- Financial Structure



Again, an important point is that there are three distinct, but yet connected “structure” that need to be considered. Organizational structure, “who’s in charge”, Legal structure, “what rules to we operate under”, and Financial structure, “where do we get the money from”.

## 6. Financial

- **Current Financial Assessment**
  - Balance Sheet, Income Statements, Cash Flow Statements, Statement of Owners Equity
- **Financial Evaluation of Alternatives**
  - Enterprise Budgets, Cash Flow Budgets, Pro-Forma Projections
- **Capital Investment Analysis**
- **Monitoring Mechanisms (MIS)**
- **Capacity and Willingness to Assume Risk**
- **Dealing with Stress**



That leads us to the “financial” component of the overall business plan if following this particular outline. Many of these topics have specific modules dedicated to them, but here is an overview.

First, one cannot make a plan for moving forward (financially), without first knowing where they are currently at. A current financial assessment involves a balance sheet (summary of the value of everything owned and owed at a point in time), and income statement (a summary of revenue and expenses over a period to time to determine profitability), a cash flow statement (a summary of cash inflows and cash outflows to monitor ability to keep bills paid), and perhaps a statement of change in owners equity to monitor the ownership of the business.

Next would be a comprehensive financial evaluation of the plan for the business in the future (over the next year, or several year). This will involve tools such as enterprise budgets, cash flow budgets, and perhaps projections regarding how the plan will potentially impact whole farm financial statements in the future.

If large purchases are a part of the plan moving forward, the financial wisdom of those purchases or alternatives needs to be evaluated using tools such as capital investment analysis.

The financial section of the business plan should include a discussion regarding how financial position and progress will be measured and monitored. What type of management information system is or will be put in place, and what tools will be utilized to evaluate the business. Also, stakeholders need to assess both their capacity

and their willingness to take on risk. Multi-stakeholder operations may need to reach consensus among individuals on this issue. Finally, periods of financial stress are a reality (many are going through that right now in Oklahoma Agriculture), and every business needs to think about how they will deal with such issues.

## Financial Structure

- The legal structure may dictate the financing options available
  - Venture capitalists, general public, etc. may feel more comfortable with a corporate *legal* structure
  - Long term investors like to see an *organizational* structure that facilitates growth



Financial Structure, how much debt vs equity financing, and where does the debt and equity come from.

One thing to keep in mind as indicated earlier when the interactions or “interconnections” between the various types of structures was first mentioned, is the fact that your choice of “structure” in one category may impact your choices in another category. For example, if your business chooses to stay with a traditional sole proprietorship or general partnership as a “legal” structure, that may limit your ability to bring in funding from some potential sources. On the other hand, it may open up doors for other sources.

How you choose to “fund” your business will depend upon several criteria. How much control do you want to maintain over your business? Do you need cash returns now, vs investments that may generate long-term returns in the form of capital gains but may generate low levels of cash returns? What are the “terms” available for acquiring capital (repayment period, interest rates, etc.)? Are there liquidity or repayment capacity issues that need to be considered? Finally, how will choices regarding the funding of the business impact various dimensions of risk exposure. What are the chances that a bad year could seriously impact the business, or even the families financial future? All of these “structure Interactions” should be clearly thought out in the business planning process.



## 7. Other

- Actions To Be Taken
- How Will We Monitor Performance
- Business Transition Plan
  - Transition to new size
  - Transition to new enterprise mix
  - Transition to new production methods
  - Transition to next generation
  - Etc.
- Emergency (likelihood and impacts)
- Supporting Documentation



Finally, it is important to summarize some specific “action” steps in the business plan. What will we do as a result of going through this exercise. How will we know if we are succeeding? Are we faced with some big changes in the foreseeable future, and do we need to focus some attention on those specific changes in the planning process. Often it is a change on the horizon that stimulates farm families to begin thinking about a business plan in the first place.

Have we thought about how we will handle disruptive events. What “bad” things could happen, how likely are those things to happen, what impact would it have on the business, and what can I do to reduce those negative impacts? Several specific components of the overall business plan involve thinking about “emergencies”. It is important to try to identify the most critical scenarios and think about what can be done to either reduce the probability that that scenario will happen, or reduce the negative impact on the business if it does happen.

Finally, a business plan is a good place to assemble other important business papers like lease agreements, farm resumes, or any other documents that are important to the business.

## Summary (Key Points From This Section)

- Agriculture is a competitive industry
  - Must be a low cost producer
  - Or, must maintain a niche
- Formal business planning is all about “competitive advantage”
- Business planning is a never ending management task



There are a lot more details about business planning than can be adequately covered in this short module, but keep the big picture in mind. Ag is a competitive industry, as are many others, which means it is a challenge to stay ahead of the competition. That’s not necessarily a bad thing, but it does mean that you have to be on your toes all the time to either be a low per unit cost producer, or you have figure out a way to sell a specialty or niche product at a higher price. Business planning is all about helping you figure out how to do that. What is it that I have that sets me apart or will allow me to succeed. Business planning is a mindset, not a one time event. It is a though process of constantly striving to improve, by always thinking about this important business management concepts.

That’s it for this video,

The second video in this module will address some specifics regarding thinking about long-term direction, and associated short-term steps to help