Department of Agriculture
and the Nova Scotia Farm Loan Board

Preparing an
Agri-Business Plan

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Agri-Business Plan

Planning for Profit

The Business Overview

Introduction

Why do you need a business plan?

A business plan allows you to create a business operation on paper and manipulate and evaluate scenarios without the risk of investing a lot of time and money. Dry run planning reduces the possibility of the venture failing, by identifying your proposals, strengths and weaknesses, and developing a plan of action to cope with them.

Financial institutions, business partners, and investors will all require that you have a proper business plan to prove your ideas are viable and that you have adequate knowledge of your chosen area of business.

Whether you are starting a new business, buying an existing one, or expanding your present operation, a business plan will help you prepare for the unexpected and help set the goals for your future business success. There is no replacement for a well thought out business plan. Be realistic in your projections, honest in your evaluations, and thorough in your research.

Why do you want to operate an agri-business?

An overwhelming fondness for plants, animals and nature is not a sufficient reason to want to own and operate an agri-business.

In business, your primary goal is to make your company a profit so it will be able to survive and prosper.

Getting started in an agri-business will require the following:

- ➔ General knowledge of the agriculture industry.
- ➔ Recognition of your business opportunity or advantage.
- ➔ A market for your product and a thorough understanding of that market.
- ➔ Technical knowledge of crop production practices and/or livestock production.
- ➔ Financial resources to develop your operation.
- ➔ The necessary business management skills.

Where do I get the information to prepare my business plan?

To prepare a plan, you need to research your proposed business. The following sources of information will be helpful in developing your plan:

- ➔ Interviews With Other Producers
- ➔ Extension Specialists
- ➔ Personal Work Experience
- ➔ Industry Consultants
- ➔ Library Research
- ➔ Trade Suppliers
- ➔ Trade Magazines and Journals
- ➔ Demographic Studies
- ➔ Industry Associations
- ➔ Newspaper Articles, etc.

Remember a plan is just a plan and must be continually adjusted to the changing conditions of your business. If something is not working, adapt it until it works.

Business Advisors (Informal Board of Directors):

These are people with specific areas of expertise useful to your business. All business managers can take advantage of the resources and expertise other specialists have to offer. The cost of this expert advice is moderate when compared to the cost to your business of making uninformed decisions. It has been well proven that a business will grow much faster with the help of an experienced group of advisors. *Search out all the expertise you require!*

Industry Overview

The foundation of your business plan is your research or ground work. Every idea or concept should be challenged to determine whether or not it has a reasonable chance of success.

An assessment of pertinent issues for the industry will enable you to develop a more credible plan.

Consider these questions as you challenge your idea:

1. (a) Are there global or international issues that will affect my business?

   (b) Are there national or interprovincial issues that should be focused on?

2. Are there regulations or restrictions that can positively or negatively impact on my project?

3. Identify major trends affecting the industry.

Try to determine strengths, weaknesses, opportunities, and threats in the industry that will impact on your agri-business.

What is a Business Plan?

A business plan is an effective management tool that outlines how you intend to run your business. As a management tool, a business plan will help you determine the goals you need to achieve in order to operate your business successfully. Normally, a business plan is made up of the following sections:

- ✓ Business / Industry Overview
- ✓ Production Plan
- ✓ Market Plan
- ✓ Financial Plan
- ✓ Human Resources Plan

Each individual plan (section) contributes to the resulting overall business plan giving you a document to access the progress of your business.

Business Overview

Title Page
The title page immediately and clearly identifies the subject matter of the document for the reader. If the plan is being presented to a banker, accountant or other advisor, it will be less likely to be lost in the shuffle. The title page should specify the farm name, address, phone number, subject (Business Plan) and the date completed.

Table of Contents
The table of contents helps readers go directly to the information they wish to examine. It can be very frustrating to flip through large quantities of information which has no particular order. The table of contents helps provide structure and order to the business plan and helps to make sure that the plan is thorough.

Mission Statement ~ The Business Vision ~

"Mission involves a statement about the type of customer the organization wishes to serve, the specific needs of customers and the means or technology by which it will serve these needs."

Berkowitz, Kerlin, Rudelius and Crane, 1991

Goals then take the broad statement of mission and translate it into specific and measurable objectives (goals).

Business History
The business history quickly outlines the origins and development of the business. It helps identify where you are in the long term development of your business.

Business Profile and Summary
The business profile and summary is a condensed version of the business plan. It provides the reader with a quick overview of the highlights of the business plan making the business plan easier to read and follow. The next section covers the Business Profile and Summary in greater detail.

Business Organization
Who are the **investors** in your business plan? How is **management** divided among participants in the business? How are **profits** divided?

There are several possible forms of business organization or ownership. The most common in Nova Scotia are the proprietorship, partnership, limited company and co-operative. The major features of each are as follows:

Proprietorship

- a business operated and controlled by a single individual
- income of the business is treated as personal income for tax purposes
- legal or other liabilities arising from the operation of the business are the direct responsibility of the individual
- least expensive form of organization.

Partnership

- formed when two or more individuals carry on business together and agree to share profits and losses of the business jointly
- income for tax purposes is allocated to the individuals on the basis of their agreement
- partners are jointly responsible for debts and other liabilities
- highly advisable to have a written partnership agreement which establishes the details of the relationship, especially responsibilities, control, division of income (or losses), and procedures for amending or terminating the agreement.

Limited Company

- separate legal entity responsible for its own debts, assets, and obligations
- a legal procedure which requires filing a constitutional document The Articles of Incorporation, the selection of a board of directors and often the drafting of a Shareholders Agreement
- can be set up under either federal or provincial law with a typical cost in the range of $800 to $2,000
- an incorporated company can provide some financial advantages through share ownership and special rules for taxation which apply to corporations and small businesses
- may be a requirement for accessing certain federal government assistance programs.

Co-operative

- an organization incorporated provincially under the Co-operatives Act
- can involve any type of business
- financed by the purchase of shares by members who receive a vote on the operation of the co-operative and a limited return on their shares
- profits are returned to members in proportion to the use the member makes of the co-operative (products or services sold or purchased).

There are also other forms of organization including limited partnerships, associations or societies. The suitability of each depends on your situation. Discuss your own particular needs with your professional advisors before making a decision.

Business Profile and Summary

The business profile and summary gives the reader an abstract view of the business plan and determines whether the document is worth further consideration. It is usually the first section read and the last prepared. It should be concise and to the point.

Purpose:	Describe what business you are in, why you are in it, what size it will be, and how you will sell your product.

Example:	This plan will outline our proposal to operate a 5,000 sq./ft. greenhouse operation and make a profit producing and selling bedding plants retail to the general public in Planttown, Nova Scotia.

Please Note:
The examples throughout the agri-business planning guide follow this greenhouse operation. The plan can be modified for every agricultural commodity.

Financing Requirements

Example: To establish and operate the proposed greenhouse operation, the following financing will be required. (Please note that the numbers used are for example purposes only and may not reflect true market values).

- ✓ $100,000.00 in total to establish and operate the business.
- ✓ $20,000.00 for land.
- ✓ $50,000.00 for buildings and improvements.
- ✓ $30,000.00 for operating capital.
- ✓ $50,000.00 will be equity capital by owners.
- ✓ $50,000.00 will be required as borrowed capital.

What investment is required to start this business operation?

Financial Guidelines: Debt repayment will be structured to minimize cash flow strain in the early years. A target of 60% equity is to be achieved within 4 years and maintained at 50% or greater throughout all future expansions. Finally, a target of zero operating credit requirements is set for the 5th year of operation with all short term credit requirements being supplied from the business operations.

Marketing

Who are your target customers and what is your potential market?

Example:	To develop a reputation as a supplier of quality hanging baskets and bedding plants and to effectively penetrate the market in the 1st year of operation by offering products not supplied by other growers in the area. The goal is to expand the marketplace by expanding the variety of products available to the gardening public. Sales of bedding plants will extend within a market radius of 20 kilometers and populations of 20,000 with a total of 25,000 sq. ft. of greenhouse space supplying this market. A target of 20% of the business is expected to be sales to landscaping firms with the 80% balance as retail sales to private residents and local business.

Production

What are production targets and how will those targets be achieved?

Example:	We will maintain maximum production and optimal yields of crop production through close monitoring of the greenhouse crops. Production schedules will be followed closely constantly striving for improvements in our production practices. Using the past 1 year experience in a well recognized greenhouse operation, continuing education courses in bedding plant production, as well as the specialized study of hanging baskets and bedding plants will allow us to produce the maximum output for the greenhouse space we have available. Double cropping where possible. Targeting 1,000 hanging baskets and 2,000 flats of bedding plants.

Labour

What labour requirements will your business have and how will you satisfy those needs?

Example:	In the beginning, all labour will be supplied by the owner operator and family members. It is expected that by the 2nd year some staff will have to be hired. In anticipation of this, we have developed a company employment policy booklet as well as job descriptions for the various positions. We intend to maintain a safe working environment for our staff and to follow the Department of Labour guidelines. We will use flex time and innovative labour management ideas to best motivate our employees.

Conclusion

A business plan is the written guide to your business's success. You can have others prepare your business plan, but you really should be the one developing the plan using others only for assistance. The plan reflects your image and views of your business. The process of developing the plan may be much more valuable as a learning experience than the plan itself. When completed, you should have your plan reviewed by someone objective but knowledgeable in your business operations.

Business Overview is the first in a series of five sections that will help you prepare a business plan for your proposed agri-business operation.

√	**1.**	**Business Overview**
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Marketing Plan

Introduction

A major aspect of any business plan is the section dealing with marketing. Marketing is the process of understanding the customer's needs, producing a product to meet those particular needs, and making a profit for the business. If you are planning to start a new business or expand an existing one, it is essential to prepare a *"marketing strategy"*. Your target market must be well defined before any action is taken on production. There is little sense in going through the steps of producing a product only to find out after the fact that there is a limited or no market for that product or service.

Know Your Customer! **Know Your Market!**

Since it is very difficult to be everything to everyone, individual businesses should focus on a specific segment or niche of the intended market. Quality, service, and price are the factors underlying customer satisfaction. It is not a choice of the best two out of three, you *must* excel in all three areas. Focusing on your particular customer's wants and then delivering the goods will be the key to the successful marketing of your products and your subsequent business profitability.

No Customers! = No Business!

Marketing goes well beyond selling and is often described in terms of the 4 P's. The 4 P's affect every decision made within a business from production to the final product delivery.

Product ⇨ What you make!

Pricing ⇨ What you charge for it!

Promotion ⇨ How you let people know about it!

Place ⇨ Where and how you distribute it!

Answering the following questions will be helpful in developing a marketing strategy for your business:

Who
What
Where
When
How…

1. What are the capabilities of my business?
2. What products do I produce?
3. Who are my customers and what do they want?
4. Why would customers buy my products?
5. What market advantages do I have?
6. How can I profitably afford to produce for this market?
7. How will I distribute my products to the customer?
8. How long do I have a market advantage?
9. Who is my competition and what are they up to?
10. What price can I charge for my product and for how long?
11. What are my long term business and marketing goals?

In an agri-business you are either selling a product or a service (convenience, knowledge, installation) to your customers. A detailed marketing plan outlines the path of your products and services to market. The plan is a continuous loop where ideas are implemented, evaluated and adapted and then retried and re-evaluated over and over. The process never stops!

Preparing a Marketing Plan

Where are we now? Where do we want to go? How do we get there?

As mentioned earlier, every business big or small should have a marketing plan. A plan reminds you and informs your staff of your business vision and the goals to be achieved. Everyone knows where the business is headed. A marketing strategy will help you be competitive with other producers that have their own individual marketing strategies. The following examples will give you an idea of the kind of information you need to gather and put down on paper to develop your own path to marketing success.

What Products or Services do you Intend to Sell?

You must be very clear on exactly what you are producing and the advantages and disadvantages of each product. Describe the benefits of your products and why someone should buy them.

Who are Your Existing and Potential Customers and What are Their Profiles?

Customers are the reason you are in business. They buy your products! (To fully understand your customers you need to survey them and study the demographics of their particular population base. Demographic information is available from Statistics Canada as well as other sources). You will need to profile your existing customers (if you have them) as well as your potential customers. What is the total existing and potential market available to your business for the products you are selling? You must look at tailoring your product mix to the customer base you have chosen to target. Otherwise, you risk producing a product no one wants to buy.

Who is Your Competition and What are They up to?

Why should customers buy from you when the market is already being serviced by other producers? How will you obtain market share? What advantages do they have? Can you determine any weaknesses they may have? Assess the competition.

How will new Technology Affect Your Future Business Operations?

Technology	Result
Transplanting Machines	May force me to make a large capital investment to keep up with my competitors
Improvements in Bench Construction	More plants can be grown per sq. ft. of greenhouse

How will Changes in Legislation and Other Circumstances Beyond Your Control Affect Your Future Business Operations?

Legislation	**Result**
Changes in tax structure on plants	Increases the cost to the consumer. More work for the producer with no added benefit

Beyond Your Control	**Result**
Price of heating oil goes up!	Raises the cost of production resulting in higher selling prices
Poor weather!	Delays the season and customers lose interest resulting in poor sales

How will you Advertise Your Products and get the Message to Your Customers?

People do not shop at businesses or buy products they do not know about. How will you tell your customers about your products? What are your advertising and promotional plans?

Yearly Advertising Budget 1 - 2% of Projected Sales		
Media	**Budget per Year**	**Time Frame**
Radio	$xx.xx	May - June
Flyers	$xx.xx	June
Newspapers	$xx.xx	May - June
Yellow Pages	$xx.xx	Year Round
Contingency	$xx.xx	

How will you Monitor the Results of Your Marketing Plan?

(Example)	Year 1	Year 2	Year 3
Sales Projections:	$40,000.00	$60,000.00	$80,000.00

Set Your Marketing and Business Goals. Be Specific as to Achievable Time Frames.

Time Frame	Goals	Objectives
April 1 - June 15	Sell 2,000 hanging baskets by June 15th	Obtain a market share

Define the Problems and Opportunities Facing Your Business.

Opportunities	Problems
A garden centre wants us to grow on contract 1,000 hanging baskets per year	We require more greenhouse space to produce this crop
Wholesale market opportunities	May mean carrying accounts receivable
No one else is producing spikes for this market	Take a long growing period and production might have to be started earlier than planned
No selection is available to customers in the existing market place	Increased selection requires larger inventory of product

List the Actions you will Take to Achieve Your Goals and the Expected results?

Action Steps	Results
Make the greenhouses 25% bigger than planned to facilitate the production of extra hanging baskets	Can meet the market need with limited increase in overhead
Introduce a strict accounts receivable recovery program for customers	Feel more comfortable carrying accounts

Conclusion

A marketing plan outlines what you will produce, who you will produce for, how you will get customers to buy your product, and how you will get the product to them when they want it. Marketing lays the foundation for all other business planning.

Marketing Plan is the second in a series of five sections that will help you prepare a business plan for your proposed agri-business operation:

√	**1.**	**Business Overview**
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Human Resources Plan

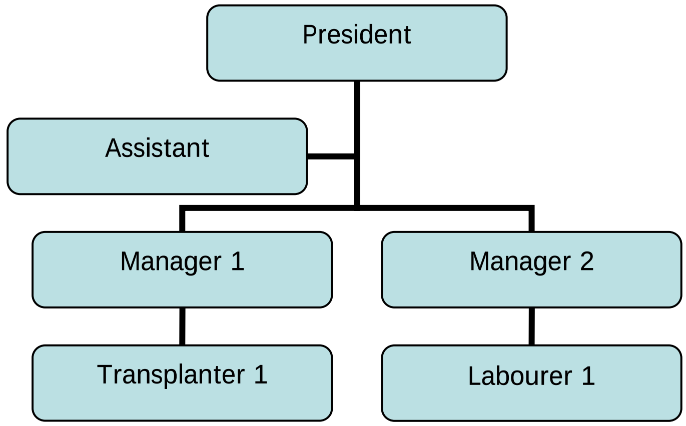
Introduction

Depending on your area of production, labour expense may be among the highest costs your business will incur in any given year. Labour is usually the most difficult cost item to manage. At the same time, a good job of managing your labour force can reward you with improved productivity, higher profits, and more job satisfaction than is possible from any other cost item. Therefore, some time spent preparing a plan outlining your labour requirements, wage scales, and incentive and discipline policies will help relieve some of the inherent stress. It will provide a clear understanding of everyone's position, responsibilities, and contributions to the benefit of your business and all concerned.

> ***Please Note:***
> If you do not hire labour, but have all your labour needs supplied from within your own family, you may feel this is an unnecessary step. However, it may actually be even more important. If you and a hired labourer do not work together well, it is relatively easy to deal with. Family labour difficulties can have much more damaging effects.
>
> The labour plan should outline the organizational structure of your business (the line of command) the skills required, the skills available, training needs, individual employee responsibilities, employee development, compensation and benefits, and control and motivation.

1. Organizational Chart

Develop an organizational chart to illustrate how your employees are organized and to whom they are responsible. (The chain of command.)



2. Labour Requirements
Staff need to be matched to or trained for certain skills. Labour may consist of your own personal labour, family labour, or you may end up hiring others to work for you.

i. What functions must be performed in my operation?

ii. What skills are required for each job?

iii. Which skills are available, which skills must be hired, and which skills must be trained or developed?

iv. How many labour hours will be required to run my business per year and when are they needed?

3. Job Descriptions
Once you have determined the various job functions which must be carried out for your business, you will know when you will have to hire and how many people will be required. Job descriptions of each particular position are very useful. The employee will know clearly what you expect and you will know what they should be doing. Much of the difficulty in the labour-management relationship comes from poor communication both on the part of the employer and employee. Establishing the organizational structure and communicating it to your employees goes a long way to opening communication links.

> **_Please Note:_**
> You should make sure that you are very clear about your function within the business and that the function you fill is of the highest value you can provide. Make sure that you do not spend too much of your time on the $5.00/hr. non-skill jobs that someone else can do. In the rush of the season, we sometimes forget where our time is best spent. If the $15.00/hr. job is not getting done while you are doing the $7.00/hr. job, then hire the help you need. Your business earns $8.00/hr. for every hour that person works.

Creating a table which identifies each position within your operation and the responsibilities of each position will help you organize yourself. Keep the definition of the position clear and concise.

Job Title	Function
Manager	Coordinates and is responsible for the daily activities of the business operation including labour, production accounting, and cost of production, etc.
Transplanter	Transplant bedding plants as instructed by manager; fill flats as required

4. Training

Managers and workers can always improve their job performance with training. At the same time, training can improve job satisfaction of employees by showing support for their personal growth within the business. Training does not just mean "sending an individual away to a short course". You will very likely have to do much of the training yourself. How will you approach the training of the individuals hired for your operation? Make a list of the skills required, who will require those skills, and how you will insure the necessary skills are developed.

5. Compensation and Benefits

Some thought should be given to the method of payment. How will it be managed? How is worker performance likely to be impacted by the method of payment? Will you be implementing some sort of incentive program? All of these concerns will have an impact upon costs and productivity.

The following table provides a format designed to help clearly identify your labour needs and costs.

Job Function	**No.**		**Hrs./Yr. @**		**Total Hrs.**		**Pay Rate**	**Total Wages**
Labourer	2	x	100	=	200	x	6.5/hr.	$1,300
Total:								

6. Labour Management and Control

> *"You can only get so much more productivity out of organization and automation. Where you get real productivity leaps is in the hearts and minds of people."*
>
> James Baughman, Head of General Electric
> *Management Development Institute*

Your employees' goals and your goals are very likely not the same. Working together to help each other satisfy your respective goals will build strong communication and mutual support. The people you hire can either make you money or lose you money. Every person will perform their job to their individual ability and there may be considerable variation. How long it should take someone to do the job and how long it takes may be very different.

Every business needs to implement a method of monitoring labour hours worked, both paid and unpaid. Unpaid labour must be accounted for since you would have to hire someone else if you did not do the work. This control is usually most effective when tied to time cards filled out by all employees. If your business has the same staff working in multiple enterprises, it is important to know as accurately as feasible how long who took to do what. This is the only accurate way to determine your cost of production.

7. Employer Responsibility

As an employer, you are responsible for offering your employees the following:

1. A safe work environment and proper training for employee job functions.
2. Your need to be registered with the Workers Compensation Board.
3. Deduct and submit from employee’s wages, UIC, CPP and Income Tax along with the employer contributions as applicable.

Conclusion

Labour is usually one of the largest expenses a company will have and also the hardest to control. Human resource planning allows you to manage this variable resource.

Human Resources Plan is the third in a series of five sections that will help you to prepare a business plan for your proposed agri-business operation:

√	**1.**	**Business Overview**
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Production Plan

Introduction

The Marketing Plan tells you what you are going to produce and how you will get it to market. The Human Resources Plan indicates the labour supply available to your business. The Financial Plan indicates how you will finance the venture. The Production Plan indicates the process and resources required to produce your products and deliver your services.

What resources do you need to produce your products?

Land ‣ Buildings ‣ Equipment

In every case, you will require some mix of facilities such as land, buildings, and equipment for agricultural production. It is important to put together permanent inventory lists of all resources of your business. Include in the list of buildings dimensions, age, and condition. The outline of land should describe the cultivated acreage, woodland, and other significant features such as land type and whether or not it is tile drained.

Materials ‣ Supplies

The production of any product requires the input of materials or supplies to produce that particular product. These supplies are called variable because the quantity of products required varies with the production volumes chosen. If you do not produce a product, you do not require the input supplies. Outline the supplies and services required to produce your products, when will you need the materials, when will they be available, and what quantity will be required. Indicate suppliers and their terms of doing business with them (i.e., early discounts, service charges, etc.)

Site Layout ‣ Construction Plans ‣ Timetables

If you are planning an expansion or building a brand new business, it is important to know the construction period as well as the layout design of the facility. The operation of a poorly laid out facility is inefficient and costly to your business.

Sketch out the proposed layout of your facility. Draw a scaled plan of your site. Show where future expansion would occur. Always consult industry specialists regarding plans and related costs, i.e., engineers, architects, surveyors, etc.

Production Process

- ➔ What method will you use to produce your products?
- ➔ Will you follow schedules and what are they?
- ➔ What are the time frames you require to produce your products?
- ➔ Using a graph, schedule the production of your crops.

Construction Schedules

It is important to maintain construction and production schedules. They reference the time frame required to get your facilities in operation and then the time frame required to produce your crops.

Environmental Assessment

The emphasis on the environment and its protection make it necessary that you analyze the impact your business will have on the environment. Financial institutions consider potential environmental impact an essential part of your business proposal. Consider soil conservation, pollution, leachate and run offs as well as safety controls and contingencies you have put in place to deal with potential problems. Find out if you require any environmental assessments and approvals or if any special construction features are required and their costs.

Zoning ‣ Political Influences ‣ Regulations

Permits are required in most areas before construction takes place. Consider the laws and regulations that could affect your products. Will you have to meet certain standards to be able to sell your products?

Transportation

Detail how your product will get to market and at what cost to your business. Do you have suitable vehicles to deliver your product? Do the customers come to you? Delivery of products can be labour intensive and extensive if not well planned in direct proportion to the distance away from your business.

Conclusion

The production plan provides the details of how production will take place. It will specify the capital resources required for production and all of the implications related to acquiring the resources including costs, regulations, construction schedules and environmental consequences. This is followed by details of how these resources will be used in the production process along with the production schedules.

Production Plan is the fourth in a series of five sections that will help you prepare an agri-business plan.

√	**1.**	**Business Overview**
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Financial Plan

Introduction

In most cases, a new business or major changes to an existing business will require financing. Lenders are essentially making an investment in your business with the expectation of a return on their investment, i.e., the interest paid. It should be recognized that these lenders are not only investing in your business, but also that they are investing in your ability to carry out your business plan. It is well worth viewing your business plan as if you were the creditor. Your creditor does not know you nearly as well as you know yourself. He or she will require good quality information in order to make a sound decision regarding the credit worthiness of your business proposal. If you are not clear in presenting your plans and expectations, then the creditor will look upon your proposal with apprehension.

You are investing a great deal of time, effort, and money in a business venture which always has its inherent risks. If you consider that over one-third of all new businesses fail within the first three years of operation, then you will also recognize that a thorough business plan is a must. If you are not thorough in your planning and preparation, then you will very likely become part of that statistic.

"Over one-third of all new businesses fail within the first 3 years of operation"

"Be thorough in your planning effort!!!"

The financial plan will help you plan the financial needs of your business, the capital required to start the business, as well as the cash flow needs and operating credit required for daily business activities. It should define the current financial position of your business along with proposed changes, established targets, and a means of measuring success so that the business plan can be evaluated and re-assessed.

The process for developing a thorough financial plan is outlined below. Each step contributes to the development of the heart of the business proposal, the income projections. To assist in preparing the necessary information for the financial plan, a series of forms are included with this package. These are the *Actual Cashflow* form and the *Projected Cashflow* form.

1) Overhead and Cropping Budget

In order to prepare reasonable financial projections, you must prepare fairly detailed budgets for the individual crops to be grown and products to be marketed.

The first step is to prepare individual budgets for each crop to be grown. This provides a format for estimating the direct costs required for each crop from which totals can be obtained for the Projected Income Statement.

Crop Name	Labour	Seed Stock	Media			# of Units Started	Direct Cost per Unit
1. Petunia	$340	$290	$275			500	$2.27
2							
3							

Secondly, the overhead costs must be estimated. This lists the overhead cost items which, when added to the direct cost components of these cost categories, arrives at the total projected cost.

Preparing the budgets in this manner also provides the opportunity to examine the profitability of each crop more closely. You should identify the total greenhouse time-space requirements, given your production plans. The overhead cost can then be allocated to each unit of production space-time used up during the production period then you separate the overhead cost from the direct costs. The total of the overhead costs is then divided by the total square foot weeks of greenhouse space-time. Comparing this to the expected sales of individual crops provides a measure of the profitability of the individual crops. By examining each crop closely, you are in a better position to decide which crops should be dropped, which should be expanded, or which specific costs should be re-examined.

2) Income Statement

Prepare projected income statements for the next three to five years. The most important question here is, "what will the income be in the year when you have reached stable, full production"? The income statement sets out your expectations for revenues and expenses in each year. Your projections should be well supported. This, of course, is much easier for a business which is already in operation since there is some history upon which your projections can be based. However, if you are developing a plan for a new business, a great deal can still be done to support your projections. The greater the support you have for your financial projections the less likely are the chances of overlooking serious problems. Specify the quantities and individual costs of all inputs and outputs and provide explanatory notes for each line of your financial statements. If your business involves more than one distinct enterprise, then you should prepare enterprise budgets for each.

Estimates of fixed costs (i.e. property taxes, insurance, depreciation, long term interest and repairs and maintenance for buildings and equipment) are relatively easy to establish since they do not depend upon the level of production but rather relate to the level of investment in facilities. As long as you can obtain an accurate measure of the capital costs, and the level of credit required, these expense items can be determined fairly accurately. Direct expenses are much more difficult to determine. These are much more dependent upon the operation of the business, the selection of inputs, and marketing decisions.

Example: Projected Income and Expenses

	20xx	20xx	20xx
SALES	$40,000	$60,000	$70,000
COST OF GOODS			
Seed	$2,200	$600	$600
Fertilizer	420	600	600
Supplies	5,500	9,000	9,000
Wages & Benefits	6,000	6,000	6,000
	$14,120	$16,200	$16,200
GROSS MARGIN	$25,880	$43,800	$53,800
OVERHEAD			
Advertising	300	300	300
Dues & Fees	150	150	150
Interest & Bank Charges	50	50	50
Lights & Power	4,700	4,700	4,700
Miscellaneous	200	200	200
Office	150	150	150
Professional Fees	400	400	400
Telephone	600	600	600
R/M Bldgs.	1,200	1,200	1,200
R/M Equipment	1,000	1,000	1,000
Depreciation	2,500	2,500	2,500
Insurance	800	800	800
Long Term Interest	4,000	4,000	4,000
Property Taxes	800	800	800
TOTAL OVERHEAD	$16,850	$16,850	$16,850
NET INCOME	$9,030	$26,950	$36,950

Notes

1. Sales: Bedding plants - 2,600 flats in Year 1; 4000 flats in Year 2; and 4600 flats in Year 3 - at $15 per flat.

2. Seed: ....

etc., etc., etc.

3) Projected Balance Sheet and Net Worth Statement

It should be noted that the Balance Sheet and Net Worth Statements are not the same. Each present a summarization of the assets and liabilities of the business but differ in the way assets are valued. The balance sheet presents assets at original cost less depreciation while the net worth statement provides a list of assets at current fair market values. Each statement has an important and different function in appraising the operation.

Equity growth on the Balance Sheet reflects growth earned through operations whereas the Net Worth Statement includes equity growth resulting from appreciation in the value of assets. These changes in asset values may reflect inflation and/or changes in market demand. Depending upon the age of the business, the differences between the market value, and the original cost value may differ very substantially. Since Net Worth is based upon market value, it provides the most accurate measure of security against any debts. The Balance Sheet along with the Income Statement is used to appraise earned income relative to investment.

Example: Projected Balance Sheet

	Start-up	**20xx**	**20xx**	**20xx**
ASSETS				
Current	$30,000	$30,000	$30,000	$30,000
Land	20,000	20,000	20,000	20,000
Bldgs. & Equipment	50,000	47,500	45,000	45,000
TOTAL ASSETS	$100,000	$97,500	$95,000	$95,000
LIABILITIES				
Current Liabilities	$5,000	$4,000	$3,500	$3,500
Long term	45,000	40,000	35,000	35,000

TOTAL LIABILITIES	$50,000	$44,000	$38,500	$38,500
OWNERS' EQUITY	$50,000	$53,500	$56,500	$56,500
TOTAL LIABILITIES & EQUITY	$100,000	$97,500	$95,000	$95,000

Notes

1. Current Assets - Bank Deposits and supplies at December 31.
2. Land - 5 acre lot upon which the greenhouses sit.
3. Bldg's & Equipment - See asset list.

etc., etc., etc...

4) Capital Purchases

What are your capital purchase plans (land, machinery, equipment and buildings)? How long will the equipment last? Will you lease your equipment? You should specify each item required with the cost, expected useful life, and the annual depreciation. If you already have many of the capital items required, these should be listed along with the year purchased, the original cost, depreciation rate, and accumulated depreciation. Once such a list is established, it is easy to update. With this information, it is relatively easy to quickly determine the market value of all assets and the estimated Net Worth of your business.

5) Loan Summary

Information on any existing or new loans is required. List all debts both long term and short term along with payment schedules, terms of interest payment, and security arrangements. This is important to managing your credit risk, debt structure, and interest costs. These should not simply be put together for the development of a business plan, but should become a part of your permanent records and should be updated regularly to reflect changes in your debt structure as debts are paid off, additional debt is added, and interest changes occur.

6) Projected Cash Flow Summary (Next 3 Years)

A good "net cash inflow" does not necessarily equate to good "profitability" nor does high "profitability" necessarily result in positive "net cash inflow". Cash flow planning is essential to ensure that you have the cash available throughout the year to meet the daily needs of your business. Remember, you usually must finance the business operation (buy supplies, pay wages, etc.) long before you sell your product and receive income. Many, especially seasonal businesses which may have a good financial position fail because of improper cashflow management.

7) Financial Performance and Risk Assessment

A business plan is not unchanging or inflexible. It must adapt to changes in your business and changing market conditions. You must be able to set measurable targets and record the necessary information for measuring the success of reaching those targets. These measures will serve as your performance indicators. These performance indicators will help you to evaluate the successes and shortcomings of your business plan and help you adapt your plans accordingly.

An important concern in the financial planning process is the establishment of financing limits. These provide guidelines for expansion and growth and establish both long term and short term credit requirements.

As the business plan is being developed, some thought should be given as to how it will be evaluated. What are the goals, how will they be measured, what information must be recorded, and what time must be allocated for this function? Other concerns are the assumptions upon which a business plan is based. Prices of both inputs and outputs are likely to differ from those assumed. Levels of production and quantities of inputs will also differ from the levels assumed. The financial performance indicators will provide guidelines for financial security and business flexibility and profitability. Important financial indicators are the percent debt (debt / assets), the debt per unit, the current ratio (current assets / current debt) net income, return on investment, and the term debt coverage ratio (cash available to cover term debt).

8) Long Range Plan (next 5, 10 or more years)

The long range plan is really what the business is all about. It has implications regarding business growth, family/lifestyle, retirement, and estate planning. Most people initiating a business plan expect to be in business for a long time; however, in many cases they do not give sufficient consideration to how they see their business in the more distant future. Many headaches can be avoided if consideration is given to the long term prospects for growth and expansion. These will have an impact upon the types of machinery and equipment purchased, building design and layout, types of financing, income goals and types of records kept.

Conclusion

The financial plan provides some level of assurance that the business is financially feasible. The marketing, production and human resources plans provide the supporting information for the financial plan. Although the financial plan is the last of the four main components of the business plan to be completed, the financial planning process is involved throughout the business planning process to evaluate the feasibility of marketing, production, and human resource decisions.

Financial Plan is the fifth in a series of five sections that will help you prepare a business plan for your proposed agri-business operation.

√	**1.**	**Business Overview**
√	**2.**	**Marketing Plan**
√	**3.**	**Human Resources Plan**
√	**4.**	**Production Plan**
√	**5.**	**Financial Plan**

Glossary of Business Finance Terms

ACCOUNTS PAYABLE
An amount owing to a creditor (i.e. an amount owed someone else), usually arising from the purchase of goods or services that is due to be paid within a 12 month period or within the normal operating cycle (where the cycle is longer than a year). (Examples include amounts owed for property taxes and interest and amounts owed to a supplier on account for fertilizer, fuel, etc.). These amounts owing are often relatively short term where payment is normally required in full within a one or two month period.

ACCOUNTS RECEIVABLE
An amount owed to the business usually arising from the sale of goods or services. (Examples include uncollected receipts for grain and livestock sales and custom work).

ACCRUAL BASIS OF ACCOUNTING/REPORTING
A method of accounting/reporting by which revenue and expenses are recorded in the period when they are earned or incurred regardless of when the cash transaction took place. Unlike the cash basis of accounting, revenues and expenses include changes to inventory, accounts receivable, and accounts payable.

AGREEMENT OF SALE
A conveyance of title of a property from one person to another as a security for the payment of a debt or the discharge of some other obligation. The title is transferred to the borrower after the loan has been repaid.

AMORTIZATION
This term refers to the scheduled or systematic reduction of a balance in an account over an appropriate period. Most often this term applies to long term liabilities and intangible assets. (See also the definition of depreciation and depletion).

ASSETS
Tangible and intangible items of value owned by the business. (Examples include cash, accounts receivable, inventory, livestock, stored crops and feed, equipment, buildings, and land).

CURRENT ASSETS
Unrestricted cash and other assets that, in the normal course of operations, are expected to be converted into cash or consumed in the production process within one year or within the normal operating cycle. (Examples include cash, accounts receivable, feed and other supply inventories, market livestock, produce, and prepaid expenses).

FIXED ASSETS
Tangible assets which are usually involved in the production of goods and services rather than held for resale. These assets represent relatively long term investments that are used for more than one year. (Examples include land, buildings and equipment).

INTANGIBLE ASSETS
Assets that lack physical substance but like all other assets benefit or add value to the business. (Examples include goodwill, trademarks, leaseholds, mineral rights and quota).

LIQUID ASSETS
Cash and temporary investments that can be readily converted into cash without disrupting normal operations.

LONG TERM ASSETS
Assets that have a useful life greater than one year. These assets are not usually purchased for resale, but are to be used over time to produce saleable products. Long term assets are also referred to as capital assets. (Examples include land, buildings, equipment, and breeding livestock).

BALANCE SHEET
A statement of financial position showing the assets, liabilities, and equity of a business at a specific date. Assets at cost less accumulated depreciation.

CAPITAL
The total assets available to a business.

CAPITAL GAIN
This term is used for income tax purposes to define, in most cases, the deficiency between the amount of the proceeds on the disposition of a long term, non depreciable asset and its original cost.

CASH BASIS OF ACCOUNTING/REPORTING
A method of accounting/reporting by which revenues and expenses are recorded when cash is actually received or paid regardless of when the agreement to sell or purchase may have taken place. Unlike the accrual basis of accounting, revenues and expenses do not include changes to inventory, accounts receivable, or accounts payable.

CHANGE IN INVENTORY
The term used on the Statement of Income to define the adjustment to the inventory account on the balance sheet that reflects the amount of the increase or decrease in the total value of inventory from one reporting period to another. Inventory includes livestock, stored crops and feed, and supplies.

CONTINGENT LIABILITY
A potential liability that is, at the date of reporting, not certain as to amount or likelihood of existence. The realization of these potential liabilities will depend upon a future event occurring or, alternatively, depend upon a future event failing to occur. (An example would include the instance where a business guarantees the loan of a third party. This guarantee would be considered a contingent liability to the guarantor).

CONTRIBUTION MARGIN
Contribution margin is the excess of total revenue minus variable expenses that directly relate to the business operation.

COST
This term refers to the purchase price for goods or services consumed in the business.

FIXED COST
Costs that remains relatively unchanged regardless of the volume of production or activity within a range of volume. (Examples include building insurance and property taxes).

VARIABLE COST
Costs that vary directly with the volume of production or activity. If no production or activity takes place, variable costs are zero. (Examples include fertilizer, feed and supplements).

COST OF GOODS SOLD
The cost of products (i.e., market cattle) sold during the year. This cost calculation includes the production and purchase costs of goods.

CURRENT DEBT
A debt or a portion of a debt due within the current year or within the normal operating cycle (where the cycle is longer than a year). (An example includes the portion of long term debt [principal only] due in the upcoming fiscal period).

LONG TERM DEBT
Debts with a maturity date beyond one year from the date of the balance sheet or beyond the normal operating cycle (where the cycle is longer than a year). Long term debt excludes that portion of the debt principal due within one year.

DEBT CAPITAL
The total financial resources provided by lenders (usually restricted to long term debt) for the use of the business.

DEFERRED INCOME TAXES
The accumulated amount by which income tax expenses reported on the statement of income has been increased or decreased as a result of timing differences. Timing differences referred to here are the difference between accounting and taxable income that arises as a result of including revenues or expenses in one period in determining net income for accounting purposes, but including them in another period for determining taxable income. (For example, reporting depreciation on the financial statements at an amount different from the capital cost allowance recorded in the tax return would give rise to deferred income taxes).

DEPRECIATION
A non cash expense charged periodically to allocate or distribute the cost of a long term asset over its estimated useful life.

DIVIDENDS
An amount of retained earnings declared by the board of directors of a corporation for distribution to its shareholders in proportion to their relative shareholdings.

EQUITY CAPITAL
The interest of the owner in the assets of a business. This interest is represented by the excess of the total assets over the total liabilities.

EXPENSE
A cost generally identifiable with the business operations during a fiscal period or with revenues earned during that period. (Examples include regular operating costs such as interest and wages as well as depreciation and amortization).

FINANCIAL ACCOUNTING
The development of accounting information in conformity with established accounting principles in order to summarize the financial position and operating results of a business.

FISCAL YEAR
A one year period of time for which financial statements are usually prepared for a business.

GAIN
An increase in equity as a result of a transaction other than an increase that results from revenues or equity contributions. For example, an amount equal to the excess of the sale proceeds over the net book value of a fixed asset would be termed a gain.

GOING CONCERN CONCEPT
The concept that a business will continue in operation indefinitely and that assets are therefore valued on the basis of their continued use as distinct from their market or liquidation value.

GOODWILL
Goodwill is an intangible asset, the value of which is related to the value of a business in excess of the sum of the fair market value of the net assets. Goodwill is generated from such things as high community standing, good strategic location, superior management, etc.

GROSS MARGIN
Gross margin is revenue minus variable costs. Indicates funds available to cover unallocated fixed costs, returns to operator and family labour, and returns to owners'/shareholders' equity. The term gross margin is often used synonymously with the term gross profit.

HISTORICAL COST
The total expenditures made by the business to acquire title to or develop an asset (including any installation or alteration costs incurred to put the asset into service).

INVENTORY
Items of tangible property which are held for sale in the ordinary course of business, or are in the process of production for such sale, or are to be directly consumed in the production of goods or services. (Examples include feed, seed, farm supplies and livestock).

LEASE
An agreement whereby the owner of an asset (lessor) conveys the right to use this asset to someone else (lessee) usually for a specified period of time in return for some form of consideration.

CAPITAL LEASE
A lease that, from the point of view of the lessee, transfers substantially all of the benefits and risk incident to ownership of property to the lessee. The term of the lease is usually in excess of one year and the lease contract may provide for transfer of ownership of the asset at the end of the lease term.

OPERATING LEASE
A lease in which the lessor retains substantially all the benefits and risks incidental to ownership of the asset.

LEVERAGE
The relationship between the total liabilities and the equity of a business. The higher the ratio of debt to equity, the greater is the leverage.

LIABILITIES

Liabilities that will be payable within the current year or within the normal operating cycle (where the cycle is longer than a year). (Examples include accounts and notes payable within the year and the principal portion of long term debt due within one year).

LONG TERM LIABILITIES

Liabilities with a maturity beyond one year from the date of the balance sheet or beyond the normal operating cycle (where the cycle is longer than one year). Long term liabilities exclude that portion of the debt principal and any other liabilities due within one year. (Examples include mortgages and equipment loans).

LIQUIDITY

Liquidity is often measured by the ability of the business to convert assets into cash or to obtain cash to meet short term liabilities and other commitments.

DEMAND LOAN

A debt for which payment in full could be demanded at any time upon lender's notification pursuant to the terms of the loan contract.

OPERATING LOAN

Cash advanced to a business to pay for operating costs. These loans usually provide for repayment within one year of the normal operating cycle (where the cycle is longer than a year). (Examples include loans to purchase feeder livestock and supplies).

MARKET VALUE

Market value is the value which one expects a willing buyer will pay a willing seller for an asset given an appropriate length of time to sell the asset (including the costs of disposition). This value is often based upon comparison to the latest sales data of similar assets under similar selling conditions.

MORTGAGE

A conveyance of a legal interest in property from one person to another as a security for the payment of a debt or the discharge of some other obligation. The security is redeemable on the payment or discharge of such debt or obligation.

NET BOOK VALUE

The value of an asset that is determined by subtracting the accumulated depreciation (or amortization) from the historical cost of the asset.

NET INCOME/LOSS

The excess of revenues over expenses for a given period of time. If expenses exceed revenue, the difference is called net loss.

NET WORTH
The difference between the market value of the assets and the market value of the liabilities. Net worth represents an estimate of what cash the owner would receive if all the owner's assets were disposed of and all the liabilities were discharged.

NET WORTH STATEMENT
A statement summarizing the net worth of an individual and the individual's business at a point in time. Assets are valued at estimated fair market value and liabilities are subtracted from the asset values to provide an estimate of net worth.

NOTE PAYABLE
A liability in the form of a promissory note which is a formal written promise by the borrower to pay a certain amount on demand or at a certain future date. Generally used to distinguish certain liabilities such as a note payable from other liabilities such as accounts payable.

NOTE RECEIVABLE
An asset in the form of a promissory note which is a formal written promise to be paid a certain amount on demand or at a certain future date. Generally used to distinguish certain assets such as a promissory note from other assets such as accounts receivable.

OWNER'S EQUITY
This term refers to the ownership interest in the business. Owner's equity equals assets minus liabilities and could be considered to be the owner's claim against the assets of the business. Owner's equity is increased by the owner's net contribution of assets to the business and the accumulated net income of the business.

PREPAID EXPENSE
An operating expenditure other than an outlay for inventory which is expected to yield its benefits in the future and in the meantime is carried on the balance sheet as an asset to be charged to expenses when utilized. (Examples include the unexpired portion of building insurance premiums and property taxes).

PROJECTED CASH FLOW STATEMENT
This statement shows expected future sources of cash from all sources. This includes capital sales, owner contribution, and borrowing. It also shows anticipated cash utilization for business expenses, loan payments, capital purchases, and owner withdrawals from the business.

SHARE CAPITAL
The ownership interest in an incorporated company that is represented by the shares of that corporation.

SHAREHOLDERS' EQUITY

The excess of the net book value of the assets of an incorporated company over the value of its liabilities.

STATEMENT OF CHANGES IN FINANCIAL POSITION

This statement shows sources of cash from business operations, asset sales, owner contributions and borrowings over the past fiscal year. It also shows cash utilization for business operations, loan payments, asset purchases, and owner withdrawals from the business over the same period.

STATEMENT OF INCOME

A financial statement summarizing the revenue, the expenses, and indicating the net income (or net loss) for a defined accounting period, usually the fiscal year of business.

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