

A Business Plan Framework for Modern Times

Thinking Matters

A business plan is much more than a document. It is a reflection of all the thinking that goes into how a business will achieve financial success and long term objectives. Accordingly developing a business plan means investing time and energy in thinking through the fundamental issues of:

- What do you want to do?
- What capabilities do you bring to the business venture?
- Where should you put your efforts?
- What do you need to do to compete, survive and meet goals?

Process Matters

As in many other aspects of business management the process matters more than the end product. The framework presented in this document facilitates a planning process as well as provides guidelines for developing the written plan. Developing the business plan is the means to an end rather than an end in itself. For that reason, thinking through the key aspects of the business venture in a logical way is the groundwork for writing a well thought out business plan that clearly communicates it can realistically achieve financial and strategic objectives.

Writing Matters

A well written business plan will bring the business venture to life by:

- Describing the proposal, the economic logic and the critical factors contributing to financial and strategic success.
- Providing clear statements of the choices made and the direction the business is taking.

- Clearly describing how the plan will be implemented.

Writing a business plan can be intimidating to many business owners. Much of this is due to uncertainty surrounding the content, emphasis and length. A general rule is to focus on the main issues including the choices made. However, the specific content and detail will depend on the context in which the business plan is being developed.

A business plan for the internal use of the business owners can provide a roadmap and yardsticks for measuring progress. The focus is on establishing a vision for the future, the desired outcomes for the business in the future and specific actions and expected levels of performance that are contribute these outcomes.

A business plan intended for external use such as lenders would focus on how marketing and production performance would contribute to financial success in a particular industry and market.

There is no standard format for organizing business plans however there are a number of factors to guide the writing process.

- It is important to find out the expectations reviewers might have for format and length in each context.
- A set of financial projections are not a business plan. They can be attached to the business plan as an appendix to demonstrate that the business owner has considered the uncertainties in the proposal.
- Too much detail or too little detail can reduce the ability of the document to communicate the plan.
- Graphics without substance can get in the way of demonstrating the logical thinking that is the basis for a business plan.
- The overuse of jargon or technical language may get in the way of communicating the strength of the business proposal.

- Consultants can assist individuals in writing their business plan. However, only the business owners can do the planning and decision making that is necessary in developing a business plan.
- Be aware of investing too much time and energy in producing an overly polished document rather than thinking through the focus, scope and direction of the business venture.

The Planning/Thinking Process

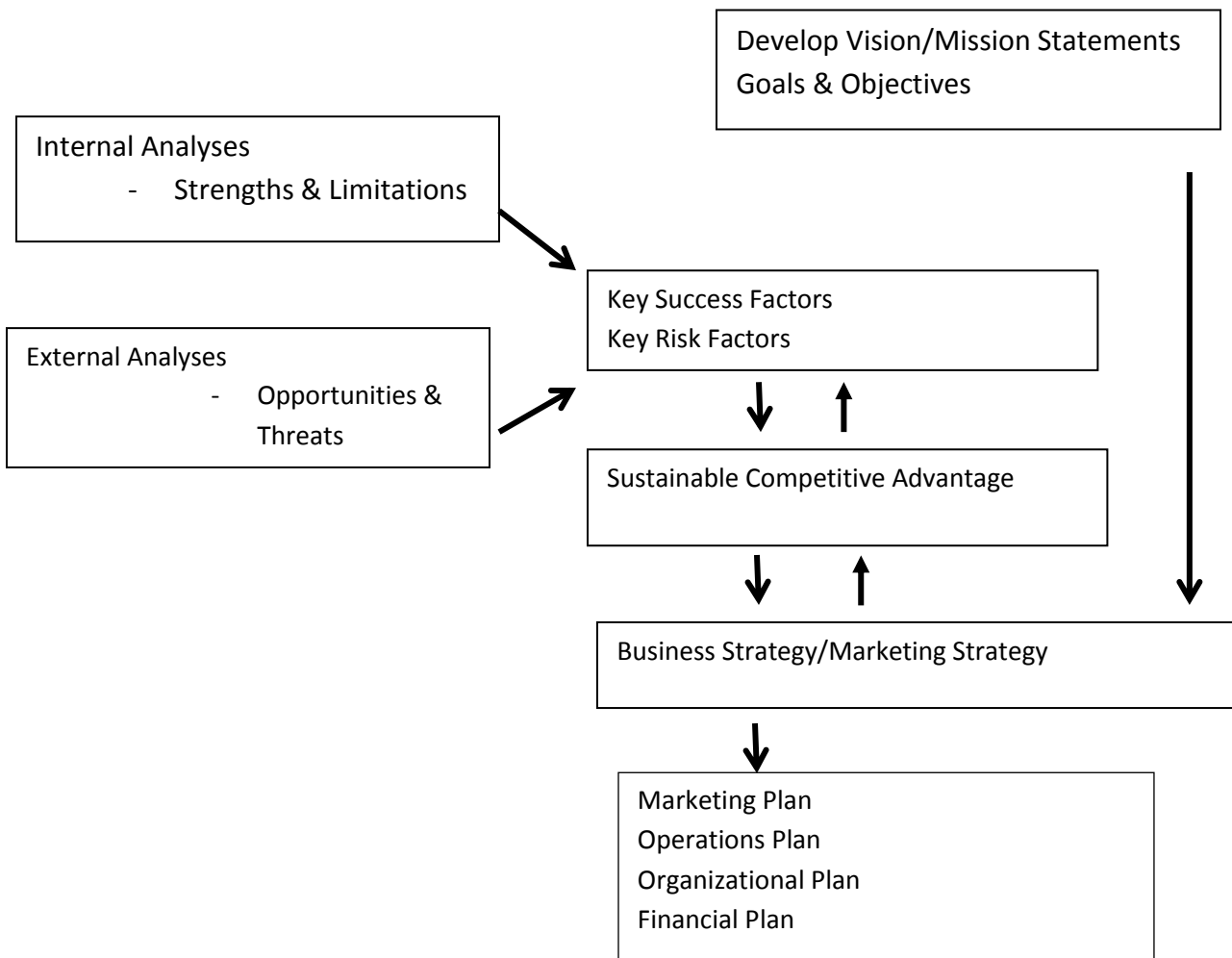
The planning/thinking process becomes the basis for a business plan when business owners invest time and energy in reasoning through the following specific activities:

1. Developing vision and mission statements to articulate why the business exists and what the business will look like in the future.
2. Determining business goals and developing strategic and financial objectives for the business.
3. Completing an internal analysis to identify strengths that give the business certain advantages as well as weaknesses, which are areas where the business is vulnerable and has to improve.
4. Completing an external analysis of the industry, the market(s) and the competition in order to understand market dynamics as well as the resulting opportunities and threats that might affect the farm business.
5. Looking for key success factors in provide a fit between opportunities in the external business environment and the strengths in which the business has a competitive edge
6. Looking for key risk factors which can make the business vulnerable to the forces of changes and threats from competitors.
7. Making deliberate choices to implement actions and processes that can add up to a sustainable competitive advantage over the long term.

8. Developing a business strategy that allocates resources to those areas that realize economic opportunities, provide a basis for sustaining a competitive advantage and contribute to long term objectives.

This process is illustrated in Figure1.1.

Figure 1.0: An Integrated Process of Business Planning and Strategy Formulation



The Business Plan Framework

Although planning is a necessary part of writing a business plan it does not appear as a specific component in the final document. Figure 2.0 illustrates the linkages between the planning components and the written components of a business plan. Ideally this framework will enable users to fine tune their business proposals in ways that makes the venture more viable and sustainable.

Figure 2.0: Key Components for Developing a Business Plan

| The Planning and Thinking | The Organizing and Writing |
|--|--|
| How to create a strong first impression | Cover page. Clearly state the contact information for the key people (business owners) including address, phone numbers and e-mail address. |
| Determine the key points of the business venture that captures the reader’s attention so they take the time to read further. | Executive Summary Provide a concise summary of the key points of the business venture. |
| How to ensure readers are able to quickly refer to specific sections of the business plan. | Table of Contents Include all section headings and subheadings within the body of the document. |
| How to ensure reviewers understand the business in terms of resources, production capabilities and the markets. | A General Description of the Business Present the business in terms of organization, resources, production, markets and past experiences. |
| Establish the basic model for making money and the amount of financing required to implement the model. | The Financing Request Clearly state how much money is needed and the purpose of the funds. |
| How to make the case that the management team has the balance of operational, marketing, technical, financial skills and experience required to realize the opportunity As well the leadership qualities needed to make good choices in difficult times. | The Management Team Present the core management team, their experiences and capabilities as well as any outside advisors that have a role in the management of the business. |
| Looking ahead to the future think through what the business will be good at and the role will the business have in the future business environment. | Vision Statement Present what the business owners want the business to look like in the future. |

| The Planning and Thinking | The Organizing and Writing |
|--|---|
| <p>Think through why the business exists and the basic beliefs and values that drive the business.</p> | <p>Mission Statement Present the current circumstances of the farm business including what the farm business is doing now to be viable and sustainable.</p> |
| <p>Determine objectives for the critical activities that affect the competitive position of the business.</p> <p>Determine the critical areas of financial performance that affect the viability and sustainability of the business.</p> | <p>Business Objectives Present the <u>Strategic Objectives</u> which are business opportunities plus the performance targets for the critical activities affecting the competitive position of the business.</p> <p>Present the <u>Financial Objectives</u> which are the critical areas of financial performance that affect the viability and sustainability of the business</p> |
| <p>Consider the factors in the external business environment that will impact on the ability of the farm business to compete.</p> <p>Identify and assess the internal strengths and weaknesses of the business venture</p> <p>Identify the <u>key success factors</u> necessary for the business to compete in the market and provide value to customers.</p> <p>Identify the <u>key risk factors</u> with the potential to impact on strategic and financial objectives of the business venture.</p> <p>Think through the resources and capabilities that can give the business venture a <u>competitive edge</u>.</p> <p>Choose what is important for the business venture, how it will position itself in terms of products and market segments as well as how it might grow and develop to achieve strategic and financial objectives.</p> | <p>The Business Strategy Present how the business venture will position itself in the industry and market as well as how it will focus on critical activities that will affect the competitive position of the business and contribute to financial success and long term objectives.</p> |
| <p>Make choices about</p> <ul style="list-style-type: none"> • Who the target market is. • What customer need is being met. • How the commodity/product will meet the need. • Why this commodity/product is superior to competing commodity/product offerings. | <p>Marketing Strategy Present</p> <ul style="list-style-type: none"> • Who the target market is. • What customer need is being met. • How the commodity/product will meet the need. • Why this commodity/product is superior to competing commodity/product offerings. |

| The Planning and Thinking | The Organizing and Writing |
|---|---|
| Think through how to make the case that the operations are being managed efficiently and effectively. | Operations Plan Ensure the operating plan component of the business plan describes the resources, the production processes, the key inputs required for production and the basic cost structure. |
| Think through how the labour force along with outside resources provide unique capabilities that support the business strategy | Organization Plan Presents the organizational structure of the business venture along with details describing how the labour force and outside resources support the business strategy |
| Think through how to give potential lenders and investors the comfort of knowing that the key decisions are based on an understanding of financial management as well as reliable financial information Use a ground up approach to developing profitability and cash flow projections. Undertake to identify and build on the key drivers for success. | Financial Plan Present <ul style="list-style-type: none"> • The basic model for making money • The amount of financing being requested. • The current financial position along with details on past financial performance and past financial decisions. • The proposed changes along with the expected financial performance • The financial management skills and capabilities of the business owners |
| Think through how the business can increase the likelihood and consequences of success and to decrease the likelihood and implications of problems. | Risk Management Present an assessment of everything that could go wrong and right along with how the management team can respond. Present the ongoing processes for identifying, measuring and managing risk that might occur in the future |
| Rather than focus on the “most likely” outcomes for profitability and cash flow performance develop ranges of possible outcomes from worst case to best case to demonstrate that the business has the ability to deal with multiple possible outcomes. | Appendices Include realistic projections for cash flows, income statements and net worth statements. Present break-even prices and break–even sales levels to reveal the point at which the business venture will begin to make a profit. Present the point in the development of the business when cash inflows are greater than cash outflows. |

Checklists are provided in Appendix A and Appendix B that can be used to assess the content and organization of a completed business plan

Cover Page

The cover page should clearly state the business name, the contact information for the key people (business owners) including address, phone numbers and e-mail address. As well it should clearly indicate the date of the plan and the time period the plan covers.

Use the cover page to create a strong initial impression of the business and the plan.

Executive Summary

The executive summary provides a concise summary of the key points of the business venture. These points could include:

- The purpose of the plan?
- The people involved in the venture and their capabilities.
- The business environment in which the venture will operate.
- The opportunity available to the business?
- The financial requirements of the business venture.
- The profit potential of the business venture.
- The risk management strategies to be implemented.

Use the executive summary to capture a reader's attention so they take the time to read further

Table of Contents

The Table of Contents includes all section headings and subheadings within the body of the document. All pages in the business plan should be numbered in order for the Table of Contents to function as a handy reference.

Provide a properly organized Table of Contents that enables readers to quickly refer to specific sections of the business plan.

A General Description of the Business Venture

Provide a brief description of the business venture to ensure the reader understands the following:

- The type of business including the organizational and ownership structure (proprietorship, partnership, company, joint venture).
- Where the operation is located or to be located.
- The resource base including land, facilities, livestock and equipment.
- Who the business owners are, their past experiences, qualifications including training & education.
- Descriptions of products, markets, customers and trends the business venture might build upon.
- For existing businesses provide a summary of the past history including what has been accomplished including successes and failures (along with appropriate discussion of failures).
- For new entrants provide a summary of the start-up plan along with the reasons for starting the new business venture.

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| Ensure the general description enables reviewers to understand the business in terms of resources, production capabilities and the markets. |
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The Financing Request (when the purpose is to gain financing)

When the purpose of a business plan is to gain financing this request can be presented as an individual component of the written plan. A request for financing should be positioned early in the document in order to set the context for the business plan and clarify the purpose. This component of the business plan should clearly state how much money is needed and the purpose of the funds. More detailed business plans could present current and pro-forma net worth statements to describe the financial position of the business venture before and after gaining the financing.

The Management Team

Reviewers of a business plan will want to know who they are dealing with and will look for a balance of operational, marketing, technical, and financial capabilities and experience. For that reason, the management team should be presented along with their experiences and capabilities. The emphasis should be on the core management team as well as any outside advisors that have a role in the management of the business. This can be done by including a paragraph on each individual.

The human element can be the most critical aspect of a business venture in the eyes of an investor or lender. That is the argument for placing the management team component prominently early in the written plan. However in developing the business plan the business owners need to complete the planning process in order to know the complete range of skills and capabilities that will be required to be successful and then to take steps to develop the appropriate management team.

Make the case that the management team has the qualities needed to make good choices in multiple possible futures particularly in difficult times.

Vision and Mission Statements

A vision statement looks ahead to capture what the business owners want the business to look like in the future. This statement can be crafted by thinking through the following:¹

- What role will the business have in the future business environment?
- What will the business be good at?
- Who is the target market for the business?
- Will the business be producing commodities or value added products?
- What commodities or value added products is the business involved in?
- What markets and market segments will the business serve?
- How big is the business expected to be?

¹ Borrowed from Olson, K.D.; (2011); Economics of Farm Management in a Global Setting, John Wiley & Sons

- Who will be the individuals involved in the business?
- How will the business be organized?
- How will the business be involved in the community?

A mission statement focuses on the present circumstances of the farm business including what the farm business is doing now to be viable and sustainable.

Thinking about a mission statement would include:

- Why does the business exist?
- What are the basic beliefs and values that drive the business?
- What is the public image of the business?

Setting Business Goals and Objectives

Setting goals is a necessary when developing a meaningful business plan as they provide clear statements of what the business owners would like to achieve in the future and where they want the business to be.

Business goals for an agricultural venture often reflect a blend of personal goals and related business achievements. These could include variations of the following:

- Develop a viable farm business that can be transitioned to the next generation.
- Achieve above average productivity levels.
- The farm business is recognized as an early adopter of new technologies.
- The ownership of resources contributes to increases in net worth.
- Controlling a large scale operation that achieves economies of scale and recognition.
- The business is able to achieve economic and environmental goals.
- The business achieves a desired standard of living.
- Ensuring the business is able to provide a desired level of leisure time.

- Ensuring the business can enable business owners to contribute to the local community.

Objectives are derived from the business goals to provide the farm business with more specific targets or yardsticks for measuring and tracking performance in key areas.

Although financial success is a common goal for farm businesses it is important to recognize that farm businesses will have multiple objectives linked to goals. The vision and mission statements crafted by the business owners can help determine and weigh the importance of multiple objectives. Consider the following example of a decision making approach that weighs multiple objectives.

| Factors | Weighting | Impact Scoring | Weighted Score | Max Possible | % Score |
|--|----------------|----------------|----------------|--------------|---------|
| Financial Attractiveness | 50.00% | 4 | 2.00 | 2.50 | ↓ |
| Degree of Uncertainty | 30.00% | 4 | 1.20 | 1.50 | |
| Strategic Fit | 10.00% | 4 | 0.40 | 0.50 | |
| Organizational Desirability | 10.00% | 5 | 0.50 | 0.50 | |
| Total | 100.00% | | 4.10 | 5.00 | |
| Impact Scoring Guide | | | | | |
| Impact | | | | Score | |
| Significant impact on the achievement of farm business goals and objectives | | | | 5 | |
| Considerable impact on the achievement of farm business goals and objectives | | | | 4 | |
| Modest impact on the achievement of farm business goals and objectives | | | | 3 | |
| Limited impact on the achievement of farm business goals and objectives | | | | 2 | |
| Negligible impact on the achievement of farm business goals and objectives | | | | 1 | |

Strategic Objectives reflect the business opportunity along with performance targets for the critical activities affecting the competitiveness of the business in realizing the opportunity. These could include:

- Continually achieve low cost production.
- Achieve economies of scale through managing larger scale operations
- Be a preferred supplier to a particular market segment
- Continuously innovate to provide unique products or services to a particular market segment.

- Provide products and services of superior quality and value that improve the well-being of the customer
- Continually provide the best combination of desired attributes and low price.

Financial Objectives focus on the critical areas of financial performance that affect the viability and sustainability of the business

- Achieve acceptable economic returns to the investment of land, labour, capital and management.
- Achieve profitability that provides ongoing growth and development.
- Achieve growth in owned assets.
- Achieve cash flow performance ensures a strong working capital position.
- Achieve the financial strength to deal with the year to year variability in prices and costs as well as unplanned events emanating from the external business environment.

External Analyses

The business strategy must consider the many factors in the external business environment that will impact on the ability of the farm business to compete.

Assessing the industry, the market, customers and the competition enables business owners to identify and assess opportunities for growth and profitability as well as threats which in the future could adversely the business venture.

Key issues to consider in an external analysis include:

- What is the industry structure?
- What are the key trends and technologies shaping the industry?
- Is the industry growing, stable or in decline?
- What forces might cause the industry structure to change?
- Are there changes in legislation or regulations that will impact the industry?
- What factors are impacting on customer behaviour and preferences?

- What is the effect of changing regulations on the market?
- What are the competitive pressures facing the business?
- What are the competition's strengths & weaknesses?

Internal Analyses

Internal analyses undertake to identify and assess the internal strengths and weaknesses of a business venture. This can enable business owners to gain insights on the factors that might provide a competitive advantage for the business. Key issues to consider include:

- What are strengths can the business build on?
- How can the identified strengths be used to improve the farm situation?
- What weaknesses are critical to success?
- What weaknesses need to be addressed?
- What threats are potentially destructive?
- What is the competitive position of the business?
- What opportunities exist for gaining synergy?

Key Success Factors

Key success factors are those activities and practices that the business must do to compete in the market and provide value to customers. They are the aspects of the business venture that are valued by the market and are necessary for the business to have competitive success and achieve long term objectives.

Key success factors can be developed by considering the following questions:

- Who is the target market?
- What is it the business must do to provide value to the customer?
- What factors are important to the customer's decision making process?
- Why would a customer choose your business venture over a competitor?

Key success factors for commodities could include:

- Efficiencies that generate low unit cost of production.
- An understanding of cost drivers that contributes to low cost per unit of production.
- Innovation that lowers costs of production.
- A service component that goes along with the commodity.
- Proven ability to meet buyer specifications.
- Ability to manage risk.
- Ability to delivery large quantities of uniform commodity or other factors that lower transaction costs.
- Ability to reliably meet contract terms (quantity and quality).
- Understanding customer needs and wants and ability to meet expectations.

Key Success factors for value added products could include:

- A strong value proposition for customers.
- Differentiated product that provides value to customers.
- Brand building
- Unique capabilities that provide value to customers.
- Innovation that provides value to customers.

Key Risk Factors

Risks are uncertainties which if they occur would affect the achievement of objectives either positively (opportunities) or negatively (threats). Key risk factors have the potential to impact on the strategic and financial objectives of the business venture.

The planning and thinking process should focus on risk events that if they occurred would affect specific objectives set for the business and on gaining and sustaining

achieving a competitive advantage. Categories and specific risk events to consider include the following:

| Categories of Risk | Potential Sources of Risk |
|-------------------------------------|---|
| Financial Performance and Structure | Leverage, Debt structure, Debt servicing capacity, Liquidity, Profitability, higher interest rates, access to capital |
| Market Forces | Product price volatility, input price volatility, |
| Business Relationships | Contract risks, reduced access to markets, reduced access to inputs |
| Strategic Position | Value proposition becomes obsolete |
| Human Resources | Limited labour availability, |
| Competitors and Competition | Predator pricing, land availability, preferred supplier arrangements |
| Political Factors | Policy changes, Trade Agreements, Trade Restrictions |
| Legislative and Regulatory Factors | Land use regulations, food safety regulations |
| Operations | Production variability, natural hazards, quality variability |

Sustainable Competitive Advantage

There will be competition. For this reason it is important to describe how the business and its products compare to competitors. Factors such as cost, quality, attributes, and transaction costs can be the source of a competitive edge.

A competitive advantage exists when a business is able to provide a better value/cost equation for customers than do competitors. This occurs when a product plus any accompanying services is viewed by the market as superior to the competitors. In agriculture ventures a sustainable competitive advantage can be achieved through superior production efficiency (lower costs per unit of production), superior quality, superior innovation and superior market responsiveness.

Business ventures with a competitive advantage can achieve stronger financial performance compared to competitors. Accordingly, gaining a sustainable competitive advantage is a key factor in business strategy, financial performance and achieving long term objectives. Business plans should clearly present and describe the competitive edge they have in a particular industry, producing a particular commodity or product, dealing with a particular market segment or operating in a particular location.

Generally, sustainable competitive advantage is achieved when business owners are aware of which aspect of their business is most important to customers and develop strategies to provide a better value proposition for their customers than competitors do. Competitive advantage relative to competing businesses can be from higher producing land, location advantage and having lower debt servicing costs which often results from lower capital costs for key productive assets such as land. In the current business environment competition has become more knowledge based. In modern times qualities such as innovation and continuous learning ability can be a source of sustainable competitive advantage.

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| <p>There will be competition. Clearly describe how the business venture provides a superior value/cost equation to customers than do competitors.</p> |
|---|

Crafting the Business Strategy

The business strategy considers the issues and insights gained in developing the mission statement, completing the external and internal assessments and assessing competitive advantage to settle on the actions that will achieve financial success and contribute to long term objectives. The business strategy positions the venture in the industry and focuses on the critical activities that will affect the competitive position of the business and contribute to financial success.

Business strategies focused on achieving financial success and long term objectives through commodity production could include the following:

- Leverage unique production capabilities and focus on developing efficient production systems.
- Leverage detailed knowledge of cost drivers and cost control procedures to focus on low cost production.
- Leverage unique location advantage to deliver commodities to markets with higher prices.
- Leverage ability to provide commodities with enhancing features such as delivery of large lots that lower transaction costs.
- Leverage management capabilities to develop large scale operations that can capture cost advantages through economies of scale.
- Leverage management and relationship skills to access rented land, custom operators and leased machinery and gain economies of scale.
- Leverage superior knowledge of quality standards and grades to be a reliable supplier of quantity and quality through contracts.
- Leverage superior risk management capabilities to manage the higher risk in higher reward activities.

Business strategies focused on achieving financial success and long term objectives through value added production could include the following:

- Leverage detailed knowledge of consumer preferences to market products that provide added value to consumers that exceed added cost.
- Leverage unique production capabilities to produce and market a differentiated product that competitors cannot replicate.

- Leverage detailed knowledge of how products are used to provide the best combination of value and cost.
- Leverage production capabilities and knowledge of consumer preferences to further process products to achieve added revenues that exceeds added costs.
- Leverage knowledge of market segmented and nimbleness to provide products to a niche market.

Business strategies focused on growth and development to achieve strategic and financial objectives could include the following.

- Pursue growth through purchasing and owning land to gain economies of scale.
- Pursue growth through relationship building and renting land to gain economies of scale.
- Pursue growth through modernization of technology and intensification of production processes.
- Pursue growth through replication of the current business in another location.
- Pursue growth and economies of scale through collaboration with other business owners.
- Delay any change in business development. Wait and see if opportunities might arise.
- Downsize operations to gain better financial control and productivity.

Crafting a business strategy requires making choices about what is important for the business venture and how it will position itself in terms of products, market segments and location as well as how it might grow and develop to achieve strategic and financial objectives.

Marketing Strategy

For some ventures the marketing strategy is treated as a component of the business strategy. For other businesses the marketing strategy is treated as a separate component with linkages to the business strategy. In presenting the marketing

strategy the key message is how the marketing strategy is unique or different from competing businesses.

Marketing strategies for commodities and value added products can be different. A marketing strategy for commodity producers would focus on identifying and capturing pricing and delivery opportunities that contribute to stable financial performance. A commodity marketing strategy would build on knowledge and understanding of the following:

- **The Market.** A commodity marketing strategy needs to understand price patterns, local basis levels and patterns, the tools available for pricing and delivery as well as sources of market information to support decision making.
- **Product Specifications.** Knowledge of factors such as form, grade and quality and their effect on prices and delivery opportunities is required. Individuals will have to make choices on selling commodities of different grades and quality at discounted prices.
- **Cost of Production and Cash Flow Requirements.** Knowing cost of production is a necessary component in setting price targets and assessing the profitability of selling at different price levels. Knowing cash flow requirements is needed for decision making on the timing of commodity sales.
- **Separating Pricing and Delivery.** For many commodities delivery can be separate from pricing. As a result, various pricing and delivery strategies can be applied in commodity marketing. Individuals require a knowledge of the available tools and strategies that can be used in identifying and realizing pricing and delivery opportunities.
- **Learning from past marketing decisions** in order to eliminate mistakes

There can be a value-added component in commodity marketing that can provide a competitive edge. These would include investing time and energy in the following activities:

- Developing relationships with buyers.
- Enhancing the value of the commodity through attributes that reduce transaction costs.
- Having the capacity to deliver large quantities of uniform quality that align with the specific need of the buyer.

The marketing strategy for a value added product requires extensive market research and detailed analysis to determine if the differentiated product will be a success in the market. Key issues to consider in crafting a marketing strategy for a value added product include:

- Determining a specific customer segment.
- Understanding why customers buy the product or service.
- Understanding what attributes customers' value.
- Determining what resources or capabilities of the business provide a competitive edge.
- Determining what processes or procedures will best deliver value to the customer.
- Determining what attributes of the product or service can provide added value to customers greater than added costs.
- Describe any legal protection that the business has

The business plan will also need to demonstrate how the marketing strategy for a value added product will incorporate the following elements:

- Having the perseverance and financial resources need to build a market that may take time to reach profitability.
- Continually engaging with the market to understand the value cost equation of customers. What special knowledge or technology do you possess and how will it give you an edge?

- Continually innovating to develop high quality products with unique attributes that are valued by customers.

Crafting a marketing strategy requires making choices about:

- Who the target market is.
- What customer need is being met.
- How the commodity/product will meet the need.
- Why this commodity/product is superior to competing commodity/product offerings.

Operating Plan

The operating plan describes the resources, the production processes and the key inputs required for production. As well the operating plan makes the case that the operations are being managed efficiently and effectively.

Key elements to present in the business plan include:

- Details of the current resources including owned land, rented land, facilities, equipment and machinery, livestock and marketing quota.
- A description of the production system, technologies and practices.
- Particular attention should be given to those elements of production that are unique and provide a competitive edge.
- A recent history of production levels efficiencies and improvements made to increase operating efficiency. Describe how the business has dealt with past operating challenges.
- Planned changes in the production resources, the production systems, technologies and practices. Link these to any financing proposals in the business plan.

- The cost and availability of key inputs, main suppliers and credit terms.
- Details of equipment/other items that are to be acquired or leased in the near future (such as purpose, costs and credit terms)
- Describe any environmental considerations or practices that make the business unique..
- Describe any regulatory or licensing requirements that would impact on production capabilities.
- Describe operating practices including cost control measures, risk management, contracting and conservation practices.

Ensure the operating plan component of the business plan describes the resources, the production processes, the key inputs required for production and the basic cost structure. As well make the case that the operations are being managed efficiently and effectively.

Organization Plan

This component should present the labour force, their training needs as well as their material needs in terms of health & safety, professional development, job satisfaction and remuneration. Specific details would include:

- The number of people employed whether they are full time or part time and any plans for changes in the work force. Pay particular attention to key employees and describe their role in the overall business.
- The breakdown of wages and salaries. For proprietorships the expected draw to cover the living expenses of the owners(s) business should be presented along with some explanation.
- The types of skills and/or experience that are needed in the business and the strategies for gaining them.
- If there are planned changes in the operations of the business describe any training that would be required to bring the work forces up to speed.

- Describe the incentives and other measures that are or will be adopted to retain key employees.
- Plan you own development and that of your management team as your business continues to expand.

The organizational structure of the business should also be described. This would include:

- Whether the business operates as a proprietorship, partnership, corporation or joint venture
- The key areas of operating and management responsibility and who is responsible.
- The outside resources that are employed in the operations and management of the business venture. This could include technical advisors such as nutritionists, agronomists, veterinarians, marketing advisors and custom operators as well as book keepers, business advisors, accountants and lawyers. These resources could be presented in term of the unique skills they bring to the business.
- For larger business organizations with more detailed business plans an organizational chart may provide the best means of describing the organizational structure of the business.

Ensure the organizational structure of the business venture along with the labour force and outside resources provide the capabilities needed to support the strategies and capture the business opportunity.

The Financial Plan

The financial plan should address the following key issues.

- The business model for making money
- The amount of financing being requested.

- The current financial position of the business along with details on past financial performance and past financial decisions.
- The proposed changes in assets and debt along with the expected financial performance resulting from the proposed changes.
- The financial management skills and capabilities of the business owners.

The business model for making money should reflect a ground up approach in which key assumptions and detailed estimates of key variables are developed into profitability and cash flow projections. The emphasis will be on identifying and clarifying the key drivers for success. These key elements could include:

- Details of start-up costs for a new venture.
- Projected production levels for each different product.
- The potential sales levels of each product, market prices and sales revenues
- Expenses that are matched to the projected revenues.
- Break-even prices to demonstrate how the business venture will achieve acceptable levels of profitability.
- Break-even levels (for value added products) to indicate the level of sales at which the business venture will begin to make a profit.
- That point in the development of the business when cash inflows are greater than cash outflows.

The financing request may already be presented in the early portion of the business plan in order to set the context for the overall business plan. The financing request can be presented again in this section in order to confirm how much money is needed and the purpose of the funds. As suggested presenting current and pro-forma net worth statements to describe the financial position of the business venture before and after gaining the financing is appropriate when the purpose of the business plan is to request large sums of financing in more complex business proposals. .

The current and historical financial position of the business venture can be presented with current and historical net worth statements along with the recent profitability and cash flow performance of the business venture. These can be presented in the form of:

- Income and % Return on Assets (ROA) could be presented to provide measures of the rate of return earned by the total assets invested in the business.
- Historical cash flow summaries that reveal the history of the business in terms of its ability to generate cash to cover operating expenses, debt commitments and personal needs.

The proposed changes to the business and the expected financial performance resulting from the proposed changes will demonstrate the expected financial performance with the new financing in place. Most lenders or investors will want to see projections for cash flows, income statements and net worth statements. These would be based on realistic key assumptions (in the basic model for making money) for production, sales levels and expenses. Detailed projections could be included as an appendix and summarized in the body of the business plan.

Rather than focus on the “most likely” outcomes for profitability and cash flow performance, ranges of possible outcomes from worst case to best case can be used to demonstrate that the business has the ability to deal with multiple possible outcomes.

The financial management skills and capabilities of the business will be a critical element of the financial plan. Lenders and investors will want the comfort of knowing that the key decisions are based on an understanding of financial management as well as reliable financial information. A business plan can gain a lot of credibility by demonstrating an understanding of the key financial measures of liquidity, solvency, profitability and debt servicing capacity. Furthermore the finance plan can be enhanced by presenting:

- The financial information system that is implemented or will be implemented.
- The financial reporting system that is in place or will be implemented

- An assessment of the strengths and limitations of financial management.
- How business has dealt with past earnings challenges.

The planning process should clarify:

- The basic model for making money
- The amount of financing required to implement the model.
- How past financial decisions have led to the current situation.
- How expected financial performance will be shaped by implementing the business proposal.
- The financial management skills and capabilities required to implement the business proposal.

Risk Management

Risk can be defined as uncertainty that matters. So in the context of developing a business plan risks are those events both positive and negative that if they were to occur might impact on the achievement of production, marketing and financial performance as well as the achievement of strategic objectives.

A business plan is not considered complete without a risk assessment. In other words the plan needs to clearly present an assessment of everything that could go wrong and right along with how the management team can respond. The emphasis should be on the specific steps the business has taken to increase the likelihood and consequences of success and to decrease the likelihood and implications of problems

Key issues to consider in the risk management component of a business plan include:

- The key risk factors in the business strategy focusing on the people, the business opportunity and the context of the business proposal.
- An understanding of the depth and duration of negative cash flows that is likely to occur when launching a new venture.

- An understanding of the probabilities attached to achieving various levels of returns.
- The risk events that might impact on profitability and cash flow performance and the strategies that the management team can implement to manage them.
- The range of possible outcomes (financial and cash flow) that might occur in the implementation of the business proposal.
- The culture, management structures and ongoing processes for acting under conditions of uncertainty.
- The ongoing processes for identifying, measuring and managing risk that might occur in the future.

Plan how the business can take steps to increase the likelihood and consequences of success and to decrease the likelihood and implications of problems.

Appendix A – A Checklist for the Thinking and Planning in Developing a Business Plan

Thinking and Planning: Ensure the final plan....

- makes the case that the management team has the right people to implement the business proposal
- demonstrates that the business owners have thought through the key drivers of success or failure
- presents a business strategy that aligns with the mission statement
- demonstrates how a value added product provides a superior value/cost equation for customers
- demonstrates how a commodity incorporates services that deliver unique sources value to the customer that are not replicated by competitors
- explains the sustainable competitive advantage buttressing the business strategy
- describes the key elements in the marketing and production plans and how they link to financial success
- has a financial plan that is integrated with the business and marketing strategy and makes financial sense
- has financial projections that recognize a range of possible outcomes
- recognizes and has strategies for managing negative and positive risk events
- demonstrates effective decision making and provides comfort that

Appendix B – A Checklist for the Writing and Organization in Developing a Business Plan

Writing and Organizing: Ensure the final plan....

- Is concise and clearly written
- Is easy to read with short concise paragraphs and clear logical ideas
- Uses language that is appropriate not burdened with jargon and has the right tone
- Is free of hype
- Is free of spelling errors and typos
- Is free of grammatical errors
- Is internally consistent
- Has numbered pages
- Uses visual effectively