



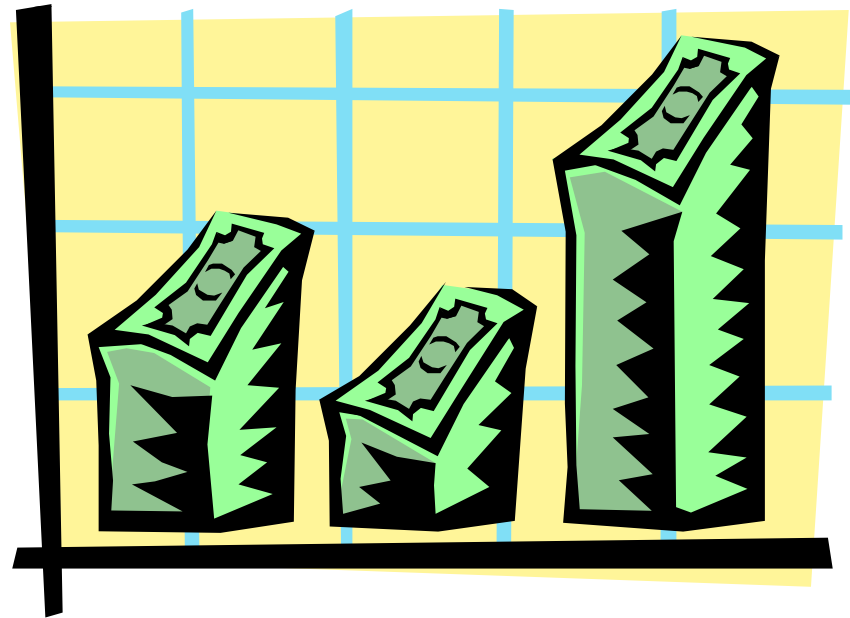
Business Planning for Equestrians

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Questions for Discussion

Do you have a business plan for your farm?

- **Yes – why?**
- **No – why not?**



Questions for Discussion

Why should you have a farm business plan?

- What are the benefits?
- What does a business plan do?
- What should be in a business plan?



Top 5 reasons to have a business plan for your farm.....



#1 Writing stuff down forces you to define/refine your farm business.

- Assess your current situation - Where are you now?
- Helps you to set objectives for your business – Where are you going?
- Establishes your farm's "Mission statement"



#2 A business plan allows you to set goals for your farm.

- Short and long term planning
- Evaluate the market conditions
- Determine the history and direction of your farm
- Determine the key players in your operation
- Evaluate your skills, talents, resources, etc

#3 Allows you to effectively share and explain your goals and vision with others.

- Bankers and investors may require a business plan before lending or investing.
- Before community leaders can help promote and support your farm they have to understand what you are trying to do.
- Non profits/granting agencies may require a business plan.
- Prove to anyone/yourself that your vision is realistic

#4 A business plan can help you identify potential issues/pitfalls before you begin

- Competition
- Legal concerns
- Liability issues
- Labor needs



A business plan can protect you from proceeding with an idea that doesn't make good "business sense"

Understanding the potential issues beforehand can allow for proper planning! !

#5 Provides the tools to quantify the success of your business

- Target sales
- Growth and expansion
- Market share
- Profits ??



What should be in a Business Plan?

- A Description and Definition of :
 - Who is involved.
 - What consumer need will be met.
 - What the saleable product/service is.
 - The market environment.
- A Plan for producing and marketing the product/service
- A list of resources needed to achieve the plan and when they are needed.
- A summary of anticipated results.

Most Business Plans Contain the Following Sections



- Executive Summary
- Mission Statement
- Business Description
- Strategic Plan
- Risk Mgt. Plan
- Management Plan
- Production Plan
- Marketing Plan
- Financial Plan

Include:

- Information that is important in taking the business where you want to go.
- Do not include things that will not help you go where you want to go with the business.



Every plan is unique!

- Your farm plan should relate to and be steered by your mission statement!
- Keep your goals realistic.
 - *Is my farm a business or a hobby?*
 - *Do I really want to make money or is it a way of life?*
- *The real value is in the process of creating it.*
 - *A business plan should serve as a roadmap for your farm business.*

The Bottom Line

- The main function as a manager is to manage!
- Each farm business possesses a unique bundle of resources.
- Successful managers use these resources to develop their **basic** and **special** core competences that give them a **comparative advantage**.

The Executive Summary is the First Section Read, but Written Last



- | | | |
|---------------------------------|---|---|
| • Description of the business | ➡ | • Is it unique or different? |
| • Opportunity/value proposition | ➡ | • Does it address an unmet customer need that customers value? |
| • Target market | ➡ | • Is the market large and/or high growth? |
| • Competitive Advantage(s) | ➡ | • Is there a sustainable competitive edge? |
| • Economics | ➡ | • Is there high profit potential? Can positive cash flow be realized within 2-3 years? |
| • Management Team | ➡ | • Does the management team have experience, relevant intellectual capital, and a proven track record? |
| • Financing | ➡ | • Does the equity or debt financing needed offer an attractive rate of return? |

What Consumer Need will be Filled: The ***Mission***

- Why does the firm exist?
- What is its purpose?
- What does the firm do?
- Why does it do it?
- For whom does it do it?
- It identifies the company's products, services, and customers.



A Mission Statement:

- Focuses less on what activities happen on the farm and more on what the business will accomplish for its customers, employees, and owners.
- Describes what **consumer need** will be filled.
- How will the firm's products and services do this better than the competition --**Customer Value Proposition**.

A Mission Statement

- Should be short enough so people can easily remember it.
- Answers :
 - Why am I here?
 - Where am I going?
 - How can we beat or avoid competition?



Mission Statement: *B & B Livestock Farm, LLC*, is a quaint family owned farm dedicated to recognizing our customers' needs by producing healthy, superior-quality, all natural food for the local consumer. Our high standards and commitment to cleanliness, animal health, and environmental stewardship allow for a relaxed, stress free environment for our animals and visitors alike.



Photo by Jeff Heckman

Business Description

- How is the farm and its products unique?
- Who are the customers?
- Describe when and how the farm started.
- Describe your farm: size, location, buildings and other facilities.
- Who is the owner? Who are the other key personnel?
- What are the financial capabilities any special business relationships?
- What are its strengths to build upon, and weaknesses to correct or overcome?
- Summarize future plans, timetables, resources required, and personnel or technical gaps to be filled.

Ownership Structure

- Sole proprietorship
- Partnership
- Corporation
- Limited liability partnership
- Cooperative
- Other



Business Goals

- Goals help you describe what you want from your business.
- They should be specific, measurable, attainable, and have a specific time period.
- Goals can be defined by answering some basic questions.
 - Why are you in business?
 - What do you want to accomplish in your life and business?

Examples of Goals

- Increase sales by 50% over the next five years.
- Reduce labor costs by 20% over the next five years.
- Maintain the same level of sales, but look for ways to reduce costs by 5% next year through inventory management and mechanization.
- Reduce debt by \$2,000 per year.
- Be in a position to transfer full ownership to children when current owners retire within ten years.

Strategic Plan - SWOT Analysis

Strengths, Weakness, Opportunities & Threats



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Strengths & Weaknesses are resources within your control – Internal to the Business

- What are the abilities and limitations of the manager and key employees?
- How modern and efficient is the physical facility?
- How is the soil?
- How close are you to the market?
- What can you do better than your competitors?
- What is the cash flow position of the business?

Opportunities & threats are beyond your control – External Forces

- Market trends
- Consumer demands, demographic, lifestyles
- Strong or weak currency
- Interest rates, inflation rate
- Government policies and regulations
- Labor markets

External Opportunities and Threats for Farms in the Northeast

Cultural and Demographic Trends

- Opportunity
 - A large number consumers with high disposable income.
 - Consumers are becoming more sophisticated.
- Threat
 - There are a growing number of two-income families with little time.

Market/Globalization Trends

- Opportunity
 - Consumers are looking for a “shopping experience”: agritourism appeals to urban consumers.
 - Consumers are buying local and going green.
- Threat
 - Consumers are still worried and hesitant to spend money.

Technology

- Opportunity
 - Communications technology is improving and becoming less costly.
- Threat
 - As a small producer, you can be left behind if you don't embrace social media.

The SWOT Analysis

- Match your farm's strengths and weaknesses to external opportunities and threats.
- Analyze the key factors for success and analyze the competition.
- Build a successful business by magnifying strengths, and overcoming weaknesses.

Questions to Ask in the SWOT Analysis

- What production levels do you have now, or do you want to achieve?
- What is the location? Does it lend itself to direct marketing or wholesale marketing?
- How much land do you own or have access to?
- What is the cash position of the firm?
- Does your strategic plan require greater competence or resources than the firm currently possesses?

More Questions to Ask

- Do the firm's skills and resources limit the alternatives?
- What are some marketing and production opportunities?
- Do management's personal preferences or sense of social responsibility limit the alternatives?
- Can you form alliances with other businesses that could compliment yours?

More Questions to Ask

- What skills and talents do employees possess?
- What family members will be involved in the business and what are their unique talents and interests?
- Who will be the next generation of management?
- How does the layout of the farming operation impact on production efficiencies?
- Do you have an adequate, cost effective water supply?

Develop strategic alternatives

- Evaluate alternative strategies that will attain the objectives of your farm business.
- Match strengths and weaknesses to external opportunities and threats.
- Focus on core competencies that give you a competitive advantage.
- Reducing costs is an important consideration no matter what type of competitive strategy you choose.

Successful producers are competing by :

Defining
their
comparative
Advantage.

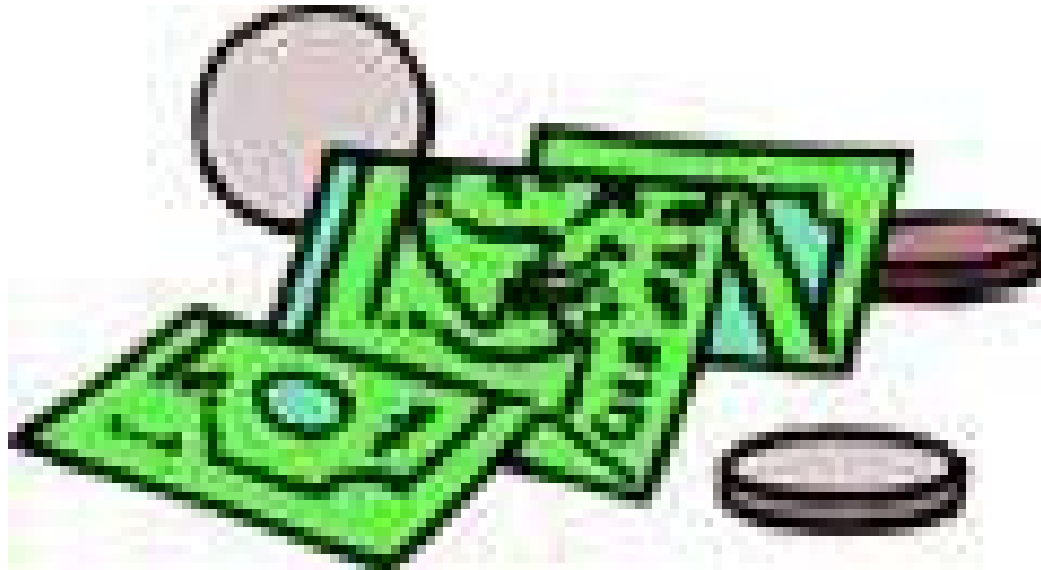


Successful producers are competing by :

**Listening
carefully to
what the
customer
wants.**



Successful producers are competing by :
Knowing their costs.



Rutgers Cost Accounting Programs
<http://aesop.rutgers.edu/~farmmgmt>

Differentiate by adding new enterprises

- Produce something that others do not.
- Add Services
- Find a market niche that local competitors are not serving.



Right size the operation - Bigger is not necessarily better.



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Evaluate pricing strategies

- Drop prices
- Add value to increase price



Integrate horizontally: spread fixed costs over more output

- Add another enterprise:
 - Selling hay
 - Boarding horses



Photo: Lawrence S. Martin

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Vertically integrate the business: *Make buying an experience*

- 43% of New Jersey farmland is engaged in agritourism.
- A \$57.5 million industry in New Jersey



Benchmark costs against industry standards.



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Partner with other producers, cooperatives, suppliers, or companies to produce, purchase inputs, or market.



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Consider not competing in the “Lowest Price” market



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Offer higher quality products and services
for premium prices

The worse times get....

Quality!

**The better the
has to be.**

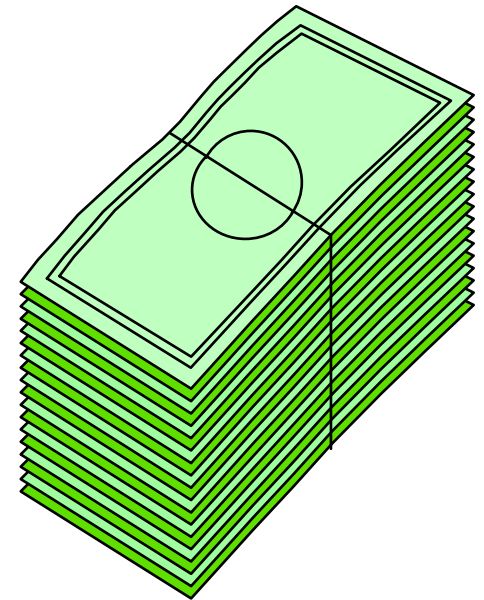
Unique Products

Benefits

- What are the unique benefits?
- Real versus perceived value
 - ⇒ appearance ⇒ accuracy
 - ⇒ performance ⇒ ease/cost of installation
 - ⇒ price ⇒ ease/cost of training
 - ⇒ versatility ⇒ ease/cost of use
 - ⇒ durability ⇒ ease/cost of maintenance
 - ⇒ speed ⇒ quality

Focus on the System

- ❖ Improve the profitability at the current size before getting bigger.
- ❖ Consider ways to eliminate debt or restructure it.
- ❖ Implement financial management practices that will :
 - ❖ Reduce costs
 - ❖ Increase profitability



Risk Management Plan

- Do we have fire, wind, and liability insurance coverage?
- Do we have life, health, and disability insurance?
- Do we have a retirement plan?
- Do we have crop insurance and, if so, how much?
- Do we have an estate plan?
- Do we have production alliances or networking arrangements with other producers, cooperatives, suppliers, or companies?
- Are there other on-site issues? How do we manage pesticide and fertilizer storage and mixing; fuel storage; and concerns from neighbors?
- How are we addressing environmental issues?

Management Plan

- Who holds the title of the farm?
- What proportion each owns if there is more than one owner
- What are the ***Contributions*** of each owner
- What are the ***Responsibilities*** of each owner
- Duration of the business structure agreement
- Description of how profits are shared
- Description of how the business organization will be terminated if necessary

Production Plan

- What knowledge and management capabilities are needed?
 - Are they readily available?
 - Do I have a serious commitment to each enterprise?
- What technology and equipment is needed?
- How much capital investments are needed?
- What are the labor needs?
- Where are the markets?
- What are the income relationships between each enterprise?



Marketing Plan

- Target Market and Size → • Is the target market (segments) clearly defined and sized?
- Industry Profile/Dynamics → • Are the profit characteristics of the industry attractive (operating profit margin)
- Competitive Dynamics → • What is the level of competition and threat from new entrants?
- Pricing → • What is the perceived value to customers? Is the pricing structure in line with the market's perceived value?
- Market Penetration Strategy → • Is there a solid marketing plan with appropriate promotional and branding strategies?

Financial Plan Based on Information in Preceding Sections



- Income Statement → • Revenue and expense projections based on sound assumptions
- Balance Sheet Or Net Worth Statement → • A Financial Snapshot Of Assets and Liabilities
- Cash Flow → • Sources and uses of cash projections (working capital, capital expenditures) and timing of these transactions
- Ratio Analysis
 - Profitability → • Measures the operating efficiency of the business
 - Financial efficiency → • Measures how well the firm employs its assets
 - Liquidity → • Measures the capacity of the business to meet its short-term liabilities
 - Solvency → • Measures the extent to which a business is financed by debt and the firm's ability to meet loan payments

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A Business Plans Helps Your:

- Look at the “Big” picture.
- Focus on core competencies that lead to competitive advantages.
- Identify strengths to build on and weaknesses to correct or overcome.
- Consider external forces in the industry – many currently negative.
- Anticipate and takes advantage of business trends.
- Align the firms activities to the market position.

AgPlan – Free Business Plan

- Center for Farm Financial Management, University of Minnesota AgPlan: <https://www.agplan.umn.edu/>
- New users need to "Register" (under the Login button).
- Also see: Rutgers Farm Management Website To Market, To Market <http://aesop.rutgers.edu/~farmmgmt>