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.
Top 5 reasons to have a Business Plan

#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!!

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#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
- Opportunity/value proposition
- Target market
- Competitive Advantage(s)
- Economics
- Management Team
- Financing

- Is it unique or different?
- Does it address an unmet customer need that customers value?
- Is the market large and/or high growth?
- Is there a sustainable competitive edge?
- Is there high profit potential? Can positive cash flow be realized within 2-3 years?
- Does the management team have experience, relevant intellectual capital, and a proven track record?
- 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.

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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*. 

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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 of 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?

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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.
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
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.
Partner with other producers, cooperatives, suppliers, or companies to produce, purchase inputs, or market.
Consider not competing in the “Lowest Price” market
Offer higher quality products and services for premium prices.

The worse times get.

The better the quality 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?

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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
  - Financial efficiency
  - Liquidity
  - Solvency
  - Measures the operating efficiency of the business
  - Measures how well the firm employs its assets
  - Measures the capacity of the business to meet its short-term liabilities
  - Measures the extent to which a business is financed by debt and the firm’s ability to meet loan payments
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