



Primer for Developing a Farm Business Plan¹

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This publication is part of a series aimed at explaining, as simply as possible, what is entailed in developing a farm business plan and guiding you through the mechanics of preparing such a plan. The publications in this series are online at the EDIS website at

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TOPIC SERIES Agribusiness Primer.

As the first in this series, Primer for Developing a Farm Business Plan (FE720) is an overview of developing a business plan. It identifies the main components of a business plan and reiterates why you should develop one. Subsequent articles will elaborate on other major components of a business plan and how each component is integral to defining the direction of your business.

Introduction

You may be thinking about getting into the business of farming, or about ways to increase your farm income by incorporating value added activities such as organic farming or direct marketing. Maybe you just want to expand your current operation but need external funding, or you simply want to improve the overall efficiency of your operation.

Whatever your reason, your success may well hinge upon your efforts in developing a business plan first—the majority of new businesses do not succeed, and almost one-third fail in two years and over half fail in four years due to the lack of a good business plan.

There is no doubt that preparing a successful business plan requires time and energy, but the payoff is far greater than the cost. The purpose of this primer on developing a farm business plan is to make the task of preparing a good farm business plan less daunting.

What Is a Business Plan?

A plan is defined as any scheme, program, or method worked out beforehand for accomplishing one or more objectives or goals. A business plan is defined as a document that summarizes how a business owner/manager/entrepreneur will organize a set of resources and implement activities for the venture to succeed. In other words, a business plan outlines how to achieve business objectives. It provides a road map and a timeline showing where you are, where you want to be within a given time period, and how you intend to get from point A to

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point B. Therefore you should be directly involved in the process of establishing goals, assessing resources, determining what is needed, and creating a strategic action plan.

Why Do You Need a Business Plan?

It is best for business plans to be written documents. Some of the advantages of preparing a written document include (1) it forces you to refine your ideas and objectives so that you can easily communicate them; (2) it allows you to examine how your product or service will satisfy the needs of your targeted consumers; (3) it provides a blueprint of exactly how you intend to operate your business; (4) it reduces the chance of there being any ambiguity among personnel as to the objectives of the business and what is required of them; (5) it effectively communicates your objectives to others; (6) it provides a basis for soliciting feedback; and (7) it shows that you have done the necessary preparatory work when seeking outside funding. Altogether, a business plan is a way to show that you know how to produce the product, how to sell it, and how to manage the financial risk (SARE 2003).

Is There a Standard Business Plan?

No, there is not a standard business plan. Plan format and outline usually vary, even though there are certain components that are common to most plans. In general, the content of the plan will be determined largely by your specific situation and the purpose for which the plan is needed. Plans that need outside funds usually include a standard set of components.

What Are the Main Components of a Business Plan?

The components of a business plan can vary considerably, but they all contain certain components (each of the components below will be discussed in detail in subsequent documents in the series).

1. *Executive Summary*: Although this appears first in a business plan, it is usually written last. It contains a brief description of the vision, mission, and goals of the business, and summarizes key elements of the business plan, such as strategies, sales growth, and profitability.

2. *Description of the Company*: This covers all aspects of the business, such as name, location, and history (including a summary of past performance for an existing company or start-up plan for a new company).

3. *Marketing Plan*: This identifies the targeted customers; describes the products or services being offered; examines the competition, pricing strategies, and advertising; predicts sales forecasts; and explains how the product will be distributed and packaged.

4. *Operational Plan*: This includes a detailed description of how products or services will be produced. Specifically, it focuses on the production system(s) to be used; physical resources that are available or will need to be acquired (purchased or leased); the size and capacity of the business; and regulations/policies governing product production, such as special permits, zoning, and licensing.

5. *Human Resource Plan*: This describes the organizational structure of the business (identifies who will manage the business and the number and type of employees needed, and provides information on compensation and benefits).

6. *Financial Plan*: This describes the funding requirements, and provides detailed information on break-even analysis, projected income statements, cash flow, and balance sheets; and a discussion of selected financial indicators.

How Much Detail Should Be in a Business Plan?

The amount of detail in a business plan will vary depending on the purpose of the plan. Most experts believe that, as a rule of thumb, if the plan requires outside resources (loans or equity investment), then it will need to be between 25 and 50 pages long (generally, less than this will not get the job done and more than this will not be read). If, on the other hand, the plan is for internal use only, then the plan can be shorter.

Concluding Remarks

A common misconception is that a business plan is only needed for starting a new business or to assist in securing outside funding. The truth is that everyone operating a business needs a business plan. A sound business plan is essential to running a successful business. Think of a business plan as a blueprint for achieving your goals. It is important to realize that a business plan is not static, but is a living document that will require adjusting as situations change. It is very important to routinely assess whether the business is meeting its objectives. Whether you are an experienced producer or a new producer, you need a business plan. A simple business plan is better than no plan at all, and it is never too late to create one.

References

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