

Business Planning Basics

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Rules of Thumb

- Hope is not a strategy
- The Woman/Man with the Strategy Wins

What is a business plan?

- Description of your business venture and the market context you face;
- Framework for your budget, production and marketing plans;
- Explains your ideas and plans clearly and completely;
- Avoid jargon and complexity;
- Your roadmap to success, benchmark for measurement.

Formal vs. Informal

- Formal: a written document outlining your business plan. Can be given to investors, lenders and employees.
- Informal: a working folder or binder with your notes, research information, goals, etc.

Why write a business plan?

- Only 1 in 5 farms has a business plan
- This 20% of farmers tends to be:
 - Be more business-oriented;
 - More open to opportunity;
 - More confident about the future.
- Plus, they tend to have increasing sales.
- They view farming as an opportunity, look at diversification and new ways of doing things.

Basic formula to remember:

Profit = Income - Expenses

PROFIT = INCOME - expenses

profit = income - EXPENSES

Elements of a Business Plan

- Business description
- Goals of the enterprise
- Marketing strategies
- Production plan
- Financial plan
- Exit/succession plan

Step 1: Goals

- Identify your goals:
 - Financial (Annual income? Savings? Retirement?)
 - Business (short-, medium- and long-term)
 - Personal (short-, medium- and long-term)
- Your goals should underpin your production plan;
- Measure your progress against your own goals, not against other farms

Setting SMART Goals

- Specific
- Measurable
- Attainable
- Realistic
- Time-related

Step 2: Describe your idea

- What do you do or what do you want to do?
- Why are you the person (or team) to do this?

Assess viability of your idea

- Marketing options available to you
- Competitive edge that you have
- How secure is your competitive position?
 - Price/substitutes, technology, ease of entry/exit
- Size of and access to your target market

Rule of 5

- Operating profit should be $1/5$ of gross sales;
- Operating profit should be able to pay off the capital expenditures in five years.

Step 3: Marketing Strategies

- Who is your market?
- How will you promote your business and its products?
 - Consider everything from advertising to presentation at the point of purchase
 - How will you maintain and evaluate your competitive edge?
 - What are your sales estimates (Income)?

Step 4: Production Plan

- Consider tasks and costs of each crop (enterprise budgeting)
- Develop a crop plan, including seeding and/or transplant dates, estimated harvest dates and yields, tasks required to grow
- Map your plan onto a calendar

Production Plan Strategies

- Work backwards:
 - Design the season's harvest you want (map out your CSA boxes or your market stand to meet revenue projections)
 - Based on desired harvest dates, calculate necessary seeding/transplanting dates
 - Make sure you have space to grow everything and assign that space to each crop

Production Plan Resources

- Johnny's Seeds: Succession planting calculator, planning spreadsheets, catalogue yield estimates chart
- Canadian Organic Growers crop planning book
- Enterprise budgets (coming soon from Kwantlen Polytechnic University)

Step 5: Financial Plan

- Indicate projected income (from Marketing Plan)
- Indicate projected expenses (from Production Plan)
- Cash flow analysis
- Projected Balance Sheet
- Source and use of funds analysis

Step 6: Exit Strategy

- Anticipated lifespan of your business?
- Can you easily liquidate equipment purchased?
- Could you sell your business? How will you value it?
- If you are a partnership, who has rights to the business name and/or land access?
- Do you have a will? Power of attorney?

Step 7: Implementing Your Plan

- Balance time working ON your business with time working IN your business
- Set expectations: Write job descriptions and Standard Operating Procedures, Communicate goals
- Plan regular business meetings with your family and employees
- Collect and manage data effectively
- Set times to consult your business plan and to review goals
- Financial reporting: budget vs. actual

Consider the Lean Principles

- How can you reduce costs and increase profit while improving your product?
- Refer to the Lean Principles, adapted in the May 2013 issue of *Growing For Market*

Financial Analysis

- Profitability
- Cash flow analysis
- Sensitivity analysis
- Return on Assets:
$$\frac{\text{(Net Income + Annual Interest Charges)}}{\text{Value of Total Assets}}$$
- Return on Equity:
$$\frac{\text{Net Income}}{\text{Value of Owner Equity}}$$

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