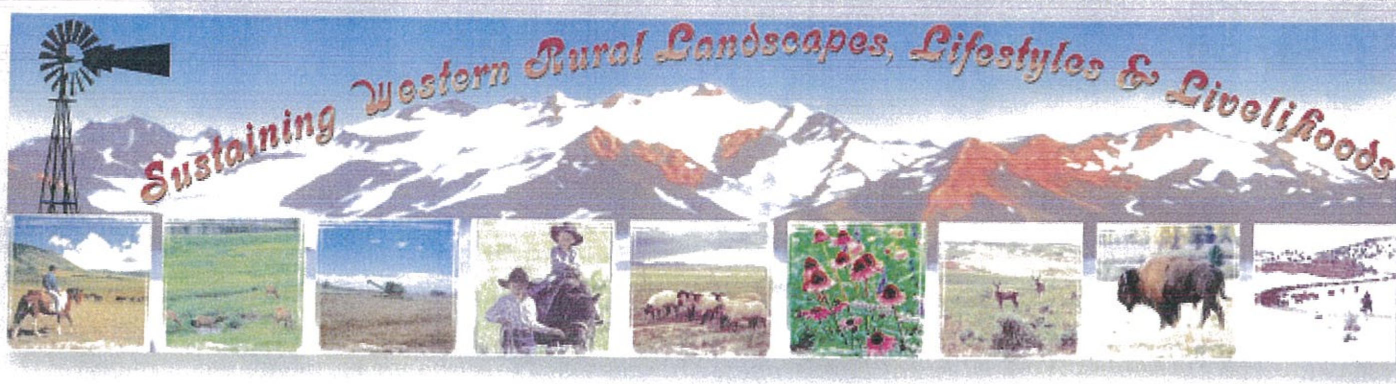

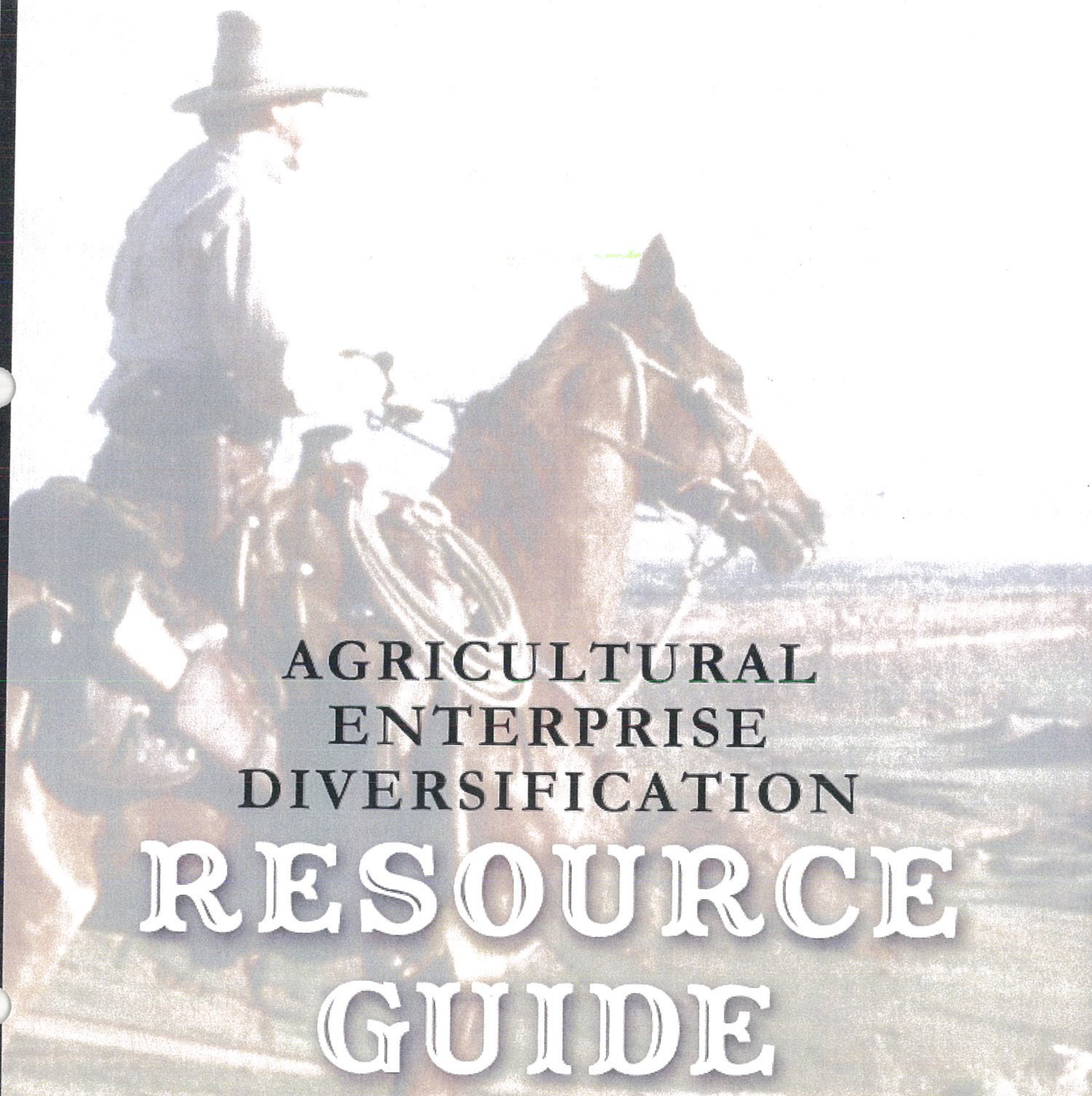

AGRICULTURAL ENTERPRISE DIVERSIFICATION RESOURCE GUIDE

Wyoming
BUSINESS COUNCIL

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To Whom It May Concern:

The *Sustaining Western Rural Landscapes, Lifestyles and Livelihoods* partnership completed the comprehensive agricultural diversification resource guide as a valuable tool in assisting professionals in delivering technical assistance to agricultural producers as they evaluate their current operations and research the feasibility of diversifying.

The information, at first glance, may look overwhelming, but is divided into the following sections:

- Foreword
- Introduction to Agricultural Enterprise Diversification
- Enterprise Assessment
- Enterprise Feasibility
- Enterprise Implementation (Business Planning, Legal, Finance, Marketing, Human Resources, Natural Resources and Community)

If you would like further information on how to best use this guide please don't hesitate to contact me at the following address. In addition we have access to professionals who can assist agricultural producers develop an agricultural diversification strategy, so please don't hesitate to contact me.

Sincerely,

Cindy Garretson-Weibel

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A. Preparing an agricultural enterprise business plan

There are several formats to use when writing an agricultural enterprise business plan, whether it's for an existing enterprise or a new, diversified enterprise. One format has been included as a sample. Regardless of the format used, there are several key areas to address: business concept and structure, market analysis and plan, management plan, financial plan, and break-even analysis. Some agribusiness enterprises also will require a design and development section, a manufacturing plan for products, or an operations plan for a service business. If the business plan is going to be read by potential investors or lenders, include an executive summary, proposed funding information, and appendix of supporting materials.

Encourage your customer to seek the appropriate expertise for assistance in developing a comprehensive enterprise business plan. Assist him or her in making those key contacts, if needed.

1. Content of an agribusiness plan

- Executive summary
- Overview of the industry and the business
- Market analysis
- Market plan
- Management team
- Design and development (optional)
- Manufacturing plan/operations plan (optional)
- Financial plan
- Break-even analysis
- Proposed offering (optional)
- Appendix

a. Executive summary

The executive summary is the overview of the plan. It is a very important part of your customer's agribusiness plan because it answers the "who, what, where, when, and how" of their business plan. Consisting of one page, or two at the most, it highlights important points that allow the investor to determine quickly if there is any interest. This is the section that should capture the reader's attention so that the rest of the plan will be read. Prepare this section after the other sections of the business plan have been written. Remember to make this section appealing and compelling! This section should clearly and crisply highlight the following points:

- *The business idea* – State the purpose in 25 words or less.
- *Market opportunity* – Identify the trends and competitors' vulnerabilities.
- *Target markets* – What will be sold and to whom?
- *Competitive advantages* – How are proposed products or services innovative and/or unique?
- *The team*– Who is on the management team and what is their track record?
- *The offering* - What is the amount of equity or debt financing needed?

b. **Overview of the industry and the business**

This section should contain information about the overall industry in general. This is an overview, so it should be kept very short. It includes the business concept and how that particular business fits into this industry. Occasionally, businesses will not fit into the industry, so if this is the case, explain why it does not fit.

The industry:

- Current status and future trends of industry.
- Briefly discuss market size, growth trends, and competitors.
- Discuss new products, developments, markets, or economic trends and factors that could affect the business.

- Briefly describe the overall customers and what benefit they receive from the product or service in this industry.

The business:

- Give a brief description of the business – this is the business concept.
- Discuss the legal (format) structure of the business.
- Provide a description of the business and how it fits into the industry. Keep this brief because the rest of the plan will provide detailed information about the business.

c. Market analysis

This section presents the business your customer is currently in or is proposing, the products/services that will be offered, and the opportunities that will be pursued. Assist your customer in providing facts to convince the investor that the product/service has opportunity. The key point in the market analysis is to explain clearly and concisely why the venture will succeed.

The product and/or service
Describe in detail, including features, benefits, and applications. Features are characteristics of the product or business; and benefits are what the characteristics or features will do for the customer. Features are important; however, customers "buy" the benefits.

Customer analysis
Customer analysis typically involves developing a customer profile. The profile includes income, age, sex, education, location, hobbies, marital status, etc. Profiling reveals customer groups by behavior habits. Behavioral habits, as they apply to purchase decisions, are the best predictors of future purchases.

- Who are the potential customers? Potential customers are people who would be able to use but not necessarily buy a product.
- Where are these customers located?

Analysis of the competition
- Identify the key competitors and describe their strengths and weaknesses.
- Describe the competition's strategic direction (pricing, promotion, and distribution), if possible.

Competitive advantage
- What advantage does this business or product has over competition, such as patents or trade secrets?
- What is unique about this business or product that gives it that "edge" over existing competition?

Market size and trends specific to your business and location
From the customer analysis, the market segment can be determined. The market segment refers to a sub-segment of a total market, which can be identified by specific characteristics. Sometimes there are several different market segments that make up a total demand for the product or service.
- Estimate the market segment.
- Identify major trends of the market segment.

The market potential and projected sales volume
The market potential is estimated by determining the number of sales over a period of time. The numbers developed in this section are what will drive the financial projections. This number will differ from the number of people who would be able to use the product or service. The focus at this point is on the number of people who would be able to buy or pay for it.
- Define the target market(s).

- Determine a realistic number of people who will actually purchase (rather than just want) the product or service.
- Estimate the rate at which buyers will purchase the product/service (i.e. seasonal, purchasing cycles, etc.).
- Project annual sales volume.
    a. Total number of people in the trade area
    b. Total number of these people (a) who fit the customer profile
    c. Estimated amount spent by each customer each year on product/service purchased from the landowner or competition
    d. Total annual market potential (b x c)
    e. Determine (estimate) your customer's market share – be realistic, not optimistic
    f. Projected annual sales volume (d x e)

d. <u>Market plan</u>

The market plan is the overall marketing strategy that is developed specifically for the agribusiness once a thorough market analysis has been conducted. The market plan consists of tactics, schemes, and procedures a business uses to communicate with and attract the attention of customers. This strategy differentiates the business from all other businesses that sell the same/similar products or services. It uses a mixture of the "four Ps" of marketing – price, product, place, and promotion. The market plan should describe how sales projections will be achieved and includes the following elements:

Product – What will be sold? The product or service includes many things in addition to the actual product/service. Consider such things as quality, brands, depth and breadth of product/service lines, packaging and presentation of product or services, features and benefits, or image portrayed. Several variables need to be considered, as follows:

1). Product positioning – What position does this product or service have in the marketplace? The position will be affected and driven by:
   - Customers' needs and wants
   - Customers' perceived value
   - Uniqueness of the product/service
   - Key features & benefits of the product/service

2). Product packaging – The way the product/service is presented to the customer, which includes:
   - Physical container/package of product/service
   - Business cards, letterhead, stationary, logo, signs & other image items
   - Presentation of the proprietor and the business

3). Product mix – If marketing more than one product, seek compatibility
   - Image of business & products
   - Target segments
   - Promotional resources

Placement (distribution) – How does the product get to the customer? This is the process of moving the product from production to consumption. The distribution process might be one of the following: direct marketer; retailer; wholesaler to retailer; or wholesaler, jobber and retailer. Retailing businesses usually consider location, space, and costs. Manufacturers need to consider territories, distribution methods, and costs.

1). Distribution channels or processes:
   - Directly to the end user
   - First to an intermediary, then to end user

- Directly to any intermediary and end users
- Channel partners to producer and to end user
- Each channel layer may affect
  - Costs (15% - 50% of final price of product)
  - Complexities (quality control, timeliness, efficiencies)

2). To determine a distribution process, consider:
- What process is typical of the industry?
- What do the competitors do?
- How do the target customers want to get the product/service?
- What new, unique distribution process can be taken advantage of?

Price – What will be charged? Pricing reflects a complex relationship of product/service, customer service, expenses, and profit goals. Consider the market position and competitive pricing.

- Pricing strategies
  - Low-price (penetration) strategy
  - Meet-the-competition price strategy
  - Industry pricing strategy
  - Client price adjustment strategy
  - High-price strategy

- Price influencers –
  - Costs – pricing from "bottom up"
    - Determine raw materials, labor, overhead, taxes, and profit
    - Compare price to competition, market position
  - Demand – "top down" pricing
    - Analyze the range of acceptable prices: decide on a price, analyze costs, determine if there is adequate profit
    - What is the market willing to pay?
      - Seasonal
      - Convenience
      - Elasticity of the consumer
  - Image – pricing based on perceived value of product/service. Consider:
    - Psychographic profile of target market: price/quality relationship

Promotion – How will the world know that this product/service exists? - Promotion communicates a message, builds an image, and creates awareness.

- Promotional mix – The combination of tools used to promote products or services:
  - Personal selling
  - Word of mouth
  - Public relations
  - Sales promotion
  - Advertising

Personal selling – a form of promotion to help buyers buy and to make sure that they are satisfied after the sale. It involves searching out prospects, face-to-face presentation and promotion of product/service, and follow-up.

Word-of mouth promotion – Consumers talking (personal testimony) about a product or service they have liked or disliked. It is one of the most effective promotional tools if promoted by satisfied customers to potential customers.

Public relations (PR) – This form of promotion involves listening to the public, developing policies and procedures that are in the public interest, and then informing people that you are being responsive to their needs.

<u>Publicity</u> – a function of PR

- Any newsworthy or interesting information about an individual, product, or organization that the media distributes to the public, that is not paid for or controlled by the sponsor.
- *Advantages:* it is free; may reach hard-to-access audiences, includes various media coverage, and increases believability.
- *Disadvantages:* no control of how, when, if, or how many times the publicity is used: information may be altered; and the information may be bad, rather than good.

Sales promotion – Short-term activities that stimulate consumer purchasing and supplement other promotional activities such as:

displays	bonuses	premiums
gifts	trade shows	demonstrations
contests	incentives	exhibits
samples	rebates/coupons	catalogs

Advertising – A form of promotion that is a non-personal communication paid to various media by organizations or individuals who are in some way identified in the advertising message. Advertising promotion media includes the following:

- Newspaper
- Television
- Direct mail
- Yellow pages
- Radio
- Magazines
- Internet
- Outdoor/billboards/flyers

e. **Management team**

People invest in people. The energy and the values of the management team will make or break the business. In this section, provide a summary of the people who make up the organization. In most cases, this will be the immediate family and any essential employees. Remember to describe not only the skills and special talents of people within the business, but also people who are indirectly affiliated with the business. Members of a board of directors, professionals such as accountants, lawyers, mentors, and consultants who have taken on special projects should be mentioned as contributing team players. The character and quality of the support group can add credibility to the business. Keep in mind that in a small town, the background of the proprietors of a new business may play a big role in obtaining financing for the business.

Note: Detailed resumes of key persons of the business and detailed or lengthy information about other resource persons should be provided in the appendix – not in this section.

The key people

- How each key person fills a need of the business
- Key management's experience
- Management compensation

Other resources available

- Other investors
- Board of director members and pertinent experience
- Supporting professional advisors and services
- Family or close friends in similar business

f. Design and development *(optional)*

This section explains the nature and extent of design and development needed on the product and/or service before it is ready for the customer. This is important to a potential investor who wants to know when the final product is ready for market.

- Development status
  - Cost and Time: to achieve a marketable product and/or service
  - Difficulties and risks including threats from recession, etc.
  - Problems that may cause alarm at a later date. (Identifying potential problems before they occur puts a person one step closer to a solution.)

- Product strategy
  - How the product/service is positioned in the market.
  - Future products (i.e. product portfolio) *(optional)*.

- Proprietary issues
  - Patent, trademark, copyright, or intellectual property rights that are owned or being sought.
  - Contractual rights or agreements that give the owner exclusivity or proprietary rights.

g. **Manufacturing/operations plan (*optional*)**

This section describes where, what, and how the product will be produced and/or the service will be provided. Again, a potential investor wants to know how long the manufacturing process will take before the product is ready for market, or when the services will be available to consumers.

- Inventory plans
  - Define the production plans showing costs at different volumes
  - Define the "start of volume production"

- Manufacturing/operations process
  - Describe what it takes to put the product together – from raw products to final product
  - Discuss the design for manufacturing at various volumes
  - Describe any subcontracting manufacturing agreements
  - Describe any strategic manufacturing alliances that have been arranged for high volume production
  - Describe what is required to provide the specified services
  - Describe any natural resource improvement practices necessary to provide the product or service.

- Costs
  - Provide an analysis on the breakdown of fixed and variable costs
  - Describe how variable expenses relate to the volume level

h. <u>Financial plan</u>

The financial plan eventually becomes the deciding factor to a lender. Financial statements that depict a future period are called pro-forma or projected financial statements. This section represents the best estimate of future operations for financial viability. Provide observations and qualitative comments regarding the numbers, especially if it is not obvious why certain numbers have been used. Numbers should be realistic. If possible, industry standards should be used for explanatory footnotes. Three years of projections are recommended because they provide clarity to the overall picture of the business. Find out how much detail the investor or lender wants in the plan. Investors and lenders have different requirements depending on the scope of business and amount of funds requested.

Profit and loss projections (three years) – These are the same as income statements. The income statements or profit and loss projections measure the costs and expenses against sales revenues over a period of time, thus measuring profit performance. Profit and loss projections are tools for forecasting and budgeting. They complement the balance sheets by providing a moving picture of the business over a given period of time.

Cash flow projections (three years) – **This is an extremely important financial planning tool for the business owner.** For a start-up or growing business, the cash flow projection can mean the difference between success and failure. For an ongoing business, it can mean the difference between growth, stagnation, or decline. Cash flow analysis shows how much cash is needed and when it will be spent. Cash flows into the business as sales, receivables, and capital injection. It flows out of the business through cash payments of various expenses. Cash flow projections will not show profit or depreciation.

> Note: A monthly cash flow projection form can be found in Appendix D, Section VII of this guide. Additional financial information can also be found in the finance subsection (V).

Pro-forma balance sheets – These statements show how the business stands financially at a certain point in time. It is a static picture of the business showing how assets, liabilities, and net worth are distributed at a given point in time. The format is standardized to facilitate analysis, therefore, do not deviate from it. Provide pro-forma balance sheets at the time of start up, then semi-annually for the first year, and annually for the remaining two years. These may be optional depending on the requirements of the lender.

i. Break-even analysis

*Break-even analys*is is a quick way to look at whether it is realistic to go into business and whether the costs are realistic. In simple terms, it is the point at which the total costs equal the net sales. Break-even analysis will indicate:

- The number of units that must be sold in order to start making money
- Profit at any given level of sales
- Profitability at different prices

Separating costs – In order to calculate break-even, separate costs into fixed and variable costs. Total cost of a project will equal the total fixed costs plus the total variable costs. Finding the variable costs can be difficult, especially for new businesses. Start-up costs may initially hide variable costs.

- *Fixed costs* – Those expenses that must be paid whether zero units, one unit, or many units are sold. Rent and salaries are examples of fixed costs.
- *Variable costs* – These costs change directly with the amount of units sold. Costs such as materials, labor, and packaging would shift depending on the amount of production. In general, if there is a direct relationship between a cost and number of units sold, consider the cost variable. If there is no relationship, then consider the cost to be a fixed cost.

j. **<u>Proposed offering *(optional)*</u>**

The purpose of this section is to clarify the benefits to the lender. In other words, what is in it for the lender? This section reviews the amount of money needed from the investor, the uses of the funds, and the repayment schedule. This section should include the following information:

- Describe the desired financing terms such as how much is needed from this offering, what other financing options will also be used, and the farmer or rancher's equity position.

- Describe the collateral position that will be used to secure the payment of the loan. Collateral can include personal and business assets such as stocks, bond, automobiles, real estate, inventory, equipment, and accounts receivable.

- Summarize the type of loans requested and how funds will be used. There are several types of loans, as follows:
  - Short-term loans – A common type of business loan that usually lasts for less than a year, but can sometimes be two or three years. They can provide working capital for a business temporarily in need of capital. Short-term loans are usually repaid in a lump sum at the end of a period when inventory or accounts receivables are converted into cash.
  - Intermediate-term loans – The maturity date of intermediate-term loans is usually from one to five years. The loans are often used for business start-up, purchase of equipment, business expansion, or an increase in working capital.
  - Long-term loans – The term of loan is for five or more years and is used for specific business purposes such as acquiring fixed assets, major capital improvements or real estate purchases. The loan is based to some extent on the life of the asset financed. Repayments are made monthly or quarterly.
  - Line of credit – This type of loan is important to businesses that experience fluctuating or seasonal cash flows. It allows the business the ability to borrow money repeatedly without reapplying each time. The lending agency usually will perform an annual review on updated financial statements.

Provide the repayment plan or schedule that tells how the loan will be repaid. The lender will expect repayment of the borrowed funds from profits produced by the business. Lenders will also want to know how the borrowed funds will be repaid in the event the profits alone are not adequate for repayment

k. Appendix

This section is reserved for supporting documents or data that will back the agribusiness plan and its claim of success. Include such things as:

- Endorsements
- Letters of interest or intent from potential customers or suppliers
- Resumes and letters of character reference
- Job descriptions
- Pictures and drawings to describe the idea
- Schedules
- Articles and reports
- Contingency plan: various scenarios that would describe the business given different internal and external occurrences
- Maps of business location, area, complimentary services, and traffic pattern

2. Projected Income Statement Years 1, 2, and 3 by month

Income
- Net Sales (revenues less returns)
- Cost of Good Sold (COGS)

Gross Margin (Net Sales less COGS)

Operating Expenses
- Salaries
- Payroll Taxes
- Employee Benefits
- Rent
- Utilities
- Car/Delivery
- Supplies
- Advertising
- Legal/Accounting
- Insurance
- Bad Debts
- Interest
- Other
- Depreciation

Total Operating Expenses

Net Profit (or Loss)
Before Income Taxes
(Gross Margin less Total Operating Expenses)

Balance Sheet

Assets
Current Assets
- Cash
- Accounts Receivable
- Inventory
- Prepaid Expenses

Other Current Assets
Total Current Assets

Fixed Assets
Land
Buildings
Less Accumulated Depreciation
Book value – building
Equipment
Less Accumulated Depreciation
Book value – equipment
Other Fixed Assets
Total Fixed Assets

Total Assets (Current and Fixed)

Liabilities
Current Liabilities:
Accounts Payable
Federal & state taxes owed
Other current liabilities
Total Current Liabilities

Long-term Liabilities:
Notes payable to bank
Mortgages payable
Other long-term liabilities

Total Long-term Liabilities

Total Liabilities (Current and Long-term)

Owner's Equity
Total Liabilities + Owner's Equity
(Total liabilities and owner's equity must equal that of the total assets.)

B. **Business stages**

1. **Start-up businesses**

Every day, many people dream about starting their own business. And, every day many people do start businesses. Unfortunately, without adequate planning and capital to fund the businesses, many businesses will fail within several years. According to the Wyoming Department of Employment, the survival rates of new business in Wyoming during the first six years is as follows:

One Year	Two Years	Three Years	Four Years	Five Years	Six Years
66.6%	52.4%	43%	37.1%	32.5%	28.7%

Source: Wyoming Department of Employment, *Wyoming Labor Force Trends.* January 2001.

Generally, people who want to start a business are usually motivated, energetic and passionate about their product or service. But oftentimes, they are so enamored with their idea or product they overlook or avoid the importance of a preparing a business plan or obtaining sufficient start-up capital. Falling in love with the idea of being an entrepreneur or being overly optimistic about one's success can be a death sentence to the business before the door is even opened.

A start-up business has considerable potential for creativity and flexibility. There are many hurdles in the beginning, but using the assistance of trained professionals can alleviate learning lessons the hard way.

There are several reasons why people start a business. It may be a mother who wants to stay home with her children, but at the same time have the satisfaction of owning a business or making money. For others, it may seem they have a few choices, especially in the case of layoffs or college graduates who cannot find jobs. In some families it is important to have a family business where all the family members work together, and the business is eventually handed down to the children. This is common in agricultural operations. Whatever the reason, it is important to explain the reality of starting a business and the hard work it entails.

2. <u>Business approaches</u>

There are four ways to get into business. Each approach has its advantages, as follows:

Start a business from scratch – This is the riskiest way to start a business because it requires the greatest amount of creativity, has the greatest uncertainties, and in general one can expect a limited return on investment (if any) for the first three years of operation. However, the entrepreneur achieves a tremendous amount of satisfaction from developing a business "from scratch." Another advantage is that the owner has the greatest flexibility in developing the company.

Buy an existing business – New business owners who purchase a business run the risk of paying too much, leaving them not adequately capitalized to start their business. Another risk is that one buys the bad along with the good – such as location, inefficient operating procedures, and reputation. On the positive side, there is a short lead-time to getting into business and the new owner has access to financial history, existing customers, and suppliers.

Buy a franchised business – Purchase of a franchise is a less risky approach than buying a business or starting a business from scratch. A franchise offers a new business owner a pooled marketing program, economies of scale for inventory purchasing, name recognition, and established inventory and accounting procedures. However, a true entrepreneur may not be satisfied with the limited flexibility allowed by the franchiser, and the purchase price and ongoing franchise fees may be quite costly.