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**AN INNOVATIVE APPROACH TO DEVELOPING AN
AGRICULTURAL BUSINESS PLAN***Kevin Klair and Robert Craven**Center for Farm Financial Management, Department of Applied Economics, University of Minnesota***Abstract**

The use of business planning in U.S. agriculture has grown rapidly in the past decade. A decade or two ago, the concept of developing a business plan for farmers or ranchers was rarely discussed by either producers or farm management educators. Today when educators, lenders or producers discuss farm management issues, the need for a business plan is usually one of the foremost topics mentioned.

This paper discusses the reasons a producer should develop a business plan in order to document financial viability and demonstrate a thorough understanding of all aspects of managing the business. A business plan is a communication tool both externally with lenders and investors and internally with family members and employees.

Agricultural producers seeking to develop a business plan face a number of challenges. One of the primary challenges is the time required to write a business plan and the challenge of completing the task. Educators struggle with the same issue but from the perspective of how to provide adequate assistance to producers developing a plan. There have also been limited business planning tools available that are relevant to agriculture.

The development of AgPlan, an online agricultural business planning website has addressed a number of the business plan development challenges. AgPlan allows producers to select from four distinct business plan types, including traditional commodity agriculture, value-added agriculture, small business, and commercial fishing. For each type of business, AgPlan provides a business plan outline, tips or suggestions for each section of the plan, resource links to articles on specific topics, and sample plans. The most innovative feature of AgPlan is a producer's ability to give reviewers or advisors access to their plan and to interact with trusted reviewers as the plan is developed. AgPlan, www.AgPlan.umn.edu, is free for anyone to use and is online, so it is available and being used by producers throughout the world.

Keywords: Farm Business Planning

Subtheme: Farm management

The use of business planning in U.S. agriculture has grown rapidly in the past decade. The number of producers developing and using business plans has grown for a number of reasons. Lenders are requesting increased documentation, including in some cases, business plans. Agricultural lending is increasingly merging with commercial lending functions, resulting in more commercial lending influence in agricultural lending. The holistic planning approach promoted by sustainable agriculture has strongly supported the development of business plans. On the other end of the spectrum, there are more commercial business-minded producers. These factors have all contributed to an increased use of business planning within the agricultural sector. The challenge for both producers and educators has been how to effectively develop a plan and then use the plan in the ongoing management of the farm business.

Why Should a Producer Develop a Business Plan?

The most common reason producers develop is to document the financial viability of a business. Most producers who choose to write a business plan do so when they are requesting financing. A comprehensive business plan will address the financial viability of the proposed business in addition to describing how the other aspects of the business will function. The financial section of a business plan should adequately document current and expected revenue, expenses, net income, and the projected ability to repay debt.

A second reason that lenders or investors request a business plan is that they want to verify that the manager has thoroughly considered all the various aspects of managing the business. A good business plan demonstrates that the manager has taken the time to think through the details required to make the business succeed. By reviewing a business plan, a lender can quickly evaluate how well the manager has considered the operational, personnel, marketing and financial aspects of successfully implementing a proposed expansion or start-up. The use of business planning to help managers think through all business management functions is valuable for both managers and lenders or investors.

A third major function for business plans is that they serve as an effective tool to communicate the purpose, structure, operations, and finances of a business to those who need to know more about the business. Externally, a business plan can communicate the essential information about a business to lenders, investors, or partners. Internally, the plan can communicate goals, operational procedures, and management roles to family members and employees.

Who Needs a Business Plan?

Does every farmer need a business plan? The answer is a resounding no. Producers who have well-established stable businesses may benefit from writing a plan, but they do not need a plan to continue to operate successfully. There are, however, several groups of producers who will derive greater benefits from the development of a business plan. These include producers starting or expanding a business and those considering or operating a unique or creative type of business entity.

Initiating a business and expansions are the two most common situations in which producers decide they need a business plan. Usually the motivation for writing a plan is still associated with a request from a lender or investor. Business plans are not required to start or expand a farm, but requests for a business plan in these situations are becoming increasingly common, especially for larger farming operations.

Beginning farmers or even well-established producers proposing a creative new enterprise will find preparing and presenting a business very advantageous as they communicate their ideas and capital requests to lenders. Creative niche business operations face greater challenges obtaining financing. This may help explain why sustainable producers have led the way in the use of business plans in agriculture.

Challenges to Developing a Business Plan

While numerous articles have been written encouraging producers to develop a business plan and an increasing number of workshops are being delivered on the topic, producers face significant challenges if they attempt to write a plan. Primary among these is the amount of time required to develop a business plan. Generally producers spend two to three months discussing, researching, and writing a plan. The challenge for producers is how to stay motivated and focused over this duration of time. The corresponding challenge for educators is how to connect with and encourage producers to finish the plan. Options that educators have tried include holding a series of workshops

over the course of several months, conducting a single workshop and hoping the participants follow through, and working individually with producers over an extended period of time. These options are either expensive in terms of time and resources or unlikely to actually help producers complete a plan. Producers continue to experience the daunting challenge of obtaining ongoing assistance when writing a business plan.

Although educators and others have encouraged agricultural producers to use and develop business plans, a second challenge facing producers interested in developing a plan is the lack of tools or templates designed for agriculture. Business planning software is readily available commercially, but rarely do these programs address agriculture in their structure or terminology. Business planning software usually includes sample business plans, but again, they rarely include agricultural samples. Producers using these commercially available programs have to learn the terminology used by the program and then make the structure of the plan work for their farm or ranch.

Business plans that are useful and valuable do not end up in a desk drawer gathering dust or buried under other papers. Well prepared business plans can become a dynamic document that is used in the ongoing operation of the business and to evaluate strategic opportunities and decisions. A useful plan is nearly always one that is developed by the business management team rather than one that is developed by a hired consultant. Producers who have spent the time to develop their own plan tend to state rather adamantly that they believe their plan is far more valuable than a plan prepared by a consultant.

An Innovative Approach to Developing an Agricultural Business Plan

The Center for Farm Financial Management (CFFM) at the University of Minnesota developed an agricultural business planning software program in the early 2000's. However, while this program addressed some of the challenges facing producers needing a business plan, a number of challenges remained. In 2007, CFFM initiated an effort to alleviate more of the challenges surrounding development of agricultural business plans. CFFM formed a national team to work on the development of an online agricultural business planning tool. The team represented diverse segments of U.S. agriculture, including commercial producers, small and minority producers, women producers, sustainable and organic producers, lenders and farm management educators.

The result of this development effort was AgPlan, a powerful online business planning tool. AgPlan addresses many of the challenges that agricultural producers face when writing a business plan. Since being released in 2008, nearly 4,000 agricultural business plans have been initiated using AgPlan. AgPlan is free for anyone to use and is online, so it is available and being used by producers throughout the world. To use AgPlan, simply go to www.AgPlan.umn.edu and register to setup a free account.

AGPLAN™
The Agriculture, Fisheries and Small Business Planning Website

What is AgPlan?

AgPlan helps rural business owners develop a business plan. Everyone can use AgPlan—for FREE.

- Develop your own business plan
- Learn what you need to include in your plan with Tips & Resources
- View Sample business plans for ideas
- Share your plan—print, download and work with your own Reviewers

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PLAY

How do I get started using AgPlan?
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We are committed to safeguarding your info
[Private Security Statement](#)

AgPlan's User-oriented Features

- Choose your business type**
AgPlan is designed to provide customized assistance to different types
- Editor**
Our feature-rich type editor acts just like your computer's word processor. For
- Tips, Resources & Samples**
In each section of AgPlan you will find specific Tips, Resources & Samples to
- Reviewers**
AgPlan allows you to share your business plan and interact with your

AgPlan Features

The first decision an AgPlan user will need to make is what type of business plan template best fits the business for which they are developing a plan. AgPlan provides resources for four types of businesses, traditional commodity agriculture, value-added agriculture, small business, and commercial fishing. For each of these business types, AgPlan provides a plan outline, tips or suggestions on what to include in each section of the plan and sample plans.

AgPlan is designed to help producers develop a business plan with minimal assistance from agricultural professionals, but it also provides the unique ability to interact whenever necessary with one or more advisors, educators, or consultants.

The screenshot displays the AgPlan software interface. On the left is a sidebar with a tree view of business plan sections, including 'Cover Page', 'Executive Summary', 'Business Description', 'Operations', 'Marketing Plan', 'Management & Organization', and 'Financial Plan'. The 'Business Description' section is currently selected. The main area shows a text editor with a rich text toolbar and a text box containing the following text:

Lakeshore Orchard is a seasonal rural business in Hector, New York. Lakeshore orchard produces apples and pumpkins and provides entertainment, meals, and shopping during the autumn season. Lakeshore was started in 1998 by Kelly and Steve Miller, who have the vision of making lakeshore the best fall family experience in New York's Finger Lake region.

Below the text editor is a 'Tips' section with the following text:

Provide a brief description of your farm or ranch. In a few sentences, help people who are unfamiliar with your business develop an understanding of what you produce, the size of your operation and how you market your products. This may be very similar to the **Business Overview** section you wrote in the **Business Description** section of your business plan.

Describe your business here in the Executive Summary for those people who will only read your executive summary. This may be the only chance to describe your business to a reader. Succinctly describe your business in an engaging manner.

The business plan outline provided depends on the type of business selected. In addition to a detailed outline, AgPlan provides Tips or suggestions for each topic in the outline. These Tips also vary depending on the type of business selected. Tips for a traditional commodity agricultural plan refer to issues faced by commodity producers. Tips for a value-added plan reflect the production and marketing issues related to value-added production and marketing. Tips for the small business version do not discuss agriculture and of course the commercial fishing version addresses the issues and terminology experienced by fishermen. Tips are short but helpful suggestions that give producers insight into what should be included in each section of the plan and should help them determine if the section is relevant to their business. The AgPlan help clearly states that producers do not have to complete every section in the outline.

In addition to Tips, AgPlan also provides Resources, which are links to web-based articles or factsheets providing more in-depth information for a section of the outline than what is provided by the Tips. Resources provide producers the ability to quickly learn more about topics of interest to them or topics that they feel the need to learn more about. For example, in the value-added outline, pricing has links to several articles that discuss how to set product prices. Sample business plans are also available to help producers understand how to complete their individual plan.

The most innovative feature of AgPlan is the ability producers have to allow reviewers or advisors access to their business plans and to allow them to comment on or even edit their plan. All a producer needs to do to provide someone else access to their plan is to enter the person's email address into AgPlan and select the level of access allowed. A producer can allow the reviewer comment only access or comment and editing access. When a producer enters the email address, the reviewer will receive an email stating that they have been given access to the business plan. A producer can give access to their plan to an unlimited number of reviewers. AgPlan does not provide a list of business plan reviewers. Reviewers are generally advisors, educators, consultants, family members, or lenders that the producer knows and trusts.

Producers also have the ability within AgPlan to send emails to reviewers. If a producer has been working on a section of the plan and wants one or more reviewers to take a look at what has been written, he can click send email and ask for a review of the work just completed. The reviewer can add comments in the comment box or, if given edit privileges, can edit the plan. The AgPlan editor has most of the features commonly found in word processors such Microsoft Word, but it does not have the ability to track changes. To manually track changes, reviewers can use different text colours or the strikethrough feature for deleting text.

The AgPlan editor facilitates inserting images or tables into the plan. It also has all of the normal copy, cut, paste, spell check, etc. features available. Tables or documents too large to insert into the plan, can be added to AgPlan as attachments. Attachments must be in PDF format. Normally the AgPlan output will be generated as both a Word document and a PDF document, but if there are attachments, the AgPlan output will only be available in PDF format. An outline is produced by AgPlan that includes the titles the producer assigns to each attachment.

Individual producers can easily find and use AgPlan online, but increasing numbers of educators are introducing and using AgPlan in workshops and educational programs. AgPlan provides a means for educators to promote and teach business planning without struggling with some of the challenges identified earlier in this paper. Classroom instructors have also begun using AgPlan in college courses. A few professors have developed entire semester courses around AgPlan.

Business planning can help producers be more successful business managers. Resources available to producers to actually develop a plan have been limited. The challenge for educators has been how to help producers not only begin a plan but also complete it and use it as a dynamic document in the management of the business. AgPlan is a powerful new tool that can help both producers and educators surmount the challenges of developing an effective business plan.