

# Preparing a Business Plan

A Guide for Agricultural Producers

Dairy Producers Example

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William Pierce, Chartered Accountant, Abbotsford; Earl Jenstad, Manager, Dairy Industry Program, BC Ministry of Agriculture, Fisheries and Food; Ron Barker, Dairy Cattle Specialist, BC Ministry of Agriculture, Fisheries and Food; and Annette Moore, Regional Dairy Specialist, BC Ministry of Agriculture, Fisheries and Food.

Prepared by:

Bob Cheatley, P.Ag.  
Farm Management Specialist  
BC Ministry of Agriculture, Fisheries and Food

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## Preface

Managing an agriculture business in the 1990's and beyond will be more complex with good planning skills becoming increasingly important. As farming becomes more capital intensive, margins narrow and the adoption of rapidly changing technology becomes the norm, planning techniques which are used in other businesses must be applied to agriculture. One of these planning techniques is preparing a formal business plan. A formal business plan integrates written goals with marketing, production and financial targets into a management strategy for the business along with identifying human resource requirements. Other factors such as increased environmental awareness and the globalization of agriculture emphasize the need for effective planning at the farm level.

The purpose of this publication is to provide farmers with business planning information and a format for developing a business plan for his or her farm business. While information and sample business plans are available for non-farm businesses, examples of business plans for farms are hard to find. Each farm business is unique in terms of physical characteristics, income level and people involved in owning and operating the farm. This publication will provide a good starting point to assist farm managers to prepare formal business plans for their own operation.

Terry Peterson, Director  
Farm Management Branch  
Ministry of Agriculture, Fisheries and Food  
Vernon, British Columbia

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# INTRODUCTION



*Preparing a Business Plan* is a guide for producers in British Columbia. It will show you what a business plan looks like and can be a guide for you in preparing one.

The importance of planning in business and agriculture cannot be over-emphasized. By developing a sound, carefully thought-out business plan, you take the most important step toward reaching your goal — a business that's alive and profitable.

## **The Dairy Business Planning Guide**

This business planning guide is for use by BC dairy farmers in preparing for the future. The example used is a farm with a herd of 85 cows, milking and dry, which is planning an expansion of 50% to 127 cows total. The business plan is simply a way of test driving a plan on paper to ensure that it is sound and well thought out. The plan may or may not go ahead based on the support it receives from the owners and lenders when everything has been put on paper and can be assessed. Planning allows us to check our ideas out before we commit funds to the project.

**In no way does this guide presume to forecast the future of milk marketing, milk or quota prices or the advisability of expansion as a strategy for dairy farmers.** Examples used are in the realm of "what if" scenarios to try to envision the impacts of various milk prices, interest rates, and quota prices on items such as cash flow or debt repayment. The emphasis is on outlining the method and the skills which may be employed in doing a business plan.

## **How to Use This Manual**

The manual gives you the necessary information to prepare your own business plan. Throughout the manual we describe what should go into each section of your business plan and this is followed immediately by an example. Working through the manual will aid you in completing your own business plan. A glossary is included to explain the financial terms used in the manual.

In order to complete your own business plan, you will need to research and identify all those factors which you feel are critical to the success of your venture. Our example gives you a framework; you must supply the details which apply to your own operation.

## **If You Need More Information**

If you need more information, contact your nearest B.C. Ministry of Agriculture, Fisheries and Food (BCMAFF) district office, Ministry commodity specialists or the Farm Management Branch. BCMAFF provides a wide range of factsheets and worksheets such as the *Planning for Profit* contribution margin budgets and planning package.

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## What Planning Can Do for You

Careful planning is one of the most vital parts of any successful business. Comprehensive plans are routinely prepared by larger urban firms as a normal business practice. They improve communication, general efficiency and decision making — important advantages for all businesses, including commercial farms.

Planning doesn't replace entrepreneurial skills but it can help avoid failures. It's a way to discover the problems and pitfalls you might run into before they happen, so you'll be able to make the right moves to avoid them. At the same time, you'll be better prepared to take advantage of new opportunities as they come along.

A written business plan puts you, the manager, in a better position to explain your goals: where the business is going, what needs to be done, and the role of investors, family members and employees in achieving these goals. This kind of communication helps create a common purpose and is essential to successful business ventures.

A business plan puts a lot of valuable information at your fingertips, ready to help you make those tough decisions. The plan will also help you monitor progress and cope with change and competition.

Because planning is so crucial to your operation, it's important as you go through the process to examine every aspect of your business carefully and honestly. Be realistic in assessing what you're capable of and the possibilities that exist for your business. You should involve important staff on the farm team in putting together the plan. Staff have much of the information you need and their commitment to carrying out the plan will be greater if they are involved.

Some questions you should be asking yourself are:

- What exactly is the purpose of my business? (Be able to express it in one or two short sentences.)
- What are my personal and business goals?
- Do I have the necessary skills and abilities?
- What are my approximate cash needs? Do I have the resources? If not, where could the funds come from?
- Am I willing to take time to plan my success?

Your business plan summarizes the past, current and future activities of your business. Its most important purpose is to help you be sure your business is carefully planned and makes sense, both from a financial and operating perspective. The business plan is your game plan. It sets objectives and guidelines on paper.

The business plan also acts as a standard against which to compare your actual results with your anticipated results. Regularly comparing your plans with actual results will allow you to identify problems quickly, often before they become unmanageable. Each year, update your plan using the informal business plan as a guide. That way, you'll always stay on track — and your business will be well on its way to success.



Your business plan will also help you explain your ideas to investors, bankers or government agencies for financing. Therefore it should be complete, organized and realistic.

**The business plan should be prepared by the owner(s) and manager(s) of the firm. You may use outside professionals, such as lawyers and accountants, but the plan should be your own. You should be able to present it, summarize it, and answer questions about it.**

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## **Giving Your Plan the Right Look**

Compiling your plan into a formal well organized document is important. It helps to clarify your thoughts so you can fill in the gaps. It shows that you've taken planning seriously.

The chances of your business plan being read and favourably received by potential lenders are vastly increased if you use an accepted style and format. A bundle of handwritten notes won't impress anyone.

Organize your material as clearly as possible so people who haven't helped write it can readily follow your logic.

Your formal business plan should:

- be double-spaced
- have adequate margins for adding notes
- include a title page giving business name, date and the period the plan covers
- have a detailed table of contents
- be comprehensive but not complicated
- avoid using jargon
- use lots of headings and subheadings throughout the document
- be simple and easy to read. Don't overwhelm your reader with too much detail. They'll ask for more information if they need it. If you have detailed information that you want to include, putting it in an appendix might work best
- place the most essential information where it is easy to find — probably close to the front of the plan

Asking an outsider you respect to read your final draft document can help identify any gaps or ways that your document could be improved. Doing this early in the process ensures you are focusing on the right information.

Extra touches that can help include:

- charts, tables, and resumés
- supplementary reports, studies, catalogues

But, whatever aids you use, be sure to include them in such a way that the result will look and read like a business plan — not a scrapbook. Much of this information can be included in appendices.

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## The Informal Business Plan

A business plan is a formal document. But to be able to write it, you need to gather information (eg. relevant dairy articles) about a wide range of things such as day-to-day operations, the industry, new geographic markets and the cost of new assets. This working file of information will help when you're ready to develop your next formal business plan. We call this file the Informal Business Plan.

The information in the informal business plan should be arranged under the same headings as those used in the formal plan for easy reference. It could be kept in a large loose-leaf binder with dividers to separate the major parts of the plan.

### What to Include

In this file, include newspaper clippings about your commodity; marketing tidbits you may have learned from employees, salespeople or other business people; informal projections; and new products and services you may be contemplating. At the front, have your business goals and objectives — both shorter and longer term — to keep you on track.

Your working file should include information you may not want to include in a formal plan that will be read by potential investors, lenders or employees. This might include your marketing strategies, competitor information, the amount of equity capital you are prepared to put into the business or past financial records.

This working file should always be kept in mind. Be aware of information gaps so that you can fill them in when the knowledge becomes available. Initial and date any notes you add.

