



Building a Business Plan

Western AgCredit recommends loan applicants develop a business plan. A business plan is a map of what you need to do to get to where you want to be. In addition to providing the lender with a way to evaluate the viability of the proposal, the process of developing a business plan is of great benefit to the applicant. It gives applicants the proper framework for evaluating their idea to determine if the need exists and if their business model will meet the existing need. It is also a useful tool for those with businesses to establish a framework for growing and managing their current operation.

At minimum, a business plan should contain the following sections:

- 1. Executive Summary**
- 2. Business Description**
- 3. Market Analysis**
- 4. Short-Term Objectives**
- 5. Long-Term Objectives**
- 6. Financing**
- 7. Management**

Executive Summary

A well-written executive summary is critical to the success of the rest of the document. This section should capture the attention of the intended audience, compelling them to continue reading. Remember, it is a summary, so each and every word must be carefully selected and presented.

The executive summary is just that, a summary of the other sections of your business plan. Begin with accurately describing the nature of the proposed business venture. This description should include the need that the proposed business will fill. Explain the reasons why people need the product or service. This should include a brief analysis of the characteristics of the potential market. Briefly describe your sales and marketing plan or approach.

Make sure to include the numbers that those reviewing your business plan want to see – the amount of capital you seek, the carefully calculated sales projections and your plan to repay the loan.

Describe the organization of your business, including your management team.

Devote the balance of your business plan to providing details of the items outlined in the executive summary.

Business Description

Be sure to include the legal name, physical address and detailed description of the nature of your business. It is important to keep the description easy to read, using common terminology. Never assume that those reading the business plan have the same level of technical knowledge that the writer of the plan does. Describe how the proposed business will serve the market better than the competition is currently doing.

Market Analysis

An analysis of the market demonstrates that the applicant has done their homework. This section is basically a summary of the business' marketing plan. It needs to show the demand for the product or service, the proposed market, trends within the industry, a description of the pricing plan and packaging (if applicable) and a description of company policies.

Short-Term Objectives

A short-term component includes a cash flow statement (budget) that shows when and how your business generates and consumes cash. It can also include production goals and interim financial objectives. The short-term component of the business plan is a useful planning tool for the current year. The cash flow budget can identify borrowing needs and estimate profitability. In addition, the short-term component might address marketing plans, outside labor needs, and other important factors related to the current operating cycle.

| <u>Short-Term Objective Type</u> | <u>Example</u> |
|----------------------------------|------------------------------------|
| Financial | Decrease total debt by \$20,000 |
| Production | Ship 19,000 pounds of milk per cow |
| Expense | Reduce overall expenses by 2% |

Long-Term Objectives

The long-term component articulates your long-term objectives and plans by detailing specific targets you expect to reach in future periods. It can also include a general discussion of what you will need to do to meet those targets. Your long-term component can identify a wide range of objectives.

| <u>Long-Term Objective Type</u> | <u>Description</u> |
|---------------------------------|--|
| Financial | Establish desired levels of working capital and overall debt that will allow the operation to withstand adversity. |
| Production | Identify realistic production levels necessary to meet your income projections. |
| Capital Acquisitions | Outline desired expansion plans and set conditions under which the expansion would be feasible. |
| Management | Itemize other targets and other actions necessary to achieve goals. |

Other important things to consider when establishing specific objectives include:

- ◆ *Identify long-term debt levels per operating unit*
- ◆ *Determine liquidity levels that will help meet unexpected adversity*
- ◆ *Set conditions under which expansion is feasible*
- ◆ *Itemize targets for expense management*
- ◆ *Determine where to start and develop a time line to meet established goals*



Management

In this section, outline your organizational structure and proposed management team. Include the legal structure of your business -whether it is a partnership, corporation or limited liability corporation. Include resumes and biographies of key players on your management team. Show staffing projection data for the next few years.

Financing

The financing section must show that you are as committed to your business venture as you expect those reading your business plan to be. Show the amount of personal funds you are contributing and their source. Also, include the amount of capital you need and your plan to repay this debt. Include all pertinent financial worksheets in this section including annual income projections, a break-even worksheet, projected cash flow statements and a balance sheet.

After the business plan has been developed and refined, it is time to start compiling financial information to submit to your lender. Generally, lenders request applicants submit the following information:

1. Current Business Plan
2. Three years pro-forma earnings statements
3. Copies of pertinent leases, management agreements, etc.
4. Past three to five years historical
 - Financial statements
 - Earning statements
 - Tax records

The chances of getting a loan approved are greatly enhanced if the pertinent information found in a business plan is provided to the lender. For the most part, lenders are willing to help refine the different areas of a business plan, but it should be assembled primarily by the applicant. The value of a business plan cannot be overstressed. It maps out a course to success for any business endeavour. A business plan is also an important element to effectively manage your operation. If you would like input on your plan, your local Western AgCredit loan officer can review your business plan or serve as a sounding board for your ideas.