

## PL.1

# Business Plan Essentials—What and Why

You might not need your business plan in writing in order for **you** to understand your business, but a lender will need to see at least a basic written business plan so **they** can understand your business.

You may not think you need credit, or plan to apply for credit - but credit is an essential part of most businesses - at the very least to help recover from unexpected setbacks. You may also need a business plan to apply for grants, educational programs, or high quality land tenure opportunities. When land trusts, parks, and other landholders make lease or purchase opportunities available to farmers and ranchers, they typically require a detailed written business plan as part of the competitive application process.

Creating a business plan today helps you be more prepared for an uncertain future. It helps you to think through what you intend to do, and what might go wrong, and how to mitigate those risks. It makes you more prepared to access credit (and other resources) quickly if you need to.

**A business plan is a summary of:**

1. Business ownership structure
2. How key assets (capital) are acquired and used in the business
3. Production and marketing activities
4. An overall management plan including risk management plans

You should be specific and concise. Write to describe, not to convince. Your plan does not need to be long. A simple plan can fit on one or two pages. Describe your key calculations in words and show them in numbers.

**A business plan should demonstrate that you have a genuine profit motive**

A profit motive is the intention to have annual sales in excess of annual expenses, or to create assets with long-term value in excess of costs, or to do both.

Your theory of profit, or business model, is your idea about how to have revenue in excess of the expenses needed to generate revenue. For example:

- Growing crops and selling wholesale is a business model. Revenue comes from wholesale sales and if it is greater than the cost to produce and harvest crops the business might be profitable.
- Raising livestock for the live auction market is a business model. Revenue comes from selling animals at auction and if it is greater than the cost to raise and transport the livestock the business might be profitable.
- Growing crops and selling at farmers' markets and through a CSA is a business model. Revenue comes from direct to consumer sales and if it is greater than the cost to produce, harvest and distribute the crops the business might be profitable.
- Growing feed crops to supply a livestock operation that produces wool and processes some animals for direct-to-consumer meat sales is a business model. Growing feed crops saves costs related to wool and livestock production. If wool and meat revenues exceed costs to raise feed crops and livestock and process and distribute wool and meat, the business might be profitable.

A business plan demonstrates a profit motive by summarizing the details of the business model describing goods or services offered, the markets or customers, the cost of offering them, and when revenue is expected to exceed cost.

**A business plan should include strategies to minimize the risk of loss.**

A business plan identifies the elements of a business that can be managed and strategies for managing for profit and to minimize risk of loss including:

1. Structuring to Separate Assets from Risk: Structuring a business includes selecting the right business entity and ensuring that valuable assets are owned outside of the entity that conducts day-to-day activities. Typically agricultural operations include an operating entity that engages in day to day activities, and a land owning entity that rents the land to the operating entity.
2. Obtaining Property and Liability Insurance: A business plan should discuss the appropriate insurances needed. The budget should include an adequate amount to cover property and liability insurance. Property insurance provides an indemnity if property is lost or damaged. Liability insurance covers the cost of legal defense and settlement.
3. Planning and Preparing: A business plan should include preliminary plans to ensure:
  - Worker and product safety.
  - Emergency preparedness.
  - Regulatory compliance.