New Entrants to Farming Fact Sheet

Business Planning Fact Sheet

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Whether you are starting up a new business, looking to invest in or expand your existing business, want to consider your options as you approach retirement or you are simply looking to improve your businesses performance, preparing a business plan can help.

Planning is an essential part of any business, especially a newly formed business.

This Fact Sheet is designed to give New Entrants to agriculture information on business planning. In order to encourage New Entrants to prepare a business plan, this Fact Sheet demonstrates how to go about doing this, challenging business performance and pushing you and your businesses forward.

Business Planning – What is it and why plan?

A business plan is a formal document which will help you explain where you want your business to go over the next few years and how you plan to achieve your goals. Producing a business plan will give you the opportunity to think in depth about the challenges your business may face and how you might overcome them – making you more prepared if these issues do arise. It also gives you written targets to aim for, and the ability to review and monitor your progress so that if things start to go off-course you can correct them.

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For some farmers creating a business plan feels like a hindrance and a headache. However, a business plan is like a flight path. It lets you know where you want to go, what you want to achieve, what you have to do in order to achieve your goals and most importantly, it allows you to assess what problems you can expect along the way.

A business plan is an important business management tool. It can help assess and manage risks and identify resource implications. It also provides a framework for day-to-day decision making and helps everyone involved in the business pull together in the same direction.

A business plan covers where you are now, where you want to be, how you get there and helps you stay on track. This can include improving certain elements of your business or looking at options and scenarios such as different enterprises on the farm. It can also be used to plan business expansion or to plan exit or succession of the business.

As well as the business management benefits of drawing up a business plan, it is often a requirement to have one when applying for finance from a lender or applying for a farm tenancy.

What is included in a Business Plan?

Vision Statement & Objectives

Firstly, a vision statement should be written down. Writing your ambitions down is one of the most successful ways to visualise what you want to do and so you are more likely to make it happen. This should include where you would like to see your business in five years' time and what you want to achieve. It is best to use SMART objectives. These objectives are Specific, Measurable, Achievable, Relevant, and Timed. For example, an objective could be to achieve a lambs reared percentage of 165% next year.

There are two main guiding principles which should be met in your plan – worthwhileness (profitability) and feasibility (cash requirements, cash flow and cash needs covered). Ensure the plan makes business sense and results in a successful, sustainable, profitable business.

Whilst creating a business plan you should also consider your personal preferences such as enterprises on the farm, as it will be easier to carry out the plan effectively if you are happy and personally invested in the venture. You should also consider the risks involved in the proposed plan and the practicality of the plan, including the skills and labour you can bring to the table.

Current and Proposed Farming Policy

A summary of your current farming system (if you have one) should be included as well as your proposed farming system. This should include details of the business structure, current and proposed enterprises, stock numbers and system, land area, cropping and labour.

Often if a business plan is being created for a tenancy application this section is used to illustrate to the landlord what your plans are if you were successful in obtaining the tenancy and to give them some background on your previous work and farming experience.

If the business plan is for a finance application from a lender, this section should emphasise how the funding will affect the business whether it is to facilitate setting up the business, business expansion, modernisation of the current set-up or another reason. For example: increase stock numbers, improve profitability, improve welfare and livestock performance through the provision of a modern cubicle shed.

Proposed farming policy may also include ideas for diversification.

Financial Position & Capital Requirements

If the business has been trading for over one year, then up to three years previous financial accounts should undergo a gross output analysis, which can then be compared to benchmark figures. Expressed as a percentage of gross output, this will highlight where the business is making efficient use of its resources and areas where improvements may be possible. Typically for a farm business the target for net profit should be 15% or more of the gross output.

The business's net profit before depreciation should be high enough to cover the businesses cash needs. Cash needs include personal drawings, tax, re-investment, loan capital repayments (including machinery capital repayments) and savings towards future expansion. In farm businesses the net profit can fluctuate year to year depending on many factors, therefore it is recommended that the three-year average net profit before depreciation covers cash needs.

Details from the balance sheet (see your most recent set of financial accounts) should be included in the business plan to illustrate the businesses assets and liabilities. The balance sheet is a snapshot of the financial position of the business at the end of the financial year. Net worth or owner equity is a term often seen on the balance sheet; this is simply assets minus liabilities.

Often on the balance sheet 'Land and Buildings' or 'Heritable Property' has a lower value than the current market value. This is because the figure often seen in the balance sheet is from the last time the farm was valued which could be decades ago if the farm has been in the family for generations. Therefore, a realistic 'farmers' balance sheet should be detailed in the business plan with an estimate of the farm's current value. If the business plan is for a financial lender, they will usually value the farm prior to any lending agreement.

If the business plan includes either a change in farming policy, applying for a farm tenancy or applying for finance, then the capital required should be detailed and where this capital will be sourced (e.g. loans, selling of assets, or cash in the bank). Any extra working capital required should be detailed and how this will be facilitated (e.g. an overdraft).

A schedule of the business's current stock and machinery should be listed and their approximate value.

If the business plan is to be used solely as a business management tool and to explore different enterprise options and scenarios, then it is beneficial to include enterprise gross margins and compare them to benchmark data.

Three years forward budgets (cashflows) and projected profit and loss accounts are typically required where a substantial sum of finance is being applied for (e.g. loan) or if it is for a farm tenancy application. The budgets should be realistic. Figures and calculations should be sourced from the farm accounts (if comparable to the proposed system) as this is true farm business data and if necessary, tweak it to fit the business proposal. If the proposed system is for a brand-new business or is drastically different from the current farm policy, then benchmark data should be used, and assumptions made.

It is important to use realistic assumptions when creating forward budgets including physical livestock and crop performance, prices achieved, costs, and timescales.

A business plan can be as much about standing still, or even contraction. Growth is not always an essential requirement.

Lenders will look for borrowings to be stress tested at a higher interest rate than the current rates to see if the serviceability still works if interest rates were to rise. Lenders will also look at sensitivity analysis to see if the borrowing is serviceable, for example, if the price of beef, lamb or milk were to drop. Therefore, it is important to bear this in mind when calculating figures for forward cashflow budgets.

Supporting Documents & Information

The sections above outline what is typically included in a business plan. However, there is no set structure, and this can be adjusted depending on the purpose of the business plan.

Supporting documents to include in the appendices of a business plan may include (but not limited to):

- **Gross output analysis**
- **Three years forward cashflow budgets and projected profit and loss**
- **Current and/or proposed enterprise gross margins**
- **A few options and scenarios detailed with associated gross margins**
- **Tenancy application form**

Useful links

The links below take you to templates and benchmark information which will help you prepare your own business plan.

- Examples and templates of sections of a business plan and benchmarking data – **Business tools & resources for farmers from Farm Advisory Service (fas.scot)**
- SAC Farm Management Handbook – guide prices and costs for your cashflow and benchmark your own performance – **Farm Management Handbook 2020/21 | Information helping farmers in Scotland | Farm Advisory Service (fas.scot)**
- FAS Understanding Accounts Webinar Recording – **https://buff.ly/2UDPOQF**
- FAS Business Planning Webinar Recording – **Business Planning (webinar) | Information helping farmers in Scotland | Farm Advisory Service (fas.scot)**

Grant funding available

If you are looking to analyse your current business and are keen to explore options to improve business performance, then an Integrated Land Management Plan (ILMP) may be of interest to you. This is funded by the Farm Advisory Service up to 80% (up to a maximum of £1,200) of the cost of consultancy support needed to carry out the ILMP. Please see the link below for more information on ILMPs and how to apply: **Integrated Land Management Plans (ILMPs) | Helping farmers in Scotland | Farm Advisory Service (fas.scot)**

Grant support is also available from the Farm Advisory Service for Specialist Advice Plans. These plans allow you to focus on certain topics which you feel you would benefit most from. Below is the link for more information on Specialist Advice including a list of the topics you can receive advice on, and how to apply:
Specialist Advice | Helping farmers in Scotland | Farm Advisory Service (fas.scot)

Carbon auditing is also a useful tool to identify areas of the business where improvements could be made. Farm businesses with low carbon footprints are typically the most efficient and profitable. It is often beneficial to carry out a carbon audit of your farm business prior to preparing a business plan. The Farm Advisory Service also offers grant funding towards carbon audits. Information on carbon audits and details of how to apply can be found here: **Carbon audits | Helping farmers in Scotland | Farm Advisory Service (fas.scot)**

Top tips

Be realistic in assessing your business development, the market, and future opportunities. A business plan that is unrealistic or sets unachievable targets is of no use to anyone.

Think about your strengths and the opportunities available to you and your business, and then decide which options you would be interested in. Investigate the set-up costs involved and draw up a projected gross margin to determine if the enterprise is worthwhile and feasible before investing too much time into preparing three years forward cashflow budgets.