

## Your Business Plan



[Robert.logan@sac.co.uk](mailto:Robert.logan@sac.co.uk), SAC Consulting

Livestock & business consultant, 07909 840 534



## Business planning



- YOUR business plan
- Action plan – your next steps
- Stress test your business plan



## Things to Consider



- How is your current business performing?
- How profitable will it be in 10/20yrs time?
- Do you have time for a diversification?
- Have you the right ideas that work for you?
- Have you the necessary skills to do it?
- Are you prepared to invest the time and money into a feasibility study?
- What do you want from it?



## Question



What does success mean to you?  
- it's an insight into what you want to achieve



## What does success mean to you? - it's an insight into what you want to achieve



- Increased value of the business
- Wealth
- Reduced reliance on farm or other income
- Pride in building own business
- Personal satisfaction
- Quality of life maintained or even enhanced
- Provide sustainable employment for others
- Customer satisfaction / choice
- Environmental goals



## Why plan?



- The process of planning helps you to:
  - Assess and manage risk
  - Identify resource implications
  - A framework for day to day decision making
  - Helps everyone in your business pull together in the same direction (provided that they are informed of the plan!)
- Operators manual for the business



## Why plan?



State of mind	Plain English	Business planning
Muddled thoughts	Clarify vision	Focus



## Prioritise and organise



## Lets get down to business Your Business Plan



## Before you start your own business plan in detail...



- Consider cash needs
- How the new product will dovetail onto the existing system or capital required



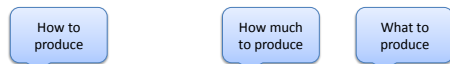
## Bottom-up accounting – what are your cash needs?



- Adequacy of profit
- Should cover -
  - Private drawings / dividend  
inc household, pension, disposable income
  - Tax
  - Loan capital repayments
  - Surplus for reinvestment/growth



## The early business plan



•  $(\text{Costs} + \text{margin}) \times \text{unit sales} = \text{output}$

**AND**

•  $\text{Margin} \times \text{unit sales} = \text{cash needs}$



## Note!



A formal business plan is typically required for big decisions, particularly if they rely on investment from the bank.



## Business plan content



- Executive summary & Mission statement
- Business and personal objectives
- Background and nature of business
- Market and competition
- Operations and resources
- Financial analysis
- SWOT
- Financial forecasts
  - Sensitivity analysis
- Recommendations
- Action plan and timeline



## Benefits of Objectives



- Purpose & direction
- Focus on the most important things
- People work better if they have a goal
- Helps recognise problems that will affect meeting them
- People need success criteria to measure performance against
- Performance can be appraised
- Discussion of objectives increases buy-in / ownership
- Better communication of business goals



## What are your Objectives?



- Precise descriptions of what is expected to be achieved
  - Focus on improvement
- Stated in terms of outcomes and results
  - Specific
  - Measurable
  - Achievable
  - Relevant
  - Timed
- Established early on in the planning phase
  - Milestones



## You and the brand



- Who is involved?
- Skills and experience
- The product / range or service
- Source of supply etc – see handout
- Current market environment
- Identified opportunities
- Product strategy (sales channels / marketing)
- Resources – how does it fit with you/business



## Financial Analysis - of the existing business



## Tax accounts



- A set of accounts prepared at the end of each year, for tax and management purposes, must contain the following:

- Profit & Loss Account
- Balance Sheet
- Capital Account



## Financial Evaluation Techniques



- Profit and Loss Analysis
- Balance Sheet Analysis
- **Cash Needs**
- Benchmarking tools
  - Gross Output Analysis
  - Comparative Analysis
  - Enterprise and technical performance analysis



## Understanding accounts



[http://flashserver.sac.ac.uk/flexible\\_learning/accountancy/understanding\\_accounts/](http://flashserver.sac.ac.uk/flexible_learning/accountancy/understanding_accounts/)



## SWOT analysis



- Exercise - whole group



## Guiding principles



- Two big economic tests
  - Worthwhileness (profitability)
  - Feasibility (capital needs; cash flow)
- But also
  - Riskiness
  - Practicality (eg, skills)
  - Personal preferences



## Guiding principles



- With with-out principles
- Use realistic assumptions
  - Physical performance
  - Sales value / costs / timescales
  - Sources of information
- Always consider “what if” to test risk
  - Worse case scenario
  - Critical success factors



## Budgeting Principles



- Partial Budget: Options Appraisal
  - Examine the impact of relatively minor/strategic changes
- Established Year Budget: Gross Margin Based
  - Estimate the future financial performance of the business and check out ‘what if’ scenarios
- Annual Budget: Cashflow Based
  - Detailed projection of future profit, cash and capital situation

Tactical

Strategic

Operational



## Partial Budget: Options Appraisal



### Partial Budget: Options Appraisal



- A rough, quick form of analysis to assess viability
- Useful only when a partial change in the existing plan is being considered
- Looks at the impact of the change on the business
  - Expanding an enterprise
  - Alternative enterprises
  - Different production practices
- Looks at only the costs and receipts that will be affected by the policy change
- Subjective assessment of depreciation
- Difficult to compare alternative investments
- Does not take into account variable cashflows
- May ignore repayment conditions



## Partial budget



<ul style="list-style-type: none"> <li>• Costs saved</li> <li>• Additional revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Additional costs</li> <li>• Income foregone</li> </ul>
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## Established year budget



Established Year Budget:  
Gross Margin Based



- Pros
  - Excellent for comparing different systems
  - Good for deriving assumptions
  - Consistent approach / terminology
- Cons
  - How to estimate Bank Interest?
  - Cashflow effects?
  - Annual accounts effects?
  - Balance Sheet effects?

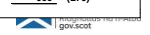


Established Year Budget:  
Gross Margin Based



- E.g. enterprise Gross Margin Budget

WHEAT-WINTER			OILSEED RAPE-WINTER		
<b>GROSS MARGIN DATA</b>			<b>GROSS MARGIN DATA</b>		
Grain yield: t/ha (t/acre)	8.0 (3.2)		Grain yield: t/ha (t/acre)	4.0 (1.6)	
Straw yield: t/ha (t/acre)	5.2 (2.1)				
<b>OUTPUT</b>			<b>OUTPUT</b>		
Grain @ £125/t*	1,000		Grain @ £250/t	1,000	
Straw @ £25/t	130			1,000	(405)
	<u>1,130</u>	(457)			
<b>VARIABLE COSTS</b>			<b>VARIABLE COSTS</b>		
Seed @ £345/t	79		Seed @ £10/kg	45	
Fertiliser	210		Fertiliser	170	
Casual labour	-		Casual labour	-	
Contract	-		Contract	28	
Sprays	118		Sprays	91	
Other expenses	13		Other expenses	-	
	<u>420</u>	(170)		<u>334</u>	(135)
<b>GROSS MARGIN</b>	<u>710</u>	(287)	<b>GROSS MARGIN</b>	<u>666</u>	(270)



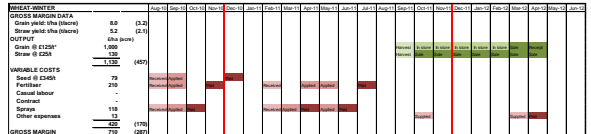
Established Year Budget:  
Gross Margin Based



$$\begin{aligned}
 &\text{Enterprise Gross Margins} \\
 &+ \text{Misc Income} \\
 &= \text{Farm Gross Margin} \\
 &- \text{Fixed Costs (excl. Rent \& Interest)} \\
 &= \text{Gross Profit} \\
 &- \text{Rent \& Interest} \\
 &= \text{Net Profit}
 \end{aligned}$$



Established Year Budget:  
Gross Margin Based



Annual Budget:  
Gross margin based

Annual Budget:  
Cashflow Based



- Cashflow is a control document
  - Profit
  - Cash
  - Capital
- Bank interest paid
- Peak borrowing requirement
- Assumptions required
  - Timing of orders, deliveries, applications, payments, sales and receipts
  - Livestock reconciliation
  - Crop production reconciliation
- Review/monitor
  - Budget vs actual



CASH FLOW	YEAR ENDING												TOTAL
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>TRADING</b>													
Stock Purchase													
Butch			4000										
Tips													
Variable Costs													
Feeder		5800											
Other Crap													
Fixed Costs													
Labour		1950	1950	1950	1950	1950	1950	1950	1950	1950	1950	1950	23400
Machinery & Power													
Interest													
Capital													
Personal													
VAT PAYMENTS													
TOTAL OUTFLOW													

CASH INFLOW	YEAR ENDING												TOTAL
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>TRADING</b>													
Craps													
Livestock													
Other Income													
CAPITAL													
PERSONAL													
VAT REFUNDS													
TOTAL INFLOW													
NET CASH FLOW													
OPENING BALANCE													
CLOSING BALANCE													

## Assumptions



- Imperative if you or anyone else is going to follow your budget
- Quantities and where they were derived from
- Prices with justifications



## Critical review And recommendations

### Is the financial benefit worth the effort?



- Financial impacts:
  - Bank lending restrictions
  - Interest rate changes
  - Taxation
  - Balance sheet
- Non financial impacts:
  - Weather
  - Disease
  - Market
  - Workload
  - Family
  - Timescale

### Sensitivity / Financial risk



- What happens to profit, working capital demands etc if...
  - Unit price averages ±10%?
  - Volume sales averages ±10%?
  - Labour costs average ±10% from budget?



## Summary



## Living document



- Important to assess both the financial aspects of an existing and new business.

Keep it a living document



## Why use any figures?



## Thank You



Generally, what we pay attention to grows and key pieces of data help us pay attention

