Farm Business Plan

Guidance Notes

Why create a business plan

An effective business plan lays the blueprint for future business success – it's as simple as that. Writing a business plan helps you organise your thoughts and map out the road to where you want to take your business and aligns owners, investors and staff.

It demonstrates that you are looking at all the possibilities and gives you confidence that you have the best chance of making your business succeed.

Finally, it helps you identify opportunities you may never have otherwise recognised – and avoid potentially expensive problems you wouldn't have otherwise seen coming.

Do you really need a business plan?

Yes you do, and here's why: research shows that businesses with a business plan perform better than those without. Business planning works because it:

- Challenges you to really think through your ideas and identify possible issues.
- Gives a process to consider where you are now, look at options, receive advice and select the most important things to take forward.
- It gives a sense of direction and urgency, and helps you, staff and advisers to prioritise effort.
- Allows you to measure progress towards goals and take action to ensure you keep on track.
- Builds credibility and convinces others (including lenders) that you know what you're doing.

Getting started

The manager is responsible for the business plan, but good plans are contributed to by staff and advisers, overseen by directors, trustees and owners, reviewed by financiers, and implemented by staff, so all pull in the same direction.

A good business plan answers key questions about the business:

- Where are you now?
- Where do you want your farm business to be in the future?
- How will you get there?

We summarise this as a Business Management Cycle – evaluate where you are, analyse your options, decide what you'll do and put it in a plan which you monitor and implement.

There's no one set formula for writing a business plan. The secret is to keep it **short** and **simple so you focus on what is important.**

The document highlights areas to consider – but that doesn't mean you need to cover everything. It's a process of consideration, consultation, and analysis.

Farmers often hate writing and typing – that's fine – get someone to help.

Source: ANZ

If you don't have the information at your fingertips, we suggest talking with your accountant or farm advisor, as they will be able to help you focus on the important questions the plan covers. The plan provides a basis to ask important questions like "how do you think we are going?", "what else should we be thinking about?" and allows you to capture the answers and do something with them.

Writing your business plan and using this guide

Our business plan template can help you create your own business plan from scratch. It'll lead you through the process and help you develop a plan that you can review and update at any time.

This guide provides more information about each step in the plan and helps answer some of the questions you may have along the way.

Once you've written your plan, what next?

No situation stays the same long, and your business will always face new challenges and opportunities over the years.

That's why it's essential that you regularly review and update your business plan – at least annually.

Farm Business Plan Guide

Where are you now

1.Business Purpose

Start your business plan with a brief summary of why the business exists, how it's organised, and what the owners expect from it.

This can cover:
- A brief explanation of the business and background.
- Set out what the owners want to achieve from this business, both financially and personally. Think about setting out the values the business owners hold – what do they stand for and want to be known by. Is it developing young people, the environment, putting something back into their community or industry? If it's written down, staff, advisers and others may be able to help with them.
- What is the long term vision for ownership, management succession and business exit? It's never too soon to think about that, and it may be appropriate to make it part of the business plan.

2.People

2.1 **Ownership and governance**
Who sets the long term direction of the business? Outline owners, governance, and directors, trustees and key advisers.

2.2 **Management**
Who is responsible for delivering on owners expectations?

2.3 **Operational staff**
Who are the other key staff in the business? Describe their skills and experience.

Communication is critical to teamwork, so set out how you will maintain this.

3.Industry and Business Environment

Comment on external factors that will affect your business and how you plan to respond to them:
- The economy, exchange rates, interest rates and product prices?
- Key markets, such as for livestock.
- Suppliers, buyers, competitors, threats of substitutions, new technologies.

4.Business Assets

Describe the assets as they stand at the moment, the ability of the land, stock, races, machinery etc to generate production and operate cost efficiently. You can comment on such things as fertility, quality of pasture, fencing, whether the farm is set up to be labour efficient.

Think about how you could improve productivity and efficiency in the future.

Where do you want your farm business to be in the future?

5.Business performance and Outlook

5.1 Business Performance

How has the business performed in generating income? How does it compare to similar farms? With the help from your accountant review three years of your annual accounts; set out to compare across years and consider trends in key ratios such as Earnings Before Interest and Tax (EBIT) over time. When looking at EBIT, include "normal" shareholder drawings as an expense, and make allowance for any expenses that will generate increased income. Go behind the EBIT, to look at why it is where it is and relative to benchmarks. All this will help you better understand your business performance and highlight trends and opportunities.

5.2 Productivity

How is the farm performing productively over time? How does it compare to the average and best similar farms? Where is production heading next year and in following years?

- Key drivers of performance such as pasture harvest per hectare, again relative to peers and high performers.
- What has been done to generate future production?

5.3 Costs

What are the operating costs in total and per unit of production? Is production generated efficiently, compared to the average and the best similar farms? Where are costs heading next year and the following years? Comment on costs per unit of production and compare to others and the best.

5.4 Return on assets

Is there an adequate return from the assets, compared to other places you could invest your capital? How does the Return on Assets (ROA) compare to similar farms?

5.5 Outlook

What is the outlook for this year and in coming years? Use the expected (budget plus actual) result for this year, and budget for at least two more years after that, so you can see where you are likely to go.

6.Financial Structure and Gearing

Comment on the financial structure of the farm business, the asset value and the debt relative to the business.

- What is the debt to equity ratio (ratio of borrowed money v owner's money) and debt per unit of production relative to similar farms?
- What is the interest cover (EBIT divided by interest and rent)? What does this indicate about how readily debt is serviced from income? How does it compare to industry norms?
- How appropriate is the financial structure?
- Is there scope for new equity investment, or additional debt to fund new assets?

7.Strategic Position (SWOT)

Take all of the above into account when considering the overall business situation in a SWOT analysis:

7.1 **Strengths**: what you are good at, and can build on?
7.2 **Weaknesses**: where do you need to improve or mitigate risk?
7.3 **Opportunities**: what areas can become future strengths?
7.4 **Threats**: what can derail the business?

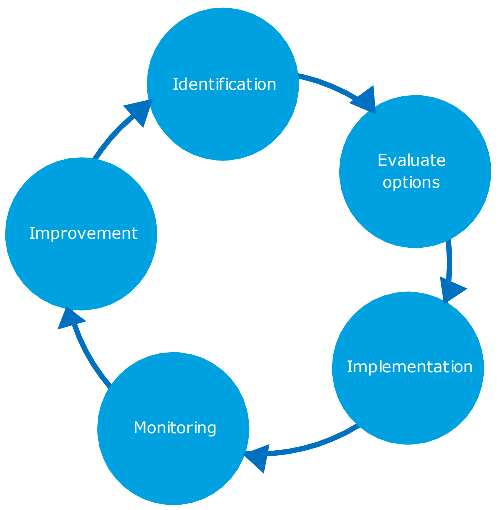
8.Options to increase performance

High performing businesses consider more options and are selective in what they do.

In this section set out the options to be considered, along with estimates or analysis of returns. Intuition is important, and there are "no brainer" decisions, however, analysing options in greater depth usually gives a better basis to prioritise and compare. These include capital investment, better management and greater focus on key success factors.

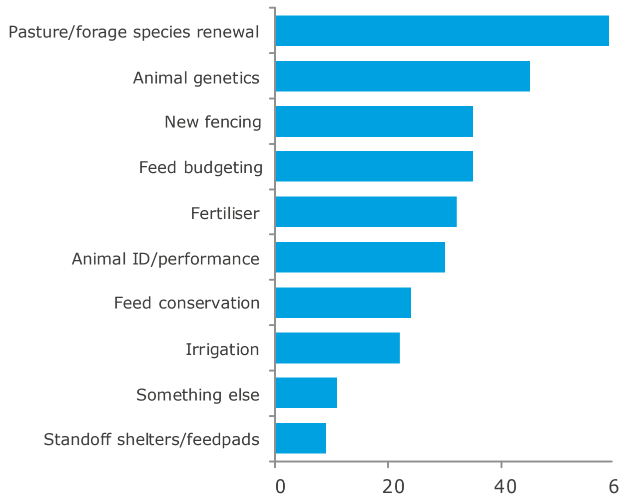
Look at future cash flows with and without proceeding, and the return, compared to costs of capital and risk. Figure 2. Shows what farmers do to increase performance. What are your highest returning options?

Figure 1. The Investment Modelling Process



Source: ANZ

Figure 2. Top Investment Areas on the Farm: Methods being considered to increase farm production



Source: Source is ANZ AgriFocus December 2015

How will you get there?

9.Plan

Ideas are turned into action by setting specific goals for each aspect of your business and measuring your progress towards them, so you know if you're on track or whether you need to adjust either your goals, or the assumptions behind them.

Set out here **Who** will do **What**, **When, how** it's going to happen and **what results** are expected.

Ensure the goals are SMART - Specific, Measurable, Achievable, Relevant, Time framed.

Some examples of SMART are:

- **Financial:** e.g. turnover of $x and profits of $y by the end of the financial year.
- **Strategic:** to acquire a new lease, irrigate, convert pasture etc by the end of the year.
- **Operational objectives:** to increase staff productivity by 10% by the end of the second year.
- **Marketing objectives:** to increase the percentage of lambs finished by 1st December.

10.Budgets, Liquidity and Profit

The budgets are part of the business plan, and vice versa.

10.1 **Budget**

Comment on policy and plans in key areas:

- Capital budgets, for new investment.
- Refinance of debt, and its sources.
- Assumptions on productivity, product prices, costs and interest rates. ANZ economist forecasts can provide a basis for short and medium term assumptions.
- Sensitivity of the budget to changes in these assumptions.

10.2 **Liquidity**

Comment on the cash position of the business now and how it is likely to change going forward. Identify cash shortfalls and how it is intended they are filled.

- Comment on cash flow and liquidity requirements for the short term (1-2 years), and the medium term (3-5 years).
- You should understand critical areas such as the banks' expectations of debt repayment, indication of willingness to extend further credit and shareholder's expectations of dividends?

10.3 **Profit**

The business plan needs to set out how you intend to use any surplus:

- Reinvestment into the business.
- Debt reduction.
- Distribution to shareholders**.**

Your accountant or ANZ Agri Manager can comment on the financial assumptions and ensure they're realistic.

11.Critical Success Factors

What are the elements that you will focus on to make the business, and any changes you plan successful?

Think about the **skills** and **systems** behind the activity. For example, irrigation investment will probably require new pasture management skills and pasture monitoring systems to be successful.

12.Risks and Issues

Risks are things that may happen; issues are things that you know will happen. For risks, consider likelihood, and for both, consider the impact, and ways you can reduce it.

Comment on the environmental considerations. Have you done a Farm Environment Plan?

Do changes put pressure on infrastructure or the farm system? Will further investment be required? Will there be greater operational costs, such as more staff?

13.Monitoring and Management

Economist market and product price forecasts allow you to adjust budgets so you can work out implications and take action to protect profit if these are significant.

You should set out when annual accounts are received, a budget and cash flow completed, how often you report results against budget, who sees this and what their responsibility is to take action.

Monitoring should prompt action. Plan when information is received - who sees what, when, and what their responsibilities are to do something about it.

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