Why Do I Need a Business or Marketing Plan?

Business and marketing plans are road maps, designed to increase the probability of business success, provide a tool to define and reach a customer base, and secure venture capital. Business plans are often required by loan institutions when applying for a start-up or capital investment loan. Business and marketing plans outline the activities required by an organization to be successful. They assess the external and internal environments, looking at competition and defining a unique product or service that appeals to potential customers. Both plans are written documents that continue to provide direction long after the business is established and operating by providing a measure of the business’s success. Frequent updates are vital to keep the plan current and valuable.

Successful business and marketing plans can create new revenue streams for agricultural businesses and provide access to new markets and new customers. This is important as food consumption (in dollars) in the United States has increased almost 150% since 1980, but the ranch/farm share has actually decreased from 31 cents to 19 cents per dollar spent (Amanor-Boadu, 2004). Food processors and middlemen are taking a larger piece of the consumer dollar.

What is the Difference between a Business Plan and a Marketing Plan?

While business plans and marketing plans contain much of the same information, a business plan focuses on strategic implications such as internal investment, company structure and long-range corporate strategies. Marketing plans, on the other hand, deal directly with access to customers and value-added production that differentiates an organization from its competitors. Marketing plans focus more heavily on the four P’s of marketing: product, price, place and promotion. While both documents utilize similar information, the conclusions drawn in each document vary. Either may be used to secure financing, reduce risk in the market place, and help businesses adjust to market changes and environmental unknowns. Ultimately, the final audience for which the plan is written will determine the most appropriate format.

Where Do I Start?

The first step in developing a business or marketing plan is to assess the company’s resources including 1) human resources, 2) financial resources, 3) technical resources, 4) management resources, and 5) physical resources. The analysis of these resources guides business leaders to define their competitive advantage, the ability of a firm to gain an edge over or perform better than its competition. Without a clear competitive advantage, most businesses become lost in the sea of choices available to consumers.

When evaluating resources, a business must look honestly at their strengths and weaknesses as they pertain to the industry. This is the beginning of a “SWOT” analysis - strengths, weaknesses, opportunities and threats. It is important to recognize that strengths and weaknesses can change with time, as technological and market forces alter the competitive environment. New strengths may become apparent and old strengths may become
obsolete. While many weaknesses cannot be overcome immediately, acknowledging them directs business owners away from areas that may lead to future demise. Monitoring company factors is an on-going responsibility of any business owner.

Are All Agricultural Products the Same?

Competition is higher in industries where products can be easily substituted. Agriculture provides business owners with a tough dilemma, as products may be similar from one ranch to the next or from one state to the next. “Differentiation” refers to a competitive strategy based on providing buyers a unique or special product or service. Value-added products, such as differentiation through the use of regional labeling and quality improvements, may reduce the substitutability between products. Cooperatives and marketing groups can also help producers increase their market share and reach target markets. Finally, looking outside the physical product provided and applying quality service can differentiate a product from its competition. Do you provide transportation or delivery services? Can you deliver in a shorter time than your competition? Do you provide service after the sale? Technology investment can help achieve new goals along these lines.

What External Factors Determine My Success?

The second part of the planning process is assessing opportunities and threats. Examine the external environment and devise strategies to deal with changes. External concerns may include 1) economic factors, 2) technological changes, 3) changes in government policy, and 4) legal requirements. “Environmental scanning” refers to the process of monitoring the external environment and should be an integral part of every business's plan. Involvement with producer's associations, state affiliates, and university extension offices allow producers to monitor changes industry-wide and respond effectively.

Awareness of distribution avenues and supply requirements can provide producers with market insight. Reducing costs through supply and distribution channels can enhance customer value by reducing the final price of a product. Lower cost products equate to increased demand and can give a producer an advantage during troubled times.

Finally, through environmental scanning, business owners may discover new avenues through which to distribute their product. New industries are constantly popping-up, such as an increased interest in health and beauty products, dietary discoveries, and medical needs. Knowing which trends are fads and which are lasting can provide producers with additional market and product opportunities.

What Role Does Pricing Play?

In many agricultural industries, pricing is determined by outside forces. However, if a business has control over their pricing structure, a variety of influences must be considered. First and foremost, the cost to produce any product is directly reflected in the price for which that product is sold. Secondly, prices charged by the competition must be considered as well. Depending on the market positioning, such as low cost or high quality, different pricing strategies may apply. Pricing has a large influence over how a customer perceives product quality.

Costs that must be considered include fixed costs, variable costs, total costs and average costs. Fixed costs are not dependent on production, in other words, if no units were produced the firm still has to pay these costs. Examples include leases, manager salaries, and equipment. Many fixed costs are not cash outlays, such as depreciation, but rather a bookkeeping adjustment to reflect lost value. Variable costs are directly associated with production and can include inputs, utilities, support staff and equipment repair. Total costs are the sum of variable costs and fixed costs and must be covered in order for a firm to break-even. Average costs are the total costs divided by the number of units produced. Average costs define the per/unit cost of production.

Penetration pricing is setting a low price, compared to the competition, in order to stimulate demand. Parity pricing refers to charging prices similar to the competition. Premium pricing is setting a price above the competition in order to instill the perception of superior quality. It is important to note that if a firm uses premium
pricing without following through on the customer's expectations of quality, few customers will return.

**What Role Does Distribution and Promotion Play?**

*Distribution* refers to the process of delivering a product to the ultimate consumer or the manufacturer. In the food industry, distribution channels are already established. The level of control a firm has on its distribution channel varies, but due to the large number of agribusinesses and their relatively small size in comparison to food processors, producers rarely obtain much control in the distribution process. While producers may not be in a position to alter the situation, keeping a close eye on new distribution channels and new partnerships helps to reduce overall market risk.

Targeting a specialty market may require a unique distribution channel. Retail outlets, specialty stores, roadside stands, mail order and government contracts provide a variety of avenues. Distribution channels take time to establish and must be constructed before production begins.

Brokerage firms and speculative middlemen can help agribusinesses access new marketing channels. Brokers are usually paid on commission. Middlemen take title of the products, and then sell the products to the next link in the distribution chain.

Finally, food products can create another level of health and safety concerns. Keeping food products at the right temperature during storage and transportation is vital to a company's success. It is important to remember that food processors and restaurants are trying to maintain their own level of quality and safety and are dependent on agriculture to provide that level of quality.

Fliers, press releases, or a sales force provide a valuable way to keep customers informed of a product or firm. Understanding the customer and how to reach them is the key to a successful promotional strategy. Test marketing is the process of exposing a product to potential customers and assessing their reception to the product. It is also important to compare how a product sells against its competition.

**What Financial Statements Must Be Included?**

Depending on the audience for a business or marketing plan, a variety of financial statements are required. The goal is to provide an accurate analysis, which shows the viability of the enterprise. If the plan is for a new business, it is important to address realistic profit and cost statements, along with a break-even analysis and an assessment of profit potential under changing conditions. Many of the financial ratios only apply to existing entities.

*A balance sheet* includes a list of assets, liabilities and equity. Assets less liabilities less equity should equal zero. Assets should be valued at their current market value; meaning capital equipment should be listed at the purchase price less any accumulated depreciation. Owner equity reflects all owner investments, including the sum of profits and losses over prior years. A balance sheet is a snapshot in time and changes on a day-to-day basis. Balance sheets are normally completed annually, but in some cases monthly.

*An income statement* includes revenues and expenses. Revenue minus expenses equals profit. Revenue is calculated as it is earned, not when the receipts are actually received. The same goes for expenses. Revenue that has been earned, but has not been collected is shown on the income statement in the form of accounts receivable. Liabilities record accounts payable, expenses incurred that have not yet been paid. Income statements are completed annually.

*A break-even analysis* shows the number of units that must be produced in order for a company to break-even. Production above this level produces a profit and production below this level produces a loss. It also shows the total amount of sales (in dollars) needed to break-even. Usually a break-even analysis is done with varying costs and prices to illustrate break-even under varying market conditions.

The following formulas provide a measurement of the health of the company by analyzing its ability to turn assets into cash, pay off debt, and produce a return for investors.

- \( \text{Return on Equity} = \frac{\text{Net Profit}}{\text{Net Equity}} \)
- \( \text{Debt to Equity} = \frac{\text{Total Liabilities}}{\text{Net Equity}} \)
- \( \text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \)
- \( \text{Quick Ratio} = \frac{(\text{Current Assets} - \text{Inventory})}{\text{Current Liabilities}} \)

**What Format Should I Use?**

Document formats can vary from firm to firm, although there is a recognized standard for business and marketing plans. The following is a suggested reference.
Business Plans

Executive Summary: Provides a general overview of the plan's main points

Background and History: Provides the background of the organization if this plan is an update, or if the organization has been in business prior to the planning process. If this is a new business, it provides a personal background of the key players.

Mission Statement: A mission statement is a short, concise statement describing the vision and a broad statement outlining how the firm will achieve this vision over time.

Business Goals and Objectives: Goals are specific results to be achieved within a given time period. Long term goals are strategic in nature while intermediate and short term goals are tactical in nature. Objectives are the step-by-step accomplishments needed to achieve a goal. Goals and objectives are usually quantifiable in terms of profit, market share, and units sold.

Description of Product or Service: Many producers supply a varied number of products based on land quality, seasonal variations and market conditions. Knowing exact yields several years in advance can be difficult. It is best to describe all potential products and describe under which conditions each variety would be produced. Also include any value added services that the farm plans to offer.

Market Description or Assessment: The market description is a list of the environmental factors affecting the success of a firm's operation. Suppliers, distributors and market forces should be addressed, along with solutions to environmental threats.

Competitive Analysis: Looking realistically at the competition and assessing the firm's strengths and weaknesses provides the competitive analysis. Differentiation strategies should also be included.

Financial Analysis: Include all financial statements and a narrative to describe business events reflected in the statements.

Marketing Plans

Mission Statement: Same as above.

Goals and Objectives: Same as above.

Competitive Strategies: How does this organization plan to differentiate itself from competition?

Marketing Objectives: These objectives refer more to actual sales levels than overall company goals and objectives. Again, market share, profitability and cash flow are quantifiable objectives to include.

Marketing Strategies: Strategies refers to the outline of how a company plans to achieve its marketing objectives. It provides marketing orientation and direction to staff and explains why marketing decisions are made. Product positioning must be included, keeping the customer in the forefront of all decision making.

Pricing Strategies: If a firm has control over the pricing of its products, a description of the pricing methodology should be included in the marketing plan.

Distribution Strategies: If a firm plans to contract transportation or use middlemen to integrate within a distribution channel, these decisions should be justified here.

Promotional Strategies: Promotion can be an expensive part of doing business, so a well thought-out plan can provide efficiency and substantial cost savings to an organization.

Financial Analysis: Same as above.

Where Can I Find Additional Information?

Web Resources

University of Nevada Cooperative Extension Web site at http://www.unce.unr.edu/.


References


Erickson, Donald. "Economic Analysis of a New Business - Doing It Right." Publication number MF218 Department of Agricultural Economics, Cooperative Extension, Kansas State University, April 1996.
