



**Consortium for  
Improving Agriculture-  
based Livelihoods in  
Central Africa**

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# **ESTABLISHING A BUSINESS PLAN FOR AN AGRICULTURAL ENTERPRISE**

## **A Trainers Guide**

### **MANUAL 3**

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**Objective:** to enable trainees to have hands-on experience on how to develop a business plan for an agricultural enterprise. Participants are expected to learn how the **business idea** is developed and how it becomes the basis for developing a business plan together while incorporating information from market research and reconnaissance.

**Expected Outcome:** Development of a business plan for a viable enterprise.

### **Activity 1: Generation of the Business Idea and Enterprise Selection**

The choice of a farming business is a process that requires that prospective entrepreneurs to generate and analyze various business ideas in order to select an appropriate enterprise which is then used as a basis for a business plan and which subsequently developed into a successful business.

#### **1.1 Business Idea Generation**

1. A business idea is a short and precise description of the basic operations of an intended business. A good business starts with a good business idea that brings out the following:

- Which needs your business will fulfill for the customers.
- What product or service your business will sell. In farming as a business, products may include primary products e.g. bananas or commercial maize or secondary products if the farmer wishes to add value to bananas or maize by converting into banana juice/wine or maize flour. For processors, the business products will include the processed products.
- Who your business will sell to. Outlets may include middlemen, processors, community members, supermarkets, etc.
- How your business is going to sell its products or services, e.g. direct to customers or retailers.

2. A good business idea requires that one matches what the customer wants with skills and experience needed to provide it, knowing what it costs to provide it, and knowing how much the customer is willing and able to pay for it.

3. However, one must remember that these factors are always changing and hence there is need to keep an eye on these factors.

#### **1.2 Process for Generating a Business Idea**

##### **Step A: List of viable business opportunities**

Make a list of all potentially viable business opportunities through experience, field visits, brainstorming, etc e.g.

<b>Idea List</b>	
<b>Idea</b>	<b>Description</b>
1. Growing of beer bananas and supplying the bananas to the banana wine processor in the locality through the farmer association on a contractual basis.	The area has a high potential for beer banana production with no biotic pressure in terms of pests and diseases. The formal banana wine processing plant in the area has a high capacity and the processor is always in need of beer bananas and currently purchases bunches in spot markets.
2. Processing of soybean into soymilk and supplying supermarkets	The farmers in the area are large producers of soybean and have access to improved seeds and extension services. Cowmilk is scarce and alternative sources of milk for children are always sought after.
3.	
4.	

### **Step B: Analyze the business ideas and select the best ones.**

It involves the process of screening the idea list to key priority ideas – the ones that are most suitable for the business. Think carefully about each idea using the following helpers:

- **Which** need do you want the product (s) or service (s) to satisfy for the customers?
- **What** product(s) or service(s) do your customers want? What quality of your product do your customers want? What information do you know about the products or services for this business?
- **Who** will be your customers for this particular business? And will they be enough? Who are your competitors?
- **How** will you be able to supply goods and services the customers want? How much do you know about the quality of goods and services the customers want? Does running this sort of business suit your personal characteristics and abilities? How do you know there is a need for this business in your area? Do you imagine yourself running this business in ten years time?

### **Other important factors to consider**

- Where can you get advice and information about this business?
- Will this be the only business of this kind in your area? If there other similar businesses, how will you be able to compete successfully?
- Why do you think this business will be viable?
- Does this business need equipment, premises or qualified staff?
- Do you think you will be able to get the finances to provide what is needed? -Where will you get the resources to start this business?

### **Step C: Analyze the prioritized business ideas on the basis of the market considering factors that will help you accept or reject a business idea (SWOT analysis)**

The SWOT (Strengths, Weaknesses Opportunities and Threat) analysis involves isolating the internal (SW) and external (OT) factors affecting a farm business. It helps to focus on possible problem areas and potential advantages of each idea.

#### **a) Strengths**

“Strength” is something that the farming business already has that is “good” e.g. sound management capacity, special skill, financial, labour and natural resources, or a characteristic that gives the farming business an important ability or advantage such as being a low-cost high quality producer.

#### **b) Weaknesses**

Weakness is a short-coming in the farming business or something that is done poorly in comparison with similar farming businesses, or a condition that creates disadvantages for the farming business, such as;

- Poor market positioning
- Limited management capacity
- Lack of a critical resource

#### **c) Successes and Failures**

Past successes and failures should be identified. These could be tabulated to help identify those aspects which should be concentrated on in the future (successes) and which aspects to avoid (failures). The farm should be eager to answer and understand the “WHY” of the successes and the failures.

#### **d) Opportunities and Threats (External factors affecting the firm)**

EPEST is a convenient tool to investigate the external environment

E – Economy – macro-economic factors including input costs and taxes, exchange rates, etc.

P – Political/Legal – political factors can influence farming positively or negatively depending on whether the farmer views these factors as opportunities or threats. E.g. Agricultural policies, import/export legislation in agriculture may impose certain limitations.

E – Ecological/Climate – Agro-climatic factors can be a threat or an opportunity to the farming business depending on the coping mechanism adopted by the business.

S – Socio/cultural – These factors in the external environment influence the views, values, attitudes, opinion and lifestyle of the people which are conditioned or developed by cultural, ecological, demographic, religious, training and ethical conditions. These

factors will influence decision to be made in a farming business and must therefore be isolated.

T – Technological – Technological changes in the external environment may present positive opportunities for the farmer. The capacity to adapt to new technology may present opportunities by presenting a competitive advantage over other farmers.

The following questions could be used as a guide to the logical conclusion of the SWOT Analysis:

- Are there more strengths than weaknesses?
- Are there more opportunities than threats?
- How will I deal with the weaknesses?

This step marks the end of the initial process in preparing to start a business. The next step is to provide a summary of the business idea.

### **Step D: Summary of the Business Idea**

The summary could be provided in any format, e.g.

<b>BUSINESS IDEA</b>
My business idea:
Type of business: retail, wholesaling, processing, manufacturing, etc.
My products or services will be:
My customers will be
The needs of the customers that will be satisfied are:
Skills, knowledge and experience that I have with this type of business are:
I have chosen this type of business idea because:

## **Activity 2: Business Plan**

### **2.1 What is a business plan?**

It is a tool for guiding the business. It lays down:

- The objectives of undertaking the enterprise
- All the resources required in implementing the enterprise
- When (time) the resources will be required
- Where (source) the resources will come from in order to achieve the outputs of the business/ enterprise
- Who will be responsible for the various business activities

### **2.2 Importance of a business plan**

It helps the business to:

- allocate resources properly,
- handle unforeseen complications,
- make good business decisions

Since it provides specific and organized information about the business and how it will repay borrowed money,

- It is a useful tool/document used to negotiate for resources for an enterprise/business.
- it also informs suppliers and others about the business operations and goals.

### **2.3 Elements of a Business Plan**

a) The general elements of a business plan comprise;

- Cover Page/Title Page
- Executive Summary
- Introduction
- The Marketing Plan
- The Operating Plan
- Organization Plan
- Financial Plan
- Appendices

b) Farm business decisions should be made, in the same way as other businesses, that is, on the basis of sound economic information.

c) Farming business decisions should be made within the context of a Farm Business Plan. The Business Plan can be very simply written and does not need to be a complex document.

d) For smallholder farmers a business plan, even a basic plan, will provide the logical framework for good business decisions.

### **2.3.1 The Cover Page/Title page**

- **Business Plan** (name of document)
- **Name of Association/Producer**
- **Prepared by**
- **Name**
- **Date**

### **2.3.2 EXECUTIVE SUMMARY**

This section should be completed **AFTER** the business plan is finished. It is a **ONE PAGE SUMMARY** and should cover:

### **2.3.3 INTRODUCTION**

The Introduction is the readers' first impression of the business and should cover the following areas:

- the business name
- the business structure
- key personnel and their relevant experience
- description of the product and/or service
- its current market position and the potential for growth
- the business' objectives both in the short and long terms
- the reason the business will be successful
- financial projections
- funds sought and usage

### **2.3.4 MARKET DESCRIPTION**

Some of the considerations when describing markets:

#### **a) Industry trends**

- Identifying the industry trends will help you determine if the business you are beginning is in an industry that is prospering, stabilizing or declining.
- Explain at what stage of the product life cycle your business will be entering.
- Also explain why your product/service will capture a share of the existing market.

**b) Market size**

- What is the present size of the market for the product you have or service you offer?
- Is it local, regional, national and/or international?
- Is it made up of consumers only, processors, institutions, governments or others?
- Is the market expanding or contracting?
- Information concerning your market can be obtained from discussions held with potential distributors, dealers, suppliers and customers. Published data is also a good resource for learning about your market.

**c) Market segmentation**

- Is the market for your product segmented?
- Indicate who your customers will be in each segment, their age, sex, lifestyle, interest, geographic location.
- How many are there in the areas you are going to service?
- Do seasons affect your customers' buying patterns and the offering of the product by the business?
- How do you plan to attract and keep your target market?

**d) Competition and Comparative advantage**

- It is important to make a realistic assessment of your major competitors' strengths and weaknesses (SWOT analysis).
- Compare your products to those of your three largest competitors on the basis of price, performance, service and other features.
- How large are these competitors when you compare them to your business based on potential sales, number of employees and number of customers?
- What has been their recent trend in sales, market share and profitability?
- If your major competitors have not been doing well, explain why you expect to succeed.
- Indicate why you think people would change their current buying habits to become your customers.
- How will your competitors react when you enter the market?
- What is your comparative advantage?

**2.3.5 THE MARKETING PLAN**

The marketing plan describes how the business intends to meet its sales target. It includes the marketing 4Ps that is;

- a description of the product/service (PRODUCT),
- pricing strategy (PRICE),
- distribution/sales and marketing strategy (PLACE)
- promotion strategies (PROMOTION).

It also includes the details of the market research and market targets.

### **a) Product (s)/Service (s)**

- This includes a full description of the range of products to be sold and/or services offered including quantities produced compared to other products/service on the market.
- Indicate/emphasize any similarities/differences between your business and those of your major competitors and explain how these similarities/differences will benefit your business.

### **b) Price Strategy**

Pricing is an important decision that must be made carefully. The price determined must be "right" if the business intends to penetrate the market, maintain its market position and produce the profits projected. In this section of the business plan, indicate;

- The pricing technique that you will use? Explain why.
  - Discuss the relationship between the price and image you want to create. E.g. if your price is higher than similar products, explain the reason for such a difference. What makes your products worth more? If the prices are set below the competitor's product explain how the business will do this and still maintain profitability?
- What are your prices? Include a list of prices you intend to charge.

### **c) Distribution/Sales Strategy**

In this section, the method you intend to use to sell and distribute your product is discussed. Pertinent issues to focus on include:

- How will you get your product to your customers and potential customers? (Will you use family labor as your sales force or will you hire sales representatives and/or distributors? What will be the associated costs?)
- What are the advantages of the distribution methods you have chosen?

### **d) Marketing Strategy**

The marketing strategy should include a list of the customers who will be targeted and the best place to sell the products in order to meet the targets.

- What method will be used to identify potential customers, and how will they be contacted?
- What feature of the product (price, quality, delivery, service, etc.) will be emphasized for each customer type to generate sales?
- From which point will you sell the product and what are the associated costs? E.g. Cost of space rental in a market
- If your business has established markets, include letters of "intent to purchase" from each.
- Will you target one market or various markets? And what are the implications?
  - Risk associated with one market
  - If various markets are targeted,

- (i) Different grades sold to different markets? Prices expected?
- (ii) Range of different buyers needs to be met e.g. different supermarkets, hotels, restaurants.
- (iii) Is there different quality presentation in each market?
- (iv) What are the timing requirements e.g. weekly daily deliveries?

**Activity: Discuss the different types of markets. Discuss with the group the different selling options, the advantages and disadvantages of each (Refer to Activity 4.1.3 in the "A Guide To Smallholder Farm Enterprise Management" manual.**

**(i) Market targets**

- How many products (or hours of service) are you going to sell?
- Present them in a table showing your targets for the first 12 months of operation.
- Make allowance for seasonal factors and the time required to go from a new business to full operation.

**(ii) Market research (refer to participatory market research in module 2)**

- Details of the results of your market research produced from primary and secondary resources should be included.
- Include details of any surveys/questionnaires used.
- Include tables and charts as appropriate.

**e) Promotion Strategy**

- How do you intend to promote your product/service so prospective customers are aware of it?
- What type of advertising techniques will be used (i.e., mail, radio, television, Internet, magazines, newspapers, etc.) to help promote your product?

## **ACTIVITY: DEVELOPING A MARKETING PLAN: A PRACTICAL EXERCISE**

Develop a Marketing Plan for your farm/firm or your group's farm under the following headings (or similar headings of your choice).

### **1. Product**

Quantities-Different times; Varieties, Progressive harvesting; Progressive plantings  
Timing of production Seasonal shortfall period how much of total production?  
Quality required—grading etc

### **2. Post harvest handling**

Washing trimming cleaning etc  
Grading of marketable yield  
Packaging  
Storage and Transport

### **3. Markets**

Where and when?  
How much to whom at what times?  
How? Contract? Letter of agreement?

### **4. Promotion**

How?

### **5. Expected Prices**

Prices for different quality or grades?  
Prices for different times of the year?  
Prices for different markets?

### **6. Marketing Costs**

Post- harvest handling costs (washing, sorting, grading, packaging, storage, transport, labour costs?)  
Fees, etc

### **7. Marketing Strategy**

One market or various markets?  
Direct farmer sales or use of agents or merchants?  
Timing of production and sales.  
Competitors?  
Co-operation with other farmers in the market?

### **8. Risk Strategy**

What are the marketing risks?  
How can these be removed or minimized?

### **2.3.6 THE OPERATING PLAN**

The operating plan describes the operationalization process of the business. It lays down the:

- a) Business structure
- b) Scope of operation
- c) Production arrangements
- d) Regulatory issues (quality control)
- e) Insurance arrangements
- f) Business premises and Location.
- g) Plant and equipment

#### **a) Business Structure**

- This shows the type or ownership structure that the business is going to use. Indicate whether the business will be a sole trader, partnership, company, cooperative, etc.
- Show why that structure been selected and its advantages for the business situation.
- What business name will be used?
- Has it been registered and will it require a registration number?
- If so, include a copy of the certificate as an appendix of the business plan.

#### **b) Scope of Operation**

- Indicate the areas the business is going to service (local, all of region, national, international).

#### **c) Production Arrangements**

Provides a clear and refined production plan and arrangements.

##### Farming business

- The plan entails refining the production plan, in terms of crop timing. An accurate assessment as to when the crop will be ready for harvest is required.
  - What factors may advance or delay harvest? (rain, dry weather?)
  - Can the harvest be progressive? E.g. root crops, bananas or,
  - Can the harvest be delayed e.g. de-suckering management in bananas?
  - Can the harvest be advanced? e.g. by selective watering, use of different planting cycle or varieties? Is there a cost to this? How will this added cost affect returns?
- What are the labor requirements in the production process?
- Indicate the post harvest treatment that will be done, when and the associated costs will be (grading, packaging, etc).

### Processing business

- The plan entails describing of the manufacturing process (if applicable) involved in making the product.
- Describe the type of facilities, space requirements, capital equipment and processing plant location.
- Describe labor requirements for the different activities.
- For a processing business, discuss the type of purchasing, inventory control and production control policies that will be in force.
- How will you meet regulatory requirements?

### Transport and Storage

- How will commodity be moved to the target market? Costs per kg?
- Storage. Will cold storage or other storage be required? Where / Costs per kg?

### Credit Terms

- What credit policy (for supply and sales) will be adopted and what is the standard for your type of business?
- If any, what credit terms have you arranged with your suppliers.
- If any, what terms will you offer your customers.
- Do your credit terms fit in with your tax reporting cycle (cash flow)?
- Any other credit arrangements, such as warrantage?

### **d) Insurance Arrangements**

- Provide an estimate of applicable insurance requirements for your business.
- Quotations from an insurance company can be included as an appendix.
- Possibilities of insurance indexing?

### **e) Business Premises and Location**

- Provide lease/rental details - landlord/agent, setup costs, bond, rent outgoings.
- Preferred location of the business (consider several in case the first option is not available).
- Provide a sketch indicating the layout of the premises (include maps where relevant).
- Provide a description of the facilities required to operate the business, i.e. three phase power, generator, solar power, etc.
- Also include the expected running and maintenance costs.
- If applicable, provide details of security, power and water.
- Where are the premises?
- Why have you chosen this particular (geographic) location?
- How will you be contacted?
- What communication systems will you use (e.g. telephone, mobile, fax, web/internet, etc.)?
- What will your trading hours be?
- When will you start the business?

**f) Plant and equipment**

- List the plant and equipment necessary to start production or to provide the services offered.
- Indicate equipment suppliers purchasing or leasing and the time required to order and install equipment.
- Also indicate the expected running and maintenance costs.

Equipment	Already own (current value in local monetary units)	To be Purchased (local monetary units)	To be Leased (local monetary units)

**2.3.7 THE ORGANIZATION PLAN**

Describes the organizational plan of the business and skill requirements.

**a) Organizational structure**

- What positions are there in the business?
- Include diagram of structure, if required.

**b) Skills required**

- What skills are needed for each position?
- Do you have them now?
- If not, what will you do to get them?
- Include brief resumes of the main personnel. (If they are detailed, it is better to include them as an appendix).

### **2.3.8 THE FINANCIAL PLAN**

This section provides the financial strategy for the business including financial data. The financial data helps investors determine the feasibility of your plan, the size of investment required and your ability to repay the debt. A number of income and cash flow projections need to be included in the plan.

#### **a) Financial Strategy**

Involves answers to the following:

- What finances are required to commence the business?
- Where will this money come from?
- Have you applied for finance yet?
- Where will you seek finance?

#### **b) Source of Funds**

- Summarize the establishment costs and the amount of money needed over the next three years to carry out the development and/or expansion of your business.
- Indicate how much of this money you expect to obtain yourself (through own investments) and how much you anticipate borrowing from banks, microfinance organizations, savings and credit cooperatives, etc.

### **DESIRED FINANCING**

List the amount requested and the sources of financing:

<b><u>Amount requested (BIF/RWF/US\$)</u></b>	<b><u>Source</u></b>
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- 1.
- 2.
- 3.

**Owners equity (e.g. savings, sale of shares)**

- 1.
- 2.

### **c) Use of Funds**

- Investors are very interested in knowing how their money will be spent.
- Identify how this capital will be used. Show what amount will be spent on such things as product development, capital equipment, marketing and general working capital needs, etc.

#### **Funds use**

1. Land
2. Building
3. Equipment

#### **Amount (BIF/RWF/US\$)**

#### **Funds use**

4. Improvement
5. Inventory
6. Working capital
7. Product development
8. Marketing
9. Other

#### **Amount (BIF/RWF/US\$)**

#### **Total amount needed**

### **d) Financial statements (Refer to the Manual on “Helping Smallholder Farmers And Entrepreneurs Manage Their Enterprises Better”)**

The following sets of income and cash flow projections should be included in the plan.

- Balance sheet forecast and Networth
- Break-even analysis
- Income statement projections
- Expected cash flow projections

### **2.3.9 BUSINESS PLAN ANNEXES**

Examples of, but not limited to, the following:

- Questionnaire used in market survey and list of people surveyed
- Photographs of processes and equipment
- Contracts with suppliers, major customers
- Lease documents
- Business name registration
- Insurance documents
- Resumes of key personnel

## ANNEXES

### **Annex 1: Marketing Plan checklist**

#### **PRODUCT DESCRIPTION**

1. Give a detailed description of the product and/or service offered (attach any patents or copyrights granted):
2. List raw materials and supplied products to be used, in what quantities, at what cost, and from whom if purchased:

Materials/cost	Quantity	Cost	Supplier

3. Identify any similarities/differences between your product and those of your major competitors:
4. Similarities:
5. Differences:
6. Explain how these similarities/differences will benefit your agribusiness or small business:

#### **PRICING STRATEGY**

7. Discuss the type of pricing strategy to be used:
8. Discuss/compare your pricing strategy with those of your major competitors:

#### **SALES/DISTRIBUTION STRATEGY**

9. Describe the method to be employed for selling and distribution of the product:

#### **MARKETING STRATEGY**

10. Discuss which customers will be targeted and why:
11. Method of identifying and contacting potential customers:
12. How many markets will be targeted and what are the market targets for each?

## PROMOTIONAL STRATEGY

13. Which methods of product promotion will you use?

14. Prepare a timetable for 12 months of all promotional activities; remember to include the costings in your cash flow.

Promotion task	Date required	cost	Expected result
1			
2			
...			
Total cost			

## **Annex 2: Operations Plan checklist**

1. Describe the manufacturing process involved (or production process in case of farming):
2. Space requirements and type of facilities needed:
3. Capital equipment needed:
4. Labor force needed:
5. For processors, discuss the purchasing, inventory control and production control policies you plan to use:

## **FACILITIES**

### For an existing Business

6. Describe the existing facilities:
7. Discuss your plans to improve/expand plant space:
8. To improve facilities, discuss what equipment is needed, at what cost and when it will be purchased:

### For a New Business

9. Discuss facility acquisition:

## **LOCATION**

10. Business location description (attach map):

11. Discuss advantages/disadvantages of your business location in terms of labor availability, proximity to customers and suppliers, access to transportation, taxes, utilities, zoning and any incentives offered by the city and/or county:

12. List any tax regulations and requirements:

### **Annex 3: Sample Business Plan**