



Planning Your Value-added Business

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Opportunities

racial mix, more two-wage earner families, etc.

- **Consumer demands: Less on price, more on convenience, how food is produced & special characteristics – “natural,” organic, locally produced, animal TLC, fresh, sold direct, “nostalgia”**

Opportunities

■ But

- Food production and marketing is highly competitive, large companies dominate & are highly efficient
- People with adequate incomes have full bellies – consuming a new product must come at the expense of some other product

Commodity v. Value added

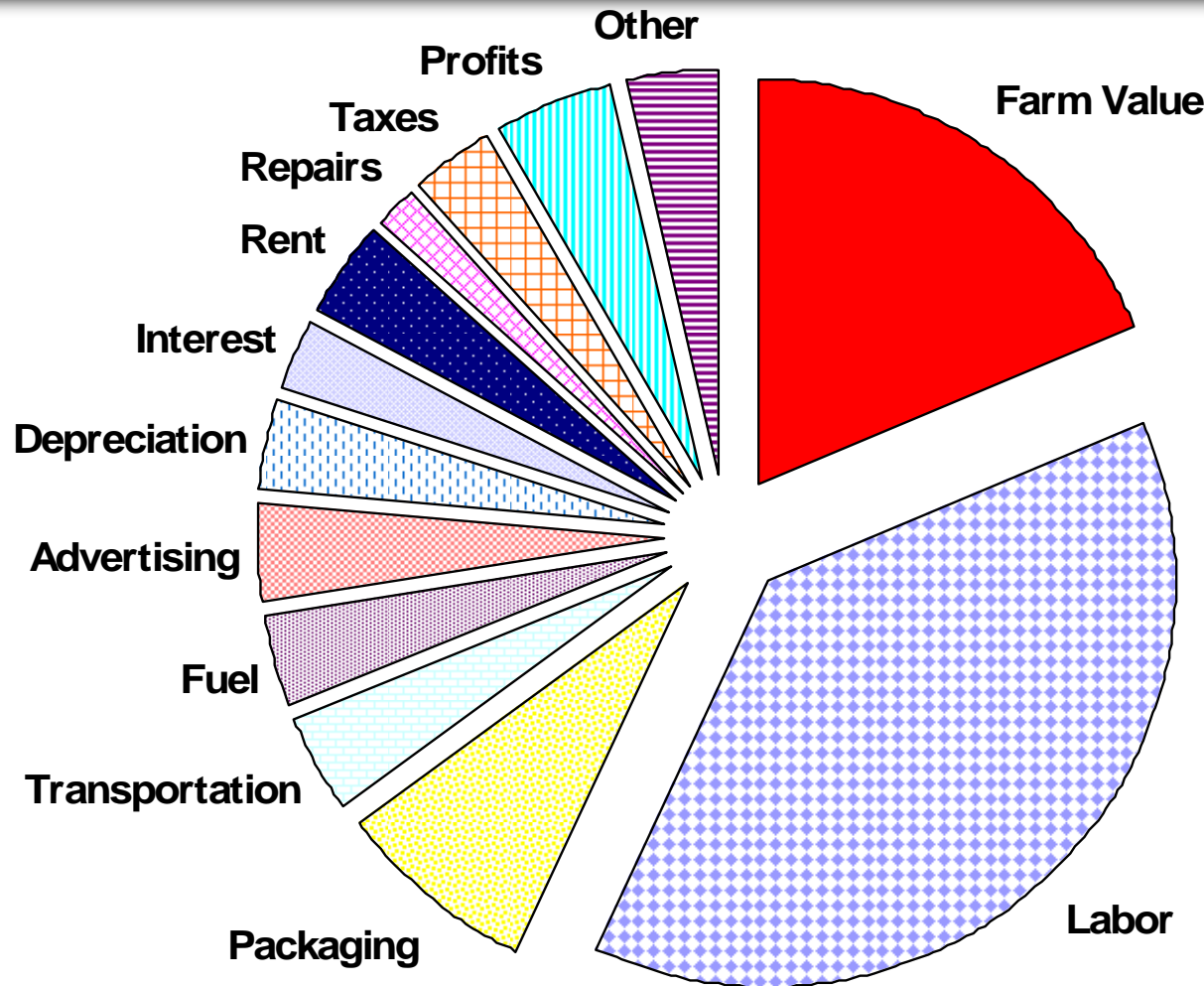
■ Commodities

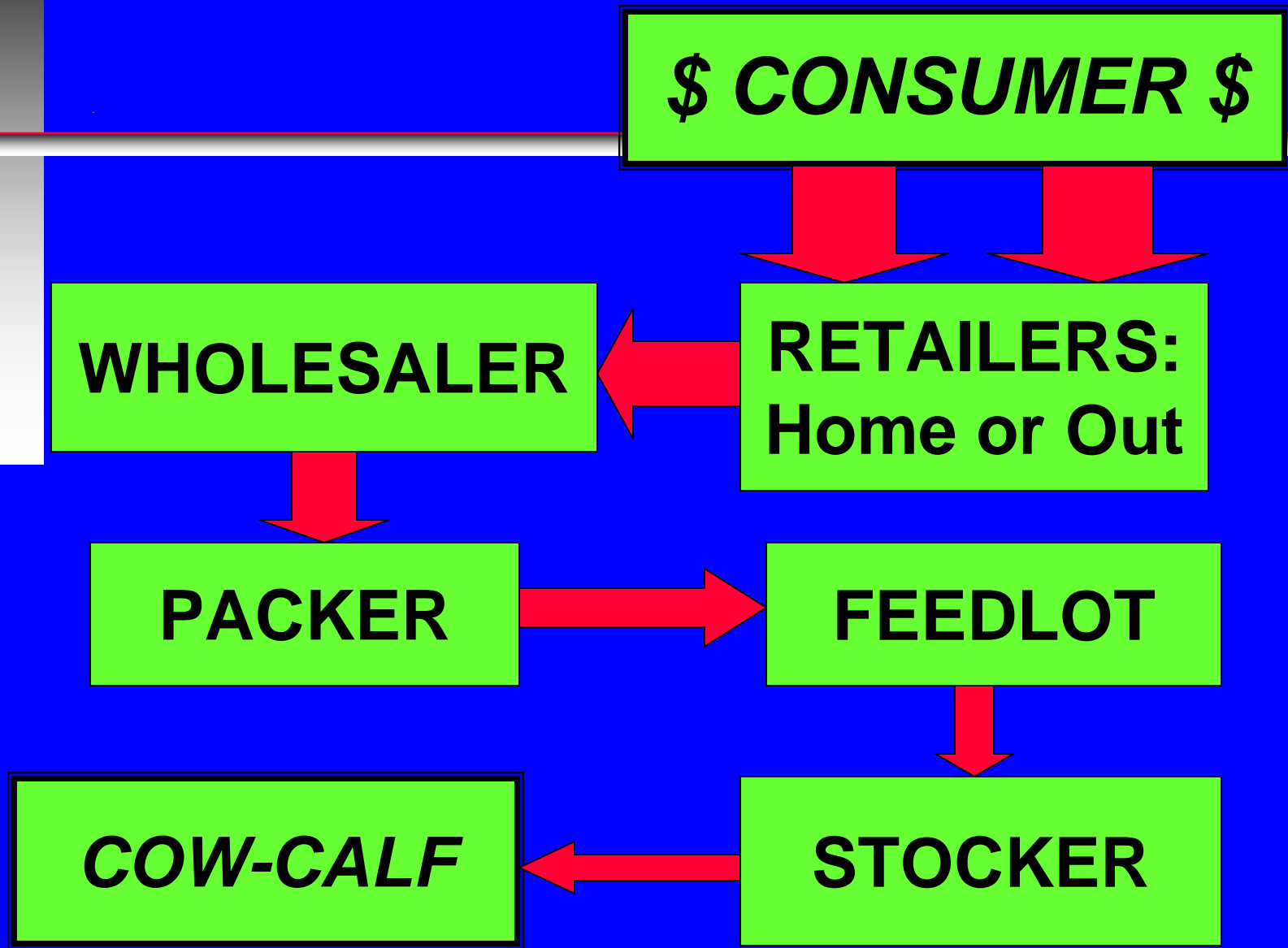
- ❖ High volume, standard products
- ❖ Impersonal competition – cannot affect price, compete on cost

■ Value added

- Take it – go up the marketing chain
- Make it – different product or market
 - ❖ Low volume
 - ❖ Personal competition – compete through price & cost

Cost Components of Food Expenditures





\$ CONSUMER \$

RETAILERS: Home or Out

WHOLESALER

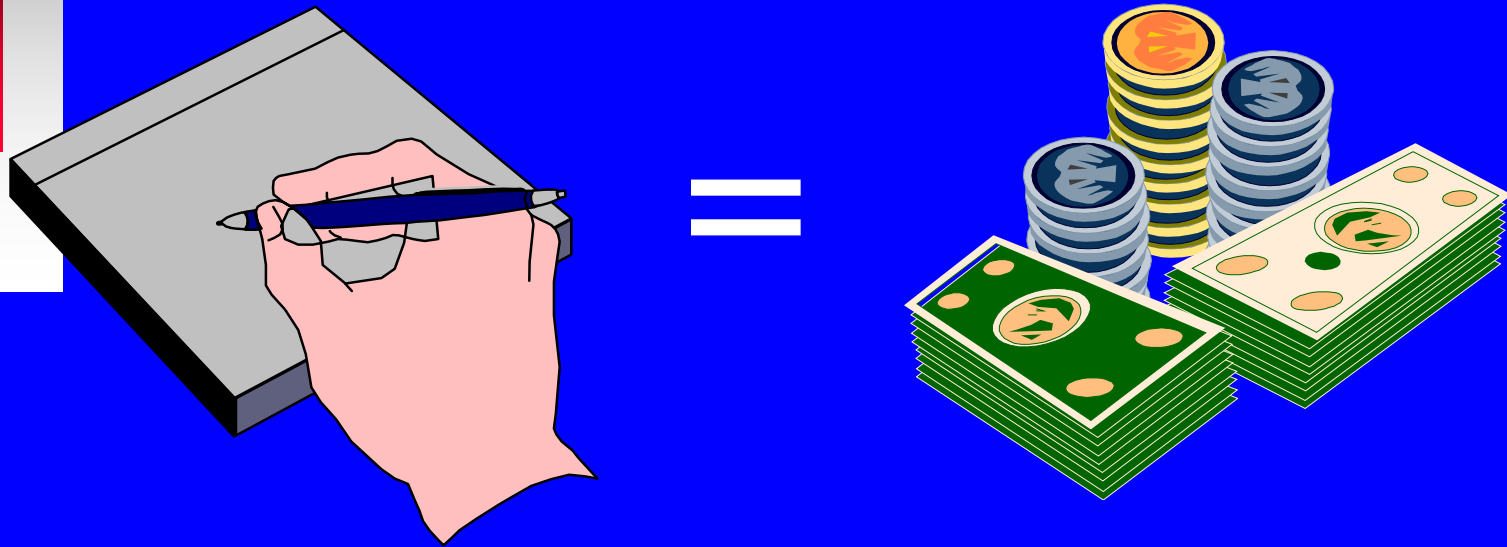
MILK

CHEESE

ICE CREAM

RAW MILK

Why plan?



**“If you can’t make a profit with a pencil,
you can’t make a profit with a plow”**

Why Plan?

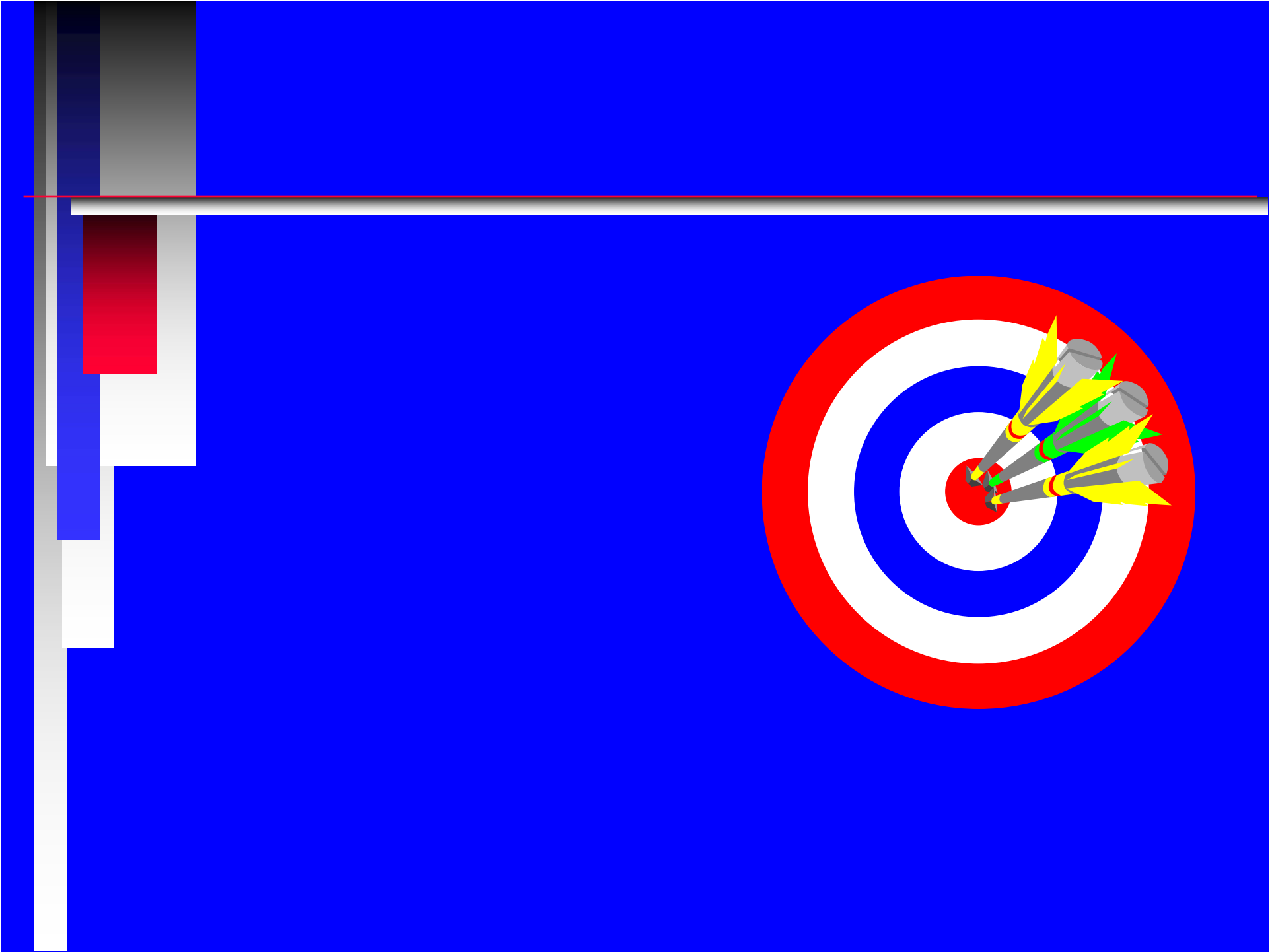
■ To help you:

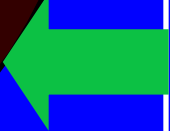
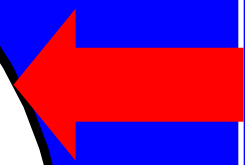
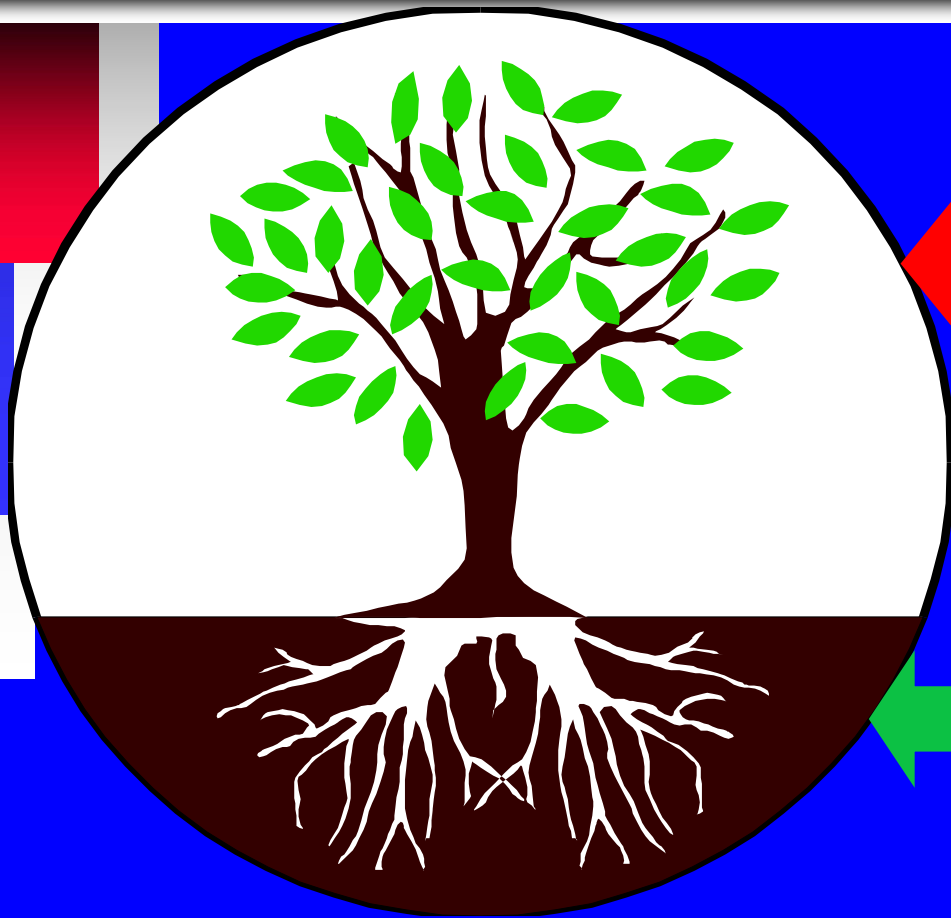
- Evaluate the feasibility of your idea
 - ❖ Identify key strengths and weaknesses internal & external
 - ❖ Demonstrate it will work
 - ❖ Take the emotion out of decision making
- Provide a roadmap to guide the management & operation of the business
- Communicate effectively with lenders or investors, employees and family members

Why Plan?

- “Those who prepare a business plan are 10 to 20 times more profitable, according to anecdotal evidence”

Dave Kohl
VPI&SU





2. What opportunities are there and which ones appeal to you?

- Gather ideas from store visits, trade magazines, web search, etc.
- Screen with the FAS test – is it feasible, acceptable, suitable?
- Investigate the best ideas more thoroughly
- Play your cards close to the chest – competition is personal remember!

3. Who will buy this product? Will they buy yours?

■ Market Research

- Industry or market segment analysis:
Size & trends
- Customer base and demographics:
Number, location, spending habits,
products purchased
- Competition – other suppliers, other
products, prices charged

Estimating Local Demand

- Draw map with 20, 25, 30 mile radius
- Get census data from county auditor, library or web
- Add up population for three circles
- Adjust for demographic factors
- Estimate total sales volume
- Estimate your market share
- Base your production plan on this consumer information

Fresh Veg. Demographics: Cary, NC vs. Asheville, NC

- Avg. \$ spent: \$123
- Income >\$100K : 9%
- Income <\$15K : 34%
- Age > 55: 33%
- African-Am: 35%
- Married + kids: 11%

- Avg. \$ spent: \$164
- Income >\$100K : 31%
- Income <\$15K : 2%
- Age > 55: 25%
- African-Am: 4%
- Married + kids: 40%

Competitor Analysis

**COMPETITIVE ADVANTAGE,
DON'T COMPETE”**

**Jack Welch
Former CEO of
General Electric**

Know your Product

■ FAB

- Features -- What it is
- Advantages -- What it does
- Benefits -- Why your product **is better!!**

How will your product be different?

- **The Product:**
 - Quality—taste, tenderness, color
 - How you produced it—organic, pasture fed, free range, etc.
 - Other attributes—local, family farm
 - Price
 - Service
- **The Market Channel**
 - Direct, e.g. farmers market, farm store, internet
 - Wholesale to stores, restaurants
- **Both**

4. What resources do you have to work with?

- Human capital – you, your family & your employees
- Farm resources
- Financial resources
- Track record of profitability and performance

5. How will you produce and market your product?

- Farm operations
- Processing operations
- Distribution & inventory
- Marketing & promotion
- Each production activity and market outlet should be treated as a profit center

Marketing

■ The four “Ps”

- **Product:** What product? What packaging? How large?
- **Price:** High, Medium or Low?
- **Promotion:** What method & media?
- **Place:** Where will consumers buy the product?

How will you produce and market your product? Cont.

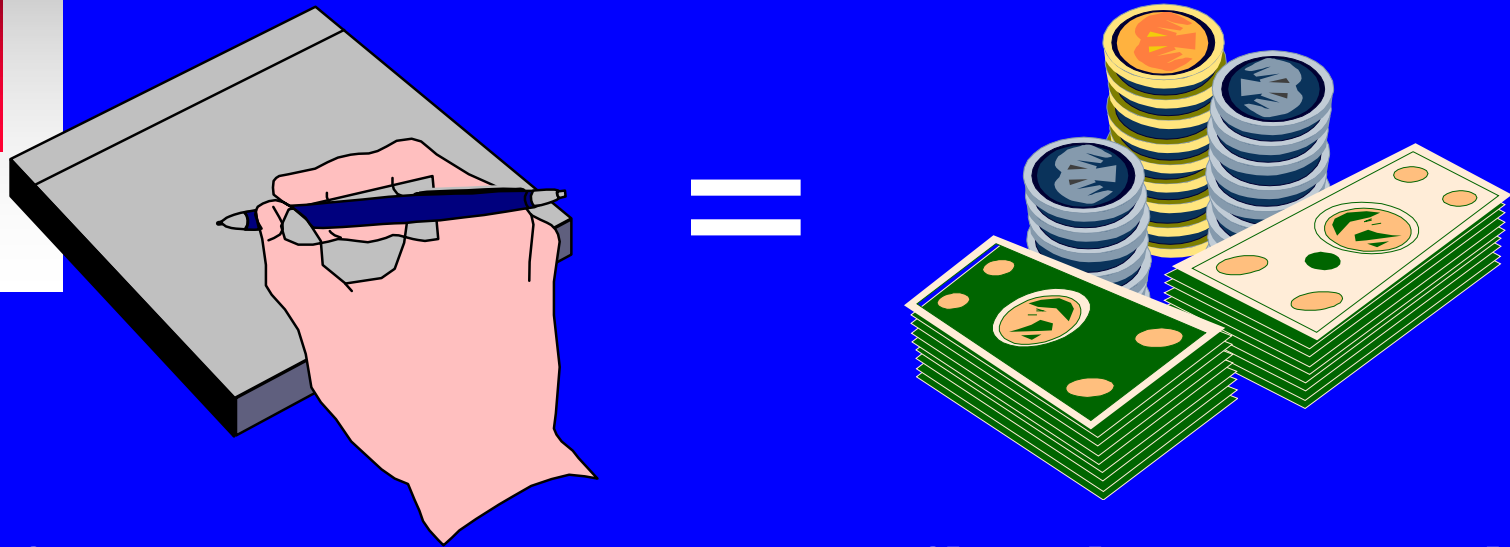
- What additional facilities and equipment will you need? Who will provide the technical advice and supply these
- What additional knowledge and skills will be needed for the processing, marketing & distribution operations

How will you produce and market your product? cont.

■ Other Operational issues

- Legal & regulatory compliance
- Financing
- Business organization/legal structure
- Office, payroll, records & analysis
- Human resources
 - ❖ Management
 - ❖ Employees
 - ❖ External professional services & advisors

6. What do the numbers look like?



**“If you can’t make a profit with a pencil,
you can’t make a profit with a plow”**

What do the numbers look like?

- **Start up costs and timing of money flows**
- **Sources and uses of funds**
- **Risk and risk exposure**
 - **Break even analysis**
 - **Key financial assumptions & sensitivity analysis--impact of alternative prices and sales projections**
 - **Worst case scenario -- exit strategy**

What do the numbers look like?

- **Make annual profit projections through the startup period until the business is stable**
 - **Farm enterprise budgets**
 - **Profit center budgets for value added processing activities**
 - **Summary Budget for the whole business**

What do the numbers look like?

- **Make quarterly cash flow projections until the business is stable, to identify peak credit needs and plan repayments**
- **Four categories of cash flows:**
 - **Operations**
 - **Investment activity**
 - **Financing activity**
 - **Non-farm**

What do the numbers look like?

- If the numbers don't "work," don't quit, review and rework your entire plan
- Reality check
 - Is the plan consistent with your goals?
 - Is the financial performance acceptable?
 - Will the plan enhance your quality of life?
- Identify key performance measures and develop a monitoring system

7. Monitor Performance

- **Determine key performance measures and set up monitoring procedures**
 - **Farm performance & efficiency**
 - **Processing & distribution efficiency**
 - **Cash flow**
 - **Profitability, by profit center**
 - **Solvency**
 - **Financial efficiency**
- **Be flexible -- adjust the plan based on this information and experience**

8. Write your plan down

- **Helps get financing**
- **Helps communicate your plan to family, employees, investors, etc.**
- **Provides a road map as you implement your plan**

Written Business Plan

- Executive Summary
- Statement of purpose & goals
- Industry analysis & market opportunities
- Business description
 - Existing resources and past performance
 - Production & marketing operations
 - Business organization & management
 - Additional resources required
- Financial projections
- Supporting information

Why plan?

- “Planning is everything, the plan is nothing”

Gen. Dwight D. Eisenhower
Supreme Commander
Allied Expeditionary Forces,
World War II

Sources of help

- Existing producers of value added products (except competitors!)
- Government agencies & business organizations
- Library & internet
- Local colleges
- Consultants
- Local Extension Service

Web Sites of Interest

- **US Small Business Administration**
 - ❖ <http://www.sba.gov>
- **NC Small Business Center Network, NC Community College System**
 - ❖ <http://www.ncccs.cc.nc.us/>
- **NC Small Business and Technology Center**
 - <http://www.sbtcd.org> x
- **NC Cooperative Extension Service**
 - ❖ <http://www.ces.ncsu.edu/>
- **Service Corps of Retired Executives (SCORE)**
 - ❖ <http://www.score.org>

- **University of Wisconsin**
 - ❖ <http://www.uwex.edu/ces/agmarkets/starting.html>
- **The Ohio State University**
 - ❖ http://abe.osu.edu/Value_added/page0003.html
- **ATTRA**
 - ❖ <http://www.attra.org/>
- **Minnesota Institute for Sustainable Agriculture**
 - ❖ <http://www.misa.umn.edu/publications/bizplan.htmlan.ht>
- **Iowa State University**
 - ❖ <http://www.ciras.iastate.edu/beefmanual>
 - ❖ <http://www.ciras.iastate.edu/porkmanual>
- **Cornell University**
 - ❖ http://www.cals.cornell.edu/agfoodcommunity/afs_temp3.cfm?topicID=426

Summary

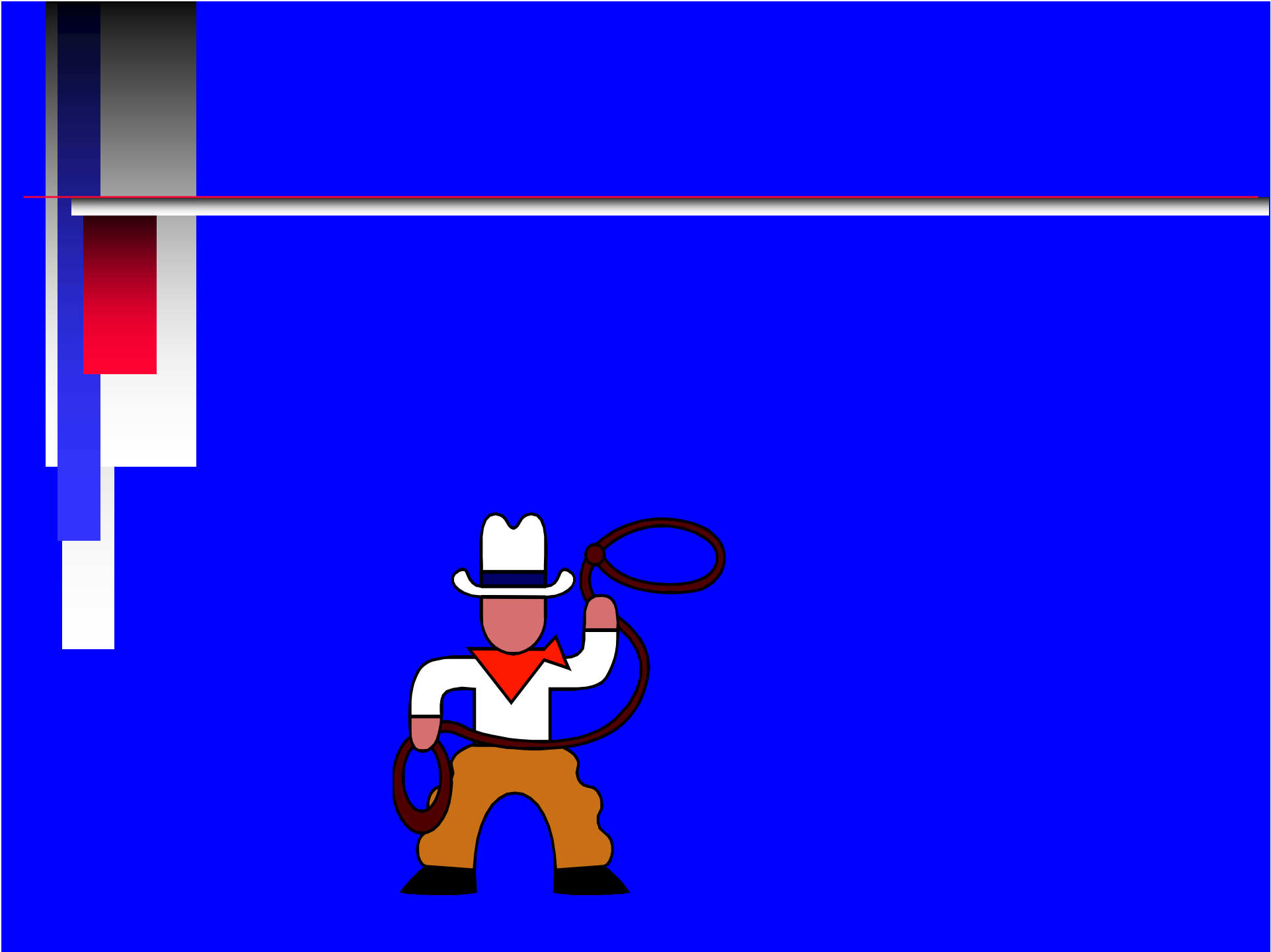
- **Planning does not guarantee success but it increases the odds considerably**
- **In today's economy, careful planning, implementation and "controlling" must be routine & continuous**

Summary

- **Developing a business plan**
 - **State purpose & expectations**
 - **Identify and screen opportunities**
 - **Research the best opportunities, including market research**
 - **Assess your resources**
 - **Develop a detailed production and marketing plan**
 - **Evaluate financial feasibility**
 - **Compare the plan to expectations**

Summary

- Write up your plan
- Implement the plan as written
- Monitor and evaluate how the plan is working
- Adjust the plan in light of results and experience
- Attitude!!





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