

Business plan for an agricultural venture

[Business](#)



The first two Directors of the company are my husband and I; and we aim at nurturing the company to becoming a major player in the agricultural sector of the Ghanaian economy. In view of the saying noted above, this project work offers me an opportunity to develop a comprehensive business plan as a means of charting the way forward for the company. Business Plan: A Means for Charting the Way Forward for Businesses Planning, according to Akoff (as cited by Drury, 2000, p. 545), is "the design of the desired future and the effective ways of bringing it about. This definition tends to encapsulate the essence of putting forward a plan for one's business.

Likening such a plan to a Global Positioning system (GPS), Simoneaux and Stroud (2011, p. 2) noted that as the user of GPS is confident of not getting lost; so also is the user of a well documented business plan. This is because the plan assists the user in mapping out a journey for taking the company from where it is today to its intended destination by enabling the user to "Identify the milestones, obstacles, and desired routes along the way," (Simoneaux ; Stroud, 2011, p. 2). The need for a business to have a plan cannot be overemphasized, for as pointed out by Barrow and Brown (2001, p. 6) "perhaps the most important step in launching any new venture or expanding an existing one is the construction of a business plan". Skripsky (2002, p. 282), in buttressing this assertion noted that "a business plan is absolute necessity in today's business climate." For this reason, the Jokat Farms cannot succeed in carving itself out as a major player within the agricultural sector of the Ghanaian economy without a business plan.

In spelling out the main components of a business plan, Simoneaux and Stroud (2011, pp. 93-94) noted such major headings as (a) an executive

summary, (b) company overview. (c) description of products and services, (d) market and competitor analysis, (e) company strategies, (f) management and personnel, and (g) financial review. Jokat Farms: An Intended Major Player in the Agricultural Sector lokat Farms, as noted above originated as a hobby some seven years ago, and as its name implies, it is an actor in the agricultural sector of the Ghanaian economy. The company is the brain-child of John D.

Abbeo (my husband) who conceived the idea for the establishment of a farm project during his Executive Master's degree studies this seven-year life, the venture has made investments in cash crops by engaging in the cultivation of cocoa, orange, and mango. From the perspective of livestock development; the company has established a piggery and poultry production farm. Whilst John Abbeo had a conception of establishing the company during his study, I have a conviction of developing a comprehensive business plan for the company in my engagement in a similar Master's program with the same institution (GIMPA).

The development of a business plan for this company is intended to be a comprehensive development of the company by way of its corporate philosophy (i. e. , mission and vision), products and/or services concepts, marketing and competitive strategies, management and staffing requirements, and the financial plans of the company going forward.

Methodology In developing a business plan for Jokat Farms, a qualitative research methodology would be employed. Such a research method, according to Creswell (2009, p.) is " a means of exploring or understanding a social or human problem" an inquiry approach that. The deployment of the <https://assignbuster.com/business-plan-for-an-agricultural-venture/>

qualitative research inquiry approach will allow for an in depth exploration of Jokat Farms in relation to its existing business operations and other modus operand'. Feasibility and Scope of the Project Work The business plan, as noted above, will be developed for the Jokat Farms, but to ensure that the development of the plan becomes more focused, this project work ntends to concentrate on developing a business plan for only the poultry division of the company.

The reason for such a focus and concentration stemmed from the fact that the company has not anticipated facing problems with the marketing of the cash crops. For instance, companies such as Pinora Company Ltd, Blue Skies Company and the statutorily established Ghana Cocoa Board and its agents offer avenues for technical support and sale of the crops. However, the poultry sector is inundated with some challenges and calls for systematic planning in order to succeed. CHAPTER TWO LITERATURE REVIEW 2. SMALL AND MEDIUM-SIZED ENTERPRISES It is important to note that, in general, there is no single official universal definition for a small firm (Mukhtar, 1998). For research purposes, the US Small Business Administration (SBA) has traditionally defined Small businesses as businesses with fewer than 500 employees (SBA, 2001). However, other studies that have followed this definition of small business may have failed to detect and discriminate the differences and nuances between 'larger' small firms (e. . a firm with 450 employees and IJS\$17m in revenues) and truly small firms (e. g. a firm with 7 employees and \$540, 000 in sales) (Ibrahim et al. , 2004; Sawyerr et al. 2003). Thus, the literature was examined to glean other definitions of 'small' business. According to Mukhtar (1998), a wide range of definitions is used in

practice. The Wiltshire Committee's definition of small business is often used by researchers and states that: '... t is a business in which one or two persons are required to make all the critical management decisions such as finance, accounting, personnel, purchasing, processing or servicing, in only one or two functional areas .. .' (Berryman, 1983). Micro, Small and Medium Enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Aryeetey, 2001). SME's are also believed to contribute about 70% to Ghana's Gross Domestic Product (GDP) and account for about 92% of businesses in Ghana.

SME's therefore having a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries. SME's development can encourage the process of both inter and intra-regional decentralization; and, reckon force in catching up with economic superpowers of larger economies in the developed world. More generally, the development of SME's is seen as accelerating the achievement of wider socioeconomic objectives, including poverty alleviation (Cook and Nixon, 2000).

2 STRATEGIC PLANNING AND SME SUCCESS

SMEs are complex and quite different from large business specifically in relation to resources (MacDougall & Pike, 2004), markets (Chetty & Campbell-Hunt, 2003); flexibility (Freel 2000), leadership (Fuller, 2003) and structure (McDonald & Wiesner, 1997). While the management and academic literature on the topic area of strategic planning has predominantly focused on the large business environment, here is now a growing body of knowledge related to the SME context.

The link between strategic planning and small business success has been researched and documented (Meers & Robertson, 2007) and the value and contribution from strategic planning for small firms is important (Beaver, 2007). Breaking down strategic intentions into actionable components and allocating responsibility for each of the components was considered an important part of successful implementation. In their empirical study of 267 firms, Joyce and Woods (2003) concluded that organizations using systems of strategic management made faster decisions and successfully implemented change and innovation to bring about growth.

Even while acknowledging the importance of strategic and business planning, many small business owners and managers do not undertake the process, frequently citing lack of time, lack of familiarity with strategic management techniques and processes, lack of skills and confidence to begin the process, and lack of trust in internal stakeholders in relation to sharing business information as the reasons for non-implementation of strategic planning (Beaver, 2007).

Greater clarity is provided by Wang, Walker and Redmond (2007) where the owner's motivation for being in business, whether profit or growth maximization compared with personal fulfillment, was presented in their analysis of SMEs' engagement in strategic planning processes. Owner motivations are presented as a key determinant for engaging in strategic planning (Miller & Toulouse (1986). Further, in investigating owner managers and the practice of strategic management it was determined that SMEs had access to fewer strategic tools than other managers, and as a consequence, used fewer tools in planning (Woods & Joyce, 2003).

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By their nature, SMEs have more limited human, material and financial resources (McAdam 2002). SMEs focus on allocation of resources to achieve their maximum short-term advantage, which frequently leaves them to respond to external influences as they occur rather than taking a proactive small business owners, " If you want to be more successful, then obtain more knowledge of the strategic planning process" (p. 8).

Analysis of the external environment is a crucial step in strategic planning whether utilizing critical success factor (CSF), " what if" analysis, SWOT (strengths weaknesses, opportunities and threats), or stakeholder analysis. The assessment of external business conditions is considered essential to planning (Beaver, 2007). While the use of strategic management tools as an aid to business growth was confirmed, how managers in small firms handle strategic management in practice is still limited (Woods & Joyce, 2003).

Research has demonstrated lower levels of familiarity and lower levels of use of strategic tools by owner managers compared with other managers in small firms (Woods & Joyce, 2003). The majority of small firms did not utilize the traditional tools and techniques of strategic planning in the study by Meers and Robertson (2007), yet their findings suggested that internal and external business condition assessments were worthy of consideration. 2.

BUSINESS PLANNING AND SMALL FIRM'S CRITICAL GROWTH Lewis (1983) used a model that stems from an analysis of the literature concerning the life-cycle of organizations. On the basis of an empirical research conducted through a questionnaire distributed to 110 owners and managers of successful small companies in the \$1 million to \$35 millions sales revenues range, they criticized past research for three main reasons: (1) it assumes <https://assignbuster.com/business-plan-for-an-agricultural-venture/>

that a company must grow and pass through all stages (e. g. creativity, direction, delegation, coordination, collaboration Greiner (1993) of development or die in the attempt; (2) it fails to capture the important early stages in a company's origin and growth; (3) it measures company's size only in terms of sales revenues, so ignoring other relevant factors such as: value- added, number of locations, complexity in product line and rate of change in products or production technology. Consequently, they proposed a non-deterministic approach, based on five different sequential phases of development (i. e. existence, survival, success, take-off, resource maturity) for a growing small firm, each of them eing characterized by an index of size, diversity and complexity and described by different management factors, among which business planning and control systems play an important and different role according to the particular growth stage of the firm (Blanchi et al. , 1998). The Existence stage concerns business start up. Main problems are related to building a sufficient customer and sales base and to get the necessary liquidity to feed initial financial needs.

A critical resource is equity-owner's entrepreneurial ability in managing by his/her relevant business functions, matching ersonal and businessgoalsand finding proper monetary resources. When the firm reaches the second stage (survival) it has demonstrated to be a workable business entity. It has accumulated a minimum credibility in its market as is able to satisfy its customer base with its products. Critical resources are the same as in the previous scenario. Cash management is particularly critical, as cash flow from consolidated products have to feed financial needs from current operations and to support growth (i. . investments in new products,

processes, management systems, human resources, etc.). In the survival stage, the company may either grow in size and profitability and move on to the next stage or remain at this phase for some time, though, in the above two stages, systems and formal planning are minimal to non-existent and the company's strategy is simply to remain alive (in the first phase) or to consolidate its market position (in the second phase), drawing up a formal business plan (either for internal or external use, e. . for banks) or even sketching an informal plan in the entrepreneur's mind may be very helpful to support growth management awareness (Blanchi et al. , 1998). In the last decade, there has been a growing trend of small firms utilizing formal business plans as a modeling tool in the start-up phase; a major reason for this phenomenon could be related to the fact that such a document is a prerequisite to benefit by public financial grants.

Relatively often, however, many entrepreneurs have viewed drawing up their business plans as a bureaucratic constraint, rather than a learning tool which may help them to be aware of the business formula that is going to be adopted. The outcome of such a mechanistic perspective is a static and non-systemic document emerging from the aggregation of isparate data (e. g. commercial, financial, statistical, and macro-economic, etc. that do not allow entrepreneurs to understand the structure of the dynamic system where the firm will operate (Blanchi et al. , 1998). In contrast, conceiving business planning in a learning-oriented context may allow the entrepreneur to foresee the future stages of business growth and, consequently, to understand the proper time when to start to build relevant resources (e. g. money, management competences, formal systems and structures,

machinery, brand reputation, customer base, etc.) that will allow the firm to move to the subsequent stages.

More particularly, a learning-oriented and dynamic approach to business plan drawing up is likely to support the entrepreneur to understand cause-and-effect relationships between cash flows generated or absorbed by consolidated and new products, as well as trade-offs between support and development investments. Another important decision area that could be mastered by a learning-oriented approach to business planning is related to the dynamics generated by commercial policies (e. g. those related to sale price, terms of payment allowed to customers and negotiated with suppliers, sale delivery delays, etc. on sales revenues, current income and cash flows in a short and longer time horizon (Blanchi et al. , 1998). For instance, too a sharp increase in customers' terms of payment and inaccurate short term profit withdrawals by the equity-owner, together with too a high " debts-to-equity" ratio, could undermine financial structure, because of delayed higher current financial needs caused by growing net working capital (Blanchi and Mollona, 1997). Such a dynamics would give rise to increasing negative bank accounts which - in spite of growing trends in sales and low interest rates - might seriously threaten long term liquidity and profitability.

Other relevant issues to which business plan as a learning tool could be applied in the survival stage are related both to the possibility to simulate and figure out future scenarios related to alternative growth and harvesting strategies and to timely detect internal limits to growth related to resource scarcity (e. g. production capacity). The third stage (Success) implies two alternative scenarios: (1) disengagement; (2) growth (Blanchi and Mollona, <https://assignbuster.com/business-plan-for-an-agricultural-venture/>

1997). In the first case, the firm has attained sufficient profitability, size and product-market penetration to ensure economic success.

As far as the "rules of the game" in the firm's market niche investing cash flows in new product development. The firm has grown large enough to require functional managers to take over some activities and tasks formerly performed by the owner. Also a professional staff structure is usually built and a controller drives a formal budgeting process, supporting functional delegation. In the second case, the business-owner is more concerned to build strategic resources and to plan future growth. Matching current with future cash flows requirements and building competences through hiring managers are critical issues in this sub-stage.

Not only a formal budgeting, but also a formal strategic planning process is enhanced (Blanchi et al. , 1998). In the fourth stage (Take-off) the firm becomes more complex as more strategic business units are active, because of new product development and decision-making delegation. Key management factors are particularly the owner's ability to delegate, the availability of significant cash flows (Hutchinson, 1986) to foster growth, and of qualified formal structures and systems. Both budgetary and strategic control are fundamental to the.

The owner tends not to perceive the company as his own creature, even though she/he is still the person having a major charisma as well as stock control. When the company enters the last stage (Resource maturity), it consolidates and controls financial gains generated by growth and retains, at the same time, the advantages of small size, related to flexibility and

entrepreneurial spirit. In this last stage coordination between different departments and units is pursued by a stronger resort to formal strategic and operational planning (Blanchi et al. 1998). Although in the last three stages (and particularly in the last two) formal and more sophisticated planning is used as a coordination mechanism, it is possible to assert that also in these scenarios - in spite of structured budgeting and planning procedures - the learning-oriented approach may play a significant role in fostering both an inter-functional view of the business and communication through trade-off analysis (thereby reducing the risks of bureaucratization).

Moreover, particularly when the firm operates in the success- growth stage, such an approach may also support the management of cash flow dynamics and a deeper understanding of dynamic relationships between the firm and its competitive system (Blanchi et al. , 1998).

2. 2. 1 Relationship between strategic planning and SME success

Many studies have suggested that business failure is due largely to an organization's failure to plan. As Norman and Thomas (2003) noted, 'Without a clearly defined strategy, a business has no sustainable basis for creating and maintaining a competitive edge in the marketplace. This view is shared by numerous empirical studies that reveal a link between strategic planning and corporate success (e. g. Bracker et al, 1988). Strategic planning is therefore a very important research topic for organizational success. Studies have shown that the high failure rate among small firms, particularly among start-ups, can be attributed to the lack of formal business planning (Castrogiovanni, 1996). Studies have

generally shown that planning is not only important for large organizations but for SMEs as well (Rue and Ibrahim, 1998).

Berman et al (1997) found that firms that plan produce better financial results than firms that do not plan. Lerner and Almor (2002) contended that planning lays the groundwork for developing the strategic capabilities needed for high performance. Planning does not guarantee business factors to business failures may be predicted and effectively address during the infancy of small business development when strategic planning is employed, thereby decreasing the failure rate for small business.

Where strategic planning has been adopted, businesses usually report that it benefits them (Baker et al, 1993). However, an extensive review of the literature shows that research on the impact of strategic planning on SME success is inconclusive. Below, we divide the research into two categories: those that show a positive impact of strategic planning on SME success and those that show a negative impact. Considering the positive impact, Sexton and Van Auken (1985) found in their longitudinal analysis that the survival rates of SME that apply formal strategic planning are higher.

Boyd (1991) found that the probability of survival is substantially smaller for non-planning enterprises. Birley and Niktari (1995) found an association between the failure of small firms and a lack in business planning.

Castrogiovanni (1996) linked the lack of strategic planning with higher mortality rates of SMEs. Miller and Cardinal (1994) claimed that planning produces better results than non-planning. Michalisin et al (1997) stated

that firms can achieve sustainable competitive advantage from such resources as strategic planning.

The studies that examined the nature of business planning activities undertaken by small firms suggest that a relationship exists between enhanced sales growth and the implementation of sophisticated business planning techniques (Berman et al, 1997). A further study by Olson and Bokor (1995) of 442 small start-up firms supported the case for formal planning enhancing business performance, although this was found to be context dependent. Characteristics of the entrepreneurs -prior management experience or previous work history - were found to be significant.

The empirical literature widely assumes that strategic planning is a substantial success factor for small or new ventures. Accordingly, strategic planning increases not only the rate, but also the extent of success. Meta-analyses conducted by Robinson and Pearce (1984) and Schwenk and Shrader (1993) showed that the existence of strategic planning is significantly positively correlated with the success of an enterprise. Small firms can benefit from strategic planning particularly if it involves long-range thinking and systematic screening of opportunities (Schwenk & Shrader, 1993).

Robinson and Littlejohn (1981) found a positive relationship between strategic planning and financial success in their investigation of small business enterprises. Similarly, Jones (1982) found that small business 'planners' were shown to be more successful measured by return on assets than 'non-- planners'. Besides, they were engaging more in anticipating

changes in the marketplace and looking for ways to take advantage of these changes. Based on an analysis of 51 small enterprises in the U. S. Robinson et al (1984) showed that simple planning activities can have a positive influence on the success of small enterprises. Furthermore, the process of (formal) planning itself seems to have a positive effect in that it leads to a better understanding of the business and to a broader range of strategic alternatives. Ackelsberg and Arlow (1985) have proven that strategically planning enterprises achieve better financial results. This implies that expenditures related to between strategic planning and financial performance was discovered by numerous researchers in different industries (Bracker et al, 1988).

Delmar and Shane (2003) examined the relationship between planning and enterprise development on the basis of 211 Swedish new ventures and found that planning reduces the probability of enterprise dissolution, thus increasing the probability of survival. According to the authors, this contradicts the widespread opinion that due to a lack of time, planning is less relevant for enterprise founders than other value-increasing enterprise activities. The authors likewise regarded planning as a value increasing activity itself, ven in a largely uncertain and unclear situation like the establishment phase of an enterprise.

However, studies that established a negative relationship between planning and SME success stipulated that although the majority of studies have identified a positive relationship between strategic planning and SME success, there are also those that have identified no relationship between these variables. Robinson and Pearce (1983) in their investigation of 50
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small American banks; Gable and Topol (1987) in their study of 179 small retailers from North-East U. S. ; Gibson et al (2001) in their investigation of 2,956 small Australian enterprises, and French et al (2004) in their investigation of 127 small Australian service enterprises).

Some studies even found a negative relationship between planning and success. For instance, O'Gorman and Doran (1999) demonstrated that the presence of a formal mission or mission statement does not seem to have any direct influence on the success of small enterprises. However, even those studies that could not show a positive relationship usually emphasized the positive impact of planning (Robinson and Pearce, 1984; French et al, 2004). 2. BUSINESS PLAN According to the International Federation of Accountants (IFAC) report (2006), there are two primary objectives to preparing a business plan.

The first is external; to obtain funding that is essential for the development and growth of the business. The second is internal; which is to provide a plan for early strategic and corporate development. This helps guide an organization towards meeting its objectives, by keeping the business entrepreneur and all its decision-makers headed in a predetermined direction, and by setting out how the company will be run for the next two to three years. In addition, well designed business plans provide an operational framework that allows the business to enjoy distinct competitive advantages.

This, in turn, should result in increased profits for the organization. A well developed business plan serves the following four primary purposes: (a) To serve as an Action Plan - for the next 12 months (b) To serve as a Roadmap -

for the next two to three years (c) To serve as a Performance Tool - on an ongoing basis (d) To serve as a Business Promotions Tool Action Plan A business plan can help by breaking down a seemingly insurmountable task of starting a business into many smaller and less intimidating tasks, each of which is assigned a due date, person(s) responsible, and detailed action plans.

For existing businesses it enables greater focus on dealing with issues in an organized, coherent and systematic manner. Roadmap help keep you on track and moving in the direction you want to go. In the busy running of the day to-day business, it is very easy to lose sight of your objectives and goals. A business plan can help keep you focused and serve to help others understand your vision. The business plan depicts the 'flag on the hill' and the roadmap of actions to get you there.

Performance Tool Your business plan is also an operating tool which, when properly used, will help you manage and guide your business towards its success. Your business plan will allow you to set realistic goals and objectives for your organization's performance, and, if maintained, will also provide a basis for evaluating and controlling the organization's performance in the future. **Business Promotions Tool** Perhaps most importantly, a business plan serves as a business promotional tool.

You will probably require external financing to fund your business, and a business plan is one of the tools you use to persuade investors or lenders to finance business. Every business, regardless of its size, has some form of a strategic plan. In small enterprises, this may include e. g. the general ideas

put forward by the entrepreneur; with increasing size of the enterprise, however, the strategic plan usually becomes more formal and elaborate. Such a document is called a business plan. It is the document which describes the enterprise's strategy, i. . content and process, thereby presenting the vision of the enterprise and how the enterprise is going to attain its vision (Honig & Karlsson, 2004). The business plan can particularly serve as the basis of the strategy itself and as its formalized documentation. Usually, it is written to serve as a means of communication with external stakeholders, especially potential investors (Castrogiovanni, 1996). In addition, it can serve as a mechanism for internal control and goal-achievement.

Entrepreneurs who prepare a business plan become more conscious of their business instruments and their assumptions about how to become successful. In some cases, after devising the business plan, especially after making the financial calculations, the entrepreneur might even find that his business is not likely to succeed, and thereby gets the chance to not go into business rather than engaging in one which is ex ante deemed to fail. This can be seen as a most positive outcome of the pre-start-up planning process (Kraus and Kauranen, 2009).

The pure existence of a business plan and the quality of the business plan are commonly regarded as indicators of the enterprise's attitude towards strategic planning. They also provide insight into how much the entrepreneur is committed to his venture (" signaling effect"). Research has indicated that the probability of actually founding the new company is six times higher among entrepreneurs who have written a business plan than among
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entrepreneurs who have not written a business plan (Heriot & Campbell, 2004).

Furthermore, the existence of a business plan has been positively associated with the success of the enterprise e. g. in an Austrian study of 458 young SMEs by Kraus and Schwarz (2007) and in a study of 312 nascent entrepreneurs from the USA by Liao and Gartner (2008). Similarly, a study by Schulte (2008) of 585 business plans from Germany also regarded pre-start-up planning as an important requirement for success. The business plan can be regarded as one of the most important strategic management instruments in young SMEs.