

ROLE OF AGRI-PRENEURS - EXPERIENCE SHARING FROM AN AGRIBUSINESS TRAINING PROGRAMME

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Introduction

Rapid economic growth needs an efficient flow of information to farmers. Also a nation's ability to generate a steady stream of business opportunities in the sector can only come about when its people take to entrepreneurial activities. Entrepreneurs are essentially the engines of growth for a nation. There are several factors that go into making a successful entrepreneur, and he or she need not necessarily possess a strong business and financial background. On the contrary, well-conceived and well-directed training can always produce an outstanding entrepreneur. In addition, with a vast opportunity in the agro-sector, entrepreneurship becomes all the more necessary for self-employment and small-business. Hence, there is a need to integrate various sources of innovations and extension in such a manner that they provide a proper synergetic effect in contributing towards the economy.

During the last two decades, the scenario in rural and urban areas has significantly changed and it has a major bearing on the existing farming systems. There are also new systems, innovations being integrated by innovative farmers in their overall farming systems. The training program on agri-clinics and agri-business centres is a step forward in the right direction by National Institute of Agricultural Extension Management (MANAGE). The attempt by EDII, Gandhinagar here is to provide a platform for interaction with both successful entrepreneurs and sector experts.

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Premise:

Continuous efforts are on to innovate, improve and enhance the practical relevance of the educational process in the programme. We hope to enable participants to:

- Develop adequate conceptual base in different subject areas of relevance.
- Acquire sufficient operating skills in using modern management tools and techniques in different functional areas.
- Develop application skills of management techniques appropriate in the unique contexts of Agri-Business
- Develop a gestalt perspective of the Agri-Business sector, its dynamics, complexities, challenges and opportunities in the emerging global context.

Salient features

The courses can be broadly grouped into the following themes:

General Management

A number of sessions that focus on subjects relating to management in general, such as Marketing Management, Financial Management, Organizational, Behaviour, Information Systems and Technology Management, Human Resource Management, Knowledge Management, etc.

Agri-Business Management

Some of the sessions relate to subjects concerning management of business organizations, such as Agri-inputs Marketing, Agri-export Marketing, Procurement Management, Supply Chain Management, Rural Advertising and Communication, Commodity Futures and Trading, Participatory Extension Management, Quantitative Aids for Agri-Business, Retailing, Rural Credit and Agri-Finance etc.

Field interaction

The special focus on technical orientation is to provide opportunities to apply their knowledge and skills in real life of Agri-Business management context through technical exposure with prominent Agri-Business firms.

This provides another practical learning opportunity for integrated application of learning in the real life context of an agri-business organization. Participants use this period to prepare a detailed project report on the chosen product line or service for agri.-enterprise.

Other Learning Events

However, regular inputs as mentioned above are not sufficient to facilitate all rounded development of managerial capabilities. Events planned to enrich the learning process include knowledge series by noted experts, and top level Agri-Business executives on subjects of relevance to the students. Debates and elocution contests, management games, corporate and industrial visits are organized.

The purpose of this event is to discuss how orientation from many different disciplines can be catalysts in the development of business plans for agri- entrepreneurs. Sub-sector orientation can serve as extension units and thereby specialists can encourage the use of a business plan as well as be active participants in its development, serving as information resources and reviewers. One thing an Extension specialist cannot do, however, is developing the plan for the entrepreneur. The owner has the conceptual idea for the business, and only the owner can realistically know the issues, the available resources, and his or her own level of commitment and perseverance.

For a agri-entrepreneur, business planning is a multi-faceted exercise that may require assistance from experts in financial management, engineering and marketing promotion.

This orientation focuses on three specific areas where Extension educators can assist these entrepreneurs:

- (a) .Understanding the essential components of a business plan.
- (b) Pro forma financial analysis and
- (c) Legal issues that affect the enterprise, its operations, costs, market access, and future opportunities.

While the first two areas are common to all types of business planning endeavors, the unique operating parameters of the agri-enterprise profoundly impact business planning and implementation efforts of entrepreneurs.

Support for Business Planning

It has been written that business owners who “fail to plan, plan to fail” (Covelto & Hazelgren, 1994). In a variety of studies, business owners who plan are more likely to remain in business as compared to those who do not plan. Going further, those who do more extensive planning are more likely to remain in business than those who do less extensive planning (Bruno, Leidecker & Harder, 1987; Gaskill, Van Auken, & Manning, 1993; Lambert, 1993; Lauzen, 1985; Lussier, 1995; Reynolds, 1987; Sommers & Koc, 1987; Wood, 1989). Yet for its importance, business owners often fail to perform business-planning activities.

The most important reason for business planning is to benefit the owner (Brodsky, 1998). The planning process of evaluation and development, playing “what if” games, outlining the risks and rewards of the venture, and determining the existing gaps in people and resources help the owner determine project feasibility and costs. Here, the focus changes from the production of a glossy handbook to the process itself. It is during the process of developing a business plan that the owner can learn, understand, and prepare for any adjustments that might be foreseen. It is also in the process stage that extension specialists can provide information necessary for determining the feasibility of a venture.

During the business plan development process, the owner prepares to understand his or her product or service, the market for that product or service, the competition, and the overall business environment. Close attention is paid

to existing and future competition and to understanding if the proposed area is one of growth or stagnation (Sahlman, 1997; Thompson, 1988). The business planning process allows the owner to fail on paper thereby reducing the probability of failure and the costs associated with a real-world failure (Grover, 1998). Business planning is not a choice according to Hogan and Utierrez (1997). They consider it a “matter of survival.” particularly in agriculture and low-margin business activities common to the sector. Effective business planning is a continuous process.

According to the U.S. Department of Labor, it is the “first management job—a combination of realistic calculations and crystal ball gazing.. .an exercise in arithmetic and imagination” (Brabeck, 1994).

As the process continues, it adds the tasks of evaluating, monitoring, and comparing actual results to the outlined goals and objectives. As variances from the plan are noted, revisions and updates to the business plan are implemented in order to keep the business on line to meet the goals of the owner and the needs of his/her customers.

Sections of a Business Plan

If one looks at any of the multitude of business planning aids, a variety of plan formats exist. This paper follows a format developed for value-added agricultural products (Holcomb, Muske, & Kenkel, 1998).

Eight sections are recommended:

- (1) Executive Summary;
- (2) Introduction
- (3) Situational Analysis;
- (4) Business Proposition;
- (5) Action Plan;
- (6) Financial Analysis;
- (7) Evaluation and Measurement; and
- (8) Contingency Plan.

The format offered encourages the potential business owner to look at business development factors in a logical sequence.

1. **Executive Summary** - The summary is an often-overlooked segment of the business plan. It should be the last segment written. It provides an outline and a concise description of the major points of the plan. The summary offers the reader a condensed picture of the risks involved and the potential returns. For outside readers, the summary must draw the person into reading the entire plan with an exciting, yet realistic picture of the opportunity presented.
2. **Introduction** - The introduction gives the reader a historical perspective of the business and an understanding of how the business has developed to this point. It provides a general description of the proposed venture. The vision and mission of the business are outlined as well as goals in this section.
3. **Situational Analysis** - For the owner, this section is one of the most crucial parts of a business plan. Because of its importance and because of the diversity of issues covered, it is often the largest part of the plan.

Sahlman (1997) considers this section key in the development of a successful business. His article defines the four critical factors outlined in this section. Those four factors include the people, the opportunity, the context, and risks and rewards.

It is suggested that the owner break this section into two parts:

- (a) Internal assessment and
- (b) External assessment.

The internal assessment elaborates on the business structure as well as its resource advantages. Included in this section are the marketing and distribution networks that already exist or are available to the entrepreneur. The external assessment evaluates the industry and specific competitors, the legal and regulatory environment, “downstream” customers, and the end consumer. Part of the assessment must evaluate the state of the industry - is it growing, stable, or declining? Based upon his/

her findings, the owner must identify risks and potential rewards of the proposed business venture. An outside reader, such as an Extension professional, can offer an excellent critique of the situational analysis.

4. **Business Proposition** - In this section, the owner lays out the goals and objectives of the company. This may include sales goals, financial objectives, and market share. Certainly an important consideration will be the desired rate of return on the entrepreneurs investment. The driving force in the development of the business proposition, however, must be the desires of the customers. Businesses that fail do so because they forget their purpose - to satisfy the wants and needs of a specific customer group.
5. **Action Plan** - This section specifically outlines the steps perceived by the owner as necessary to reach his/her business goals. Product development and production flows, pricing strategies, and promotion/marketing campaigns are outlined in detail with a time frame, budget, and responsible persons.
6. **Financial Analysis** - Probably the most troublesome area for business owners is the development of pro forma (forecasted) financial statements. Besides being difficult to develop numbers prior to the business' start-up, it is also very easy to make the numbers say what you want versus depicting a realistic scenario. This section will be further discussed as an area where Extension specialists may provide considerable assistance.
7. **Evaluation and Measurement** - After the plans have been made, a system or structure must be put into place to ensure that the plans are being followed and the goals achieved. The actual progress must be measured and some level of acceptability (between reality and ideal) established. If the results are unacceptable, then the owner moves to the next section, contingency plans.
8. **Contingency Plans** - If measurements of business activity and customer satisfaction show that the various objectives and goals of the company are not being met, it may be necessary to make changes. Already in

the plan development process, the owner should begin to anticipate where possible problems might arise and outline some alternative strategies. Then, if a variance between the desired goal and actual performance is noted, the owner is prepared to respond. However, before doing so the owner must first understand why a goal was not met. Again, an Extension educator can be an excellent evaluator of the owner's contingency plans.

The primary challenge in business planning is taking the time to develop the plan. Too often entrepreneurs think about their dreams for a business and forego the planning required to turn those dreams into reality. One of the tasks for an Extension specialist is to help the entrepreneur follow steps to increase the likelihood of business success.

Pro Forma Financial Analysis

The purpose for pro forma financial analysis in business planning is twofold:

- (a) To provide estimated accounting information in advance, and
- (b) To determine changes in profitability and liquidity given changes in assumptions.

Extension personnel often field requests for assistance in this area, and their objective input allows for a more accurate financial assessment of a given entrepreneurial effort. In developing pro forma statements, food-based businesses commonly overlook three items:

1. Market/sales planning
2. Regulatory compliance costs
3. Product flowcharts.

Market Sales Planning

Extension personnel can remind agri-entrepreneurs of the importance of market/sales planning. Marketing involves understanding the customer and his/her expectations of the product. Researching the customer and his/her demands incurs costs in the forms of product testing and evaluation, developing a "catchy" packaging design, and promotional programs. Selling products

incurs additional costs such as maintaining an inventory, distributing the products to customers, and possibly even sales commissions. Sales' planning also involves determining appropriate sales appeals and the levels of those sales appeals (for example, cash and/or quantity discounts, and seasonal pricing strategies).

Extension specialists may often serve as information resources for predicting sales and determining marketing costs. Their assistance is often requested for two reasons:

1. Too often, agri-business entrepreneurs focus on their own products and neglect the competition. Extension specialists assisting these entrepreneurs must suggest that they focus on competitors - the number of competitors, how their products compare/differ, and the pricing strategies of competitors.
2. Besides these store shelf comparisons, extension specialists must often direct entrepreneurs towards information sources for overall industry growth and sales trends by geographic regions. By doing so, extension personnel provide entrepreneurs with an indication of how well their products/services may sell in the first year of business and how fast they can expect their sales to increase.

Regulatory Compliance Costs

Another factor affecting the costs of operating a food business is regulatory compliance. Meeting state regulations increases both fixed and variable costs of operations. Fixed costs associated with regulatory compliance may include equipping a facility with the proper utilities to meet FPA (Food Adulteration Prevention) and MOEF - Occupational Safety and Health Hazard requirements. These costs may include initial plant and/or annual licenses/permits, and possibly additional costs incurred for equipment that will meet department's guidelines and safety requirements.

Variable costs associated with regulatory compliance may come in several different forms. Paying more for product labels that have the appropriate

nutrition information format (FPA requirement) is one example. Another example may be the labor, utilities, and materials expense associated with clean-up activities.

After considering the magnitude of fixed clean-up and inspection expenses, an entrepreneur may find it more profitable to contract with a larger existing processor. Extension personnel may be a useful resource for information on such value chain willing to contract with entrepreneurs for co-packing.

Product Flowchart Development

While marketing, sales, and regulatory compliance activities significantly impact the costs of doing business, they are only indirectly related to production costs. Many entrepreneurs fail to include all production costs in their financial planning because they did not develop a flowchart of every step in the production and packaging system. The flowchart also serves as a reminder of all costs associated with production, whether that production takes place in the entrepreneur's own facility or in another company's facility. Extension engineers and processing specialists can assist in flowchart development and serve as objective reviewers of these flowcharts to ensure inclusion of all processing steps and their associated costs.

Pro Forma Financial Statements

Once the costs of production, marketing, sales, and regulatory compliance are known, pro forma income statements, cash flow sheets, and balance sheets can be developed for the first three-to-five years of the business. These pro forma financial statements serve as a projection of predicted business activities and may be used to pinpoint expected cash shortages, surpluses, and predicted profits losses for these first few years. Because extension specialists often assist farmers, and even households in developing budgets and analyzing the costs/benefits of various enterprises, agri-business entrepreneurs may also approach these specialists for assistance in pro forma financial analysis.

The pro form a income statement projects the profitability of a venture over the upcoming fiscal year given predicted sales and cost estimates. It does

not, however, provide an indication of liquidity or loan repayment ability. If profits are projected, these profits may be used to pay back debt or be added to owners equity.

Cash flow budgets assess loan repayment ability and liquidity for a fiscal year by projecting cash inflows and outflows over time. The cash balance, which changes as products are sold and as debts are paid, may be positive or negative at different times during the fiscal year. Negative cash flows may indicate a need to borrow money, whereas positive cash flows may be used to pay off debt early.

Fiscal year-end balance sheets give a representation of the business' assets, liabilities, and owners equity. If the business is projected to make a profit during the fiscal year, the year-end balance sheet should show an increase in owners equity, either from having the profits retained as cash (increased assets) or using the profits to retire debt (decreased liabilities). The cash balance on the year-end balance sheet then serves as the beginning cash balance for the next fiscal years cash flow budget.

Legal Issues for Entrepreneurial agri-businesses

There are legal issues to be considered in any type of business such as operational structure, tax liabilities, business permits, and legal liabilities. Food businesses must also cope with the additional regulations related to facility specifications, food processing and handling procedures, inspections of facilities and processes, nutritional analysis, and product labeling. Extension agribusiness and home-based business specialists can provide such information to entrepreneurs.

Operational Structures

Many tax and legal liability issues are determined by an entrepreneurs choice of business structure. Extension business specialists can serve as an educational resource to help entrepreneurs determine which structure best fits their individual goals. While several variations exist, the most common business structures are the sole proprietorship, general partnership, limited liability company (LLC), corporation, and cooperative.

A sole proprietorship is the easiest form of business to establish. The proprietor has complete control over the business and income from the business is treated as personal income for tax purposes. However, in the event of a lawsuit, the sole proprietors' personal assets are just as vulnerable as the business' assets. The ability to generate capital through equity or debt financing is limited to the assets and credit limits of the proprietor. General partnerships are essentially the same as sole proprietorships, except control is divided among partners and legal liability increases as each partner is now liable for the actions of other partners as well as himself/herself.

A limited company (Ltd.C) circumvents the increased legal liabilities and risks associated with general partnerships, even though most aspects of the two structures are the same. An Ltd.C requires a legal agreement between partners in which control issues are addressed. (Ltd.C) profits, after division between partners are treated as additional personal income to each partner. Unlike a general partnership, each partners liability is limited to his/her invested capital. Depending on the legal agreement between partners, ownership shares may be transferred to other parties with or without the consent of the other partners.

Corporations and cooperatives are both legal entities, separate from the individuals owning the entities. They both require their members/owners to purchase shares of shares, and legal liabilities are limited to the equity in the corporation or cooperative. There are, however, four fundamental differences between corporations and cooperatives:

- (a) Corporation control is based upon "one share, one vote" while cooperative control is based upon "one member, one vote";
- (b) Shares in corporations may be sold or willed to heirs while Shares in cooperatives are redeemed when membership is discontinued
- (c) Cooperatives have a system for investment and stock redemption (for example, revolving equity);
- (d) Corporate profits are subject to corporate income taxes while cooperative profits are not. Varying state corporation and cooperative charter laws may provide for additional differences.

Regulatory Compliance

Apart from the business permits and operational guidelines associated with general forms of business, agri-businesses face considerably more regulation from both state and national governmental agencies. Once again, extension specialists are often called on to provide education regarding regulatory guidelines.

Areas of significant regulation in the food industry come from state health departments, FPA, and OSH. State health departments enforce inspection codes for all processing, storage, and salvage merchandise facilities. The FPA is the primary inspection service for grain-based products, fruits, and vegetables. Additionally, the FPA sets the guidelines for labeling food items and reporting nutrition facts on those labels. The regulations associated with these inspection authorities, along with the safety guidelines overseen by OSH, are often confusing to entrepreneurs. Extension specialists can provide a better understanding of the specific rules and regulations enforced by all of these entities.

The Role of the Extension Specialist

In helping the reader to understand important aspects of the business planning process, several ideas have been offered regarding how extension specialists can assist the business owner in this task. The help offered by an extension specialist comes from his or her area of expertise or experience. As already suggested specialists might be helpful in financial analysis based upon their budgeting experience. Certainly specialists involved in nutrition can help with product development, evaluation, and nutritional labeling. Specialists with engineering backgrounds can be of help in determining the adequacy of a proposed processing line and its ability to meet any state FPA and OSH requirements.

Extension specialists, in addition to providing their own expertise, can also assist the business owner with local, state, and national contacts.

Business owners are often stymied by the simple fact that they do not know who to call. For example, it is often more important to know how specific provisions of laws or regulations are interpreted. Extension personnel can aid an entrepreneur in finding the appropriate contact point for such information and how to include that information within the business plan.

Next, Extension specialists can act as an objective third party in the review of a business plan. Extension personnel can also offer the entrepreneur a perceptual view of the plan that might be different than that offered by the entrepreneurs banker and/or accountant. This is not to suggest that those views are not important; they certainly are. However, just as important is the view from a non-involved third party. Such third party reviews might also be solicited from other agencies such as the Small Business Development Centers. Each of these reviewers offers something different as each brings a different experience and education background into the review process.

Finally, extension specialists bring an ability to include basic and applied research as well as real-world experience to business planning efforts. This blending of information and experience is somewhat unique. Such an understanding allows the owner to go beyond the numbers to understand some of the reasons for the results (Bittleston, 1998), thereby increasing the probability of business success and the quality of life of the entrepreneurs.

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