

Evaluating Your Value-Added Business Plan

Questions a Producer Needs to Ask

Low profit margins and volatile returns are leading an increasing number of agricultural producers to explore ways to gain more control over the marketing of their products.

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Many of the methods being considered involve alliances, pooling or more formal cooperative arrangements between groups of producers. While some of these efforts succeed, many others do not. Consideration of the following questions will help a producer evaluate value-added business proposals.

- ✓ First and foremost, does the business plan articulate the strategy and demonstrate that the idea has been well researched? Does the plan realistically address the major “what ifs” and contingencies, including an exit strategy. Although a well defined vision is important, it can not be realized without clear planning.
- ✓ What are the business’s goals and objectives? What are the sales goals? What is the break-even level of sales? What are the objectives and expectations in terms of market share to be gained? What are the financial objectives? Is the business expected to achieve a specific rate of return on investment by the end of a specified year?
- ✓ What are the market trends and forces driving the expectations? In other words, what is the social, political and economic environment, and how will it affect the proposed venture? Great ideas can fail simply because they are implemented at the wrong time or in the wrong place. In analyzing trends and drivers, it is important to recognize that the rate of change can be exponential rather than linear.
- ✓ Is the proposed plan in a commodity or differentiated-product business? If it is a commodity business, the only source of competitive advantage is to lower costs or be able to gain market advantage through price discounts on inputs, price premiums on output or access to markets or contractual arrangements not available to others.
- ✓ How is the market for the product(s) segmented? Has a profile been developed that identifies the primary and secondary customer groups for your product(s)? Who are the competitors? What business and marketing strategies will you employ?

- ✓ If competing in a product market, what is your competitive advantage? As Jack Welch is often quoted as saying, "If you don't have a competitive advantage, don't compete." What is unique about your product? How can existing resources be used more synergistically? Is the plan replicable? How likely and quickly might any advantage be replaced by new developments? This is a question of how competitive and sustainable the proposition is.
 - ✓ If your value-added proposition involves simply taking another step in a value chain, do you have the management capability, backup and experience to successfully operate the venture? Simply assuming an additional position in the value chain does not guarantee the same return or performance of existing middlemen. Certain skills, knowledge, relationships and reputation (brand name or individual) can make the difference between success or failure.
 - ✓ Is there already excess capacity in the segment of the industry you are pursuing? If there is, you may invite retaliation from the existing players. Who are the competitors, how strong are they and how are they likely to respond? A price war might totally change the venture's prospect for success.
 - ✓ If an investment in equipment and facilities will be required, how flexible are those assets? Do the assets have an alternative use and a viable market if the venture is unsuccessful? Will they be owned or leased? If leased, what are the terms?
 - ✓ Can you provide the continuity and assurance of quantity, quality and timing that potential buyers need? This may be seasonal if you can fill an off-peak niche.
 - ✓ If you are going to build a processing or handling facility, will it be of sufficient size and operated at a utilization rate that achieves or exceeds competitors' economies of scale?
 - ✓ Does the venture's success depend upon a single or a few buyers or suppliers of specific inputs? How viable are these critical partners, and can they be trusted? Have they been involved in similar ventures with other producers, and what is their track record? Will the arrangement involve a contract and, if so, what are the risks in the contract terms? How would a merger or sale of the principle customer/supplier affect the venture?
 - ✓ Does the business and its products have a registered/protected name? Do any food products have a Universal Product Code (UPC), and will product labels require nutritional analysis and labeling?
 - ✓ If the venture will involve food processing, are there plans for implementing a HACCP (Hazard Analysis Critical Control Points) program to address food safety issues and liabilities?
 - ✓ If the venture involves exporting, have you considered ISO 9000 and/or ISO 14000 certification?
 - ✓ If you will be acquiring an existing business, what direct or contingent liabilities will you be assuming? Would you be better off buying the firm's assets rather than the business?
 - ✓ If a cooperative arrangement or alliance is involved and the venture requires a certain volume to be viable, what are the penalties if one or more of the participants decides to leave?
 - ✓ If the venture involves a legal structure with multiple investors, is there a formal stockholder or buy-sell agreement? Such an agreement should address voting rights, the basis for valuation and transfer restrictions. Is there a repurchase provision or funding mechanism to protect the business while also providing some liquidity to investors?
 - ✓ What are the risks and requirements associated with government programs and regulations? This includes licensing, permitting and compliance issues, the impact of subsidies and protection from competition by tariffs or quotas. What are the risks and likelihood of changes in programs or regulations?
 - ✓ Are there state or local economic development incentives, such as abatements, financing and tax exemptions, that you could take advantage of? What are the penalties if the terms of these incentive programs are not met?
- The importance of conducting a comprehensive analysis is compounded by the fact that in addition to financing the project, many lenders will also be financing the member producer's equity investment. Consequently, it is possible that, directly and indirectly, the lender could end up financing 100 percent of the venture.

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