

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

---

Cornhusker Economics

Agricultural Economics Department

---

2-18-2015

## Why Develop a Business Plan?

Jay Parsons

*University of Nebraska-Lincoln*, [jparsons4@unl.edu](mailto:jparsons4@unl.edu)

Follow this and additional works at: [http://digitalcommons.unl.edu/agecon\\_cornhusker](http://digitalcommons.unl.edu/agecon_cornhusker)

---

Parsons, Jay, "Why Develop a Business Plan?" (2015). *Cornhusker Economics*. 709.  
[http://digitalcommons.unl.edu/agecon\\_cornhusker/709](http://digitalcommons.unl.edu/agecon_cornhusker/709)

This Article is brought to you for free and open access by the Agricultural Economics Department at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Cornhusker Economics by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

# Cornhusker Economics

February 18, 2015

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
<http://agecon.unl.edu/cornhuskereconomics>  
Follow us on Twitter and Facebook @UNLAgEcon

University of Nebraska–Lincoln Extension

## Why Develop a Business Plan?

Business planning has long been cited as one of the keys to business success. However, studies show that many small business owners, including agricultural business owners, never take the time to develop written plans for their business (Scarborough 2011). With that in mind, here are six good reasons to develop a business plan.

1. Business planning forces you to look at your whole business and clarify your goals and objectives.

Why are you in business? If nothing else, the business planning process should help you answer this question. The result should be a business mission statement with related goals and objectives to help you live it. Going into business for the wrong reasons is cited as the leading mistake made by management in new business failures (Statistic Brain 2015). It may sound idealistic, but it's important to clarify to yourself and those around you why you are in business. Communication is vitally important. This outcome puts everyone on the same page and headed in the same direction.

2. Business planning increases the likelihood of success.

Decades of research has shown that businesses that engage in business planning outperform those that do not (Scarborough 2011). Unfortunately, the lack of planning is all too evident in the number of small businesses that fail. Statistics show that 50% of businesses fail within the first four years. As an industry, agriculture fares only slightly better than the average with 56% of new businesses remaining in business after four years (Statistic Brain 2015). Lack of planning is annu-

|  | Year Ago | 4 Wks Ago | 2/13/15 |
|--|----------|-----------|---------|
| <b>Livestock and Products,</b>   |          |           |         |
| <b>Weekly Average</b>  |          |           |         |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . .                             | 142.19   | 161.99    | 163.12  |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . .                            | 213.01   | 293.99    | 269.97  |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . . .                             | 173.81   | 219.44    | 212.01  |
| Choice Boxed Beef, 600-750 lb. Carcass. . . . .  | 208.83   | 261.51    | 238.69  |
| 71.31W56.51estern Corn Belt Base Hog PriceCarcass, Negotiated. . . . .                     | 85.18    | 71.31     | 56.51   |
| Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. . . . .                                  | 92.69    | 83.38     | 72.05   |
| Slaughter Lambs, Ch. & Pr., Heavy, Woolled, South Dakota, Direct. . . . .                  | 155.00   | *         | *       |
| National Carcass Lamb Cutout FOB. . . . .  | 369.68   | 375.09    | 365.03  |
| <b>Crops,</b>  |          |           |         |
| <b>Daily Spot Prices</b>   |          |           |         |
| Wheat, No. 1, H.W. Imperial, bu. . . . .   | 6.44     | 5.19      | 5.13    |
| Corn, No. 2, Yellow Nebraska City, bu. . . . .   | 4.28     | 3.59      | 3.69    |
| Soybeans, No. 1, Yellow Nebraska City, bu. . . . .   | 13.06    | 9.32      | 9.55    |
| Grain Sorghum, No.2, Yellow Dorchester, cwt. . . . .                                       | 7.50     | 7.09      | 7.18    |
| Oats, No. 2, Heavy Minneapolis, Mn, bu. . . . .  | 4.41     | 3.21      | 3.11    |
| <b>Feed</b>  |          |           |         |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . . | *        | 212.50    | 195.00  |
| Alfalfa, Large Rounds, Good Platte Valley, ton. . . . .                                    | 125.00   | 75.00     | 75.00   |
| Grass Hay, Large Rounds, Good Nebraska, ton. . . . .                                       | 107.50   | 82.50     | 82.50   |
| Dried Distillers Grains, 10% Moisture Nebraska Average. . . . .                            | 196.00   | 175.00    | 178.75  |
| Wet Distillers Grains, 65-70% Moisture Nebraska Average. . . . .                           | 61.50    | 56.50     | 57.50   |
| * No Market  |          |           |         |



ally cited as one of the major causes of failure. You should think of your business plan as a living document summarizing your proposed success story.

3. Business planning increases the speed of accomplishing important business tasks.

Research has also shown that completing a business plan increases the pace at which the business undertakes important organizational, production, and management activities (Shane 2008). Preparing a business plan forces you to focus attention on important questions such as how you plan to grow your business, gaps that need filled and resources for doing it, management responsibilities and continuity plans. It creates logical, steady steps in the right direction.

4. The business plan provides a framework for decision making.

One of the essential functions of a business plan is to provide a guide for future courses of action and strategies for success. Your business plan provides a sense of direction and defines benchmarks for performance along the way. It provides an opportunity for you to prioritize objectives and ensure that the immediate doesn't always take precedence over actions that lead toward achieving long term goals. The process of business planning creates a proactive business attitude. It also naturally simulates development of future business opportunities opening your mind in a positive way to taking advantage of those opportunities as they present themselves. Having a written business plan provides personnel with accessible guidelines for making good everyday decisions that lead the business in the direction you want it to go.

5. The business plan provides a tool to access capital and people.

Another of the essential functions of a business plan is to attract funding from lenders and investors. However, equally important is the role your business plan plays in attracting people to your business and keeping them positively involved in your business once they are there. A good business plan indicates security and will attract good employees and, potentially, good business partners.

6. Developing a business plan forces you to subject your business to the harsh light of reality.

The process of putting together a business plan forces you to objectively assess your chances of success. New business ideas should be preliminarily screened with a feasibility analysis prior to completing a full

business plan because even ideas that look like they may work will sometimes have glaring weaknesses when exposed during the full business planning process. An existing business that develops a business plan often identifies key factors that need addressed in order to successfully move the business forward. Sometimes the greatest service a business plan can provide is the realization that something just isn't going to work. The real value in preparing a business plan is not so much the plan itself but the process you go through in creating it.

Business planning is an ongoing process that should be done as a team. This will enrich brainstorming and enhance support for your plan once it is developed. Even sole proprietorships have stakeholders that play key roles in the business success such as employees, family members, landlords, professional service providers, customers, and input suppliers. These stakeholders should be engaged to provide appropriate input into the plan as it is developed and ongoing input as you regularly update your plan in the months and years ahead.

Business plans do not need to be complicated and they do not have to follow a particular outline although there are many out there. Start with the basics of defining who you are, what you do, and why you do it. Keep in mind your target audience. For example, if you are writing your business plan entirely for an internal audience, it may not be necessary to get too involved with long-term market forecasts and financial projections that lenders and investors might be eager to see. Writing a business plan is your opportunity to write your future success story. Customize your initial plan to fit your needs and commit to updating and adding to it on a regular basis, at least once or twice per year. Getting it down in writing gets you started in the right direction of reaping the benefits of the business planning process.

#### References:

Scarborough, N. M. (2011). *Essentials of Entrepreneurship and Small Business Management*. 6<sup>th</sup> Edition. Boston: Prentice Hall.

Shane, S. A. (2008). *The Illusions of Entrepreneurship*. New Haven, CT and London: Yale University Press.

Startup Business Failure Rate By Industry – Statistic Brain. (2015, February 5). Statistic Brain Research Institute, publishing as Statistic Brain. Retrieved February 17, 2015 from <http://www.statisticbrain.com/startup-failure-by-industry/>

Jay Parsons, 402-472-1911  
Associate Professor  
Dept. of Agricultural Economics  
University of Nebraska-Lincoln  
[jparson4@unl.edu](mailto:jparson4@unl.edu)