National FFA Risk Management Lesson Plans

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Helping farmers & ranchers find success

New Enterprise Planning

Precepts
Vision

C1. Contemplate the future
C2. Conceptualize ideas

National Standards
NL-ENG.K-12.6 – Applying Knowledge
NSS-EC.9-12.9 – Competition in the Marketplace
NSS-EC.9-12.12 – Income and Earning
NSS-EC,9-12.15 – Investments

Student Learning Objectives
As a result of this lesson, the student will …

1. Identify the pieces of a business plan for starting a new enterprise
2. Define the necessary terms to create financial documents related to an enterprise

Time
Instruction time for this lesson: 50 minutes.

Resources
Gibson, J. D., Usry, R. H., Hass, L. W., Liles, R. T., & Moore, G. E. (2001). *Agribusiness: Management, Marketing, Human Recourse Development, Communication, and Technology*. Danville, IL: Interstate.

Penn State University. (2004). *Developing a Business Plan* [Brochure]. University Park, PA: Author.

United States Department of Agriculture Risk Management Agency. (1997). *Introduction to Risk Management Understanding Agricultural Risks: Production, Marketing, Financial, Legal and Human Resources* [Brochure]. Washington, D.C.: Author.

Tools, Equipment, and Supplies

TM.A
TM.B
AS.1 –One per students
Assessment – one per students

Key Terms

The following terms are presented in this lesson and appear in bold italics:

Breakeven Point	***Equation for Breakeven Point***
Economics of One Unit (EOU)	***Variable Costs***
Fixed Costs	***Cost of Goods Sold (COGS)***
Contribution Margin	***Depreciation***
Inflation	***Net Profit***
Start-Up Investment	***Payback***
Income Statements	***Cash Flow Statements***
Balance Sheets	***Receipts***
Invoices	***Inventory***
Business Plan	***Executive Summary***
Mission Statement	***Business Goal***
Marketing Proposal or Plan	***Financial Plan***

Interest Approach

Create an atmosphere for free thinking and the possibilities that come through dreaming. The initial activity will allow students to visualize what their perfect business would look like.

Welcome to the island of dreams come true. Today, we are going to work your imaginations. For the next few moments, we will live by the philosophy, "if you can dream it, you can make it happen." So get ready to dream for the next minute. With your eyes and mouths closed, you have the opportunity to create your own business, visualize what that perfect business would look like.

Ask the following questions to facilitate brainstorming and idea generation.

Where will your business be located?

What products or services would you offer?

What type of employees would you have?

What kind of financial risk will you make?

How would you market your business?

What type of equipment will you need to run your business?

What type of customers will purchase your products or services?

Now, open your eyes and share your ideal business with three other people.

Allow two minutes for students to share their visions.

Ask the following questions:

Had you ever thought about creating your own business before?
Could you actually visualize what the business looked like, the products you would sell, the people involved in your business?
Do you think someone could gain the same mental picture through your description?

Lead into introducing the lesson.

The mind is a very powerful tool with limitless abilities. In your mind, you can create your own fantasy world; you can hold conversations; you can even dream of where you will be in the future.

Today is about focusing on the visioning skills we all possess and how to utilize them for something even bigger than ourselves. Realize though, that the powerful tool we have to visualize success is very important to the process of making that vision a reality. Today, we are going to explore what we would need to make our vision a reality to start a new enterprise or business.

Summary of Content and Teaching Strategies

Objective 1. Identify the pieces of a business plan for starting a new enterprise.

It was very easy for each of us to visualize the perfect business. If only it was that simple in real life. How do we know if the business we dream of really will be successful, or how do we go about setting up a new enterprise?

The key to the success of any business occurs during the planning stages, setting goals and evaluating and tracking our progress. It is essential as we start to develop a business plan that we create a plan we can show to potential lenders and investors and demonstrate we have a clear vision for our new venture:

Use the <u>Me-You-Us Moment</u> to facilitate the following conversation.

What is a business plan? What are the benefits of having a business plan?

Great! Those were some great answers. Let's capture the formal definition of a business plan in our note.

Place TM.A on the overhead projector to review the information with the students.

A ***business plan*** is a written statement of the goals of a business and the ways and means of achieving them.

I. The benefits of creating a business plan for a start-up enterprise are:
   a. Allows business owners an opportunity to really think about what they want to accomplish with the business
   b. Provides a foundation for how the business is to be built
   c. Helps to outline financial risks and requirements for starting the business
   d. Aids the owner in formally evaluating needs for the business, including financial, insurance, tax requirements, permits, license and human resource needs
   e. Assists the owner to develop a timeline or several timelines to help track major milestones and help chart the businesses progress

So now that we know what a business plan is and the benefits of these plans, you may be wondering what items should be included in a business plan. Based on our basic understanding of a business plan, what types of information do you think should go into the plan?

Elicit answers from the class and capture key item on a public writing surface. Suggested responses might be goals, mission statement, vision statement, financing, organizational chart, *etc.*

Nice job brainstorming! Those were some great responses. Let's capture some more information about the different parts that can be included in a business plan.

Place TM.B on the overhead projector to review the information with the students. While explaining the possible parts of a business plan, allow an opportunity for the students to capture and create their own examples for each of the sections. Alternate option would be to allow the students an opportunity to use the internet to locate examples of each of these items.

I. What information could be included in a business plan?
   a. ***Executive Summary:*** The summary that describes the business or proposed changes to the existing business, and the industry of which the business is or will be apart
   b. ***Mission Statement:*** A brief statement that includes the key ideas about why the business exists
   c. ***Business Goals:*** The goals illustrate what the business whishes to accomplish and the steps needed to obtain the desired results. The goals should also include the strategies and tactics that will be employed to achieve the desired goal.
   d. ***Marketing Proposal or Plan***: detailed blueprint that describes specific strategies and goals to get customers to purchase products and services
   e. ***Financial Planning:*** Establish a basic financial management plan that will help the business yield business and serves as a basic financial state or forecasts

Each and every one of these sections help to develop of road map of success for the business; however, the financial planning part of the document probably is the area that is really investigated by investors and banks. This is because they want to know what it is going to cost to start the business and what the profit forecasts look like. They really want to get into the details because they will need to evaluate their risk as to whether or not they loan the business the money.

Objective 2. Define the necessary terms to create financial documents related to their enterprise.

In the morning, how many of you put both of your socks on and then both of your shoes on? How many of you put a sock and then shoe on, then do the same with the other foot? How many do it differently each time?

Allow students to respond by show of hands.

Graphic Artist e-Moment

The Graphic Artist e-Moment challenges students to visually represent the meaning of a vocabulary word using the word's shape and related symbols. This activity helps students to visually remember each term.

We have some similarities in that we all pretty much start with the socks, then follow with our shoes. Can you imagine putting your socks on over your shoes? When we start organizing our finances for our enterprise, there are also key steps that need to be taken, but there are a variety of ways to complete them.

Let's start by looking at terms we need to identify before we go any further. Here are some handouts with definitions that are important to starting our financial planning along with a blank piece of paper. With the piece of paper, please fold it in thirds and then in thirds again, creating nine boxes on each side. As we discuss each term, write the term to visually represent the meaning of the word on your blank paper that has been divided into 18 boxes, front and back. Use the word's shape and related symbols to represent what each term means.

Write s-----l-----o-----w on a public writing surface.

A general example would be the word slow. To depict this word you might write s-----l------o--------w. For example, we will discuss the term ***variable costs.*** You may wish to draw variable with both upper and lower case letters i.e. ***VaRiAbLe Cot.*** Be creative; your drawings are to help you remember each term! Some will be more of a challenge then others, but just do your best and be ready to share what you have created. If you struggle with a term for ideas, skip it and move on. What can I clarify?

Distribute AS.1 and have brief discussion to clarify each term. Ask students to draw a visual representation of each term as you explain them. For example, for breakeven, students might write the word broken right in the middle with the parts of the "K" written separate from each other. Present examples of each throughout the discussion to clarify examples for students.

Technical Content (Identical to AS.1)

Breakeven Point**:** When enough items/units are sold to cover your ***fixed costs***.

Equation for ***Breakeven Point***   Fixed Cost/Gross Profit per Unit = ***Breakeven Point***
For example, we may need to sell at least 1,000 bottles of honey to pay our rent.

Economics of One Unit (EOU)**:** The amount of gross profit earned on each unit of your product. For example, if you sell bales of hay, and you make $3 gross profit on each bale sold, $3 is your EOU.

Variable Costs**:** Costs associated with producing product including cost of materials, labor, and shipping and handling. For example we sell fresh produce, the blank carton for packaging may cost $3.00, the labor to pick and pack one carton is $8.00, so the variable cost per unit would be $11.00. This may go up or down depending on the number of units sold.

Fixed Costs**:** Constant costs that stay the same, no matter how many items you sell, include rent on building, equipment, etc. Your rent will be the same, no matter if you sell one or 1,000 bushels of corn.

Cost of Goods Sold (COGS)**:** The cost to produce the unit including shipping, labor, and cost or materials (***variable costs***). For each item produced, how much is our COST?

Contribution Margin**:** The selling price of a unit minus the total ***variable costs***. Example, a bale of hay sold for $5.00, minus the EOU of $3, equals a ***contribution margin*** of $2.00

Depreciation**:** Used to help offset the cost of large items like equipment over time. A percentage of the value of an item is subtracted every year until the value of the item is zero. It helps to financially justify wear and tear on items. If we purchase a tractor for $10,000, we can expense it over several years so we don't show a huge financial hit the first year.

Inflation**:** Gradual increase in the cost/price of items and services. Our packaging materials, like many of the materials we use, will likely cost more five years from now than they do today.

Net Profit: Profit or loss after all of a business or enterprise's costs are subtracted; the bottom line. For example, if we sell $100,000 worth of a crop and we have $20,000 in expenses, our net profit is $80,000…Wow, not bad!

Start-Up Investment: The original costs necessary to get a business operating (original investment for items like, computers, equipment, raw materials, etc.).

Payback**:** How long it takes to make enough money to offset start-up investment.
Formula is start-up investment/net profit per month = ***payback***
So if we spent $10,000 to start our business, and we make $1,000 net profit per month, then our payback is 10 months.

Income Statements**:** Summary of income and expenses over a specific time, showing net profit or loss. We will be creating one of these! This is kind of like the income statement page in the record book.

Cash Flow Statements*:** Cash ***receipts minus cash disbursements over time—usually shown in journal or ledger. This would look similar to the journal in your record book.

***Balance Sheets*:** Summary of assets, liabilities, and net worth. This will help us see what we have, what we owe, and how all of these numbers relate. For example, we may have $10,000 in equipment, $15,000 in the bank, and owe $50,000 for our startup costs.

Receipts: A paper with items purchased, date, location, and cost on it. You would need one of these to take something back, we use them here to help show what we purchased, when, and how much it cost.

Invoices: Summary of items sold or delivered and amount due; basically a bill. When we sell some of our products to a store, we would send them a bill or invoice so they could pay us. On the invoice we would note what we sold, the costs and the date.

Inventory: Items on hand to be sold, and/or assets, supplies, capital, and depreciable and non-depreciable assets. We always need to know what we have. If a customer places an order for $1,000 worth of horse feed, we would need to know if we have that much and, if not, how much many additional bags do we need to order—we also don't want to have too many extra bags in stock.

Thanks for being such eager learners! As you can see, there are definitely some important terms to know before we can begin our financial planning. The financial planning process in developing a business plan is a step that is very important to make sure that your information is accurate and that you are using the items to calculate your formulas. This section of the business plan is looked at by banks and investors. The more details you are able to provide, the better chances you will have to secure the needed funding to help your enterprise.

At the beginning of class we visualized the perfect business and now we have the basic skills that we can use to actually turn our dream into a reality, by crafting a plan and utilizing it as a road map to help us achieve success.

Review/Summary

Use Dickens Moment to review all of the content from the session. Create a list with students to identify the most important information and then let them create their story to share in small groups.

Application

Extended classroom activity: Use the Internet to research different types of business plan and evaluate the types of financial information that is included in the document.

FFA activity: When creating the Program of Work for the chapter or developing a fundraiser plan, create a business plan to fully explore the development of the activity.

SAE activity: Create a basic business plan to start or expand your current SAE program.

Evaluation

Utilize the assessment to assess the student’s knowledge.

Answers to Test:

1. H
2. B
3. J
4. E
5. M
6. F
7. C
8. O
9. I
10. L
11. D
12. A
13. S
14. P
15. N
16. Q
17. R
18. K

TM.A

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AS.1

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Assessment

Name: ___________________________________

Directions: Match the term with the correct definition.

1. Breakeven Point
2. Equation for Breakeven Point
3. Economics of One Unit (EOU)
4. Variable Costs
5. Fixed Costs
6. Cost of Goods Sold (COGS)
7. Contribution Margin
8. Depreciation
9. Inflation
10. Net Profit
11. Start-Up Investment
12. Payback
13. Income Statements
14. Cash Flow Statements
15. Balance Sheets
16. Receipts
17. Invoices
18. Inventory

A. How long it takes to make enough money to offset start-up investment. Formula is start-up investment/net profit per month = payback

B. Fixed Cost/Gross Profit per Unit = Breakeven Point

C. Selling price of a unit minus the total variable costs.

D. The original costs necessary to get a business operating (original investment for items like, computers, equipment, raw materials, etc.)

E. Costs associated with producing product including cost of materials, labor, and shipping and handling.

F. The cost to produce the unit including shipping, labor, and cost or materials (variable costs).

G. Used to help offset the cost of large items like equipment over time. A percentage of the value of an item is subtracted every year until the value of the item is zero.

H. When enough items/units are sold to cover your fixed costs

I. Gradual increase in the cost/price of items and services.

J. The amount of gross profit earned on each unit of your product.

K. Items on hand to be sold, and/or assets, supplies, capital, and depreciable and non-depreciable assets.

L. Profit or loss after all of a business or enterprise's costs are subtracted; the bottom line.

M. Constant costs that stay the same, no matter how many items you sell, include rent on building, equipment, etc.

N. Summary of assets, liabilities, and net worth. This will help us see what we have, what we owe, and how all of these numbers relate.

P. Cash receipts minus cash disbursements over time—usually shown in journal or ledger.

Q. A paper with items purchased, date, location, and cost on it.

R. Summary of items sold or delivered and amount due; basically a bill

S. Summary of income and expenses over a specific time, showing net profit or loss.