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Knowing Your Market – The Most Challenging Part of a Business Plan

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“Can you tell me how to find customers for my products?” and “How much can I expect them to buy?” are probably the most troubling business questions that agricultural extension educators hear from small farm operators. Lack of experience and techniques and uncertainty about selecting effective strategies make a mystery of projecting sales revenues. The uncertainties inevitably translate to the level of confidence given to projected bottom line outcomes.

Projecting sales revenue for a new or expanded enterprise can be the most challenging and sometimes speculative part of a business plan. Of all the numbers it contains, “projected sales” is likely to be the least precise number in the absence of historical experience or careful market research and planning. Since the best answer derives as much from art and luck as from science, precision is not possible. Getting as close as reasonable to a consensus level of comfort is about as good as it gets.

The amount of market research needed increases with the complexity of the enterprise and the number of customers needed to reach sales goals. If you’re just loading trailers and tankers at the farm gate for shipment to one or a few customers, market research doesn’t really matter. But as a farm-based business expands or diversifies, the number of customers, the

number of products, and the complexity of processing or other added-value activities make market knowledge and business planning essential.

For many small farm businesses, writing a business plan doesn't happen unless a prospective lender requires one. When submitting a business plan for a loan, a prospective lender is not the most important person to be persuaded that confidence is warranted. Remember that the lender is going to rely upon you to repay the loan. So ultimate confidence must rest with you and the homework you do. Get as comfortable as possible with the numbers you reasonably expect (not hope) to achieve. If not, you may be sadly facing far greater discomfort if you cannot repay the loan. Look for weaknesses in your assumptions. Which ones leave you a bit uneasy. Those are the ones that need further attention.

Confidence about revenue projections relies on several underlying decisions and activities. How reliable are your production capacity and plans? Can you grow and process enough product at an acceptable level of quality in a timely manner to generate the revenues you project? Will you have adequate access and distribution to your projected customers? Whether you are marketing directly or indirectly, without access and delivery channels to your projected buyers, production capacity may be over invested and sales projections too high.

In addition to production, marketing, and distribution, the overall business plan should consider how you manage natural and physical resources that support planned production levels. There will be constraints of terrain, soil, water, nutrients and by-products that will impact labor and equipment requirements, sustainability, environmental, and regulatory concerns.

The level of confidence you create in the projected sales figures should be foremost in your mind and the plan document, whether preparing a business plan for yourself, a lender, partner, or investor. Higher levels of confidence will depend upon good market knowledge and planning based on justifiable and convincing assumptions about sales. The best way to do that is to undertake and demonstrate good homework.

Gaining knowledge of the market

An important part of making reliable sales projections is to reasonably estimate the size, location and purchase criteria of the customers you intend to attract. How do you do that?

It all starts with asking questions. Either you do primary research -- going directly to the prospective customers -- or you utilize secondary research, like census and demographic data. Secondary data are more difficult to gather and analyze without training or paying for expensive professional time. Furthermore, market research data are not available for very small market areas or specialized products or niches. But the larger the geographic reach or volume of business you expect to achieve, the more important and affordable this approach becomes.

For farm-based direct marketing to consumers, the process is much less refined, less difficult, and more interesting. Here are some good sources of information to learn about your prospective market:

- Cooperative Extension educators who specialize in your product area;
- Specialized publications and newsletters;
- The internet -- it holds a vast amount of information;
- Libraries -- local public libraries and specialized land grant university libraries;
- Associations that specialize in the product area of your interest;
- Prospective customers' preferences -- what they need and want but are not finding among current choices. Learn what would satisfy their needs and wants;
- Talk with buyers, talk with neighbors, and observe operations that are successful;
- Ask your family and employees what they think the strengths and weaknesses are of your present operation and of any possible new ones. Get their input.

If you sell commodities or consumer products that are well established in the marketplace, you should determine what distinguishes your product from that of competitors. Understand your competition. How well are they serving the needs of the market? What are customers saying about them? What can you learn about the market from their example? Are they positioned to capture the same market opportunity as you are? What isn't working for them? Do they demonstrate anything that you haven't considered?

When selling into markets other than direct to consumers, you will rely upon retailers, wholesalers, and brokers. They know their customers, their history, their unfulfilled needs and wants for distinctive attributes and products. Make contact with their customers if possible and learn what they want.

It is very helpful to keep in mind that successful food marketing today must consider four basic characteristics that consumers look for: Is it healthy? Is it safe? Is it gratifying? Is it convenient? Apply these as a test to your products, processing, pricing, packaging, and promotion.

To add further confidence to your business plan, consider what unexpected external or market factors can upset your marketing plans and sales projections and consider what responsive measures you might take if necessary. Think about alternative plans and strategies. You should be prepared to demonstrate flexibility, resilience, and resourcefulness in the face of the unexpected, for that is very likely the condition that will unfold.

The bottom line of this message is -- your assumptions about market size and market capture make sales projection a vulnerable figure in a business plan. Use the process of business planning as one of discovery, thinking, and frequent re-writing. It's better as a tool for planning success than merely a device to get a loan (and maybe get into trouble if done too casually). A business plan written only to please a lender won't assure you that you can repay the loan, but a business plan prepared as if your livelihood depends on it can bring great rewards.

Smart Marketing is a monthly marketing newsletter for extension publication in local newsletters and in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. Articles are written by faculty members in the Department of Applied Economics and Management at Cornell University

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