

Business Planning: A Key Strategy for Success to Agribusiness Enterprises: The Case of AAA Agribusiness Entrepreneurs in East Africa

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Abstract

This study focused on examining the understanding of agribusiness entrepreneurs on the importance of business planning as a key strategy for the success of their business. Also it assesses the ability of entrepreneurs in writing sellable/bankable business plans and identifies the challenges they face in writing the business plans. The result shows that agribusiness entrepreneurs understand the importance of business planning. They are challenged by inability to obtain the very pertinent information resulting from thorough business environment scanning, market analyses and other feasibility studies which forms the basis input in writing the plan. Also they are challenged by inability to outsource business planning service. African Agribusiness Academy (AAA) contribution in addressing the challenges had been through provision of training, learning networks, and creation of resource centre for emerging entrepreneurs, it was revealed. The study also shows that entrepreneurs partner with government chambers, ministries and institutions, and local and international NGOs in the areas of training, technology and information sharing. The success of any business undertaking relies on thorough business environment scanning, market analysis, trend analysis and other feasibility studies using proper tools and models, where the resulted information is harnessed in business plans which act as a tool for business growth and sustainability. It is then recommended that a Regional Agribusiness Service Provider to be instituted which will include but not limited to analysis, forecasting and planning, global market prospecting and promoting, knowledge generation and diffusion, regulation and legislation, financing support, infrastructure and environmental control activities; from which agribusiness entrepreneurs can outsource the business planning services.

Keywords: Agribusiness entrepreneurs, Business planning, African Agribusiness Academy

1.0 Introduction

No one knows exactly when humans first started an organized and systematic practice of agriculture, but there are evidences of agriculture in the Middle East and Mexico that date back to approximately 7000 BC. Since then, farming methods have gradually evolved and today agriculture activities play a significant role in every economy (Wilk, and Fensterseifer, 2003).

Nowadays, due to increasing demand for food, scientific farming has become widespread and has been instrumental in the change from small family-owned farms to larger, corporate farms. Thus, the traditional classification of the different activities as primary, secondary and tertiary sectors gave way to an analysis that focus the interlinked system of production, processing and commercialization of farming originated products (*ibid*).

Agribusiness seemingly provides a promising future for smallholder farmers and the emerging generation of young people. It is stated therefore, that, for centuries, agriculture has driven economic growth in countries across the globe, and African nations are following the same path out of poverty. With agriculture accounting for 65 per cent of the continent's employment and 75 per cent of its domestic trade, it is likely to drive Africa's economic growth for years to come. New and evolving markets hold the promise of greater profits for smallholder farmers. Feeding the rapidly growing urban population will require more and higher quality agricultural commodities. Urban consumers will also increase demand for processed agricultural products, so adding value to farmers' outputs will take centre stage in years to come. This will provide lucrative opportunities not just for the women and men who grow the food, but for a wide range of rural workers, especially the emerging generation of young people. A key first step in exploiting these opportunities is recognizing smallholder farms as agribusinesses, regardless of their size or scale (UNIDO, 2011).

In today's agriculture and in that of the future the central role of the entrepreneur consists above all in identifying and carefully planning his/her business idea in a changing context, which requires continuous adaptation and the qualities required for implementing are his/her marketing, organizational and managerial skills (PENNSTATE 2002; Sotte 2003).

Planning is one of the most important parts of running a business, no matter whether it is a large multinational corporation trying to plan an expansion or a small business launching an exciting new product. For

instance to obtain financial backing for any business, one needs to present a fully-researched, carefully-written business plan (ASBDC, 1998, [www.smallbusinessbc.ca]).

As a small business owner it is very tempting to neglect planning altogether, especially if you are the only person in the company. After all, planning can be a time-consuming process and for small business owners time spent planning is likely to be time when they are not earning any money. But the benefits of good planning will far outweigh any temporary loss of earnings (PENNSTATE, 2002).

The great thing about a business plan is that it can provide a reference point for you to return to at any point during the project. Just looking at a plan and seeing how far you have come is a great motivational tool. It can help you determine whether you have drifted too far away from your original vision and allow you to get back on track once again. Writing a business plan will also help you to think more analytically than ever before about your industry and the role of your business within it. It will help you to see correlations between the different parts of your business e.g. how decreasing the cost of a particular process will affect your overall profit margin.

It is thus in agricultural business, planning becomes very crucial aspect because of the inherent uncertainty associated with agricultural production. Some important sources of uncertainty include drastic weather changes, climatic changes, disease and pest outbreaks and other natural calamities. Also for agriculture is faced by number of risks categorically known as production, marketing, financial, legal and human risks planning ahead of time is inevitable.

According to Boehlje *et al.*, (1999), agriculture in the 21st century is likely to be characterized by 1) adoption of manufacturing processes in production as well as processing, 2) a system or food supply chain approach to production and distribution, 3) negotiated coordination replacing market coordination of the system, 4) a more important role for information, knowledge and other soft assets (in contrast to hard assets of machinery, equipment, facilities) in reducing cost and increasing responsiveness, and 5) increasing consolidation at all levels raising issues of market power and control.

Moreover, the authors added that, these profound changes in the agricultural industry present new challenges and new opportunities that require new ideas and concepts to analyse and implement. They require new learning and thinking. It is thus important for an agribusiness entrepreneur to do thorough analysis of the business environment, learn, think and plan to address the challenges and grasp the opportunities to succeed in business.

A company's ability to monitor the financial performance of its business units is closely related to how well it performs planning and budgeting. Business strategists speak of "visibility" the ability to understand easily, in detail and in nearly real time the state of a business process; and others speak of systematic planning and monitoring influences on business performance. The two concepts of visibility and systematic planning goes abreast as companies achieve visibility when they are able to assemble data in sets that are concise and relevant and to be able to plan systematically time, precise and context are important factors which are met through monitoring (Kugel, 2007; Aderemi *et al.*, 2008).

A well-written business plan will provide a pathway to profit for any new or existing business. It will also provide the documentation that a lender or investor requires if you find it necessary to seek outside funding sources for your business. Business plan have two main benefits and additional one; it serves as a guide for your business, as a documentation for financing and it provides as a standard means of evaluating your business potential in foreign marketplace. It is thus stated that, the success of your business depends on business planning and one of the principal reasons for business failure is lack of planning. Therefore, one should take time to write a clear, concise and winning business plan (Pinson, 2008).

2.0 Research objectives

2.1 General objective

Generally, this study focused on examining the understanding of agribusiness entrepreneurs on importance of business planning as a key success strategy for their enterprises.

2.2 Specific objectives

The study specifically aimed to address the following objectives: -

- (i) To explore the extent to which agribusiness entrepreneurs are aware of business planning
- (ii) To investigate the reasons for writing and owning business plans
- (iii) To identify the challenges faced by agribusiness entrepreneurs in writing business plans

The paper tackled the problems by answering the following research questions:

- (a) Do agribusiness entrepreneurs' enterprises have business plans?
- (b) Do agribusiness entrepreneurs understand the importance of business planning?
- (c) Why do entrepreneurs write and own business plans?
- (d) What challenges do entrepreneurs face in planning and writing up a business plan?

3.0 Methodology

3.1 Sampling procedures and sample size

The sampling technique employed was purposive sampling where the researcher employed his own expert judgement about who to include in the sample frame to get the intended information. The sample comprised 60 East African AAA members who own and operate different Agri-firms in varying agribusiness sub-sectors. Only 41 returned the filled up questionnaires.

3.2 Data collection tools and methods used

The data were collected using questionnaires of both closed and open ended questions, where the required qualitative data were obtained. Primary data were collected from the sample of 41 respondents i.e. the agribusiness entrepreneurs; where the questionnaires in word template format were e-mailed to them through their respective e-mails. Secondary data were collected mainly from the AAA CoP documents found in the AAA back office in the Department of Agricultural Economics and Agribusiness of the Sokoine University of Agriculture.

3.3 Data processing and analysis

Data collected during this study were verified, compiled, coded and summarized prior to analysis. Descriptive analysis was used to determine the distributions and magnitude of individual variables among respondents which included percentages and frequencies. Statistical Package for Social Science (SPSS) computer program was used to perform data analysis where the implications of the results lead to recommendations given in this paper.

3.4 Limitation of the study

This study was confined to agribusiness SMEs in East Africa. For the purposes of this study a sample size of forty-one was deemed sufficient. The findings of this study cannot be generalized beyond those who participated in the study. The major focus in this study was business planning as a key strategy to business success for the agribusiness entrepreneurs. Since this was a case study the challenges facing agribusiness entrepreneurs in writing and owning business plans in the general context of external environment, the nature of economy and any other significant focus areas was not discussed in any detail in this study. Thus this paper calls for further in-depth research concerning business planning in small and medium Agri-firms in its wider perspective.

4.0 RESULTS AND DISCUSSION

4.1 Presence of business plans in entrepreneurs' enterprises

It is stated that, the success of your business depends on business planning and one of the principal reasons for business failure is lack of planning (Pinson, 2008). Most of the entrepreneurs surveyed shows that they own professional business plans. Results show that 85 percent of the agribusiness enterprises under study possesses business plans while 15 percent do not have.

Table 4.1: Availability of business plans in agribusiness entrepreneurs' enterprises

| Business plan available | Frequency (N = 41) | Percentage (%) |
|--------------------------------|-------------------------------|---------------------------|
| Yes | 35 | 85 |
| No | 6 | 15 |
| Total | 41 | 100 |

Source: Survey data (2012)

4.2 Reasons for having business plan

Among the reasons given as to why they own business plans were for easy operation of the business, to know the direction of the business and as a mandatory for it is required by most of the funding institutions, the study revealed. This concur with Pinson (2008) who stated that, a well-written business plan will provide a pathway to profit for any new or existing business. It will also provide the documentation that a lender or investor requires if you find it necessary to seek outside funding sources for your business.

Table 4.2: Reasons for having business plan

| Reason | Frequency | Percentage |
|--|-----------|------------|
| Easy operation of the business | 4 | 23 |
| To know the business direction | 10 | 59 |
| Mandatory as it is required by most of funders | 3 | 18 |
| Total | 17 | 100 |

Source: Survey data (2012)

4.3 Challenges faced by entrepreneurs in writing business plans

Every entrepreneur commonly faces some challenges in writing business plan at some point as they develop their fledging venture(s). Results indicated that 54.3 percent of the entrepreneurs encounter problems in writing their business plans and 45.7 percent do not.

4.3.1 Outsourcing

Outsourcing is a strategic and tactical decision used to improve operations and financial performance of business. The phenomenon requires business entities to emphasis concentration on their core activities in order to increase market share and become more competitive (Hamisi, 2011). This study finds out that entrepreneurs outsourced the planning services for the purposes of reducing costs, improving quality, using resources not available internally and reduce the amount of specialized skills and knowledge needed for business planning. This concur with what Hamisi (2011) reiterated that outsourcing can register the number of benefits including to reduce and/or control operating costs; improve company focus; access to additional resources and redeployment of internal resources; and accelerate migration to new technology.

It is further revealed that 88 percent of the entrepreneurs were aware of the organizations offering business planning services but only 25 percent utilizes the service. The challenges here were the costs charged by the professional business writers (the service) for writing a business plan and or developing a business plan toolkit. The costs were unaffordable to agribusiness sub-sectors enterprises.

Table 4.3a: Costs of outsourcing writing/developing business plan toolkit

| Rank | Costs (USD) | Number of respondents (n=25) |
|------|-------------|------------------------------|
| 1 | 4001> | 12 |
| 2 | 2001 - 4000 | 7 |
| 3 | 2000> | 6 |

Source: Survey data (2012)

4.3.2 Ability to obtain/create necessary business plan annexure

With regard to the documents required to furnish a sellable/bankable business plan, results shows that most of the entrepreneurs 70 to 98 percent were aware and able to obtain or create the documents. The documents referred here included registration certificates, MOU and AA, audited/certified accounts, financial statements, and letters of support, different policy and procedure manuals, organogram and resumes of key personnel.

Table 4.3b: Awareness on important annexure

| Company document | U(%) | AU(%) | AA(%) |
|--|------|-------|-------|
| Registration | - | 2 | 98 |
| MOU and AA | - | 8 | 92 |
| Audited/Certified Accounts | 2 | 17 | 81 |
| Draft Financial Statements | 3 | 12 | 85 |
| Letters of support | 8 | 15 | 77 |
| Financial policy and procedures manual | 12 | 17 | 71 |
| Resumes | 12 | 17 | 71 |
| Organogram and biography of key management | 10 | 17 | 73 |
| Operational policies and procedures manual | 12 | 34 | 54 |

Source: Own Survey Data, 2011

Key: U = Unaware

AU = Aware but unable to obtain/create

AA = Aware and able to obtain/create

4.3.3 Involvement of management in writing business plans

The value of a business plan simply cannot be overstated. Putting ideas and concepts down on paper is invaluable and the act of researching and compiling data about your competitors and the market will prove to be very useful in the years to come (Topfer, 2011). In writing business plans, entrepreneurs need to have the important and relevant information needed and the active participation of the management (Duft, 2010). While it

is quite possible to contract for outside consulting services to assist in the plan's preparation, management must be involved in every aspect of the plan's development. Any plan prepared exclusively by outside hired services will unlikely reflect management's total insight or perspective. It will also lack the full support of management in that; vested interests have not been taken fully into account. A satisfactory business plan, therefore, cannot bypass direct and continuous management involvement.

This paper found out that agribusiness entrepreneurs involve the management in budgeting and planning process through their respective department (Table 4.3c).

Table 4.3c: Management involvement in business planning and budgeting

| Particulars | Response | Number | Percentage (%) |
|-------------------|---|-----------|----------------|
| Business planning | Internally (in the company) | 21 | 58 |
| | Hiring external organization/consultant | 7 | 20 |
| | Both Internal and External | 8 | 22 |
| | Total | 36 | 100 |
| Budgeting | Internally (finance department or else) | 32 | 78 |
| | Externally (hiring and accountant) | 5 | 12 |
| | Both Internally and Externally | 4 | 10 |
| | Total | 41 | 100 |

Source: Survey data (2011)

4.4 Business linkage and partnerships for quality improvement

In adding value to the products and services AAA agribusiness entrepreneurs' companies have partnerships with other organizations. Ninety-five percent of the members have partnerships with either public/government agencies, private sectors, NGOs or Research Institutions/centres. They partner in the areas of technology (35%), quality (32%), financial support (5%) and (5%) partners in all areas.

The type of partners proved to be reliable and have good track record in their country is government chambers, ministries and foundations (51%); followed by local and international NGOs and private sector foundations each by 19% and research institutions (11%). These partners are active in almost all agribusiness sub-sectors.

The type of service/innovations these partners provide are marketing information, product development and improvement, research, financial support and management, technical advisory and training and quality control standards. Seventy percent (70%) of the AAA entrepreneurs do pay for the services at an average cost ranging between 2000 to 3000USD (26%) and 47% pay at an average less than 500USD. The remaining 30% who do not pay for the services get the services from different donor funded projects and through government intervention programs.

Ninety-seven percent (97%) of the entrepreneurs were willing to recommend their partners to other AAA members for the following reasons; being reliable business partner, helps in solving business problems, product quality improvement, funding and market linking, and expertise.

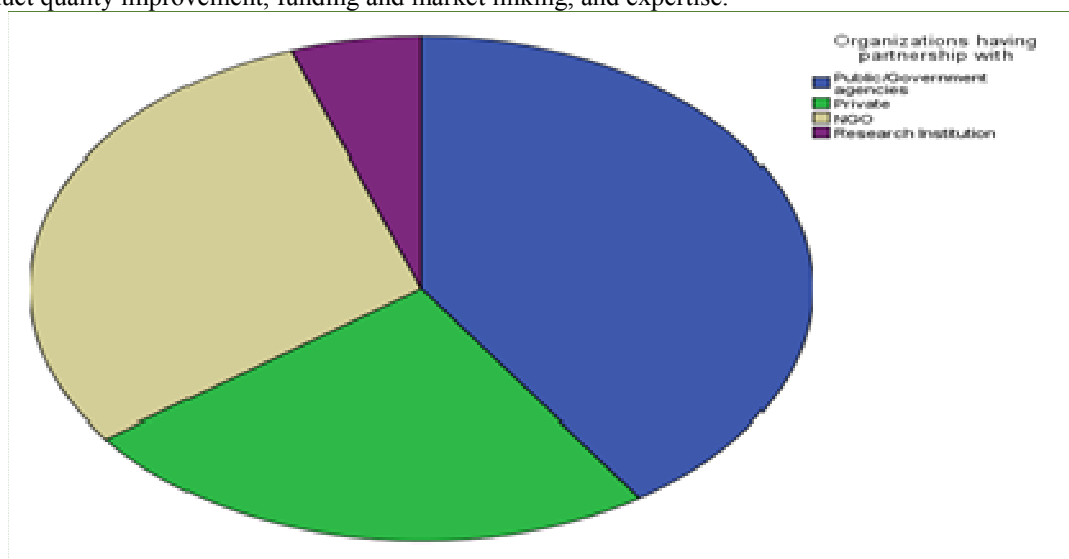


Figure 1: Partnering organizations

5.0 CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

The importance of appropriate and proper business planning for the success of agribusiness enterprises/firms in East Africa must not be underestimated. All businesses require proper planning to sustain and grow, whether they are small or large, whether they operate in the formal or informal sectors. Understanding this importance, AAA entrepreneurs own professional business plans from which they derive the direction of their business.

As any activity in the facet of life has its challenges, AAA entrepreneurs face problems in writing professional business plans. What documents to be included in the business plans is of paramount importance. This study revealed that most of the entrepreneurs under AAA are aware and able to obtain/create the documents required to a sellable business plan. Unfortunately, their ability to solicit other very pertinent information to be used in developing a business plan was not revealed in this study

Findings from this study revealed that the importance of business planning is understood by the agribusiness entrepreneurs. Of great important to be noted is the methodologies of soliciting the very pertinent information to be included in the business plans and the role of AA Academy in effecting the same.

5.2 RECOMMENDATION

Emphasis on the importance of business planning on business performance needs to be clearly understood by any entrepreneur venturing into agribusiness enterprising. Emphasis should be put on employing appropriate business service in order to enhance professional business planning. This is because in this study it has been observed agribusiness entrepreneurs understood the importance of business planning and its impact on business operation and performance. The lack of ability to solicit pertinent information to be included in their business plan is persistent problem facing entrepreneurs which is yet to be addressed by business service providers. On the other hand, agribusiness enterprise managers must ensure that they have the necessary knowledge and skills required in writing business plans. It is further recommended a Regional Agribusiness Service provider to be instituted which will include but not limited to analysis, forecasting and planning, global market prospecting and promoting, knowledge generation and diffusion, regulation and legislation, financing support, infrastructure and environmental control activities.

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