# Analyse the effect of financing options of a strategic capital expenditure decision on a business.

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| Duration: 5-6 weeks | |
| **Essence statement:** | | Using knowledge & skills to understand the importance of the effect of strategic capital expenditure decision on a business. | |
| **Big Picture:** | | An agribusiness requires producers to plan, manage, record keep & monitor their financial progress. Producers need to have an understanding of how much money the business is making & to forward plan & expand their businesses. Being able to plan for & finance a large capital item required to expand or grow the business is vital. Being able to calculate how much money is required to finance their business, or how much may need to be borrowed will ensure survival.  The following are important ideas within the Big Picture:   * Understand the importance of a strategic capital expenditure decision. * Understanding what finance is required to operate within the primary sector. * Explaining the effect of financing options of a strategic capital expenditure decision & the consequence(s) of these options on a business. * Understand the medium to long-term impacts a strategic capital expenditure decision may have on the agribusiness. | |
| **Principles:** | | **Treaty of Waitangi:** Have an understanding the Maori perspective on businesses & long-term viability.  **Coherence:** Creating links between knowledge & skills gained within the business community & the agribusiness industry.  **Future Focus:** Business decisions that allow long-term viability.  **Cultural diversity:** Students examine a variety of worldviews in considering business issues.  **Community & participation:** Businesses are viable for the common good.  **Integrity:** Involves business being honest, responsible, accountable & acting ethically. | |
| **Values:** | | **Ecological sustainability,** which includes care for the environment.  **Community & participation** for the common good. | |
| **Key Competencies:** | | **Thinking:** Make sense of information, develop understanding, make decisions, & reflect on learning.  **Using language, symbols, & text:** To access & communicateinformation & to communicate this information with others.  **Participating & contributing:** To understand the importance of balancing rights, roles & responsibilities of social, cultural, physical & economic environments. | |
| **New Zealand Curriculum Links.** | | | |
| **Business Studies: Level 8** | | Explore how & why large businesses in New Zealand make operational decisions in response to internal & external factors. | |
| **Economics: Level 8** | | Understand how the nature & size of New Zealand economy is influenced by interacting internal & external factors. | |
| **Agricultural & Horticultural Science Curriculum Level 8:** | |  | |
| * **Contextual Strand: Markets** | | **Learning Objective 2:** Critically examine how scientific & technological principles are applied to the life processes of plants &/or livestock in order to shape the attributes of primary products for specified markets. | |
| * **Contextual Strand: Sustainability** | | **Learning Objective 3:** Critically examine the impact of primary production management & processes on the environmental sustainability of primary production. | |
| * **Contextual Strand: Profitability** | | **Learning Objective 4:** Critically examine the impact of a range of specific factors on the profitability of primary production in New Zealand. | |

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| **Depth of coverage.** | **Specific Learning Outcomes**  **Students understand:** | **Learning Activities.** | **Resources.** |
| **What is the Big Picture?**   * Capital expenditure is the way forward for any successful business & allows the business to grow or to expand their operations. * However, it comes with benefits as well as risks. * To be able to see the implications on the business of a capital expenditure decision is important before the decision is finalised. * Understand the importance of capital expenditure. * Understanding what finance is required to operate within the primary sector. | * Understand the importance of capital expenditure. | Possible brainstorming ideas may include.   * What is capital expenditure? * Why does a business want to expand? * How does this decision meet the business’s strategic goals? * How does the business benefit from making strategic capital expenditure decisions? * How often should this decision be made? * What finance would be required to operate / implement? * What finance options are there? * Why is capital expenditure decision making important to operating an agribusiness? * Do the Big Picture w/s | * Poster paper. * Pens. * Big Picture w/s |
| **What is a strategic capital expenditure decision?**   * A strategic capital expenditure decision requires a business to raise additional equity or finance to fund the capital expenditure. * The capital expenditure is relevant to the business & the decision has a medium to long-term impact. * Examples are; a second cray fishing boat, a new logging truck, a labelling machine on a kiwifruit grader, purchase of more land. * It is not routine expenditure such as more cray pots, repairs & maintenance of a truck. | * What is capital expenditure. * What are the strategic needs of a business? | * What are the strategic needs of a business? * How does making a strategic capital expenditure decision meet the strategic needs of a business? * Discuss the difference between routine & strategic capital expenditure. * Go through the OCHO handout and get them to highlight important ideas. * Go over What is a strategic decision PPT and Why make strategic decisions PPT. | * OCHO handout * What is a strategic decision PPT. * Why make strategic decisions PPT |
| **Why make strategic capital expenditure decisions?**  Allows the business to   * Take financial control of their business. * Assess the viability of new opportunities & borrowings. * Plan asset purchases / renewal / replacement. * P[lan for growth, expansion](https://www.business.govt.nz/how-to-grow/growth-and-innovation/test-if-you-are-ready-to-grow/) or development. * Plan future income & expenditure. * Plan & avoid financial trouble. * Make informed operating decisions. * Decide whether the proposed plans are achievable & profitable. | * Why carry out capital expenditure. * The purpose of capital expenditure. | * Brainstorming questions   + Why does a business need to do this?   + What information does the business need?   + Why make strategic capital expenditure decisions? * Read “Strategic Planning” article. | * “Strategic Planning” article. |
| **What information do you need to make a strategic capital expenditure decision?**  Financial information   * Financial plan, or feasibility budget, that covers all phases of the venture. (Usually 3-5 years). This will tell us whether or not the business is sustainable in terms of income & expenditure. (Inclusive of debt servicing). * Budgets e.g., cashflow. * Profit or bottom line. * Annual report. * Liquidity. * Shareholder & / or stakeholder expectations. * What are the projected returns from the strategic capital expenditure?   Non-financial information.   * Location * Expansion * Competition / competitors * Goals / aspirations of the business. * Impacts on the community. * Advantages or disadvantages. * Consider health & safety, work life balance, meeting legal regulations & forecasting the workflow that is required for the business to operate successfully with additional investment. * Other intangible impacts. | * What financial & non-financial information does the business need to make an informed decision. | * What financial & non-financial information does the business need to make an informed decision? * Analyse the decision to take on an additional cray fishing boat. Cover not only as an economic decision but also consider; health & safety, work life balance, meeting legal regulations & forecasting the workflow that is required for the business to operate successfully with an additional boat. * A stakeholder is a person, group or organisation that can affect or be affected by the success or failure of a business. Who are the stakeholders in an agribusiness? E.g., partner & family, farm owner, equity partners, accountant, consultant, bank etc. * Read   + “Return on Capital”.   + Waterfront stadium back on the cards. * <https://www.nzherald.co.nz/nz/waterfront-stadium-back-on-cards-after-goff-launches-feasibility-study/AAYPSZKVFEORZDT3UGH43FQDIE/> | * “Return on Capital” * Waterfront stadium back on the cards |
| **Goals / aspirations of the business.**   * Before embarking on any business venture, the business needs to be sure that the venture is compatible with long-term goals. I.e. what are the businesses plans? Where are they going? * It is important that goals & objectives are clearly identified, (both business & personal), as these objectives guide & focus decision-making, & provide a means of selecting the best of any alternative plans. * The goals of all stakeholders in the business need to be considered before a business venture is selected, as compatible goals will be a large factor as to the success of the venture. * Maximising profit is a common goal to most businesses but differing goals can result in differing business plans. | * What are goals or aspirations of a business. * Stakeholders or shareholders of the business. | * What are the goals or aspirations of the business? * Why is having business goals or aspiration important to the business? * Who are the stakeholders or shareholders of the business? * Read articles   + “The capital requirement for the business”.   + “$98 million sought for expansion”.   + “Drivers of profitability”.   + New Zealand firms to boost capex budgets this financial year. | * The capital requirement for the business. * $98 million sought for expansion. * Drivers of profitability. |
| **What is capital?**   * Any business requires capital to be able to operate & to remain viable. * Capital in an agribusiness is typically represented by money, i.e., savings & borrowed capital, along with land, labour & livestock, & is one of the main resources available to the operator. * Capital is generally limited in amount & availability, & so any decisions concerning the use of capital must be carefully analysed to make the best use of that available. * Anyone taking on the management of an existing business should be looking for possible ways to reallocate the capital held within that business. The most efficient use of that capital will result in greater returns. * Many people think of capital as cash; bank accounts, savings, etc. This, however, is a very narrow view. Agribusiness capital should be defined in broader terms to include money invested in livestock, machinery, land, & buildings, as well as any liquid savings. * The total capital used in an agribusiness can be expressed in terms of Equity & Borrowing. Total Capital = equity + borrowed capital. * Equity is the measure of net financial worth. Equity = assets – liabilities. (A growth in net equity over time is a good indicator of financial health). | * What is capital? * What is equity & borrowing | * Read   + “Capital Strategic Decisions”.   + “Return on Capital”   + Equity finance | * “Return on Capital” * “Capital Strategic Decisions” article. * Equity finance. |
| **The capital requirement for the business.**  Businesses have 3 distinct phases;   1. The establishment phase - due to the costs of establishment & the unknowns associated, is the period of greatest risk. Because of this, it is a good idea to include some contingency amount in the setting up estimates used. 2. The development phase is when the business is operating, but development is occurring to increase production & returns. Extra capital is often required for inputs associated with increased productivity during this phase. 3. Normal operation (stability) - is when the business is operating in a stable manner. This is when all capital assets are being used to maximum efficiency, & reductions in debt can be made. It is during this phase that the decision must be made either to expand further, or to consolidate. This decision, again, has to be made according to the goals & objectives of the relevant stakeholders.  * The capital requirement for the business will differ depending on which of the phases they are currently positioned in. | * What are capital requirement phases? * The 3 phases of capital requirement. | * The capital requirement for the business notes. * Read   + $98 million sought for expansion.   + $20 million for Te Rapa expansion.   + Fonterra to boost its Te Rapa butter lines output. | * “$98 million sought for expansion” article. * $20 million for Te Rapa expansion article. * Fonterra to boost its Te Rapa butter lines output article. * The capital requirement for the business notes. |
| **Assets.**   * An asset can have value for two reasons;  1. It can be sold to generate cash 2. It can be used to produce other goods, which can be sold to provide cash income.  * Assets are categorised according to liquidity & useful life.   Current Assets   * Current assets are the liquid assets, i.e., can be readily converted into cash. They can be used or sold in the next year, as a normal part of business activities, & their sale will not disrupt or affect future production activities. * Examples of current assets are:   + Cash on hand, & savings accounts   + Tradable stock   + Tradable shares   + Stock / supplies on hand (inputs, grain, wool etc)   + Debtors   + Saleable feed on hand.   Fixed Assets – also known as PPE (Property, Plant and Equipment)   * Fixed assets are those that generally take some time to be converted into cash. Their sale would seriously affect the ongoing nature of the business. * Examples of fixed assets are:   + Land & buildings   + Dairy Plant & equipment   + Capital stock   + Non-tradable shares (Ballance shares, LIC shares) * Differentiate between current & fixed assets mainly to determine the suitability of capital structure, i.e., fixed assets are generally financed by equity & term debt. Current assets are generally more suitably financed by short-term debt or operating surpluses. | * What are assets. * The two types of assets. | * Read   + Return on capital. * Do   + “Analysing the effect of increasing herd size”   + “Determining the capital requirements for an agribusiness”.   + Analyse the effect of share milking on a business. | * Determining the capital requirements for an agribusiness. * Return on capital. * Analysing the effect of increasing herd size. * Analyse the effect of share milking on a business. |
| **Credit & borrowed capital.**   * Credit is defined as the capacity or ability to borrow money. * The ability to borrow money is a valuable asset, as it allows you to use borrowed money to help start a business, expand a business, & to generate additional profit. This ability should be used just as other assets are used to increase profit. * Whether capital is owner’s equity, borrowed capital, or a combination of both, it will always be necessary to create, expand, or maintain a business. Capital is also necessary to increase efficiency & to meet seasonal needs. * Today’s managers must be skilled in allocating, organising, using, & the acquiring of capital, whether it is equity or borrowed capital. | * What is credit. |  |  |
| **Types of Loans**   * There are many different types of loans. Loans can be described by length, use, security, and repayment schedule.   Length   * Short-term loan   + These loans are normally repaid within a year and are mainly used to purchase inputs needed to operate through the production cycle or as a means of bridging finance. * Intermediate-term loans   + When the length of a loan is over 1 year but less than 10 years it is classified as an intermediate term loan. Some repayment may be due each year, but the borrower normally has several years to complete repaying the loan.   + These loans are often used to purchase livestock & machinery, as a short-term loan is not suitable as they will be used in production for more than one year and cannot be expected to pay for themselves in a short time. Many intermediate loans are for a term of 5-7 years. * Long-term loans   + A loan with a term of 10 years or longer would be classified as a long-term loan.   + Assets with long or indefinite life e.g., land & buildings are purchased with funds from a long-term loan. * Overdraft Facility / Seasonal Finance   + An overdraft facility enables withdrawals more from the account than is in it up to an agreed amount. An overdraft can be paid back at any time without penalty, the limit amount would be based on the forecast cashflow requirement. The interest is calculated daily on the current overdraft figure.   Use  The use or the purpose of the loan is another common system of classification.   * Property Loans / Mortgages   + Loans for purchase of property such as land & buildings. Property loans are typically long-term loans. * Business Loans   + All business loans other than real estate loans are included in this category, which would include both short-term & intermediate term loans. * Personal Loans   + These are non-business loans used to purchase personal assets e.g., homes, vehicles & appliances. Even though they are non-business loans most lenders want them included on the borrowers’ farm balance sheets to get a complete picture of their financial condition.   Security  The security for a loan refers to the asset or assets pledged or mortgaged to the lender to ensure loan repayment. If the borrower is unable to make the necessary principal and interest payments on the loan, the lender has the legal right to take possession of the mortgaged assets. The lender typically sells the assets & the proceeds used to pay off the loan. Assets which are pledged or mortgaged as security are called loan collateral.   * Secured Loans   + With secured loans, some asset is mortgaged to provide collateral for the loan. Lenders obviously favour secured loans, as it gives them greater assurance that the loan will be repaid. Land & buildings provide collateral for real estate or long-term loans. Machinery and stock are used as collateral for immediate loans. * Unsecured Loans   + A borrower with good credit & a history of prompt loan repayment may be able to borrow some money on the promise to repay or without pledging any specific collateral. This type of loan will always have a set period for repayment. Some short-term loans may be unsecured, although it is possible to mortgage non-breeding livestock & growing crops to provide security. | * Types of loans. |  |  |
| **Sources of capital.**   * Agribusiness can borrow money from a number of different sources. Some lending institutions specialise in certain types of loans, while some provide additional financial services in addition to lending money. * Borrowing can be a major expense for an agribusiness, so borrowers should be prepared to invest time & effort into ensuring that their financial arrangements are appropriately made.   Personal & family sources   * Personal sources of capital are the most readily available, & the most flexible. * These sources could include;   + Cash or savings   + Supply of an asset already owned   + Sale of other assets or off-farm investments   + Sale of personal assets   + Inheritance   + Re-investment of business profits * Many agribusiness ventures are started with family help & input, due to the large amount of capital required.   + Direct family investment. (Money left in as equity capital or as low interest loans).   + Family trusts. (Capital may not require repayment under certain conditions or be in the form of low interest loans). * With any family investment it is important that all issues are discussed & clearly understood. Misunderstandings can lead to conflict & relationship problems within the family.   Trading banks   * Trading banks offer a wide range of short, intermediate & long-term loans.   Solicitors   * Solicitors generally provide short-term finance (2-3 years), but longer-term loans are sometimes available.   Hire purchase / equipment finance   * e.g., John Deere Finance * Generally available on vehicles, machinery & household goods. There is normally an establishment fee, & interest rates that are considerably higher than other lending institutions. However recently these rates have come down to compete with the established trading banks.   Lease of land/plant/stock   * e.g., Stockco * This is a way of obtaining land or stock without having to supply cash yourself. You do not own the asset but pay a rent/fee for the use of the asset. Generally, the cost of the leasing is more than the borrowing cost would be on 100% finance, but advantages are; * No security required * No risk in reduction in asset value * Set fees, so cashflow can be set. * Asset can be upgraded / replaced easily.   International finance   * Interest rates overseas are often lower than those available in New Zealand. This, along with the deregulation of some financial markets, means that it may be an advantage to look at overseas finance. * The major problem is the exchange rate risk. If the $NZ goes down in value compared with the currency from the country borrowed from, it will cost substantially more in $NZ to make interest & principal repayments. * Unless you are selling product overseas with returns in that currency, this source of finance is not recommended. Even then, problems can occur in managing a relationship with the lender.   Other institutions   * Under certain circumstances, there are other institutions that will lend money for land, stock, plant & development, e.g., building societies, insurance companies. Once you start looking past standard lending institutions, you tend to be paying premium interest rates. | * Sources of capital. | * Read “Chris Horan St Pauls Agribusiness day 1” PPT. * Use <http://wbn.co.nz/2018/11/12/pumping-waikato-fuel-firm-in-expansion-phase/> as an example. Where would they get their capital from?   Crowd funding   * Discuss crowd funding as a source of capital. See Crowd Funding sheet for websites. * Read   + “Crowd funding enables purchase of Dunedin chocolate factory” article.   + <https://www.stuff.co.nz/business/108104393/southern-whisky-distillery-seeks-2m-in-crowdfunding-to-expand> article.   + Adding value makes Limery a provincial powerhouse.   + Diversifying sources of capital for the primary sectors.   + Supporting entrepreneurship in NZ ag   + Sources of Finance   Loan Finance   * Do:   + Finance Companies w/s.   + Loan Finance – Banks w/s   + Loan finance - banks 2 w/s | * “Chris Horan St Pauls Agribusiness day 1” PPT. * Crowd Funding * Finance Companies w/s * Loan Finance – Banks w/s * Loan finance - banks 2 w/s * “Crowd funding enables purchase of Dunedin chocolate factory” article. * Adding value makes Limery a provincial powerhouse * Diversifying sources of capital for the primary sectors. * Supporting entrepreneurship in NZ ag * Sources of Finance |
| **Financing options**   * Build the case for investment * Establishing borrowing requirements. * Need to determine the cost of the proposal, & then the resources available that may contribute towards that cost. This is worthwhile for the following reasons;   + Both the borrower & the lender can assess the risk of the new proposal.   + The new proposal can be assessed in terms of equity brought about by the cost of making the change. | * What are the financing options? |  |  |
| **Factors affecting credit & lending margins**   * When trying to establish or develop credit it is useful to look at it from the lender’s point of view. I.e., what does a lender consider when making a decision on a loan application? Why can one person borrow more money than another? Why are interest rates & repayment plans different? * The main influence on interest rates is the risk factor on whom ever money is being lent to. (Interest rate is based on the wholesale value of the money plus risk). When a lender is assessing a proposal for a loan many factors go into making the loan decision, as the lender wants a profitable loan that will be repaid. * These factors can be summarised as;   Security   * The security for a loan refers to the asset or assets pledged or mortgaged to the lender to ensure loan repayment. If the borrower is unable to make the necessary repayments on the loan, the lender has the legal right to take possession of the mortgaged assets. These assets are normally sold by the lender, & the proceeds are used to pay off the loan. Assets that are mortgaged as security are called collateral. Land, livestock, machinery, buildings, crops etc., can all be used as security.   Personal factors   * Honesty, integrity, reputation & other personal characteristics are all considered by the lender when considering a loan application. An honest & open relationship with lenders is essential to maintain credit. * The management ability of the client is also evaluated;   + Past record & past financial performance   + Background, training & education   + Decision making ability   + Management ability   + Experience   + Sound farming practises & skills   + Presentation of proposal * Lenders often rate poor management ability as the main reason for borrowers getting into financial difficulty & therefore place great emphasis on this factor. * The purpose of the loan also has a bearing on lending criteria. Loans for personal & family living expenses are likely to be viewed less favourable than those for generation of assets & income.   Debt servicing ability   * An accurate & well-presented proposal that includes budgets, cashflows, & statements of financial position & profitability estimates will certainly influence a lenders perception of your management ability. As well as this, complete & detailed historical records included in the application will do much to ensure a favourable response. * There must be enough profit in the venture to meet living & taxation expenses, as well as the interest & principal repayments on the loan. | * What are the factors affecting credit & leading margins? | * Read “Chris Horan St Pauls Agribusiness day 2” PPT * Read Compliance counts with lenders. | * “Chris Horan St Pauls Agribusiness day 2” PPT |
| **The financial package**  There are many components to any financial package that can influence the cost of capital.  Interest   * Interest can be thought of as the rent paid for the use of borrowed money. The interest rate offered by the lending institution will depend on the level of risk they think is involved & the wholesale interest rate.   The floating rate loan   * With a floating rate, loan repayments rise & fall with changes in interest rates. In economic times of changes in interest rates this can make cashflow budgeting more difficult. Principal can usually be paid in lump sums or in full at any time.   Fixed rate loans   * With this type of loan, the interest rate is fixed for a specific period of time. This makes cashflow budgeting easier, but there may be restrictions or penalties if the loan is repaid or the loan amount is changed before that specified period of time.   Loan application fees   * The loan application fee will vary depending on the lending institution, the proposal, & the information the applicant provides. (The more financial information provided; budgets, cashflows etc., the greater the chance of reduced fees). * Loan application fees are negotiable & vary from no cost to 1% of the amount to be borrowed.   Bank fees & charges   * These vary from a flat fee on a monthly basis, to a charge per transaction, or a combination of both (e.g., per cheque, per electronic transfer, etc.). If using electronic banking, the greater the potential to reduce costs.   Service commitment fees   * These fees are charged on some short-term loans, for the ability to have seasonal finance when required.   Legal fees   * There will be legal fees required to be paid for the checking of documentation, & the registration of securities. When a loan is repaid there will be a fee for discharging the mortgage. Mortgage related legal fees are tax deductible.   Repayment terms   * Some loans have flexible repayment schedules, whereas in other cases penalties apply for early repayment. * In most cases, all the costs of borrowing are negotiable. The work that the lender must do in analysing a proposal also has a bearing on cost. If a full Business Plan & Capital Profile for the venture is presented, it puts the business in a strong position to negotiate costs & fees. It also shows good management ability, & strong business sense. | * What is the cost of capital? |  |  |
| **Selecting a lending institution**   * An agribusiness loan is a major expense & commitment & so a borrower should be prepared to invest time & effort into ensuring that their financial arrangements are properly made. Factors to consider are:   Products & services   * To have effective control of the business, certain products such as internet & telephone banking may be essential.   Expertise of staff   * It is an advantage to have lending staff who are knowledgeable & understand agribusiness in your area, & who will offer high quality support & advice.   Commitment to your business   * Is the lending institution going to give long-term support to your type of business, or are they only involved during the ‘good times’?   The financial package  The whole package is made up of many components; interest rates, fees, advice, repayment terms, services, etc, all these should be assessed together to gain an understanding of the whole package, & the cost involved. Finance brokers, consultants, accountants, etc, may be of help in selection & negotiation. | * How do you select a lending institution? |  |  |
| **Sensitivity analysis**   * Once you have completed your budget, it is useful to look at how sensitive your forecast is to changes. * In any phase of the business venture there is always an element of risk. The risk involved reflects the ability of the business to meet estimates of production & profit. The key question is, when should we expand, or should we consolidate? * Running sensitivity scenarios allows you to gain a clear picture of how exposed your cash position is to risk. It also equips with key information to allow you to review your budget to ensure you will be able to meet your goals & targets even when unexpected situations arise. | * Sensitivity analysis | * Read “Financial Management” article. | * Financial Management article. |
| **Decision making steps.**   * SWOT analysis * Cost benefit analysis. | * What is a SWOT analysis? * What is a cost benefit analysis? | * What are some decision making tools that a business could use to analyse a strategic capital expenditure decision? * Go over preview-YES-Teaching-Guide-Chapter-4-3 | * preview-YES-Teaching-Guide-Chapter-4-3 |
| **SWOT analysis**   * A SWOT analysis is a quick way of measuring where the business capabilities & passion lies & areas where the business should not be heading or areas where you need to improve so your business can succeed. * SWOT refers to the identification of:   + Strengths in the internal environment.   + Weaknesses in the internal environment.   + Opportunities in the external environment.   + Threats in the external environment. * The internal environment are factors which occur in the business that fall under our control such as production, financial arrangements, staff quality, skills, capabilities, resources. These are all factors that can be controlled, changed, or improved by management. * The external environment are factors which fall outside our direct control such as weather, product prices, government & political issues, socio/demographic factors, environmental factors, economic factors. * The SWOT analysis can state how your business;   + Capitalise on strengths.   + Minimise weaknesses.   + Capture opportunities.   + Avoid threats. | * What is a SWOT analysis? * What is a risk assessment using SWOT analysis? | * There are many SWOT analysis templates available, such as this one from BusinessBalls.com. * List internal environment factors (potential strengths & weaknesses) of a business. * List external environment factors (potential opportunities & threats). * Complete a SWOT analysis of your agribusiness by identifying the major strengths & weaknesses (internal environment), & opportunities & threats (external environment). * Now state how you are going to;   + Manage the risks identified.   + Capitalise on strengths.   + Minimise weaknesses.   + Capture opportunities.   + Avoid threats. * Use the information gained from the SWOT analysis to identify the business’ competitive advantage. Competitive advantage refers to what you & your business do better than its competitors do. Can this advantage be maintained or copied? Examples of competitive advantage can be access to finance, location, quality of staff & quality of herd. * Read   + “Risk and Uncertainty in Agriculture” article.   + <https://farmersweekly.co.nz/section/agribusiness/view/climate-risks-could-impact-loans> * Go over preview-YES-Teaching-Guide-Chapter-4-3 | * BusinessBalls.com   ([www.businessballs.com/swotanalysisfreetemplate.htm](http://www.businessballs.com/swotanalysisfreetemplate.htm))   * SWOT analysis template. * Risk and Uncertainty in Agriculture” article. * preview-YES-Teaching-Guide-Chapter-4-3 |
| **Cost Benefit Analysis**   * The purpose of a cost-benefit analysis is to examine both the costs & the financial benefits of a project to determine if it is beneficial to actually do the project. If the benefits (or the return) outweighs the costs, then it is a profitable project to invest in. * Why do a cost-benefit analysis? * Help defining project objectives. * By establishing a “budget” of estimated costs & benefits, the business can track the success of a project. * A cost benefit analysis can also help the business to estimate all associated costs of a project. * For large capital expenditures & new ventures, a cost-benefit analysis is a critical piece of the decision process.   Costs & benefits   * Fixed costs * Salaries * Cost of loan repayment (also called a Principal & Interest or P&I payment). * Operating & maintenance costs * Revenue & pricing considerations * Cost & expense considerations * Government subsidies if available. * Tax incentives | * What is a cost benefit analysis? * Why do a cost-benefit analysis? * Understand the concept of costs & benefits. | * Begin by introducing the concept of a cost-benefit analysis & how it can be utilised to make an important investment decision in a business. * Cost-Benefit Analysis PowerPoint * Use an Excel spreadsheet to prepare a cost – benefit analysis for Piedmont Farm. * Analyse the outcome of the analysis & make a recommendation for investment. | * Cost-Benefit Analysis PowerPoint * Cost benefit analysis Lesson 6 Teacher Guide   <http://www.efc.sog.unc.edu/reslib/item/sustainable-farming-finance-cost-benefit-analysis-lesson-6>   * Lesson 7 Intro to spreadsheet modelling. * Lesson 8 Advanced spreadsheet modelling. |
| **Explain and evaluate the effects of the financing options and the consequences of these options on the business.**  Students need to analyse the financial options & evaluate the consequences of these options on the business using both non-financial and financial information.   * What are the repayments and terms? * What are the implications if the terms are changed / modified / broken? (Penalty clauses, early repayments, opt out). | * The financing options. * The consequences of the financing options. | * Determine the current financial position of a business. * Discuss the cost of financing   + (Both financial (e.g. interest) and non-financial (e.g. will you need to reduce labour costs to cover the financial costs and what could this mean to the committee/business, will new technology purchased mean less labour needed etc.)   + Compare these costs over various financing options and repayment time. * Effect and consequence template. * Do Rate of return exercise. * Look at irrigation case study. | * Effect and consequence template. * Rate of return exercise. |
| **Recommendation – select an option.**   * Decide whether to finance the capital item or not. * Can the business afford this expenditure? * Evaluate the impact of this option on the business. * When are the benefits expected to be received? (Financial and non-financial) |  | * Complete Hamills w/s. * XP Homeware sells fridges w/s. | * Hamills w/s. * XP Homeware sells fridges w/s. |
| **Assessment.**  AS91870 Agribusiness 3.9. Analyse the effect of financing options of a strategic capital expenditure decision on a business (4 credits) Internal. | | | |