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Faculty of Economics and Management
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Diploma Thesis
Business plan for rural area

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DIPLOMA THESIS ASSIGNMENT

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European Agrarian Diplomacy

Thesis title

Business plan for rural area

Objectives of thesis

The main objective of the thesis is to construct a business plan for a agribusiness entity operating in rural area in Slovakia. In order to achieve the main goal of the thesis, it is necessary to conclude following partial goals:

- to examine legal environment for setup of business agricultural entity in Slovakia, based on valid legal norms of Slovak republic
- to do a market research and analyze internal and external forces that will have direct impact on business entity setup.

Methodology

Our thesis is divided into two main parts: theoretical and practical. In theoretical part we aim our attention to literature overview and basic terminology with regards to thesis topic. Next, we examine current state of agriculture and agricultural entrepreneurship in Slovakia based on statistical data analysis. In addition, we examine private business environment conditions on Slovak market, with focus on agriculture.

Within the theoretical part of our thesis we also focus on legal framework with regards to entrepreneurship in Slovakia, namely detailed overview of laws and regulations with relation to process of agricultural enterprise establishment, required by the Commercial Code of Slovak Republic, including special regulations of local municipality, where enterprise is set to be established, and/or special EU regulations, in relation to potential EU funds applicability of the enterprise. Lastly, we focus on characterization of EU funds aimed to boost establishment of agricultural enterprise, especially in relation to young farmers support; process of applying for EU funds and its conditions for applicability for the funds, including purpose for EU funds application (legal framework).

Practical part of our thesis includes elaboration of business plan for establishment of agricultural enterprise in rural areas. More specifically following methods will be used: cash-flow analyses, calculation of net present value, internal rate of return, SWOT and other methods of financial planning.

Within the process of elaboration of out diploma thesis, we use following types of sources:

- Primary source of information – participative approach (visit of Slovak Agricultural Paying Agency)

- Secondary source of information – literature overview, Commercial Code of Slovak republic, Collection of Laws of Slovak republic, EU publications, EU legal publications, scientific publications, data of statistical office – Slovak Statistical Office/Eurostat



The proposed extent of the thesis

60 – 80 pages

Keywords

business plan, entrepreneurship, agriculture, agricultural entrepreneurship, EU funds, Common Agricultural Policy, Slovakia

Recommended information sources

- HIGGINS, B. – SAVOIE, D. J. 1997. Regional development theories and their application. New Jersey: Transactions Publishers, 1997. 422 p. ISBN 978-07658-0420-4.
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Declaration

I declare that I have worked on my diploma thesis titled "Business plan for rural area" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

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Business plan for rural area

Abstract

Family farming models and young farmers play crucial role in a field of agricultural business in rural areas. The main goal of our diploma thesis is to design a business plan for a young entrepreneur who would like to start his agricultural business, based on a model of family farming, in rural area of southern part of Central Slovakia. In order to reach the main goal of the thesis, it was necessary to define basic terminology with regards to business establishment, agriculture (with focus on family farming models), to examine legal requirements that are necessary for business establishment in Slovakia and lastly, to explore means of initial financial contribution a young farmer can use. Thesis also focuses on definition of Common Agricultural Policy that represent the core of European agriculture and the main principals of the Policy with regards to family farming and young farmers are highlighted in the thesis. In the practical part, the thesis is focused on constructing the business plan for a young farmer. Within this plan, it was necessary to analyse the external and internal environment of the business using variety of economic analyses and based on detail calculations, we made a cash-flow statement that provides information of potential profit of the business.

Keywords: agriculture, family farm, young farmer, European Union, Common Agricultural Policy, entrepreneurship, young entrepreneurship, business plan, market analysis, financial plan

Podnikatelský plán pro venkovskou oblast

Abstrakt

Modely rodinného zemědělství a mladí zemědělci hrají klíčovou roli v oblasti zemědělského podnikání ve venkovských oblastech. Hlavním cílem diplomové práce je navrhnout podnikatelský záměr pro mladého podnikatele, který by chtěl založit svůj zemědělský podnik na základě modelu rodinného zemědělství ve venkovské oblasti jižní části středního Slovenska. Pro dosažení hlavního cíle práce bylo nutné definovat základní terminologii s ohledem na založení podniku, zemědělství (se zaměřením na modely rodinného hospodaření), zkoumat právní požadavky, které jsou nezbytné pro založení podniku na Slovensku a nakonec, prozkoumat prostředky počátečního finančního příspěvku, který může mladý zemědělec využít. Práce se také zaměřuje na definici Společné zemědělské politiky, která představuje jádro evropského zemědělství a hlavní principy politiky s ohledem na rodinné zemědělství a mladé zemědělce jsou v této práci zdůrazněny. V praktické části je práce zaměřena na sestavení podnikatelského plánu pro mladého zemědělce. V rámci tohoto plánu bylo nutné analyzovat vnější a vnitřní prostředí podniku pomocí různých ekonomických analýz a na základě podrobných výpočtů jsme provedli výkaz peněžních toků, který poskytuje informace o možném zisku podniku

Klíčová slova: zemědělství, rodinná farma, mladý zemědělec, Evropská unie, Společná zemědělská politika, podnikání, mladé podnikání, podnikatelský plán, analýza trhu, finanční plán

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1 Introduction

Family farming models play very important role in global agriculture. Not only they are considered to be the largest supplier of food, but they produce high nutrient quality products while using environmentally friendly practices, hence protecting the environment and natural resources. One of the main characteristics of family farming models are their adaptability and co-existence with other organisms in nature, such as animals, plants and even microorganisms. Another important aspect of family farming is the diversification of their production. In general, the production of family farming is not entirely specified, but it covers all range of raw, semi-produced or entirely produced food products.

Slovakia has long history of farming due to the good climate conditions and good attributes of natural resources, such as land, that has made farming so popular in the history. However, it is necessary to say that in the past, owning and managing a small family farm was the only source of income and food supply the family could receive. Even though, that nowadays people are not that inclined to engage themselves in agricultural business, it is still really important part of Slovak economy.

Slovakia being part of the Member States of the European Union uses the funds for farmers that are designed by the EU to help the European farmers overcome unexcepted problems in their businesses and to reimburse the losses they have to face due to ever-changing climate conditions in Europe, since the agriculture is the only sector of economy that is highly sensible to the climate change and weather conditions.

Based on the information stated above, we chose to design a business plan for a young entrepreneur who would like to start agricultural business in southern part of Central Slovakia. Even though the whole business plan is built for the self-employed farmer, a sole entrepreneur, from the broader sense, the business will operate on the basis of family farm. This fact is due to the absence of family business and family farm being recognized by the valid Slovak legislation.

The diploma thesis has three main parts. In the first part of our thesis we aim our attention to definition of basic terminology of business, business establishment, agriculture and agricultural business. Then we focus on legal requirement in terms of business establishment according to valid Slovak laws. In the last chapters of the theoretical part we investigate agriculture in the EU in accordance with Common Agricultural Policy of the EU.

Second part of our thesis is focused on building up a business plan for the young farmer. Firstly, we examine the means of financial support the young farmer can apply for in order to acquire the initial financial capital to boost up the business. Secondly, this part of the thesis contains detailed description of the business and its activities and operations, as well as detailed macroeconomic analysis of the external and internal business environment. Lastly, we provide detailed financial analysis of the business with focus on estimation of profits and costs of the business in initial five years. In the third part of the thesis, we conclude our findings and evaluate the results.

2 Objectives and Methodology

2.1 Objectives

The main objective of the thesis is to construct a business plan for an agribusiness entity operating in rural area in Slovakia. In order to achieve the main goal of the thesis, it is necessary to conclude following partial goals:

- to examine legal environment for setup of business agricultural entity in Slovakia, based on valid legal norms of Slovak Republic,
- to do a market research and analyse internal and external forces that will have direct impact on business entity set-up.

In order to reach the desired goals of the thesis, it is important to answer following research questions:

- What is the process of farm establishment in Slovakia?
- What are the possibilities for a young entrepreneur to get the initial financial capital in Slovakia?

2.2 Methodology

Our thesis is divided into two main parts: theoretical and practical. In theoretical part we aim our attention to literature overview and basic terminology with regards to thesis topic. Next, we examine current state of agriculture and agricultural entrepreneurship in Slovakia based on statistical data analysis. In addition, we examine private business environment conditions on Slovak market, with focus on agriculture.

Within the theoretical part of our thesis we also focus on legal framework with regards to entrepreneurship in Slovakia, namely detailed overview of laws and regulations with relation to process of agricultural enterprise establishment, required by the Commercial Code of Slovak Republic, including special regulations of local district, where enterprise is set to be established, and/or special EU regulations, in relation to potential EU funds applicability of the enterprise. Lastly, we focus on characterization of EU funds aimed to boost establishment of agricultural enterprise, especially in relation to young farmers support; process of applying for EU funds and its conditions for applicability for the funds, including purpose for EU funds application (legal framework).

Practical part of our thesis includes elaboration of business plan for establishment of agricultural enterprise in rural areas. More specifically, following methods will be used: cash-flow analyses, SWOT and PESTLE analyses and other methods of business planning.

Within the process of elaboration of our diploma thesis, we use following types of sources:

- primary source of information – participative approach (visit of Slovak Agricultural Paying Agency)
- secondary source of information – literature overview, Commercial Code of Slovak republic, Collection of Laws of Slovak Republic, EU publications, EU legal publications, scientific publications, data of statistical office – Slovak Statistical Office/Eurostat

3 Literature Review

In this chapter of our thesis, we aim our attention to definition of basic terminology with regards to business establishment, agriculture (with focus on family farming models and young farmers) and legal requirement of Slovak Republic with regards to business establishment.

3.1 Business, entrepreneurship and business planning

Generic term “business” is used to indicate any organization whose main purpose is to engage in activities that lead to profit, regardless how profit earned is distributed afterwards. These organizations include variety of entities from public corporations, private enterprises and partnerships to family businesses, sole proprietorship etc. (Birch et al., 2017).

Terms “business” and “entrepreneurship” are often used as synonyms that in many cases people use to name the same activities. From sociological point of view, entrepreneurship is defined as an activity done by individuals that leads to creation of new organizations. Main activities of entrepreneurship include creation of new products, services and employment of other workers. Sociology states that anyone can engage in entrepreneurial activity regardless of age, educational level and occupational background: “it is a complex, multidimensional social phenomenon that involves myriad people, motives, and behaviors” (Smith, 2013).

Mulačová et al. (2013) defines entrepreneurship based on three main key principles. First principles is so-called going concern principal – business is not a one-time activity, it is a continuous process. Personal presence of an entrepreneur when providing business is the second principle of entrepreneurship. Lastly, but most importantly, business is focused on profit – non-profit organizations cannot be considered to as entrepreneurship.

Konečný and Novák (2004) also define entrepreneurship based on three principles. In order to name an activity as entrepreneurship, the activity has to be on-going, continuous. The entrepreneur works solely by himself, without any supervisor or manager and makes his own decisions in accordance with valid law and legal regulations with regards to entrepreneurial activity. Konečný and Novák (2004) adds to second principle the importance of responsibility the entrepreneur has to bear for his business activities. Lastly, an entity can be named as entrepreneurship if the main goal of the entity is to profit from its activities. However, Konečný and Novák (2004) also define entrepreneurship from sociological point

of view: entrepreneurship is an activity, by which the entrepreneur generates values for society, for customers, with goal to satisfy their needs and persuade them to purchase his products or services regularly, thus generating a continuous source of profit.

Kurian (2013) defines entrepreneurship as “process of identifying opportunities and marshalling resources so as to create new products and services for which there is a felt need, in anticipation of subsequent profits”.

Higgins and Savoie (1997) claim that entrepreneurship can be perceived as an entrepreneur’s ability to come up with new technologies and products, to develop new resources and improve the organization and management of business. Entrepreneurship may represent capacity to introduce new innovations when all required resources, such as land, labor and capital are efficiently used (Higgins and Savoie, 1997).

In a broader sense, an entrepreneur is the one who produces goods and services to the market in order to satisfy ever-changing demands of consumers. Kahan (2013) takes on a definition of an entrepreneur from different perspective: “an entrepreneur is a determined and creative leader, always looking for opportunities to improve and expand his business”. There is one quality of the entrepreneurs that Kahan (2013) argues mostly for: innovative character of private business owners. Entrepreneurs always try to look for better, more efficient and most profitable ways to do their businesses (Kahan, 2013). Entrepreneur is a person starting his own business, investing capitals in development process of new company and undertaking risks in order to reach profit (Kurian, 2013).

An entrepreneur works solely by himself, he has no supervisor and makes decisions on his own from his own free will in accordance with valid legal regulation.

Planning is the ultimate goal that precedes execution of all other managerial functions in a business unit due to the essence of business planning. Planning covers a variety of actions that are crucial for business development especially setting up the goals that business wants to reach while taking into account the scarcity of resources used within the production process. In addition to resource allocation, planning process includes potential ways how to use these limited resources in order to produce output (Veber, 2009). Planning has a great impact on business efficiency. Well-built business plan decreases the risk for business and has impact on future business development (Kadlecikova, 2015).

Žurková (2007) claims that business planning can be defined in a number of ways, however, the essence and principles of the business planning always stay the same:

- planning is one of the most important functions of business management,

- planning should be able to identify potential situations in future and ways how those potential events might influence the business and how the business should react to them,
- planning can be considered as projection of future consequences derived from present decisions.

Pošvár et al. (2008) argues that planning is responsible for following:

- planning defines the directions the company is headed,
- it coordinates the actions of employees and inside-business units to achieve the goals set out,
- planning reduces the share of excessive activities and losses while achieving the goals,
- planning is responsible to come up with certain norms of efficiency to analyse whether the company`s activities are in compliance with plan set out to achieve goals,
- with planning, managers are focused on the planning process and being in charge of the business,
- lastly, the planning expands the managerial skills to forecast potential future events and actions that might impact on the business.

The aspect of forecasting the future events is also present in definition by Slack et al. (2010). By this definition, planning process represent the ultimate overview of what should/could happen in the future. Slack et al. (2010) argues that even though a business unit shall come up with a certain business or strategic plan which is based on suggested expectations, the overall outcome of the plan might change due to unexpected and most of the time sudden changes, such as change of customers` preferences or error in distribution channels, etc. (Slack et al., 2010).

3.1.1 Slovak legal definition of entrepreneurship

Slovak Commercial code defines entrepreneurship as a continuous activity carried out solely by an entrepreneur in his own name, on his own responsibility with the main goal to achieve profit. According to Zákon č. 513/1991, an entrepreneur is a person fulfilling one of the following criteria:

- a person registered in Commercial register,
- a person with valid trade license or other type of trade license according to valid legal regulations,

- a natural person whose business is focused on agricultural production and is registered in a particular register according to valid Slovak legal regulations (Zákon č. 513/1991).

With regards to Slovak commercial code Zákon č. 513/1991, a business enterprise consists of material, personal and non-material assets. Business enterprise includes all material things, rights and other ownership values that are owned by the entrepreneur and are used to provision of entrepreneurship activity (Zákon č. 513/1991).

Zákon č. 455/1991 is a valid Slovak law defining solely entrepreneurship activity for and is a base for establishment, provision and termination of entrepreneurship in Slovakia. According to this legal regulation, entrepreneurship means provision of activities that are defined by this law. Entrepreneurship can be granted by the law to natural and legal persons who fulfil all legal requirements stated in Zákon č. 455/1991. Entrepreneurial activity can be provided by any natural or legal person with (or without) permanent residency in Slovakia (in case of foreign person and entity, legal regulations apply in the same range for natural and legal persons without permanent residency outside of Slovakia like in case of natural and legal persons with permanent Slovak residency) (Zákon č. 455/1991).

Zákon č. 455/1991 states three general conditions for entrepreneurship:

1. minimal age of 18,
2. legal capacity,
3. integrity (natural or legal person has integrity if he/she has not been convicted for any business crime, crime against property rights, or any other crime that merits is any business activity).

Natural or legal person who fulfils all legal requirements is considered to be an entrepreneur and is given so-called trade license (a legal permission to provide entrepreneurial activity) that contains following data about the business:

Table 1: Trade license information

Natural person	Legal person
Personal data of entrepreneur	---
Business name	Business name and legal form
ID number (provided by Statistical office of Slovak republic)	ID number (provided by Statistical office of Slovak republic)
Subject of entrepreneurship activity	Subject of entrepreneurship activity
Address for provision of entrepreneurship activity	Business address
Period, during which the trade license is valid (if established for finite period of time)	Period, during which the trade license is valid (if established for finite period of time)
Validation date (since this date, the entrepreneur can provide his activities)	Validation date (since this date, the entrepreneur can provide his activities)
Trade license release date	Trade license release date

Source: Zákon č. 455/1991

Slovak legal environment recognizes three main types of entrepreneurship according to necessity of qualification recognition for entrepreneurship provision: craft, bound and free entrepreneurship. Entrepreneurs who decide to establish a craft entrepreneurship or bound entrepreneurship are obliged by the law to identify themselves with respective qualification certifications recognizing their skills, knowledge and qualifications necessary for provision of craft and bound entrepreneurship. In case of free entrepreneurship, Slovak legal regulation does not require proof of qualification necessary for provision of free entrepreneurship. Zákon č. 455/1991 precisely defines all activities according to which entrepreneurship is either craft or bound. With regards to free entrepreneurship, list of activities that are considered to be free entrepreneurship is regularly updated on website of Slovak Ministry of Interior. (Zákon č. 455/1991). Following Table 2 contains examples for individual types of entrepreneurship:

Table 2: Examples for respective entrepreneurship types

Craft entrepreneurship	Bound entrepreneurship	Free entrepreneurship
<ul style="list-style-type: none"> • manufacture of metals and metal products, • manufacture of motor and other vehicles, • manufacture of healthcare products (including precise and optic products and watches), • construction production, • others ... 	<ul style="list-style-type: none"> • manufacture of metals and metal products, • general and specific manufacture of machinery, • manufacture of healthcare products (including precise and optic products and watches), • construction production, others ... 	<ul style="list-style-type: none"> • agriculture, forestry and fishery, • mining, • industrial production, • wholesale and retail, car and motor vehicles services • others ...

Source: Zákon č. 455/1991

In addition, Slovak legal environment also classifies entrepreneurship according to the subject of entrepreneurship on trade, production and service entrepreneurship. Trade entrepreneurship represents purchase of goods that are sold to final consumers (retail) or to other business entities (wholesale), as well as catering. Production entrepreneurs are activities linked to production of goods. Lastly, service entrepreneurship represents provision of repair and maintenance services, transport of people and goods, other services aimed to satisfying human needs (Zákon č. 455/1991).

Legal forms of entrepreneurship

Like we mention in previous chapter, there are two main types of entrepreneurship: natural and legal person. Both of these two types of entrepreneurship are represented by individual legal forms:

Table 3: Legal forms of entrepreneurship

Natural person	Slovak legal term	Legal person	Slovak legal term
Self-employed person and its individual types	Samostatne zárobkovo činná osoba (SZČO)	Business companies: <ul style="list-style-type: none"> • limited liability company, • incorporated company, • limited partnership, • public company. 	Obchodné spoločnosti: <ul style="list-style-type: none"> • spoločnosť s ručením obmedzeným (s.r.o./ spol. s r.o.), • akciová spoločnosť (a.s.), • komanditná spoločnosť, • verejná obchodná spoločnosť (v.o.s.).
		Co-operatives	Družstvá
		Multinational company	Nadnárodná spoločnosť
		Other forms	

Source: own processing

Zákon č. 580/2004 defines self-employed person as a natural person, older than 18 years, that is allowed to provide profit-earning activities that are defined by this Act (Zákon č. 580/2004).

For the purposes of our thesis, we need to define a special type of self-employed person: self-employed farmer.

Self-employed farmer is a natural person that provides agricultural production that includes following activities:

- production of agricultural products in order to obtain a permanent source of income, in particular by selling them,
- carrying out the treatment or processing of agricultural production,
- provision of occasional work or performances in connection with agricultural production using agricultural production facilities and equipment, especially at a time

when mentioned resources are not being fully utilized for this production (Zákon č. 219/1991).

Self-employed farmers provide their agricultural production in their own names, for their own purposes and on their own responsibility (Zákon č. 219/1991).

3.2 Business plan

In the beginning, it is important to distinguish between business plan and business idea. Business idea represents a certain vision and idea about the business intentions. However, the tool for business management is not the business idea itself, but it is the business plan. Business plan is a concrete plan that is elaborated for the whole business unit. In general, the plan contains all the activities of business unit that shall be carried out in a set period of time. Usually, the business plan is set for 1-2-year period of time that is followed by attached analytical prognosis for 2-4 years afterwards. Business plan should answer three following questions:

1. Where am I as a business unit?
2. Where am I headed as a business unit?
3. Where will I get to as a business unit? (Lančarič, 2014).

Hisrich and Peters (1996) consider a business plan to be a written document that is elaborated by an entrepreneur, unfolding all of the key internal and external factors with regards to establishment and management of business. Business plan is a written concept of the business itself that encompasses of business objectives and strategies, market definition, market target groups and potential competition, planned future turnover as well as overall economic result and financing (Hisrich and Peters, 1996).

Business plan can be considered as a document that represents the base for the business unit management. The main inputs of business plan are technical and economic surveys and researches as well as investment and financial plan of a business unit. The business unit should contain the business unit characteristics, goals of the business, organizational control, management team, technical and economic surveys, etc. (Fotr, 1999).

Main purpose of business plan represents intra-business use for planning, decision-making, control, etc. The business plans are usually elaborated within establishment of new businesses or when a business unit is expected to undergo certain transformation process that might have a long-term impact on business unit management, such as great investment plans, mergers with other business units or division of business unit into smaller branches (Veber and Srpova, 2008).

3.2.1 Business plan structure

Upon further checking in many literature sources, in general, there is no certain structure of the business plan that should be followed precisely. The business plan itself is largely dependent on what type of business an entrepreneur is about to establish, therefore each business plan is individual and unique for respective business and contains different areas.

Since the goal of our business plan is to establish a family farm in southern part of Slovakia, we came up with the following structure:

1. Title page

The title page of business plan should contain basic information about our business. It should have formal design and structure since the plan represents the business as a whole. The title page shall include name of the document, business name and business address of the business unit (potentially a logo representing the business) in header part, name of chief executive officer (entrepreneur), contact details for the chief executive officer (telephone number, email address), name of the contact person and his/her contact details, business webpage (if applicable), name and place of business plan provision and possibly following information: “This business plan contains private business information that shall not be distributed or posted without the business` permission.”.

2. Executive summary

Summary part of business plan serves as source for basic information about our business plan. The summary should not be too long hence the main purpose of this part of the plan is to catch attention of the reader and to introduce him/her our business idea. Firstly, we need to introduce our main intentions of our business plan (why the business is being established and what are our future goals) and what products or services we intent to provide. Secondly, it is important to explain main reasons for elaboration of the business plan – it might be several reasons, such as looking for investors, necessity to provide business plan for taking a loan from a bank or applying our business for some grants. Next, we need to introduce key personas in our business and describe their business obligations. Lastly, summary should contain the calculation of initial input costs as well as potential output profit. At the end, summary should contain an overview for key factors for potential success.

3. Business subject description, product and service description

This part of our business plan is focused on the general output of the business and what is the subject of our business:

- the position of business in comparison to the competition: what makes our business unique and special to persuade potential customer to purchase our products and services
- main output of business: detailed characteristics of our products and services
- description of important functional characteristics and differentiations of our business in comparison to products and services of our competition

4. Economic sector analysis

The important part of elaboration of each business plan is to analyse the sector of the economy in which our business unit is established. In general, there are two main aspects to sector analysis: external and internal analysis.

External analysis

External analysis serves to examine factors from outer environment. It is important for each business to acknowledge and evaluate these factors and their influence on the business itself. External sectoral analysis consists of two main parts: macro and micro environment analysis.

Within the process of business plan elaboration, it is important to analyse the external environment in which the business will operate. Firstly, it is vital to consider political and legal factors of our environment. Political factors represent the attitudes of national government in support of individual types of business. Legal factors embody of state authorities and government, protection organizations (Greenpeace) and others. State authorities and government issue governmental decisions, regulations and empower state regulation authorities to control and overview the market and industry conditions on the side of producers and consumers. The national legislature is responsible for setting up the standard and norms of agricultural and food products in order to be offered for sale to consumers. Since Slovakia is one of the Member States of the EU, the national legislature must follow the EU legislature in terms of quality, standards and norms for agricultural and food products.

Secondly, economic factors are also part of external macro analysis. The economic factors influence the consumers` buying power and structure of the consumers` expenses.

Economic factors include consumers` income, prices of offered products, amount of savings and loans. Based on the mentioned factors, an entrepreneur can offer high-quality products for higher price, average-quality products for average price or low-quality products for low price.

Within the process of external market analysis, it is important to consider cultural and social factors of external environment as well. Family, religion, education, cultural values, social norms, attitude towards self and others, attitude towards society and nature-all have impact on consumer behaviour. A lot of buyers` decisions are influenced by family habits and traditions as well as by one`s religion. We also need to define the demographic factors of our external environment. It is essential to analyse demographic data, such as number of inhabitants, population density, age, sex, race, employment and other. Mentioned factors have impact on amount, structure and quality of our products and services and those factors also influence new trends in the industry-agriculture and food sector.

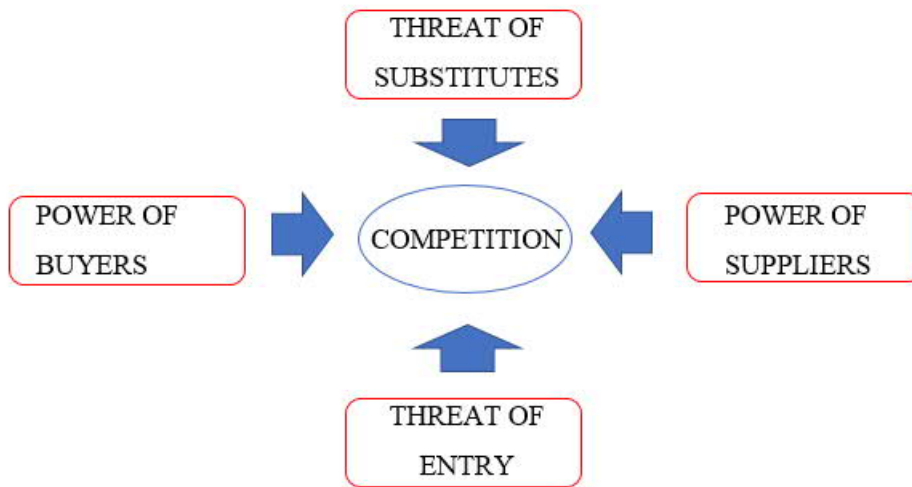
Next, we need to consider technological factors of our external environment. Technological factors represent knowledge, skill and qualification of people but also level of technological and scientific development of given country. It is necessary for agricultural businesses to always implement new agricultural and food-production processes, to develop new and innovative types of goods that reflect the current global food trends in order for agricultural business to be successful.

Environmental factors also play very important role in external marker analysis. These factors are especially geographical factors of production (natural resources) and climate conditions. Their influence is very important, especially in agricultural production: each agriculturally important geographic area enables the producers to use unique natural, soil and climate conditions to agricultural goods production with special quality (e.g. Tokaj wine from Tokaj geographic area).

Micro environment of business can be influenced by the business itself. Porter`s model of five forces represents the crucial aspect of external micro analysis for our business plan.

Porter`s model of five forces define the industry based on the competition forces that include economic and technological factors. The level of competition within the industry depends on those five forces and the result of the five forces` influence is the profit potential of industry. Porter`s five forces are competition in the industry, threat of new entry and of substitution and power of suppliers and buyer.

Illustration 1: Porter`s five forces



Source: own processing

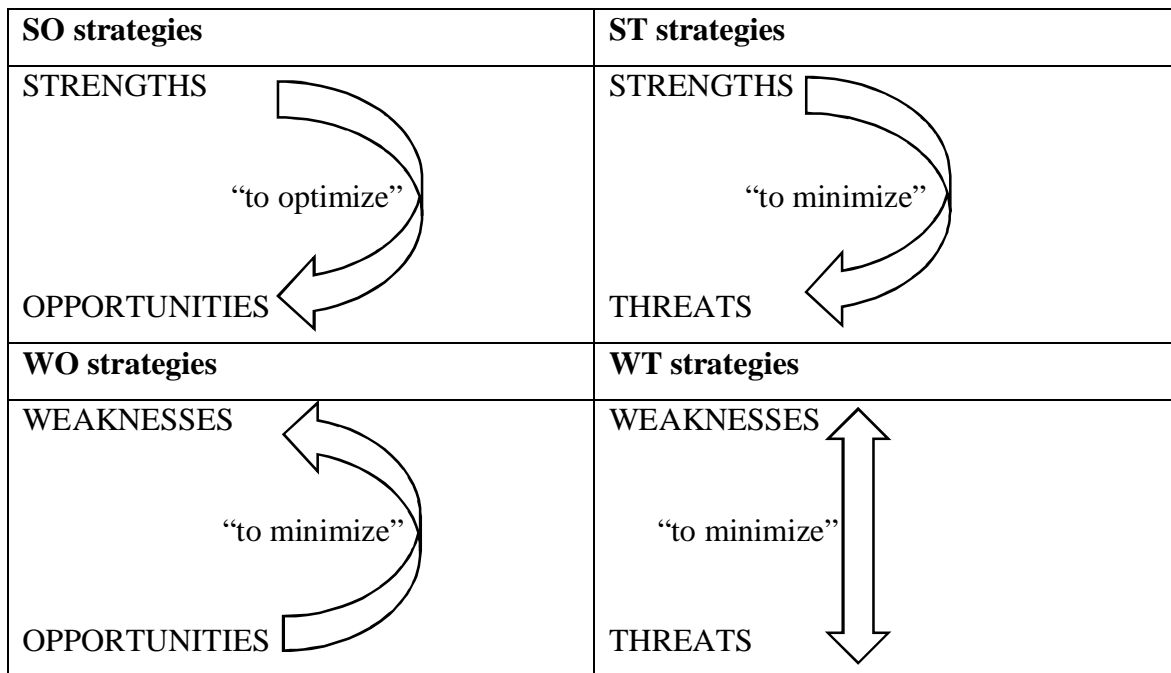
Internal analysis

SWOT analysis define strengths, weaknesses, opportunities and threats of our business. Based on the SWOT analysis, we can evaluate a lot of factors and information from internal and external environment. The elaboration of SWOT analysis shall define the path by which the business should be heading.

Strengths and weaknesses represent the internal factor inside the business that have influence on success of business. Opportunities and threats are, on the other hands, factors of external environment that have impact on business run.

SO strategies intend to use our internal strengths to make use of external opportunities. In ST strategies, we use our internal strengths to avoid external threats. On the other hand, we have WO strategies, in which we use external opportunities to minimize our internal weaknesses. Lastly, we have WT strategies, in which we minimize the potential danger from inside weaknesses and outside strengths.

Illustration 2: Intra-relations among individual SWOT factors



Source: own processing

5. Marketing mix

Marketing mix is an effective marketing strategy that analyzes the business based on four main elements:

- product: a good or a service that is used to satisfy customers' wants and needs and earn profit for the business,
- price: the price for which the products are sold, it also represents the customers' willingness to pay for the product,
- placement: where and how the products or service is sold and offered to the customers,
- promotion: how the business gets the customers aware of its products and how it gets them to buy the product.

6. Financial analysis

3.3 Family business and family farm

Even though the business plan introduced in this diploma thesis is a business plan of self-employed farmer, sole entrepreneur, the business itself will be based on basis on family farm concept-members of one family altogether contributing with their own individual business activities to reach the main goal of business-profit. As it is mentioned in previous chapters, Slovak legal system does not define terms such as family business or family farm, however, it is important to mention and investigate further what is family farm and what are its main attributes, characteristics, goals as well as overall contribution to one`s economy and society. Therefore, this subchapter of our thesis deals with definition, description, tasks and purpose of agricultural business unit called family farm.

A business entity in which a family is part of a business ownership aspect as well as managerial aspect can be defined as a family business. Family businesses are business entities in which two or more members of the family have interest in the business ownership and they share a common goal: inheritance of the business from generation to generation (The Family Firm Institute, Inc., 2013).

It is hard to create a single definition of term family farm that would be used worldwide as the ultimate definition, since the definitions themselves vary from country to country and are also dependent on the context, author and political motivation. However, it is very important to distinguish between the definitions and characteristics of family farming and small-scale farming models (Garner and De la O Campos, 2014).

Garner and De la O Campos (2014) state that there are certain aspects in terms of definition and characteristics of family farms all over the world, such as labour, management, size of the farm as well as generational aspects of family farms, etc. (Garner and De la O Campos, 2014).

Labour is the most important aspect of family farming and it is being carried out at the farm solely by the members of the family that owns the farm, but in some cases, there are also additional workers present at the farm, which are not members or relatives of the family. Garner and De la O Campos (2014) argue that once the farm no longer needs family labour for carrying out the farm work, it is no longer considered as a family farm, but more as a family business. In addition, family labour can be also defined as a positive aspect in family farming models. It is often considered as a crucial resource for functioning of the family farm. However, there are also opinions contradictory to information stated previously. Some

of the definitions of family farming consider family labour as a negative aspect, since, according to those definitions, the farmer is not able to hire employees and to pay them for the work (Garner and De la O Campos, 2014).

Size of the farm also plays important role in the process of definition of what family farming is. However, it is very hard to define family farm according to this criterion, since the size of family farms varies all over the world. In addition, some of the definitions state that size of the farm is defined by the size of landholdings, others argue that it is the market position and share on the market of individual farms. Many sources state that family farm is the one with the less than two hectares of cropland, but on the other hand, some definitions state that family farm can cultivate up to ten hectares or more. Garner and De la O Campos (2014) explain how the size of the farm varies in different parts of the world: “while a limit of 2 hectares perhaps fits the distribution of landholdings in Asia, it certainly did not in the Latin American context”. Therefore creating a definition based on the criterion of the size may distort the understanding of family farm and furthermore it can misguide the process of designing strategies and policies. In order to prevent such actions, some of the sources simplify the definition and state that “size of the farm is not as relevant as labour capacity” (Garner and De la O Campos, 2014).

Garner and De la O Campos (2014) propose another important aspect of family farm in terms of definition – generational component. According to this, family farm consists of more than one generation involved in farming activities. This feature is one the main aspects that differentiate family farms from other farming forms. In addition, generational component also creates long-term impacts of the farming operations, which means that success of family not only influence current members of the farm, but also it has also impact on “the sustainability of family farming as a livelihood for the future generation” (Garner and De la O Campos, 2014).

Davidova and Thomson (2014) define family farm from several viewpoints: share of family labor, ownership and control, and legal status (e.g. who bears the business risk). From the viewpoint of family labor, family farm is “an agricultural holding which is managed and operated by a household and where farm labor is largely supplied by that household”. This definition simply explains two main aspects of each family farming system. First of all, it is the use of labour provided by family members and secondly, this definition connects farming in general with a household (Davidova and Thomson, 2014). Second viewpoint on the definition of family farm is focused on ownership and control. The ownership itself is

connected to the management of the farm by certain principles, which are following: “the farmer alone, the farmer and spouse, the parents and children, brothers and sisters, e.g. related by kinship or marriage” (Davidova and Thomson, 2014). In addition to the ownership aspect of family farm, the household usually lives in the same location as the farm’s location, or in neighbouring villages, which creates another important feature of family farm - farmers contribute to increase population in rural areas by establishing and providing business in such locations (Davidova and Thomson, 2014).

Another aspect of family farm is legal status of the agricultural model. People from Europe consider family farm as a family business. This statement was also supported by the European Commission: “Family farming is more than business but still a business” (Davidova and Thomson, 2014). This characteristic of family farming explains, that it is the family who bears the business risk (Davidova and Thomson, 2014). Family farming model can take on three main types of legal form: sole holder, group holding or partnership, and legal entity. Usually, the farmer is a sole holder that is registered for statistical and policy purposes. However, it is important to mention that even though the farm is a sole holder, it is not a legal business entity, which, according to Davidova and Thomson (2014), “clearly differentiates family farms from other types of farm organizations” (Davidova and Thomson, 2014).

According to Petrini and Scaffidi (2014), family farming is “a complex food system, based on relationship.” Petrini and Scaffidi (2014) characterize a family farm as an object, whose core is relationships, adaptability as well as co-existence. Relationships are represented by humans, as members of the family farm, who co-exist with other living organisms, such as animals, plants, vegetables, and even microorganisms and each of the living organism is trying to adapt, in order to survive in a specific time and space, in the environment (Petrini and Scaffidi, 2014).

Production of traditional family farms is not specified but diversified. This diversity includes crops and livestock, on which the farmers focus the most, as well as sale activities. According to Petrini and Scaffidi (2014) the family farm production also involves “the protection and maintenance of the landscape, and the defence of wild and domestic plant and animal biodiversity” (Petrini and Scaffidi, 2014).

The main objective of family farming model is to make sure that the farmer and his family have harvest every year, no matter how the climate and conditions have influenced the production throughout the year. Furthermore, farmers all around the world cultivate

several varieties of species, and by doing so, the farmers are trying to produce enough food for their families, even though the climate conditions may have a negative impact on their production. Petrini and Scaffidi (2014) state a very good example as an addition to information previously mentioned: “if a species is damaged by rain, a harvest is still produced thanks to crops needing a lot of water; if a variety is destroyed by a parasite, others will show they are resistant; even when the variety is affected by some natural event, it does not completely die but it is always possible to save a few individual plants” (Petrini and Scaffidi, 2014).

Another aspect of importance of family farming is its better adaptability to recent climate changes, which might cause less water, hotter growing conditions or other extreme weather conditions. Eyzaguirre and Tutwiler (2014) claim that “family farms identify new varieties, neglected species and cultivars, and domesticate new species to cope with climate change and create new opportunities” (Eyzaguirre and Tutwiler, 2014).

One of many objectives of family farming models is providing food for family and animals, not only for sale at farmers’ market. Also, farmers can attract visitors to come and see their farms. Farmers can offer their visitors local products as well as to teach them something about their culture and traditions of specific geographical areas (Petrini and Scaffidi, 2014).

Family farms are, nowadays, recognized as agricultural units that contribute to global food and nutrition security and protect the environment and biodiversity. According to data provided by FAO, family farming represents up to 98 % of global farming and uses up to 53 % of world’s agricultural land. Family farming models play an important role in a fight against hunger, malnutrition as well as in the degradation of global natural resources (Eyzaguirre and Tutwiler, 2014).

Agricultural holdings whose labour is mostly provided by family members are the most important food supplier globally, providing up to 70 % of world food production. Throughout their production processes farmers use techniques, which are friendly to the environment to keep the land, e.g. in rural areas, alive and without any negative impacts on natural resources (Constantin, 2014). Most of the basic food products in the world, such as cereals, tubers and plantains are produced by small-scale family farming models that are also responsible for production of other types of vegetable crops, such as cotton, coffee and cocoa. However, it is necessary to mention that certain number of tropical commodities, such as palm oil, bananas and sugar cane are produced throughout the cooperation of small-scale farmers with large agricultural enterprises (Bélières et al., 2015).

Food safety or food security has been one of the major global challenges world and humanity face nowadays. The term food security was defined in 1996 at the World Food Summit, explaining that: “Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life” (Bélières et al., 2015). Countries and states all over the world have the highest responsibility to access food for all their citizens, according precisely defined food system that is demanded by the citizens of individual states (Bélières et al., 2015). It is clear to say, that family farms are one of the major players in food safety at the global level. Bélières et al. (2015) assumes that the reason small-scale farmers contribute so much to food safety and food quality is the primary objectives of all farmers – to feed their families first. Furthermore, global organizations dealing with issues such as food safety and food quality, e.g. FAO, suggest that mobilizing small-scale farmers, including family farms, is an efficient way to reduce hunger and poverty (Bélières et al., 2015).

One of the most important aspects of family farming is that it produces food with better nutrition quality. In addition, food produced by small-scale farmers is fresher compared to the food in industrial chains. Family-farming style of production needs less time for transport, since products are usually transported for short distances. Such products are more demanded at local markets, which gives a farmer an entrepreneurial opportunity to increase market value (Eyzaguirre and Tutwiler, 2014; Constantin, 2014).

According to Eyzaguirre and Tutwiler (2014), family farming households have better performance in managerial skills than other farm enterprises. Usually, decision making process is made by the couple or adults, who are in charge of the family farm. Altogether with knowledge of natural resources of areas family farms are operating on, family farming “creates unique opportunities to promote efficient use of natural resources and sustainable use of biodiversity for healthier, more diverse and sustainable diets” (Eyzaguirre and Tutwiler, 2014). Work of all members of family farms is strongly connected to land, creating long-term relationship: humans and natural resource – land. Such relation can create knowledge about the use of agrochemicals and pesticides, in addition to knowledge about efficient use of resources and their sustainability. Farm households have also large knowledge about all parts of production cycle, from planting and processing to consumption and marketing (Eyzaguirre and Tutwiler, 2014).

From the economic point of view, small-scale agricultural units, like family farms, play a very important role in influencing the employment rate. Such units, if supported enough, can produce more, and with higher revenues, they will be able and willing to employ more workers, therefore reduce the unemployment rate. Products of family farms can be sold to various public institutions and administration, such as hotels, restaurants, and by doing so, these small-scale farms can influence the development of economy of local regions in a positive manner (Constantin, 2014). In addition to the economic importance of family farms, Béliers et al. (2015) states that family farming models are the main contributors to the income of the population, since they are important part of the structure of world actions (Costantin, 2014; Bélières et al., 2015).

3.4 Agriculture in the European Union

In this subchapter, we aim our attention to define and characterize agriculture in the European Union in general with defining its core-The Common Agricultural Policy.

There are more than 500 million consumers in contemporary EU. These consumers are in a need of access to safe and stable supply of food products that are of high-quality and nutritious, while farmers must face various number of challenges, such as unclear and undetermined economic development, worldwide competition, change in climate and weather conditions or changeable costs of inputs. In order to deal with such challenges, EU with cooperation with European farmers created CAP, with main goal – “to set the conditions that will allow farmers to fulfil their multiple functions in society — the first of which is to produce food” (European Commission, 2017).

According to information stated in Treaty Establishing a Constitution for Europe, CAP is a main tool for providing operations and for development of the market with agricultural goods and services. Within this Treaty, the objectives of CAP are stated. First, the main objective is to keep the productivity of agriculture high, by ensuring that agricultural holdings are highly technically developed. Next objective is to make sure that all people working in agriculture have a decent standard of living thus it is necessary to increase the income of everyone working in agricultural sector. Other objectives of the CAP are following: “to stabilize markets, to assure the availability of supplies, to ensure that supplies reach consumers at reasonable prices” (European Communities, 2005).

Cantore et al. (2011) defines CAP as a policy created by EU to protect the agriculture and people involved in agriculture in EU. To protect the agriculture, CAP works through number of instruments to influence prices, output and farmer incomes. These instruments also include number of subsidies and supporting schemes to protect the rural and agricultural community. Cantore et al. (2011) states that the CAP “accounts for roughly 40 % of total EU budgetary expenditure”. In general, the CAP is based on two-pillar system and each of the two pillars serves to fund specific policies in different ways (Cantore et al., 2011).

Common Agricultural Policy 2014-2020

CAP for 2014-2020 contains new features and changes on the policy itself. First, the core of the CAP is a joint provision of public and private goods which means that instruments of the new policy are intended to provision of environmental public goods. Another change

that comes within the reform of the CAP is connected to two-pillar structure. In order to meet the three main objectives of the CAP effectively, the structure of the CAP is more efficient, targeted and coherent which means that instruments of the first pillar are complemented with instruments of the second pillar more effectively. In addition to the instruments of the first pillar, according to reformed CAP policies, Member States now have new flexibility in relation to budgeting and implementation of these instruments. However, it is necessary to mention, that all this flexibility will be craved based on regulatory and budgetary limits of the EU, in order to meet the common objectives of the CAP (European Commission, 2013).

For period 2014-2020, EU has signed to continue supporting agricultural, rural, territorial and environmental development. In other words, EU will continue to support farmers through direct payments to ensure supply of high-quality products for all their citizens. Under this new reformed policy, Member States have possibility to offer simplified schemes for small or middle-sized farms, according to which these agricultural units will have less administrative formalities to deal with and will be excluded from certain environmental obligations. With new reformed CAP for 2014-2020, small-scale agricultural units have opportunity to receive regional or national rural development programming schemes from EAFRD. Plewa (2014) states that these schemes include support in field of “training and advice, economic improvements (such as physical investments, business development), cooperation to overcome small-scale disadvantages” (Plewa, 2014).

Common Agricultural Policy after 2020

Current CAP that is in force until the end of 2020 needs to be modernized and reformed in order for the EU and its Member States to face new global challenges such as climate change and other environmental issues related to agriculture. European Commission (2018) in its proposal that defines main aspects of the CAP 2021-2027 states that this new reform needs to bring CAP close to higher level modernization to cope with current global challenges. New CAP must be simplified so that complicated and time-consuming administrative processes can be abolished, and higher level of efficiency must be achieved. Lastly, new CAP must be in greater compliance with other EU core policies in order for the CAP to maximize its contribution to ten priorities of sustainable development set out by the Commission. The transition to fully sustainable agricultural development and dynamic development of rural areas must be supported by modernized CAP while ensuring safe and

high-quality food supply to more than 500 million of EU citizens. Within its proposal for new reform of CAP after 2020, the Commission set out more ambitious goals, especially in area of environment and climate, better support and higher level of interconnection among research, innovation and advisory services (European Commission, 2018).

4 Practical Part

In this part of our thesis we aim our attention to elaborate a business plan for self-employed farmer that plans to establish a dairy production out of goat milk with support from the EU funds for young farmer. Even though the business plan is elaborated for a self-employed farmer as an individual, the business itself can be considered as a family farm, based on theoretical knowledge – from the legal point of view, the business will be operated and managed by the sole entrepreneur, but in reality, the production will be supervised by the members of one family. This comes from the fact that Slovak legislature does not recognize the term “family business” or “family farm”.

4.1 Chosen means of financial support for young farmers in Slovakia

4.1.1 Start-up aid for young farmers

For the purposes of the business plan introduced in this thesis, it is important to also examine possible means of financial support the starting farmer can apply for in order to receive financial capital for business establishment.

Start-up aid for young farmers represent one of the programs defined in Slovak Rural Development Program for period of 2014-2020 to help young people, who would like to engage in agricultural production, to boost their business plan in a form of non-repayable financial contribution from the EU funds, partially also financed by the Slovak Republic. In this program, young farmer is defined as a natural or legal person (micro or small business in accordance with Recommendation of the Commission 2003/361/ES) that carries out agricultural production as a continuous and independent activity in his own name, on his own responsibility with main intention of profit that represents his own main source of income. The applicant shall not be older than 40 years and shall have adequate professional skills and abilities and such applicant establishes an agricultural business for the first time on a position of its highest representative (Agricultural Paying Agency, 2018).

First business establishment can be understood as an ongoing process, within which one of the following conditions are met before submission of the application for non-repayable financial contribution in a form of start-up aid for young farmers to the responsible overseeing authority:

- registration of agricultural business unit earliest on the day of the call for proposals of business plans altogether the application for non-repayable financial contribution by the applicant, who has not been a representative of any agricultural business in the past,
- completion of accredited agricultural business training course in the field of specialized crop and livestock production no later than 24 months after signing the Contract granting the non-repayable financial contribution, or completing at least secondary education in a field of agriculture, veterinary or food production,
- receiving direct payments (Agricultural Paying Agency, 2018).

The amount of start-up aid is up to 50 000 EUR per one young farmer. The young farmer is obliged to reach the minimum value of standard output of given commodity. Minimum values for individual commodities are defined by Agricultural Paying Agency in its Call for application for non-repayable financial contribution from Rural Development Program of Slovak Republic 2014-2020 (Pôdohospodárska platobná agentúra, 2015).

For intended business plan introduced in this thesis, it is necessary to mention minimal value of standard output that represents business potential of business plan real-life application after non-repayable financial contribution, which is following:

Table 4: Minimal values of standard output

Valid commodity	Measurement unit	Value of standard output per measurement unit	Minimal value of standard output for given commodity
Goats		EUR	EUR
<i>breeding females</i>	piece	207.00	8,000.00
<i>others</i>	piece	181.00	8,000.00

Source: Pôdohospodárska platobná agentúra (2015)

The non-repayable financial contribution is not however paid off to the successful candidate in 100% amount, but 70% of the contribution is paid after signing the Contract and 30% is paid after correct business plan realization (Pôdohospodárska platobná agentúra, 2015).

4.1.2 Chosen bank loans

The self-employed farmer can also apply for a bank loan in order to boost his business plan and get initial financial capital. For the purposes of the thesis we choose “Slovenská záručná a rozvojová banka (SZRB)” bank that is the only bank owned by the Slovak Republic, namely by Ministry of Finance of Slovak Republic. The bank supports business in Slovakia in accordance with the state’s economic policy. SZRB focuses on the development of small- and medium-sized enterprises, agricultural entities, but also on the financing for towns and villages (Slovenská záručná a rozvojová banka, 2019).

We choose two loan programs introduced by SZRB that can be used to finance the initial costs for start-up young farmer:

- “My Land-for young farmers” loan,
- “Young entrepreneurs” loan.

“My land-for young farmers” loan serves as support for agricultural production of small- and medium-sized farmers and also to help the young farmers in land purchase that is essential for agricultural production. It is intended for new business enterprises that fulfil criteria of young farmer (in accordance with criteria described in Project Sub-measure 6.1.). The applicant for the loan needs to start the realization of his business plan in 9 months since signing the Contract of non-repayable financial contribution of Project Sub-measure 6.1. The farmer who would like to apply for the loan “My land-for young farmers” has to be successful candidate for Start-up aid for young farmers introduced in Slovak Rural Development Program and needs to own or rent agricultural land. The minimal amount for the loan is 5.000,00 EUR and maximum is 30.000,00 EUR, in accordance with condition that the applicant will contribute with minimum of 10% from his own resources (Slovenská záručná a rozvojová banka, 2016).

Purpose of the loan:

- financing the purchase of agricultural land, such as arable land, hop gardens, vineyards, orchards, gardens and permanent grasslands, etc.,
- financing of purchase and built-up land under buildings (Slovenská záručná a rozvojová banka, 2016).

Secondly, there is another loan product offered by SZRB that is mainly intended for young entrepreneurs, which is called “Young entrepreneurs” loan. The loan focuses on support of the development of small business enterprises and entrepreneurial activities of

start-up entrepreneurs and simplification of the access to financial resources within the start of their business. The criteria for the mentioned loan are following:

- in case of the sole entrepreneur, the entrepreneur cannot be older than 30 years,
- in case of limited liability company, at least 50% of shareholders needs to be younger than 30 years,
- annual financial result cannot exceed 5 mil. EUR,
- economic independence (Slovenská záručná a rozvojová banka, 2015).

Minimal amount of financial contribution that can be provided through this loan is 5.000,00 EUR and maximum is 50.000,00 EUR (Slovenská záručná a rozvojová banka, 2015).

4.2 Business plan

4.2.1 Title page

Business name: CapraHircus
Business subject: production of dairy products of goat milk
Owner: Tomáš Ivanič
Business address: Točnica 105, 985 22 Cinobaňa, Slovakia
Contact: tel. 00 420 777 111 222
FB: Capra Hircus

Legal personality: self-employed farmer

This business plan contains private business information that shall not be distributed or posted without the business` permission.

4.2.2 Executive summary

CapraHircus is newly established agricultural business whose main purpose and intention is to start production of dairy products of goat milk in southern region of Slovakia: Banská Bystrica region – Lučenec district. CapraHircus will be established with support of Project Sub-measure 6.1.: Start-up aid for young farmers, of Agricultural Paying Agency of Slovak Republic and Ministry of Agriculture and Rural Development of Slovak Republic, representing the responsible authorities for EU funds management and allocation.

The main purpose of business plan elaboration is to comply with main requirements for Project Sub-measure 6.1.: Start-up aid for young farmers, as the main supporting document in order for a young farmer to receive non-repayable financial contribution.

The elaboration for the business plan also aims to indicate and describe to the entrepreneur and to the responsible governmental authorities whether the project itself is meaningful and whether there is a potential for future success. Lastly, the business plan is trying to indicate the likelihood of the business market success.

There are certain main goals of the business set-up: short-term and long-term goals. Short-term goals include the initial introduction of the business to the customer of the area where the business will be established. The business will try to reach the attention of potential customers and to introduce them to the business and its main purpose and products.

Long-term goals represent maintaining the profit from dairy production from goat milk and possible innovation of production processes, including innovation of product range: the business will try to come up with new types of dairy products that currently represent market niche.

The entrepreneur will conduct his business with legal form of natural person called “self-employed farmer”.

4.2.3 Business subject description, product or service description

The business introduced within this business plan is unique in a way that it is the only one in focused on producing the goat dairy products in the Lučenec district of Banská Bystrica region. Of course, there is a high number of self-employed farmers, but none of the is focused on goat milk and cheese production.

The business plans to produce fresh goat milk and fresh and smoked goat cheese in the first 5 years of the business. After the farmer will gain more on the profits after the initial years, the entrepreneur plans to extend the production line of goat yoghurts and butter.

4.2.4 Economic sector analysis

4.2.4.1 PESTLE

Political factors

In terms of political and legal aspects, first of all it is necessary to consider the legal requirements for business establishment. The entrepreneur is a self-employed farmer that needs to operate and conduct his business in accordance with valid Slovak laws, namely Zákon č. 455/1991 which is act defining entrepreneurship as a whole. In addition to this act, the entrepreneur needs to acquire legal permit to conduct his entrepreneurship. Based on the information of Ministry of Interior of Slovak Republic, the entrepreneur has to fulfil following basic requirements:

- minimal age of 18,
- legal capacity,
- integrity.

According to Zákon č. 455/1991, dairy production is categorized as craft entrepreneurship, therefore the entrepreneur needs to fulfil additional special requirements that in this case is the demonstration of professional competence in the field of intended

entrepreneurship. The demonstration of professional competence is a certificate of education or other evidence of formal completion of the relevant study.

The demonstration of professional competence may be replaced:

- with certificate of attendance or other evidence of formal completion of a related study department, and evidence of the pursuit of at least one-year practice or a two-year practice in a related field, or
- with certificate of secondary school or secondary vocational education or a grammar school with vocational subjects or post-graduate study in the same field and a certificate of completion of at least one-year practice or two-year practice in a related field, or
- with a certificate of training received for the relevant entrepreneurship in an accredited educational establishment and evidence of completion of at least two-years practice in a related field or a three-year practice in a related field, or
- with postgraduate diploma in the relevant field, and evidence of at least one-year practice or two years of practice in a related field, or
- with a certificate of partial qualification or a certificate of full qualification under Zákon č. 568/2009, or
- with evidence of at least ten-year practice in the field, which has not expired for more than three years (Ministerstvo vnútra SR, 2019).

By the time the entrepreneur will start the business, he will graduate from Master`s study program in a field of agricultural economics and politics that shall be considered as a completion of postgraduate studies in relevant field.

In addition to the general legal requirements the entrepreneur has to fulfil also the legal requirements that are introduced within the Project Sub-measure 6.1.:

- young farmer bearing the legal personality: natural or legal person,
- micro or small business, in accordance with Recommendation 2003/361/ES of the Commission,
- the applicant for the non-repayable financial contribution must provide agricultural production as a systematic and independent activity under its own name and on his own responsibility for the purpose of achieving profit,
- the applicant shall not be older than 40 years,
- the applicant must have corresponding professional skills and abilities,

- lastly, the applicant establishes the agricultural business unit for the first time as its high representative (Agricultural Paying Agency, 2015).

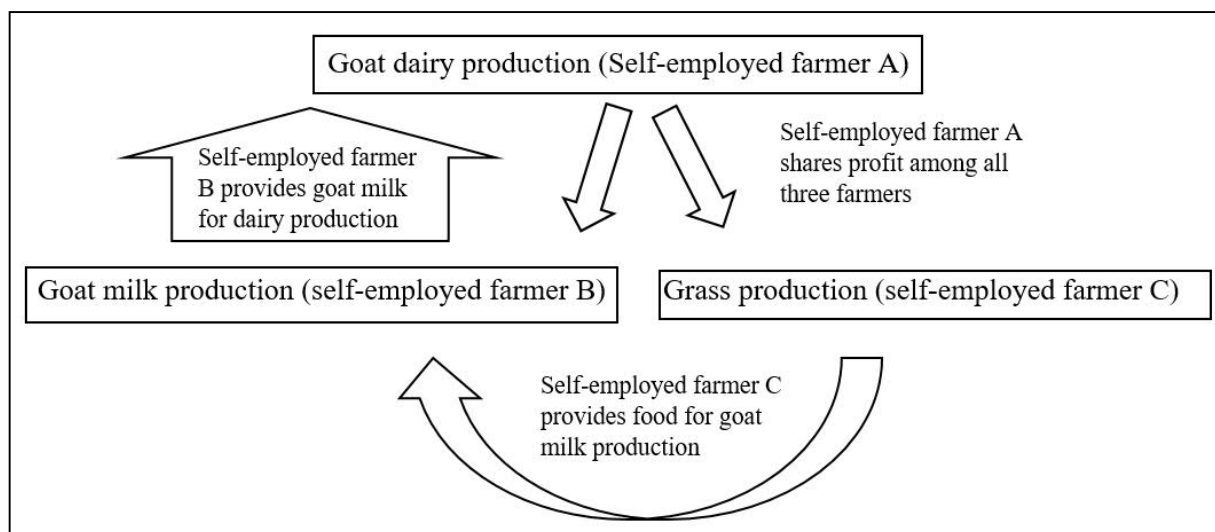
Another very important aspect of political and legal factors that will have impact on the business in the future is the tax wedge for entrepreneurs. The tax wedge for entrepreneurs in Slovakia represent two main part: the social and health insurance. Based on the valid Slovak law, all entrepreneurs conducting their businesses in their own name and on their own responsibility are obliged to pay the social and health insurance by themselves. The payments for individual insurance are defined by respective acts in Slovak Collection of Laws: the social insurance payments are defined by Zákon č. 461/2003 and health insurance payments are defined by Zákon č. 580/2004.

We assume that the business will be established in 2019, therefor based on the information stated in respective Acts for social and health insurance, new self-employed farmer will be obliged to pay:

- the social insurance since July 01, 2020 (the condition for social insurance payments calculations is Declaration of Tax by the entrepreneur for the initial year of business, in our case the Declaration of Tax for 2019), IF the income of the entrepreneur exceeds the amount calculated as 12-times of 50% of average monthly salary of respective calendar year, then the minimal amount of social insurance to be paid by the entrepreneur is 158.11 EUR,
- the health insurance since the establishment of business, no exceptions applied like in the case of social insurance, with minimal health insurance to be paid by the entrepreneur is 66.78 EUR.

Lastly, we also need to mention the reason behind the chosen legal personality (self-employed farmer) for the purposes of the business. There is no legal definition of the term “family business” or “family farm” in current valid Slovak legislature. Even though we consider this business to be a family farm, legally, the family operates as three self-employed farmers. Due to the lack of the legal aspect to consider family farm as a respective and recognized business unit as a whole, all of the farmers need to pay the tax wedge individually, hence the costs are increased by majority due to the legal obligations that each of the member of the family needs to fulfil. To fully understand the business, at least in a broad sense, here is a schematic how the individual members of the family (individual self-employed farmers) will cooperate:

Illustration 3: Schematic of family farm



Source: own processing

Economic factors

Economic factors have very important influence on entrepreneurship in general. There are several economic factors that play very important role: economic cycle of the country, GDP, unemployment and salary.

Firstly, we would like to analyse the GDP of Slovakia since 2010. Following table values of GDP (in billions of USD) during the individual years and also the annual growth in percentage:

Table 5: GDP development of Slovakia in period 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017
GDP (in billion USD)	89.50	98.18	93.42	98.48	100.95	87.50	89.77	95.77
GDP growth (in %)	5.04	2.82	1.66	1.49	2.75	3.85	3.33	3.40

Source: own processing, based on STATdat (2018)

Based on the data provided in Table, it is relevant that GDP of Slovakia has been increasing for most of the examined years. The greatest increase in GDP was in 2010, accounting for annual increase for 5.04 %. After year 2010 the Slovak GDP had decreasing trend. In 2014, the GDP started increasing again, reaching the highest annual increase in 2015, up to 3.85%.

Next, it is necessary to examine the development of average salary in Slovakia. We investigate the average salary in period of 2009-2017, since data for 2018 are still not

processed on our desired levels. Following Table 6 contains data for average salary classified in accordance with Nomenclature for Territorial Units for Statistics:

- annual average salary on NUTS1 level: Slovak Republic,
- annual average salary on NUTS3 level: Banská Bystrica region,
- annual average salary on LAU1 level: Lučenec district,
- annual average salary of Bratislava region.

Table 6: Average annual salary development in period of 2009-2017

	Average annual salary on NUTS1 level (in EUR)	Average annual salary on NUTS3 level (in EUR)	Average annual salary on LAU1 level (in EUR)	Average annual salary: Bratislava region¹ (in EUR)
2009	803.00	675.00	607.00	1,178.00
2010	828.00	702.00	605.00	1,160.00
2011	853.00	756.00	663.00	1,124.00
2012	881.00	783.00	685.00	1,159.00
2013	891.00	779.00	699.00	1,182.00
2014	957.00	837.00	733.00	1,286.00
2015	993.00	861.00	770.00	1,319.00
2016	1,034.00	897.00	808.00	1,356.00
2017	1,095.00	940.00	839.00	1,426.00

Source: own processing, based on data of STATdat (2018), accessed on 23-03-2019

The average salary in Slovakia has increasing trend within the examined period of time, not only on NUTS1 level (Slovakia), but this trend also appears on all levels on NUTS classification. For the purposes of the thesis we choose to examine Banská Bystrica region and Lučenec district.

Based on the data provided in Table 6, average salary in Banská Bystrica region reached 940.00 EUR in 2017 with annual increase of 4.79%. Within the examined period, the average salary in Banská Bystrica region increased by 39.26%. The trend of increasing salary is visible also on LAU1 level (Lučenec district) where average salary reached 839.00 EUR in 2017 in comparison to 808.00 EUR in 2016, which represents increase of 3.84%.

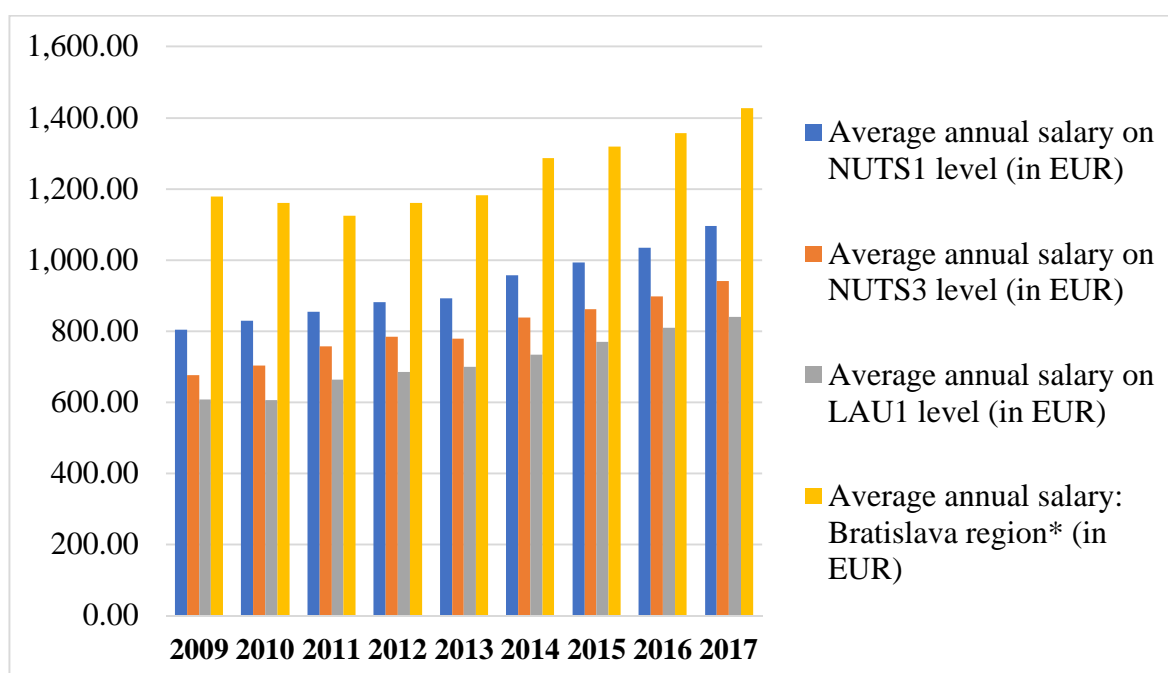
¹ Bratislava region is the only region in Slovakia that is not classified as NUTS3 level, like other regions, but it represents higher territorial unit and it is classified on NUTS2 level. The reason behind is that Bratislava region I highly economically developed in comparison to other regions of Slovakia.

Within the scope of examined period, average salary in Lučenec district increased by 38.22% since 2009.

Data for average salary of Bratislava region is also provided in the Table 6 in order to compare the high regional differences between Bratislava region and rest of Slovakia. The average salary in Bratislava region reached 1,426.00 EUR in 2017 which is 30.23% more than average salary of Slovakia.

Figure 1 graphically displays the differences among the individual NUTS levels and also the high differences between Bratislava region and rest of the country:

Figure 1: Regional differences in average annual salary development



Source: own processing

Lastly, we would like to examine another macroeconomic factor which in unemployment. We investigate the unemployment again base on NUTS classification. Following Table 7 contains data from Statistical Office of Slovak republic about the unemployment rate in examined period of 2009-2017 categorized as:

- unemployment on NUTS1 level: Slovakia,
- unemployment on NUTS3 level: Banská Bystrica region,
- unemployment on LAU1 level: Lučenec district,
- unemployment of Bratislava region (NUTS2):

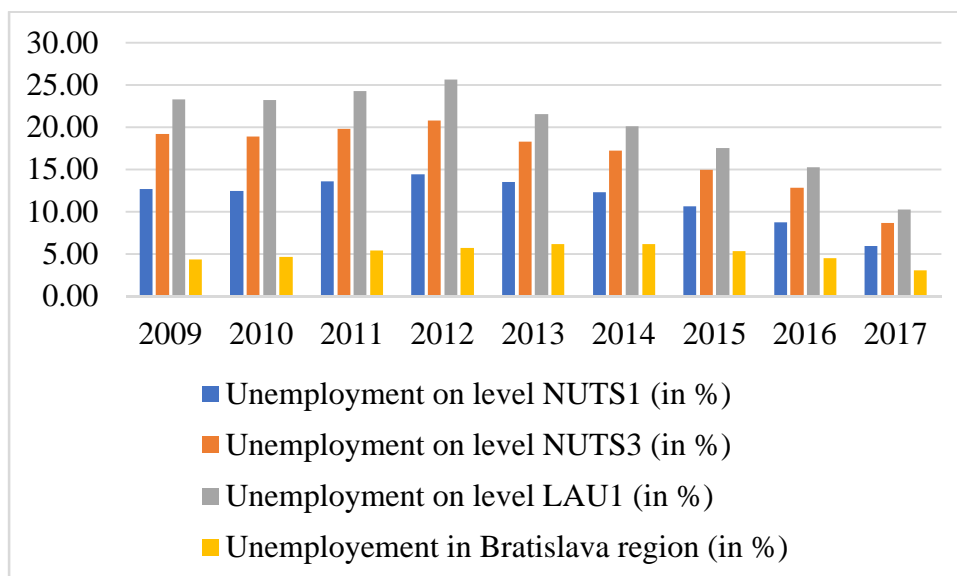
Table 7: Unemployment rate development in period 2009-2017

	Unemployment on level NUTS1 (in %)	Unemployment on level NUTS3 (in %)	Unemployment on level LAU1 (in %)	Unemployment in Bratislava region (in %)
2009	12.66	19.19	23.29	4.36
2010	12.46	18.86	23.20	4.63
2011	13.59	19.83	24.28	5.41
2012	14.44	20.81	25.59	5.72
2013	13.50	18.26	21.56	6.17
2014	12.29	17.22	20.08	6.13
2015	10.63	14.94	17.53	5.34
2016	8.76	12.80	15.26	4.51
2017	5.94	8.67	10.24	3.05
AVERAGE	11.59	16.73	20.11	5.04

Source: own processing based on data of STATdat (2019)

In 2017, average unemployment in Slovakia was 5.94% that represents annual decrease of 2.82%. Unemployment rate also decreased in Banksa Bystrica region, by 4.13% and in Lučenec district by 5.02%. If we compare the average rates of unemployment of Bratislava region with other regions, we can see that Bratislava region has lowest rate:

Figure 2: Regional differences in unemployment rate development in period 2009-2017



Source: own processing based on data of STATdat (2019)

Social and demographic factors

In terms of business establishment, it is also important to define and describe the social and demographic factors that might have influence on the business itself. For purposes of our business plan, we analyse demographic data of Točnica village, where the business is established and also the Lučenec district where the products of our business will be sold.

Točnica is a small village in southern part of Central Slovakia. Točnica belongs to Lučenec district and Banská Bystrica region. Based on the classification of Nomenclature of Territorial Units for Statistics, Točnica is categorized as follows:

- NUTS 1: SK0, Slovakia
- NUTS 2: SK03, Central Slovakia,
- NUTS 3: SK032, Banská Bystrica region,
- LAU1: Lučenec district
- NUTS 5: Točnica village

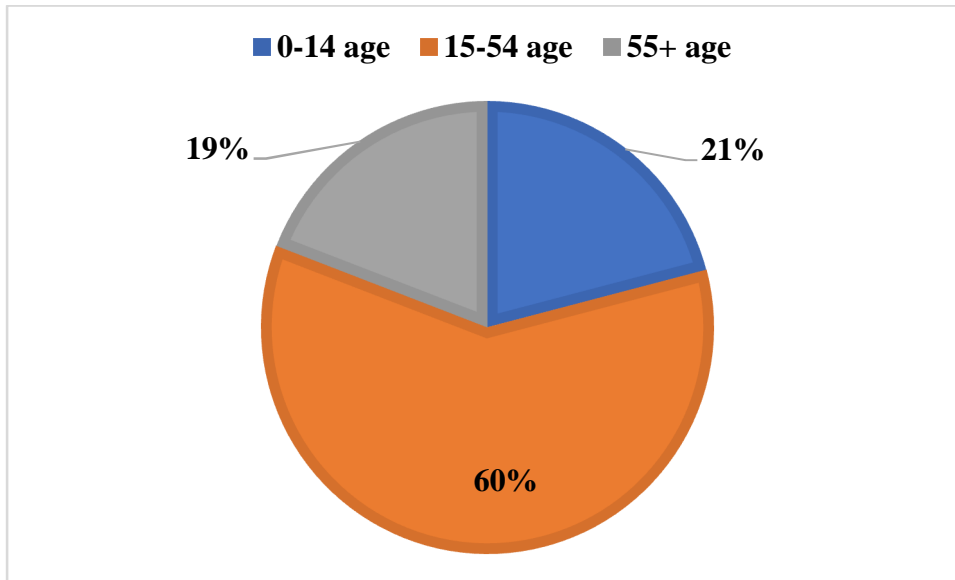
Illustration 4: Location of Točnica village in Slovakia



Source: Google Maps, accessed on 16-03-2019

Točnica village has 400 citizens with area of 1,192 ha, reaching the population density at 33.56 citizens per km². Figure 3 contains data on age diversity of the village:

Figure 3: Population of Točnica village



Source: own processing based on information of Točnica Municipal Office

As we can see in the Figure 3, the majority of Točnica`s population is in productive age of 15-54 years, reaching up to 60% of overall village`s population. The second largest group of inhabitants are people younger than 14 years, accounting for 21% of overall population in the village, and lastly 19% of the village`s population are people in post-productive older than 55 years.

In relation to the business plan elaboration, it is also necessary to examine demographic data of Lučenec district, where majority of the business will be conducted in first years of entrepreneurship.

Lučenec district, with Lučenec being the capital city of the district, belongs under municipal authority of Banská Bystrica region. The area of district is 82,559 ha with population reaching up to 73,849 inhabitants that gives us population density of 89.45 inhabitants per km². Based on the Nomenclature of Territorial Units for Statistics, we can classify Lučenec district as follows:

- NUTS 1: SK0, Slovakia
- NUTS 2: SK03, Central Slovakia,
- NUTS 3: SK032, Banská Bystrica region,
- LAU1: Lučenec district.

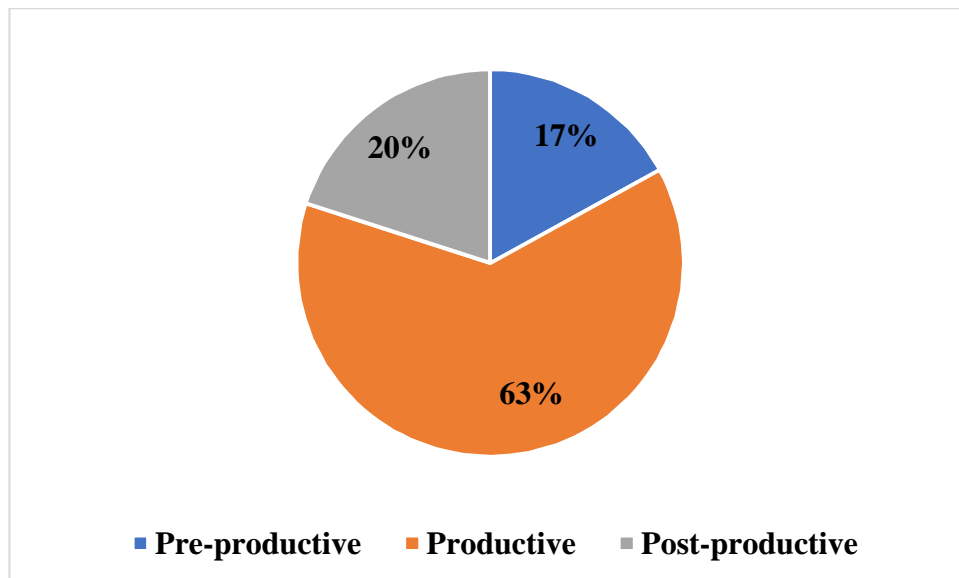
Illustration 5: location of Lučenec district in Slovakia



Source: Google Maps, accessed on 16-03-2019

Based on the information acquired at the Lučenec District Municipal Office, people of pre-productive age represent 17% of the district's population. The majority of population is in productive age, accounting for 63%. Inhabitants in post-productive age represent 20% of the overall population of the district:

Figure 4: Population of Lučenec district



Source: own processing

According to the information stated above, the majority of the population of Lučenec district is in productive and post-productive age. This information is very important to

business, since we consider people in productive and post-productive age to be target customer group for the dairy products the business plans to produce.

Technological factors

In terms of the technological factors, it is necessary to consider following aspects for our business:

- buildings, land and other ownership,
- machinery,
- distribution.

Buildings, land and other ownership

The entrepreneur needs to have a building in which the whole production of the dairy products will be processed. Like we have mentioned previously, even though the business will be operated and managed in the name of the sole entrepreneur (self-employed farmer), we can consider this business to represent the concept of the family farm: cooperation of family members that conduct different types agricultural businesses in order to create a common output with profit-dairy products (see Illustration 3). The building in which the dairy production will be processed is close to the farm (owned by other family members: self-employed farmer B and C) from where the producer will acquire the goat milk, partially:

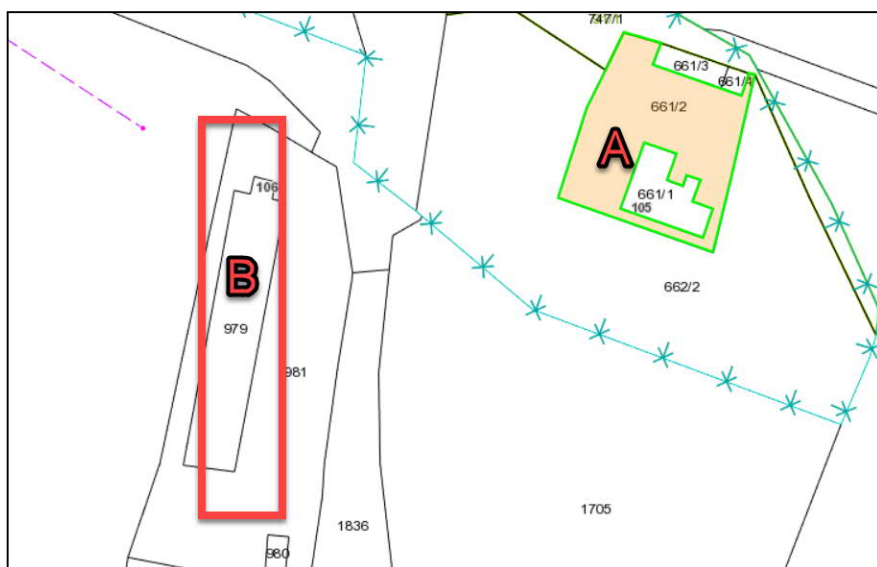
Illustration 6: Location of the farm



Source: Google Maps, accessed on 16-03-2019

The goat farm from which the entrepreneur will acquire the main factor of production (goat milk) is displayed on the Illustration 6 with address Točnica 106. The building (with address Točnica 105), in which the dairy production will be processed, will be in ownership of the entrepreneur that he will acquire with a Deed of Gift from the owners of the farm (self-employed farmer B and C) under the Ownership document no. 547. Altogether with the building, the entrepreneur will acquire the land under parcel no. 661/1, 661/2, 661/4 and 661/4 under Ownership document no. 547 from the owners of the goat farm:

Illustration 7: Location of the farm (cadastral map)



Source: Kataster nehnuteľností ZBGIS, accessed on 16-03-2019

In more detailed Illustration 7, building A is built on parcel 661/1 and surrounding parcel 661/2-4 that are in ownership of the farmers (building B).

Since the entrepreneur plans to apply for the Project Sub-measure 6.1. (Start-up aid for young farmers), he needs to have certain amount of land and animals in his ownership in order to start his own animal production, from which he will acquire the goat milk. However, it is necessary to mention that the amount of the milk received from his own animal production will be less in comparison to the amount received from self-employed farmer B. The land will be acquired via Deed of Gift from the self-employed farmer B and in addition, the entrepreneur can apply for land in ownership of Slovak Republic under authority of Slovak Land Fund that is under the Government Directive obliged to offer certain amount of land for rent to the start-up young farmers. The animals will be bought from the self-

employed farmer B in amount of 50. The entrepreneur will not need to build/buy additional buildings for the animals acquired, since the acquired animals will stay in building of self-employed farmer B, for which the self-employed farmer will not have to pay any rent to the farmer B.

Machinery

In order to start the business, the entrepreneur needs to purchase all machinery necessary for the goat dairy production but also for agricultural production. The machinery and other equipment for the dairy production will be purchased from respective business that operate in Lučenec district that are focused on food production and agricultural equipment. Estimated price for the dairy production machinery is 3,000.00 EUR. In addition, the farmer needs to purchase new tractor and other agricultural equipment in order to cover his agricultural production. The tractor will be paid in annual amounts of approximately 9,000.00 EUR for period of four years, depending on the final price of the tractor, and agricultural equipment will be paid immediately in the first year of business.

Distribution

With regards to the distribution, in the first stages of the business, the entrepreneur plans to sell his dairy products indirectly, with cooperation with another self-employed farmer, whose business is focused on milk production and who owns two small shops in the capital city of Lučenec district. The dairy products will be sold to the farmer for the prices set by the young entrepreneur and afterwards the farmer will set the price for the products in his shops, after the agreement made between the farmer and the young entrepreneur.

In addition, during the summer season, there are farmers` markets held weekly in the capital city of Lučenec district, where farmers from the whole district come and sell their products. Hence, during the summer season, the young entrepreneur will also use this mean of direct selling that will result in building the brand name in the region as well as in building the producer-consumer relationship.

Environmental factors

One of the most important aspect of any farming unit is its impact to the environment. Farmers all around the world, especially the medium- and small-sized farms contribute to the sustainability and protection of natural resources. People whose work is connected to the agriculture understand that natural resources such as soil and water are crucial inputs to their productions. Farmers understand this importance and what are the costs for soil degradation,

water pollution: the food that is being produced with such damaged input endanger the lives all of those who eat such food.

With regards to our goat dairy production, in broad sense, the soil on which the plants grow that represent the main source of food for the goats, hence influence the quality of the goat milk, it is important that such soils do not contain overload of chemicals and pesticides that might degrade the quality of the milk. In much more narrow sense, it is important with what types of supplementary food, beside the grass and plants, the goats are fed, meaning such supplementary food shall not include high dosages of chemicals and additives, in order to preserve the high quality and nutrition aspects the goat milk contains in general.

The farm from which the goat milk will be supplied to the producer, uses environmental and animal welfare production practices, according to general conditions for environmental and animal welfare practices introduced by the National Government and the EU. The milk produced on the farm is checked and analysed periodically, according to valid Slovak legislature with regards to any food or raw food production.

4.2.4.2 Porter`s Five Forces

In general, there are five forces to be considered within the elaboration of Porter`s Five Forces model:

- threat of entry,
- threat of substitutes,
- power of buyers,
- power of suppliers,
- competition.

Let`s describe the individual forces with respect to our business. Firstly, we need to consider the entry into the sector our business will operate in-agriculture and dairy production. If we think locally, in the area of Lučenec district, the threat of entry of new business in relation to goat dairy production is very low. In general, people living in Lučenec district are not very fond of engaging themselves into agriculture as self-employed farmers, mostly because the farmers` job is considered to be a 3D job: difficult, dirty and dangerous. In addition, in order to establish an agricultural and food business requires a lot of capital (both financial and non-financial). Also, the process that needs to be followed, according to

valid Slovak law and requirements of respective authorities, in order to start an agribusiness is complicated and time-consuming. Therefore, we assume that for our business (goat dairy production) the threat of entry is very low.

Secondly, we need to consider the threat of substitutes-potential customers of entrepreneur`s products might switch to different types of dairy products. In this case, we need to think on regional level-on level of Banská Bystrica region. In this region, there are two big businesses that produce dairy products such as yoghurts, butter and milk:

- Zvolenská mliekareň s.r.o.,
- Koliba, a.s.

Both of the mentioned businesses are large dairy producers that operate outside of Banská Bystrica region-their products are sold Slovakia-wide. However, their production is only from the cow milk. Production of the young entrepreneur is unique because of the goat milk. There is no big business on regional and local level that engages in same or similar area of dairy production. However, the goat dairy products are more expensive in comparison to the cow dairy products because of their higher nutrition quality and higher number of benefits for human body, which can represent one of the few reasons that the potential customer might substitute to cheaper dairy products. In addition, since Slovakia is part of the EU single market with its openness to international trade, in a broad sense any cheese or milk sold mostly in big grocery store chains represents a threat of substitution for the dairy products produced by the young farmer.

Thirdly, we need to take into consideration the power of the buyers with relation to price change of products. As we mentioned above, farmer`s goat dairy products will have higher prices because of the unique characteristics of the goat milk and products made out of it to human body. However, in last couple of year the behaviour of the consumers with relation to the food products has been changing: the consumers are nowadays keener to buy products with high quality and nutrition even for the higher prices.

Like we mentioned in previous chapters, the business will be running on the concept of family farm. The goat milk as primary input into production will be supplied by another member of the family farm in the name of her respective entrepreneurship. In this special cooperation (family farm concept) the supplier does not have power to change the price of our products.

Lastly and most importantly, we need to consider the competition to our business. We have already mentioned that there is no producer of goat dairy products on local level.

The only competition we see is from the above-mentioned large producers of cow dairy products and big grocery stores chains, such as Tesco, Billa, Lidl or Kaufland that offer great variety of cheese and milk products for lower prices.

4.2.4.3 SWOT analysis

In this part of our thesis, we aim our attention to analyse the business in terms of internal analysis. SWOT analysis serves to give an overview about business` strengths, weaknesses (internal factors) and opportunities, threats (external factors). Table 8 contains all factors that are necessary to consider with relation to business:

Table 8: SWOT analysis

Strengths	Weaknesses
low initial costs	machinery purchase
differentiation in comparison to competition	uncertainty about application acceptance
low administrative costs	lack of initial financial capital
personal approach to customers	
cooperation on basis of family farm concept	
Opportunities	Threats
Cooperation with other small farms in the region	family farm not defined in Slovak legislature
new products on the local market	major dairy producers
customers` interest in healthier products	sector sensibility
consumers` interest in local products	administrative bureaucracy

Source: own processing

Firstly, we would like to analyse the strengths. Usually, initial costs within the business establishment are one of the main obstacles for entrepreneurs. However, in this case, the initial costs will be considerably low, because of the ownership of buildings by the entrepreneur. The only costs that needs to be taken into consideration are the purchase of the machinery for dairy production.

Our business plans to produce dairy products out of the goat milk that differentiate the business from the rest of the businesses in Lučenec district. In general, differentiation is one of the main cards that businesses play when they want to achieve profit and market share as big as possible. Therefor we consider the dairy production out of goat milk to be one of the great strengths of the business, on local as well as on regional level.

For many consumers, the relationship that is built between the consumer and produces is very important. The business plans to cooperate with another small farmers in

the district, in terms of the distribution of products, hence it will use indirect sales, the production facility will be located close to the farm from where the producer will get the milk. Currently, the farm has started to be well-known in the area, and from time to time, there are people coming, usually families, to take a look at the farm production. This can be used as strength-the recognition of the farm in close area.

Lastly, the business itself will operate on the basis family farming concept: in legal term, it will be a cooperation among three individual self-employed farmers, but in reality, it will be one big farm, whose respective production branches (dairy production, milk production and goat food production) will be managed by members of one family. We consider this factor as one of the strengths because the concept of family farm is well-known in Slovakia and customers are more inclined to support such agricultural business units, namely because of the agricultural history in Slovakia.

Secondly, it is necessary to examine the weaknesses from external environment. In general, the greatest weakness the new business will face is the uncertainty about the application process with regards to Project Sub-measure 6.1. Within the first round of the application, at least 50% of the applications were declined due to insufficient score the applicants were supposed to reach (the detailed characteristics are defined in theoretical part of the thesis). In addition, lack of initial financial resources also represents very big weakness for the planned business.

Next, we would like to examine the opportunities. One of the greatest opportunities we see in the future for the dairy production business is further cooperation with more small farmers on local and regional level. Majority of such small farms also represent the concept of the family farm, even though there is no valid statistics to support this argument, due to lack of recognition of family business (farm) in currently valid Slovak legislature. In general, small businesses have usually hard time to compete with big companies with greater financial and non-financial capital. However, on the basis of cooperation of small- and medium-sized agricultural businesses in the region, such small- and medium-sized units can compete on the market with big agricultural and food-producing companies.

Like we have mentioned previously, there is no small- or medium-sized producer in local area engaged in dairy production out of goat milk. On local level, this is the farmer`s greatest opportunity. Goat dairy products represent a niche on the local market, therefor we consider the field of production to be one of our greatest opportunities.

Lastly, we would like to pay attention to customers` preferences. The trend of living healthier lifestyle and buying healthier food is not a trend anymore, it is a reality of majority of population. When we take this factor into consideration and link it to the customers` preferences in terms of the food origin-locally produced goods are more preferred than those produced in other regions/countries-we get another opportunity for the business to target as much audience as possible. Food products or raw food products that are produced and sold locally from local farmers and food producers receive more attention form the consumers.

To conclude SWOT analysis, we examine the threats from the external environment the business will have to face. Firstly, it is the lack of recognition of family farms in Slovak legislature. We explain their importance in our theoretical part, therefor we assume that such agricultural units that contribute to the world agriculture with such great intensity, shall be recognized by the law. Namely, because of the tax wedges that are usually set lower, since the business unit is not solely managed by one person (entrepreneur). However, since Slovak legislature does not recognize this concept, legally, the business will be recognized as individual business with one entrepreneur that runs the business in his own name and on his own responsibility. Like we mention before, in reality the business with dairy production and the farm business of other two entrepreneurs will be operating on the basis of cooperation and family farm concept, however, the tax wedge will be applied to all three self-employed farmers that will result in increased costs for the whole family farm concept.

Another threat we see is the well-known brand of two major dairy producers in Banská Bystrica region. Since both of the producers sell their products Slovakia-wide, their capital and impact on the dairy products market is far more intensive than those of small and medium-sized producers in the region.

Finally, administrative bureaucracy can be considered as a threat in the initial stages of the business. Namely, in connection to all the legal permits business will require for dairy production and also with regards to the application process the entrepreneur will need to undergo in order to receive non-repayable financial support from the EU funds via Slovak Agricultural Paying Agency and Slovak Ministry of Agriculture and Rural Development.

4.2.5 Marketing mix

Another important part of the business plan is Marketing mix. This analysis helps the entrepreneur to set appropriate characteristic of the products he/she intends to sell. Here is a marketing mix for the goat dairy production:

- **PRODUCT:** the business plans to produce three main types of dairy products in the initial five years of the business: fresh goat milk, fresh and smoked goat cheese. In addition, after first two years, the farmer will also sell the goats to other farmers or food-processing businesses for further processing, mainly billy goats (male goats) for meat production to other businesses.
- **PRICE:** the farmer decided to sell the milk for 2.00 EUR per 1 l, fresh cheese for 15.00 EUR per 1 kg and smoked cheese for 20.00 EUR per 1 kg. The farmer plans to increase the prices of both types of cheese annually per 1 EUR due to estimated increasing costs of the business. The price of the goat (live) shall remain the same or shall be modified based on the market prices for goats would change.
- **PLACEMENT:** all dairy products in initial two or three years of the business will be sold through intermediary-as a cooperation with another self-employed farmer in the Lučenec district who focuses on production of cow dairy products and would like to extend the production line of goat dairy products. The goat dairy products will be sold to the intermediary for the prices stated above. After first two years, the business plans to build a small shop nearby the farm and sell the products directly there. The prices of the products have been derived based on average prices of similar products being sold in Slovakia by other small- and medium-sized farmers (Internet research).
- **PROMOTION:** Since the district in which the business will initially operate is considerably small, the business will rely on mouth-to-mouth advertisement and promotion techniques.

4.2.6 Financial analysis

The most important part of each business plan is financial analysis. For the purposes of this business plan we decided to make cash-flow analysis of the business for period of five years, taking into account the start of business in 2020.

Table 9 contains basic data based on which the whole cash flow statement is calculated with:

Table 9: Initial data for cash-flow statement

	2020	2021	2022	2023	2024
Number of animals (applicable for direct payments)	50.00	50.00	75.00	100.00	100.00
Land (in ha)	40.00	60.00	70.00	80.00	80.00
Price for 1 kg of dairy products (in EUR)					
fresh goat cheese	15.00	16.00	17.00	18.00	19.00
smoked goat cheese	20.00	21.00	22.00	23.00	24.00
Price of goat milk per 1 l (in EUR)	2.00	2.00	2.00	2.00	2.00
Price for 1 kg of live goat (in EUR)	3.00	3.00	3.00	3.00	3.00

Source: own processing

We assume that the business starts its production in 2020 with 50 goats that the farmer will buy from self-employed farmer B. Also, farmer will acquire approximately 40 ha of land through Deed of Gift from self-employed farmer B. Acquiring animals and land is considered as the main inputs into production and therefore those are considered as main initial costs for the farmer.

After 2020, the number of goats will increase, part from which will be used in milk production and part will be sold to intermediary food processing business. With increasing number of animals, it will be necessary to also increase the food input for goats, hence increasing the land amount, on which the farmer will produce food for the animals.

Based on the current market research of prices of goat dairy products, while taking into consideration the results of our macroeconomic analysis, the farmer sets the price of his dairy products in initial year as follows:

- fresh goat cheese: 15.00 EUR per 1 kg,
- smoked goat cheese: 20.00 EUR per 1 kg,
- fresh goat milk: 2.00 EUR per 1 l,
- live goat: 3.00 EUR per 1 kg.

With increasing number of goats and increasing costs connected to that, the farmer will increase the price of fresh and smoked goat cheese by 1.00 EUR annually.

Cash inflow

Table 10 contains calculations of predicted cash inflow based on the basic information stated previously:

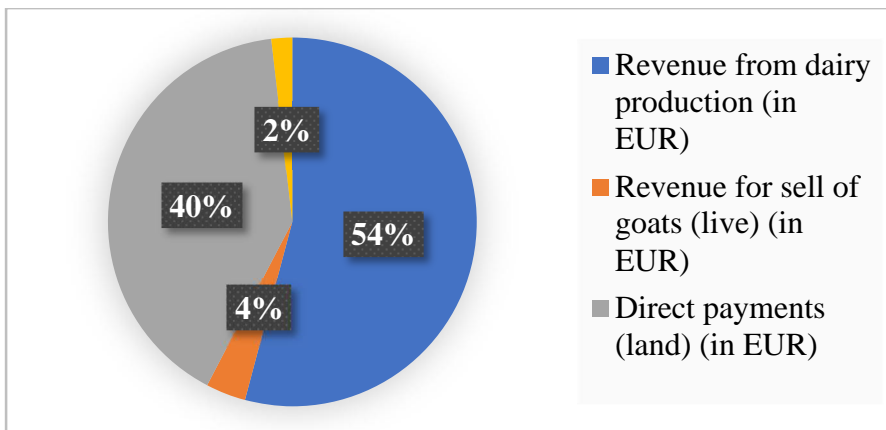
Table 10: Cash inflow

		2020	2021	2022	2023	2024
Cash inflow	Revenue from dairy production (in EUR)					
	goat cheese	7,962.50	8,452.50	15,649.38	21,223.13	22,325.63
	goat milk	4,200.00	4,200.00	7,350.00	9,450.00	9,450.00
	Revenue for sell of goats (live) (in EUR)	0.00	1,125.00	1,575.00	2,025.00	2,475.00
	Direct payments (land) (in EUR)	10,000.00	15,000.00	17,500.00	20,000.00	20,000.00
	Direct payments (animals) (in EUR)	500.00	500.00	750.00	1,000.00	1,000.00
	Total SUM (in EUR)	22,662.50	29,277.50	42,824.38	53,698.13	55,250.63

Source: own processing

In initial year, the farmer expects to get revenue from the goat cheese and milk and direct payment for land and animals. With increasing number of goats, the production will also increase. The farmer expects to have income from goat cheese in 2023 over 20,000.00 EUR and from goat milk reaching almost 10,000.00 EUR. With increasing amount of land, the farmer will acquire more on direct payments on land, reaching approximately 20,000.00 EUR in 2023, taking into account the possible changes that might be applied for direct payments after 2020 in new period of Common Agricultural Policy. Figure 5 displays the share of individual branches of production in cash inflow:

Figure 5: Share of individual business operations on revenues



Source: own processing

We can see that majority of the revenues will be acquired from dairy products and direct payment for land, accounting up to 94% of overall revenues in first five years of business. Revenues for sell of live goats and direct payments on animals account for 6%.

Cash outflow

Second part of the cash flow analysis is cash outflow. Following Table 11 contains calculations of expected cash outflow for the farmer in period of 2020-2024:

Table 11: Cash outflow

		2020	2021	2022	2023	2024
Cash outflow	Food for animals (in EUR)	4,000.00	5,000.00	6,000.00	7,000.00	8,000.00
	Veterinary medicine (in EUR)	500.00	600.00	700.00	800.00	900.00
	Purchase of goats	7,500.00	0.00	0.00	0.00	0.00
	Purchase of goat milk	7,000.00	7,000.00	7,000.00	0.00	0.00
	Machinery	23,000.00	9,000.00	9,000.00	9,000.00	0.00
	Wages for employees	0.00	11,760.00	11,760.00	23,520.00	23,520.00
	Tax wedge	780.00	1,680.00	2,580.00	2,580.00	2,580.00
	Maintenance and other costs related to production (in EUR)	900.00	900.00	1,500.00	2,000.00	2,500.00
	Total SUM (in EUR)	43,680.00	35,940.00	38,540.00	44,900.00	37,500.00

Source: own processing

In initial year of business, farmer`s major costs will be related to business establishment:

- purchase of goats in amount of 50: 7,500.00 EUR (3.00 EUR per 1 kg of live goat),
- purchase of machinery for dairy production: up to 4,000.00 EUR
- purchase of tractor, and other agricultural machinery: 19,000.00 EUR (taking into account that tractor will be purchased on leasing and will be paid off annually for 4

years in amount of 9,000.00 EUR (each year) (taking into consideration the price of tractor and other agricultural machinery is just approximate).

Another important aspect of cash outflow is tax wedge that needs to be paid monthly, according to valid Slovak legal regulations. For the farmer the tax wedge represents monthly payment of social and health insurance, that in initial year will be approximately 780.00 EUR (social insurance is not paid in the first year of business). Following years, it is expected that tax wedge for all entrepreneurs will be increasing due to political situation.

The farmer plans to buy milk from self-employed farmer in first three years of business until the farm reaches self-sufficiency with planned 100 animals in 2023. Until then, the annual costs for milk purchase will be approximately 7,000.00 EUR.

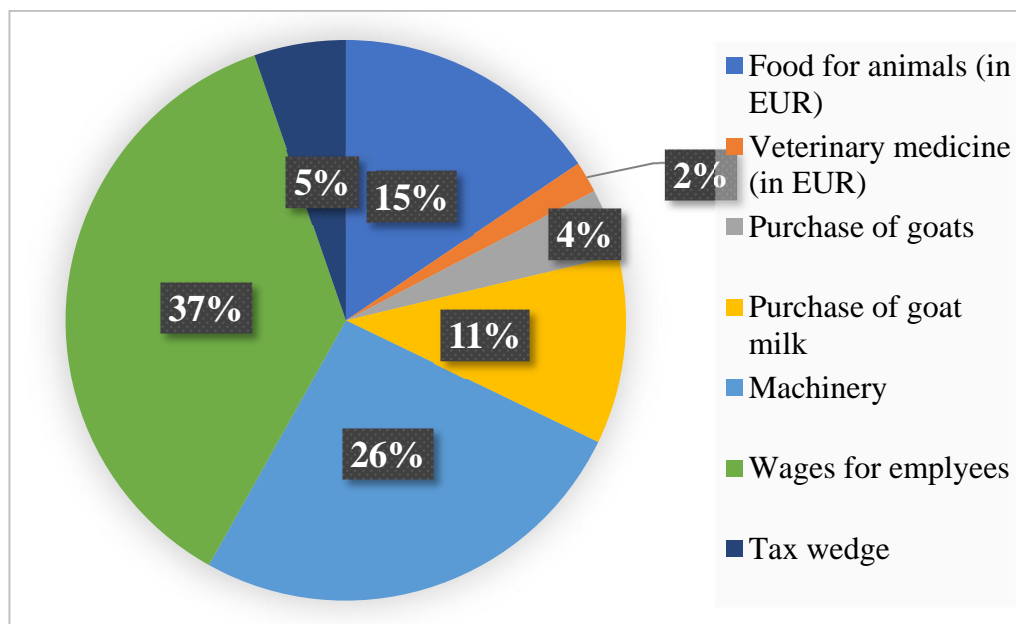
With expected increasing number of animals in production, the costs for the animal food will be increasing as well. These costs include the purchase of the food but also costs for self-production of the food using the land. The farmer estimates that the costs will be increasing approximately 1,000.00 EUR per year. In connection to increasing number of animals, veterinary costs are estimated as well, since the farmer will need more medicine to cure the sickness of livestock but also to maintain the health of livestock, hence the quality of the milk and dairy products as well.

The costs for the farm maintenance, such as small construction works, electric and water bills, etc. are all included in “Maintenance and other costs related to production” that are also expected to rise with increasing overall production through the years.

Lastly, the farmer plans to hire one employee in third year of business and another one in fourth year in order to maintain the increased production but also fulfilling the condition for receiving the Start-up aid for young farmers, in which the receivers are obliged to hire at least two new employees in first five years of the business. Hiring of new staff will result in costs increase since the third year of business. The new staff will be hired on full-time contracts. One of the employees will be responsible for taking care of the animals and the second one will be responsible for the dairy production. The owner will be working in both fields of the business operations ensuring the continuous run of the farm.

Following Figure 6 displays the share of individual categories of costs in comparison to overall costs:

Figure 6: Share of individual costs to in overall costs



Source: own processing

During the first five years of business, the farmer expects major costs for wages of employees he will hire in third year of business in overall costs per mentioned period, accounting up to 37% of the costs. Machinery, including initial purchase of dairy production machinery and equipment altogether with purchase of agricultural machinery account for 26% of overall estimated costs. With estimated number of livestock to increase during the first years of business, the costs for the food and veterinary medicine will increase as well, accounting altogether up to 17% of overall costs. Since the entrepreneur plans to purchase the goat milk from self-employed farmer B for first three years of the business, the costs for the purchase will be approximately 11% in 5-period time. The tax wedge the entrepreneur will have to pay to state represent 5% of costs and lastly, initial purchase of goats accounts for only 4% of overall costs.

Cash-flow balance

Based on the calculation introduced in previous part, the business expects to have following cash-flow balance:

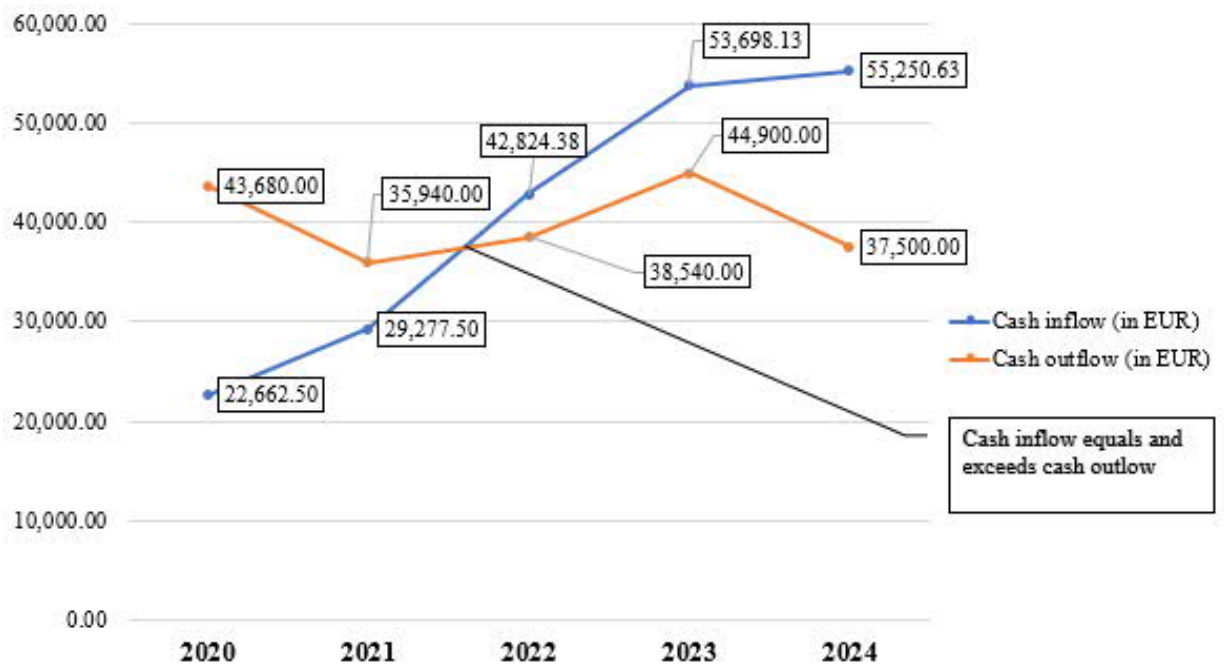
Table 12: Cash-flow balance

Cash inflow	22,662.50	29,277.50	42,824.38	53,698.13	55,250.63
Cash outflow	43,680.00	35,940.00	38,540.00	44,900.00	37,500.00
Cash-flow balance	-21,017.50	-6,662.50	4,284.38	8,798.13	17,750.63

Source: own processing

According to results of our calculation, the break-even year for the farmer will be in third year of business when the profits are expected to exceed the costs of production. The negative value of cash-flow balance in first two years is mainly caused by the initial investment that the farmer needs to do in to order to kick-off the business. Figure 7 displays the development of revenues and costs during the estimation period for the business:

Figure 7: Revenues and costs development in 2020-2024



Source: own processing

5 Results and Discussion

The purpose of the business plan elaboration is to prepare the entrepreneurs for how the business will behave to external and internal forces of the business environment and what can be expected as a result from the financial point of view that is analysed in the business plan as well. For this purpose, it was necessary to create a certain structure of the business plan that varies according to the type of the business the business plan is intended to examine.

With regards to the business plan introduced in this thesis, it was necessary to examine the external and internal environment with appropriate economic analyses, such as PESTLE and Porter`s Five Forces analysis in order to examine the external environment and SWOT analyses in order to examine the internal environment. After successful market and environment analysis, it was necessary to estimate the cash flow in initial five years of the business.

In the theoretical part, we defined basic terminology in connection to business and business planning. Since the agricultural business for which the business plan was elaborated is located in Central Slovakia, it was necessary to examine the legal requirements for business establishment in accordance with valid Slovak law. Based on our research of Slovak legal regulations, it was found out that there is the absence of family business and family farm being recognized as a legal business unit in Slovakia. Therefore, the business plan had to be designed as a business plan for sole entrepreneur that would cooperate with other members of the family who are also sole entrepreneurs because of the very same reason. In accordance with theoretical knowledge described, a structure of the business plan was designed that would fulfil the purpose of the business plan the best.

Lastly, we examined the situation of agriculture in the EU in accordance with its main agricultural policy-Common Agricultural Policy. We studied this policy in more details with regards to the family farming models and it was found out that there is a high support from the EU to keep the family farming models alive and productive with relation to further support of young people to engage in agriculture, hence ensuring the generational renewal of EU agriculture.

After defining basic terminology and legal requirements for the business establishment, it was necessary to proceed with the respective business plan elaboration. Firstly, the means of financial contribution the young farmer can apply for were described, in order to acquire initial financial capital to boost up the business. There were three means

of getting that initial capital found that are considered as the best options for young farmer. The first one is Strat-up aid for young farmers from Slovak Regional Development Program funded from the EU. This start-up aid is non-repayable financial contribution for young people in the EU who would like to engage in agriculture and set their own business in this sector. The contribution can be received by applicant who fulfil certain conditions and their businesses have high potential of being financially successful on the market. This option is considered to be the best one, since the financial contribution the successful candidates receive is non-repayable, hence the young farmers do not need to pay the contribution back. However, there are also some loans provided by “Slovenská záručná a rozvojová banka” banks that is in full ownership of Slovak Ministry of Finance, which focuses on helping out the small- and medium-sized businesses, especially. The mentioned bank offers two loans for young farmers in order to help them acquire initial capital, such as land, machinery and others, to start-up their businesses.

Secondly, there was a detailed business plan elaborated for the young entrepreneur`s business that will focus on goat dairy production, especially goat milk and goat cheese. Based on the macroeconomic analysis conducted in the business plan, the target market of the business are people living in Lučenec district, where the farm will be situated, in productive and post-productive age. According to results of the PESTLE analysis, the business will legally operate as a sole entrepreneur, self-employed farmer, but from the theoretical point of view, the business will operate on basis of family farming model. The entrepreneur must acquire the legal permit in order to start his entrepreneurship. We also examined economic factors of external environment and we found out that both GDP and average monthly salary of Slovakia, especially of the Lučenec district, has increasing tendency, which is considered as a positive factor. Within the technological factors, we propose to distribute the dairy products of the farm in cooperation with other self-employed farmer in Lučenec district.

Another important part of the external environment analysis was Porter`s Five Forces analysis that examines the external forces from the competition point of view. It was found out that threat of entry is very low due to very low interest of people to engage in agriculture. With regards to threat of substitutes, the major threat represents two big dairy producers who sell their products Slovakia-wide. Power of buyers and power of suppliers to have influence on the products` price is very low due to new trend of heathy lifestyle on the side of buyers and cooperation on basis of family farm from the side of the suppliers. Within this part, we

also investigated the competition in the area and it was found out that there is no small farmer in Lučenec district whose production is focused on goat dairy. Therefore, from this point of view, the competition is considerably low.

After external analysis of the environment, it was necessary to create an internal analysis of the business based on SWOT analysis with which we found strengths, weakness, opportunities and threats of the business. Considerably low initial costs, differentiation and cooperation on the basis of family farming model are one of the strongest aspects of the business. Using these strengths, the business can grab the opportunities, such as cooperation with other small farmers in the district, customers` interest in healthier and local products to succeed on the market and expand on regional level. However, it is also necessary to take into consideration the weaknesses such as initial machinery purchase, uncertainty about the application acceptance for the start-up aid and beat them with the strengths of the business. Lastly, it is necessary to use the strengths to eliminate the threats that in this case are sector sensibility, administrative bureaucracy and two major dairy producers.

Based on the external and internal analysis, we created a base start in a form of Marketing mix to start the business. The production will be focused on goat milk and goat cheese production, for which the prices are set appropriately to results found in PESTLE analysis. The products will be distributed via cooperation with a small farmer (intermediary) who already sells cow dairy products.

In the end of the business plan we created calculations based on all information of previous parts of the business plan and it was found out that the business will have negative balance of production in first two years of the business. However, with planned increasing input of the production and increasing prices of the goat dairy products in upcoming years of the business, it is estimated that the profits of the farm will exceed the costs for the first time in the third year of the business, hence resulting in positive financial balance that is estimated to increase in following years.

To sum up, the business plan introduced in this thesis is intended for a young farmer who would like to set up a small agricultural business in Central Slovakia with focus on goat dairy production in the respective district. Based on the analysis and calculation, we assume that this business has big potential and it is estimated it will become profitable in the third year of business.

6 Conclusion

Diploma thesis is focused on business plan development for a young entrepreneur who would like to start agricultural business in Central Slovakia. The business plan is developed based on real market information and designed to evaluate the potential of the business.

In order to reach the main goal of the thesis, it was necessary to answer two research questions of the thesis. The first one was about what is the process of business establishment in Slovakia that was answered in the first part of the thesis, based on the theoretical background definitions.

The first part of the thesis was also focused on theoretical background definition with relation to business, business planning, business establishment-with relation to valid Slovak laws, and agriculture. The theoretical part also contains the definition and proposed structure of the business plan, as well as definition of individual analyses that are used in practical part.

The second research question was to analyse potential sources of financial contribution that a young farmer can apply for. In beginning of the practical part of the thesis, there were three main sources of initial financial income described that are considered as the most suitable for the introduced business.

The most important part of the thesis is the respective business plan that is designed for the young farmer based on macroeconomic analyses done within the practical part. According to these analyses, there were found no external factors with high influence for the business establishment in field of goat dairy production. In addition, based on the financial analyses' calculation provided in the business plan, the business itself represents potential market success for the young entrepreneur.

In conclusion, the process of agricultural business establishment in Slovakia was described, in accordance with valid Slovak legal regulations. Next, the most suitable sources of initial financial contribution for young farmers in Slovakia were described and lastly, we designed specific business plan for an agricultural business establishment in rural area of Central Slovakia with respective macroeconomic and financial analyses.

This thesis will be used as background business and financial plan for a young entrepreneur who wants to apply for Project Sub-measure 6.1. in October 2019 in Slovakia

through Slovak Agricultural Paying Agency and Ministry of Agriculture and Rural Development of Slovak Republic.

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8 Appendices

8.1 Appendix A: Cash-flow statement

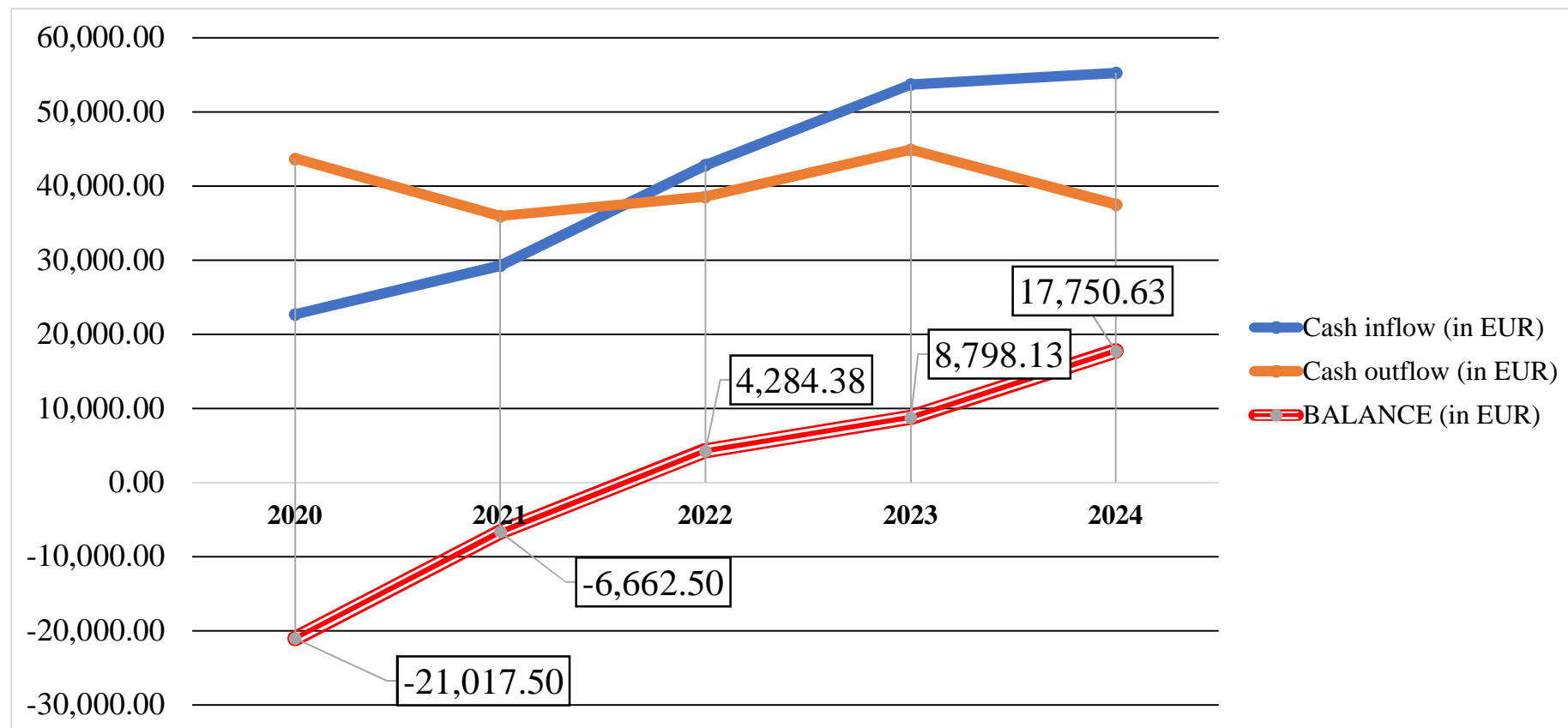
	2020	2021	2022	2023	2024
Number of animals (applicable for direct payments)	50.00	50.00	75.00	100.00	100.00
Land (in ha)	40.00	60.00	70.00	80.00	80.00
Price for 1 kg of dairy products (in EUR)					
fresh goat cheese	15.00	16.00	17.00	18.00	19.00
smoked goat cheese	20.00	21.00	22.00	23.00	24.00
Price of goat milk per 1 l (in EUR)	2.00	2.00	2.00	2.00	2.00
Price for 1 kg of live goat (in EUR)	3.00	3.00	3.00	3.00	3.00
REVENUES					
Revenues from dairy production (in EUR)					
goat cheese	7,962.50	8,452.50	15,649.38	21,223.13	22,325.63
goat milk	4,200.00	4,200.00	7,350.00	9,450.00	9,450.00
Revenues for sell of goats (live) (in EUR)	0.00	1,125.00	1,575.00	2,025.00	2,475.00
Direct payments (land) (in EUR)	10,000.00	15,000.00	17,500.00	20,000.00	20,000.00
Direct payments (animals) (in EUR)	500.00	500.00	750.00	1,000.00	1,000.00
Total SUM (in EUR)	22,662.50	29,277.50	42,824.38	53,698.13	55,250.63
COSTS					
Food for animals (in EUR)	4,000.00	5,000.00	6,000.00	7,000.00	8,000.00

Veterinary medicine (in EUR)	500.00	600.00	700.00	800.00	900.00
Purchase of goats	7,500.00	0.00	0.00	0.00	0.00
Purchase of goat milk	7,000.00	7,000.00	7,000.00	0.00	0.00
Machinery	23,000.00	9,000.00	9,000.00	9,000.00	0.00
Wages for employees	0.00	11,760.00	11,760.00	23,520.00	23,520.00
Tax wedge	780.00	1,680.00	2,580.00	2,580.00	2,580.00
Maintenance and other costs related to production (in EUR)	900.00	900.00	1,500.00	2,000.00	2,500.00
Total SUM (in EUR)	43,680.00	35,940.00	38,540.00	44,900.00	37,500.00

BALANCE (in EUR)	-21,017.50	-6,662.50	4,284.38	8,798.13	17,750.63
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Source: own processing

8.2 Appendix B: Balance development (in EUR)



Source: own processing