COLORADO STATE UNIVERSITY

# Lecture 11

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*Without continual growth and progress, such words as improvement, achievement, and success have no meaning.*

-Benjamin Franklin (founding father of the United States)

# Lecture 11:
# Growth, Scaling, & Venture Valuation in Agribusiness and Food Ventures

**Textbook Reading (Quiz Basis)**

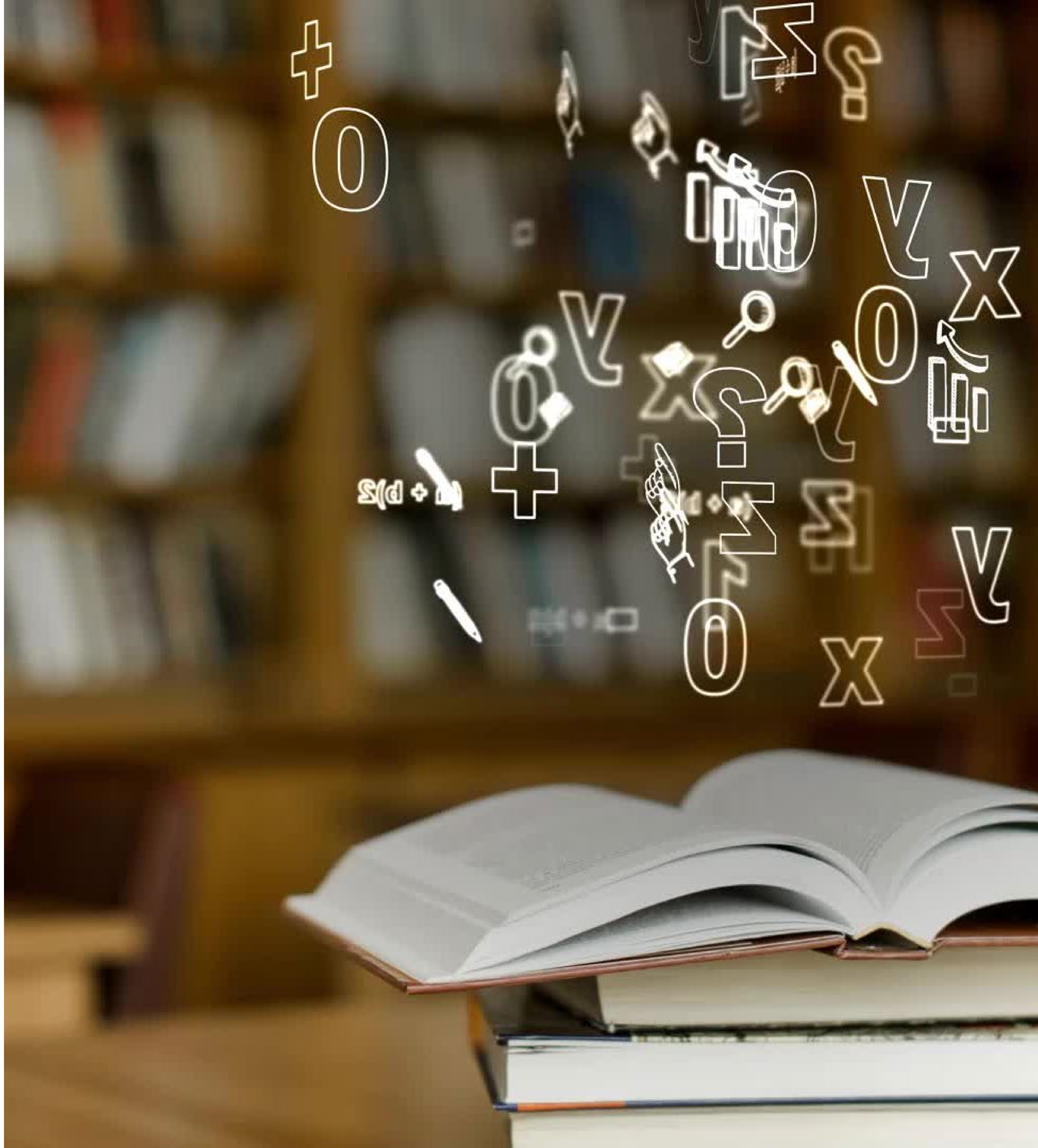
Chapter 13. Strategic Entrepreneurial Growth: Scaling

Chapter 14. Valuation of Entrepreneurial Ventures

**Lecture Agenda**

1.

2.



# Chapter 13 Objectives

13.1 Discuss the importance of strategic planning with emerging firms.
13.2 Describe the nature of strategic planning.
13.3 Outline the challenges of managing entrepreneurial growth.
13.4 Explain the transition from an entrepreneurial to managerial approach.
13.5 Identify the key factors that play a major role during the growth stage.
13.6 Discuss the complex management of paradox and contradiction.
13.7 List the steps useful for breaking through the growth wall.
13.8 Explain the factors involved in growth hacking.
13.9 Identify the challenges involved with “blitzscaling.”
13.10 Explore the elements of building an entrepreneurial company.
13.11 Identify the unique managerial concerns with growth businesses.

# Chapter 14 Objectives

14.1 Explain the importance of valuation.

14.2 Outline the underlying issues involved in the acquisition process.

14.3 Describe the basic elements of due diligence.

14.4 Outline the various aspects of analyzing a business.

14.5 List the major points to consider when establishing a firm's value.

14.6 Highlight the available methods of valuing a venture.

14.7 Discuss the three principal methods currently used in business valuations.

14.8 Explain the additional factors that affect a venture's valuation.

# Lecture Content

By the end of this lecture, you should be able to:

1. Describe how agribusiness ventures move from **growth** to **scaling** and why planning becomes more important as they expand.
2. Use a **SWOT analysis** to identify what a business does well, where it struggles, and where new opportunities or risks exist.
3. Explain what **scaling** means and how to estimate market potential using **TAM, SAM, and SOM**.
4. Find and interpret real market data (for example, from **IBISWorld**) to understand a venture's growth potential.
5. Explain how a business's **value** is determined and why valuation matters for entrepreneurs and investors.
6. Calculate simple **valuation examples** and understand what **EBITDA** shows about a company's financial performance.
7. Identify the **main factors that drive value** in agribusiness and food ventures, such as brand, customers, and profitability.

# Phases of Venture Growth

## Growth Phase

- Determining Product-Market Fit

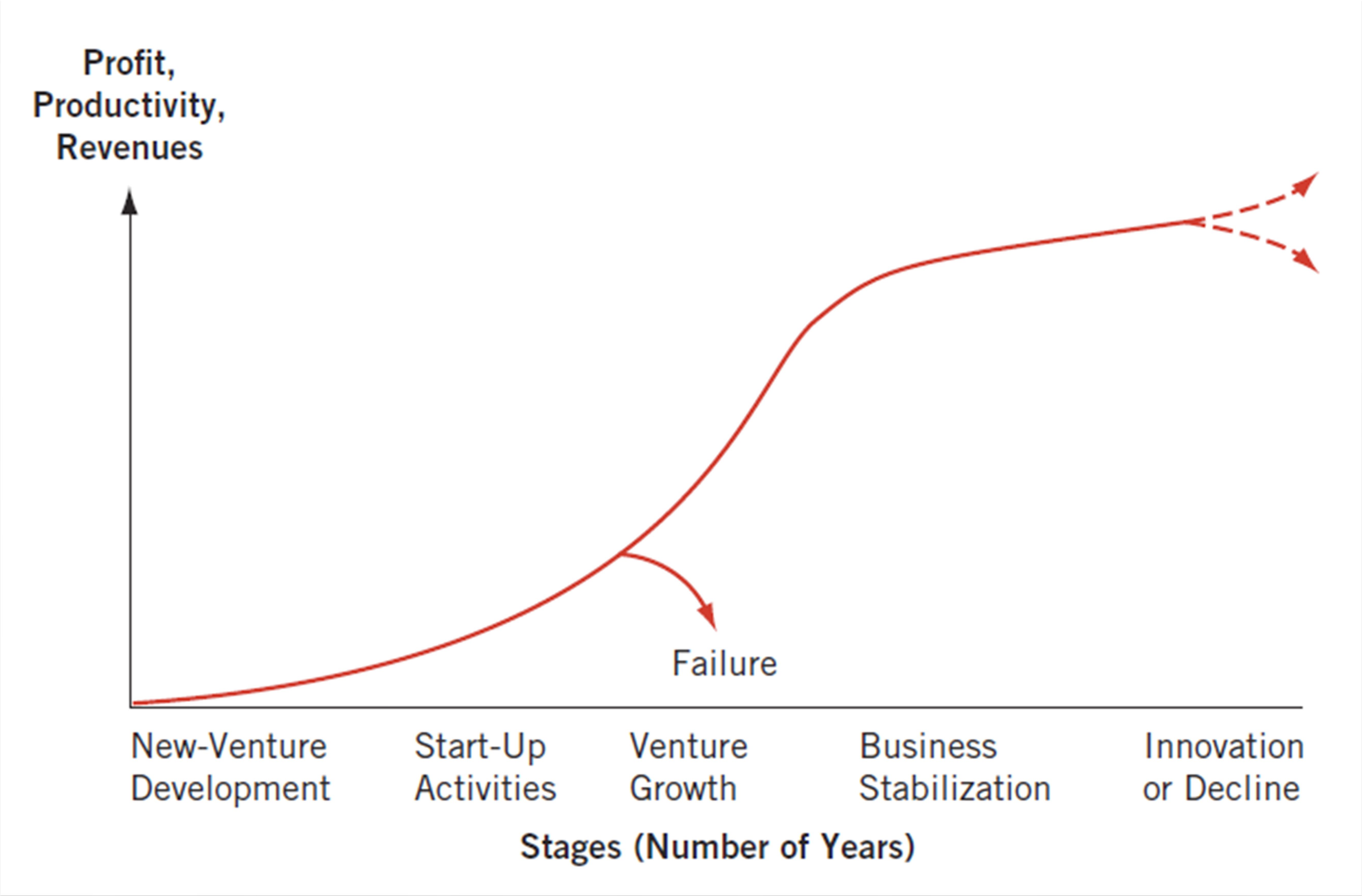
## Scaling Phase

- Building systems to grow efficiently
- Expanding market reach to drive valuation

## Venture Valuation Phase

- Positioning for exit, sale, or strategic partnerships

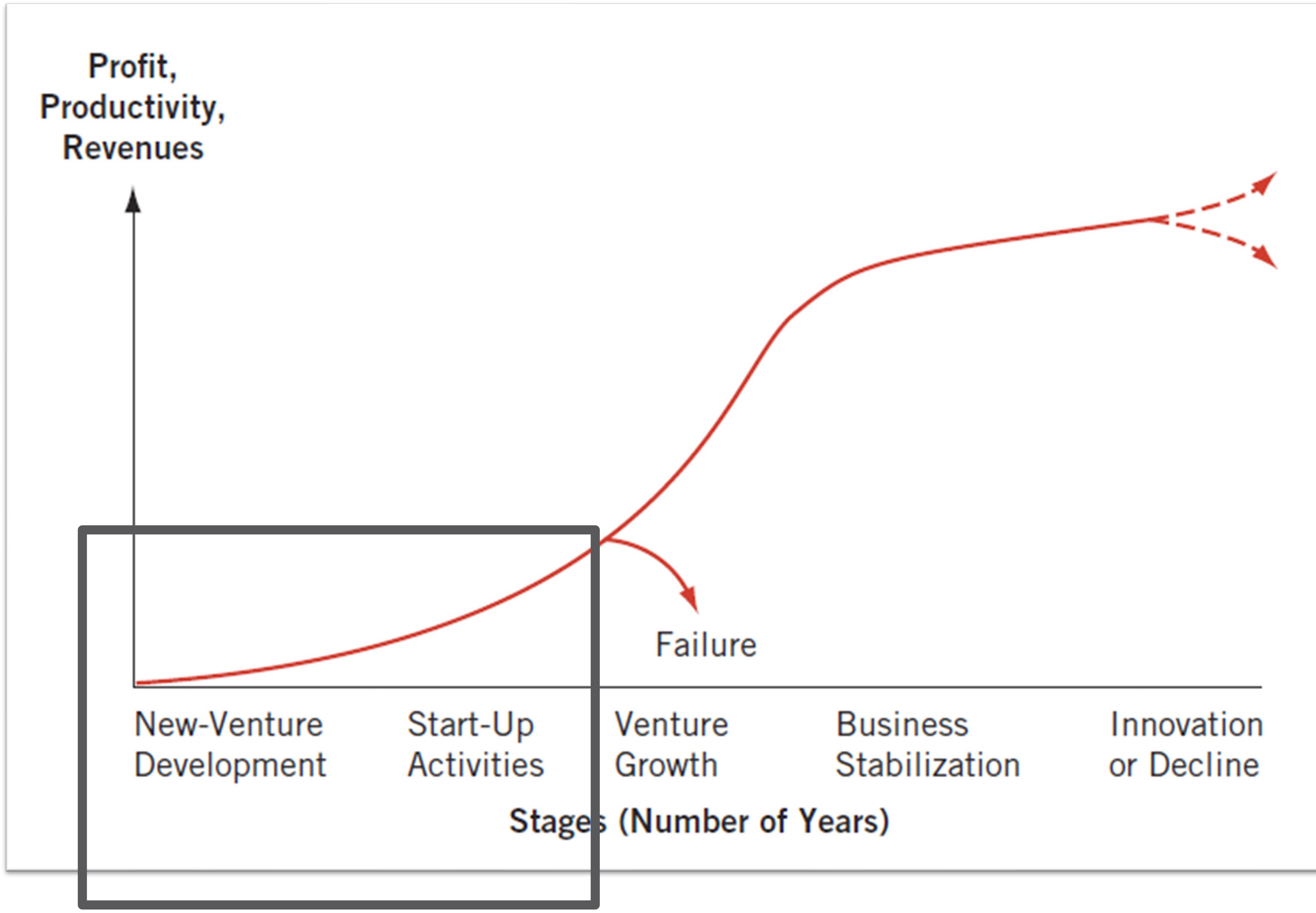
# A Venture’s Typical Life Cycle



# A Venture's Typical Life Cycle

**New-Venture Development** and **Start-Up Activities**:

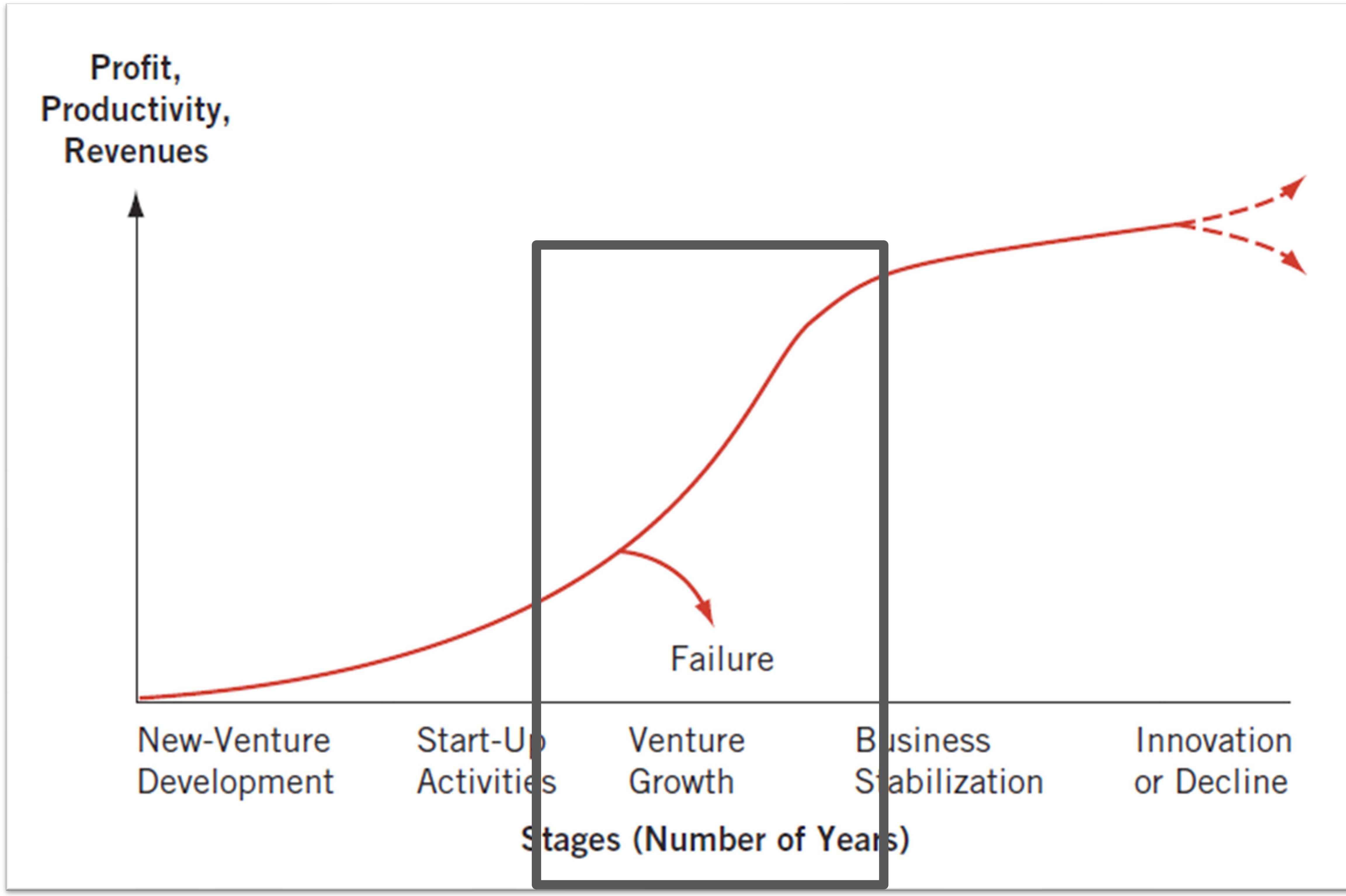
- Activities associated with the initial formulation of the new venture's general philosophy, mission, scope, and direction.
- Creating a formal business plan, searching for capital, carrying out marketing activities, and developing the entrepreneurial team.
- Focus: Test assumptions and find **product-market fit**



# A Venture’s Typical Life Cycle

Once a venture achieves traction, it enters the **Venture Growth** stage.

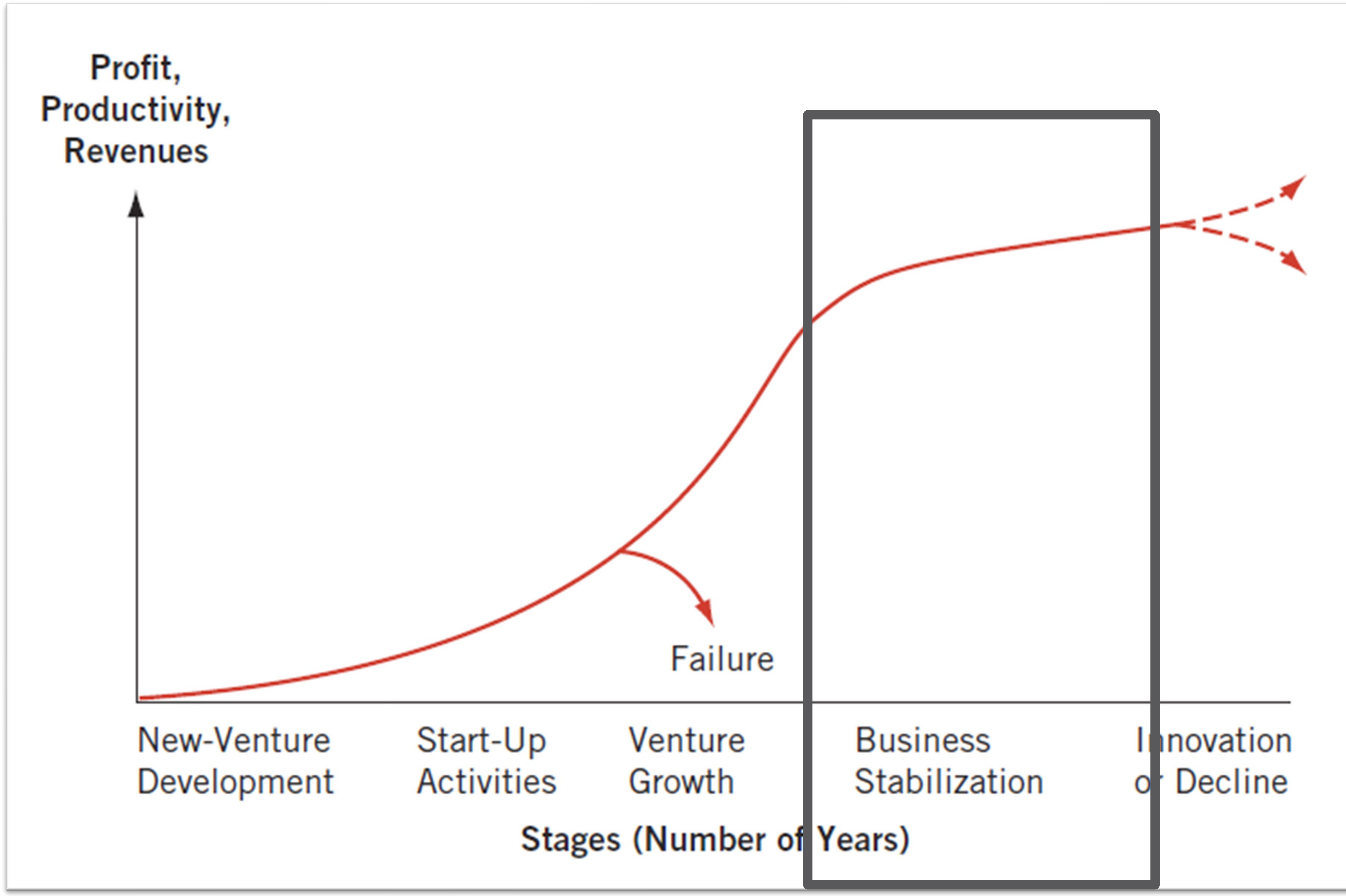
- Revenues start to rise rapidly.
- Some ventures fail here because they grow faster than their systems, capital, or market can support.



# A Venture's Typical Life Cycle

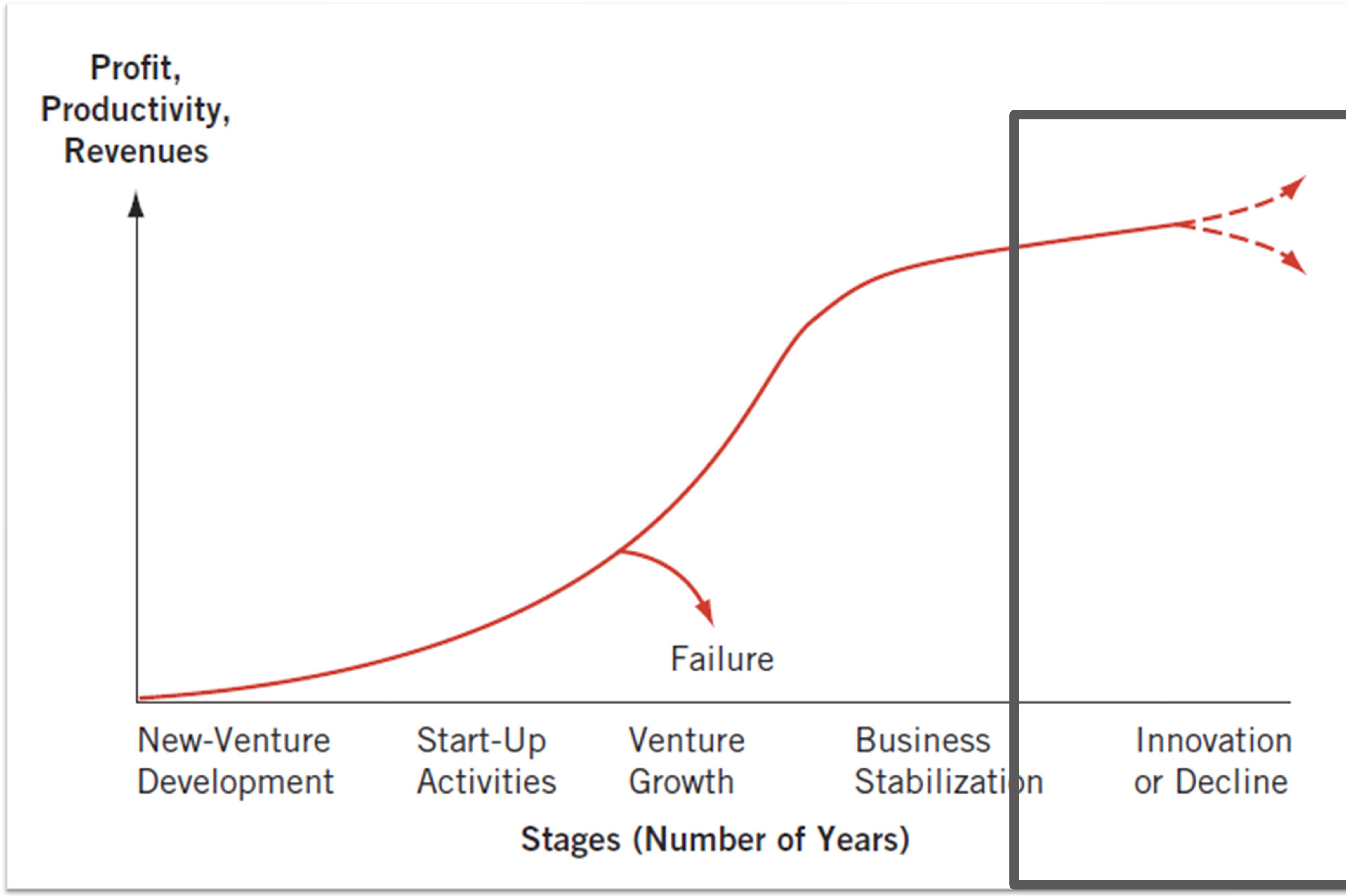
Those that manage growth effectively move into **Business Stabilization.**

- Systems, operations, and strategy become more formalized
- Strategic planning and scaling decisions matter most here.



# A Venture's Typical Life Cycle

From there, ventures must continue to **innovate** to sustain performance, or risk **decline** as markets shift.



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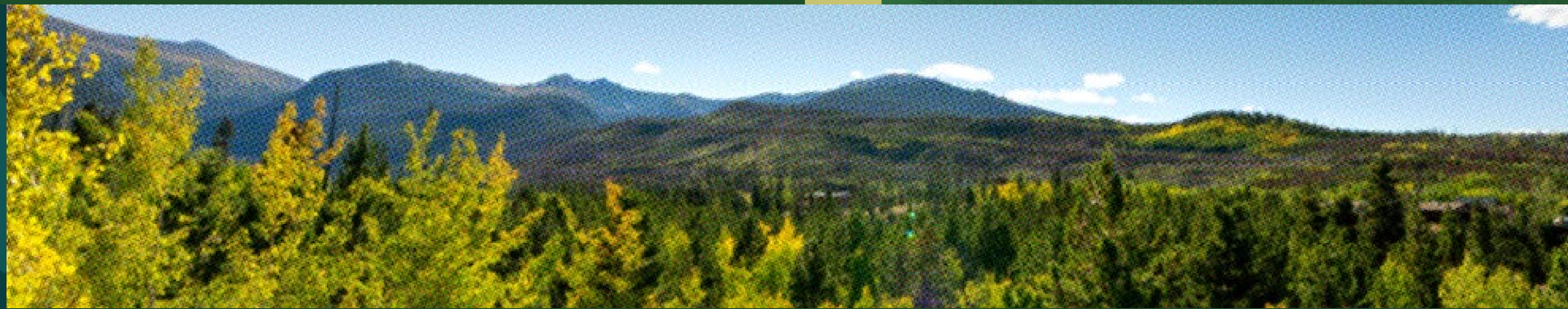
# Part 1: Growth Phase



# Phases of Venture Growth

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# Recall: “Fit” is what happens when the value map aligns with the customer profile

- Product-Solution Fit

| | | | | |
|---|---|---|---|---|
| Product/Service | ⟶ | Satisfies | ⟶ | Customer job |
| Pain relievers | ⟶ | Alleviate | ⟶ | Pain points |
| Gain creators | ⟶ | Create | ⟶ | Additional value or benefits that your customers desire |

- Product-Market Fit
  - You are actually creating customer value and getting traction

# How do you know if you are creating value/getting traction?

- Customers are **repurchasing** or referring others
- You're seeing **consistent growth** in sales or user base
- Customer **feedback** validates the product's value
- **Retention** is improving while acquisition costs stabilize
- You're starting to attract investor or partner **interest**

# Driving growth through strategic planning

- The need for formal, systematic planning arises when:
  - Expansion adds complexity (more people, products, and markets)
  - Market uncertainty or competition increases
  - The venture lacks adequate experience, either technological or business

# What is "Strategic Planning"?

- **Strategic planning** = formulating long-range plans to manage opportunities and threats give your venture's strengths and weaknesses.
- Includes:
  - Defining the venture's mission
  - Specifying achievable objectives
  - Developing strategies
  - Setting policy guidelines

# Basic Steps in Strategic Planning

1. **Examine** the internal and external environments of the venture (SWOT—strengths, weaknesses, opportunities, threats), SWOT analysis.
2. **Formulate** long-range and short-range strategies (mission, objectives, strategies, policies).
3. **Implement** the strategic plan (programs, budgets, procedures).
4. **Evaluate** the performance of the strategy and gather **feedback** for continuous improvement.

# Example: Oregon Flower Farms

**Oregon Flower Farm** produces and sells **locally grown cut flowers, herbs, dry-farmed produce**, and **pastured meats.** They offer **on-farm experiences** such as U-picks, farm tours, and small private events.

Their business combines sustainable agricultural practices with agritourism to diversify income and connect directly with local consumers.

*Value proposition:* **Oregon Flower Farms…**

| | |
|---|---|
| **Helps** | Local consumers, florists, and event organizers |
| **Who** | Want fresh, sustainably grown flowers and farm products |
| **By providing** | High-quality, locally sourced blooms and authentic farm experiences |
| **That** | Celebrate community, sustainability, and connection to place. |

# SWOT Analysis: Oregon Flower Farm

| Strengths | Weaknesses |
| --- | --- |
| What are we doing well?<br>What sets us apart? | Where are we limited or underperforming?<br>What are we missing? |
| **Opportunities** | **Threats** |
| What trends, markets, or customer needs could we tap into?<br>How can we use our strengths to capitalize on opportunities? | What external forces could harm or disrupt our venture?<br>What are our main competitors doing? |

# SWOT Analysis: Oregon Flower Farm

| Strengths | Weaknesses |
| --- | --- |
| - Education & Experience<br>- Own land & existing infrastructure/materials<br>- Location – busy road, in between two good  size urban areas<br>- Construction and electrical skills<br>- Amazing view!<br>- Southeast exposure and good soil<br>- Access to animal manure for amendment | |
| **Opportunities** | **Threats** |
| | |

# SWOT Analysis: Oregon Flower Farm

| **Strengths** | **Weaknesses** |
|---|---|
| | - Limited to irrigating only ½ acre from well<br>- Seasonal creek but no water rights<br>- No capacity to farm full-time<br>- Two school aged children need care and transportation (not a weakness, but a reality…)<br>- On-farm experience is limited<br>- Need to procure additional start-up infrastructure<br>- Need insurance to cover on-farm visitor liability |
| **Opportunities** | **Threats** |
| | |

# SWOT Analysis: Oregon Flower Farm

| Strengths | Weaknesses |
| --- | --- |
| | |
| **Opportunities** | **Threats** |
| - Dry-farming produce<br>- Plant propagation & microgreen production in greenhouse<br>- Expand small animal production<br>- Agritourism opportunities include farm stand, - U-picks and host small events<br>- Expand floral arranging component of business<br>- Tap into wedding industry<br>- Host educational tours and teach on farm | |

# SWOT Analysis: Oregon Flower Farm

| Strengths | Weaknesses |
| --- | --- |
| | |
| **Opportunities** | **Threats** |
| | - Surrounded by grass seed fields, produce lots of dust and possibly chemical drift<br>- Changing climate, unpredictable weather, strong wind<br>- Unknown capacity for local flower market<br>- Competition in the area for local flowers<br>- Need to carve out small farm niche<br>- Cut flowers are not a “necessity” like edible products are |

# SWOT Takeaways

SWOT helps ventures identify how to grow intentionally once they've found signals of product-market fit

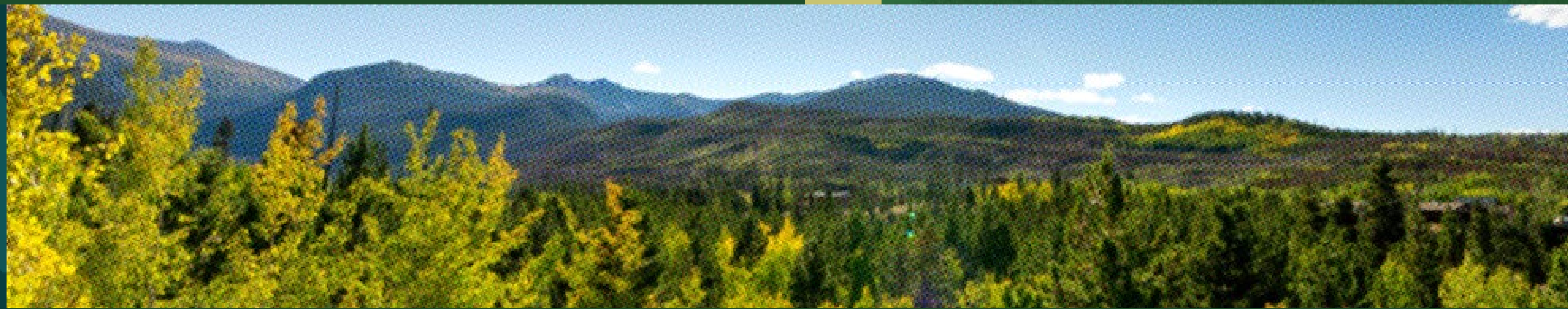
- Helps diagnose readiness for growth
- Aligns the venture with its market environment
- Turns intuition into a plan
- Provides a structured way to ask:
  - "Are we building on what we do best, and does the market want it?"

# SWOT Takeaways

**For Oregon Flower Farm:**

- Strengths like location and skills match customer interest in local, sustainable agritourism.
- Weaknesses (limited water, capacity) reveal scaling constraints that must be addressed before expansion.

# Part 2: Scaling Phase



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# From Growth to Scaling

You've tested your concept, found your market, and built initial traction.

Now the question is: *How big can this venture realistically grow?*

# What Does Scaling Mean?

**Scaling** means **expanding your venture's reach and revenue faster than its cost base** grows.

- This requires building systems, processes, and market reach that allow growth to happen efficiently.

**In this phase:**

- You move from *testing* to *replication*.
- Growth becomes more **systematic** through marketing channels, operations, and partnerships.
- Strategic planning focuses on how to capture a larger share of the market.

# Understanding Market Potential (TAM, SAM, SOM)

| Term | Definition | Example (Oregon Flower Farm) |
|---|---|---|
| TAM | *Total Addressable Market:* total demand for your product if there were no constraints. | |
| SAM | *Serviceable Available Market*: the portion you can reach with your business model or geography. | Consumers buying local flowers in Oregon. |
| SOM | *Serviceable Obtainable Market:* the realistic share you can capture in the short term. | |

# Understanding Market Potential (TAM, SAM, SOM)

| Term | Definition | Example (Oregon Flower Farm) |
|---|---|---|
| TAM | *Total Addressable Market:* total demand for your product if there were no constraints. | All U.S. consumers who buy cut flowers. |
| SAM | *Serviceable Available Market*: the portion you can reach with your business model or geography. | Consumers buying local flowers in Oregon. |
| SOM | *Serviceable Obtainable Market:* the realistic share you can capture in the short term. | Local households and florists within a 30-mile radius/ |

# Why does understanding your market potential matter?

- Helps determine the **scope of opportunity** before investing in scale.
- Clarifies how big the “next step” should be (new markets, new products, or more capacity).
- Anchors the **venture’s valuation** and investor discussions later.

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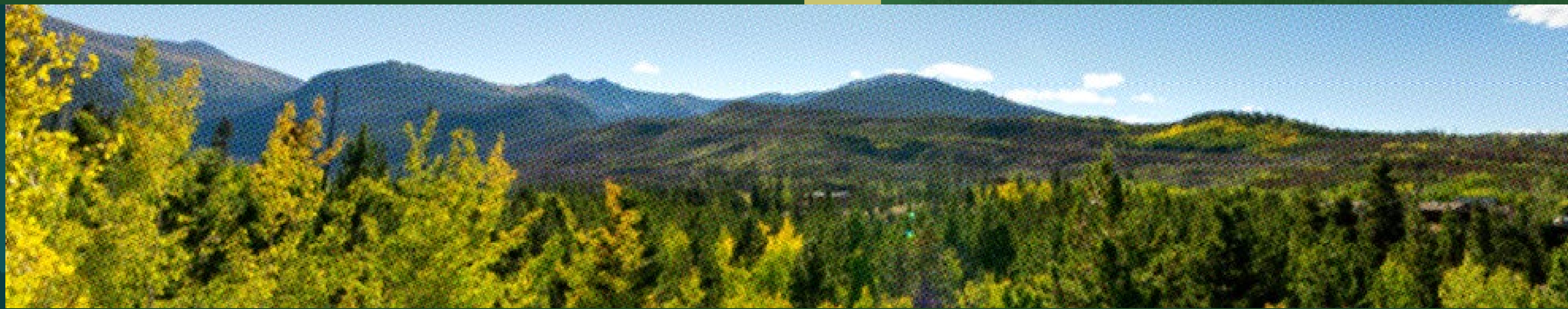
# Part 2:
# Venture Valuation Phase



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# From Scaling to Venture Valuation

Once a venture demonstrates scalable systems and predictable growth, it becomes easier to **value**.

Investors and partners start asking:

- “What is this business worth, and how fast can it grow?”

# From Scaling to Venture Valuation

During **scaling**, the focus is on *expanding efficiently*: improving systems, increasing reach, and growing revenue faster than costs.

As the venture matures, those performance metrics (sales growth, margins, customer retention) start translating into **financial value**.

**Venture valuation** marks a shift in mindset.

# The Importance of Business Valuation

- Reasons when you would want to pursue valuation:
  - Buying or selling a business, division, or major asset.
  - Establishing an employee stock option plan (ESOP) or profit-sharing plan for employees.
  - Raising growth capital through stock warrants or convertible loans.
  - Determining inheritance tax liability (potential estate tax liability).
  - Giving a gift of stock to family members.
  - Structuring a buy/sell agreement with stockholders.
  - Attempting to buy out a partner.
  - Going public with the company or privately placing the stock.

# How do we establish a firm’s value?

- Venture valuation estimates what a business is *worth today* based on its **current performance**, **future earning potential**, and **perceived risk**.

- **Core Idea: Value = Future Earnings + Risk**
  - Investors care less about what the business *has done* and more about what it *can do next*.
  - The value reflects **expected cash flows**, adjusted for the **uncertainty** (risk) of achieving them.

# Common Valuation Methods

| Method | What it looks at | Used when… |
|---|---|---|
| Asset-Based | Value of what the firm owns (land, equipment, inventory) minus what it owes | Useful for farms, established physical operations |
| Earnings or Income-Based | Present value of expected profits or cash flow | For mature, profitable ventures |
| Market or Comparable-Based | Value compared to similar firms (multiples of sales or EBITDA) | For startups or when market comps exist |
| Venture Capital Method | Backward calculation from expected exit value | Common for early-stage or high-growth startups |

# Understanding EBITDA

$$EBITDA = Net\ Income + Interest + Taxes + Depreciation + Amortization$$

Or,

$$EBITDA = Operating\ Revenue - Operating\ Expenses$$

| Item | Amount |
|---|---|
| Revenue | $1,000,000 |
| Cost of Goods Sold | (400,000) |
| Operating Expenses (e.g., salaries, marketing) | (300,000) |
| Depreciation | (50,000) |
| Interest | (20,000) |
| Taxes | (30,000) |
| **Net Income** | **$200,000** |

$$EBITDA = 200{,}000 + 20{,}000 + 30{,}000 + 50{,}000 = \$300{,}000$$

EBITDA measures a firm's operating performance before financing and tax costs.

# Understanding the VC Method

$$\text{Implied Valuation} = \frac{\text{Investment Amount}}{\text{Equity Percentage}}$$

For example, if a founder asks for $500,000 for 7% equity, the **implied valuation** is:

$$\$7{,}142{,}857 = \frac{500{,}000}{0.07}$$

# Drivers of Value

- **Revenue growth** – size and speed of sales expansion
- **Profitability and margins** – efficiency and pricing power
- **Customer base** – size, loyalty, and repeat sales
- **Assets and intellectual property** – tangible and intangible resources
- **Management and systems** – the team’s ability to sustain growth
- **Market risk** – competition, regulation, and volatility

# For Agribusiness and Food Ventures

- Often a blend of asset-based (land, facilities) and income-based (sales, contracts) valuation.
- Intangibles like **brand reputation**, **customer loyalty, supply relationships**, and **certifications (e.g., organic)** can add significant value.

# Summary

- ✓ Describe how agribusiness ventures move from growth to scaling and why planning becomes more important as they expand.
- ✓ Use a SWOT analysis to identify what a business does well, where it struggles, and where new opportunities or risks exist.
- ✓ Explain what scaling means and how to estimate market potential using TAM, SAM, and SOM.
- ✓ Find and interpret real market data (for example, from IBISWorld) to understand a venture's growth potential.
- ✓ Explain how a business's value is determined and why valuation matters for entrepreneurs and investors.
- ✓ Calculate simple valuation examples and understand what EBITDA shows about a company's financial performance.
- ✓ Identify the main factors that drive value in agribusiness and food ventures, such as brand, customers, and profitability.