

Beating the Competition Through Business Planning

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Introduction.

The over-riding theme of this conference and paper series is “farmers divided”. Farmers differ with regard to their long run profitability, and subsequent growth patterns. More fundamentally, farmers are not even united in how they define and describe such concepts as “profit”. Philosophically, farmers do not agree on the general direction of the agricultural industry as a whole, or on the role of government in steering the direction of industry change. Some farmers are challenged in a positive way by the changes that are taking place in agriculture, and are actively seeking the best way to thrive and achieve business and personal goals in the changing environment. Others become very frustrated trying to keep up with the changes that are going on around them, and struggle to find direction and a path for success.

While there are many factors that lead us to involvement in agriculture, certainly economic returns over the long run are an important consideration of viable sized farming operations. In order to “set the stage” for a discussion of business planning, it is important to consider factors that may, or may not, impact the long run profitability of individual farms or businesses. First, is long run farm profitability driven by overall long run commodity price levels? To the surprise of many, the answer is an emphatic “No”. In order to clarify, we need to make distinction between returns to farming operation, and returns to ownership of the base resources (land in particular). It is a simple fact that higher long run commodity prices or government payments are quickly bid into rental rates, land values, and other base resource values. Long run returns to “farming” are largely unaffected. This implication is often confused, and masked for long periods of time by traditional accounting methods, and IRS reporting requirements. Traditionally reported profits are a mix of returns to land, labor, management, and other farming assets. Short term “net farm incomes” are significantly impacted by commodity prices and government payments.

What about short run price risk management strategies of individual farmers? Can some managers gain an advantage, and improve long run profits, by being better marketers? Again, the answer comes as a surprise to many. The consensus of research suggests that it is very difficult, if not impossible, to enhance profitability to any significant degree by consistently “beating the market”. Price risk management tools can, however, be used to reduce the impact of price variability on the farms financial position. Do not confuse price risk management strategies with long term profit enhancement. As a matter of fact, the two work against each other in many regards.

Maybe it’s all just luck! Some producers just seem to be hit with more uncontrollable factors that negatively impact profits. While some production related risk can be mitigated through risk management tools, it would be naive to suggest that repeated weather disasters or other uncontrollable events cannot have an impact on individual farm profitability. I will argue, however, that the impact of uncontrollable or unexpected events might be mitigated through planning.

Finally, can a farm enhance long term profitability by achieving a “competitive advantage” relative to others in the industry? Absolutely- producing commodities at a lower cost than the competition, or capitalizing on a niche that enables one to consistently market a product or service at a higher price than others in the industry will enhance profitability. In general, managers need to do one of three things to improve profits: 1) Improve efficiency (do a better job of what you do now); 2) Increase Volume (do more of what you do now to spread fixed costs); or 3) Reorganize the business (do something different). There are a number of resources available to help farm managers evaluate and improve financial performance, including the materials listed in the additional resource section of this paper that are available on various web sites. From a “strategic” standpoint individual firms focus on: 1) Cost Leadership (be the low cost producer of whatever commodity you are producing); 2) Differentiation (produce some attribute that others are unwilling or unable to duplicate that will garner a market premium); or 3) Creating barriers to entry (perhaps through brand loyalty or some other mechanism).

In a nutshell, *business planning is all about finding, describing, and refining the competitive advantage* of a particular firm or entity to assist that firm in achieving individual goals and objectives (financial, transitional, resource stewardship, family, etc.). The increased capital requirements, more intense global competition, and the rapid rate of technological change are just a few of the many changing factors that come to mind that have increased the risk associated with managing an agricultural business. To further complicate matters, environmental stewardship objectives, and family goals become inter-twined with the financial management aspects of the farming operation. Most farm managers would agree that this changing business environment increases the need for more comprehensive planning of business activities. I sense that most contemporary farm managers are convinced that the planning process is valuable, and could help achieve goals and objectives. On the other hand, motivating a farm manager to devote a significant amount of time to planning remains difficult. This paper has two objectives: 1) spell out some of the advantages of the business planning process to provide additional motivation to those managers who may see the need for further planning but have thus far been reluctant to initiate the planning process; and 2) outline the components of a business plan and

describe how a manager might begin to develop a business plan that is suited to their specific needs.

What is Management?

Functions of management include planning, organizing, staffing, directing, and controlling the ongoing operations of the business. Historically farm managers have devoted most of their time to the labor tasks (staffing). Organizational and control functions were performed on the fly as issues arose that required attention. The planning function has been relegated to bits and pieces often done in response to a crisis, or when evaluating a significant change in the operation. Bear in mind, however, that management is goal directed activity; results are what counts in the long run (I don't necessarily mean just financial results). Planning provides a roadmap for the other functions of management, making it in some regards the most important role. As a general rule, no matter how urgent the labor tasks become, planning and controlling functions are more important in the long run. In fact, adequate planning often allows the other functions to flow more smoothly, reducing the total management time needed to "run the farm".

Among other characteristics, businesses that succeed tend to have realistic expectations and a clear sense of purpose (they stick to a well defined set of core values). Successful businesses monitor costs and profitability, and they develop and understanding of their strengths and weaknesses. A recent magazine article summarized these attributes by concluding that successful entrepreneurs must have a "will to succeed" and a "way to move forward" or an action plan (*Successful Farming*, May-June 2002 pp 18-23).

Planning – Dynamic process of preparing business for future.

Business planning is not a new concept. The planning process relies on components that have been used by managers for many years. A more formal plan serves as a format for organizing the various components. For example, the plan can serve as a mechanism to connect the production, marketing, and financial aspects of the operation, while at the same time considering retirement and business transition needs, etc. In a very general sense, the plan is a statement of how you intend to react to the constant changes in the business environment in which you operate and achieve the goals and objectives that you have in mind. Most importantly, the process can help to identify the competitive advantage (or advantages) of your individual operation, and help you to devise specific strategies and tactics to capitalize on those advantages. Specifically, the planning process helps to:

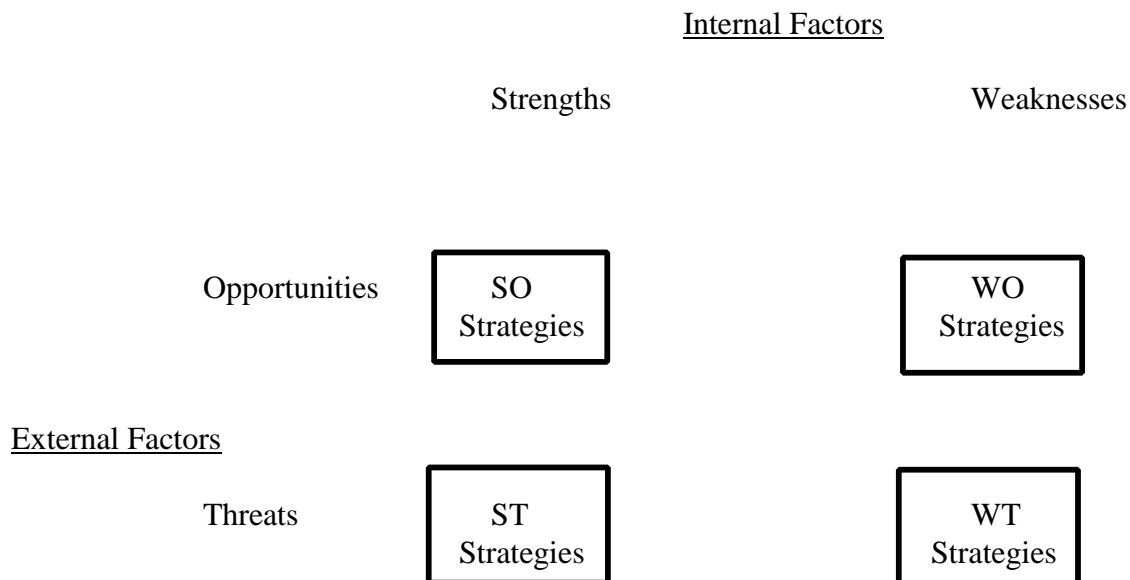
- Identify goals. (what do you want to accomplish?)
- Inventory resources. (what do you have to work with?)
- Analyze business performance. (How have you done in the past?)
- Assess the environment and the potential. (what might you do in the future?)
- Decide on actions. (what will you do now?)
- Implement strategies. (how will you do it?)
- Evaluate the plan. (is it working?)

Planning is often triggered by a key event, such as a change in enterprise selection, ownership or management transition, or financial stress brought on by outside market or environmental factors. Certainly, over the past few years market conditions and weather factors have contributed to increased financial stress among a broad group of agricultural producers.

Types of Planning

The term “plan” can mean different things in different situations. From a management perspective, there are a number of different components that have been referred to as “plans” individually. Operational plans typically outline how to achieve very specific and very short run (this year) goals and objectives. Operational plans are very “tactical” in nature, meaning that they describe how specific goals will be achieved through day-to-day operations. Financial plans assist in evaluating current financial position, and the potential for future financial performance. Marketing plans assist in evaluating where your business is positioned in the marketplace, and formalize risk management strategies. Financial and marketing plans can certainly have a tactical component, however, they also can be “strategic” in nature. Strategic planning focuses on the long term (historically thought to mean 5 to 10 years). Many authors now believe the time horizon for strategic planning needs to be shortened due to the rapid rate of change in the industry.

Strategic planning often uses the well known SWOT (Strengths, Weaknesses, Opportunities, Threats) thought process to help managers prepare for the future, evaluate significant changes, or consider value added investment opportunities. Internal factors are viewed as either strengths or weaknesses, and external factors are viewed as either opportunities or threats. Specific strategies are conceived in response to factors that fall into each quadrant of the SWOT matrix.



The primary product of the overall planning process can be a document which summarizes manager's thoughts regarding where the business is headed, and the strategies to get there. In this capacity, the process should help to prioritize and resolve conflicting goals. Just thinking about such trade-offs as profitability vs security, and consumption vs investment can be useful. The business may also use the information to answer questions posed by others who have an interest in the success of the farm business, such as family members, lenders, landlords, etc. In this capacity, the product of the process (the plan) can be used as a tool to secure funding, or a communication tool for interested parties. Keep in mind that neither the product nor the process are "static". The process needs to be ongoing continually to facilitate achieving objectives in a rapidly changing world, and the formal plan (if one results from the process) needs to be re-visited periodically as well.

Benefits of planning

Given that tough individual management decisions must be made on a daily basis, the planning process provides information and structure to assist in decision making. The process leads to a better understanding of all aspects of your own business, especially the financial needs and interactions. One product of the process is a set of benchmarks (production, financial, etc.) for future comparison and progress monitoring. Planning provides a link between short and long term goals, helps to tie specific activities to goals, identifies resource constraints and commitments, and outlines expected returns and payoffs. Planning facilitates the testing of ideas on paper (or on computer spreadsheets, for example) before implementation, helping to build confidence to move forward and take advantage of opportunities. Managers can feel more in control when they are proactive, rather than reactive. Most people's perception of their business is flawed in some important respect. These flaws can often be discovered cheaply when preparing a business plan. They are always eventually discovered in the real world. In this respect, a well thought out business plan may improve the chances of success. Specific rewards will, of course, vary among managers.

A formal plan, especially if it is written, can facilitate much needed communication, and help maintain focus, leading to a better understanding of the relationship between the business and the family. This helps to clarify the roles that family members, partners, and employees play in the operation. Business roles that any particular individual might fill include production, marketing, financial and legal management, or labor. Similarly, family roles can include a combination of home maintenance, parenting, leisure, and social/community interaction and service. For resource suppliers, formal business plans help to communicate your image, your past performance track record, and your projections for the future. Documentation serves as evidence of your ability to manage, plan, and communicate.

Finally, though this may at first sound like a circular statement, one of the primary benefits of the planning process may in fact be the acquisition of planning experience. The thoughts that are developed during the planning process can force owners and managers to think more precisely, leading to the ability to manage more effectively. In a sense, *the plan itself is not nearly as important as the planning process.*

While many successful managers take an “informal” approach to planning, formal written business plans do have advantages. Often, especially during times of economic hardship, stress can overcome a business manager’s ability to make good decisions. I believe that agricultural businesses can combat stress, increase problem solving effectiveness, and increase the likelihood of success by developing written business plans. Written plans define goals, outline methods of achieving goals, describe what the business does, how it is done, and who does it. Questions related to where, why, and when are also explored. The formal plan lays out how business will function, and how it will be capitalized and managed. Some blueprint or “plan” is often needed to combine available resources into a complex production and financial system that best meets to goals and objectives of the individual manager. A written business plan provides this management and financial “blueprint”. Writing things down clarifies the thought process. Finally, and perhaps most important for family businesses, written plans reduce the chance of “selective recall”, or disagreements regarding important business decisions in the future.

Barriers to planning

Given the widely recognized benefits of the business planning process, why are many farm managers reluctant to engage in the activity? The most common answer to this question I get when visiting with farm managers is that they are always “too busy putting out fires”. In other words, all available time is committed to the labor and control functions of the operation. Over time managers likely will place an increased emphasis on planning functions, and will discover ways to re-allocate time, or delegate tasks to “free up” time for planning and strategic thinking. The second most common response to the earlier question is that farm managers are unsure how to start the process, have never seen a formal business plan, and do not know how to develop one. A primary objective of this paper is to address this barrier. In addition, there is often a fear of the unknown future, and a reluctance to engage in planning activities that might shed light on some unpleasant realities. Some managers cite the inherent in-exactness of long run financial projections as a reason to avoid at least the strategic component on the business planning activity. To be blunt, this is a rather poor “excuse” not to plan, rather than a legitimate barrier to the planning process.

Steps in the Planning Process

There are a number of general tasks that need to be accomplished in the planning process. For lack of a better term, these are often referred to as “steps”. However, they are certainly not accomplished in any sequential order, and the components are inter-twined between steps. Starting and stopping points are not always clear, and the process is more like a continuous circle where there are always revisions being considered and made. One important task is to constantly assess the current situation. The level of detail here will depend on the needs of the individual. Usually, a comprehensive evaluation of the current financial situation is developed, along with an evaluation of production practices. Land and capital resources available may be described and evaluated in detail, and the interests, skills, and expectations of owners, managers, and employees may be examined. A second important task is to determine and document where the business (and perhaps family) needs to be in the future. This strategic component is one of the most important, but difficult steps in the process for most farm managers because it often

involves such abstract concepts as vision, mission statements, goals, and objectives. This step also involves some concrete “number crunching” to determine the size and scope of business activity needed to achieve financial and other objectives.

Once one has thought about where they want the business to go, and the resources currently available to work with, the next step in the planning process is to identify, select, and test alternatives. Again, the level of detail and the specific components included in this step will vary greatly from business to business depending on the needs of the individual. The feasibility of proposed alternatives (both financial and production) is explored, and risk management strategies may need to be considered in this step. The final ongoing task, or “step”, in the process is to implement the plan. This involves controlling and steering production activities in the direction outlined in the plan, monitoring progress toward (hopefully) goals and objectives, and documenting the process along the way.

One tool to assist managers in achieving the tasks outlined above is a comprehensive written “business plan” developed for their individual needs and situation. This comprehensive “business plan” may be thought of as a compilation of several sub-plans, chapters, or components. General categories (chapters, sub-plans, major outline points, or however you want to think of them) integrated into the overall plan generally include: 1) A comprehensive description of the business, including the name, goals, objectives etc.; 2) a discussion of the products and services produced; 3) an evaluation of the operation itself, including an inventory of facilities and equipment, the people, and an overview of production methods; 4) a financial assessment, including historical performance, profitability expectations, cash flow requirements, and pro-forma financial projections into the future; 5) a discussion of sales and marketing strategies; and 6) a conclusion that clearly articulates the competitive advantage of the business, a strategy for accomplishing goals and objectives, and specific actions that will be taken.

Remember, it is not important that a particular plan follow exactly the structure or “outline” suggested here. What is important is that the structure used in the planning process accomplish the tasks outlined in the previous section sufficiently to meet the needs of the individual situation. Keep in mind, the process is all about finding, describing, and refining the comparative advantage of a particular business entity. Don’t get bogged down in following any particular format or outline, rather find a structure that helps you to achieve the goals and objectives that are important in your situation. The plan does not have to be overly complex to be effective, just complex enough to help provide focus.

Constructing your plan.

The planning process needs to be split up into manageable tasks. Some components can be delegated to advisors or others. There are even professional planners who will develop a plan for your business, however, there are some disadvantages to this approach. First, professional planners can charge upward of \$3,000.00 to \$6,000.00 to develop a complete plan. More importantly, it is critical that the management team play a key role in the planning process and not delegate every component. There will be more complete “buy in” to the final product, and the process itself, if business owners and managers are deeply involved in the development process.

With this said, accountants, lenders, legal consultants, and others can play a key role in providing input into the planning process.

The first hurdle to overcome in the formal planning process is to decide which elements of a comprehensive business plan are needed in your individual situation. This will likely require some probing into the goals and objectives task at the onset of the planning process. The manager might also explore the various tools available to help structure the thought process. Will the manager use a planning template, an example outline, or start from scratch on their own? Examples of templates that are available include Finpack Business Plan™, the Business Plan template available through the Executing Institute For Commercial Producers (available through Purdue University), and commercial generic software such as Business Plan Pro™. Whether using a template, or starting from a “blank page”, a common challenge in developing a formal plan is knowing what to write down. The criteria boils down to -- will the information and analysis be useful in the future to attain long term goals? First time plans often focus on the computations. As business managers grow more familiar with the planning process, the emphasis may shift to narrative descriptions. This is a logical evolution of the planning process, as baseline information (computations) are needed before thinking about more strategic issues. There is no right or wrong format. The plan should be designed to meet the needs of the individual operation (find, describe, and refine competitive advantage). A year is generally considered the minimal amount of time to spend developing a comprehensive initial business plan, however, depending on the urgency, availability of information, and plan objectives the time period could be shorter. Once the initial plan is developed, the planning process should be ongoing as business objectives and the operating environment changes. In reality, farmers are constantly thinking about the long-term future and planning for it. The planning process discussed in this paper simply formalizes the recording of those thoughts and computations. The following discussion of the primary components of a formal business plan should help managers begin to pull thoughts and information together.

1. Description:

Title Page and Table of Contents

The description section of a business plan is exactly that, a description of the current business. Like most other written documents, most formal plans include a title page. A table of contents is useful as well, to facilitate future referencing. The title page typically includes the business name, the name and address of key owners and/or managers, and the date of the latest revision of the plan. An example table of contents (or outline) is provided as a supplement to this paper.

Definition

Provide a definition of your business. It can be short, and simple, but should read well and be well organized. Identify primary products, production practices marketing methods, and other highlights of the business. Succinctly describe your competitive advantage, while at the same time highlighting potential problems (this is likely done after completion of the other tasks

in the planning exercise). Demonstrate an effective management team, and discuss other resources in a very general way. Questions to answer that may help in describing your business include: Who are the customers, how many are there, how do we reach them, and why are we in business? Do we produce for a commodity or specialty market? What is the status of “our” business (i.e. startup, expansion, takeover, etc.)? In addition to these issues, non-production agriculture businesses often consider such questions as: What type of business are we in (merchandising, manufacturing, processing, production, service, etc.)? What phase of the business cycle are we in (embryo, growth, mature, declining, starting new, etc.)? When will our business start, and operate (hours, seasonal or cyclical, etc.). Most importantly, all businesses need to answer the following question. “Is there anything here that gives me an advantage or disadvantage?”

Mission Statement

Due to the abstract nature of the activity, developing a mission statement can be one of the more difficult tasks for the farm business management team. Due to this difficulty, and the belief by some managers that it is not a critical component, many business plans will not include a mission statement. Those who do expend the time and effort to develop a mission statement will find that it provides an over-riding vision for the business and provides guidance for day-to-day activities.

A well written mission statement outlines the basic purpose of the business and summarizes what is done, who it is done for, and how the organization conducts itself. In short, the mission statement provides a foundation for the rest of the plan. The statement also describes the future and outlines the guiding values and principles, which can include economic, environmental, family, and community components. The mission statement should encompass the primary roles of the organization, and provide guidance for balancing those roles. In formulating a mission statement it is important to focus attention on the essentials so that you provide direction for the business. One danger of written mission statements is that they can quickly become too abstract and all encompassing. Remember, trying to do too many things can impede the success of the business. Keep the original purpose and intent in mind; to inspire and direct you and others in the business, not to impress outsiders.

Pondering the following questions may help in formulating a clear and brief mission statement that is specific to your farm business. What business are we in, and why? What need are we filling? (Not “what product are we producing?”) Are we considering new activities? We are pursuing these activities because What are we good at? Who are our customers, and what are their needs? What role do family members, partners, and employees play? What do we want our farm (or business) to be in ten years? We will be recognized by our ability to What makes our business unique? As these and other questions are considered, keep the overall goals of the organization, and the commitment to those goals in mind (by now you are starting to understand the “circular” nature of the planning activity. It is not a one step at a time process). There are many ways to begin writing a mission statement, and several of the materials cited in the additional materials section of this paper may be useful. Thinking about the following matrix of business and personal attributes may help to concisely verbalize “why your business exists”.

	Now	Future
Business, Products, Services	_____	_____
Production Practices	_____	_____
Size and Scope	_____	_____
Marketing Practices	_____	_____
Management Structure	_____	_____
Social Responsibilities	_____	_____
Work Force	_____	_____

Objectives and Goals

All farmers have goals for their business. The planning process simply helps define and formalize those goals and objectives. For lack of a better terminology, we will refer to the process as “goal setting”. Like formulating a mission statement, the goal setting process is challenging, because many people have not tried to formalize their abstract ambitions. However, unlike the mission statement, clearly defined written goals are rarely an option for a serious, comprehensive business plan. Remember, planning is by definition a goal oriented activity.

Without goals there is no way to measure the results of management decisions, or make adjustments to management decisions. Goals need be specific enough to provide the guidelines for decision making. In general, goals describe conditions that you hope to achieve and reflect hopes and dreams for your business or personal life. Well expressed goals provide management direction and consistency. Well expressed goals also help management to be more productive, and use resources more effectively. Goal setting requires creative thinking, and goals are personal and unique to the specific situation because they reflect values and beliefs. Goals need to be positive, realistic, and attainable, while at the same time being flexible to allow for changes an interests and priorities change. The formal goal setting process should involve discussion and compromise among family and business partners (communication is critical throughout the planning process). Priorities should be established so conflicts that arise later can be resolved. This is important at the onset, as goals often conflict across generations, or within families. The following questions may help business managers and family members to begin to formulate objectives (longer term general direction), and goals (short term measurable actions):

- What do I really want out of life?
- What does my spouse or other business partner(s) want?
- What can we do that is most productive and worthwhile?
- How can we capitalize on the interests and abilities of the people involved?
- What are we trying to achieve?

- When can we realistically achieve these things?
- Who will take over when I retire?
- How do we resolve conflicts?
- Do short term goals aid, or impede long term objectives?
- Are some goals substantially more important than others?

The following widely used acronyms may help managers to distinguish between long term objectives and short term goals. Long term objectives DRIVE (Directional, Reasonable, Inspiring, Visible, and Eventual). Short term goals are SMART (Specific, Measurable, Attainable, Rewarding, Timed). To begin the objective and goal setting process, some businesses may find it useful to have each family member or business partner fill out a goal setting matrix like the following:

	Soon	5 Year	Long Term
Personal/Family	_____	_____	_____
Business / Production	_____	_____	_____
Marketing	_____	_____	_____
Financial	_____	_____	_____

All parties then come together to compare lists and agree on most important items. For the rest of the list, communication can help to evaluate tradeoffs and rank goals and objectives terms of importance. This process will help to bring family members or business partners closer and help to build an internal support system. As with other elements of the planning process, goals change over time as the business environment changes, and as peoples needs and desires change.

Legal form

In this section of the plan the purpose is to describe the current ownership structure of the business, and perhaps explore alternatives. Individual managers should place as much emphasis on this portion of the plan as needed to provide direction in achieving long run business objectives. For example, if the legal form of the business structure has significant implications for family tax management, estate planning, business transition planning, or other important objectives then a significant amount of attention should be given to this section of the plan. In other instances the existing business structure may be adequate to achieve the objectives of management, and a simple description of the existing structure (how owners are compensated for their investment) is all that is needed. When considering a new venture, or substantial changes to the existing business legal structure, remember that legal requirements and documentation for various business entity possibilities vary from state to state. Work closely with both legal counsel and an accountant that are well versed in this area. Keep the overall objective of the

planning process in mind. We are trying to find, describe, and refine our competitive advantage.

2. What products or services do we provide:

For this paper, a minimal amount of space is devoted to this particular component because many agricultural managers considering assembling a business plan are traditional commodity producers. It is likely that managers selling into commodity markets will not include this section in their final business plan, or will include only a brief description of products and services in the business description section of the plan. Those managers considering new products, niche products, or value added ventures will need to devote a considerable amount of time and thought to this component of the plan. Therefore, the first question to ponder is “do we produce commodities, or niche products? If considering non-commodity products, describe the technology, the uniqueness, and other features of the product or services, and the production process. Thinking about these issues may help you to focus on the potential competitive advantage.

3. Operational:

Some authors refer to the operational component of a formal business plan as a description of “strategies and tactics”. This is where the manager is challenged to think about the resources available to work with, and how those resources can best be put to use.

Physical Resource Inventory

Provide a descriptive inventory of the resources available to the business. Many farm managers begin by evaluating the natural resources (land). In the financial section of the plan, you will have a detailed balance sheet which will provide a financial inventory of all owned assets. The inventory needed here for planning purposes is much different. First, it includes a description of all resources available whether owned, leased, shared, etc. Second, the objective is to evaluate the productive capacity and usefulness of the resource, rather than simply re-stating balance sheet values. The descriptive inventory might begin with a general evaluation of the geographic area, precipitation, historically successful cropping practices, etc. For each farm, provide a legal and/or common description, and a discussion of the ownership or lease arrangement. Aerial photos may be included, either directly in the plan or as an appendix, along with a description of soil types, vegetation, and other information regarding productive capacity. It may be useful to discuss water restrictions, drainage or conservation needs, local zoning restrictions, or other factors unique to a particular farm. Describe any improvements, focusing on productive capacity and usefulness. For example, rather than stating “this property includes some older barns and sheds”, one might state “this property has a calving shed capable of handling 10 new pairs within a 24 hour period during adverse weather”.

Next, provide a detailed machinery and equipment inventory. Again, the balance sheet will likely have a listing and an associated value for owned equipment. However, for planning purposes what is needed is a description of the equipment line’s productive capacity (row crop planting capacity of 100 acres per day, wheat harvesting capacity of 200 acres per day, etc.). By

considering productive capacity and usefulness managers are thinking about how the assets help achieve the goals of the business, rather than dollar value. Don't forget about leased equipment, and opportunities to share equipment with others when needed or on an emergency basis. Similarly, provide a description (age, performance, etc.) of breeding livestock resources that make up a significant share of the farms productive capacity. While sometimes tedious, the resource inventory process will help the manager to match the resource base with the production plans of the farm.

It is also necessary to describe how the operation is financed. How much capital is available, and at what cost? How are expensive capital replacement decision made and implemented? In addition, it may be useful to include a broader evaluation of the community, and other considerations. Are there unused facilities that could be placed in service? What is the current availability of land, and what are the prospects for the future? Are there any special market opportunities? Think about custom operator cost and availability, transportation opportunities or barriers, availability of professional assistance in area, quality of live services (schools, hospitals, clinics, entertainment, etc.), and other considerations. Are there by-products available at a low cost for inputs to the farming operation? Even though a manager may have lived in a community all of their life, reassessing from a different perspective may be useful. Again be reminded, the overall objective of the planning process is to "find, define, and refine competitive advantage". It is quite likely that some farms will discover their advantage in their resource base. A careful evaluation may help to identify hidden opportunities.

Human Resource Inventory and Plan

A unique aspect of the human resource is that it cannot be "stored" for later use. Labor is, however, necessary to utilize most other resources. At a minimum, the planner should provide a description of labor needs by season or task, and a description of how those needs will be filled. Depending on the complexity of the plan, specific skill demands may need to be addressed with a discussion of how those skilled tasks will be accomplished. Evaluate the workforce (including family) in terms of drive and motivation, organizational and analytical skills, innovation, problem solving ability, leadership skills, experience, and technical proficiency. Evaluate the community in terms of labor availability, support functions, salary and benefit structure of other employment opportunities, etc. When evaluating the "management" component of the human resource situation pertaining to your business, all of the above factors should be considered. In addition, people skills, financial management skills, commitment to the business, time availability, and attitudes toward risk need to be considered. The idea is to think about the team that is available, and how to capitalize on the strengths of each individual to accomplish the various tasks of the business. Separating the various roles into such categories as production and maintenance, sales or marketing, administration and financial management, and of course vision and planning may prove useful in putting together this overview of the human resources available. It may help to think about the following questions for each individual, or for the overall business: What are you familiar with, what do you like to do, what might you like to learn more about? What do you bring to the operation that enhances chances of success? What skills are lacking that you may be able to acquire, or bring in from outside?

Farmers who employ little or no labor may think these questions are irrelevant because they “have to do what needs to be done”, and cannot refuse to do a job just because they do not like it. However, selecting enterprises and designing a transition plan that minimizes activities that are not enjoyed, and maximizes activities that are most enjoyed could lead to increased productivity and profitability. In addition, off farm opportunities may be identified through the planning process. Remember our ultimate quest for competitive advantage. Family labor, or other highly skilled help that is available (perhaps only on a seasonal basis as a result of vacations, etc.) can provide just the “edge” that certain farms need.

Production Plan

Provide a description of the general practices and methods used in production. For example, for a cow-calf enterprise it might be useful to document important production processes such as the vaccination and health program, and a general description of how and when the various practices are implemented. Some managers might find it fun to essentially put together a production manual that completely describes certain enterprises. Most production plans will be much more general, and will focus on anything that is unique about the way primary products are produced, where supplies are purchased, or how the product is stored and shipped. The process of inventorying resources (both physical and human) and documenting production strategies should help the manager to focus on (and perhaps answer) the following general questions:

- What resources have historically been in short supply?
- What time of year were they short?
- Why were they in short supply?
- How have we handled the shortage in the past?
- What resources may be under-utilized?
- What time of year are they under-utilized?
- Why are they under-utilized?
- What can we do to increase resource utilization?

Tactical plans can then be developed to translate this evaluation into action. Focus on specifics: What needs to be done? Who is responsible? Where will the task be done? How will the task be done? When is the task to be accomplished? Many businesses (yes, even farms) find that periodic staff meetings are useful to maintain focus and to maintain open communication in implementing production plans. Some will certainly question the usefulness of spending time describing production practices in a written form. However, we can all think of instances in our local communities where a key manager was disabled, or even died, and the entire operation was put into instant turmoil. Therefore, not only can this exercise help to isolate competitive advantages or bottlenecks, it can also play a role in developing an emergency plan (discussed later).

Transition Plan

Transition has different meanings for different business situations, however, many farm businesses are facing some form of transition. This could be transition to an alternative business structure, or new enterprise mix, or perhaps larger scale of operation. Alternatively, the farm could be facing transition of ownership and management to the next generation or some other interested party. In any of these cases transition planning is important because farmers operate with a large contingency of fixed assets that are difficult to acquire and dispose of, and are linked together in the overall operation of the farm. When formalizing a transition plan (to help achieve whatever goals are appropriate), focus on the following: What assets are needed? Which ones are currently available? What additional assets will the business need to acquire? Are there any existing assets that could be sold? A current overall financial evaluation (from the financial section of the overall planning process), along with detailed financial projections for options being considered provide the basis for composing a transition plan.

Perhaps the most complex form of transition planning is succession planning, which is essential to ensure the continuation of the family business. However, succession planning is not easy as it brings up difficult issues like aging, loss of business control, openness regarding financial affairs, and/or death. If one of your long term goals is to transfer a viable farm business to the next generation, then a transition plan needs to be developed, and should be considered as a part of an overall business plan. Communication is key, and communication skills are of critical importance to a successful transfer. A well thought out planning process can facilitate communication, as well as provide facts to help businesses think through a transition plan that is tied to the long run vision of the business. The outcome of the process should be to determine the best way to achieve the goal of transferring the farm, and still have it viable. Tax implications should be considered, but transition planning experts caution that tax issues should not be allowed to drive the planning process. Resources, and example worksheets are available (see the additional resources list at the end of this paper) to assist businesses in developing a succession plan.

Emergency Plan (Scenario Analysis)

Unexpected events will interrupt the best developed plan. Surprises (both favorable and unfavorable) will occur, however, managers can think about certain events that would interrupt the business and develop strategies for dealing with such events. Preventing a bad situation from becoming a disaster may determine whether long term objectives remain achievable. Questions to ponder include: What impact will price, interest rate, and cost fluctuations have on the operation? How will I manage around major equipment or facility breakdowns? How will the business continue in the face of serious illness, disability, or death of a manager/owner? The list of questions can be expanded to include any event that would impede the owners/managers ability to achieve their goals.

Factors to consider when evaluating the impact of unexpected events include the probability that the event will occur, and the impact that the event will have on the goals and objectives of the business owners and partners if it does occur. In reality, business managers

rarely know these factors with a large degree of accuracy, however, by relying on experience managers should be able to identify the most critical scenarios. Sensitivity analysis is a tool that can be employed to evaluate price and cost fluctuations. Other possible scenarios need to be thought through in a more qualitative manner.

Once the most important potential adverse events have been identified, some thought should be given to how to 1) reduce the probability that the event will occur, or 2) reduce the impact that the event would have on the goals of the business. Strategies that are ultimately adopted will reflect the businesses ability and willingness to bear risk. Within the business plan, spelling out the reasons for chosen risk management strategies helps to reveal the thought process of the managers. It may at first seem unlikely that certain farms would gain a competitive advantage by being in a better position to deal with “emergencies”, however, I contend that it is a very real possibility. Death, disability, or divorce are often cited as the three D’s that can bring a business down faster than anything else. Having a contingency plan in place that can help ownership and management transition in the face of these, and other unexpected events may in fact save the business.

4. Sales and Marketing:

Like the product description section, the sales and marketing section of a comprehensive business plan for a traditional commodity producer may be very brief (on the other hand, it could be quite extensive). At a bare minimum, knowledge of break-evens can provide a benchmark for evaluation of marketing alternatives. In addition, recognition of risk bearing attitude and ability is important in developing a marketing plan. Finally, cash flow budgets may have a role to play in evaluating market timing and other marketing strategies. In contrast, most general business plans devote a lot of attention to the marketing section, and most business planning literature focuses heavily on the marketing component. This aspect becomes especially important when exploring value added opportunities to complement the farming operation. In general, in non-commodity markets the business manager should show evidence that they are aware of market conditions, the general economy, social trends, technology changes, and the competition. Developing a global perspective is essential for modern business managers, including commodity farmers. If filling a niche, be aware of what provides your competitive advantage. Carefully evaluate the scope of the market, and the growth potential for new or specialty products.

There is another aspect of marketing that all farm managers (whether commodity producers or specialty product producers) may want to consider in this section of the business plan. Consider the importance of marketing yourself, and your business, to current and potential landlords, lenders, potential employees, and the community in general. It may be time to consider developing a “farm resume” as part of the overall business plan to help market yourself to landlords, for example. Being proactive when communities begin to raise environmental concerns related to agricultural production could be another benefit arising from this aspect of the planning process. Keep the big picture of the planning exercise in mind. Is there anything in the marketing area (broadly defined) that helps me to discover, describe, or refine my competitive advantage.

5. *Financial:*

The financial component of a formal business plan will be a summarization drawn from financial statements and/or financial projections. For an ongoing business the first step is to evaluate the recent profitability of the business. Will this current business fulfill the owners' personal and business goals? If it looks as if the current business structure and operation is not adequate, how is it deficient (inadequate cash flow, unsatisfactory return to labor or equity, etc.)? The level detail and amount of work needed in the remainder of the financial planning section depends upon the answer to these first general questions. Specific questions that need to be answered in order to adequately evaluate the current financial situation include:

Am I profitable Now?
Do I have adequate resources?
What is the potential downside risk?

The tools that are commonly used to facilitate this current financial assessment include historical and current balance Sheets, historical income statements, historical cash flow statements, and perhaps statements of owners' equity. Materials and tools referred to in the additional resources section of this paper will assist serious planners in putting these financial statements together.

If the current financial assessment suggests it is likely that the current business structure and operation will achieve the objectives and goals of the owners and managers, then the role of the manager becomes one of monitoring profitability and financial progress over time to assure that the business remains on track to achieve objectives. In addition, risk factors (price, production, cost, human resources, etc.) should be evaluated on an ongoing basis, and efficiency improvements should be sought. Most of the time, growth or change is seen as necessary for long term business survival. In this case the planner (manager) must carefully review strengths and weaknesses, gather information regarding what others are doing, and formulate alternatives. These alternatives can include increasing size, changing enterprise mix, looking at alternative labor strategies, changing the organizational structure of the farm, exploring value added activities, or incorporating custom work, off farm investments, and off farm employment into the mix. Other options or combinations are situation specific and are too numerous to mention.

Evaluating and testing potential changes to the farm is more intense and more difficult than evaluating the potential of the current business. Numerous questions need to be addressed for each of potentially many alternatives:

Will I generate adequate profits?
When will I break even?
When will cash flow be positive?
How sensitive are projections to assumptions?
What are potential funding sources?
How much do I have to Invest?
What is my Credit worthiness?

Pro-Forma financial projections are needed for each alternative. Possibilities range all the way from simple partial budget projections if changes are relatively small, to complete financial statement projections (perhaps multi-year) if potential changes are significant. Don't forget to incorporate capital budgeting techniques for long term investments. Modern computer software (spreadsheets, as well as stand alone financial software) can help make the task of generating financial projections for a multitude of alternatives more manageable. Again, many of these tools are referenced in the additional resources section of this paper.

The opportunity for a business to earn a profit requires assuming some risk. The ability and willingness to assume risk needs to be evaluated. Farms differ in their capacity to assume production, price, and financial risk. Remember, ability (capacity) to assume risk differs from willingness to assume risk. Capacity to assume risk is determined by such financial factors as net earnings as a percent of value of farm production, total working capital available, debt repayment capacity, owners equity, and collateral position. Willingness to assume risk is a much more difficult concept to quantify, but is a factor that must be considered. Individuals differ greatly in attitudes toward risk. Furthermore, individual attitudes often change over time with financial position, age, experience, etc. Monitoring attitudes towards risk is an important part of the farm planning puzzle.

The financial component of the overall business plan can be an excellent place to search for competitive advantage. Financial position and financial efficiency measures can quickly reveal problems, or opportunities. Gaining information (facts) is the first step toward finding solutions that will guide the business toward goals and objectives.

6. Conclusion:

I would argue that the conclusion is the most important part of the business plan, though the conclusion cannot be formulated until other components deemed necessary are completed. The conclusion provides the manager the opportunity to summarize the rest of the plan, and verbalize the "competitive advantage". Modern commercial farm managers who cannot succinctly describe why their farm will succeed in the competitive environment of modern agriculture are doomed from the beginning. It may not be necessary in all cases to formalize this description into a written document, however many producers will find this exercise rewarding. The general business planning literature challenges managers to consider the following list of questions:

- What general economic forces are at work?
- What does the competition look like?
- Who are they?
- How do they package, market, price?
- How many are there?
- What is my advantage?
- Why am I in a good position to succeed?
- Which activities have been most successful in the past?
- Are there obvious areas for expansion, or contraction?

Farm managers may find it useful to ponder these, and other questions as they summarize the other components of the formal planning process into a conclusion. The conclusion should also include a brief summary of actions to be taken. “What are we going to do to ensure that we achieve the objectives established in the planning process”? How will we monitor progress, and control operations? The basic rule is to monitor those aspects of the business that are most critical in fulfilling the long term goals. Production practices, financial management, and marketing strategies are examples of aspects that may need to be monitored. Guard against trying to track too many factors. There is no reason to monitor something that has no significant impact on goal attainment. Conversely, inadequate monitoring can result in potential problems being overlooked.

Supporting Documents

Depending upon the individual situation, and the primary purpose for the planning activity managers may want to include a variety of supporting documents with the formal plan. A partial list that comes to mind includes management team resumes, job descriptions for key employees, credit reports, letters of reference, names of professional advisors, copies of key contracts, leases, etc.

Additional Resources.

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- www.oznet.ksu.edu/library/agec2
- www.agecon.purdue.edu/extensio/fbm21/ (Has computer applications as well as publications)
- www.ext.nodak.edu/homepages/aeddept/FBusplan/
- www.ruralbusiness.tamu.edu/

www.gov.on.ca/OMAFRA/english/busdev/agbusdev.html/ (Has computer applications as well as publications)

www.agfinance.aem.cornell.edu (Has computer applications as well as publications)

www.exnet.iastate.edu/agdm

www.farmdoc.uiuc.edu/index.html (Has computer applications as well as publications)

www.cffm.umn.edu (Has computer applications available)

www.agweb.okstate.edu/pearl/agecon/

I intend to pursue this topic in more detail in the coming months. Additional business planning materials, examples, analysis tools, and other resources will be available on my web site in the near future: www.agecon.ksu.edu/rdjones

Additional materials (books, journal articles, internet resources, etc.) can be found at your local library.