



Guidelines for Effective Farm Business Planning

Author
Gary Thome, Riverland College

Reviewers
Mark Whitney, University of Minnesota Extension Service
Duane Reese, University of Nebraska
John Murray, Minnesota State Colleges and Universities

Introduction

Strategic planning is a process that managers must do to keep a business going long term. Why is strategic planning important for farming businesses?

Strategic planning looks outward and inward at the business, considers all available resources, and evaluates past performances. It focuses on managing interactions with competitors, neighbors, government agencies, suppliers, customers, special interest groups, and others. The primary purpose of strategic planning is to keep the business in step with a changing environment. It anticipates the future and considers the future but does not attempt to predict it.

Objectives:

1. To establish guidelines that will assist producers in building a business plan.
2. To bring together all the individuals to establish this business plan,
3. To establish both short and long range business and personal goals.
4. To establish benchmarks that will measure performance and progress.

Strategic planning is long-range planning, as farming is a long term venture, and it looks at least five years, short and long term goals, records and benchmarks reviewed at least yearly. In order to be useful, a long-range farming plan needs to be flexible, and be a family project whose vision is shared by all. Characteristics of this strategic plan are:

- It is a framework for responding effectively to your changing environment
- It accesses long range business opportunities
- It has a strong understanding of the business today
- It organizes your thoughts
- It focuses on the correct issues
- It is a Communication Vehicle
- It concentrates on "Making Decisions"
- It is "Action Oriented"

Strategic Planning will not "Guarantee Success" but it will greatly improve your chances at succeeding.

Why Do Few Producers Plan?

Although strategic planning can greatly improve communication and vision of a farm business and helps emphasize efforts in areas of importance or need, many producers do not plan. These reasons may include, but are not limited to:

1. Resources are limited
2. Future is uncertain and risky
3. Planning is not easy
4. May aggravate conflicts within family
5. Who should make decisions
6. Which goals should have priority
7. May make producers feel vulnerable
8. No one has all the answers
9. May not be able to gather or interpret all the information

The primary reason for not setting up a plan is probably the ability to set aside time. Some may say they can not afford to take the time, but successful business will say you can not afford not to take the time. It is a question of prioritizing what one feels is important and will help move the farm operation forward in the future.

Producers must remember that these plans are not carved in stone, but that they are a vehicle for calculated change. Strategic plans are crucial to every producer's future. Knowing the strengths and weaknesses of your business allows you to match your strengths to available opportunities. This planning may not have a clear starting or stopping point. You should look 5, 10, 20 or more years into the future. As you do this formalize the process where you do the following in an organized manner.

1. Examine the current situation
2. Specify both farm and family goals
3. Identify and Implement Alternatives
4. Establish a record and analysis system
5. Monitor progress

Strategic planning, if implemented properly, involves a mechanism to adjust to changes while working towards defined goals. The plan anticipates that the farm operation will be modified as necessary to accomplish both farm and family goals. Simply discussing the future and potential changes in the business environment is not enough – making strategic planning an effective contributor to your overall business strategy involves putting it on paper.

Forming and Implementing the Farm Business Plan

To form a strategic plan, one needs to create the following:

A) *Executive Summary*

- This will be the first page to read, but will also be the last page to write.
- It serves as an abbreviated map of the future.
- What would I like my farm to be like in the future?

B) *Mission Statement*

- This section describes what you and your business are about.
- Make the Mission Statement concise and memorable, relaying your personal and business philosophy.
- Attitude toward risk and any other concerns should also be addressed.

C) *Set Goals – Statement of what you intend to achieve*

- These include both business and family goals. When all key members (family and employees) share common goals, success rate is much higher.

- D) *Establish Specific Objectives*
 - Objectives relate to how you are going to accomplish your goals.
- E) *Develop Performance Reports*
- F) *Establish benchmarks that measure progress*
- G) *Develop sound records*

As you form your plan, remember the only thing for sure is change, so flexibility is key. Information management is paramount: ensure you gather it all, screen it, analyze it, use it, and store it for future retrieval and application.

Summary

Having a plan will increase the viability of the business by providing guidance for planning activities, keeping stakeholders well informed, helping when attempting to obtain financing, and improving overall communications. If a business is going to expand or go through a transition without a plan, the process will inevitably involve:

Wonder
Blunder
Thunder
Under

This fact sheet outlines a very simple approach to use to get started in preparing a business plan. The people that need to be involved in doing the planning, the goal setting, records and benchmarks all need to be completed in such a way that all stakeholders have buy into the plan.

A more structured and detailed planning form may be obtained from the

Center for Farm Financial Management
249 Classroom Office Building
1994 Buford Avenue
University of Minnesota
St. Paul, MN 55108
612-625-1964
800-234-1111
cffm@umn.edu

References:

Teaching Strategic Farm Business Planning, Lamberton, MN. June 22 and 23, 2004, U of M Extension Service - Center for Farm Financial Management

Smith, T. R. Developing a Farm Business Plan. Dairy Strategies, LLC

Farm Transfer Options. Wealth Preservation, Inc.

Bauernfeind, J. Midwest Estate and Business Planning

Transferring the Farm Business: Beginning the Process. U of M Extension Service, Minnesota State Colleges & Universities

Building a Sustainable Business: A Guide to Developing a Business Plan for Farms & Rural Businesses. Developed by the Minnesota Institute for Sustainable Agriculture St. Paul, MN

Farm Business Planning. North Dakota State University. Department of Agricultural Economics

Gustafson, C. R., D. Saxowsky, L. Crane, and J. Samonson. Business Planning for your Farm. Ag Econ Department, North Dakota State University

The Sustainable Agriculture Network Beltsville, MO

Introduction to the Farm Business Planning and Analysis Program and Teaching Units
Agricultural Education Service, State Department of Education and Department of Agricultural Education
The Ohio State University

Reference to products in this publication is not intended to be an endorsement to the exclusion of others which may be similar. Persons using such products assume responsibility for their use in accordance with current directions of the manufacturer. The information represented herein is believed to be accurate but is in no way guaranteed. The authors, reviewers, and publishers assume no liability in connection with any use for the products discussed and make no warranty, expressed or implied, in that respect, nor can it be assumed that all safety measures are indicated herein or that additional measures may be required. The user therefore, must assume full responsibility, both as to persons and as to property, for the use of these materials including any which might be covered by patent.

This material may be available in alternative formats.