

Strategic Planning for Farm Businesses



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In this video I want to share with you some thoughts about “strategic” or “big picture” planning. Thinking long term about some difficult topics that there may not be complete agreement about among all the stakeholders.

The Strategic Plan Component of the Overall Business Plan

- Values, Vision, Mission, Objectives, Goals
- Internal and External Factor Analysis (SWOT)



“Planning” involves many components ranging all the way from thinking about day to day activities, and tasks, to what crop and livestock enterprises to focus on the next year, to employment needs, etc. and the list goes on and on. Another important aspect of planning is to think about the big picture issues regarding your business and things that will impact your business. We often refer to this “big picture” thinking as “Strategic planning”. Any comprehensive business plan needs to include a strategic component early in the planning process. From the standpoint of the outline described in the earlier session, the strategic plan could be included in the Executing summary, or in the business description, or perhaps as a separate section early in the overall plan.

This session describes what strategic planning is all about, and provides some examples to assist in implementation.

The Planning Process (Most Important Point)

Traditional Thought Process Flow



**A huge constraint on achievement is
in place from the start**

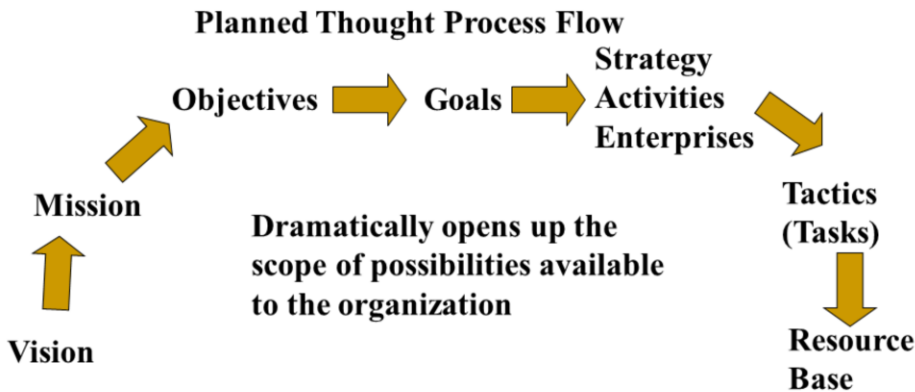


I have spent a lot of time examining and thinking about the way many farmers, and other family business managers for that matter, go about the process of thinking about and planning for the future. Based on that reflection, my own thought process included, it appears that many small business owners are somewhat inclined to begin the thought process by thinking about the resources that they currently have to work with, and building on that by thinking about what they can do with those resources. Maybe the manager has learned somewhere that establishing objectives and goals is important, but the point is that the thought process begins based on the current resources, and that may be even more true in agriculture than in other industries. I have this land, what can I do with it? I have my own labor and skill resource, what can I do with it? I have this equipment, what can I do with it?

While it is always good to think about making the most of the resources we currently have, if this summarizes the entire long term planning thought process, the business may be constraining itself right from the start.

Is this how the most successful growing businesses think?

The Planning Process (Most Important Point)



I would argue not. What if we start the process of thinking about the future based on a “Vision” of what it is we would like to accomplish. Dream about what your business, family, etc. would like to be doing in the distant future. Along with that, think about what core values are important to you in the mean time (Mission). Then begin to establish some manageable steps to get there, specific things that need to be done along the way (objectives and goals). Then get even more specific, what activities or enterprises do we need to be engaged in this year or season that help to accomplish our goals and objectives, which ultimately lead us in the direction of our long term dream, our Vision. Then we think about specifically how we will implement those activities. For example, we first decide that we will be a cow-calf producer, then we decide on breed composition, calving season, specific production practices, etc. (tactics or specific tasks) See the thought process flow. From a planning perspective, start with the big picture and move incrementally toward the day to day decisions. From an implementation standpoint as we are doing daily tasks and making smaller decisions, we think about it in the opposite direction, does this move us in the direction we need to go one level up. The ultimate goal is that everything we do is at least intended to move us closer to achieving the Vision that we have in mind. The big point here is you will notice that the “resource base” is the final step in the planning process, not the beginning point. Resources can be changed (bought, sold, rented, hired, fired, knowledge can be learned, etc.). Strategic thinkers are not tied to the current resource base, they will make adjustments to that in a heartbeat (even major adjustments) if that is what is needed to move them toward their ultimate Vision. Just some food for

thought.

Business Vision Statement

- Provides a guiding philosophy
- Influenced by strengths and weaknesses
- Reflect “core values”
- Should inspire (Dream Big Picture)
- Should unite stakeholders (Involvement From All)
- Demonstrate Uniqueness (Competitive Advantage)

What we would like to be



So, let's think about this thing called a Vision Statement. What is that, what does one look like? A vision statement is a concise summary of what is important to the stakeholders in terms of where the business is headed. It's a dream, but it's a dream that reflects those things that are most important to the stakeholders of the business (core values). Developing a consensus vision statement for a family business involving a lot of stakeholders is a very difficult, but very rewarding exercise largely because it forces some much needed communication among the stakeholder team, and can serve as an exercise to bring the team together around a common end point. One way to sum up what a vision statement is all about is that it is a summary of “what the business would like to be”

One final point about the vision statement: the end product may not be as important as the ongoing stakeholder discussions regarding what needs to be in that product. Even if the “vision statement” product is never finalized, the “visioning process” has tremendous value.

Mission Statement

- Normally short and to the point
- Specific, embodies the broader vision
- Size, scope, composition of products (Customer Oriented)
- What we are all about now
- Requires involvement from all stakeholders

Who we are



Many do not make a distinction between a vision statement, and a “mission” statement, and in many cases the two concepts end up being combined into a joint final product, and called one or the other. Technically, mission is more specific, less future oriented, and more concerned with what we are all about today. A good summarization would be to say the mission is more “who we are”.

Again, don’t get too hung up on the technical definition, or on what the final product, or product is ultimately called. The important thing is to have ongoing stakeholder discussions about these issues so that it becomes ingrained in the planning process.

Vision vs. Mission

- Vision is broad and future oriented
 - What we would like to be
- Mission is more focused on what we are all about today and who we are trying to serve
 - Who we are



In short the vision is a collection of thoughts regarding what the business would like to be at some point in the future, while the mission is a collection of thoughts regarding what is really important to business stakeholders today. Whether articulated in two separate “statements” or combined into a joint summary that includes elements of both (and could be called either), what is most important is that stakeholders have jointly pondered both aspects of vision and mission

Vision Statement

In ten years our farm will be producing beef and grain products. We will be widely recognized for our ability to achieve high levels of production at a low unit cost. We have a passion for family based agriculture, and the rural lifestyle, however we are committed to a reasonable family living standard



Notice the broad and future oriented focus of these thoughts that have been assembled into an example “vision” statement. Here is what we will be doing out in the future, here is what we would like to be known for. Here are some “core values” or some have to have’s.

Mission Statement

The Mission of _____ is to operate a diversified small grain and cow calf farming operation in _____. We are recognized as reliable community citizens, neighbors, and stewards of the environment. We base decisions on the best available “science based” information, and avoid emotional decisions. We strive to produce high quality commodity grain and cattle. We sustain a “family farming” environment, while targeting at least an 8% return on investment, and a 4% equity growth rate.



Compared to the more specific contemporary thoughts that summarize some “core values” as articulated in this example of some mission statement type thoughts. Here is what we are all about now. Here is what we are recognized for. Here are some values, and some specific targets associated with our business venture.

Goal Setting

- Goal Setting
 - Objectives and Goals define manageable steps to vision and mission accomplishment.
 - Goals work because they:
 - provide information for all stakeholders
 - focus attention and action
 - mobilize energy and effort
 - increase persistence
 - encourage development of good work habits
 - provide measurement benchmarks



Goal setting is a little more tangible concept for most of us to grasp (compared to visioning), perhaps because we have all done some of it. Goal setting is a process of documenting some manageable steps that need to be taken to move our business in the direction of our ultimate vision. I like to break the goal setting concept into two distinct categories; long term (I will call those objectives, others use a different terminology), and short term (I will call those goals). Written or documented objectives and goals work, meaning they increase our chance of success. Reasons why they work (meaning they increase your chance of success) might include

Long Term Objectives

■ DRIVE

- Directional (move you toward your vision)
- Reasonable (attainable)
- Inspiring (positive challenge)
- Visible (easy to visualize)
- Eventual (will be fulfilled at a future time)



As you think about writing objectives and goals, two acronyms might help to assure that the process is as productive as possible. Long term objectives should DRIVE.

Accomplishing them will move our business toward the ultimate vision that we have established (directional). It is possible to make this thing happen (reasonable), and we (as a business management team) are inspired and positively challenged by this objective (inspiring) because we can see the business getting it done and it will be a good thing when we do (visible). We have a general time frame in mind (usually a few years down the road), but we don't have a specific deadline established (eventual).

Short Term Goals

■ Short term Goals

□ Effective goals are SMART:

- Specific (detailed)
- Measurable (can determine results)
- Attainable (within economic and physical capabilities)
- Rewarding (satisfying)
- Timed (have a deadline)



Short term goals on the other hand are SMART.

They are very specific and have a measurement associated with them so that in the end we will be able to tell if we accomplished them or not. We know that it is possible to make this happen, they are attainable (because others have done it, or based on some other assurance that it can be done). It will make our stakeholder team feel good (proud) if we achieve this goal, so they are rewarding.

Finally, one of the primary distinctions between an objective (my terminology) and a goal is the specific time frame associated with a short term goal. There is a deadline (usually within a year, but that might not always be the case) associated with specific short term goals.

Example

- Objective
 - Increase gross income per acre:
- Associated Goal
 - Increase average wheat yield to 42 bushels per acre next year:
- Objective
 - Reduce work load:
- Associated Goal
 - Contract for custom alfalfa harvesting beginning this year:



Here are a couple of examples of “objectives” and associated “goals”. First, notice the differences described earlier. The objectives are more general, often do not have a number or a measurable observation associate with them, and do not have a specific time deadline included, however it is implied that they will be accomplished within the foreseeable future. The goals on the other hand are very specific, and have a time associated with them so by the end of that time period (whatever it is) you will know whether or not the goal was accomplished.

Second, if you noticed a moment ago I said “objectives and associated goals”. That wording was intentional to drive home the important point that short term goals always need to be associate with a longer term objective. By the same token, every long term objective should have at least one (often more) short term goal or goals attached to it. This assures that specific manageable steps will be taken within a specified time to meet the objective, which ultimately moves the organization toward attaining it’s vision. Remember the thought process flow.

Worksheets and additional information are available on the website associated with this project (and in many other places) to assist farm business stakeholder teams in the visioning and goal setting process.

Internal Factor Analysis

- Strengths and Weaknesses, core competencies, things you can control
 - Knowledge and work
 - Financial position
 - Productivity
 - Family
 - Location
 - Resources



Another important component of “strategic” or “big picture” planning involves taking a good hard look at our business from the standpoint of things we can control internally (internal factors), and things that the world is throwing at us that we may need to respond to but we can't control (external factors).

Internal factors includes things such as those listed here, and you can probably think of others. What we know how to do (educational attainment), how many hours we choose to work, our financial position (can argue that some aspects of that are within our control, while other aspects of that may be beyond our control). Other things that we have some control over are how involved various family members are in the business (your specific degree of control over that depends on where you are at on the organization chart, right), where you decide to operate (yes, that is within your control, you can always pack up, sell out, and move), and as discussed earlier, your resources. Most things can be bought or sold if needed.

Internal factors are categorized as either “strengths” or “weaknesses”. Things we are good at and need to continue to capitalize on, or things that we are not so good at and need to either improve or quit doing.

External Factor Analysis

- Opportunities and Threats, drivers of change
- Markets
- Weather
- Industry trends
- Political-legal issues



External factors (or forces as they are often called) are things that may or will impact your business that you will need to respond to, but you cannot directly control.

What are the emerging consumer trends, and are they positive or negative for your business? What are the markets doing, how long will they be doing whatever it is they are doing (good or bad)? Are weather issues like drought a persistent issue? Are there technology or other industry trends that you need to be aware of and responding to. What about policy, zoning, or other legal issues that might impact your business (tax law changes, interest rate policy, a local community passing a zoning restriction that may impact you, etc.).

External factors are categorized as either “opportunities” or “threats”. Things that could potentially benefit our business (financially or otherwise), or things that could negatively impact our business (again, financially or otherwise).

The first step in an “internal – external factor evaluation” is to simply list and brainstorm about the most important factors that do or could impact your business in either category. Broad stakeholder input is essential so that as many factors are at least considered for inclusion on the list as possible.

What are the Strengths, Weaknesses, Opportunities, and Threats?

Perform a SWOT analysis

S

W

O

T



Once the most significant business impacting factors are identified, there are systematic thought processes that can be called upon to help the stakeholder team develop strategies to deal with them.

One such tool designed to summarize the information into manageable chunks and ultimately help develop strategies or management actions is often called a SWOT analysis. There are other names and variations of the same concept that some of you may be familiar with.

Thought Process To Assist Managers In “Strategic” Planning

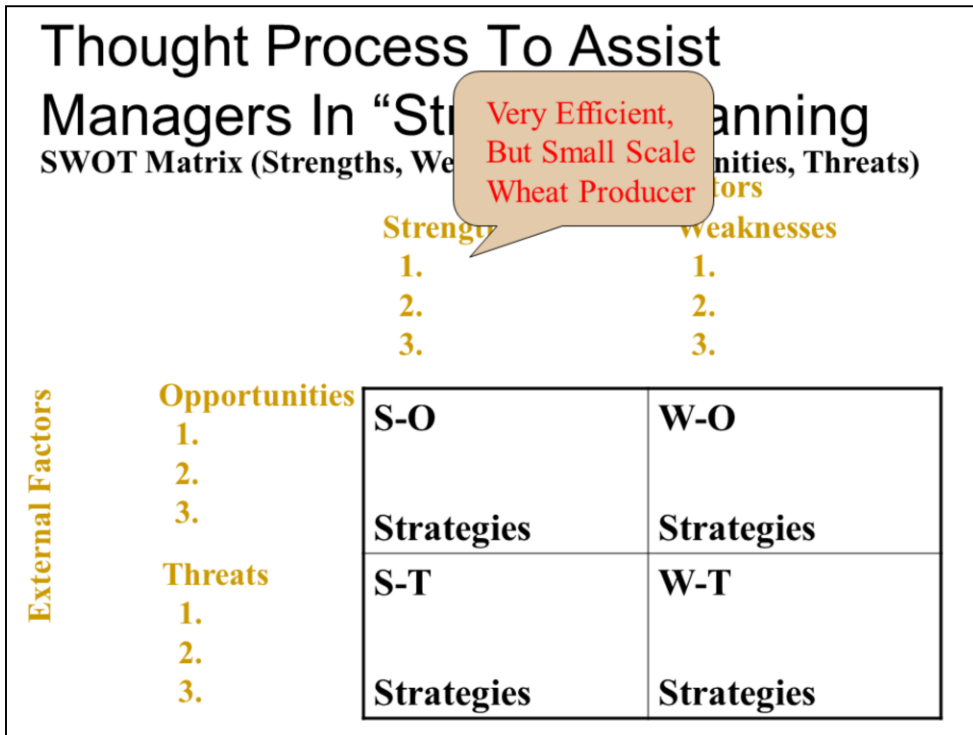
SWOT Matrix (Strengths, Weaknesses, Opportunities, Threats)

		Internal Factors	
		Strengths	Weaknesses
		1.	1.
		2.	2.
		3.	3.
External Factors	Opportunities	S-O	W-O
	1.		
	2.		
	3.		
	Threats	S-T	W-T
	1.		
2.			
3.			
		Strategies	Strategies
		Strategies	Strategies

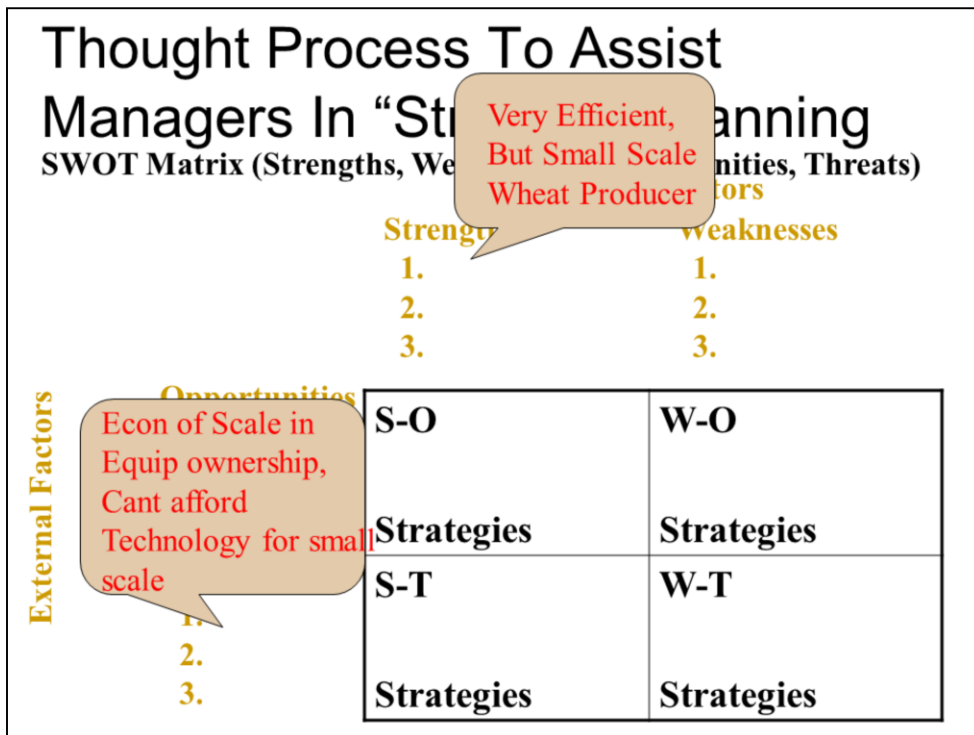
The SWOT planning tool is often implemented as a matrix, where internal factors that have been identified as important by the stakeholder team are listed as either “strengths” or “weaknesses” on one axis (here across the top), and the external factors that have been identified as important by the stakeholder team are listed as either “opportunities” or “threats” on the other axis (here on the left vertical axis).

Strategies, or management actions, are then developed for the various intersections.

A couple of examples will hopefully help to clarify.

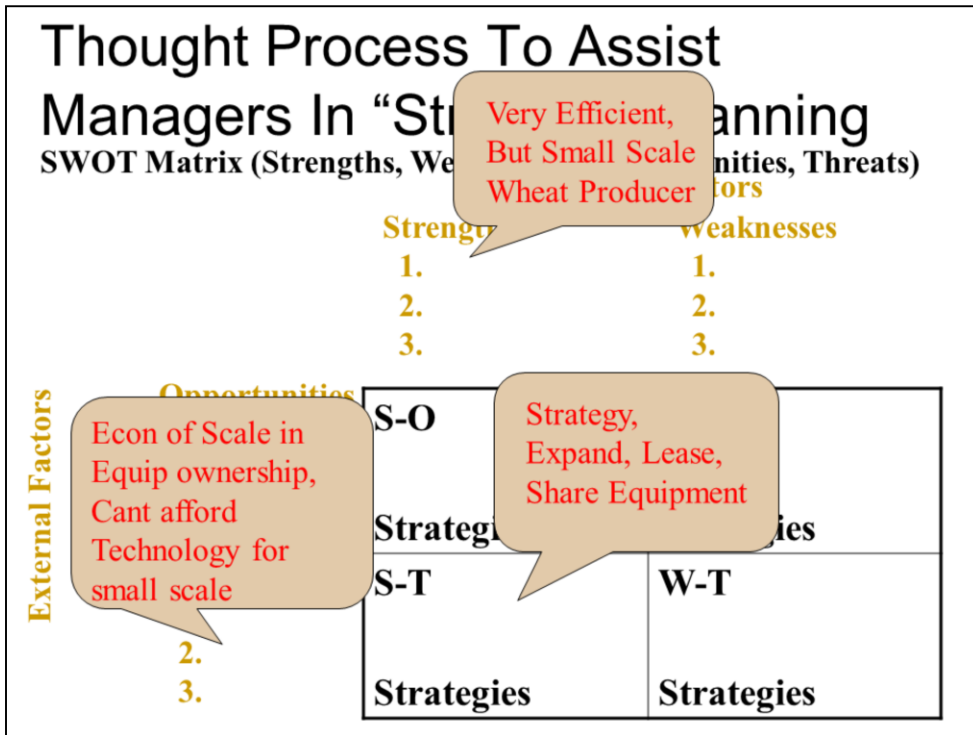


Assume for a moment that a particular farm is relatively small scale, but historically they have been a very low cost per bushel (efficient) wheat producer. They know this because they have compared their cost per bushel with averages over time using benchmark data sets such as KFMA. The fact that they have at least historically been a low cost producer is considered an internal strength. They know how to produce wheat efficiently.



However, they realize that in order to remain competitive, they need to replace some equipment that is aging, and no longer up to date on technology. They realize that modern equipment is designed to cover a large number of acres, and it will be difficult to remain a low cost producer if they cannot find a way to obtain the machinery services they need (perhaps planting no-till, for example) in a cost effective manner. This “technological fact” is viewed as an external threat.

Therefore, they need a Strength – Threat intersection strategy to address these factors.



In this example, they can think about strategies such as : 1. expanding their acreage to the point that they can justify purchasing modern equipment; 2. Leasing or renting the equipment they need; or 3. Similarly, sharing the ownership of equipment with others who are facing the same hurdle. Those of you viewing this segment will likely be able to think of numerous other strategies that could solve this problem. The point is to see how laying this issues out in a systematic thought process can help lead to solutions or at least a list of strategies to consider.

Thought Process To Assist

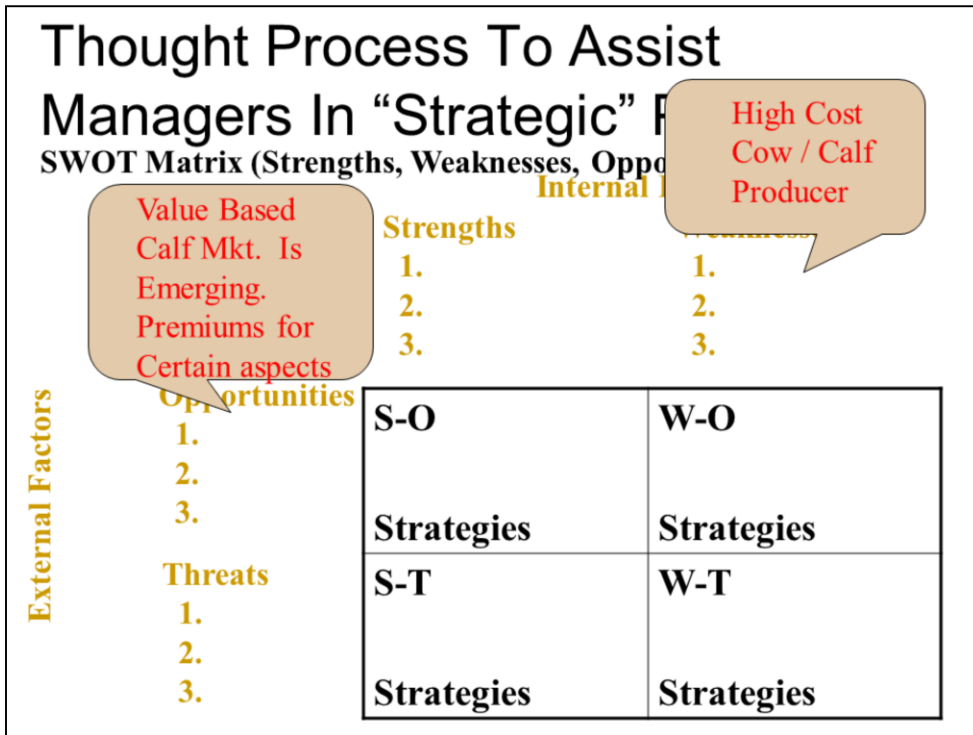
Managers In "Strategic" Planning

SWOT Matrix (Strengths, Weaknesses, Opportunities, Threats)

		Internal Factors	
		Strengths	Weaknesses
		1.	1.
		2.	2.
		3.	3.
External Factors	Opportunities	S-O	W-O
	1.		
	2.		
	3.		
	Strategies	Strategies	Strategies
	Threats	S-T	W-T
1.			
2.			
3.	Strategies	Strategies	

High Cost
Cow / Calf
Producer

One more quick example, imagine a cow calf producer that recognizes that they are currently a high cost per pound producer. Again, they know this because they have meticulously calculated their costs and have compared those cost numbers with some benchmarks. This fact is obviously considered to be an internal weakness.

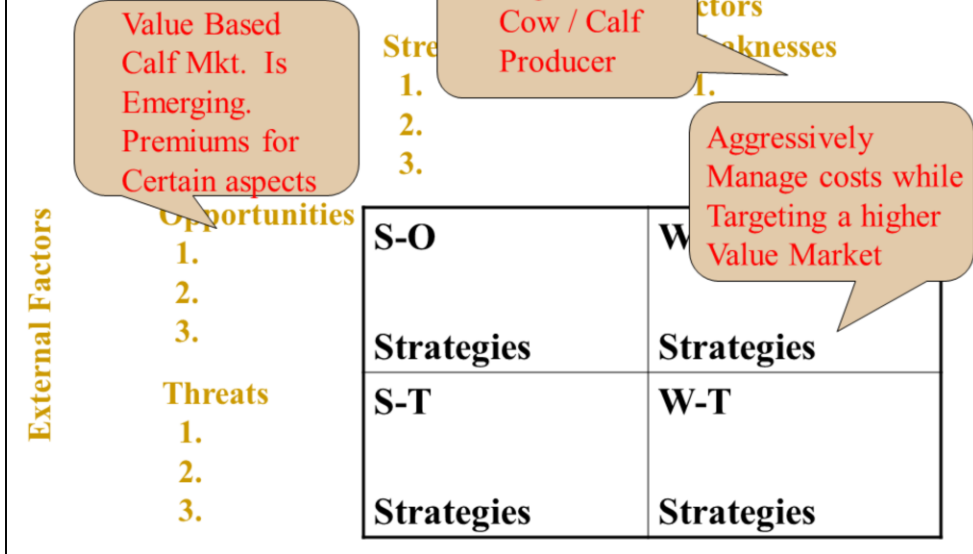


At the same time, they are noticing that premiums can be obtained for certain characteristics or production practices that they may be in a position to implement. That outside market factor could be considered an opportunity.

What they may be looking for are strategies or actions that fall in the intersection of internal weakness, and external opportunity.

Thought Process To Assist Managers In "Strategic" Planning

SWOT Matrix (Strengths, Weaknesses, Opportunities, Threats)



Potential solutions might involve a combination of trying to manage costs, while at the same time taking actions that will provide access to some higher value market opportunities, doing the things necessary to obtain OQBN premiums, for example.

Summary (Key Points From This Section)

- Strategic planning is thinking “long-term”
- Begin with a shared “vision”, based on “core values”
- Objectives and goals matter
- SWOT evaluation helps sort out Strengths, Weaknesses, Opportunities, Threats



To summarize, strategic planning is about big picture thinking. Addressing issues that go well beyond the day to day management challenges of keeping the farm or business running.

I would argue that the strategic planning process needs to begin with a dream regarding what the business should look like or accomplish in the long term, founded in a set of core values that reflect what the business stakeholders consider to be firm beliefs.

Having an end in mind then forms the foundation for manageable steps (objectives and goals) that move the business forward.

Simple tools like a SWOT analysis can help the stakeholder team to get a grasp on the internal factors that need to be managed to move the business forward, while at the same time getting a feel for the external forces that may need to be responded to. Simply a tool to assist in organizing thoughts around the vast array of things that any business needs to consider.

In the next video in this module or segment, you will be briefly introduced to an online business planning tool that has been popular among agricultural producers