Whole Farm Business Planning

The Process of Preparing Operational and Strategic Plans
PURPOSE

✓ Introduction to
   ◆ Concept of Management
   ◆ The Planning Process

✓ Changing Agricultural Finance Environment

✓ Financial Management
WHOLE FARM BUSINESS PLANNING

The efficient organization and skillful operation for the use of all farm resources to accomplish the total farm goals and objectives.

The key to success is: MANAGEMENT

Doing a good job of production - not enough

Farm-firm business management required

Integrating production technology with appropriate business management
“ACCOUNTANTS SEE IT ALL THE TIME -- MANAGEMENT BY IGNORANCE. AN OWNER DOESN’T REALIZE HIS BUSINESS IS IN TROUBLE UNTIL IT IS TOO LATE. MANY BUSINESSES GO UNDER, AND THE OWNERS DON’T EVEN KNOW WHAT THEIR PROBLEMS ARE. ALL THEY KNOW IS THEY END UP WITH NO MONEY AND CAN’T PAY THEIR BILLS.”
FARM BUSINESS FIRM

✓ HUMAN RESOURCE

✓ FINANCIAL MANAGEMENT ASPECT

✓ PRODUCTION ASPECT

✓ MARKETING
MANAGEMENT

The allocation of limited resources to satisfy unlimited wants

FARM PLANNING

Identifying the unlimited wants

GOALS

Clearly identify reason/need to farm
BARTER BUSHEL EQUIVALENT
Cost of Farm Utility Vehicle 1950 (pickup)
(1 bu = 25.4 kg)

($)BU $1,600 = 1,119 BUSHELS
$1.43 $1.43
(12.9 tons)

Year 1950

Cost of Farm Utility Vehicle 2005

CORN EQUIVALENT

($)BU

$1.95 $12,000 = 6,154 BUSHELS
$1.95
(71 tons)

Bushel % Change = 450 %
All Farm Index: Prices Received and Prices Paid
All Items, U.S., Annual 1/

Percent (1990-92=100)

1/ Index values for 2005 are year-to-date averages.

USDA: NASS
October 31, 2005
DECISION MAKING PROCESS
(three basic questions)

WHERE AM I?

WHERE DO I WANT TO BE?

HOW CAN I GET THERE?
WHY PLAN?

✎ COPING WITH UNCERTAINTY

✎ FARMERS FACE TOUGH BUSINESS DECISIONS

✎ EACH FARM IS UNIQUE IN GOALS, RESOURCES, OPPORTUNITIES
LONG TERM PLANNING EMPHASIZES:

☞ Assessing external environment

☞ Identifying opportunities for change

☞ Provides framework for responding through:
  ✓ setting goals
  ✓ assessing strengths/weaknesses
  ✓ identifying threats/opportunities
  ✓ setting priorities
  ✓ allocating resources
EXTERNAL FORCES:

1. ECONOMIC TRENDS

2. COMMODITY MARKETS

3. INPUT COSTS

4. TECHNOLOGY

5. REGULATIONS

6. GOVERNMENT PROGRAMS
Strategic Planning

1. One definition of strategic planning is the identification of needed changes in the structure of the business and its position in the external business environment to prepare for future changes.

2. Strategic planning aims to anticipate the unexpected -- both the good and the bad -- that could change the nature, or the needed positioning of business in the future.

3. Put another way, strategic planning is the action of developing plans to make the most of future opportunities and counteract the possible adverse effects of future changes in the business environment.

4. Peter Drucker draws a clear distinction between operational planning and strategic planning. He says, “Operational planning tries to optimize tomorrow the trends of today” whereas “Strategic planning aims to exploit the new and different opportunities of tomorrow.”
<table>
<thead>
<tr>
<th>Operational Planning</th>
<th>Strategic Planning</th>
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<tbody>
<tr>
<td>Accepts environment</td>
<td>Assumes it can change part of environment</td>
</tr>
<tr>
<td>Asks how to succeed within current</td>
<td>Seeks to change current constraints</td>
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<tr>
<td>constraints</td>
<td></td>
</tr>
<tr>
<td>Works within current organizational value</td>
<td>Seeks to change current value system where</td>
</tr>
<tr>
<td>system</td>
<td>appropriate</td>
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<tr>
<td>Seeks majority approval or consensus</td>
<td>Will go against majority opinion if necessary</td>
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Strategic Planning

1. Define the kind of organization we want.

2. Analyze our customers
   - Who are they?
   - How should they be classified?
   - Why do they buy our product/service? Will this change? How?
   - What market segments do we serve? Should this situation be changed?
   - Etc.

3. Analyze our industry
   - Trends
   - Pacesetters
   - Competition
   - Profit potential
   - Etc.
Strategic Planning
(Continued)

4. Ask: What are the opportunities and threats for us?

5. Ask: What are our strengths and weaknesses?

6. Ask: What strategies are identifiable?

7. Evaluate alternative strategies

8. Develop objectives

9. Prepare detailed plans to implement strategies

10. Develop contingency plans

11. Translate plans into budgets

12. Monitor performance

13. Recycle
THE FARM MANAGER MAY HAVE A VARIETY OF GOALS

(Maximizing income or profit)

(Maximizing net worth)

(Increasing the size of the business)

(Growing enough food to meet the demands of workers on the state farm)

(Minimizing labor to produce required income)

(Maximizing production)

(Preserving the farm for future generations)

(Preserving jobs on the farm)
Establish Objectives

Translate the mission into concrete terms. Objectives are quantifiable and simple, straightforward statements.

- Increase sales by 30% in the next year
- Adapt technology to reduce labor cost by 25% in the next 5 years
- Increase production of a product by 40% in the next 3 years
- Provide more leadership
RESOURCES

• LAND
• LABOR
• CAPITAL
• MANAGEMENT
• TECHNOLOGY
• MARKETABLE PRODUCTS
REASONS FOR KEEPING RECORDS

✓ COMPLIANCE WITH GOVERNMENT REPORTING REQUIREMENTS

✓ COMPLIANCE WITH CREDIT INSTITUTIONAL REQUIREMENTS

✓ MEASUREMENT OF FINANCIAL SUCCESS

✓ FINANCIAL COMPARISON WITH PAST YEARS

✓ AID IN PLANNING FOR FUTURE
DECISION TOOLS

✧ ENTERPRISE BUDGETS

✧ PARTIAL BUDGETS

✧ NET PRESENT VALUE ANALYSIS

✧ FINANCIAL MANAGEMENT
ANALYZING YOUR FINANCIAL SITUATION

① BALANCE SHEET

② INCOME STATEMENT

③ STATEMENT OF CASH FLOWS

④ VISIT WITH LENDER(S) TO REVIEW HIS (THEIR) POSITION
SUMMARY

✓ Farm Business Firm
◆ Financial Management
◆ Human
◆ Production
◆ Marketing

✓ Management
◆ Allocation of limited resources
✓ Goals

็ด What do you want to accomplish?

✓ The planning process

✓ Recordkeeping

✓ Budgeting

✓ Financial Management

✓ Implementation