

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)

$$\begin{array}{rcl} (\$/\text{BU}) & & \\ \$1.43 & \frac{\$1,600}{\$1.43} & = 1,119 \text{ BUSHELS} \\ & & (12.9 \text{ tons}) \end{array}$$

Year 1950

Cost of Farm Utility Vehicle 2005

CORN EQUIVALENT

$$\begin{array}{rcl} (\$/\text{BU}) & & \\ \$1.95 & \frac{\$12,000}{\$1.95} & = 6,154 \text{ BUSHELS} \\ & & (71 \text{ tons}) \end{array}$$

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.”**

Operational Planning

Accepts environment

**Asks how to succeed
within current
constraints**

**Works within current
organizational value
system**

**Seeks majority approval
or consensus**

Strategic Planning

**Assumes it can change
part of environment**

**Seeks to change current
constraints**

**Seeks to change current
value system where
appropriate**

**Will go against majority
opinion if necessary**

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**

✎ **What do you want to accomplish?**

✓ **The planning process**

✓ **Recordkeeping**

✓ **Budgeting**

✓ **Financial Management**

✓ **Implementation**