Ag Decision Maker

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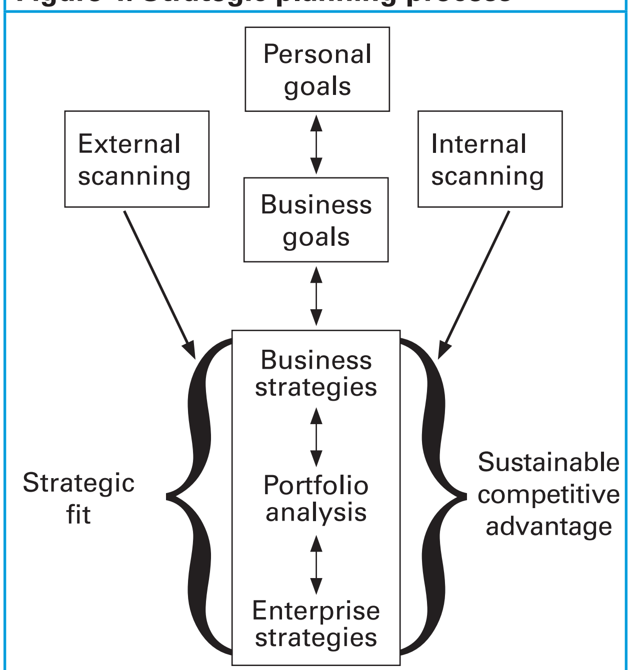
Strategic Planning for Farm Businesses

Strategic planning involves the development of long-term strategies to increase the profitability and competitiveness of your farm business. This may involve developing new enterprises for your farm such as organic production, on-farm processing, direct marketing of your products to consumers, or the efficient production of traditional farm commodities.

The purpose of the strategic planning process is to design a farm business that allows the individuals involved in the business to achieve their personal goals. You can do this by using the strengths of your business to take advantage of opportunities in the industry.

Strategic planning involves developing plans for your business and implementing and evaluating these plans. Below is a discussion of a process you can use to develop a strategic plan for your individual farm business. This process is shown in Figure 1.

Figure 1. Strategic planning process



Phase 1: Factor Analysis

Phase 1 of strategic planning involves assessing and analyzing four factors that are needed for successful strategic planning. These four factors constitute the top half of Figure 1 and provide the ingredients for strategic planning. This first phase of strategic planning requires you to

- Identify personal goals
- Determine business goals
- Scan the external environment
- Scan the internal environment

1) Personal Goals

One purpose of the business is to achieve the personal goals of the individuals involved in the business. So each person involved in the business should develop personal goals. A personal goal is something that you, as an individual, want to achieve. We often think of making money as our primary personal goal. However, people are complex individuals. Personal goals may include finishing a college degree, spending more time with family, creating a college fund for children, buying a vacation home, getting involved in an organization, doing charitable work, etc. Personal goals may also focus on business activities such as producing safe and nutritious products for consumers, providing employment for the entire family, providing an opportunity for the next generation to farm, etc.

Once your personal goals have been identified, they should be shared with others in the farm business so that inconsistencies among individuals can be identified. Next you need to decide which personal goals will be achieved through the activities of the business. These personal goals will form the basis for developing business goals.

2) Business Goals

Personal goals provide the foundation for *business goals*. This is how the family imposes its wishes

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on the business. The business goals must be designed to achieve the goals of the individuals and family involved in the business. If business goals are not designed for this purpose, they must be reevaluated.

For example, if the personal goal is to buy a vacation home, the funds may need to come from business profits. So business profitability may be an important business goal. However, if the personal goal is to finish a college degree, the business needs to be structured to provide the time for completing this goal. So the business goal may be to minimize the labor needs of the business or to find an outside labor source.

3) External Scanning

Scanning is the process of assessing what is going on around you. External scanning involves looking past the farm gate and examining and assessing the economic, business, and social environment surrounding your business. It is based on the premise that the environment in which you live and work is not static, but dynamic and constantly changing. External scanning should focus on the following three specific areas:

a) Industry Trends
Identify changes and trends in each of the *industries* you are competing within. These typically correspond to your business enterprises and may include the corn industry, soybean industry, pork industry, beef industry, etc. However, for value-added farm operations, you may examine market segments or niches of these industries such as organic pork or specialty soybeans.

b) Competition
Identify and analyze the competition for each of your enterprises. First, divide the competitors into major groupings by size, structure, etc. Next, identify the threat each group poses to your farm business. For example, if you are producing a food product for local consumption, you may be competing against local farmers similar to you. If you are producing for a regional or national market, your competition may include larger food companies.

c) Economy/Business/Social
Identify changes in the economy, society, and the business climate. These would typically include changes such as interest rates, business regulations, inflation, consumer preferences, government programs, demographic distributions, etc. You should examine all changes that will affect your business.

4) Internal Scanning

Internal scanning involves looking inside of your farm business and identifying its strengths and weaknesses. Business strengths are those things that you do better than your competitors and provides the basis for a competitive advantage. You build a successful business on your strengths. Weaknesses are areas where you are vulnerable to competitors. You look for ways to minimize the impact of weaknesses on your farm business.

Usually the most important assets in the farm business are you and the other individuals in the business. The strengths and weaknesses of a farm business often involve the skills and talents of the people involved in the business. For example, if you are good at networking and working with others, you should try to take advantage of this talent. Conversely, if record-keeping is not your thing, you may want to outsource this function so it doesn't become a weakness of your business.

Scanning should also be conducted for each individual enterprise in the farm business. Traditionally these enterprises have been corn, soybeans, hogs, etc. However, new enterprises are entering farm businesses. Agriculture's traditional broad commodity markets are breaking down into segmented markets of precisely defined agricultural products. For example, you may have a grass-fed beef enterprise or an organic dairy enterprise. Your grass-fed beef enterprise may just involve production or it may include marketing the beef product directly to consumers. The organic dairy enterprise may also include on-farm or jointly-owned processing. This collection of enterprises is what comprises your farm business. So you need to identify and describe each enterprise in your farm business.

Phase 2: Strategy Analysis

After the ingredients for strategic planning have been identified and assessed in Phase 1, Phase 2 involves using these ingredients to strategize alternative ways of organizing the farm business to achieve the business goals. Phase 2 involves the bottom half of Figure 1.

A strategy is the means by which the business uses its strengths (a product of internal scanning) to take advantage of environmental opportunities (a product of external scanning) so the goals identified for the business can be achieved. Because business goals are based on the desires of the individuals in the business, achieving business goals provides an opportunity for achieving personal and family goals.

Strategy development involves identifying a *strategic fit* between what the business and social environment wants (opportunities) and what your business has to offer (strengths). From this strategic fit, you develop a *competitive advantage*. A competitive advantage is something that your business can do better than its competitors. For the most value, the competitive advantage should be sustainable over the long-term. This process of using internal and external scanning to identify a strategic fit and develop a sustainable competitive advantage is part of the strategy process identified in Figure 1.

A strategy is developed by first identifying two or more alternatives for your business. This may involve different enterprises or various ways of using resources. From these strategic alternatives, the alternative that best achieves your business goals is chosen.

1) Business Strategies

The first step in strategy development is to answer two basic questions of the business. What is the planning horizon of the business and what direction is the business going in. You need to consider both a planning horizon strategy and a direction strategy. The planning horizon strategy will often affect the type of directional strategy you choose.

a) Planning horizon

The planning horizon question asks, *how long will the firm exist*? Will the business exist for five more years or 25 more years? This is often closely tied to the life cycle of the operator. If you are a young person who recently entered farming, your planning horizon may be quite long and you may be considering an aggressive growth strategy by adding a new enterprise. However, if the business will end in the near future because of your retirement, the planning horizon will be quite short and the strategy may focus on terminating the business. But if the next generation will take over the business, a much longer planning horizon is once again available.

b) Direction

The direction question asks, *where is the business going*? Will it grow or stay the same size as it is? If it grows, how will it grow? Will you add one or more new enterprises or will you expand your existing enterprises? If you add a new enterprise, will you drop an existing enterprise? Developing a direction strategy should be done in combination with portfolio analysis and enterprise strategy development (below).

Remember, growth strategies don't necessarily mean more acres or more head of livestock. Growth strategies can involve more intensive use of your acres by changing your crop and/or livestock enterprises, or it may involve the further processing and/or marketing of your farm products.

After you have answered these questions you can begin designing the Farm Business Strategy *(AgDM File C4-46)* for your farm. The primary farm business strategies are:

- Growth – expanding the size of the business.
- Stability – maintaining the size of the business.
- Retrenchment – refocusing the business for improved performance.
- Succession – transferring the business to younger generation.
- Exit – ending and leaving the business.

If you plan to grow the business you may want to review the Growth Strategy by Type of Farm Business *(AgDM File C6-47)*.

2) Portfolio Analysis

Portfolio analysis is part of developing a business strategy. A farm business is made up of one or more enterprises (i.e. corn, soybeans dairy, etc.). Portfolio analysis examines the mix of enterprises in the business and asks the question, *what is the best combination and relative size of enterprises for the business*. The external scanning exercise should provide you with business and market opportunities. For example, is there demand in your community for locally grown vegetables? How about the expanding demand for organic products? Is their need to start a marketing organization to market farm products directly to consumers?

Next, compare these opportunities to the strengths of the business. Do you have good organization skills? Do you prefer working alone or with others? Are your farm resources suited to producing a new crop enterprise? This exercise involves matching your skills and business resources with business opportunities.

The purpose of this exercise is to develop the type of farming operation that meets the goals of the individuals involved in the farm business. For example, the decision by one of the spouses to pursue off-farm employment may greatly affect how you organize the farm business.

3) Enterprise Strategy Development

Enterprise strategies, often called *competitive strategies*, identify how each individual enterprise will compete within its respective market and industry. Enterprise strategies, especially for primary enterprises, are imperative to the success of the business because they link the business and its markets. So enterprise strategies form the foundation for a successful business.

a) Importance of each enterprise

You defined your business enterprises (above) when you defined your business. Each enterprise should be identified as a profit center, cost center or investment center. Also, each enterprise needs to stand on its own as to its contribution to the business's goals.

b) Enterprise interactions

In addition, enterprise interactions should be examined. What synergies exist among enterprises due to shared resources or management skills that make enterprises complementary? Conversely, are there situations where enterprises compete for resources or management skills?

4) Reality Testing

In a sense, the business and enterprise strategies represent what is possible and the business goals represent what is desired. These strategies can be used to test the reality of the business goals. Reality testing involves examining your business goals in light of the environmental opportunities and business strengths. It addresses the question, *can the farm business be organized in a way to achieve the business and personal goals*?

Implementation and Control

Once your strategy has been selected, action plans or business plans need to be developed of how the strategy will be implemented. Also, a system of evaluation and control needs to be developed to monitor the business and the progress of the strategic plan in achieving the business goals.

Conclusion

Strategic management is more than a planning, implementation and control process. It is also a state of mind and an attitude. Strategic management forces you to be forward thinking, proactive, and focused on where you are going and how you will get there.

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