Module 2
Strategic Business Planning

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Learning Objectives

The learning objectives for this module are for participants to:

- Discover and be aware of the components within the strategic business planning process
- Know the purpose and procedures in the planning process
- Be able to plan and execute action steps critical in the development and execution of a business plan
- Be knowledgeable of potential blunders and potholes in the overall business planning process

Introduction

Now that we have gone to the summit and covered some of the trends that can impact your business, family and personal lives, let's get down to taking care of business. First, we'll map out our journey down the super highway to success by utilizing what's called a *strategic business plan*. While I will introduce you to an entire plan, in this module you will only complete key upfront components. The remainder will come throughout the course. Be forewarned that you may struggle with some components of the business planning process; however, the monetary payoff and building confidence in your business decision making are real benefits.

Recent research has linked strategic business planning to as much as 30 percent higher business profits. While the research is limited in not being able to claim a cause-and-effect relationship between the two, it does provide clear evidence that business plans lead to increased profits and profitable producers utilize strategic business plans. Now, let's get saddled up to rock and roll through the components of a strategic business plan.

> **ROADSIDE CHAT #1: Is today's business environment too volatile to do strategic business planning?**
> To the contrary, in a volatile business and economic environment it is important for business persons to conduct planning to minimize emotions and make more objective decisions. Positioning the business to capture profits on the positive side of the cycle and develop plans to mitigate risk in adverse business conditions are key successful management strategies for today.

What is Strategic Business Planning?

The saying, "If you don't know where you're going, any route will take you there," reflects the importance of business planning. Strategic business planning involves analyzing the business and its environment to create a master plan for taking the business where management wants it to be. Developing a business plan is a process to help business owners grow their operations, increase profits, develop and market products, and/or plan for business transition. A good planning process allows business owners time to step back from the day-to-day operations and focus on the bigger picture. For example, thoughtful discussions with key players inside and outside of a business help ensure a common vision and understanding of where the business is headed, strategies for how to get there, and what objectives or metrics will be used to measure success. Business planning can circumvent short-term emotional decisions and focus decisions on well thought out objectives and goals.

Purpose of Strategic Business Plans

Business plans may be prepared for many different reasons, including new business start-ups, major changes in existing businesses, or to maintain the strategic direction of an ongoing business. Also, a business plan can be used internally for management purposes; and externally to communicate a business' vision and direction to attract investors, to obtain financing from creditors, or to recruit quality partners or employees.

Business plans can provide a business owner with a way to evaluate the feasibility of a proposed venture.

The process used in developing a business plan may reveal previously unconsidered opportunities or limitations. Business plans should provide clear direction for the organization. Also, they can be customized depending on the target audience – investors, creditors, board of directors, family members, or others.

Business Planning for Agriculture

Recent research has shown that only one in seven agribusiness owners with $250,000 in annual sales have some form of a business plan. A written business plan can be invaluable for both large and small producers, especially those in a startup, expansion, or transition mode. Even small, stable businesses can benefit from a simple business plan that focuses on areas of strength and on improving limitations to help meet business objectives. While most farmers and ranchers have a clear plan in their mind for their operation, conditions are changing at an accelerated rate. The value of a written business plan is to provide a well thought out and agreed upon guide for decision making. Many agricultural producers are turning to value-added or niche crops, employing non-traditional practices, planning for transition, or implementing unproven technology. In these situations, a sound business plan is essential.

ROADSIDE CHAT #2: Don't business plans take too much time? You can write anything on paper.
Yes, business plans can take from 50 to 100 hours to prepare, depending on the size of a business and depth of the plan. However, when you are investing significant amounts of time and money into your business venture, putting honest, objective, candid thoughts on paper can prevent financial headaches and heartaches. Like the old Fram oil filter commercial said, "You can pay now or pay later!"

What is a business plan?

A business plan is a *written document* outlining the mission, vision, goals, objectives, strategies for execution, tactics and metrics for the key functional areas of a business. Also included are management, finance, production, marketing, and risk management. Simply put, a business plan is a road map for a business. The depth of detail that a business plan contains will vary depending on the scope of the business and the purpose for which the plan is being prepared. For example, a non-traditional business trying to obtain venture capital will have a much more detailed plan than a more conventional business trying to obtain a small loan. Almost all business plans have parts in common. These commonalities will be discussed later.

Who should prepare the plan?

How are business plans best prepared? Although professional consultants can help in developing business plans, the business owner should take the lead role and ultimate responsibility for developing and implementing a business plan.

The most effective planning processes seek and incorporate input from many levels. In a family business, both spouses should have input as well as any other family members who have a stake in the business. In a large business, the president or manager should not have sole responsibility for creating the plan. The process should include the entire management team, including potential management successors. The planning process and the discussions involved can be an invaluable part of the successor's development. An advisor or facilitator, and in some cases a mentor, can be valuable for both input and keeping the planning process on track. Many books, websites, and computer programs are also available as resources.

Where can you get information to help in developing a business plan?

Sources such as the Cooperative Extension Service, Small Business Administration, and regional small business centers can provide general information and guidance. These organizations may offer assistance in obtaining financing grants or finding investors. One online business planning tool, AgPlan (https://www.agplan.umn.edu), was developed by a national team of extension management specialists working with the University of Minnesota's Center for Farm Financial Management. Similar planning tools are available from the Center for Agribusiness at Purdue University, Farm Bureau, and other leading agricultural organizations. For information specific to a particular industry or market, there are numerous sources of data.

Primary data include market surveys, questionnaires, focus groups or other data collected firsthand by the business. While primary data is the most specific to a business' needs, it's the most difficult and costly to obtain.

Secondary data is obtained from an external source such as census data, magazines, journals, other publications, or marketing research firms and University research. Financial data for specific industries is available from sources such as farm business management associations and private software entities. Perhaps the largest single source of secondary data available today is the Internet. With all secondary data sources use caution and evaluate the quality, source and age of the data, regardless of how it's obtained.

SWOT Analysis

Before one embarks on strategic business planning, it is useful to conduct what is called a SWOT analysis. SWOT stands for: Strengths, Weaknesses, Opportunities and Threats. The *Strengths and Weaknesses* components are designed to critically examine the business internally, while the *Opportunities and Threats* components assess the business' external environment.

First, when assessing the strengths and weaknesses of a business it is necessary to objectively examine a business' core competencies. That is, what sets the business apart from others? What are the unique capabilities that the business has and can retain? What are the quality and quantity of resources within the management's control? What are the abilities/skills of the owners, managers, and employees? Is the resource base large enough? How modern and efficient is the physical plant? Is there adequate access to markets and a quality labor force? What are the lifestyle conditions of the surrounding area for quality of life? The process of answering these questions forces the owner/manager and stakeholders to recognize that most every business is constrained by its internal environment. It is important for it to build upon the physical resources and human skills and abilities available. It also involves addressing how management plans to compensate for the weaknesses identified.

Second, every business faces uncertainties, threats and opportunities that are beyond its control. In this part of the analysis, assessing the external environment requires an examination of vulnerability to economic and political change as well as to domestic and global market forces. Examples of external threats that can cut profits and/or make a business venture more difficult include changing regulations, environmental and natural resource constraints. However, on the other side of the coin, new market opportunities can be created by demographic or competition change, new technologies, changes in lifestyle or consumer habits. The mega trends outlined in Module 1 can be a useful resource in understanding the Opportunities and Threats components of a SWOT analysis.

You, Inc. – SWOT Analysis

Now that we have discussed the SWOT analysis, let's pause for a moment and let you conduct a mini SWOT analysis of your own business. This will get you started on your application exercise for the module. List two items in each of the categories below.

Strengths:

Weaknesses:

Opportunities:

Threats:

What are the various components of a business plan?

The following components are generally found in most business plans. The order and emphasis placed on each component will vary depending on the business and purpose of the plan.

Executive Summary

An executive summary is exactly what it says, a brief summary of a business plan which an executive might read to gain a quick understanding of a plan – between 1-2 pages in length. It is a concise overview of the key aspects of the plan including the company's current status, mission and objectives, products and services, marketing strategy, and financial projections. It should highlight the key elements for success, such as break-even sales, price, or market share. The executive summary, which should be written *after the plan has been completed*, gives an interested party a quick overview of the plan. If the summary sparks interest, additional detail is available in the body of the plan. An executive summary should create enthusiasm about the business venture by making clear the intentions of the business and the opportunities.

History and General Description

The history and general description of the business is simply a current inventory of what the business is about, its structure and why this structure is important to current success. This section would include a list of farm partners and key employees by name and their background qualifications, reasons for starting the business or for any major changes that have occurred, and a general description of the industry and its economic status. For an existing business, a discussion of products and past success (or failure) should be included to provide a track record for the reader.

You, Inc. – Business History and General Description

What are three important bullet points that should be included in the history and general description of your business? List them below.

1.

2.

3.

Vision and Core Values

Visioning in a business requires the owners and stakeholders to express what they stand for and believe in and may not necessarily be tangible. The vision will usually touch everyone in the business including employees, investors, lenders, customers and the community. The vision ties in with the core values, which provide an example of how people are expected to act regarding character. Some examples of core values would include: respect for individuals and customers, and making the world a better place.

Mission Statement

A mission statement describes why the business exists (i.e., What is the business' mission?). It should be brief and general enough to be flexible, but rigid enough to give the business a strategic direction. A mission statement may encompass business, family, and/or personal goals.

Like the entire business plan, development of the mission statement should include input from all levels inside and outside the business, not just management. The mission statement should be visible; that is, every person involved in the business, not just the owner or manager, should know and easily grasp the concepts contained in it. Two examples of mission statements are:

"McPherson Farms will provide high quality crops and livestock for our customers on a profitable basis that brings honor and respect to the business, employees, family and community."

"The mission of Wittman Farms is to produce high quality grain, livestock and timber commodities for U.S. and foreign customers in a manner that will assure:
-- a fair return on investment to our owners,
-- a safe and fulfilling environment to live and work in, and
-- a farm capable of producing sustained income for future generations."

In summary, a mission statement should generally be 25 to 50 words, have input from employees and stakeholders; be made up of key words; be visible and posted; futuristic and updated every 3 to 5 years.

You, Inc. – Vision, Core Values, and Mission
List several key words that should be included in your business' vision, core values, and mission statement.

1.

2.

3.

Establish Goals and Objectives
Goals and objectives translate the mission into concrete terms. A useful exercise is to have owners, stakeholders, and influencers of business decisions identify their top three business, family and personal goals for the short run (less than one year) and long run (one to five years) in writing. This process allows stakeholders to build off of commonality, negotiate and work out differences. This is where a mentor or facilitator can be useful in discussions and keeping people on task. Clarity in goals is often the underlying principle to profits and balance in business and lifestyle objectives.

Established objectives with quantifiable metrics and measurements can provide focus for execution of tactics in day-to-day operations, for a more rewarding business. Objectives should be quantitative, simply written, straightforward statements such as the following:

- Increase net profits by 10 percent per year over the next five years.
- Reduce fertilizer cost by 30 percent by utilizing manure and global positioning systems.
- Invest five percent of net income for retirement.

Your objectives should be *measurable* and selected in such as way that they contribute to the attainment of your goals which in turn allow you to accomplish your mission and live your core values and vision. Objectives are what you are expecting to occur.

<u>You, Inc.</u> – Goal Setting
Think of one short term goal, to be accomplished in one year or less:

What is one long term business goal, to be accomplished in one to five years?

Organization and Management

The business plan should explain how the business is legally organized; examples include sole proprietorship, partnership, corporation, or Limited Liability Company (LLC). For larger businesses, the duties and responsibilities of all involved should be outlined along with an organizational chart indicating where the decision-making power rests. Details on management compensation and allocation of profits and losses are essential, along with a backup management plan. If seeking outside financing, readers will want to know what experience each of the key personnel holds making him or her compatible with the venture. In a family business, each member's role and responsibilities in the operation should be clearly defined. If expertise is weak in a certain area (operations, finance, etc.) the plan should express concern about this issue and offer ways to compensate for the problem. If professionals such as lawyers or accountants, crop or livestock consultants are to be used, this section should explain their roles.

The business plan may also include a section about business transition strategy, particularly when a business succession is planned. Plans regarding ownership, management and asset transition or transfer to the next owners should be discussed.

Key Planning Assumptions

Since it is impossible to have data to support every aspect of a business plan, much of business planning is based on logical assumptions rather than hard facts. Therefore, assumptions of how issues outside the owner's direct control might evolve during the planning period should be established. For example, a logical assumption relating to rapid increase or decrease in input prices due to economic conditions could be included.

It's critical to outline the *key planning assumptions* from the beginning. Trying to gain an objectivity regarding the business venture is the purpose. This helps in avoiding bias because of the emotion involved in planning a business venture. Key planning assumptions may include: trends in supply and demand, the global economy, the marketplace, and/or consumer behavior patterns. They may also include changing government policy or the future of a particular technology. Be sure to document sources of key data and assumptions. Using reliable sources of information in the business plan will help avoid using assumptions of what the owner hopes will happen, versus what an informed, unbiased third party believes is likely to happen.

Market Analysis

Analysis of the market is critical for most all business plans. A producer will not be successful, regardless of how well other business components are managed, if incorrect assumptions are made about markets or if products don't meet customer expectations. The market analysis outlines what customer needs are being met by the business, why the products or services are unique, and who will be attracted. It's also the time in planning to "think outside the box" to determine if there are market niches that the business can meet profitably. Many producers possess special talents and skills or can produce and distribute specialty products or provide services that could be profitable.

Included in the market analysis is the target market, or groups of potential customers with similar characteristics, that will be the focus of the marketing effort. It's important to state the reasoning behind choosing a particular target market. The potential number of people in a market, emerging trends and anticipated market share should be analyzed. Competitive analysis, looking at the strengths and weaknesses of the competition, indicates what competitive edge a business holds. Strategies for gaining market share from the competition may also be necessary. Contracts and alliances concerning the sale of output and purchase of input needs to be detailed including duration, deliverables, etc.

Marketing Strategy

The marketing strategy describes how sales or revenue objectives (i.e. $100,000 in projected sales revenue per year) will be accomplished in light of the conditions uncovered in the market analysis. A marketing strategy includes decisions regarding pricing, distribution, and promotion. Knowing break-even prices is critical to developing a sound marketing plan. Sound enterprise budgets can be a valuable tool in the decision whether to add or delete an enterprise. A good marketer may utilize a risk management marketing program with strategic set targets for profit based upon cost. A good marketing strategy may include selling inventory above break-even on a timely basis, and meeting cash flow and debt payment commitment deadlines. If a product is branded or has proprietary value, the marketing strategy should discuss how the product will be protected to maintain its uniqueness.

A well developed and logical marketing strategy can avoid the mistake of holding inventory when the market suddenly drops below the break-even point. It's also important to have a back up marketing strategy in case the original plan fails.

Financial Strategy/Plan

Every business owner should understand his or her operation's strengths and weaknesses as well as any financial risks that may adversely impact success if worst case events occur. The financial plan also determines whether the marketing and operational goals of the business plan are feasible within different sets of financial sensitivity scenarios. For example, scenarios could include a 10 percent drop in revenue, a 10 percent increase in costs, or an interest rate increase of 2 percent.

The financial plan should include initial financing requirements, historical and projected financial statements, and break-even analysis. Lenders and/or investors will generally look for answers to these basic questions:

- How much money is needed?
- How long will the money be needed?
- What rate of return can be expected?
- How will borrowed funds be repaid?
- What are the risks?

Current and projected balance sheets should show the initial financial position of the business with the relative investment levels of the owners, investors, and creditors. The impact of initial cost overruns on the amount of capital needs should be addressed. Projected income (profit and loss) statements and projected cash flows should be prepared. Sensitivity analysis of the best, worst and average cases should show the impact of deviations in revenue and expense projections on income and cash flow. Properly prepared cash flow projections will uncover the need for and timing of short-term financing. For example, during planting, a high level of expenses may be incurred and the revenue is not received until after harvest of the crop, leaving a short term deficit in cash flow. These projections are essential to an effective operational plan.

ROADSIDE CHAT #3: How does one ensure that a business plan is actually used?
In my experience we have found monthly variance analysis quite useful. That is, we compare *projected budgets* to *actual results* every month. Deviations from the two are then tested against our marketing, financial and operational strategies to determine whether macro economic events such as a change in interest rates, consumer demand or rise in fuel costs were a factor, or a micro event like failure to develop and execute a marketing plan or poor production performance because of machinery breakdowns resulted in the difference. Then adjustments are made.

It's also critical that business owners understand key financial ratios and what they tell them about the business. These key ratios will be discussed in depth in later modules along with other financial analysis information.

Operations and Production
Perhaps the most overlooked aspect of a business plan are the operational aspects of the business. These aspects include issues related to location, facilities, equipment and material needs, supplier and distribution factors, human resources and personnel management, processes, inventory, and quality controls. This portion of the business plan should tie together the product, marketing and financial sections of the business plan into a unified approach toward actually running the business.

Also, in this section the capacity of facilities to meet expansion needs, the availability of competent employees, and how quality will be measured and maintained should be addressed. Systematic flow diagrams showing labor needs by season, timing and change in inventory throughout the year, and scheduling may be needed, particularly in more complex businesses.

Action Plans
Even the most well developed objectives and strategies can become meaningless without appropriate action. One of the most effective ways to define tactical responsibilities and to hold individuals accountable is by developing specific action plans for each objective. Action plans should clearly define the action step, responsibility and time frames to effectively accomplish each objective. Also, managers should periodically review the status of action plans to assess how well the business plan is being implemented. An example of an action plan is to have 25 percent of the grain marketed in the month of May by the marketing manager.

Metrics for Evaluation
How will results of the plan be measured? Implementing appropriate evaluations and controls lets business owners and others know that the plan is being executed successfully and that milestones are being met. These controls also ensure accountability and discipline in following the plan. Operating data from your business' normal business activity can be used as a guide in measuring progress. Accounting, production, sales, inventory and other records can be key sources of information. As conditions change, these pre-determined control measurements can help business owners identify areas for improvement and objectives for getting performance back on track. In thinking about a control or evaluation system for your business, a first concern should be that it is easy to operate and maintain. Also, the system should be so practical that it becomes a natural part of the management process.

Risk Management Program
In this section, one needs to be prepared to discuss the components of covering for potential risk. This could include such things as: life insurance, liability coverage, disability, and/or long term healthcare insurance. Protection concerning machinery, livestock and crops needs to be discussed, with appropriate links to various details of policies and coverage.

This section may also include details concerning manure and environmental plans, livestock and farm identification programs. Some plans include an analysis of rental and contractual arrangements for land, livestock, crops and machinery critical to the success of the ongoing operations. The discussion should cover the planned use of risk management tools such as futures and options contracts, or production and marketing contracts. This includes demonstrating that management has a clear understanding of how these tools work, the risks involved, and how they are to be used. Medical coverage, potential investment for emergencies, contingency and long term retirement transition plans can be overviewed in this section as well.

ROADSIDE CHAT #4: Should a business plan have an exit or contingency plan?
Yes, your plan must recognize potential road blocks and provide alternatives to overcome them. A good exit plan up front can provide an exit ramp to reduce mis-communication, emotion and possible financial devastation if an orderly exit does not occur.

Exit Plan

Sometimes bad things can happen even with the best developed plans. In this section an outline of procedures and processes concerning a systematic exit from the business, specific enterprises or business activities needs to be discussed. An overview of buy-sell agreements and contingencies for adverse events need to be presented.

Having an exit plan procedure up front can result in less miscommunication and adversarial conflicts if a worst case scenario and/or a breakup of the business occurs. Exit agreements will usually have specifics about notification of partners due to death or incapacity. Exit plans concerning investments, capital improvements (i.e facilities, structures, fences, and repairs) need to be outlined. Realize that some disputes may require a third party arbitrator.

Appendices

Any relevant and supporting information that does not fit appropriately into the body of the business plan may be placed in appendices. These are usually at the end of the document and can house just about anything pertinent. Examples include management charts, personnel resumes, brochures, sales trends, letters of recommendation, and/or details on markets, finances, or operations. Placing irrelevant or excessive amounts of material in the appendices should be avoided.

ROADSIDE CHAT #5: What are some business planning blunders that should be avoided?

- **Too much detail** – There is a fine line between too little and too much detail in a business plan. Minute or trivial items that dilute or mask the critical aspects of the plan should be avoided.
- **Graphics without substance** – With the sophisticated computer software available to the average user today, it's easy to overemphasize aesthetics while compromising substance. Graphics can be a complement to, but not a substitute for, logic and reasoning.
- **No executive summary** – Many readers of business plans will not read past the executive summary; or if one does not exist, they may not read the plan at all.
- **Inability to communicate the plan** – The business plan should clearly outline the proposal in understandable terms. Monumental ideas are worthless if they can't be communicated.
- **No sensitivity analysis** – All quantitative aspects of a business plan should be tested for sensitivity to changes. The most common areas tested are revenues and expenses. However, sensitivity analysis can be conducted on

interest rates, yields, production variables, number of customers, or any other quantitative measure that is relevant to business success.

- **Failing to anticipate problems** – A good business plan will recognize potential roadblocks that could arise in implementing the plan and provide contingency plans to overcome them.
- **Lack of involvement** – The business plan should be a *team effort* and involve not only management but also spouses, children, staff, and any other stakeholders. Careful consideration should be given before making the decision to shift responsibility of preparing the plan to someone outside the business. It's okay to have an outside consultant facilitate the development of a plan, but ultimately, the business owner is responsible. The strategic process of developing the plan is a key component of its success.
- **Infatuation with product or service** – Although a business plan should clearly explain the attributes and production of the business' key product or service, it should focus on a marketing plan. Farmers and ranchers can often become so focused on producing the product they forget about what the customer expects and wants to buy.
- **Focusing on production estimates** – When making projections, the focus needs to be on sales estimates, in addition to production estimates. Production is irrelevant if there are no buyers for the product because products must be sold to generate income.
- **Unrealistic financial projections** – Potential investors are certainly interested in profitability so that they may earn a return on investment. However, unrealistic financial projections can quickly cause a plan to lose credibility in the eyes of investors.
- **Speak to your audience** – Technical language, acronyms and jargon that would be unfamiliar to a person without experience in a particular industry should be avoided in a business plan. The reader will be more impressed if he or she understands the plan.
- **Lack of commitment** – The entrepreneur must show commitment to his or her business if he or she expects a commitment from others. Commitment is exhibited by timeliness and following up on all professional appointments. Investment of personal money is looked upon favorably because it shows that the owner is wiling to make a financial investment.
- **It's in my head** – Having only a "mental business plan" is big mistake often made by the older generation or a strong minded individual. Thoughts, ideas and plans need to be written down and shared with key partners.
- **Too many action plans** – Occasionally, too many actions are expected to be accomplished in a short time frame with limited resources available to management, and management may feel overwhelmed. Actions need to be prioritized – those that have the greatest impact should be completed first with those of less impact being deferred until later.
- **No Time** – Yes, we are in a time-compressed society; however, five to ten percent of a manager's time should be devoted to *planning*. "Failing to plan is planning to fail" according to John Wooden, basketball coach of UCLA National Championship team.

ROADSIDE CHAT #6: Is there a proper length and format for a business plan?
The length of the plan will vary, but most plans are between 10 and 50 pages, excluding appendices. If you can not communicate the essence of your plan on a simple napkin, it is probably too complex. Often, a cover page and table of contents are included for easy reference. Depending on the situation, plans should be dated and marked confidential. If appropriate, copies should be numbered before distribution.

Summary

A business does not benefit from a plan sitting on a shelf collecting dust. Oftentimes, business owners view the business plan as a one-time-only document to be used for a specific purpose and then forgotten. Realize that business owners who are most successful in following through with their planning process view their business plan as a *living document*. A plan should be updated annually or more frequently if the business is experiencing problems or if the marketplace is changing rapidly.