BUSINESS TOOLS
Strategic business planning

Fact: Those who prepare a business plan are 10 to 20 times more profitable.

Strategic business planning

What is a strategic plan?

Farm and ranch managers generally spend most of their time making day-to-day operational decisions. While short-term operational planning is important, it does not substitute for long-term strategic planning that charts where the owner wants the business to go, how it will get there, who will be involved and what resources are required. Most business owners hope for a better future, but figuring out just how to make it happen can be challenging. Long-term strategic business planning can help.

Strategic planning is a process that helps business owners define and achieve success. Whether success means growth, increased profits, developing new markets and products or preparing for business transition, the business plan aligns the people and the business to achieve their goals. An effective planning process enables owners and managers to step back from the day-to-day operations and focus on the big picture. Thoughtful discussions with key players inside and outside of the business help ensure a common understanding of the following key elements:

- Where has the business been?
- Where is the business today?
- Where is the business headed in the future?

Aligning management and ownership enables decision makers to build a realistic plan that addresses how the business will achieve its goals and define key objectives or milestones to measure success. Business planning also helps avoid short-term emotional decisions and focuses decisions on pre-set objectives and goals.

Tip: A good business plan can take anywhere from 50 to 100 hours to prepare.

Why create a strategic plan?

Businesses conduct strategic planning for many reasons, including new ventures, businesses or market changes and maintaining ongoing success. Business leaders use strategic plans internally to make management decisions and set priorities. Managers also use plans to communicate externally, sharing the vision and plan to attract investors, to obtain financing or to recruit quality partners or employees. Business plans also provide business owners with a tool to evaluate the feasibility of proposed ventures and may reveal previously unconsidered opportunities or limitations. An effective plan provides clear direction for the organization and may be customized depending on the target audience – investors, creditors, board of directors, family members, employees or others.

Do agricultural businesses need a business plan?

Ag businesses of every size, complexity and lifecycle stage can benefit from strategic planning. While most farmers and ranchers have a clear plan in mind, conditions change rapidly and when all players aren't on the same page, results can be disastrous. Written business plans provide a thought-out and agreed-upon guide for strategic and daily decisions alike, helping managers to evaluate business opportunities and threats.

Tip: Effective business plans incorporate input from everyone who has a stake in the business.

What is a business plan?

A business plan is a written document aligning goals, strategies and action plans among key functional areas, including management, finance, production and marketing. The depth of detail contained in the plan varies depending on the complexity of the business and the plan's purpose. 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, which will be discussed later.

Who should be involved in developing a business plan?

Although a professional consultant can help lead the planning process, business owners and key managers should take the lead role and ultimate responsibility to develop and implement the plan. The most effective planning processes seek and incorporate input from every level of the organization.

In a family business, spouses should have input as well as other family and non-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. Numerous templates are available for developing business plans, and a quick Google search will yield results for your specific industry or circumstance. While templates are useful for providing a basic framework, their flexibility may be limited and they may not address all of the key questions for your business.

Where can you get help developing a business plan?

Information and resources from AgWest's Business Management Center are a great place to start. We offer industry knowledge, management tools and strategic planning expertise through webinars, seminars, publications and individual business planning facilitation. Visit the AgWest website for more information and details.

The Cooperative Extension Service, Small Business Administration, universities and regional small business centers also provide general information and guidance. These organizations may offer help in obtaining financing or finding investors.

Research and collect your industry data.

Through the planning process, managers often identify the need for business-specific information, including market surveys, questionnaires, focus groups or other data collected by the business. This type of firsthand information is often the most informative, but is also the most difficult and costly to obtain.

Data from external sources, such as lenders, trade associations, census information, magazines, journals, other publications or marketing research firms may also help in the planning process. Financial data for specific industries is available from sources such as the USDA's National Agricultural Statistic Service.

The largest source of secondary data available is the Internet. One should use caution and evaluate the quality, relevancy and age of any externally generated data, regardless of the source.

Tip: Execution is key. Businesses generally have better success executing an average business plan well than an excellent business plan poorly.

What is the process for developing a business plan?

Strategy and business planning are ongoing processes. The first step is to establish a strong foundation and buy in from the team. The following questions can help you get started:

1. Where does our business currently stand?
2. What's important to us?
3. What is our competitive advantage? (or potential competitive advantage)
4. What makes our business unique?
5. What do we want to achieve?
6. Who is responsible and accountable for the plan, process and follow-through?

Next, conduct your SWOT analysis, first assessing the external environment, including political, economic, social and economic factors that affect or might affect the business. With external factors in mind, carefully assess the business' strengths and weaknesses – the factors within management's control. Considering the SWOT, prioritize areas of focus, including top strengths and opportunities or key weaknesses and threats to address in the planning process.

What are the various components of a business plan?

Most business plans include the following components. The order and emphasis placed on each component varies depending on the business and purpose of the plan.

Create an executive summary.

Tip: Schedule an annual off-site strategy and business planning meeting with the key stakeholders and decision makers of the business.

Depending on the needs and length of the plan, an executive summary, or concise overview of the key aspects of the plan is helpful. This summary, (written after the plan is complete) gives interested parties a quick overview and key takeaways to build understanding and enthusiasm about the business and opportunities.

Include your history and general business description.

The history and general description of the company provides a picture of the business today. This is important to establish a common starting point for future plans and to help external audiences understand current operations. This section generally includes the following elements:

- A history of the business, including why major changes/shifts occurred.
- A list of partners and their ownership.
- A list of key employees, their roles and background qualifications.
- A general description of the industry.

For an existing business, a discussion of products and their success (or failure) should be included. For a new venture, reasons for starting the venture should be included.

Develop your core values.

Core values are the most important, deeply held values of the business and are independent of the current environment. Values reflect the character and culture of the business and everyone who works in it. They are the convictions on how business is conducted and how people are treated, inside and outside the organization. Some examples of core values include:

- **Integrity** – We do what's right for everyone through honesty, fairness and conscientious accountability.
- **Accountability** – We take personal responsibility for our actions with a sense of pride and commitment to the organization.
- **Action driven** – We are determined and motivated to accomplish our goals and aren't afraid to make the first move or take necessary steps.
- **Team oriented** - We recognize individual talents and team synergies through effective communication.

SWOT analysis – strengths, weaknesses, opportunities and threats.

To set plans and priorities for the future, the planning team should address internal and external factors affecting the business early in the planning process.

The SWOT is a simple tool to evaluate the internal and external environment. A SWOT looks at all the positive and negative factors inside and outside the business that impact the operation's success.

Strengths and weaknesses are internal to the operation, meaning they are areas that management can influence or control. Strengths and weaknesses usually fall under four main categories: Human competencies, products and services, process capabilities and resources (financial, physical or natural). The plan should provide strategies to leverage and build upon strengths, while minimizing or eliminating weaknesses.

Opportunities and threats are external factors that can affect the business positively or negatively. Management cannot control opportunities or threats, but can identify and take action to position or prepare to take advantage of or defend against these external forces.

Ultimately, the plan should align the operation's strengths with external opportunities and minimize weaknesses that compound external vulnerabilities or threats.

Tip: The vision statement identifies your ultimate dreams for the business and should include key milestones for success.

Develop a vision statement.

A vision statement describes the organization's grand goals and how it will look when it operates effectively and efficiently to achieve them. Vision is the concrete statement of your ultimate dreams for the business. The vision statement answers the question "What will success look like?" Below is an example of a vision statement.

Smith Ranches will be the most successful Angus cattle producer in Washington, growing the best quality, high-demand cows in a state-of-the-art (and paid for) breeding facility that is efficiently run by committed Smith family members and loyal employees who all reside in and support the Valley community.

The vision statement should be specific and include key milestones that owners and management can use to determine if the business is on the right path.

Develop a brief mission statement.

A mission statement describes why the business exists and what the business does. It should be brief and general enough to be flexible, but rigid enough to give the business direction. A mission statement may encompass both personal goals and business goals. Some of the key questions a mission statement should answer are:

- What do we do?
- Who do we do it for? (who are our customers)
- Why do we do it?
- Where do we do it?
- How do we do it?

Like the entire business plan, development of the mission statement should include input from all levels of the organization, not just management. The mission statement should be visible. Every person involved in the business, not just the owners or managers, should know and easily grasp the mission. An example of a mission statement is:

Smith Ranches' mission is to provide profitable, high-quality beef to health conscious consumers, sustaining a family business and balanced lifestyle.

Describe your value proposition.

The plan should describe what makes your business unique in the marketplace. Why do your customers do business with you? How difficult would it be for a competitor to replicate what you do in the marketplace? What opportunities are there to enhance your business' value proposition?

Explain your organization and management.

Tip: Clearly define each member's role in the business, including family members and outside professionals.

The plan should explain how the business is organized and structured. This includes the organizational chart and legal entities. The duties and responsibilities of all involved should be outlined. Details on management compensation and allocation of profits and losses are essential, along with a backup management plan.

In a family business, this section should clearly define each member's role and responsibilities. If expertise is weak in a certain area (marketing, sales, finance, etc.) or if roles are unclear, the written plan should identify concerns and include strategies to address key weaknesses. This section should also define the role of professional consultants, such as attorneys or accountants.

The business plan may also include a transition strategy, particularly when players anticipate succession to occur on the planning horizon. Discuss and document plans or key questions surrounding ownership, management, asset transition and estate planning issues.

Conduct a market analysis.

Tip: Clearly define target markets based on potential customers with common characteristics.

Market analysis is the backbone of most business plans. A business will not be successful, regardless of how well it is managed, if incorrect assumptions are made about markets or if products don't meet customer expectations.

The market analysis outlines customer needs being met by the business, why products or services are unique and the organization's target market. This section provides an opportunity to "think outside the box" and determine if there are niche markets the business can serve profitably. Many operations and individuals have unique characteristics that may enable them to meet a potentially profitable specialty product or service need.

The market analysis considers the political, legal, economic, environmental, social, cultural and technological demands of the marketplace. It also includes a definition of the target market, including a rationale for why particular groups of potential customers with similar characteristics are the focus of marketing efforts. This section should identify the potential number of people in each segment, including emerging trends and new markets.

Management should conduct a competitive analysis, looking at the strengths and weaknesses of the competition, indicating what competitive edge a business holds. The plan may also address strategies for gaining market share from the competition.

Outline your planning assumptions.

All planning processes are based on logical assumptions rather than facts. It is impossible to predict the future and impractical to have data to support every aspect of a plan. Therefore, the plan should acknowledge and define assumptions regarding how issues outside the business' direct control will evolve during the planning horizon.

It's critical to outline the key planning assumptions from the start to help avoid bias and emotion in the planning process. Key planning assumptions may include trends in supply and demand, the global economy, the marketplace 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 assumptions based on what the owners hope will happen, versus what an informed and unbiased third party believes is likely to happen.

List your business goals.

While the mission statement is broad and general, goals are quantifiable and specific. Goals may focus on sales, profits and efficiency, or may involve expansion or bringing another partner into the business. These should be SMART goals: specific, measurable, agreed to, realistic and time-driven.

The plan should separate long-term or strategic goals (for three to five years) and short-term tactical goals (one year or less). Examples of goals are:

Long-term goals:

- Increase gross revenues by 5% in each of the next three years.
- Reduce leverage to 30% or less within three years.
- Bring a son or daughter into a management position within two years.

Short-term goals:

- Reduce death loss in the cattle herd to under 5% next year.
- Build working capital to account for at least 25% of annual business expenses by next year.

Tip: A well-developed marketing strategy focuses on the four Ps: product, price, place and promotion.

Establish a marketing strategy.

The marketing strategy describes how management plans accomplish sales goals in light of current market conditions. A marketing strategy includes decisions regarding product selection and design, pricing, distribution and promotion. Knowing break-even prices is critical to developing a sound marketing plan. If a product is branded or is a proprietary variety, the marketing strategy should address plans to maintain the product's uniqueness.

The management team should establish a marketing strategy before the product is marketed. A well-developed and logical marketing strategy will address the risks of market timing and volatility, establishing guidelines for when sales will occur. It's also important to have a backup marketing strategy in case the original plan fails.

Tip: It's critical that business owners understand key financial ratio implications for their business.

Plan your financial strategy.

Every business owner should understand his or her operation's strengths and the financial risks that may adversely affect success if the worst-case events occur. The financial plan also determines whether the marketing and operational goals of the business plan are feasible. The financial plan should include initial financial 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 does the business need to maintain current operations?
- Are additional funds required to achieve strategic goals?
- If utilizing debt or equity capital, how long will funds be needed and how will they be repaid?
- What rate of return can investors expect?
- What are the risks and how has the company addressed them?

Balance Sheets: Current and projected balance sheets show the financial position of the business with the relative investment levels of the owners, investors and creditors. The projections should address primary and back-up plans for all financial obligations.

Income Statements: Management should prepare projected income (profit and loss) statements and projected cash flows. Analysis of the best, worst and most likely cases should show the impact of deviations in revenue and expense projections on financial performance and the company's ability to meet obligations. Properly prepared cash flow projections will uncover the need for and timing of short-term financing. This is essential to an effective operational plan.

Address your operational production needs.

Strategic goals and performance are important, but without a product or service to sell, the other questions addressed in the plan are mute. This section addresses issues related to location, facilities, equipment needs, material requirements, suppliers, distribution, personnel management, processes, inventory and quality controls. This portion of the plan ties together the product, marketing and financial plans into a unified approach toward running the business. Address the capacity of facilities to meet expansion needs, the availability of competent employees and how management effectiveness will be measured and maintained. Many plans include a systematic flow diagram showing labor needs, timing, inventories and scheduling.

Clearly define your action plans.

Even the most well developed objectives and strategies are meaningless without appropriate follow-through. One of the most effective ways to define tactical responsibilities and to hold individuals accountable is with specific action plans for each goal. Action plans clearly define the action steps, responsibilities and timeframes to accomplish each goal effectively. Managers should periodically review the status of action plans to assess how well the business plan is being implemented.

Pre-determine evaluations and controls.

Tip: Identify key milestones to track improvements and progress made toward achieving your business goals.

How will results of the plan be measured? Implementing appropriate evaluations and controls lets business owners and others know that management is executing the plan successfully. These controls also ensure accountability and discipline in following the plan. Many businesses use regular updates to measure progress.

As conditions change, pre-determined milestones help business owners identify areas for improvement and goals for getting performance back on track. A control or evaluation system should be easy to operate and maintain.

What information is added to the appendices?

Place any relevant supporting information that does not fit appropriately into the body of the business plan into appendices. Avoid placing irrelevant or excessive amounts of material in this section.

Appropriately format your business plan.

The length of the plan will vary, but most plans are between 10 and 50 pages, excluding appendices. Often, a table of contents and cover pages are included for easy reference. Be sure to date your plan and mark it as confidential. If appropriate, number and identify copies before distribution.

Be aware of common planning pitfalls.

Tip: The business plan is a living document and should be reviewed and updated annually or more frequently as market conditions change.

A business does not benefit from plans that sit on a shelf collecting dust. Oftentimes, business owners view the business plan as a one-time-only process or document for a specific purpose. Business owners who are most successful in following through on the planning process view the business plan as a living document. Owners and managers should update the plan annually or more frequently if the business is having trouble or if the marketplace is changing rapidly. Common pitfalls in the planning process and plan documentation include:

Too much detail – There is a fine line between too little and too much detail in a business plan. Avoid minute or trivial items that dilute or mask the critical aspects of the plan

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. If it does not exist, they may not read the plan at all.

Inability to communicate the plan – The business plan should clearly outline the proposals and priorities in understandable terms. If they can't be communicated, even monumental ideas are worthless.

No sensitivity analysis – All quantitative aspects of a business plan should include sensitivity or scenario analysis. The most common areas tested are revenues and expenses. However, the team may identify other areas for sensitivity analysis, including interest rates, yields, production variables or any other quantitative measures that are relevant to business success.

Failing to anticipate problems – A good business plan recognizes and addresses potential roadblocks and includes contingency plans.

Tip: The business planning process should involve management, stakeholders and key family or non-family members.

Lack of involvement – The business plan should be a team effort that involves management and key family or non-family members and stakeholders. Careful consideration should be given before shifting 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 owners are 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 also focus on the marketing plan. Farmers and ranchers are often so focused on producing the product they can forget about what the customer expects and wants to buy.

Focusing on production estimates – When making projections, the focus should be on sales estimates and production estimates. Production is irrelevant if there are no buyers

Unrealistic financial projections – Potential investors are interested in profitability and return on their potential 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 unfamiliar to a person without experience in a particular industry should be avoided. The reader will be more impressed if he or she understands the plan.

Lack of commitment – The entrepreneur must show commitment to the business if they expect a commitment from others. Commitment is exhibited by timeliness and follow-up on all meetings and appointments. Investment of personal money is perceived favorably because it shows the owner is willing to make a financial commitment.