



It Pays to Have a Plan

Tips to develop a farm or ranch business plan.

by **TROY SMITH,**
field editor

It has been said that farming and ranching are poor ways to make a living, but each can provide a great way of life. While such words often are uttered in jest, they contain elements of truth. For people with an agricultural bent, there may be no more personally satisfying way of life than to be engaged in a favored

form of production agriculture. As a business, however, production agriculture is fraught with risk. Bad weather, plant and animal diseases, and changing market prices are just a few of the risks that can and do create economic uncertainty. It pays to have a plan.

That's what faculty members try to fix firmly in the minds of students enrolled at the University of Nebraska College of Technical

Agriculture (NCTA). The message is driven home hard among students participating in the college's entrepreneurial training programs, including the 100 Beef Cow Advantage Program. Along with taking courses in farm and ranch management, beef production and accounting, participants must develop a business plan.

The program's objective is to equip NCTA graduates to return to

rural areas with sufficient assets so they may enter a business relationship with established producers and work toward establishing their own operations. Just prior to graduation, a student's business plan is submitted to the Farm Service Agency (FSA) for beginning farmer/rancher loan consideration.

The loan is for the purchase of

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cows. As part of an employment agreement with an established producer, that producer then provides the land base and other resources necessary to maintain the graduate's start-up herd. The graduate's business plan is also submitted to the Nebraska Department of Agriculture for consideration of a tax credit to the established producer/landlord.

Practicality is a must

According to NCTA Assistant Professor Doug Smith, participating students can plainly see the importance of having a formal business plan. With loan acceptance on the line, they understand that having a plan with clear objectives is critical. A vague plan "to make money" isn't good enough to satisfy a lender or a potential partner.

"You can't just hope it will work."

— *Doug Smith*

"You can't just hope it will work," grins Smith. "We stress that you have to plan where you're going. You have to plan for success. That includes knowing what feed resources are

required throughout the year, what kind of facilities will be needed, what kind of breeding program will be applied and how all of that will be managed to best advantage. Students learn that it takes time to develop a plan that makes sense. It has to be practical."

It's likely that many young people with dreams of owning and operating a ranch, stock farm or other business could not accurately define the term "business plan." Many not-so-young people might have trouble explaining what it entails.

According to John Hewlett, University of Wyoming farm/ranch management specialist, a business plan is a document that pulls together a business owner's thoughts about the future of the business. Strategic vision, background, organization, financing, marketing and exit strategy are all part of a complete business plan.

"This helps provide the readers and writers with a better

understanding of the business, what it's about and where it is headed," explains Hewlett. "Many business owners are required to prepare a business plan before securing new or continued financing. It provides the lender with insights into the owner's thoughts about how the financing will enhance the business and what systems will be in place to ensure business

performance into the future."

That's true whether a business plan is being developed for a new

operation or an existing one. In either case, it is a lot of work and it takes time. According to Colorado State University Farm/Ranch Management Specialist Norman Dalsted, even established farmers and ranchers are reluctant to allocate the time and effort required to develop a complete plan.

Sometimes, however, they are forced into it.

As an example, Dalsted tells of a family that wanted to expand its operation to include a custom haying enterprise. To do so required the purchase of additional equipment costing hundreds of thousands of dollars, but their lender wanted to see a detailed analysis of what lay ahead in five years and 10 years into the future.

"It was a pretty intensive process and ended up being a 30-page report," says Dalsted, noting how the business plan proved to be valuable well beyond the time of loan approval.

"It gave them a renewed sense of direction," he says. "Their business plan has been that family's road map to success."

Dalsted emphasizes that preparing a business plan is not just about finance, but consideration of the goals of everyone involved in the operation. All stakeholders must be considered, including family members who may or may not participate directly in day-to-day operations.

"I suggest that family members sit down and work on a business plan together," advises Dalsted. "Having females involved can be really beneficial. They typically have a different perspective than males. Most men tend to think about the physical and mechanical aspects of an operation, while women are more apt to think about the social and emotional aspects. All of that is important, and going through the process can bring couples closer together and strengthen families."

Is it really necessary for a business plan to be so lengthy? Dalsted says it depends on the particular business. Each one is unique. A plan's length depends on the details — the available resources, the number of activities or enterprises included, the number of people involved and the general size and scale of the business. Hewlett agrees, emphasizing that a business plan should be complete.

"Cutting the process and the resulting document short will only serve to short-circuit the value of the plan," he states.

Some people have a hard time seeing the value of developing a

business plan. It may be their contention that Dad or Grandpa ran a cow outfit for decades and prospered, without going through the process.

A written business plan can be a very valuable tool for communication among all of the people involved, including employees, says Rodney Jones.

"I'd argue that Grandpa did have a business plan, but it may have been in his head or consisted of things jotted down on a few bits of paper," says Rodney Jones, Oklahoma State University Extension ag economist.

"However, today's farm and ranch businesses often are more complex, if only

because they usually involve more people. There may be more stakeholders (family members, partners or investors). There often is more involvement with government agency personnel."

Write it down

Jones says a written business plan can be a very valuable tool for communication among all of the people involved, including employees. The plan should communicate the business's competitive advantage and a course for capitalizing on it. That, says Jones, is key to the success of any business.

Jones believes a complete or comprehensive business plan consists of eight essential parts or sections:

- 1) **Executive summary** — a brief summary including a description of the business opportunity (competitive advantage), the people involved, and the risks and rewards.
- 2) **Business description** — a description of the type of business and the products or services it offers, background information on owners and managers, inventory of physical resources (land, facilities and equipment) and physical resource emergency plan.
- 3) **Strategic plan** — a description of business values, vision, mission, objectives, goals and SWOT (strengths, weaknesses, opportunities and threats) analysis.
- 4) **Sales & marketing plan** — a description of how products or services will be marketed, how risk will be managed and how inventory will be managed.
- 5) **Production & operations plan** — a description of the production process, quality control, environmental stewardship, regulatory and licensing requirements, and production risk management.
- 6) **Organization & staffing plan** — a description of the business

legal structure (individual proprietor, partnership, limited liability company, etc.), the organizational structure and personnel inventory.

- 7) **Financial plan** — a description of current financial assessment and structure, capital needs and investment analysis, financial monitoring and control plan and financial risk management, including a plan for addressing financial stress.
- 8) **Other** — a description of actions to be taken, performance monitoring plan, business transition plan (or exit strategy), plus any documentation to support the business plan.

Agriculture is dynamic and agricultural businesses must be responsive to change. So Jones recommends compiling a business plan in a three-ring binder.

"Developing a business plan is a process," he explains. "It's meant to be revised, with some things added and others taken out."

Wyoming's Hewlett believes the greatest value of a business plan is found in its development. The process of putting together all of the components forces the business owner or owners to think carefully about what they have in mind for the future, the anticipated steps to get there and contingency plans if things don't go as anticipated.

"The most significant value is to the business owner, and especially where it facilitates communication between multiple owners," says Hewlett. "Secondarily, the plan has value to others who may be involved in carrying out the plan, including lenders, suppliers, agencies that may provide oversight to the business and others. Not all portions of the plan will be shared with all of those outside the business, but having a well-organized document addressing various details about the future of the business provides much value as a point of reference.

"Thirdly, referring back to the plan periodically, over time, can help keep all parties on the same page and keep the focus on the goals outlined for the future of the business."

Resources available to help with development of farm and ranch business plans include the Cooperative Extension Service at land-grant universities, small-business development centers, many community colleges, lenders and public library resources. Numerous online resources also are available, including AgPlan (<http://AgPlan.com>), a free resource for agricultural managers.

Editor's Note: *Troy Smith is a cattleman and freelancer from Sargent, Neb.*