

# Plan For Success

by Lorne Owen

**N**ot many people would start out on a trip, begin building a new livestock barn complex, or buy a piece of land without first having a good idea of what all is involved, how much it will cost, and devising a schedule of what to do when. In short — they'd have a plan — a "blueprint" of how the job should be done.

That blueprint, if it was done properly, would probably be tattered and torn. It would be used a lot to go over what's happened so far, what's next to be done, and how much further you have to go. It would serve as a constant reference, and in the end a record of what actually occurred. It

will also serve as a reference which will make the whole job much easier the next time around and maybe less costly.

Farmers cannot under-rate the importance of planning in both business and production. While many farmers do an excellent job of planning production, few regularly prepare a complete business plan.

Comprehensive plans are routinely prepared by larger urban firms as a normal business practice. They improve communication, general efficiency and decision making — important advantages for all businesses, and especially for large commercial farms with large budgets.

## ■ Communication with family and lenders

One advantage of a written business plan is better communication. Communication is an essential management skill but one that often doesn't receive the attention it deserves.

There are usually many people involved in running a farm. It is people who seed crops, feed cattle, approve loans and make investments. In addition to family members, there are business associates, lenders and an increasing number of hired employees on Canadian farms. And on farms, as in any business, people problems quickly become business problems and eventually financial problems. Good communication can often avoid or minimize these situations.

A written business plan puts you, the farm manager, in a better position to explain your goals; where the business is going, what needs to be done and the role of investors, family members and employees in achieving these goals. This kind of communication helps create a common purpose and is essential to good leadership.

When applying for credit, your business plan helps you communicate and explain your proposal to investors and loans officers. Your plan provides the basic information they will use to evaluate your proposal's feasibility and will be used as a measure of your management ability, a key consideration in the decision to finance your proposal.

## ■ Planning improves efficiency

Improved efficiency is another benefit of having a written business plan. The success or failure of a given project can rarely be traced to a single factor. But good planning is a characteristic of successful ventures — planning not only in the sense of setting realistic goals and developing practical steps to achieve those goals, but planning as a day-to-day management tool to monitor progress and react to change.

Planning and putting your ideas on paper (before committing real dollars and

activity of all farm managers. All the information is at your fingertips, ready to help you make those tough decisions.

Another benefit is the clearly defined goals and targets in a plan. These goals act as standards to evaluate alternatives, monitor progress and can be used to keep your business on track.

## ■ It takes practice

While there are many concrete benefits to having a business plan, writing a good plan requires time, effort and practice.

## ■ Components of the plan

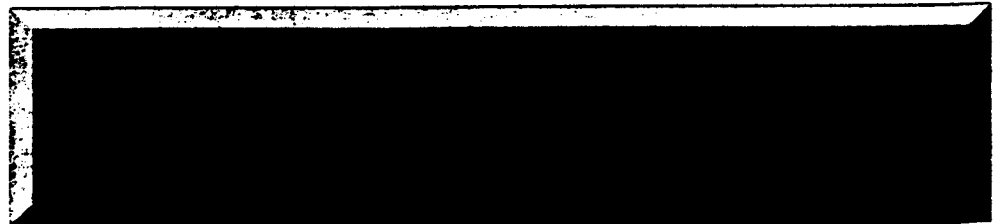
A complete business plan is made up of several components: labour, marketing, production, and finances

A summary and an appendix can be included when the plan is being used to talk to your banker to acquire financing or when detailed explanations are required.

Each of the main sections should contain a brief summary of activities and detailed information on:

- business goals,
- targets
- and strategies.

The **labour plan** will contain a job descriptions for each position, an organizational chart for larger farms, a summary



real resources) gives you the chance to identify risks, assess alternatives, and fine tune activities, all of which help make your ideas work out the way you want them to. In addition to fine tuning and making your ideas more precise, a written business plan provides a guide for implementing plans, a guide that helps turn ideas into ideas that make money — remember the blueprint concept.

## ■ Tools for decision-making

A business plan also has a valuable role in decision making — the most important

of wage and incentive programs, names of the accounting and legal firms used, as well as staff training and development plans. Specific labour targets might be to help an employee develop management skills; or to improve your own marketing and accounting skills through special courses.

The **marketing section** will contain a brief summary of customers, competition, trends, product costs, where products are delivered, how they are priced, as well as a review of the business's marketing strategies and targets.

Examples of marketing strategies might include:

- contracting half of expected production when prices are twice direct costs
- using future contracts to reduce inventory costs
- developing a new market
- or implementing a new advertising program.

A production plan has information on your farm's crop yields, and acreages as well as specific production targets and goals.

Production targets may be to:

- produce a maximum economic yield of 85 bushels per acre
- realize a 92 percent calving percentage
- reducing chemical costs by six dollars per acre
- improve soil conservation by eliminating two summerfallow cultivations.

Strategies on how you plan to achieve your production targets should be noted and might include: increased culling, better quality seed or stock, better monitoring practices, or new equipment.

The **financial section** of the plan should tie all of the pieces together. Both past and predicted returns, cash flows, financial ratios, net worth as well as specific targets and strategies belong in this section.

Financial goals might include profitable growth or reducing market risk. Financial

targets might include:

- reducing debt by one-third over four years
- purchasing an additional piece of land
- or realizing a 15% increase in net income over the next two years.

Strategies might include:

- maintaining a current ratio of 2:1 or better
- keeping debt servicing at less than 25% percent of projected sales
- cutting back on enterprises with low gross margins.
- or keeping total debts at less than 40% percent of total assets at book value.

### **Keep it simple**

While preparing and implementing a business plan requires time and effort, the first time through is the most difficult. Subsequent plans are easier to prepare, given an initial base to work from and experience.

Although a business plan must contain a great deal of information, it should be short and easy to read. Illustrating yield and income trends as well as delivery and pricing options with graphs and charts will make the plan shorter, easier to prepare and easier to read.


### **Review your plan**

No matter how good your plan is, if it is left collecting dust on a shelf it will

be useless. It must be used and updated regularly.

Setting aside a specific day and writing it on your calendar for a year in advance can help start the necessary routine. The end of each quarter, after you have posted and summarized your records, is a good time to review your plan. This allows you to compare actual results with previous projections and make changes as appropriate.

While other people can be helpful in preparing parts of your plan, the end product has to be yours. Your accountant can provide financial summaries, a consultant can be hired for marketing information, and employees can be asked to prepare yield and production information. But the end product must reflect the ideas of those who own and operate the business. If not, the plan stands little chance of being implemented and little chance of providing any real benefits.

Although not a solution for every problem, a business plan can help farm managers improve communication, efficiency and decision making and make the difference between having a goal and turning that goal into reality. 

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