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Plan Beyond Status Quo

Taking time to develop an operating plan is an important step to help add clarity and progress for a business's future.

*by **Kindra Gordon,** field editor*

Planning is often one of those tasks that gets crowded out by work that is considered urgent. Or, planning might be avoided because it seems boring or too overwhelming. However, Davon Cook, a specialist with the family business firm Ag Progress, says taking time for business planning is essential to identify how, when, and with what people and resources you will reach your goals.

Additionally, Cook points out there can be some detrimental consequences that result when a plan is not developed.

As one example, Cook says she often sees that, "In the absence of structure (a plan), people default to the status quo."

"You must begin by analyzing the status quo, and are you satisfied with that?" Cook says.

She explains that, in some parts of the business, following the status quo may be good — such as the values that were set by previous generations. However, if you never change who does what or how and when products are marketed, following that status quo and not identifying some successors could become problematic.

She notes that a second consequence from lack of planning that she often sees is that "in the absence of a story, people make one up."

In other words, Cook says if you are not defining a plan, communicating, and giving family members and employees information, they will start to make up their own.

By recognizing these consequences, Cook hopes family businesses will realize that planning should no longer be left languishing at the bottom of the "to do" list.

She also offers this important advice to families as they dig into planning: "Recognize no plan will be perfect, but you are adding structure and story to your business. The value of planning is in the communication and clarity that it provides to all who are involved in the business."

Where to start

Once the value of planning is realized, Cook says a good starting point is to focus on developing an operating plan. She defines an operating plan as the strategic goals the business is focused on achieving within a one-year timeframe.

Cook notes that there are several additional types of business plans — from strategic planning, which looks at a three- to five-year timeframe; to business continuity planning, which prepares for instant emergencies; and longer-term estate and succession planning. While those types of plans are also important, Cook underscores that once all involved have a vision for the operating plan, looking ahead to the strategic and succession planning can become more manageable.

In developing the operating plan, Cook says the plan should:

- ►Determine what the business will produce this year based on sound analysis.
- ►Define the resources needed.
- ►Be understood and communicated with all relevant stakeholders.

To achieve this, Cook suggests evaluating the business by creating five categories and asking the following questions:

1. **Production:** What will we grow, raise or process to create value? This should include evaluating profitability of different crop and livestock systems, as well as production method comparisons.
2. **Marketing:** How and when will we sell our products and manage price risk? Additionally, who governs marketing decisions? Cook says establishing a marketing plan should be guided by the group's risk tolerance and should identify what marketing tools will be utilized — and those that will not. Target prices and timing of sales (and/or hedging) should also be determined and approved by stakeholders well in advance. Cook notes that in developing the marketing plan, it is essential to know production costs.

   With regard to the appointed executor who is making the marketing decisions, Cook also suggests that stakeholders should develop an agreement as to how much leeway that person has with making the marketing decisions, and a regular reporting format and timeline should also be adhered to. A treasury team or committee might be developed to ensure oversight of the executor.
3. **Physical capital improvement:** What equipment, improvements or other capital assets will be purchased, sold or replaced? Cook says this is essentially asking the question, "What assets do we need to buy, sell or replace?" She suggests tactics that evaluate buy, lease, rollover, custom hire and shared equipment scenarios should all be considered. She notes that several university extension programs offer spreadsheets to analyze these options.
4. **Financing:** What combination of operating credit, term financing, investor capital, or other financing sources will be used? To evaluate this category, Cook notes that an understanding of financial needs — and current debt — are essential. She suggests that developing an item-by-item, year-by-year list of debt obligations can be a useful tool to aid with future planning. Communicating with your lender and considering all financing sources should also be part of this process.
5. **Human capital:** How do we deploy the right people in the right seats on the bus to execute all of the above? Cook says to make the operating plan work, evaluating the people on the team and their specific roles is critical. How work is assigned and who takes on leadership roles should also be determined. Cook notes that devoting time to human capital needs is important to ensure that the next generation is being trained to come on board.

Putting it all together

Once each of these categories has been reviewed and discussed, Cook says the operating plan can serve as a benchmark for comparison in each successive year. Most importantly, it provides a framework that can be discussed and evaluated as a group.

As an example, she says by evaluating each enterprise and production cycle, business decisions can be analyzed to determine what the business should do more of or less of to adapt.

Likewise, the marketing plan can be evaluated to determine if more — or less — risk can be handled by those involved in the business, or if marketing timing and targets need to be changed. Regarding physical capital, a priority list for land, equipment or facility needs can be developed and communicated with all involved for future planning.

All total, Cook says the operating plan helps "everyone be on the same page with regard to the management of the business."

Cook also emphasizes that plans should be put in writing. She knows one business-planning expert who says: "A decision is never made until it's put on paper."

Putting plans in writing accomplishes two things, Cook notes. First, "It forces everyone involved to pay attention and think things through in a deeper way when they know it is being put in writing."

Secondly, Cook says, putting plans in writing creates accountability. She explains, "People often leave meetings with different interpretations of what was discussed or decided, but when it is put on paper there is clarity."

Cook underscores that there is no such thing as a "perfect" plan. Instead, the focus should be on improving communication and clarity and making progress for the business.

"Remember progress over perfection. Making progress is important," she concludes. "The magic is not in a perfect method, but in progress and communication."

Editor's Note: *Davon Cook and Ag Progress specialize in helping ag businesses navigate transitions in ownership, management and business growth. Learn more at* www.agprogress.com. *As an additional resource, Cook suggests the book* Traction, *which provides more ideas for developing a business plan. Written by Gino Wickman, the book is available on* Amazon.com. *Kindra Gordon is a freelance writer and cattlewoman from Whitewood, S.D.*