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Proactive Planning

Paralyzed when it comes to planning for the future? These farm business specialists share strategies to get started.

*by **Kindra Gordon***

Ever daydream about what you'd like to be doing five or 10 years from now? Or, how you might spend your retirement years?

If you have visions of such future plans in your head, you've already taken the first important step toward strategic planning. If you draw a blank when it comes to "seeing" the future, you may want to start asking yourself those questions.

Cole Gustafson, a professor of agribusiness and applied economics at North Dakota State University, says the strategic planning process begins by asking yourself a broad range of questions. But he also emphasizes that it requires deep thought and is not an overnight process.

Why plan?

Oftentimes the value of planning is emphasized for economic reasons. For instance, having a solid business plan may help secure loan funding from a lender, and good financial plans can assist with better decision-making.

While those are important, Gustafson says there are some other real benefits to having a plan — both for business and personal goals.

For instance, he says, "A major reason for planning is to feel content and know we are working toward what makes us happy."

Another important reason for planning is to aid us in dealing with unexpected events. Gustafson says, "We all deal with something unexpected at some point. Although no plan will fit the situation exactly, having a plan in place can help us work through difficult times."

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Additionally, solidifying a plan and goals for the future can enhance relationships with others, be it family members or co-workers. "Recognizing your goals often helps your interactions with others because you can communicate what you are working toward," Gustafson says.

Look at past, future

However, because planning can feel overwhelming for many of us, we tend to ignore it and instead focus on day-to-day tasks. In starting the process of strategic planning, Gustafson suggests we step out of the present and reflect on the past. As an exercise, he recommends listing two or three of your most treasured memories or experiences. Then write down how many acres

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of land or number of cattle you owned at that time, or the salary that you were making.

He says oftentimes people can come up with the memories, but the details about land, cattle or salary are moot — the point being that those material things are not usually where we draw happiness or contentment.

From that, Gustafson suggests looking ahead to the future and listing two or three things you want to accomplish or experience.

Once you determine your goals, Gustafson says, "begin working to achieve them." He adds, "So many people put off a long-term goal and never get to realize it. So always be working toward the goals you've decided are important to you."

In addition to your own personal goals, recognize that your spouse has his or her own goals, and you'll have goals for your farm or business. Likewise, you have relationships with others who have goals as well — your children, your parents, business partners, etc.

Gustafson says it is important to recognize these different aspects, and he emphasizes that the goal-setting process will be individualized to each person. "If someone has a different goal that makes them happy, we need to respect that. Your goals don't have to be identical. But you need to communicate and work together."

The business aspect

Along with identifying your personal goals, strategic planning for your farm or ranch can follow a similar process. Gustafson suggests beginning broadly by thinking about how your operation differs from others in its physical attributes and organization.

He says, "These observable differences reflect different goals and strategies that producers have. They are neither right nor wrong. Only you can determine if a strategy is meeting your goals."

Farm and ranch transfer is a big factor to consider in the strategic planning process. Dave Goeller, an Extension farm/ranch transition specialist at the University of Nebraska-Lincoln, says among the critical questions 40- to 50-year-old farmers and ranchers need to be able to answer are these questions: Is there a successor to your business? And, if not, what is likely to happen?

He says if there is no plan in place, families need to think about whether or not their kids will fight or figure it out. He adds that without a plan to keep someone on the farm or ranch operation, it may get swallowed up by a big operator in the area.

"That can have some unintended consequences on the community, businesses, churches and schools because there is no longer a family operating that business," he adds.

Farm and ranch transfer comes down to deciding if you want to transfer a group of assets or if you want to transfer the business, Goeller says. The latter does not happen overnight. To transfer a business you've got to have a plan that includes goals, financial viability and a step-by-step succession plan that has been communicated with all parties involved.

Specific steps that you may want to evaluate as part of that process include the following:

1. Business inventory of products and services you offer
2. Self-assessment of skills, resources and opportunities at your disposal
3. The operating environment
4. Goals for the business
5. Current farm projections
6. Alternatives and transition plans
7. Constraints to the business
8. Monitoring
9. Documenting, sharing and revising

Gustafson says each of these steps is an important part of the strategic planning process, but he says sharing and communicating are especially essential so everyone involved is aware of the plan and the goals the business is working toward.

Recognize generational differences

Also during the strategic planning process, Goeller says to be aware — and respectful of — generational differences that will likely exist. For example, the older generation may be focused on producing retirement income, deciding where they will live, and how they will divide assets fairly among nonfarm heirs in the transition. Often the younger generation is more focused on growth of the business and is more willing to take on financial risks and debt.

There can even be generational differences in family time vs. work. For instance, one generation may think working weekends is a must, while the other generation may think Saturday and Sunday are for time off. Even the appropriate time to start work each day may differ between generations.

Goeller says these are all generational considerations that need to be discussed, worked through and agreed upon in a farm plan. He also says sharing the big picture with nonfarm family members is usually a good idea, because, "Surprises often cause problems."

Step by step

In finalizing a farm transition plan, Goeller suggests a good, four-stage strategy for transferring a farm or ranch — testing, commitment, establishment, withdrawal.

He calls the initial testing phase a "dating" phase, which allows for the successor and current operator to try out the arrangement on a trial basis for a period of time. Usually, a wage is paid.

When the testing stage is completed, it is time for the successor to decide if he or she is ready to make a commitment. Then after another period of time, the successor will become established and the retiring generation will withdraw.

Goeller says this process is flexible in how long each phase lasts and when decisions are made, but there should be a timeline that is determined up front. He reiterates, "This is a process over time; it is not a one-day event."

But with that he adds, "As the younger generation coming on board, you need to know the position you are getting into."

And, to the older generation he says, "You can't control the business forever. You need to take the steps to make it available to the next generation."

Is it worth getting bigger?

With family living expenses increasing, many farms strive to get larger, reports North Dakota State University's Cole Gustafson. But he suggests farm families really need to evaluate if this strategy will produce enough extra income.

He cites data collected from the North Dakota Farm Business Management Education Records that indicate large farms are not that much more profitable than a mid-size or small farm. From the research, the average net income for large farms of 1,600 acres was $51,374. Income from the top one-third of the most profitable small farms (those with less than 1,600 acres) was $49,834.

Of the minimal difference in income, Gustafson says, "Getting bigger may not help." Instead, he suggests farms may want to look to specialize and add value by raising specialty crops or livestock, natural products, agritourism, etc.

Regarding money and happiness, Gustafson says research indicates after our basic needs of food and shelter are met, people with more income are not happier. Instead, time becomes the commodity most people value. For instance, having the time for a family vacation produces more lasting happiness than buying a new car.