



# Strategies & Scenarios

**What's the future hold? Through strategic and scenario planning you can prepare your ranch for whatever comes your way.**

*by Kindra Gordon*

**T**he ranching industry has often found itself riddled with change over its long history. But today's ranchers seem to be faced with change at an even faster pace.

Barry Dunn, director of the King Ranch Institute for Ranch Management, points out that prices for inputs like land, corn, transportation, labor, health care for employees and energy are all rising to historically high levels.

"Rarely if ever have so many key parts of the ranching business realigned themselves

as rapidly as they are currently," Dunn says. He adds that some of these changes — such as improved beef demand and record-high prices for feeder calves — are extremely positive. While other issues — such as viability of rural communities and high fuel and corn costs — present solemn challenges.

How can today's ranchers address these forthcoming changes in the industry?

Dunn believes a crucial tool for helping ranches of the future remain viable and

sustainable is a two-pronged approach using strategic planning as the foundation combined with an outward-looking process called scenario planning.

Through this combined planning process, producers can develop a strategic plan, which is ultimately a set of decisions about what, why and how to do something, all with a focus on the future.

## **A ranch road map**

Roger Gates, South Dakota State University (SDSU) Extension range specialist, calls a strategic plan a road map for the future.

He compares strategic planning to developing an itinerary for a trip. "It is essential to have a clear destination and a carefully planned route in order for the journey to have the desired outcome. Just as a trip itinerary includes a starting point and a destination, a ranch strategic plan requires an assessment of current conditions and a vision of a desired future," Gates says.

Essentially, the road map for a strategic plan begins with an inventory process to determine "where you are" and is followed by establishing a vision to determine "where you are going." This entails conducting a ranch inventory of available natural, financial, physical and human resources; analyzing strengths, weaknesses, opportunities and threats (often called a SWOT analysis); and then identifying a future vision for the ranch operation.

The vision should encompass the destination your ranch operation intends to strive toward over the long term, Gates says.

## **Developing strategies**

With the future ranch vision defined, it is essential to identify the gaps that exist — those areas where the current situation doesn't match the expected outcome or desired vision, Gates says.

This is the stage where the work begins in determining how to move forward from "where you are, to where you are going" and achieve the established ranch vision, Dunn explains. Once those gaps are identified, strategies can be formed to close the gap.

Dunn says in this process, you must answer the question: "To get to my vision, what are strategies that I might undertake that will help me close the gap?" Strategies might include making the operation larger, adding alternative enterprises or aligning with an industry partner to enhance marketing options.

But, despite identifying these future strategies, Dunn points out that a plan can often be thrown off track because of a variety of outside factors — like changes in the beef price cycle, labor and ranch (or estate)

transition issues, or feed availability and price.

That is why scenario planning becomes a valuable component of ranch planning, Gates says.

Scenario planning helps strengthen the strategic planning process by looking ahead and anticipating what industry changes may occur and placing your ranch in that context, Dunn adds. "It is a chance to ask, 'What if this happens?'"

By envisioning possible scenarios, the ranch manager is better able to make sound decisions about what action to take or which direction to go, Dunn says.

For example, you may predict that high-priced grain supplements are a possible future scenario. You'd then ask yourself, "If supplements become expensive, how can I run my operation with either reduced or no supplementation?" A strategy for this scenario may be to change the time of calving or type of cattle you're raising so you don't need to supplement in the environment you've got, Dunn suggests.

Or, if higher oil prices are part of your scenario, perhaps a different marketing program than one that's been traditionally employed would be a way to handle that, Dunn says. Specifically, there are value-based marketing programs that subsidize transportation costs. So that may be a way, if the scenario of high oil prices seems likely, to mitigate or buffer that rise in oil prices.

### Anticipating scenarios

Having foresight is a critical component in the scenario-planning process. In anticipating what strategies to implement on the ranch for the future, ranch managers often use past trends and historical cycles to help make their decision. But it is also important to look forward and anticipate what trends and issues may affect the industry in the months and years ahead, Dunn says.

To illustrate this, Dunn says imagine trying to drive a car forward by only looking at the rearview mirror. It doesn't make much sense. "Strategic planning by only looking back at industry trends and patterns to direct your future is like driving that car and only using the rearview mirror," Dunn says.

Instead, incorporating scenario planning into your strategic-planning process requires looking forward and using intuition, while still using the industry trends and patterns of the past as a rearview mirror to guide your decisions.

Dunn emphasizes that scenario planning is not a process of evaluating all possible events or opportunities. Instead, it is designed to prioritize those scenarios that

present the most opportunity (or threat) to your ranch business and then identify the strategies to adapt that will keep the business viable. Ultimately, using strategic management and scenario evaluation is designed to help ranchers mitigate risk exposure through planning, Dunn says.

### Prepare for change

By incorporating the strategic- and scenario-planning processes, the ranch manager is able to develop a profit-driven vision to capitalize on the ranch resources available and the opportunities ahead. The strategic plan becomes the roadmap that provides the direction for the ranch to align its business focus over the next five to seven years — or more, Dunn says.

Business management icon Peter Drucker sums up the importance of a strategic plan with this statement: "Time is the scarcest resource. Unless it's managed, nothing else can be managed."

Rather than working *in* the business, a strategic plan combined with scenario planning allows for working *on* the business and identifying the high-return/high-priority management tasks and focusing on them, Dunn points out.

Dunn and Gates emphasize that the bottom line in strategic planning is to be prepared to respond to change.

Dunn feels so strongly about the value of strategic and scenario planning that he predicts in the next 10-20 years those ranches that are successful will be the ones who have taken the time to develop and incorporate a strategic plan into their ranch business.

"With ethanol's far-reaching effect on cattlemen, change is inevitable in the beef industry of the future," he says. With that, he concludes that adapting to the conditions ahead will require the ability to make sound management and financial decisions — decisions that are best guided by a strategic plan.

**Editor's Note:** To assist ranchers with developing a strategic plan for their ranch, Dunn and Gates, along with colleagues from South Dakota State University, recently developed a 44-page workbook that outlines each step of the strategic and scenario planning process. The handbook is available online at [http://wrac.sdstate.edu/pubs/range/EC924%20\(10-3\)2.pdf](http://wrac.sdstate.edu/pubs/range/EC924%20(10-3)2.pdf). This new manual is a follow-up to a workbook on using the Balanced Scorecard in ranch management that was produced by the same authors in 2006. It is available online at <http://agbiopubs.sdstate.edu/articles/EC922.pdf>. To request hard copies of either of these manuals contact SDSU Ag Communications at 605-688-4651.

## Determining your vision

In designing your ranch of the future, you must be able to envision what you want it to look like; how it will operate; and what products and services it will provide. Those are the components of a vision statement.

A thoughtful vision statement will also be useful in communicating to customers, suppliers, advisors and community members what is important to your ranch, how it is unique, and why the ranch and its operators are valuable, says South Dakota State University's (SDSU's) Roger Gates.

Specifically, strategic-planning experts suggest a vision statement should include three key components:

- ▶ a statement about the business's values and reason for being;
- ▶ an envisioned future describing what the business will be like if it achieves its goals; and
- ▶ a recognition of how the business serves its stakeholders — which might include owners, employees, customers, community and society as a whole.

Additionally, a useful vision statement should address:

**Time.** Vision statements generally describe a situation to be achieved over the long term, five or 10 years in the future.

**Energy.** A vision statement should inspire those involved in the ranch through energetic and emotional language; it should convey the importance of moving toward the vision.

**Cooperation.** Vision statements should encourage the cooperation and creativity of the ranch team.

Examples of vision statements that could apply to family-operated livestock ranches are as follows:

*"We progressively realize goals in a fun, challenging, encouraging environment and continually improve people, products, services, the ranch, our community and the ecosystem while sustaining a net profit."*

— Paint Rock Canyon Enterprises, Hyattville, Wyo.

*"... operate a profitable, authentic working cattle ranch by 1) obtaining premiums on cattle sales; 2) being innovative in developing and preserving deeded rangelands, hayfields and improvements; 3) implementing best practices in operations; 4) supplementing income with an integrated guest operation; and 5) being responsible stewards of private and public lands."*

— Horse Prairie Ranch near Dillon, Mont.