

Business Planning

Formalizing Management

- Planning
- Human Resources
- Written Policies
- Outside Expertise

Planning is central to the success of a businesses. Strategic plans and a complete written business plan will clarify for a business where it wants to go and how it will get there.

Strategic Planning

Strategic planning is a business' game plan for the future. It is an organized effort to set clear, long-term goals and to develop strategies for achieving them.

Mission, vision and strategy

These three concepts are key to developing a strategic plan.

Mission: a statement of why we are in business. A mission statement states the purpose of the organization, what business it is in and why it exists in the first place. The statement should be brief, clear and understandable to everyone.

Vision: a statement of what we want the business to look like in 5 or 10 years. A vision statement should clearly specify what the organization is striving to become. This statement should also be clear, understandable and brief. As well, it should be reasonable and achievable.

Strategy: plans for how we intend to get there.

From a mission statement comes a vision statement which is developed into strategies.

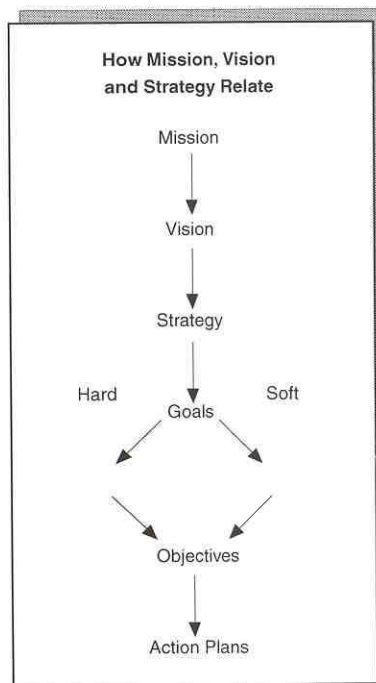
Developing strategies involves establishing goals and objectives.

Goals are long-term outcomes. They are stated in general terms and answer the question: what is it we wish to accomplish over the next 3 - 5 years. There are both hard and soft goals. **Hard goals**

are quantifiable business or financial measures: profits, return on investment, market share. **Soft goals** are qualitative and harder to measure: quality of life, a good family life, supportive community, good looking farm. Both types of goals must be realistic and do-able.

Objectives are shorter term outcomes, usually one year. They are stated in more specific terms and identify how goals are to be reached. They answer questions like how are we going to achieve our goals, who's going to do what, by when. Objectives should be measurable so you can see if you're achieving them.

The graphic below illustrates how mission, vision and strategy relate.



Benefits of a clear mission statement

A mission statement can help you keep your direction and act as a road sign to remind you of who you are and why you're here. It can also help your employees know why you want the business to be a certain way.

You need to know the purpose of your journey. By being able to explain this to all people involved in the farm, both family members and non-family employees, you can get them all pulling in the same direction.

An old story relates how two people were breaking up rocks in a quarry. The first one was asked, "What are you doing?" He replied, "What does it look like. I'm breaking big rocks into little rocks." The other was asked the same question. He replied, "I'm breaking these rocks to build a cathedral to the greater glory of God." The first person had a job but no idea of the mission. The second had signed on to a mission, not just a job.

Mission statements for family businesses can incorporate the purpose and aspirations of both the business and the family. The following is an example of a mission statement for a family operated dairy farm.

Example of a Mission Statement

Our mission is to produce and market high quality milk in sufficient quantity to provide a good standard of living for our family. The business should also be profitable enough to provide above average compensation for employees and long-term financial security for our family.

Steps in the strategic planning process

The first step in the strategic planning process is to get organized. Decide who will be involved in the planning group and who will be responsible for managing the planning process. Decide what areas need to be addressed. Then gather the information required to put the plan together.

The second step is to remind yourself of your vision. Because a strategic plan determines how the business will get to where it wants to go, it is important to know what the business wants to become.

The third step is to do an analysis of where the business is now and what factors exist that affect whether the business can achieve its vision. This step entails considering both external and internal influences. External influences include economic factors, competition, technological changes, and funding sources. A business must also be realistic about assessing its internal strengths and weaknesses by looking at such factors as financial viability, management skill and experience, physical facilities, personnel, technological capabilities and marketing effectiveness. Do a SWOT analysis at this point. Consider each of the following:

- S strengths
- W weaknesses
- O opportunities
- T threats

The fourth step is to develop a strategy. Develop a list of the major areas to be addressed in the strategic plan. Once the areas are identified, the planning group needs to set priorities and identify those areas where specific goals and objectives will be required.

Once priorities are established, goals are set. Goals begin with the word "to" and contain only observable action verbs such as establish, create, train, conduct, change, implement, etc. An example of a goal is "to increase our per acre production of raspberries by 5% over each of the next three years."

From the goals, objectives are set. Objectives specify how a specific goal will be achieved by spelling out how it will be done, when it will be done and by whom. Before the strategic plan is considered complete, it should be reviewed by all the key players in your farming operation. The feedback gained from this review should be incorporated into the plan. Ask yourself if your strategy is consistent with your internal constraints, your external environment, and your personal and business goals.



Sample Format for Developing Strategic Objectives

Use this form to develop one of the goals in your strategic plan. For each of your goals, you will develop several objectives. Photocopy this form for as many goals as you have.

Goal 1: To _____

Objectives	Time Frame	Who's Responsible
1.		
2.		
3.		

The fifth and final step in strategic planning is to implement and review the plan. This involves communicating with all the people within the business who will be affected by the plan. The more explicit the communication of goals and objectives, the greater likelihood everyone will understand and the more likely the plan will be implemented effectively.

At this point specific action plans should be developed to ensure the goals and objectives are met. Action plans outline the specific tasks to be done for each objective, how they are to be done, the schedule of when they will be done, the people who will do them, and the budget associated with the plan.

Each goal in your strategic plan has several objectives and each objective requires an action plan.

Once the action plans are put into action, regular and systematic review is essential to ensure the objectives are being met or to take corrective action if required.



Sample Action Plan

Use this form to map out your plan of action for each of the objectives you listed under Step 4. Use your completed action plan to keep track of what's happening and the progress being made.

Objective 1: To _____

Activities/Tasks	Time Frame	Person	Cost	Status
1.				
2.				
3.				

Steps in Strategic Planning (Summarized)

1. Get organized. Decide who will be involved.
2. Write down your vision.
3. Analyze where the business is now and what factors affect its achieving its vision.
4. Develop the strategy. Set goals, identify objectives and lay out action plans for each objective.
5. Implement and review the plan.

Writing a Business Plan

A business plan is a blueprint that allows the current management team and business' successors to see where the business is going and how it will get there. A business plan is the end product of a process that includes self-evaluation, research, assessment, round-table discussions and decision making. Its purpose is to help you be sure that your business is carefully planned and makes sense, both from a financial and operational perspective.

Advantages of having a business plan

A written business plan has many uses. It does the following:

- gets objectives and guidelines on to paper, where they can be read and understood by all parties involved
- acts as a standard against which you can compare actual results with anticipated results
- provides a framework for next year's budget, production and marketing plans
- helps you explain your ideas to bankers, investors, or government agencies for financing
- helps you to foresee problems and pitfalls, enabling you to take action to avoid them
- puts valuable information at your fingertips so you'll be ready to make tough decisions when required
- enables you to monitor the progress of your operation
- helps draw together the people working in the business who help prepare the plan

Components of a business plan

A complete business plan will include a business profile and summary section as well as sections outlining the marketing, production, human resources and financial plans. The component parts of the business plan are linked and inter-related.

Business Profile and Summary

The business profile gives the basics about your business: the purpose and concept of the business; financing, if its required, and its sources; business targets and how you intend to realize them. The summary is a concise reporting of the more detailed marketing, production, human resources and financial plans contained later in the business plan. Although this section should appear at the beginning of the business plan, it might be easiest to write the summary after the other sections of the plan are completed.

The Marketing Plan

The marketing plan describes, in general, the industry in which you operate and, in more detail, what marketing strategies you plan to use. This portion of your plan should address the four Ps of marketing: product, price, place (distribution) and promotion. How much you plan to sell, who your customers are, how your products will be priced and how you will promote your product are all outlined.

To define your market strategy, ask the question: Who are my customers and what market are they in? If you produce milk, your customers are everyone who drinks milk, but your only market is your provincial marketing board. If you produce ornamental plants, are your customers commercial landscapers or home gardeners? Who your customers are will determine which market you are in.

As you define your competitive strategy, keep in mind that there are three generic options:

- 1) cost leader, i.e. lowest cost producer. By producing a product at a lower cost than your competitor, you can keep your price low, thereby remaining competitive in the market.
- 2) differentiate your product to make it unique. If yours is the only product on the market, your competitive edge is assured.
- 3) focus or niche. Using this strategy, you would identify your niche market and then provide a product or service for that market, for example, organic vegetables.

The Production Plan

The production plan describes your production resources, enterprise expectations and enterprise management strategies. Include a list of capital assets, a description of necessary materials and supplies, a production or construction timetable and projected yields and strategies for each enterprise. For example, a production plan for a dairy operation addresses all issues relevant to land, buildings and equipment, feed and milk production, herd management, expansion and construction. It emphasizes those areas most relevant for the period the plan covers. This section of the business plan is detailed and relates closely to the financial plan.

The Human Resources Plan

The human resources plan details your expected staff requirements. For each staff position, outline the responsibilities attached to the job and the training and experience required. The human resources plan displays an organizational chart which shows how your staff members are organized and to whom they report. Your compensation and benefits plan and system of performance review should also be detailed. Also include your labour and training goals, which outline the skills that employees need to do their jobs well.

There is a more detailed discussion about human resource management later in this handbook.

The Financial Plan

The financial plan helps you estimate how much cash you will need and when in order to maintain a profitable business. You'll also be able to estimate how much profit you can generate, given the level of capital you are able or willing to invest. The more you know and understand about the finances of your business, the better you'll be able to run it.

One of the key financial issues in a multi-generational operation is providing income for one or more families, in one or more generations. The need for financial planning is particularly important as the senior generation approaches retirement. Because Mom and Dad may stop contributing but continue to draw on farm resources, having a well thought-out financial plan is essential.

You should be able to present, summarize and answer questions about your business plan.

For the financial plan, compile the following schedules:

- Beginning balance sheet
- Enterprise analysis summary
- Contribution margin (for each enterprise)
- Enterprise plan summary
- Projected statement of income
- Planned capital sales and purchases
- Debt financing activities
- Historic cashflow and projected cashflow
- Ending balance sheet

An important element in financial planning in a family business is that the information be accessible and understandable. When family members are called upon to make financial decisions about the business, the quality of those decisions will be strongly affected by the quantity and quality of the information they have to work with. It's important that everybody understand what's going on. Openness is vital. If people don't know about the financial side of the business, they have only one-half the picture and can't make the best decisions.



Understanding Financial Planning

How many people in your business fully understand how to prepare and use the following financial statements: statement of income, cashflow statement, balance sheet? If there is anyone who is in a decision-making position who doesn't have a working knowledge of these statements, do the following:

For your next family meeting, ask different people to make a presentation on each of these statements: statement of income, cashflow statement, balance sheet. They are to research the topic so that they understand it and then make a presentation to the others. Leave time for questions so everyone is satisfied at the end of the presentation that they do understand. You might consider asking your accountant, banker or farm business advisor to be at this meeting to offer further explanation if required.

In conclusion, a business plan is a working document, one that should be reviewed regularly and revised as necessary. Prepare the business plan yourself. Use outside professionals, such as farm business advisors, lawyers and accountants, for advice but the plan should be your own. You should be able to present it, summarize it and answer questions about it. It's your blueprint for success.

Before you start to write your business plan, you may want to refer to other publications that offer more detailed information on how to prepare a business plan.