Strategic and Scenario Planning in Ranching: Managing Risk in Dynamic Times



South Dakota State University • Texas A&M University-Kingsville

Strategic and Scenario Planning in Ranching: Managing Risk in Dynamic Times

CONTENTS

STEPS TOWARD SUCCESS
Stage 1: Charting the Course: Creating the Vision
Step 1: Assess current situation and inventory of ranch resources6
Step 2: Conduct SWOT analysis
Step 3: Establish a vision for the ranch business
Stage 2: Determining Strategies to Achieve the Ranch's Vision $\ldots \ldots 16$
Step 4: GAP analysis
Step 5: Alternative strategies to close the gap
Stage 3: Scenario Planning for the Ranch
Step 6: Describe multiple scenarios
Step 7: Select and evaluate the most-probable Scenarios
Stage 4: Merging Strategies and Scenario Planning
Step 8: Determine strategies with the highest likelihood of success 24
Stage 5: Putting the Plan Into Action and Measuring Success
Step 9: Implementation of the strategic plan
Step 10: Monitor performance with the Balanced Scorecard
For More Information
CONCLUSION
Making the Case for Strategic Planning: Consider ethanol's impact 33
Appendix

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A changing marketplace, price volatility, labor availability, record high feeder calf prices, the effects of the ethanol industry:

How will your ranch operation adapt?

As the ranching industry faces accelerating change in the most fundamental parts of its business, ranch managers need to look forward and "create" their future. In other words, developing a strategic plan is essential for meeting the challenges ahead.

Strategic planning and scenario planning-the two concepts highlighted in this manual-offer systematic approaches to addressing a ranch business' future viability. Using these planning techniques together, 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-can be developed.

According to management consultant and author Peter Drucker, "The primary tasks of strategic management are to understand the environment, define organizational goals, identify options, make and implement decisions, and evaluate actual performance."

Strategic planning is a fundamental step toward a ranch's future viability. However, rapid changes among a variety of outside factors movement in the beef price cycle, availability of labor and ranch (or estate) transition issues, or feed availability and price—can strongly impact the success of a strategic plan.

Therefore, a key to successfully preparing for the future is the ability to "understand the environment" and anticipate what industry trends and patterns may affect the ranch business. Scenario planning provides the opportunity to do just that and can be a valuable tool in strengthening the ranch strategic plan.

Challenges to the Ranching Industry

While the ranching business has dealt with many serious changes throughout its history, this is a new era, and rarely have so many key parts of the business re-aligned so rapidly. Thus, the need for ranch management supported by strategic and scenario planning is crucial to the sustainability of the ranching industry.

Present challenges to the ranching industry include prices for inputs-such as land, feed, transportation, labor, health care for employees, and energy-rising to historically high levels; concerns related to emerging diseases and related international trade issues hampering export markets; and even positive challenge-the increased revenue from beef cattle selling at or near record high prices.

Additional factors within the ranching business—like the availability of skilled labor, the viability of supportive rural communities, and the emergence of viable alternative enterprises are also undergoing dramatic change. Some are extremely positive. Others present solemn challenges.

How can pragmatic ranchers address these challenging times? A logical response is to implement the strengths of two planning processes: strategic planning and scenario planning.

Strategic planning is a process for determining the strategies and tactics that will help a business achieve a clearly defined vision.

Scenario planning is the process of, as objectively as possible, creating likely scenarios that a business may face based on demographic, social, political, and business trends. It is the ability to "understand the business environment" within which the ranch operates.

In combining strategic planning and scenario planning, multiple strategies are tested within likely scenarios. The strategies that are determined to work the best in the most scenarios are then candidates for implementation in a strategic plan.

In the context of ranch management, this means determining key scenarios for the industry, placing yourself and your ranch in context with the environment those scenarios may create, and then developing strategies on how you will adapt. Ultimately, the processes of strategic planning and scenario evaluation are designed to help ranchers mitigate risk exposure through planning.

This manual offers a step-by-step guide through the stages of the strategic and scenario planning processes. Space is provided throughout the manual for you to write down and practice these procedures and create your own strategic plan.

While the future of our ranching industry is inherently uncertain, **risk can be mitigated** by implementing a strategic approach toward what lies ahead.

"The best way to predict the future is to create it"

—Peter Drucker, management consultant, author & university professor

A strategic plan is ultimately a set of decisions about what, why, and how to do something, all with a focus on the future. Strategic planning and scenario planning are components of that process.

Strategic planning is a process for determining the strategies and tactics that will help a business achieve a given vision.

Scenario planning is the process of creating likely scenarios that a business may face based on demographic, social, political, and business trends.

Steps Toward Success

The Stages of the Strategic and Scenario Planning Process

"All successful people have a goal. No one can get anywhere unless he knows where he wants to go."

> ---Norman Vincent Peale, author, "The Power of Positive Thinking"

Implementing strategic and scenario planning in the quest for a strategic plan requires a great deal of reflection, decision making, and foresight. It is a process that will command time, attention to detail, and commitment. In addition, the process necessitates continual evaluation and enhancement. This manual divides the strategic and scenario planning process into five workable stages. Within each stage are specific steps that become the foundation for your strategic plan.

They are as follows:
Stage 1: Charting the Course: Creating the Vision

Step 1: Assess current situation and inventory of ranch resources
Step 2: Conduct SWOT analysis
Step 3: Establish a vision for the ranch

Stage 2: Determining Strategies to Achieve the Ranch's Vision

Step 4: Incorporate "gap" analysis
Step 5: Identify alternative strategies to close the gap

Stage 3: Scenario Planning For the Ranch

Step 6: Describe multiple scenarios
Step 7: Select and evaluate most probable scenarios

Stage 4: Merging Strategies with highest likelihood of success
Stage 5: Putting the Plan Into Action and Measuring Success

Step 9: Implementation of the strategic plan Step 10: Monitor performance with the Balanced Scorecard

What Is Strategy?

- Strategy is that which top management does that is of great importance to the business/organization.
- Strategy refers to basic directional decisions, that is, to purposes and missions.
- Strategy consists of the important actions necessary to realize these directions.
- Strategy answers the question: What should the business/organization be doing?
- Strategy answers the question: What are the ends we seek and how should we achieve them?

 from George Steiner, author, "Strategic Planning"



Understanding Strategic, Tactical and Operational Planning

Not all planning is the same. Essentially, there are three different levels of planning: strategic, tactical, and operational.

Here is a quick review of the differences and objectives of each:

Strategic Planning

- "Big picture" planning that defines where you are as a business and where you are going.
- Attempts to coordinate the deployment of resources over time.
- A key differentiation between strategic, tactical, and operational planning is the "planning horizon" of each. Strategic plans may look ahead 3 to 5 years or more.

Tactical Planning

- Deals primarily with the implementation phase of the planning process. These are the step-by-step action steps, timetables, and individuals responsible for completing projects.
- Turns strategy into reality and usually has a 1–2 year time horizon. It addresses prevailing circumstances and dictates within-year adjustments to a ranch strategy.
- Is usually tightly integrated with the annual budget process.

Operational Planning

- Deals with the day-to-day and week-to-week work routine and supports tactical plans.
- Focus is on routine operational tasks and long-term projects.
- Primary goal is to communicate.
- Weekly meetings are often used to coordinate efforts and review progress, and weekly or monthly summaries are often used to inform others.

Tactical and operational planning tend to get the most attention on ranches, but it is the forward-looking nature of strategic planning that is essential for future ranch viability.

Nicola Shadbolt, a senior lecturer in Farm and Agribusiness Management at Massey University in New Zealand, has worked with ag producers in incorporating strategic planning, particularly through the Balanced Scorecard. She states, "Operational and tactical management are essential skills on all ranches and must be mastered...However, [ranch managers] must also deliver to the dream that they and their family have, so leadership skills are essential."



Stage 1: Charting the Course: Creating the Vision

"If you don't know where you are going, you are certain to end up somewhere else."

—Yogi Berra

Without a step-by-step (strategic) plan and a chosen destination (or vision), it is virtually impossible to get where we want to go. Operating a ranch without a strategic plan is akin to traveling without a road map. Consider the parallel: Just as a trip itinerary includes a starting point and a destination, a strategic plan requires an assessment of current conditions and a vision of a desired future.

The "road map" for a strategic plan begins with an inventory process. The purpose of the

inventory is to determine both "where you are" and "where you are going."

In this first stage of the strategic planning process, you will assess your ranch operation's current situation through an inventory of available resources and an analysis of strengths, weaknesses, opportunities, and threats. Through the awareness created by this assessment process, you will then establish a vision for your ranch. This vision should encompass the long-term destination of your ranch operation.

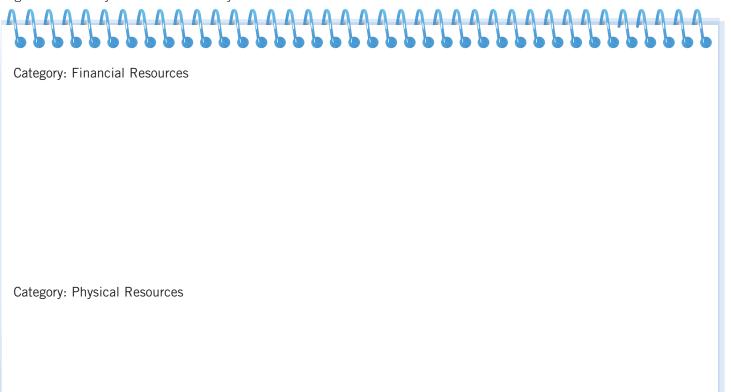
Step 1: Assess current situation and inventory of ranch resources

A realistic vision statement requires an accurate assessment of the current situation. An inventory assesses the tools that are available for you to work with. These tools should include financial, physical, natural, and human resources. ("Human" resources are the skills, abilities, and inclinations of those involved in the ranch.)



Why is strategic planning necessary?

Strategic planning anticipates change. Survival in an environment of rapid change demands thoughtful strategic planning. Figure 1. Inventory Worksheet to identify current ranch resources.



Category: Natural Resources

Category: Human Resources

Step 2: Conduct SWOT analysis

The strengths, weaknesses, opportunities, and threats (SWOT) analysis reviews the ranch operation as a whole and assesses the current situation; this can be considered a continuation of the inventory process. It should be a simple review of the immediate strengths, weaknesses, opportunities, and threats that you perceive on your ranch. The goal of this approach is to begin to identify the components of your ranch vision.

To better understand the SWOT components, consider that the strengths (S) and weaknesses (W) originate from within the operation; they are internal factors that influence ranch or farm performance. The opportunities (O) and threats (T) originate from outside the operation; they are external factors.

Although SWOT analysis was initially devised to serve typical manufacturing, retailing, and service companies, it can be used with any line of business, including ranching and farming. Once the SWOT analysis is complete, it will help you realize both what issues are important in helping you accomplish your desired vision and what issues may prevent you from achieving it.

The SWOT Process

A 2X2 matrix (such as that shown in Fig. 2) can reveal your SWOTs. As Fig. 2 shows, perhaps a *strength* is a grazing system, because it has improved rangeland and cattle performance. However, that same grazing system is also a *weakness*, because it requires more labor than is available. That labor, then, may also fall under different categories. A *threat* is that labor is hard to come by, even from one's own family, while an *opportunity* may be a young person graduating from college who wants to be in ranching but does not have a family ranch to return to.

"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

—Sir Winston Churchill

Strengths 1. Rotational grazing system	Weaknesses 1. Grazing system is labor intensive
2. Low cost producer	2. Poor marketing efforts
3. College degree	3. Lack of good pasture watering system
Opportunities 1. Young person graduating from college who wants to get started in ranching	Threats 1. Lack of labor availability
2. Nearby ethanol plant opening	2. Prolonged drought
3. Hunting and fishing opportunities	3. Rising corn prices
3. Hunting and fishing opportunities	3. Rising corn prices

The Value of SWOT

The SWOT analysis is a useful approach in strategic planning and can be used either to analyze the operation as a whole or to evaluate a simple project or idea before its implementation. It represents a quick way to determine both what factors are leading a business to a certain degree of success and what factors are holding the operation back.

Factors to consider when conducting a SWOT analysis

When conducting a SWOT analysis of your own operation, consider the following guidelines:

1. Strengths and weaknesses come from within the operation. When listing strengths and weaknesses, try to formulate a list that reflects not only how you see your operation, but also how customers see both the business and the products they purchase.

Ask yourself:

- What advantages does my business have?
- What do neighbors see as my strengths?
- Why do customers like what they buy?

• What are the present and future reasons that my business has a sustainable competitive advantage?

An example strength may be having a college degree. That degree has allowed you to acquire a certain skill or to be able to rapidly identify reliable information, perhaps positioning you better than those without a college education.

Another example of a strength may be a watering system that improves responsiveness to drought. Other strengths may be related to good fencing, soil types, a good accrual accounting system, proximity to markets, or being a low-cost producer.

To list weaknesses, ask yourself:

- What can I improve?
- What are the factors that prevent me from selling to certain customers?
- Why can't I achieve target financial objectives?

Weaknesses are often the easiest to define because they may be opposite one's strengths. However, assessing weaknesses requires a strong sense of reality and selfawareness; it can be difficult to objectively see where your business stands today and how it is facing the future. Weaknesses can be also viewed as lack of strengths. Keep in mind, though, that weaknesses may represent opportunities; working on weaknesses may allow them either to be converted to strengths or to be eliminated from the list.

As examples, weaknesses can be related to a lack of an appropriate watering system to mitigate drought conditions, lack of a good cross-breeding plan to improve calves' weaning weights, lack of appropriate rotation on farm ground to control diseases, poor fencing, or old and inefficient farming equipment.

2. Opportunities and threats come from outside your operation.

When listing opportunities and threats, ask yourself:

- What will markets be doing in the short and long term?
- What are my competitors' weaknesses?
- Is my operation ready to take advantage of anticipated technological changes?
- What are the immediate and future developments within my local community?
- How is my firm positioned to face changes in the Farm Bill?
- The U.S. is opening markets to the kind of products I market. Is my operation ready to immediately benefit from that?

The above questions work in determining both opportunities and threats; depending on your answers, you can make entries onto either the opportunities or threats lists.

Many opportunities can be listed as threats, if the adverse conditions negate the opportunities. Threats may include changes in consumer tastes, various unforeseen legal and/or legislative effects, seasonal sales patterns, the closing of certain commodity markets, aggressive competition, the emergence of a "health scare" for fresh meat, weather effects, substitute products, trade barriers, environmental regulations, and so on.

3. Understanding the competition is part of this process, too. During the SWOT analysis, the "competition" concept is important to consider. For many corporations and businesses, competitors may be relatively easy to identify. However, "competition" between ranchers and/or farmers may be hidden in discussions about the best yields, weights, and/or prices; and so the competition may not be openly declared.

Under typical "cash" operating procedures, when selling products, one generally does not "compete" with one's neighbors for the same markets. However, as ways of doing business evolve (direct-to-consumer approaches, niche markets, on-line sales, agritourism), you must con-sider competition if you want a solid strategic plan. Figure 3. SWOT Analysis Worksheet

Strengths	Weaknesses
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.
Opportunities	Threats
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.

Step 3: Establish a vision for the ranch business

The resource inventory and SWOT analysis provide a deeper insight into your ranch business and the resources available to you. They are the basis for a future vision for the operation. A vision statement provides clear direction about "where the business is headed," and it should be written in a manner that provides the incentive and motivation to move forward.

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.

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

1) A statement about the business' values and reason for being.

- 2) An envisioned future describing what the business will be like if it achieves its goals.
- A recognition of how the business serves its stakeholders (which might include owners, employees, customers, community, and/or society as a whole).

Additionally, a useful vision statement should address:

- **Time**. Vision statements generally describe a situation to be achieved five to 10 years into the future.
- Energy. Through the use of energetic and emotional language, vision statements should inspire those involved in the ranch; the statement should convey the importance of moving toward the vision.
- **Cooperation.** Vision statements should encourage the cooperation and creativity of the ranch team.



An Example of Vision

On the King Ranch (Texas), there is a horse stable that was constructed in 1908. Its architecture of Roman arches was different for the time, but it is still standing and functional 99 years later. The stable will likely continue to withstand the harsh, hurricane-prone environment of South Texas for many more years: That is vision.

In establishing your ranch vision, think about what it is going to take for your ranch to remain viable for generations. For example, how will you target the consumer with the type of cattle you raise? Will you be aggressive?

The Process

The process of *developing* a vision statement is as important as the final drafted statement. In crafting your vision for the future, allow yourself to dream.

Equally important is that everyone involved in operating the ranch should be included in developing the vision. Business experts frequently refer to the power of "shared" vision. A vision embraced by all participants can not be dictated; it must be developed through consensus building. Seeking comments from outsiders vital to the business may also be useful.

As a first step in developing a draft vision statement, consider the following questions, while also keeping in mind the inventory of resources and SWOT analysis. Use these components to consider what the family and business both value and dream about. Ask "What do we want?" and "What is the family and business willing to make a strong commitment to?"

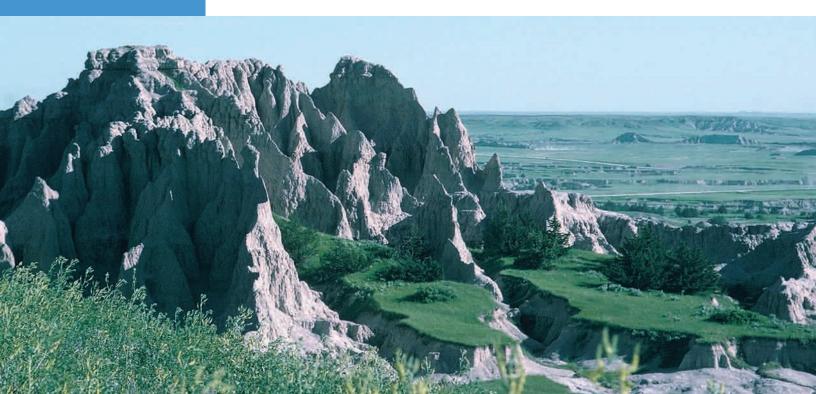
Two examples of vision statements that could apply to family-operated livestock ranches are as follows:

"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.





1. If our ranch could be anything we can imagine eight years from now, what would that be?

2. What new activities will our ranch business be pursuing? What business(es) will we be in? Are there new products we would like to produce or activities we would like to be involved in?

3. What will be the important concerns of our customers eight years from now? How do we meet their demands and desires?

4. How will our ranch business excel?

5. What will be the roles and responsibilities of family members and ranch employees?

6. What is of greatest value to family members? To the ranch business?

Figure 5. Situation Worksheet to describe the present situation and then envision the desired future.

Business area	Now	Preferred Future
Ranch business products or services		
Ranch production practices		
Ranch business size		
Markets		
Customers		
Ranch business structure/organization		

Business area	Now	Preferred Future
Social responsibilities		
Family members and employees (number		
and skills)		
Family activities		

Our Ranch Vision

Using the notes and discussions from the "What do we want?" questions and "Vision Worksheet," draft a short vision statement that describes your desires for the future. What will the ranch business involve? How will it be recognized for excellence? Why is it vital that this vision be pursued?

Stage 2: Determining Strategies to Achieve the Ranch's Vision

"There's a way to do it better-find it."

—Thomas Edison

With the inventory of resources conducted, and with the strengths, weaknesses, opportunities, and threats assessed, and with the future vision defined, you may begin to notice that some "gaps" exist. ("Gaps" are those areas where the current situation does not match the expected outcome or desired vision.)

Essentially, gap analysis is a reality test between your current situation and your vision. Once gaps are identified, strategies for closing the

Step 4: GAP analysis

How do you identify a gap in your operation? Gap analysis requires answering a series of questions:

- 1) How does your vision compare with the current status of the business?
- 2) How does the desired vision fit with available resources?
- 3) How does the business measure up to current industry benchmarks?
- 4) How different is the current culture from the required one? Ranch culture can be thought of as the way the ranch traditionally operates. Examples of ranch cultures may be a family

gaps can be formulated. In this process, you must answer the question: *"To get to my vision, to close the gap, what strategies might I undertake?"*

An example of an existing gap may be a situation in which the management and labor team of the ranch is nearing retirement age, but the vision is to continue the ranch business by bringing a son or daughter back to the ranch.

Gap analysis helps identify what strategies are necessary to make a vision become reality.

operation that has always done ranch work on horseback or one that has *"always been an Angus ranch."*

To conduct a gap analysis of your ranch operation, go to pages 17–19 and look at your ranch resources from the six different perspectives that contribute to the viability of the ranch business.

Use the space provided on that worksheet to identify the gaps between your current ranch situation and the desired ranch vision. At this time, only answer Part 1 under each perspective.

Step 5: Alternative strategies to close the gap

Once the existing gaps have been identified, the next step is identifying which **strategies** can close those gaps. For example, some strategies may include:

- 1) Find new resources—this should be considered when new skills, capital, or products are necessary to achieve objectives.
- 2) Reallocate resources-this is appropriate if the objective can be achieved by concentrating resources that have been spread too thin.
- 3) Lengthen the time frame for accomplishing the objective.
- 4) Modify the size or scope of the objective.

To begin to close the gap and formulate the strategic plan, brainstorm possible strategies by returning to pages 17–19 and completing Part 2.

Figure 6. Gap Analysis Worksheet



Perspective 1: Learning and Growth

Part 1: What are the existing gaps in the learning and growth opportunities on the ranch?

Part 2: To get to the vision, what strategies might help close these learning and growth gap?

Perspective 2: Natural Resources

Part 1: What are the existing gaps in the ranch's natural resources?

Part 2: To get to the vision, what strategies might help close these natural resources gaps?

Perspective 3: Ag Commodities/Production

Part 1: What are the existing gaps in the ranch's production of ag commodities?

Part 2: To get to the vision, what strategies might help close these ag commodity production gaps?

Perspective 4: Customers Part 1: What are the existing gaps in how the ranch serves and works with customers?

Part 2: To get to the vision, what strategies might help close these customer gaps?



Perspective 5: Financial

Part 1: What are the existing gaps in the ranch's finances?

Part 2: To get to the vision, what strategies might help close these financial gaps?

Perspective 6: Ranch Lifestyle Part 1: What are the existing gaps in the lifestyle that the ranch offers?

Part 2: To get to the vision, what strategies might help close these ranch lifestyle gaps?

Scenario planning is the process of anticipating the future, based on the evaluation of the hints and clues from the world around us.

Stage 3: Scenario Planning for the Ranch

"The rung of a ladder was never meant to rest upon, but only to hold a man's foot long enough to enable him to put the other somewhat higher."

> —Thomas Henry Huxley, Pioneering biologist and educator

Once a list of potential "close the gap" strategies has been developed, it is necessary to determine which have the highest probability of success and/or which will benefit the ranch operation the most.

Through the process of anticipating future industry trends and testing proposed strategies against possible scenarios, the ranch manager is better able to make sound decisions about what actions to take. This evaluation process is known as scenario planning.

The Importance of Looking Forward

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 shape their decision making. But it is also important to look forward and anticipate what trends and issues may affect the industry in the months and years ahead.

To illustrate this example, imagine trying to drive a car forward by only looking at the rearview mirror. Driving in such a manner wouldn't be very practical. Likewise, conducting strategic planning by only looking back at industry trends and patterns is not practical.

While one may still use the trends and patterns of the past as a "rearview mirror" to guide decisions, the incorporation of scenario

> planning into the strategic planning process allows for looking forward.

Scenario planning is the process of anticipating the future, based on the evaluation of the hints and clues such as demographic, social, political, and business trends—from the world around us.

The goal for this stage of the planning process is to look forward at the ranch environment and identify multiple possible scenarios that may need to be addressed. From that step, you will then select those scenarios that seem most probable and prioritize strategies to address them.



Step 6: Describe multiple scenarios

Scenario planning is begun by brainstorming a list of possible situations that may impact the beef industry and/or your ranch. This is a chance to ask, "What if this happens?" See Fig. 7.

In Fig. 8 below, list six to 10 situations (or more if you like) that "might" happen that could affect your ranch.

Figure 7. Example list of situations that may be of interest or concern for a ranching operation.

1. Example 1: labor supply is dwindling

2. Example 2: lease rate of summer pasture increasing

3. Example 3: neighboring pasture land is for sale

Figure 8. List of situations that are of interest or concern for your ranching operation.

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Step 7: Select and evaluate the most-probable scenarios

From your list of multiple scenarios, re-evaluate the list and select two to four scenarios that you feel are likely to occur. In making these selections, also weigh which scenarios will have the largest impact on your ranching operation.

Note that in scenario planning it is important to use discretion and discipline in selecting your most-probable scenarios; this is not a process of evaluating all possible events or opportunities. Experienced managers who have used the scenario planning process report that they can only cope with a limited number of scenarios.

Understanding your ranching business and the direction it is going is critical to this selection process. The patterns and trends that are related to key areas of your business will be the most likely candidates for scenario planning. For example:

- If in your SWOT or gap analysis it is discovered that grazing is an area where your operation is weak, then grazing may be an area nominated for consideration in scenario planning.
- If one of the existing gaps you identified was that the team running the ranch is getting older, perhaps labor or estate transfer is a topic around which a scenario can be built.

• Perhaps there are concerns about the potential loss of a pasture or grazing allotment due to a policy change by a government entity.

Once you have chosen two to four scenarios, you will begin to collect information about them (see Fig. 9). Sources of information may include articles from the popular press, websites, informational meetings that you may have attended, and, perhaps most importantly, conversations with trusted friends and experts.

Your aim is to gather information that will help in your decision making. Key elements of this are plotting or graphing historical tends concerning the topic and, through evaluation and discernment, deciding future trends. Intuition can be a valuable part of this process.

From Fig. 8 on page 21, select two to four scenarios that you believe are most probable and will have the most significant impact on your ranch operation. Record those two to four items on Fig. 10 on page 23. Then, in the space below each scenario, provide details that are related to the situation and may be useful for future decision making.

Figure 9. Example of revised list of fully developed, most-probable scenarios.

Example Scenario 1: labor supp	ply is dwindlin	ng and cost	t are rising
--------------------------------	-----------------	-------------	--------------

- Due to expanding oil and gas well drilling, good hands will be tempted to work in the oil fields rather than on the ranch.
- · Oil reached \$78/barrel and is expected to increase.
- · Health insurance rates increased
- · Bunkhouse needs repair
- · Minimum wage increased

Example Scenario 2: Transportation costs will rise

- · Price of diesel reached \$3/gallon
- · Favorite trucker called and has raised his prices per loaded mile
- · A second local trucker quit the business
- · State raises fuel tax to fix roads
- · County puts load restrictions on more roads

Example Scenario 3: Market premiums for source-, age-, and process-verified feeder cattle

- · Reputation feeder cattle that are verified received \$20/cust premiums in last video auction
- · Last year's buyer called and requested paper work verifying age of cattle
- · Local sale barn has encouraged me to keep better records
- Extension specialists publish recommendations on how and which to keep
- · BQA re-certification course offered

Figure 10. List your fully developed, most-probable scenarios.

000000000000000000000000000000000000000	6
Scenario 1	
Scenario 2	
Scenario 3	
Scenario 4	

Scenario planning differs from contingency planning and sensitivity analysis in that they take into consideration one variable at a time, while scenario planning deals with multiple scenarios and strategies in a single evaluation. Although it is not a crystal ball, it is an extremely useful tool.

Stage 4: Merging Strategies and Scenario Planning

"The future doesn't just happen – it's shaped by decisions."

—Paul Tagliabue, NFL commissioner

At this point, you have a list of strategies aimed at closing existing gaps in the ranch operation (page 17–19), and you have a list of probable industry-related scenarios that could affect your ranch business in the future (page 23, Fig. 10). In this next step, you will merge your strategic plans with the anticipated scenarios to find which strategies have the highest likelihood of success. Then you will know where to focus.

Step 8: Determine strategies with highest likelihood of success

To test your proposed strategies against future scenarios, a simple matrix format is used, such as in Fig. 11.

Use a plus sign if you think the strategy may improve the situation in the scenario, a negative sign if the strategy may worsen the situation, or a zero if the application of the strategy may have a neutral effect.

At the end of this process, the strategies with the most plus signs are strong candidates for implementation in your strategic plan. They should have the most positive impact on the operation because they work positively in the most scenarios.

To create your own strategy/scenario planning matrix, transfer your list of strategies from page 17–19 to the left column of the matrix worksheet, Fig. 12, on page 25. Then transfer your list of the two to four most probable scenarios from page 23 across the top column of the same matrix worksheet on page 25. Continue by filling in the matrix with a plus sign if the strategy is good for the scenario, a negative sign if the strategy may worsen the scenario, or a zero if the effect is neutral.

Figure 11. Example strategic planning/scenario planning matrix

	Scenario 1 Transportation costs rise	Scenario 2 Process Verified Premium	Scenario 3 Labor Costs rise	Scenario 4
Learning & Growth				
Strategy 1	+	+	-	
Strategy 2	0	+	0	
Natural Resources				
Strategy 1	-	-	+	
Ag Production				
Strategy 1	0	+	0	
Strategy 2	-	-	0	
Strategy 3	+	0	-	

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6	6				B	6	6	6	6	6		D	6	6	6	6		B	6	6				6	6	6	6	6					6	6	6			6	6	6	6			D

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Learning 9 Crowth				
Learning & Growth				
Strategy 1				
Strategy 2				
Strategy 3				
Natural Resources				
Strategy 1				
Strategy 2				
Strategy 3				
Ag Production				
Strategy 1				
Strategy 2				
Strategy 3				
Customers				
Strategy 1				
Strategy 2				
Strategy 3				
Financial				
Strategy 1				
Strategy 2				
Strategy 3				
Ranch Lifestyle				
Strategy 1				
Strategy 2				
Strategy 3				

Stage 5: Putting the Plan Into Action and Measuring Success

"Even if you're on the right track, you'll get run over if you just sit there."

-Will Rogers

Now the work of actually turning those thoughts and ideas into action begins.

Unfortunately, many strategic plans never make it off the shelf and into this "implementation" step. As you begin to implement the ranch strategic plan, remember the purpose behind it: to achieve the ranch vision for the future. Don't lose sight of that important vision.

Step 9: Implementation of the strategic plan

Two critical components make up a successful implementation strategy: commitment and communication.

Those involved in developing the plan need to be "cheerleaders" for it when discussing the plan with others, especially when those "others" will be called upon to implement the plan. This requires clear and direct communication between

Dealing With Change

Implementing a strategic plan is a fluid and dynamic process. As conditions both within and outside of the system change, changes will need to be made to the plan. A successful plan is one in which the process is continually reevaluated, where those involved clearly understand the reason and purpose of the plan, and where those involved are dedicated to following through with the strategic, operational, and tactical plans developed.

As the tactical and operational plans are developed, you may consider including a monitoring plan. A monitoring plan should address:

- How the plan will be monitored.
- Who is responsible for doing the monitoring.
- When or at what intervals (timing) the monitoring will occur.
- How the monitoring data will get back to those who need it.
- What will be monitored and what the critical components of the plan are.
- What procedures will be followed if monitoring shows that the plan is not meeting the desired goals or objectives.

those who develop the plan and those who implement it. Lack of communication almost always ensures lack of success.

Taking Action

Another critical component of the implementation phase is the development of tactical and operational plans. As outlined on page 5, these are the detailed timelines, budgets, and assignments of responsibilities that will be the day-to-day activities that move the ranch toward its vision.

Operational and tactical plans are useful for:

- Committing those involved to the implementation.
- Defining who will do what, where, when, and how.
- Recording the successes and failures encountered along the way.
- Helping those involved see the progress that has been made and giving all involved an opportunity to take pride in accomplishments as the plan is implemented.

When developing an action plan consider:

- Who will lead?
- What are realistic time frames?
- How are unresolved issues going to be resolved?
- How will successes be tracked? (Don't forget to reward those responsible for successes with some public acknowledgement.)

Due to space limitations, the development of specific operational and tactical plans will not be addressed in this manual. Refer to http://ctb.ku.edu/tools/en/ section_1089.htm for more information on the development of such plans for your ranch. "Think of the Balanced Scorecard as the dials and indicators in an airplane cockpit. To navigate and fly the plane, pilots need [...] information on fuel, airspeed, altitude, bearing, destination, and other indicators. [...] Reliance on one instrument can be fatal. Similarly, the complexity of managing a business today requires that managers be able to view performance in several areas at once.."

—Drs. Robert Kaplan and David Norton

The final step of a well-thought-out strategic plan is the ability to measure performance by monitoring progress and gathering feedback.

Drucker emphasized this in his summation of the strategic planning process: "The primary tasks of strategic management are to understand the environment, define organizational goals, identify options, make and implement decisions, **and evaluate actual performance.**"

Measuring success toward achieving the goals developed in strategic planning is essential. The Balanced Scorecard can be a "report card" to monitor the progress of your ranch toward the vision developed in the strategic plan.

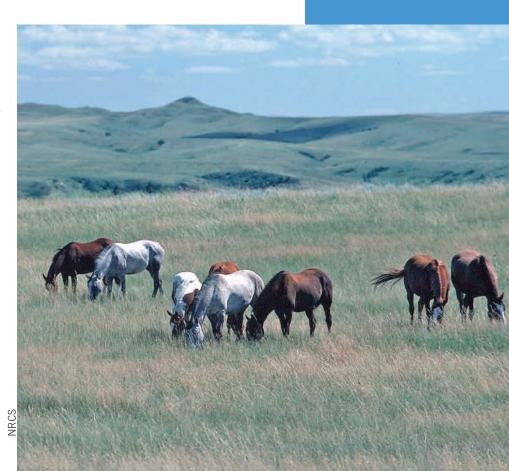
Developed by Harvard Business School professors Robert Kaplan and David Norton, the Balanced Scorecard is used by corporations around the globe in countless business management applications. The concise scorecard method is credited with providing a clear picture of both the health of a business and progress in reaching a manager's goals.

A Balanced Scorecard categorizes key management areas into what are referred to as "perspectives." In ranch applications, the Balanced Scorecard is typically separated into six perspectives:

- 1. Learning and growth
- 2. Natural resources
- 3. Ag commodities/production
- 4. Customers
- 5. Financial
- 6. Lifestyle

Please note that these perspective categories have already been built into this manual. You utilized them as you conducted the gap analysis and developed strategies (page 17–19) and, again, as you tested those strategies against possible scenarios in the matrix on page 25, Fig. 12.

The Balanced Scorecard builds on the first perspective–learning and growth–as the foundation for each of the subsequent perspectives.



It is devised this way because enhancing education opens the door for opportunity to change, improve, and adapt—all of which are critical to each of the successive perspective categories. See an example Balanced Scorecard on page 29 and note the bottom-up approach, with learning and growth as the foundation. Also note that, under each perspective, specific measurements are listed to help monitor progress on the desired objectives. Kaplan and Norton refer to these measurements as "metrics," which they define as the actual measurements of success.

Reasons Strategic Plans Are Successful

A number of factors are critical to the success of a strategic plan. Some of them are:

- Adequate development of new employee and management skills
- Careful coordination
- Strong commitment from family, employees, and management
- Effective reporting and control relationships
- Flexibility within organizational structure
- Ability to obtain sufficient resources to accomplish tasks
- Following the plan (follow through after initial planning; continual tracking of progress against the plan)

Adapted from "Figures in Strategic Planning" - Michael Porter and J Barney

Using the Balanced Scorecard

To incorporate the Balanced Scorecard into your ranch strategic plan, transfer the strategies that earned a "plus" in scenario planning (page 25) to the appropriate perspective categories listed in the Balanced Scorecard on page 30.

The next step is to determine and record performance measures for each strategy. For example, if profitability is a key strategy, establishing specific targets for net income or the return on assets necessary to achieve your vision is an important step.

The Balanced Scorecard provides a quick snapshot for measuring success on your ranch.

The bottom-up nature of the Balanced Scorecard also provides a check and balance for the completeness of the strategic plan. For example, in the profit example above, if another strategy, such as learning about and implementing a new accounting program, must be implemented in order to achieve a goal, then a strategy to learn and implement new accounting programs should be listed in the learning and growth perspective of the Balanced Scorecard.

Successful accomplishment of a ranch's vision needs to be built upon a logical and systematic strategic plan. Proper use of a Balanced Scorecard helps a rancher get that job done.

For more detailed information about the Balanced Scorecard, see "Using the Balanced Scorecard for Ranch Planning and Management: Setting Strategy and Measuring Performance" on the web at: http://agbiopubs.sdstate.edu/articles/EC922.pdf

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Figure 13. Example of completed Balanced Scorecard.

Perspectives with Strategic Objectives	Goal	Actual
Ranch Lifestyle		
 Healthy, happy family Sense of security Low stress 	Yes Yes Yes	Yes No No
Financial		
1. ROA 2. & net income 3. Breakeven 4. Current ratio 5. Free cash flow	8% \$ 200,000 \$ 0.75 2:1 50,000	6% \$ 201,000 \$ 0.73 2:1 47,000
Customer 1. Feedback good 2. Repeat customer 3. Customer inquiry	Yes Yes Yes	Yes Yes Yes
Ag Commodities/Production		
 Lb weaned/cow exposed Preg % Replacement rate % Cow BCS at weaning Days fed harvested feed % calves born in first 21 days & vet/cwt weaned calf Cattle ID 	500 94 15 5+ 85 65 \$0.02 Yes	520 92 12 5+ 98 55 \$0.03 Yes
Natural Resources		
 Stocking rate = carrying capacity Prescribed burn Residual forage adequate Noxious weeds treated Precip as a % normal Range condition score Photo pts compared Grouse count 	Yes Success Yes Yes II O Improving Improving Increasing	Yes Success Yes No 90 Steady No Change Increasing
Learning and Growth		,
 Attend RBCS Attend KRIRM symposium Participate in grazing school 	Yes Yes Yes	No Yes Yes

NOTE: The goals and numbers shown are strictly examples.

Balanced Scorecard

Perspectives with Strategic Objectives	Goal	Actual
Ranch Lifestyle		
1.		
2.		
3.		
4.		
5.		
6.		
Financial		
1.		
2.		
3.		
4.		
5.		
6.		
Customer		
1.		
2.		
3.		
4.		
5.		
6.		
Ag Commodities/Production		
1.		
2.		
3.		
4.		
5.		
6.		
Natural Resources		
1.		
2.		
3.		
4.		
5.		
6.		
Learning and Growth		
1.		
2.		
3.		
4.		
5.		
6.		

For More Information

Suggested Readings

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Shadbolt, N.M. 2007. The Balanced Scorecard: A Strategic Management Tool for Ranchers. Rangelands. 29(2):4-9.

Using the Balanced Scorecard for Ranch Planning and Management: Setting Strategy and Measuring Performance agbiopubs.sdstate.edu/articles/EC922.pdf

Reference Websites

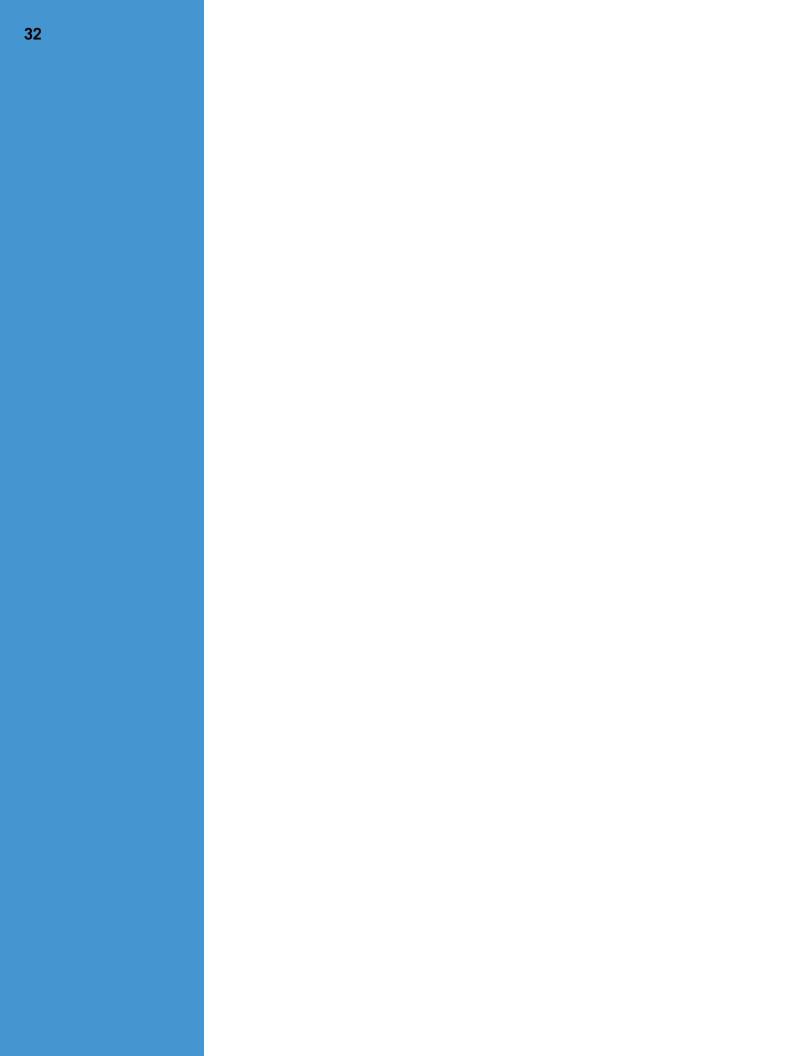
Strategic Business Planning for Commercial Producers www.agecon.purdue.edu/extension/sbpcp/

Strategic Management for Farm Families www.extension.iastate.edu/ames/smff.htm

Strategic Management Society www.smsweb.org/publications/journal/index.html

The Cattleman www.texascattleraisers.org/cattlemanbackissues.asp

University of Kansas Community Tool Box ctb.ku.edu/tools/developstrategicplan/index.jsp



Conclusion

"More than anything, we believe the best way to predict the future is to invent it. We feel the confidence to shape our destiny."

This manual provides step-by-step instructions to guide your ranch business through the strategic planning process and to test proposed strategies against possible industry scenarios.

Drucker summarizes the steps of this process: "The primary tasks of strategic management are to understand the environment, define organizational goals, identify options, make and implement decisions, and evaluate actual performance."

Drucker's five components match with the five stages outlined for your ranch in this manual:

- 1. Understand the environment = Inventory and SWOT analysis
- Define organizational goals = Establish a vision statement
- 3. Identify options = Gap analysis and identify close the gap strategies
- 4. Make and implement decisions = Scenario planning
- 5. Evaluate actual performance = Utilize the Balanced Scorecard

By working through each step of the strategic planning and scenario planning processes, the

—John Scully, CEO of Apple Computer

ranch manager can develop a pragmatic, profitdriven vision to capitalize on available ranch resources and the opportunities that lie ahead. The strategic plan becomes that roadmap that provides the direction for the ranch to align its business focus over the next five to seven years (or more).

Why is strategic planning critical? Again, Drucker provides a summary: "Time is the scarcest resource. Unless it's managed, nothing else can be managed."

A strategic plan provides the foresight to manage your time and lead your ranch business to success.

As a result, rather than working "in" the business, a strategic plan combined with scenario planning allows for working "on" the business and identifying and focusing on high-return/ high-priority management tasks. Through that process of looking forward, anticipating change, and determining how your ranch operation will survive and prosper, the risk of the industry's volatility can be mitigated.



Making the Case for Strategic Planning: Consider ethanol's impact

With corn prices driven to all time highs in 2007 by the demand for ethanol, the livestock industry has experienced what many consider to be the third biggest event to shape agriculture's history (with the other two revolutionary changes being the introduction of hybrid seed corn in the 1930s and 40s and the invention of the moldboard plow in the 1850s).

Many believe ethanol will be the third leg of an agricultural trifecta that will change the face of agriculture forever–influencing not only how you manage your ranch, but also how your children and grandchildren fare in the business.

Now is the time to step back, evaluate your ranch operation, and determine how your operation will fit into the new realities of ag's future. That determination, then, becomes your vision statement.

Once that vision is in place, your ranch business can be evaluated for its strengths, weaknesses, threats, and opportunities. Any gaps can be identified, and the strategies you determine are appropriate can be rallied around.

Following the Steps

An important part of developing this strategic plan for your ranch also includes scenario planning. In scenario planning, you determine key scenarios for the industry, place yourself and your ranch in the environment those scenarios may create, and then develop strategies on how you will adapt.

Ask yourself: "What are some key scenarios that will characterize the cattle business in the next few years? How will that affect my business?"

For example, one scenario might be a shift by consumers to an all-natural beef product. If you think this will happen, then ask yourself if your cattle are healthy enough and competitive enough to sell in a new marketplace. Are you able to age-, source- or processverify your cattle? If not, what do you need to do to provide buyers with that assurance? Another scenario could be energy prices. If the price of oil goes to \$90/barrel, what will that do to your feeder cattle basis? Feeder cattle located closer to major feeding regions tend to enjoy a more positive basis than those from more remote places. But will the feeding industry shift in response to ethanol's effect on corn prices? If it does, how will that affect you? Will the skyrocketing price of corn affect the price of feed supplements?

Context & Strategies

After you've considered some scenarios, place yourself and your ranch in context with the changing business environment. The cattle business is capital intensive and has, as a general rule, poor cash flows. In that environment it is critically important that ranchers have an understanding of the changing consumer demand for beef, what might happen to supplement prices, where energy prices are headed, and what direction the overall economy is going. Apply the context of your situation to every scenario you

envision, then develop strategies to deal with them.

For instance, 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 either the time of calving or the type of cattle you raise.

If higher oil prices are part of your scenario, perhaps a marketing program other than one that has been traditionally employed would be useful. (There are value-based marketing programs that subsidize transportation costs.)

Prepare for Change

The bottom line in strategic planning is to be prepared to respond to change. Adapting to the future of the industry requires the ability to make sound management and financial decisions, and these decisions are best guided by a strategic plan.

Appendix

Following are blank worksheets from this manual, which can easily be photocopied for your future use.

	Worksheet 1: SWOT Analysis									
	Strengths	Weaknesses								
	1.	1.								
	2.	2.								
	3.	3.								
	4.	4.								
	5.	5.								
-	Opportunities	Threats								
	1.	1.								
	2.	2.								
	3.	3.								
	4.	4.								
	5.	5.								

Business area	Now	Preferred Future
Ranch business products or services		
Ranch production		
practices		
Ranch business size		
Markets		
Customers		
Ranch business structure/organization		

Business area	Now	Preferred Future
Social responsibilities		
Family members and employees (number and skills)		
Family activities		

Our Ranch Vision

Using the notes and discussions from the "What do we want?" questions and "Vision Worksheet," draft a short vision statement that describes your desires for the future. What will the ranch business involve? How will it be recognized for excellence? Why is it vital that this vision be pursued?



Perspective 1: Learning and Growth

Part 1: What are the existing gaps in the learning and growth opportunities on the ranch?

Part 2: To get to the vision, what strategies might help close these learning and growth gaps?

Perspective 2: Natural Resources

Part 1: What are the existing gaps in the ranch's natural resources?

Part 2: To get to the vision, what strategies might help close these natural resources gaps?

Perspective 3: Ag Commodities/Production

Part 1: What are the existing gaps in the ranch's production of ag commodities?

Part 2: To get to the vision, what strategies might help close these ag commodity production gaps?

Perspective 4: Customers Part 1: What are the existing gaps in how the ranch serves and works with customers?

Part 2: To get to the vision, what strategies might help close these customer gaps?



Perspective 5: Financial

Part 1: What are the existing gaps in the ranch's finances?

Part 2: To get to the vision, what strategies might help close these financial gaps?

Perspective 6: Ranch Lifestyle Part 1: What are the existing gaps in the lifestyle that the ranch offers?

Part 2: To get to the vision, what strategies might help close these ranch lifestyle gaps?

Worksheet 4: Scenario Planning

	11
Scenario 1	
Scenario 2	
Scenario 3	
Scenario 4	

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																							_							

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Learning & Crowth				
Learning & Growth				
Strategy 1				
Strategy 2				
Strategy 3				
Natural Resources				
Strategy 1				
Strategy 2				
Strategy 3				
Ag Production				
Strategy 1				
Strategy 2				
Strategy 3				
Customers				
Strategy 1				
Strategy 2				
Strategy 3				
Financial				
Strategy 1				
Strategy 2				
Strategy 3				
Ranch Lifestyle				
Strategy 1				
Strategy 2				
Strategy 3				

Worksheet 6: Balanced Scorecard

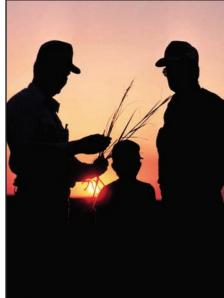
77777777777777777777777777777777777

Balanced Scorecard

Perspectives with Strategic Objectives	Goal	Actual
Ranch Lifestyle		
1.		
2.		
3.		
4.		
5.		
6.		
Financial		
1.		
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4.		
5. 6.		
0.		
Customer		
1.		
2.		
3.		
4.		
5.		
6.		
Ag Commodities/Production		
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2.		
3.		
4.		
5.		
6.		
Natural Resources		
1.		
2.		
3.		
4.		
5.		
6.		
Learning and Growth		
1.		
2.		
3.		
4.		
5.		
6.		







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A changing marketplace, price volatility, labor availability, record high feeder calf prices, the effects of the ethanol industry:

How will your ranch operation adapt?

While the ranching business has dealt with many serious changes throughout its history, this is a new era, and rarely have so many key parts of the business re-aligned so rapidly. To remain viable, ranch managers need to look forward and "create" their future. In other words, ranch managers must develop a strategic plan for meeting the challenges ahead. A strategic plan is a set of decisions about what, why, and how to do something, all with a focus on the future.

Strategic planning and scenario planning—the two concepts highlighted in this manual—offer systematic approaches to addressing your future viability.

Strategic planning is a process for determining the strategies and tactics that will help a business achieve a given vision.

Scenario planning is the process of creating likely scenarios that a business will face. These scenarios are based on the objective utilization of demographic, social, political, and business trends.

In the context of ranch management, strategic planning is determining key scenarios for the industry, placing yourself and your ranch in those scenarios, and then developing strategies that will allow you to adapt to those scenarios. Strategic planning is designed to help ranchers mitigate risk exposure.

Management consultant and author Peter Drucker summarizes the steps of this process: "The primary tasks of strategic management are to understand the environment, define organizational goals, identify options, make and implement decisions, and evaluate actual performance."

Why is strategic planning critical? Again, Drucker provides a summary: "Time is the scarcest resource. Unless it's managed, nothing else can be managed." A strategic plan provides the foresight to manage your time and lead your ranch business to success.