



BEEF

Chapter 42

Strategic Planning for Farms and Ranches

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Introduction

A ranch, farm, or family business without goals and direction, tends to shift priorities. Employees and family members can become confused about their direction, purpose, and jobs. Thus there is a real need for producers to create a strategic plan to help guide the business. As farming and ranching industries face additional challenges, it is essential for managers and owners to look forward and craft their future for the business and family. Strategic and scenario planning are techniques to develop a systematic approach to addressing the business' future.

Just as a roadmap is an important guide when traveling, a strategic plan is important to the success of a family business. The strategic plan helps to provide direction and focus for all. Leaders of ranch businesses must be looking ahead, anticipating change, and developing a strategy to proactively and successfully navigate through the turbulence created by change. A primary role of farm/ranch business leadership is developing and communicating business values and vision, setting direction, and formulating strategy. The vision and strategic plan point to specific results to strive for and establishes a course of action for achieving success. A strategic plan also helps to align family members with common goals. The process of developing a strategic plan should be rewarding for all involved and usually helps develop stronger communications for the family and ranch business.

Inventories and SWOT analysis

The planning process is as important as the plan document. Strategic planning is a process for determining the strategies and procedures that will help attain a clearly defined vision. While the future is naturally uncertain, risk can be diminished by applying a strategic approach toward what lies ahead.

A realistic vision of the future starts with an accurate assessment of the current situation. Developing a candid picture of the business's potential requires a thorough evaluation of both its internal and

Key Points

- A strategic plan provides direction and focus for all members of farm or ranch businesses, establishing a course of action for achieving success.
- An analysis of strengths, weaknesses, opportunities and threats (SWOT) offers a view of the critical internal and external influences that are of strategic importance.
- Important aspects of the vision statement include purpose, goals, service, time, initiative, and teamwork.

external conditions. To start this process, it is best to perform a complete inventory of business resources by assessing the strengths and weaknesses that are a part of the business's internal structure. The inventory should include an assessment of financial position and system, production capabilities and system, natural resources and system of use, along with the human resources available to the farm/ranch business.

This inventory and assessment of the business' internal conditions is the start of a Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis. The SWOT Analysis offers an efficient method for analysis of the factors impacting the business and a method of engaging participants in the planning process. A SWOT Analysis is a tool that offers a prompt view of the critical internal and external influences that are of strategic importance. The SWOT Analysis helps to capture data in order to qualitatively plot the business in a 3x3 external/internal matrix (See Figure 1).

		Strength of business's internal capabilities		
		High	Medium	Low
Attractiveness of external environment	High	1	1	2
	Medium	1	2	3
	Low	2	3	3

Figure 1: 3X3 External/Internal Matrix.

A business in the upper left with a position of 1 (or in green) has strong internal capabilities and is

in a good external environment with outstanding profit potential. A business in the lower left to upper right with a position of 2 (or yellow) is in either a poor external environment or experiencing internal weaknesses. The businesses will want to develop strategies to take advantage of strong external environments if they exist and work to strengthen the business's internal capabilities. If the business has strong internal capabilities but a lower external environment (or poor market environment) the business may need to look for stronger external environments (or new market opportunities). The business falling in the lower right with a position of 3 (or in red) is faced with more serious threats because the external environment is not attractive and they do not have the internal strength to find new opportunities.

Internal Environment

The internal analysis explores the business' competencies related to financial position, production capabilities, natural resources, and human resources, looking for strengths and weaknesses. A goal of the SWOT Analysis is to begin to identify the components of the farm/ranch vision. Evaluating the four functions of financial, marketing, production, and human resources these four areas are common to all businesses, particularly farms and ranches (See figure 3). These four resources areas serve as a starting point in evaluating the business' strengths and weaknesses. This allows for producers to assess the farm's capabilities as high, medium, or low, providing a basis from which to develop a vision.

Social	Technical	Economic	Environment	Political
<ul style="list-style-type: none"> • Aging population • Ethnicity • Immigration • Changing gender roles • Changing values • Influence of baby boom generation 	<ul style="list-style-type: none"> • Genomics • Communications • Expanded computing power • Use of digital electronics • Apps • Advanced engineering • Precision farming 	<ul style="list-style-type: none"> • Interest rates • Inflation rate • Economic cycle • Trade barriers • Market economy • Industry trend 	<ul style="list-style-type: none"> • Weather • Climate cycle • Changing land use • Diseases 	<ul style="list-style-type: none"> • Regulations • Environmental regulations • Social well being • Tax rates

Figure 2: STEEP trends for analysis.

External Environment

Analyzing the external environment is often difficult. This is because there are no simple rules for identifying what will impact a specific industry, market, or individual business. The STEEP model Figure 2 is used to break the external environment into smaller components of social, technical, economic, environmental, and political (STEEP) components. Examining these external forces provides a good structure for asking questions about the external environment. It is important to review the factors in the STEEP analysis in order to develop strategic plans that are relevant and effective over the long term.

In Figure 2 one item under social is demographics. The demographics in the U.S. are changing with an aging population, this is of particular interest given the average producer in South Dakota is over 55. How will this change in demographics affect cow-calf industry? Technical applies to the technology being used within an industry. For example in Figure 2 genomics is beginning to be used by more producers to enhance production. Figure 2 provides a few examples of what could be in a producer's STEEP model.

Positioning on a 3 X 3 Matrix

The SWOT analysis, STEEP model, and inventories assist in the development and understanding of the possibilities for the business. An important outcome of this process is a positioning on the 3 X 3 matrix. This position, whether a 1, 2 or 3, serves as a starting point for identifying strategies.

In figure 3 businesses in the green area (or with a position of 1 as seen in Figure 1) should look to renew. This operation should ask questions such as: What level of investment is required? How can the business leverage existing capabilities? What are the risks and returns?

		Strength of business's internal capabilities		
		High	Medium	Low
Attractiveness of external environment	High	Renew and leverage existing capabilities		
	Medium		Reformulate	
	Low			Rejuvenate

Figure 3: 3 X 3 External/Internal Matrix.

If the operation in the matrix is in the yellow area (or position 2), a generic strategy is to reformulate. Asking questions like: How can we strengthen internal capabilities? What new markets can be identified? What is the long-term future? Should the business be sold while it is still strong?

An operation in the red area (or position of 3) on the matrix will need to rejuvenate the business. Questions to ask include: How does the business improve its position? What are the alternatives to selling the business or parts of it? What level of investment is required?

The next step after determining the operation's position and strategy is to develop a vision statement.

Development of Vision Statement

The complete inventory, SWOT analysis, and positioning in the internal/external matrix provide an understanding of the business and the resources available. They provide a base for a future vision for the operation. A vision statement provides clear direction for the business's future. It should be written so that it provides the reason and motivation to move forward.

Three important points to include in a vision statement are:

1. A statement about the farm/ranch business' values and reason for being.
2. An envisioned future describing what the business will be like if it achieves its goals.
3. A recognition of how the business serves its stakeholders, including owners, employees, customers, community, and society.

A vision statement should also address:

- **Time.** A vision of the future of the farm/ranch business five to ten years into the future.
- **Drive.** The vision statement should stimulate those involved in the business. It should express the importance of moving toward the vision.
- **Teamwork.** The vision statements should boost the cooperation and imagination of the business team.

The process of drafting the vision statement is as vital as the final vision statement itself. Be creative

and allow the team to dream. Here is a sample vision statement from a farm and ranch in the northern plains. *The operation will be a cost-effective and gratifying business for family members and employees to work in. It will use integrative management of grasslands and crop land for producing livestock at a profit and providing habitat for an abundant wildlife population. The wildlife will be harvested by family and customers providing a safe and enjoyable recreation experience to our customers and a rewarding experience for family.*

It is important to include everyone involved in the business and family to develop a “shared” vision. A vision statement is best when developed through consensus building and embraced by all participants.

Using the inventory, SWOT analysis, and 3x3 matrix, ask the following questions while drafting the vision statement: What do we want? What is the family and business willing to commit to?

Summary

By working through the process to develop a strategic plan the business and family can develop a rational, profit-driven vision to take advantage of its resources and opportunities that lie ahead. The strategic plan provides the business direction and focus needed to achieve its vision over the next five to ten years.

Additional resources, examples and worksheets are available the workbook “Strategic and Scenario Planning in Ranching: Managing Risk in Dynamic Times,” available at <https://extension.sdstate.edu/strategic-and-scenario-planning-ranching-managing-risk-dynamic-times>.

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