



## **Managing Risk Through Farm Business Planning**

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Today's successful farmers are businessmen first and farmers second. Continued success in the risk-laden world of agricultural production will be determined largely by ability to anticipate and prepare for the future. Historically, farmers have been able to survive negative uncertainties in an ad hoc manner. Because success means more than just survival, proactive business management is a necessity. Being prepared, through proper business planning, is a key to successful risk management.

Understanding the business planning process and how risk management in general and crop insurance in particular fits into the big picture, enables insurance agents to better help farmers manage their short-term risks and accomplish their long-term goals. Farm business planning is about understanding and managing the farm successfully. This article summarizes the business planning process.

Business planning differs in several respects from other planning processes that farmers engage in while managing their farm. The time horizon for business planning is longer. The owner is looking at five, 10, 15 or more years into the future rather than one or two production seasons. It is a formalized thought process wherein farmers assess their current situation, specify their goals, identify and implement alternatives for reaching their goals and monitor their progress. The emphasis is on the long-term goals farmers and their family set for themselves and their business.

Business planning provides the farmer with a mechanism to adjust to changes while working toward defined goals. The process does not result in a set of self-imposed instructions that cannot be altered in the future. Such a detailed, inflexible plan would be rendered valueless by unexpected future events. Instead, the business planning process anticipates that the farm operation will be altered or modified as necessary to accomplish the farmer's goals.

Business planning does not replace other planning efforts, such as yearly production and marketing plans or capital budgeting to evaluate a specific investment decision. Alternatively, business planning can be thought of as a framework for organizing and directing shorter-term planning efforts. It is a process that is repeated at regular intervals, or more often as the need arises. The process often involves considerable detail and data about the business and the industry. As farmers repeat the planning process and refine or revise their plan, they likely will add more detail each time the process is completed.

The planning process described below follows a set of materials on farm business planning prepared by the North Dakota State University Extension Service. Numerous

other sources are available for business planning materials.

## **The Steps of Farm Business Planning**

Developing a farm business plan is a multi-step process to answer several key questions. The process can be summarized as follows:

### ***Assess the Current Situation***

- 1. What is the current status of my farm business?*
- 2. What are my interests and skills?*
- 3. What are my expectations about the future?*

### ***Determine Where You Want to be***

- 4. What do I want to accomplish?*

### ***Identify, Select and Test Alternatives***

- 5. Will the current farm be feasible in the future?*
- 6. What alternatives are feasible for the future?*
- 7. What steps are needed to implement the feasible alternative?*
- 8. What might prevent me from implementing the plan?*

### ***Monitor Implementation***

- 9. How do I monitor progress over time?*
- 10. How should I prepare to document, share and revise my plan?*

For the initial business plan, farmers proceed through the planning process and complete each step without being concerned about assembling all the details or data. Then, the next time through the process, those aspects of their planning effort that need additional detail are emphasized. After several times through the process, (probably over several years), farmers will have developed a plan containing the necessary detail for each step. This approach reduces the likelihood that farmers abandon the planning process because of the detail that can be incorporated into each step without at least attempting all the steps.

Farmers know that many years will not turn out as planned. Some years will be disappointing, while other years will be better than expected. These uncertainties, unexpected events and changed circumstances will be the primary reasons for revising the plan. As the plan is revised, they look at where they hoped to be, assess where the business and family are and decide how to proceed to best reach where the family wants to be.

## **Benefits of Business Planning**

The first result of business planning is for farmers to thoroughly understand the business so that they, at any time, can determine how a current decision will impact the long-term progress of the business. The process also encourages farmers to carefully think about 1) alternatives for the farm business, 2) risks inherent in available opportunities and 3) contingency plans to follow if an obstacle or opportunity arises while implementing the selected alternatives. Business planning encourages farmers to set specific standards of performance so they can, in a timely manner, change their farm operation when the business is no longer on the expected or desired path.

A second result of business planning is that the farmer remains focused on the overall purpose of the business. Farmers who have specified their long-term goals should be able to overcome the challenge of being concerned only about current problems and losing sight of ultimate goals. Also, it is an opportunity to understand the relationship between the farm and the family who depends on income from the operation to meet all or part of its living expenses. Farm families know how farm income impacts their standard of living, but the business planning process allows farmers to reverse the relationship and better assess how changing family needs impact the business.

The process of business planning facilitates discussions among the farmers, their families and others. For example, even though farmers may know their long-term plan for the business, their spouses may not. Some steps of the planning process include discussions among members of the farmers' families. Such discussions often produce several positive outcomes, including an understanding of current and long-term cash needs and resources of the family and the farm business.

Similarly, adult children involved in, or about to become involved in, the farm business may have different ideas about the future of the business than do their parents or siblings. The planning process offers an opportunity for open discussion of ideas and a chance to identify and clarify differences and concerns.

As farm businesses continue to grow more complex and farmers interact with a larger number of individuals, the need to have a future plan for the business also increases. Lenders, regulators, employees and possible investors all have an interest in the business. Although they have some interest in how the business has performed in the past, they are probably more interested in what is contemplated for the future. Farmers who follow a business planning process likely will be prepared to work with lenders, landlords or other business associates.

### **Business Planning Usually Requires Writing**

Although farmers do not have to write down their thoughts in the long-term planning process, developing a document helps. Writing clarifies thinking, identifies issues that otherwise may be overlooked and prevents a difficult or detailed decision from being postponed with an attitude of "we can work out the details later." Developing documents during business planning prompts farmers to address specific issues that are likely to arise in the future and to resolve those concerns before they become problems.

Writing also reduces "selective recall," which can cause problems when family members or partners have different recollections of a discussion. Similarly, writing provides a record of the farmer's actions and thoughts; a record that can guide others if the farmer is not present when a decision needs to be made in the future.

An important aspect of business planning is to link the progress of the farm to the activities and goals of the family. Business planning cannot be accomplished if a spouse, partner or anyone else whose desires, decisions and actions directly impact the farm operation has been excluded from the process. Effective communication within the business and family is a necessity. There is no right or wrong way to plan, but the farm business may not achieve its full potential without thinking and planning.

Help from professionals, including crop insurance agents, who understand this process, will be of value to farmers who are seeking risk management services regarding specific farming situations. As long-term decision-making shifts back to individual producers, supporting services such as the crop insurance industry, need to be prepared to support individual producers in their business planning efforts.

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