Planning the long-term recovery of your farm

8. What do I need to do to be successful?

Success is personal and includes both lifestyle and financial aspects. You and your family must decide what success means to you. Your family goals need to be the starting point for planning your recovery. The previous articles have discussed how to evaluate farm performance, and this information should tell you if the existing farm operation can achieve your goals. If not, then having clearly defined goals greatly increases the chances of success by focusing energy and effort on the most important activities. Working toward these goals also encourages persistence and effective work habits as you make new plans and put them into practice.

No two individuals are alike and no two families are alike. Farm families have multiple goals, including business and personal ones, and the goals of individual family members may conflict. For example, Dad may need a tractor, but Mom wants to fix up the house, and Junior wants a car. Major decisions about the future of the farm require an honest discussion among all family members, not only to identify the needs and wants

of each family member but also as part of the process of reaching a compromise and setting priorities among conflicting goals. This process may take time, thought, and discussion among family members, but it can pay big dividends.

Many farm families have benefited from a three-step approach to goal-setting:

• Create a mission or vision statement that describes in general terms what the person or business is trying to accomplish.

• Build on the mission statement by developing long-term objectives for, say, the next ten years.

• Translate long-term objectives into

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written SMART goals. "SMART" stands for Specific, Measurable, Achievable, Rewarding, and Timed.

Family goals should be converted into specific financial performance targets for the farm. These may include profits, income for family living, net worth, and cash flow.

The best-case scenario would be that the financial analysis discussed in the previous articles has shown that the farm is healthy and that the disaster has caused a temporary setback. In this case the farm can operate as before and with confidence.

However, the analysis may show serious problems that create a need for a major change in the farm operation. In this case, some detailed planning will be called for if family objectives and goals are to be achieved. Someone must decide what changes must be made and whether they will achieve the desired result. Planning takes time, skill, and a lot of information. It may require the assistance of outside advisers. However, the result will be a well-thought-out plan with a higher chance of success.

Some farmers argue that making financial projections is a futile exercise because no one can predict the future. I disagree and say that this uncertainty is the main reason to plan. General Dwight D. Eisenhower, as the Supreme Allied Commander in Europe in World War II, said, "The plan is nothing, planning is everything." In other words, by working through the planning process, you put yourself in the best position to succeed because you identify and work around potential problems and demonstrate your ideas can work.

Planning involves several steps

1. Review your farm resources. This should include the natural resources-soil type and productivity, topography, farm size and layout, climate. Other resources include the current stock of equipment, buildings, and collateral available for new borrowing. People resources include hired labor and family members. But the most important human resource is the management skill of the primary operator.

2. Analyze past performance. As discussed in the other articles in this series, accurate and complete farm and financial information tells you if the operation is sound or, if not, the nature and scale of any problems. This knowledge can help guide the development of a realistic plan.

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—Gen. Eisenhower

3. Identify alternatives. It is tough to make a living farming, even without the added problems caused by disasters. If the way you farmed in the past cannot meet future needs, then other options must be considered, including other traditional and nontraditional farm enterprises, off-farm work for the farmer or a spouse, scaling back to part-time farming, or giving up farming altogether. Restructuring debt, selling off some or all of the farm assets, and reducing family living expenses may be necessary. Some families with severe financial problems may need to seek protection under the bankruptcy laws. There are no guarantees that there are alternatives capable of restoring the standard of living to what it has been in the past. Each family will have different alternatives, and the search for the "best" one may take much time and effort.

4. Evaluate the business environment. Each farm enterprise faces a different economic environment. This environment is shaped by the ultimate consumers of the product or service, by the buyers and processors of the farm product, by government policies and regulations, by production technology, and by competitors in other regions of the country and the world. It is important that you understand these factors and industry trends before venturing into a new enterprise.

5. Evaluate the production, marketing, and financial feasibility of alternatives. Each business alternative has unique aspects of production, including husbandry techniques and investments in equipment and facilities. Marketing knowledge and skills are much more important in specialty and value-added enterprises. The suitability of the farm resources; the up-front investment in knowledge, skills, and capital; and the expected costs, returns, and risk affect the attractiveness of each alternative.

6. Make a decision. Choices between alternatives should be made on facts and logic, not emotion. Determining that farm production is feasible is only the first step. The financial aspects of a decision must be estimated by "pushing a pencil" to figure out the expected impact on profitability and cash flow. Decision tools include budgeting to estimate profitability. For large projects, it may be necessary to develop annual budgets through a startup period until the new venture is well established and stable. Sensitivity analysis, contingency planning, and other tools can be used to evaluate risk. Cash flow projections should be made for three to five years into the future when major new investments and new borrowing are involved, to determine credit needs and feasible repayment schedules. Measures of past performance may provide a track record or benchmark for these projections.

7. Develop an implementation plan. Planning does not end with the decision to proceed. More detailed short-term or tactical plans will be required to make the decision a reality, including getting the necessary resources and learning any new skills. Tactical plans break down the overall plan into more manageable pieces. Each tactical plan should describe specifically and in detail what must be done, who is to do certain tasks, and when the tasks must be completed. These tactical plans are intended to help ensure the work gets done right the first time and on time.

8. Develop a plan for evaluating outcome and performance. Your work doesn't end once a particular decision is made and the plan is implemented—you need to stay on top of what is happening in the business to make sure the plan is working. This means setting targets or standards, measuring actual farm performance against them, and taking corrective action promptly if the farm is not generating the results you want or need. Well-designed farm financial records are a key part of this control plan. They allow you as the manager to monitor progress and make adjustments if the need arises, whether because farm performance was not as good as expected or because of external events beyond your control. Whatever the cause, the quicker a problem is spotted, the easier it is to correct.

If your current farming operation will not provide the income and lifestyle you want, developing a sound plan by answering the questions discussed in these eight articles will help you work through the recovery period effectively and increase the odds that you will achieve your most important farming and family goals.

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