MODULE 2
WHERE IS MY FARM BUSINESS NOW AND WHERE DO I WANT IT TO BE?

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The aim of Module 2 is to provide farm business management tools to measure the current financial performance of your business. It focuses on the 'how to' of putting together the farm business management analysis and plan. It is useful to have an understanding of the tools available and how to use them to obtain a comprehensive analysis of your farm business. To make the most of these tools, management needs to have a clear understanding of where the business is heading, set appropriate goals, and implement a sound planning and monitoring system.

Module 2 covers sections 4 and 5 to help you answer two fundamental questions about your farm business:

4 WHERE IS MY FARM BUSINESS HEADING?

Having a business 'destination' or vision in mind will help guide your business decision making as you plan for your business. Having this clearly thought out and written down greatly improves the focus of the business activities. Knowing the goals will help all involved in the business to work more effectively toward achieving the business' vision.

A planning process, by incorporating past and present performance, encourages continual improvement in the business. A sound planning process has four steps regardless of the time period: analysis, planning, implementation and evaluation. Implementing and maintaining this process requires discipline, but helps identify what 'has' and 'hasn't' worked, so that people in the business can work toward continually improving performance – of themselves and the business.

A clear understanding of your current business position provides a strong foundation on which to build toward your destination, and leads to the second fundamental question:

5 HOW DO I MEASURE THE FINANCIAL PERFORMANCE OF MY FARM BUSINESS?

To answer this question, you will probably need to ask questions of your business, particularly about three key concepts in farm business management:

i. **Liquidity** (section **5.1**) – What is my business' cash position? Am I using my cash wisely? Do I have enough cash coming in this year to run my business?

ii. **Efficiency** (section **5.2**) – Are we making a profit? Is my business viable? Is the business using its capital and labour assets efficiently?

iii. **Wealth** (section **5.3**) – What is our business net worth? Are we building equity in the business?

Once you have analysed your business in these three key areas, you may also want to consider other business diagnostic tools to help fine-tune your business, such as:

- **Enterprise gross margin budgets** (section **5.2.5**)
- **Cost of production** (section **5.2.6**)
- **Other performance indicators** (section **5.5**)
- **Management versus tax accounting** (section **5.6**)

Throughout Module 2, a sample farm called 'Upndowns Farm' will be used to illustrate these key concepts of farm business management, and the various budgets and financial performance indicators that are used to measure and apply them. You will get to know a lot about the 'Upndowns Farm' business; however, there is no substitute for doing the budgets for your own farm business, as each farm business is unique.

'Upndowns Farm'

This sample farm is located in a medium rainfall zone and has the following characteristics:

- Owned land: 1,500ha (3,700ac)
- Share farmed land: 450ha (1,111ac)
- Average land value: $6,412/ha ($2,596/ac)
- Average annual rainfall: 463mm (442mm growing season rainfall)
- Rotation: 37% pasture and 63% crop (48% of this cropped area is cereals)
- Livestock: 9,3-00 DSE (dry sheep equivalent) made up of prime lambs, self-replacing merino and a cattle enterprise
- Average carrying capacity: 14 DSE/ha
- Average wheat yield: 4.5t/ha
- Net worth: $8.5m
- Equity: 75%
- Full-time labour units: 3.2

4 WHERE IS MY FARM BUSINESS HEADING?

Having an understanding of the whole system helps you to better manage your farm business.

4 WHERE IS MY FARM BUSINESS HEADING?

This section covers the different stages of the business planning cycle and as part of this process, the development of business vision and goals.

KEY POINTS

- A clear vision for your business is like driving with a destination in mind.
- Involve all members of the farm business in the business planning process to create synergy in the team.
- Have an easily implemented analysis and planning process to encourage improvement.
- Review your business plan and goals as part of your yearly farm business planning cycle.

Farmers operate in increasingly complex and risky environments, facing issues such as increased costs for land and technology, more intense global competition, climate uncertainty and market volatility. Managers of businesses that succeed tend to have realistic expectations and a clear sense of purpose or vision, aligned with a strong will to succeed, while adhering to a well-defined set of core values. They monitor costs and profitability, and develop an understanding of their strengths and weaknesses. From analysing their business, they develop clear goals and build an action plan that keeps them focused on those goals despite the many and potentially distracting challenges they face.

'It was quite clear to me that in ten years' time I'd still be working as hard and not getting anywhere, so something had to change. I realised that I didn't have very clear goals of where I wanted to go – I just knew I wanted the business to be different. I found a farm consultant who could help me analyse how each enterprise was going so I could learn to evaluate any changes I might make and know whether they were worthwhile. It certainly helped improve my budgeting, which is now a very useful tool and not just something I do once a year for the bank. I went to a Plan Prepare Prosper workshop run by the Department of Agriculture and from that developed a strategic plan and that's really guided my business for the last four years, because it's broken down my vague goals and put them in writing into something specific, achievable and the steps to get there.'

Lynley Anderson,
'Brookvale', Kojunup, WA

4.1 FARM BUSINESS MANAGEMENT ANALYSIS AND PLANNING

Central to good farm business management is having an effective planning process at all levels of the business. This process is cyclical and involves four critical stages: analysis, planning, implementation and evaluation.

4.1.1 Four stages of the farm business planning cycle

The four stages of planning are useful for both short and long-term planning. They help set directions and maintain transparency about the performance of the business. This process needs to be objectively assessed and recorded:

- **Analysis** – The performance of your farm business ought to be analysed regularly to inform planning and evaluate progress against the business' vision and goals. The focus should be on financial and economic performance, but can also include useful production benchmarks. A business benefits from a sound, well-structured and consistent process where analysis can be done readily and simply. The main tools to help you analyse your farm business are a cash flow budget, a profit and loss budget, a balance sheet, and enterprise gross margin budgets.
- **Planning** – Once you have a complete financial analysis of the business, goals and financial projections can be developed to guide the farm business activities. A written plan allows the actual results to be compared against the plan as the season progresses.
- **Implementation** – Once the plan is developed, it needs to be implemented as the season unfolds. This is possibly the most challenging part of the management process as the focus needs to be on implementing the entire plan, rather than focusing on the more easily accomplished items on the list.
- **Evaluation** – At the end of the season, the business performance is measured against the plan and goals in order to assess 'what worked' and 'what could be

improved'. Done correctly, this evaluation provides the analysis to inform planning for the following season.

Figure 4.1 illustrates this cyclical process, which was introduced in Module 1. The process of business analysis, followed by planning, implementation, and ultimately evaluation against the plan, will provide the analysis for the next period, and the farm business management planning cycle continues.

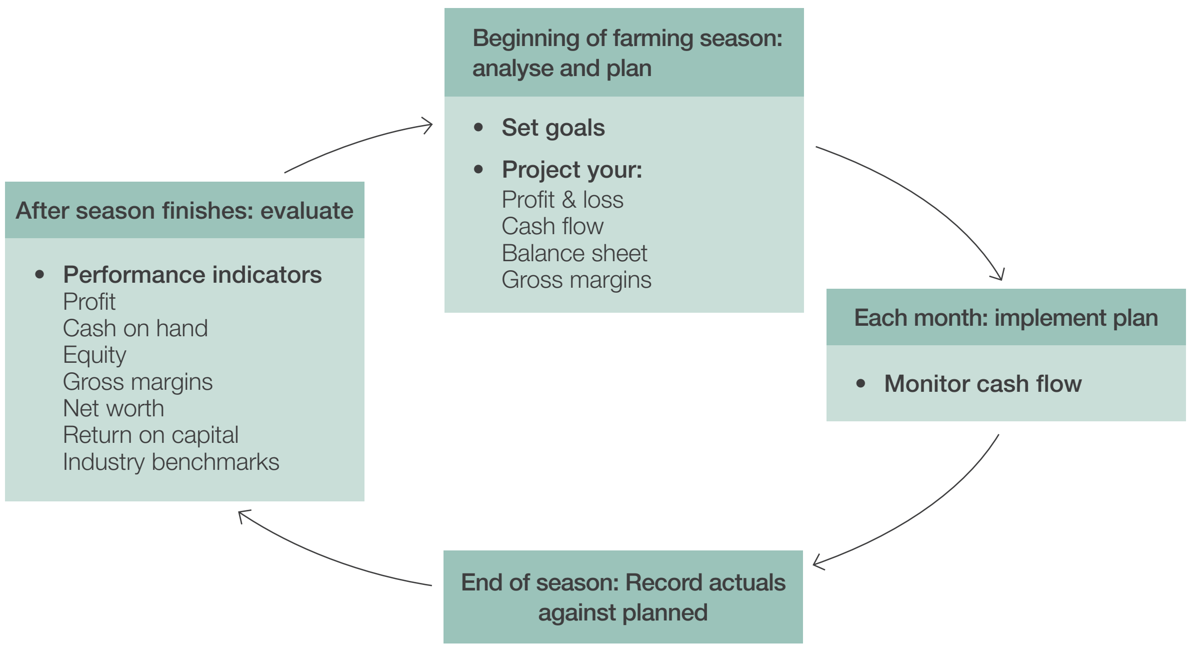
4.1.2 Benefits of business planning

Like all processes on the farm, there needs to be a benefit from the planning process that far outweighs the cost and effort involved. Some of the benefits at each stage of the cycle are:

- **Analysis**
  - > Analysis of the business provides objective information about how the business is performing. Written records of financial and physical performance identify both good and bad trends over time and provide a rich source of data that can inform sound decision making.
  - > Analysis helps to relieve stress if objective records are kept. Stress in tough times can be exacerbated if business performance is not measured, as memory can often be inaccurate.
  - > Analysis can facilitate the testing of ideas. If it doesn't work on paper, it is unlikely to work in the field. This can save time, energy and money, and helps build confidence in taking advantage of opportunities.
- **Planning**
  - > The planning process provides structure to the decision making process.
  - > During times of economic difficulty, stress can cloud a manger's ability to make sound decisions. A written plan can often minimise stress and maintain good decision making.
  - > Communication between people in the business can often be improved if there is a written plan. This is particularly helpful in family businesses.
  - > Planning helps managers to feel they are in control, as they can be proactive rather than reactive.
  - > A written plan reduces the chance of 'selective recall'. This can be significant if there are disagreements between those in the business.
- **Implementation**
  - > Without implementation, there is no business.
  - > Focusing on implementing the business plan helps to prioritise effort, especially in the stressful times of poor seasons.
  - > Knowing there is a process of evaluation at the end of the season can help management remain focused on implementing the plan as closely as possible.
- **Evaluation**
  - > Financial and physical records provide a base-line or benchmark against which to monitor the progress of the business.
  - > Evaluation of each season's results provides transparency of the business, which is helpful to the people both in and outside the business.
  - > Evaluation of the season's actual results provides data for subsequent business planning.

The benefits that result from a sound planning process far outweigh the costs involved of time and discipline.

Figure 4.1: Farm business yearly planning cycle



Source: P2PAgri P/L

4.1.3 Three levels of farm business planning

A comprehensive business plan needs to encompass different levels of management that focus on different periods of time as part of the farm business planning cycle. These levels include medium to long-term strategic planning, yearly tactical planning and more immediate operational planning.

- **Strategic Planning**
  Strategic planning refers to business analysis and planning for 1 to 10 years into the future. This can be the most challenging level of planning to undertake as it requires deep thought, way beyond the current situation. There is often less importance given to completing strategic planning as it does not focus on the immediate and is often not regarded as urgent. However, strategic planning is vital if you are looking to improve business performance over the longer-term. It encompasses developing the long-term vision, mission and goals of the business, and how these will be achieved. Examples of strategic planning include:

  > Obtain additional land through leasing, to gain economies of scale while not significantly affecting the balance sheet.

  > Develop a succession or transition of ownership plan with strategies for how this will be implemented to assist the older generation to move off the farm.

  > Implement an advisory board to help direct the business to achieve growth in accordance with the business' vision and mission statements.

  > Organise a buying group among 'like-minded' farmers to effect a reduction of input costs and improve profitability.

  > Sell major machinery and use contractors to reduce machinery debt, keeping up with expensive technology or solving labour problems.

❯ The strategic planning process is discussed further in section **4.2, The strategic planning process, Module 2**.

'With the cropping side of things, we weren't doing it particularly well. We had outdated machinery that was old and was requiring too much labour. So the plan was to upgrade the machinery, get extra labour and lease more land to spread the overheads over a larger area. I decided to ramp up the stud breeding side of things. I plan to market them a bit more and sell more rams and sell some semen. So I've developed a website and have a marketing plan, and I'll be holding my first sale this year.'

Lynley Anderson,
'Brookvale', Kojunup, WA

- **Tactical Planning**

  This refers to planning for actions to be undertaken within a year. A good example is a cropping or paddock plan, or a grain selling plan for the coming season. It is the planning needed for a season and would include reacting to events as the season unfolds. Most farmers would undertake tactical planning - it is easier than strategic planning and more immediate, as there are deadlines to meet every season. Examples of tactical management include:

  > Apply additional nitrogen to the crop part-way through the season as a response to good soil moisture levels.

  > Scan the mated ewes with the aim of culling ewes that are not pregnant.

  > Spread the cropping program over a longer period to encourage different flowering periods to help manage frost risk.

  > Sell store lambs early when a poor spring produces poorer feed availability.

  > Sell more grain forward when prices are abnormally high.

❯ The tactical planning process is discussed in section **4.3, The tactical planning process, Module 2**.

- **Operational Planning**

  This is the weekly and daily operations planning which many farmers find easier to focus on as there is a high level of immediacy and/or urgency. Examples of operational management include:

  > Weekly meetings with family members and farm staff to coordinate the tasks for the week, such as crop spraying, hay making and shearing.

  > This type of planning is also reactionary as management needs flexibility to respond to the weather, such as calm days needed for spraying and nitrogen being spread just prior to rain.

  > Co-ordination of labour, grain and livestock cartage, and contractors for seasonal tasks.

Operational planning is concerned primarily with physical operations on the farm rather than farm business management, and is therefore not a focus for this manual.

When developing strategic, tactical and operational planning, it is important that the process at each level includes analysis, planning, implementation and evaluation. Table 4.1 provides a framework indicating the process and tools useful for business analysis and planning at all three levels.

4.2 THE STRATEGIC PLANNING PROCESS

The process of strategic planning for your farm business should include the stages of analysis, planning, implementation and evaluation, as summarised in Table 4.1. Use this as a guide to your strategic planning process.

At the analysis stage, the key financial tool to assess the business' current wealth or equity position is a balance sheet.

❯ How to develop a balance sheet is addressed in section **5.3.1, Balance sheet, Module 2**.

Further analysis of the business is achieved through a SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats).

❯ How to conduct a SWOT analysis is addressed in section **4.2.2, SWOT analysis, Module 2**.

This analysis of the business' current position is essential as it provides a base-line against which to develop business goals and measure progress toward achieving them. But what are your business' goals?

One of the most critical actions for your business at the strategic planning level is to develop clear vision and mission statements and goals.

4.2.1 Vision and mission statements

It is important to develop a vision for any business. This is like having a destination in mind and a farm business is no different. Once the vision is developed, this gives direction to the business, and management effort can be focused on how to achieve this outcome. This is formally known as a vision and mission statement, and is the first stage in developing a business plan. Some farm businesses may have an unspoken vision and mission statement, but it can be wrongly assumed that all in the business team know and understand this unspoken vision. A written vision and mission statement developed by the whole management team will help the team to work together to achieve the same goals.

The benefits of this process are that:

- It harnesses the sub-conscious to strive toward achieving the vision of the business.
- It provides a significant guide for decision making, allowing team members to assess opportunities as either helping or hindering the achievement of the vision. Well-defined goals and an established vision provide purpose to farm business decision making.
- It encourages synergy in the management team which can be powerful, as more can be achieved working together effectively and in the same direction, than as individuals heading in different directions. Having a well-defined and well-known vision and mission statement for the business, shared by the team, gives a solid foundation for the business.

'In Tasmania, we tend to run a lot of enterprises. We've got very diverse topography so we've got different soil types within small areas. So we might have a pivot circle that's got heavy black soil, black cracking clay, right up to wind-blown sand that's subject to wind erosion. There are a lot of little micro-climates in these hills and valleys, so that brings diversity. It's really easy to get wound up in this complexity and lose sight of the benefits of simplification.

In 2011, I was fortunate to win a Nuffield Scholarship, sponsored by the GRDC, and was able to travel around the world. I was searching for a way to overcome our management bottleneck, ways of reducing complexity and bringing more systems and protocols into the day-to-day management. The interesting thing I did come across was that most businesses I saw were running 3 to 5 enterprises, and to put it in context, last year we were running 10.

If we could get back to 5 or 6 enterprises, it could be a lot simpler. We're growing hybrid carrot seed which is really a specialised crop but we're not specialists at all! Maybe we're better off getting an expert who is a specialist in that area to grow that crop. Maybe there's more synergy…we'll do a better job of running the rest of it and keeping the business as a focus rather than the day-to-day on the ground stuff as a focus.'

Michael and Fiona Chilvers,
'Winburn', Launceston, Tas

What are the business vision and mission statements?

This is sometimes difficult to describe but an analogy to help illustrate this is 'travel'. Most successful trips begin with a planned destination and purpose for the journey. Maps are studied, travel dates are determined and travel arrangements put in place. In fact, the greater the preparation, the more likely the trip will be successful. As the journey progresses, there may be obstacles such as cancelled flights, car trouble and family sickness. Given that the destination is clearly known, it is likely that disruptions along the way will be managed so that the destination can still be reached. You may not reach your destination on time, but strategies are put in place to manage the unexpected and you do eventually arrive.

Planning and managing a business is similar, and the probability of achieving success increases when you know where you are going and have some good ideas about how to get there. Without a vision or mission statement, how do

Table 4.1 Farm business management analysis and planning framework

Timing	Level of planning	Features	Key questions
Long-term (2-10 years)	**Strategic**	• Provides a high-level overview of the whole business. • Guides all business decisions. • A strategic plan is an open-ended 'living' document that grows with the business. • Needs a yearly evaluation of the business' progress against its vision and goals. • Crucial components: **vision and mission (Mod 2, 4.2.1),** and develop shared values for the business **(Mod 1, 2.6).**	**Where are we now?** **Where do we want to be in 2-10 years' time?** **How do we get there?**
Medium-term (1 year)	**Tactical**	• The tactics or actions that the business plans to use to achieve the vision. • A tactical plan needs an analysis of the business to provide answers to key business questions and a base-line against which to measure progress. • A yearly planning cycle ending with an evaluation of planned versus actual results.	**Where are we now?** **Where do we want to be at the end of this season/this year?** **How do we get there?**
Short-term (Now)	**Operational**	• The day-to-day plan of the business. • The operational plan provides a 'road-map' to achieve the business goals within a short time-frame, • Highly specific. • May be single events, or part of an on-going plan. • They align with the tactical and strategic plan.	**Where are we now?** **Where do we want to be in the next week/month?** **How do we get there?**

<table>
<tr><th>Key actions</th><th>Farm business management ‘tools’ and strategies</th></tr>
<tr><td>
Analyse:
- Current business wealth/equity (Mod 2, 5.3.1 Balance Sheet)
- Current resources: financial, human production (land, equipment stock etc)
- Strengths and weakness in the business, and opportunities and threats external to the business (Mod 2, 4.2.2 SWOT analysis)
Plan:
- The vision, mission and values of the business
- Roles & responsibilities
- Set long-term goals and broad strategies (Mod 2, 4.2.3 SMART Goals)
Implement:
- Implement and monitor
Evaluate:
- Review yearly. Update financial position of the business and evaluate progress against goals.
</td>
<td rowspan="3">
‘Tools’ to help complete your business analysis and planning :
• SWOT analysis (Mod 2, 4.2.2)
• Financial ‘tools’ for farm business analysis:
> Cash flow budget (Mod 2, 5.1.1)
> Profit and loss budget (Mod 2, 5.2.3)
> Balance sheet (Mod 2, 5.3.1)
> Enterprise gross margin budgets (Mod 2, 5.2.5)
> Cost of production (Mod 2, 5.2.6)
> Financial ratios (Mod 2, 5.5.1)
> Benchmarks (Mod 2, 5.5.2)
> Whole farm analysis (Mod 2, 5.4)

Strategies to help assess and plan for potential business opportunities, threats and weaknesses:
> How banks lend to farmers (Mod 3, 6)
> Risk management (Mod 3, 7)
> Grain selling versus marketing (Mod 3, 8)
> Possible business models (Mod 3, 9)
> Succession planning (Mod 3, 10)
> Analytical tools (Mod 3, 11)
> Advisory boards (Mod 3, 12)

Information from your business analysis will help guide the development of SMART Goals (Mod 2, 4.2.3) for all levels of your business planing.
</td></tr>
<tr><td>
Analyse:
- Projected seasonal expectations
- The outlook of current commodity markets
Plan:
- Estimate the cash flow (Mod 2, 5.1.1) position for the season
- Estimate the season’s profit and loss budget (Mod 2, 5.2.3)
- Estimate enterprise gross margin budgets (Mod 2, 5.2.5) for all enterprises
- Estimate the cost of production (Mod 2, 5.2.6) for all enterprises
- Set your enterprise program (crop and livestock)
- Decide on selling plan – where and how you will sell
- Set your medium-term goals and tactics (Mod 2, 4.2.3 SMART Goals)
Implement:
- Implement and monitor
Evaluate:
- Review progress toward goals several times throughout the season
- At the end of the season, complete a whole farm analysis (Mod 2, 5.4) of your business
- Evaluate business outcomes against medium and long-term goals and use to inform future planning
</td></tr>
<tr><td>
Analyse:
- Seasonal conditions
- Market conditions
- Input supply conditions
- Labour availability
Plan:
- Daily/weekly/monthly operations: What gets done? How is it done? Who does it? When?
Implement:
- Implement and monitor
Evaluate:
- Review weekly/monthly
</td></tr>
</table>

Source: P2PAgri P/L

Figure 4.2: The business planning journey

STEP 1: **Vision statement** Where do I want my family and our business to be in the future (e.g. 10 years' time)? What do I want to have achieved by then?	What is our destination? Where do we want to be?
STEP 2: **Mission statement** How will we get there?	What 'vehicle' do we use to reach our vision?
STEP 3: **SWOT analysis** How do we build on our business strengths and minimise weaknesses? How do we take advantage of opportunities while minimising risks?	What do we need to work on in our vehicle to make it travel as effectively as possible e.g. people management, farm business skills?
STEP 4: **Goal setting** 'What individual actions and achievements do we need to accomplish in order to reach the vision?' (SMART Goals)	What 'places' do we have to 'tick off' on the journey to our destination?

Source: P2PAgri P/L

you know where to direct your business' scarce resources and management effort? Also, how do you know what to measure to ensure you are heading in the right direction to achieve your intended business destination?

Vision = where you are heading: your 'destination'

In a business sense, your destination is the vision or what you are striving to achieve. It is the ultimate goal that keeps you going when obstacles occur, such as poor seasons, disease outbreaks and low commodity prices.

Mission = your vehicle, or how you are going to get there

The mission statement is the 'how' you are going to achieve the vision. Using the travel analogy again, a mission statement is the selection of travel mode. It is how you are going to get to your destination. Going one step further with business planning, the detailed travel arrangements like flight and accommodation bookings are the 'goals' needed to make a successful journey. Goal setting is explained in the next section, but first the vision and mission statements need to be developed, as the correct direction needs to be set in place. Figure 4.2 shows the priority and process for setting the business direction or 'journey'.

'Down at our 100% cropping block, we've moved to full stubble retention and lupin rotation. It's a little hub of innovation so we're trying to get that sustainable but very profitable system. It really is a strategic move to find that really profitable enterprise - we really aren't aiming at mediocrity. We want high profit, or we stop doing it.'

Tony and Vicky Geddes,
'Yallock', Holbrook, NSW

Step 1: Develop a vision statement

This is a short statement of ***where*** the management team would like to see the business in the future, such as in 10 years' time. It is the 'big picture' of what you would like your business to do well and be known for doing. Dare to dream or desire a big goal, as a vision is something not yet achieved, but is what you want to achieve. Part of this process should include developing a set of values by which the business can be managed.

Refer to section **2.6, Develop shared values for the business, Module 1**.

As part of the process, a useful step is to spend some time, perhaps a half-day, focusing on developing a vision statement for the business. Who should be included in this discussion? This could include anyone from those involved in ownership through to those who manage the business. The choice is yours. The aim is to have all who are involved in the business emotionally invested in the common vision. You may need a couple of sessions as this statement should be brief yet meaningful, and may take significant thought and effort to develop. The use of a whiteboard where all participants can see the statement being developed will help. Having an independent person facilitate this discussion is invaluable, as this helps manage the often challenging inter-personal relations and keep in check the bigger egos in the room, so that the team can remain focused and all can participate. Done well, this process encourages the management team to own the vision and create a synergy that will allow it to be achieved more successfully.

When developing your vision, ask yourself the following questions:

- What is our dream for the business?
- What would be inspiring to achieve?
- What would our management team find encouraging?

The vision statement should be:

- Meaningful and purposeful.
- Clearly and simply written.
- Easily communicated with others.
- Answer why you are pursuing the activities you are planning, or currently undertaking.

A well-developed vision statement should help to:

- Provide the inspiration and encouragement needed by the management team to focus on joint effort.
- Focus the team on the destination rather than the journey, when challenging times occur.
- Improve communication with others outside the management team, such as the accountant and banker, to help the business achieve its vision.

Examples of vision statements are:

- To be an outstanding merino sheep breeder.
- To be a highly profitable business, providing opportunity for growth.
- To have a profitable business that will build net worth to cater for retirement.

'Upndowns Farm' vision statement:

To be a sustainable family business that allows the next generation the opportunity to continue in the business.

Step 2: Develop a mission statement

This is a broad statement defining the essential purpose of your business, the action that is going to be done and states ***how*** the vision is to be achieved. It helps answer ***what*** is going to be done and ***why*** it is being done.

To write the mission statement, follow the same group process used in developing the vision statement. The focus is on the what, why and how of your vision statement; it is about action. The mission is a little longer than the vision statement, but the emphasis is still on being brief and succinct.

To write a mission statement, focus on the following questions:

- What is the most important outcome the business is aiming to achieve?
- Why do you want to achieve the vision?

A well-developed mission statement should:

- Provide a focus from which a list of goals can be developed.
- Make it clear to people outside the business precisely what the owners are striving to achieve in the business.
- Inspire action from the management team as it directs what is being achieved.

Examples of a mission statement are:

- Using industry best breeding practices, continue developing the sheep stud to build business reputation and provide purpose for action.
- Continue building the family farming business to create wealth and increased opportunity for the future.
- Using the family farming business, develop a broad investment portfolio both on and off the farm, to build wealth for retirement.

'Upndowns Farm' mission statement:

Through the use of best farm business practice and family team work, develop and maintain a sustainable farming business.

4.2.2 SWOT analysis

Step 3: Once you have developed your vision and mission statements, do a SWOT analysis of your farm business.

It is useful to assess both the internal and external environment of the business, to see where improvements can be made and opportunities grasped. This can be done in a structured approach using a **SWOT** analysis. The acronym SWOT refers to assessing the **Strengths, Weaknesses, Opportunities** and **Threats** of the farm business. It is a process that allows you to objectively analyse the performance of the business from a wide perspective, particularly within the business (assessing strengths and weaknesses), and outside the business (assessing opportunities and threats).

Strengths – These are the strengths within the business, such as location to market, productivity of the soils, reliability of rainfall, skills of the labour force, capital base, quality of livestock, and/or established relationships with reliable suppliers of inputs/buyers of outputs. This is the competitive advantage of the business.

Weaknesses – These are the weaknesses within the business, which could include supply and quality of labour and management, inadequate information systems, high debt levels, lack of a succession plan or having a poor relationship with the bank.

Opportunities – These are the opportunities available from outside the business. This could include taking advantage of the world's predicted increased demand for food, producing genetically modified free crops for a niche market, or joining a buying group to help minimise costs, the availability of an equity investor, or the chance to establish a commercial relationship along the value chain.

Threats – These are the threats to the business. Examples could include increasing difficulty obtaining the quality and supply of labour required, a disease outbreak, the competing interests of a miner who has found valuable minerals on the property, the continuing strength of the $A causing grain prices to be lower, or a change in government policy interrupting market function, such as the embargo on Australian agricultural exports to Russia.

Sit down with your team and detail a SWOT analysis of your business. Reflect widely and deeply on the list that you have generated from this analysis. It may look overwhelming at first, particularly the weaknesses and threats, so prioritise the most significant three or four in each of the categories. These then become the focus for management effort, particularly:

- Building on strengths, as this is the business' competitive advantage.
- Minimizing weaknesses, as this is the business' main vulnerability.
- Making the most of the opportunities.
- Minimizing the risks from the threats.

As a guide, the 'Upndowns Farm' business SWOT is outlined in Table 4.2.

A template to complete your SWOT analysis can be downloaded at: **www.grdc.com.au/FBMtemplate-SWOT**

4.2.3 SMART goals

Step 4: Develop SMART goals for your business

Now that you have a clear direction for your business, driven by the vision and mission statements, and with an improved understanding of your business environment through the SWOT analysis, it is time to focus on specific business goals that need to be achieved to fulfil the vision. These specific objectives form the basis of your business road map and guide the ***how***, or the actions and projects that need to be implemented to achieve the business vision. When developing your goals, make sure they are:

- **Written** – The act of taking them from thought and putting them into writing (from abstract to concrete) is powerful. It makes them more believable and realistic, and enhances your sense of commitment to carrying them out.
- **Both long and short-term** – When thinking of goals and how to achieve them, consider both the short-term, from the present to the next 3 years, and the medium and longer-term, from 3 to 10 years.
- **Developed with your management team** – As with your vision and mission statements, it is important that you have all your management team taking responsibility for these goals and actions.
- **Reviewed regularly** – Specific goal and action-setting should not occur just once. Assess and renew them regularly, or as they are achieved.

Using the following guide for developing SMART goals will help you set more effective goals. This also makes them more transparent, allowing you to more easily assess business progress toward achieving them. SMART goals area an acronym for:

- **S**pecific – Goals should be specific and focused, so they are easily understood and communicated to the team who are working with you towards achieving these goals.
- **M**easurable – Goals that you can measure means that it is clear when they have been achieved. Resist the easy path of developing general goals and develop a measure for each goal.
- **A**ttainable – Some goals appear so big that it is hard to know where to begin. It is not to say you should not have 'big hairy goals', but break them down into attainable steps so you can more easily build toward the big goals.
- **R**ealistic – To ensure goals are attainable, they also need to be realistic. Making your goals realistic is empowering as you are more likely to believe you can achieve them, and are therefore less likely to give up when challenges occur.
- **T**imely – Perhaps the most important part of this process is to time-bound your goals. This will focus you on the deadline and make you accountable for achieving them.

A set of SMART goals for 'Upndowns Farm' is shown in Table 4.3.

A template to complete your SMART goals can be downloaded at: **www.grdc.com.au/FBMtemplate-SMART**

Table 4.2: 'Upndowns Farm' SWOT analysis

Strengths	• The farm operates in a reliable rainfall cropping and grazing zone. • Crop production is achieving 70% water use efficiency. • Major sheep performance indicators are sound. • Sheep genetics are sound for a commercial enterprise. • Soil fertility and property infrastructure are sound. • Scope exists to develop and lift carrying capacity of some parts of the farm.
Weaknesses	• The business equity is at 74%, leaving no reserve of borrowing capacity for the tough times. • Debt servicing ability will be inadequate if yields or prices fall below the typical medium term level. • The owners/key staff are getting older, or have had poor health in recent years. • It is unclear whether the next generation want to come home and continue the family business; if this is the case, the current farm size is not big enough. • The management team of the business is feeling constantly pressured with staff issues • Wills have not been updated for 20 years. • No formal succession plan has been developed.
Opportunities	• There is some land available in the district for leasing. • Most farmers in the area are near retirement, so expansion opportunities through land purchase are increasing. • The sheep meat market is strengthening and the medium term outlook is good. • New technology is available that offers scope to increase stock carrying capacity. • Rising incomes in the emerging economies are increasing demand for food in general and for quality food in particular, so the fundamental outlook for agriculture in the future is positive. • The state farmer political body is being rejuvenated, which may bring better outcomes with land planning and regulation.
Threats	• Land values are increasing due to non-agricultural influences, making expansion in the current location problematic. • The $A remains high, suppressing Australian export commodity prices. • Recent concentration of grain buying capacity is threatening price bargaining power. • Interest rates are expected to increase over the next few years. • The livestock industries are continually under threat from animal welfare lobby groups, which threaten animal health practices such as mulesing. • The mining industry is looking for cold seam gas in the district, which could threaten the underground water supply.

A template to complete your SWOT analysis can be downloaded at: **www.grdc.com.au/FBMtemplate-SWOT**

Source: P2PAgri P/L

Table 4.3: 'Upndowns Farm' SMART goals

Goals	Who	Deadline
Short-term		
• Complete the first meeting for the succession plan	The family unit	30th March, this year
• Hold a quarterly management planning meeting to monitor goals	The management unit	28th February, this year
• Complete the cropping program for next season	Son and the agronomist	30th January, this year
• Discuss with banker to review and manage the interest rates.	Dad and Mum with the banker	28th February, this year
• Complete the repairs and maintenance pre-seeding program	Dad and Son	10th April, this year
• Complete the 2km/year re-fencing program	Dad and Son	30th September, this year
• Attend workshops on people management	Dad, Mum and Son	30th September, this year
• Complete tax planning for this year	Dad, Son and accountant	30th May, this year
Long-term		
• Look for ways to allow Dad and Mum to retire from full-time farming	Dad, Mum and Son	28th February, 5 years' time
• Review vision and mission statements	Dad, Mum and Son	30th March, 5 years' time
• Buy Dad and Mum a house in the local town	Dad, Mum and Son	30th October, 5 years' time
• Replace the header	Dad and Son	30th August, 4 years' time
• Complete tertiary degree in management	Son	30th December, 4 years' time

A template to complete your SMART goals can be downloaded at: **www.grdc.com.au/FBMtemplate-SMART**

Source: P2PAgri P/L

Tim: 'We have three people who help us with the farm management side – a farm consultant who is also our accountant, and he's been with us nearly 30 years. We do budgeting with him every February, once a year, and we go through the whole business, off-farm, on-farm, machinery, sheep, cropping, wool purchases, down to the last dollar. We also have an agronomist who also does a bit of the budgeting, but he pretty much sets out the cropping program with me. We work out the fertiliser rates and spray, and we gross margin that so we know exactly what this crop is going to cost to put in. We also have some grain marketing we've been doing for four to five years now. I don't think we've got it right, but it's all about averages. They give us trends in the market.'

Rebecca: 'We decided quite early on that this outside knowledge from three very experienced operators, while it's an expense to our business, we see it as an investment.'

Tim: 'So we try and take that advice and make the right decision.'

Tim and Rebecca O'Meehan,
'Mourcourup', Borden, WA

4.3 THE TACTICAL PLANNING PROCESS

The process of tactical planning for your farm business should also include the clear stages of analysis, planning, implementation and evaluation, as summarised in Table 4.1. Use this as a guide to your tactical planning process.

Your tactical planning should also consider the following areas:

- **Farm business management**
  - > It is good to start each year with a planned monthly cash flow so that liquidity can be managed.
  - > This should also be accompanied by a planned profit and loss, a set of expected enterprise gross margin budgets and a balance sheet.
  - > From this, a well-considered set of SMART goals can be developed which will guide the implementation of the plan for the year.
  - > During the year, compare the planned monthly cash flow with the actual and respond to any changes accordingly.
  - > It is also important to evaluate and create a set of 'actual' cash flow, profit and loss and enterprise gross margin budgets as these will record what actually happened and measure the capability of the business.

How to develop and use these financial 'tools' is discussed in section **5, How do I measure the financial performance of my farm business, Module 2**.

- **On-farm management**
  - > Regular meetings with the agronomist, reviewing the fertiliser, spraying and cropping program at various times of the year.
  - > Livestock management for marking, shearing, culling and mating, as this will affect the livestock enterprise performance.
  - > Meeting with the mechanical maintenance team to plan the proactive maintenance program.
- **Tax planning**
  - > This could be an annual meeting with the accountant prior to the end of June, but there could be more than one meeting through the year as tax planning can be complex.
- **Annual bank review**
  - > If you have bank loans, the bank may want an annual review to assess the performance of the past season and assess projections for the next season. You are encouraged to have a proactive relationship with your banker, as this will improve their understanding of your business and will allow them to gain confidence in your management skills. This relationship will become very important when poor financial years occur.
  - > You may want a pre-harvest and pre-seeding banker meeting, depending on how proactive you wish to be. This could also include a report being presented to the bank at selected times during the season.
- **Meeting frequency**
  - > The frequency of meetings will depend largely on the number of people involved in the business and the purpose of the meetings. The meetings listed above have a particular purpose and are aimed at delivering specific business outcomes. Efficiencies in meetings are also important to ensure that time is used effectively. In a family farm business, informal meetings tend to occur to determine operational tasks. The challenge with these meetings is that not all members of the management team may be present, so miscommunication can occur. To overcome these problems, some family farms have a short weekly meeting to determine the week's activities, especially during busy times of the year.
- **Annual review**
  - > It is a good idea to have an annual meeting where the results of the previous year's activities are presented and analysed, and plans for the coming year are developed. This meeting could involve the accountant and banker, but it is more important for the business' management team so that lessons learned in previous seasons can be addressed in the plan for the coming season.

It is becoming more common for family farms to have 'advisory boards', so that more rigour improved decision making and stronger governance can be brought to the management of the business. Progress of plans and goals are checked regularly. Independent input can lead to more effective outcomes for the business.

The use of boards to guide farm businesses is discussed further in section **12, Advisory Boards, Module 3.**

> **'If you're faced with a job that you can't do, you think laterally and you innovate. Sometimes I think that's an advantage for women because they come up with better ways of doing things because they simply can't automatically go and do it the way it's always been done.'**
>
> Lynley Anderson,
> 'Brookvale', Kojunup, WA

Action points

- Develop a vision and mission statement for your farm business. Involve all stakeholders in the business in this process.
- Complete a SWOT analysis of your farm business.
- Break down the long-term vision into medium-term SMART goals.
- Review progress toward achieving these goals and vision each year as part of your yearly business planning cycle.
- Download templates for a SWOT analysis from: **www.grdc.com.au/FBMtemplate-SWOT**
- Download templates for a SMART goals from: **www.grdc.com.au/FBMtemplate-SMART**