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Business Planning 101

Developing a plan for any family-owned business is crucial.

by **Haley Stark**

The foundation of any successful business is having a solid working plan. To expose cattlemen to business planning essentials, the National Cattlemen's Beef Association hosted an informational webinar in May with guest speaker and agricultural consultant Davon Cook with Ag Progress LLC.

Cook, of Berthound, Colo., grew up on a family-owned cotton farm and now uses her personal experiences to help her agricultural clients through business transitions and periods of growth. At Ag Process LLC, Cook works with hundreds of farmers and organizations and facilitates peer groups.

During the webinar, Cook covered several business planning topics including why planning is important and the different types of business plans and took a closer look at the operating business plan.

Why plan?

According to Cook, developing a plan for any family-owned business is crucial. In the absence of structure, people default to the status quo.

Cook asks, "What is the status quo of your business? Is the status quo that we're going to do it as we always have, or is the status quo that we're going to make it up as we go along?"

Although some status quos can be beneficial such as the values established in a family business over generations, if a business owner is unsatisfied with his or her business's status quo, it's time to visit a new business plan. Cook stresses that

intentional planning and clear communication can spur positive change within any business.

Types of plans

There are several different types of plans to implement within a family-owned business, each with a specific time frame and approach to constructing and organizing the plan.

Cook covers four types of plans in her webinar — the strategic plan, the operating plan, the

business continuity plan, and the estate and succession plan.

Strategic planning is a familiar term in most business settings. The main idea behind a strategic plan is to acquire a big-picture view of where the business is now, where the business is headed, how the business will get there and how the business will measure progress in the next three to five years.

"Another way to think of strategic planning is working *on* the business versus working *in* the business," Cook explains. "Often times farmers get consumed with the day-to-day production tasks of an operation rather than taking a step back and devoting time to an actual strategic business plan. Strategic planning goals should go beyond maximizing production and profit."

An **operating plan** incorporates a shorter time frame, setting business goals for the current and next year. This plan covers what a business will produce or provide based on sound analysis and decides how the business will handle and manage human and financial capital to achieve those production goals.

Cook takes a closer look into an operating plan and breaks it down into five sectors: production, marketing, physical capital replacement, financing and human capital.

For an operating plan, it's imperative for a business owner to weigh the pros and cons of each production system he or she utilizes during each production cycle. This plan encompasses key concepts like cost of production versus profit and, most importantly, budgeting.

Once a business knows its cost of production, a marketing strategy can be implemented. Here, Cook stresses that a business owner has to have the rigor to develop a plan based on risk tolerance and to decide what futures contracts, options or hedging contracts will work best for that particular business.

It is also critical for a business to decide what entity governs marketing decisions and to ensure that there is a checks-and-balances system in place.

Physical capital replacement analyzes what a business needs to sell or to buy and how that business will pay for acquisitions, examining whether to buy or to lease.

Budgeting comes back into play again under the financing topic. Cook explains it's necessary to understand business cash flow, to implement a strong and successful budget, and to know the details of debt. Once these topics are covered, a plan for loan repayment is designed and a team to accomplish the plan is organized.

According to Cook, human capital is one of the most influential components of an operating plan. She illustrates hiring a successful staff by using a bus analogy.

"First you get the right people on the bus and the wrong people off," Cook says. "These are the people that fit a particular business's values, culture and work ethic. Then you get them in the right seats, meaning you get them assigned to the right role with the right work."

At a basic level, a business should devote time to deciding how a team is organized, how work is assigned, who is the person to take on leadership roles and who leads what operation.

Sometimes turmoil is inevitable and emergency situations can drastically affect a business's success. These situations are where a **business continuity plan** comes into play. "What happens if a critical leader is suddenly unavailable?" Cook asks.

Although a business continuity plan is simple compared to other business plans, it is often overlooked

and requires business owners to answer the following questions:

- Does the spouse of the leader know what to do and whom to call?
- Who can make decisions?
- Who should advisors be?
- Where are critical documents?
- Can computers and software be logged into and accessed by others?

Once a business continuity plan is designed, it should be given to those individuals who would need it in the event of an emergency.

Contrastingly, an **estate and succession plan** takes a step back and analyzes long-term changes within a business. Under an estate plan, it is decided how financial wealth is transferred from one generation to another. A succession plan is less defined and more challenging because it is more than who will be the next boss. Cook defines this as the process of 'co-creating' psychological ownership of the vision, strategy, goals, roles, decisions, performance and results of the business enterprise between two or more generations.

A step in the right direction

Cook continuously emphasizes the value of communication and the clarity of the business plan regardless of its type or the details included. She says a decision is never made until it is put on paper and encourages her clients



Having a business continuity plan in place can save a company when going through unforeseen challenges.

to write out every decision, as writing forces deeper thought and reflection. Writing out decisions also requires a business to pay close attention to wording and provides accountability to a plan.

With the complexity of business planning, Cook suggests using a third-party consultant who can provide help and make the process go smoother. There are many different tools that can be used when conducting a business plan. She also stresses not getting bogged down in perfection — individuals should choose progress over perfection when it comes to implementing a business plan.

"You may get 80% of the way there, you may get 30% of the way there," Cook says. "I assure you that the magic is not in having the perfect method. The magic is in the fact that you're doing it and the communication that it creates." **HW**

Family business lifecycle

