By Bryce Knorr

Plan of attack

Like a general preparing for battle, farmers need an operating plan

The growing season on Neil Reiten's North Dakota farm is a short one. With four employees, 5,600 acres and a half dozen crops to plant from corn to canola, what passes for spring up north can be hectic.

That's one reason Reiten spends his winter making sure his troops know exactly what they'll be doing when the snow finally melts in the prairie potholes around Petersburg, N.D. He creates an annual operating plan for his farm, putting his ideas for budgeting, marketing and doing chores in writing.

"We just don't have a lot of time," says Reiten. "We've got 90 days of work to do in 60 days."

Most farms face similar pressure, whatever the latitude. Like a general preparing for battle, the farmer with a plan has a better chance for victory.

"Planning pays more dividends toward farm success than just about any other management function or process," says *Farm Futures* contributing editor Dick Wittman, a consultant who farms near Culdesac, Idaho.

FOUR PARTS TO PLAN

Trouble is, farmers face so many types of planning it's easy to get overwhelmed. Wittman breaks down the process into two types: operational planning and strategic planning. While strategic planning has a long-term horizon, operational planning revolves around the production cycle of the farm, usually on an annual basis.

He lists four parts to the plan of operations:

- **Production** — What the farm will grow or process.
- **Marketing** — How and when the production will be sold.
- **Capital replacement** — What equipment, improvements and other capital assets, including land, will be bought, sold or replaced.
- **Financing** — Where the business will get the money to fund its plan, including operating credit, term financing, investor capital or other sources.

> **"I like to put my plans together when the weather's cold and nasty outside."**
> *— Ronald Flatt, Centralia, Mo.*

Budget protections tie the four parts together. These should allow simulations — what if's — to show how different operating decisions might affect the business's overall profitability.

TIE BUDGET TO SALES

When it's completed, the financial analysis should let the producer glean key pieces of information:

- How much operating credit is needed and when, including total borrowing and the maximum balance needed on a credit line.
- The ability to service debt and replace capital items as planned.
- The farm's financial position at the end of the year or planning period, including working capital and debt to asset relationships.

The finished budget forms the basis of the farm's marketing plan, identifying the price needed to make a profit. This type of analysis helps Ronald Flatt, Centralia, Mo., price crops before harvest, despite the uncertainty of the growing season.

Flatt tries to lock in a price when the market will pay for his variable costs. Last year, for example, he sold 26 bushels of soybeans to the acre when prices reached $6.85, enough to cover his $170 per acre variable costs. That turned out to be a very good price, and in a normal year his projected yields of 50 bushels would have plenty left over to cover fixed costs and profit. Drought slashed his actual bean production to just 30 bushels per acre, but good yields on double crop wheat helped make up the difference.

GIVE EVERYONE A STAKE

To keep your efforts from sitting on the shelf, Wittman recommends involving all members of the farm in the planning process. Monitoring performance to plan and making adjustments throughout the year also can help increase its effectiveness, he says.

The final phase of the process is planning individual projects — making a "to do" list and assigning priorities to make sure important tasks get done. This often has a seasonal focus: machinery repair in winter, planting in spring, building and improvement projects in summer, harvesting in fall.