“Strategic and Scenario Planning: Financial Considerations”

2012 Winter Grazing Conference
January 21st, 2012

Barry Dunn
South Dakota State University
Goals for Today

- What are Strategic & Scenario Planning?
- Why do we do practice them?
- Who does it?
- Where does it take place?
- When does it happen?
What is Strategic Planning?

- Organized process of preparing an organization for the future.

- General statement about how an organization is going to win!
Why?
How hard would it be to drive your car back to your farm or ranch tonight, driving forward, using only the rear view mirror?
Reactive

WHERE WE WANT TO BE

WHERE WE ARE

Past  Now  Future

Ackoff, 1999
How hard would it be to drive your car back to your farm or ranch tonight, driving forward, using only the dashboard?
Interactive

WHERE WE WANT TO BE

INTERACTIVE

PLAN

WHERE WE ARE

Past

Now

Future

Akcoff, 1999
How hard would it be to drive your car back to your farm or ranch tonight, driving forward, using only the windshield?
WHERE WE ARE

WHERE WE WANT TO BE

PREACTIVE

Plan

Set Objectives

Past

Now

Future

Akcoff, 1999

Predict
Strategic Planning is not only looking down the road, it is...
...not just a road map...
...it is a plan for a specific trip!
But...

As you can imagine, a Strategic Plan needs to be flexible.
...so, while it is a plan for a specific trip, you need to be willing to adjust!
Scenario Planning
Questions for 2012:

Will drought expand?

Gov’t. disaster policy will be _____?

Will interest rates rise?

Will energy prices rise?
Your strategic plan will create the “structure” of your business.

Crew Boat

Structure Matters

Row Boat

Our Boat???
“I’ve got it, too, Leif... a strange feeling like we’ve just been going in circles.”
What Strategic Planning is not!

- Not tactical!
  - Tactical refers to the competitive actions to implement strategy.
  - Tactical is the choice of one “thing” vs. another.

- Not operational!
  - Operational is the actual “doing.”
Strategies vs. Tactics

- **Strategy**
  - Flexible Stocking rates
  - Drought Marketing plan
  - Increase feed supplies
  - Move cattle
  - Build $ strength

- **Tactic**
  - 70% cows 30% ylgs
  - Sell 10 yr olds and up
  - Buy corn stalk bales
  - Cover crops
  - Hfr development in feedyard
  - Increase cash reserves
Why Strategic Planning?

- It is a high leverage point for successful management.
- Provides a plan for “the trip” into the future of your ranch.
1. Inventory

- Internal
  - Financial
    - Income Statement
    - Balance Sheet
    - Trends
    - Risk
  - Physical
    - Weather
    - Land
    - Cattle
    - Rolling Stock
  - People
    - Skills
    - Interests
    - Experience

- External
  - Community
    - Schools
    - Businesses
    - Churches
  - Marketplace
    - Local
    - Regional
  - Political
  - Regulatory
  - Technological
2. Establish a Shared Vision

A *Vision Statement* is a description of what the organization will look like after it successfully implements its strategies and achieves its full potential.
Vision Should include:

- Values and reason for being
- Envisioned future
- Recognition of how it serves its stakeholders
  - Owners
  - Employees
  - Customers
• Vision should address

• Time: 5 years

• Energy: Through language, a vision statement should inspire.

• Should encourage cooperation and creativity.
The process:

- Allow yourself to dream.
- Everyone should be involved.
- Shared
- Comments from outsiders

Key questions:

- “What do we want?”
- “What are we willing to commit to?”
“We progressively realize multigenerational goals in a fun, challenging, encouraging environment and continually improve people, products, services, the ranch, our community, and the ecosystem while sustaining a net profit.”
3. Conduct SWOT analysis

- **Strengths**
- **Weaknesses**
- **Opportunities**
- **Threats**

**SWOT** is an organized method of evaluating the internal environment (S & W) and external environment (O & T) of the organization.
<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>Opportunities</td>
<td>Threats</td>
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Value of **SWOT**

- Can be used on the whole organization or part.
- Proactive: used before action is taken.
- Helps in objectivity.
- Creates discussion.
- It helps develop an objective inventory of realistic “potential.”
- Balances “half full” vs. “half empty.”
## SWOT

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4. Closing the **GAP** between current status and your vision.
Creative Tension

Vision of new reality

Current Reality
GAP Analysis

- Vision vs. current state
- How does vision fit with resources?
- How does business measure up?
- How different is current culture compared to what is needed?
Strategies to close GAP

- Find new resources.
- Reallocate resources.
- Lengthen time.
- Modify size or scope.
Key Perspectives to View a Ranch

- Ranch Lifestyle
- Financial
- Production
- Learning and Growth
# Perspective: Cattle Production

## Current Situation:
1. 100% Cows
2. Old cow herd
3. No feed carry over
4. Operation self contained
5. Cattle rich cash poor
6. High level of risk

## Desired State:
1. Flexible Stocking Rate
2. Young cow herd
3. Feed reserves
4. Feed located
5. Cash
6. Low risk

## Action:
1. 70% Cows 30% Ylgs
2. Sell load of old cows
3. Plant cover crop
4. Locate irrigated stalks
5. Slow debt reduction plan
6. Pasture insurance

## Resources Required
1. 0
2. 0
3. $10/acre
4. Network
5. Visit with lender
6. $
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<th>Potential Strategies for Key Perspectives</th>
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<td><strong>Finance</strong></td>
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<td>1.  $25K</td>
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<td>2.  Slow debt reduction</td>
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<td>3.  Pasture Ins</td>
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<td><strong>Production</strong></td>
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<td>1.  Sell old cows</td>
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<td>2.  Plant cover crop</td>
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<td><strong>Learning and Growth</strong></td>
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<tr>
<td>1.  Network</td>
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<td>2.  Develop Plan</td>
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<td>3.  Call Amy Roeder</td>
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5. Scenario Planning
Questions for 2012:

Will drought expand?

Gov’t. disaster policy will be _____?

Will interest rates rise?

Will energy prices rise?
Select and evaluate the most probable.

- Choose 2-4.

- These can be tied to a SWOT analysis.

- These can be tied to GAP.

- Collect objective information.

- Flesh out each with a paragraph.
Determine strategies with highest likelihood of success.

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<tr>
<th></th>
<th>Scenario 1: Drought</th>
<th>Scenario 2: Gov’t Policy</th>
<th>Scenario 3: High Interest</th>
<th>Scenario 4: High Energy</th>
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Strategic Planning?

1. Inventory internal and external aspects of ranch.
2. Develop a vision (set goals).
3. SWOT
4. GAP
5. Test with scenario planning.
Thank You!