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Planning for Tomorrow – Today: Report on the Piloting Project

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PLANNING FOR TOMORROW - TODAY
REPORT ON THE PILOTING PROJECT

by

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Introduction

Planning For Tomorrow - Today (PTT) is a program developed by the Cooperative Extension Service, South Dakota State University, specifically to help producers in South Dakota deal with the Farm Crisis. PTT can be used by any individual producer whether they are experiencing financial difficulties or not, but would like to examine reorganizing or restructuring alternatives for their operation in an attempt to increase the financial viability of their business. Within the PTT workshops participants are encouraged and helped to develop, or formalize, short and long term goals for both themselves and their business. Based on these goals, participants develop a management plan for the operation in order to meet the identified objectives. PTT workshops allow participants to review their current operating plans and explore alternative plans examining them for financial viability. Through PTT workshops, participants learn of the benefits of better management through planning, control, and analysis of their current operation. Participants can also examine alternatives for their operation and can determine what would be required to bring an alternative plan into reality.

During the winter of 1985-1986 several counties of South Dakota were involved in piloting the PTT workshops. County Extension staff received training in all aspects of the workshop and so were able to conduct the workshops. Counties participating in the piloting project involved: Beadle, Brookings, Clark, Codington, Day, Deuel, Grant, Hamlin, Lake, Marshall, McCook, Miner, Minnehaha, Potter, and Roberts. Other counties receiving training for the piloting project were: Jerauld, Kingsbury, Lincoln, Sandborn, and Turner. These counties received training later in the season and did not hold workshops for producers.

Approximately 120 producers and their families attended PTT workshops during the piloting period.

PTT workshops were conducted as a series of five meetings. The meetings consisted of three group sessions with the final two meetings being individualized sessions. During the first four meetings, participants did the self assessment exercises, developed short and long-term goals for their families and operations, and developed long range financial plans as well as cash flow plans for their operations. One more meeting is still pending for participants who attended the workshops. This meeting will be held at year-end 1986 to assess 1986 business operations for participants. After that meeting, a final comprehensive evaluation of the PTT program will be possible.

Preliminary results from the workshops were very encouraging. Several producers reported that they were able to obtain financing for the 1986 planting season based on the plans they had developed at the PTT workshop they attended. Lenders reviewing the operating plans from the workshops were equally pleased. One of the more favorable acceptances of financial plans developed came from the FmHA as indicated by the participants of the workshop.

Business Planning and the Management Team

In any business, the responsibilities of planning needs to be understood by everyone involved. For that reason, in the PTT workshop emphasis is placed on the Farm Family and the Farm Family Management Team. This aspect of the workshop is designed to help participants examine questions about themselves that will also be asked about their farm business:

- (1) "Where am I?"
- (2) "Where do I want to be?"
- (3) "How do I get there?"

For the home and/or farm/ranch business the answers to these questions can be obtained directly from an assessment of the participant's goals. Most people

have not identified their goals. Many hope for a better future, but few set goals describing the future they want and then manage their operations for goal attainment. PTT workshops will help participants become better goal managers by providing a method of identifying and prioritizing goals and developing a goal-directed management plan. As with any team, a mutual understanding of the purpose, direction, and responsibilities are required for desirable results. This is increasingly important as business operations become more complex. Through goal identification and prioritization the Farm Management Team can agree upon a direction for the farm/ranch business.

To arrive at a goal-directed management plan, PTT participants are first asked to complete a self-assessment exercise. That exercise is designed to help individuals decide if they truly want to be involved in production agriculture. It is doubtful that there is anyone involved with farming/ranching that at one time or another has not said "Why did I ever want to be a farmer/rancher?" No one but the individual (and their family) will know whether they really want to be a farmer/rancher. Even those individuals that truly want to, may not be able to be involved with farming/ranching. Or, for some who want to leave the business, the opportunity for other employment may be quite limited. This could mean that farming/ranching is the best alternative for choice right now. Whichever applies, the choice belongs to the individual and the individual alone. Recognizing that farming/ranching and family life interact constantly, the self assessment exercises of the PTT workshops focus on motivations, interests, abilities, skills, and satisfactions of each person involved in the farming/ranch and family life activities.

Once the self assessment section is completed, participants are asked to identify their goals, both long and short term. As management is an activity directed towards goal attainment, goals provide the direction to all management

efforts. Everyone has goals that they work towards for many years -- goals such as debt free ownership of a farm/ranch or "burning the mortgage" on the family home. People also have shorter term goals such as renting the additional quarter of farmland, or attaining the desired feed conversion efficiency. Generally, to the extent possible, one should develop short term goals that support attainment of long term goals. When this is true, the stage is set for more effective financial and business management.

In the establishment of goals rarely are all short-term and long-term goals mutually supporting. Also goals for the farm/ranch may be in direct conflict with those for the family or home. When this is the case, participants are assisted in prioritizing their goals. Help is provided in determining which of the goals they would like to achieve first and what that would mean for achievement of their remaining goals.

Other aspects of the PTT workshops emphasize the Family Management side of the operation. Family resource specialists have provided materials and training for the county extension staff so they can help participants develop family spending plans or adjust the family spending plans that are set. Far too often it is found that people do not realize just exactly what their family living costs actually are. This can be a problem as it is some of the information that lenders will be interested in when they make their assessment of credit extension for the coming year.

Importance of Communication

During the PTT workshops the aspect of communication is also addressed. Participants practice personal communication skills so that, as a family, they will be able to talk more openly at home about both the family and business aspects of their operation. Inability to communicate may be the greatest factor in a farm/ranch business or family breakup, and also intensifies the pain of the

experience. Success depends upon good communication both before and after actions are taken. The operating budget, objectives (goals), and action steps comprise the "before" or up-front communications system. This represents the business plan of the management team. The reporting and analysis of results, decisions on corrective actions, and revisions in the plan itself are also important ingredients in the management process. These components report on performance and progress and are the "after" portion of the communication process.

Importance of Planning

Few things that producers would like to see happen, will happen by themselves. Planning helps to focus on the future and determine what must be done to achieve the desired results. While these results are desired at some point in the future, the decisions to bring those results about are rooted in the present. Decisions and actions are made today, the consequences of which will carry the farm/ranch business into the future towards the desired situation.

Planning will help the Management Team manage the tremendous risks associated with production agriculture. Planning cannot eliminate the risks of decisions made, but it will help producers evaluate risks and make decisions that contribute to the progress of the business. Effective planning directs the Management Team in essential actions. With a plan, labor and capital are funneled in the directions that will do the most to move the business toward the goals that have been established. Goals are the glue that holds the Management Team together in moving the farm/ranch business in the desired direction. Goals help aim individual efforts to insure that everyone involved in the operation is working toward the same objectives.

Many producers would argue that planning takes place on a regular basis for their operations. In some cases, financial statements have been developed that show what will happen during the next year of operation. As a family, they have

discussed their operation. This certainly is a planning effort, but it is only the beginning.

Such plans are generally vague as to when things will happen, exactly why they will be done, what is necessary to insure that these things will happen, and if the necessary capital will be available. Producers, or their families, may feel unsure about whether they are doing the right things, in the right order, at the right time. Some family members may have different perceptions as to the boldness, expense, and direction of planned actions. Thus, actions may be delayed or not undertaken at all.

Delayed or no action can result in an inappropriate or poor review of performance and implementation of timely and corrective action. Such failure can leave little basis for measuring progress. Producers may be aware that management could be improved, but without a "plan of action" small problems can become large problems before corrective action is taken. Fewer crises and emergencies should arise if the planning effort is directed towards the future. Producers can make current decisions in consideration of the effects they will have on the future. Planning brings all aspects of an operation together; balanced decisions are made with knowledge of the impacts on other aspects of the farm/ranch business.

FINPACK for Planning

After goals have been identified a plan of action to achieve them should be developed. The importance of planning has been discussed and to help participants with the planning effort, FINPACK is used. FINPACK is a major component of the PTT workshops and involves a computerized analysis of the farm business, both the current operation and future projections for the operation. FINPACK (FINancial PACKage) is the computerized farm planning and analysis package developed at the University of Minnesota and made available to South

Dakota State University on a cooperative agreement. FINPACK allows both producers and agricultural lenders to make a more in-depth study of the profitability, liquidity, and solvency potential of each farm/ranch business. FINPACK is designed to make this analysis easy, but yet complete and meaningful for both the producer and lender.

FINPACK is a package of programs that are designed to be used as tools to assist in individualized farm planning, financing, and analysis. Each of the FINPACK programs is designed to stand alone but becomes more informative in describing the business, present and future, when used in combination with one or more of the sister programs. The different programs of FINPACK are: FINLRB, FINFLO, FINTRAN, and FINAN; each program will be explained.

FINPACK is a useful tool that asks producers to examine three basic questions about their operations. Those questions are:

- (1) "Where is the business today?"
- (2) "Where do I want the business to be?"
- (3) "How do I get to that point?"

The agricultural lender is interested in these same questions concerning the operation. From the lender's viewpoint the questions would be:

- (1) "Is the business sound?"
- (2) "Is it going in the right direction?"
- (3) "Will it have repayment capacity?"

FINPACK determines the answers to these questions by examining the basic business objectives of profitability, liquidity, and solvency. Profitability is measured as the return to labor, management, and owner's equity. Liquidity addresses the business' ability to meet the financial obligations as they come due, and solvency is concerned the ability of the business to pay all debts if the business were liquidated at a given point in time. All three business objectives are examined whenever an analysis program is run. By examining all

three aspects of the business, no one objective, such as liquidity (cash flow) is over-emphasized. In this manner, the business objectives are kept in balance.

FINPACK can also be used to examine the riskiness of the operation or alternative plans for the operation. The FINLRB program of FINPACK, to be detailed later, examines the financial effects on the operation of a ten percent decline in production or in the value of production. The financial position of the operation, if it were to experience this ten percent decline, portrays the level of risk the operation is exposed to. Thus, participants can determine if adjustments in the farm/ranch plan are necessary to lower the risks of the operation if the risk shown is at an unacceptable level.

Long Range Financial Planning

FINLRB (FINancial Long Range Budgeting) is a computerized procedure for comparing the long range profitability and debt repayment capacity of up to three, at one time, alternative farm plans. It allows an individual to compare the financial strength of the current farming operation with two alternative plans involving new enterprises, new resources, different sizes or combinations of current enterprises, changes in efficiency, or changes in debt structure.

While the aspect of long range budgeting may be new to some it is none the less important. FINLRB is the first analytical program run for PTT program participants. In the workshop it is emphasized that every farm business has a number of alternatives open to it at all times. One such alternative is to continue as is. If a continuation of the current operation meets the objectives the program participants have set forth, and is a plan that they are comfortable with, then no changes would be recommended or need be explored. However, many producers consider making changes in their operations, if only out of curiosity.

Such changes may involve major changes in farm organization, investments and enterprises. Producers realize it is far better to analyze the impacts of change on paper before implementation rather than reality afterward. In the analysis of the financial impact of a major change in a farm operation, four important questions need to be answered.

1. Will this change significantly increase net income from the farm? (profitability)
2. Will this change help generate cash flow sufficient to pay back debts in a timely fashion? (liquidity)
3. Will this change facilitate continued growth in net worth? (solvency)
4. Will this change affect the risks faced by the farm business and family?

Often times the short term financial impact of a major change is adverse; major changes can require substantial capital outlays long before any returns or benefits are realized. FINLRB compares alternatives at a point in time after the short term effects have occurred. A projection is made of a typical year of operation for each alternative plan when it is operating at expected future capacity. The results should indicate whether each alternative will ever be profitable, if it will service the farm debt load in a typical year, and if future growth in net worth can be expected if the plan is implemented. The results would also provide insights into the riskiness of each alternative. Developing a viable, financial feasible plan is only the first step; the implementation of the plan still needs to be executed.

Cash Flow Planning

During the implementation process of the operating plan, producers and lenders are concerned with the cash flow and debt repayment capacity of the operation. To determine the cash flow viability of plans for operation the cash flow programs, FINTRAN and FINFLO (defined later), of FINPACK are used for

analysis. To make the cash flow planning process as useful and meaningful as possible, it is important to first have an indication of what has happened in previous years. The value of past records in planning for the future is dependent on how similar the coming year's production process will be to past years. Past records can provide the foundation on which to build for projecting the amounts and timing of income and expenses. For this reason the issue of adequate records is addressed during the PTT workshops. Producers are encouraged to keep records and Farm Management Specialists are available for help in setting up a record keeping system. The short-term farming and family goals that producers have established provide the basis of what is to be accomplished in the coming year. The cash-flow programs are designed to assist individuals in laying out specific crop and livestock production and marketing plans, projecting capital transactions, and projecting borrowings from, and payments to, intermediate and long term lenders.

Cash Flow Planning with FINTRAN

FINTRAN (FINancial TRANsition) is a computerized procedure for projecting farm cash flows for three years of business. It is most useful in projecting cash flows for the transitional period when a major change is being implemented. FINTRAN allows the farm manager to walk through a production and financial plan for this transitional period with the overall objective of determining whether cash will be available as needed. It is often used after a FINLRB plan has been developed, to cross the bridge between where a producer's operation is today and where he would like it to be.

Based on the farm/ranch family's production, marketing, and financial plans, FINTRAN projects quarterly cash inflows and outflows for the first year, and annual cash flows for the second and third year. If a cash deficit results in any period, the deficit amount is assumed borrowed on an operating loan; a

cash surplus is applied to pay interest and principal on an operating loan. The results show the projected amounts and timing of operating loan needs, when cash is likely to be available for repayment, and the projected operating loan balance for each period. The output also provides a complete summary of crop and livestock production, sales, purchases, amounts fed, and inventories. FINTRAN is extremely useful to both the operator and his lender in estimating annual operating credit needs when a major change is implemented. Although no cash flow projection will be perfect, it should indicate obvious roadblocks and changes that might be made in the plan to assure that financial obligations can be met in a timely fashion.

The farm family should have laid out specific goals and objectives for the period being planned. Setting and prioritizing goals is another major component of the PTT workshops aluded to earlier that will be discussed in detail later. These goals should have been considered in the development of the FINLRB plan. As FINTRAN is capable of projecting only the next two or three years of business, it is important to remember that it is not always possible to obtain long range goals within the next three years of business. Consequentially, it is important that producers establish certain short-range goals that compliment their long-range goals. If the short term goals are met, the potential is there to meet the long-range goals.

If the transitional plan involves major changes, the timing of these changes becomes critical to the financial well-being of the business. Many good plans have not attained satisfactory results because new facilities were not completed when projected, breeding livestock were not bred on schedule, loan funds were not available when needed, etc. It is important to get accurate bids on new construction and carefully consider the timing of construction completion, purchases of breeding livestock, breeding schedules, and other

physical activities which will affect cash income and expenses. In addition to new developments, consider what existing machinery and equipment will need replacing over the planning period, and how it will be financed. It is highly unlikely that any business will go three years without any capital replacement.

Cash Flow Planning with FINFLO

Quite often it is desirable to take a more detailed look at a projected cash flow for the next business year of operation than what is provided by the FINTRAN program. For this detailed analysis, the FINFLO (FINancial Cash FLow) program would be used. FINFLO is a computerized procedure for projecting monthly farm cash flows. It allows the farm/ranch family and their lenders to take an in-depth look at the farm business over the next twelve months, with the overall objectives of determining whether cash will be available as needed, when annual operating loans will be needed, and when repayment will be possible.

Based on the farm/ranch family's production, marketing, and financial plans, FINFLO projects cash inflows and outflows for each month of the coming year. In months with projected cash shortfalls, the amount of the deficit is assumed borrowed on an annual operating loan. If a cash surplus is projected, that amount is applied to any outstanding interest and/or principal on the annual operating loan. Thus, the results project the amount of annual operating loan funds outstanding during each month of the year and the projected timing and amount of the peak balance outstanding. The output also includes a monthly summary of projected crop and livestock production, sales, purchases, feed needs and inventories. In addition, a table is provided to help interpret the cash flow results in light of projected inventory changes from the beginning to the end of the year.

FINFLO functions much in the same manner as FINTRAN and is useful for similar reasons. FINFLO also can suggest changes that might be made to assure

that financial obligations be met in a timely manner. The computer provides the advantage that these changes can be easily made and evaluated as to their effect on the overall farm business. Another advantage of using the FINFLO program rather than calculating cash flows by hand, is that the FINFLO program will also provide a worksheet to monitor planned versus actual cash flows. This monitoring worksheet allows producers to examine their financial flows on a quarterly basis and made the necessary adjustments should conditions be other than planned. FINPACK provides the added advantage of providing a comparison of planned versus actual cash flows at the end of the year when the FINAN program is used.

Control and Year-End Analysis

Plans are seldom developed perfectly; their execution is even less perfect. There are many ways by which errors may creep into plans: misjudgment, miscalculation, and inadequate communication. There likewise are economic and business conditions which result in plans going awry: actions of governments, competitors, and economic fluctuations are some examples. But plans seldom go entirely "wrong." Instead, results deviate to some extent from those expected. Controlling is the function by which comparisons are made between what is actually achieved against what was intended to be achieved.

Control, then, is viewed in terms of action, rather than in terms of an aspect of management. Control is the process of measurement and determination of necessary corrective action to make certain that plans are transformed into desired results. Effective controls are dependent upon the existence of plans and the ability to measure progress in light of these plans.

FINAN for Year-End Analysis

The FINAN (FINancial ANalysis) program of FINPACK can be used to analyze the financial performance of a farm/ranch business during the past year and help in the control process. Based on the farm's financial position at the beginning

and end of the year, and income and expenses during the year, FINAN examines the farm's profitability, liquidity and solvency. Analysis of the past year can provide insight to the management of the operation.

Indications of managerial performance are important to both the producer and lender. For the manager, these performance measures indicate how many of the "little things" were done in the operation. The measures give an indication to the manager of which aspects of his operation he is doing very well and those aspects that may need attention. For the lender, these performance measures can be used, at least in part, to determine the managerial ability and thereby the credit worthiness of a borrower.

A special aspect of the year-end analysis capabilities of the FINPACK program is that of enterprise analysis. The enterprise analysis will provide a summary of income and expenses for each particular enterprise as well as providing breakeven measures and indications of the efficiency of production. The enterprise analysis section can indicate which enterprises should be intensified, which should be operated less intensely, and which should be dropped from the operation. The breakeven and efficiency measures can be compared to industry or area standards to determine how a particular operation performed compared to other similar operations.

FINAN also allows producers to relate the farm's current performance to its historic track record. Historic financial statements are listed for comparisons and a trend analysis is developed from information for each year an analysis is run. The liquidity section of FINAN analyzes the cash generation of the business on both a cash and accrual basis. FINAN also, as mentioned earlier, allows comparisons to be made of the plans that had been projected with the actual occurrences. These comparisons also relate to the manner in which the operation is managed.

Area Farm Financial Associations

At each PTT workshop, participants are encouraged to form or join a County or Area Farm Financial Association; a portion of the workshop fees is to be used for this purpose. The concept of special interest associations is not new; several Marketing Clubs are in existence in South Dakota as well as other states. The Farm Financial Associations build on this concept, but carry one step farther in using these Area Associations to develop a State Association. Several states have established a State Farm Management Association. The State Association provides farm-level data on resource commitments, yields and productivity of various enterprises. Additionally, this data can be used by managers for comparison of their operation with operations of similar size and structure. The data would provide an analytical base for Extension personnel to assess the needs of their clientele so Extension programs could be tailored to specific needs. As economic conditions dictate smaller budgets for education, many Extension programs will be offered on a fee basis. Workshop fees provide the funding base for these Area Associations allowing them the flexibility of providing special interest programs for their members.

The structure of these Associations would be similar to that of Marketing Clubs already established. Most such Associations are informally organized with by-laws and operating rules kept to the bare minimum. Meeting sites and dates would vary by Association. These Associations offer excellent opportunities for wives to get involved in the management of the farm/ranch business. Many operations involve the farm/ranch wife as the record-keeper and as such, they should be actively involved in management decisions. Associations would allow for the "record-keepers" to join in the sharing of information and provide a mechanism for them to increase their knowledge about farming/ranching. A vast amount of experience and talent would be pooled in these Associations offering tremendous

potential once established and operating. These Associations are one of the best ways for an operator or farm/ranch couples to get the knowledge, information, and tools they need to do the job right.

Summary of PTT Workshops

A summary evaluation by participants at the PTT workshops show that 63 percent of those attending the workshops were male and 37 percent were female. Of the male participants 52 percent were between 20 and 34 years of age, 31 percent were between the ages of 35 and 44, 11 percent were between the ages of 45 and 54 with the remainder being greater than 55 years old; for the female participants these percentages were 40, 40 and 20 respectively. Male participants indicated that 38 percent were high school graduates, 37 percent had received some college education and 21 percent were college graduates. For the female participants these percentages were 33, 40, and 27 percent respectively.

Information on the type of operations indicated that 68 percent were sole owners of their operations, 26 percent operated under a family partnership structure and the remainder were involved in a different form of business organization. The PTT workshops were effective in reaching the operations targeted in that 75 percent of the operations had a debt to asset ratio of greater than 40 percent at the time of the workshop. The breakdown of this 75 percent shows 36 percent in the 41 to 70 percent debt to asset range, 30 percent in the 71 to 100 percent range and 9 percent had a debt asset ratio greater than 100 percent. Of all the participants attending, only two participants could not find an alternative plan for their operation that would improve the financial viability of the operation. One of these participants had a debt to asset ratio of 246 percent and was in the process of bankruptcy filing.

Participants learned of PTT workshops from a variety of sources. The predominate sources of information on the workshops came from the County

Extension staff, 56 percent of participants learned of the workshop from this source, and from written media, 20 percent indicated they learned of the workshop from a newspaper article. Thus, the results indicate that Extension staff did an excellent job in promoting the PTT workshops.

Perhaps the best reaction to the workshop can be summarized by the comments of two participants:

It will help us determine a more viable plan to purchase the existing farm from our parents. We will now know what is a feasible price we can afford which will allow us to negotiate with FmHA and Banks.

I was a little disappointed more people in the community did not take advantage of the course. It seems to me they didn't want to know the truth of the situation.

In conclusion, this was a very rewarding project with very encouraging results. Everyone who worked with, or attended, the PTT workshops felt that the program helped to meet the needs of producers in South Dakota. Such an effort should, and will, be continued in future years.

Future Plans

In April of 1986 a Federal grant was received to enhance the PTT workshops and the programming effort of the South Dakota State Cooperative Extension Service. That grant will shorten the time frame in which PTT workshops will be available in South Dakota. Plans are to complete the training of the County Extension staff during 1986 starting in September. Upon completion of their training, County Extension staff will hold PTT workshops for producers in their area. Information gained from the piloting effort will be used to revise the workshop content and format allowing the workshops to be better tailored for the needs of producers. County Extension staff will be assisted in conducting the

PTT workshops by Area Farm Management Agents or State Extension Specialists as needed.

Plans are to offer PTT workshops on a statewide basis during the winter of 1986-1987. The timing of these workshops will be coordinated to the time of year when producers are analyzing their last year's operation and formulate plans for the next year. Each workshop will be limited to approximately ten farm/ranch couples to insure that producers receive the individual attention they desire; workshops will be offered as often as necessary to meet the demand for the workshops. Where possible, workshops will involve producers of operations of similar size and structure. Such a targeting effort will allow for interaction among participants and the sharing of information and knowledge thus promoting the ideology of the Financial Management Associations.