

Agriculture

Farm Business Planning

Practical steps to position your business
for success in the years ahead.



Royal Bank



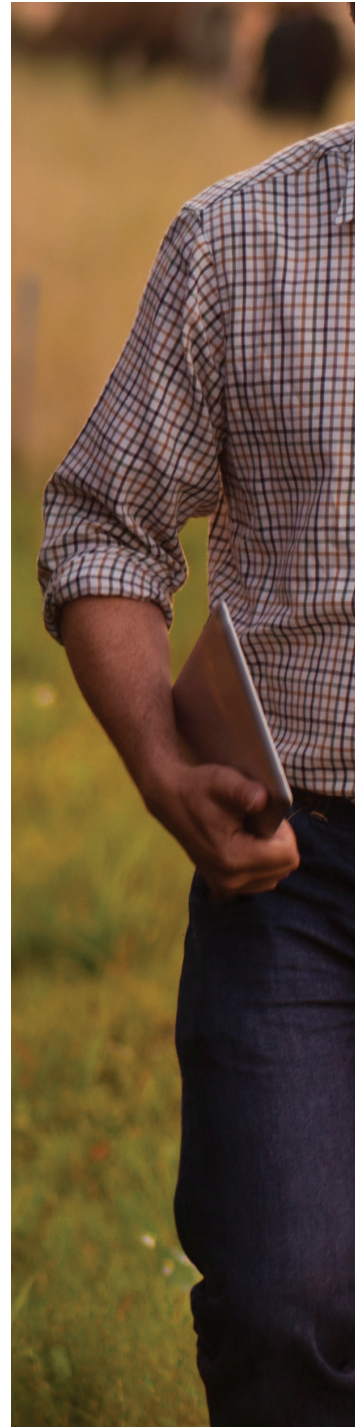
Business planning: create the future you want

What's your next move? It's a question we at RBC Royal Bank® love to ask our agriculture business clients. The answers are as varied as producers themselves. Some are about to buy or rent more land, increase their herd size, invest in new technologies, start a side business or develop their own consumer-facing product.

Of course, next moves aren't always about *expanding* the business. Many producers have their farm or ranch business in a comfortable place, and are enjoying a steady-as-she-goes period. Others are in the process of scaling their own involvement back, bringing family members into their operation or preparing for a sale.

Meanwhile, the agriculture business is getting more complex. From trade issues to commodity price swings to changing farm structures, there's simply more to farm business management than there used to be. This complexity highlights why a formal business plan is so crucial to progressing toward your operation's business goals.

One might suggest that businesses that do more planning ultimately achieve better outcomes. In fact, a comprehensive study¹ of Canadian farm business practices has put some hard numbers behind this idea. It found that the top-performing farms were far *more* likely than others to have a written business plan that's reviewed and updated annually. Lower-performing farms were far *less* likely than others to have a plan.



We believe that the farmers and ranchers who make the most of their opportunities will be those with the best command of where they are now, where they want to go and how they plan to get there.

That's where this guide comes in. We invite you to spend a little time here as we offer a framework you can use in your own business planning. Whether you're in growth mode, a maintenance period or even looking toward succession, this guide will consider business planning in terms of answering three important questions:

Where are
we now?

Where do we
want to go?

How will we
get there?

Over the coming pages, we'll explore each of these questions. From there, we'll highlight the importance of working with your plan after it's completed. Finally, a few words on the solutions we can offer to help.

Take your time. In fact, we suggest that you follow this planning framework over a period of months, if not longer. It's also advisable to hold family and operational team meetings to discuss each of these three questions in turn. Allow time for people to gather their thoughts between meetings, so they're prepared for each new stage. Be sure to take written notes as you go, and always set a date for the next meeting. You might also benefit from the input of your banker, accountant and production consultant.

Let's start.



Where are we now?

If you're planning a trip, you're figuring out how to get to some place you want to go. The starting point, as basic as it seems, is knowing where you are. For a farm or ranch business, knowing where you are is a good deal more complex, but it's still the starting point for your journey.

Knowing where you are today should take into account these four dimensions of farm business management.

<h3>Financial</h3>	<p>You'll need good financial records for this process, so speak with your accountant if you don't have this information at hand. You need to have an accurate, detailed view of your operation's current financial position in terms of assets, liabilities (debt), revenue, income and key ratios concerning these values. Just as important, how has your operation's financial position changed over the previous five years? How satisfied are you with the financial direction in which you're heading?</p>
<h3>Operations</h3>	<p>Spend some time considering how you're doing in terms of farm or ranch production. Compare your operation to industry benchmarks for productivity and see where your farm or ranch places. Once again, consider the trend line over the previous five years.</p>
<h3>Marketing</h3>	<p>In some sectors, marketing has always been a critical component of the business. In others, it's becoming more so. Discuss how effective your farm or ranch business is at selling what you produce and maximizing the price you receive.</p>
<h3>People</h3>	<p>As the final stage of your review of your current operation, look at your people – the ownership and management of the business, as well as employees, if any. Who's on the farm business roster, and how well are they able to perform their role? How does each person's skill-set suit what they're doing? In short, do you have the team you need for the business you currently have? Crucially, where is each team member in terms of their personal life cycle and personal goals?</p>

Where are we now? The question might seem straightforward. Then again, as you review your financial information, and discuss the business' operations, marketing and people, you might be surprised by what you find. Family and operational team members might not see things in the same way.

Knowing where you are is the first step on your three-part business planning journey.



Where do we want to go?

At this point, you'll have a clear idea of the farm or ranch business you *have*.

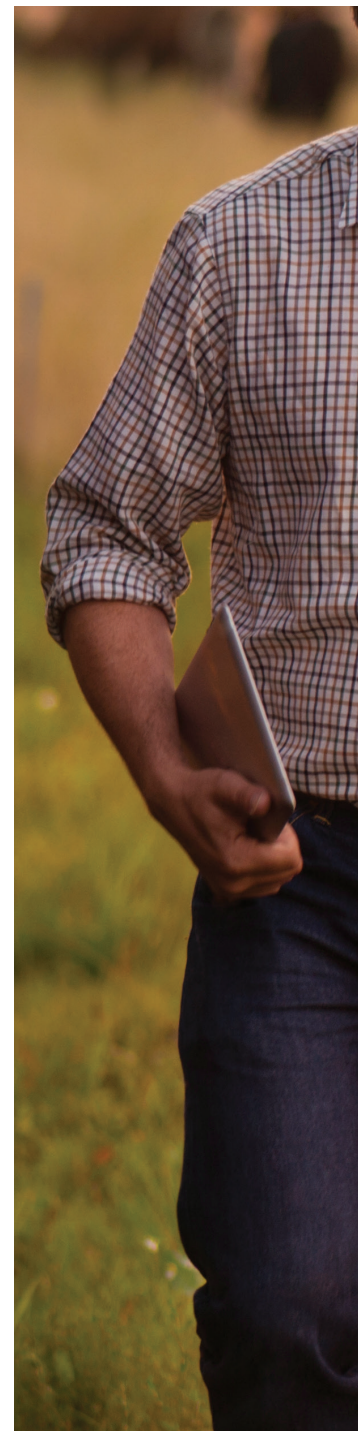
Now, turn to the future. Looking ahead five to 10 years, what is the farm or ranch business you would *like* to have, or perhaps, continue to have? Don't worry at this stage about how you'll get there. Just think, explore and discuss the business you want to have in those years ahead.

As before, our advice is that you consider this question in terms of four dimensions of management.

<h3>Financial</h3>	<p>Very simply, how much money and what value of assets do you want your farm or ranch business to make and to have in the future? What do you want your income statement and balance sheet to look like in five to 10 years? What sort of salary and dividends will you need or want to draw for your family, or pay your employees to retain their services?</p>
<h3>Operations</h3>	<p>Here's where you'll consider what you want your farm or ranch business to do and look like in the future. For example, you might want to be farming 1,000 more acres, running 200 additional beef cows, milking 100 more dairy cows or operating 40% more greenhouse space. You might want to be in new crops, or process some or all of what you produce.</p>
<h3>Marketing</h3>	<p>How do you want to be connecting with the marketplace and selling what you produce? You may want to diversify, by opening up more marketing channels. Or perhaps you want to focus on capturing above-average prices. It could be that you want to develop a consumer-facing brand, or sell your products directly to retailers and restaurants.</p>
<h3>People</h3>	<p>Who will own, run and work for your farm or ranch business in the coming years? If you're planning to grow the business, chances are, you'll need more people. If younger family members will be finishing their education in this period and eventually coming home to the farm, they'll need a role (and an income). If older family members will be transitioning <i>out</i> of the business, who'll be transitioning <i>in</i> to replace them?</p>

Of course, your view of where you want to go will be influenced greatly by your own circumstances. A 35 year-old could very well have an eye on growth. A 60 year-old might too; then again, they could be more focused on managing what they have.

For some, there's a big leap between where you are and where you want to go. But you may also be comfortable and satisfied with the path you're on, and simply want to keep going. The good news is, whether you want a very different future or something close to what you have today, you can make it happen. You have that power.

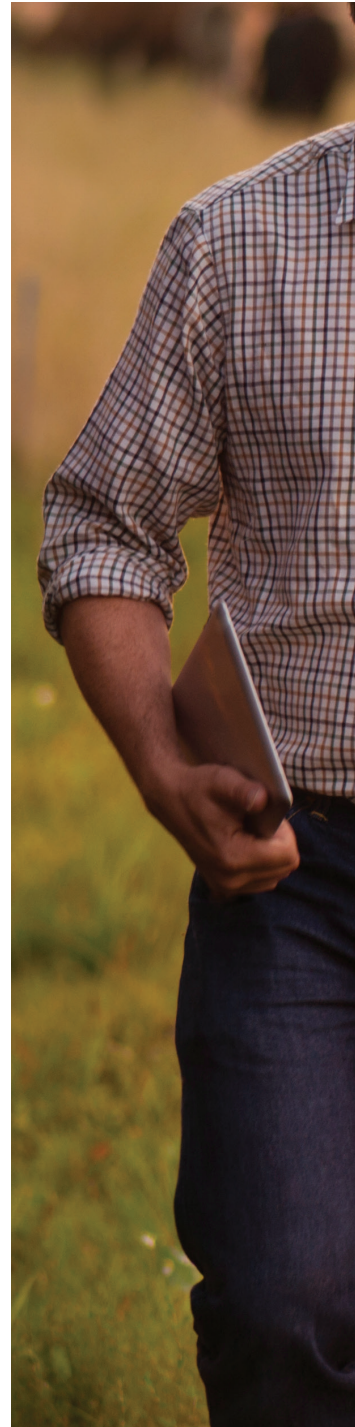


How will we get there?

By now, you've taken stock of where you are today and painted a picture of where you want to go over the next five to 10 years. You've held discussions among the farm or ranch business owners, managers and employees, kept people in the loop as needed and documented the course of the discussion.

*The final question is,
given where you are now and where you want to go;
what actions, people and resources are needed
to get you there?*

You might respond that your farm or ranch business is more or less where you want it to be, and that you've gotten this far *without* a formal plan. Fair enough. We'd suggest, however, that agriculture is a faster-moving, more dynamic industry than ever. Even if you don't want to grow, a plan can help you preserve and maximize the value of what you've built to this point.



Let's return to the four dimensions of management. For each area, what do you need to do to get where you want to go?

<h2>Financial</h2>	<p>What financial resources do you need to reach the farm or ranch business goals you've identified? Will the working capital you have on hand be sufficient, or will you need some financing to purchase land, a larger herd, or new equipment and technology? Here, we get to the question of risk. Some family members will be comfortable adding debt to pursue the family's business objectives. Others might not be. Generally speaking, the larger and more distant the goal you have in mind, the more likely it is that you'll need to assume some risk.</p>
<h2>Operations</h2>	<p>The business you have. The business you want. How do you get from here to there? If you'd like to increase farm revenue by 30%, for example, that 30% needs to come from somewhere. You might need to buy land or grow higher-value crops, which might have more risk attached. You might need to invest in superior livestock genetics or new handling equipment. You might need to expand your greenhouse operation. (Of course, if you're scaling back your operations with a view to retiring, you could be a seller of these assets, not a buyer.)</p>
<h2>Marketing</h2>	<p>What steps will be needed to operationalize the marketing goals you've set? If your goal is to sell your product at above-average prices, is this something you'll do on your own, or will outside expertise be required? Finding new markets could require some investment in sales activities, branding or communications.</p>
<h2>People</h2>	<p>You have a team of people who operate your farm. This arrangement might be working well today, but what happens over the next five to 10 years? The retirement of older family members, the return to the farm of young adults, and marriage could all play a role. That's just the family aspect. Looking at the business you want to have in a few years' time, who will provide management and labour? How will the organizational chart change between now and then? If the farm business will be significantly larger, you might be spending more time working <i>on</i> the business as a manager, and less working <i>in</i> the business, doing the work. <i>Who assumes your</i> role in day-to-day operations if you go this way? Perhaps the family members and staff you have now will suit the situation perfectly in five years' time. Then again, you might need to look for new people to manage and work in your farm or ranch business.</p>

If your plan looks five or 10 years into the future, you might take certain actions in the first year, in the second year, and so on. As you consider *How will we get there?* and plan to operationalize your strategy, be sure to detail the timeline.



A living document

Today, many Canadian farmers take an informal, intuitive approach to planning. This can work well. As noted in the study cited on page 1, however, top-performing farms are much more likely to have a formal business plan than farms reporting a lower level of farm business performance.

By considering three questions – where are we now, where do we want to go and how will we get there – you’ll have a sound business plan framework. You can use it as-is, or develop your framework into something more comprehensive.

Whether your plan is comprehensive or concise, don’t put it on the shelf to gather dust.

We recommend that you review and revisit your plan:

Annually, at least.

Once this next year is in the books, you can review your results against your goals for the year. If results fell short, you’ll want to determine why. If you beat your goals, you might want to aim a little higher. In a multi-year plan, each year’s results have implications for the years that follow. Is your plan still on track?

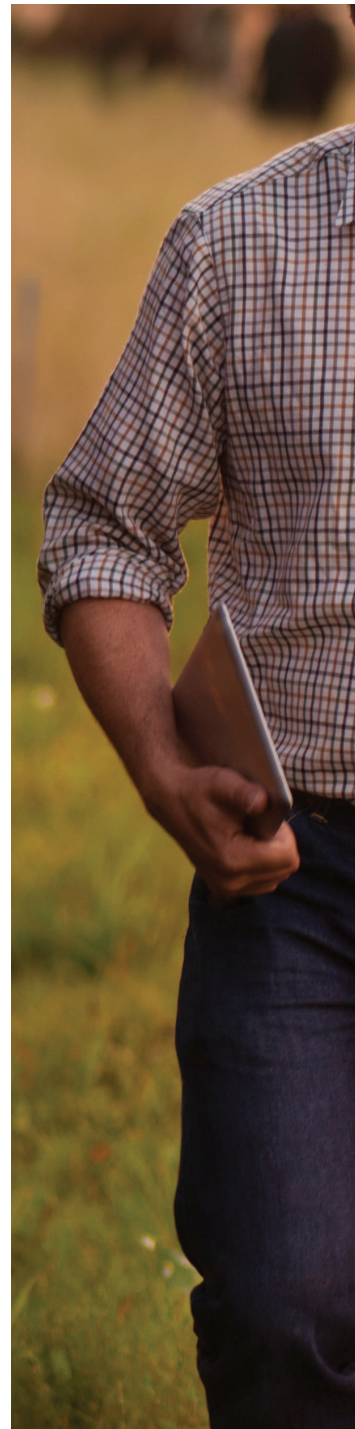
As markets change.

Your business planning framework is based on assumptions about the marketplace you operate in. The marketplace changes over time, which might require you to revisit those ideas.

As people develop.

Suppose your people plan was based on encouraging a long-time employee to move into management, and even ownership. If this key person leaves, your plan suddenly has a big question mark. On the other hand, if a new hire is thriving and shows great promise, that affects your plan, too.

Working on the what-ifs. Your business planning framework depends a lot on the projections you make. Over the next five years, your forecasts for production, commodity prices, interest rates, operating costs and marketing could prove to be off-base. It’s best to build your assumptions on average or historical figures. From there, develop what-if scenarios based on these values being higher or lower over time. For example, could you handle a 20% drop in commodity prices, combined with a 200 basis point rise in interest rates, three years from now? Stress-testing your plan in this way will provide important peace of mind.



How RBC Royal Bank can help

Where are you on *your* business planning journey? You could be operating to a formal, comprehensive plan that's been in place for years. You might have started to plan based on the three-question framework we've presented in this document. Your planning could be at any stage.

At certain times, your planning will benefit from an outside perspective. Your accountant will clearly be an important resource on the financial side. If you have consultants for areas such as production, agronomy, animal health or marketing, these professionals could have valuable input as well.

As you go through your business planning journey, you can count on the expertise of RBC Royal Bank to help you.

Assessing your current business. RBC Royal Bank has agriculture banking specialists with many years of experience. We've worked with thousands of farm and ranch businesses across Canada. By analyzing your farm in detail, and bringing our broad industry experience to bear, we can help you accurately assess the financial and business status of your operation.

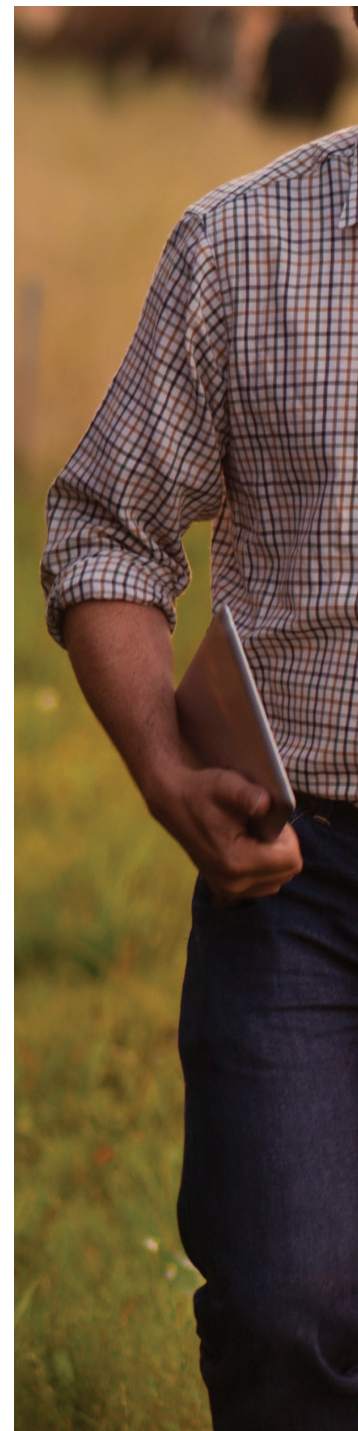
Identifying opportunities and risks. As you look ahead to where you want to go, we can provide an informed perspective on the viability of your vision, identify associated risks and provide solutions to manage these risks. We can work with you to weave personal, family and business goals together – all into one, comprehensive plan. We can also help with tax and estate planning, intergenerational wealth transfers, and guidance on business valuation and succession options.

Financial products and services. RBC Royal Bank offers a full range of solutions for farm businesses of all shapes and sizes, including credit products, leasing, cash management and trade services. The RBC Group Advantage™ program can even help your employees with their own financial planning.

RBC Royal Bank has the people, products and services to help you achieve both your farm or ranch business and personal goals. We invite you to continue the conversation with your RBC agriculture banking specialist or find the specialist nearest to you by visiting rbc.com.

No matter your next move, we're with you all the way.

Visit rbc.com/chartyourcourse



To find out more about farm business planning or any other information not listed in this guide:

› Visit your nearest RBC branch

› Call 1-800-769-2520

› Or visit rbc.com/chartyourcourse



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