

# Internal Scanning

File C6-45

Internal scanning involves looking inside the farm business and identifying strengths and weaknesses and assessing the businesses' resources and management's skills. It is part of the [strategic planning process](http://www.extension.iastate.edu/agdm/wdothier.html#Strategic), [www.extension.iastate.edu/agdm/wdothier.html#Strategic](http://www.extension.iastate.edu/agdm/wdothier.html#Strategic). An overview of [Strategic Planning for Farm Businesses](#) and how internal scanning fits into the planning process is available, [www.extension.iastate.edu/agdm/wholefarm/pdf/c6-41.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c6-41.pdf).

Internal business scanning is comprised of the following three categories:

1. **Farm Business** - What are the unique strengths and limitations of your business?
2. **Individual Person** - What are the unique skills and limitations of each person involved in the management of the business?
3. **Individual Enterprises** - How will each enterprise compete in the marketplace? What are the critical factors that determine the success or failure of each enterprise?

## Making a Business Inventory

The first step in internal scanning involves describing your business. This will help you assess the value of the various aspects of your business. Below are four broad categories that can be used to describe your business.

- **Physical Resources** - The farm business consists of physical resources. These can easily be identified by most farmers and include land, machinery, facilities and other assets.
- **Human Resources** - The farm business also consists of human resources. These are more difficult to identify. Granted, we can easily name the people involved in the business, but describing what function each person provides for the farm business is more difficult. These include topics such as identifying the management skills of the participants and describing the decision making structure.
- **Other Resources** - Other farm business resources such as financial resources also need

to be identified. For example, the business records will readily identify these from the business financial statements. To identify financial resources you may want to ask yourself if there is adequate working capital. Is there borrowing capacity if needed? Are there outside equity sources?

- **Other Factors** - A variety of other factors including reflecting on historical success, describing business culture, reviewing the information collection system and identifying any other relevant factors.

## Scanning the Farm Business

Assess each of the following aspects of your business.

1. **Current and Past Financial Performance** - How has the business performed financially in the past? Has it met the expectations of the operator and the family? Performance can be assessed with the following factors:
  - Net farm income
  - Return to management
  - Earned net worth growth
  - Return on investment (equity)
  - Off-farm income
  - Other
2. **Adequate Income** - Closely associated with business performance is the ability of the business to provide adequate income for the farm family. This involves current needs and also expected future needs. What is the ability of the business to provide the following:
  - Maintain or expand family living and lifestyle
  - Provide for family living needs plus reinvestment for growth of the business
  - Provide for future family needs such as college expenses, etc.
  - Provide retirement income for the operator
  - Provide income for more than one family if a succession strategy is involved
  - Other

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3. **Financial Status** - Also related to business performance is the current financial status of the business in terms of liquidity (cash-flow, working capital) and solvency (level of equity).
  - Liquidity -- current ratio, working capital, credit reserves
  - Solvency -- net worth (earned and market value), debt-to-asset ratio, risk-bearing ability
  - Other
4. **Information System** - What is your ability to track what is happening economically, financially and physically in your business?
  - Track income and expenses
  - Determine farm income and cash flow
  - Project financial performance
  - Monitor enterprise costs and returns
  - Monitor efficiency factors
  - Other
5. **Unique Resources** - Does the farm business and its management team possess any unique resources or skills that can be used to create a competitive advantage?
  - Specialized knowledge or skills
  - Special business relationships
  - Farm location
  - Other
6. **Culture** - What aspects of the family's or management's culture affect the farm business? Culture refers to beliefs and values of the farm family that affect decision making. Examples include your attitudes about the factors below.
  - Expanding the business
  - Adopting new technology
  - Borrowing money
  - Responding to change
  - Shouldering responsibility
  - Communicating with family and management associates
  - Using authority
  - Other

7. **Current and Past Decision Making Performance** - What is your track record for making successful strategic decisions in the past? These include the major decisions that affected the success of the business.
  - Who was involved?
  - What information was used?
  - What methods were used to reach the decisions?
  - How successful were the decisions?
  - Does anything need to be changed in this process?
  - Other

### Scanning the Individuals

Personal scanning involves assessing a broad range of various types of management skills. Your managerial skills and those of your business associates are essential for the long-term success of your farm business. Managerial skills have much to do with the types of strategic alternatives pursued by your business and the overall success of the strategic management process. Since the role of the farm manager has changed dramatically over recent decades, you will most likely identify some new skills that you and your management team must develop.

With your family and/or management team, work through the assessment of the management skill areas listed below. You may involve a business associate in assessing your management skills. Look for exceptional skills and competencies. These are some of the building blocks for developing your strategies. You may also find that some skills need to be improved. Or you may find that you need to bring in people outside the business who can provide special talents.

1. **Strategic Management Skills.** How would you rate your strategic management skills? Strategic management involves developing long-term strategies for business success.

Examples include:

- Visualize the future and where I fit
  - Identify success factors
  - Identify personal and business strengths
  - Identify industry opportunities
  - Other
2. **Entrepreneurial Skills.** How would you rate your entrepreneurial management skills? Entrepreneurial skills involve seeking and trying new ways of developing successful business ventures. Examples include:
    - Innovation
    - Assess risk/reward of a new venture
    - Search for opportunities
    - Seek new information
  3. **Financial and Risk Management Skills.** How would you rate your financial and risk management skills? Financial and risk management involves seeking and exploring appropriate methods of financing business operations and capital investments in combination with risk control techniques.
    - Prepare financial information
    - Interpret financial performance
    - Assess risk exposure
    - Develop risk management strategies using insurance and income protection instruments
  4. **Information Management Skills.** How would you rate your record keeping skills? Information management involves creating and utilizing a business information system that provides data for decision making. Examples include:
    - Accounting and record keeping skills
    - Budgeting skills
    - Business analysis skills
    - Computer skills
    - Designing a record-keeping system for the needs of the business
    - Assembling information for decision making
  5. **Personnel Management Skills.** How would you rate your personnel management skills? Personnel management involves your ability to manage employees. Examples include:
    - Hiring
    - Training
    - Supervising
    - Evaluating
    - Dismissing
    - Motivating
    - Other
  6. **Team Skills.** How would you rate your ability to work as a part of a team? Team skills involve the ability to work together with others to accomplish agreed-upon objectives.
    - Understanding the role and objectives of the team
    - Subordinating your personal agenda to the agenda of the team
    - Do your share of the work
    - Identifying team weaknesses and fill those needs
    - Allowing recognition for team accomplishments to be received by all team members
  7. **Inter-personal Skills.** How would you rate your inter-personal management skills? Inter-personal management involves your ability to work with others to achieve an agreed-upon objective. Examples include:
    - Recognize others' individuality
    - Communicate effectively
    - Mediate differences
    - Listen to others
    - Other
  8. **Organization and Planning Skills.** How would you rate your organization and planning skills? These skills involve organizing resources and information, and developing action plans of how to accomplish project objectives. Examples include:
    - Identify project objectives
    - Organize information
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- Pay attention to details
- Develop action plans
- Implement and evaluate plans
- Other

9. **Operations Management Skills.** How would you rate your operations management skills? These skills focus on your ability to manage the production, processing and/or marketing process for each of your enterprises. Examples include:

- Efficiency
- Consistency
- Desired output
- Facility utilization
- Intensive production
- Technical production skills
- Production flow

These skills include specialized skills such as agronomic skills, marketing skills, mechanical skills, and many others.

## Scanning the Enterprises

Your farm business is an integrated system of individual enterprises. An enterprise is a related set of activities that stand alone and contribute to the success of a farm business. Traditional farm enterprises have been corn, soybean, cattle feeding, cow-calf operation, farrow-to-finish hog production, finishing hogs, dairy, etc. With the emergence of value-added agriculture, there has been an explosion of new enterprises. Examples are organic dairy, grass-fed beef, specialty grains, natural pork, on-farm processing, direct marketing, etc. Also, non-traditional activities should also be included. Activities like selling seed corn, cover crops, custom work and other activities that are traditionally not known as farm activities should be included because they use resources and skills to provide money and value to the farm.

Each enterprise should be categorized as either primary or secondary. Primary enterprises are those that form the *core business* of the farm. These are the enterprises that create the profit of the business. Secondary enterprises are those that support the primary enterprises. For example,

organic dairy may be your primary enterprise and organic feed production may be the secondary enterprise. A major decision associated with a secondary enterprise is the “make or buy” decision. In other words, should the organic dairy produce its own organic feed or buy it.

Enterprise scanning allows you to assess:

1. The performance of each enterprise for long-term performance.
2. The collective portfolio of enterprises.
3. The compatibility among enterprises.

Use the following questions to guide the enterprise assessment.

### 1. What are your *Primary* enterprises?

Primary enterprises are the major income sources and the heart of the farm business.

- The farm is often referred to by its primary enterprise. For example, dairy is the primary enterprise in a dairy farm.
- Primary enterprises are operated as profit centers.
- The operators like working with primary enterprises and have strong skills in these area. For example, a swine producer likes working with hogs. A grain producer likes agronomy and machinery. Few businesses are successful in the long term if operators don't have a strong personal interest in all aspects of the primary enterprise.
- Primary enterprises need strong enterprise strategies. The success of the farm business is built on the success of the primary enterprises.

### 2. What are your *Secondary* enterprises?

Secondary enterprises often support and/or compliment the primary enterprises. For example, raising hay (secondary) for the dairy enterprise (primary).

- Secondary enterprises may use underutilized resources. An example is a small cow herd to utilize unused pasture. Another is selling crop insurance or trucking grain to use underutilized labor in the winter.

- The “make or buy” analysis is often used for secondary enterprises. For example, after considering the labor, management and other costs involved, is it cheaper to buy hay for the dairy cattle or raise your own hay?
- Secondary enterprises are often operated as cost centers. Because of their low cost of production, they provide low cost inputs and ingredients to the primary enterprises. So the strategy focuses on lowering costs rather than increasing profits.

### 3. **How does each enterprise’s production and processing system work?**

You need to assess the various aspects of each enterprise. To help your assessment focus on the following factors:

- The production/processing system
  - The production/processing efficiencies
  - The production/processing management skills
  - The marketing program and skills
  - The input purchasing procedures
  - The internal and external information and record-keeping system
- ### 4. **Do the enterprises utilize the farm’s resources and the operator’s skills?**
- Is there a good fit between the resources and skills available from the business and the resource and skill needs of the enterprise? Does the enterprise make use of the strengths of the business while minimizing the need for resources and skills that are not provided by the business (or poorly provided)?
- ### 5. **What is your commitment to each enterprise?**
- There needs to be a strong commitment by the operators to the primary enterprises because they form the foundation of the farm business.

The commitment to secondary enterprises can be based on the added value they bring to the farm business and its primary enterprises.

### 6. **How do the enterprises complement and compete with each other?**

Are there synergies among enterprises? Do they share resources and management skills? For example, a grain farmer selling crop insurance has an added advantage of being knowledgeable when determining the insurance needs for his/her farm business. Do they even out labor usage? Do they reduce overall business risk?

Where do enterprises compete? Do they compete for resources and labor? Too many enterprises may make it difficult to competitively manage them all.

## Summary

The last step in internal scanning is to pull all of the pieces from your farm business, enterprise and managerial assessment together into a summary of your strengths and weaknesses.

It is best if your family or management team participates in preparing this summary.

Remember the three factors to assess.

1. Based on your business assessment, what strengths and limitations have you identified?
2. Based on your enterprise assessment, what strengths and limitations have you identified?
3. Based on your managerial skills assessment, what strengths and limitations have you identified?

## Next Steps

Once you’ve identified areas to improve, search the [Ag Decision Maker website](http://www.extension.iastate.edu/agdm/) for resources to assist in each specific area, [www.extension.iastate.edu/agdm/](http://www.extension.iastate.edu/agdm/).