The typical producer treats planning as a beginning and end-of-the-year exercise, and tend to limit themselves to most likely outcomes. Even then most of them see it as more of a chore than an opportunity.

The real difference between the best and the rest of the herd doesn’t lie just in planning, but in contingency planning. Top managers spend more time thinking about “what if” scenarios and developing contingency plans. While they don’t dwell on the negative, they do consider what could go wrong and what their options are if it does. It’s the same process that successful coaches and generals go through in developing game and battle plans.

John Baker, director of the Beginning Farmer Center and the Iowa Crisis Hotline, offers this advice: “Don’t be afraid to ask dumb questions; they’re more easily handled than dumb mistakes.”

Contingency planning involves analyzing different scenarios and developing specific plans for dealing with critical issues before they become problems. Tackled ahead of time, issues such as death, divorce, disability or a decision by one of the owners to leave the family business can be handled more objectively while there is time to consider alternatives and implement possible solutions. Succession planning, successor development, buy-sell agreements, and various types of insurance are some obvious examples of ways to deal with the issues just mentioned.

In addition to the areas just mentioned, contingency plans should be developed to address such questions as:

• What if we had a major disease outbreak?
• What if we lost a major contract or our biggest land lease?
• What if a key employee suddenly quit?
• What if our lender discontinued financing us?
• What if input prices doubled or commodity prices fell by 50 percent (sound familiar)?
• What if a supplier or buyer defaulted on a contract?
• What if we sold the farm/ranch?

The list can go on indefinitely, but the things that could happen and that would have a significant impact on the business need to be addressed ahead of time and strategies developed on how to deal with the situation. Lenders refer to this practice as shock testing. It’s at the root of risk management. Being
proactive isn’t just about anticipating problems, it’s also about removing obstacles, improving processes and capitalizing on opportunities. Also, in times of economic adversity, the best strategy isn’t always profit maximization, sometimes it’s loss minimization.

Contingency planning also applies to major investments, expansions, new ventures or new enterprises. Every plan should have a back plan, and every entry strategy should have an exit strategy, before the final decision is made. The point is you need to spend your time before you spend your money.

This seems so obvious, but most people don’t do it. They’re always fighting fires. Those who wait until a problem hits tend to react emotionally and make knee jerk decisions, because they don’t have the time or the information to develop and evaluate alternatives, or implement anything that might have been able to mitigate the risk.