

Conducting a SWOT Analysis

A SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) is a process that can help you, and your team, get insights into the past and think of possible solutions to existing or potential problems for your business.

For a SWOT analysis to work well, every member of your team (your family and/or your employees, your lawyer, your accountant, and your insurance agent) must be involved in the process.

Strengths

Strengths are considered mostly internal. For example, what do you and your family, employees, and management team bring to the business. If you are planning to start a business, you may have previous experience in the industry you are considering. If not, this may be viewed as a weakness. You may have an employee or member of your management team who has prior experience in the industry you are planning to enter. You may already know where to go to find the assistance you need and this would be considered a strength for this analysis.

If you are an existing business, you may have many years of expertise in the business. You know the history of your business and how you achieved the success you have. Your family is very supportive of the time you spend in the business and you have hired or developed experienced, loyal, and caring employees. Your management team works well together and provides excellent input for the business. Your equipment is up-to-date and you have saved the depreciation money to replace outdated equipment.

Weaknesses

Weaknesses are also considered mostly internal and are the items you will need to address for success of your business. If you are a start-up business, an example may be a lack of experience in the selected industry. Another consideration may be that the family members do not completely support you in this venture. You may have a lack of qualified employees or your business will not support full time employees, these would also be considered weaknesses. If you identify these as weaknesses, do not fear because existing businesses may have similar weaknesses.

Your current business may identify additional weaknesses such as, a previous poor decision that is now impacting the business. You may have a high turnover of employees, a lack of necessary capital for equipment, and/or a high short term debt load. These are all examples of weaknesses in an existing business. These may be the result of management decisions or influence from outside of the business, whatever the reason they will need to be addressed so your business can be successful.

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Opportunities

Opportunities are considered mostly external. What opportunities are available for your business? If you are a potential business, you may take advantage of low interest loan packages from various sources for start-ups or possibly grants for feasibility studies. You may have an idea that has not been previously tried in your area and you know people are seeking the product you plan to produce. Potential businesses tend to be much more optimistic than existing operations.

Existing businesses have the decided benefit of viewing the industry from experience. You should know that if certain things happen in the industry, the results are usually predictable. For example, if you plant your crops before a certain date, germination or harvest will normally occur within a specific time frame. If for example, your area experiences a drought during the summer months, you may need to harvest the corn crop for silage before the crop enters a specific growth stage. You may also know where to sell corn silage from previous experience with droughts. You are usually better prepared to take advantage of opportunities more quickly due to your experience and may be better capitalized and able to withstand set backs.

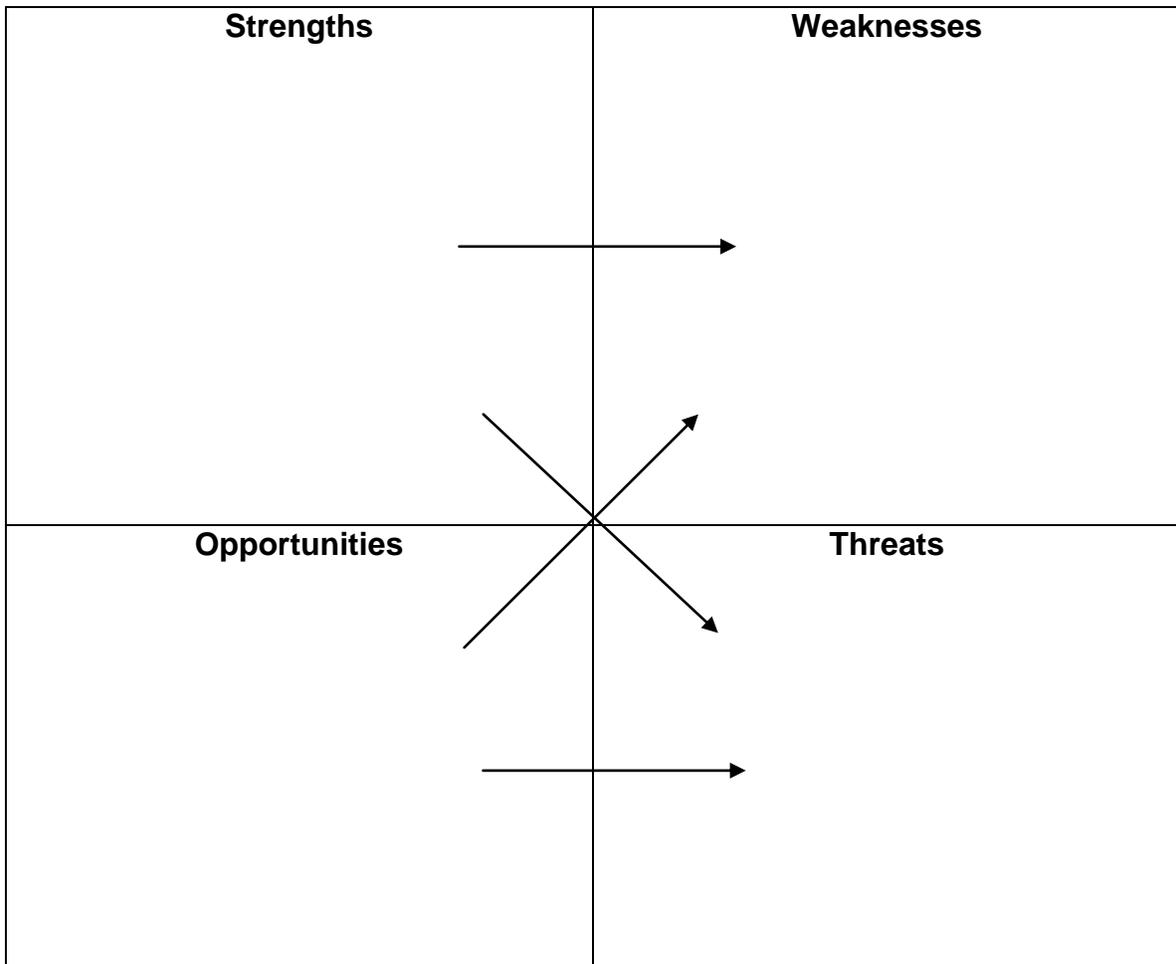
Threats

Threats are also considered mostly external. These are threats from outside of your business that will directly impact you over which you may have very little control. If you are starting a new business, you may have the threat of local regulations negatively impacting your business. Unforeseen competition (local or foreign), dissolution of markets, and adverse weather may also have a negative effect on your new business.

Many of the previously mentioned threats will also negatively impact an existing business. Rising interest rates may have a greater impact on existing businesses than start-ups. Heavily leveraged businesses will be greatly impacted by a one or two percent increase in your interest rates.

When conducting your SWOT analysis keep in mind that one item can offset another. For example, your strengths may combat your weaknesses and your opportunities can offset your threats. If this does not happen, this exercise will enable you to point out these dilemmas so you may address them. The following diagram will serve as a guide for your thinking during the process.

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As you can see, your weaknesses and threats may be offset by your strengths or opportunities. When this does not occur, you need to find a way to deal with these issues. There are several ways you may deal with these issues. You can hire employees to help fill the voids that you have determined or possibly add people to your management team.

Human Resources

Hiring employees that have the skills you deem necessary is a way for you to combat a weakness. For example, if you need someone to drive a large truck, hiring someone with a commercial driver's license will eliminate that weakness. Another way to alleviate this same weakness is to learn how to drive the truck yourself. However, do you have the time to be away from the business for the time required to do the driving?

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Adding to your management team is another way to eliminate a perceived weakness. If your business is growing and you are handling the bookkeeping tasks yourself and this is becoming too much for you to do, hiring a bookkeeper will allow you to better focus on other parts of the business. If you do this, keep in mind to hire someone you trust or do an extensive background check, especially if they will have check signing capabilities. Having that person bonded will also create a level of safety.

Insurance

Insurance is another method of dealing with many of the issues you face. For many agricultural businesses, insurance is a method of eliminating perceived weaknesses, threats, or risks. If your analysis shows that you are undercapitalized to handle a major emergency (as most agricultural businesses are), insurance coverage will help eliminate this issue. Threats from liability, fire, automobile accidents, and crop failures can all be reduced with insurance coverage.

Your liability insurance will cover anyone entering your farm and becoming injured. This coverage is included on your farm owner's policy but, the coverage is only for the dollar amount listed on the policy. For example, if your liability limit is \$500,000 and someone sues you for \$1M, you will be covered for the \$500,000. The remainder of the judgment award is your responsibility. You should review your risk level and contact your insurance provider.

Fire insurance is also included on your farm owner's policy. You may choose to insure some buildings but not all. The level at which your policy will reimburse you is determined and is written in your policy. There are several methods of coverage. These consist of actual cash value, replacement value, and functional replacement value. You can find more explanation about this in Module Four under the Pennsylvania State University's *Agricultural Alternatives* web site in a publication titled, *Agricultural Alternatives: Agricultural Business Insurance*.

Your automobile insurance will be a separate policy from your farm owner's insurance. Any licensed over-the-road vehicle you own should be insured. If you have enough vehicles on the road, you may be eligible for fleet insurance which may save you some expense. Check with your Department of Transportation and your insurance provider to determine the level and coverage that is right for you.

Crop insurance coverage is available in many forms. You may cover your crops with several types of policies such as, Multi Peril (MPCI) and Crop Revenue Coverage (CRC), among others. You may insure your revenue with Adjusted Gross Revenue coverage (AGR) or Adjusted Gross Revenue-Lite coverage (AGR-Lite). Contact your crop insurance provider to determine the best coverage for your operation. More information regarding crop insurance can be found at Insert agent locator or by contacting your local crop insurance provider.

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Sample SWOT Analysis

The following information is designed to be an example of a small farm that is trying to diversify to remain sustainable and they need to conduct a SWOT analysis. Please read the example and conduct your own SWOT analysis for the Ryan family. The answers are also included at the end.

Meet the Ryan Family

The Ryan family has operated a dairy for over fifty years. Paul Ryan, now age 48, took over the dairy from his father twenty years ago. The dairy is average-sized for his county; the Ryan's milk 60 cows, grow most of their own forage and grain, and raise their own heifers. The family withdraws about \$30,000 from the farm business each year for living expenses. The dairy is located in a rural area, but urban and suburban areas are close by. The nearest city supports a population of nearly 100,000.

Margaret Ryan, age 42, is married to Paul, and they have three children, Jane, Hal and Susan. Margaret used to work on the farm, but for the last eight years she has been working full-time as a clerk-typist in the school district office. Take-home pay from this job is \$18,000, plus health, dental, and other benefits that extend to the whole family. Her farming responsibilities have decreased over the past eight years; at this point, she oversees the finances with Paul, occasionally milks, and manages the household.

Jane Ryan, age 21, has just received her bachelors' degree in culinary arts from the local community college. During the summers, Jane works full-time on the farm, with the milking. She is considering farming as an occupation, but would like to continue her work in value-added food production.

Hal Ryan, age 16, is in high school and works on the dairy with his father part-time during the school year, full-time during the summer. He is not interested in the dairy or in any type of farming and would rather attend a university where he may specialize in science, engineering, or economics.

Susan Ryan, age 12, is a middle school student who really enjoys the farm. She has a special job in the barn; taking care of the calves after school. She belongs to 4-H and has just begun to show an interest in helping with the crops, although she is too young to drive the tractor.

Grandma Jean Miller, age 64, is Margaret's mother. Since the death of her husband five years ago, Jean has lived with the Ryans in the farmhouse. She shares an interest in cooking with her granddaughter, Jane.

Alternatives

The Ryans are considering an alternative farm enterprise for several reasons. Additional income is needed to send their younger children to college and to save for retirement. Also, Paul and Margaret feel strongly that they would like Jane or Susan to take over the farm.

This means that, until they retire, the farm may have to support two families (Jane has no plans for marriage, but things could change). The Ryans are thinking about expanding the dairy to generate additional income, but Jane would rather be involved in a value-added (food product) enterprise. Paul and Margaret realize that changes in the farm may have to occur to satisfy the desires of the next generation and are willing to explore alternative farm enterprises with the family.

The family met to determine how each person felt about developing a new enterprise on the farm, and found that Jane and Grandma Jean are most excited about this idea. After they did an inventory of resources, they concluded that their main underutilized physical resources are a small piece of land, about five acres presently used to grow extra hay for sale, and a concrete block shed used to store bicycles and patio furniture. Their main underutilized marketing resource is the city 38 miles away. The Ryans also have good road frontage along a fairly well-traveled highway. Management and labor resources available year-round would come from Jane and Jean. High school students would be available primarily in the summer, as would Susan.

The family decided that Jane would generate enterprise ideas, although the others would offer opinions on the suitability of each. Jane had a long talk with Jean about possible food products that could be made using farm resources. She also spoke to some former professors and classmates, a farming neighbor she felt comfortable with, and the Extension economic development educator. She spent time looking through back issues of culinary and “country” magazines that both she and Jean receive, and spent an entire day walking through the city, visiting stores, restaurants, the downtown area, and malls.

Out of six ideas that Jane came up with (fruit pies, salsa, strawberry jelly, cheese, ice cream or yogurt), the idea that most family members liked was the cheese, which Jane and Jean thought could be marketed at a farm market stand or to the many fine hotels and restaurants in the city.

Your Task

Help the Ryans become more confident about this idea by doing a SWOT analysis for this project. Each person (or team) will look at one aspect (Strengths, Weaknesses, Opportunities, Threats) and list aspects of this idea. Then, the person/team will report back to the whole class about their thoughts. Use the attached worksheet to record your thoughts, and those of others as you

report. The second worksheet may be reproduced as often as you want for you to do your own SWOT analysis for your farm or food entrepreneurial venture.

SWOT Analysis Sheet

For your business idea, brainstorm related to the four areas below. Use this sheet to determine whether to explore an enterprise idea further.

Strengths

Weaknesses

Opportunities

Threats

SWOT Analysis Answers

Strengths

Longevity- They have been farming for 50 years.
They raise their own replacements and feedstuffs.
Family's insurance is paid from off-farm job.
They have off-farm income.
They utilize family for labor.
There are multiple generations living on the farm.
They are willing to explore alternatives.
They have good family communications.
They have available land and a building to use for an alternative.

Weaknesses

They still need to withdraw \$30,000 per year for family living expenses.
They are located in a rural area.
The son is not interested in continuing the farming operation.
They need to set money aside for children's college expenses.
They will need to support multiple families in the near future.
They may need to hire some outside labor for the alternative enterprise.
No one has cheese making experience.

Opportunities

They are located close to a suburban area.
They have good road frontage.
The nearest city has 100,000 people.
Jane has a bachelor's degree from college.
Jane wants to return to the farming operation.
The grandmother has taken the "Quality Cooks" training.
They are located on a well-traveled rural highway.

Threats

There may be other cheese makers in the area with the same marketing ideas.
They have a 76 mile round trip to the city.
This does not say if they have a vehicle to transport the cheese.
Need a steady workforce from a rural area.
Government regulations may dictate many aspects of the operation.

These answers are meant to be a guide and may not be the same as your answers. Every person sees a business from their perspective and may read the information differently. Apply these principles to your business and take a very close look at your operation.

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