Resource Identification
(Inventory)

After goals have been determined for the business, the next step in creating a worthwhile business plan is resource identification or inventorying. Inventorying is the act of creating an itemized list of all available resources. These resources are usually separated into four categories: land, labor, capital and management.

Land: To inventory land, start by preparing a detailed map of the entire farm unit. This map should show all physical features, such as: streams and ponds, hedge rows and fence lines, trees and wooded areas, ditches, roads, property boundaries, buildings and fields. Each field should be uniquely identified with a letter followed by the total acreage.

A separate chart is then created listing all the fields by their identification. On this chart all major characteristics of each field are detailed. This should include soil type, condition, slope, fertility (most recent soil test data should be included for reference), past, present and proposed use.

(ASCS and SCS aerial photos and land classification maps may be very helpful in preparing this data.)

Labor: Available labor is usually classified as fixed or variable. Fixed labor is available on a year-round basis including operator, partnership, family, and hired labor. Variable labor is available seasonally or on a part-time basis.

One way to inventory available labor resources is to create a chart listing all people that work on the farm, categorizing them as fixed or variable labor, describing primary duties and determining their available hours on a daily, weekly, monthly and yearly basis. This information will make it possible for the manager to determine if more or less labor is needed and its efficiency.

Capital: A summary list of all farm and family assets and liabilities should be constructed. This information can later be used to prepare a detailed balance sheet. (The balance sheet is covered on page 1502 and makes a good companion fact sheet with resource identification.)

Capital is "money or property used in a business", commonly referred to as assets. The primary idea is to inventory all items, including quantities and values that are owned by the business. This will include land, buildings, equipment, livestock, crops, supplies to name a few. Determining the quantity is usually no problem but sometimes determining the value of an asset can be tricky. The most commonly used valuation procedure is the "current market approach". This process is straightforward, it is the value or price of an asset in the open market today. For items that are frequently bought and sold, such as livestock and grain, a current market price is usually easy to determine. Land and buildings on the other hand may require professional help from an appraiser,
since these items do not change hands as often and are affected by depreciation and appreciation. When it comes to preparing a balance sheet you will want both the current market value and the cost approach value of the item. The cost approach is what the asset was valued when it was purchased, less any accumulated depreciation. This approach shows the historical value without the effect of inflation. A balance sheet shows both values for financial reasons which are discussed on the balance sheet fact sheet.

**Management:** The management ability and performance of a farm business is probably the most important resource contributing to its success. The evaluation of this resource is also the most difficult because it involves self-analysis. It is not an easy task to evaluate one’s self but it should be done in the most honest, realistic and positive way. Don’t be too hard on yourself but be fair. If there is an area that needs improving than work at improving it. Recognize strengths and capitalize on them. List all of the manager’s abilities and determine how they relate to the stated goals of the business. If knowledge and ability are lacking in a certain area then determine the best way to gain the needed skill.

A farm business many times is a family operation. Each family member has different strengths and weaknesses, organize them in the most productive fashion. A spouse or family member may be very helpful in assessing the managers abilities. A word of caution when assessing someone else’s abilities, family or not, this is not the time to “grind an axe”. It should be an honest and positive appraisal that is for the mutual benefit of all concerned. Yes weaknesses should be pointed out but done in a positive manner, aimed at helping the individual improve not withdrawal.

A **beneficial process** to go through when looking at the entire farm business is to conduct a S.W.O.T. (Strengths, Weaknesses, Opportunities, Threats) analysis. This is also one way to assess the management ability but then can be repeated for the entire farm business. In each area of a business (production, marketing, management, finance) determine what the strengths are and list how they can be utilized. At the same time point out the weaknesses and how they can be improved. List the opportunities that are available or are anticipated and how to capitalize on them. Threats are almost the opposite of opportunities. Threats are anything that could have a negative affect on the business. Threats as well as opportunities can come from internal sources, from within the business or externally from an outside source. Sometimes threats can be turned into opportunities and vice versa. A lot depends on how the manager perceives the situation and what their attitude is.

When conducting a S.W.O.T. analysis remember to be honest, fair and realistic with yourself. This information is for the benefit of you and your business.

Why would someone want to conduct such an exercise as inventorying all the resources of your business. The first three areas land, labor, and capital are pretty self explanatory. They represent the starting point. You need to know what you have to work with if you are formalizing plans to achieve goals. All three are also beneficial in other areas such as financial and production planning. Management on the other hand, though the most important may not be as identifiable or quantitave as the other three. As was mentioned it depends on self evaluation and self perceptions. All four areas will aid in creating a workable business plan for your farm.

Planning in itself is a way to prepare for the future and have some control over the direction you are going. One area that seems to separate successful businesses from unsuccessful businesses is in the level of planning they do.

The following page may be helpful when doing management inventory or at least give you a place to start.