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FARM FUTURES

BUSINESS AND MARKETING TOOLS FOR PROFITABLE FARMING

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Do you have the

TEST YOUR PERFORMANCE ON KEY FARM MANAGEMENT PRACTICES – BUT DON'T BE SURPRISED IF YOU FAIL.

With fewer and fewer full-time farmers on the land, the survivors must have good management skills, right? Dick Wittman, a farmer and management consultant from Culdesac, Idaho, would beg to differ. And, he's got some proof to back up his opinion.

Wittman developed a 32-question test to measure adoption of key management practices. The checklist is short on the production skills farmers enjoy, and long on the financial, administrative and marketing duties that come less naturally. The results, says Wittman, show farmers have a long way to go.

"There really is a horrible adoption level," says Wittman.

It's hard to quantify the cost of not measuring up, but the fallout could be severe, he says. Farms that don't plan succession or nail down how to resolve disputes could wind up falling apart, while a bad decision on buying a major piece of equipment might result in a recurring \$10,000 mistake.



Dick Wittman

Wittman began developing his test two decades ago, and it's been given to farmers in Canada and Australia, in addition to the United States. Wittman also tests participants in Texas A&M's respected Executive Program for Agricultural Producers. Yet even those farmers, who tend to be larger and more focused on management, adopted only half the practices on average.

In some cases, actual adoption is probably less than indicated by this type of self-assessment. For example, many producers think their financial records are in order, says Wittman, but probably would fail basic accounting standards.

How to improve your rating? Wittman offers these tips:

✓ Inventory the skills you lack. Use the test to highlight areas needing improvement, then find a seminar or class this winter from the many offered during the meeting season.

✓ If you can't upgrade your skills, identify a family member or employee who can. "It's a tremendous opportunity for succession planning," says Wittman. "Motivate someone from the next generation to improve their skills. Put the kids to work to build some of these skills."

✓ Get ready to work. Improving management practices can be every bit as hard as growing crops or tending livestock. "There's no substitute for rolling up your shirt sleeves and investing some sweat in learning these things." **ff**

Gentlemen, start your pencils

Put a check by practices already adopted on your farm, then add up the total. On a normal classroom grading curve, 29 would equal an "A," 26 to 28 a "B," 22 to 25 a "C," and below that an "F." However, even top farm managers have struggled to get a 50% rating, or 16, on the test, according to farm management consultant Dick Wittman.

MANAGEMENT SYSTEMS/PERSONNEL ADMINISTRATION



- ☐ Mission, vision and core values are defined for the business.
- ☐ Farm history is documented (including narrative and financial trends).
- ☐ Goals and objectives (long- and short-range) are defined.
- ☐ Operating plan addresses production, marketing, financing and capital purchases/sales and is compiled into an annual cashflow budget projection.
- ☐ Strategic plan identifies "strategic issues" for the business and, at least annually, updates strategies and action plans for achieving strategic goals. (This includes estate planning/succession, business structure, expansion, diversification, in-sourcing vs. outsourcing activities, value-added, equipment and facility replacement, enterprise mix,

right stuff?

financial capitalization, stewardship, strategic alliances, and tillage strategies.)

- ❑ Responsibility is clearly divided, and each partner and employee has a job description outlining duties, responsibilities and authorities.

- ❑ Personnel policies are written and communicated to employees and spouses. (These include housing, meals on premises and utilities; medical/life/disability insurance; buyouts; inter-entity transactions; vehicle fuel, insurance and maintenance; retirement plans, vacation and sick leave; setting compensation; business expense reimbursement; etc.)

- ❑ Standard operating procedures are documented for repetitive or routine tasks.

- ❑ Compensation program matches compensation to market rates and differentiates pay based on skill, tenure and responsibility levels for owner/managers and employees.

- ❑ Performance appraisals and employee development plans are done regularly for operating partners and employees.

- ❑ Operating and financial performance records are circulated to key managers and owners on a regular basis, at least monthly.

- ❑ Regular meetings (board, management and staff) are held daily, weekly or seasonally to address communication needs of workers, investor/owners and spouses.

- ❑ Technical expertise and tools, including computers, Internet and business publications, allow efficient access to management information.

- ❑ Critical agreements and understandings are documented and re-

viewed periodically. (This includes strategic plans, farm operating policies, partnership agreements, buyout agreements, estate plans and wills, and lease/rental arrangements.)

FINANCIAL MANAGEMENT PROFICIENCIES



- ❑ Records are updated and circulated on a monthly or quarterly basis to appropriate employees and owners.

- ❑ Balance sheets and income statements are prepared at least annually on a calendar/tax-year basis.

- ❑ Balance sheets reflect cost and market valuations, including deferred tax liabilities.

- ❑ Income statements meet requirements to prepare taxes and measure true farm profitability on an accrual basis.

- ❑ Audit systems assure balance sheets and income statements reconcile to inventories and bank/loan balances; depreciation schedules reconcile to balance sheet values.

- ❑ Enterprise profitability and cost center tracking can efficiently be derived from farm records.

- ❑ Cashflow budgets are prepared at the beginning of the year and comparisons of actual cashflow to projections are made at least monthly or quarterly.

- ❑ Field and livestock herd records for production inputs, applications and resource use (i.e. chemical, fertilizer, seed, pasture utilization) are complete and accessible.

- ❑ Key performance measures and ratios (i.e. Farm Financial Standards Council "Sweet 16" or Ferguson Ratios) are calculated for all critical production, marketing, financial

and capital performance areas and compared annually to historical trends.

- ❑ Policies for investment and withdrawal of capital, including minimum capital levels and revenue sharing arrangements are defined, clearly understood and followed.

- ❑ Policy for dividing earnings due to owners vs. management is defined and consistently followed.

- ❑ Financial tools and expertise for optimizing capital acquisition decisions are accessible and used regularly. (This includes purchase, leasing or custom hiring on major capital outlays.)

- ❑ Partial budget techniques are understood and utilized when evaluating partial shifts in the business, such as enterprise selection, tillage systems, lease vs. purchase or hire, etc.

MARKETING AND RISK MANAGEMENT PROFICIENCIES



- ❑ Products to be marketed (quantity and types) are projected well in advance of production.

- ❑ Market targets are based on identifiable cost of production, profit targets and cashflow requirements.

- ❑ Forward contracts, hedging and options are understood and utilized as marketing and risk management tools.

- ❑ Crop insurance programs are implemented that provide balanced protection from hail, fire and multi-peril causes.

- ❑ Liability insurance programs adequately protect operation's owners and employees from financial liability, health, disability other business risk threats.