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tools drive decisions

AG03



Dick Wittman, in his office, sees good accounting as a tool that helps family-operated farms gain more control of costs and profits.

The numbers activist

Dick Wittman is promoting better numbers for the field and the livestock pen

By Dan Looker, Business Editor

Not many farmers feel as strongly about having a useful accounting system as Dick Wittman, whose family runs a diverse crops, timber, and cattle operation near Culdesac, Idaho.

Over the past five years he has given 30 workshops on managerial accounting. He has written about it in most national farm magazines, including this one. And he has served

as president of the Farm Financial Standards Council. The Council spent six years working with commodity groups and others to refine accounting standards for crop and livestock producers.

OUTSIDE EXPERTS NOT THE KEY

Hiring an accountant and buying high-priced software won't improve your business if it's not already well organized, he says.

"Many times people want this accounting stuff, but they don't have the business organized where people have clearly defined roles," he says.

For the Wittman family, personal accountability is a tradition.

It started with his grandfather and his great uncle, who split responsibility for crop production and cattle. The next generation, Dick's father and two uncles, split duties between farming, cattle, and machinery maintenance.

FOUR KEY LEADERS

Today, the business has four leaders. Dick's cousin, Bob Wittman, is the crops manager. He's in charge of raising almost 9,000 acres of wheat, barley, peas, lentils, canola, garbanzo beans, grass seed, and hay. Another cousin, Todd Wittman, manages

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►► equipment support and the farm's conservation programs. A nephew, Pete Wittman, manages the ranch's 300-cow beef herd, which, depending on the economics, includes selling feedlot calves, backgrounding, or retaining ownership in a commercial feedlot.

Dick, who has an agricultural economics degree from the University of Idaho and an MBA from the University of Utah, maintains financial records, with the help of one part-time employee.

"I'm the general manager and chief financial officer, all wrapped up in one," he says.

He also oversees logging on the ranch's forest of ponderosa pine, Douglas fir, grand fir, and larch.

TEAM DECISION MAKING

All of the business leaders provide input on the design of the farm's management information system.

"Each of my partners has to define what kind of information they need to do a good job in their area," Dick says.

In a nutshell, that's how managerial accounting works – from the ground up, using accurate, timely information to make decisions.

After a summer of high feed costs and rising land costs for pasture, the Wittmans are taking a hard look at the costs and returns of the cow-calf operation.

"We're having to reevaluate everything that happens on the cattle side right now," Dick says. "Many people will spend more on the cost of feed than they'll ever get out of a live calf."

The ranch will keep a livestock enterprise, but it might mean a shift to less cow-calf and more summer pasture options, for example.



Todd Wittman is the farm's service manager. He recommended buying this sprayer only after careful comparison of costs for new and used vs. commercial spraying rates.

"A good accounting system will give you feedback to tell you when a certain strategy you're using is no longer working," Dick says.

It has also pointed the way to opportunities.

In 2000, after experimenting with direct seeding, the crops operation switched to all no-till. The system has saved costs, allowed them to

farm more acres in less time, and has qualified the farm for incentives from USDA's Conservation Security Program (renamed the Conservation Stewardship Program in the 2008 Farm Bill).

HALVING SPRAYING COSTS

Recently, the farm purchased a \$170,000 self-propelled crop sprayer. The Wittmans used a Kansas State University spreadsheet (OwnSprayer at www.agmanager.info/farmmgt/machinery/default.asp). They looked at buying a new or used sprayer. The cost for the new machine came out to about \$2.50 an acre, compared to commercial rates of about \$5.50 in the area. Their analysis included the machine's cost, depreciation, repairs, labor, fuel, "and the guy in the support rig hauling materials, which is often an overlooked cost," Dick says.

Every year they decide which crops to use in their rotation, based on their production costs and the latest supply-and-demand outlook.

"We sit down and frequently make changes. It would be impossible ►►



Bob Wittman manages crop production in a complex environment of soil types and crop rotation alternatives.

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►► to do this without good data,” Dick says. Last year, for example, they planted mustard instead of canola. Its production costs were lower, and the prices held up. Canada harvested a big canola crop and “you can hardly give it away now,” Dick says.

This is not just an annual decision.

“Sometimes you develop one crop plan in the fall, and by spring you re-evaluate because costs and markets have changed significantly,” he says.

FROM BANKING TO FFSC

Before farming full time, Dick worked for the Farm Credit System, from 1972 to 1980.

“One of the things that attracted me to the Farm Credit System was that they were providing one of the first products for computerized record keeping, AgriFax,” he recalls.

It was a service bureau approach. Farmers mailed in monthly computerized reports for analysis.

In 1973, Dick began keeping his family’s farm books. “Every month I had to balance the books on the ranch.”

Today the ranch uses managerial accounting software sold by Red Wing.

After establishing a private consulting practice in 1980, Dick partnered on projects with Steve Hofing of Centrec Consulting. Hofing talked Dick into joining the Farm Financial Standards Council. The two worked closely along with other ag professionals to develop managerial accounting guidelines for agriculture.

“The council had reached the point where it wanted to get more producer involvement,” Dick says.



Pete Wittman runs the ranch’s cow-calf business, which is facing economic challenges widespread in the cattle industry. The ranch is considering major changes.

“In the early years people like Ron Swanson, a corn grower from Iowa, and I served mostly to provide a voice of reason from the farmer’s standpoint. Were these ideas realistic and implementable?” he recalls.

Later, Dick worked with the Council and commodity groups to help develop accounting methods that work for all types of agriculture.

Managerial accounting requires an accrual-basis system.

Farmers and ranchers who use managerial accounting decide how to divide up their financial records. They set up cost centers to track costs of crops or livestock. These centers help isolate strategic options that can improve performance.

Last summer the Council gave Dick its “Workhorse Award” to recognize his efforts to develop and promote managerial accounting standards in agriculture.

Meanwhile, as agricultural margins tighten, Dick is finding more interest

out on the speaking circuit.

“Everywhere I’ve presented this, the reaction after people see it is, ‘We need to figure this out,’” he says.

If not, “we won’t understand costs. We’ll react too slowly to strategic changes we need to make in our business, and we’ll lose our competitive edge,” he says. ■



Dick and his wife, Dawn, have raised five children and have five grandchildren. Dawn works as a librarian.



learn more

- Wittman Consulting | www.wittmanconsulting.com
- Farm Financial Standards Council | www.ffsc.org