Farm Business Management 101

With volatility becoming the new normal in production agriculture, producers must beef up their business skills.

*by **Kindra Gordon,** field editor*

What separates top agricultural producers from the rest? There may be many different answers to that question, but a particular response from a lender is one that South Dakota State University (SDSU) Extension Business Management Field Specialist Heather Gessner likes to share with ag producers. The lender said the difference maker is "the ability to make good decisions consistently over a long period of time."

How can producers achieve that ability to "make good decisions consistently?" Gessner advocates it comes from having records that provide the data to help make better decisions. She says: "Ag producers need to be able to talk to lenders about their business finances, not just the production side."

Gessner advises that producers take a three-pronged approach to operating their farm or ranch. The three strategies include managing like a business, cutting costs and increasing revenue.

Business basics

Gessner likes to challenge producers by asking them: "Do you operate like a business?" Specifically, she also quizzes producers by asking if they can:

- ►Present their balance sheet, expected cash flow, and profit/loss statement to their banker.
- ►Answer questions about their working capital availability, past numbers and future numbers.
- ►Show trends in return on investment (ROI), debt coverage and operating expense ratios.

With many of these financial statements, producers are putting themselves in a more informed place to make decisions, Gessner notes, providing an example. "If you know your breakeven, you may not always make money, but you can make decisions to ensure less loss."

Likewise, she says, the benefits from taking the time to better manage your business and prepare for the future may include reduced stress, opportunities to maintain or even grow the business, and the potential for bringing the next generation back into the operation.

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> ***— Heather Gessner***

Costs to question

Along with those business analytics, Gessner implores that reviewing opportunities for cost-cutting within the business should become an annual standard practice.

One big place to start is monitoring machinery costs. Gessner notes that finding ways to decrease machinery costs per acre can help increase revenue. As examples to consider, she suggests evaluating custom rates or outsourcing practices. Or, consider joint ownership of larger machinery with a neighbor.

To these ideas, Gessner says: "Every once in a while, producers need to think about giving up some independence if it helps curb costs."

Land costs are another big-ticket item. Gessner suggests that producers inquire if rental agreements might be renegotiated for more favorable terms based on a history of good management practices or to come in line with changing industry prices. Additionally, she says long-term notes might be looked at for refinancing while interest rates remain low.

Another major area that offers potential for cutting costs is family living expense. Gessner advocates tracking household living expenses in a checking account separate from the business and evaluating costs frequently. She advises involving everyone in the family to develop a realistic family budget to which family members can adhere.

Gessner says for those who have not previously tracked annual family living expenses, a rule of thumb to start budgeting at is $20,000 per adult and $10,000 per child.

Rev up revenue

With regard to revenue, Gessner says there are a variety of strategies that can help bring in more income.

Efforts to improve production — specifically increasing the weaning percentage and/or increasing the numbers of pounds sold — provide one opportunity. To pursue these increases, Gessner points out that producers must first know what their current percentages and pounds are. She also advises that producers must consider how making one change might affect the rest of the operation.

Evaluating the farm or ranch marketing plan may identify other opportunities to increase revenue. Gessner suggests reviewing when and how you market and then pondering: Do you need to make a change from what you've always done?

She says a second concept to consider may be opportunities to add value. Possibilities include backgrounding, health protocols, marketing via video or branded-beef programs.

Another option for adding revenue may be pursuing opportunities for custom work. As examples, Gessner says perhaps a producer uses his equipment to help a neighbor put up hay, or custom-feeds calves or heifers for someone to help generate additional income.

Gessner notes that some families strive to boost revenue by having one family member take a job off the farm. While this may be viable, she stresses that the costs must also be considered.

"If town is 70 miles away, is it worth it? What does it cost you?" she questions.

To that, Gessner adds: "With any changes that are made to the operation, the additional expenses must be evaluated and monitored to ensure that the change isn't costing more than the revenue it's generating."

Talk it out

As any changes for your farm or ranch business are evaluated, Gessner emphasizes taking time to review and discuss your strategies with your family and your lender. She suggests thinking of your lender as an advisor. AJ

Editor's Note: *Kindra Gordon is a freelance writer and cattlewoman from Whitewood, S.D.*