

# The Webinar will Begin Shortly

## Harvesting a Profit: Future Sessions

### Harvesting a Profit: Benchmarking your Business with an Agribusiness Analysis

- **Friday, November 20, 2015      12:00 - 1:00 PM**
- This webinar will help you understand how to use profit measures effectively, set goals and benchmark your business against others in the industry. It will also cover management styles and gross margin analysis. The webinar will conclude with a case study reviewing the topics covered in this session.

### Harvesting a Profit: What is a Lender Looking For?

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- 
- Registration for both sessions at: [FarmCreditEast.com/webinars](http://FarmCreditEast.com/webinars)

# Harvesting a Profit

A guide to growing a financially  
sustainable agricultural business



# Today's Presenters

Katelyn McCulloch

Business  
Consultant

Auburn, Maine

Chris Laughton

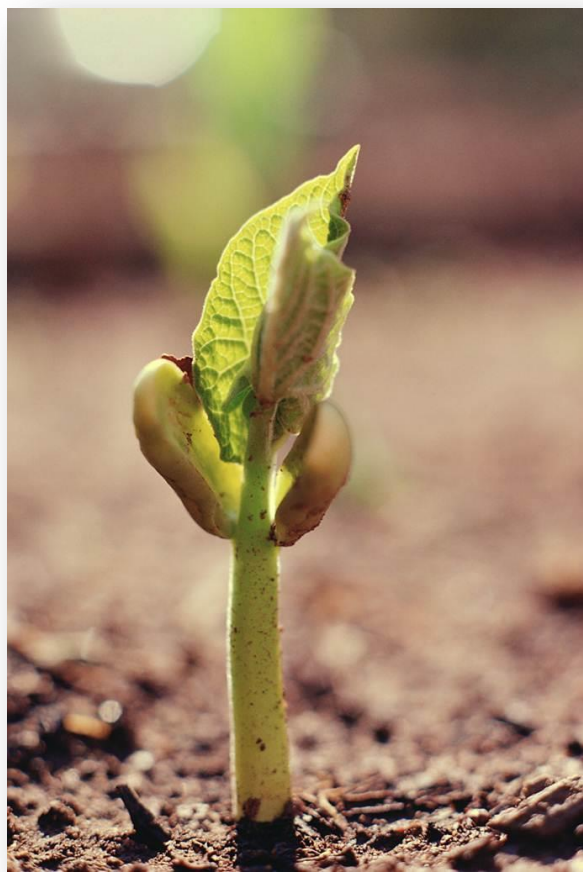
Director of  
Knowledge Exchange

Enfield, Connecticut

# Supporting Organizations:

American Farmland Trust  
Beginning Farmer Network of Massachusetts  
The Carrot Project  
Center for Agricultural Development & Entrepreneurship (CADE)  
Community Involved in Sustaining Agriculture (CISA)  
Community and Regional Development Institute of Cornell University (CaRDI)  
Cornell Small Farm Program  
Cornell University Cooperative Extension (CCE)  
Farm Fresh Rhode Island  
Farmer Veteran Coalition  
Glynwood  
Land for Good  
The Last Green Valley  
Maine Farm Bureau  
Massachusetts Farm Bureau  
National Young Farmers Coalition  
The New England Farmers Union  
New Entry Sustainable Farming Project  
New Hampshire Farm Bureau  
New York Farm Bureau  
New York Farm Viability Institute  
New York FarmNet  
Northeast Organic Farming Association of Connecticut (CT NOFA )  
Northeast Organic Farming Association of New Jersey (NOFA-NJ)  
Northeast Organic Farming Association of Rhode Island (NOFA/RI)  
Northeast Sustainable Agriculture Working Group (NESAWG)  
Southeastern Massachusetts Agricultural Partnership (SEMAP)  
Stone Barns Center for Food and Agriculture  
University of Massachusetts Extension

# Today's Session



## Session one: Understanding financial statements and improving profitability

- The importance of good records
- Understanding financial statements
  - Balance sheet
  - Income statement
  - Cash flow statement
- Key economic concepts
- The 5 keys to profitability
  - Capacity
  - Productivity
  - Efficiency
  - Cost control
  - Industry skills

# Introduction



To run a successful farming operation, you need:

- Staff
- Animals, crops or plants
- Feed and fertilizer
- Land and buildings
- ***Financial records***

**Who is winning this basketball game?**



SCOREBOARD	
HOME	AWAY
??	32



## Someone Has to Look at the Profits





# Five Steps to Successful Management

1. Identify needs
2. Set goals and plan
3. Organize
4. Direct and execute
5. Monitor



## Someone Has to Look at the Profits

Small business managers  
must also be CFOs



- CFO or *chief financial officer*
- The person responsible for:
  - financial analysis and planning
  - managing assets efficiently
  - arranging financing for the business.

## Someone Has to Look at the Profits

**Managerial accounting ties together financial & production info**

*Managerial accounting* provides information to help managers make decisions leading to the completion of the company's goals.



Financial  
Statements

+

Production  
Records

=

Managerial  
Accounting

## Someone Has to Look at the Profits

**A useful record-keeping system is key to managerial accounting**



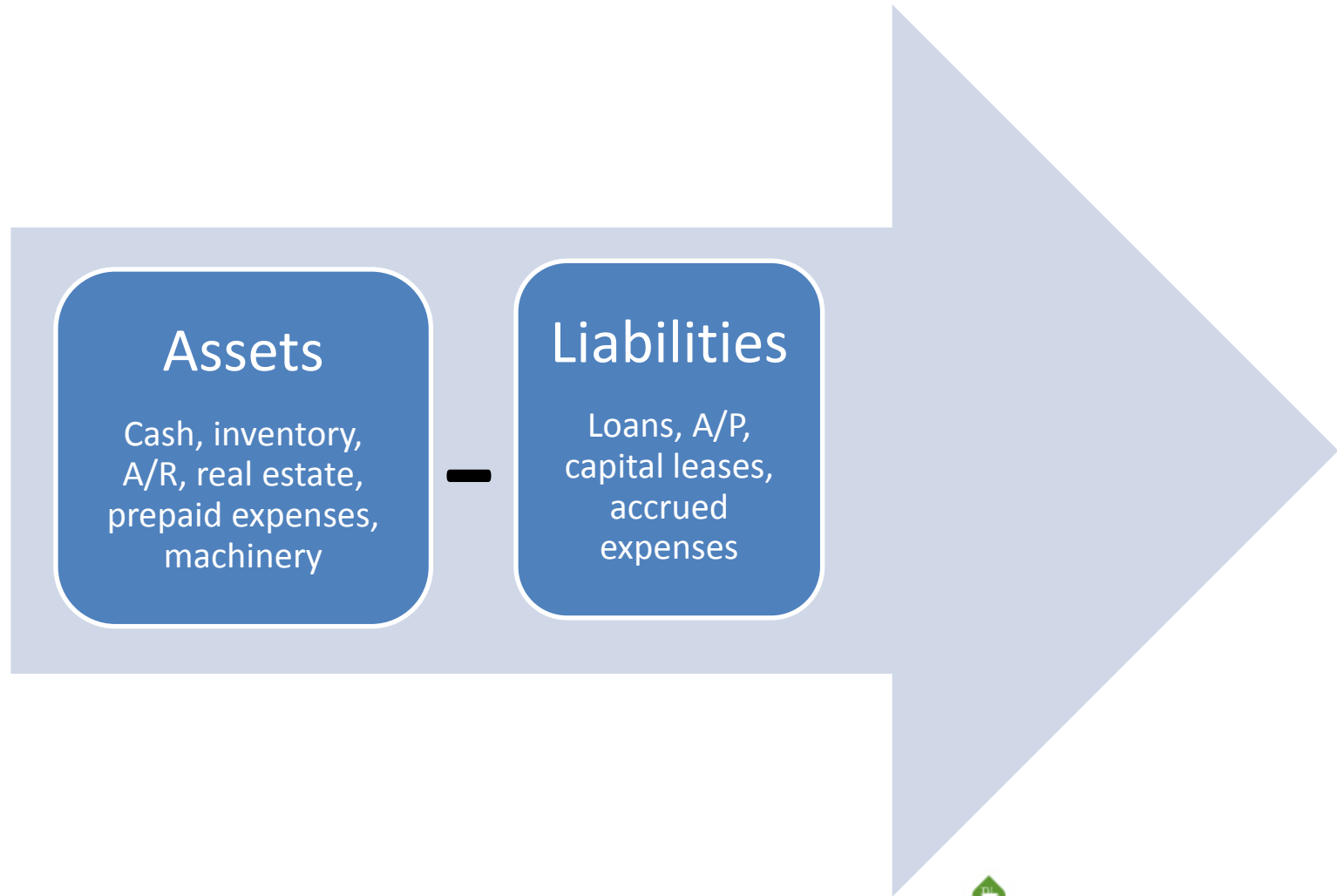
- Accurate records are essential
  - Garbage in, garbage out!
- Balance sheet
  - A snapshot of the business's financial health
- Income statement
  - Tracks a business's income & expenses over time
- Cash flow statement
  - Shows money going in & going out

# The Balance Sheet

## Assets

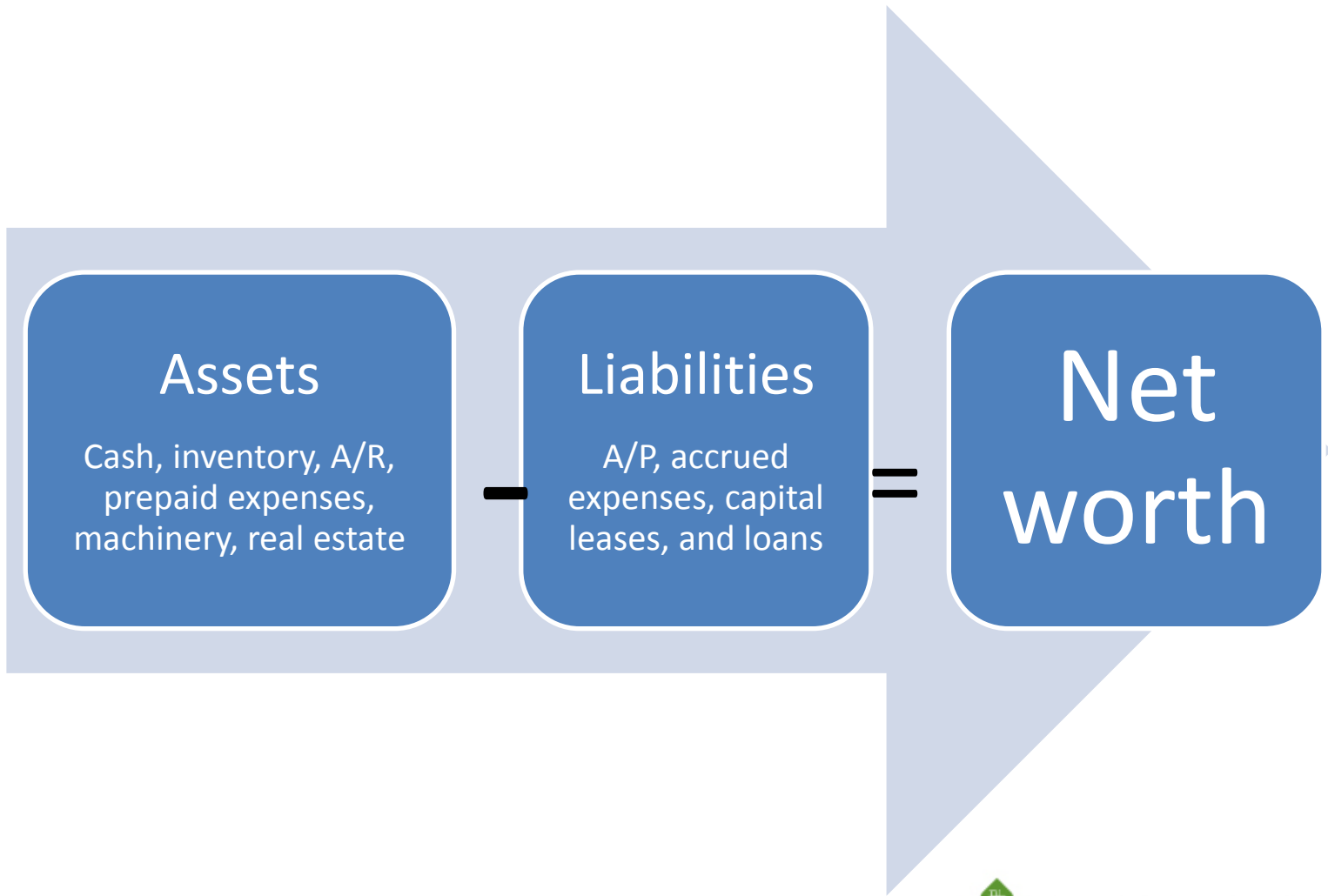
Cash, inventory,  
A/R, real estate,  
prepaid expenses,  
machinery

# The Balance Sheet





# The Balance Sheet



## The Balance Sheet

A small farm balance sheet might have negative net worth

Assets		Liabilities	
Checking account	\$500	Credit card	\$3,000
Inventory	\$3,000	Accounts Payable	\$7,000
Tractor	\$2,000	Bank Loan	<u>\$6,700</u>
Vehicle	<u>\$6,500</u>	<i>Total Liabilities</i>	<i>\$16,700</i>
		Net Worth	<b>\$(4,700)</b>
<i>Total Assets</i>	<i>\$12,000</i>	<i>Total Liabilities &amp; Net Worth</i>	<i>\$12,000</i>

## The Balance Sheet

Another small farm balance sheet might have positive net worth

Assets		Liabilities	
Checking account	\$500	Credit card	\$1,000
Inventory	\$3,000	Accounts Payable	\$2,000
Tractor	\$2,000	Bank Loan	<u>\$5,000</u>
Vehicle	<u>\$6,500</u>	<i>Total Liabilities</i>	<i>\$8,000</i>
		Net Worth	\$4,000
<i>Total Assets</i>	<i>\$12,000</i>	<i>Total Liabilities &amp; Net Worth</i>	<i>\$12,000</i>

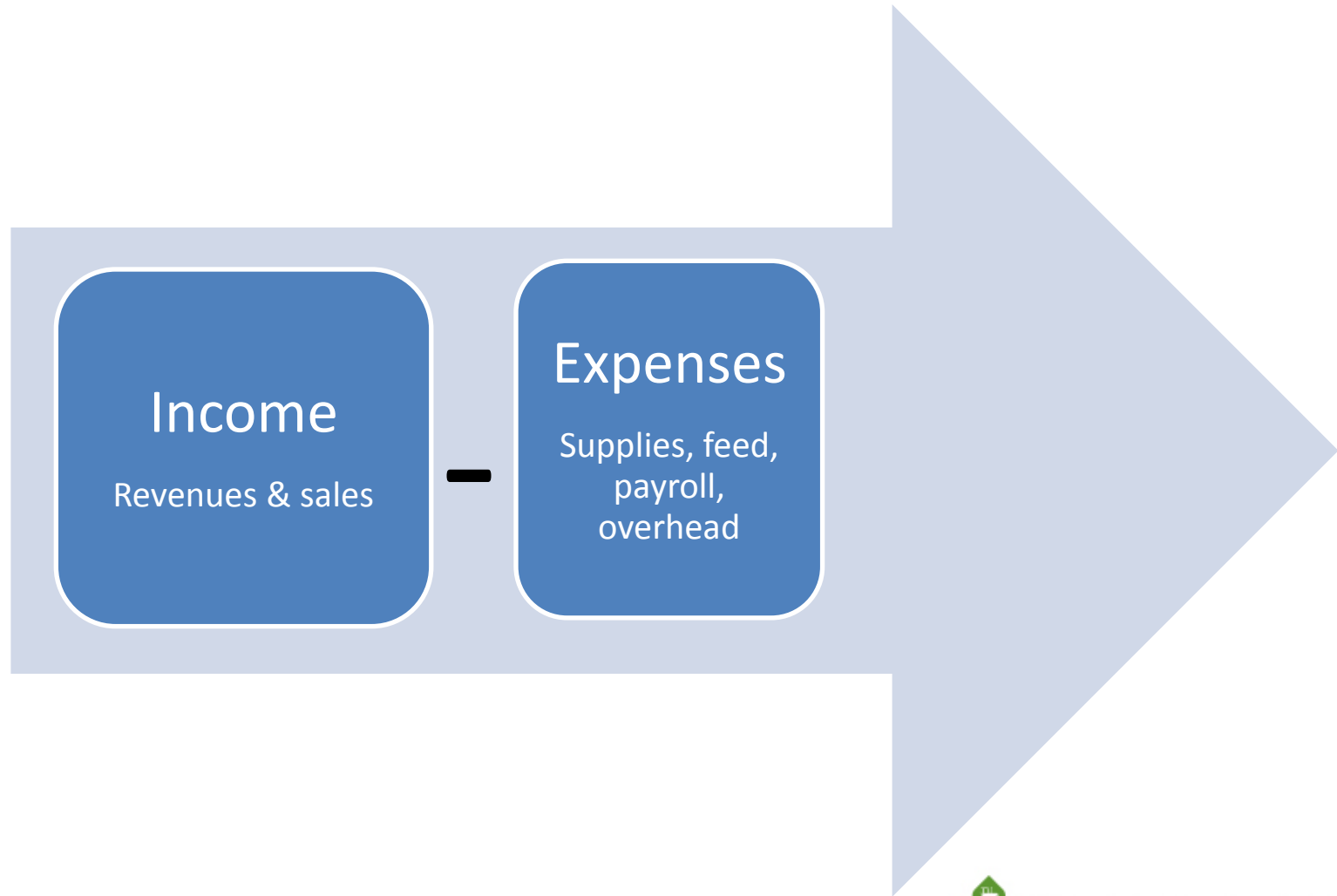
# The Income Statement



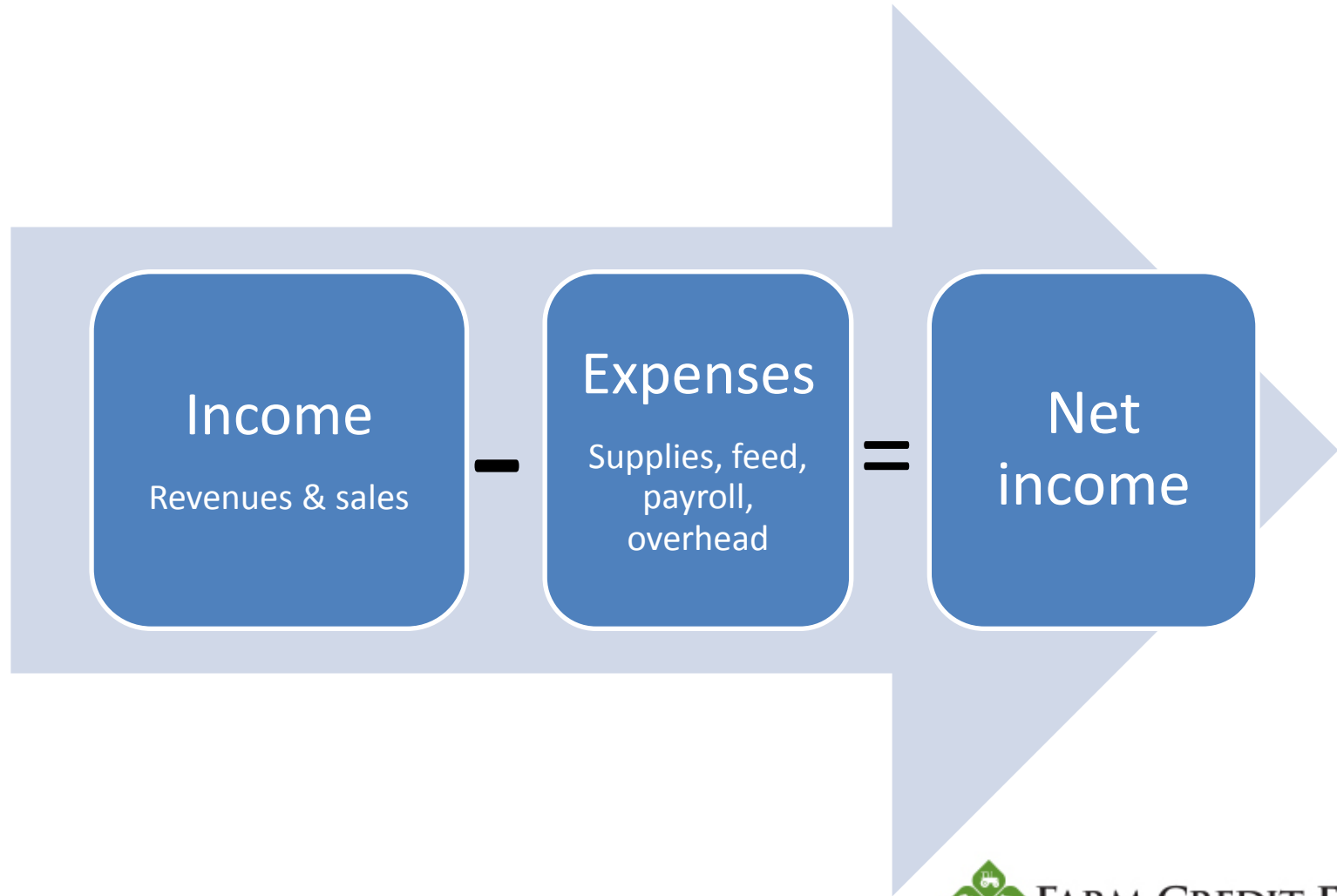
Income

Revenues & sales

# The Income Statement



# The Income Statement





# The Income Statement



Income:	
Sales of Produce	\$4,000
Gift or Grant	<u>500</u>
<i>Total Income</i>	<i>4,500</i>
Expenses:	
Labor	\$1,000
Fuel	80
Fertilizer	100
Rent	<u>300</u>
<i>Total Expenses</i>	<i>1,480</i>
Net Income (Loss)	\$3,020

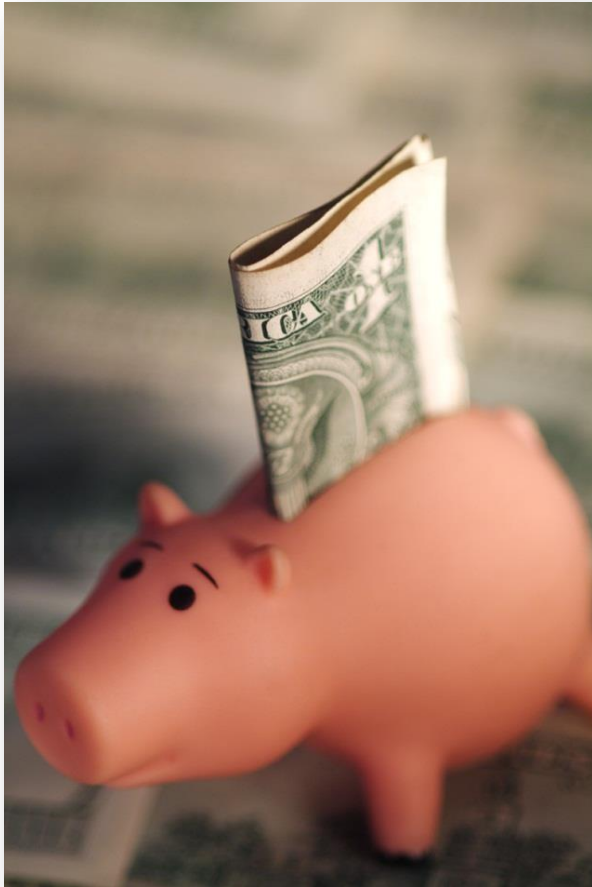
# The Cash Flow Statement

Shows how much money (cash) is really available to pay bills



Money received from customers	\$1,200
Money paid to suppliers	(2,000)
Proceeds from bank loan	1,000
Cash paid on credit card	<u>(10)</u>
Net cash flow	\$190

# Accounting Methods



Two different accounting methods yield different results

- **Cash accounting:** expenses and income are recorded when money is paid out or received.
- **Accrual accounting:** income and expenses are recorded when earned and incurred, respectively, regardless of when money changes hands.

## Accounting Methods

Cash and accrual accounting can yield different results:

Cash income:	
Sales of produce	\$400
A/R payment	<u>50</u>
<i>Total cash income</i>	450
Cash expenses:	
Paycheck Issued	\$300
Gas	20
Supplies	30
Loan payment	40
Total cash expenses	<u>390</u>
<i>Net cash income</i>	\$60

Accrual income:	
Sales – Cash	\$400
Sales – On account	200
<i>Total accrual income</i>	600
Accrual expenses:	
Labor – Accrued payroll	\$400
Gas	20
Supplies	30
Depreciation	300
Total accrual expenses	<u>750</u>
<i>Net accrual income (loss)</i>	<b>\$(150)</b>

# How to Make a Profit





## Farm Profitability is Measured in Various Ways



- Net income (raw dollars)
- Return on assets (ROA)
  - $\text{Net Income} / \text{Average Total Assets} = \text{ROA}$
  - Example:
    - $\$75,000 / \$1,500,000 = 5\%$
- Return on equity (ROE)
  - $\text{Net Income} / \text{Average Owner's Equity} = \text{ROE}$
  - Example:
    - $\$75,000 / \$1,000,000 = 7.5\%$



# Two Key Economic Concepts



- **Supply and Demand (Farm Cycles)**

- Supply down, demand up = high prices
- Supply up, demand down = low prices

- **Law of Diminishing Returns**

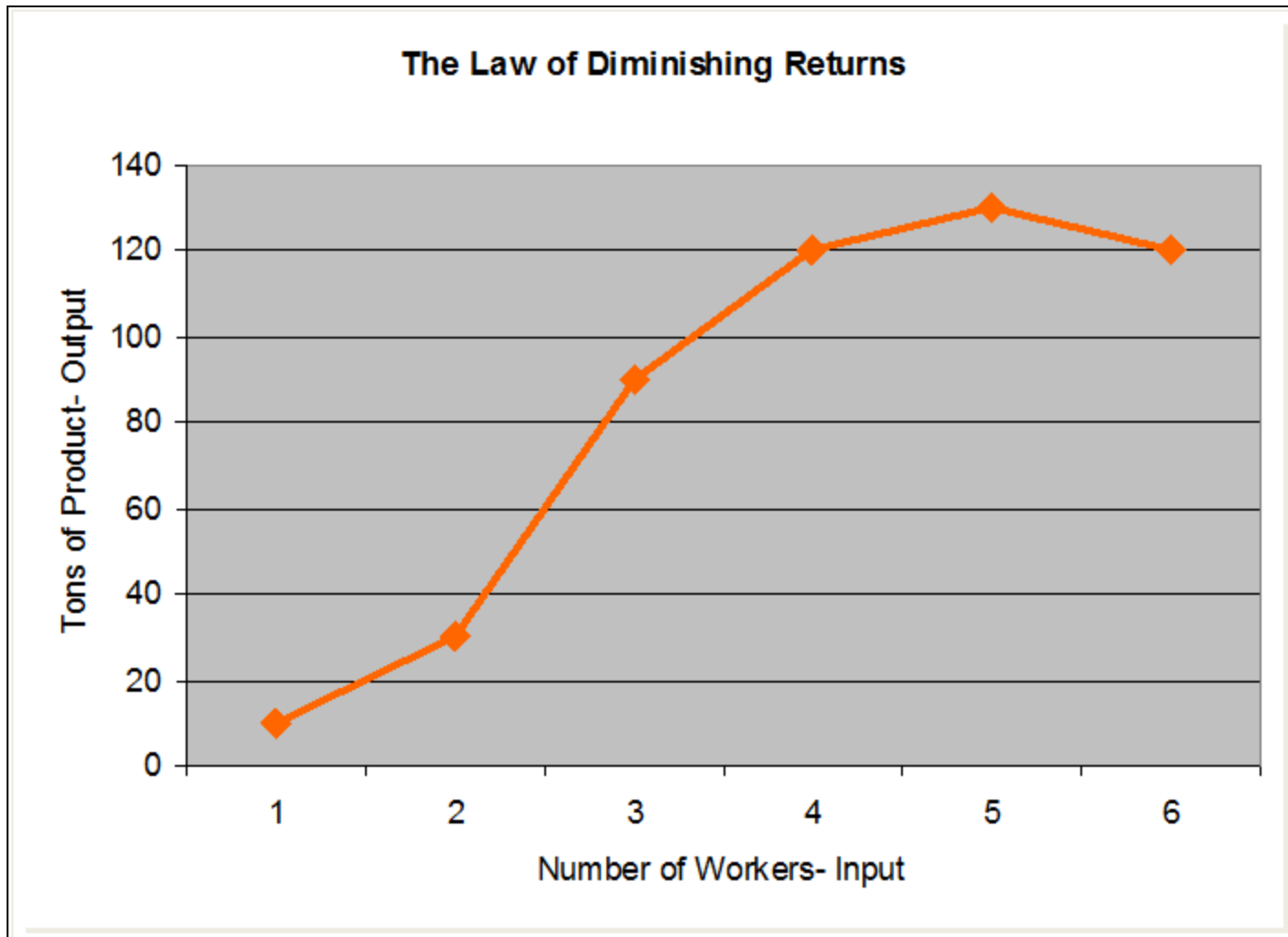
- The first improvement may have dramatic results, subsequent improvements may only be incrementally better

# Supply and Demand

Increase in price received	Decrease in price received
Demand increases	Demand decreases
Supply of product decreases	Supply of product increases
Less competition	Greater competition
Price of substitute increases	Price of substitute decreases
Price of compliment decreases	Price of compliment increases
Currently in season (sometimes*)	Currently out of season (sometimes*)

\*Seasonal impacts on prices vary. Items like Halloween decorations or poinsettias will get higher prices in season, but some items garner higher prices out of season – think strawberries in winter.

# The Law of Diminishing Returns



# Five Keys to Profitability



1. Capacity
2. Productivity
3. Efficiency
4. Cost control
5. Industry skills

# Five Keys To Profitability

First of five keys is correct capacity:

Do your



Fill your



## Five Keys To Profitability

Second of five keys is productivity.

Productivity times quality can multiply your efforts



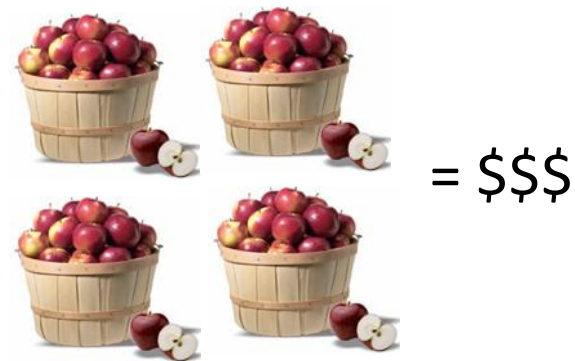
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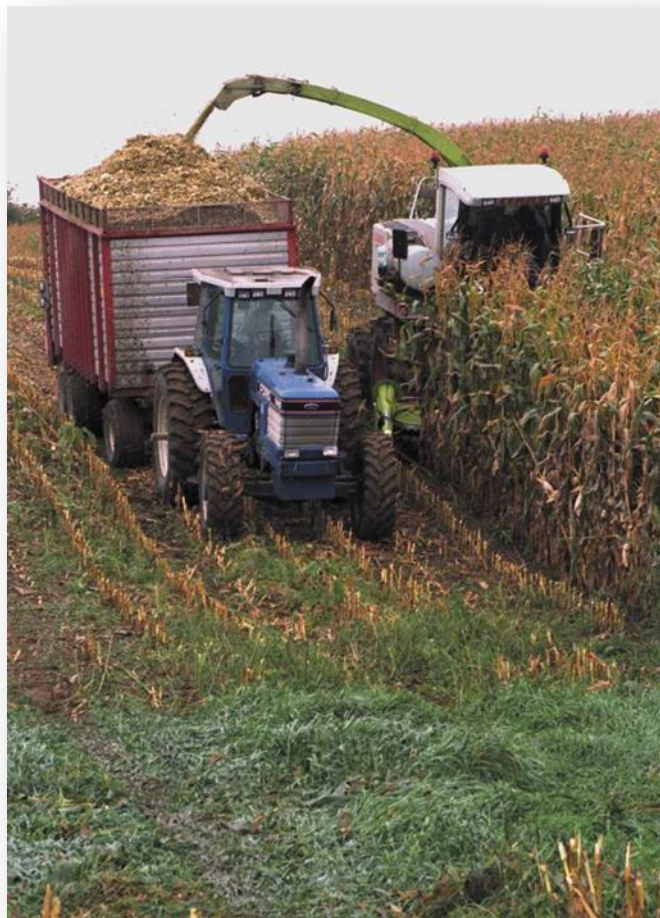
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## Five Keys To Profitability



The third key is efficiency. Efficiency means making the most out of every individual input.

For example:

- Sales per worker
- Yield per acre planted
- Milk per cow
- Production per hour

## Five Keys To Profitability

The fourth key is cost control

Variable Expenses (COGS)	Hybrid Expenses	Fixed Expenses (Overhead)
Crop inputs	Family labor	Depreciation
Feed	Rent	Interest
Fertilizer	Utilities	Repairs
Direct labor	Fuel	Property taxes
Supplies		Insurance

# Five Keys To Profitability

The fifth key to profitability is industry skill





# Case Study: Greenhouse

- Capacity
  - How are we using our land base?
  - Are we making the most use of the space we do have?



## Case Study: Greenhouse

### ■ Productivity



- What does our waste product stream look like?
- How many plants do we sell compared to plants we grow?



## Case Study: Greenhouse

- Efficiency
  - One of the most difficult to analyze without some industry knowledge.
  - Track over time against yourself.



# Case Study: Greenhouse

- **Cost Control**
  - Can I do more with less?
  - Are you continuously looking for ways to be more efficient?
  - **Variable costs:**
    - Water
    - Fertilizer
    - Seed
    - Labor
  - **Fixed Costs**
    - Greenhouse
    - Equipment
    - Insurance



## Case Study: Greenhouse

- Industry Skill
  - Time
  - Commitment
  - Drive





# Today We Covered



- The importance of good records
- Understanding financial statements
  - Balance sheet
  - Income statement
  - Cash flow statement
- Key economic concepts
- The 5 keys to profitability
  - Capacity
  - Productivity
  - Efficiency
  - Cost control
  - Industry skills

# GenerationNext

## Management Development for Today's Progressive Businesses

Designed to take your management skills to the next level.

- Ideal for young farmers who have some existing management experience and/or education, and who would like to:
  - Identify areas for personal growth and development
  - Gain tools that you can readily use in business
  - Have the opportunity to network with other young leaders in agriculture
- Three full-day, in-person sessions with a Farm Credit East Consultant
- Offered this fall/winter at selected Farm Credit East offices
- Contact us for more information.



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- Questions/Comments: [Chris.Laughton@FarmCreditEast.com](mailto:Chris.Laughton@FarmCreditEast.com)