

Farm Business Planning and Systems Management

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THE OHIO STATE UNIVERSITY

COLLEGE OF FOOD, AGRICULTURAL,
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**NORTH CENTRAL
EXTENSION
RISK MANAGEMENT
EDUCATION**



United States
Department of
Agriculture

National Institute
of Food and
Agriculture

Agenda

1. Welcome
2. Whole Farm Planning
3. Strategic Planning
4. Systems Management

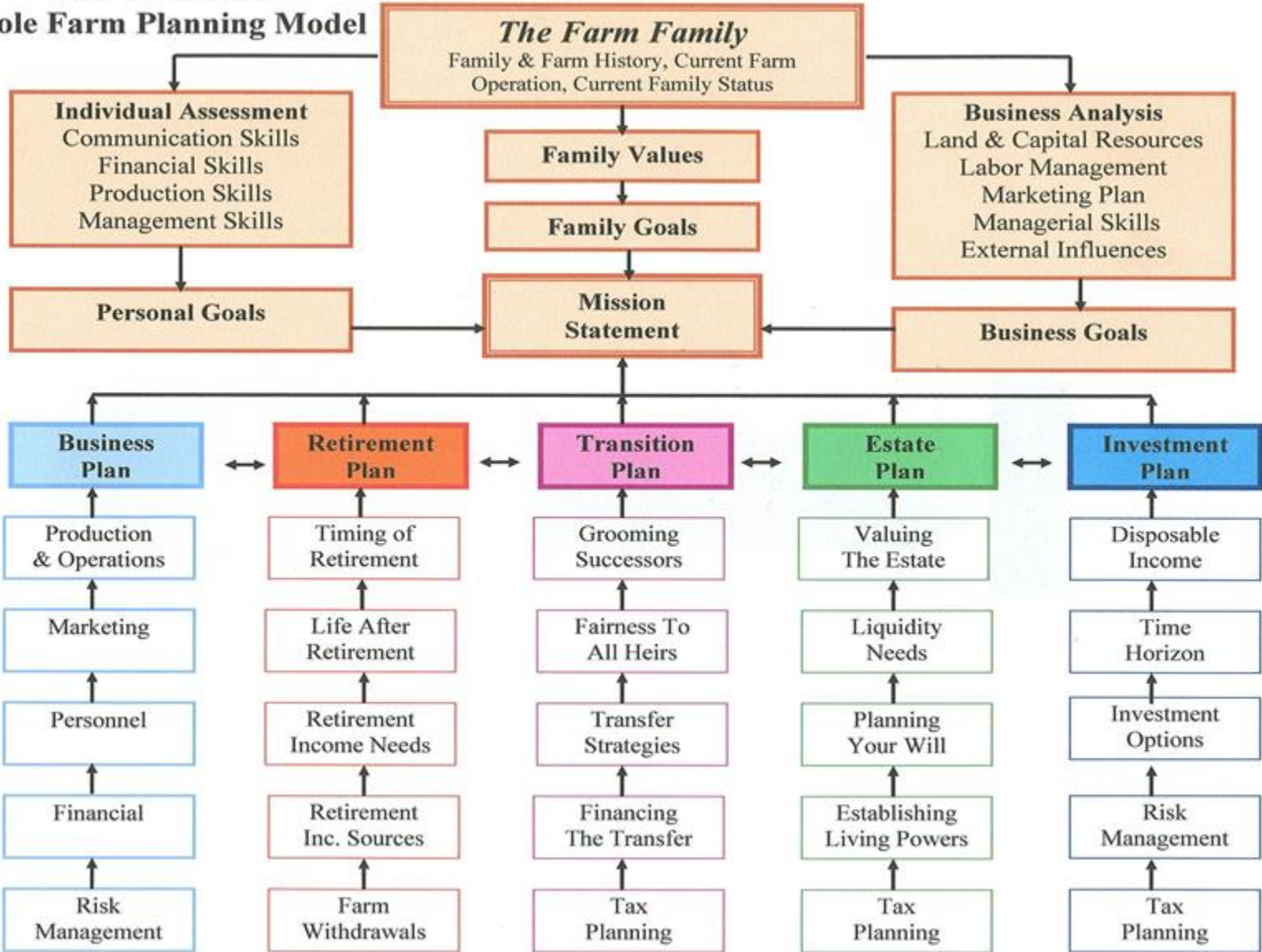
Welcome

- We have 100+ participants signed up for this workshop series.
 - 16 states represented
 - Multiple types of farm enterprises and ag professionals
 - We can add additional sessions based on requests from participants.
 - All webinars will be recorded and the link emailed to the participant list.
 - The webinars will also be posted to the <https://u.osu.edu/farmprofitability/> webpage under the Ready Set Go tab.

	Farm A	Farm B	Farm C	Farm D
Current Assets	1,099,502	875,962	1,433,052	643,249
Current Liabilities	584,514	514,792	621,001	683,470
Current Ratio	1.88	1.70	2.31	0.94
Gross Cash Farm Income	1,304,598	374,405	669,464	246,793
Working Capital	514,988	161,170	312,052	159,819
Working Capital/Gross Rev	0.39	0.51	0.45	.65
Total Assets (market)	3,461,428	1,613,646	3,445,713	2,489,914
Total Liabilities	1,545,209	1,000,658	1,777,355	774,635
Debt/Asset Ratio	0.45	0.62	0.52	0.31

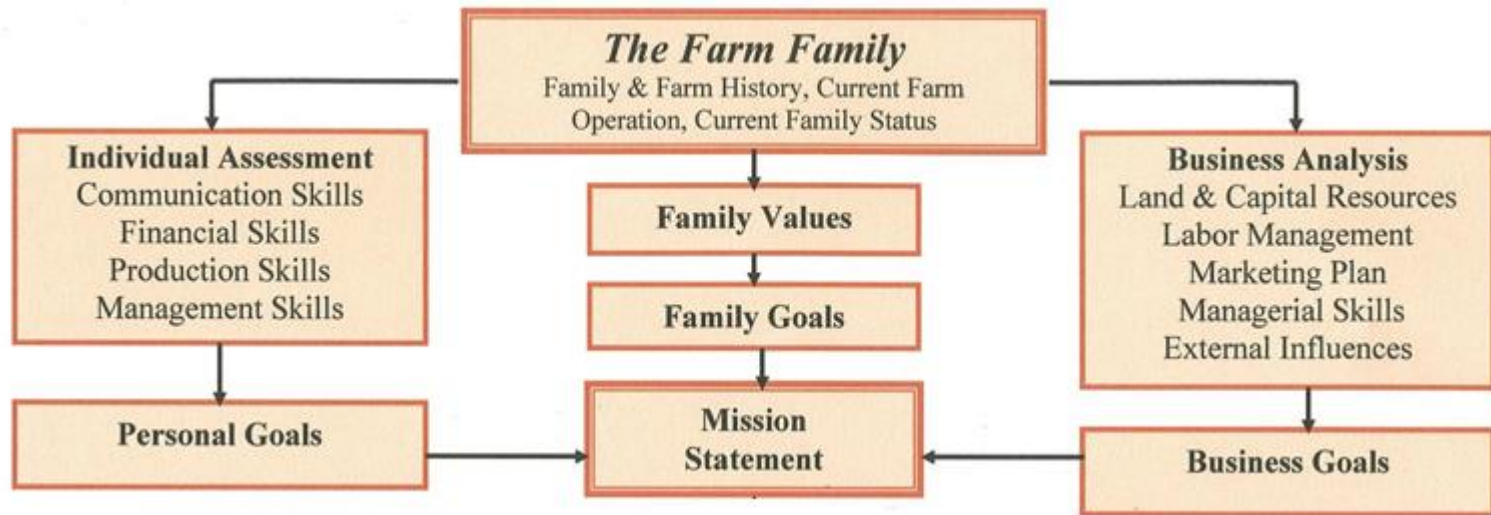
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**OSU Extension
Whole Farm Planning Model**



Adapted from: Manitoba Agriculture and Food

Determining Business Direction



- Family values; personal, family and business goals; and business mission provides business direction
- Assessment of skills of people involved
- Available assets and resources

Family Communication

- **What communication barriers exist in the family business?**
 - Common barriers include gender, generational, and marital (in-law) bias.
 - Most farmers are not known for their excellent communication skills....especially on difficult topics!
- **Does the family hold business meetings?**
 - Regular business meetings with set agendas and opportunities to discuss issues can be a huge benefit
 - Needs to be more than dad or mom telling the rest how things will be!

Strategic Planning

1. The Future Situation: Where do we want to be?
2. Key Success Measures: How will we know when we get there?
3. The Current Situation: Where are we now?
4. The Journey: How do we get there?
5. The Shifting Landscape: What will/may change in our environment in future?

Why Do You Farm?

1. Came with the spouse?
2. Inherited the farm?
3. Wanted the rural life?
4. Only occupation I knew?
5. Because it was expected?
6. Don't have a clue?

Developing a Mission Statement

- A mission statement is a business plan written on the head of a pin.
- The fundamental underlying reason for the business to exist—its critical purpose.
 - What are you hoping to achieve?
 - What do you not want it to become?
- Meets family, financial, customer, and employee needs.
- Captures the family values and goals.

Mission Statements

"I have a dream that one day this nation will rise up and live out the true meaning of its creed: 'We hold these truths to be self-evident: that all men are created equal.'"


"I live my life as a solution to humanity - traversing all nations and races: giving hope and future to the hopeless, the poor and the oppressed in and through Christ"

Strategic Planning

- Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy.
- It may also extend to control mechanisms for guiding the implementation of the strategy.

The Future Situation

- **What are your goals for the family farm?**

- Personal goals
 - Family goals
 - Business goals
- 
- Synchronized

- **SMART**

- Specific
- Measurable
- Attainable
- Rewarding
- Timed

Key Success Measures

- What gets measures gets attention
- What defines SUCCESS
 - Money
 - Size
 - Relationships
 - Output per unit
 - Influence
 - Others

Current Situation: SWOT Analysis

Strengths

- What makes you competitive?
- What do you do better than others?
- What do others see as your strengths?

Weaknesses

- What could you improve?
- What should you avoid?
- What does your competition do better?

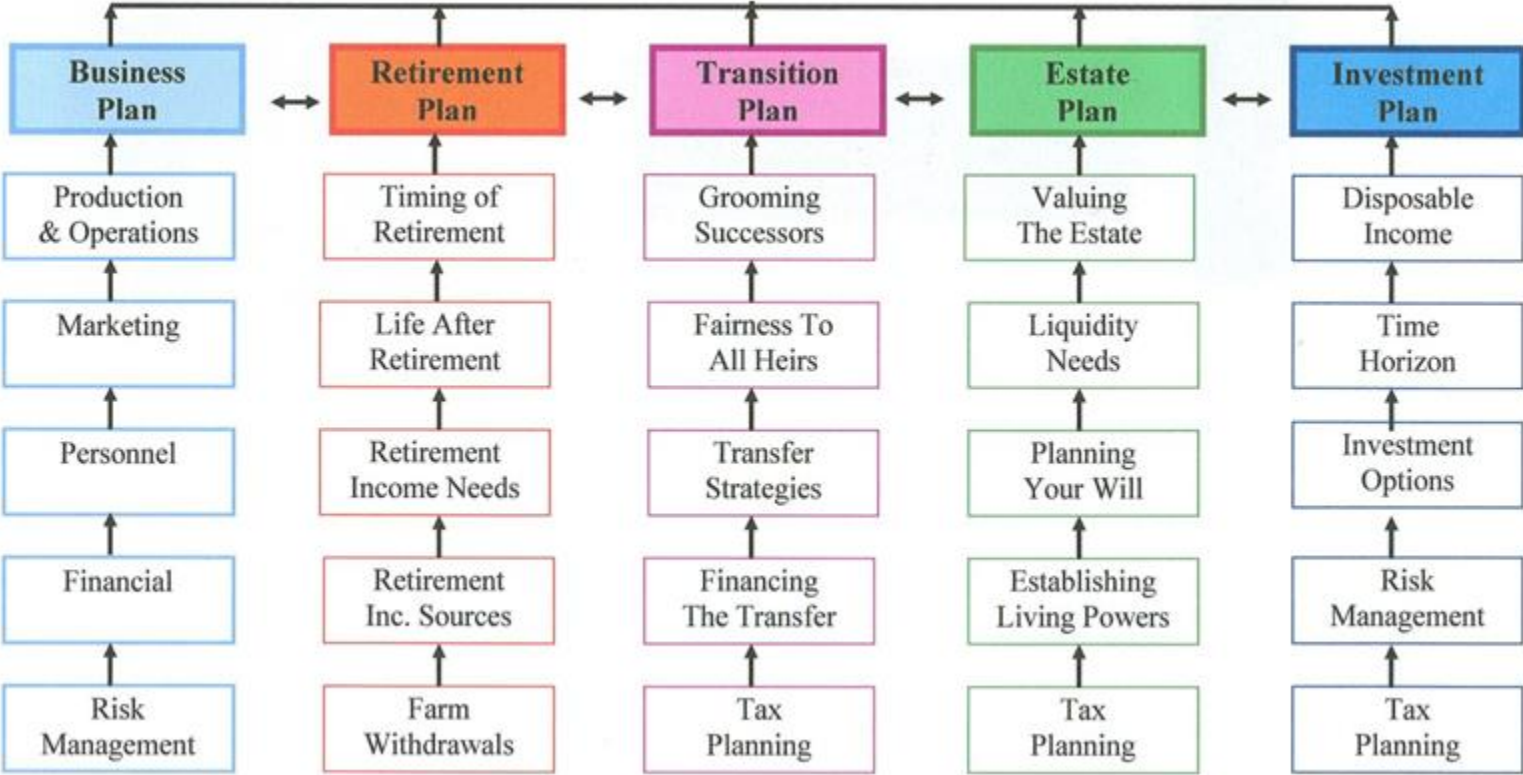
Opportunities

- What trends are you facing?
- What good opportunities are available?
- What is happening in the community?

Threats

- What obstacles do you face?
- How about the competition?

The Journey



Business Plan

- **Production & Operations**
 - Cultural Practices
 - Variety Selection
 - Availability of Machinery
 - Crop Rotations
 - Land Leases
- **Marketing**
 - Strategy
 - Pricing
 - Delivery



Business Plan

- **Personnel**
 - Availability of Labor – Family or Hired
 - Employee Management
- **Financial Planning**
 - Financial Statements
 - Earning Potential
 - Enterprise Budgets
 - Cash Flow Projections
- **Risk Management**
 - Tolerance/Insurance
 - Government Programs
 - Contingency Plans



Retirement Plan

- **Timing of retirement**
 - Do farmers' retire?
 - Sufficient farm income to replace your labor?
- **Life after retirement**
 - Hobbies
 - Farm involvement
- **Retirement income needs**
 - Travel/leisure
 - Health care
 - Long term care

Retirement Plan

1. Where is your retirement income coming from?

1. Social Security/ Retirement Plans
2. Off-Farm Investments
3. Machinery Sales/Leasing
4. Livestock Sales/Leasing
5. Land
 1. Often most secure retirement income for farmers
 2. Typically no SE tax

Rule of 72

- How fast will income need to double due to inflation?
- At 4% annual inflation ($72/4$) it takes 18 years to double living costs.
- “Rule of 115” will estimate how long before living costs will need to triple.
- What is the average inflation rate for the past 10 years in the US?

Transition Plan

- **Grooming successors**
 - Responsibility
 - Authority
- **Fairness to all heirs**
- **Transfer strategies**
- **Financing the transfer**
 - Can the next generation afford the farm?
- **Tax planning**

Can the Business Support the Next Generation?

1. Average family living cost \$50-60,000+
(70% to 80% to more than 100% during retirement years)
2. Requires >\$500,000 gross revenue.
3. An average operating expense ratio of 75% (excluding interest & depreciation) leaves 25% for debt service, capital replacement, growth, investment and family living costs (taxes and health care being the two main family living costs).

Estate Plan

- **Valuing the estate**
 - Adjusting land values
- **Liquidity needs**
 - How much should be cash
- **Planning your will**
 - Who gets what
- **Establishing living powers**
 - What decisions can be made now
 - Who makes the decision if you cannot
- **Tax planning**

Unexpected Issues

1. Long Term Care/ Medical Costs

1. \$75,000/year or more for nursing home

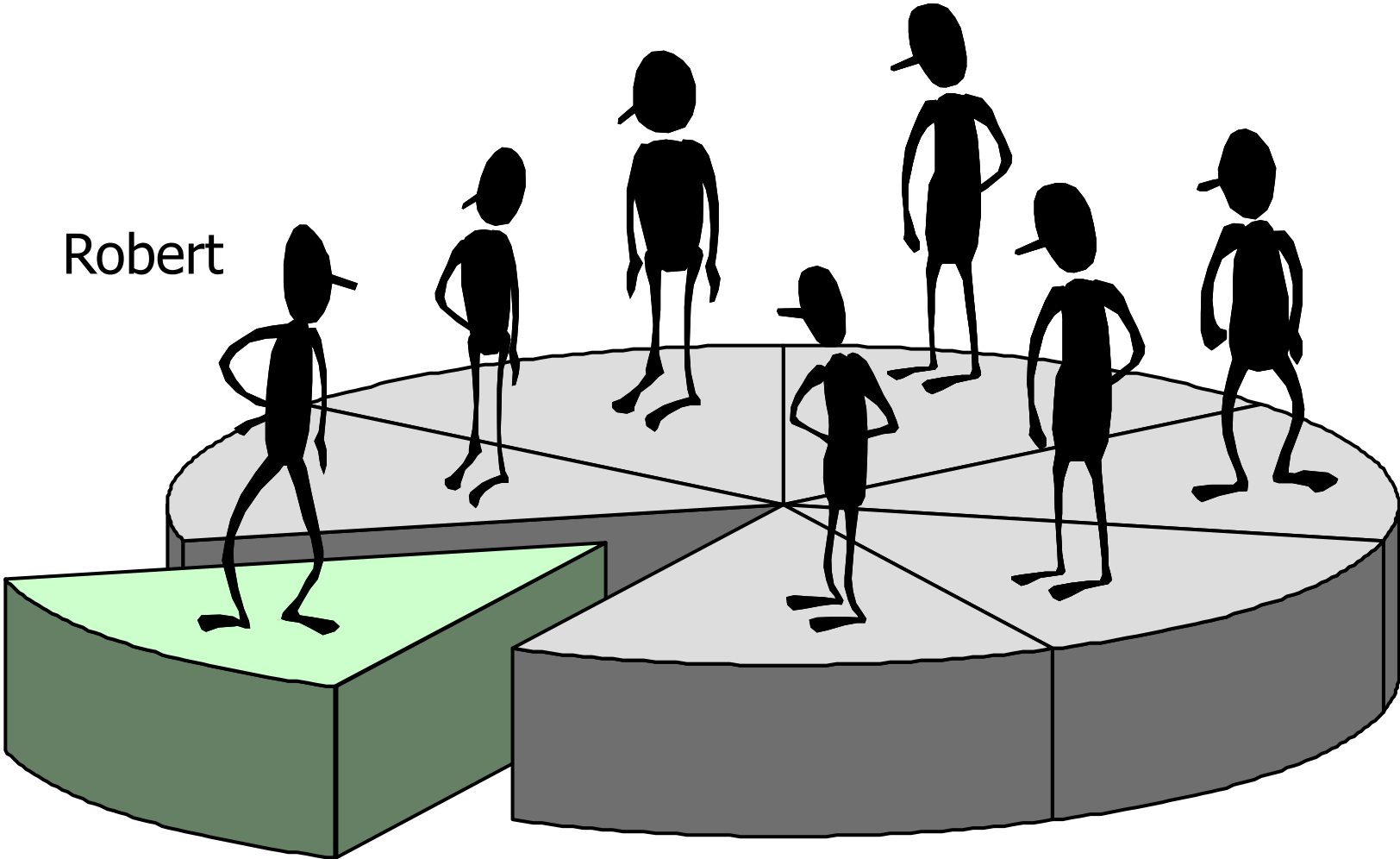
2. How is your farm protected?

1. Self Insured
2. Long Term Care Insurance
3. If no protection, farm is at risk

Current Estate Laws

- **No Ohio estate taxes**
 - as of January 1, 2013
- **Federal estate and gift tax exemption**
 - Current \$5.45 million for 2016
 - Transferability between spouses
 - Made permanent (which means it does not have a sunset date but congress can change at any time)

Equitable versus Equal



Equitable or Equal?

- Farmers often face the challenge of having to allocate inheritance between on-farm heirs and off-farm heirs
- **Equitable v. Equal**
 - Equitable is often used by those people who feel that the on-farm heir has helped build the parents' wealth
 - Equal provides the same for all children regardless of involvement with the farm

Suggested Strategy

- On-Farm heirs should receive the operating assets
- Off-farm heirs should receive non-farm assets
 - Life insurance
 - Cash
 - Investments
- Land in an LLC can be used to balance between heirs

Investment Plan

- **Investment income**
 - Profits
 - Off-farm income
 - Gifts Received/Inheritance
- **Time horizon**
 - When do you need to cash out the investment?
- **Investment options**
 - Land, On-farm investments, Stocks/bonds, Off-farm investments, T-Bills, Roth IRA's, etc.
- **Risk management**
 - Diversification of investments
 - Tax considerations of investments

The Shifting Landscape

- What has changed in the past few years that could affect profitability?
- Declining crop prices
- Increased land cost (taxes, rent, purchase price)
- Decreasing beef prices
- Past aggressive income tax management strategies
- Loss of a key business family member
- Addition of child to the business
- Others

Systems Management

- Often called CONTROL in management books.
- Requires measurement
- Required comparison against standard
- Required decision
- Decision might be to do something major, minor, or nothing.

Decision Data

- Where can you find financial benchmarking data for your farm.
 - Ohio Farm Business Summary - <https://u.osu.edu/farmprofitability/>
 - Minnesota FINBIN summaries - <http://www.finbin.umn.edu/>

Next Week

- Follow-up from question generated during the upcoming week. Email questions to bruynis.1@osu.edu
- Five financial statements that provide information to make management decisions.

Questions