



COMPREHENSIVE GUIDE TO FARM FINANCIAL MANAGEMENT

Introduction - Taking Care of Business

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Taking Care of Business

Performance Objectives

Upon completing this course you will be able to:

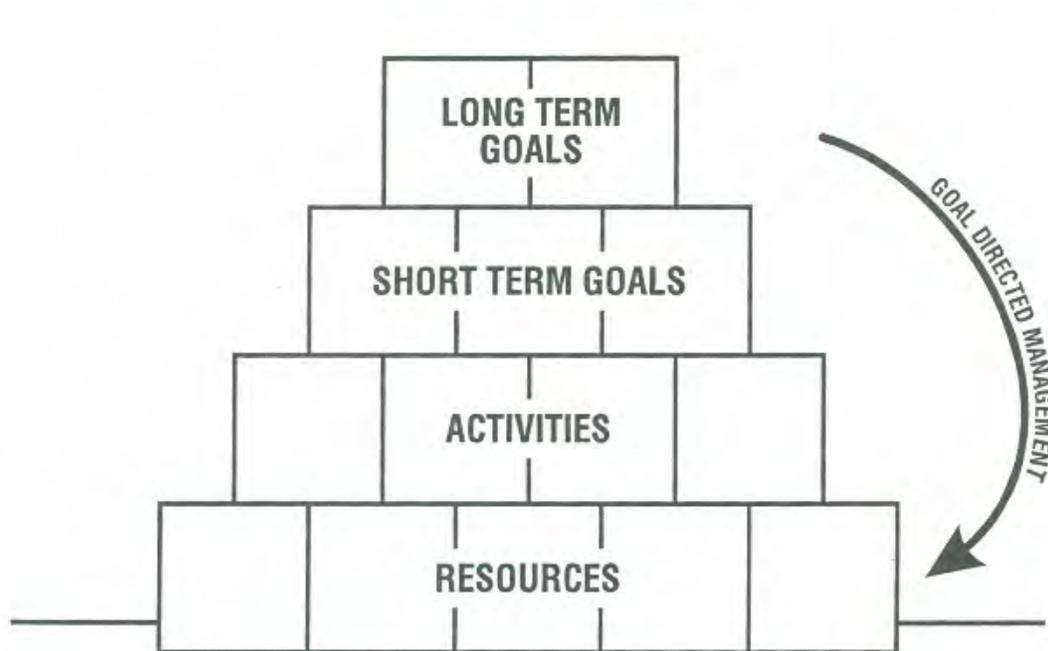
- develop goals that you are committed to and that will guide the management of your farm and family;
- prepare and analyze financial statements to determine your potential financial ability to pursue stated goals, and
- develop a management plan to identify the activities and resources necessary to achieve your stated goals in the coming year.

Management - What is It?

Management is defined as the decision making process whereby limited resources are allocated to a number of production, marketing and financing alternatives to achieve stated objectives. This statement has three components:

- goals - stated objectives to be reached;
- resources - information, land, labour and capital, that are limited in supply, and
- alternatives - various ways to reach the stated objectives. Effective managers choose the alternative that will place the least claim on resources to achieve agreed upon goals.

Goal directed management can be defined more simply as the effective use of what you have (resources) to get what you want (goals). Think of it as a pyramid constructed of blocks that support each succeeding layer to the top.



Long term goals form the apex. They provide guidance and direction *for* short term goals, management activities and resource usage, so that future aspirations for the farm and family are realized.

Short term goals are accomplished in the next one to two years. Most short term goals support long term goal achievement. They provide the guidance for management activities and resource usage.

Activities are actions undertaken on a day to day basis to accomplish the desired goals that are guiding management.

Resources form the base of the pyramid. They are supplies that can be drawn on for goal achievement.

Managers have seven main resources available to them:

1. Time - to undertake production and management activities
2. People - to provide labour and management activities
3. Finances - to purchase items used in the production process
4. Equipment - to use in the production process
5. Information - to optimize production decisions
6. Energy - to use the other resources available
7. Space - to be used for production - land and buildings

Often these are summarized as land, labour and capital.

The mix of resources varies from farm to farm and within the same farm over time. They can be used in various mixes to achieve a goal and it is often a lack of resources that prevents you from achieving a goal.

In goal directed management, resources, activities, and short term goals focus on attaining long term goals - not the other way around as in resource directed management.

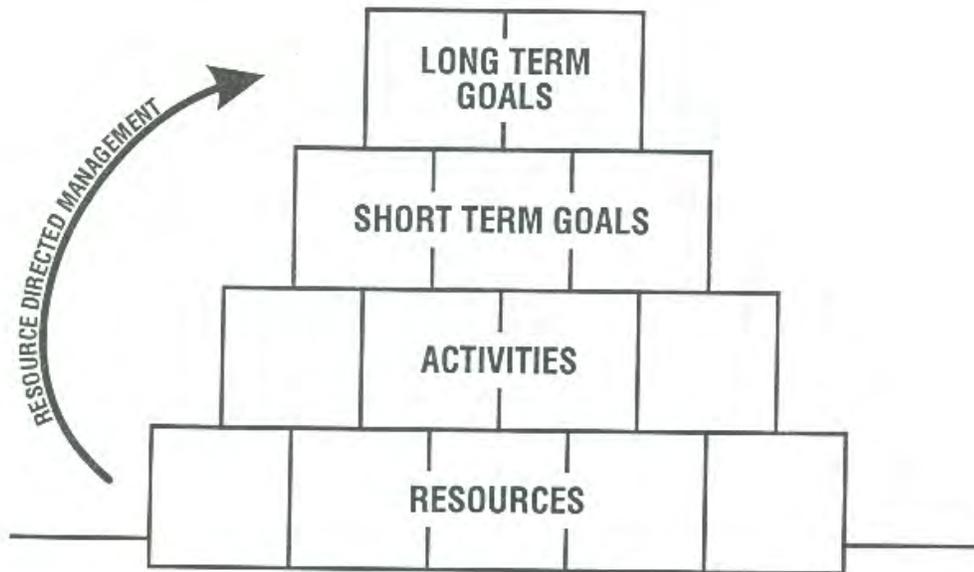
Consider the scenario of a young family returning to take over the farm from retiring parents. They have a keen interest in livestock and are motivated to establish a herd of beef cattle. However, the farm has traditionally been a straight grain operation. There are no facilities or experience and expertise to be passed down from the parents.

If the young family follows goal directed management, goals will be developed that reflect the aspirations of the management team. The long term goal to establish a herd of beef cattle can be supported by these short term goals:

- to learn about beef cattle production, buy some cows, build corrals and barns, and seed some of the land to forage and pasture

The day to day activities and resources of the farm family will be focused toward these goals. If they follow good management practices, before long their dream of establishing a herd of beef cattle will be realized.

If the young family follows resource directed management, the resources available will determine their day to day activities and accomplishments. The family will continue the tradition of straight grain farming. However, they may not accomplish what they find satisfying and motivating in their lives.



Why is Management Important?

Everyone has goals they want to accomplish in their lifetime. The goals may be unconscious and unidentified, but they do affect the day to day activities of individuals, and they do use available resources.

Management is used by people to help reach conscious goals. When people achieve goals they feel successful. Success is something everyone strives for and is measured differently for different people. Success may be living in harmony with nature, increasing the size of the livestock herd, being able to go fishing every weekend or saving for retirement. Success may be all - or none - of the above.

Management Activities

Farm management is the human activity which plans, organizes, directs and controls the operation of a farm business. The management team is the key figure. It is their responsibility to see that these activities are carried out. Think of it as a wheel with the management team as the hub and the management activities as the spokes. Motivation is the force that drives the wheel forward. Let's look at these management activities in more detail.



A successful farm is not the result of chance or luck - it is the result of good planning. **Planning** is the process of thinking through what is desired and how it will be achieved. Plans must be made before any other management activities can be performed. Assessment of past, present and expected future performance are integral to the planning process.

Analysis of past financial and production records identifies which production practices have worked, which have not and point out weak spots in the financial structure.

In assessing the present, the manager considers the effect of internal (resource availability) and external (markets, economy, weather) forces on the decision making process.

Planning for the future dictates that management establish goals (production targets, quality of life, etc.) for a point in the future. These goals provide the framework for future management activities.

Effective management is achieving agreed upon goals using a minimum of resources. Commitment to the planning process is the most important contributor to its success. People don't plan to fail - they fail to plan. Good management demands planning.

Once goals are set and plans are implemented for their achievement, the manager must **organize** the tasks, people and work place to ensure that the claim on resources is minimized (while still achieving goals) and efficiency maximized. This involves establishing the order and time frame in which tasks are to be completed, and defining roles and responsibilities of workers. It also involves arranging land, buildings, equipment and livestock to improve overall efficiency.

Managers **direct** by providing leadership, supervision and motivation. They communicate well with the workers to ensure that each individual's efforts are focused on reaching the goals for the plan. Good managers make things happen. They don't concentrate so much on doing things as they do on getting things done. They focus on producing the desired results.

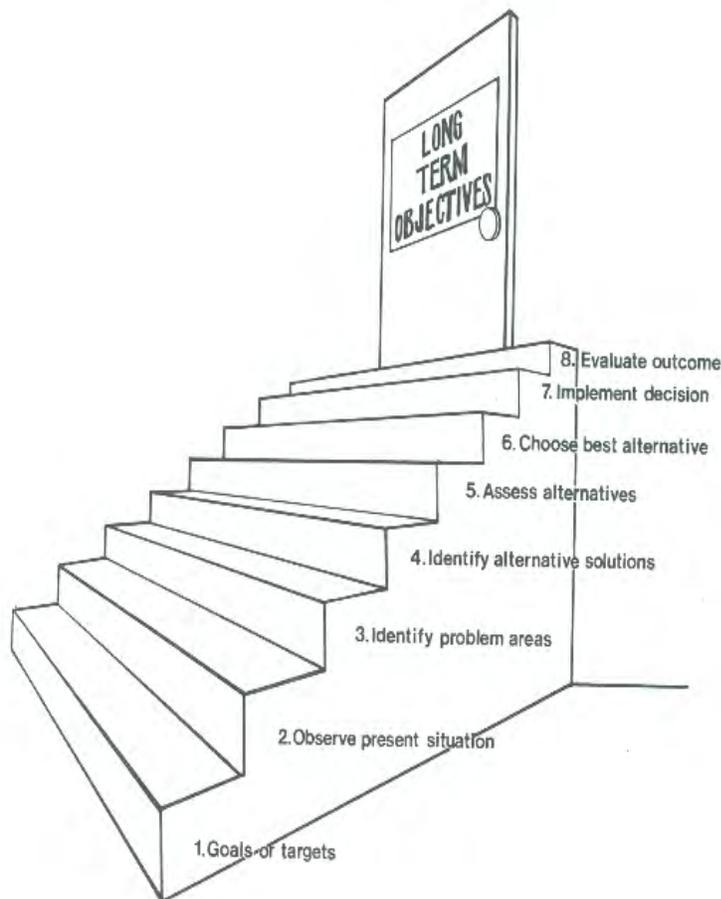
The fourth activity of management is to exercise **control** over how well things are done. Controlling focuses on what is going wrong rather than on what is going right, and then taking corrective action. This could involve analyzing production records and actual cash flow statements at regular intervals and determining if the plan is on target. If the corrective action is unable to cause the goals of the plan to be achieved, then the plan needs to be re-evaluated and perhaps the level of achievement reduced.

Good management skills are developed throughout the years of experience in the operation. Those who continue to hone these skills and follow the basic management activities of planning, organizing, directing and controlling will become successful managers of successful businesses. Good managers are made - not born. The process of becoming one is not an impossible task.

The Management Process - Decisions, Decisions, Decisions

Managers are constantly making decisions that will ultimately effect the success of the plan set for the farm and/or the family. Often these decisions are made in uncertain and changing circumstances. Realizing this, managers are often reluctant to make decisions and often agonize over them, both before and after they are made. Failure to make a decision can often imply a different decision - perhaps not a good one.

Breaking the management process down into smaller steps can help the management team make decisions with confidence. This management process is like a wheel moving forward towards the long term goals of the farm and family with the management team at the center. The process is broken down into eight steps:



1. Establish short term goals

Identify short term goals that support the attainment of the long term goals your team has set.

Increase accrued net farm income by \$5,000 in the next year.

2. Observe the Present Situation

Gather all information and facts and make some observations about the present situation.

An analysis of accrued net farm income and cash flow indicates that the farm is currently not generating sufficient income to meet present demands for family living expenditures and debt repayment.

3. Identify Problem Areas and Opportunities

Identify the problems which prevent you from reaching your goals or making the most of any opportunities that are available.

Potential accrued net farm income is limited by increasing cost, low prices and uncertain weather conditions during the growing season. Low quotas present marketing problems. Land is high priced and hard to rent. The family has ample time available in the winter months to do chores and an old barn is available for use.

4. Identify Alternative Solutions

List alternatives available to improve the situation. These will be based upon your interests, motivations, values and physical and management capabilities.

Special crops or market gardening is a possibility. Livestock could be added to the farm in the form of a beef feedlot or a feeder hog operation utilizing the old barn. Off farm income is also a possibility.

5. Test Alternatives

Test options available by developing cash flow projections and enterprise budgets for each alternative. Use profitability as a measure. Discard non-profitable alternatives.

Each alternative is worked out on paper with a budget to determine which one will increase accrued net farm income by \$5,000.

6. Choose the Best Alternative

It's decision time! If you've prepared your financial projections carefully in the previous step, you should have confidence in your ability to choose the best alternative. Your interests, motivations, values and physical capabilities will also play an important role in the decision making process.

After they examine each budget, the management team decides to renovate the old barn and establish a hog feeding operation.

7. Implement the Decision

It's commitment time! Labour, time and money are needed to implement the decision. Once these resources are committed, it will be difficult and costly to reverse the decision.

Lumber and materials are ordered, labour hired and renovation of the barn begins. Weanling hogs are purchased and the new enterprise begins.

8. Evaluate the Decision

Evaluate and monitor the results of the decision. Does it meet the goals stated earlier? Watch for the development of unforeseen problems and be ready to refine your plans to solve them quickly. Evaluation is an ongoing process and as new problems arise they take you back to the beginning of the management process and you start the decision making process over again.

Production and financial records are kept on the hog operation to monitor performance. Is the goal of a \$5,000 increase in accrued net farm income being met? Were the budgets realistic? Are production standards being met and are they realistic?

Summary

Success - it is something we all strive for. While it can be different things to different people, success can be equated with the achievement of an objective or goal. These goals can have many different forms - growing a special crop, increasing the size of the livestock herd, increasing the land base, taking a major family trip, building a new home, saving for retirement, etc. When we achieve the goals we have set, we feel good - we're successful.

Management is **not** a complex and difficult concept. Good management is essential to the future success of the farm and the family.

Goal directed management dictates that the management team set long term goals that they wish to attain sometime in the future (three or more years away). Short term goals (to be achieved in less than three years) are set to support the attainment of these long term goals. Once all goals are set, agreed upon and prioritized, the management team can direct their efforts and activities towards goal attainment.

The following instructional modules in this course will provide you with the tools to set long and short term goals, determine if they fit your values, interests, and motivations and if they are within your financial reach. Once you have determined goals your management team is willing to commit the use of your resources to, you will develop a management plan that will provide a road map for you to follow as you carry out various management activities.

Today's slim profit margins are forcing farmers to re-examine all aspects of their management. There has been a rebirth or renaissance in farm management. Practicing good farm management at all times, whether the farm economy is good or poor, leads to much higher levels of success (higher and more goals attained) over the life of the farm than would be the case if good management is practiced only in the tough times. Good farm management is important - at all times. Those who desire to be a success in business can do so by learning and following basic management principles.

Good managers are made - not born.