NFRBMEA Inc.

National Farm & Ranch Business Management Education Association, Inc.

... Teachers delivering knowledge that works to North America's Farm and Ranch Families

NUTS & BOLTS

President's Message:
By Pauline Van Nurden, 2020-21 NFRBMEA President

February 10, 2021

I hope you are all doing well during this busy time of the year. I know working with farms to prepare their 2020 analysis and help them with 2021 planning can be challenging but rewarding work. Thank you for your efforts in helping farmers and ranchers with their financial manageent and education needs. Your work plays an important part in the success of farm operation and in turn impacts the larger rural and agricultural community. Thank you for your efforts!

At this time, we are still planning for an in-person National Farm Business Management Conference in 2021. Put June 14-17 on your calendar and make plans to travel to Hilton Head Island, South Carolina. The agenda is being finalized, but you can learn more for planning purposes on the conference website. I hope you will take the time out of your busy schedule to attend. This conference is a 'must attend' event for many FBM instructors. It is always a great event with targeted professional development programming related to farm business management education and your daily work with producers. I personally look forward to the conference each year and can't wait to network with you all in person again. The learning and networking from this conference is always second to none, this year will be no exception. Thank you to the team at Nebraska Farm Business, Inc. for leading planning efforts!

I wish you all a happy analysis season, filled with good health. — Pauline

Are You Ready for Change?
By Myron Oftedahl, NFRBMEA President Elect

Welcome to 2021! This means that you survived 2020. Are you ready for change? Change is defined as to make different the form, nature, content, future course of something. We can't change nature, although we would like to control nature sometimes.

Change can be good and change can be challenging. It often depends on how you perceive it. If you accept that change is going to happen and then try to figure out how you will function after the change it could be good. If you fight the change, then it could be not so good. Now in saying that, we need to accept that not all change is good, and sometimes we need to figure out an alternative that is more accepting to all parties.

Take a minute and write down some of the changes that have taken place in your lifetime. Probably need more than a minute right? As we have industrialized, change has been on a rapid pace, and the more that technology increases, the pace of change is increased dramatically. For example, how many grew up with a party telephone line? Remember the first cell phones? They came in a bag about the size of a carry-on bag. Now the only reason that cell phones are the size that they are is so that we have a larger screen to watch videos and play games on. It was a big deal if you had a cell phone in the early 80's, now it is a big deal if you don't have one.

You could look at a multitude of items that have changed on the farm, robot milkers, GPS and auto steer, seed traits, and the list is endless. Yes, you could argue if any of them actually helped or actually paid for themselves. In many cases, the advantage of less physical wear and tear on our bodies was well worth the investment. It is because of the advancements in technology and machinery that has allowed many of our farmers to be still farming past retirement age.

What changes have occurred since you began your career as a Farm management instructor? In my case, the laptops have gotten a lot lighter! And a lot faster!

*(**"CHANGE"**, continued on page 3)*

How to Use Benchmarking in Farm Management Decisions

By Jason Fewell, instructor, North Dakota Farm Management Education Program, Jamestown, ND

Developing plans for your farming and ranching operation is a critical process. An key part of planning for a new year includes analyzing the past year and determining which crops and livestock enterprises were profitable and which were not. Part of the annual analysis can include benchmarking crop and livestock enterprises against yourself and others.

Some farmers and ranchers may see little value in benchmarking, even though everyone benchmarks their operation, maybe without realizing it. Benchmarking against yourself lets you compare changes year to year on your own operation.

Benchmarking yields from one year to the next is a good exercise. Determine what internal and external factors caused crop yields to be higher or lower than last year. Was it weather-related, good or poor seed selection, accurate or inaccurate fertilizer application, or some other factor?

You can benchmark enterprises on a field level, too. Not all farmland is created equal. It can be useful to benchmark net returns per field to determine if inputs should be varied across fields to earn the same return. For livestock producers, benchmark pregnancy percentages, live births, weaning weights or production (milk, wool, etc.). Keeping accurate records gives you the necessary data to look at changes from one year to the next.

Benchmarking against others lets you analyze your operation to determine if you are over- or under-utilizing inputs. It is useful to compare input costs by enterprise. For example, look at yields and input use by crop to see if you're spending more for the same yield than average producers.

A valuable resource is data from the North Dakota Farm Management Education Program. Average production and financial data are compiled from farmers enrolled in the farm management programs across North Dakota. View the annual reports and compare your farm's financial performance to average producers in the area.

Benchmarking information can also be retrieved from the FINBIN database at the University of Minnesota's Center for Farm Financial Management.

You can make whole-farm and enterprise-level comparisons with several financial and production measures to see where you stand against the average, as well as those in the low 20%, middle 40% to 60% and high 20% levels of profitability.

2019 North Dakota Spring Wheat Returns ($) on Cash Rented Land

		Avg. of All Farms	Low 20%	40 - 60%	High 20%
Yield per acre (bu.)		53.1	42.83	55.01	63.25
Value per bu. ($/bu.)		$4.90	$4.55	$4.86	$5.12
Gross return per acre ($) **		$323.44	$283.93	$313.93	$382.13
Selected expenses ($/ac):					
	Seed	$17.67	$22.82	$17.44	$17.06
	Fertilizer	$63.70	$79.98	$64.05	$62.07
	Repairs	$22.56	$33.17	$24.16	$18.13
	Land Rent	$57.79	$74.30	$56.41	$54.74
	Interest	$9.91	$12.75	$10.62	$8.87
	Machine & Building Depreciation	$27.83	$35.96	$25.79	$29.01
Total Direct & Overhead Expenses per acre		$290.89	$366.02	$293.47	$277.18
Labor & Management Charge per acre		$22.49	$23.59	$22.06	$22.18
Net Return over Labor & Mgmt. per acre		$19.59	−98.05	$7.74	$93.36
Cost of Production with Labor & Mgmt. ($/bu.)		$4.53	$6.84	$4.72	$3.64

**NOTE THAT GROSS RETURN INCLUDES AD HOC GOVERNMENT PAYMENTS, CROP INSURANCE, AND MISCELLANEOUS CROP INCOME BUT NOT CYCLICAL GOVERNMENT PAYMENTS (E.G., ARC/PLC)

The chart shows 2019 spring wheat returns from 145 enterprises on cash-rented land in North Dakota. You can see that spring wheat gave an average net return over labor and management of $19.59 per acre with returns of −$98.05 per acre, $7.74 an acre and $93.36 per acre for the low, middle and high 20% profitability groups, respectively.

Yields, prices, crop insurance, government payments and costs can all be analyzed at each profitability level to see where your operation fits. For instance, in regards to profitability:

- low 20% averaged 42.83 bushels per acre at $4.55 per bushel
- high 20% at 63.25 bushels per acre at $5.12 per bushel
- average at 53.10 bushels per acre at $4.90 per bushel.

This information can also be used to make marketing decisions. When looking at the same spring wheat enterprise, we see the cost of production was $6.84 per bushel for the low 20% profitability level, $3.64 per bushel for the high 20% and the average was $4.53 per bushel. Knowing the cost of production is important when developing a marketing plan. If your costs are higher than the current selling price, evaluate your opportunities to lower costs or boost production. Benchmarking costs such as fertilizer, seed, land rent or machinery costs can help with these decisions.

While benchmarking is useful to assess problems, use care to consider variables that can change each year and create anomalies. Extreme weather is one of the most common causes of drastic changes from year to year and can often make it difficult to benchmark yields or profits. It may be useful to benchmark three- or five-year averages to "normalize" results.

Note that economies of scale, farm size and type of farm can affect some benchmark values. For instance, benchmarking a crop farm against a livestock farm is not likely useful because of the differences in production, commodity price cycling, costs and returns. Benchmark crop and livestock enterprises separately to make fair comparisons.

For more information on the North Dakota Farm Management Education Program, contact Craig Kleven, state supervisor for ag education, at crkleven@nd.gov or 701-328-3162.

Editor's Note: This article appeared in the January 19, 2021 online issue of *DakotaFarmer*: www.farmprogress.com/farm-operations/how-use-benchmarking-farm-management-decisions. Thank you, Jason, for allowing us to share it here.

(*“CHANGE”*, continued from page 1)
Maybe I am just slowing down. Have you accepted the changes, or are you fighting them? If you are fighting them, are you offering alternatives? I used to tell my employees that if you are coming with a complaint, you need to offer a solution at the same time. I understand that offering a solution within the state college system can be a challenge, and just maybe you can make something better for all of us.

The point is that we have all experienced changes in our lifetime and we have many more to look forward to. How you handle them is p to you. You can be resistant or you can accept that there is a new way to do something and try to figure out what to do. Keep your chin up, and when you turn the next corner, there may be something new there, a change from what you are used to.

Stay safe, and be profitable.

— Myron

2021 National Farm Business Management Conference Still a”Go” for June

The 2021 National Farm Business Management Conference will be held at the Beach House, located on Hilton Head Island, South Carolina Monday, June 14 – Thursday, June 17. Located approximately 45 miles north of Savannah, GA and 90 miles south of Charleston, SC, Hilton Head Island boasts something for everyone. The island is home to 12 miles of beaches, 60 miles of multi-use trails, and over 33 golf courses.

The Beach House is located on Coligny Beach, only steps from the ocean. The resort offers a heated pool, with “dive-in” movies shown every night, along with the Tiki Hut, the on-resort bar, which hosts live musical acts daily. If you would like to explore the nearby area, the Beach House is just right down the street from over 60 shops and restaurants and is surrounded by family friendly activities.

The conference will have lots of information to bring back to your desk. Some of our speakers include Dr. Ron Hansen, who will be presenting on transition farming and how to handle unexpected circumstances in agriculture and Steve Wellman, the Director of the Nebraska Department of Agriculture.

To learn more about our destination or our conference, please visit the Conference website: www.nfbm-conference.org/2021/. You can also visit the Beach House website, www.beachhousehhi.com, and the Hilton Head Island Visitors Bureau website, www.hiltonheadisland.org, for more information about the resort and the Hilton Head Island area. We look forward to seeing you at the conference.

Profitability vs Cash Flow
By Pauline Van Nurden, NFRBMEA President

Profitability and cash flow are two important business concepts that can be confused in many farm operations. Just because a farm business is profitable, doesn’t automatically mean it cash flows. Alternatively, a farm business can have positive cash flows and not be profitable. These are topics that are often difficult to understand, so let’s dig into how these statements are possible. First off, let’s take a deeper look at profitability and cash flow.

What is Profitability?

Profitability is the ability of a business to earn a profit, meaning business revenues exceed business expenses. The income statement is used to analyze business profitability. This seems simple and straightforward, but one needs to remember that not all checkbook debits are business expenses. Specifically, principal payments on loans are not business expenses. Remember, a loan payment is comprised of two components – principal and interest. Interest paid on business loans qualifies as a business expense. Principal payments do not. Principal payments made on loans impact the balance sheet and statement of cash flows, but do not impact the income statement. What replaces principal payments on term loans as deductions on the income statement? Depreciation. Depreciation is a deductible expense on the income statement. But, depending on tax management strategies, these two items may not align. If “fast depreciation” strategies are used for tax management, like Section 179 expensing and Bonus Depreciation, and loans are taken out to finance capital purchases; principal payments may be a cash flow detriment beyond the depreciation expense.

What is Cash Flow?

Cash flow is cash utilization by the business or the flow of money through the operation. The cash flow statement measures how well a business manages its cash. Can it generate enough cash to pay back debt and fund operations? Cash flow encompasses the flow of money to three places for business activities – operating,

(See ***“PROFITABILITY”***, continued on page 4)

(*"PROFITABILITY"*, *continued from page 3)*
investing, and financing. Therefore, all sources and uses of cash are taken into account when considering cash flow – including income, expenses, capital purchases, capital sales, money borrowed, and loan payments.

How can a business be profitable and not cash flow?

Back to the original questions, "Can a farm business be profitable and not cash flow?" and "Can a farm business have positive cash flow and not be profitable?" The answer to both is yes. Money borrowed has a positive impact on cash flow but does not provide profitability. Also, a business strapped with large loan payments may turn a profit, but not provide enough cash for loan payments. Additionally, owner withdrawals or family living expenses in excess of profits would be a detriment to cash and another opportunity for a business to show profits and not cash flow. The timing of cash is also important. On a day-to-day basis, a business may not have adequate cash available, but over time has adequate profits. A classic example of this would be a grain operation. There is typically a large portion of the year with little income or cash inflows, but expenses incurred. Cash is needed to pay expenses to put the crop in the ground months before any cash revenue from grain sales is available. If a farm doesn't have adequate cash going into the year, an operating loan will be needed to get to the end of the year, when grain is sold, and profits are turned.

FINPACK has tools available to assist with analyzing business profitability and cash flow. In fact, many of the tools analyze both. From a past performance perspective, the FINPACK Financial Analysis (FINAN) tool is used to analyze the farm business. FINAN primarily focuses on profitability and does a thorough job of analyzing this from a whole farm and enterprise perspective. But the FINAN also provides a look at the Statement of Cash Flows for the year and the net change in cash. From a planning perspective, the FINPACK Cash Flow Projection (FINFLO) allows you to analyze both projected profitability and cash flow for the coming year (s).

In summary, helping producers understand profitability versus cash flow is a key to farm business management. Profitability does not necessarily equal positive cash flow. Alternatively, positive cash flow does not necessarily mean the business is profitable. In the end, remember profitability and cash flow do work together though. To be financially successful over time, profitability should provide for investing and financing needs of the farm business.

Interpreting Financial Statements & Measures
By Pauline Van Nurden, NFRBMEA President

The [Interpreting Financial Statements and Measures](https://ifsam.cffm.umn.edu/) (https://ifsam.cffm.umn.edu/) website is a treasure trove of information for you as an instructor. You can use this free website and the videos it contains to help teach about the four farm financial statements.

This online 'course' has been developed to help those interested learn about the financial statements – what they are, how to prepare them, and then how to interpret them. CFFM has recently done an update to the site and has expanded the offerings. Very soon, a focused section on "*Developing Financial Statements and Measures*" will be available. This walks through getting started with farm financial management, from recordkeeping to preparing the different financial statements, and how to calculate the recommended farm financial ratios and measures.

Feel free to take a look for use in your work with producers or as a tool to help brush up your professional development skills if needed. A case farm approach is utilized throughout to help explain the concepts and both basic and advanced topics are tackled.

NFRBMEA Membership to Date

	2020-21	2019-20
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TOTALS	78	81

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