Plan, Prepare, Prosper

Financial Management for Growers

After attending the last workshop:

1. Are you thinking about anything to do with your business differently?

2. What are the main changes (if any) you are thinking to make?

'A successful business enables the owner(s) to enjoy the lifestyle they want, now and in the future, and the time to enjoy this.'

How far are you from this currently?

1 ⟷ **10**

Agenda morning

8.45 am	Coffee/ Arrivals
9.00 am	Introduction
	The business of farming
	Understanding profit
	Tools for business analysis
10.30 am	Morning Tea (15 min)
	Using the 1%-ers to increase profits
	Calculating net profit
12.30 pm	Lunch (35 min)

Agenda afternoon

1.05 pm	Statement of position
	Improving profitability
2.45 pm	Afternoon Tea (15 min)
	Family life cycle and financial goals
4.30 pm	END

How do you know if you have a truly successful business?

‘A truly successful business should provide the income to support the lifestyle you want and the discretionary time to enjoy it.’

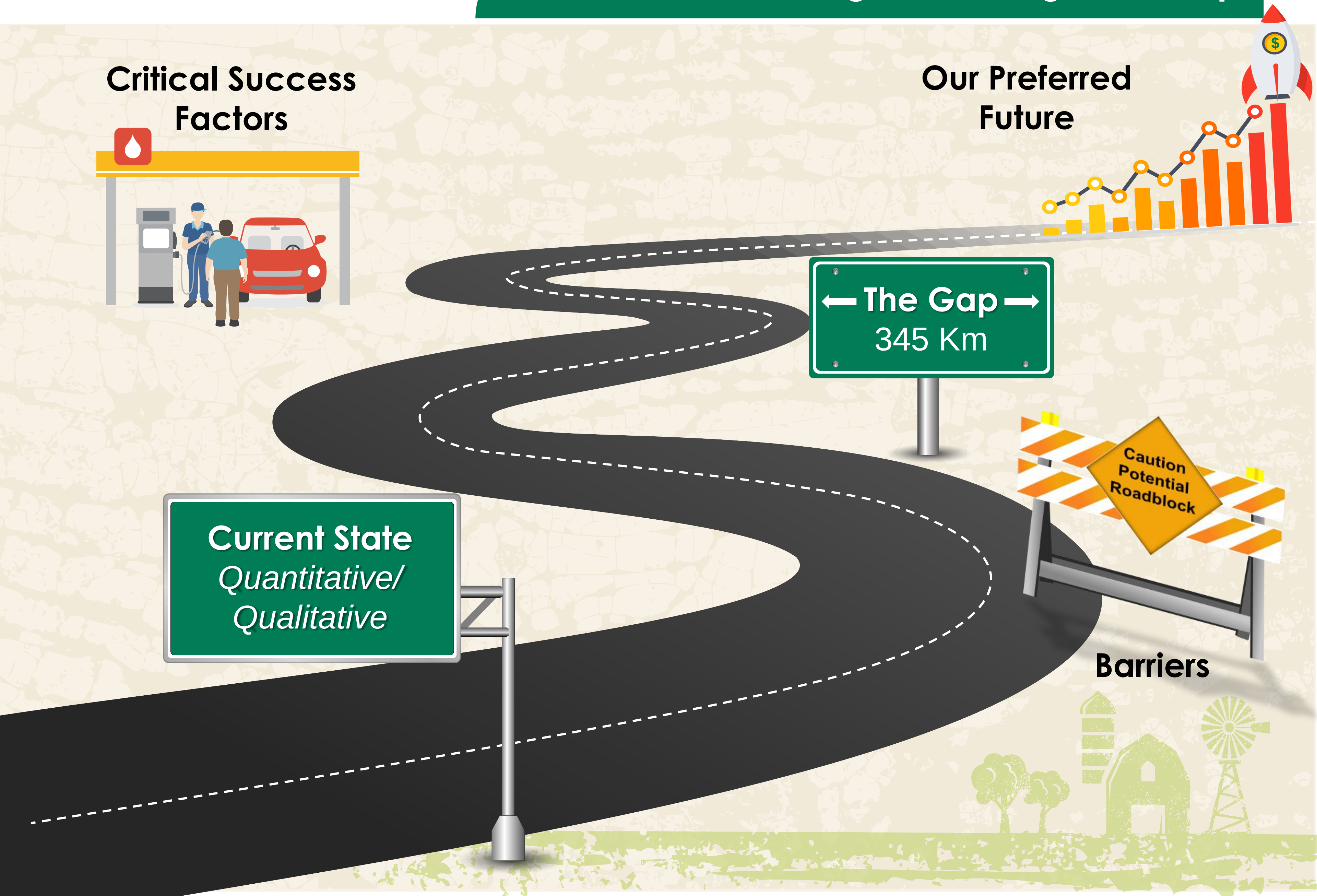
What do you need to do to achieve this?

i.e. You need to measure performance to understand it.

Three key questions

1. Where is my business now?
2. Where do I need to take it?
3. What do I need to get there?

Strategic Planning Roadmap



Workshop aims

1. Provide a methodology to analyse and measure the performance of your business.

2. Understand the financial implications of the goals you set for your future.

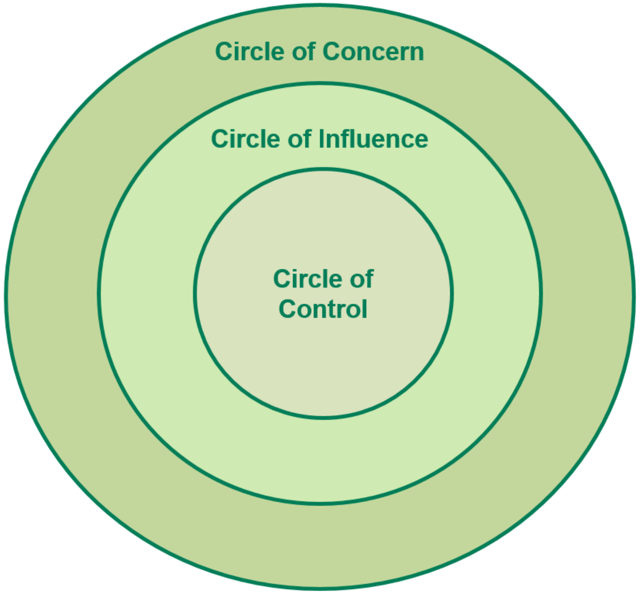
Five key calculations

1. Operating surplus
2. Operating efficiency
3. Net profit
4. Equity
5. Debt-to-income ratio

The business of farming

Understanding what drives a successful business

Yield x Price – Costs = Profit



- Production records (3−5 years)
- Cash flow statement showing actual income and expenditure for the production year (3−5 year summary)
- Statement of position (3−5 year summary)
- Key financial ratios (trends over 3−5 years)

Profit & Loss/ Balance Sheet / Cash Flow

The Balance Sheet

Equity = **Assets** − **Liabilities**

Equity
Owners $$ to fund the start-up & buy Assets

Assets
Things bought so the business can run
Less than 12 months:
current (cash, stock/inventory, debtors/ accounts receivable)
non current (land, buildings, plant equipment)

Liabilities
Other $$ that help fund the business & buy assets
Less than 12 months:
current (Overdraft, creditors/ accounts payable)
Greater than 12 months:
non current (loans & debts)

Retained Income

The Profit & Loss

Buy more Assets

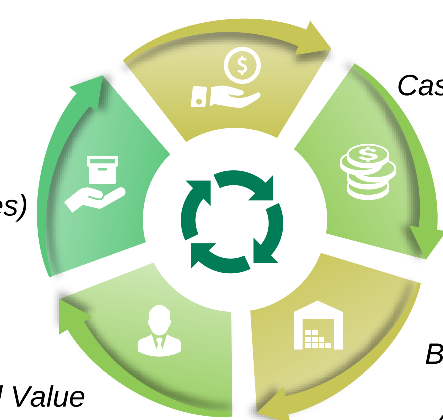
Repay Loans Pay tax

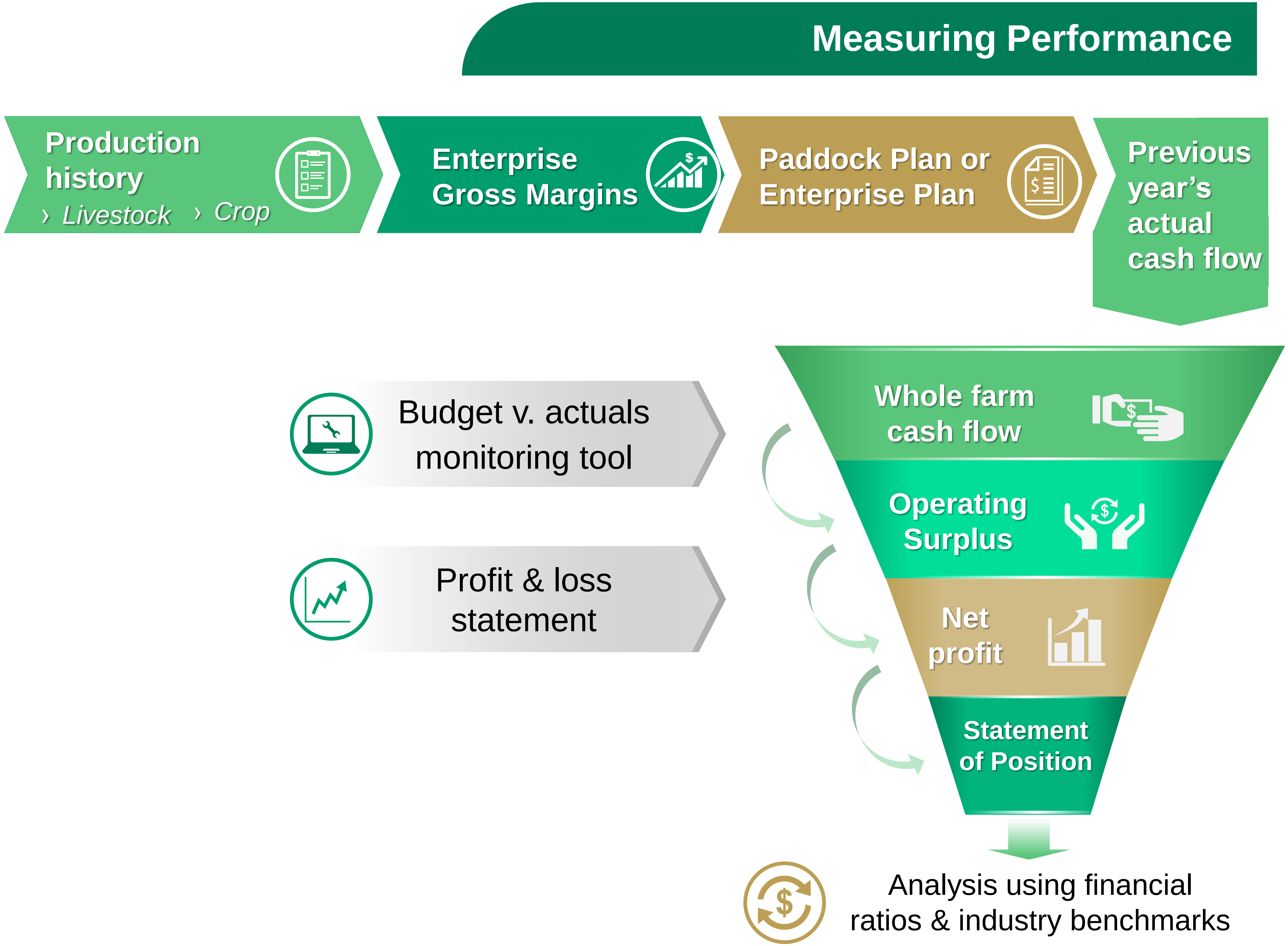
Sale
- Purchases/COGS
= Gross Profit
- Operating Expenses
= Earnings Before Interest & Tax
- Interest
= Net Profit Before Tax
- Tax
= Net Profit After Tax
- Dividends
= Retained Income

Shareholder Dividends

Shareholder Dividends

The Cycle Flow Cycle





Measuring Performance
Production history
› Livestock › Crop
Enterprise Gross Margins
Paddock Plan or Enterprise Plan
Previous year's actual cash flow
Whole farm cash flow
Operating Surplus
Net profit
Statement of Position
Budget v. actuals monitoring tool
Profit & loss statement
Analysis using financial ratios & industry benchmarks

1. Gross margin

(Yield x Price) - Variable costs = Gross margin

2. Whole farm cash flow budget

- Requirement for seasonal funds
  - How much do you need for carry-on finance?
- Know the month peak debt occurs
  - Make adjustments as required.
- Calculate the bottom line
  - Surplus or deficit?
- Monitoring and Evaluation tool
  - Are you on target?

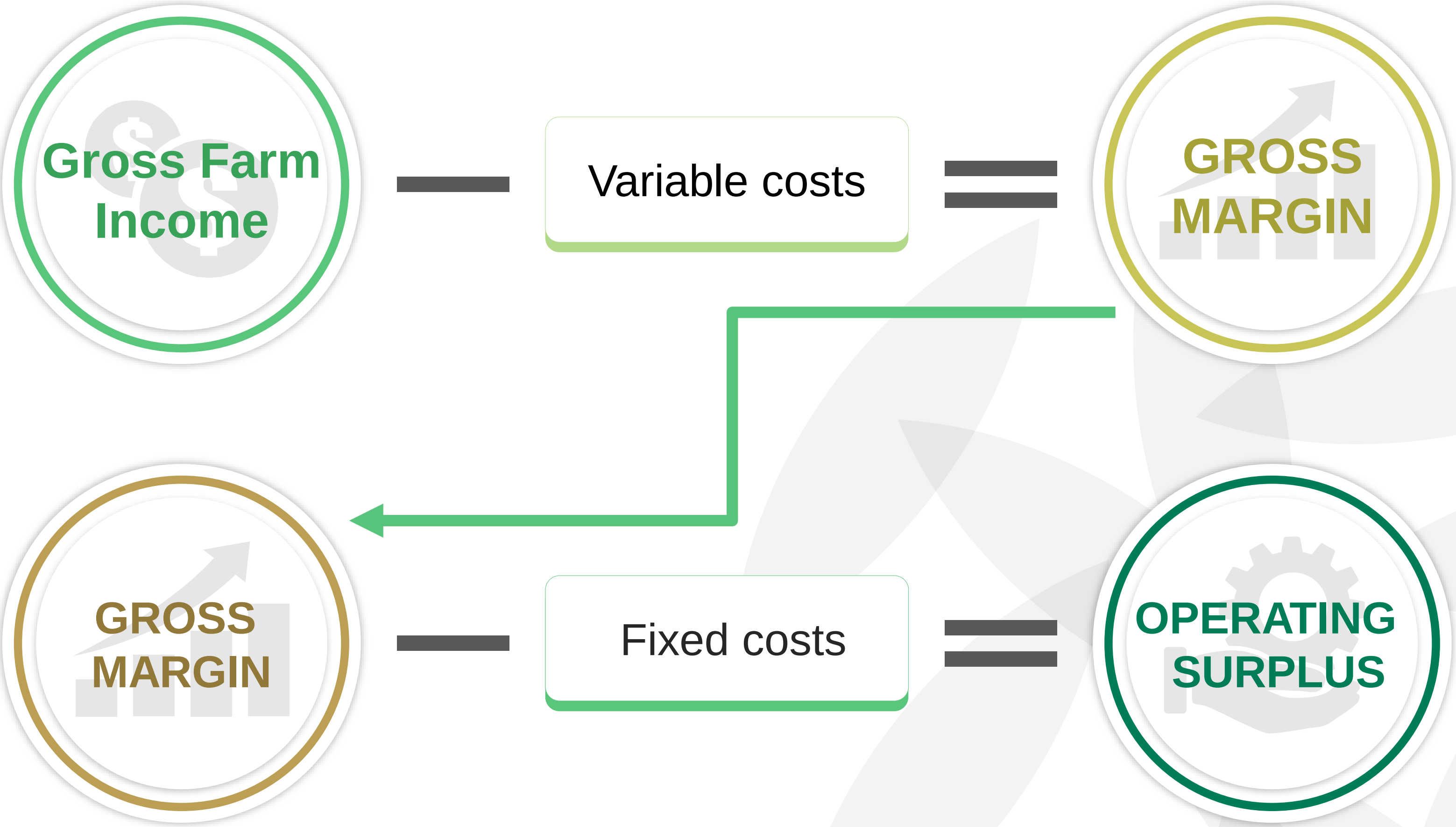
3. Statement of position

Also known as a balance sheet or assets and liabilities statement.

Definition

A balance sheet is a financial statement that summarises a company's assets, liabilities and shareholders' equity at a specific point in time.

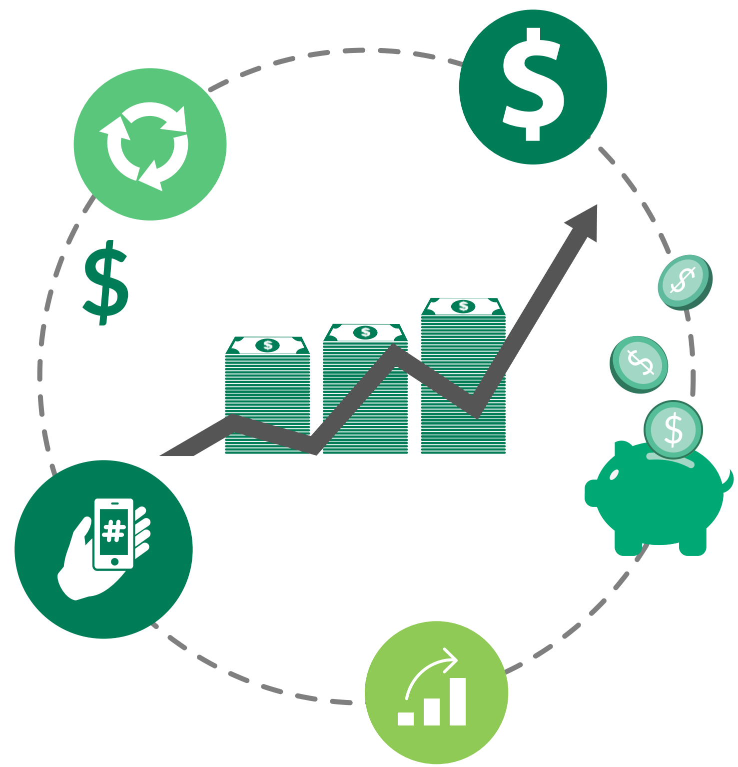
Calculating Operating Surplus



The '1%-er' Principle for Business

Small changes to your **BIG** numbers such as:

- *Business Income*
- *Variable Costs*
- *Fixed & Finance Costs*



Generates **BIG** changes to your small number ***(Net Profit)***

Increase yield / production

Farm op. income	100	Increase by 1% →	101.00
Variable costs	60	Increase by 1% →	60.60
Gross margin	40	Increases by 1% →	40.40
Fixed costs	36	Stay the same →	36.00
Operating surplus	4	**Increases by 10%** →	4.40

Increase price

Farm op. income	100	Increases by 1% →	101
Variable costs	<u>60</u>	Stays the same →	<u>60</u>
Gross margin	40	Increases by 2.5% →	41
Fixed costs	<u>36</u>	Stays the same →	<u>36</u>
Operating surplus	4	**Increases by 25%** →	5

Reduce variable costs

Farm op. income	100	Stays the same →	100.00
Variable costs	<u>60</u>	Decreases by 1% →	<u>59.40</u>
Gross margin	40	Increases by 1.5% →	40.60
Fixed costs	<u>36</u>	Stays the same →	<u>36.00</u>
Operating surplus	4	**Increases by 15%** →	4.60

Reduce fixed costs

Farm op. income	100	Stays the same	100.00
Variable costs	60	Stays the same	60.00
Gross margin	40	Stays the same	40.00
Fixed costs	36	Decreases by 1%	35.64
Operating surplus	4	**Increases by 9%**	4.36

Focussing on Profitable Sales

Product	Gross Profit %	Total Sales
Grain	35%	25%
Lamb	40%	15%
Wool	20%	40%
Beef	35%	20%

Lose Less

Farm op. income	100	Decreases by .5% →	99.5
Variable costs	60	Stays the same →	60
Gross margin	40	Decreases by 1.25% →	39.5
Fixed costs	36	Stays the same →	36
Operating surplus	4	**Decreases by 12.5%** →	3.5

The Art of Discounting

- Discount carefully else easy to do lots of work for little profit.
- Must be a strategic reason for a discount – WHY offer it?
- Discounting to get them buying more is good if your gross profit remains at least the same from the sale.
- If continually can't get sales without discounting, then low perceived value / your brand is not strong or differentiated!

What are the most effective things you have done or seen done to:

1. Increase volumes of products sold?
2. Increase price customers pay for what they buy?
3. Decrease Costs of Sales?
4. Decrease Fixed Costs?
5. Decrease Finance Costs?

- Personal expenses
- Finance costs
- Loan repayments
- Tax
- HP payments and/or machinery replacement
- Business expansion
- Structural adjustment/investment

Evaluating business strength

	Strong business	Secure business	Insecure business	Insecure business with low equity	Non-viable business
Operating surplus	✓	✓	✓	✓	✗
Personal expenses	✓	✓	✓	✓	
Finance costs	✓	✓	✓		
Tax	✓	✓	✓		
Loan repayments	✓	✓			
Machinery replacement	✓	✓			
Business expansion	✓				
Structural adjustment +/or off farm investments	✓				

Gross farm income	100	100
Variable costs	40	45
+ Fixed Costs	25	30
= Operating costs	65	75
Operating surplus	35	25

Four options to grow a business

Market \ Product	Existing	New
Existing	1 **Market Share Penetration** Increase Market Share	8 **Product Development** New Offerings to Existing Customers
New	4 **Market Development** New Geographic or Types of Customers	16 **Diversification** Complete Diversification

Notes

1) Increasing Market Share easiest and most likely way to increase profits and cashflow in the short-term. All other quadrants usually require investment of time, funds and resources and have a delay in generating profits or a positive cashflow.

2) The numbers represent likelihood of failure! Be sure your returns from each quadrant justify the increased risk associated with it.

How the Balance Sheet gets its Name

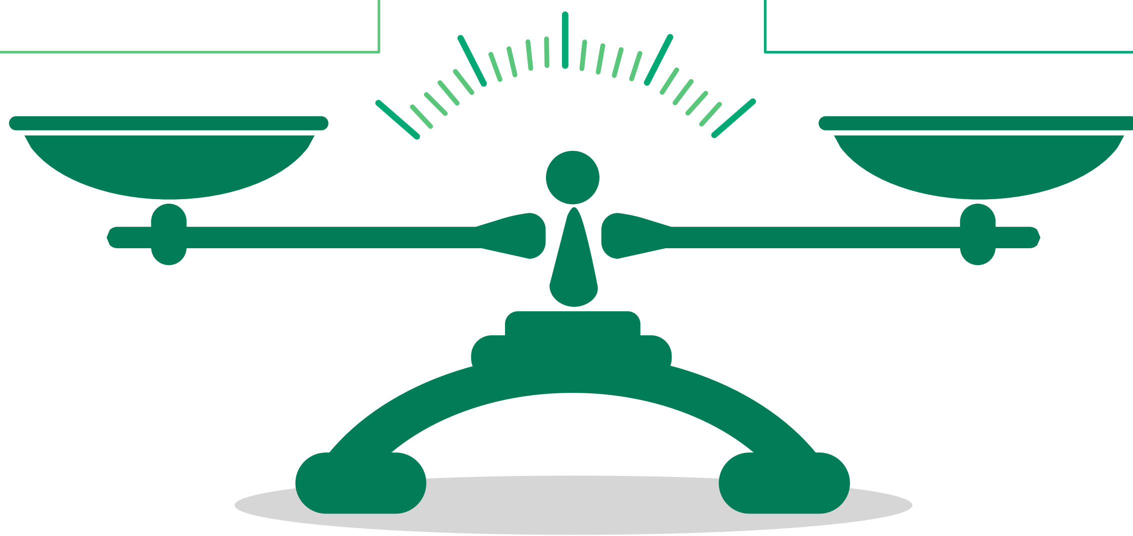
Total funds sourced by the business from

- Debt / “Liabilities”
- Owner’s Investment* +
- Profits Reinvested Back Into The Business +
- Creditors Not Yet Paid

=

Total funds used by the business to finance

- Land, Plant & Machinery needed +
- Its “Working Capital” +
- Its Cash Reserves



So changes to one side means…?

Statement of position / Balance sheet

- Lists assets and liabilities using estimated market value
- Calculates equity %:

$$\textbf{Equity \%} = \frac{\textbf{Total assets – Total liabilities}}{\textbf{Total assets}} \times 100$$

Statement of Position

What is important to understand is:

- the level of equity (level of risk)
- the change in your equity position from one year to the next.

Financial management

Equity (%)	Risk level	Cash flow	Comment
> 85%	Low		
75–85%	Low	Deficit Neutral Surplus	Eroding equity: act and assess Plan carefully: reduce costs Strong commercial business
65–75%	Medium	Deficit Neutral Surplus	Susceptible to cyclical downturns Maximise use of capital Look at amortising debt
< 60%	Med–High	Deficit	High risk: short-term sustainability

Debt-to-income ratio

For every dollar of debt, income is required to service the interest and repay the principal

$$\frac{\text{Total debt}}{\text{Gross farm income}}$$

Debt-to-income ratio	Risk assessment
0.5:1 to 1:1	Low risk
1:1 to 1.5:1	Minimal risk
1.5:1 to 2:1	Medium to high
> 2.5:1	High risk

Yield x price – costs = profit

By improving productivity…

…the top 25% of farmers land is not better but productivity is higher (higher yields and/or lower input costs).

1. Identify best practices and measure the results.
2. Study examples of best practice.
3. Attend study tours and field days.
4. Get involved with research.
5. Trial new approaches.
6. Understand financial impact on business before they try something new.
7. Engage consultants.
8. Use new technology.

- Operating surplus
- Operating efficiency
- Net profit
- Equity
- Debt-to-income ratio

Options for improving skills

- Bridging the yield gap project
- Lifetime ewe management
- Planning for profit workshops

Farm ratios table

- Gross margin %
- Operating efficiency
- Operating surplus/ha
- Net worth
- Equity %
- Debt-to-income

Thank you

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