

DEMYSTIFYING FARM ENTERPRISE BUDGETS

RICHARD WISWALL

Truth be told, I don't like record-keeping any more than the next farmer. You may think that is strange coming from someone who is known for advocating record-keeping repeatedly in workshops and in a book on farm business management. No, I didn't get struck by lightning or have a brain transplant. I just want to put record-keeping in its proper place and to stress the importance of the end result of any data collection: making a good living from the work I do on my farm.

I want to share a few thoughts that address some questions that crop up often when crafting a crop budget. In my workshops and book, I stress the need to record some pieces of information that will be used to create enterprise budgets. These enterprise budgets (carrots, blueberries, feeder pigs, dairy goats, laying hens, for example) are compared for relative profitability, and are at the heart of shining light on the farm's undiscovered profit centers (and losers). These enterprise budgets are used for increasing your profitability; they will affect your farm's other financial statements like the Balance Sheet, Profit and Loss, or Cash Flow Projection, but are separate tool.

A good enterprise budget requires taking some data during the farm work day or work week, oftentimes of labor tasks done for a particular farming venture. How many person hours did it take to weed 500 bedfeet of carrots? How long does it take to pick 50 lbs of blueberries? How many bushes did it take per picking? The answers to these questions give a very accurate accounting of the expense side of the Profit = Income - Expenses equation for the different things you do on the farm. Labor expenses for harvesting & weeding, and yields & sales price often have the biggest impact on enterprise budgets; pay attention to these.

In the excitement of wanting to uncover their farm's own profit centers, sometimes workshop attendees or readers of my book will, in all good intentions, record everything people do all day on the farm. While this may be useful, it can backfire. Too much information can be overwhelming, and actually may make it harder to make a cogent enterprise budget. Heads spin, crucial data is missing amidst pages of notes, arms go up in frustration, and the once exciting profit discovery process comes to a halt.

This is not the desired outcome. So.....instead of recording everything everyone does all day, **START SMALL.**

Begin by recording information about your top 1-5 sellers. These crop and animal ventures, or enterprises, are the most important to analyze because they are bringing the most money into your farm checkbook. If you only grow a few bedfeet of radishes each spring for a minimal amount of sales dollars, then don't worry about them for now. Tackle the big sellers and make sure you are profitable (or can be made profitable) with them first.

Only record information for these top 1-5 sellers. Let's say beets are a top seller. After I prep land and seed beets, I may not record anything related to these beets for 3 weeks (when I cultivate them). And then another 1 or 2 weeks goes by before cultivating the beets again or hand weeding them. All my data for that crop of beets fits on one page of paper. To simplify the process, designate one person to gather and record the specific top selling crop or animal info (if it is not yourself).

Another big help and time saver is to record data efficiently by paying attention to rates: bedfeet weeded per hour, bushels harvested per hour (or bedfeet, or both). Two or three variables should always be written down. Once established, check rates for accuracy a few times a season. This way you don't need to record often-repeated tasks, such as lettuce picking times on numerous succession plantings. Just check that the rate is on target. These rates can be used very effectively when creating enterprise budgets.

PRACTICE WITH A PROJECTED BUDGET

Enterprise budgets can be made in hindsight, using real numbers from the previous season, or they can be made using your best estimates for a future enterprise. Try making a projected budget for one of your farming ventures just to get a feel for the process. It will clearly show you what numbers are missing, and need verification in the future. You'll be able to narrow your focus and jot down fewer, and more meaningful, notes. Practice this projected budget now, it will be very informative. I recently did one in a workshop in just 11 minutes. Set aside half an hour and I bet you'll be pleased with the results. Try limiting yourself to the back of an envelope- that's how simple it can be.

MAKING YOUR FIRST BUDGET

The first one is always the hardest, but nonetheless very doable. You'll need to start with two things.

First, determine the size of the enterprise (e.g. 1/4 acre of carrots, 100 meat birds, 2 feeder pigs, 21' x 96' hoop house of spinach). Use the size that is most commonly undertaken. If you normally make 20 gallons of apple cider per batch, use that amount.

Second, determine an hourly rate for labor. Even though you may do all the work yourself, you still need to know how many hours were spent on the project and what that labor cost will be. We all share the fact that there are only 24 hours in a day, and some of that time is needed for sleeping, eating and personal time. The time you devote to work is a limited resource and your work hours should be spent in a useful way. Besides, if you break a leg or are called away to a family wedding or funeral, you'll have to replace your labor, often by paying someone. The labor rate you determine (usually what hired hands are paid) gives the time spent on a crop or animal enterprise a quantifiable number for the expense side of the profitability equation.

(Note: if you make a profit on the enterprise, and perform all the labor yourself, you will keep not only the net profit amount, but also the amount of labor expensed in the budget).

CHRONOLOGICAL

After determining the size of the enterprise and the labor rate (\$/hour), start budgets by writing down the tasks of the enterprise in chronological order from beginning to end. With the beet example: prep soil (spread compost/fertilizer, disk in, chisel beds, bed form beds), seed beets, cultivate with tine weeder, cultivate with baskets, hand weed, irrigate if necessary, cultivate, harvest, pack out, post harvest field care (disk, seed cover crop).

You can then fill in the costs associated with each task (or do it as you write them down).

CHRONOLOGICAL continued...

Use your recorded notes (and/or rates) and actual expenses from receipts (seed cost, bag cost) to calculate a cost for each task.

To keep it simple at first, you may want to postpone tackling marketing, delivering, and overhead costs. You will have a rough idea of profitability, and you can compare enterprises side-by-side pretty effectively.

Don't get hung up on one item for too long. Forge ahead and revisit it later after more pieces are in place. Use your best estimates. For tractor or greenhouse expenses, refer to my book and its appendices as a shortcut. Or spend a little more time figuring true costs for your farm.

PUTTING IT TOGETHER

After you total your production expenses, calculate your sales revenue for the enterprise, breaking sales into differing price structures if necessary (more beets sold wholesale at a lower price per pound than at retail).

Subtract expenses from sales and presto! You have a net profit for the given size of your enterprise (without marketing, delivery and overhead expenses).

CONGRATULATIONS! NOW PONDER THE BUDGET

When looking at an enterprise budget, whether it is profitable or not, look at the big expense numbers first. These numbers have a great effect on the net profit. These big expense numbers (and all other expense numbers) may be able to be reduced (usually through efficiencies, sometimes by scale). Labor is often a big expense number, and budgets without labor expenses may even look profitable. But if you are willing to work for nothing, come work at my farm. Focus on using labor as efficiently as possible. For now, don't sweat trying to bring down the smaller expense numbers, they will have the littlest effect on your net profit.

The other major player in your net profit is the yield, and sales price of that yield. Sometimes a slight yield and/or sales price increase can dramatically improve net profit.

Now that you have created one enterprise budget, others will fall into place quickly.

OVERHEAD EXPENSES

The above enterprise budget covers production expenses and sales, and can be very useful in comparing the things you produce on your farm for relative profitability. I can almost guarantee that your enterprises won't be the same profitability; some things will make more than others, sometimes way more. But certain real expenses are not covered in these budgets. They don't address marketing, delivery, and overhead costs. These are real expenses, and the money to pay for these has to come from somewhere. If each farm product doesn't help pay for these expenses, off farm money will need to pay for them.

OVERHEAD EXPENSES continued...

For simplicity, I'll lump all overhead expenses (farm share of insurance, phone, electricity, website, land taxes, computer, landfill, office, conferences, advertising...) and marketing and delivery together. If that total is \$10,000 per year, then each farm enterprise needs to contribute some its net profit to the \$10,000. How you allocate the overhead expenses is up to you; it could be by acre, by breed, by sales % of total sales. Just be fair, and cover the whole \$10,000.

I hope these tips help you to overcome the natural inertia surrounding the analysis of farm finances. It doesn't take that long, just set aside some time and do the math. It pays.

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