Track Performance Trends on Your Farm

Industry benchmarks and guidelines can help you gauge your farm's status against similar operations. But the best way to track your performance trends is to compare your farm to itself. Tracking financial and production trends over five or more years, is the most efficient way to assess a farm's growth and to catch issues that may turn into major problems over time.

There are several red flags that can be identified by tracking over time. By addressing them when they appear, you may be able to prevent or eliminate major problems.

1. **Deteriorating gross profit margin**. This means having less cash to cover operating expenses, whether it is caused by a drop in yield or price, or a rise in expenses. Although producers have little control over things like weather and markets, it's important to discover if there is one commodity, enterprise or investment that is consistently draining your gross profit margin. By eliminating or changing it, you may be able to improve your margin.
2. **Over-investment in assets** (land and/or equipment). If you can't afford the assets, you shouldn't own them. You should only own what is necessary for the operation to function properly. If you think you need more, consider other methods, such as custom and rent options, to find the resources you need without hurting your bottom line.
3. **Badly structured debt.** Debt is not necessarily a bad thing. In fact, when interest rates are low, it can be good for investment purposes. However, an aggressive debt repayment schedule can erode the farm's bottom line quickly. It is important to note that operating credit should not be used for capital purchases. It makes that operating credit unavailable for its intended use when you need it. Capital expenditures should be done with cash or through separate financing.
4. **Insufficient operation size.** If the farm depends on off-farm income to support the operation, the current farm size is not viable. Exceptions to this would be in a farm growth stage, when the off-farm income is being used to help grow the operations until it's big enough to support itself. Multi-family units can also cause problems when marriage and children increase the financial demands on the operation and you need to adjust or expand.
5. **Failure to pay for owner/operator farmer labour**. The efforts producers put into their farm operations should be reflected in the bottom line. It is their return on the investment of time and capital they put into the business. Even if cash is not paid out, there should be retained earnings in the company budget to account for it.
6. **Failure to quantify and manage risks**. Ignoring risks and planning/managing for them leave a farm at higher financial risk. Use tools such as government programs (insurance, margin), pricing,

delivery and contracts to plan for and manage potential emergencies or disasters. That way, an unforeseen problem is less likely to break the farm's operating budget completely.

Monitoring the farm's performance over time helps identify potential problems early and gives you time to make positive changes. Manitoba Agriculture's RatioPlan can help you identify growth areas and areas of concern. You only need a net worth statement and an income and expense statement to use this tool. It also helps you understand what your financial statements are saying about your farm operation.

Contact us:

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