Benchmarking and Business Metrics: Measuring the Financial Health of Your Farm

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Carolina Farm Stewardship Association 37th Annual Conference

Durham, NC
Meet the Speakers

Geoff Seelen — Durham Public Schools Hub Farm

Aaron Newton — Steward
What is Financial Benchmarking?

Simply put, financial benchmarking involves collecting and analyzing various baselines within a business (revenue, net income, labor, etc.) and comparing them to other businesses within the same industry.

Creating reliable benchmarks can assist farmers in making critical business decisions and answer key questions, e.g., where to focus distribution, how much to spend on labor, what products to market, how much debt to take on, etc.

Obtaining a clear picture of your farm’s financial health requires dedicating time to maintain various record keeping documents; the time spent doing so can pay dividends in the future.
Examples of Financial Benchmarks

- Gross Revenue
- Gross Revenue per Acre
- Net Income
- Net Income per Acre
- Enterprise revenue
- Enterprise income
- Debt-to-Asset Ratio
- Labor-to-Revenue Ratio
- Rate of return on Owner Labor
Diversified Vegetable Financial Benchmarking Study

- Pasa Sustainable Ag (Pennsylvania) begins collecting data in 2017
- First comprehensive report is generated in 2019
- CFSA creates Carolina Cohort, joins study in 2021
- CISA (Communities Involved in Sustainable Agriculture, Deerfield, MA) joins study in 2021
- Farmers who participate are at a minimum required to maintain tax records, up-to-date balance sheets and profit/loss statements to ensure accurate reporting
Study Conclusions

While many of the farmers in the study did not exceed the median income for their region, they did increase equity and income over time. The majority of farms began earning above the regional median income after 12 years.

Farms increased their income in three distinct ways:

- Increasing Efficiency
- Increasing Intensity
- Increasing Scale
Why Join the Study?

- Get a picture of your farm’s financial health each year
- Build a record of reliable benchmarks for your business over time
- Support other farms by contributing to aggregate data
Generating Financial Benchmarks: Considerations

- What do you want to measure?
- How will you measure it?
- What resources will you need to understand proper documentation?
- How much time will you need to dedicate each week/month/year for adequate documentation?
- How will you use your financial benchmarks (e.g., debt financing, hiring practices, owner income, land use/acquisition, market access, etc.)?
Balance Sheet

A balance sheet is a summary of a business’s assets and liabilities.

Assets:

- Assets include cash on hand and all property owned by the business.
- Current assets can be converted into cash within one year (e.g., seeds, amendments, animals, crops).
- Non-current assets tend to be less liquid and difficult to convert into cash in a short amount of time (e.g., land, housing).
Balance Sheet cont’d

Liabilities:

- Liabilities include the debts and other financial obligations of a business
- Current liabilities can be expected to be paid in a short period of time (ex. payroll, accounts payable, taxes)
- Non-current liabilities are debts that are not expected to be paid within one year (ex. mortgages, operating loans)

A balance sheet will help calculate a **debt-to-asset ratio**, i.e., the percentage of the business that you actually own (equity) \( \rightarrow \frac{\text{liabilities}}{\text{assets}} = \% \text{ debt} \)
**BALANCE SHEET**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>BEGINNING</th>
<th>ENDING</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>700,000.00</td>
<td>134,197.00</td>
<td>-565,803.00</td>
</tr>
<tr>
<td>Accounts Receivables</td>
<td>0.00</td>
<td>145,797.26</td>
<td>145,797.26</td>
</tr>
<tr>
<td>Inventory</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>700,000.00</td>
<td>279,994.27</td>
<td>-420,005.73</td>
</tr>
<tr>
<td><strong>FIXED ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and Land Improvements</td>
<td>(less deprec.)</td>
<td>0.00</td>
<td>586,946.15</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>(less deprec.)</td>
<td>0.00</td>
<td>516,235.00</td>
</tr>
<tr>
<td>Value of Land</td>
<td>30,000.00</td>
<td>30,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total Fixed Assets</td>
<td>30,000.00</td>
<td>1,133,181.15</td>
<td>1,103,181.15</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>730,000.00</td>
<td>1,413,175.42</td>
<td>683,175.42</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CURRENT LIABILITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payables</td>
<td>0.00</td>
<td>21,837.48</td>
<td>21,837.48</td>
</tr>
<tr>
<td>Payments to Farmers</td>
<td>0.00</td>
<td>116,884.84</td>
<td>116,884.84</td>
</tr>
<tr>
<td>Accrued Interest</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Operating Loan</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>0.00</td>
<td>138,722.32</td>
<td>138,722.32</td>
</tr>
<tr>
<td><strong>LONG-TERM LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.00</td>
<td>486,767.87</td>
<td>486,767.87</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>0.00</td>
<td>625,490.19</td>
<td>625,490.19</td>
</tr>
<tr>
<td><strong>OWNER'S EQUITY</strong></td>
<td>730,000.00</td>
<td>730,000.01</td>
<td>0.01</td>
</tr>
<tr>
<td><strong>RETAINED EARNINGS</strong></td>
<td>0.00</td>
<td>57,685.23</td>
<td>57,685.23</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES &amp; CAPITAL</strong></td>
<td>730,000.00</td>
<td>1,413,175.42</td>
<td>683,175.42</td>
</tr>
</tbody>
</table>

**Important Formulas**

- \( \text{Assets} = \text{Equity} + \text{Liabilities} \)
- \( \text{Equity} = \text{Assets} - \text{Liabilities} \)
- \( \frac{\text{Liabilities}}{\text{Assets}} = \% \text{ Debt} \)
The schedule F is used to calculate the net profit/loss from an agricultural business that is reported on your tax return.

Running a cash business can be expedient and convenient, but there are additional advantages when filing a tax return, including but not limited to reducing your taxable income.

When considering debt financing options, loan officers will often require multiple years of tax records.
Example Schedule F

Use this to your advantage during tax season by writing off expenses to lower your taxable income on your tax return.

If you have another job that isn’t farming, this still applies. Your farm business will impact taxes for your entire household.
A P&L statement is similar to a balance sheet but deals with cash flow, where it is coming from, and how it is being used.

Having a idea of your gross revenue (how much money you made) is a great starting point, and a P&L will help you further break down where all that money is going.

Ultimately, a P&L statement will help you generate your profit margin, i.e., what percentage of your revenue you actually retained as income. A high profit margin means that more money is staying IN the business.
**Example P&L Statement**

### Farm Profit and Loss Statement 2009 - Simplified
North Slope Farm

<table>
<thead>
<tr>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of items bought for resale</td>
<td>33,465</td>
</tr>
<tr>
<td>Cost of items bought for resale</td>
<td>(23,000)</td>
</tr>
<tr>
<td>Products and Services</td>
<td>59,750</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>70,215</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>26,531</td>
</tr>
<tr>
<td>Admin., Cert.s/Fees, Dntn, Insur. &amp; Tax</td>
<td>18,760</td>
</tr>
<tr>
<td>Fertilizer/Lime</td>
<td>4,060</td>
</tr>
<tr>
<td>Fuel</td>
<td>1,689</td>
</tr>
<tr>
<td>Repairs/Maintenance</td>
<td>1,100</td>
</tr>
<tr>
<td>Seed</td>
<td>2,677</td>
</tr>
<tr>
<td>Special Projects</td>
<td>1,950</td>
</tr>
<tr>
<td>Supplies</td>
<td>4,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>6,984</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>67,751</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 Capital Equipment; Additional Expenses</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

*Salad Spinner, Trailer, Heat Mats, Greenhouse/Fencing*
Enterprise Budgets

To gain further insight into the financial health of your farm, creating Enterprise Budgets allows you to look at your business crop by crop, livestock by livestock, added-value product by added-value product.

Fine-tune efficiency by looking into your expenses and revenue from each enterprise so that you can focus on your most profitable commodities.
Compare total revenue, total expenses, and total return on investment for each product year-to-year.

Consider what contributes to each year’s profit/loss by category.

How will this impact the way you do business?
How To Use These Resources

Business Planning
Holistic Farm Management Planning
Business Projections & Goal Setting
Enterprise Development

Insurance
- Crop Loss
- Farm Liability
- Product Liability
Business Plan

- Executive Summary
- Company Description
- Products and Services
- Market analysis
- Strategy and Implementation
- Organization and Management Team
- Financial plan and projections
“Holistic Management is a process of decision-making and planning that gives people the insights and management tools needed to understand nature: resulting in better, more informed decisions that balance key social, environmental, and financial considerations.”

-The Savory Institute
Farm Growth and Enterprise Development

Farms increase their income in three distinct ways: Increasing Efficiency, Intensity, and/or Scale

Access to Capital for CapEx and OpEx:

- **Grants**: hard to access but no repayment
- **Equity**: asset, will not need to be repaid
- **Debt**: liability, will need to be repaid with interest
- **Steward**: capital stack development
Apply for Our 2022 Financial Benchmarking Study

CFSA is providing a $100 stipend for participants who participate in the study.

CFSA is excited to collaborate with Pasa Sustainable Agriculture (Pasa) to offer their Diversified Vegetable Financial Benchmarking Study in the Carolinas.

Financial benchmarking is a valuable tool for farmers interested in evaluating their operation's strengths and weaknesses compared to their peers.
ELIGIBILITY REQUIREMENTS

We are looking for farmers in North and South Carolina who own or manage diversified vegetable farms that are certified organic, use organic production practices but are not certified, or use sustainable production practices to participate in the study.

TO APPLY

Fill out an application by scanning the code or visit bit.ly/CFSAFBM. Applications are due on Jan. 15th.

PARTICIPATION REQUIREMENTS

Study participants will be asked to participate in two webinars, one in the winter, including information on financial record keeping and how to complete Pasa’s Vegetable Financial Benchmark Survey. The second training, in the fall, will include information on how to understand and use benchmarking results to make business and production decisions.

Program participants will receive individual benchmarking reports comparing your farm against similar farms in the Carolinas. Your farm’s data will be kept strictly confidential, and only general trends will be shared with other program participants.