

FARM Library

Financial and Risk Management Database

Improving farm management skills one topic at a time

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Importance of Analysis

By Tina Barrett

Over the past year, the farmers in Nebraska seem to be receiving a new “punch to the gut” every few months. Whether it has been tariffs, rising input costs, tax law changes, or most recently historic, devastating floods, the financial stability of farms and ranches is being tested. Participation in a farm analysis program provides producers with vital information in uncertain times, information that can be used to make little decisions such as what crop to plant, and big decisions like whether they should continue to farm.

The following chart shows the average Working Capital to Gross Revenue ratio for Nebraska’s Farms. The Working Capital to Gross Revenue ratio shows us how much liquidity there is in an operation. This is an important measure as it tells us an operation’s ability to pay their bills, including debt repayment. The trend is showing a shrinking yellow or “caution zone”, over the past 3-4 years. We are seeing this trend in many financial factors which is leading to the conclusion that some farms are in fact making adjustments to the new financial environment, while others are not. While it is encouraging that some producers are using their financial analysis to change their operation, it’s obvious that many more operations need to make some changes.

We want to continue our goal at Nebraska Farm Business, Inc. of helping producers keep better records so that they can move to the next step in management, preparing a financial analysis. This is not always an easy step, especially if poor habits have developed over several years. It sometimes takes more than a year to get accurate, balanced records, that provide a solid foundation for creating a financial analysis. It also takes several years of analysis data to build a trend history which allows producers to see what direction their operation is headed in. The process is a major commitment on behalf of the producer, and many are reluctant to oblige until a major crisis is looming.

I was recently asked if I knew anyone who smoked. Of course I did. The follow up question was “do they smoke because they are unaware of the health risks?” It would be hard to be unaware that smoking is bad for you, yet many people continue to smoke until those health risks become personal. A heart attack or stroke is often what it takes for someone to finally quit. It made me think that financial analysis is often the same way. We can educate on the importance of knowing your ratios or cost of production, but until it becomes personal, it’s hard to pull the trigger and make the decision to participate. Unfortunately, many of the heart attacks or strokes associated with smoking are fatal. It’s the same with the financial health of your business. If you wait for the risks to become personal, it could be fatal to a farming business.

The reality for many farms and ranches in Nebraska is that it’s becoming personal. Financing options are getting tighter, losses are becoming larger, and now we have widespread flooding that has wiped out inventory in bins, livestock from pastures, and damaged fields that will likely prevent planting this Spring. This year it’s getting personal for a lot of operations, and Nebraska Farm Business will be here to help them.

The financial analysis allows the producer to work with their entire financial team by providing accurate financial data to everyone involved in the monetary aspect of their business. A lender can have a complete fiscal picture of the operation to make lending decisions from. Their marketing advisors can use the cost of production figures to develop a personalized marketing plan, based on the individual cost of the operation. The information can even be used by agronomists to build a plan that fits the profitability of the operation.

