

ORGANIC FARMERS: STEPS TO SUCCESS



Not all successful organic farms excel in the same way, and there is no “recipe” for what will make you an exceptional organic farmer. But there are some management skills and personal qualities that help, along with some financial considerations.¹ Use this tool to assess yourself and your farm enterprise, and to identify a few areas you want to improve. **Remember, not everybody is good at everything.**

HERE ARE A FEW WAYS YOU MIGHT USE THIS TOOL:

- 1) Do it once a year and see how your answers change over time.
- 2) Compare your answers with those of a spouse/farm partner.
- 3) Ask a partner or trusted advisor to fill it out about you and learn what others see.

1. MANAGEMENT SKILLS

| I/we... | Could do a lot better | Sometimes | Most of the time | Almost always |
|--|-----------------------|-----------|------------------|---------------|
| ...have specific short and long-term goals for the farm | 1 | 2 | 3 | 4 |
| ...have written these goals down | 1 | 2 | 3 | 4 |
| ...keep accurate financial records | 1 | 2 | 3 | 4 |
| ...keep detailed organic records (inputs, production, etc.) | 1 | 2 | 3 | 4 |
| ...use the financial and organic records to help make farm decisions | 1 | 2 | 3 | 4 |
| ...create (and use) a monthly cash flow plan | 1 | 2 | 3 | 4 |
| ...know the true cost of production for each enterprise on the farm (including direct and indirect costs, labor, and management) | 1 | 2 | 3 | 4 |
| ...have a manageable debt load | 1 | 2 | 3 | 4 |
| ...make good spending decisions (buying vs. repairing equipment; purchased inputs, etc.) | 1 | 2 | 3 | 4 |
| ...maintain equipment, buildings, and other farm assets | 1 | 2 | 3 | 4 |
| ...do a good job of prioritizing farm work and getting it done on a timely basis | 1 | 2 | 3 | 4 |
| ...have enough labor to keep up with the work to be done | 1 | 2 | 3 | 4 |
| ...do a good job managing employees (hiring, training, termination) | 1 | 2 | 3 | 4 |
| ...use strategies to help manage risk (diversified production, diversified markets, insurance, etc.) | 1 | 2 | 3 | 4 |
| ...do a good job of meeting the organic standards | 1 | 2 | 3 | 4 |
| ...see my weed management improving over time | 1 | 2 | 3 | 4 |
| ...read publications and/or attend events to learn new ideas | 1 | 2 | 3 | 4 |
| ...take pride in the farm's appearance | 1 | 2 | 3 | 4 |

¹We are not making this up! The information in this worksheet comes from more than 100 Minnesota organic farmers who shared information about their financial performance between 2006 and 2011 and on personal interviews with many of them. It also draws on insights from farm business management instructors and other agriculture advisors who help a wide variety of farming operations improve their management.

In accordance with the Americans with Disabilities Act, this information is available in alternative forms of communication upon request by calling 651/201-6000. TTY users can call the Minnesota Relay Service at 711 or 1-800-627-3529. The MDA is an equal opportunity employer and provider.

2. PERSONAL QUALITIES

| | <i>Could do a lot better</i> | <i>Sometimes</i> | <i>Most of the time</i> | <i>Almost always</i> |
|--|------------------------------|------------------|-------------------------|----------------------|
| I have a strong work ethic | 1 | 2 | 3 | 4 |
| I pay attention to detail | 1 | 2 | 3 | 4 |
| It's important to me to do things on time | 1 | 2 | 3 | 4 |
| I am persistent – I stick to what I start | 1 | 2 | 3 | 4 |
| I am interested in learning new ideas or ways of doing things | 1 | 2 | 3 | 4 |
| I am flexible and willing to make changes when necessary | 1 | 2 | 3 | 4 |
| I have good working relationships with others (neighbors, hired labor...) | 1 | 2 | 3 | 4 |
| I communicate directly - I listen to others and am not afraid ask questions or to say what I think | 1 | 2 | 3 | 4 |
| I am willing to consider others' advice and opinions | 1 | 2 | 3 | 4 |
| I am careful about the advice I take | 1 | 2 | 3 | 4 |
| I know another organic farmer I look up to and can turn to for advice | 1 | 2 | 3 | 4 |
| I keep up on organic market trends | 1 | 2 | 3 | 4 |
| I enjoy farming and the challenges of farming organically | 1 | 2 | 3 | 4 |
| I have a supportive spouse, family members, and/or farm partner(s) | 1 | 2 | 3 | 4 |
| I am involved in a community and/or farm organization | 1 | 2 | 3 | 4 |
| There are things in my life besides the farm (I'm not "all work/no play") | 1 | 2 | 3 | 4 |
| I seek help when I feel overwhelmed or depressed | 1 | 2 | 3 | 4 |
| I take responsibility for the decisions I make | 1 | 2 | 3 | 4 |
| Everyone on the farm is working toward the same goals/as a team | 1 | 2 | 3 | 4 |

3. JOT DOWN YOUR GOALS**BUSINESS:****PERSONAL:****FAMILY:**

The USDA Risk Management Agency provided the majority of funding for this project to explore organic farm financial performance and help organic farmers identify areas that contribute to their personal, production and financial success. This project was led by the Minnesota Department of Agriculture, with significant participation by the Center for Farm Financial Management at the University of Minnesota and Minnesota State Colleges and Universities Farm Business Management Programs.

Feeling unprepared to be both CEO and CFO of your farm business? If you want to use the next two sections of this tool but don't know your own financial numbers, you can contact a farm business management instructor/advisor for help. See www.nfrbmea.org or www.nafbms.org to find one near you. Or, contact Extension or your local banker.

4. FINANCIAL & PRODUCTION PERFORMANCE

Use these tables to compare **Your Current** position to **Benchmarks** (averages) from farm operations similar to yours. You can find this information using the FINBIN site at www.finbin.umn.edu. First, use FINBIN to find financial and production benchmarks from farm businesses of similar type and/or size. (Use the back page to calculate your own.) Then, choose a **Goal** for each measure. Comment on any changes that will help you accomplish your goals under **How to get there**.

Financial Performance

(see back page for help calculating)

| | <u>Your Current</u> | Benchmark | <u>Your Goal</u> |
|---|---------------------|-----------|------------------|
| Liquidity: can you survive a downturn? | | | |
| Working capital to gross revenue | | | |
| Solvency: how much of the farm is debt-financed? | | | |
| Debt to asset ratio | | | |
| Net worth change (%) | | | |
| Profitability: is the farm making money? | | | |
| Net farm income | | | |
| Repayment capacity: can you cover your payments? | | | |
| Term debt coverage ratio | | | |
| Efficiency: cost control | | | |
| Operating expense ratio | | | |

Production

| | <u>Your Current</u> | Benchmark | <u>Your Goal</u> |
|-----------------------------|---------------------|-----------|------------------|
| Cropping benchmarks | | | |
| Crop _____ | | | |
| Yield | | | |
| Price received | | | |
| Cost of production | | | |
| Crop _____ | | | |
| Yield | | | |
| Price received | | | |
| Cost of production | | | |
| Livestock benchmarks | | | |
| Enterprise _____ | | | |
| Production per unit | | | |
| Price received | | | |
| Cost of production | | | |
| Enterprise _____ | | | |
| Production per unit | | | |
| Price received | | | |
| Cost of production | | | |

5. KEY RATIOS

This worksheet will help you calculate key ratios for financial benchmarking. Make an "X" on the Vulnerable – Strong continuum.

| | | Vulnerable | Average | Strong |
|---|----------|--|---------|------------|
| Liquidity: Working Capital to Gross Revenue | | | | |
| Total current assets | | | | |
| Total current liabilities | – | | | |
| Working capital | = | | | |
| Gross farm income | ÷ | | | |
| Working capital to gross revenue (%) | = | ----- 10% | ----- | 25% ----- |
| Solvency: Debt to Asset Ratio | | | | |
| Total farm liabilities | | | | |
| Total farm assets | ÷ | | | |
| Debt to asset ratio (%) | = | ----- 60% | ----- | 30% ----- |
| Solvency: Net Worth Change | | | | |
| Farm net worth (end of year) | | | | |
| Farm net worth (beginning of year) | – | | | |
| Net worth change | = | | | |
| Farm net worth (beginning of year) | ÷ | | | |
| Net worth change (%) | = | ----- 0% | ----- | 5% ----- |
| Profitability: Net Farm Income | | | | |
| Gross cash farm income | | | | |
| Inventory change (end - beginning) <i>(Crops & feed, livestock, accts receivable., prepaid expenses, supplies)</i> | + | | | |
| Total cash farm expense | – | | | |
| Inventory change (end - beginning) <i>(Accts payable, accrued interest)</i> | – | | | |
| Depreciation expense | – | | | |
| Net farm income | = | <i>Is this more or less than your family living costs + income taxes? By how much?</i> | | |
| Repayment Capacity: Term Debt Coverage Ratio | | | | |
| Net farm income | | | | |
| Depreciation expense | + | | | |
| Interest on term (non-current) debt | + | | | |
| Non-farm income | + | | | |
| Family living expense | – | | | |
| Income taxes | – | | | |
| Capital debt repayment capacity | = | | | |
| Scheduled payments on term debt (principal & interest) | ÷ | | | |
| Term debt coverage ratio | = | ----- 1.20 | ----- | 1.50 ----- |
| Efficiency: Operating Expense Ratio | | | | |
| Total farm expenses | | | | |
| Interest expense | – | | | |
| Depreciation | – | | | |
| Total operating expenses | = | | | |
| Gross farm income | ÷ | | | |
| Operating expense ratio | = | ----- 80% | ----- | 60% ----- |

