

IMPROVING FARM COMPETITIVENESS THROUGH REVITALIZATION OF OHIO'S FARM BUSINESS ANALYSIS AND BENCHMARKING PROGRAM

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Abstract

The last Ohio Farm Business Summary was published in 2006 and included 46 farms. While this provided useful data and insights for Ohio, it did so only on a basic level as 40 of the 46 analyses were Whole Farm Analyses. The six farms that completed a full enterprise analysis were dairy farms and also the only source of crop enterprise data. With the shift of OSU Extension's last farm management faculty member to leadership of OSU Extension's Agriculture program, no further analyses were compiled. In the years since the last published analysis, the number of farms completing analysis dropped to about 17 in 2009 with no published data. This lack of Ohio economic and benchmarking data left Ohio farmers at a competitive disadvantage to farmers in other states with analysis programs.

In 2010, Ohio was invited to participate in a national farm benchmarking project headed by the University of Minnesota's Center for Farm Financial Management (CFFM) which provided competitive funding to support states' efforts to begin or improve their financial analysis and benchmarking programs to ultimately increase data contributions to the FINBIN national benchmarking database.

A critical component of increasing the capacity for analysis was recruiting and training qualified people to complete these analyses. Ohio State University Extension partnered with the Ohio Farm Business Planning and Analysis Program (FBPA). Five FBPA consultants and twenty-four Extension Educators, specialists, and staff have received specialized FINAN training. Training sessions focused on gathering data, completing FINANs, troubleshooting results, improving the Ohio analysis program, and how to work with clients and their analyses, and summaries. Promotion efforts were also developed to recruit farm participation.

As a result of these efforts, 46 analyses were completed for 2010. Of the 46, 43 included enterprise analysis, more than a 600% increase from 2006. Participation continues to grow; with opportunities for farms needing to improve their production and financial recordkeeping practices to work towards an analysis of their current year's business rather than trying to reconstruct information from the past year being added in 2015. More information about Ohio's Farm Business Summary program can be found at <http://farmprofitability.osu.edu>.

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1. Introduction

Farms in the United States must be managed as businesses so that farm families may enjoy farming as a way of life. This shift began to impact Ohio's dairy industry in the late 1980s, after the Ohio Farm Business Analysis program, based on farmers' use of the Ohio Farm Account Book, had been discontinued by the Department of Agricultural Economics. As computerized bookkeeping and analysis programs were developed, Ohio State University Extension adopted the FINPACK[®] computer analysis software developed and supported by the Center for Farm Financial Management at the University of Minnesota. Through the efforts of a dedicated Extension District Farm Management Team, a summary based on FINPACK's FINAN, year-end financial analysis program, was initiated in 1993.

This summary provided valuable information for participating farms until 2006. Participation ranged from a high of 94 farms (crop, dairy, livestock) in 1994 but dropped to 46 farms, only 6 (dairy farms) of which included enterprise analysis, before the final 2006 summary, coinciding with the retirement of the District Extension Farm Management Positions. Ohio farmers had to rely on financial analysis data from surrounding states in order to compare their farms to farms operating in similar economic, environmental and climatic conditions.

How could Ohio farmers have an opportunity to participate in a good analysis program that would generate an excellent analysis for the farm and provide access to benchmarking as well? Continuing challenges in the dairy industry were leading to more farmers realizing that they needed to know what their costs of production were to more effectively manage their businesses.

2. Partnerships

Three important partnerships have been critical to the rejuvenation of Ohio's Farm Business Analysis and Benchmarking Program. Ohio was invited to be a part of the FINPACK Leaders group at the CFFM. This group represents farm business analysis programs from across the US. We were able to learn how other states work with strong, existing programs or are working to build programs. It also provided an opportunity to collaborate on funding opportunities that would not have happened otherwise.

In 2010, Ohio State University Extension was invited to join a consortium of Universities and Farm Business Associations through the CFFM to submit a grant proposal which would allow Ohio to begin revitalizing our Farm Business Analysis and Benchmarking program through the USDA-NIFA Competitive Farm Business Management and Benchmarking Program. This was the beginning of a new opportunity for the Ohio program. The focus of this initial grant was to begin to develop a system of Extension Educators and Industry Consultants that could do an individual farm's analysis and contribute these analyses to a state summary as well as the national databank.

Ohio State University Extension was emerging from a challenging economic period, which had resulted in staff reductions and vacant positions. As these positions were re-filled, new Extension Educators were recruited and trained to do financial analysis work with their county's farmers. Due to the many and varied demands on their time, and the significant time needed to complete an analysis, most Educators might work with one to two farms per year. Since 2010, 24 Extension Educators and staff have been trained to use FINPACK® software.

Ohio also had a Farm Business Planning and Analysis Program in 2010. FBPA Consultants worked through adult education programs of local school systems. Their primary focus was to work with farms on recordkeeping. Several consultants also did analysis work with some of their clients. Five Consultants were recruited and trained to use FINPACK® software side-by-side with the Extension Educators. Of these original five, four contribute regularly. This has been an excellent partnership as these consultants had a regular client base that was also interested in business analysis and generally had good records conducive to quality analyses.

Two years ago, the FBPA program was de-funded, and no longer exists. However, the consultants have continued to work with their clients and continue to partner with us on Ohio's Farm Business Analysis and Benchmarking Program. They continue to be highly valued contributors to the analysis program.

Industry partners have also been an important component of the revitalization of Ohio's program. Industry partners include agricultural lenders, farm supply cooperatives, and commodity groups. These partners have helped to promote the analysis program to their clientele and have served as collaborators on grant funding requests.

3. Rebuilding and Challenges

2010 marked the beginning of the focused effort to grow the Ohio Farm Business Analysis and Benchmarking Program. Recruitment and training of Educators and Consultants began as well as recruitment of farms into the program. Each year, more Educators are trained to use the financial analysis software. The biggest constraint has been time to manage and grow the program. The majority of funding has been through USDA-NIFA Competitive Farm Business and Benchmarking Program grants received. Considerable time is needed to prepare proposals and then manage the grants to meet all requirements. OSU Extension has committed approximately half of this author's time to lead this project. Until 2012, no additional human resources were available to assist with non-analysis work including coordination of funding, processing paperwork, reviewing analyses, developing summaries, getting analyses back to cooperating farmers, searching for additional funding, promoting and growing the program. Since 2012, an average of an additional 0.5 FTE has been designated to help administer the program and complete analyses for farms not associated with an Extension Educator or Consultant. Without this additional assistance, the program could not grow.

In many states, the annual analysis is the culmination of a year's work with the local Farm Management Association. The associations work with their farmer clients through the year, creating balance sheets and keeping good financial and production records. The actual analysis is relatively easy, and may take 8 hours or less. When Extension Educators work with farms, they are working with the farm after the analysis year is complete. The first time a farm does an analysis, they may never have completed a balance sheet. Therefore, considerably more time is needed to work with each farm not only to collect data, but to help them understand the components of an analysis, what they mean and how they can be used to better manage their farm.

Efforts to streamline analysis with these farms included development of user-friendly input forms that mirror data entry into FINAN. These forms are based on the CFFM input forms, but expand explanations that help farmers find needed information and put it in the correct place. They also have more room for entering data into the forms, providing space for notes or explanations when needed. Input forms for a first year's analysis are broken up into 4 packets, allowing a farm to complete one section at a time, minimizing potential concern about the sheer volume of information, and breaking the process up into manageable "bites".

Long-term, we must develop a stable funding base. In 2014, farmers began paying \$100 per farm per year for an analysis. This will be increased over time. We did not encounter resistance to this fee, explaining many of the costs involved in running the program. Farmers are not the only beneficiaries of their farm's analysis. As the results are summarized and shared throughout the industry, other farmers can benchmark against the state summary without actually contributing their data. Industry personnel, including lenders, suppliers and commodity groups use the information to train their personnel to better understand their clients and to share with legislators. Therefore, it is logical to look at both increasing the individual farm fee over time, continuing to recruit new farmers, as well as seek financial support from the industry personnel that benefit from the information supplied in the summaries.

4. Results

Since 2010, 207 farm analyses have been completed and included in summaries. Nearly 90% of the analyses include enterprise analysis, allowing farmers to not only know their costs of production, but to be able to benchmark them against a significant number of other enterprises. In 2015, Ohio generated not only a Dairy Enterprise Analysis, but also an extensive Field Crop Enterprise Analysis. The Dairy Enterprise Analysis Summary included analysis by net return per cow as well as enterprise size. Benchmarking reports were included with costs and returns available per cow and per hundredweight (cwt) of milk sold. The Crop Enterprise Analysis Summary includes enterprise information for corn, corn silage, soybeans, winter wheat and alfalfa. Benchmarking reports are available for corn, corn silage, soybeans and winter wheat. All

enterprises are reported for owned and also for rented ground. Summaries can be found at <http://farmprofitability.osu.edu>.

5. Moving Forward

Farms continue to join the analysis program, particularly in 2015 as media coverage of the program expanded. The dramatic drop in grain prices has increased interest among grain farmers as their margins tighten. 2015 also ushers in an opportunity for farmers who want to improve their recordkeeping and analysis skills allowing them to have better information to manage their farm's production, financial, and risk-management decisions. A grant from the North Central Risk Management Agency is allowing us to develop a program to mentor farmers through their production year, essentially developing the balance sheet and data in real-time. This process will ensure that correct and complete information is available for analysis in early 2016. The emphasis is teaching the farm how to collect and use data, so annual analysis and incorporation of the results in their decision-making process will become part of their on-going management plan.

An important goal for this year is to move up completion of analyses and compilation and release of summary and benchmarking materials to summer as opposed to winter. This move will increase the value of the information to both participating farmers and other users. Ohio's farmers value the information they receive from the Ohio Farm Business Analysis and Benchmarking Program, sharing it with their lenders and management teams. Continuing to grow the program benefits Ohio's farmers, agriculture industry partners, OSU, and the FINBIN national databank. We will continue to work to improve the analysis program with the limited resources available.

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