Monitor, manage and move forward

Financial measurement and planning are key to profitable farming and crucial when aiming to expand

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Establishing your current farm financial performance is the basis for understanding how your farm generates profit. The first step is to bring together all the financial information for the farm for the last year, so that a few measures can be established to “take the temperature of the business”. Taking the time to pull together income and expense information to track financial progress during a given period of time (typically 12 months) is well worthwhile when assessing how the farm is performing financially.

The seasonality of many cattle systems means there is often an overlap of batches of cattle on the farm and therefore assessing financial performance is seen as a difficult task but, remember; the information you need is often the same as that gathered together for the accountant every year.

Money comes in by way of stock sales and direct payments (Basic Payments and other premia) and leaves to meet stock purchase costs, as well as to cover farm running costs such as feed, fertiliser and veterinary costs, among others.

Teagasc has a very useful farm “cash in-cash out” recording tool called the Teagasc Cost Control Planner (CCP), which can be used on your computer to record your financial data during the year. By using the CCP throughout the year, all of the farm financial information required for your full-year financial analysis using the Teagasc eProfit Monitor will be easily available.

Looking for trends in your finances

The Teagasc eProfit Monitor system takes information on the income and expenses of your business and puts them in a suitable standard layout to allow you to check how the farm performance compares from year-to-year and also how it might compare with other similar farms.

The maximum benefit from the information can be extracted if a number of years are looked at in sequence – trends in the figures can be seen and the influence of one-off rises or falls in livestock prices or feed/fertiliser prices can be eliminated and the underlying trends in performance observed.

A key advantage of the eProfit Monitor is that it also measures some of the non-financial characteristics of the farm such as total hectares farmed, stocking rate and cattle output measured in kilogrammes of animal liveweight.

The eProfit Monitor creates a link between these farm physical measures (hectares of land used/kilogrammes of liveweight produced with the financial measures (money received and spent).

The system breaks the financial story of the farm year into the broad categories of gross output, variable costs, gross margin, fixed costs and profit. The results that come back from the eProfit Monitor provide a picture of what happened in financial terms on your farm in the last year – what was sold, how much it cost to get it to sale and what it cost in overall terms to run the farm for the last year.

Awareness of your costs of production is vital in a business where profit margins are often tight. The knowledge of what your farms’ costs are when expressed per kilo of output or per hectare will help you make decisions around:

• What production system is most profitable for your farm?
• Where you buy in stock, it can help you set your maximum purchase price so that you can generate a margin when the time comes to sell.
• At what input purchase price does it make economic sense to utilise high-cost inputs, such as concentrates, to help you bring stock to the point of sale?

Compare – benchmarking in action

However, just measuring the financial performance of your farm is usually not enough to give you the answers to the questions above. The next step is to compare (benchmark) your farm financial and physical measures against another set of measures to

Key messages

A Teagasc eProfit Monitor will help to:
• Establish current levels of performance both physical and financial.
• Benchmark own performance against others with similar systems.
• Monitor progress on your farm over time.
• Identify areas of weakness that need improvement.
• Guide you in setting realistic targets to improve future profitability.
help you identify areas of difference, which you can then examine further. The first comparison is often with your own farm figures from the previous year – that’s if you have completed an eProfit Monitor for at least two years. This can tell you a lot – and it can help you tune in to how the figures in the eProfit Monitor reports relate to the year’s events on your farm – events such as the number and type of stock sold, the regular spending on inputs, as well as the exceptional spending on items such as building investment and reseeding.

**Explain – linking the financial to the physical**

Once you have a reasonable understanding of the farm’s financial progress during the year and you can link it back to the actual physical sales of stock and usage of inputs, then you are in a position to begin to compare the farm against other farms operating similar production systems on similar land types.

Those farmers who are members of discussion groups where the eProfit Monitor information is shared can look at performance of other group members and gauge their own farm performance against them. This is very useful, especially if you can tease out what these other farms are doing differently that results in them achieving better financial results.

- **If you are not a member of a discussion group, you can also get some guidance from the national annual summary Drystock eProfit Monitor analysis produced by Teagasc and available on www.teagasc.ie.