

Kansas Farm Management Association Program

**Building on the past . . .
Pursuing the Future**

**KAMS Mediator Training
October 22, 2007
Manhattan, Kansas**

Kansas Farm Management Association Vision/Mission . . .

- **Deliver educational programs and technical information**
 - **Enhance economic viability and quality of life**
 - **Sustainable and competitive agriculture**
 - **Integrated research, analysis and education**
 - **Improved economic choices and management decisions of individuals, families, farms**
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- **Over 2,300 farm operations representing over 3,000 farm families**
 - **Valuable analysis databank**
 - ✓ **Over 1,550 farms for 2006**
 - ✓ **1,160 farms with data from 2002-2006**
 - ✓ **881 farms with 10-year history**
 - ✓ **399 farms with 20-year history**
 - **20 Extension Agricultural Economists in six associations**
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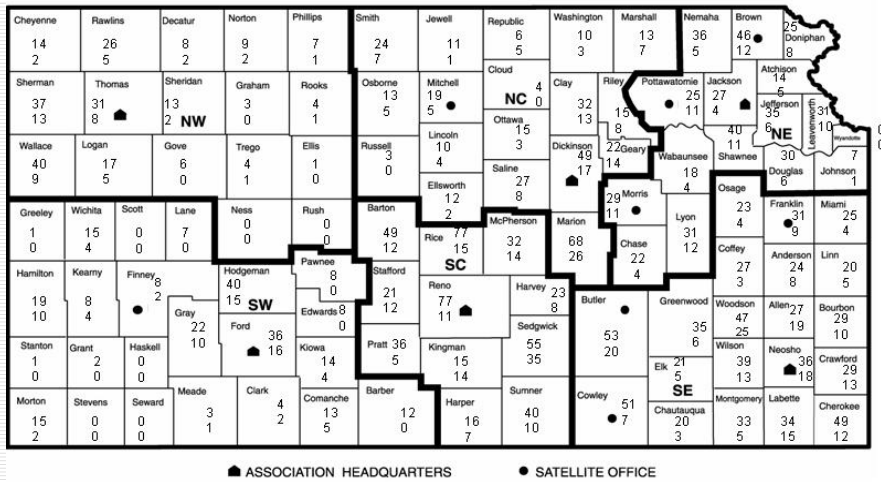
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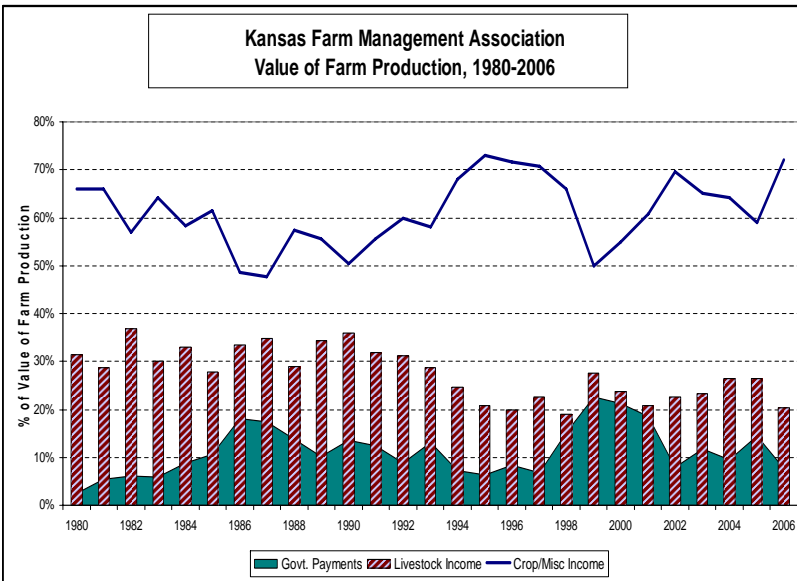
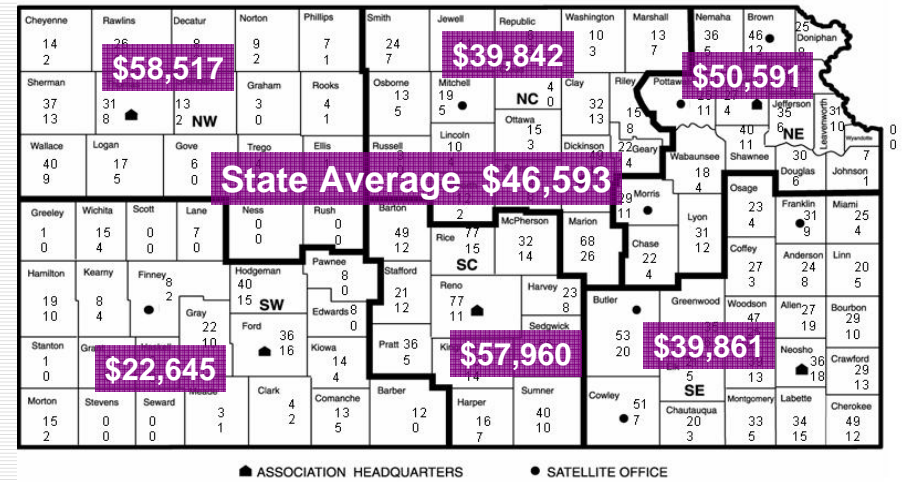
- **Develop a sound farm accounting system**
 - **Whole-farm and enterprise analysis**
 - **Comparative and trend analysis**
 - **Integrate tax planning, marketing and asset investment strategies**
 - **Assistance in understanding financial information for making decisions**
 - **Enhanced decision-making process**
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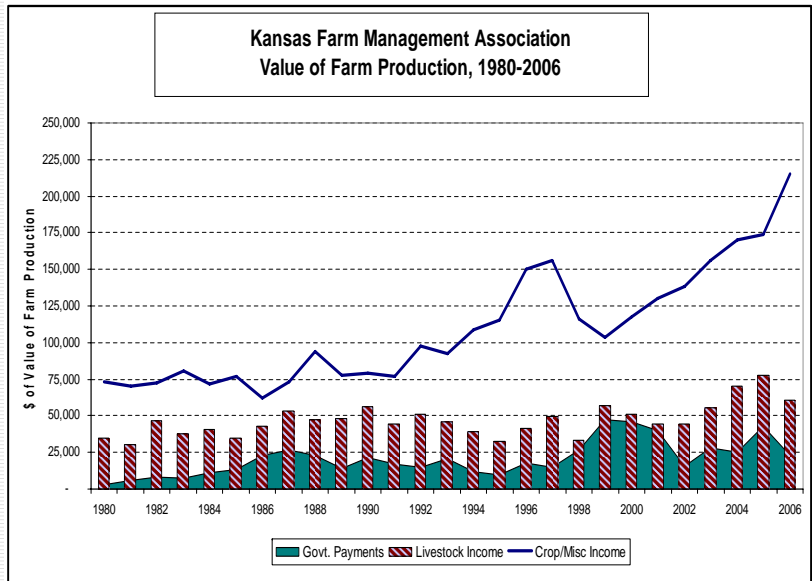
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KFMA Program 2006 Net Farm Incomes

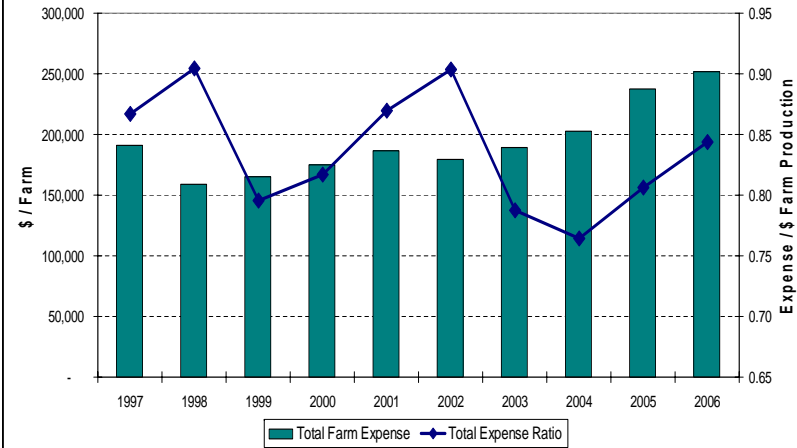


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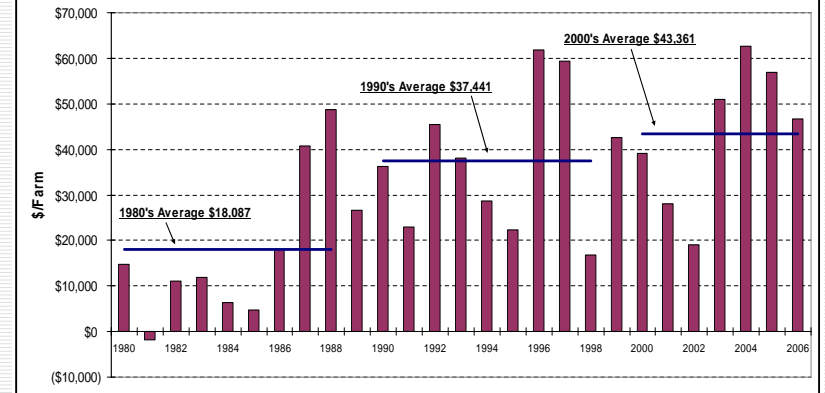
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Kansas Farm Management Association Total Expense Trends, 1997-2006



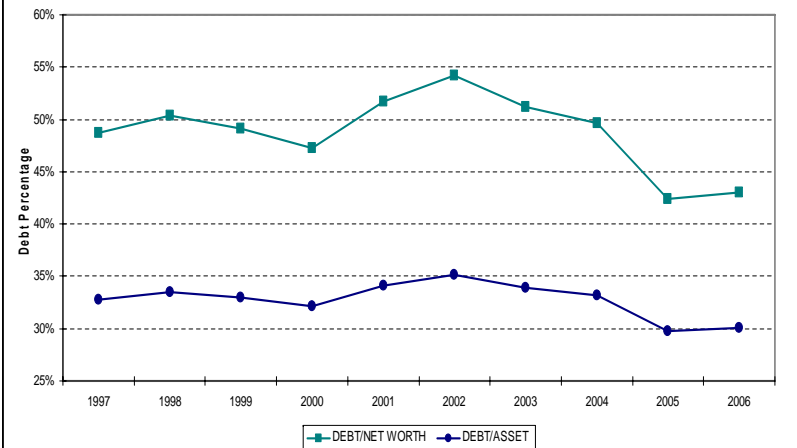
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Kansas Farm Management Association Accrual Net Farm Income, 1980-2006



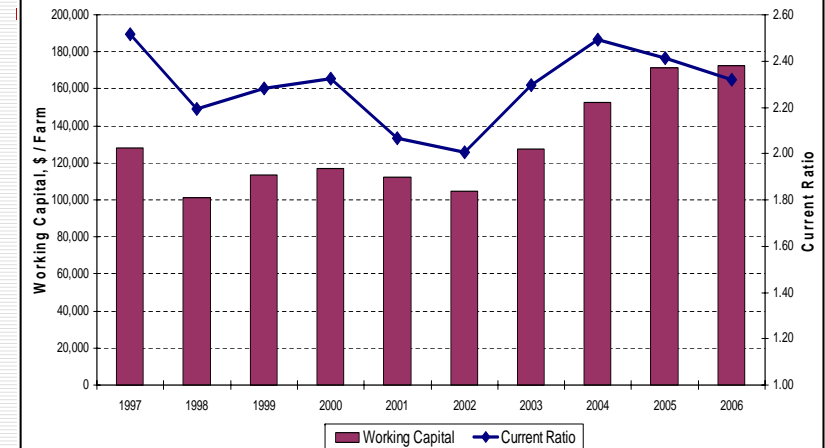
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Kansas Farm Management Association Solvency Trends, 1997-2006

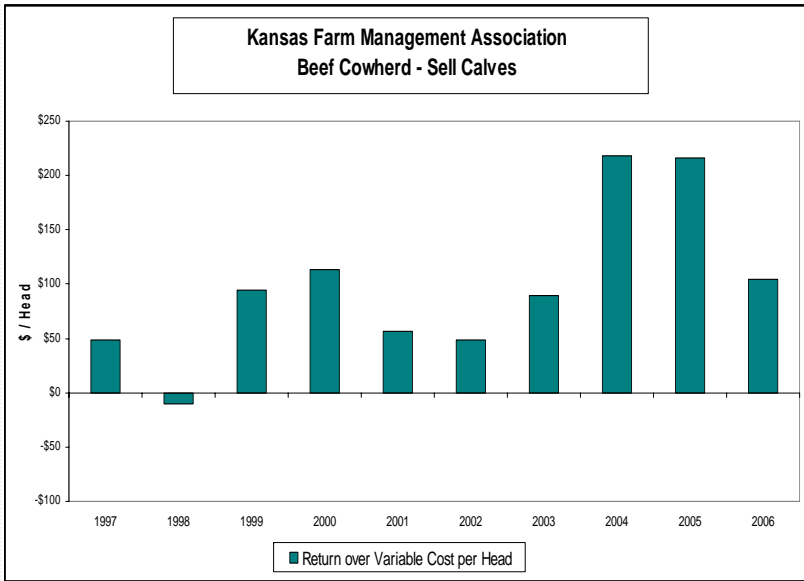


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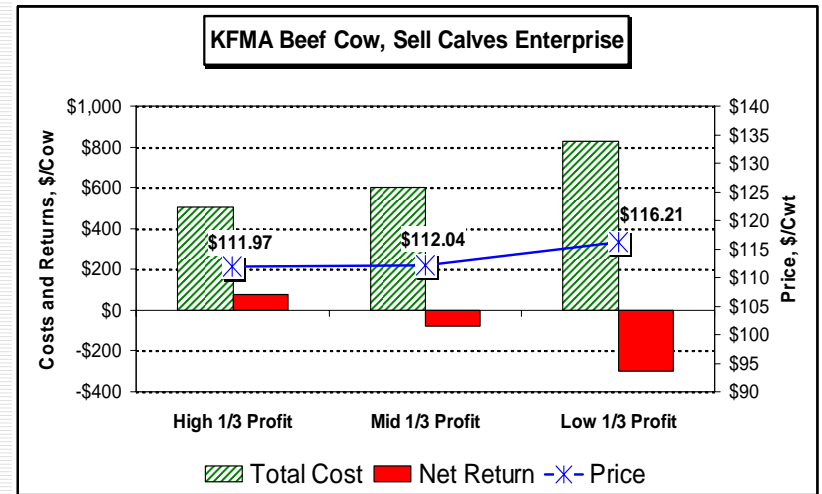
Kansas Farm Management Association Liquidity Trends, 1997-2006



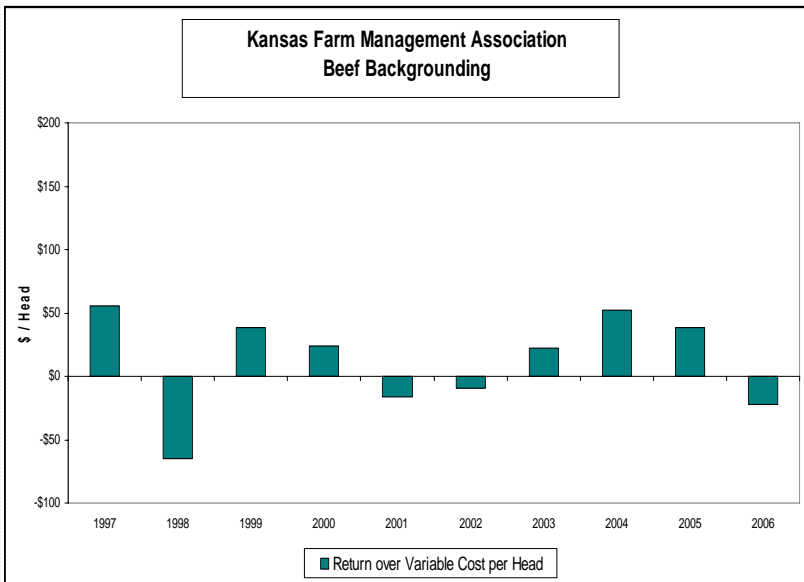
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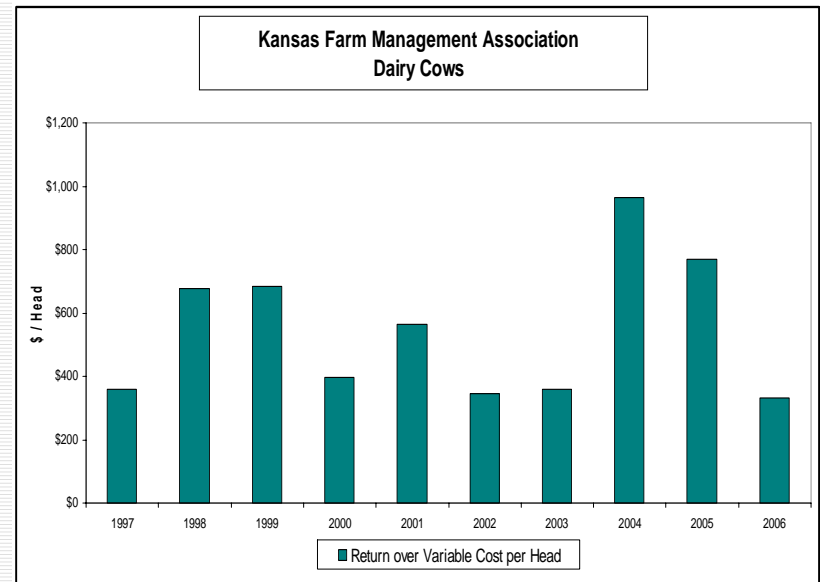
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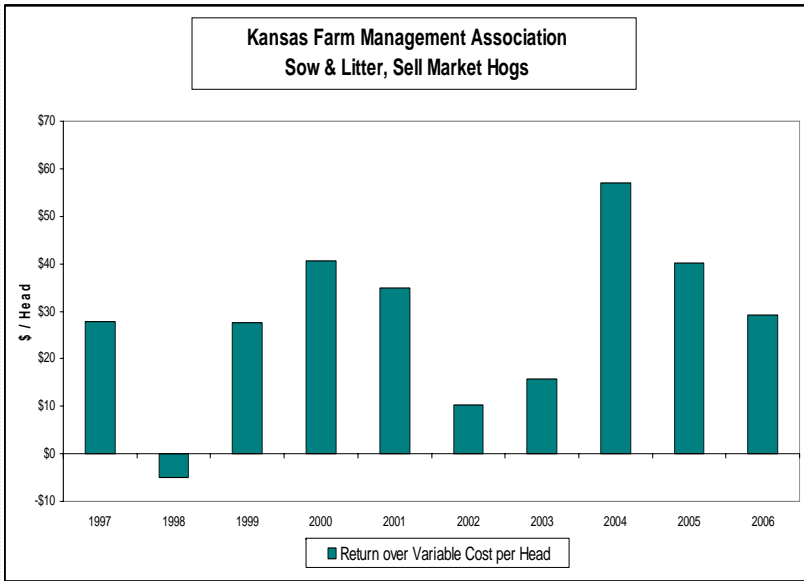
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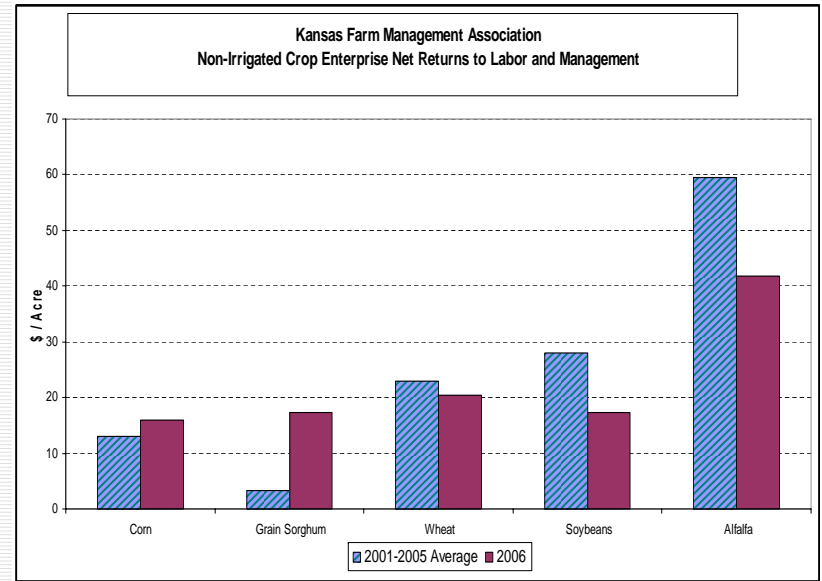
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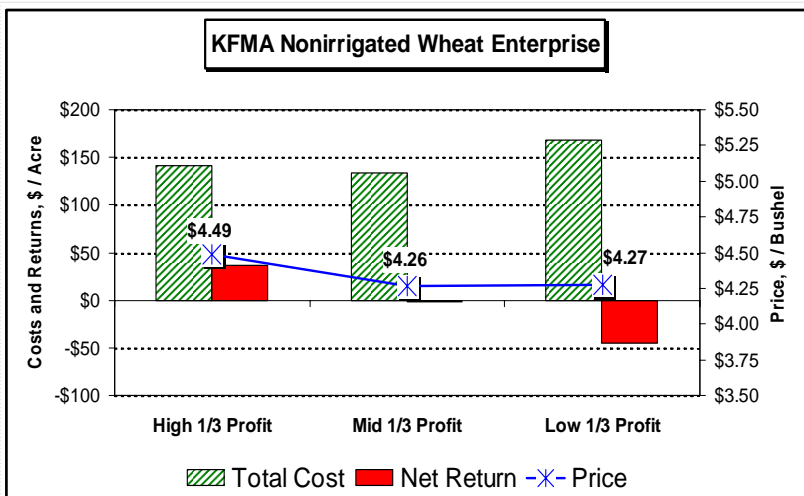
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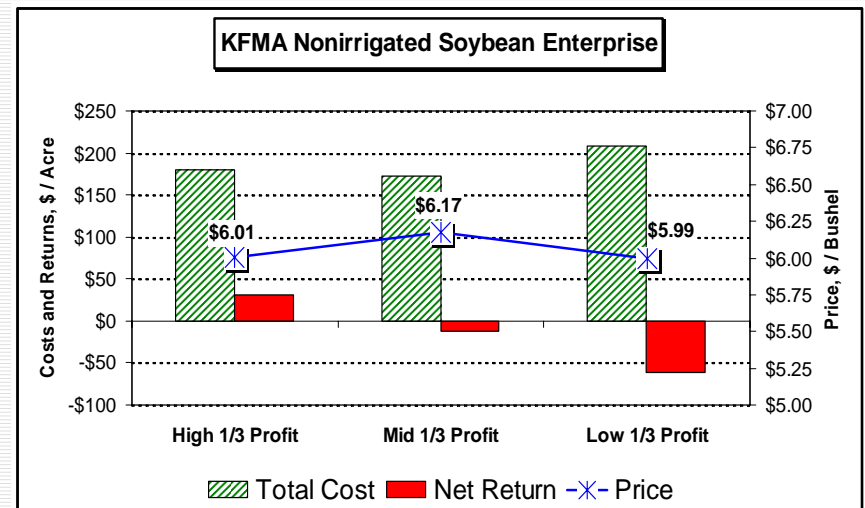
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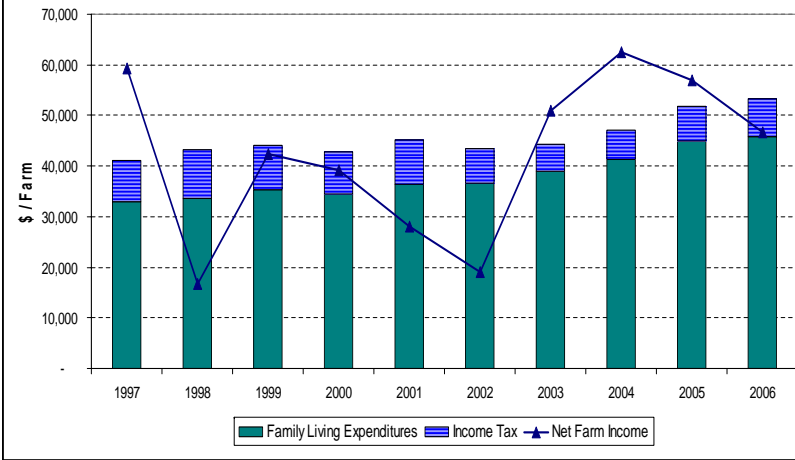


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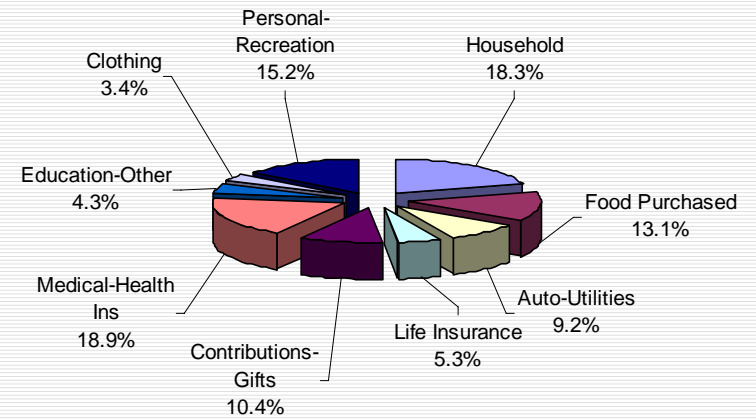
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**Kansas Farm Management Association
Family Living Analysis, 1997-2006**



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**Kansas Farm Management Association
2006 Family Living Expenses**



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Financial Stress

➤ Components of financial stress:

- ✓ negative earnings
 - rate of return on farm equity
 - net farm income from operations minus opportunity cost for unpaid labor
- ✓ debt to asset ratio above 0.70

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Financial Stress

➤ Percentage of Farms

- ✓ Negative Return on Equity = 51.20%
- ✓ High Debt = 13.79%
- ✓ Financially Stressed = 8.79%

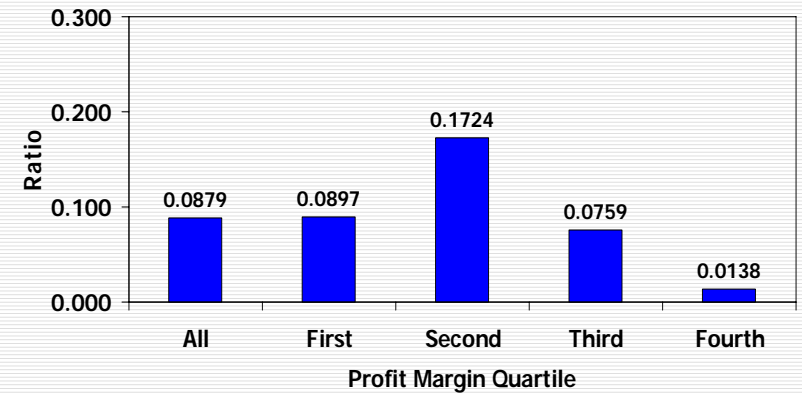
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Financial Stress

Measure	Average	Top 25% by Profit Margin
Negative ROE	51.20%	2.76%
High Debt	13.79%	11.38%
Financial Stress	8.79%	1.38%

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Financial Stress



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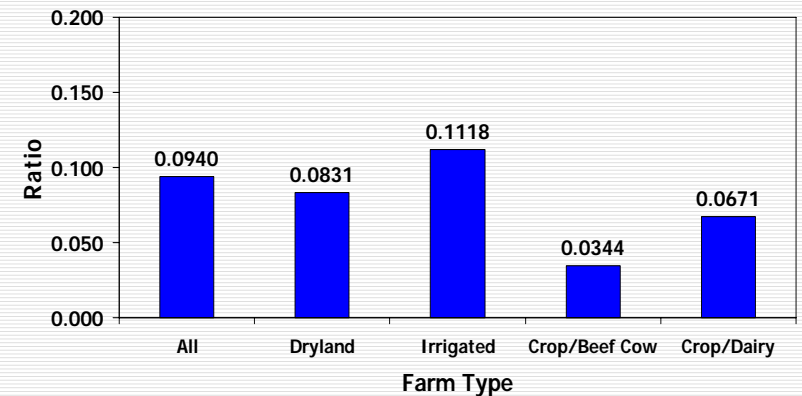
Financial Performance by Farm Type

➤ Number of farms:

- ✓ Dryland Crop 698
- ✓ Irrigated Crop 27
- ✓ Crop/Beef Cow 78
- ✓ Crop/Dairy 30

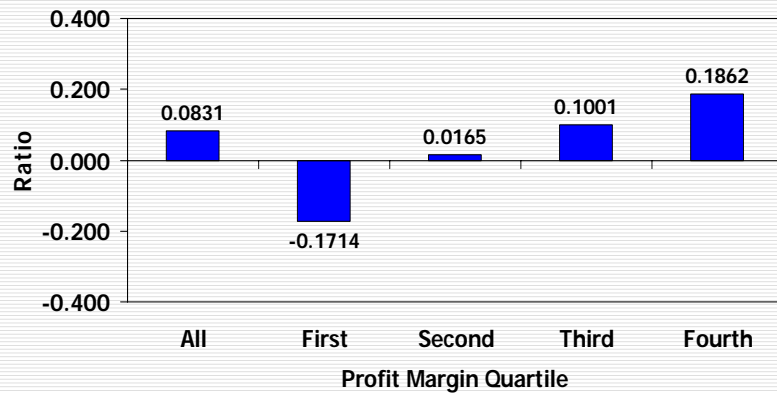
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Profit Margin Ratio by Farm Type



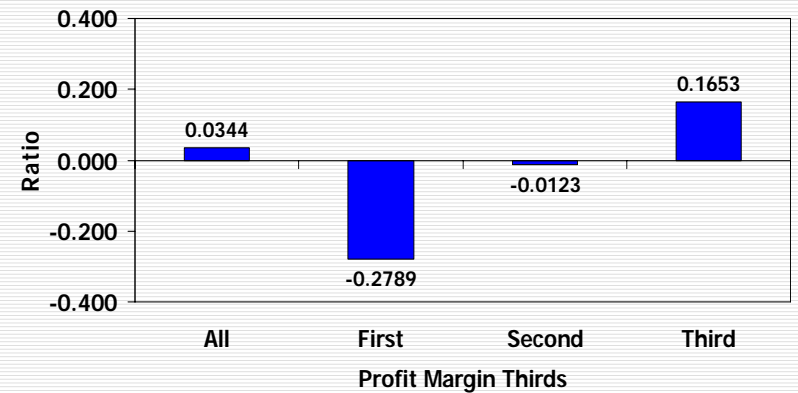
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Profit Margin Ratio Dryland Crop Farms



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Profit Margin Ratio Crop/Beef Cow Farms



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Profit Margin Persistence

- Profitability, efficiency, and per-unit costs vary significantly among farms and ranches
- Are these differences in performance due to:
 - ✓ Random events such as weather?
 - ✓ Controllable factors such as managerial ability?

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Profit Margin Persistence

- Five-Year Averages (1,160 KFMA Farms):
 - ✓ Value of Farm Production = \$259,095
 - ✓ Net Farm Income = \$51,085
 - ✓ Unpaid Labor = \$42,423
 - ✓ Operating Profit Margin = 0.0940
 - ✓ Asset Turnover Ratio = 0.2942
 - ✓ Total Expense Ratio = 0.803
 - ✓ Adjusted Total Expense Ratio = 0.967
 - ✓ Economic Total Expense Ratio = 1.156

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Financial Performance

➤ Operating Profit Margin Ratio

✓ $(\text{Net Farm Income} + \text{Interest} - \text{Unpaid Labor}) / (\text{Value of Farm Production})$

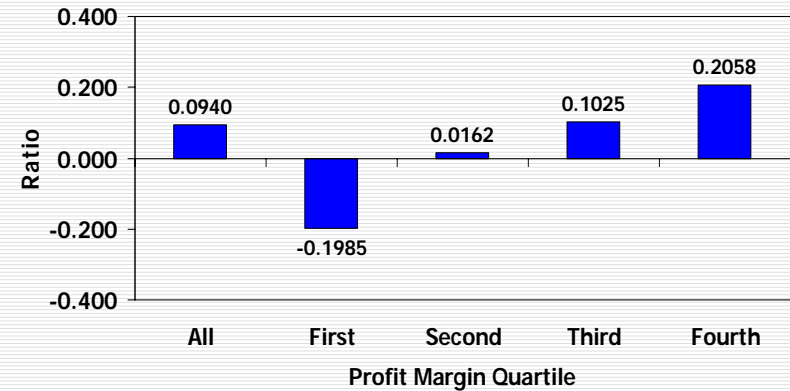
✓ Average:

➤ $(51,085 + 15,686 - 42,423) / (259,095) = 0.0940$

✓ Top 25%:

➤ 0.2058

Profit Margin Ratio



Profit Margin Persistence

Category	Top Profit Margin	Bottom Profit Margin
Zero Years	39.74%	45.69%
One Year	25.09%	22.24%
Two Years	15.52%	11.72%
Three Years	11.81%	8.36%
Four Years	5.78%	5.69%
Five Years	2.07%	6.29%

Profit Margin Persistence

- Profitability, efficiency, and per-unit costs vary significantly among farms and ranches
- Are these differences in performance due to:
 - ✓ Random events such as weather?
 - ✓ Controllable factors such as managerial ability?

Profit Margin Persistence

- Profitability, efficiency, and per-unit costs vary significantly among farms and ranches
- Are these differences in performance due to:
 - ✓ Random events such as weather? **Yes**
 - ✓ Controllable factors such as managerial ability? **Yes**

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Profit Margin Persistence

- Weather and other external factors have a significant impact
- Managerial ability and other controllable factors have a significant impact as well
 - ✓ Nearly one-half of the farms were able to stay out of the bottom profit margin quartile during the five-year period
- It is essential that farms benchmark using average data for a longer time period
- It is possible for farms to have a competitive advantage

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For More Information

- Kansas Farm Management Association (KFMA)
 - ✓ www.kmar105.com/kfma
- Extension Agricultural Economics
 - ✓ www.agmanager.info

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